Six-month report 2022

Open edge networking

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Letter to the shareholders

Dear shareholders and business associates,

The last few weeks have been very eventful for our company. There has been a lot of news related to the proposed business combination with Adtran. Although we provided the market with timely updates on recent developments, I would like to summarize the key takeaways of our news in this letter:

Germany's Federal Ministry of Economics and Climate Protection has approved Adtran's takeover bid

This was the final condition for the takeover bid by Adtran Holdings., Inc., and thus for the closing. Approvals from all other relevant authorities in Germany and abroad have now been granted. The closing took place on July 15.

I will step down as CEO

As a result of this milestone, as already communicated when the transaction was announced, I will move to the board of the new holding company as vice chairman. As part of Adtran Holdings, Inc., the new majority shareholder of ADVA, I will, of course, remain indirectly connected to ADVA. As also already communicated, I will, therefore, in consultation with ADVA's supervisory board, resign my mandate as CEO and as a member of ADVA's management board after a short transitional period of a few weeks. From the time of the resignation, our long-standing CTO Christoph Glingener, will assume the role of CEO.

Entry into negotiations on the conclusion of a domination agreement or a domination and profit and loss transfer agreement (DPLTA)

Adtran's intention to seek a domination agreement or a DPLTA was the subject of another mandatory notification that we published on July 6, 2022. With the closing, Adtran Holdings, Inc., formerly Acorn HoldCo, Inc., became ADVA's controlling shareholder. Both companies will continue to operate independently until a domination agreement or a domination and profit and loss transfer agreement becomes effective. The aim of the negotiations is to operationally integrate both organizations as completely as possible by means of a domination agreement or a domination and profit and loss transfer agreement . Such an agreement requires the approval of ADVA's shareholders and will become effective upon entry into the commercial register.

In the past few weeks, we have taken significant steps forward to create a company with annual revenues well in excess of one billion euros and become one of the big players in the industry. There is a high investment need around the network edge, and together with Adtran, we will have a leading technology portfolio for this space.

A good second quarter

In addition to the progress made in the merger with Adtran, we have also made good progress in our operational business. The narrative of the past quarters continues: The digitization and modernization of the communication infrastructure are driving the expansion of the fiber optic infrastructure and the demand for communication technology. This macro environment drives an excellent order entry in all regions. On the other hand, we continue to fight challenges in our supply chains. The current bottlenecks in procuring components and in the production limit our revenue growth. The magnitude of the cost increase for procurement, production, logistics and warehousing and the further clear strengthening of the US dollar surprised us and is putting pressure on our margins. Nevertheless, we are proud of the results achieved in the first six months of this financial year and started the second half of 2022 with a record order backlog.

Business transformation

In connection with the strategic transformation of our business model, which we have been driving forward for several quarters, we can also report positive news from this quarter. Together with II-VI, a US-based global leader in optoelectronic components, we announced the development of a new pluggable module for the efficient transmission of signals with data rates of 100Gbit/s. The extremely compact and energy-efficient transceiver opens new architectural possibilities at the network edge. We expect first prototypes before the end of the year and first revenues in 2023. In the past quarter, we recognized a strong increase in revenues from our component business resulting from modules launched in previous quarters. Overall, the verticalization of our value chain is progressing well.

In terms of revenue contribution from software and services, we are on course and launched an innovative solution that has a lot of future potential. The management and orchestration (MANO) software from our Ensemble portfolio is now also available as a SaaS (software-as-a-service) solution. SaaS is a particularly attractive business model for network operators who want to introduce new services cautiously without major upfront investments. Once again, we expanded our portfolio of software products to further drive revenue growth in this area.

In the third pillar of our business transformation strategy, we focus on new markets with a high degree of differentiation. Numerous investments in new technologies give us access to new markets in which we can operate in a highly differentiated and profitable manner and grow beyond our average growth rate. Especially in the field of network security, more and more industries are interested in solutions that offer additional security against eavesdropping and cyberattacks. Several press releases about successful quantum secure data transmission tests underline our technology leadership in this area.

Outlook

Our revenues in the first half of 2022 were at a record level, and our order books are nicely filled. And although there are many external factors impacting our margins, operating results have been solid so far. The progress of digitization in all ecosystems as well as security concerns in numerous industries and network operators of the western industrialized nations are driving the demand for our technology. On the other hand, there is still a high level of complexity with additional costs in the areas of procurement, production and logistics. This environment will continue for the foreseeable future. Our teams work tirelessly on solutions to meet market demand, and we work closely with our customers every day to provide the best possible support for their network expansion. So far, we have mastered the challenges very well and are looking to the second half of the year with optimism.

Thank you

At this point, I would like to personally thank you for the trust you have placed in me as ADVA’s CEO. As the longest-serving CEO of the optical networking industry, I can look back on more than 25 years of active business development in a fascinating market. In an industry characterized by intense competition and high innovation, we have built up a great and loyal customer base and have achieved market and technology leadership in important categories. This was not least due to the merit of Christoph Glingener, who has been driving the technology roadmap of our company as CTO for more than 15 years and will now lead ADVA into a new era as CEO. This new era will bring a common future with Adtran. We want to create a global market leader for open and scalable communication technology with a focus on the network edge. The business combination unites Adtran’s global leadership in fiber-to-the-home and local loop solutions with ADVA’s global leadership in enterprise data center interconnect solutions, business Ethernet and fiber-to-the-building, metro WDM, as well as network synchronization. The combined technology portfolio can best address current and future requirements, especially in regard to the convergence of solutions at the network edge. We will create a company with annual sales well over one billion dollars and an annual R&D budget of just under a quarter billion dollars that will transform the industry forever. As a board member of Adtran Holding, Inc., I will continue to be associated with ADVA.

July 26, 2022

Brian Protiva

Chief executive officer

IFRS financial highlights 6M 2022

Income statement

(in thousands of EUR, except earnings per share and ratios)	Q2 2022	Q2 2021	Change	6M 2022	6M 2021	Change
Revenues	166,320	149,354	11 %	336,818	293,827	15 %
Pro forma EBIT *)	6,435	14,415	(55)%	14,247	27,275	(48)%
Pro forma EBIT margin in %	3.9	9.7	(5,8) pp	4.2	9.3	(5,1) pp
Operating income (loss)	4,655	13,036	(64)%	10,631	24,609	(57)%
Operating margin in %	2.8	8.7	(5,9) pp	3.2	8.4	(5,2) pp
Net income (loss)	7,291	12,001	(39)%	13,470	23,229	(42)%
Diluted earnings per share in EUR	0.14	0.23	(39)%	0.26	0.45	(42)%

Cash flow statement

(in thousands of EUR)	Q2 2022	Q2 2021	Change	6M 2022	6M 2021	Change
Cash flow from operating activities	6,532	31,684	(79)%	(6,191)	59,128	(110)%
Cash flow from investing activities	(12,609)	(17,127)	(26)%	(34,648)	(29,455)	18 %

Balance sheet and financial ratios

(in thousands of EUR, except ratios)	Jun. 30, 2022	Dec. 31, 2021	Change
Liabilities to banks	40,375	47,807	(16)%
Lease liabilities	23,758	25,014	(5)%
Financial debt	**64,133**	**72,821**	**(12)%**
Cash and cash equivalents	63,187	108,987	(42)%
Net cash (debt) *)	**(946)**	**36,166**	**(103)%**
Leverage *)	0.4 x	0.4 x	— %
Net working capital *)	183,030	128,954	42 %
Working capital ratio in % *)	26.9	21.4	5.5 pp
Equity	363,112	339,912	7 %
Equity ratio in %	58.0	56.5	1.5 pp
Capital employed *)	405,306	388,598	4 %
ROCE in % *)	7.7	11.7	(4.0) pp

Employees

(at period end)	Jun. 30, 2022	Dec. 31, 2021	Change
	2,002	1,973	1 %

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

Results of operations, net assets and financial position

Business development and operational performance

Revenue development and revenues by region

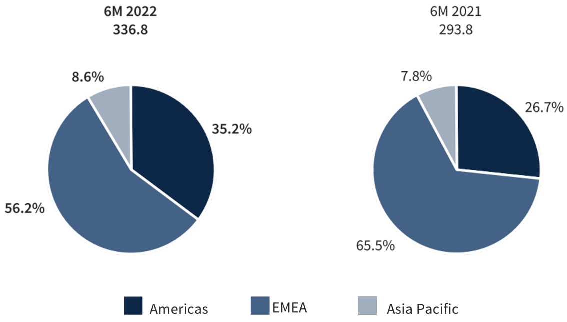
Revenues represent one of the four key performance indicators for ADVA. The group's revenues in 6M 2022 amounted to EUR 336.8 million and were EUR 43.0 million or 14.6 % above revenues of EUR 293.8 million in 6M 2021. Compared to revenues of EUR 170.5 million in Q1 2022, revenues in Q2 2022 slightly decreased by 2.5 % to EUR 166.3 million. The increase in revenues compared to 6M 2021 as well as the previous quarter was attributable to significantly higher revenue from both network operators and ICPs.

In 6M 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 slightly decreased to EUR 189.3 million in 6M 2022 compared to EUR 192.6 million in 6M 2021 and represented 56.2% of total revenues in 6M 2022 after 65.5 % 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 51.3% from EUR 78.3 million in 6M 2021 to EUR 118.5 million in 6M 2022. The large 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 26.3% from EUR 22.9 million in 6M 2021 to EUR 29.0 million in 6M 2022. Demand was primarily driven by network operators.



Results of operations

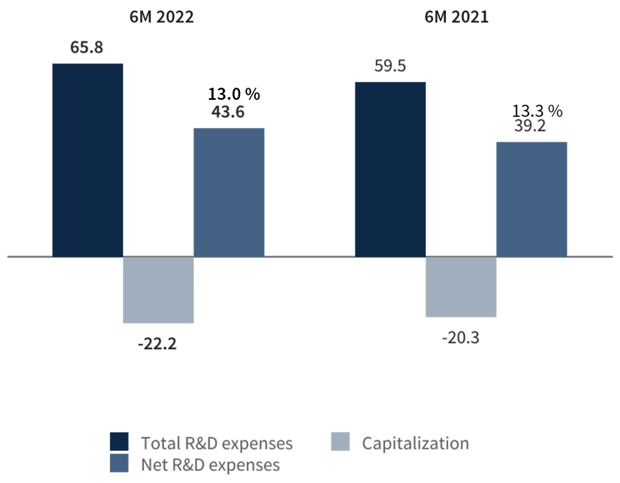
(in millions of EUR, except earnings per share)	6M 2022	Portion of revenues	6M 2021	Portion of revenues
Revenues	**336.8**	**100.0 %**	**293.8**	**100.0 %**
Cost of goods sold	(230.0)	68.3 %	(182.3)	62.1 %
Gross profit	**106.8**	**31.7 %**	**111.5**	**37.9 %**
Selling and marketing expenses	(36.3)	10.8 %	(31.5)	10.7 %
General and administrative expenses	(19.9)	5.9 %	(17.7)	6.0 %
Research and development expenses	(43.6)	13.0 %	(39.2)	13.3 %
Other operating income and expense, net	3.6	1.1 %	1.5	0.5 %
Operating income (loss)	**10.6**	**3.2 %**	**24.6**	**8.4 %**
Interset income and expenses, net	(0.8)	0.2 %	(0.9)	0.3 %
Financial gains and losses, net	4.3	1.3 %	0.6	0.2 %
Income (loss) before tax	**14.1**	**4.2 %**	**24.3**	**8.3 %**
Income tax benefit (expense), net	(0.7)	0.2 %	(1.1)	0.4 %
Net income (loss)	**13.5**	**4.0 %**	**23.2**	**7.9 %**
Earnings per share in EUR				
basic	0.26		0.46	
diluted	0.26		0.45	

Cost of goods sold strongly increased by EUR 47.6 million to EUR 230.0 million in 6M 2022. In 6M 2022, cost of goods sold included EUR 21.7 million (6M 2021: EUR 21.3 million) of amortization of capitalized development projects.

Gross profit decreased from EUR 111.5 million in 6M 2021 to EUR 106.8 million in 6M 2022, with gross margin at 31.7 % in 6M 2022 also clearly below the 37.9 % reported in 6M 2021. The decrease in the gross margin in 6M 2022 compared to 6M 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 6M 2022 of EUR 36.3 million were above the prior-year number of EUR 31.5 million in 6M 2021. They amounted to 10.8 % of revenues in both periods. The absolute increase results in particular from higher personnel expenses due to the positive development in revenues and order intake.

General and administrative expenses of EUR 19.9 million in 6M 2022 increased compared to EUR 17.7 million in 6M 2021 and amounted to 5.9 % and 6.0 % of revenues, respectively.



At EUR 43.6 million in 6M 2022, R&D expenses were above the EUR 39.2 million seen in 6M 2021, comprising 13.0 % and 13.3 % of revenues, respectively. Gross R&D expenses increased to EUR 65.8 million in 6M 2022 compared to EUR 59.5 million reported in 6M 2021, and income from capitalization of development expenses increased from EUR 20.3 million in 6M 2021 to EUR 22.2 million in 6M 2022. The capitalization rate in 6M 2022 amounted to 33.7 %, slightly down from 34.1 % reported in 6M 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 24.6 million in 6M 2021 to EUR 10.6 million in 6M 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 6M 2022, ADVA reported a pro forma EBIT of EUR 14.2 million after a pro forma EBIT of EUR 27.3 million in 6M 2021, representing positive 4.2 % after positive 9.3 % of revenues, respectively.

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

(in millions of EUR)	6M 2022	6M 2021
Operating income (loss)	**10.6**	**24.6**
Expenses related to share-based compensation	0.8	0.7
Amortization of intangible assets from business combinations	1.8	2.0
Expenses related to M&A transactions	0.9	—
Pro forma EBIT	**14.2**	**27.3**

Beyond the operating result net income in 6M 2022 is impacted by net interest expenses of EUR 0.8 million (6M 2021: EUR 0.9 million), which includes interest effects from lease accounting of EUR 0.4 million (6M 2021: EUR 0.4 million). Furthermore, net financial gains of EUR 4.3 million (6M 2021: net financial gains of EUR 0.6 million) relating to the revaluation of foreign currency assets and liabilities and the result on hedging instruments, impacted the net income in 6M 2022.

In 6M 2022, the group reported an income tax expense of EUR 0.7 million after an income tax expense of EUR 1.1 million in 6M 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.

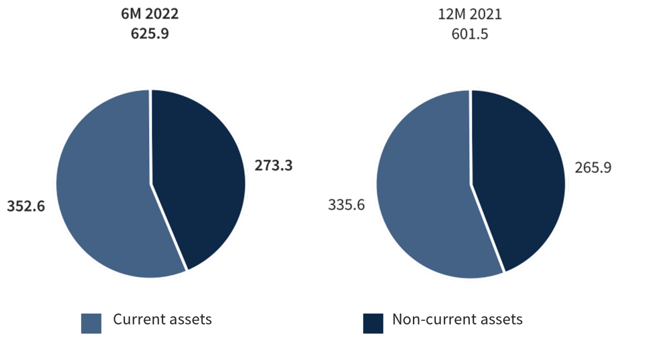
Summary: Business development and operational performance

In 6M 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 profit from EUR 23.2 million in 6M 2021 compared to EUR 13.5 million in the current period.

Net assets and financial position

Balance sheet structure

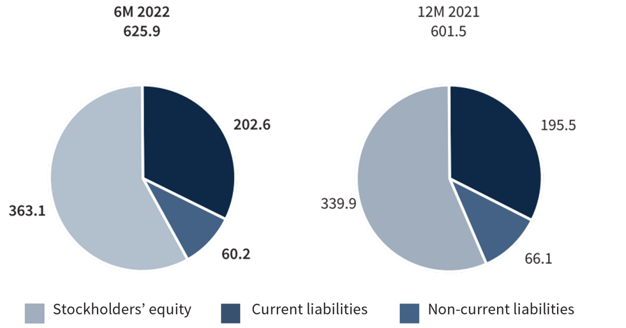
ADVA's total assets increased by EUR 24.4 million from EUR 601.5 million at the end of 2021 to EUR 625.9 million at the end of June 2022.



Current assets amounted to EUR 352.6 million at the end of 6M 2022, EUR 17.0 million higher than the corresponding figure of EUR 335.6 million at the end of 2021 and accounted for 56.3 % and 55.8 % of total assets at these reporting dates, respectively. The increase in current assets was mainly due to significantly increased trade receivables from EUR 83.0 million on December 31, 2021 to EUR 111.9 million at the end of 6M 2022 due to the increase in revenues. DSOs were unchanged at 53 days in 6M 2022 and in 12M 2021. At the same time, inventories substantially increased from EUR 129.2 million on December 31, 2021 to EUR 158.9 million at the end of 6M 2022. In 6M 2022 inventory turns declined to 3.3 x compared to the value of 3.8 x in 12M 2021. On the other hand, cash and cash equivalents significantly decreased to EUR 63.2 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 273.3 million at the end of 6M 2022 from EUR 265.9 million at year-end 2021. The increase in non-current assets was in particular due to a EUR 4.4 million significant increase in other intangible assets. In addition, goodwill increased by EUR 4.0 million due to exchange rate effects.

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 by EUR 7.1 million from EUR 195.5 million on December 31, 2021 to EUR 202.6 million on June 30, 2022. This increase is attributable to significantly higher trade payables. These amounted to EUR 87.7 million at the end of 6M 2022, EUR 4.5 million above the EUR 83.2 million reported at the end of December 2021. In 6M 2022, DPOs amounted to 62 days compared to 58 days in 12M 2021. In addition, current provisions increased significantly by EUR 13.0 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 14.9 million to EUR 25.1 million as of June 30, 2022, in particular due to the payment of variable employee compensation components for 2021 in 6M 2022. Current contract liabilities amounted to EUR 25.2 million as of June 30, 2022, compared to EUR 18.8 million reported at year-end 2021.

Non-current liabilities of EUR 60.2 million at the end of 6M 2022 decreased 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 363.1 million on June 30, 2022. The equity ratio was at 58.0 % on June 30, 2022, after 56.5 % on December 31, 2021, while the non-current assets ratio amounted to 132.9 % 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 6M 2022 amounted to EUR 6.8 million, up from the EUR 6.0 million seen in 6M 2021.

Capital expenditures for intangible assets of EUR 27.8 million in 6M 2022 were up from EUR 23.5 million in 6M 2021. This total consists of capitalized development projects of EUR 22.2 million in 6M 2022 after EUR 20.3 million in 6M 2021 and capital expenditures for other intangible assets of EUR 5.7 million in 6M 2022 after EUR 3.2 million in 6M 2021. The investments in other intangible assets include in particular the capitalization of a joint development.

Cashflow

(in millions of EUR)	6M 2022	Portion of cash	6M 2021	Portion of cash
Operating cash flow	(6.2)	(9.8)%	59.1	69.5 %
Investing cash flow	(34.6)	(54.8)%	(29.5)	34.6 %
Financing cash flow	(6.9)	(11.0)%	(9.5)	11.2 %
Net effect of foreign currency translation on cash and cash equivalents	2.0	3.1 %	0.0	0.0 %
Net change in cash and cash equivalents	**(45.8)**	**(72.5)%**	**20.1**	**23.7 %**
Cash and cash equivalents at the beginning of the period	109.0	172.5 %	64.9	76.3 %
Cash and cash equivalents at the end of the period	**63.2**	**100.0 %**	**85.0**	**100.0 %**

Cash flow from operating activities was negative EUR 6.2 million in 6M 2022, after positive EUR 59.1 million in 6M 2021. The significant decrease in 6M 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 34.6 million in 6M 2022 after negative EUR 29.5 million in 6M 2021. The increased use of funds for investing activities is largely due to higher investments intangible assets as described in the capital expenditure section above.

Finally, net cash outflows of EUR 6.9 million were reported from financing activities in 6M 2022, after cash outflows of EUR 9.5 million from financing activities in 6M 2021. In both quarters, the cash outflows result from scheduled redemption and interest payments for existing bank loans and repayments of lease liabilities. Moreover, due to the positive share price development in the past months, there was a higher inflow from capital increases in connection with the exercise of stock options in 6M 2022.

Overall, including the net effect of foreign currency translation of positive EUR 2.0 million, cash and cash equivalents significantly decreased by EUR 45.8 million, from EUR 109.0 million at the end of December 2021 to EUR 63.2 million on June 30, 2022. In 6M 2021, cash and cash equivalents had increased by EUR 20.1 million. With the exception of local currency regulations for cash and cash equivalents in China amounting to EUR 1.9 million, there were no significant restrictions at the end of the quarter.

Financing and liquidity

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

Total financial debt decreased by EUR 8.7 million to EUR 64.1 million at the end of 6M 2022. While the current portion of liabilities to banks remained fairly stable, the non-current portion of liabilities to banks decreased significantly from EUR 22.5 million to EUR 15.2 million due to scheduled repayments of debt. 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 1.0 million to EUR 18.0 million.

On June 30, 2022, the group had not used the available committed borrowing facilities of EUR 10.0 million (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 0.9 million (net debt) in 6M 2022. Cash and cash equivalents on June 30, 2022, and on December 31, 2021, were invested mainly in EUR, USD and GBP.

At the end of June 2022 return on capital employed for the rolling twelve months period was at 7.7 %, down from the 11.7 % reported in 12M 2021. This development is mainly due to the negative development of the operating result in 6M 2022.

Summary: Net assets and financial position

Despite the decrease in net cash at the end of 6M 2022, ADVA's net assets and financial position remain strong. The equity ratio further improved to 58.0 % on June 30, 2022 compared to 56.5 % at the end of 2021.

Events after the balance sheet date

On August 30, 2021, ADVA and ADTRAN had announced the entry into a business combination agreement to combine the two companies and create a leading global, scaled provider of end-to-end fiber networking solutions for communications service provider, enterprise and government customers. On January 28, 2022, ADTRAN and ADVA had announced that the minimum acceptance threshold for the proposed merger with ADTRAN had been reached. On July 6, 2022, the German foreign trade authorities approved the merger. A condition of the German foreign trade authorities' approval for the merger was to combine the company's entire business with government customers and critical infrastructure into a separate structure. This corporate transaction and the restructuring described above may have effects on balance sheet items presented in the IFRS consolidated financial statements.

For U.S. loss-making entities where there is a change in ownership as part of a transaction, there may be a restriction on the continued use of tax attributes (for example, net operating losses, capital losses, tax credits, excess interest carryforwards, etc.). With regards to the US-subsidiary, ADVA Optical Networking North America, Inc., an indirect transfer of more than 50 % of the shares in the U.S. company occurring in connection with the ADTRAN merger could reduce its usable tax loss carry-forwards depending on the value ratios at the time of closing.

The existing financing agreements include termination rights in case of a change of control. The management board is currently in discussions with the lending banks. The management board and the supervisory board currently assume that either an agreement can be reached with the lenders of the syndicated loan agreement that they will not exercise their right of termination, or that necessary credit lines can be replaced in some other way.

Possible effects of the corporate transaction on the Group's net assets, financial position and results of operations are currently still being examined.

There were no further events after the balance sheet date that materially impacted the net assets and financial position of the group and ADVA SE on June 30, 2021, or the group’s and the company’s financial performance for 6M 2022. Also, there were no events considered material for disclosure.

Risk and opportunity report

ADVA’s future development is subject to various general and group-specific risks, which in certain cases can also endanger the group’s continued existence.

The risks and uncertainties as reported in the "risk and opportunity report" section of the Group Management Report 2021 remain unchanged.

Outlook

Order backlog and demand in the second quarter of 2022 was again very pleasing, reflecting accelerating digitization and the expansion of communication infrastructure. On the other hand, challenges in the supply chain remain, leading to limitations in revenue growth and lower margins due to higher procurement costs.

Nevertheless, ADVA was able to increase revenues by 11.4 % to EUR 166.3 million compared to EUR 149.4 million in Q2 2021. 6M revenues were EUR 336.8 million up by 14.6% compared to EUR 293.8 million in the 6M 2021 period, putting them at a record level. Increasing procurement cost reduced the pro forma EBIT margin in Q2 2022 to 3.9 % compared to 9.7 % in Q2 2021.

The company's capital structure remains very solid. Thus, ADVA was able to spend non-operating cash on maintaining the supply chain and deliberately built up higher inventories in order to ensure delivery capability in the subsequent quarters. Cash decreased from EUR 73.0 million in Q1 2022 to EUR 63.2 million in Q2 2022. The decrease is mainly due to planned repayment of a bank loan. Consequently, net cash decreased from EUR 1.0 million in Q1 2022 to a net debt position of EUR 0.9 million. Leverage was at 0.4 x and reflects ADVA's 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 six months of the financial year. Management continues to expect that the price level will remain high. With respect to the Covid-19 pandemic, it remains to be seen whether new lockdowns in China will lead to further tightening of supply chains. We also cannot foresee if new virus variants will appear leading to further restrictions or whether the crisis will become less severe over the course of the year.

Due to the significant US dollar appreciation and continued higher procurement costs than originally expected, the management board decided on July 15, 2022 to adjust the outlook for the full year 2022. The management now expects revenues of between EUR 680 and EUR 730 million (prior: between EUR 650 and EUR 700 million) and a pro forma EBIT margin of between 5% and 9% (prior: between 6% and 10%). Furthermore, the management board does not expect any considerable impacts 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 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.

Six-month IFRS consolidated financial statements

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

(in thousands of EUR)	Note	Jun. 30, 2022	Dec. 31, 2021
Assets			
Current assets			
Cash and cash equivalents	(6)	63,187	108,987
Trade accounts receivable	(7)	111,872	82,972
Contract assets	(9)	184	180
Inventories	(8)	158,857	129,205
Tax assets		2,683	331
Other current assets	(10)	15,825	13,978
Total current assets		**352,608**	**335,653**
Non-current assets			
Right-of-use assets	(11)	20,976	22,491
Property, plant and equipment	(12)	33,045	33,326
Goodwill		75,628	71,595
Capitalized development projects	(13)	98,231	97,786
Intangible assets acquired in business combinations	(13)	10,477	11,982
Other purchased and internally generated intangible assets	(13)	12,966	8,540
Deferred tax asset		16,708	15,339
Other non-current assets	(10)	5,261	4,812
Total non-current assets		**273,292**	**265,871**
Total assets		**625,900**	**601,524**

(in thousands of EUR)	Note	Jun. 30, 2022	Dec. 31, 2021
Equity and liabilities			
Current liabilities			
Current lease liabilities	(14)	5,772	6,001
Current liabilities to banks	(15)	25,174	25,289
Trade accounts payable	(16)	87,699	83,223
Current provisions	(17)	28,398	15,444
Tax liabilities		4,643	5,769
Current contract liabilities and advance payments	(18)	25,158	18,810
Refund liabilities	(18)	609	931
Other current liabilities	(16)	25,142	40,065
Total current liabilities		**202,595**	**195,532**
Non-current liabilities			
Non-current lease liabilities	(14)	17,985	19,013
Non-current liabilities to bank	(15)	15,202	22,518
Provisions for pensions and similar employee benefits	(17)	8,064	7,401
Other non-current provisions	(17)	2,723	2,440
Deferred tax liabilities		3,491	2,151
Non-current contract liabilities	(18)	9,175	9,325
Other non-current liabilities	(16)	3,553	3,232
Total non-current liabilities		**60,193**	**66,080**
Total liabilities		**262,788**	**261,612**
Stockholders' equity entitled to the owners of the parent company	(19)		
Share capital		51,903	51,446
Capital reserve		331,655	327,777
Accumulated deficit		(35,116)	(94,334)
Net income		13,470	59,218
Accumulated other comprehensive income		1,201	(4,195)
Total stockholders' equity		**363,112**	**339,912**
Total equity and liabilities		**625,900**	**601,524**

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

(in thousands of EUR, except earnings per share and number of shares)	Note	Q2 2022	Q2 2021	6M 2022	6M 2021
Revenues	(20)	**166,320**	**149,354**	**336,818**	**293,827**
Cost of goods sold		(112,408)	(92,645)	(229,972)	(182,328)
Gross profit		**53,912**	**56,709**	**106,846**	**111,499**
Selling and marketing expenses		(18,090)	(15,866)	(36,277)	(31,535)
Thereof net impairment results on financial assets		*21*	*(160)*	*47*	*(78)*
General and administrative expenses		(10,035)	(9,195)	(19,931)	(17,691)
Research and development expenses		(23,391)	(19,442)	(43,622)	(39,160)
Other operating income	(22)	2,405	980	4,061	2,174
Other operating expenses	(22)	(146)	(150)	(446)	(678)
Operating income		**4,655**	**13,036**	**10,631**	**24,609**
Interest income	(23)	4	3	26	89
Interest expenses	(23)	(438)	(542)	(777)	(976)
Foreign currency exchange gains	(24)	8,480	2,901	12,029	5,505
Foreign currency exchange losses	(24)	(5,354)	(3,031)	(7,771)	(4,918)
Other financial gains	(24)	—	—	—	—
Other financial losses	(24)	—	—	—	—
Income before tax		**7,347**	**12,367**	**14,138**	**24,309**
Income tax benefit (expense), net	(25)	(56)	(366)	(668)	(1,080)
Net income entitled to the owners of the parent company		**7,291**	**12,001**	**13,470**	**23,229**
Earnings per share in EUR					
basic		0.14	0.24	0.26	0.46
diluted		0.14	0.23	0.26	0.45
Weighted average number of shares for calculation of earnings per share					
basic		51,612,820	50,551,596	51,529,817	50,524,296
diluted		52,728,537	51,097,328	52,645,534	51,070,028

Consolidated statements of comprehensive income (unaudited)

(in thousands of EUR)	Note	Q2 2022	Q2 2021	6M 2022	6M 2021
Net income entitled to the owners of the parent company		**7,291**	**12,001**	**13,470**	**23,229**
Items that may be reclassified to profit or loss in future periods					
Exchange differences on translation of foreign operations		3,984	(1,072)	5,395	3,837
Items that will not get reclassified to profit or loss in future periods					
Remeasurement of defined benefit plans		—	—	—	—
Comprehensive income entitled to the owners of the parent company		**11,275**	**10,929**	**18,865**	**27,066**

Consolidated cash flow statements (unaudited)

(in thousands of EUR)	Note	Q2 2022	Q2 2021	6M 2022	6M 2021
Cash flow from operating activities					
Income before tax		7,347	12,367	14,138	24,309
Adjustments to reconcile income before tax to net cash provided by operating activities					
Non-cash adjustments					
Amortization of non-current assets		17,408	17,654	35,338	34,632
Loss from disposal of property, plant and equipment and intangible assets		12	24	71	90
Stock compensation expenses		441	377	839	665
Other non-cash income and expenses		351	400	675	800
Foreign currency exchange differences		(2,680)	(260)	(2,913)	363
Changes in asset and liabilities					
Decrease (increase) in trade accounts receivable		(12,602)	(6,862)	(28,904)	(11,027)
Decrease (increase) in inventories		(28,665)	(3,838)	(29,652)	(7,615)
Decrease (increase) in other assets		(1,841)	(1,585)	(2,302)	(4,301)
Increase (decrease) in trade accounts payable		22,636	3,991	4,476	15,929
Increase (decrease) in provisions		6,011	5,235	13,244	11,380
Increase (decrease) in other liabilities		(58)	5,513	(8,058)	(4,769)
Income tax paid and refunded		(1,828)	(1,332)	(3,143)	(1,328)
Net cash provided by operating activities		**6,532**	**31,684**	**(6,191)**	**59,128**
Cash flow from investing activities					
Investments in property plant and equipment	(12)	(2,419)	(3,610)	(6,813)	(6,021)
Investments in intangible assets	(13)	(10,194)	(13,517)	(27,841)	(23,468)
Interest received		4	—	6	34
Net cash used in investing activities		**(12,609)**	**(17,127)**	**(34,648)**	**(29,455)**
Cash flow from financing activities					
Proceeds from capital increase and exercise of stock options	(19)	3,564	798	3,564	798
Repayment of lease liabilities	(14)	(1,116)	(1,267)	(2,341)	(1,883)
Proceeds from liabilities to banks	(15)	—	—	—	—
Cash repayment of liabilities to bank	(15)	(7,500)	(7,500)	(7,500)	(7,500)
Interest paid		(494)	(473)	(668)	(923)
Net cash used in financing activities		**(5,546)**	**(8,442)**	**(6,945)**	**(9,508)**
Net effect of foreign currency translation on cash and cash equivalents		1,808	(152)	1,984	(23)
Net change in cash and cash equivalents		**(9,815)**	**5,963**	**(45,800)**	**20,142**
Cash and cash equivalents at the beginning of the period		73,002	79,060	108,987	64,881
Cash and cash equivalents at the end of the period		**63,187**	**85,023**	**63,187**	**85,023**

Consolidated statement of changes in stockholders' equity

(in thousands of EUR, except number of shares)	Share capital: Number of shares	Share capital: Par value	Capital reserve	Net income (loss) and accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity entitled to the owners of the parent company
Balance on January 1, 2021	**50,496,692**	**50,497**	**320,715**	**(94,334)**	**(13,660)**	**263,218**
Capital increase, including exercise of stock options	158,500	158	640			798
Stock options outstanding			603			603
Net income				23,229		23,229
Exchange differences on translation of foreign operations					3,837	3,837
Remeasurement of defined benefit plans					—	—
Comprehensive income				23,229	3,837	27,066
Balance on June 30, 2021	**50,655,192**	**50,655**	**321,958**	**(71,105)**	**(9,823)**	**291,685**
Balance on January 1, 2022	**51,445,892**	**51,446**	**327,777**	**(35,116)**	**(4,195)**	**339,912**
Capital increase, including exercise of stock options	456,608	457	3,107			3,564
Stock options outstanding			771			771
Net income				13,470		13,470
Exchange differences on translation of foreign operations					5,395	5,395
Remeasurement of defined benefit plans					—	—
Comprehensive income				13,470	5,395	18,865
Balance on June 30, 2022	**51,902,500**	**51,903**	**331,655**	**(21,646)**	**1,200**	**363,112**

Details on changes in stockholders' equity are presented in note (19).

Notes to the condensed interim financial statements (unaudited)

(1) Information about the company and the group

ADVA Optical Networking SE (hereinafter also referred to as the "company" or "ADVA SE") is a Societas Europaea domiciled in Meiningen, Germany, with its registered office at Märzenquelle 1–3, 98617 Meiningen, and is registered as HRB 508155 at the commercial register in Jena.

The ADVA Optical Networking group (hereinafter also referred to as "ADVA Optical Networking", "the group" or "ADVA") develops, manufactures and sells optical and Ethernet-based networking solutions to telecommunications carriers and enterprises to deliver data, storage, voice and video services.

Telecommunications service providers, private companies, universities and government agencies worldwide use the group's systems. ADVA sells its product portfolio both directly and through an international network of distribution partners.

(2) Basis of preparation and accounting policies

The group's consolidated interim financial statements for the period ended June 30, 2022, are prepared in accordance with IAS 34. The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the group's annual financial statements per December 31, 2021.

The condensed interim consolidated financial statements for the period ended June 30, 2022, have neither been audited nor subject to a limited review by the group auditor PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Munich.

The condensed interim consolidated financial statements are presented in EUR. Unless otherwise stated, all amounts quoted are in thousands of EUR. The balance sheet is broken down into current and non-current assets and liabilities. The classification of income and expenses in the income statement is based on their function within the entity. Where items on the consolidated statement of financial position and in the consolidated income statement are summarized in the interest of clarity, this is explained in the notes to the consolidated financial statements.

The interim financial statements of the individual subsidiaries of the holding company ADVA SE, as subsumed in the condensed interim consolidated financial statements, are all prepared using the same accounting and valuation policies and the same balance sheet date.

The result of the six-month period through June 30, 2022, cannot be extrapolated to the result of the full year 2022.

(3) Effects of new standards and interpretations

With the exception of the application of new and revised IFRS and interpretations (IFRIC) in the past financial year, the accounting and valuation methods of the consolidated financial statements as of December 31, 2021 will be continued unchanged.

Standards, amendments and interpretations applicable for the first time in 2022

In 2022, following standards and interpretations have been adopted for the first time.

Standard	Topic	First-time adoption*	Expected impact on the financial position and performance
Amendments to IAS 16	Property, plant and equipment - revenue before intended use	Jan. 1, 2022	none
Amendments to IAS 37	Onerous contracts - costs of contract performance	Jan. 1, 2022	none
Amendments to IFRS 3	Reference to the IFRS framework	Jan. 1, 2022	none
Yearly improvements 2018 - 2020	IFRS 1, IFRS 9, IFRS 16 and IAS 41	Jan. 1, 2022	none

* To be applied in the first reporting period of a financial year beginning on or after this date.

The reform of the interest rate benchmarks has an impact on hedge accounting in particular. ADVA does not apply the hedge accounting rules according to IFRS 9 and is therefore not affected by the new regulations. In addition, the amendment affects the determination of contractual cash flows of financial assets and liabilities to the extent they are affected by the replacement of the previous reference interest rate. The relevant changes are accounted for in a simplified manner by updating the effective interest rate without any immediate impact on the income statement.

New accounting requirements not yet applicable for first-time adoption in 2022

The IASB and the IFRIC have issued further Standards and Interpretations in 2022 and previous years that were not applicable for the financial year 2022. In addition, the first-time adoption is partly still subject to endorsement by the EU.

Standard	Topic	First-time adoption*	Expected impact on the financial position and performance
IFRS 17 including amendments	Insurance contracts	Jan. 1, 2023	none
Amendments to IAS 1	Classification of liabilities as current or non-current	Jan. 1, 2023	under review
Amendments to IAS 1	Disclosure of accounting policies	Jan. 1, 2023	none
Amendments to IAS 8	Definition of accounting estimates	Jan. 1, 2023	under review
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	Jan. 1, 2023	under review

* To be applied in the first reporting period of a financial year beginning on or after this date.

(4) Significant accounting judgements, estimates and assumptions

The preparation of the group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities on the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. Assumptions used to make estimates are regularly reviewed. Changes in estimates only affecting one accounting period are only considered in that accounting period. In the case of changes in estimates that affect the current and future accounting periods, these are considered appropriately in the current and subsequent accounting periods.

Discussed below are the key judgments and assumptions concerning the future and other key sources of estimation and uncertainty on the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Development expenses

Development expenses are capitalized in accordance with the accounting policy described in note (4). Initial capitalization of costs is based on management judgment assuming that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. See note (13) for the carrying amounts involved.

Impairment of non-financial assets

The group assesses whether there are any indicators of impairment for all non-financial assets on each reporting date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of these cash flows. See note (12) and (13) for the carrying amounts involved.

Employee Benefits

Pension and similar post-employment obligations as well as the related expenses are recognized based on actuarial calculations. The actuarial valuation of the present value of pension obligations depends on a number of assumptions regarding the discount rate, the expected salary increase rate, the expected pension trend, and life expectancy. In the event that changes in the assumptions regarding the valuation parameters are required, the future amounts of the pension obligations as well as the pension benefit costs may be affected materially. For further details on the valuation of pension obligations, see note (17).

Share-based compensation transactions

The group measures the cost of equity-settled and cash-settled transactions with employees by reference to the fair value of the equity instruments on the date at which they are granted or on the balance sheet date. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the expected life of the option, volatility and dividend yield, as well as further assumptions. See note (30) for the carrying amounts involved.

Provisions

Significant estimates are involved in the determination of provisions related to warranty costs and legal proceedings a. The estimate of warranty claims is based on historic data and is extrapolated into the future. Legal proceedings often involve complex legal issues and are subject to substantial uncertainties. Accordingly, management exercises considerable judgment in determining whether there is a present obligation as a result of a past event at the end of the reporting period, whether it is more likely than not that such a proceeding will result in an outflow of resources and whether the amount of the obligation can be reliably estimated. Other provisions are described in note (17).

Transaction price for customer loyalty programs

Points accumulated for purchases provide a material right to customers that they would not receive without entering into a contract. The transaction price is allocated to the product and the points on a relative stand-alone selling price basis. Management estimates the selling price per point on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience.

Accounting for combined supply and service contracts

ADVA provides contracts that have more than one separate performance obligation (multiple element arrangements). The transaction price is allocated to the performance obligations in the contract by reference to their relative standalone selling prices.If a standalone selling price is not directly observable ADVA will need to estimate it. These estimates have a significant impact on the timing of revenue recognition.

Leases

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expenses already recorded. The group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective group company's domicile.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available to utilize these losses. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. See note (25) for the carrying amounts involved.

Non-financial risks

The assessment of the impact of non-financial risks (global warming, circular economy, new regulations) on the recognition and measurement of assets and liabilities is based on significant management judgments and assumptions. Non-financial risks are assessed by management as long-term risks that currently have no significant impact on net realizable values, recoverable amounts, useful lives or the requirement to recognize provisions.

(5) Covid-19 effects

Against the background of the continuing crisis in connection with the global spreading of the Covid-19 virus, ADVA management has dealt again with the resulting risks and the relevant effects on accounting in the first half of 2022.

In the opinion of the management, there is still no sign of an increased default risk for trade receivables and contract assets. Therefore, no impact on the expected credit losses pursuant to IFRS 9 has been considered.

There was no triggering event for an impairment test pursuant to IAS 36.9 in the current reporting period. In accordance with the usual procedure, an impairment test was carried out at the end of 2022, taking into account the current cost of capital and a current 4-year plan. As of December 31, 2021, no impairment of goodwill or other non-current non-financial assets was required.

The German federal government as well as governments of other countries in which ADVA operates or maintains subsidiaries or branches have introduced economic stimulus measures and other bridging measures to overcome the Covid-19 crisis.

In 6M 2022 and 2021, no government support measures related to Covid-19, such as the waiver of social security contributions and the deferral of tax payments and the payment of social security contributions, were used by the group.

Deferred tax assets at ADVA Optical Networking SE and its subsidiaries, insofar they exceed the amount of deferred tax liabilities, are recognized based on forecasts of the future taxable income, which can be used for offsetting deductible temporary differences and tax loss carry forwards. At reporting date, based on the positive tax planning prepared for the relevant forecast period the recognized deferred tax assets were assessed as recoverable.

(6) Cash and cash equivalents

Cash and cash equivalents include current funds as well as current financial assets with a remaining maturity that does not exceed three months and that are readily convertible to a known amount of cash and only subject to an insignificant risk of changes in value.

On June 30, 2022, cash of EUR 1,860 thousand (December 31, 2021: EUR 2,353 thousand) held in China is subject to local exchange control regulations. These local regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Cash equivalents are invested for varying periods of between one day and three months, depending on the immediate cash requirements of the group, and earn interest at the respective short-term deposit rates.

(7) Trade accounts receivable

Trade accounts receivable are non-interest-bearing and are due within 30 to 120 days in general. For specific projects, other payment terms may be agreed.

Gross and net trade accounts receivable are as follows:

(in thousands of EUR)	Jun. 30, 2022	Dec. 31, 2021
Gross trade accounts receivable	**115,615**	**85,601**
Allowance for expected credit losses	(3,743)	(2,629)
Net trade accounts receivable	**111,872**	**82,972**

A reconciliation of the risk provision for trade accounts receivable carried at amortized cost is included in the table below:

(in thousands of EUR)	6M 2022	6M 2021
Jan. 1	**2,629**	**2,713**
Increase of risk provision	47	—
Release of risk provision	—	(78)
Addition of specific allowances	915	—
Usage	—	(31)
Foreign currency translation effects	152	57
Jun. 30	**3,743**	**2,661**

The group has a supplier finance agreement, which entitles the transfer of trade receivables from a specific customer. Credit risks and settlement risks are transferred to the financing institution. The group fully derecognizes sold trade receivables as all risks and rewards are transferred. ADVA paid an annual fee amounting to LIBOR plus 0.75 % on the volume of receivables transferred. In 6M 2022, the group incurred interest expenses of EUR 75 thousand pertaining to this arrangement (6M 2021: EUR 26 thousand).

In Q2 2020, the group concluded another revolving factoring agreement with a maximum annual volume of EUR 20,000 thousand. The contract entitles to transfer uninsured trade receivables with certain customers. The agreement is for an indefinite period . The risks relevant to the risk assessment in relation to the receivables sold are the default risk and the late payment risk. As of June 30, 2022, receivables amounting to EUR 7,090 thousand (December 31, 2021: EUR 7,144 thousand) were sold, of which EUR 715 thousand (December 31, 2021: EUR 718 thousand) was not paid out as reserve. These reserves are recognized in other assets.

The group accounts for the sold trade receivables from the revolving factoring agreement in the amount of their continuing involvement. On June 30, 2022, the continuing involvement asset in the amount of EUR 396 thousand (December 31, 2021: EUR 349 thousand) was recognized as a liability and includes the maximum loss for the default and late payment risk for ADVA. The fair value of these guarantees or the interest payments to be made were recognized in the profit and loss statement and also recognized as other liabilities in the amount of EUR 51 thousand (December 31, 2021: EUR 50 thousand).

On June 30, 2022, trade accounts receivable include receivables of EUR 26,306 thousand related to the existing sale of receivables agreement (December 31, 2021: EUR 12,144 thousand), for which no transfer had taken place as of June 30, 2022.

(8) Inventories

In 6M 2022, impairment of inventories amounting to EUR 3,787 thousand (6M 2021: EUR 2,017 thousand) was recognized as an expense within cost of goods sold. This amount includes reversals of earlier write-downs amounting to EUR 1.035 thousand (6M 2021: EUR 365 thousand) due to higher selling and input prices.

In 6M 2022 and 6M 2021, material costs of EUR 165,500 thousand and EUR 129,696 thousand, respectively, have been recognized.

(9) Contract assets

Contract assets amounting to EUR 184 thousand (prior year: EUR 180 thousand) relate to claims from return deliveries. Contract assets are subject to the impairment requirements of IFRS 9, however the identified impairment losses were insignificant.

(10) Other current and non-current assets

Other current assets are as follows:

(in thousands of EUR)	Jun. 30, 2022	Dec. 31, 2021
Non-financial assets		
Prepaid expenses	5,194	3,853
Receivables due from tax authorities	1,485	2,639
Other	1,256	857
Total current non-financial assets	**7,935**	**7,349**
Financial assets		
Government grant allowances for research projects	4,492	3,325
Positive fair values of derivative financial instruments	390	89
Reserves relating to a revolving factoring agreement	715	718
Volume discounts of suppliers	—	1,838
Refund of duty & logistic charges	1,699	—
Other	595	659
Total current financial assets	**7,890**	**6,629**
Total current assets	**15,825**	**13,978**

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

Other non-current assets are as follows:

(in thousands of EUR)	Jun. 30, 2022	Dec. 31, 2021
Financial assets		
Investments	0	0
Government grant allowances for research projects	3,311	2,982
Rent deposits	1,636	1,622
Other	315	208
Total non-current assets	**5,261**	**4,812**

The fair value of the investment of 7.1 % (previous year: 7.1 %) of the shares in Saguna Networks Ltd., Nesher, Israel, amounted to zero on June 30, 2022. A review of the fair value at year-end did not indicate any write-up.

On June 30, 2022, government grants for 25 research projects are recognized (December 31, 2021: 19 research projects). These public grants relate to programs promoted by the EU and national governments. ADVA does not expect any defaults based on high credit rankings.

The rent deposits are mainly assets held in trust. ADVA does not expect any defaults.

On June 30, 2022 and December 31, 2021, no non-financial non-current assets have been reported.

(11) Right-of-use assets

Right-of-use assets can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2022	Dec. 31, 2021
Leased cars	1,392	1,470
Leased premises	19,584	21,021
Total right-of-use assets	**20,976**	**22,491**

From January 1, 2019, lease terms of between 36 and 120 months were applied taking into account the minimum rental periods and contractual extension options. In 6M 2022, depreciation of EUR 501 thousand (6M 2021: EUR 564 thousand) for vehicles and EUR 2,492 thousand for office and building rentals are included in operating profit (6M 2021: EUR 2,386 thousand).

An amount of EUR 388 thousand, which mainly relates to short-term leases continues to be recognized in operating profit (6M 2021: EUR 277 thousand). In addition, variable lease payments of EUR 1,206 thousand were not included in the measurement of lease liabilities and are also recognized in operating profit (6M 2021: EUR 1,054 thousand). There are no major lease payments related to low value contracts. In the cash flow statement, the cash outflows resulting from these items are included in the cash flow from operating activities.

In 6M 2022 and 6M 2021 no impairment of right-of-use assets was recognized.

(12) Property, plant and equipment

Property, plant and equipment can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2022	Dec. 31, 2021
Land and buildings	5,095	5,455
Technical equipment and machinery	22,807	23,673
Factory and office equipment	2,401	2,361
Assets under construction	2,742	1,837
Total property, plant and equipment	**33,045**	**33,326**

In 6M 2022 and 6M 2021, there were neither impairments nor write-backs of property, plant and equipment impaired in prior years.

In 6M 2022, the group has not received any cash payments for government grants related to purchases (6M 2021: none). Based on grant notifications no historical costs have been deducted in 6M 2022 (6M 2021: none).

(13) Intangibles assets

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

In 6M 2022, borrowing costs of EUR 248 thousand (6M 2021: EUR 187 thousand) were capitalized related to development projects with an expected duration of more than 12 months. Borrowing costs were capitalized at the weighted average rate of the financial liabilities of 1.6% (prior year: 1.7%).

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

(in thousands of EUR)	Jun. 30, 2022	Dec. 31, 2021
Purchased software technology Overture	—	456
Purchased technology MRV	1,809	2,504
Purchased customer relationships Overture	1,140	1,401
Purchased customer relationship MRV	7,528	7,621
Total intangible assets acquired in business combinations	**10,477**	**11,982**

Amortization of intangible assets with a finite useful life comprises:

(in thousands of EUR)	Q2 2022	Q2 2021	6M 2022	6M 2021
Capitalized development projects	10,532	10,933	21,734	21,344
Intangible assets acquired in business combinations	913	1,002	1,847	2,001
Other intangible assets	678	712	1,355	1,435
Total amortization of intangible assets	**12,123**	**12,647**	**24,936**	**24,780**

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

(in thousands of EUR)	Q2 2022	Q2 2021	6M 2022	6M 2021
Purchased software technology Overture	—	173	58	346
Purchased technology MRV	393	368	775	735
Purchased customer relationships Overture	183	162	356	323
Purchased customer relationships MRV	337	299	658	597
Total amortization of intangible assets acquired in business combinations	**913**	**1,002**	**1,847**	**2,001**

In the income statement, amortization of capitalized development projects and amortization of purchased technology is included in cost of goods sold. Amortization of purchased customer relationship assets is included in selling and marketing expenses.

In 6M 2022 and 6M 2021 no impairment of intangible assets with finite useful economic lives was recognized.

(14) Lease liabilities

Variable lease payments of EUR 1,206 thousand have not been included in the measurement of lease liabilities and were recognized in profit and loss (6M 2021: EUR 1,054 thousand). In the cash flow statement, the cash outflows resulting from these items are included in the cash flow from operating activities.

The interest expense of EUR 360 thousand is included in the financial result (6M 2021: EUR 376 thousand).

The maturity of lease liabilities is as follows:

(in thousands of EUR)	Jun. 30, 2022	Dec. 31, 2021
Up to 1 year	5,772	6,001
One to three years	8,881	8,880
More than three years	9,105	10,133
	23,758	**25,014**

(15) Liabilities to banks

On June 30, 2022, the group had undrawn committed borrowing facilities totaling EUR 10,000 thousand available (December 31, 2021: EUR 10,000 thousand).

On June 30, 2022, the fair value of the total loans amounts to EUR 40,337 thousand.

(16) Trade accounts payable and other current and non-current liabilities

The trade accounts payable are non-interest-bearing and generally due within 30 to 90 days. The increase in trade accounts payable mainly results from demand-oriented purchases of materials.

Other current liabilities are as follows:

(in thousands of EUR)	Jun. 30, 2022	Dec. 31, 2021
Non-financial liabilities		
Liabilities to employees for variable compensation and payroll	5,411	24,636
Liabilities to employees for vacation	6,025	2,127
Liabilities due to withheld wage income tax and social security contribution	3,562	3,547
Liabilities due to tax authorities	3,878	2,441
Obligations from subsidized research projects	4,833	3,840
Total current non-financial liabilities	**23,709**	**36,591**
Financial liabilities		
Negative fair value of derivatives	8	88
Other	1,425	3,386
Total current financial liabilities	**1,433**	**3,473**
Total current liabilities	**25,142**	**40,065**

Other non-current liabilities include:

(in thousands of EUR)	Jun. 30, 2022	Dec. 31, 2021
Non-financial liabilities		
Obligations from subsidized research projects	3,485	3,129
Other	17	17
Total non-current non-financial liabilities	**3,502**	**3,146**
Financial liabilities		
Other	51	86
Total non-current financial liabilities	**51**	**86**
Total non-current liabilities	**3,553**	**3,232**

The measurement of the assets and liabilities at fair value through profit or loss is based on fair values of Level 2.

Forward rate agreements are measured using quoted forward exchange rates and yield curves derived from quoted interest rates according to the maturities of the contract.

For all financial liabilities the fair value corresponds with the book value of the respective positions on June 30, 2022 The classification is in line with the disclosure in the group's annual financial statements per December 31, 2021.

(17) Pension obligations and other provisions

Additions to pension provisions are made during the year on the basis of a forecast value determined as part of the actuarial valuation as of December 31, 2021.

Other provisions are as follows:

(in thousands of EUR)	Jun. 30, 2022	Dec. 31, 2021
Current provisions		
Warranty provision	2,059	336
Personnel provisions	10,195	1,309
Consulting fees	2,911	2,712
Supplier obligations	12,519	9,685
Other short-term provisions	714	1,402
Total current provisions	**28,398**	**15,444**
Non-current provisions		
Warranty provision	1,667	1,592
Non-current personnel provisions	982	774
Other long-term provisions	74	74
Total non-current provisions	**2,723**	**2,440**
Total provisions	**31,121**	**17,884**

The estimated expenses related to warranty claims reflect both past experience and current developments and are based on a percentage of sales revenues. Any differences between actual amounts and anticipated amounts are treated as changes in accounting estimates and affect earnings in the period in which the change occurs.

Current personnel provisions mainly include variable compensation payments, expenses for employee's accident insurance and other expenses resulting from legal requirements.

For year-end reporting, variable compensation payments are reclassified to other liabilities.

Other current provisions primarily include provisions for outstanding invoices of uncertain amount and timing.

Reversals of provisions from previous years are reported under other operating income (see note (22)).

(18) Contract liabilities and refund liabilities

Contract and refund liabilities are as follows:

(in thousands of EUR)	Jun. 30, 2022	Dec. 31, 2021
Current contract liabilities		
Advance payments received	518	450
Current contract liabilities related to customer loyalty programs	572	511
Current deferred revenues related to service level agreements	24,068	17,849
Total current contract liabilities	**25,159**	**18,810**
Current refund liabilities	609	931
Total refund liabilities	**609**	**931**
Non-current contract liabilities		
Non-current deferred revenues related to service level agreements	9,175	9,325
Total non-current contract liabilities	**9,175**	**9,325**
Total contract liabilities	**34,942**	**29,066**

Current contract liabilities related to customer loyalty programs include mainly expected volume discounts and refunds to customers.

The revenues generated in the reporting period from contract liabilities existing at the beginning of the period amounted to EUR 13,813 thousand (previous year: EUR 12,919 thousand).

Management expects that 73 % of the outstanding or partially outstanding benefit obligations as of June 30, 2022, will be recognized as revenue within the next twelve months. The remaining 27 % is expected to be recognized as sales after twelve months in financial year 2023 and later. The amount stated does not include variable compensation components which are limited.

(19) Stockholders' equity

On June 30, 2022 the share capital amounts to EUR 51,902,500 (on December 31, 2021: EUR 51,445,892).

In connection with the exercise of stock options, 456,608 shares were issued to employees and management board of the company and its group companies out of conditional capital in 6M 2022. The par value of EUR 457 thousand was appropriated to the share capital, whereas the premium of EUR 3,107 thousand was recognized as capital reserve.

Accumulated other comprehensive income/(loss) is used to record exchange differences arising from the translation of the financial statements of foreign operations. In addition, the result from remeasurement of defined benefit obligations is included in this line item. The complete changes in other comprehensive income in 6M 2022 and the prior-year period result from translation effects. Remeasurement of defined benefit plans is regularly done at year-end. In 6M 2022 and 6M 2021 no items were reclassified (recycled) from comprehensive income to profit or loss.

In the annual shareholder´s meeting on May 18, 2022, no increase of the conditional capital 2011/I was resolved.

Considering the above-described capital transactions, the total conditional capital on June 30, 2022 amounts to EUR 3,644 thousand.

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

(in thousands of EUR)	Share capital	Authorized capital 2019/I	Conditional capital 2011/I
Jan. 1, 2022	**51,446**	**24,965**	**4,100**
Changes due to Annual Shareholders' Meeting resolutions	—	—	—
Stock options exercised	457	—	(457)
June 30, 2022	**51,903**	**24,965**	**3,644**

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

(20) Revenues

In 6M 2022 and 6M 2021, revenues included EUR 45,851 thousand and EUR 40,360 thousand for services, respectively. The remaining revenues relate mainly to product sales.

In 6M 2022, revenues related to customer loyalty programs amounting to EUR 146 thousand have been recognized (6M 2021: EUR 216 thousand).

In 6M 2022, revenues amounting to EUR 299,488 thousand (prior year: EUR 264.338 thousand) relate to performance obligations that were performed at a specific point in time, and revenues of EUR 37,330 thousand (6M 2021: EUR 29.487 thousand) relate to performance obligations that were delivered over a period of time.

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

(21) Selling and marketing, general and administration and research and development expenses

Selling and marketing, general and administration and research and development expenses mainly include personnel expenses relating to wages and salaries and social security costs.

In addition, general and administration expenses include expenses for external services provided for legal, accounting and tax purposes as well as expenses regarding rented office space and leased cars.

Research and development expenses additionally include external service expenses mainly for research and development services, calibration and certification and legal fees as well as depreciation expenses for equipment and cost of material used for research and development.

(22) Other operating income and expenses

Other operating income and expenses are as follows:

(in thousands of EUR)	Q2 2022	Q2 2021	6M 2022	6M 2021
Other operating income				
Government grants received	544	429	929	879
Release of provisions	13	131	691	216
Income for the supply of development services	—	35	24	35
payments received on receivables written off in previous	—	39	—	39
Refund of duty and logistic charges	2,009	—	2,009	—
Other	(161)	346	408	1,005
Total other operating income	**2,405**	**980**	**4,061**	**2,174**
Other operating expenses				
Derecognition of trade accounts receivable	—	(133)	—	(210)
Write-off of prepayments received for licenses	—	—	—	(226)
Other	(146)	(17)	(446)	(242)
Total other operating expenses	**(146)**	**(150)**	**(446)**	**(678)**
Other operating income and expenses, net	**2,259**	**830**	**3,615**	**1,496**

(23) Interest income and expenses

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

Interest expenses are primarily incurred on financial liabilities and on the sale of receivables. In addition, net interest expenses from valuation of defined benefit plans and interest expenses related to leases according to IFRS 16 are included.

For further details, refer to notes (7) and (14).

(24) Other financial gains and losses

Other financial gains and losses, net, comprise the following:

(in thousands of EUR)	Q2 2022	Q2 2021	6M 2022	6M 2021
Foreign currency exchange gains	8,479	2,901	12,028	5,505
Thereof: gains from forward rate agreements	*1,047*	*79*	*1,468*	*339*
Foreign currency exchange losses	(5,354)	(3,031)	(7,770)	(4,918)
Thereof: losses from forward rate agreements	*9*	*(133)*	*(36)*	*(282)*
Total other financial gains and losses, net	**3,125**	**(130)**	**4,258**	**587**

(25) Income tax

The tax expenses in 6M 2022 and 6M 2021 result from the application of the expected tax rate of the group to the current IFRS result. The expected tax rate is calculated based on a tax planning for the financial year.

(26) Consolidated cash flow statement

The consolidated cash flow statement has been prepared in accordance with IAS 7.

Cash and cash equivalents include short-term cash and short-term financial assets whose remaining maturity does not exceed three months. Bank overdrafts are reported in financial liabilities.

Cash flows from investing and financing activities are determined directly, whereas the cash flow from operating activities is derived indirectly from the consolidated income before tax. When cash flow from operating activities is calculated, the changes in assets and liabilities are adjusted for the effects of currency translation. As a result, it is not possible to reconcile the figures to the differences in the published consolidated statement of financial position.

The movements of liabilities from financing activities are as follows:

(in thousands of EUR)	Lease liabilities	Liabilities to banks	Total liabilities from financing activities
Jan. 1, 2021	**27,805**	**62,621**	**90,426**
Repayments	(2,388)	(7,500)	(9,888)
Non-cash changes	364	116	480
Foreign currency exchange effects	505	—	505
Jun. 30, 2021	**26,286**	**55,237**	**81,523**
Jan. 1, 2022	**25,014**	**47,807**	**72,821**
Repayments	(2,885)	(7,500)	(10,385)
Non-cash changes	1,084	69	1,153
Foreign currency exchange effects	544	—	544
Jun. 30, 2022	**23,757**	**40,376**	**64,133**

Actual interest payments for liabilities to banks amounting to EUR 308 thousand (6M 2021: EUR 547 thousand) and interest related to lease liabilities of EUR 360 thousand (6M 2021: EUR 376 thousand) are included in cash flow from financing activities.

Non-cash changes include effective interest rate changes on liabilities to banks as well as non-cash effective increases or decreases in lease liabilities due to consideration of new lease contracts or disposal of lease contracts.

Cash and cash equivalents to which the group only has restricted access are explained in note (6).

(27) Segment reporting

In accordance with IFRS 8, operating segments are identified based on the way information is reported internally to the chief operating decision maker, i.e. the management board, and regularly reviewed to make decisions about resources to be assigned to the segment and assess its performance. The internal organizational and management structure and the structure of internal financial reporting activities are the key factors in determining what information is reported. For making decisions about resource allocation and performance assessment, management does not monitor the operating results separately on the level of business units. Therefore the reporting on individual business segment does not apply.

Within the ADVA group, management decisions are based on pro forma EBIT. Pro forma financial information excludes non-cash charges related to share-based compensation plans and amortization and impairment of goodwill and acquisition-related intangible assets. Additionally, expenses related to M&A and restructuring measures are not included. Income from capitalization of development expenses is shown as a separate line item and not deducted from research and development expenses.

Reconciliation of key performance measures to the consolidated financial income on June 30, 2022 presents as follows:

(in thousands of EUR)	Pro forma financial information	Intangible assets from acquisitions	Goodwill	Compensation expenses	Expenses related to M&A transactions	Disclosure of R&D expenses	Consolidated financial information
Revenues	336,818	—	—	—	—	—	336,818
Cost of goods sold	(229,077)	(833)	—	(62)		—	(229,972)
Gross profit	**107,741**	**(833)**	**—**	**(62)**	**—**	**—**	**106,846**
Gross margin	**32.0 %**						**31.7 %**
Selling and marketing expenses	(35,016)	(1,014)	—	(247)	—	—	(36,277)
General and administrative expenses	(18,813)	—	—	(188)	(930)	—	(19,931)
Research and development expenses	(65,459)	—	—	(342)	—	22,179	(43,622)
Income from capitalization of development expenses	22,179	—	—	—	—	(22,179)	—
Other operating income	4,061	—	—	—	—	—	4,061
Other operating expenses	(446)	—	—	—	—	—	(446)
Operating income	**14,247**	**(1,847)**	**—**	**(840)**	**(930)**	**—**	**10,631**
Operating margin	**4.2 %**						**3.2 %**
Segment assets	**539,796**	**10,477**	**75,628**	**—**	**—**	**—**	**625,900**

Reconciliation of key performance measures to the consolidated financial income on June 30, 2021 presents as follows:

(in thousands of EUR)	Pro forma financial information	Intangible assets from acquisitions	Goodwill	Compensation expenses	Expenses related to M&A transactions	Disclosure of R&D expenses	Consolidated financial information
Revenues	293,827	—	—	—	—	—	293,827
Cost of goods sold	(181,208)	(1,081)	—	(39)	—	—	(182,328)
Gross profit	**112,619**	**(1,081)**	**—**	**(39)**	**—**	**—**	**111,499**
Gross margin	**38.3 %**						**37.9 %**
Selling and marketing expenses	(30,311)	(920)	—	(304)	—	—	(31,535)
General and administrative expenses	(17,595)	—	—	(96)	—	—	(17,691)
Research and development expenses	(59,212)	—	—	(226)	—	20,278	(39,160)
Income from capitalization of development expenses	20,278	—	—	—	—	(20,278)	—
Other operating income	2,174	—	—	—	—	—	2,174
Other operating expenses	(678)	—	—	—	—	—	(678)
Operating income	**27,275**	**(2,001)**	**—**	**(665)**	**—**	**—**	**24,609**
Operating margin	**9.3 %**						**8.4 %**
Segment assets	**460,125**	**13,439**	**68,831**	**—**	**—**	**—**	**542,395**

Additional information by geographical regions:

(in thousands of EUR)	Q2 2022	Q2 2021	6M 2022	6M 2021
Revenues				
Germany	36,702	39,085	76,294	84,285
Rest of Europe, Middle East and Africa	56,238	57,245	113,020	108,265
Americas	59,378	41,658	118,549	78,348
Asia-Pacific	14,001	11,366	28,955	22,929
Total revenues	**166,320**	**149,354**	**336,818**	**293,827**

(in thousands of EUR)	Jun. 30, 2022	Dec. 31, 2021
Non-current assets		
Germany	138,204	133,634
Rest of Europe, Middle East and Africa	26,471	28,285
Americas	83,524	80,259
Asia-Pacific	3,123	3,542
Total non-current assets for segment reporting	**251,322**	**245,720**

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

In 6M 2022, revenues with two major customers exceeded 10 % of total revenues (6M 2021: two major customers). In 6M 2022, the share of revenues allocated to major customers was EUR 93,868 thousand (6M 2021: EUR 73,885 thousand); thereof revenue with the biggest customer was EUR 50,532 thousand (6M 2021: EUR 41,956 thousand) and with the second biggest customer was EUR 43,336 thousand (prior year: EUR 31,929 thousand).

Non-current assets including property, plant and equipment, intangible assets and finance lease equipment are attributed based on the location of the respective group company.

(28) Other financial obligations and financial commitments

On June 30, 2022, the group had purchase commitments totaling EUR 210.038 thousand (on December 31, 2021: EUR 170.438 thousand) in respect to suppliers. The increase compared to the previous year is mainly due to higher order requirements as a result of expected supply shortages in the semiconductor industry.

Group entities have issued guarantees in favor of customers. On June 30, 2022, performance bonds with a maximum guaranteed amount of EUR 335 thousand were issued (on December 31, 2021: EUR 334 thousand). Based on experience from prior periods, ADVA does not expect claims from these guarantees at the end of 6M 2022.

Moreover, there are certain guarantee obligations from ADVA North America Inc. and ADVA Ltd. to ADVA Optical Networking SE with respect to various financing agreements.

(29) Contigent liabilities

In the normal course of business, claims may be asserted, or lawsuits filed against the company and its subsidiaries from time to time. On June 30, 2022, ADVA does not expect potential titles or litigations that will in detail or in total have a material impact on its financial position or operating performance.

(30) Stock option programs

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

	Stock Option Program 2011 Plan XIV	Stock Option Program 2011 Plan XIVa	Stock Option Program 2020 Plan XVIa
Options outstanding on Jan. 1, 2021	**2,146**	**802**	**100**
Granted options	628	265	—
Exercised options	(587)	(362)	—
Forfeited options	(103)	—	—
Expired options	—	—	—
Options outstanding on Dec. 31, 2021	**2,084**	**705**	**100**
Granted options	15	362	—
Exercised options	(378)	(79)	—
Forfeited options	(47)	—	—
Options outstanding on June 30, 2022	**1,657**	**988**	**100**
Of which exercisable	*232*	*361*	—

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

(in thousands of EUR)	Q2 2022	Q2 2021	6M 2022	6M 2021
Plan XIV	336	286	618	517
Plan XIVa	71	76	153	120
Plan XVIa	34	14	68	28
Total	**441**	**376**	**840**	**665**

(31) Related party transactions

There are no related parties within the meaning of IAS 24. Key management personnel remuneration is disclosed in note (32).

(32) Governing boards

Management board

The members of the Management Board held the following shares and/or had been granted the following stock options:

	Shares		Stock options	
	Jun. 30, 2022	Dec. 31, 2021	Jun. 30, 2022	Dec. 31, 2021
Brian Protiva Chief executive officer	401,030	401,030	313,572	227,860
Christoph Glingener Chief technology officer & chief operating officer	—	—	304,286	221,430
Ulrich Dopfer Chief financial officer	500	500	241,429	105,477
Scott St. John Chief marketing & sales officer	—	—	228,572	250,000

The options to members of the management board were granted out of Plan XIVa and Plan XVIa. The grants to two members of the management board under Plan XVIa in the financial year 2020 are accounted for as cash-settled share-based payments. A provision of EUR 292 thousand was recognized on June 30, 2022. The option rights authorize the management board to purchase the said number of common shares in the company once the qualifying period has elapsed. Both plans include a profit limit of EUR 20.00 per option.

The strike price for these option rights is

- EUR 8.70 for 57,387 options granted on May 15, 2016,
- EUR 4.98 for 128,572 options granted on November 15, 2017,
- EUR 5.79 for 175,000 options granted on May 15, 2018,
- EUR 5.76 for 100,000 options granted on May 15, 2020,
- EUR 10.00 for 265,000 options granted on May 15, 2021,
- EUR 15.68 for 361,900 options granted on May 15, 2022, respectively.

Supervisory board

On June 30, 2022, no shares or stock options were held by members of the supervisory board (December 31, 2021: none).

On June 30, 2022, trade accounts payable to the supervisory board for the pro rata compensation for Q2 2022 with an amount of EUR 59 thousand were recognized (December 31, 2021: EUR 59 thousand). The pay-out of these payables was carried out in July 2022 (January 2022).

(33) Events after the balance sheet date

On August 30, 2021, ADVA and ADTRAN had announced the entry into a business combination agreement to combine the two companies and create a leading global, scaled provider of end-to-end fiber networking solutions for communications service provider, enterprise and government customers. On January 28, 2022, ADTRAN and ADVA had announced that the minimum acceptance threshold for the proposed merger with ADTRAN had been reached. On July 6, 2022, the German foreign trade authorities approved the merger. A condition of the German foreign trade authorities' approval for the merger was to combine the company's entire business with government customers and critical infrastructure into a separate structure. This corporate transaction and the restructuring described above may have effects on balance sheet items presented in the IFRS consolidated financial statements.

For U.S. loss-making entities where there is a change in ownership as part of a transaction, there may be a restriction on the continued use of tax attributes (for example, net operating losses, capital losses, tax credits, excess interest carryforwards, etc.). With regards to the US-subsidiary, ADVA Optical Networking North America, Inc., an indirect transfer of more than 50 % of the shares in the U.S. company occurring in connection with the ADTRAN merger could reduce its usable tax loss carry-forwards depending on the value ratios at the time of closing.

The existing financing agreements include termination rights in case of a change of control. The management board is currently in discussions with the lending banks. The management board and the supervisory board currently assume that either an agreement can be reached with the lenders of the syndicated loan agreement that they will not exercise their right of termination, or that necessary credit lines can be replaced in some other way.

Possible effects of the corporate transaction on the Group's net assets, financial position and results of operations are currently still being examined.

There were no further events after the balance sheet date that materially impacted the net assets and financial position of the group and ADVA SE on June 30, 2022, or the group’s and the company’s financial performance for 6M 2022. Also, there were no events considered material for disclosure.

Declaration of compliance with the German Corporate Governance Code

Pursuant to section 161 of the German Stock Corporation Law (AktG), the management board and the supervisory board have issued a declaration of compliance with the German Corporate Governance Code. This declaration is published on the group's website www.adva.com.

Meiningen, July 26, 2022

Brian Protiva	Christoph Glingener
Ulrich Dopfer	Scott St. John

Affirmative declaration of the legal representatives

We, the members of the management board of ADVA Optical Networking SE, to the best of our knowledge affirm that, in accordance with the applicable reporting principles, the management report and the consolidated financial statements of the ADVA group represent a true and fair view of the net assets, financial position and performance of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Meiningen, July 26, 2022

Brian Protiva	Christoph Glingener
Ulrich Dopfer	Scott St. John

Financial calendar

Publication of quarterly statement Q3 2022	October 27, 2022 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

Corporate headquarters

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

t +49 89 89 06 65 0

Registered head office

Maerzenquelle 1-3
98617 Meiningen-Dreissigacker
Germany

t +49 3693 450 0

ADVA on the web

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

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

Investor communication

To receive an investor packet, request other information, ask specific questions, or be placed on the distribution list, please contact:

Steven Williams
Director treasury and investor relations
+49 89 890665918
investor-relations@adva.com

Disclaimer:

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