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+++ presentation

Operator^ Good day, ladies and gentlemen. Welcome to the Q3 2016 IFRS Financial Results conference call of ADVA Optical Networking. This call is being recorded.

(Operator Instructions)

I now hand over to Mr. Stephan Rettenberger, ADVA Optical Networking's Vice President, Marketing and Investor Relations. Please go ahead, sir.

Stephan Rettenberger^ Yes. Thank you. And warm welcome from my side. This earnings call builds on a presentation which is available for download in PDF format from our homepage under www.advaoptical.com in the About Us/Investor Relations section. Should you not have the presentation in front of you, you may want to access it on the Conference Calls page in the Financial Results section of our Investor Relations website.

Before we will lead you through the presentation, as always, please be informed that this presentation contains forward-looking statements with words such as “believes”, “anticipates” and “expects”, to describe expected revenues and earnings, anticipated demand for optical networking solutions, internal estimates, and liquidity. These factors are discussed in greater detail in the risk report section of our annual report 2015.

Please also be reminded that we provide consolidated pro forma financial results in this presentation solely as supplemental financial information to help the financial community making meaningful comparisons of our operating results from one financial period to another. This pro forma information is not prepared in accordance with IFRS and should not be considered as substitute for historical information presented in accordance with IFRS.

We will target to limit this con call to 60 minutes. And as usual, Brian will start to provide a business update and outlook. Then Uli will talk us through our Q3 2016 financials. And finally, we will have sufficient time for your questions, which we'll be happy to answer.

Brian, please go ahead with the business update.

Brian Protiva^ Thank you, Stephan.

Page four, Q3 2016 in review.
Revenues rose by 30.4% versus the previous year's Q3 to EUR159.5 million. This result is at the upper end of our Q3 guidance. Q3 pro forma operating income was at EUR8.3 million or 5.2% of revenues, within our

guidance, which we forecasted to be in the 3% to 6% range. Importantly, this was our 11th consecutive quarter with year-on-year growth.

Our balance sheet remains strong in the third quarter 2016 even with the large acquisition in Q1. And we invested in growth. Q3 gross cash was at EUR81.2 million.

Our investments in open connectivity and networking solutions which support the two megatrends cloud and mobility are driving rapid growth for ADVA Optical Networking.

Looking at revenues, the success in the DCI space is allowing us to outperform the market. Furthermore, we have completed the integration of Overture. It will, however, take some time to drive revenues from the acquired Ensemble Software Solutions in order to help the Overture acquisition also support relative EBIT percentage gains. This will most likely start occurring in the second half of 2017.

We now have to focus on profitable growth and drive greater leverage from higher revenues. We have made huge investments in this technology over the last 24 months, which will allow us to increase our gross margins in 2017.

Page five, so what do our prospects for Q4 2016 look like?
We continue to show strong revenue growth. In fact, our forecast shows that we should continue to grow at around 18% or close to 20% year-on-year when considering the midpoint of our guidance in Q4. This growth is being generated by the transition to the cloud by residential and enterprise users, the increase of new customer wins and the many new customers we added through the Overture acquisition.

When looking at the regional breakdown, we see real strength in North America and in some parts of Europe, whereby metro 100G investments and DataCenter Interconnect opportunities are growing globally.

We will continue to focus on innovation as major transformations such as cloud, software-defined networking, network function virtualization and 5G will allow for differentiated products and solutions to win market share.

In summary, we've been upgrading our entire product portfolio over the last months. We have very competitive solution platforms that enable us to win new footprint. Example of this - our FSP 3000 CloudConnect, our FSP 150 Pro family and the launch of our fully integrated Ensemble software framework.

With the new products, strong markets and more focus on operational expenses post our Overture acquisition, we will increase profitability in the second half of 2016 and in 2017.

Cloud and mobility are driving our market, page number six.
Cloud services are growing rapidly. The market leaders, AWS and Microsoft Azure Cloud will exceed an annualized $20 billion run rate this year. And Google is investing aggressively as well.

In fact, if you categorize AWS as a software company, as most analysts do, it is the fastest company to reach $10 billion of revenues, which they did in 2016. A big statement supporting the opportunity in the cloud.

Add to this, the 4K video or Ultra HD, which will drive 25 megabit streaming versus the 5 megabit streaming needed for HDTV and you have rapid bandwidth demand growing to the very edge of the network.

This promises incremental investments and revenue for CSPs, driving investments in both wireline and wireless infrastructure, which leads to the radio access network extensions and IoT. The RAN network continues to go through upgrades due to the requirements of higher speeds and feeds for mobile users. Again here, video is the biggest driving factor. And IoT leads to a multitude of more endpoints, essentially more end nodes, always-on drive network extensions and bandwidth increases. Even small bandwidth devices add up rapidly to drive network infrastructure when multiplied by many billions of sensors and related devices. The optical networking spend for WDM equipment should continue to grow every year, with double digit growth rates, and is on track to reach $18 billion by 2020.

Moving forward to page seven, the optical megacycle. Is it real?
We think so. We strongly believe the coming optical upgrade cycle is larger and more robust than any previous optical cycles. While every previous cycle had one major driver and one or two smaller drivers, this cycle looks to be much bigger in scope with four major drivers, of which three drivers will impact our business in 2017. Any one of these three major drivers is significant enough to make us bullish on our opportunity for growth.

This cycle should be larger and longer than any previous ones due to the opportunity size of each driver. And as is typical of these cycles, most investors remain skeptical and hesitant for the beginning of the cycle. The three major drivers affecting our business and not including the China demand driver.

Demand driver number one, Metro Core optical spend having just started in the June quarter, should ramp sharply into calendar year '17 and continue strong growth into calendar year '18. The optical sector has been living on the modest demand from long haul upgrades for the last years. The Metro Core market upgrade is long overdue and just starting to ramp. There are 10 to 30 times the number of connections in the Metro Core as there are in the long haul networks.

Service providers have no choice but to drive this upgrade. Current long haul systems are delivering up to 96 channels of 100 gig into Metro Core networks with 10 gig/40 gig legacy WDM or even SONET SDH rings.

Service providers are also building access network links with capacity equal to or greater than the Metro Core bandwidth capabilities, making aggregation into the core impossible, and thus amplifying the Metro Core bottleneck problem.

Demand driver number two, data comm upgrade cycle to the standardized 25 gig/100 gig architectures started to kick in in calendar year '16 in the third quarter, this last quarter. This is an unprecedented upgrade. The transition from 10 gig/40 gig to 25 gig/100 gig architectures is a major upgrade cycle.

The last upgrade to server speeds occurred around 10 years ago, when we moved from 1 gig to 10 gig PHY layer support within the servers. Web 2.0 scaled data centers didn't even exist. The transition to 25 gigs/100 gigs is unprecedented and to have it occur at the same time as the Metro Core and China builds is leading to a lot of excitement and pent-up demand.

And finally, the demand driver number three. The ICP demand curve, which already started in 2015, will continue to accelerate as data center builds and global connectivity of these DCs or data centers continue to ramp up unprecedented levels.

And, of course, there are other future networking demands looming. There's a lot of discussion about the 30 to 40 times capacity increases in the coming 5G RAN wireless networks. The shift to 5G is a ways out. But service providers are expected to build the transport capacity before they build the 5G RAN. Industry expectations are estimating 5G will require 100 gig coherent transport to the radio towers and likely be built on soft only Bay-Stations with virtualized commercial off-the-shelf white label servers.

Moving forward, page number eight -- global market share.
Next two slides show ADVA and some data from industry analysts. And as you can see, ADVA has done well to position our opportunity in both the enterprise segment as well as the ICP segments with DCI connectivity as one of our focus areas.

As you can see by the content on this slide and also clearly on the next slide, that covers the ICP market share. ADVA is a leader and growing with the market. Although the enterprise segment is relatively small, we continue to invest to differentiate our solutions. We will be introducing a number of new features relevant for this market going forward.

Page number nine, the metro and short reach Datacenter Interconnect market share.
Here too, ADVA is growing quickly in this ICP market. And we have one of the leading positions. We hope to continue to build market share in this space with our new CloudConnect architecture and some of our latest releases, including our Open Optical Line Systems, which just recently allowed us to win a new footprint at one of the leading global ICPs.

Page number 10, open systems for the DCI application.
We are very proud of our positioning as the market leading open systems vendor within the optical community. We are a leader in DCI and in the metro markets, and thus we understood very early during market development phase that our customers needed flexibility and freedom of choice. Thus, we committed to integrating leading layer two and layer

three players such as Juniper and Arista, as well as interworking with Cisco.

We even support other layer one optical players, both as transponders and even optical plugs. As an example, we announced a working partnership with InPhi, who announced their Color Z 100 gig fixed wavelength 80 kilometer plug which interworks with our CloudConnect Open Optical Line System known as our OOLS.

In fact, we specifically designed plug-and-play technology into our OOLS, making it simple to install, manage, and we integrate our platforms through the open software layer based on standards.

Thus, we have holistically committed to open networking and standards-based solutions with a special emphasis on letting our customers have choice in selecting hardware modules and software interfaces.

Page number 11. Let's now move to the cloud access opportunity. The FSP 150 and Ensemble success story.
We are a leader and we have more differentiation in the network edge than ever before.

As you see above, over the last 20 years, we were first to market during many phases of the business access opportunity. And once again, with our virtual CPE story for Network Function Virtualization, we are better prepared for transformational change than ever before and we believe than any of our competitors today.

As with the optical layer, we are also completely open with our cloud access portfolio, giving our customers open solutions and allowing them to make choices. Choices in hardware, selection of the largest ecosystem of VNF applications in the entire market and choices in location as to where they want to host those applications, value added pieces within their network, but still seamlessly be able to offer new services with point and click simplicity through new tools and customer portals. Our NFV or virtualization story means open hardware, software and services support.

My final slide, solution summary.
During recent years, the world of technology and communications has become far more mobile, cloud, and software-oriented. But the foundations of success for virtualization, the cloud and 5G, rest on the shoulders of high-speed fixed networks. There will be more fiber to more endpoints than ever before, supporting an average long-term bandwidth growth of 30% each year.

This backdrop will help ADVA grow in multiple different application spaces. On the right side of the slide, you see our optical networking platform, providing high speed connectivity between data centers and carrier hubs. Cloud services drive data center growth. This creates bandwidth demand and further investments in optical capacity. On the left side of the chart, you see our cloud access solution space, where we connect enterprise users, mobile base stations, and the backhauling of traffic from the residential access infrastructure.

Thanks to the acquisition of Overture in Q1, we have a broader and deeper solution portfolio at the edge of the network than ever before, with new footprint and capabilities. North American customers are responding now to our solutions.

Last but not least, on the top of the slide, you see the new Ensemble software suite as the backbone of our solutions architecture to extend the cloud to the customers. That was the strategic reasoning behind the Overture acquisition.

ADVA Optical Networking is growing its reach by connecting, extending, and assuring the cloud, so that our customers can transform their networks. And we are investing aggressively to make this vision a reality.

I would now like to welcome Uli to cover our financial performance.

Ulrich Dopfer^ Thank you Brian and hello, everybody.

Let us start with the financial highlights for Q3 2016 according to IFRS. The pro forma numbers presented here are calculated prior to non-cash charges related to stock-based compensation and amortization and impairment of goodwill and acquisition-related intangible assets.

Unless stated otherwise, all numbers are presented in euro.

Let's move to slide 14, please. IFRS quarterly revenue and pro forma profitability. As already stated by Brian, we ended Q3 2016 with revenues of EUR159.5 million, being ADVA's strongest quarter ever.

This result is at the upper end of our revenue guidance of between EUR150 million and EUR160 million and represents a 30% increase year-over-year. Again, this marks the 11th consecutive quarter with year-on-year growth.

The increase in revenues was mainly driven by two factors: The demand for Datacenter Interconnect technology and the continued push for 100G in metro and regional networks. Due to the high revenue contribution of the ICP segment, relative gross profits remained low at 26.9% of revenues.

Pro forma operating income in Q3 2016 was at EUR8.3 million or 5.2% of revenues. This is in line with our guidance of between 3% and 6% of revenues and compared to 7.8% of revenues in Q3 2015.

Let's move to the next slide, please. IFRS profitability.
In Q3 2016, IFRS operating income was at EUR7.2 million or 4.5% of revenues down from EUR8.5 million or 6.9% in Q3 2015. Key drivers for this development are the aforementioned reasons for lower pro forma operating income.

Our Q3 2016 net income was at EUR3.3 million or 2%. This result was impacted by negative FX effects caused by the weakening US dollar at the end of September as well as a Q3 tax charge predominantly resulting from our strong US business, using up our local deferred-tax assets on taxable losses. Year to date, our net income adds up to positive EUR7.9 million. As the number of weighted-average shares outstanding has not changed significantly, diluted EPS developed in proportion with IFRS net income to EUR0.07 per share.

Next slide, please. Quarterly revenues per region.
In Q3 2016, EMEA recorded revenues of EUR52.2 million, a EUR17 million decrease from the EUR69.6 million in the previous quarter and representing now 33% of our Q3 revenues.

This is below the EUR70 million achieved in Q3 2015 and mainly caused by the impact of the weak British pound as well as timing and recognition effects of certain individual projects.

After a very strong Q2, the Americas managed to grow even further in Q3 2016 and is showing an increase of 155% year-over-year. As in Q2, this is mainly driven by strong ICP business. Asia-Pacific revenues were a EUR10.8 million or 7% of sales, which represents a 25% decrease year-over-year. But please note, due to the project nature of this business and the very small relative base, we will continue to see volatility in the quarterly revenue development within this region.

Next slide, please. IFRS consolidated balance sheet.
Cash remained strong at EUR81.2 million, keeping our net liquidity at a stable 20.3 million. Overall net working capital at EUR96.6 million improved compared to the EUR102.7 million reported at the end of Q2 2016 mainly due to the strong increase in accounts payables.

Driven by strong revenues in Q3 2016, our trade accounts receivables remained at a high level at EUR112.1 million and DSOs increased accordingly to 64.7 days. We continue to manage our inventories well, resulting in an impressive inventory turn of 6.7.

Trade accounts payables at EUR87.7 million increased from EUR77.1 million in the previous quarter. DPOs increased to 64.7 days and are now at the same level as our DSOs. Stockholders' equity at EUR220.6 million is slightly up from EUR218.1 versus the end of the last quarter. We continue to maintain a strong equity ratio of close to 50%.

Next slide, please. IFRS consolidated cash flow statement.
Cash flow from operating activities amounted to EUR15.7 million up from the EUR12 million reported in Q3 2015, but down from the EUR22.4 million reported in Q2 2016. The decrease from Q3 to Q2 is mainly driven by net income.

Cash flow used for investing activities is slightly higher than historical levels, reflecting our investments in future products and technologies.

Cash flow from financing activities in Q3 2016 was at a negative EUR1.7 million mainly consisting of servicing existing loans. Accordingly, free cash flow came in at EUR11.8 million versus the EUR19 million reported in the previous quarter.

Now, I would like to share our guidance for Q4 2016. Next slide, please. We are committed to improving visibility and predictability of our business. As in the past, we will continue to provide projections for the current quarter only.

Market growth drivers continue to be intact. Cloud and mobility continue to drive data center builds and expansions, thus driving demand for more interconnect capacity. Our long-term growth prospects continue to be very strong.

As previously communicated, there are both risks and opportunities in realizing revenue, particularly in infrastructure business. We remain committed to a flexible cost and operating model that allows us to quickly adapt to changing market conditions.

We will continue to drive operational efficiencies within all facets of the organization. We consequently project Q4 2016 revenues of between EUR125 million and EUR140 million with pro forma operating income to range between 4% and 7% of revenues.

We will continue to perform detailed reviews of the expected business development in respect of all intangible assets, including capitalized development projects. In case of highly adverse business prospects, such a review may result in non-cash impairment charges in Q4 2016 or beyond. The pro forma operating income guidance we have provided today excludes any such potential impairment charges.

Next, and my final slide, please.
In summary, our strong top line growth continues. Our momentum in the DCI space allows us to outperform the market. We grew faster than our competition and took the number one position in metro DCI for Internet Content Provider and Carrier Neutral Providers. We further expanded our leadership in DCI for private enterprise networks. And our FSP 3000 CloudConnect is slightly behind schedule, but it's starting to ramp up.

The integration of Overture is complete and synergies have started to materialize. We have first cross-selling success with the expanded portfolio of Ethernet Access Devices. NFV continues to be the hot topic in our industry and innovation is more important than ever. We are building thought leadership in this space through Ensemble, our new strategic division focused on NFV. With Ensemble, we are now active in more than 20 customer engagements with carriers around the globe.

I now thank you for your participation in today's call. And with that, I'd like to turn the call over to the operator to begin the Q&A portion of the call.

+++ Q&A

Operator^ (Operator Instructions) Oliver Pucker, Oddo Seydler.

Oliver Pucker^ My first question is for Brian on CloudConnect. Can you give us a revenue figure for Q3? And maybe generally speaking so far the rollout this year was a little bit slower than expected. Is it now on track?

And also maybe on Infinera, they just announced their CloudXpress 2, do you see this as a possible threat going forward that maybe ADVA might fall behind the curve due to the delay in the rollout?

Brian Protiva^ So, point one. We're about three months behind. We had said initial shipment in Q2, low single digit millions in Q3 and then moving to double digit millions in Q4. And we shipped first products. We got a handful of customers in Q3, small volumes, first shipments. This quarter in Q4, we'll do low millions and then we'll move to double digit starting early next year. So, we're about three months behind the curve on the CloudConnect.

And the reasons were a number of issues from just yields, scaling output, software and hardware challenges, but we have them all under control and we're moving forward at this point. But we lost some time.

The second piece, Infinera is actually behind the curve, not ADVA. We're already selling 16 QAM 200 gig wave solutions with the CloudConnect. When they come in with their 16 QAM solution sets, 200 gig waves, they are having to catch up, the 16 QAM is standard technology today. We offer it. And you'll see us bringing a lot more to the market in 2017 and 2018. So, I feel very competitive in our positioning.

Oliver Pucker^ And maybe a question on the geographic split. So, in Q3 Europe was down 25% year-over-year, so what are the key reasons? Is it competitive pressure or do you see that the customers overspent the CapEx early in this year? What are the key reasons?

Brian Protiva^ I think it's customer mix and product mix. We had a little bit, in the U.K. the pound hurt, some softness and some customers there, summer months in some of the other regions in Europe. We think actually Q4 is going to come back nicely.

So, if you look at the big picture really strong North America Q3. Weaker in Europe, but we think Europe is going to come back nicely in Q4, maybe not such a strong North America, which means better margins and our stronger forecast on the profitability piece.

Oliver Pucker^ And maybe a question on the ICP share in Q3. What was it? And do you see it on a similar level right now in Q4?

Brian Protiva^ Yes. I think if you look at the first nine months, I think Q4 will be in a similar view. I think Q3 was a little bit higher, but when you look at the big picture, the first three quarters versus Q4, you have consistency.

Oliver Pucker^ Because I remember in Q2 it was around 25% so is it a fair assumption that in Q3 it was around 30%?

Brian Protiva^ Yes, it was up some there and higher and - but on the year average will be more like in the 25% range.

Oliver Pucker^ Got it. And maybe a question on the Overture acquisition. So, they got a couple of tier 1 customers in the US. Have you been able so far to use the tiers list as a cross-selling selling opportunity?

Brian Protiva^ Yes. We've won one so far, we're in front of many of them and most importantly is the Ensemble software architecture that we got with that acquisition, which addresses NFV very effectively in the virtual CPE.

So, essentially in the past, people for every software application you'd sell a hardware box. And it was an appliance built specifically for that software application. And our story with the Ensemble piece is that it's like the iPhone. We'd sell one box based on Intel CPU capability, and then we drive applications out on to that box, which means fewer boxes, less complexity, point-and-click type of distribution of applications out to customers.

And we have all that capability, we have the hardware, we have the software. We have the ecosystem with the certified applications, all of that's available. And that's what we're driving out to that customer base.

Oliver Pucker^ Maybe a housekeeping question on Overture, what was the revenue contribution in Q3?

Brian Protiva^ I'm not sure if we actually break that out.

Uli, do we break that out at this point? I mean we tightly integrated their carrier Ethernet products into our existing architecture and already started to cross-build, so I'm not sure. Uli?

Ulrich Dopfer^ Yes, we can break it out. And if you look into our nine-month report, you will see a number which is not 100% accurate because we extrapolated, but it's about EUR10 million.

Oliver Pucker^ It's about 10 million. Then maybe a question on the margins that, Brian, you mentioned at the beginning of the call that the gross margin 2017 should be higher. You made a couple of investments. Can you maybe provide some more details on the statement?

Brian Protiva^ So, clearly new generation of technology is a lot lower cost per port, 100-gig port at 100-gig margins are the ones that have hurt us in the middle of 2016, highly scaled 100-gig port counts on older technology means lower margins.

And as we bring out the CloudConnect and scale that out there, we're going to get better margins there, point one. Point two, as we drive more software revenues and things like our sync and timing revenues, they're much higher margin contributions than the standard optical sales into our CSPs or our ICPs. So, I think a combination of a few things will help our margin profile.

Oliver Pucker^ Got it. And maybe two questions for Uli, on the pro forma EBIT margin. So, the margin is down year over year by around 260 basis points. Is it possible to give a breakdown where this is coming from? So, can you maybe lay out what portion of the decline can be attributed to the Brexit, what portion is product mix and so on? Can you give us a rough breakdown?

Ulrich Dopfer^ I mean, clearly the lower gross margin is the main contributor to the low EBIT. But also if you look into - I mean the British pound is down about now it's I guess 15% if you compare it with previous periods, so this is significant. I mean you have a EUR90 million to EUR100 million business in the U.K., so this is a significant impact on the EBIT.

Oliver Pucker^ And Uli, last question from my side on the tax rate, in Q3 I think everyone was a little bit, yes, surprised, tax rate was 45%. So, what really happened there and what can we expect going forward?

Ulrich Dopfer^ So, first of all, I always recommend to look at taxes on a yearly basis. On a quarterly basis, it's tough and misleading especially if you do acquisitions and you have special effects there. For Q3, of course, we had strong revenues and strong profits in the US and we basically used up all of our usable tax losses for the year.

So, to come back to your question, what can we expect for the year, I already said we will be in a very low single digit percentage range and I guess this is what you can - you can do the math for Q4 then.

Operator^ Leo Bayer, Hauck & Aufhaeueser.

Leo Bayer^ Given that Uli has covered quite a lot, I think I would like to hear some more qualitative statements maybe. First of all, can you give us an idea maybe, Brian, about how many, so the amount of CloudConnect customers you have served, how many received actual CloudConnect devices in Q3 and how does that seem to be ramped up in quantities or in percentage in Q4?

Brian Protiva^ So, again, we've got a handful of customers that we have for the CloudConnect at this point where we shipped. And we expect that to grow further in Q4 and start to ramp rapidly in 2017.

Leo Bayer^ For the quantification of that you're not willing to share?

Brian Protiva^ In what respect? I think we said low millions, low single digit millions in Q4 going to double digit millions early next year.

Leo Bayer^ Can you give us an idea about the migration pattern of existing customers, how many are in lab trials and field trials with CloudConnect or how many are you expecting to move into the next stage, so in order to get them closer to delivery?

Brian Protiva^ That's another way to state the same question. I'm going to repeat myself. So, I think, again, we're talking to all of our customers. The CloudConnect is part of our FSP 2000 architecture. We have hundreds of customers, hundreds of network management NMS customers and the CloudConnect can go into all those customers.

It's going to be the 100-gig preferable chassis. It's not a new architecture in itself. It can stand alone as an architecture. But it is part of our FSP 3000 family. So, you're going to see us ramp, it's not like a new thing that we then go out there and here you start with one customer, go to town, whatever.

We've got hundreds of customers who want to get access. We're pushing in in all those customers as we speak. And as we're able to ship more product and ramp more aggressively, we will drive out in very scalable approach. So, it goes from single numbers to tens of customers and then hopefully hundreds of customers within a six-month period of time, because it just gets flown in in a hybrid model into all of our customer base.

Leo Bayer^ If I may shift the topic, yesterday in the Telefonica Deutschland conference call they talked about a 5G rollout. And obviously you mentioned that from time to time always in your presentation that this seems to be a growth driver.

And the CEO actually made a comment that currently apparently radio tower is only 20% of Telefonica Deutschland's radio towers that can be leased or owned are connected to fiber. And, obviously, there's a significant need to improve, to increase that to, I don't know, 80%, 90% that towers need to be connected in order to fulfill 5G purposes.

Can you give us an idea if Telefonica Deutschland is already a customer of yours and how do you see that evolving? And do you see already their spendings in this infrastructure direction or do you see that you're in close discussions with them, because I expect that to be a rollout way ahead of time in order to deliver 5G to customers when it becomes reality probably in '19 or '20.

Brian Protiva^ You asked difficult questions. I don't think we've gone live, on what our relationship is with certain customers, but I feel very good about what you're telling me that it goes from 20% to 90% and I think that ADVA will benefit from it strongly.

So, ADVA is very well-positioned especially in Central Europe in all of these rollouts of the major players. And the issue is, yes, we're absolutely going to have to increase the number, fiber connectivity, but then not just the fiber connectivity piece but also the bandwidth to the towers, those towers are going to increase radically with 5G.

In addition to the new technologies: sync and timing. We've been talking about it for some time. We bought a company, we're a global leader, one of two, and how that flows into our other architectures. And you'll see nicely differentiated solutions there from us for 5G infrastructure.

So, it's good stuff for us, that's why we do talk about it, because we are seeing that as one of the pent-up demand that will come to play, 2018, 2019, maybe partly in 2017 where we see RFPs and decisions being made on the technology that's needed and ADVA is well-positioned there. So, upgrading existing customers, winning new footprints and, yes, we're very much exposed to a lot of this infrastructure that you asked about.

Leo Bayer^ Since we have already covered the difficult question, maybe the easy question here for you. I looked into the earnings call transcript with Infinera from yesterday and they're talking in general about soft spending environment, they're talking about an unacceptable quarter according to the CEO. Their sales declined massively there.

So, it implies that ADVA also looking at the regional sales split is growing massively in the US and the geographic market share there? Is that a correct assumption or is there somebody else who is benefitting from their weakness so to speak?

Brian Protiva^ I'd say that in all fairness I think that optical is growing. I think that their exposure to the long haul piece and the early investment dollars in some of the large tier ones and some of the wholesalers in the United States and MSOs where they built out the 100-gig layer in the long haul network first and now they're moving into that metro piece, I think they're not as strong.

Clearly, they made the acquisition of Transmode, but Transmode as I had always indicated was a smaller European player, no footprint in the United States. So, now it was a challenge for them to go in and bring that technology and win against some of the incumbents in the United States. That's not easy, and we'll see if they can successfully do that over the next one, two and three years.

So, I think there's a market shift. That's one piece. The second piece, I guess I think that open systems, we keep pushing it. I've been pushing it to you guys for two years, that people don't want to be captured. They want to have choice. And people want to choose vendors that are going to give them choice, especially some of the cloud opportunity.

And, therefore, I think some of the other vendors in the US did fairly well, including Ciena, in driving market share. So, I think they struggled a little bit there too, fundamental to an architecture, yet, again, a good company, they've got good opportunities, et cetera. But I think it's more company relevant, market segment relevant and maybe some struggles in some of the high-growth areas right now that they're facing.

In general, I'll go back to our megacycle, I think ICPs are investing aggressively. They grew 50%, 60%. So, people that are exposed to that market piece and if you look - and I don't remember what page it was, but I think page number nine, was it, I think in our presentation was the DCI global market share. And so ADVA has a good piece of that and is growing quickly. Therefore, yes, we were exposed to right segments and we're able to grow.

It is though, and as we've always said, very volatile, very quick-making, fast-charging organizations, have huge amount of cash, huge amount of investment capability making rapid decisions on their infrastructure and moving at light speed.

All things that actually are good for ADVA because I think we can move extremely quickly with them, but it is a volatile market space and I think, therefore, you will - you see this quarter great revenues and we're still unsure a little bit about Q4 because of some of those customers. And then the operational back office, backend supply chain stuff and being able to support them. So, long answer, but I think that I don't want to go out there and say we're taking massive market share in United States. We have some very good customers and we're growing quickly there.

Operator^ Tim Savageaux, Northland.

Tim Savageaux^ A couple of questions. So, I want to kind of dig in to the regional and market-focused developments as we move from Q3 to Q4 here. If I heard you right, it sounds like you're expecting - and you tell me whether this is the case or not - kind of a typical seasonal European-type bounce in the business which if you look historically for guys like Alcatel or something like that, that's definitely a solid double digit sequential increase, if not 20%.

And if that's the case, I just want to dig into kind of the dynamics in the US market. I mean it looks to some degree like you've had kind of a pretty heavy volume of project-oriented cloud business here in Q2 and Q3. And that's kind of normalizing back to a level close to where we start the year in Q4 although still well above prior year levels, right, so sort of a dramatic amount of US growth. I wonder if that's a fair characterization of what's happening at least geographically as we move from Q3 to Q4. And I want to kind of follow up on the product and market side.

Brian Protiva^ Yes, I agree. I agree. I think Europe coming off the lower base in Q3 is going to grow in Q4. And, yes, let's say transparency to the numbers and the projects in Q4, it is a little bit more difficult. End of Q3 moving into Q4, I think things are solidifying, but we've got some issues with the supply chain at the same time. So, late order flows won't help us as much in Q4 as they could in other quarters. So, we're kind of trying to manage that environment that you just discussed.

Tim Savageaux^ Got it. And that's very helpful. And maybe following onto that, given some of the - I won't say one-time, but some of the notable cloud strength you've had in '16, I note in your kind of overall market outlook commentary you're talking to an overall market growth rate of 9% or so, which we hear numbers in that range from really across the industry. Ciena talks to kind of mid-single digit growth and then some share gain or something like that. I happen to think that market growth is probably in double digits.

But I wonder if you could talk about, and realizing you don't want to guide for '17, but if you can talk about your ability to achieve kind of market growth plus given that ADVA's obviously been in a share gain position on a consistent basis, especially coming off such a strong year for US cloud.

Brian Protiva^ So, let's see if I covered what you actually want here and that is, bandwidth is growing 30% plus, some people say even quite above that nowadays. And, again, the industry analysts and the financial analysts doing their homework there, all understand the demand drivers that we try to talk about in our presentation today. So, it's really about pricing stability.

So, what's going to go on? 16 QAM, the move to 200-gig waves, next move, terabit, 400-gig, as things come down to pipeline and how pricing evolves, it's all about that because we have tighter supply chain and more pricing stability, who knows where you'll end? And so I think it's a good conservative view to say high single digits from that view. But can you say double digit growth? Absolutely. You can make that case very quickly because the bandwidth growth is there and it's huge and it's getting better. So, I think there's that piece.

And then the second piece I think, market share, I understood that is from a company specific perspective if we can keep our market share. And I think that's the challenge that we have in front of us. If we can keep our market share, we can continue to grow nicely with the right customers.

And I think we have some really cool technology. I believe that we can place it in other accounts. And we hope to keep all of our existing accounts so that we drive market share gains essentially, but there's lots of challenge out there, very fast-moving market and ADVA's got to move.

Tim Savageaux^ Let me follow up on the bottom line. It looks like as a result of mix, you expect a pretty solid increase in gross margins. I don't know if we can talk to back over the, or around the 30% level in Q4 if you care to be that specific. It sort of implies that depending on what you assume from an operating expense perspective which I'd love to hear from commentary on as well, given you obviously demonstrated some very strong operating expense controls in Q3, sort of part of the good bottom line performance.

I wonder if you continue to expect a downward trajectory sequentially in OpEx in Q4 as you gain synergies from Overture or what have you. How do we think about the interplay between gross margin improvement and operating margin - I'm sorry - operating expense declines as you're able to achieve or target a higher operating margin in Q4 despite the revenue decline?

Brian Protiva^ So, I'd like to make one comment and maybe, Uli, I don't know what piece you want of this. But remember we're IFRS, our gross margins are a lot lower than US GAAP equivalents because of the capitalization and depreciation of some R&D expenses. So, I just want to make it sure that people understand that that's quite a bit higher than the US GAAP equivalent.

Tim Savageaux^ Yes.

Brian Protiva^ Uli, do you want to take it from there?

Ulrich Dopfer^ Yes. So, in general, I guess as you can imagine the OpEx pressure is really high, salaries are going up. So, I would not expect that our OpEx decrease even further. This is I guess pretty much unrealistic, especially in an environment when we heavily invest in new technologies and new products. So, I guess this is a tough one.

I guess our profitability gain going forward needs to come from higher gross margins, period, not from a significantly lower cost base. Of course, we always say we have a flexible OpEx model, yes, we do and we can adjust. But we want to grow and we want to invest in future technology and the future technology hopefully leads us to higher gross margins and higher, better bottom line.

Operator^ (Operator Instructions) We have no further questions for the moment. Ladies and gentlemen, thank you for your attendance. This call has been concluded.

Brian Protiva^ Thank you to everybody and we look forward to talking to you soon, at latest at the next financial analyst call. Bye-bye.