Nine-Month Report 2016

Networking Solutions for Cloud and Mobile Services

ADVA™ Optical Networking

Q3 2016 Snapshot

- Revenues of EUR 159.4 million
- IFRS pro forma operating income of EUR 8.3 million (5.2% of revenues)
- IFRS operating income of EUR 7.2 million and IFRS net income of EUR 3.3 million
- Net liquidity of EUR 20.3 million at September 30, 2016

Profile

At ADVA Optical Networking we're creating new opportunities for tomorrow's networks, a new vision for a connected world.

Our intelligent telecommunications hardware, software and services have been deployed by several hundred service providers and thousands of enterprises.

For more than twenty years, our innovative connectivity solutions have helped to drive our customers' networks forward, helped to drive their businesses to new levels of success.

We forge close working relationships with all our customers. As their trusted partner we ensure that we're always ready to exceed their networking expectations.

Contents

Q3 2016 IFRS FINANCIAL HIGHLIGHTS

Quarterly Income Statement

(in thousands of EUR, except earnings per share)	Q3 2016	Q3 2015	Change	9M 2016	9M 2015	Change
Revenues	**159,453**	**122,322**	**30%**	**438,658**	**330,186**	**33%**
Pro forma cost of goods sold	-116,636	-79,969	46%	-312,481	-214,546	46%
Pro forma gross profit	**42,817**	**42,353**	**1%**	**126,177**	**115,640**	**9%**
Pro forma S&M expenses	-13,842	-13,825	0%	-44,570	-41,129	8%
Pro forma G&A expenses	-7,917	-7,905	0%	-23,392	-22,609	3%
Pro forma R&D expenses	-25,139	-19,991	26%	-74,633	-57,844	29%
Income from capitalization of development expenses	11,635	8,186	42%	27,324	24,144	13%
Other operating income and expenses, net	741	781	-5%	3,552	2,771	28%
Pro forma operating income	**8,295**	**9,599**	**-14%**	**14,458**	**20,973**	**-31%**
Amortization of intangible assets from acquisitions	-770	-67	-	-2,212	-246	-
Stock comp. exp.	-354	-1,057	-67%	-1,001	-1,495	-33%
Operating income	**7,171**	**8,475**	**-15%**	**11,245**	**19,232**	**-42%**
Interest income and expenses, net	-27	-187	-86%	-165	-687	-76%
Other financial gains (losses), net	-1,143	179	-	-5,177	664	-
Income before tax	**6,001**	**8,467**	**-29%**	**5,903**	**19,209**	**-69%**
Income tax benefit (expense), net	-2,740	110	-	2,001	-1,242	-
Net income	**3,261**	**8,577**	**-62%**	**7,904**	**17,967**	**-56%**
Earnings per share in EUR						
basic	0.07	0.18		0.16	0.37	
diluted	0.07	0.17		0.16	0.37	

Pro forma financial numbers exclude non-cash charges related to the stock compensation programs and amortization and impairment of goodwill and acquisition-related intangible assets.

Balance Sheet

(in thousands of EUR)	Sep. 30, 2016	Dec. 31, 2015	Change
Cash and cash equivalents	81,238	93,850	-13%
Trade accounts receivable	112,098	70,379	59%
Inventories	72,236	72,950	-1%
Goodwill	40,093	24,881	61%
Capitalized R&D expenses	70,453	62,439	13%
Other intangible assets	16,584	4,238	291%
Total intangible assets	127,130	91,558	39%
Total assets	465,782	391,535	19%
Stockholders’ equity	220,550	215,921	2%

Cash Flow Statement

(in thousands of EUR)	Q3 2016	Q3 2015	Change	9M 2016	9M 2015	Change
Cash flow from operating activities	15,698	12,038	30%	40,113	28,680	40%
Gross capital expenditures for property, plant and equipment	-2,741	-1,335	105%	-8,402	-5,621	49%

Ratios

(in millions of EUR)	Sep. 30, 2016	Dec. 31, 2015	Change
Net liquidity	20.3	51.2	-60%
Working capital[1]	96.6	99.6	-3%
	Q3 2016[2]	**Q3 2015[2]**	**Change**
Days sales outstanding	62	59	5%
Inventory turn-over (times/year)	6.3	4.6	37%
Days payable outstanding	52	65	-20%

Employees

	Sep. 30, 2016	Dec. 31, 2015	Change
	1,731	1,524	14%

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

[2] Trailing twelve months.

Q3 2016 Business Highlights

Customer Achievements

July 06: ADVA Optical Networking announced that KOSC Telecom, France's newest telecommunications service provider, has selected the ADVA FSP 3000 for its nationwide DWDM transport network. The new operator is leveraging ADVA Optical Networking's metro and long-haul technology to provide 100Gbit/s wholesale connectivity to service providers. With metro capabilities in major French cities, such as Paris and Marseille, to mid-sized cities, including Annecy and La Rochelle, the new national network stretches across 20,000 km. The optical fiber infrastructure connects 180 cities and covers all regions of France. Service providers will be able to leverage KOSC Telecom's highly competitive, super-fast broadband before the end of 2016.

July 12: ADVA Optical Networking announced that Bahnhof has selected the ADVA FSP 3000 with 100Gbit/s core technology for its national backbone network. Bahnhof, one of Sweden's largest internet service providers, chose to overhaul its existing infrastructure in response to rapid growth in bandwidth demand from its enterprise and residential customers. The meshed DWDM solution, complete with multi-degree ROADMs, links every city in the south of Sweden from Stockholm to Malmo. The long-haul network, which also incorporates the Danish capital, Copenhagen, and Norway's capital, Oslo, transmits capacity of 100Gbit/s at every point. The new transport system is fully scalable and ready to support encrypted services.

July 14: ADVA Optical Networking announced that MEDIA BROADCAST, Germany's leading media and broadcasting service provider, has deployed the ADVA FSP 3000 to power its scalable fiber optic backbone throughout Germany. The technology is being used to transport data services, uncompressed high-quality video and audio services directly on the optical network. Native video transmission on the physical layer radically simplifies the process of transporting media data by eliminating costly conversion methods and removing signal degradation. The ADVA FSP 3000 transport solution is unique as it features multichannel audio digital interface (MADI) technology to route up to 64 discrete digital audio signals integrated in the optical transport layer.

September 06: Oscilloquartz, an ADVA Optical Networking company, announced that Globe Telecom, Inc. is using its frequency and phase delivery technology throughout its national transport network. The three-year agreement involves the deployment of hundreds of Oscilloquartz devices to deliver highly accurate synchronization across Globe Telecom's enormous island-to-island infrastructure. The technology, including cesium clocks, PTP grandmasters and Oscilloquartz's network management system, will be a critical component of Globe Telecom's national core network as it responds to demand for LTE services and other applications that require highly accurate frequency and phase information. Oscilloquartz will be working with long-term partner Tel-Trade Communications and Development to deploy and maintain its technology throughout Globe Telecom's network footprint.

Interoperability and Alliance Partnerships

July 25: ADVA Optical Networking announced that it has significantly expanded its network functions virtualization (NFV) Ensemble Harmony Ecosystem with the addition of 10 new members. The growing multi-vendor program includes a broad range of NFV innovators, including virtual network function (VNF) providers, technology partners and solution integrators. The Ensemble Harmony Ecosystem is specifically designed to provide communication service providers (CSPs) with a comprehensive collection of best-of-breed NFV solutions. New members of the Ensemble Harmony Ecosystem include Advantech, ASTRI, Check Point Software Technologies, Introspective Networks, LightRiver Technologies, Mirantis, Riverbed Technology, Versa Networks, and Walker and Associates.

September 15: ADVA Optical Networking and Saguna Networks announced that they will stage a joint demonstration with Bezeq International of a Mobile Edge Computing (MEC) proof of concept (PoC) for enterprise services at MEC Congress. The PoC shows how mobile network operators can break up vendor lock-in and offer services to business customers that could not be offered with legacy mobile infrastructures. The implementation of a MEC architecture involves opening the network for edge hosting of third-party mobile edge (ME) applications enabling services characterized by unprecedented low latency and significantly increased bandwidth efficiency. This extends the applicability of mobile networks to a wide range of internet of things (IoT) and industrial control applications that significantly increase the value of mobile networks.

September 22: ADVA Optical Networking announced that it is playing a key role in the Convergence of Fixed and Mobile Broadband Access/Aggregation Networks (COMBO) project. The initiative, funded by the European Commission, is developing pioneering technology vital to the success of 5G. 16 partner organizations, including operators, equipment suppliers and research centers, are collaborating on COMBO to create new approaches that will enable full architectural convergence of fixed and mobile networks. The project also focuses on integrating network functionality to enhance security, simplicity and user experience. The COMBO consortium's main outcomes and proofs of concept were successfully demonstrated at a recent showcase in Lannion, France.

Company Events

July 18: ADVA Optical Networking announced that it has won a joint Business Service Innovation Award with DartPoints at the Global Telecoms Business (GTB) Innovation & Technology Summit. Presented at a ceremony in London, the accolade recognizes DartPoints' pioneering micro data center service offering built on ADVA Ensemble network functions virtualization (NFV) technology. The companies' bold strategy to give customers a competitive advantage through virtualization at the edge of the network lifted them above competing solutions. DartPoints is successfully using the new solution to provide enterprises with dynamic and cost-efficient software-based services.

September 13: ADVA Optical Networking announced that it has been ranked number one in Ovum's latest data center interconnect (DCI) global market share report. The company topped the tables in both the metro ICP/CNP and enterprise categories. During the first half of 2016, ADVA Optical Networking achieved enormous success in the DCI space and Ovum's report clearly underscores this. Figures included in the report show that the company has more than doubled its market share. In addition to ADVA Optical Networking's success, Ovum's latest DCI report highlights how fast the DCI market is growing – a trend that shows no signs of slowing down.

Nine-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 2015.

Business Development and Operational Performance

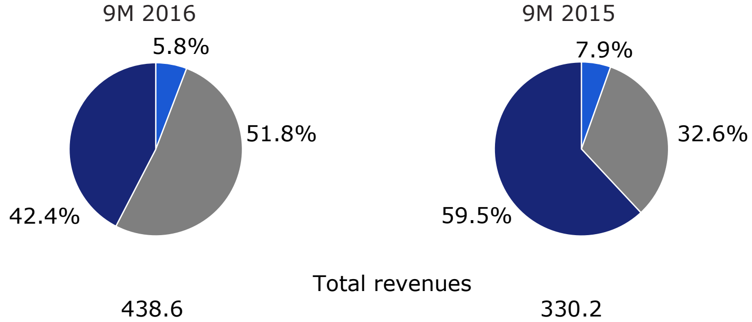
Revenues
Revenues represent one of the four key performance indicators for ADVA Optical Networking. The Group's revenues in 9M 2016 amounted to EUR 438.6 million and were EUR 108.4 million or 32.9% above revenues of EUR 330.2 million in 9M 2015. Compared to revenues of EUR 157.2 million in Q2 2016, revenues in Q3 2016 again increased by 1.4% to EUR 159.4 million. This increase in revenues mainly relates to improved enterprise business specifically driven by Internet content providers (ICPs) and the related business in the Americas. This growth is reflecting the continued network traffic growth due to increased adoption of cloud based services. The business with Carrier Ethernet access solutions was also up compared to the previous quarter, showing first cross-selling success with the expanded product and customer portfolio from the acquisition of Overture Networks.

For the second consecutive quarter the Americas were the strongest region, ahead of Europe, Middle East and Africa (EMEA), followed by Asia-Pacific. This result makes the Americas the strongest sales region for the first time in 9M 2016.

Year-on-year, the Americas revenue increased substantially from EUR 107.7 million in 9M 2015 to EUR 227.3 million in 9M 2016, mainly due to the strong demand from Internet content providers and the continued adoption of cloud-based services. At the same time, revenues in EMEA at EUR 185.8 million in 9M 2016 were down from EUR 196.3 million in 9M 2015 showing some softness in the carrier infrastructure business and reflecting the weakness of the British Pound after the Brexit vote in the UK on June 23, 2016. In the Asia-Pacific region, revenues remained fairly stable at EUR 25.5 million in 9M 2016 after EUR 26.2 million in 9M 2015 with solid sales of Carrier Infrastructure and Enterprise solutions to existing and new customers.

Globally, ADVA Optical Networking is well aligned with the opportunities in today's dynamic market environment and successfully scaling the business.

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)	**9M 2016**	**Portion of revenues**	**9M 2015**	**Portion of revenues**
Revenues	**438.6**	**100.0%**	**330.2**	**100.0%**
Cost of goods sold	-314.1	71.6%	-214.9	65.1%
Gross profit	**124.5**	**28.4%**	**115.3**	**34.9%**
Selling and marketing expenses	-45.5	10.3%	-41.8	12.6%
General and administrative expenses	-23.6	5.4%	-22.7	6.9%
Research and development expenses	-47.7	10.9%	-34.4	10.4%
Other operating income and expenses, net	3.6	0.8%	2.8	0.8%
Operating income	**11.3**	**2.6%**	**19.2**	**5.8%**
Interest income and expenses, net	-0.2	0.1%	-0.7	0.2%
Other financial gains (losses), net	-5.2	1.2%	0.7	0.2%
Income (loss) before tax	**5.9**	**1.3%**	**19.2**	**5.8%**
Income tax benefit (expense), net	2.0	0.5%	-1.2	0.4%
Net income	**7.9**	**1.8%**	**18.0**	**5.4%**
Earnings per share in EUR				
basic	0.16		0.37	
diluted	0.16		0.37	

Cost of goods sold increased by EUR 99.2 million to EUR 314.1 million in 9M 2016 mainly due to increased revenues. Cost of goods sold includes amortization charges for capitalized development projects of EUR 18.8 million in 9M 2016 after EUR 18.9 million in 9M 2015.

Gross profit increased from EUR 115.3 million in 9M 2015 to EUR 124.5 million in 9M 2016, while gross margins decreased to 28.4% in 9M 2016 after 34.9% in 9M 2015. The decrease in gross margin in 9M 2016 is driven by a disproportional increase in cost of goods sold compared to revenue increase mainly due to customer- and product-mix in the current reporting period.

Selling and marketing expenses in 9M 2016 were EUR 45.5 million, up from EUR 41.8 million in 9M 2015, and representing 10.3% and 12.6% of revenues, respectively. This absolute increase is mainly attributable to increased personnel expense predominantly effected by the first-time inclusion of the Overture Networks Group. 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 suitable products.

General and administrative expenses at EUR 23.6 million in 9M 2016 were slightly up compared to EUR 22.7 million reported in 9M 2015, representing 5.4% and 6.9% of revenues, respectively.

At EUR 47.7 million in 9M 2016, R&D expenses were EUR 13.3 million above the EUR 34.4 million seen in 9M 2015, comprising 10.9% and 10.4% of revenues, respectively. Gross R&D expenses increased significantly to EUR 75.0 million in 9M 2016 compared to EUR 58.5 million reported in 9M 2015. At the same time, income from capitalization of development expenses increased to EUR 27.3 million in 9M 2016 after EUR 24.1 million reported in 9M 2015. The capitalization rate in 9M 2016 amounted to 36.4%, significantly below the 41.3% reported in 9M 2015. The increase in R&D expenses mainly relates to integration of the R&D team of Overture Networks Group, additional headcount for development of the future product platform for innovative productivity solutions and further investment in the introduction of new products.

In 9M 2016, total operating costs of EUR 113.2 million increased by EUR 17.1 million from EUR 96.1 million in 9M 2015, representing 25.8% and 29.1% of revenues, respectively.

ADVA Optical Networking reported a decrease in operating income of EUR 7.9 million to EUR 11.3 million in 9M 2016. This decrease is largely due to the decline of gross margins as well as the consideration of non-recurring expenses related to the first-time consolidation of the Overture Networks Group and related restructuring measures.

Pro forma operating income 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 9M 2016, ADVA Optical Networking reported a pro forma operating income of EUR 14.5 million after EUR 21.0 million in 9M 2015, representing 3.3% and 6.4% of revenues, respectively.

Beyond the operating result, net interest expenses of negative EUR 0.2 million (9M 2015: negative EUR 0.7 million) and net other financial losses of EUR 5.2 million (9M 2015: net other financial gains of EUR 0.7 million) relating to the revaluation of foreign currency assets and liabilities and the result on hedging instruments, impacted the income before taxes. In 9M 2016, net other financial result was mainly impacted by unrealized losses related to USD positions.

In 9M 2016, the Group reported an income tax benefit of EUR 2.0 million after an income tax expense of EUR 1.2 million in 9M 2015. The tax benefit in the current period is mainly due to income from current taxes for prior periods as well as recognition of deferred tax assets on tax loss carry-forwards. The 9M 2015 tax expense was mainly due to additional tax provisions and payments for current and prior periods within the Group and due to the usage of tax loss carry-forwards for prior years.

The decrease of operating result in the current year, combined with the recognition of net financial losses, resulted in ADVA Optical Networking reporting a reduced net income of EUR 7.9 million in 9M 2016 after a net income of EUR 18.0 million in 9M 2015.

Summary: Business Development and Operational Performance
In 9M 2016, ADVA Optical Networking again reported record level revenues. Due to the negative effect of lower gross margins combined with the negative financial result ADVA Optical Networking's net income of EUR 7.9 million was down compared to prior years result.

Net Assets and Financial Position

Balance Sheet Structure
ADVA Optical Networking's total assets increased by EUR 74.3 million from EUR 391.5 million at year-end 2015 to EUR 465.8 million at the end of September 2016.

(in millions of EUR)	Sep. 30, 2016	Dec. 31, 2015
Current assets	279.5	247.0
Non-current assets	186.3	144.5
Total assets	**465.8**	**391.5**
Current liabilities	154.4	112.0
Non-current liabilities	90.8	63.6
Stockholders' equity	220.6	215.9
Total equity and liabilities	**465.8**	**391.5**

Current assets at EUR 279.5 million at the end of Q3 2016 were EUR 32.5 million higher than the EUR 247.0 million reported at the end of 2015, and comprised 60.0% of the balance sheet total after 63.1% at the end of 2015. The increase in current assets is mainly driven by the increase of EUR 41.7 million in trade accounts receivable to EUR 112.1 million at the end of Q3 2016, largely due to higher revenues reported in 9M 2016. Days sales outstanding were at 60 days in 9M 2016, compared to the 58 days reported in 12M 2015. This effect was partly offset by a decrease in cash and cash equivalents by EUR 12.7 million to EUR 81.2 million at the end of Q3 2016. At the same time, inventories slightly decreased to EUR 72.2 million at the end of Q3 2016 after EUR 73.0 million reported at year-end 2015, with inventory turns improved to 5.8 times in 9M 2016 after 4.4 times in 12M 2015.

Non-current assets increased to EUR 186.3 million on September 30, 2016, after EUR 144.5 million reported at year-end 2015. Within non-current assets, goodwill increased by EUR 15.2 million to EUR 40.1 million mainly due to the acquisition of Overture. Moreover, intangible assets increased by EUR 12.3 million to EUR 16.6 million at the end of Q3 2016 mainly due to capitalization of technologies, customer relationships and a trade name related to the same business combination. Capitalized development projects increased by EUR 8.0 million to EUR 70.5 million at the end of Q3 2016. In addition, property, plant and equipment increased by EUR 2.9 million and deferred tax assets increased by EUR 2.4 million to EUR 31.6 million, mainly related to the recognition of tax-losses carried forward.

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[3] 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 increased by EUR 42.4 million from EUR 112.0 million on December 31, 2015, to EUR 154.4 million on September 30, 2016, primarily due to higher trade accounts payable and current provisions. Trade accounts payable at EUR 87.7 million were significantly above the EUR 43.7 million reported at the end of 2015. Days payable outstanding were at 58 days in 9M 2016 compared to 62 days in 12M 2015. The increase in trade accounts payable is driven by higher material purchases related to increased revenues as well as the timing of material purchases. Current provisions increased by EUR 7.6 million to EUR 17.5 million as employees' variable compensation entitlement for 2016 has been included on a pro rata basis. At the same time, other current liabilities decreased by EUR 11.5 million to EUR 15.4 million at the end of September 2016, largely driven by variable compensation for prior periods paid out in 9M 2016. Moreover, current financial liabilities decreased to EUR 15.5 million due to repayments.

[3] 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 increased by EUR 27.2 million from EUR 63.6 million at year-end 2015 to EUR 90.8 million at the end of September 2016 mainly due to higher non-current financial liabilities. The increase in non-current financial liabilities by EUR 21.0 million mainly arises from new bank loans raised for financing of the acquisition of Overture. At the same time, deferred tax liabilities increased by EUR 5.2 million to EUR 27.2 million mainly due to the recognition of intangible assets and fair value adjustments related to the acquisition of the Overture Networks Group.

Stockholders' equity increased from EUR 215.9 million reported on December 31, 2015, to EUR 220.6 million on September 30, 2016. The equity ratio was at 47.4% on September 30, 2016, after 55.1% on December 31, 2015, while the non-current assets ratio amounted to 118.4% and 149.4%, respectively. This healthy balance sheet structure reflects ADVA Optical Networking's careful financing strategy.

Balance sheet ratios (in %)		**Sep. 30, 2016**	**Dec. 31, 2015**
Equity ratio	Stockholders' equity / Total assets	47.4	55.1
Non-current asset ratio	Stockholders' equity / Non-current assets	118.4	149.4
Liability structure	Current liabilities / Total liabilities	63.0	63.8

Capital Expenditures

Capital expenditures for additions to property, plant and equipment in 9M 2016 amounted to EUR 8.4 million, above the EUR 5.6 million seen in 9M 2015.

Capital expenditures for intangible assets of EUR 28.9 million in 9M 2016 were up from EUR 24.8 million in 9M 2015. This total mainly consists of capitalized development projects of EUR 27.3 million in 9M 2016 after EUR 24.1 million in 9M 2015 and capital expenditures for other intangible assets of EUR 1.6 million in 9M 2016 after EUR 0.7 million in 9M 2015.

Cash Flow (in millions of EUR)	**9M 2016**	**Portion of cash**	**9M 2015**	**Portion of cash**
Operating cash flow	40.1	49.4%	28.7	36.2%
Investing cash flow	-69.8	85.9%	-30.5	38.5%
Financing cash flow	17.4	21.5%	-4.8	6.1%
Net effect of foreign currency translation on cash and cash equivalents	-0.4	0.5%	2.0	2.6%
Net change in cash and cash equivalents	**12.7**	**15.5%**	**-4.6**	**5.8%**
Cash and cash equivalents at the beginning of the period	93.9	115.5%	83.9	105.8%
Cash and cash equivalents at the end of the period	**81.2**	**100.0%**	**79.3**	**100.0%**

Cash flow from operating activities was positive EUR 40.1 million in 9M 2016, after positive EUR 28.7 million in 9M 2015, and mainly relates to the effect of non-cash depreciation charges as well as movements in net working capital.

Cash flow from investing activities amounted to negative EUR 69.8 million in 9M 2016 after negative EUR 30.5 million in 9M 2015. The significantly increased use of funds for investing activities is largely due to cash outflows in the acquisition of Overture.

Finally, net cash inflows of EUR 17.4 million were reported for financing activities in 9M 2016, after EUR 4.8 million cash outflows for financing activities in 9M 2015. The cash flow in 9M 2016 is mainly due to inflows from taking up new loans only partly compensated by the servicing of existing debt. In 9M 2015 the cash outflow mainly related to servicing of existing debts.

Overall, including the net effect of foreign currency translation of negative EUR 0.4 million in 9M 2016, cash and cash equivalents decreased by EUR 12.7 million, from EUR 93.9 million at the end of December 2015 to EUR 81.2 million on September 30, 2016.

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 invested in short-term interest-bearing term deposits.

Financial liabilities (in millions of EUR)	**Sep. 30, 2016**	**Dec. 31, 2015**
Current financial liabilities	15.5	18.2
Non-current financial liabilities	45.4	24.5
Total financial liabilities	**60.9**	**42.7**

Total financial liabilities increased by EUR 18.2 million. While the current portion decreased by EUR 2.7 million, the non-current portion significantly increased from EUR 24.5 million on December 31, 2015 to EUR 45.4 million at the end of September 2016. The increase in non-current financial liabilities mainly results from new loans taken up for financing of the acquisition of Overture.

On September 30, 2016, the Group had available EUR 8.0 million of undrawn committed borrowing facilities (December 31, 2015: EUR 8.0 million).

Net liquidity represents one of the four key performance indicators for ADVA Optical Networking. Due to the decrease in cash and cash equivalents in 9M 2016, and increased financial liabilities ADVA Optical Networking's net liquidity decreased from EUR 51.2 million at year-end 2015 to EUR 20.3 million at the end of September 2016. Cash and cash equivalents on September 30, 2016, and on December 31, 2015, were invested mainly in EUR, USD and GBP. At the end of September 2016 and at the end of December 2015, EUR 0.2 million and EUR 0.1 million of cash and cash equivalents was restricted, respectively.

Net liquidity (in millions of EUR)	**Sep. 30, 2016**	**Dec. 31, 2015**
Cash and cash equivalents	81.2	93.9
- financial liabilities		
current	-15.5	-18.2
non-current	-45.4	-24.5
Net liquidity	**20.3**	**51.2**

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

Financing ratios		Sep. 30, 2016	Dec. 31, 2015
Cash ratio	Cash and cash equivalents / Current liabilities	0.53	0.84
Quick ratio	Monetary current assets* / Current liabilities	1.25	1.47
Current ratio	Current assets / Current liabilities	1.81	2.20

* 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 9M 2016 was at positive 4.9%, down from positive 10.2% reported in 9M 2015. This development is mainly due to the decline in operating result in 9M 2016 while investment in working capital increased at the same time.

Return on capital employed (ROCE) (base data in millions of EUR)		9M 2016	9M 2015
Operating income		11.3	19.2
Average total assets*		434.6	356.7
Average current liabilities*		131.6	104.3
ROCE	Operating income, annualized / Ø total assets - Ø current liabilities	**4.9%**	**10.2%**

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

Transactions with Related Parties
Transactions with related individuals and legal entities are discussed in note (25) to the nine-month consolidated interim financial statements.

Summary: Net Assets and Financial Position
The net assets and financial position of ADVA Optical Networking continues to be strong in 9M 2016, albeit the lower levels of cash and cash equivalents as well as net liquidity compared to year-end 2015. This development mainly relates to cash outflows for the acquisition of Overture Networks Group.

Events After the Balance Sheet Date

There were no events after the balance sheet date that materially impacted the financial position of the Group on September 30, 2016, 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 2015 Annual Report.

Outlook

Based on the macroeconomic framework, ADVA Optical Networking anticipates a compound annual growth rate of approximately 9%[4] for the Group's addressable market between the years 2015 – 2020. The greatest growth potential is forecast for enterprise networks that interconnect data centers.

The global megatrends cloud and mobility still drive sustainable growth for the Group's addressable market. The demand for cloud and mobile services is driving demand for more and bigger data centers, and thus also the demand for more bandwidth and transmission technology to interconnect them.

In order to ensure sustainable corporate success, ADVA Optical Networking focuses on the following long-term strategic objectives:

- Grow global revenues profitably through continued strong direct sales and marketing efforts with a solid focus on key accounts, new customer wins, optimized distribution partnerships, service and software business.
- Expand the Group's proven innovation leadership and increase footprint by meeting strategic customers' demand for innovative connectivity solutions quickly and comprehensively.
- Improve 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.

ADVA Optical Networking aims to further improve profitability and achieve revenue growth above average market growth in 2016. The following factors, will play a major 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 additional growth from this application.
- Large companies build geographically dispersed data protection and storage solutions, requiring optical transmission technology. The security package ConnectGuard™ brings competitive advantage and increased customer loyalty. ADVA Optical Networking expects solid growth in this segment with good profitability.
- Carrier infrastructure upgrades will continue in 2016. The investment focus is shifting towards metro networks, where ADVA Optical Networking is particularly well positioned.
- The NFV functions on the ADVA FSP 150, which were introduced in 2015, combined with the acquisition of Overture in January 2016, strengthen the visibility and the scope of ADVA Optical Networking in the future market for cloud access solutions. Due to the strengthened product portfolio, an expanded customer base and advanced NFV-technology the company expects additional commercial success in the second half of 2016 and beyond.

[4] Industry Analysis estimates for WDM and converged packet optical equipment, which are relevant for ADVA Optical Networking. Source: Ovum Optical Networks Forecast: 2015-20 – Dec 2015.

The global megatrends cloud and mobility continue to fuel growth of the network equipment industry and support ADVA Optical Networking's strategy to be the trusted partner for open networking solutions. The combination of application-optimized innovation, short development and delivery times, a broad and growing customer base and a well-balanced distribution model differentiates ADVA Optical Networking from its peers and leads to a profitable business model.

Based on these factors, and taking into account planning parameters such as personnel and currency exchange rates, the Management Board of ADVA Optical Networking expects the Group to grow faster than the average market and increase revenues in a double digit percentage range. 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 2016 will also be maintained at the record levels of the 2015 Net Promoter Score[3]. Actual results may differ materially from expectations if risks materialize or the underlying assumptions prove unrealistic.

Meiningen, October 25, 2016

Brian Protiva

Christoph Glingener

Ulrich Dopfer

Nine-Month IFRS Consolidated Financial Statements

Consolidated Statement of Financial Position (Unaudited)

(in thousands of EUR)	Note	Sep. 30, 2016	Dec. 31, 2015
Assets			
Current assets			
Cash and cash equivalents	(6)	81,238	93,850
Trade accounts receivable	(7)	112,098	70,379
Inventories	(8)	72,236	72,950
Tax assets		1,997	1,092
Other current assets	(9)	11,945	8,747
Total current assets		**279,514**	**247,018**
Non-current assets			
Property, plant and equipment	(10)	22,842	19,955
Goodwill		40,093	24,881
Capitalized development projects	(11)	70,453	62,439
Intangible assets acquired in business combinations	(11)	14,230	2,316
Other intangible assets	(11)	2,354	1,922
Deferred tax assets		31,567	29,133
Other non-current assets	(9)	4,729	3,871
Total non-current assets		**186,268**	**144,517**
Total assets		**465,782**	**391,535**

(in thousands of EUR)	Note	Sep. 30, 2016	Dec. 31, 2015
Equity and liabilities			
Current liabilities			
Financial liabilities	(12)	15,523	18,220
Trade accounts payable	(13)	87,719	43,721
Advance payments received		376	314
Other provisions	(14)	17,464	9,891
Tax liabilities		3,279	2,227
Deferred revenues		14,683	10,802
Other current liabilities	(13)	15,372	26,859
Total current liabilities		**154,416**	**112,034**
Non-current liabilities			
Financial liabilities	(12)	45,400	24,449
Provisions for pensions and similar employee benefits		4,527	4,048
Other provisions	(14)	1,745	1,632
Deferred tax liabilities		27,231	22,026
Deferred revenues		8,075	7,721
Other non-current liabilities	(13)	3,838	3,704
Total non-current liabilities		**90,816**	**63,580**
Total liabilities		**245,081**	**175,614**
Stockholders’ equity entitled to the owners of the parent company	(15)		
Share capital		49,445	49,374
Capital reserve		311,856	310,645
Accumulated deficit		-148,502	-175,350
Net income		7,904	26,848
Accumulated other comprehensive income		-153	4,404
Total stockholders’ equity		**220,552**	**215,921**
Total equity and liabilities		**465,782**	**391,535**

Consolidated Income Statement (Unaudited)

(in thousands of EUR, except earnings per share and number of shares)	Note	Q3 2016	Q3 2015	9M 2016	9M 2015
Revenues	(16)	**159,453**	**122,322**	**438,658**	330,186
Cost of goods sold		-117,217	-80,133	-314,162	-214,887
Gross profit		**42,236**	**42,189**	**124,496**	**115,299**
Selling and marketing expenses		-14,140	-14,290	-45,468	-41,748
General and administrative expenses		-8,004	-7,969	-23,605	-22,728
Research and development expenses	(11)	-13,662	-12,236	-47,730	-34,362
Other operating income	(17)	1,110	893	4,255	3,210
Other operating expenses	(17)	-369	-112	-703	-439
Operating income		**7,171**	**8,475**	**11,245**	**19,232**
Interest income	(18)	68	8	337	33
Interest expenses	(18)	-95	-195	-502	-720
Other financial gains and losses, net	(19)	-1,143	179	-5,177	664
Income (loss) before tax		**6,001**	**8,467**	**5,903**	**19,209**
Income tax benefit (expense), net	(20)	-2,740	110	2,001	-1,242
Net income entitled to the owners of the parent company		**3,261**	**8,577**	**7,904**	**17,967**
Earnings per share in EUR					
basic		0.07	0.18	0.16	0.37
diluted		0.07	0.17	0.16	0.37
Weighted average number of shares for calculation of earnings per share					
basic		49,414,208	48,736,109	49,402,804	48,358,272
diluted		50,134,504	49,470,166	50,123,100	49,092,329

Consolidated Statement of Comprehensive Income (Unaudited)

(in thousands of EUR)	Q3 2016	Q3 2015	9M 2016	9M 2015
Net income entitled to the owners of the parent company	**3,261**	**8,577**	**7,904**	**17,967**
Items that possibly get reclassified to profit or loss in future periods				
Exchange differences on translation of foreign operations	-1,371	-2,311	-4,557	5,405
Items that not get reclassified to profit or loss in future periods				
Remeasurement of defined benefit plans	-	-	-	-
Total comprehensive income entitled to the owners of the parent company	**1,890**	**6,266**	**3,347**	**23,372**

Remeasurement of defined benefit plans is regularly done at year-end. Thus in 9M 2016 no effects from remeasurement were recognized.

In 9M 2016 and 9M 2015, no items were reclassified (recycled) from comprehensive income to profit or loss.

Consolidated Cash Flow Statement (Unaudited)

(in thousands of EUR)	Note	Q3 2016	Q3 2015	9M 2016	9M 2015
Cash flow from operating activities					
Income (loss) before tax		6,001	8,467	5,903	19,209
Adjustments to reconcile income (loss) before tax to net cash provided by operating activities					
Non-cash adjustments					
Amortization of non-current assets		9,391	9,113	29,539	27,555
Loss from disposal of property, plant and equipment and intangible assets		49	10	66	234
Stock compensation expenses	(24)	354	1,057	1,001	1,495
Other non-cash income and expenses (net)		250	366	832	998
Foreign currency exchange differences		-647	-1,224	-1,756	864
Changes in assets and liabilities					
Decrease (increase) in trade accounts receivable		-53	-5,882	-34,642	-25,118
Decrease (increase) in inventories		-6,337	-12,604	6,465	-31,534
Decrease (increase) in other assets		-643	20	-3,166	-1,169
Increase (decrease) in trade accounts payable		10,667	14,558	40,730	33,736
Increase (decrease) in provisions		-201	704	4,930	5,839
Increase (decrease) in other liabilities		-2,945	-2,345	-9,109	-2,697
Income tax paid		-188	-202	-680	-732
Net cash provided by operating activities		**15,698**	**12,038**	**40,113**	**28,680**

(in thousands of EUR)	Note	Q3 2016	Q3 2015	9M 2016	9M 2015
Cash flow from investing activities					
Proceeds from disposal of property, plant and equipment and intangible assets		-	-	-	127
Proceeds from government grants		-	-	-	126
Investment in property, plant and equipment	(10)	-2,741	-1,335	-8,402	-5,621
Investment in intangible assets	(11)	-12,681	-8,389	-28,901	-24,823
Net cash used in acquisition of affiliated companies		-100	-350	-32,509	-350
Interest received		20	9	43	32
Net cash used in investing activities		**-15,502**	**-10,065**	**-69,769**	**-30,509**
Cash flow from financing activities					
Proceeds from exercise of stock options		235	1,062	254	1,905
Cash repayment of financial liabilities for share-based compensation instruments		-	-2	-	-66
Payments received from financial liabilities		-	-	35,000	-
Cash repayment of financial liabilities		-1,562	-2,136	-16,761	-5,836
Interest paid		-332	-245	-1,057	-809
Net cash provided by/(used in) financing activities		**-1,659**	**-1,321**	**17,436**	**-4,806**
Net effect of foreign currency translation on cash and cash equivalents		180	-202	-392	2,027
Net change in cash and cash equivalents		**-1,283**	**450**	**-12,612**	**-4,608**
Cash and cash equivalents at beginning of period		82,521	78,819	93,850	83,877
Cash and cash equivalents at end of period		**81,238**	**79,269**	**81,238**	**79,269**

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 loss	Total stockholders' equity entitled to the owners of the parent company
Balance on January 1, 2015	**48,096,431**	**48,096**	**307,914**	**-175,350**	**-3,546**	**177,114**
Capital increase, including exercise of stock options	827,676	828	1,077			1,905
Stock options outstanding			620			620
Net income				17,967		17,967
Exchange differences on translation of foreign operations					5,405	5,405
Total comprehensive income	-	-	-	17,967	5,405	23,372
Balance on September 30, 2015	**48,924,107**	**48,924**	**309,611**	**-157,383**	**1,859**	**203,011**
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	70,350	71	183			254
Stock options outstanding			1,028			1,028
Net income				7,904		7,904
Exchange differences on translation of foreign operations					-4,557	-4,557
Total comprehensive income	-	-	-	7,904	-4,557	3,347
Balance on September 30, 2016	**49,444,834**	**49,445**	**311,856**	**-140,598**	**-153**	**220,550**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

(1) Information about the Company and the Group

The Company’s registered office is at its main manufacturing site in Maerzenquelle 1-3, 98617 Meiningen, Germany. The Company’s headquarters are in Fraunhoferstrasse 9a, 82152 Martinsried/Munich, Germany. Hereinafter, ADVA Optical Networking SE is referred to as „the Company“.

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 September 30, 2016, 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, 2015.

The condensed interim consolidated financial statements for the period ended September 30, 2016, have neither been audited nor subject to a limited review by the Group auditor PricewaterhouseCoopers AG, 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 nine-month period through September 30, 2016, cannot be extrapolated to the result of the full year 2016.

(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 9M 2016.

Standards, amendments and interpretations applicable for the first time in 2016
In 9M 2016, following standards and interpretations have been adopted for the first time.

Standard	Topic	First-time adoption*	Expected impact on the financial position and performance
IFRS 14	Regulatory Deferral Accounts (new standard)	Jan. 1, 2016	none
Amendments to IAS 1	Disclosure initiative	Jan. 1, 2016	none
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization	Jan. 1, 2016	none
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	Jan. 1, 2016	none
Annual improvements 2014	The improvements include changes to: IFRS 5 – Non-current assets held for sale and discontinued operations IFRS 7 – Financial Instruments: Disclosure IAS 19 – Employee Benefits IAS 34 – Interim Financial Reporting	Jan. 1, 2016	none

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

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New accounting requirements not yet endorsed by the EU
The IASB and the IFRIC have issued further Standards and Interpretations in 2016 and previous years that are not applicable for the financial year 2016. 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 15 including relevant clarifications	Revenue from Contracts with Customers	Jan. 1, 2018	under review
IFRS 9 (2014)	Financial Instruments (new standard)	Jan. 1, 2018	under review
IFRS 16	Leases	Jan. 1, 2019	under review
Amendments to IAS 12	Recognition of deferred tax assets related to unrealized losses	Jan. 1, 2017	under review
Amendments to IAS 7	Disclosure initiative	Jan. 1, 2017	none
Amendments to IFRS 2	Share-based payment	Jan. 1, 2018	none
Amendments to IAS 28 and IFRS 10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	not yet defined	none

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

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.

IFRS 9 (2014) in its final version replaces regulations formerly included in IAS 39 Financial Instruments: Recognition and Measurement. It supersedes all regulations previously published. The Standard includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. The regulations of IAS 39 for macro hedge accounting have not been replaced and will be dealt with by the IASB in a separate project.

On January 13, 2016, the IASB published IFRS 16 Leases regarding accounting of lease contracts. The new standard will replace IAS 17 and all related interpretations. ADVA Optical Networking will kick off a global project to comprehensively analyze all rent and lease contracts.

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 (11) 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 (10) and (11) 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 (14).

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) Scope of Consolidation

Acquisition of Overture Networks Inc.
On January 13, 2016 ADVA NA Holding Inc., Atlanta, Georgia, USA, a new established 100% subsidiary of ADVA Optical Networking SE, acquired 100% of the shares of Overture Networks Inc., Morrisville, North Carolina, USA, for a preliminary cash consideration due at the same date of USD 39,516 thousand (EUR 36,535 thousand, translated at the relevant foreign currency exchange rate at the date of payment). In addition, an earn-out payment of USD 5,000 thousand in cash will be due if specified sales volumes are reached. Furthermore, additional expenses of the acquisition amounting to EUR 293 thousand have been recognized immediately in the income statement.

AT the date of the acquisition, the Overture Networks Group included Overture Networks Inc. together with its three 100% subsidiaries Overture International Inc., Morrisville, North Carolina, USA, Overture Networks Ltd., Bristol, United Kingdom und Overture Networks India Private Ltd., Bangalore, India and employed a total number of 180 employees. The Overture Networks Group mainly focusses on the development of cloud access solutions. The acquired technologies and know-how will further expand ADVA Optical Networking’s cloud access solution portfolio. Additionally, the Overture Networks Group successfully sells Carrier Ethernet Access products predominantly in North America.

The preliminary purchase price allocation according to IFRS 3 performed on January 13, 2016, included in the consolidated interim report as of end of September 2016 incorporates the cash consideration as already paid, the fair value of the stipulated contingent consideration at the date of the acquisition amounting to USD 850 thousand (EUR 786 thousand, translated at the relevant foreign currency exchange rate at the date of acquisition) as well as preliminary opening balances of assets and liabilities according to IFRS. During the course of the consolidation purchased technologies, a trade name and acquired customer relationships were recognized. Moreover, fair value adjustments regarding inventories, property, plant and equipment, deferred tax assets and liabilities as well as deferred revenues have been considered. The remaining preliminary excess purchase price is classified as goodwill and represents the fair value of anticipated synergies from the acquisition as well as the assembled workforce of the Overture Networks Group.

The expected remaining useful lives of the acquired intangible assets are as follows:

Hardware technology	4 years
Software technology	6 years
Trade name	5 years
Acquired customer relationships	8 years.

The preliminary fair values of acquired assets and liabilities at the date of the acquisition and carrying amounts immediately prior to the date of the acquisition comprise as follows:

(in thousands of EUR)	Carrying amount	Fair value at the date of the acquisition
Cash and cash equivalents	4,581	4,581
Trade accounts receivable	7,077	7,077
Inventory	3,868	5,751
Property, plant and equipment and other intangible assets	1,317	2,270
Purchased technologies	-	8,679
Trade name	-	222
Acquired customer relationships	-	5,751
Deferred tax asset	-	899
Other current and non-current assets	785	785
Trade accounts payable	-3,268	-3,268
Provisions and other current and non-current liabilities	-3,664	-3,664
Deferred revenues	-	-1,627
Deferred tax liabilities	-	-6,871
Preliminary net assets	**10,696**	**20,585**
Preliminary goodwill		**16,736**
Preliminary purchase price		**37,321**

The preliminary net cash outflow from the acquisition is comprised as follows:

(in thousands of EUR)	
Cash and cash equivalents acquired from the Overture Networks Group	4,581
Cash paid in acquisition	-36,535
Preliminary cash outflow from acquisition	**-31,954**

In 9M 2016, the Overture Networks Group from the date of the acquisition has contributed EUR 23,405 thousand to revenues and positive EUR 236 thousand to the net income of ADVA Optical Networking. Due to the merger of Overture Networks Inc. with ADVA Optical Networking North America as of July 1, 2016, a separate evaluation of the complete share of revenues and net income of Overture Networks Group is no longer feasible. Therefore the relevant information has been extrapolated based on the results as of June 30, 2016. If the acquisition would have been effective on January 1, 2016, the Group's revenues would have been further increased by additional EUR 1,689 thousand while net income of the Group would have been EUR 306 thousand lower.

Cash outflow related to the acquisition of a development division of FiSEC GmbH
In Q1 2016, the second instalment of the FiSEC acquisition purchase price amounting to EUR 455 thousand was due and paid out. In Q3 2016, a further purchase price instalment of EUR 100 thousand has been paid out.

Liquidation of ADVA Optical Networking Oslo
In 9M 2016, the liquidation of the company already closed in 2014 has been finalized. The deconsolidation resulted in expenses of EUR 390 thousand recognized in other operating expenses.

(6) 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)	Sep. 30, 2016	Dec. 31, 2015
Amounts pledged as security	193	148

On September 30, 2016, cash of EUR 4,651 thousand (December 31, 2015: EUR 2,841 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 September 30, 2016, the Group had EUR 8,000 thousand available (on December 31, 2015: EUR 8,000 thousand) of undrawn committed borrowing facilities in respect of which all conditions had been met.

(7) 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 176 thousand were incurred in 9M 2016 (9M 2015: EUR 168 thousand).

(8) Inventories

In 9M 2016, write-downs amounting to EUR 2,958 thousand (9M 2015: EUR 4,000 thousand) were recognized as expense within costs of goods sold. This amount includes reversals of earlier write-downs in the amount of EUR 387 thousand (9M 2015: EUR 606 thousand) due to higher selling and input prices.

In 9M 2016 and 9M 2015, material costs of EUR 257,985 thousand and EUR 164,802 thousand, respectively, have been recognized.

(9) Other Current and Non-Current Assets

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

(in thousands of EUR)	**Sep. 30, 2016**	**Dec. 31, 2015**
Non-financial assets		
Prepaid expenses	2,928	1,596
Receivables due from tax authorities	4,134	1,617
Other	1,677	1,459
Total current non-financial assets	**8,739**	**4,672**
Financial assets		
Government grant allowances for research projects	2,431	1,800
Positive fair values of derivative financial instruments	242	1,833
Other	533	442
Total current financial assets	**3,206**	**4,075**
	11,945	**8,747**

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 (19).

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

(in thousands of EUR)	Sep. 30, 2016	Dec. 31, 2015
Financial assets		
Investments	1,374	1,198
Government grant allowances for research projects	2,096	1,453
Other	1,259	1,220
Total non-current financial assets	**4,729**	**3,871**

On September 30, 2016, government grants for twelve research projects are recognized (December 31, 2015: twelve research projects). These public grants relate to programs promoted by the EU and national governments.

In 9M 2016 investments increased by USD 200 thousand (EUR 176 thousand) due to participation of ADVA Optical Networking SE in a capital funding round of Saguna Networks Ltd.

(10) Property, Plant and Equipment

Property, plant and equipment can be analyzed as follows:

(in thousands of EUR)	Sep. 30, 2016	Dec. 31, 2015
Land and buildings	7,650	6,823
Technical equipment and machinery	11,544	10,598
Factory and office equipment	2,790	2,316
Assets under construction	858	218
	22,842	**19,955**

In 9M 2016 and 9M 2015, there were neither impairments nor write-backs of property, plant and equipment impaired in prior years.

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

The table below summarizes the carrying amounts:

(in thousands of EUR)	Sep. 30, 2016	Dec. 31, 2015
Capitalized development projects	70,453	62,439
Intangible assets acquired in business combinations	14,230	2,316
Other intangible assets	2,354	1,922
	87,037	**66,677**

In 9M 2016, borrowing costs of EUR 539 thousand (9M 2015: EUR 183 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 2.7%.

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

(in thousands of EUR)	**Sep. 30, 2016**	**Dec. 31, 2015**
Purchased technology Biran	133	210
Purchased technology Time4 Systems	488	584
Purchased technology FiSEC	1,065	1,283
Purchased hardware technology Overture	3,525	-
Purchased software technology Overture	3,601	-
Brand Overture	184	-
Purchased customer relationships OSA	182	239
Purchased customer relationships Overture	5,052	-
	14,230	**2,316**

Amortization of intangible assets
Amortization of intangible assets with a finite useful life comprises:

(in thousands of EUR)	**Q3 2016**	**Q3 2015**	**9M 2016**	**9M 2015**
Capitalized development projects	5,674	6,396	18,875	19,349
Intangible assets acquired in business combinations	770	67	2,212	246
Other intangible assets	572	342	1,362	1,020
	7,016	**6,805**	**22,449**	**20,615**

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

(in thousands of EUR)	**Q3 2016**	**Q3 2015**	**9M 2016**	**9M 2015**
Purchased technology Covaro	-	-	-	91
Purchased technology Biran	26	27	78	78
Purchased technology Time4 Systems	31	21	95	21
Purchased technology FiSEC	73	-	218	-
Purchased hardware technology Overture	261	-	749	-
Purchased software technology Overture	174	-	493	-
Brand Overture	11	-	31	-
Purchased customer relationships OSA	0	19	55	56
Purchased customer relationships Overture	194	-	493	-
	770	**67**	**2,212**	**246**

Purchased technology Covaro has been fully depreciated in 2015.

(12) Financial liabilities

In January 2016, ADVA Optical Networking SE entered into two loan agreements with IKB Deutsche Industriebank in total amounting to EUR 35,000 thousand. Each loan has a 5-year maturity and a fixed interest rate of 1.40% per annum. The loans principals will be repaid in 16 equal instalments of EUR 2,188 thousand in total per quarter commencing in Q1 2017.

Already in December 2015, ADVA Optical Networking SE terminated the bonded loan of Portigon AG amounting to EUR 11,500 thousand prior to maturity. The loan has been fully repaid in January 2016.

On September 30, 2016, the net book value and fair value of the loans amount to EUR 60,923 thousand and EUR 61,040 thousand, respectively. For all other financial assets and liabilities included in the balance sheet at September 30, 2016, the fair value corresponds with the book value of the respective positions. The classification of financial assets and liabilities is in line with the disclosure in the Group’s annual financial statements per December 31, 2015.

(13) 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 September 30, can be analyzed as follows:

(in thousands of EUR)	Sep. 30, 2016	Dec. 31, 2015
Non-financial liabilities		
Liabilities to employees for vacation	3,870	1,093
Liabilities due to withheld wage income tax and social security contribution	1,899	2,220
Liabilities due to tax authorities	1,276	2,385
Obligations from subsidized research projects	2,281	1,714
Other	606	1,562
Total current non-financial liabilities	**9,932**	**8,974**
Financial liabilities		
Liabilities to employees for variable compensation and payroll	3,805	16,133
Negative fair values of derivative financial instruments	857	41
Other	778	1,711
Total current financial liabilities	**5,440**	**17,885**
	15,372	**26,859**

On September 30, other non-current liabilities include:

(in thousands of EUR)	Sep. 30, 2016	Dec. 31, 2015
Non-financial liabilities		
Obligations from subsidized research projects	2,198	1,681
Other	1,354	1,265
Total non-current non-financial liabilities	**3,552**	**2,946**
Financial liabilities		
Other	286	758
Total non-current financial liabilities	**286**	**758**
	3,838	**3,704**

On September 30, 2016, other non-current non-financial liabilities primarily include deferred rental expense of EUR 1,352 thousand (December 31, 2015: EUR 1,247 thousand).

(14) Other Provisions

On September 30, other provisions include:

(in thousands of EUR)	**Sep. 30, 2016**	**Dec. 31, 2015**
Current provisions		
Warranty provision	956	815
Personnel provisions	8,118	461
Other current provisions	8,390	8,615
	17,464	**9,891**
Non-current provisions		
Warranty provision	1,154	882
Personnel provisions	591	735
Other non-current provisions	-	15
	1,745	**1,632**
	19,209	**11,523**

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. 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.

(15) Stockholders' Equity

On September 30, 2016, the share capital amounts to EUR 49,445 thousand (on December 31, 2015: EUR 49,374 thousand).

In connection with the exercise of stock options, 70.350 shares were issued to employees and management board of the Company and its Group companies out of conditional capital in 9M 2016. The par value of EUR 71 thousand was appropriated to the share capital, whereas the premium of EUR 183 thousand was recognized as capital reserve.

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

(16) Revenues

In 9M 2016 and 9M 2015, revenues included EUR 43,055 thousand and EUR 39,664 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 (21).

(17) Other Operating Income and Expenses

(in thousands of EUR)	**Q3 2016**	**Q3 2015**	**9M 2016**	**9M 2015**
Other operating income				
Government grants received	405	490	1,116	1,295
Income for the supply of development services	80	11	80	230
Release of bad debt allowances	86	229	664	603
Release of other provisions	460	102	1,995	646
Other	79	61	400	436
	1,110	**893**	**4,255**	**3,210**
Other operating expenses				
Impairment of trade accounts receivable	**-**	-	-150	-
Deconsolidation result	-390	-	-390	-
Other	21	-112	-163	-439
	-369	**-112**	**-703**	**-439**
Other operating income and expenses, net	**741**	**781**	**3,552**	**2,771**

(18) 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 as well as interest income related to tax refunds.

Interest expenses are primarily incurred on financial liabilities and on the sale of receivables. Refer to notes (7) and (12) for further details.

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

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

(in thousands of EUR)	Q3 2016	Q3 2015	9M 2016	9M 2015
Foreign currency exchange gains	1,437	1,540	6,599	9,611
thereof: gains from forward rate agreements	*108*	*326*	*461*	*1,947*
Foreign currency exchange losses	-2,580	-1,361	-11,776	-8,947
thereof: losses from forward rate agreements	*-558*	*-8*	*2,431*	*-632*
	-1,143	**179**	**-5,177**	**664**

Forward rate agreements
Between December 4, 2015, and September 19, 2016, the Group entered into six forward rate agreements to hedge foreign currency exposure of expected future cash flows. These agreements mature between Q4 2016 and Q3 2017. In 9M 2016, unrealized gains and losses, net, amounted to negative EUR 573 thousand (9M 2015: negative EUR 11 thousand).

In 9M 2016, eleven forward rate agreements signed between June 18, 2015, and September 19, 2016, matured. A net result of negative EUR 1,397 thousand was realized on these transactions (9M 2015: positive EUR 1,326 thousand).

Fair value disclosures
On September 30, 2016, and December 31, 2015, the Group held the following financial instruments measured at fair value:

(in thousands of EUR)	Fair value		Nominal value	
	Sep. 30, 2016	Dec. 31, 2015	Sep. 30, 2016	Dec. 31, 2015
Forward rate agreements	-614	1,792	54,580	66,590

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.

(20) Income Taxes

The table below shows the components of the Group's total income tax expense:

(in thousands of EUR)	Q3 2016	Q3 2015	9M 2016	9M 2015
Current taxes				
Current income tax charge	-433	-345	-3,178	-846
Adjustments in respect of current income tax for prior years	-72	-121	1,894	-363
	-505	**-466**	**-1,284**	**-1,209**
Deferred taxes				
Relating to temporary differences	-384	-361	2,379	-119
Relating to changes in tax rates	-116	-3	-116	-6
Relating to additions to and reversals of deferred tax assets on tax loss carry-forwards	-1,735	940	1,022	92
	-2,235	**576**	**3,285**	**-33**
Income tax benefit (expense), net	**-2,740**	**110**	**2,001**	**-1,242**

In 9M 2016, mainly tax refunds for prior periods, the release of tax provisions as well as the recognition of deferred tax assets on tax loss carry-forwards resulted in income tax benefits. The 9M 2015 tax expense is mainly due to additional tax provisions and payments for current and prior periods within the Group and due to the usage of tax loss carry-forwards for prior years.

(21) 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 are 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 September 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	438,658	-	-	-	-	438,658
Cost of goods sold	-312,481	-1,634	-	-47	-	-314,162
Gross profit	**126,177**	**-1,634**	**-**	**-47**	**-**	**124,496**
Gross margin	***28.8%***					***28.4%***
Selling and marketing expenses	-44,570	-578	-	-320	-	-45,468
General and administrative expenses	-23,392	-	-	-213	-	-23,605
Research and development expenses	-74,633	-	-	-421	27,324	-47,730
Income from capitalization of development expenses	27,324	-	-	-	-27,324	-
Other operating income	4,255	-	-	-	-	4,255
Other operating expenses	-703	-	-	-	-	-703
Operating income	**14,458**	**-2,212**	**-**	**-1,001**	**-**	**11,245**
Operating margin	***3.3%***					***2.6%***
Segment assets	**411,459**	**14,230**	**40,093**	**-**	**-**	**465,782**

Segment information on September 30, 2015 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	330,186	-	-	-	-	330,186
Cost of goods sold	-214,546	-190	-	-151	-	-214,887
Gross profit	**115,640**	**-190**	**-**	**-151**	**-**	**115,299**
Gross margin	***35.0%***					***34.9%***
Selling and marketing expenses	-41,129	-56	-	-563	-	-41,748
General and administrative expenses	-22,609	-	-	-119	-	-22,728
Research and development expenses	-57,844	-	-	-662	24,144	-34,362
Income from capitalization of development expenses	24,144	-	-	-	-24,144	-
Other operating income	3,210	-	-	-	-	3,210
Other operating expenses	-439	-	-	-	-	-439
Operating income	**20,973**	**-246**	**-**	**-1,495**	**-**	**19,232**
Operating margin	***6.4%***					***5.8%***
Segment assets	**358,808**	**1,099**	**24,680**	**-**	**-**	**384,587**

Additional information by geographical regions:

(in thousands of EUR)	Q3 2016	Q3 2015	9M 2016	9M 2015
Revenues				
Germany	15,923	21,725	62,667	57,974
Rest of Europe, Middle East and Africa	36,314	48,279	123,162	138,317
Americas	96,441	37,876	227,335	107,712
Asia-Pacific	10,775	14,442	25,494	26,183
	159,453	**122,322**	**438,658**	**330,186**

(in thousands of EUR)	Sep. 30, 2016	Dec. 31, 2015
Non-current assets		
Germany	89,142	82,068
Rest of Europe, Middle East and Africa	17,271	18,626
Americas	42,273	9,473
Asia-Pacific	1,286	1,346
	149,972	**111,513**
Deferred tax assets		
Germany	16,707	14,303
Rest of Europe, Middle East and Africa	1,455	2,173
Americas	12,968	12,389
Asia-Pacific	437	268
	31,567	**29,133**

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

In 9M 2016, the share of revenues allocated to major end customers was EUR 161,312 thousand (9M 2015: EUR 60,722 thousand). In 9M 2016, revenues with two major customers exceeded 10% of total revenues (9M 2015: revenues with one major customer).

Non-current assets and deferred tax assets are attributed on the basis of 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.

(22) 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)	Sep. 30, 2016	Dec. 31, 2015
Up to one year	7,038	6,125
One to five years	15,038	12,176
More than five years	4,392	795
	26,468	**19,096**

Other obligations
On September 30, 2016, the Group had purchase commitments totaling EUR 69,679 thousand in respect to suppliers (on December 31, 2015: EUR 7,288 thousand).

Guarantees
Group entities have issued guarantees in favor of customers. On September 30, 2016, performance bonds with a maximum guaranteed amount of EUR 3,935 thousand were issued. At the end of Q3 2016, ADVA Optical Networking does not expect claims from these guarantees.

(23) 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 September 30, 2016, 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.

(24) 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 Plan IXa	Stock Option Program 2003 for the Management Board Plan IXb	Stock Appreciation Rights Plan XI	Stock Appreciation Rights Plan XIa	Stock Appreciation Rights Plan XIII	Stock Option Program 2011 Plan XIV	Stock Option Program 2011 for the Management Board Plan XIVa	Stock Appreciation Rights Plan XV	Stock Appreciation Rights Plan XVI
Options outstanding at Jan. 1, 2015	**599,617**	**480,024**	**220,000**	**57,000**	**39,700**	**93,650**	**1,114,200**	**290,000**	**136,800**	**76,000**
Granted options	-	-	-	-	-	-	788,000	150,000	-	-
Exercised options	-424,277	-444,753	-145,000	-28,000	-24,203	-91,550	-264,023	-	-68,400	-63,500
Forfeited options	-47,200	-2,867	-	-20,000	-12,897	-2,100	-79,500	-	-9,000	-1,000
Expired options	-24,334	-32,404	-	-	-2,600	-	-	-	-	-11,500
Options outstanding at Dec. 31, 2015	**103,806**	-	**75,000**	**9,000**	**-**	**-**	**1,558,677**	**440,000**	**59,400**	**-**
Granted options	-	-	-	-	-	-	237,700	401,667	-	-
Exercised options	-39,350	-	-	-	-	-	-31,000	-	-2,500	-
Forfeited options	-	-	-	-	-	-	-27,500	-	-	-
Options outstanding at September 30, 2016	**64,456**	**-**	**75,000**	**9,000**	**-**	**-**	**1,737,877**	**841,667**	**56,900**	**-**
Of which exercisable	64,456	-	75,000	9,000	-	-	505,677	100,000	56,900	-

(25) Related Party Transactions

There were no significant changes at September 30, 2016, to related-party disclosures reported in the consolidated financial statements as of December 31, 2015.

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

On September 30, 2016, the EGORA Group held a 15.1% equity stake in ADVA Optical Networking.

In 9M 2016 ADVA Optical Networking acquired components with an amount of EUR 15 thousand from the EGORA Group (9M 2015: nil).

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 9M 2016 and 9M 2015, these agreements were not utilized.

On September 30, 2016 trade payables of EUR 3 thousand existed in respect to EGORA Group (December 31, 2015: nil).

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.

In 9M 2016, Saguna Networks Ltd. has not performed development services for the Group (9M 2015: nil).

On September 30, 2016 and December 31, 2015, no trade receivables or provisions in respect to related parties existed.

See note (26) for information on the Management Board and the Supervisory Board of ADVA Optical Networking.

(26) 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	
	Sep. 30, 2016	**Dec. 31, 2015**	**Sep. 30, 2016**	**Dec. 31, 2015**
Brian Protiva Chief Executive Officer	401,030	401,030	335,000	185,000
Christoph Glingener Chief Technology Officer & Chief Operating Officer	-	-	325,000	180,000
Ulrich Dopfer Chief Financial Officer	500	500	259,667	153,000

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. Options related to Plan XIV include grants to Ulrich Dopfer effective before he joined the ADVA Optical Networking Management Board.

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 and
- 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	
	Sep. 30, 2016	**Dec. 31, 2015**
Nikos Theodosopoulos Chairman	-	-
Johanna Hey Vice Chairwoman	-	-
Hans-Joachim Grallert (since February 19, 2016)	340	-

(27) Events after the Balance Sheet Date

There were no events after the balance sheet date that impacted the financial position of the Group on September 30, 2016, 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, October 25, 2016

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, October 25, 2016

Brian Protiva

Christoph Glingener

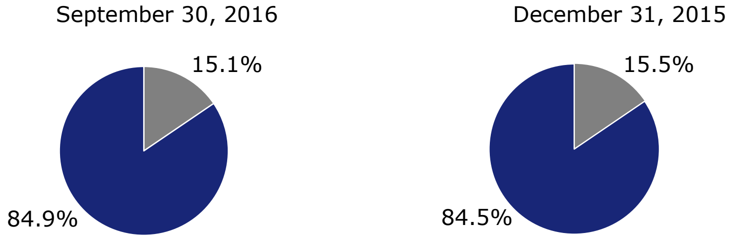
Ulrich Dopfer

Shareholder Information

Stock Information[5]

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 September 30, 2016 Price on December 31, 2015 Price on September 30, 2016	 49,444,834 EUR 11.12 EUR 8.96
Share price performance YTD (until September 30, 2016)	**-15.8%**
Market capitalization on September 30, 2016	 EUR 443 million

Shareholder Structure



Shares outstanding	
49,444,834	49,374,484
● Free float	● EGORA Group

Stock Price Development October 1st 2015 to September 30th 2016 in EUR

Financial Calendar

Investor Roadshows	November 2016 Paris December 2016 New York
Needham Conference	November 2, 2016 New York
Publication of Annual Report 2016	February 23, 2017 Martinsried/Munich, Germany

[5] Price information is based on Xetra closing prices.

Corporate Information

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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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