Six-Month Report 2017

Connecting, Extending and Assuring the Cloud

ADVA™ Optical Networking

Q2 2017 Snapshot

- Revenues of EUR 144.21 million
- IFRS pro forma operating income[1] of EUR 9.2 million (6.4 % of revenues)
- IFRS operating income of EUR 8.1 million and IFRS net income of EUR 4.5 million
- Net liquidity[2] of EUR 30.8 million at June 30, 2017

Profile

ADVA Optical Networking is a company founded on innovation and driven to help our customers succeed.

For over two decades, our technology has empowered networks across the globe. We are continually developing breakthrough hardware and software that leads the networking industry and creates new business opportunities.

It is these open connectivity solutions that enable our customers to deliver the cloud and mobile services that are vital to today's society and for imagining new tomorrows.

Together, we are building a truly connected and sustainable future.

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[1] Pro forma operating income is calculated prior to non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets.

[2] Net liquidity is calculated by subtracting current and non-current financial liabilities as well as current and non-current finance lease obligations from cash and cash equivalents.

Q2 2017 IFRS FINANCIAL HIGHLIGHTS

Quarterly Income Statement

(in thousands of EUR, except earnings per share)	Q2 2017	Q2 2016	Change	6M 2017	6M 2016	Change
Revenues	**144,225**	**157,243**	**-8%**	**286,060**	**279,205**	**2%**
Pro forma cost of goods sold	-97,543	-114,276	15%	-193,255	-195,845	1%
Pro forma gross profit	**46,682**	**42,967**	**9%**	**92,805**	**83,360**	**11%**
Pro forma S&M expenses	-14,625	-15,230	4%	-30,564	-30,728	1%
Pro forma G&A expenses	-8,871	-7,756	-14%	-17,048	-15,475	-10%
Pro forma R&D expenses	-27,091	-24,831	-9%	-54,415	-49,494	-10%
Income from capitalization of development expenses	11,447	7,817	46%	22,195	15,689	41%
Other operating income and expenses, net	1,649	1,246	32%	2,859	2,811	2%
Pro forma operating income[1]	**9,191**	**4,213**	**118%**	**15,832**	**6,163**	**157%**
Amortization of intangible assets from acquisitions	-776	-771	-1%	-1,558	-1,442	8%
Stock comp. exp.	-323	-362	11%	-681	-647	5%
Operating income	**8,092**	**3,080**	**163%**	**13,593**	**4,074**	**234%**
Interest income and expenses, net	-83	53		-274	-138	
Other financial gains and losses, net	-1,424	2,011		-2,426	-4,034	
Income (loss) before tax	**6,585**	**5,144**	**28%**	**10,893**	**-98**	
Income tax benefit (expense), net	-2,061	4,662		-184	4,741	
Net income (loss)	**4,524**	**9,806**	**-54%**	**10,709**	**4,643**	**131%**
Earnings per share in EUR						
basic	0.09	0.20		0.22	0.09	
diluted	0.09	0.20		0.21	0.09	

Balance Sheet

(in thousands of EUR)	Jun. 30, 2017	Dec. 31, 2016	Change
Cash and cash equivalents	80,774	84,871	-5%
Inventories	77,331	92,800	-17%
Goodwill	39,643	41.538	-5%
Capitalized R&D expenses	86,665	76,263	14%
Other intangible assets	16,489	16,429	0%
Total intangible assets	142,797	134,230	6%
Other assets	162,017	155,991	4%
Total assets	462,919	467,892	-1%
Stockholders' equity	245,032	238,947	3%

Cash Flow Statement

(in thousands of EUR)	Q2 2017	Q2 2016	Change	6M 2017	6M 2016	Change
Cash flow from operating activities	29,615	22,383	32%	35,238	24,415	44%
Gross capital expenditures for property, plant and equipment and other intangible assets	-2,629	-3,305	20%	-7,849	-5,661	-39%

Ratios

(in thousands of EUR)	Jun. 30, 2017	Dec. 31, 2016	Change
Net liquidity	30,779	25,506	21%
Working capital[3]	100,294	97,984	2%
	Q2 2017[4]	**Q2 2016[4]**	**Change**
Days sales outstanding	62	61	2%
Inventory turn-over (times/year)	5.1	4.8	6%
Days payable outstanding	67	63	6%

Employees

	Jun. 30, 2017	Dec. 31, 2016	Change
	1,808	1,764	2%

[3] Working capital is defined as trade accounts receivable plus inventories minus trade accounts payable.

[4] Trailing twelve months.

Q2 2017 Business Highlights

Customer Achievements

April 11, 2017: ADVA Optical Networking announced that the Poznań Supercomputing and Networking Center (PSNC) has deployed the ADVA FSP 3000 with 100Gbit/s core technology in its PIONIER network. PIONIER, one of Europe's largest research and education networks, links high-performance computer centers in five cities across Poland, as well as connecting the country to the European Organization for Nuclear Research (CERN) in Geneva. The new 96-channel 100Gbit/s coherent long-haul solution enables Europe's scientific community to share enormous data sets and collaborate using advanced high-bandwidth applications. Installation and maintenance work was conducted by Alma SA, the Polish systems integrator and long-term ADVA Optical Networking partner.

April 25, 2017: ADVA Optical Networking announced that the Swedish University Network (SUNET) has deployed its 100Gbit/s core technology in a new nationwide optical transport network. The research and education infrastructure, which stretches 8,000km across Sweden and into Norway, will deliver coherent ultra-high bandwidth connectivity to over 100 organizations. The new system features ADVA Optical Networking's ROADM technology, ensuring SUNET can rapidly respond to growing demand for new services and bandwidth at the touch of a button. The ADVA FSP 3000 provides an open optical line system (OOLS), which works seamlessly with the tunable DWDM router interfaces provided by Juniper Networks MX2000 Universal Edge Routers. The converged multi-vendor solution provides ultimate efficiency, extremely low latency and total scalability for future growth. It was installed by solutions integrator and ADVA Optical Networking partner NetNordic.

May 16, 2017: Ensemble, a division of ADVA Optical Networking, announced that Verizon has selected its Ensemble Connector as part of the deployment of the service provider's universal customer premises equipment (uCPE) solution. Verizon is using the Ensemble Connector as its network functions virtualization infrastructure (NFVI) on commercial off-the-shelf (COTS) white box servers. Ensemble Connector's zero touch provisioning enables Verizon to drop-ship servers directly from the COTS supplier to the end customer – dramatically simplifying supply chain logistics. Ensemble Connector further simplifies operational processes with access to the industry's largest collection of virtual network functions (VNFs).

May 31, 2017: ADVA Optical Networking announced that the Poznań Supercomputing and Networking Center (PSNC) has deployed its FSP 3000 CloudConnect™ with QuadFlex™ 400Gbit/s technology in PSNC's PIONIER network. The data center interconnect (DCI) solution with its unique openness and scale is now transmitting enormous data loads using the 16QAM modulation format. The 96-channel network, which connects supercomputing centers in Poznań and Warsaw, removes data restrictions and enables researchers to share huge data sets. It will empower Poland's research and education community to collaborate, distribute findings and access data-intensive applications on an unprecedented scale. The network was installed and will be maintained by the Polish systems integrator and ADVA Optical Networking partner, Alma SA.

May 31, 2017: ADVA Optical Networking announced that Netnod, the leading internet exchange operator in the Nordic region, will deploy its FSP 3000 CloudConnect™ with QuadFlex™ 400Gbit/s technology to create its new Optical IX service. The newly installed transport infrastructure, which also features ADVA Optical Networking's reconfigurable optical add/drop multiplexers (ROADMs) and FSP Network Hypervisor, enables Netnod to offer customers complete traffic control as well as connectivity options up to 100Gbit/s. With the new Optical IX service, operators can access faster, more cost-efficient and more effectively managed data transport services than ever before.

June 29, 2017: ADVA Optical Networking announced that the University Corporation for Atmosphere Research (UCAR) has deployed its FSP 3000 CloudConnect™ data center interconnect (DCI) solution for ultra-high capacity connectivity to the Cheyenne supercomputer. The DCI technology is now being used to transport vital scientific data over two 200Gbit/s 16QAM connections between the NCAR-Wyoming Supercomputing Center in Cheyenne, Wyoming and the Front Range GigaPop in Denver, Colorado. With improved flexibility and increased capacity, the new network will help UCAR expand educational opportunities, enable collaboration and promote research excellence.

New Products and Solutions – Innovation

April 05, 2017: ADVA Optical Networking launched its new FSP 150 ProVMe (P2.4). The device has been specifically engineered to remove the risk of introducing virtualization and helps communication service providers (CSPs) to easily and cost-effectively roll out NFV. The FSP 150 ProVMe (P2.4) achieves this with the inclusion of a hot-swappable, pluggable server that enables NFV rollout as and when needed. In combination with its hardware-assisted NFV infrastructure support functions, the newest member of the ADVA One Network Edge product family provides a simple and cost-effective way for CSPs to deploy virtual network functions (VNFs) in direct response to customer demand. The pluggable modular server also works with the ADVA Ensemble portfolio to support distributed NFV through embedded cloud functionality for greater security and scalability.

May 16, 2017: Ensemble, a division of ADVA Optical Networking, launched a major upgrade of its NFV platform with key enhancements for telco-scale virtualization. The high-performance software-based product suite has been specifically optimized for the simple, low-cost deployment of universal customer premises equipment (uCPE) solutions in a cloud-native fashion. Now, service providers can combine multiple virtual network functions (VNFs) onto a single uCPE rather than stacking separate boxes for a significantly lower total cost of ownership. The new release also features LTE wireless support and zero touch provisioning, enabling service providers to eliminate onsite visits for service activation. This means service providers can drop-ship servers directly from COTS suppliers to end customers – dramatically simplifying supply chain logistics.

May 23, 2017: Oscilloquartz, an ADVA Optical Networking company, launched the OSA 5405 SyncReach™, an integrated PTP grandmaster and GNSS receiver with a patent-pending dual antenna and receiver to enable the mass roll out of small cells. The new technology has been specifically engineered to provide accurate and affordable phase synchronization for the rapidly growing small cell market and meet the stringent timing requirements of 4.5G and 5G connectivity. With the OSA 5405 operators can migrate from legacy GNSS RF antennas and cables to standard, cost-effective copper and fiber Ethernet cabling, reducing capital expenditure and operating expenses. Available in both indoor and outdoor variants, the OSA 5405 can be deployed in the most challenging environments, including urban canyons where GPS signals fail. The OSA 5405's miniscule form factor also enables it to be positioned on indoor windows to avoid multipath signal interference from objects within the building.

June 20, 2017: ADVA Optical Networking launched a major expansion of its FSP 3000 platform designed specifically for metro networks. The expansion features three new technologies that will enable network operators to meet the rapidly changing needs of the metro environment with unprecedented levels of flexibility, scale and synchronization. Until now, it was too costly to introduce such capabilities in metro infrastructures, but the expanded ADVA FSP 3000 removes this barrier. It delivers a flexible and automated optical layer without the cost of traditional ROADM technology. It also features an entirely new cross-connect that enables customers to scale their optical transport networks (OTNs) without any capacity lock-in. In addition, it supports the precise synchronization of 5G technologies without any of the current OTN stumbling blocks.

Interoperability and Alliance Partnerships

May 04, 2017: ADVA Optical Networking announced that it has successfully transmitted 32Gbit/s Fibre Channel over 100km in a joint field trial with Brocade. The industry-first demonstration utilized Brocade X6 directors together with the ADVA FSP 3000 CloudConnect™ platform. The trial shows the capabilities of ADVA Optical Networking's data center interconnect (DCI) technology to interoperate seamlessly with Brocade Gen 6 Fibre Channel products. The joint solution will offer unrivaled value to enterprise customers, addressing the need for higher speeds in the data center and enabling a smooth transition to flash-based storage solutions.

March 21, 2017: Ensemble, a division of ADVA Optical Networking, announced its successful participation in the NIA MANO campaign interoperability event and showcase. During the testing, Ensemble demonstrated its award-winning management and network orchestration (MANO) solution, Ensemble Orchestrator, and its high-performance NFV operating system, Ensemble Connector. Both solutions interoperated with technology from multiple product vendors. Ensemble's NFV platform has been specifically designed to break up vendor lock-in and deliver the highest interoperability in the industry. The latest test results highlight how Ensemble's open software platform offers complete freedom to deploy best-in-breed virtualized solutions. Organized by the European Advanced Networking Test Center (EANTC), Ensemble's interoperability testing involved products from seven different vendors delivering fully virtualized services in a multi-vendor environment.

Company Events

May 16, 2017: Ensemble, a division of ADVA Optical Networking, announced that its SmartWAN platform has won Light Reading's Leading Lights Award for Most Innovative NFV Product Strategy (Vendor). The award recognizes the value of Ensemble's open virtualized networking platform for deploying and managing virtual SD-WAN and other NFV services at scale. With Ensemble SmartWAN, communication service providers (CSPs) can deploy SD-WAN in an automated and virtualized fashion, enabling low-cost, flexible VPN services with more features than any other available platform, all hosted on universal customer premises equipment (uCPE). The solution was chosen from a shortlist of SD-WAN technologies from major industry players, featuring Huawei, Netcracker and Versa Networks.

Six-Month Group Management Report

The numbers discussed in this unaudited interim Group management report are based on the interim consolidated financial statements under IFRS (condensed as per IAS 34 Interim Financial Reporting).

In the following, ADVA Optical Networking SE as a company is labeled "the Company" or "ADVA Optical Networking SE". "ADVA Optical Networking" or "the Group" always refer to the ADVA Optical Networking Group.

Forward-Looking Statements

This interim Group management report of ADVA Optical Networking SE 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 Optical Networking'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. Unknown risks and uncertainties are discussed in the "risk report" section of the Group management report 2016.

Business Development and Operational Performance

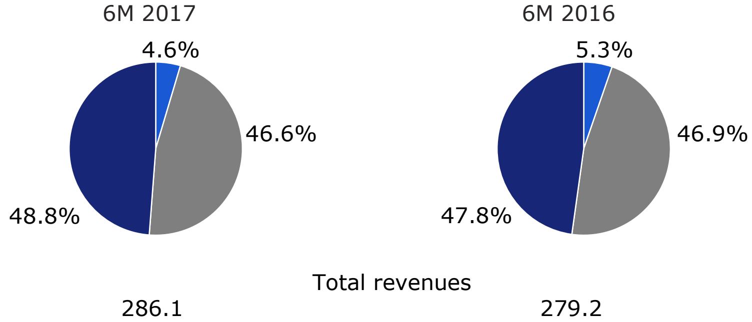
Revenues

Revenues represent one of the four key performance indicators for ADVA Optical Networking. The Group's revenues in 6M 2017 amounted to EUR 286.1 million and were EUR 6.9 million or 2.5% above revenues of EUR 279.2 million in 6M 2016. Compared to revenues of EUR 141.8 million in Q1 2017, revenues in Q2 2017 increased to EUR 144.2 million or 1.7%.

The revenue increase is supported by the all major productlines of the company and reflects the demand from a broad customer base for more network capacity. The growth is linked to the increase in network utilization due to the continuing adaption of cloud-based services. Revenue from optical transmission technology and revenue from Carrier Ethernet access solutions developed well compared to the previous quarter.

In 6M 2017, Europe, Middle East and Africa (EMEA) was reported as the most important sales region, closely followed by the Americas. Year-on-year, EMEA revenues at EUR 139.6 million in 6M 2017 were up from EUR 133.6 million in 6M 2016 supported by a solid demand of carriers and enterprise customers. ADVA Optical Networking continues to perform well in this region despite a highly competitive market environment. In the Americas, revenues increased from EUR 130.9 million in 6M 2016 to EUR 133.4 million in 6M 2017. This increase also results from a strong demand for increased transmission capacity driven a broad customer base that includes carriers, enterprises and large internet content providers. In the Asia-Pacific region, revenues slightly decreased from EUR 14.7 million in 6M 2016 to EUR 13.0 million in 6M 2017 as business is still affected by temporally fluctuating project business and a comparatively small customer base.

Revenues by region
(in millions of EUR and relative to total revenues)



Since ADVA Optical Networking is only active in a single operating segment, which is the development, production and marketing of optical networking solutions, a further breakdown of revenues is not relevant.

Results of Operations

(in millions of EUR, except earnings per share)	6M 2017	Portion of revenues	6M 2016	Portion of revenues
Revenues	**286.1**	**100.0%**	**279.2**	**100.0%**
Cost of goods sold	-194.5	67.9%	-196.9	70.5%
Gross profit	**91.6**	**32.1%**	**82.3**	**29.5%**
Selling and marketing expenses	-31.1	10.9%	-31.3	11.2%
General and administrative expenses	-17.2	6.0%	-15.6	5.6%
Research and development expenses	-32.6	11.4%	-34.1	12.2%
Other operating income and expenses, net	2.9	1.0%	2.8	1.0%
Operating income	**13.6**	**4.8%**	**4.1**	**1.5%**
Interest income and expenses, net	-0.3	0.1%	-0.1	0.0%
Other financial gains (losses), net	-2.4	0.9%	-4.1	1.5%
Income (loss) before tax	**10.9**	**3.8%**	**-0.1**	**0.0%**
Income tax benefit (expense), net	-0.2	0.1%	4.7	1.7%
Net income	**10.7**	**3.7%**	**4.6**	**1.7%**
Earnings per share in EUR				
Basic	0.22		0.09	
Diluted	0.21		0.09	

Cost of goods sold decreased by EUR 2.4 million to EUR 194.5 million in 6M 2017 mainly due to decreased customer- and product-mix in the current period. Furthermore, amortization charges for capitalized development projects of EUR 11.9 million in 6M 2017 after EUR 12.9 million in 6M 2016.

Gross profit increased from EUR 82.3 million in 6M 2016 to EUR 91.6 million in 6M 2017, with significantly improved gross margins at 32.1% in 6M 2017 after 29.5% in 6M 2016. The increase in gross margin in 6M 2017 is driven by a rise in revenues while cost of goods sold decreased at the same time.

Selling and marketing expenses in 6M 2017 were EUR 31.1 million, slightly below the EUR 31.3 million reported in 6M 2016, and representing 10.9% and 11.2% of revenues, respectively. ADVA Optical Networking continues to invest in post-sales customer service and intensified direct-touch activities with those key customers served via indirect distribution channels. Establishing direct contact enables the Group to work more closely with its end customers and better understand their specific requirements, which in turn helps in developing marketable products.

General and administrative expenses at EUR 17.2 million in 6M 2017 were up compared to EUR 15.6 reported in 6M 2016, representing 6.0% and 5.6% of revenues, respectively. This increase is largely due to external service expenses relating to a projected acquisition.

At EUR 32.6 million in 6M 2017, R&D expenses were below the EUR 34.1 million seen in 6M 2016, comprising 11.4% and 12.2% of revenues, respectively. Gross R&D expenses increased significantly to EUR 54.8 million in 6M 2017 compared to EUR 49.8 million reported in 6M 2016. At the same time, income from capitalization of development expenses increased from EUR 15.7 million in 6M 2016 to EUR 22.2 million in 6M 2017. The capitalization rate in 6M 2017 amounted to 40.5%, significantly above the 31.5% reported in 6M 2016. The increase in capitalization of development expenses mainly relates to the development of the future product platform for innovative productivity solutions.

In 6M 2017, total operating costs of EUR 78.0 million slightly decreased from EUR 78.2 million in 6M 2016, representing 27.3% and 28.0% of revenues, respectively.

ADVA Optical Networking reported a significant increase in operating income of EUR 13.6 million in 6M 2017 after EUR 4.1 million in 6M 2016. This increase is largely due to the rise in revenues and gross margin while operating expenses slightly decreased at the same time. This development reflects ADVA Optical Networking's ability to manage its costs effectively.

Pro forma operating income[1] represents one of the four key performance indicators for ADVA Optical Networking. As pro forma operating income excludes non-cash charges related to stock compensation and business combinations, the Management Board of ADVA Optical Networking believes that pro forma operating income is a more appropriate measure than operating income when benchmarking the Group's operational performance against other telecommunications equipment providers. In 6M 2017, ADVA Optical Networking reported a pro forma operating income of EUR 15.8 million after EUR 6.2 million in 6M 2016, representing 5.5% and 2.2% of revenues, respectively.

Beyond the operating result, net interest expenses of EUR 0.3 million (6M 2016: EUR 0.1 million) and net other financial losses of EUR 2.4 million (6M 2016: net other financial losses of EUR 4.1 million) relating to the revaluation of foreign currency assets and liabilities and the result on hedging instruments, impacted the net income before tax in 6M 2017.

In 6M 2017, the Group reported an income tax expense of EUR 0.2 million after an income tax benefit of EUR 4.7 million in 6M 2016. In 6M 2017, the tax expense results from the application of the expected effective tax rate for the ADVA Optical Networking Group. In 6M 2016, the tax benefit is mainly due to the increase of deferred taxes on loss carry-forwards in the context of the purchase of Overture, the release of deferred tax liabilities on temporary differences as well as tax refunds and release of tax provisions for prior periods.

The increase of operating result in the current year, combined with decreased financial losses, resulted in ADVA Optical Networking reporting a net income of EUR 10.7 million in 6M 2017 after a net income of EUR 4.6 million in 6M 2016.

Summary: Business Development and Operational Performance
In 6M 2017, ADVA Optical Networking reported increased revenues compared to 6M 2016. Due to corresponding positive development of operating margins, ADVA Optical Networking reported a significantly increased net income in 6M 2017.

Net Assets and Financial Position

Balance Sheet Structure
ADVA Optical Networking's total assets decreased by EUR 5.0 million from EUR 467.9 million at year-end 2016 to EUR 462.9 million at the end of June 2017.

(in millions of EUR)	**Jun. 30, 2017**	**Dec. 31, 2016**
Current assets	255.4	268.4
Non-current assets	207.5	199.5
Total assets	**462.9**	**467.9**
Current liabilities	135.0	141.5
Non-current liabilities	82.9	87.4
Stockholders' equity	245.0	239.0
Total equity and liabilities	**462.9**	**467.9**

Current assets at EUR 255.4 million at the end of 6M 2017 were EUR 13.0 million lower than the EUR 268.4 million reported at the end of 2016, and comprised 55.2% of the balance sheet total after 57.4% at the end of 2016. The decrease in current assets is mainly driven by the reduction of EUR 15.5 million in inventories to EUR 77.3 million at the end of 6M 2017, with inventory turns reduced to 4.7 times in 6M 2017 compared to 5.2 times in 12M 2016. Moreover, cash and cash equivalents decreased by EUR 4.1 million to EUR 80.8 million at the end of June 2017. These effects were partly compensated by an increase of trade accounts receivable to EUR 87.4 million at the end of 6M 2017 after EUR 78.5 million reported on December 31, 2016. Days sales outstanding improved to 54.8 days in 6M 2017, compared to the 60.2 days reported in 12M 2016.

Non-current assets increased by EUR 8.0 million to EUR 207.5 million on June 30, 2017, after EUR 199.5 million reported at year-end 2016. Within non-current assets capitalized development projects increased by EUR 10.4 million to EUR 86.7 million at the end of 6M 2017. At the same time, goodwill decreased by EUR 1.9 million to EUR 39.6 million, related to changes in currency translation.

Meaningful additional assets belonging to ADVA Optical Networking are the broad and global customer base of several hundred service providers and thousands of enterprises, the ADVA Optical Networking brand, the vendor and partner relationships and a highly motivated and skilled global team. These assets are not included in the balance sheet. Customer satisfaction as measured by the Net Promoter Score[5] represents one of the Group's four key performance indicators, highlighting the value of sustainable relationships with customers to ADVA Optical Networking.

On the equity and liabilities side, current liabilities decreased by EUR 6.5 million from EUR 141.5 million on December 31, 2016, to EUR 135.0 million on June 30, 2017, primarily due to lower trade accounts payable and other current liabilities. Trade accounts payable at EUR 64.4 million were significantly below the EUR 73.3 million reported at the end of 2016. Days payable outstanding were at 62.6 days in 6M 2017 compared to 62.1 days in 12M 2016. The decrease in trade accounts payable is driven by the timing of material purchases. Other current liabilities decreased by EUR 6.3 million to EUR 16.8 million at the end of June 2017, largely driven by variable compensation for prior periods paid out in 6M 2017. At the same time, current provisions increased by EUR 7.5 million as employees' variable compensation entitlement for 2017 has been included on a pro rata basis. Deferred revenues increased to EUR 14.1 million at the end of 6M 2017 compared to EUR 11.3 million reported at year-end 2016.

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

Non-current liabilities decreased from EUR 87.4 million at year-end 2016 to EUR 82.9 million at the end of June 2017 mainly due to lower non-current financial liabilities due to scheduled servicing of loans. This effect has been partly compensated by the increase of deferred revenues relating to service contracts by EUR 2.9 million.

Stockholders' equity increased from EUR 239.0 million reported on December 31, 2016, to EUR 245.0 million on June 30, 2017. The equity ratio was at 52.9% on June 30, 2017, after 51.1% on December 31, 2016, while the non-current assets ratio amounted to 118.1% and 119.8%, respectively with stockholders' equity fully covering the non-current assets and a portion of the current assets.

Balance sheet ratios (in %)		**Jun. 30, 2017**	**Dec. 31, 2016**
Equity ratio	Stockholders' equity / Total assets	52.9	51.1
Non-current asset ratio	Stockholders' equity / Non-current assets	118.1	119.8
Liability structure	Current liabilities / Total liabilities	61.9	61.8

Capital Expenditures
Capital expenditures for additions to property, plant and equipment in 6M 2017 amounted to EUR 4.9 million, below the EUR 5.7 million seen in 6M 2016.

Capital expenditures for intangible assets of EUR 25.1 million in 6M 2017 were significantly up from EUR 16.2 million in 6M 2016. This total mainly consists of capitalized development projects of EUR 22.2 million in 6M 2017 after EUR 15.8 million in 6M 2016 and capital expenditures for other intangible assets of EUR 2.9 million in 6M 2017 after EUR 0.4 million in 6M 2016.

Cash Flow (in millions of EUR)	**6M 2017**	**Portion of cash**	**6M 2016**	**Portion of cash**
Operating cash flow	35.2	43.6%	24.4	29.6%
Investing cash flow	-29.9	37.0%	-54.3	65.7%
Financing cash flow	-9.2	11.4%	19.1	23.1%
Net effect of foreign currency translation on cash and cash equivalents	-0.2	0.3%	-0.6	0.7%
Net change in cash and cash equivalents	**-4.1**	**5.1%**	**-11.4**	**13.7%**
Cash and cash equivalents at the beginning of the period	84.9	105.1%	93.9	113.7%
Cash and cash equivalents at the end of the period	**80.8**	**100.0%**	**82.5**	**100.0%**

Cash flow from operating activities was positive EUR 35.2 million in 6M 2017, after positive EUR 24.4 million in 6M 2016. The increase mainly relates to the improved income before tax.

Cash flow from investing activities amounted to negative EUR 29.9 million in 6M 2017 after negative EUR 54.3 million in 6M 2016. The significantly decreased use of funds for investing activities is largely due to cash outflows in the acquisition of Overture reported in 6M 2016.

Finally, net cash outflows of EUR 9.2 million were used for financing activities in 6M 2017, after cash inflows for financing activities EUR 19.1 million reported in 6M 2016. The cash flow in 6M 2017 is due to scheduled servicing of existing debt partly offset by inflows from capital increases due to stock option exercises. In 6M 2016, the inflows mainly resulted from taking up new debt.

Overall, including the net effect of foreign currency translation of negative EUR 0.2 million in 6M 2017, cash and cash equivalents decreased by EUR 4.1 million, from EUR 84.9 million at the end of December 2016 to EUR 80.8 million on June 30, 2017.

Financing and Liquidity

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

Financial liabilities (in millions of EUR)	**Jun. 30, 2017**	**Dec. 31, 2016**
Current financial liabilities	18.7	18.7
Non-current financial liabilities	31.3	40.7
Total financial liabilities	**50.0**	**59.4**

Total financial liabilities decreased by EUR 9.4 million. While the current portion remained fairly stable at EUR 18.7 million, the non-current portion decreased to EUR 31.3 million at the end of June 2017. The decrease in non-current financial liabilities mainly results from scheduled servicing of existing debts.

On June 30, 2017, the Group had available EUR 8 million of undrawn committed borrowing facilities (December 31, 2016: EUR 8 million).

Net liquidity[2] represents one of the four key performance indicators for ADVA Optical Networking. Due to decrease in financial liabilities in 6M 2017, partly offset by the decreasein cash and cash equivalents ADVA Optical Networking's net liquidity increased from EUR 25.5 million at year-end 2016 to EUR 30.8 million at the end of June 2017. Cash and cash equivalents on June 30, 2017, and on December 31, 2016, were invested mainly in EUR, USD and GBP. At the end of June 2017 and at the end of December 2016, EUR 0.2 million and EUR 0.1 million of cash and cash equivalents was restricted, respectively.

Net liquidity (in millions of EUR)	**Jun. 30, 2017**	**Dec. 31, 2016**
Cash and cash equivalents	80.8	84.9
- financial liabilities		
current	18.7	18.7
non-current	31.3	40.7
Net liquidity	**30.8**	**25.5**

ADVA Optical Networking's liquidity ratios reflect the healthy balance sheet structure.

Financing ratios		Jun. 30, 2017	Dec. 31, 2016
Cash ratio	Cash and cash equivalents / Current liabilities	0.60	0.60
Quick ratio	Monetary current assets* / Current liabilities	1.25	1.15
Current ratio	Current assets / Current liabilities	1.89	1.90

* Monetary current assets are defined as the sum of cash and cash equivalents, short-term investments and securities and trade accounts receivable.

Return on capital employed in 6M 2017 was at positive 8.3%, up from positive 2.7% reported in 6M 2016. This development is mainly due to the improved operating result in 6M 2017.

Return on capital employed (ROCE) (base data in millions of EUR)		6M 2017	6M 2016
Operating income		13.6	4.1
Average total assets*		464.9	424.2
Average current liabilities*		135.7	124.0
ROCE	Operating income, annualized / Ø total assets - Ø current liabilities	**8.3%**	**2.7%**

* Arithmetic average of the quarterly balance sheet values (Dec. 31 of the previous year, Mar. 31 and Jun. 30 of the year).

Transactions with Related Parties
Transactions with related individuals and legal entities are discussed in note (23) to the six-month consolidated interim financial statements.

Summary: Net Assets and Financial Position
The net assets and financial position of ADVA Optical Networking continues to be solid in 6M 2017, albeit the lower levels of cash and cash equivalents. Net liquidity significantly improved compared to year-end 2016.

Events After the Balance Sheet Date

On July 2, 2017, ADVA Optical Networking announced that it has entered into a definitive agreement to acquire MRV Communications, Inc. Under the terms of the agreement, ADVA Optical Networking will make a tender offer of USD 10.00 per share for all the outstanding common stock of the California-based provider of innovative network solutions for data center operators, service providers and enterprises. The acquisition is subject to customary closing conditions, including the tender of at least a majority of MRV Communications, Inc. outstanding shares of common stock. If successful, the acquisition will become effective in Q3 2017.

Further, there were no events after the balance sheet date that impacted the financial position of the Group on June 30, 2017, or its financial performance for the reporting period then ended. Similarly, there were no events considered material for disclosure.

Risk Report

ADVA Optical Networking's future development is subject to various general and Group-specific risks, which in certain cases can also endanger the Group's continued existence. Unknown risks, uncertainties and other factors are discussed in the "risk report" section of the 2016 Annual Report.

Outlook

Based on the macroeconomic framework, ADVA Optical Networking anticipates a compound annual growth rate of 8%[6] for the Group's addressable core market between the years 2016 – 2021. Internet content providers represent the customer group with the greatest growth potential due to their demand for data center interconnect solutions.

The global megatrends cloud and mobility still drive sustainable growth for the Group's addressable market. The market for cloud and mobile services is driving demand for more bandwidth in communication networks, and thus the demand for optical transmission technology and solutions that accelerate and improve access to the cloud. On the other hand, there is a fierce price competition that reinforces the need for further consolidation in the industry.

In order to ensure sustainable corporate success, ADVA Optical Networking has placed an offer to acquire MRV Communications, Inc. If successful, the acquisition will expand the Company's customer base, solidify the leadership position in the market for Ethertnet access devices and expand the product portfolio in the area of paket optical transport solutions. In addition the Company focuses on the following long-term strategic objectives:

- Grow global revenues and profitability through extensive sales and marketing activities focusing on large customers, new customer acquisition and the service and software business.
- Expand the Group's proven innovation leadership and increase market share by meeting strategic customers' demand for innovative connectivity solutions.
- Maintain operational excellence by further focusing on industry-leading processes and best-in-class execution, which will result in product and service quality leadership, improved efficiency and increased overall customer satisfaction.
- Recruit, retain, motivate, educate and nurture the Group's employees to sustainably achieve high levels of performance, personal growth and job satisfaction, while keeping employee turnover low.

After the strong revenue growth in 2015 and 2016, the Company expects for 2017 to achieve only moderate revenue growth. The profitability of the Group, however, is expected to be improved noticably compared to 2016. The following factors will play a decisive role:

- Internet content providers build new and larger data centers that need to be connected with optical transmission technology. The FSP 3000 CloudConnect™ has been specifically designed for this target group and ADVA Optical Networking expects new customer wins and margin improvement in this application due to an improved cost structure.
- Large companies build geographically dispersed data protection and storage solutions, requiring optical transmission technology. The security package ConnectGuard™ and the BSI-certification in Germany bring competitive advantages and increased customer loyalty. ADVA Optical Networking expects solid growth in this application with good profitability.
- Carrier infrastructure upgrades will continue in 2017. The investment focus is shifting further towards metro networks, where ADVA Optical Networking is particularly well positioned.
- The innovative feature set of the ADVA FSP 150 portfolio combined with a loyal, global customer base, puts ADVA Optical Networking in a position of strength in the cloud access market. The Company expects new customer wins and an expansion of existing business relationships in all regions.
- High-precision synchronization technology continues to gain strategic importance. Specifically mobile operators, who are expanding existing LTE networks and preparing for upcoming 5G standards, are asking for network-based solutions to deliver and assure highly accurate time and frequency information. The Oscilloquartz solution portfolio is industry-leading and promises a valuable contribution to revenue growth and margins for 2017.

[6] Industry analyst estimates for metro WDM equipment and access switching & routing relevant to ADVA Optical Networking. Sources: Ovum, Optical Networks Forecast 2016-2021 and service provider switching and routing forecast 2016-2022, published January 2017.

Unaffected by current turmoils in global politics, the global megatrends Cloud and Mobility continue to drive the growth for the network equipment industry. ADVA Optical Networking's commitment to being a trusted partner for Connecting, Extending and Assuring the Cloud, is positioning the company as an attractive supplier in important growth markets. The combination of application-optimized innovation, short development and delivery times, a broad and growing customer base, and a balanced distribution model distinguish ADVA Optical Networking from comparable companies and leads to a profitable business model.

Against the backdrop of the aforementioned factors, the planned acquisition of MRV Communications, Inc. and taking into account planning parameters such as personnel and currency exchange rates, the Management Board of ADVA Optical Networking expects stable revenue development on a year-on-year basis, still resulting in a three year (2015 – 2017) compound annual growth rate above the average market growth. Under this assumption, the Management Board also expects its 2017 pro forma operating income[1] to increase compared to the previous year, excluding potential integrations costs in the case of a successful acquisition of MRV Communications, Inc. The Management Board expects that the Group's net liquidity[2] will increase to a lower double digit million Euro range by the end of 2017. The Group will continue to selectively invest in product development, technology and revenue-generating opportunities. In addition, the Management Board of ADVA Optical Networking expects, due to the continued focus on innovation, quality and service that customer satisfaction in 2017 will once again be at high positive levels. Actual results may differ materially from expectations if risks materialize or the underlying assumptions prove unrealistic.

Meiningen, July 18, 2017

Brian Protiva

Christoph Glingener

Ulrich Dopfer

Six-Month IFRS Consolidated Financial Statements

Consolidated Statement of Financial Position (Unaudited)

(in thousands of EUR)	Note	Jun. 30, 2017	Dec. 31, 2016
Assets			
Current assets			
Cash and cash equivalents	(5)	80,774	84,871
Trade accounts receivable	(6)	87,392	78,474
Inventories	(7)	77,331	92,800
Tax assets		1,672	1,474
Other current assets	(8)	8,259	10,742
Total current assets		**255,428**	**268,361**
Non-current assets			
Property, plant and equipment	(9)	24,501	25,126
Goodwill		39,643	41,538
Capitalized development projects	(10)	86,665	76,263
Intangible assets acquired in business combinations	(10)	12,348	14,284
Other intangible assets	(10)	4,141	2,145
Deferred tax assets		35,454	35,999
Other non-current assets	(8)	4,739	4,176
Total non-current assets		**207,491**	**199,531**
Total assets		**462,919**	**467,892**

(in thousands of EUR)	Note	Jun. 30, 2017	Dec. 31, 2016
Equity and liabilities			
Current liabilities			
Financial liabilities		18,745	18,648
Trade accounts payable	(11)	64,429	73,290
Advance payments received		543	352
Other provisions	(12)	19,290	11,789
Tax liabilities		990	2,957
Deferred revenues		14,149	11,347
Other current liabilities	(11)	16,827	23,143
Total current liabilities		**134,973**	**141,526**
Non-current liabilities			
Financial liabilities		31,250	40,717
Provisions for pensions and similar employee benefits		4,962	4,705
Other provisions	(12)	1,720	1,507
Deferred tax liabilities		30,620	30,256
Deferred revenues		9,880	6,971
Other non-current liabilities	(11)	4,482	3,263
Total non-current liabilities		**82,914**	**87,419**
Total liabilities		**217,887**	**228,945**
Stockholders' equity entitled to the owners of the parent company	(13)		
Share capital		49,658	49,499
(Conditional capital EUR 4,654 thousand; prior year EUR 4,813 thousand)			
Capital reserve		313,574	312,305
Accumulated deficit		-126,970	-148,502
Net income		10,709	21,532
Accumulated other comprehensive income (loss)		-1,939	4,113
Total stockholders' equity		**245,032**	**238,947**
Total equity and liabilities		**462,919**	**467,892**

Consolidated Income Statement (Unaudited)

(in thousands of EUR, except earnings per share and number of shares)	Note	Q2 2017	Q2 2016	6M 2017	6M 2016
Revenues	(14)	**144,225**	**157,243**	**286,060**	**279,205**
Cost of goods sold		-98,124	-114,860	-194,421	-196,945
Gross profit		**46,101**	**42,383**	**91,639**	**82,260**
Selling and marketing expenses		-14,896	-15,553	-31,131	-31,328
General and administrative expenses		-8,952	-7,831	-17,212	-15,601
Research and development expenses		-15,810	-17,165	-32,562	-34,068
Other operating income	(15)	1,706	1,429	3,241	3,145
Other operating expenses	(15)	-57	-183	-382	-334
Operating income		**8,092**	**3,080**	**13,593**	**4,074**
Interest income	(16)	58	258	90	269
Interest expenses	(16)	-141	-205	-364	-407
Other financial gains and losses, net	(17)	-1,424	2,011	-2,426	-4,034
Income (loss) before tax		**6,585**	**5,144**	**10,893**	**-98**
Income tax benefit (expense), net	(18)	-2,061	4,662	-184	4,741
Net income entitled to the owners of the parent company		**4,524**	**9,806**	**10,709**	**4,643**
Earnings per share in EUR		0.09	0.20	0.22	0.09
basic		0.09	0.20	0.21	0.09
diluted					
Weighted average number of shares for calculation of earnings per share					
basic		49,547,702	49,377,102	49,523,589	49,378,604
diluted		50,231,993	50,172,312	50,207,880	50,173,814

Consolidated Statement of Comprehensive Income (Unaudited)

(in thousands of EUR)	Q2 2017	Q2 2016	6M 2017	6M 2016
Net income entitled to the owners of the parent company	**4,524**	**9,806**	**10,709**	**4,643**
Items that possibly get reclassified to profit or loss in future periods			-	
Exchange differences on translation of foreign operations	-5,028	425	-3,508	-1,177
Items that do not get reclassified to profit or loss in future periods				
Remeasurement of defined benefit plans	-	-	-2,544	-2,009
Total comprehensive income (loss) entitled to the owners of the parent company	**-504**	**10,231**	**4,657**	**1,457**

Remeasurement of defined benefit plans is regularly done at year-end. Thus in 6M 2017 no effects from remeasurement were recognized.

In 6M 2017 and 6M 2016, no items were reclassified (recycled) from comprehensive income to profit or loss.

Consolidated Cash Flow Statement (Unaudited)

(in thousands of EUR)	Note	Q2 2017	Q2 2016	6M 2017	6M 2016
Cash flow from operating activities					
Income (loss) before tax		6,585	5,144	10,893	-98
Adjustments to reconcile income (loss) before tax to net cash provided by operating activities					
Non-cash adjustments					
Amortization of non-current assets		9,777	9,521	19,136	20,148
Loss from disposal of property, plant and equipment and intangible assets		126	15	232	17
Stock compensation expenses		323	362	681	647
Other non-cash income and expenses (net)		327	325	1,366	582
Foreign currency exchange differences		-1,975	-572	-2,498	-1,109
Changes in assets and liabilities					
Decrease (increase) in trade accounts receivable		6,711	-19,237	-8,918	-34,589
Decrease (increase) in inventories		4,367	8,182	15,469	12,802
Decrease (increase) in other assets		-1,339	-2,132	1,745	-2,523
Increase (decrease) in trade accounts payable		436	19,268	-8,861	30,063
Increase (decrease) in provisions		4,015	1,849	6,542	5,131
Increase (decrease) in other liabilities		1,709	-317	1,368	-6,164
Income tax paid		-1,447	-25	-1,917	-492
Net cash provided by operating activities		**29,615**	**22,383**	**35,238**	**24,415**

(in thousands of EUR)	Note	Q2 2017	Q2 2016	6M 2017	6M 2016
Cash flow from investing activities					
Proceeds from government grants		-	-	-	-
Investment in property, plant and equipment	(9)	-1,752	-3,305	-4,907	-5,661
Investment in intangible assets	(10)	-12,324	-8,108	-25,137	-16,220
Net cash received from (paid in) acquisition of affiliated companies		-	-	-	-32,409
Interest received		54	12	85	23
Net cash used in investing activities		**-14,022**	**-11,401**	**-29,869**	**-54,267**
Cash flow from financing activities					
Proceeds from capital increase and exercise of stock options	(13)	723	19	723	19
Payments received from financial liabilities		-	-	-	35,000
Cash repayment of financial liabilities		-4,688	-1,563	-9,376	15,199
Interest paid		-261	-337	-539	-725
Net cash provided by/(used in) financing activities		**-4,226**	**-1,881**	**-9,192**	**19,095**
Net effect of foreign currency translation on cash and cash equivalents		-302	18	-274	-572
Net change in cash and cash equivalents		**11,065**	**9,119**	**-4,097**	**-11,329**
Cash and cash equivalents at the beginning of the period		69,709	73,402	84,871	93,850
Cash and cash equivalents at the end of the period		**80,774**	**82,521**	**80,774**	**82,521**

Consolidated Statement of Changes in Stockholders' Equity (Unaudited)

(in thousands of EUR, except number of shares)	Share capital Number of shares	Par value	Capital reserve	Net income (loss) and accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity entitled to the owners of the parent company
Balance on January 1, 2016	**49,374,484**	**49,374**	**310,645**	**-148,502**	**4,404**	**215,921**
Capital increase, including exercise of stock options	6,900	7	12			19
Stock options outstanding			665			665
Net income				4,643		4,643
Exchange differences on translation of foreign operations					-1,177	-1,177
Remeasurement of defined benefit plans					-2,009	-2,009
Total comprehensive income				4,643	-3,186	1,457
Balance on June 30, 2016	**49,381,384**	**49,381**	**311,322**	**-143,859**	**1,218**	**218,062**
Balance on January 1, 2017	**49,498,934**	**49,499**	**312,305**	**-126,970**	**4,113**	**238,947**
Capital increase, including exercise of stock options	159,015	159	564			723
Stock options outstanding			705			705
Net income				10,709		10,709
Exchange differences on translation of foreign operations					-3,508	-3,508
Remeasurement of defined benefit plans					-2,544	-2,544
Total comprehensive income				10,709	-6,052	4,657
Balance on June 30, 2017	**49,657,949**	**49,658**	**313,574**	**-116,261**	**-1,939**	**245,032**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(1) Information about the Company and the Group

ADVA Optical Networking SE (hereinafter referred to as “the Company”), Märzenquelle 1-3, 98617 Meiningen, Germany is a Societas Europaea, registered as HRB 508155 at the commercial register in Jena. The Company’s headquarters are in Fraunhoferstrasse 9a, 82152 Martinsried/Munich, Germany.

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

Telecommunications service providers, private companies, universities and government agencies worldwide use the Group’s systems. ADVA Optical Networking 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, 2017, 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, 2016.

The condensed interim consolidated financial statements for the period ended June 30, 2017, 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 balance sheet and in the income statement are summarized in the interest of clarity, this is explained in the notes to the consolidated financial statements. The additional disclosure requirements in order to comply with section 315 a paragraph 1 of the German Commercial Code (Handelsgesetzbuch, HGB) are all met.

The interim financial statements of the individual subsidiaries of the holding company ADVA Optical Networking 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, 2017, cannot be extrapolated to the result of the full year 2017.

(3) Effects of New Standards and Interpretations

The accounting policies followed are consistent with those of the prior financial year, except for the adoption of new and amended IFRSs and interpretations (IFRICs) during 6M 2017.

Standards, amendments and interpretations applicable for the first time in 2017
In 6M 2017, 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 12	Recognition of Deferred Tax Assets Related to Unrealized Losses	Jan. 1, 2017	none
Amendments to IAS 7	Disclosure Initiative	Jan. 1, 2017	none

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

New accounting requirements not yet endorsed by the EU
The IASB and the IFRIC have issued further Standards and Interpretations in 2017 and previous years that are not applicable for the financial year 2017. In addition, the first-time adoption is subject to endorsement by the EU.

Standard	Topic	First-time adoption*	Expected impact on the financial position and performance
IFRS 9 (2014)	Financial Instruments	Jan. 1, 2018	under review
IFRS 15 including relevant clarifications	Revenue from Contracts with Customers	Jan. 1, 2018	none
IFRS 16	Leases	Jan. 1, 2019	under review
Amendments to IFRS 2	Share-based Payment	Jan. 1, 2018	none
Amendments to IFRS 4	Insurance Contracts	Jan. 1, 2018	none
Amendments to IAS 40	Investment Property	Jan. 1, 2018	none
Annual improvements 2016	The improvements include changes to: IAS 28 – Investments in Associates and Joint Ventures IFRS 12 – Disclosure of Interests in Other Entities as well as editorial amendments to IFRS 1	Jan. 1, 2017 and 2018, respectively	none
IFRIC 22	Foreign Currency Transactions and Advance Considerations	Jan. 1, 2018	under review
IFRIC 23	Uncertainty over Income Tax Treatments	Jan. 1, 2019	under review

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

IFRS 9 (2014) in its final version replaces IAS 39 Financial Instruments: Recognition and Measurement. It supersedes all regulations previously published. The Standard includes requirements for classification and valuation of financial assets. In addition, a new impairment model based on expected payment defaults is implemented. Furthermore, IFRS 9 contains new hedge accounting rules. ADVA Optical Networking will apply the new standard in the financial year 2018 for the first time. The application will presumably result in changes to the calculation of impairment of financial assets. However, ADVA Optical Networking does not expect significant impact on its financial position and performance of the Group.

IFRS 15 specifies how and when revenues will be recognized based on a single, principles based five-step model to be applied to all contracts with customers. Additionally, the standard defines comprehensive disclosure requirements. ADVA Optical Networking has started a global project for the implementation of the new standard. The first-time adoption will apply prospectively for financial periods starting January 1, 2018. Currently, ADVA Optical Networking does not expect significant impact on its financial performance.

On January 13, 2016, the IASB published IFRS 16 Leases regarding accounting of lease contracts. The new standard will replace IAS 17 Leases and all related interpretations and implements a consistent lease accounting model. Hence, lessees will have to recognize assets (right to use) and lease liabilities for all lease contracts with terms over 12 months. At present, ADVA Optical Networking reviews the potential impact of the application of IFRS 16 on its consolidated financial statements. The standard will be applied for financial years starting January 1, 2019.

Besides the described standards, the adoption of new or revised standards and interpretations – from today’s perspective – will not have a material impact on the financial position and performance of the Group. The Group does not plan an early adoption of these standards.

(4) Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group’s interim financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities on the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

Development expenses
Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. See note (10) 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 (9) and (10) 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.

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

Provisions
Significant estimates are involved in the determination of provisions related to warranty costs and legal proceedings. The estimate of warranty claims is based on historic data and is extrapolated into the future. Legal proceedings often involve complex legal issues and are subject to substantial uncertainties. Accordingly, management exercises considerable judgment in determining whether there is a present obligation as a result of a past event at the end of the reporting period, whether it is more likely than not that such a proceeding will result in an outflow of resources and whether the amount of the obligation can be reliably estimated. Other provisions are described in note (12).

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

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

(5) Cash and Cash Equivalents

Cash and cash equivalents include the following amounts to which ADVA Optical Networking has only limited access:

(in thousands of EUR)	**Jun. 30, 2017**	**Dec. 31, 2016**
Amounts pledged as security	182	146

On June 30, 2017, cash of EUR 4,596 thousand (December 31, 2016: EUR 3,436 thousand) is held in China and is subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

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

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.

On June 30, 2017, the Group had EUR 8,000 thousand available (on December 31, 2016: EUR 8,000 thousand) of undrawn committed borrowing facilities in respect of which all conditions had been met.

(6) Trade Accounts Receivable

As a result of an agreement on the sale of accounts receivable entered into on September 16, 2008, interest expenses of EUR 81 thousand were incurred in 6M 2017 (6M 2016: EUR 116 thousand).

(7) Inventories

In 6M 2017, write-downs amounting to EUR 3,748 thousand (6M 2016: EUR 1,334 thousand) were recognized as expense within costs of goods sold. This amount includes reversals of earlier write-downs in the amount of EUR 397 thousand (6M 2016: EUR 416 thousand) due to higher selling and input prices.

In 6M 2017 and 6M 2016, material costs of EUR 152,808 thousand and EUR 159,980 thousand, respectively, have been recognized.

(8) Other Current and Non-Current Assets

On June 30, other current assets can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2017	Dec. 31, 2016
Non-financial assets		
Prepaid expenses	3,226	2,707
Receivables due from tax authorities	1,318	3,632
Other	1,101	703
Total current non-financial assets	**5.645**	**7.042**
Financial assets		
Government grant allowances for research projects	2,362	2,478
Positive fair values of derivative financial instruments	-	903
Other	252	319
Total current financial assets	**2,614**	**3,700**
	8,259	**10,742**

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

Further disclosures on derivative financial instruments are given in note (17).

On June 30, other non-current assets can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2017	Dec. 31, 2016
Financial assets		
Investments	1,374	1,374
Government grant allowances for research projects	2,099	1,567
Other	1,266	1,235
Total non-current financial assets	**4,739**	**4,176**

On June 30, 2017 and December 31, 2016, no non-current non-financial assets have been recognized.

Investments relate to 9% of the shares of Saguna Networks Ltd. Nesher, Israel, held by ADVA Optical Networking SE (prior year: 9% of the shares).

On June 30, 2017, government grants for twelve research projects are recognized (December 31, 2016: fourteen research projects). These public grants relate to programs promoted by the EU and national governments.

(9) Property, Plant and Equipment

Property, plant and equipment can be analyzed as follows:

(in thousands of EUR)	Jun. 30, 2017	Dec. 31, 2016
Land and buildings	7,450	8,069
Technical equipment and machinery	13,573	13,707
Factory and office equipment	2,931	2,902
Assets under construction	547	448
	24,501	**25,126**

In 6M 2017 and 6M 2016, there were neither impairments nor write-backs of property, plant and equipment impaired in prior years.

In 6M 2017, the Group has received cash payments of EUR 90 thousand for government grants related to purchases (6M 2016: nil). Based on grant notifications no historical costs have been deducted in 6M 2017 (6M 2016: nil).

(10) Capitalized Development Projects, intangible assets acquired in business combinations and Other Intangible Assets

The table below summarizes the carrying amounts:

(in thousands of EUR)	**Jun. 30, 2017**	**Dec. 31, 2016**
Capitalized development projects	86,665	76,263
Intangible assets acquired in business combinations	12,348	14,284
Other intangible assets	4,141	2,145
	103,154	**92,692**

In 6M 2017, borrowing costs of EUR 218 thousand (6M 2016: EUR 348 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 1.9%.

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

(in thousands of EUR)	**Jun. 30, 2017**	**Dec. 31, 2016**
Purchased technology Biran	56	111
Purchased technology Time4 Systems	393	456
Purchased technology FiSEC	847	993
Purchased hardware technology Overture	2,732	3,260
Purchased software technology Overture	3,572	3,919
Brand Ensemble	164	185
Purchased customer relationships OSA	127	166
Purchased customer relationships Overture	4,457	5,194
	12,348	**14,284**

Amortization of intangible assets

Amortization of intangible assets with a finite useful life comprises:

(in thousands of EUR)	**Q2 2017**	**Q2 2016**	**6M 2017**	**6M 2016**
Capitalized development projects	6,059	6,046	11,758	13,201
Intangible assets acquired in business combinations	776	771	1,558	1,442
Other intangible assets	499	369	938	790
	7,334	**7,186**	**14,254**	**15,433**

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

(in thousands of EUR)	**Q2 2017**	**Q2 2016**	**6M 2017**	**6M 2016**
Purchased technology Biran	28	26	56	52
Purchased technology Time4 Systems	32	32	64	64
Purchased technology FiSEC	72	72	145	145
Purchased hardware technology Overture	265	262	529	487
Purchased software technology Overture	173	172	346	318
Brand Ensemble	10	11	21	20
Purchased customer relationships OSA	18	28	37	56
Purchased customer relationships Overture	178	168	360	300
	776	**771**	**1,558**	**1,442**

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 2017 and 6M 2016, no impairment of intangible assets with finite useful economic lives was recognized.

(11) Trade Accounts Payable and Other Current and Non-Current Liabilities

The trade accounts payable are non-interest-bearing and generally due within 30 to 90 days.

Other current liabilities on June 30 can be analyzed as follows:

(in thousands of EUR)	**Jun. 30, 2017**	**Dec. 31, 2016**
Non-financial liabilities		
Liabilities to employees for vacation	4,781	2,048
Liabilities due to withheld wage income tax and social security contribution	2,037	1,777
Liabilities due to tax authorities	2,030	1,139
Obligations from subsidized research projects	2,531	2,256
Other	452	1,004
Total current non-financial liabilities	**11,831**	**8,224**
Financial liabilities		
Liabilities to employees for variable compensation and payroll	3,607	14,008
Negative fair values of derivative financial instruments	491	-
Other	898	911
Total current financial liabilities	**4,996**	**14,919**
	16,827	**23,143**

On June 30, other non-current liabilities include:

(in thousands of EUR)	**Jun. 30, 2017**	**Dec. 31, 2016**
Non-financial liabilities		
Obligations from subsidized research projects	2,071	1,594
Other	1,217	1,469
Total non-current non-financial liabilities	**3,288**	**3,063**
Financial liabilities		
Other	1,194	200
Total non-current financial liabilities	**1,194**	**200**
	4,482	**3,263**

On June 30, 2017, other non-current non-financial liabilities primarily include deferred rental expense of EUR 1,200 thousand (December 31, 2016: EUR 1,377 thousand).

(12) Other Provisions

(in thousands of EUR)	Jun. 30, 2017	Dec. 31, 2016
Current provisions		
Warranty provision	3,183	2,581
Personnel provisions	8,285	530
Other current provisions	7,822	8,678
	19,290	**11,789**
Non-current provisions		
Warranty provision	1,405	1,264
Personnel provisions	288	216
Other non-current provisions	27	27
	1,720	**1,507**
	21,010	**13,296**

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 and provisions for potential obligations from existing contracts.

Non-current personnel provisions mainly include liabilities from share-based compensation transactions.

(13) Stockholders' Equity

On June 30, 2017, the share capital amounts to EUR 49,658 thousand (on December 31, 2016: EUR 49,499 thousand).

In connection with the exercise of stock options, 159,015 shares were issued to employees and management board of the Company and its Group companies out of conditional capital in 6M 2017. The par value of EUR 159 thousand was appropriated to the share capital, whereas the premium of EUR 564 thousand was recognized as capital reserve.

Further details on stockholders' equity are included in the Consolidated Statement of Changes in Stockholders' Equity.

(14) Revenues

In 6M 2017 and 6M 2016, revenues included EUR 27,779 thousand and EUR 28,857 thousand for services, respectively. The remaining revenues relate mainly to product sales.

A summary of revenues by geographic region is provided in the section on segment reporting under note (19).

(15) Other Operating Income and Expenses

(in thousands of EUR)	Q2 2017	Q2 2016	6M 2017	6M 2016
Other operating income				
Government grants received	475	434	777	711
Income for the supply of development services	-	-	38	-
Release of bad debt allowances	157	338	330	578
Release of provisions	692	543	907	1,535
Other	382	114	1,189	321
	1,706	**1,429**	**3,241**	**3,145**
Other operating expenses				
Impairment of trade accounts receivable	-3	-150	-3	-150
Other	-54	-33	-379	-184
	-57	**-183**	**-382**	**-334**
Other operating income and expenses, net	**1,649**	**1,246**	**2,859**	**2,811**

(16) 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. Refer to note (6) for further details.

(17) Other Financial Gains (Losses), net, and Derivative Financial Instruments

Other financial gains (losses), net, mainly comprise the following:

(in thousands of EUR)	Q2 2017	Q2 2016	6M 2017	6M 2016
Foreign currency exchange gains	2,490	3,307	3,885	5,162
thereof: gains from forward rate agreements	-	*263*	-	*353*
Foreign currency exchange losses	-3,914	-1,296	-6,311	-9,196
thereof: losses from forward rate	-807	*1,800*	*-1,132*	*-1,873*
	-1,424	**2,011**	**-2,426**	**-4,034**

Forward rate agreements
Between May 31 and June 28, 2017, the Group entered into four forward rate agreement to hedge foreign currency exposure of expected future cash flows. These agreements mature in Q3 2017. In 6M 2017, unrealized losses amount to EUR 491 thousand (6M 2016: net unrealized gains and losses from seven forward rate agreements amounted to negative EUR 328 thousand).

In 6M 2017, two forward rate agreements signed on January 28, 2016 and on March 18, 2016, matured. A total loss of EUR 641 thousand was realized on these transactions in 6M 2017 (6M 2016: total net result from eight forward rate agreements of negative EUR 1,192 thousand).

Fair value disclosures
On June 30, 2017, and December 31, 2016, the Group held the following financial instruments measured at fair value:

(in thousands of EUR)	Fair value		Nominal value	
	Jun. 30, 2017	**Dec. 31, 2016**	**Jun. 30, 2017**	**Dec. 31, 2016**
Forward rate agreements	-491	903	30,850	16,075

The nominal value is the accounting value from which payments are derived (underlying transaction). Since the nominal value itself is not at risk, the hedged item relates to the potential for changes in foreign exchange rates, interest rates and prices.

The fair value reflects the credit risk of the instrument. Since the Group only uses standard, marketable instruments for its hedges, the fair value is determined using market prices and is not netted against any contrary trend in the value of underlying transactions.

The fair value of these transactions is presented within other current liabilities in the statement of financial position.

(18) Income Taxes

The tax expenses in 6M 2017 relates to application of the expected effective tax rate of the Group, which has been calculated based on a 4-year tax planning. All resulting tax effects have been recognized as deferred taxes.

(19) 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 and regularly reviewed to make decisions about resources to be allocated to the segment and assess its performance. Within the ADVA Optical Networking Group, management decisions are based on pro forma operating results. 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. Income from capitalization of development expenses is shown separately from research and development expenses.

Segment information on June 30, 2017 is analyzed as follows:

(in thousands of EUR)	**Pro forma financial information**	**Intangible assets from acquisitions**	**Goodwill**	**Compensation expenses**	**Disclosure of R&D expenses**	**Consolidated financial information**
Revenues	286,060	-	-	-	-	286,060
Cost of goods sold	-193,255	-1,140	-	-26	-	-194,421
Gross profit	**92,805**	**-1,140**	**-**	**-26**	**-**	**91,639**
Gross margin	**32.4%**					**32.1%**
Selling and marketing expenses	-30,564	-418		-149	-	-31,131
General and administrative expenses	-17,048	-		-164	-	-17,212
Research and development expenses	-54,415	-		-342	22,195	-32,562
Income from capitalization of development expenses	22,195	-			-22,195	-
Other operating income	3,241	-		-	-	3,241
Other operating expenses	-382	-		-	-	-382
Operating income	**15,832**	**-1,558**		**-681**	**-**	**13,593**
Operating margin	**5.5%**					**4.8%**
Segment assets	**410,928**	**12,348**	**39,643**	**-**	**-**	**462,919**

Segment information on June 30, 2016 is analyzed as follows:

(in thousands of EUR)	**Pro forma financial information**	**Intangible assets from acquisitions**	**Goodwill**	**Compensation expenses**	**Disclosure of R&D expenses**	**Consolidated financial information**
Revenues	279,205	-	-	-	-	279,205
Cost of goods sold	-195,845	-1,066		-34	-	-196,945
Gross profit	**83,360**	**-1,066**	**-**	**-34**	**-**	**82,260**
Gross margin	***29.9%***					***29.5%***
Selling and marketing expenses	-30,728	-376	-	-224	-	-31,328
General and administrative expenses	-15,475	-	-	-126	-	-15,601
Research and development expenses	-49,494	-	-	-263	15,689	-34,068
Income from capitalization of development expenses	15,689	-	-	-	-15,689	-
Other operating income	3,145	-	-	-	-	3,145
Other operating expenses	-334	-	-	-	-	-334
Operating income	**6,163**	**-1,442**	**-**	**-647**	**-**	**4,074**
Operating margin	***2.2%***					***1.5%***
Segment assets	**401,965**	**14,829**	**38,051**	**-**	**-**	**454,845**

Additional information by geographical regions:

(in thousands of EUR)	Q2 2017	Q2 2016	6M 2017	6M 2016
Revenues				
Germany	28,281	22,567	62,647	46,744
Rest of Europe, Middle East and Africa	40,138	46,935	76,959	86,848
Americas	70,569	79,524	133,417	130,894
Asia-Pacific	5,237	8,217	13,037	14,719
	144,225	**157,243**	**286,060**	**279,205**

(in thousands of EUR)	Jun. 30, 2017	Dec. 31, 2016
Non-current assets		
Germany	113,981	94,209
Rest of Europe, Middle East and Africa	16,829	17,273
Americas	34,408	45,720
Asia-Pacific	2,080	2,154
	167,298	**159,356**
Deferred tax assets		
Germany	19,638	19,141
Rest of Europe, Middle East and Africa	1,484	1,178
Americas	14,055	15,226
Asia-Pacific	277	454
	35,454	**35,999**

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

In 6M 2017, the share of revenues allocated to major end customers was EUR 36,713 thousand (6M 2016: EUR 94,002 thousand). In 6M 2017, revenues with one major customer exceeded 10% of total revenues (6M 2016: revenues with two major customers).

Non-current assets and deferred tax assets are attributed based on the location of the respective Group Company. Non-current assets for the purpose of segment reporting consist of property, plant and equipment, intangible assets and finance lease equipment.

(20) Other Financial Obligations and Financial Commitments

Lease commitments
The Group has non-cancellable operating leases, primarily for buildings and cars.

The future minimum lease payments due on operating leases are listed in the table below:

(in thousands of EUR)	Jun. 30, 2017	Dec. 31, 2016
Up to one year	5,921	9,253
One to five years	11,637	13,113
More than five years	4,202	5,704
	21,760	**28,070**

Other obligations
On June 30, 2017, the Group had purchase commitments totaling EUR 45,914 thousand in respect to suppliers (on December 31, 2016: EUR 44,799 thousand).

Guarantees
Group entities have issued guarantees in favor of customers. On June 30, 2017, performance bonds with a maximum guaranteed amount of EUR 3,846 thousand were issued (on December 31, 2016: EUR 3,819 thousand). At the end of 6M 2017, ADVA Optical Networking does not expect claims from these guarantees.

(21) Contingent Liabilities

In the normal course of business, claims may be asserted or lawsuits filed against the Company and its subsidiaries from time to time. On June 30, 2017, ADVA Optical Networking does not expect that potential titles or litigations in detail or in total will have a material impact on its financial position or operating performance.

(22) Stock Option Programs

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

	Stock Option Program 2003 **Plan IX**	Stock Option Program 2003 for the Management Board **Plan IXb**	Stock Appreciation Rights **Plan XI**	Stock Option Program 2011 **Plan XIV**	Stock Option Program 2011 for the Management Board **Plan XIVa**	Stock Appreciation Rights **Plan XV**
Options outstanding at Jan. 1, 2016	**103,806**	**75,000**	**9,000**	**1,558,677**	**440,000**	**59,400**
Granted options	-	-	-	365,700	401,667	-
Exercised options	-82,950	-	-	-41,500	-	-4,000
Forfeited options	-	-	-	-29,200	-	-
Options outstanding at Dec. 31, 2016	**20,856**	**75,000**	**9,000**	**1,853,677**	**841,667**	**55,400**
Exercised options	-20,856	-	-1,000	-138,159	**-**	-14,200
Forfeited options	-	-	-	-26,500	-	-
Options outstanding at Jun. 30, 2017	**-**	**75,000**	**8,000**	**1,689,018**	**841,667**	**41,200**
Of which exercisable	-	75,000	8,000	361,018	100,000	41,200

(23) Related Party Transactions

EGORA Holding GmbH, Martinsried/Munich, and its subsidiaries (the EGORA Group), Saguna Networks Ltd., Arista Networks, Inc. and all members of the Company's governing bodies and their relatives qualify as related parties to ADVA Optical Networking on June 30, 2017, in the sense of IAS 24.

On June 30, 2017, the EGORA Group held a 15.02% equity stake in ADVA Optical Networking.

ADVA Optical Networking SE owns 9% of the shares of Saguna Networks Ltd., Nesher, Israel. A service agreement with Saguna Networks Ltd. exists regarding the provision of development services for the companies of ADVA Optical Networking Group.

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

In 6M 2017 ADVA Optical Networking acquired components with an amount of EUR 7 thousand from the EGORA Group (6M 2016: EUR 8 thousand).

ADVA Optical Networking has entered into several agreements with the EGORA Group under which ADVA Optical Networking is entitled to make use of certain facilities and services of the EGORA Group. In 6M 2017 and 6M 2016, these agreements were not utilized.

On June 30, 2017, no trade accounts payable existed in respect to EGORA Group (December 31, 2016: nil).

In 6M 2017 and 6M 2016, Saguna Networks Ltd. has not performed development services for the Group.

In 6M 2017 ADVA Optical Networking acquired components with an amount of EUR 42 thousand from Arista Networks, Inc. (6M 2016: nil). On June 30, 2017, trade accounts payable with an amount of EUR 42 thousand existed in respect to Arista Networks, Inc. (December 31, 2016: nil).

On June 30, 2017 and December 31, 2016, no trade receivables or provisions in respect to related parties existed.

On June 30, 2017, no business relationships existed with any other related parties resulting from the board memberships of the ADVA Optical Networking Management and Supervisory Board members as reported in the consolidated financial statements as of December 31, 2016.

See note (24) for information on the Management Board and the Supervisory Board of ADVA Optical Networking.

(24) 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, 2017	**Dec. 31, 2016**	**June. 30, 2017**	**Dec. 31, 2016**
Brian Protiva Chief Executive Officer	401,030	401,030	335,000	335,000
Christoph Glingener Chief Technology Officer & Chief Operating Officer	-	-	325,000	325,000
Ulrich Dopfer Chief Financial Officer	500	500	259,667	259,667

The options to members of the Management Board were granted out of Plan IXb, Plan XIV and Plan XIVa. These option rights authorize the Management Board to purchase the said number of common shares in the Company once the qualifying period has elapsed. Plan IXb and Plan XIVa include a profit limit of EUR 20.00 per option, whereas Plan XIV has no profit limitations.

The strike price for these option rights is

- EUR 5.04 for 75,000 options granted on October 1, 2010,
- EUR 5.05 for 103,000 options granted on August 15, 2012,
- EUR 3.90 for 130,000 options granted on November 15, 2013,
- EUR 3.19 for 60,000 options granted on May 15, 2014,
- EUR 5.15 for 150,000 options granted on May 15, 2015,
- EUR 8.70 for 401,667 options granted on May 15, 2016, respectively.

Supervisory Board
Members of the Supervisory Board held the following shares:

	Shares	
	Jun. 30, 2017	**Dec. 31, 2016**
Nikos Theodosopoulos Chairman	-	-
Johanna Hey Vice Chairwoman	-	-
Hans-Joachim Grallert (since February 19, 2016)	-	620

On June 30, 2017, trade accounts payable to the Supervisory Board for the pro rata compensation for Q2 2017 with an amount of EUR 58 thousand were recognized (December 31, 2016: EUR 59 thousand). The pay-out of these payables was carried out in July 2017.

(25) Events after the Balance Sheet Date

On July 2, 2017, ADVA Optical Networking announced that it has entered into a definitive agreement to acquire MRV Communications, Inc. Under the terms of the agreement, ADVA Optical Networking will make a tender offer of USD 10.00 per share for all the outstanding common stock of the California-based provider of innovative network solutions for data center operators, service providers and enterprises. The acquisition is subject to customary closing conditions, including the tender of at least a majority of MRV Communications, Inc. outstanding shares of common stock. If successful, the acquisition will become effective in Q3 2017.

Furthermore, there were no events after the balance sheet date that impacted the financial position of the Group on June 30, 2017, or its financial performance for the reporting period then ended. Similarly, 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.advaoptical.com).

Meiningen, July 18, 2017

Brian Protiva

Christoph Glingener Ulrich Dopfer

Affirmative Declaration of the Legal Representatives

We, the members of the Management Board of ADVA Optical Networking SE, to the best of our knowledge affirm that, in accordance with the applicable reporting principles, the unaudited interim Group management report and the interim consolidated financial statements of the ADVA Optical Networking 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 18, 2017

Brian Protiva

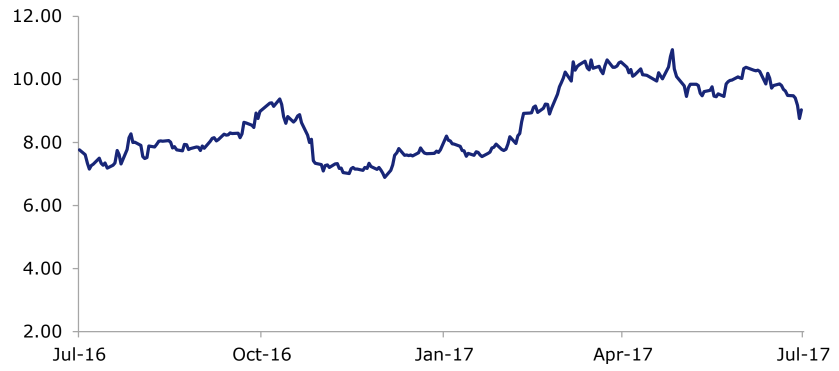
Christoph Glingener Ulrich Dopfer

Shareholder Information

Stock Information[7]

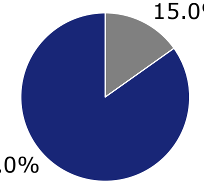
Trade name Symbol Exchange Sector Industry	ISIN DE0005103006/WKN 510300 ADV Prime Standard Segment Frankfurt Stock Exchange Technology Communications Technology
Number of shares outstanding on June 30, 2017 Price on December 31, 2016 Price on June 30, 2017	49,657,949 EUR 7.72 EUR 9.03
Share price performance YTD (until June 30, 2017)	**+17.0%**
Market capitalization on June 30, 2017	EUR 448.4 million

Stock Price Development July 1st 2016 to June 30st 2017 in EUR

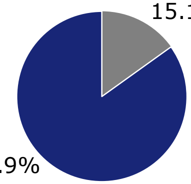


Shareholder Structure

June 30, 2017



December 31, 2016



Shares outstanding

June 30, 2017	December 31, 2016
49,657,949	49,498,934
● Free float	● EGORA Group

Financial Calendar

Investor Roadshow	Warsaw on September 13, 2017
Commerzbank Sector Conference	Frankfurt on August 31, 2017
Northland Gateway Conference	San Francisco on September 7, 2017
dbAccess European TMT Conference	London on September 7, 2017
Deutsche Bank Technology Conference	Las Vegas on September 12, 2017
Berenberg/GoldmanSachs Conference	Munich on September 18, 2017
Publication of Nine-Month Report	October 26, 2017 Martinsried/Munich, Germany

[7] Price information is based on Xetra closing prices

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ADVA Optical Networking on the Web
More information about ADVA Optical Networking, including solutions, technologies and products, can be found on the Company's website at www.advaoptical.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.advaoptical.com.

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

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