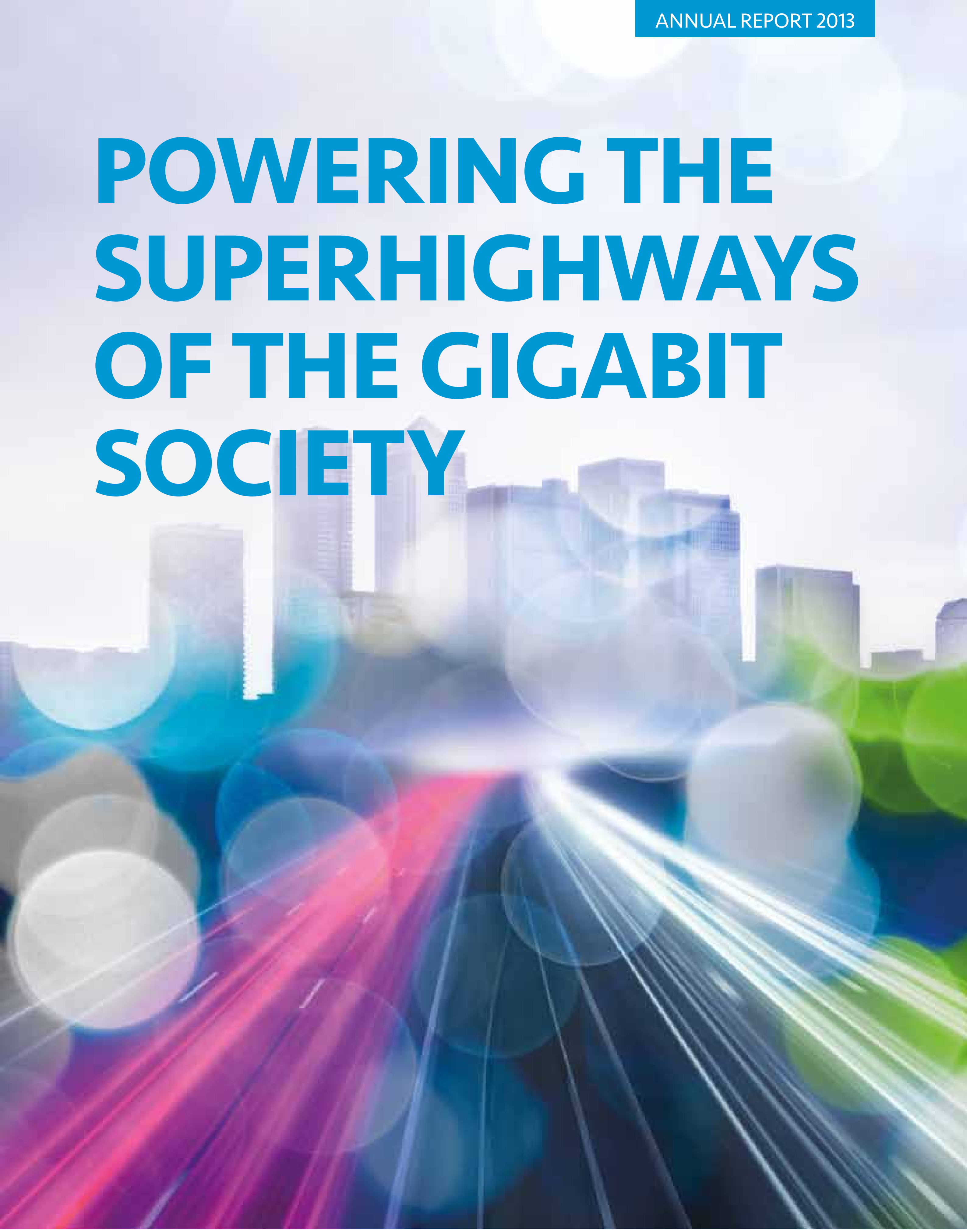
ANNUAL REPORT 2013

POWERING THE SUPERHIGHWAYS OF THE GIGABIT SOCIETY



Making light make sense

transmode

A Growing Market

Transmode is a global provider of solutions that boost the capacity of optical networks. Transmode focuses on the Metro WDM market segment, which comprises metropolitan and regional networks based on technology for Wavelength Division Multiplexing. This segment is worth an estimated USD 5 billion, with estimated yearly growth of 12% between 2013 and 2018.

Innovative Products

Transmode solutions increase network transmission rates up to 80 times over. This enables operators of fixed and mobile networks to cost-efficiently manage the increasing capacity demands created by the explosive growth of video and data traffic.

Efficient Operations

Transmode has its headquarters in Stockholm, with a total of 284 employees at year-end 2013 and is listed on NASDAQ OMX Stockholm.
The company has over 550 customers in more than 50 countries worldwide. Its customer base includes enterprises and network operators that own, or have access to, fiber networks. Sales are through Transmode's own sales force, resellers and partners.

[1] Source: Infonetics Research Optical Hardware Market Share 4Q2013

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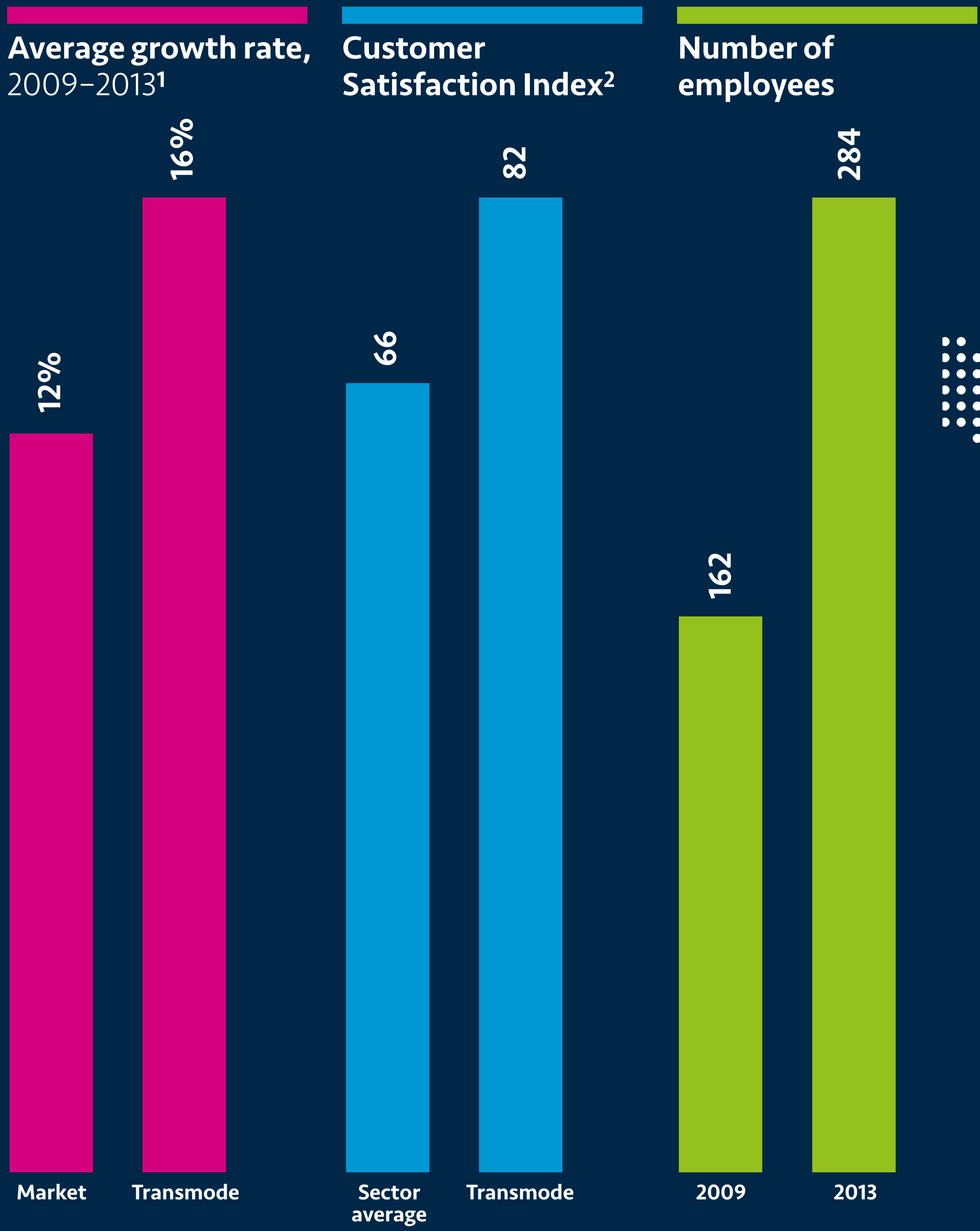
This is a translation of the Swedish original. In case of any inconsistency between the Swedish and English version, the Swedish version shall prevail.



Contracts Announced in 2013

- New optical backbone network in Hong Kong for speeds up to 100 Gbit/s for Hutchison Global Communications.
- Optical networking equipment for a substantial increase in network transmission capacity for MegaFon, one of Russia's largest telecom operators.
- A flexible high-capacity optical network for Telemach, Slovenia's leading provider of cable TV, telephony and broadband.
- A packet-optical network for Setia Haruman Technology Sdn Bhd, a leading vendor of metro fiber and broadband services for Cyberjaya in Malaysia's Multimedia Super Corridor.
- Upgrade and enhanced flexibility of an optical network for SpringNet, a US provider of high-speed services in metro networks.

[1] Source: Infonetics Research Optical Network Hardware
[2] Source: CFI Group

Geographical Expansion, Sales by Region, 2011–2013, SEK m

MSEK	2011	2012	2013
EMEA	771.8	807.6	858.4

MSEK	2011	2012	2013
Americas	124.4	185.6	123.7

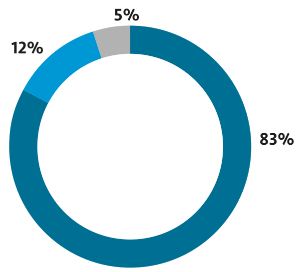
MSEK	2011	2012	2013
APAC	20.7	17.7	47.0

New Products/Services in 2013

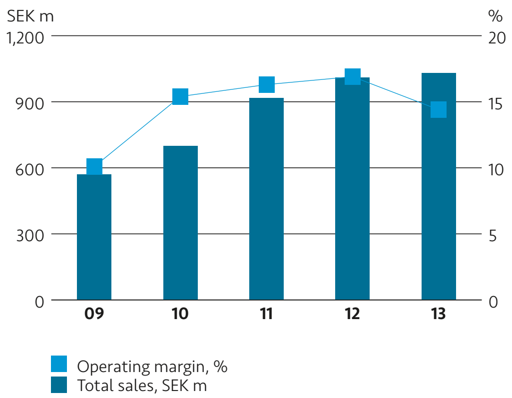
- New Ethernet muxponders that make Ethernet traffic management more effective.
- A Mobile Fronthaul solution for mobile operators that employ C-RAN architecture in their networks.
- iAccess enables network operators to build scalable and cost-efficient Ethernet access for a range of applications.
- Enlighten™ Portal, a tool delivering complete QoS (quality of service) information in packet-optical networks in real time.
- A strategy for step-wise implementation of Software Defined Networking (SDN) in packet-optical transport networks.
- Pre-staging that helps telecom operators to build out their networks faster and more efficiently.
- Transmode was one of the first vendors to be certified by the Metro Ethernet Forum (MEF) for the new Carrier Ethernet 2.0 (CE 2.0) standard.

- Sales were SEK 1,029.1 (1,010.9) m, an increase of 1.8%, or 4.7% adjusted for exchange rate fluctuations.
- Operating profit was SEK 148.5 (170.7) m, which corresponds to an operating margin of 14.4% (16.9%).
- Net profit was SEK 123.3 (139.2) m.
- Earnings per share after dilution were SEK 4.44 (5.01).
- Cash flow from operating activities was SEK 174.7 (176.7) m.
- New CFO, Vice Presidents for R&D and HR hired in the year.
- New regional sales organization established.
- The Board of Directors has decided to propose an ordinary dividend of SEK 1.80 (1.80) per share to the AGM, and against the background of the company's strong cash position, an extra dividend of SEK 4.70 (–) per share, a total dividend of SEK 6.50 (1.80) per share.

Sales by Region, % of Total Sales



Total Sales and Operating Margin



Key Ratios

	2013	2012	2011	2010	2009
Total sales, SEK m	1,029.1	1,010.9	916.9	699.3	570.1
Operating profit/loss, SEK m	148.5	170.7	149.1	107.6	57.4
Operating margin, %	14.4	16.9	16.3	15.4	10.1
Net profit, SEK m	123.3	139.2	116.3	81.4	44.3
Cash flow from operating activities, SEK m	174.7	176.7	139.4	133.6	154.9
Number of employees at year-end	284	269	228	197	162

TRANSMODE IS WELL-POSITIONED FOR CONTINUED PROFITABLE GROWTH

"2013 marked a breakthrough in APAC, while we also increased our market share in EMEA."

Transmode continued to grow with good profitability in 2013. Our sales were up by 5% to SEK 1,029 m, and we posted operating profit of SEK 148.5 m. Simultaneously, our sharp focus on cost-efficiency meant we retained a stable, and sector-leading, gross margin of around 50%.

The rapid traffic expansion on telecom and data networks continues, with the ensuing investment need for capacity expansion for any party that owns, or has access to, fiber. The key drivers remain the robust increase in transmission of video, greater demands for mobility and the expanding usage of cloud computing services.

The global market for Metro WDM equipment grew by 6%, but progress varied widely between regions, where the America's and APAC grew while EMEA decreased.

For Transmode, the Americas did not perform at the rate we expected, due to factors including poorer volume growth on existing North American accounts, and regulatory uncertainty inhibited the willingness to invest in Mexico. However, 2013 was a breakthrough year for APAC, where we grew significantly faster than the market also in our primary market EMEA, we grew and strengthened our market share.

The underlying demand on our market remains very firm. In my contacts with our customers, I'm hearing about data volumes expanding by a 40–50% yearly, and I'm seeing no slowdown in operator needs to expand the capacity of fiber networks. Our primary focus in 2014 and beyond is to take share in this capacity increase. That's why we continued to upscale our investments in R&D, and sales, in the year. These investments will consolidate our long-term growth prospects.

Our Financial Targets

Our operating margin was 14.4%, which means that once again in 2013, profitability was above our 12% target over a business cycle. Transmode's growth in the year settled at 5%, so we didn't quite achieve our target of outperforming global market growth of 6% in 2013. The main reason was the decline in Americas. Again this year, we are proposing a dividend of SEK 1.80 per share, which lies within our policy. Against the

* Source: Infonetics Research Optical Hardware Market Share 4Q2013

5
Increase of sales in %, 2013

14.4
Operating margin in %, 2013

6.50
Proposed total dividend per share, SEK

background of the company's secure financial position, we're also proposing an extra dividend of SEK 4.70 per share. Even after the proposed dividend, we will still have a very strong financial and cash position to support our continued growth.

A New Regional Organization
To raise the tempo of our continued geographical expansion, we implemented a new sales organization in the year consisting of four regions: the Americas, Europe, Nordics including CIS/MEA, plus APAC. This gives us a sharper focus on each region, while we also consolidate our technology and product competences close to customers.

Satisfied Customers Bring New Customers
New business customers on new markets are an important component of our growth ambitions. In 2013 we announced contracts with companies including MegaFon in Russia and Hutchison Global Communications in Hong Kong. Both are key bridgeheads for our continued expansion. We are also conducting advanced business development to access the major operators via niche applications, and are currently running lab tests with a number of Europe's heavyweight telecom operators.

It's valuable to highlight how satisfied our current customers are when we make contact with potential new business customers. We attained world-class results in our 2013 customer satisfaction survey, which demonstrated just how satisfied our customers are with our products, employees, delivery precision, level of innovation and quality.

Continued Investments in R&D
We continued to invest in research and development in parallel with our investments in geographical expansion. These are enabling us to create a more comprehensive product portfolio for metro networks and expand the addressable market with our Ethernet products. New products are helping us grow on existing accounts, and win new ones.

Innovative Solutions
We continued to advance our positions by launching innovative products and services such as Mobile Fronthaul solutions for mobile operators that utilize the C-RAN architecture, and iAccess that enables network operators to build scalable and cost-efficient Ethernet accesses. We also launched a strategy for the gradual implementation of software defined networking (SDN) in packet-optical transport networks.

Effective Production
Our sharp focus on cost-efficiency in production enabled us to retain a high and stable gross margin. All our production is through contract manufacturers, mainly in Sweden, but also in China and Poland. Effective production also creates short lead-times between order and delivery.

Active Sustainability Work
Transmode is conducting systematic and active sustainability work, where especially, I'd like to emphasize our Code of Conduct and Low Power Design. The implementation of our Code of Conduct in our own business, and for our suppliers and resellers, continued in the year. The environment is becoming a more central issue to the sector, and we are well positioned here too, not least through the high priority of low power consumption in our product development process.

Continued Growth
I'm convinced that growth on our market will remain high. We're heading towards the Gigabit Society, where individual households will have links of up to 1 Gbit/s. Achieving this will require very substantial capacity expansion across networks, and we'll be a major player in this build-out process. We'll keep on focusing on metro WDM, i.e. the highest-growth segment. By ensuring that we have the most satisfied customers, the best employees and the most satisfied shareholders, we'll be the star of the global telecom market, or as we express our vision, we'll be the Global Optical Star.

Karl Thedéen, CEO

STRATEGY FOR PROFITABLE GROWTH

Mission Statement

Delivering packet-optical networking solutions that increase network capacity in a cost effective manner, to make our customers successful, today and tomorrow.

Values

Transmode has a strong corporate culture building on the values of Competence, Innovation, Openness, Dedication and Business Focus.

Overall Targets

- To grow faster than the market.
- To grow profitably.
- To have very satisfied customers.
- To be an attractive employer.
- To contribute to a sustainable society.

Financial Targets

- For the company's yearly sales growth to be higher than the yearly growth of the global market for Metro WDM equipment.
- To have an operating margin of 12% (excluding extraordinary items) or more over a business cycle.
- To propose an annual dividend, which over time, is between 25 and 50% of Transmode's profit for the year for the preceding fiscal year.

Vision

Transmode's vision is to become the Global Optical Star through innovation and efficiency, with the most satisfied customers, the best employees and the most satisfied shareholders on the global telecom market.

Strategies

Our strategies for achieving these targets are:

Focusing on Our Core Segment—Alternative Operators and Metro WDM

Growth is high in this segment on all continents, and there are a large number of alternative operators and cable TV operators that need flexible, scalable and cost-efficient network solutions.

Geographical Growth—Expansion outside Our Home Market of Europe

Transmode already has significant sales in Europe. For continued growth, it is important that we strengthen our presence further, primarily in the Americas and APAC. Transmode is achieving this by increasing the number of sales resources, as well as deepening and extending its collaborations with resellers and partners.

Leading the Integration of Ethernet Functionality in Optical Metro Networks

Most of the traffic increase in networks, fixed and mobile, takes the form of Ethernet-based data traffic. So for most Transmode customers, managing this traffic simply and cost-efficiently is a top priority. A high share of Transmode's product development focuses on this segment.

Exploiting Product Flexibility to Grow into New Customer Segments

Transmode's products can be compared to building blocks that can be combined to solve specific problems for many different types of customer. For example, this flexibility can be used to exploit new opportunities outside our core segment. We can, for example, address large operators through niche solutions that help them manage the fast-growing capacity need in access networks cost-efficiently. Business customers in the financial sector are another example, who benefit from solutions with low latency.

Cost Focus—Low Fixed Costs, High Margins and Efficient Utilization of Capital

Transmode has successfully kept its own and customers' costs in check by focusing on cost-efficiency in all parts of its business. A simple organizational structure and centralized operations create high efficiency and reduce administrative costs. Cost control has always been part of the company's DNA and is a key factor when retaining healthy gross margins.

Focusing on Organic Growth

Transmode focuses on organic growth, but continuously screens potential value-creating acquisitions in segments that complement its existing product portfolio, bring access to new geographical markets and/or enhance opportunities in selected customer segments.

Driver #1

ON-DEMAND VIDEO

Video now represents over 50% of all data traffic across the world's metro and long haul networks, and is in absolute terms, the single largest underlying driver of the increased need for capacity. The primary explanation is that where previously, households only watched video on the family TV, individual family members often now have individual videos streams, to computers, tablets, mobile phones or traditional TVs. This video stream is usually delivered over the Internet, and increasingly in HD, which requires very high bandwidth.

Transmode enjoys very secure positioning with cable TV operators, whose primary business is delivering video via cable and the Internet, and this increasing video traffic means they have a pressing need to build out their capacity.

Source: Cisco Visual Networking Index (VNI) 2013

RAPID EXPANSION OF TRAFFIC IN NETWORKS

Growing Data Traffic

Growth on Transmode's market is driven by rapid traffic expansion in mobile and fixed telephone and data networks worldwide. The strongest single explanation for this traffic expansion is the robust growth in the transmission of video, which is highly bandwidth intensive. Users also increasingly want to access information anywhere, which means more traffic being delivered mobile. Another critical driver is the usage of local data centers, which are expanding traffic volumes in metro networks. Moreover, more numerous and more advanced terminals like tablets, smart phones, gaming consoles and laptops are also connecting. One of the effects will be estimated growth in global IP traffic averaging 23% yearly from 2012 to 2017, and traffic growth in metro networks growing by an expected 40%-plus yearly.*

This increased traffic means that our customers need to expand the capacity of their networks—while also needing to keep cost down. Additionally, fiber build-out is increasing generally, and optical fiber is proliferating further out in networks, reaching right out to enterprises, mobile base stations or access points in residential areas.

Transmode is helping its customers manage these challenges by delivering huge increases in transmission capacity and flexibility on existing and new optical fiber networks.

Focusing on Metro Networks

Transmode addresses equipment for packet-optical networks that interlink cities and regions—metro networks. Metro networks can be divided between regional networks, aggregation networks and access networks. The segment is in high growth and potential customers include a large array of network operators, whose demands for flexible and scalable products fit Transmode very well.

* Source: Cisco Visual Networking Index 2013

Customers

Transmode has a broad customer base, mainly consisting of cable TV operators and alternative operators, as well as mobile operators, traditional/large telecom operators and enterprises. The company has installed over 45,000 systems with over 550 network operators. In the year, its five largest accounts generated 53.3% of invoicing.

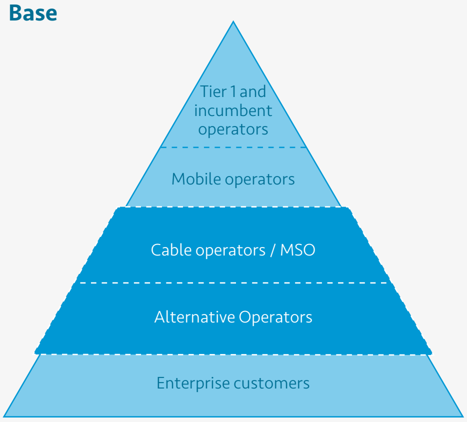
A number of major contracts were announced in the year, with counterparties including Hutchison Global Communications in Hong Kong and MegaFon in Russia.

Consistent high customer satisfaction is a critical success factor for Transmode, as evidenced in contexts including a high regular equipment purchase frequency from Transmode. More corroboration of customer satisfaction lies in Transmode's customer satisfaction survey in 2013 showing the company improve its CSI to 82 on a 0-100 scale, a result rated world class by researcher CFI group.

Competitors

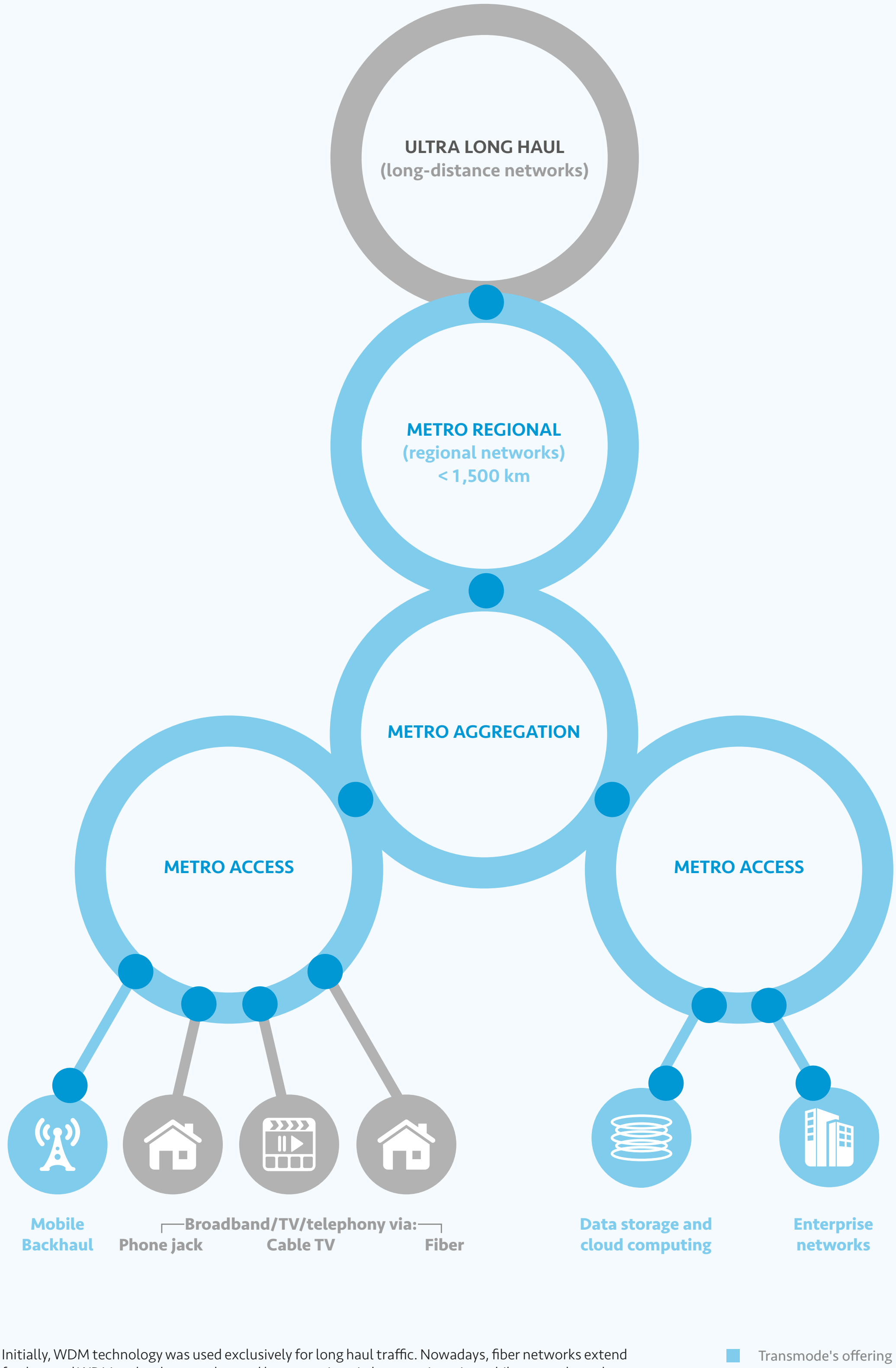
The size of Transmode's competitors varies between smaller niche market players to major multinationals with diversified portfolios. The competitors Transmode encounters most often are ADVA, Alcatel-Lucent, Ciena, Cisco and Huawei.

Transmode Customer Base



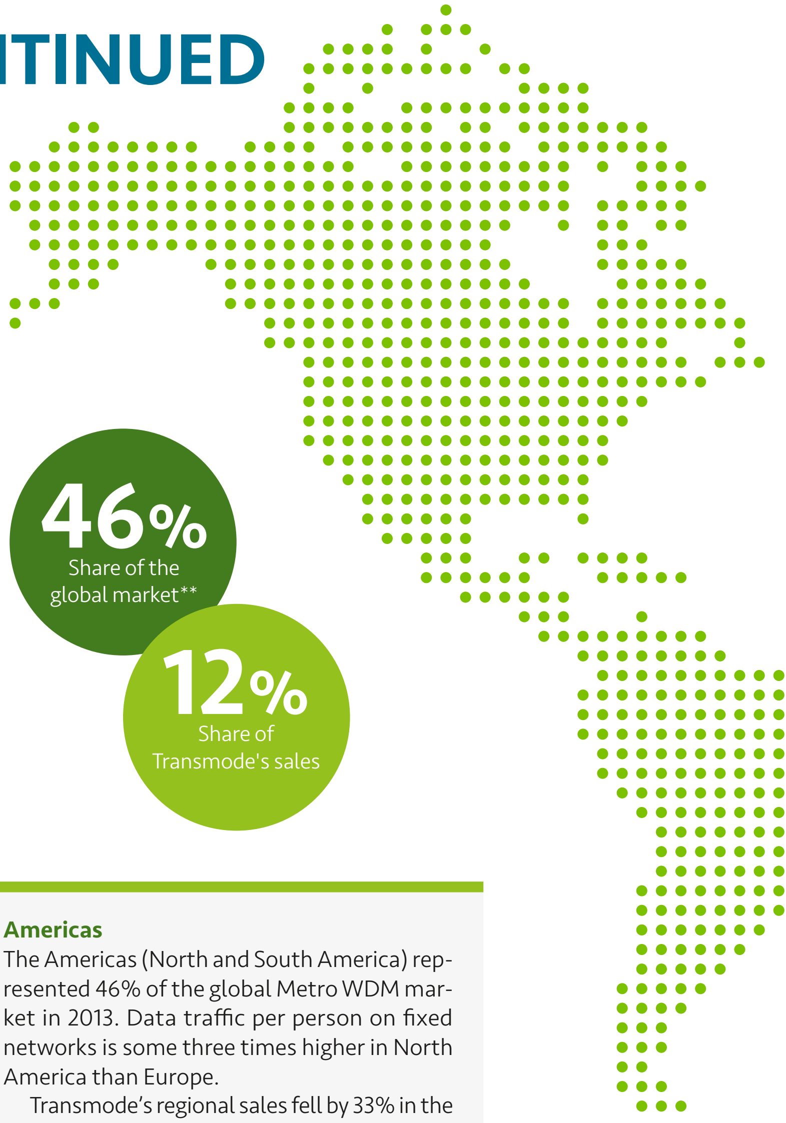
Transmode focuses on the Cable Operators and Alternative Operators but has customers in all segments above.

Transmode's offering in optical networks



Initially, WDM technology was used exclusively for long haul traffic. Nowadays, fiber networks extend further, and WDM technology can be used by enterprises, in base stations, in mobile networks and access points in residential areas. This brings completely new possibilities for operators to offer their customers more sophisticated services.

NEW ORGANIZATION TO SUPPORT CONTINUED EXPANSION



Market Expansion

Transmode does business worldwide, and continuously endeavors to expand into new geographical markets and business segments. To support its continued geographical expansion, at the midpoint of 2013, a new sales organization divided into four regions: the Americas, Europe, Nordics including CIS/MEA*and APAC. The aim is to accelerate geographical expansion and strengthen customer relationships by locating more competence and resources closer to customers.

Regional Managers are responsible for sales, account handling and regional partners, as well as building up the regional presence. Transmode's regional presence was strengthened in the year through investments in sales support, technical support, delivery and order processing.

Going forward, Transmode will continue to report sales broken down between EMEA, the Americas and APAC.

Transmode sells products and services using its own salespeople, as well as resellers and partners. NEC of Japan is its largest partner, which offers Transmode products globally. The company has a total of over 50 resellers including Cygate, Telindus, Axians, Opnet and SAK Data. Developing collaborations with resellers and partners continued in the year, through means including simplified processes and extended support. The split between direct and reseller sales varies between regions, but for the company overall, the direct sales share was 81% in 2013.

* Commonwealth of Independent States (Russia and former Soviet Republics/Middle East-Africa)

** Infonetics Research Optical Hardware Market Share Q4 2013.

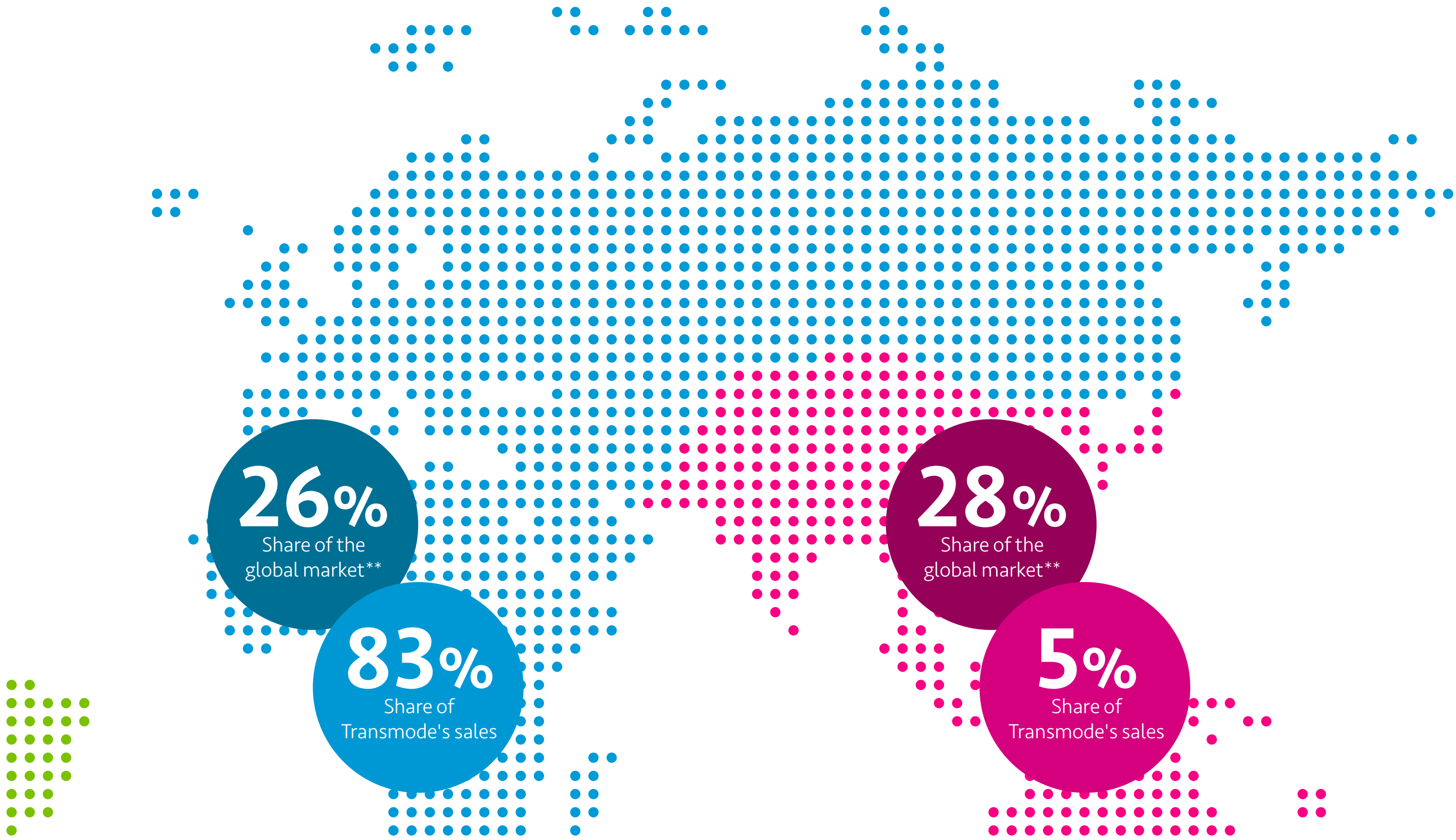
Americas

The Americas (North and South America) represented 46% of the global Metro WDM market in 2013. Data traffic per person on fixed networks is some three times higher in North America than Europe.

Transmode's regional sales fell by 33% in the year, due to factors including weaker volume growth on existing North American accounts, and regulatory uncertainty on the Mexican telecom market limiting the willingness to invest of one of Transmode's major customers. In 2013, the Americas represented 12% of Transmode's sales.

The support and service centre started up in Dallas, USA, in 2012 was expanded in 2013, and at year-end, the company had over 20 employees in the region. This expansion is helping solidify relationships with partners and customers, which in North America, are mainly alternative service providers.

To secure growth in the Americas, Transmode's focus remains on the combination of alternative operators and business development in new customer segments, as well as further enhancement of Transmode's regional presence.



EMEA

EMEA (Europe, the Middle East and Africa) is Transmode's home market, and represents 26% of the total global Metro WDM market. Transmode's sales in this region increased by 6% in the year and the company advanced its market shares, to now be the fourth-largest provider in the region. Thus, EMEA represents 83% of Transmode's sales.

Transmode is in a strong position in Europe with over 400 accounts and high market shares, primarily in the Nordics. Two of Transmode's large customers merged in the year through Liberty Global's acquisition of Virgin Media. This exerted some impact on order intake and sales in the latter part of the year, but Transmode's position within the new Liberty Global remains secure.

In its collaboration with NEC, Transmode delivered equipment to MegaFon, one of Russia's largest telecom operators, in the year. Business development in the Middle East and Africa is conducted on a project basis, currently in a few countries like South Africa, Nigeria and Kenya. Largely, sales are in collaboration with partners.

To secure continued growth in EMEA, Transmode's focus is on increasing sales to current customer base, a greater presence with the large telecom operators, as well as further expansion and enhanced collaborations with partners. For example, Transmode opened an office for British Telecom in Adastral Park, UK. Its partner network was also extended region wide, with specifically, Transmode signing three new reseller agreements in the UK.

APAC

APAC (Asia and the Pacific region) represents 28% of the global market. Transmode's sales in the region increased by 166% in the year, largely explained by an agreement with Hutchison Global Communications to deliver a ROADM-based flexible optical backbone network in Hong Kong with speeds of up to 100 Gbit/s.

In 2013, APAC represented 5% of Transmode's sales. Primarily, Transmode's operations in this region target Malaysia, Indonesia, Singapore, Thailand, Japan, Taiwan and Hong Kong. More than other regions, this market is dominated by major accounts, which means expansion there takes somewhat longer, but this market is getting more important to Transmode.

To maintain its high growth, Transmode's focus is increasing sales to current customer base sales, investing in a stronger local presence and accessing new customers through the partner contacts it has developed. Transmode judges that its agreement with Hutchison Global Communications will have a major impact as a reference project in this region.

Driver #2

MOBILITY

Nowadays, every user wants to be mobile and access information at any time, anywhere. This means growing traffic volumes delivered on mobile devices, via a combination of fixed connections and wireless routers or via mobile networks. Overall, more than 40% of the world's data traffic is currently sourced from mobile devices, but only 2% of all data traffic is delivered over mobile networks. However, brisk growth of this share is expected because data traffic across mobile networks is outgrowing other networks.

The primary business opportunity for Transmode lies in all mobile operators needing to expand capacity to and from base stations in mobile networks, i.e. invest in mobile backhaul/fronthaul to manage these growing data volumes.

Source: Cisco Visual Networking Index 2013

COST-EFFICIENCY RIGHT ACROSS OUR BUSINESS

Product Development

Transmode's product development focuses on five areas: increased capacity and reach, increased flexibility, integrated Ethernet functionality, WDM access, and operation and maintenance systems.

In metro networks, the most common transmission speeds of optical fiber are still 1–10 Gbit/s (Gigabit per second) per wavelength but customer needs for capacity are increasing constantly. In early 2013 Transmode delivered the first products that enable 100 Gbit/s per wavelength.

Flexibility is crucial for the remote control of wavelengths and data streams and enhancing network functionality as needs change. Transmode's products offer these possibilities.

The development of Ethernet products is intended to further improve the control of data traffic, and to integrate it into optical networks simply and cost-efficiently. The demand for this type of product is in high growth, and the segment is a top priority for Transmode.

In the access area, Transmode is developing products for the needs that arise as fiber extends further out in the networks. The combination of intelligent access products and cost-efficient optical filters enable higher capacity at a lower price.

Transmode's operation and maintenance system Enlighten™ enables customers to manage and develop their networks efficiently. The system is in continuous development to enable customers to benefit from new products and functionality.

The core of the company's R&D work continued to shift towards software. Some two-thirds of the company's developers now work on software. Accordingly, Transmode has the skills breadth to span all technology segments that are central to its business; software, hardware, optics and Ethernet.

Being one of the first company to be certified by the Metro Ethernet Forum for the new Carrier Ethernet 2.0 standard, which enables advanced Ethernet services, corroborates the company's high level of software development competence.

Research and development expenses amounted to SEK 155.6 m, or 15.1% of the company´s sales, an increase of 19.2%.

Effective Development

Transmode ensures effective product development by harboring substantial development competence, and by its R&D department's work being closely linked to production, customers and subcontractors.

Understanding customer needs is fundamental to effective product development. Customers' new requirements are rapidly reflected in the orientation of development work and products are designed for efficient production right from the start. Transmode continuously endeavors for its development work to satisfy customer needs even more. Agile development methods were further developed by the whole R&D department in the year, enabling new solutions and functionality to be quality assured at far shorter intervals than previously, so enhancements can also be delivered to customers far faster and more frequently.

By maintaining a close dialog with subcontractors, Transmode can benefit from their R&D capacity, influence their direction and thus launch innovative solutions quickly.

Operations being largely concentrated on a single building—the headquarters in Stockholm—is an important contributor to the high efficiency of development work, and the company overall. This building houses the R&D, Delivery & Logistics, Marketing, Sales Support, Technical Support, Finance, Administration and Management departments.

Having all these functions accessible within a few minutes' walk facilitates close collaboration

Development areas in focus

- INCREASED CAPACITY AND REACH
- INCREASED FLEXIBILITY
- INTEGRATED ETHERNET FUNCTIONALITY
- WDM ACCESS
- OPERATION AND MAINTENANCE SYSTEMS

between all of them. It also enables quick feedback, enables a quick decision making process and a clear understanding of the significance of each function to the big picture. The effect is developing the right products with the functionality that customers want in a short time.

Manufacturing

All Transmode's hardware products are manufactured by global subcontractors at plants in Sweden, Poland and China. Manufacturing in several countries creates flexibility, risk diversification and lower cost. Collaboration with these contract manufacturers brings the possibility of growth without the need for investment in substantial manufacturing resources.

Retaining a high share of production in Sweden also facilitates the development and launch of new products, which is conducted in collaboration with contract manufacturers. Transmode's cooperation with its suppliers was rationalized further in the year, realizing cost savings and retaining short lead-times.

Delivery precision and delivery reliability to customers remained at a stable and high level in the year.

Service/Aftermarket

Services are becoming a more important component of Transmode's offering, and at present, the largest largest source of revenues for services are are technical support and spare parts supply. The support and service centre in Dallas, USA started up in 2012 was extended further in 2013. A smaller-scale support centre was created in Hong Kong in late 2013 to support Transmode's growing business in this region.

Awards

Transmode gained recognition in a number of contexts in the year. The company was a finalist in Light Reading's Leading Light Awards 2013 as Public Company of the Year, and received the Global Telecom Business Award for Innovation in Fixed Network Infrastructure for the build-out of an optical network for Surf Telecoms. Transmode was also the winner of the Core Network Project of the Year in Telecom Asia Readers' Choice & Innovation Awards 2013 jointly with its customer Hutchison global Communications (HGC).

Technology

Transmode delivers packet-optical networking solutions based on WDM (wavelength division multiplexing) and transport technologies such as Ethernet for transporting data, voice and video traffic. Its fundamental technological benefits are:

- WDM radically increases the transmission capacity of fiber, up to 80 times over in metro networks.
- By utilizing multiple wavelengths, different traffic types can be transmitted simultaneously in the same fiber.
- Ethernet is a protocol optimized to manage increasing data traffic.
- WDM and Ethernet technology are used worldwide by enterprises and operators.

SOLUTIONS FOR MORE EFFICIENT NETWORKS

Solutions

Transmode's cost-efficient solutions create value for operators in different ways by enabling them to increase capacity, cut operating expenses, offer new services and access new customers. Transmode's broad portfolio of products and services creates high customer value in several parts of its customers' organizations, such as their technology and sales functions.

Products

Transmode's products address metro and regional networks, where customer needs for data capacity are growing, as well as being subject to stringent cost-efficiency requirements. This need is satisfied by transponders and muxponders that can transmit up to 100 Gbit/s per wavelength. The first products with this high transmission capacity were delivered in 2013.

Other products enhance network flexibility such as ROADMS (reconfigurable optical add/drop multiplexers), which can be used to remote control wavelengths. Over half of the company's sales are to customers with ROADM-enabled flexible optical networks.

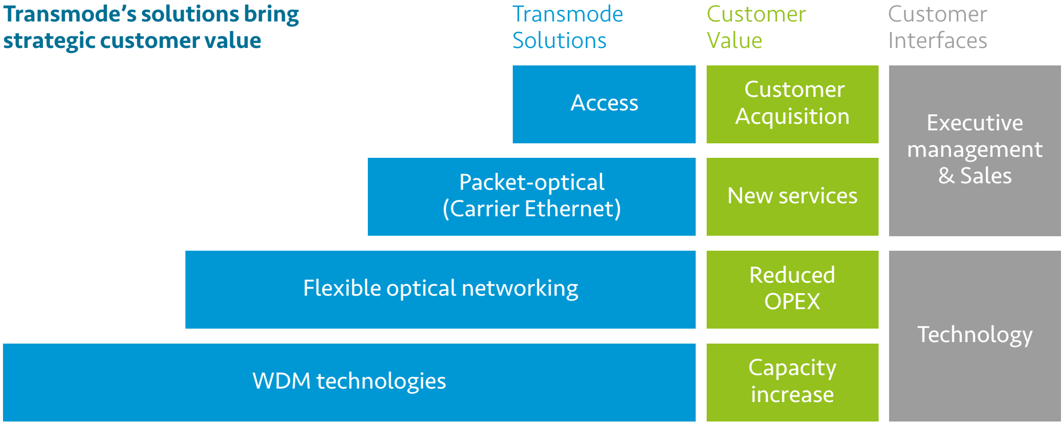
Some products help operators migrate WDM technology further out in networks, to base stations or enterprises. These may be filters that enable light to be merged and divided into wavelengths, or intelligent access products. In 2013, Transmode launched iAccess, which enables network operators to build scalable and cost-efficient Ethernet access for a raft of these applications.

Transmode also offers units that can manage and translate Ethernet traffic such as intelligent muxponders that include functionality for switching this traffic. Transmode's Native Packet Optical 2.0 products were enhanced in the year and help network operators enhance the services offered in their networks, making networks even more flexible and scalable. Transmode's solutions in this segment are highly successful—over 50% of the company's largest customers already use this technology.

To enable customers to manage and develop their networks effectively, Transmode is offering the Enlighten™ a multi-layer management suite. This system was further enhanced in 2013 through the launch of the Enlighten Portal, a tool offering comprehensive information on the Quality-of-Service (QoS) of packet-optical networks in real time. Enlighten also embeds the Transmode Planning Tool, offering support for planning optical WDM networks.

Cost-efficiency and scalability are consistent qualities of Transmode products, enabling customers

Transmode's solutions bring strategic customer value



to progressively expand capacity and functionality as needs change. This also means that their initial investment is limited. Moreover, scalability implies that with the same product portfolio, Transmode can satisfy demand in access as well as in regional networks.

Transmode products are modular, providing great flexibility and the capability to adapt functionality to specific customer needs. Another consideration here is that products are no more complex than necessary. Simplicity helps cut costs and improve operational reliability, as well as reducing power consumption, and thus, reduce environmental burden.

Services

Transmode' services sales share continued to increase in 2013, comprising some 6.3% of total sales. The two sources of services revenues are technical customer support and spare parts supply.

Transmode's Technical Assistance Center deliver software updates and global servicing and support 24/7/365. In spare parts supply, Transmode offers 24-hour delivery from a central warehouse. Additionally, Transmode has created local spare parts depots, which can cut delivery lead-times for spare parts to a few hours regardless of the customer's location worldwide.

Transmode also provides pre-staging, which means that equipment is assembled and configured prior to delivery, enabling faster and simpler installation with the customer. Pre-staging can cut installation lead-times on site by up to 50% compared to traditional delivery.

Transmode also offers general and customer-specific training packages in network design, implementation, as well as operation and maintenance.

Transmode's Product Portfolio

Transmode's product portfolio consists of the TM-Series, TS-Series and TG-Series, as well as Enlighten™:

- **The TM-Series** is our most sophisticated platform and offers the greatest flexibility, capacity, reach and functionality. TM-Series products are deployed in all Transmode customer groups.
- **The TS-Series** is a simpler platform that is user friendly. Its primary application is for enterprise services.
- **The TG-Series** is a passive optical platform for access networks, which facilitates the implementation of WDM technology. These products can be used in harsh environments without temperature control or access to electrical power. This product is in widespread usage, mainly by large telecom operators.
- **Enlighten**™ is a multi-layer management suite, for planning, implementing and monitoring an optical network consisting of Transmode products.

Driver #3

THE CLOUD

Increasingly nowadays, applications and data are stored in data centers and the cloud, instead of users' own computers. The trend for many service providers is instead of storing all information at a few sites, to locate it in multiple data centers closer to users. This reduces loading in long haul networks, and is an important explanation for capacity needs in metro networks outgrowing other networks because increasingly, traffic to and from data centers is now in metro networks. Traffic in metro networks is expected to grow almost twice as fast as long haul networks, by over 40% yearly until 2017.

Transmode's customer base includes companies that operate networks of data centers, known as content delivery networks, and telecom operators that offer their customers data center interconnect services.

Source: Bell Labs Metro Traffic Network Growth Study 2013

WORKING ACTIVELY FOR SUSTAINABLE DEVELOPMENT

Transmode supports the UN Global Compact and works actively for sustainable development by systematically reducing the company's environmental impact. Accordingly, Transmode applies the Compact's principles on human rights, labor law, countering discrimination, working conditions, the environment and the fight against corruption.

Implementation of the company's Code of Conduct continued in the year. The Code builds on the ten principles of the Global Compact and includes a whistleblower function. All employees conducted a web-based training, which builds on a number of ethical dilemmas. Systematic working methods for managing ethical issues and risk assessments were also introduced.

Transmode's Supplier Compact Principles set standards for suppliers and contract manufacturers for compliance with local laws, human rights, labor law issues, discrimination, working conditions, health and safety, and the environment. The principles also cover issues such as corruption, gifts, money laundering and limitation of competition. In 2013, the number of affiliated suppliers increased, and several audits were conducted with main suppliers to ensure compliance with principles and to identify opportunities for improvement.

A Code of Conduct was also adopted for resellers in the year, work on affiliating collaboration partners to it also commenced.

Transmode measures the company's yearly emissions of greenhouse gases in accordance with the Greenhouse Gas Protocol, the most widely adopted convention internationally for identifying, quantifying and managing greenhouse gas emissions. This measure is the foundation of identifying actions to cut emissions. Ongoing work to reduce the environmental impact of business travel and transportation continued, through channels including increased usage of videoconferencing equipment and greater coordination of transportation.

A climate burden also arises when customers use Transmode products. Accordingly, low power consumption is a top priority in product development. Transmode's Low Power Design brings lower cost and less environmental burden, and the company has clear design rules to ensure its products are as environmental and energy-efficient as possible.

More detailed information on Transmode's sustainability work is in its Sustainability Report, available at www.transmode.com

"With rising energy prices and a sharper focus on the environment, many of our customers tell us they're under pressure to cut their operating expenses. That's why we integrate a low-power philosophy into every product and solution we design."

Ingrid Nordmark, VP R&D, Transmode

Low Power Design

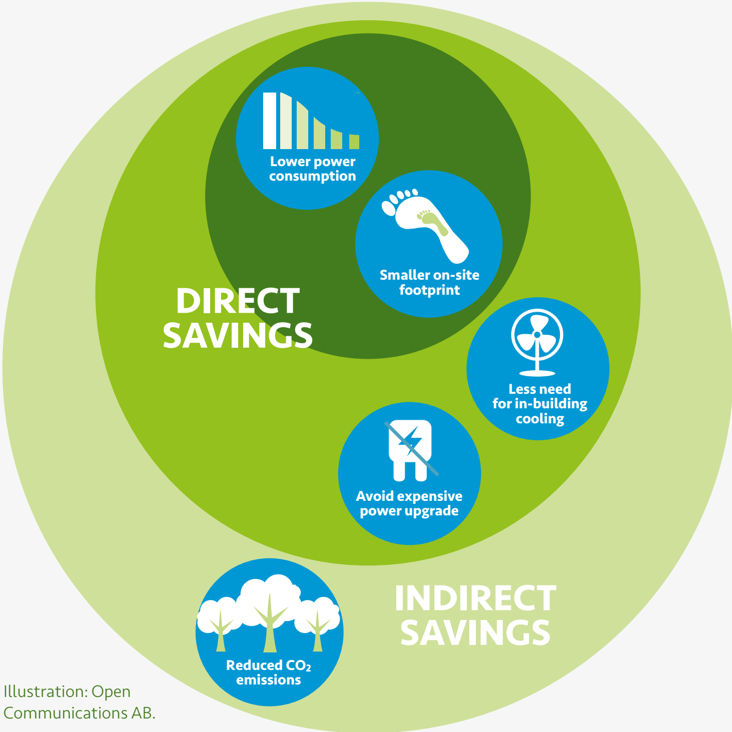


Illustration: Open Communications AB.

75%

Power savings compared to many competing packet-optical solutions

Higher electricity costs. Limited space. Availability issues. Just a few challenges you face in developing tomorrow's advanced transport networks.

In all types of networks – from power-hungry data centers to locations at the edge of the network – the pressure is on to reduce CO_2 emissions.

Transmodes Low Power Design offers a way to meet all of these needs while reducing the environmental impact. By providing products and solutions with industry leading low power consumption up to 75% compared with other leading packet-optical solutions.

Less need for cooling

Transmodes Low Power design means the need for cooling is reduces. Every kilowatt saved in equipment power saves up to 0.5 kilowatt of air conditioning as the system generates less heat.

Avoid expensive power upgrades

Lower power consumption makes it easier to deploy systems in areas where power is limited. Competing systems have significantly higher power requirements which requires expensive power upgrades as a consequence.

Our transparency gives you power

To make it easier for customers and prospects to understand and compare what they are getting, we share detailed power consumption data in accordance with the industry-standard recommendations of the Alliance for Telecommunications Industry Solutions.

LOW POWER DESIGN

Low Power Design is Transmode's way to minimize power consumption throughout its whole product portfolio, while simultaneously optimizing environmental performance.

COMPETENCE AND COMMITMENT

Transmode puts a big emphasis on being an attractive employer that offers stimulating duties, a good working environment and competitive employment terms. This enables the company to hire and retain competent staff, which in turn, is decisive to the company's ability to deliver the highest-quality solutions.

Transmode had 284 (269) employees at year-end, up by nearly 6% year on year. Its main appointments were in the product development and sales departments.

All new employees complete questionnaires 1, 3, 6 and 12 months after starting work with the company, the aim being to ensure a good introduction to the company and identify opportunities to improve. The employee satisfaction survey conducted at the end of 2012 triggered a number of actions in 2013, including occupational health and safety improvements in noise and lighting.

A new performance management system was prepared for implementation in 2014, designed firstly to provide more clear follow-ups on individual targets and secondly to further improve competence development and employee prospects for professional development within the company. Internal mobility increased in the year between departments and geographical markets.

Work on reinforcing the impression of Transmode as an attractive employer continued in the year through means including a number of activities in universities and institutes of higher education. Transmode is also engaged in the Korta Vägen ('Fast Track') project run by the University of Stockholm, intended to create trainee positions for graduates from non-European backgrounds. Transmode also collaborates with high schools to stimulate young people's interest in the engineering profession.

Values

Transmode's corporate culture can be summarized in five values, defining what characterizes the company and its people:

Competence
Being good at what we do, packet-optical networking solutions, set up the basis for corporate success and well-being of our employees. Creating working conditions that stimulates competence capitalization and development, is therefore of highest priority at all levels of our organisation.

Innovation
Progress and growth derive from imaginative thinking. To be innovative in attitude and behaviour is therefore essential in all disciplines of our operations. We have a passion to turn innovative thinking into technically and economically superior packet-optical networking solutions and best in class company operations.

Openness
Team-workers achieve more and better results than loners. The will to listen to and take in the views of other people, and to share one's own thoughts with others – both internally and with those from outside, is therefore conditional to our way of working.

Dedication
Refers to our drive to satisfy customer needs, to solve customer problems, to being sensitive to customer perspectives and react to customer requests with speed and accuracy. We are dedicated to maintain the highest level of business ethics, environmental care and social responsibility.

Business Focus
Maintaining a profitable business is the only way to guarantee persistent value growth and investments in people and processes – to the benefits of our owners, employees and customers. Business focus, both from a revenue and a cost viewpoint, is therefore the responsibility of every employee.

Agile development methods were further developed in the year, enabling high quality and efficient production.

EMXP62 IIe:
Transmode´s Ethernet Muxponders manage Ethernet services in packet-optical networks.

THE TRANSMODE SHARE

The Transmode share is listed on NASDAQ OMX Stockholm in the Mid Cap segment under the stock symbol TRMO.

Ownership

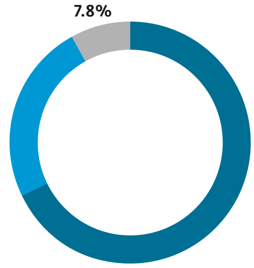
The total number of shares of the company as of 31 December was 27,788,676 and the holdings of the ten largest shareholders were 79.9%. The total number of Transmode shareholders was 1,762.

Shareholders*

	No. of Shares	% of Equity and Votes
Pod Investment AB	9,223,140	33.2
Lannebo Fonder	3,562,837	12.8
Swedbank Robur Fonder	2,365,670	8.5
Nordea Bank Norge Nominee	2,224,842	8.0
Nordea Investment Funds	1,689,101	6.1
JPM Chase NA	858,602	3.1
SEB Investment Management	806,708	2.9
AMF – Försäkring och Fonder	660,834	2.4
Karl Thedéen	416,500	1.5
Riksbankens Jubileumsfond	390,000	1.4
Other shareholders	5 590,442	20.1
Total	**27,788,676**	**100.0**

* Source: Euroclear Sweden as of 30 December 2013, including foreign nominees

Ownership Structure, %



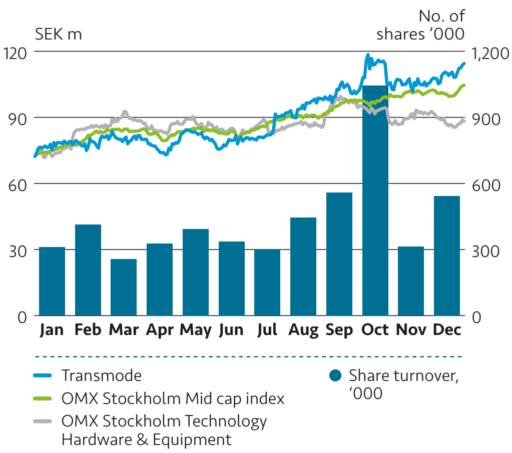
* Source: Euroclear Sweden as of 30 December 2013

Share Price Performance

The share was up by 58% in 2013, which is significant outperformance of the OMX Stockholm Technology Hardware & Equipment index, which increased by 22%. In the same period, the OMX Stockholm Mid Cap Index rose by 45%.

At year-end, market capitalization was SEK 3,182 m, and most of the shares were traded on NASDAQ OMX Stockholm. Share turnover totaled 5,238,981 shares in 2013.

Share Price Performance, 2013*



* Source: NASDAQ OMX

Dividend Policy

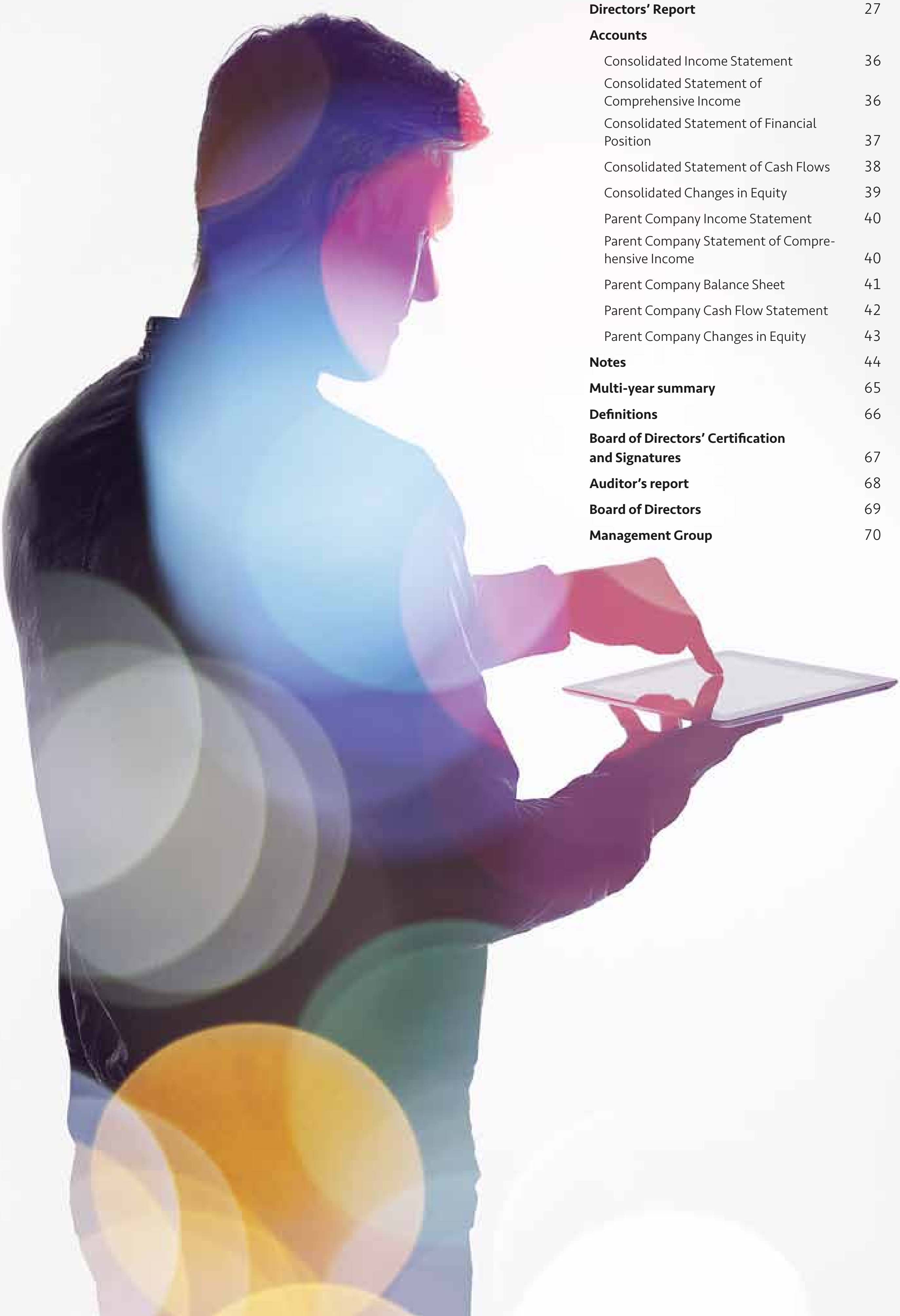
Transmode's target is to propose a yearly dividend, which over time is between 25 and 50% of Transmode's profit for the year for the preceding financial year.

According to the dividend policy, when proposing a dividend for a financial year, the Board of Directors should consider Transmode's investment requirement, finance needs and liquidity requirement, as well as Transmode's financial targets.

Dividends

The Board of Directors has decided to propose a dividend corresponding to SEK 1.80 (1.80) per share to the AGM, corresponding to a total of SEK 50.0 (50.0) m. This dividend corresponds to 41% (36%) of profit for the year. Against the background of the company's strong cash position, the company not having any interest-bearing liabilities and the company's operations being self financed, the Board of Directors is also proposing that the AGM approves an extra dividend of SEK 4.70 (-) per share, corresponding to a total of SEK 130.6 (-) m, for the financial year 2013. Accordingly, the Board of Directors is proposing a total dividend of SEK 6.50 (1.80) per share, corresponding to a total of SEK 180.6 (50.0) m.

For information on the financial analysts that monitor Transmode, see www.transmode.com



DIRECTORS' REPORT

The Board of Directors of Transmode AB hereby submits the following Annual Accounts and Consolidated Accounts for the financial year January 1, 2013-December 31, 2013. Unless specifically stated otherwise, all amounts in the Directors' Report are stated in millions of Swedish kronor (SEK m). The information in brackets is for the previous year.

The Group's Operating Activities and Structure

Transmode is a global provider of packet-optical networking solutions that enable fixed line and mobile network operators to cost effectively address the capacity needs created by the rapid growth in video and data traffic. These solutions are important building blocks in next-generation high-speed optical networks that support services such as broadband backhaul, mobile data backhaul, video delivery services and cloud computing. Transmode's solutions are designed to increase the capacity, flexibility and functionality of metro and regional networks and are based on Wavelength Division Multiplexing (WDM) and transport technologies such as Ethernet. Transmode's Native Packet Optical 2.0 architecture gives customers key advantages such as cost efficient Ethernet services, ultra-low latency, low power consumption and future proof network design.

Since 2000 the company has installed more than 45,000 systems for over 550 fixed and mobile network operators, service providers, large enterprises and public institutions in over 50 countries across the globe. Infonetics Research currently estimates that Transmode's main market of metro WDM equipment will grow by an average of 12% in 2013–2018.

Transmode conducts its operations from its headquarters in Stockholm, Sweden, where research and development, deliveries and logistics, marketing, sales support, technical support, finance, administration and management are located. Transmode also has a support and service center in Dallas, US and a smaller support center in Hong Kong. Transmode has local resources in the UK, Germany, Switzerland, Poland, the Netherlands, Finland, Italy, Spain, France, Russia, Malaysia, Indonesia, Singapore, Thailand, Japan, Canada and Mexico.

Transmode's products and services are sold direct to end-customers and via resellers and partners globally. The division between direct sales and resellers varies between regions, but for the company as a whole, the share of direct sales was 81% in 2013.

At year-end 2013, Transmode had 284 employees, an increase of 15 on year-end 2012. Most of the increase relates to the product development and sales departments.

Transmode's share (TRMO) has been quoted on NASDAQ OMX Stockholm since May 2011.

For more information on the company and a technical glossary, see www.transmode.com

Significant Events in the Financial Year

Geographical Expansion

Independent analyst Infonetics Research estimates that Transmode's core market of Metro WDM equipment, worth some USD 5.1 bn, grew by some 6% worldwide measured in US dollars in 2013. Transmode's sales increase was 1.8%, or 4.7% after adjusting for exchange rate fluctuations.

In 2013, Transmode introduced a new sales organization divided into four regions: the Americas, Europe, the Nordics including CIS/MEA (*Commonwealth of Independent States/Middle East and Africa) plus Asia Pacific. The aim is to strenghten customer relations and accelerate global expansion. However, Transmode reports sales by EMEA, Americas and APAC.

Customers

Since 2000, Transmode has delivered to a total of over 550 network operators worldwide, and the company delivered to 367 network operators in 40 countries in the year. A number of important contracts were announced in the year, including Hutchinson Global Communications (HGC in Hong Kong and MegaFon in Russia.

Product Development

In 2013, Transmode launched a series of new and innovative products and services such as Mobile Fronthaul solutions for mobile operators using the C-RAN architecture in their networks, and iAccess, which enables network operators to build scalable and cost-efficient Ethernet access. Transmode launched its strategy for the gradual implementation of Software Defined Networking (SDN) in packet-optical transport networks.

Other

Transmode received several awards in the year. The company was a finalist in the Light Readings Leading Light Awards 2013 as public company of the year, and received the Global Telecoms Business Award for Innovation in Fixed Network Infrastructure for the build-out of an optical network for Surf Telcoms. Transmode was also the winner of the Core Network Project of the Year in Telecom Asia Reader's Choice & Innovation Awards 2013 jointly with its customer HGC.

Ownership structure

Transmode AB's share capital was SEK 5,557,735 at the end of the financial year, divided over 27,788,676 shares with a quotient value of SEK 0.20.

According to Euroclear Sweden, the shareholders of Transmode AB as of December 31, 2013 were:

Shareholders[1]	No. of Outstanding Shares	Proportion of Equity and Votes, %
Pod Investment AB	9,223,140	33.2
Lannebo Fonder	3,562,837	12.8
Swedbank Robur Fonder	2,365,670	8.5
Nordea Bank Norge Nominee	2,224,842	8.0
Nordea Investment Funds	1,689,101	6.1
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Riksbankens Jubileumsfond	390,000	1.4
Other shareholders	5,590,442	20.1
Total	**27,788,676**	**100.0**

[1] Foreign banks and other nominees may be registered for one or more clients, which may imply that the actual owner of shares is not stated.

For more information on share capital, refer to Note 23.

Sales and Results of Operations

Sales

Sales amounted to SEK 1,029.1 (1,010.9) m in 2013, which is growth of 1.8% (10.2) on 2012. Adjusted for exchange rate fluctuations, growth was 4.7% (10.4).

The increase was primarily in EMEA, where sales increased by 6.3%, or by 9.1% adjusted for exchange rate fluctuations. In the Americas, sales decreased by 33.4%, or by 30.8% adjusted for exchange rate fluctuations. In Latin America, Transmode was still affected by the regulatory situation in the telecom market in Mexico. This has triggered uncertainty and limited one of our most important customer's willingness to invest. In North America, volumes with some of our current customers continued to underperform the rate Transmode had expected. In APAC, where individual projects such as HGC in Hong Kong can cause more fluctuations between periods, sales increased by 166.2%, or by 176.2% adjusted for exchange rate fluctuations.

In 2013, invoicing to the company's five largest customers, and where applicable, collections of several customers within the same group, represented 53.3% (62.3) of total invoicing, and the direct sales share was 80.7% (77.6).

Results of Operations

Gross profit for 2013 amounted to SEK 521.5 (498.8) m and gross margin was 50.7% (49.3). Overall, exchange rate fluctuations against the Swedish krona had a negative effect on gross profit of SEK 16.6 m net.

Operating expenses, excluding other revenues and other operating expenses, were SEK 370.3 (329.4) m in 2013. The increase is primarily a result of the company's continued expansion and product development and sales initiatives. At the end of December 2013, the company had 284 (269) employees. In 2013, development expenses of SEK 47.5 (42.7) m were capitalized, and amortization of capitalized development expenses was SEK 23.9 (18.2) m. Adjusted for the capitalization and amortization of development expenses, expenditure for research and development increased to SEK 179.2 (155.0) m, or by 15.6% on 2012.

Other income of SEK 0.9 (1.3) m is the reversal of previous provisions. Other operating expenses of SEK 3.6 (0.0) m consists of losses on currency contracts of SEK 10.0 m and gains on the translation of balances with customers and suppliers of SEK 6.4 m. In the previous year, the corresponding items were gains totaling SEK 0.7 m, and were included in other income.

Operating profit for the period was SEK 148.5 (170.7) m and operating margin was 14.4% (16.9).

Profit for the year was SEK 123.3 (139.2) m, a 11.4% decrease.

In 2013, as in 2012, the company did not have any significant transactions with related parties.

Cash Flow and Investments

Cash flow from operating activities was SEK 174.7 (176.7) m in 2013. In 2012, this included payments of SEK 3.7 m made relating to the company's IPO on NASDAQ OMX Stockholm.

Working capital at the end of the year was SEK 90.9 MSEK (99.2). The reduction in working capital compared to the previous year is, in absolute terms, mainly due to lower inventories and higher current liabilities.

Investments in tangible fixed assets in the year were SEK 10.5 MSEK (9.8). Investments in intangible fixed assets were SEK 52.0 (42.7) m, of which capitalized development expenses were SEK 47.5 (42.7) m and software licenses for the company's new products of SEK 4.5 (-) m.

Transmode paid dividends of SEK 50.0 (41.7) m in the year. Transmode acquired treasury shares relating to incentive programs totaling SEK 4.8 (-) m in the year. In 2012, Transmode received proceeds from the new share issue in tandem with conversion of warrants of SEK 3.6 m, total cash flow for the year was SEK 54.8 (84.6) m.

Cash and Cash Equivalents, Financing

The group's cash and cash equivalents were SEK 431.5 (376.8) m at year-end 2013. Arranged credit facilities were SEK 12.0 (-) m, of which SEK 7.2 (-) m was utilized for bank guarantees issued.

As in 2012, there were no interest-bearing liabilities to credit institutions or for finance leases at year-end 2013.

Research and Development (R&D)

Transmode's product development focuses on five areas: increased capacity and reach, increased flexibility, integrated Ethernet functionality, WDM access and operation and maintenance systems.

In metro networks, the most common transmission speeds of optical fiber are still 1–10 Gbit/s (Gigabit per second) per wavelength. But customer needs are constantly increasing. In early 2013, Transmode delivered the first products enabling 100 Gbit/s per wavelength.

Flexibility is crucial for the remote control of wavelengths and data streams and enhancing network functionality as needs change. In this area, Transmode's offerings include ROADM products.

Transmode's development of Ethernet products is intended to further improve the control of data traffic, and to integrate it into optical networks simply and cost-efficiently. Demand for this type of product is growing rapidly and is a high priority for Transmode. A new generation of Ethernet muxponders (EMXP IIe) designed to assist network operators to develop network functionality, making networks even more flexible and scalable, was launched in 2013.

In the access area, Transmode is developing products for the needs arising when fiber extends further out in the networks. The combination of intelligent access products and cost-efficient optical filters enable higher capacity at a lower price.

Transmode's operation and maintenance system Enlighten™ enables customers to manage and develop their networks efficiently. The system is in continuous development so customers can benefit from new products and functionality. In 2013, Transmode launched its Enlighten Portal, a tool offering comprehensive information on Quality-of-Service (QoS) packet-optical network services in real time.

Research and development expenses amounted to SEK 155.6 m, corresponding to 15.1% of the company's sales in 2013 or an increase of 19.2%. The focus of Transmode's research and development continued to shift towards software. Approximately two thirds of the company's developers now work on software.

In order to support the research and development work, Transmode is a member of a number of organizations such as TM Forum, and industrial organization that promotes standardization in operations and maintenance, MEF, which standardizes and certifies Ethernet products, Open Networking Foundation (ONF) which conducts standardization initiatives relating to Software Defined Architecture (SDN), Broadband Forum, a collaborative venture working on access solutions for fixed networks and WDM-PON Forum, a collaborative organization that develops and trains the market in WDM-based access techniques.

Quality and Environment

Transmode's quality management system has ISO 9001:2008 and ISO 14001:2004 certification. This means that operations are controlled, monitored and continuously improved through regular reporting to management.

Transmode works systematically and proactively to reduce the company's environmental impact, and since 2009, has been measuring the company's yearly emissions of greenhouse gases in accordance with the Greenhouse Gas Protocol, the most internationally widespread tool to identify, quantify and manage emissions of greenhouse gases. Transmode endeavors to secure leadership in measuring, following up and reducing its energy consumption. Low power consumption is also a key criterion for developing Transmode's products, because this means reduced environmental impact and lower cost for customers.

Transmode has been a member of the UN Global Compact since June 2011. This means the company is affiliated to the Compact's principles on human rights, labor law issues, countering discrimination, working conditions, the environment and fight against corruption. The implementation of Transmode's Code of Conduct continued in 2013, with all employees completing a web-based training program. The code is based on the ten principles of the Global Compact, with a whistle-blower function linked to the Code. The company also continued implementation of its Supplier Conduct Principles. A Code of Conduct was also adopted for resellers in the year, and the work associated with linking them in began.

Additionally, the company compiled and published its second Sustainability Report, which reviews its CSR-related activities in 2012, according to Global Reporting Initiatives guidelines, GRI G3.1 for level C.

Transmode conducted its yearly customer satisfaction survey, and in 2013 achieved an improved customer satisfaction index of 82 (80) on a 1–100 scale, that again is a world-class result according to the analyst company CFI Group.

Human Resources

Transmode's continued expansion in 2013 meant that by December 31, the company had 284 employees, up by 15 (41) since December 2012. Most of this increase relates to hirings in the product development and sales departments. The average number of full-time employees in 2013 was 270, against 255 in 2012.

The salary and remuneration guidelines for senior managers of the group approved by the AGM 2013 are stated in Note 30. The guidelines that the Board of Directors is proposing to the AGM 2014 are essentially consistent with the guidelines approved in 2013.

Operating Risks and Uncertainty Factors

Operating Risks

In its operations, Transmode is exposed to certain risks that can affect its business, earnings or financial position to varying extents. Transmode has established a process for the identification of risks and for decisions regarding their management. The company's most important risks, and how they are managed, are reviewed below.

The company's market is changing rapidly, and competition is intense. Thus, the company's capacity to anticipate market needs and to modify its technology solutions accordingly, is of central significance to its continued success. This is why Transmode has dedicated product management and marketing resources to monitor market trends to ensure the fastest possible market introduction of the company's products, and that such products satisfy customer standards and needs.

The sales cycle of Transmode's products to new customers is fairly lengthy, while its advance planning for orders from existing customers is short. However, Transmode has a broad customer base, which is highly stable, and a significant portion of the company's total sales are sourced from regular repeat orders from existing customers. Transmode diversifies risks further through its end-customers operating different business models and being active on differing geographical markets, which also counteracts a small number of customers representing a fairly high share of sales.

By the nature of its operations, Transmode is dependent on its capacity to hire and retain skilled staff. Therefore, the company endeavors to be an attractive employer, with a good working environment and competetive employment terms.

Transmode is also dependent on a limited group of external suppliers of components and product assembly. Transmode reduces this dependency by retaining its core technology skills in-house and endeavoring to collaborate with alternative suppliers.

Operations are also dependent on smooth-functioning IT infrastructure, partly for the company's ongoing research and development, but also to ensure an effective delivery process. Accordingly, IT security is a high priority and Transmode has contingency planning for disruptions due to unforeseen events in the form of predetermined continuity plans. These continuity plans also cover other parts of operations at the head office in Stockholm, which in combination with insurance cover, are intended to mitigate the negative effect of potential disruptions.

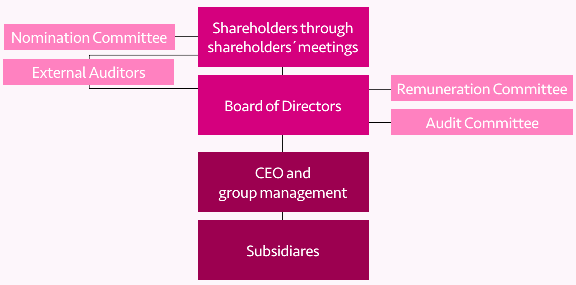
Financial Risks and Risk Management

Through its international operations, Transmode is exposed to financial risks, which are managed according to policies prepared by the Board of Directors. Exposure primarily consists of funding, credit and currency risks. For information on financial risks and risk management, see Note 31 of the Annual Accounts and under "Internal Control over Financial Reporting" in the Corporate Governance Report.

Corporate Governance Report

Transmode AB (publ) is a public company with subsidiaries in seven countries whose shares have been trading on NASDAQ OMX Stockholm since May 2011. The foundation of governance of the company primarily consists of external regulation in Sweden ad foreign countries, an established corporate governance structure and internal regulations and policies.

Transmode´s Corporate Structure



Examples of external regulations that influence the corporate governance of Transmode:

- The Swedish Companies Act (SFS 2005:551).
- The Swedish Code of Corporate Governance (available at www.bolagsstyrning.se).
- NASDAQ OMX Stockholm's Rules for Issuers (available at www.nasdaqomx.com).

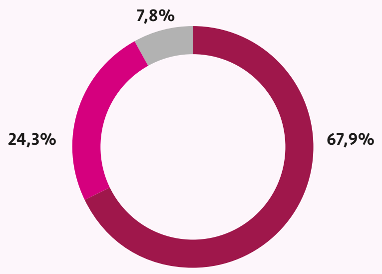
Examples of internal regulations that influence the corporate governance of Transmode:

- Articles of Association.
- The rules of procedure of the Board of Directors with CEO's instructions and Board Committees' rules of procedure.
- Ethical guidelines.
- Accounting Manual.
- Corporate Communication and Finance Policies.

Transmode does not comply with the Swedish Code of Corporate Governance in only one respect, namely rule 2.4, which stipulates that a Board member should not be Chairman of the Nomination Committee. In Transmode's case, Board member Axel Roos has been appointed Chairman of the Nomination Committee, justified by the Nomination Committee considering that it is natural for a representative of the largest shareholder, Pod Investment AB, to also be Chairman of the Nomination Committee because participation in the Nomination Committee is a central component of exercising ownership.

Shareholders
As of December 31, 2013, Transmode had some 1,800 shareholders, which held a total of 27,788,676 shares of the company.

Owner structure, %



Source: Euroclear Sweden as of December 30, 2013 (foreign banks and other nominees may be recorded for one or more customers which may imply that the actual holder of the share is not stated).

Shareholders' Meeting
Shareholders exercise their right of influence over the company through entitlement to vote and take decisions at shareholders' meetings, partly at the annual meeting of shareholders, the Annual General Meeting (AGM), or at Extraordinary General Meetings (EGMs). The AGM of Transmode is held in the Stockholm region within six months of the end of the financial year, i.e. before the end of the month of June. EGMs can be summoned by the Board of Directors, the company's auditors or on demand by holders of at least 10% of the shares. The AGM resolves on issues including:

- Adoption of the Annual Accounts.
- Appropriation of the company's profit or loss.
- Discharging the Board members and CEO from liability.
- Electing the Board of Directors and Chairman of the Board.
- Electing the auditors.
- Remuneration of the Board of Directors and Auditors.
- Guidelines for remunerating senior managers.
- Any proposed incentive schemes
- Other important issues, such as amendments of the articles of association and Nomination Committee.

Annual General Meeting
The AGM on April 15, 2013 elected Tom Nyman as Chairman of the Board and Torbjörn Nilsson, Axel Roos, Kevin Taylor and Gerd Tenzer as Board members. In addition, Roland Thornton and Helena Nordman-Knutson were elected new Board members. Directors' fees were resolved of SEK 325,000 to the Chairman Tom Nyman, SEK 300,000 to Board members Kevin Taylor and Roland Thornton, SEK 250,000 to Board member Gerd Tenzer and SEK 200,000 each to Board members Torbjörn Nilsson, Axel Roos and Helena Nordman-Knutson. In addition, the Chairman was authorized to allocate SEK 180,000 for committee work if considered appropriate. The higher fees for foreign Board members is due to the greater time taken for them because they are domiciled in Germany, Gerd Tenzer, the US, Roland Thornton, and Hong Kong, Kevin Taylor.

In addition, in accordance with the Board of Directors' proposal, the AGM resolved on a dividend of SEK 1.80 per share, or a total of SEK 50.0 m.

Complete minutes are available at the company's website, www.transmode.com under "Corporate Governance."

Nomination Committee
The Nomination Committee procedure adopted at the AGM in April 2013 means that:

- The company should have a Nomination Committee consisting of four members.
- The members of the Nomination Committee should be appointed by each of the three largest shareholders that wish to appoint such member and the Chairman of the Board.
- The Nomination Committee's term of office extends until a new Nomination Committee is appointed.
- Unless the members agree otherwise, the Chairman of the Nomination Committee should be the member appointed by the largest shareholder.
- The Nomination Committee should be constituted based on shareholder statistics as of the final banking day of August 2013 and other shareholder information available to the company at this date. The names of the appointed members of the Nomi- nation Committee and the shareholders they represent should be published as soon as they are appointed, although at the latest six months prior to the AGM.

If, during the Nomination Committee's term of office, one or more of the shareholders that have appointed members of the Nomination Committee is no longer one of the three largest shareholders in terms of the number of votes, the members appointed by these shareholders should make their places available and the shareholder(s) that has (have) become one of the three largest shareholders should be entitled to appoint their members. Unless there are special circumstances, no amendments to the composition of the Nomination Committee should take place if only marginal changes in the numbers of votes have occurred or if the change happens later than three months prior to the Meeting.

The complete nomination procedure of the Nomination Committee is stated on the company's website www.transmode.com under "Corporate Governance." Based on the above nomination process, on 8 October 2013, Transmode reported that the company's Nomination Committee for the AGM 2014 has the following members: Axel Roos (appointed by Pod Investment AB), Johan Lannebo (appointed by Lannebo Fonder), Birger Gezelius (appointed by Swedbank Robur Fonder) and the Chairman, Tom Nyman. The Nomination Committee has appointed Axel Roos as its Chairman.

The primary duty of the Nomination Committee is to prepare proposals on the following matters to be submitted to the AGM 2014 for decision:

- Proposal for the Chairman of the AGM.
- Proposal for the Board of Directors.
- Proposal for the Chairman of the Board.
- Proposal for fees and other remuneration for Board work to each of the Board members and remuneration for committee work.
- Proposal for auditors.
- Proposal for fees to auditors.
- Proposal for a nomination procedure for the AGM 2014.

Board of Directors
After the shareholders, Transmode's Board of Directors is the company's chief decision-making body. According to Transmode's Articles of Association (see www.transmode.com under "Corporate Governance"), the company's Board of Directors should consist of a minimum of three and a maximum of eight members.

The duties of the Board of Directors are formalized primarily by the Swedish Companies Act, the Swedish Code of Corporate Governance and the Board of Directors' rules of procedure that are adopted at least once per year by the Board. The Board has overall responsibility for the company's organization and administration of the company's affairs, and has the duty of setting strategies and objectives. The Board of Directors should approve internal control instruments in the form of policies and instructions, for example, and should ensure that the company has adequate internal controls. The Board of Directors' other duties include:

- Responsibility for the company's organization and administration of the company's affairs.
- Ongoing evaluation of the company and its financial position.
- Ensuring that the company's organization is designed so that book-keeping, management of funds and financial circumstances otherwise are satisfactorily controlled.
- Continuously verify that delegated duties can be performed.
- Evaluate operational management and supervise succession planning.
- Decide on acquisitions and divestments of operations and other major investments.
- Determine the division of responsibility between the Board of Directors and committees and Chief Executive Officer.
- Present written instructions for when and how information that is necessary to evaluate the company's financial position should be gathered and reported.
- Adopt instructions for Remuneration Committee and the Audit Committee and approve significant assignments for the Chief Executive Officer outside the company.
- Conduct a risk identification process for the company on a yearly basis.

The Chairman of the Board is responsible for the Board of Directors fulfilling its obligations and duties as above in accordance with applicable laws and ordinances.

According to the rules of procedure, the Board of Directors should hold at least five Board meetings over and above the Board meeting following election. The Chairman of the Board is responsible for more meetings being held if necessary. The Chief Executive Officer and the group's Chief Financial Officer normally attend Board meetings and other members of Group Management participate depending on the agenda of the meeting.

In 2013, the work of the Board was primarily focused on items including product and business strategy, the organization, identifying risks and international expansion, primarily in the Americas and APAC. Permanent items on the Board of Directors' agenda include business conditions and financial updates.

Each year, the Board of Directors conducts an appraisal of the work of the Board of Directors and the Chairman of the Board. This appraisal illuminates the working methods and orientation of the work of the Board of Directors and the access to, and need for, special competence on the Board of Directors. Where necessary, the Board of Directors gains assistance from external re- sources for the appraisal process. The results of the appraisal process are reported to the Board of Directors, Nomination Committee and Remuneration Committee, and provides support for nomination work for the composition and remuneration of the Board of Directors.

The Chairman of the Board is responsible for setting an agenda for each Board meeting and for satisfactory decision-support material being prepared and distributed by the Chief Executive Officer to the members in good time before the meeting. The Chairman leads the Board meeting and ensures that all members have been offered the opportunity to express their opinions. In addition, the Chairman ensures that opinions presented and decisions reached are reflected accurately in the Board minutes. After having verified the minutes, the Chairman ensures that the minutes are approved and distributed to all members. The Chairman is also responsible for following up that decisions taken are executed. The Chairman of the Board should also ensure that the members undergo the necessary training and ongoing education, and for potential contacts with the company's principal owners.

Committees
There are two Committees within the Board of Directors, the Remuneration Committee and the Audit Committee.

The Remuneration Committee
The Remuneration Committee, which is appointed by the Board of Directors, has three members: Torbjörn Nilsson, who is Chairman, Axel Roos and Tom Nyman. The Board of Directors has approved instructions, which stipulate that the members of the Remuneration Committee must be non-affiliated to Transmode and its management, with the exception of the Chairman of the Board if he/she is a member of the Remuneration Committee. Torbjörn Nilsson, Tom Nyman and Axel Roos are all non-affiliated to Transmode and its management. Normally, the Remuneration Committee holds at least two meetings per year. The Chief Executive Officer normally attends Nomination Committee meetings.

The Nomination Committee is responsible for consulting on and discussing matters regarding salary, bonus, pension, severance pay and incentive programs for the Chief Executive Officer and other senior managers that report directly to the Chief Executive Officer. The Nomination Committee is also responsible for:

- Submitting proposals to the Board of Directors for resolution by the AGM on principles regarding remuneration and other employment benefits for senior managers.
- Monitoring and following up on initiated programs are being complied with and having their intended effect.
- Performing other duties that the Board of Directors assigns to the Remuneration Committee.

The Chairman of the Nomination Committee is responsible for minutes being taken at meetings, their approval and distribution, and that there is ongoing reporting to the Board of Directors.

The Audit Committee
The Audit Committee, which is appointed by the Board of Directors, has three members: Tom Nyman, who is Chairman, Helena Nordman-Knutson and Axel Roos. The Board of Directors has adopted instructions that stipulate that a majority of the members of the Audit Committee must be non-affiliated to Transmode and its management. In addition, at least one of the members of the Audit Committee, who is non-affiliated to the company and its management, must also be non-affiliated to the company's major shareholders and possess auditing or accounting competence. Helena Nordman-Knutson is non-affiliated to Transmode, its management and the company's major shareholders, and all members are considered to possess auditing or accounting competence.

Normally, the Audit Committee holds at least four meetings per year. Normally, the group's Chief Financial Officer attends Audit Committee meetings and the company's auditors attend when necessary.

The primary duties of the Audit Committee are to consult on matters related primarily to the audit, accounting, financial information, the company's risk situation and internal control system, and has responsibilities including:

- Supporting the nomination and election of external auditors and evaluating the results of the audit and the external auditors' independence.
- Verifying the consistency of accounting principles with generally accepted auditing standards, applicable laws and ordinances.
- Monitoring end scrutinizing internal controls and discussing their effectiveness.
- Consulting on the annual evaluation of potential needs for an internal audit function.
- Discussing the principles of risk evaluation and risk management and the scope and focus of audit work, with the external auditors and senior managers.

- Meet with external auditors at least once per year without senior managers being present.
- Perform other duties that the Board of Directors assigns the Audit Committee.

The Chairman of the Audit Committee is responsible for minutes being taken at meetings, their approval and distribution, and that there is ongoing reporting to the Board of Directors.

Composition of the Board of Directors and its Committees, April 2013–April 2014

Name	Elected Yr.	Non-affiliated*	Board	Rem. Comm.	Aud. Comm.	Remun.***
Tom Nyman****	2005	No[1)]	Chairman	Member	Chairman	SEK 395,000
Torbjörn Nilsson	2010	Yes	Member	Chairman	–	SEK 220,000
Roland Thornton	2013	Yes	Member	–	–	SEK 300,000
Helena Nordman-Knutson	2013	Yes	Member	–	Member	SEK 240,000
Axel Roos****	2011**	No[2)]	Member	Member	Member	SEK 250,000
Gerd Tenzer ****	2008	Yes	Member	–	–	SEK 250,000
Kevin Taylor	2012	Yes	Member	–	–	SEK 300,000

* All members are non-affiliated to the company and its senior managers according to the definition of the Swedish Code of Corporate Governance, point 4.4. Non-affiliation in the table above reflects non-affiliation to major shareholders according to the definition in the Swedish Code of Corporate Governance, point 4.5.

** Deputy Board member since 2005.

*** Refers to the period from the AGM 2013 to the AGM 2014, including remuneration for committee work, where applicable.

**** Remuneration paid to a German company wholly owned by Gerd Tenzer, and to Pod Investment AB for Tom Nyman and Axel Roos.

1) Tom Nyman is an employee of Pod Investment AB, which holds 33.2% of the shares of Transmode as of December 31, 2013. Tom Nyman Holding AB, a company owned by Tom Nyman, holds 10.0% of the shares of Pod Investment AB.

2) Axel Roos an employee of Pod Investment AB, which holds 33.2% of the shares of Transmode as of December 31, 2013. Gravhögen AB, a company owned by Axel Roos, holds 10.0% of the shares of Pod Investment AB.

Board Members' Attendance in 2013

Name	Meetings*	Remuneration Committee	Audit Committee
Tom Nyman	12/12	2/5	5/5
Torbjörn Nilsson	12/12	4/5**	
Roland Thornton	7/12**		
Helena Nordman-Knutson	8/12**		3/5**
Axel Roos	12/12	4/5**	3/5**
Gerd Tenzer	12/12		
Kevin Taylor	9/12		

* Including 8 telephone conferences but excluding per capsulam meetings. In 2012, the corresponding numbers were 9 Board meetings including 2 telephone conferences

** Elected in April 2013, the number of meetings is the number after election.

For information on each Board members' holdings of shares and options, age and other assignments etc., see page 69.

Chief Executive Officer and Group Management

The Chief Executive Officer (CEO) Karl Thedéen leads daily work and is responsible for operations being run in accordance with the Board of Directors' guidelines and instructions. Over and above Board meetings, the CEO maintains regular contacts, primarily with the Chairman of the Board, and also other Board members, regarding the company's progress and financial position. Over and above informal meetings, the CEO and management held a total of 27 (31) meetings where minutes were taken in 2013.

For information on each member of Group Management's shareholdings, age and other assignments etc., refer to page 70–71.

Audit

The AGM 2013 elected audit firm PricewaterhouseCoopers (PwC) as auditor with Johan Engstam as Auditor-in-Charge for a four-year period until the AGM 2017. Johan Engstam was born in 1966, has been an Authorized Public Accountant since 2001, and has been the company's auditor since 2013.

Johan Engstam regularly meets the Audit Committee, on 2 (4) occasions in 2013, and reports his observations from the audit to the whole Board of Directors at least once per year. At that time, the auditor also meets the Board of Directors without the attendance of management. For 2013, this occurred in February before Johan Engstam was appointed auditor.

In March 2013, PwC presented its Audit Report for Transmode AB (publ) for the audit of the Annual Accounts, the Consolidated Accounts and the accounting records and the Board of Directors' and Chief Executive Officer's administration of the company. In addition, PwC conducted a summary review of the company's Interim Report for the period January–June 2013. More- over, in fall 2013, PwC conducted its annual audit of the company's administration and internal controls and a preparatory re- view of the annual financial statements for 2013. The audit of annual accounting documentation for legal entities outside Sweden is conducted in accordance with legal requirements and other applicable regulations of each country.

Internal Control over Financial Reporting

The primary purpose of internal control is to ensure compliance with applicable laws and ordinances. In addition, internal control is intended to ensure that financial reporting provides a high level of reliability of the company's financial position, and thus constitutes good supporting data for shareholders, the Board of Directors, Group Management and other decision-makers in the company. In addition, internal control should ensure that the company's operations are organized and conducted in a way that enables significant risks to be identified and managed so that losses and embezzlement of assets is avoided. This so that financial and other operational goals can be achieved.

The Board of Directors of Transmode bears overall responsibility for preparing an effective system of internal controls. Responsibility for maintaining an effective daily control environment is dele- gated to the Chief Executive Officer, who in turn, has delegated functionally specific responsibility to other managers of the group.

Responsibilities and authorizations are defined in documents including policies, manuals, authorization manuals and procedural descriptions, for example, the following documents approved by the Board of Directors: "Instructions for the Chief Executive Officer," "Rules of Procedure for the Board of Directors," "Financial Manual" and "IT, Finance and Corporate Communication Policies." With laws and other external regulations, the aforementioned internal guidelines are the control environment that all Transmode employees shall comply with.

Control Activities

Apart from the audit conducted by the external auditor and monitoring of the internal control environment, an internal follow-up and inspection of the company's main processes according to internal guidelines is conducted regularly. The internal follow-up is conducted by staff specifically trained for the purpose within the auspices of the company's ISO certification, and then always, by staff from outside the inspected function. In addition, regular verification of certification authorization is conducted through automated IT checks or by accounting staff.

Monitoring operations and variance analysis is conducted at all levels in the company, from cost center level by each cost center manager to group level by the group's central accounting and controller functions. Inspections are facilitated by centralization of operations, through means including a high proportion of invoicing to customers being from Sweden, and that basically all assets being held in the Swedish operation with a joint accounting organization.

The risks within each functional manager's area of responsibility are regularly discussed by group management and primarily reported to the Audit Committee, and subsequently, to the Board of Directors. The risks are compiled and presented on what is termed a "risk map," a three-dimensional representation grouping each risk depending on its "likelihood," "effect" and "action taken." Normally, the "risk map" is a discussion point for Audit Committee meetings, and is the basis for reporting at Board meetings.

In accordance with the Swedish Code of Corporate Governance, each year, the Board of Directors evaluates the potential need for an internal audit function. Again in 2013, the Board of Directors' judgment was that against the background of factors including the aforementioned control activities, the company's size and limited complexity, a dedicated internal audit function is not necessary or economically justifiable.

Financial Reporting and Communication

Group management follows the company's financial progress continuously, and the Board of Directors does so monthly with the aid of a structured reporting process of monthly financial statements and key ratios, and reviews at Board meetings. Estimates against the company's targets and market expectations, i.e. compared to the analysts that regularly monitor the company, are also presented and discussed at Board meetings.

Internal reporting is primarily conducted at customer, product, geographical and functional levels. Responsibility for following up against predetermined targets primarily rests with the controller function in collaboration with the sales organization for customer and regional levels, in collaboration with the product development and research and development functions for product levels and in collaboration with each functional manager for functional levels. From the company's perspective, the risks and opportunities for different customers are equivalent, and accordingly, internally and externally, the company only reports gross profit and operating profit for a single segment, i.e. for the company overall. The company's Chief Executive Officer is responsible for these profit levels.

The company's Interim Reports and Annual Report are discussed firstly by the Audit Committee before decision by the Board of Directors. The presentation and content of external information is controlled by factors including the Swedish Companies Act, international standards, the listing agreement with NASDAQ OMX Stockholm and the corporate communication policy adopted by the Board of Directors.

Parent Company

Parent company Transmode AB owns and manages shares in subsidiaries and also sells certain intra-group services to subsidiaries. At year-end 2013, the parent company had 14 (13) employees.

In 2013, parent company sales were SEK 20.1 (20.0) m, all invoicing of services sold to subsidiaries. Operating loss was SEK –6.3 (–5.7) m.

The parent company's profit for the year was SEK 170.1 (0.6) m.

At the end of the reporting period, the parent company held SEK 110.0 (116.7) m of cash and cash equivalents.

Significant Events after the End of the Financial Year

On January 14, 2014 Transmode reported that preliminary sales for the fourth quarter 2013 had not reached the previously reported expected level.

The Board of Directors' proposed dividend to the AGM was also reported.

After the end of the reporting period, Mark Stevens was appointed as Regional Vice President for the APAC. Mr. Stevens previously held senior positions within Nortel and ECI Telecom.

Dividend

According to the dividend policy approved by Transmode's Board of Directors, The Board has decided to propose a dividend of SEK 1.80 (1.80) per share, corresponding to a total of SEK 50.0 (50.0) m, for the financial year 2013. This dividend corresponds to 41% (36) of profit for 2013.

Against the background of the company's strong cash position, the company not having any interest-bearing liabilities, and the company's operations being self financed, the Board of Directors is also proposing that the AGM approves an extra dividend of SEK 4.70 (-) per share, corresponding to a total of SEK 130.6 (-) m for the financial year 2013.

Accordingly, the Board of Directors is proposing a dividend of SEK 6.50 (1.80) per share, corresponding to a total of SEK 180.6 (50.0) m.

According to the dividend policy approved by Transmode's Board of Directors, Transmode's goal is to pay yearly dividends over time that amount to 25–50% of profit for the year for the previous financial year. In accordance with this dividend policy, when proposing a dividend for a financial year, the Board of Directors should consider Transmode's investment need, financial need and liquidity needs, and Transmode's financial objectives.

Outlook

Transmode's market is driven by the underlying increase in data traffic, driven by video applications, business services, cloud computing and mobile broadband. Accordingly, there is a continued need for investment in equipment that increases the capacity of optical fiber networks. At present, there is nothing to suggest that the underlying drivers are weakening.

Proposed Appropriation of Profits of Transmode AB

The following funds are at the disposal of the Annual General Meeting:

Share premium reserve	126,990,122 SEK
Retained profits	−95,679,903 SEK
Profit for the year	170,158,399 SEK
Total	201,468,618 SEK

The Board of Directors proposes that the funds at the disposal of the Annual General Meeting are appropriated as follows:

Dividend of SEK 6.50 per share, total	180,626,394 SEK
Carried forward	20,842,224 SEK
Total	201,468,618 SEK

Because the Board of Directors is proposing that the AGM on April 10, 2014 resolves on a dividend of SEK 6.50 per share, the Board of Directors hereby makes the following statements in accordance with chap. 18 § 4 of the Swedish Companies Act.

The Board of Directors considers that there is full coverage for the company's restricted equity after the proposed distribution of profits. The Board of Directors considers that the proposed dividend to shareholders is justifiable in terms of the parameters stated in chap. 17 § 3 second and third paragraphs of the Swedish Companies Act concerning the nature, scope and risks of operations and need to strengthen the Balance Sheet, liquidity and financial position otherwise.

The Board of Directors judges that the company's and the group's equity after the proposed distribution of profits will be sufficient in relation to the nature, scope and risks of operations. In this context, the Board considers factors including the company's and group's historical performance, budgeted performance, investment plans and economic conditions.

The proposed dividend represents 90% of the parent company's non-restricted equity and 26% and 26% of the parent company's and group's total equity respectively. The company's and group's equity/assets ratio is good in the context of prevailing circumstances in the sector. Against this background, considering the group's need for investment and liquidity according to its adopted plans, the Board thinks that the company and group will continue to retain strong balance sheets also after the dividend is paid.

The Board has also considered other known circumstances that may be significant to the company's and group's financial position and that are not considered within the above framework. Accordingly, no circumstances have arisen that would imply that the proposed dividend does not appear justifiable.

Regarding the company's results of operations and financial position otherwise, the reader is referred to the following Income Statements and Balance Sheets with associated notes. The Annual Accounts and Consolidated Accounts were approved for issue by the Board of Directors on March 18, 2014. The Parent Company and Consolidated Income Statement and Balance Sheet will be subject to adoption at the Annual General Meeting on April 10, 2014.

ACCOUNTS

Consolidated Income Statement
for the financial year as of December 31

SEK M	NOTE	2013	2012
Sale of goods		964.7	961.7
Sale of services		64.4	49.2
Total sales	3	**1,029.1**	**1,010.9**
Cost of goods and services provided	5	−507.6	−512.1
Gross profit		**521.5**	**498.8**
Other income	4	0.9	1.3
Research and development costs		−155.6	−130.5
Selling expenses		−179.7	−166
Administrative expenses		−35.0	−32.9
Other operating expenses	4	−3.6	0.0
Operating profit/loss	5, 6, 7, 8	**148.5**	**170.7**
Financial income	9	6.5	6.6
Financial expenses	9	0.5	−0.4
Net financial income/expenses		**7.0**	**6.2**
Taxes	10	−32.2	−37.7
Profit for the year		**123.3**	**139.2**
Attributable to:			
Equity holders of the parent company		123.3	139.2
Earnings per share:	11		
basic		4.44	5.02
diluted		4.44	5.01

Consolidated Statement of Comprehensive Income
For the financial year as of December 31

SEK M	NOTE	2013	2012
Profit for the year		**123.3**	**139.2**
Other comprehensive income			
Translation difference		0.0	−0.1
Other comprehensive income for the period, net after tax		**0.0**	**−0.1**
Total comprehensive income for the period		**123.3**	**139.1**
Attributable to:			
Equity holders of the parent company		123.3	139.1

Consolidated Statement of Financial Positions
as of December 31

SEK M	NOTE	2013	2012
ASSETS			
Fixed assets			
Intangible assets	14		
Goodwill	15	88.4	88.4
Licenses		4.4	–
Capitalized development expenses		87.8	64.2
Technology		5.9	10.6
		186.5	**163.2**
Tangible assets	13		
Leasehold improvements		1.8	2.2
Machinery and equipment		23.1	19.9
		24.9	**22.1**
Financial assets			
Deferred tax asset	10	2.2	1.2
Other financial assets	16	5.3	2.6
		7.5	**3.8**
Total non-current assets		**218.9**	**189.1**
Current assets			
Inventories	18	85.9	99.4
Accounts receivable	19	184.7	150.4
Other current receivables	20	20.5	27.4
Prepaid expenses and accrued income	21	13.3	8.1
Cash and cash equivalents	22	431.5	376.8
Total current assets		**735.9**	**662.1**
TOTAL ASSETS		**954.8**	**851.2**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company	12, 17, 23		
Share capital		5.6	5.6
Other contributed capital		646.0	646.0
Translation difference		–0.9	–0.9
Accumulated profit or loss		51.7	–17.9
Total equity		**702.4**	**632.8**
Long-term liabilities	24		
Other provisions	25, 26	4.9	4.4
Deferred tax liability	10	33.9	27.9
Total long-term liabilities		**38.8**	**32.3**
Current liabilities			
Accounts payable	27	103.0	93.0
Tax liability		2.9	0.5
Provisions	25	16.6	21.2
Other current liabilities	27	20.1	11.4
Accrued expenses and deferred income	28	71.0	60.0
Total current liabilities		**213.6**	**186.1**
TOTAL EQUITY AND LIABILITIES		**954.8**	**851.2**

For information on the group's pledged assets and contingent liabilities, see Note 29.

Consolidated Statement of Cash Flows
for the financial year as of December 31

SEK M	NOTE	2013	2012
Cash flow from operating activities			
Profit/loss after financial items		155.5	176.9
Adjustment for non-cash items			
Depreciation and amortization		36.4	29.6
Profit/loss from disposals and retirements of non-current assets		–	0.2
Change in provisions		–4.4	10.1
Net financial income/expense		–7.0	–6.2
Interest paid		0.0	–0.1
Interest received		7.4	7.8
Other received/paid financial income/expense		0.6	–0.4
Income tax paid		–25.8	–33.8
Cash flow from operating activities before changes in working capital		**162.7**	**184.1**
Increase (–)/decrease (+) in inventories		14.9	–1.7
Increase (–)/decrease (+) in trade receivables		–33.4	13.2
Increase (+)/decrease (–) in trade payables		30.5	–18.9
Cash flow from operating activities		**174.7**	**176.7**
Cash flow from investing activities			
Acquisitions of intangible assets	14	–52.0	–42.7
Acquisitions of tangible assets	13	–10.5	–9.8
Change in other financial assets		–2.6	–1.5
Cash flow from investing activities		**–65.1**	**–54.0**
Cash flow from financing activities			
New share issue		–	3.6
Repurchase of options		–4.8	–
Dividend to equity holders of the parent company		–50.0	–41.7
Cash flow from financing activities		**–54.8**	**–38.1**
Increase/decrease in cash and cash equivalents		**54.8**	**84.6**
Cash and cash equivalents, at beginning of year		376.8	293.8
Exchange rate difference in cash and cash equivalents		–0.1	–1.6
Cash and cash equivalents, at end of year		**431.5**	**376.8**

Consolidated Changes in Equity

SEK m	Share Capital	Unregistered Share Capital	Other Contributed Capital	Translation Difference	Accumulated Profit/Loss	Total Equity
Opening balance January 1, 2012	**5.5**	**0.0**	**642.5**	**–0.8**	**–115.4**	**531.8**
Total comprehensive income for the period	–	–	–	–0.1	139.2	139.1
Transactions with shareholders:						
Registration of share capital	0.0	0.0	–	–	–	0.0
New share issue	0.1	–	3.5	–	–	3.6
Dividend to parent company shareholders	–	–	–	–	–41.7	–41.7
Total transactions with shareholders	**0.1**	**0.0**	**3.5**	**–**	**–41.7**	**–38.1**
Closing balance December 31, 2012	**5.6**	**–**	**646.0**	**–0.9**	**–17.9**	**632.8**
Opening balance January 1, 2013	**5.6**	**–**	**646.0**	**–0.9**	**–17.9**	**632.8**
Total comprehensive income for the period		**–**	**–**	**0.0**	**123.3**	**123.3**
Transactions with shareholders:						
Repurchase of options	–	–	–	–	–4.8	–4.8
Share-based compensation	–	–	–	–	1.1	1.1
Dividend to parent company's shareholders		–	–	–	–50.0	–50.0
Total transactions with shareholders	**–**	**–**	**–**	**–**	**–53.7**	**–53.7**
Closing balance December 31, 2013	**5.6**	**–**	**646.0**	**–0.9**	**51.7**	**702.4**

Parent Company Income Statement
for the financial year as of December 31

SEK M	NOTE	2013	2012
Sale of services		20.1	20.0
Total sales		**20.1**	**20.0**
Other income	4	0.3	0.6
Administrative expenses		−26.7	−26.3
Operating profit/loss	6, 7	**−6.3**	**−5.7**
Financial income	9	177.1	6.8
Financial expenses	9	0.0	0.0
Net financial income/expenses		**177.1**	**6.8**
Taxes		−0.7	0.5
Profit for the year		**170.1**	**0.6**

Parent Company Statement of Comprehensive Income
for the financial year as of December 31

SEK M	NOTE	2013	2012
Profit for the year		**170.1**	**0.6**
Other comprehensive income		**–**	**–**
Total comprehensive income for the period		**170.1**	**0.6**

Parent Company Balance Sheet
as of December 31

SEK M	NOTE	2013	2012
ASSETS			
Fixed assets			
Financial assets			
Participations in group companies	33	369.4	369.4
Receivables from group companies		96.7	95.7
Deferred tax asset	10	0.4	0.3
Other financial assets		1.2	0.8
Total non-current assets		**467.7**	**466.2**
Current assets			
Accounts receivable		–	0.0
Receivables from group companies		118.3	2.3
Other current receivables		4.0	0.0
Prepaid expenses and accrued income		0.2	0.5
Cash and cash equivalents		110.0	116.7
Total current assets		**232.5**	**119.5**
TOTAL ASSETS		**700.2**	**585.7**
EQUITY AND LIABILITIES			
Equity	17, 23		
Restricted equity			
Share capital		5.6	5.6
Statutory reserve		482.9	482.9
		488.5	**488.5**
Non-restricted equity			
Share premium reserve		127.0	127.0
Profit/loss brought/carried forward		–95.7	–42.6
Profit for the year		170.1	0.6
		201.4	**85.0**
Total equity		**689.9**	**573.5**
Provisions			
Other provisions		1.5	1.6
Total provisions		**1.5**	**1.6**
Current liabilities			
Accounts payable		1.5	1.2
Provisions		0.1	–
Other current liabilities		1.7	2.1
Accrued expenses and deferred income	28	5.5	7.3
Total current liabilities		**8.8**	**10.6**
TOTAL EQUITY AND LIABILITIES		**700.2**	**585.7**
Pledged assets and contingent liabilities			
Pledged assets		None	None
Contingent liabilities		None	None

Parent Company Cash Flow Statement
for the financial year as of December 31

SEK M	2013	2012
Cash flow from operating activities		
Profit/loss after financial items	170.8	1.1
Adjustment for non-cash items		
Change in provisions	0.0	–1.8
Other non-cash items	0.2	–
Net financial income/expense	–177.1	–6.8
Interest paid	0.0	0.0
Interest received	4.7	5.4
Other paid/received financial income/expense	52.2	0.0
Income taxes paid	0.0	-4.8
Cash flow from operating activities before changes in working capital	**50.8**	**–6.9**
Increase (–)/decrease (+) in trade receivables	0.6	67.3
Increase (+)/decrease (–) in trade payables	–2.9	–5.7
Cash flow from operating activities	**48.5**	**54.7**
Cash flow from investing activities		
Change in other financial assets	–0.4	–0.2
Cash flow from investing activities	**–0.4**	**–0.2**
Cash flow from financing activities		
New share issue	–	3.6
Dividend	–50.0	–41.7
Repurchase of options	–4.8	–
Cash flow from financing activities	**–54.8**	**–38.1**
Decrease in cash and cash equivalents	**–6.7**	**16.4**
Cash and cash equivalents, at beginning of year	116.7	100.3
Exchange rate difference in cash and cash equivalents	0.0	0.0
Cash and cash equivalents, at end of year	**110.0**	**116.7**

Parent Company Changes in Equity

SEK M	Share Capital	Unregistered Share Capital	Statutory Reserve	Share Premium Reserve	Accumulated Profit/Loss	Total Equity
Opening balance January 1, 2012	**5.5**	0.0	**482.9**	**123.5**	**–0.9**	**611.0**
Profit for the year	–	–	–	–	0.6	0.6
Total recognized income and expenses	**–**	**–**	**–**	**–**	**0.6**	**0.6**
Transactions with shareholders:						
Registration of share capital	0.0	0.0	–	–	–	0.0
New issue	0.1	–	–	3.5	–	3.6
Dividend	–	–	–	–	–41.7	–41.7
Total transactions with shareholders	**0.1**	**0.0**	**–**	**3.5**	**–41.7**	**–38.1**
Closing balance December 31, 2012	**5.6**	**–**	**482.9**	**127.0**	**–42.0**	**573.5**
Opening balance January 1, 2013	**5.6**	**–**	**482.9**	**127.0**	**–42.0**	**573.5**
Profit for the year	–	–	–	–	170.1	170.1
Total recognized income and expenses	**–**	**–**	**–**	**–**	**170.1**	**170.1**
Transactions with shareholders:						
Repurchase of options	–	–	–	–	–4.8	–4.8
Share-based compensation	–	–	–	–	1.1	1.1
Dividend	–	–	–	–	–50.0	–50.0
Total transactions with shareholders	**–**	**–**	**–**	**–**	**–53.7**	**–53.7**
Closing balance December 31, 2013	**5.6**	**–**	**482.9**	**127.0**	**74.4**	**689.9**

NOTES

NOTE 1

Corporate Information

The Consolidated Accounts of Transmode AB (556588-9101) for the financial year 2013 were approved for issue in accordance with a decision by the Board of Directors on March 18, 2014. Transmode AB is a limited company incorporated and domiciled in Stockholm, Sweden. Transmode has its headquarters in Stockholm and is listed on NASDAQ OMX Stockholm (TRMO).

Transmode is a global provider of packet-optical networking solutions that enable fixed line and mobile network operators to cost effectively address the capacity needs created by the rapid growth in video and data traffic. These solutions are important building blocks in next-generation high-speed optical networks that support services such as broadband backhaul, mobile data backhaul, video delivery services and cloud computing. Transmode's solutions are designed to increase the capacity, flexibility and functionality of metro and regional networks and are based on Wavelength Division Multiplexing (WDM) and transport technologies such as Ethernet. Transmode's Native Packet Optical 2.0 architecture gives customers key advantages such as cost efficient Ethernet services, ultra-low latency, low power consumption and future proof network design.

Since 2000 the company has installed more than 45,000 systems for over 550 fixed and mobile network operators, service providers, large enterprises and public institutions in over 50 countries across the globe.

NOTE 2.1

Basis of Preparation of the Consolidated Accounts and Annual Accounts

The Consolidated Accounts and Annual Accounts have been prepared according to the cost method apart from financial assets and liabilities, which have been measured at fair value. The Consolidated Accounts are presented in Swedish kronor, and all values have been rounded to the nearest thousand Swedish kronor unless otherwise indicated.

Statement of Compliance

The Consolidated Accounts have been prepared in accordance with the Swedish Annual Accounts Act, RFR 1 Supplementary Ac- counting Rules for Groups and IFRS (International Financial Re- porting Standards) as endorsed by the EU.

The parent company Annual Accounts have been prepared in accordance with the Swedish Annual Accounts Act and RFR 2, Accounting for Listed Legal Entities, implying the parent company reporting in accordance with the same principles as the group subject to the exemptions stated in "parent company accounting principles".

New and Revised Standards Applied by the Group

A review of the standards and interpretation statements on existing standards that have been published and are obligatory for the group for financial years starting January 1, 2013 or later follows. These standards and amendments have not been applied in advance. The review covers those standards and interpretation statements that management considers relevant for the group but have not yet had any effect on the group as of the reporting date.

IAS 1, "Presentation of Financial Statements" states that those items recognized in "other comprehensive income" should be presented, divided into two groups. The division is based on whether the items may come to be reclassified to the In- come Statement or not.

IFRS 13 "Fair Value Measurement" is intended to make fair value measurements more consistent and less complex through the Standard containing a precise definition and a common source in IFRS for fair value measurement and associated disclosures. This standard offers guidance on fair value measurement for all types of assets and liabilities, financial and non-financial. This standard, which is largely the same between IFRS and US GAAP, does not expand the application for when fair value should be applied, but provides guidance on how it should be applied when other IFRS already require or permit fair value measurement.

IAS 19 "Employee benefits" was revised in June 2011. The implications of the revision are only comprised of certain additional information as the group does not have any defined benefit plans planer.

IAS 36 "Impairment of assets" provides information on recoverable amounts and stipulates that information must be provided regarding the basis for calculation of recoverable amounts for written-down assets in cases where the recoverable amount is based on fair value less sales expenses.

Standards, Amendments and Interpretation Statements on Existing Standards where the Amendment Has Not Yet Come into Effect and Has Not Been Applied in Advance by the Group

IFRS 9, "Financial instruments", deals with measurement, recognition and reporting of financial assets and liabilities. This standard will replace the elements of IAS 39, "Financial Instruments: Recognition and Measurement that relate to the measurement and recognition of financial instruments. IFRS 9 introduces two new requirements for the recognition and measurement of financial assets; recognition at fair value or recognition at amortized cost. Measurement is determined at the initial reporting date on the basis of the company's business model and characteristics in contractual cash flows. For financial liabilities, there are no major changes compared to IAS 39. The group intends to adopt these amendments by no later than the financial year that starts January 1, 2015, and has not yet evaluated their effects.

IFRS 10 "Consolidated financial statements" is based on existing principles were it identifies control as the decisive factor to determine whether a company should be included in the Consolidated Accounts. The standard offers further guidance on determining control when it is hard to judge. The group intends to adopt IFRS 10 by no later than the financial year that starts January 1, 2014, and has not ye evaluated their effects.

IFRS 12 "Disclosure of interests in other entities", covers disclosure requirement for subsidiaries, "collaborative arrangements", associated companies and non-consolidated structured companies. The group intends to adopt these amendments by no later than the financial year that starts on January 1, 2014, and has not yet evaluated their effects.

IFRIC 21 "Levies" implies an interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". IAS 37 outlines the criteria for accounting a liability, with one criteria being an existing obligation resulting from past events (also termed a present obligation). The interpretation identifies the obligating event for the recognition of a tax or levy-related liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The group intends to adopt these amendments by no later than the financial year that starts on January 1, 2014, and has not yet evaluated their effects.

Several other amendments of standards and new statements have been published, but at present, they are not judged to have any impact on the company's financial statements.

NOTE 2.2

Significant Accounting Judgments and Estimates

Estimation and Judgment Uncertainty

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that may imply a significant risk of causing a material adjustment of carrying amounts of assets and liabilities within the next financial year are discussed below:

Note 2.2 Significant Accounting Judgments and Estimates, cont.

Impairment Test of Goodwill
Goodwill is reviewed for impairment annually or more frequently. This requires an estimate of the recoverable amount for the cash-generating units to which the goodwill relates. Estimating the recoverable amount requires the group to estimate expected future cash flows from the cash-generating unit based on assumptions of revenues, operating margin, capital tied-up and an appropriate discount rate to compute the present value of these cash flows. The reported value of goodwill as of December 31, 2013 was SEK 88.4 (88.4) m. See note 15.

Capitalized Development Expenses
The company capitalizes its development expenses from the financial year 2008 onwards in accordance with IAS 38. In product development there is primarily an inherent risk of whether development will result in future revenues. The company makes regular assessments of projects on an aggregate level. Capitalized development expenses are amortized during product's estimated economic lives, although subject to a maximum of 7 years. The carrying amount of capitalized development expenses as of December 31, 2013 was SEK 87.8 (64.2) m. See Note 14.

Inventory Obsolescence
Inventory is reported at the lower of cost, in accordance with the first in first out (FIFO) method, and net realizable value. The estimated net realizable value includes management's consideration of outdated items, over-stocking, physical damage, inventory lag- time, handling and other selling costs. If the estimated net realizable value is lower than historical cost, a valuation allowance for inventory obsolescence is established. The total inventory value, net of inventory obsolescence is SEK 86 (99.4) m as of December 31, 2013. The provision for obsolescence amounts to SEK 21.1 (22.5) m. See Note 18.

Credit Loss Reserves
The establishment of credit loss reserves on accounts receivable is dependent on estimates including assumptions regarding past dues, repossession rates and the recovery rate on underlying collateral. As of December 31, 2013 and 2012, Transmode had no credit loss reserves. See Note 19.

NOTE 2.3

Summary of Significant Accounting Principles

Consolidation
All subsidiaries are entities whose financial and operating principles the group is authorized to control. Generally the parent company has a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to recognize the acquisition of subsidiaries by the group. The transferred remuneration for an acquisition consists of the fair value of assets submitted as payment and liabilities arising or taken over as of the transfer date. Transaction expenses attributable to acquisitions are expensed as they arise. For each acquisition, the group decides if all holdings with non-controlling influence in the acquired company are reported at fair value or the holding's proportional share of the acquired company's net assets. The amount whereby the transferred remuneration, potential holdings with non-controlling influence and fair value at the acquisition date of previous shareholdings exceeds the fair value of the group's share of the identifiable net assets is reported as goodwill. If the transferred remuneration is less than the fair value of the net assets acquired, the difference is recognized directly in the Income Statement.

All intra-group balances, revenues, profits and losses from intra-group transactions are fully eliminated.

Foreign Currency Translation
The Consolidated Accounts are presented in Swedish kronor (SEK), which is the company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially reported at the functional currency rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. All differences are recognized in the Income Statement as follows:

- Translation of accounts receivable, accounts payable and currency forward contracts is recognized in operating profit or loss.
- Translation of currency forward contracts relating to operating items is recognized in operating profit or loss.
- Translation of currency forward contracts relating to financial items is recognized in net financial income/expense.
- Translation of other monetary assets and liabilities is recognized in net financial income/expense.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The results of operations and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing day rate.
- Income and expense for each income statement are translated at average exchange rates.
- All exchange differences are recognized as a separate component of equity and in the Statement of Comprehensive Income.

Revenue Recognition
Revenue covers the fair value of what has been received or will be received for sold goods and services in the group's operating activities. Revenues are recognized excluding VAT, returns and discounting and after eliminating intragroup sales.

Revenue is recognized to the extent that it is probable that the economic rewards will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods
Revenue is recognized when the significant risks and rewards associated with ownership of the goods have passed to the buyer, which usually occurs on delivery according to the applicable delivery terms and conditions. If a buyer is entitled to return goods, a judgment of the likelihood of this occurring is made. Based on this judgment, revenues are recognized either on delivery or when the right of return ceases.

Rendering Services
Revenues from service arrangements are recognized, allocated equally by month in the period that each agreement applies.

Revenues from other services are recognized according to the percentage of completion method considering the degree of completion. Stage of completion depends upon the service provided, i.e. measured with reference to labor hours incurred to date as a percentage of total estimated labor hours for each contract. Where the contract outcome cannot be measured reliably, revenue is

Note 2.3 Summary of Significant Accounting Principles, cont.

recognized only to the extent of the expenses recognized that are recoverable. In cases of doubtful debt, the full loss is immediately expensed.

Government Assistance
Government subsidies are recognized as revenue when there is reasonable certainty that the company satisfies the conditions for receiving the subsidy.

Interest Income
Interest income is recognized as interest accrues using the effective interest method, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Segment Reporting
Operating segments should be reported in the same way as internal reporting to the chief operating decision-maker. In Transmode, this party has been identified as the company's Chief Executive Officer. The CEO mainly monitors the company's operations at customer and product levels. From Transmode's perspective, the risks and opportunities are similar for its various customers, which means that Transmode has a single segment.

Operations are conducted from the starting-point of Sweden, from where all invoicing to customers is executed and where basically all assets are located.

Income Statement Classified by Function
Transmode reports research & development, selling and administrative expenses. Each function includes its own direct expenses as well as an allocated part of common expenses. The cost of goods sold and services rendered includes direct costs and an allocated part of common costs connected with the generation of revenue. Amortization of the intangible assets Technology and Capitalized Development Expenses is included in Research & Development Expenses and amortization of the intangible asset Customer Relations is included in Selling Expenses.

Taxes
Current Tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws utilized to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred Tax
Deferred tax is stated on temporary differences between the tax bases of assets and liabilities at the reporting date and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences and unutilized tax losses, to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences and the carrying amount of un-utilized tax credits and un-utilized tax losses can be utilized except:

- if the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the reported profit nor taxable profit or loss, and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax receivables are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Income tax relating to items recognized directly in equity or other comprehensive income is recognized in equity or other comprehensive income and not in the Income Statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Goodwill
Goodwill acquired in a business combination is initially measured at cost, being the excess of the transferred remuneration of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, from the acquisition date, goodwill acquired in a business combination is allocated to each of the group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represent the lowest level within the group at which the goodwill is monitored for internal management purposes, and
- is not larger than a segment based on the group's primary segment reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. When the re- coverable amount of the cash-generating unit (group of cash- generating units) is less than the carrying amount, impairment is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, goodwill is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Note 2.3 Summary of Significant Accounting Principles, cont.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Fixed Assets apart from Goodwill
Intangible fixed assets acquired separately are initially recognized at cost. The cost of intangible fixed assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible fixed assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

An intangible fixed asset originating from development expenses of products for commercial or internal use is reported on the basis of the product judged to be technically and economically sound until the product is ready for commercial launch or starts usage in the company. The capitalized development expenses are primarily internally generated, and consist of direct expenses incurred for labor and the related portion of indirect expenses. The amortization of capitalized development expenses starts coincident with the commercial launch, or when the product comes into internal use.

The economic lives of intangible fixed assets, excluding goodwill, are assessed to be finite, amortized over economic life and assessed for impairment whenever there is an indication that the intangible fixed asset may be impaired. The amortization period and the amortization method for an intangible fixed asset are reviewed at least at each financial year-end. Changes in the expected economic life or the expected pattern of consumption of future economic rewards embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Gains or losses arising from derecognizing an intangible fixed asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Income Statement when the asset is derecognized.

Tangible Fixed Assets
Tangible fixed assets are stated at cost, less accumulated depreciation and accumulated impairment in value. Expenditure that arises after acquisition is included in the carrying amount of the asset only to the extent it is likely that the group will receive significant future economic benefits from the asset. Depreciation is calculated on a straight-line basis over the economic life of assets.

The carrying amount of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

A tangible fixed asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is derecognized.

The residual values and economic lives are reviewed, and adjusted if appropriate, at least at each financial year-end.

Impairment of Intangible Assets and Property, Plant and Equipment apart from Goodwill
The group assesses whether there is an indication that an asset may be impaired at each reporting date. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, if the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Impairment losses of continuing operations are recognized in the Income Statement.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates utilized to determine the asset's recoverable amount since the impairment loss was recognized. Goodwill impairment cannot be reversed. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined otherwise, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Income Statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining economic life.

Financial Instruments
When financial assets are recognized initially, they are measured at fair value less directly attributable transaction costs apart from for financial assets, which are measured at fair value in the Income Statement where transaction expenditure is immediately expensed. The group determines the classification of its financial assets on initial recognition.

Loans and Accounts Receivable to Maturity
Loan receivables and account receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost in ensuing periods. Gains and losses are recognized in the Income Statement when the loans and receivables are derecognized or impaired. The group primarily holds financial assets in this category.

Derivative Instruments Measured at Fair Value via the Income Statement
Derivative instruments are measured at fair value via the Income Statement and consist of currency forward contracts used to limit the risk from exchange rate fluctuations. The fair value of derivative instruments is reported as Other current receivables or Other current liabilities. Value increases and decreases on derivatives are reported as revenues or expenses respectively in operating profit/loss or in net financial income/expense depending on the purpose of the derivative instrument and whether its usage relates to a trading item or a financial item. Exchange gains and exchange losses are reported net in operating profit/loss. The Company has not applied hedge accounting when utilizing currency forward contracts.

Accounts Receivable to Maturity
Accounts receivable, which have standard payment terms of 30 days, adjusted for local market conditions, are recognized at the original invoiced amount less a provision for uncollectable amounts. A provision is made when there are strong indications that the group will not be able to obtain payment. Non-performing receivables are written off when it is definitively determined that no payment will be received.

Cash and Cash Equivalents at Fair Value via the Income Statement
Cash and cash equivalents in the Balance Sheet consist of cash at bank or in hand, and short-term deposits with an original maximum maturity of three months.

Note 2.3 Summary of Significant Accounting Principles, cont.

In the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash according to the above definition net of outstanding overdraft facilities.

Interest-bearing Loans to Maturity
All loans and borrowings are initially recognized at the fair value of the consideration received. After initial recognition, interest-bearing loans and borrowings are subsequently recognized at amortized cost.

Other Assets
Borrowing Costs
Borrowing costs directly attributable to the purchase, completion or production of a qualifying asset are capitalized as a part of the cost of the asset. Other borrowing costs are charged to profit as an expense for the period to which they relate.

Inventories
Inventory is reported at the lower of cost, in accordance with the first in first out (FIFO) method, and net realizable value.

Lease Arrangements
Determination of whether an arrangement is or contains a lease is based on the circumstances of the arrangement and requires a judgment of whether fulfillment of the arrangement is dependent on usage of a certain asset and confers entitlement to use the asset.

The Group as Lessee
Finance lease arrangements, which in principle, transfer all risks and rewards relating to ownership of the leased item to the group, are capitalized when the lease arrangement is entered at the fair value of the leased item, or if it is lower, the present value of minimum lease payments.

Capitalized leased assets are depreciated over the shorter of the asset's estimated useful lives and the lease term, unless it is reasonably certain that the group will take over ownership at the end of the lease.

Operating lease payments are recognized as an expense in the Income Statement on a straight-line basis over the lease term.

Provisions
Provisions are recognized when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic rewards will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the group expects some or all of the provision to be reimbursed, for example in an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is utilized, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Pensions and Other Post-employment Benefits
In the group there are mainly defined contribution pension plans. The group has one defined benefit plan, which is a multi-employer plan.

Defined Contribution Plans
The group's payments relating to defined contribution plans are reported as an expense during the period the employee has rendered services to which the contribution relates.

Defined Benefit Plan
Pension obligations for employees in Sweden are vested partly through insurance with Alecta. According to pronouncement UFR 3 Issued by the Swedish Financial Reporting Board (Rådet för finansiell rapportering) the plan is to be classified as a multi-employer defined benefit plan. Transmode does not have access to such information that makes it possible to report this plan as a defined benefit plan. The ITP pension plan that is vested through insurance with Alecta is therefore reported as a defined contribution plan.

Share-based Payment Transactions
There are equity settled option schemes. For all option schemes, the participants have paid fair value for the options; hence the programs have no effect on the profit or loss of the Transmode group.

Share-based Compensation
During the year, the group introduced a share-based incentive scheme, which means that Transmode receives services from its employees as payment for shares in the parent company.

The fair value of a service entitling employees to such share allocation is expensed. The total amount expensed is based on the fair value of the allocated instruments: excluding any impact resulting from terms of employment and terms governing earnings not based on market conditions (such as profitability and remaining in the company's employment for a fixed period), and including the impact of terms not governing earnings (such as required savings by employees).

The terms governing earnings not on market terms are used to calculate the anticipated number of shares earned. The total expense is reported over the earnings period, which equates to the period in which all terms governing earnings must be satisfied.

At the end of each reporting period, the group evaluates its assessment of the anticipated number of shares to be earned based on the earnings terms not governed by market conditions. Any potential discrepancy compared to the original assessment is reported in the Income Statement and corresponding adjustments made to equity.

Social security expenses arising from the allocation of instruments is considered an integral part of the allocation, and the expenses are treated as a cash settlement of share-based compensation.

Earnings per Share
Basic earnings per share are calculated by dividing the profit/loss attributable to equity holders of the parent company by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares for the dilution effect of all potential shares. Potential dilution effects arise through warrants issued. For the warrants, a calculation is made in order to determine the number of shares that could have been acquired at fair value, determined as the closing price on the reporting date according to NASDAQ OMX Stockholm, based on the monetary value of the subscription rights attached to outstanding warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the warrants. Dilution effects are only considered when they have an adverse effect on earnings per share. See Note 11.

NOTE 2.4

Parent Company Accounting Principles

The difference in accounting principles in the parent company's Annual Accounts and the Consolidated Accounts are due to the fact that the parent company must observe the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities. The accounting principles of the parent company that differ from the group's are reviewed below. Apart from differences in accounting principles, there are some differences in disclosure requirements, which to some extent, limit disclosures regarding the parent company.

Shares in Subsidiaries

Shares in subsidiaries are carried in the Balance Sheet at cost less any impairment charges. An impairment test is conducted if there is an indication that recoverable value is less than book value.

Group Contributions and Shareholders' Contributions

Group contributions are reported in accordance with the alternative rule in accordance with RFR 2, i.e. via the Income Statement. Shareholders' contributions paid are recognized as an increase in participations in subsidiaries. A judgment is then made of whether participations in subsidiaries are impaired.

Presentation of Equity

In the parent company's financial statements, equity is divided into restricted and non-restricted equity due to the stipulation in the Swedish Annual Accounts Act, which is not required under IFRS. Accordingly, there is no division in the Consolidated Accounts.

NOTE 3

Sales

Group	2013	2012
Sales by region		
Sweden	119.8	86.2
EMEA excluding Sweden	738.6	721.4
Americas	123.7	185.6
APAC	47.0	17.7
Total	**1,029.1**	**1,010.9**

There are 3 (3) customers that each represent over 10% of total sales. These customers' share of sales amounts to 22%, 11% and 11%, compared to 25%, 11%, and 11% in the previous year. 'Customer' means a legal entity, and where applicable, a collection of legal entities in the same group.

There are 5 (3) countries that each represent over 10% of total sales. Together, sales to these countries amount to some 68% (53) of total sales.

Group	2013	2012
Share of total sales from countries where share of sales > 10%		
UK (%)	25	30
Sweden (%)	12	
Germany (%)	11	
Norway (%)	10	11
USA (%)	10	12
Total	**68**	**53**

NOTE 4

Other Income and Other Operating Expenses

Group	2013	2012
Other income		
Exchange gains/losses on balances with customers and suppliers	-	-4.4
Exchange gains/losses on currency contracts	-	5.1
Other	0.9	0.6
Total	**0.9**	**1.3**
Other operating expenses		
Exchange gains/losses on balances with customs and suppliers	-10.0	-
Exchange gains/losses on currency contracts	6.4	-
Other	0.0	0.0
Total	**-3.6**	**0.0**

Parent company	2013	2012
Other income		
Exchange gains/losses on balances with customers and suppliers	0.0	0.0
Other	0.3	0.6
Total	**0.3**	**0.6**

NOTE 5

Expenses by Category

Group	2013	2012
Cost of goods and services provided[1)]	468.8	476.3
Other expenses	159.5	124.1
Personnel expenses	268.8	254.2
Depreciation and amortization of intangible assets and property, plant and equipment	36.4	29.6
Total operating expenses, gross	**933.5**	**884.2**
Capitalization of development expenses	-52.0	-42.7
Total operating expenses, net	**881.5**	**841.5**

1) Cost of goods sold and services provided according to Income Statement classified by function reduced by allocated expenses of SEK 38.8 (35.8) m.

NOTE 6

Auditors' Fees

Group	2013	2012
PricewaterhouseCoopers		
Audit assignment	1.0	0.7
Auditing services over and above audit assignment [1)]	0.1	0.4
Tax advisory services	0.0	0.1
Other services	0.2	0.1
Total PricewaterhouseCoopers	**1.3**	**1.3**
The MGroup		
Audit assignment	0.0	0.1
Auditing services over and above audit assignment	-	-
Tax advisory services	-	0.0
Other services	0.3	0.3
Total MGroup	**0.3**	**0.4**
Total	**1.6**	**1.7**

Parent company	2013	2012
PricewaterhouseCoopers		
Audit assignment	0.5	0.3
Auditing services over and above audit assignment [1)]	0.1	0.3
Tax advisory services	–	0.1
Other services	0.1	0.1
Total PricewaterhouseCoopers	**0.7**	**0.8**

[1)] Of auditing over and above the audit assignment, SEK - (0.0) m are expenses relating to the company's IPO on NASDAQ OMX Stockholm.

Auditing means the auditor's reimbursement for the statutory audit, i.e. the work necessary to submit the Audit Report. This also includes fees for audit advisory services provided in tandem with the audit assignment.

In principle, auditing services over and above the audit assignment relate to quality-assurance services in accordance with the Swedish Auditors' Act. This Act stipulates that auditing activities are partly the review of administration or accounting information to be conducted according to constitution, statute or contract and should result in a report or other documentation intended for parties other than the client, and advisory services ensuing from observations from a review assignment.

Tax advisory services are evident from the statement itself. Other services means advisory services that are not related to any of the stated services assignments.

The Accounts of group company Transmode (UK) Ltd. were not audited in 2012 or 2013, because the company invoked exemption from auditing in the UK in accordance with S479A of the Companies Act 2006.

NOTE 7

Employee Benefits

Ave. Number of Employees

Group	2013	Of which men %	2012	Of which men %
Sweden	231	77	220	78
UK	14	100	12	100
Germany	7	100	7	100
USA	17	88	15	87
Italy	1	100	1	100
Group total	**270**	**79**	**255**	**80**

Parent company	2013	Of which men %	2012	Of which men %
Sweden	13	31	11	36
Parent company total	**13**	**31**	**11**	**36**

Division between the Sexes, Group (incl. Subsidiaries) for Board Members and other Senior Managers

Group	2013	Of which men %	2012	Of which men %
Board members apart from CEO	7	86	7	86
Chief Executive Officer and other Senior Managers	11	82	8	88
Group total	**18**	**83**	**15**	**87**

Salary and other benefits and social security contributions

	2013		2012	
Group	Salary and Benefits	Social Security Contrib.	Salary and Benefits	Social Security Contrib.
	187.9	70.0	173.2	68.4
(of which pension expenses)[1)]		*(18.8)[1)]*		*(19.9)[1)]*

[1)] No pension expenses were attributable to the Board for 2013 or 2012.

	2013		2012	
Parent company	Salary and Benefits	Social Security Contrib.	Salary and Benefits	Social Security Contrib.
	12.8	6.3	11.9	6.6
(of which pension expenses)		*(2.1)*		*(2.3)*

Salary and Benefits by Chief Executive Officer, Board of Directors and Other Employees

	2013		2012	
Group	CEO and Board	Other employees	CEO and Board	Other employees
	5.8	182.1	5.2	168.0

See also Note 30.

	2013		2012	
Parent company	CEO and Board	Other employees	CEO and Board	Other employees
	5.8	7.0	5.2	6.7

Incentive Schemes
The Group introduced an incentive scheme for senior executives and other employees during the year. For more information, see Note 17.

NOTE 8

Depreciation, Amortization and Impairment

Group	2013	2012
Depreciation and amortization per asset		
Capitalized development expenses	23.9	18.2
Technology	4.7	4.7
Licenses	0.1	–
Leasehold improvements	0.7	0.6
Machinery and equipment	7.0	6.1
Total	**36.4**	**29.6**
Depreciation and amortization by function		
Cost of goods and services provided	1.0	0.9
Research and development expenses	33.3	26.8
Selling expenses	1.7	1.6
Administration expenses	0.4	0.3
Total	**36.4**	**29.6**

NOTE 9

Financial Income and Expenses

Group	2013	2012
Financial income		
Interest income	6.5	8.3
Exchange losses	0.0	-1.7
Total	**6.5**	**6.6**
Financial expenses		
Other interest and financial expenses	0.0	0.0
Exchange gains/losses	0.5	-0.4
Total	**0.5**	**-0.4**

Parent company	2013	2012
Financial income		
Interest expenses	1.7	3.1
Interest income from group companies	2.7	2.7
Dividend from group companies[1]	52.2	-
Anticipated dividends from group companies[2]	115.5	-
Group contribution received[3]	5.0	1.0
Exchange gains/losses	0.0	0.0
Total	**177.1**	**6.8**

[1] Dividend from subsidiary Transmode Systems AB.
[2] Anticipated dividend from subsidiary Transmode Systems AB.
[3] Group contribution received from subsidiary Transmode Systems AB.

Parent company	2013	2012
Financial expenses		
Other interest and financial expenses	0.0	0.0
Exchange gains/losses	0.0	0.0
Total	**0.0**	**0.0**

NOTE 10

Taxes

Group
The components of tax expenses for the financial years are:

	2013	2012
Current tax		
Tax on profit for the year	-27.2	-25.6
Tax attributable to previous year	0.0	1.0
Deferred tax		
Occurrence and reversal of temporary differences	-6.0	-19.5
Tax related to business combinations	1.0	1.2
Effect of changes in Swedish corporation tax rate	-	5.2
Total tax	**-32.2**	**-37.7**

Reconciliation between tax expense and recognized profits multiplied by the Swedish tax rate for the financial years as of December 31 is as follows:

	2013	2012
Recognized profit before tax	155.5	176.9
Tax calculated on Swedish enacted tax rate, 22.0% (26.3)	-34.2	-46.5
Tax attributable to previous year	0.0	1.0
Non-taxable income	0.1	0.0
Non-deductible expenses	-0.8	-0.8
Taxable income not included in reported net profit for the year	0.0	-
Effect of higher/lower tax rates for foreign subsidiaries	-0.1	0.0
Tax effect of amortization of goodwill arising from the purchase of the net assets of group companies	2.8	3.4
Deductible deficits for which no deferred tax asset is recognized	0.0	0.0
Restatement of deferred tax-change in Swedish corporation tax rate	-	5.2
Tax recognized in the Consolidated Income Statement	**-32.2**	**-37.7**

Note 10 Taxes, cont.

Current tax rate %	2013	2012
Sweden	22.0	26.3
UK	20.0	20.0
Singapore	17.0	17.0
USA	40.0	40.0
Canada	26.5	26.5
Italy	31.4	31.4
Germany	30.5	30.5

Deferred tax assets are attributable to the following:

Deferred tax asset	2013	2012
Other provisions for pensions	0.3	0.2
Other	1.9	1.0
Total	**2.2**	**1.2**

	2013	2012
Opening balance, January 1	1.2	0.8
Tax on provisions for pensions for the year	0.1	-0.1
Other	0.9	0.7
Effect of changes in Swedish corporation tax rate	-	-0.2
Closing balance, December 31	**2.2**	**1.2**

Deferred tax liability	2013	2012
Capitalized development expenses	19.3	14.1
Technology	1.3	2.3
Untaxed reserves	13.3	11.5
Total	**33.9**	**27.9**

	2013	2012
Opening balance, January 1	27.9	4.0
Tax on capitalized development expenses	5.2	16.9
Tax on untaxed reserves	1.8	13.7
Tax on the year's amortization of technology	-1.0	-1.3
Effect of changes in Swedish corporation tax rate	-	-5.4
Closing balance, December 31	**33.9**	**27.9**

The group has no deductible loss carry-forwards.

There are no tax consequences for the company upon potential dividends to shareholders.

Parent company

Deferred tax liability	2013	2012
Other pension provisions	0.3	0.2
Other	0.1	0.1
Total	**0.4**	**0.3**

	2013	2012
Opening balance, January 1	0.3	0.7
Tax on pension provisions	0.1	0.0
Other	-	-0.4
Closing balance, December 31	**0.4**	**0.3**

NOTE 11

Earnings per Share

	2013	2012
Profit attributable to equity holders of the parent company	123.3	139.2
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share (000)	27,782	27,724
Adjustments for:		
assumed exercise of stock options (000)	-	65
Weighted average number of outstanding ordinary shares used to calculate diluted earnings per share (000)	**27,782**	**27,789**
Basic earnings per share	4.44	5.02
Diluted earnings per share	4.44	5.01

NOTE 12

Dividends

	2013	2012
Dividend paid on shares	-50.0	-41.7
	-50.0	**-41.7**

The Board of Directors is proposing to the Annual General Meeting 2014 that dividends of SEK 1.80 per share are paid corresponding to a total of SEK 50.0 (50.0) m plus an extra dividend of SEK 4.70 (-) per share, corresponding to a total of SEK 130.6 (-) m. In total, proposed dividends are SEK 6.50 (1.80) per share, corresponding to a total of SEK 180.6 (50.0) m.

NOTE 13

Tangible Fixed Assets

December 31, 2012	Leasehold Improvement	Machinery and Equipment
January 1, 2012		
Cost	2.6	38.5
Cumulative depreciation	-0.3	-21.6
Carrying amount	**2.3**	**16.9**
January 1, 2012, opening carrying amount	2.3	16.9
Purchases	0.5	9.3
Disposals and retirements	-	-0.2
Depreciation for the year	-0.6	-6.1
December 31, 2012, closing carrying amount	**2.2**	**19.9**
December 31, 2012		
Cost	3.1	46.4
Cumulative depreciation	-0.9	-26.5
Carrying amount	**2.2**	**19.9**

No impairment losses were taken in 2012. Obsolescence in the year reduced cost by SEK 1.4 m and cumulative depreciation by SEK 1.2 m, SEK -0.2 m net.

December 31, 2013	Leasehold Improvement	Machinery and Equipment
January 1, 2013		
Cost	3.1	46.4
Cumulative depreciation	-0.9	-26.5
Carrying amount	**2.2**	**19.9**
January 1, 2013, opening carrying amount	2.2	19.9
Purchases	0.3	10.2
Disposals and retirements	-	-
Depreciation for the year	-0.7	-7.0
December 31, 2013, closing carrying amount	**1.8**	**23.1**
December 31, 2013		
Cost	3.4	56.6
Cumulative depreciation	-1.6	-33.5
Carrying amount	**1.8**	**23.1**

No impairment losses were taken in 2013.

The estimated economic lives of other assets are as follows:	2013	2012
Leasehold improvements	5 yr	5 yr
Machinery and equipment	3–5 yr	3–5 yr

NOTE 14

Intangible Fixed Assets

December 31, 2012	Goodwill	Capitalized Dev. Exp.	Tech-nology
January 1, 2012			
Cost	88.4	63.5	47.0
Cumulative depreciation	-	-23.8	-31.7
Carrying amount	**88.4**	**39.7**	**15.3**
January 1, 2012, opening carrying amount	88.4	39.7	15.3
Purchases	-	42.7	-
Depreciation for the year	-	-18.2	-4.7
December 31, 2012, closing carrying amount	**88.4**	**64.2**	**10.6**
December 31, 2012			
Cost	88.4	106.2	47.0
Cumulative depreciation	-	-42.0	-36.4
Carrying amount	**88.4**	**64.2**	**10.6**

No impairment losses were taken in 2012.

December 31, 2013	Goodwill	Capitalized Dev. Exp.	Licenses	Tech-nology
January 1, 2013				
Cost	88.4	106.2	-	47.0
Cumulative depreciation	-	-42.0	-	-36.4
Carrying amount	**88.4**	**64.2**	**-**	**10.6**
January 1, 2013, opening carrying amount	88.4	64.2	-	10.6
Purchases	-	47.5	4.5	-
Depreciation for the year	-	-23.9	-0.1	-4.7
December 31, 2013, closing carrying amount	**88.4**	**87.8**	**4.4**	**5.9**
December 31, 2013				
Cost	88.4	153.7	4.5	47.0
Cumulative depreciation	-	-65.9	-0.1	-41.1
Carrying amount	**88.4**	**87.8**	**4.4**	**5.9**

No impairment losses were taken in 2013.

The estimated economic lives of other assets are as follows:	2013	2012
Technology	10 yr	10 yr
Capitalized development expenses	3–5 yr	3 yr
Licenses	3 yr	-

Transmode acquired Lumentis AB in 2005. Intangible fixed assets attributable to Technology and Customer Relations were identified when valuing the company. Technology is amortized on a straight-line basis over 10 years, which is the economic life assessed by the Board of Directors. Capitalized development expenses are amortized over the product's assessed useful life, although a maximum of 7 years. For reported assets in 2012 and 2013, assessed useful life is 3–5 years.Acquired software licenses are depreciated during the estimated remaining economic life of 3–5 years.

NOTE 15

Impairment Test of Goodwill

Goodwill acquired in business combinations is allocated to a cash-generating unit, which is synonymous with Transmode's only business segment; optical networking solutions. The carrying amount of goodwill is allocated as follows:

	2013	2012
Optical networking solutions	88.4	88.4
Total goodwill	**88.4**	**88.4**

The impairment test for Transmode's cash-generating unit is based on calculated value in use. As in the previous year, the cash flow forecast utilized in the impairment test 2013 is based on the financial targets communicated, which have been approved by management and the Board of Directors.

Expected market growth and Transmode's opportunities to in crease market shares were used when preparing these forecasts. In the impairment test, the growth rate utilized to extrapolate cash flows after year 2017 is 3.0% (3.0). A discount rate of 11% (9.8) before tax was utilized when calculating the present value of cash flow. The interest rate is judged to reflect the specific risks in the market segment that the company operates in. All assumptions reflect the Company´s past experience.

A sensitivity analysis was conducted on the impairment tests through individual changes to assumptions and progress regarding sales, operating margin and discount rates through:

- The yearly forecast sales growth reduced by 50% or
- Yearly forecast operating margin reduced by 25% or
- Yearly forecast discount rate increased by 25%.

After the sensitivity analysis of the impairment test was conducted, a substantial surplus value still remains without any impairment.

NOTE 16

Other Financial Assets

December 31, 2012	Deposits Paid	Blocked Funds	Endow-ment Insurance	Total
Opening balance, January 1	-	0.5	0.7	1.2
Released funds	-	0.0	-	0.0
New deposits	1.1	-	-	1.1
Deposited premiums	-	-	0.3	0.3
Change in value	-	-	0.0	0.0
Interest received	-	0.0	-	0.0
Closing balance, December 31,	**1.1**	**0.5**	**1.0**	**2.6**

December 31, 2013	Deposits Paid	Blocked Funds	Endow-ment Insurance	Total
Opening balance, January 1	1.1	0.5	1.0	2.6
Released funds	-	0.0	-	0.0
New deposits	2.2	-	-	2.2
Deposited premiums	-	-	0.3	0.3
Change in value	-	-	0.2	0.2
Interest received	-	0.0	-	0.0
Closing balance, December 31,	**3.3**	**0.5**	**1.5**	**5.3**

Blocked bank funds are collateral for bank guarantees issued.

NOTE 17

Share-based Compensation and Share Warrants

Share-based Compensation—Long-term Incentive Program

The AGM in April 2013 resolved to introduce a long-term incentive program as an integral part of Transmode's remuneration strategy. The program encompasses all Transmode's employees, divided into five categories with a range of savings and allocation levels. The allocation date for the program was June 10, 2013.

Employees who choose to participate in the program will, provided they make a personal investment in equities in Transmode (saving shares), be allotted, free of charge, shares in Transmode (by matching share rights and performance share rights) approximately three years after the investment (the vesting period), provided that certain conditions are fulfilled. In order for matching share rights to vest and give the participant a right to receive shares in Transmode, the participant must have been continuously employed by Transmode during the vesting period and not have divested any saving shares during the vesting period and Transmode's operating margin must also exceeds a certain threshold.

In addition to the above, performance share rights can be allotted to employees. For performance share rights to vest and give right to shares in Transmode, certain financial performance conditions, as specified by the Board of Directors, must have been fulfilled and participants must have been continuously employed by Transmode during the vesting period and not have divested any saving shares during the vesting period.

Note 17 Share-based Compensation and Share Warrants, cont.

Scope
In total, the program currently encompasses a maximum of 24,823 saving shares, which confer the right to allotment of a maximum of 66,436 shares in Transmode (of which a maximum of 24,823 is based on matching share rights and a maximum of 41,613 are based on performance share rights). 658 shares were forfeited in the year.

Delivery of Shares Under the Program
In order to ensure delivery of shares in Transmode under the program, the Board of Directors has been authorized to resolve to buy back treasury shares.

Estimated Costs and Value of the Program
The cost of the program including social security costs totaled SEK 1.6 m for the year. The weighted average fair value of the allotted instruments is SEK 100.64.
The estimated cost of the program is based on the following assumptions:

- a share price of SEK 105.75,
- no compensation for dividends, using a yield figure in line wit the proposal to the AGM 2013,
- maximum investment in saving shares by all participants,
- assessment of the extent to which performance terms have been satisfied, and
- assessment of expected personnel turnover.

Share warrants
The final subscription date for the now-expired share warrant programs was April 30, 2012. Accordingly, since this date, there are no outstanding share warrants, so the following statement applies exclusively to expired share warrant programs.

Share warrants for Board Members and Employees
The AGM in April 2009 authorized the Board of Directors to decide on the issue of a maximum of 55,000,000 share warrants with the right to subscribe for a maximum of 55,000,000 ordinary shares for certain Board members and employees of the company on one or more occasions in the period until the AGM 2010, waiving shareholders' preferential rights.
The offered granting and terms and conditions of the share warrants of the option plan 2009:I were delivered to participants in May 2009. In June 2009, the Board of Directors took a decision to issue a total of 43,071,858 share warrants to the participants in the option plan.
The offered granting and terms and conditions of the share warrants of the option plan 2009:II were delivered to participants in June 2009. In July 2009, the Board of Directors took a decision to issue a total of 4,966,280 share warrants to the participants in the option plan.
All the share warrants in the above option plans, totaling 48,038,138, were subscribed at a subscription price of SEK 0.03 per share warrant, with entitlement to subscribe for a total of 48,038,138 ordinary shares at an exercise price of SEK 0.45 per ordinary share. The subscription period for the option plan 2009:I was the period October 2009 to April 30, 2012. Subscription for shares in the option plan 2009:II was possible in the period April 1–30, 2012, coincident with and after a possible initial public offering of the company's share and other periods that the Board of Directors was entitled to decide on. Otherwise, the terms and conditions of the options were the same for both plans.
The price of the share warrants was based on assessed market value, proceeding from a price calculated by an external valuer by applying the Black & Scholes valuation model. As an individual un-listed share, volatility was assessed as above the Stockholm Stock Exchange average for the OMX Index over recent years before the option plan. Because the price of the share warrants is judged to correspond to the assessed fair value, consolidated profit was not charged at granting. However, provisioning was conducted for social security contributions on an ongoing basis in accordance with each country's regulations.

Input data used in the valuation of plans 2009:I and 2009:II:

Expected dividend (SEK)	0.00
Volatility (%)	30
Term (years)	3.0
Share price at grant date (SEK)	0.30
Annual risk-free interest (%)	3.2
Exercise price (SEK)	0.45

In the subscription period, Transmode held an option to re-purchase the share warrants at market value if the holder's employment terminated before subscription was consummated.
In accordance with existing share warrant terms, due to the dividends paid by Transmode in 2010, the above 2010 exercise price was restated from SEK 0.45 to SEK 0.30 per ordinary share.
An EGM on April 7, 2011 resolved to conduct a reverse split of the company's share in the ratio of 1:20, whereby 20 existing shares were consolidated into one new share. Accordingly, in accordance with the terms and conditions of the share warrants, the subscription price and the number of shares each share warrant conferred entitlement to subscribe for were restated, whereupon each share warrant entitled the holder to subscribe for 0.05 new shares at a subscription price of SEK 6.00 per share.

Holdings and changes in share warrants in the 2009:I plan are as follows:

	2013	2012
January 1	-	6,052,258
Forfeited	-	-18
Exercised	-	-6,052,240
December 31	**-**	**-**

Holdings and changes in share warrants in the 2009:II plan are as follows:

	2013	2012
January 1	-	1,285,320
Forfeited	-	-30,000
Exercised	-	-1,255,320
December 31	**-**	**-**

The AGM 2010 resolved to extend the Board of Directors' authorization from the AGM 2009 for the remaining share warrants up to an aggregate maximum of 55,000,000, in the period before the AGM 2011.
The offered granting and terms and conditions of the share warrants in the 2009:III option plan were delivered to participants in February 2010. In May 2010, the Board of Directors took the decision to issue a maximum total of 2,900,000 share warrants to participants in the option plan.
The offered granting and terms and conditions of the share warrants in the 2009:IV option plan were delivered to participants in May 2010. In May 2010, the Board of Directors took the decision to issue a maximum total of 3,995,000 share warrants to participants in the option plan.
All the share warrants in the 2009 III – IV option plans, totaling 6,895,000, were subscribed at a subscription price of SEK 0.10 per share warrant, with entitlement to subscribe for a total of 6,895,000 ordinary shares at an exercise price of SEK 0.75 per ordinary share. The subscription period for the option plan 2009:III

Note 17 Share Warrants [SK4] and Share-based Compensation, cont.

was the period May 2010 to April 30, 2012. Subscription for shares in the option plan 2009:IV was possible in the period April 1–30, 2012, coincident with and after a possible initial public offering of the company's share and other periods that the Board of Directors could decide. Otherwise, the terms and conditions of the options were the same for both plans.

The price of the share warrants was based on assessed market value, proceeding from a price calculated by an external valuer by applying the Black & Scholes valuation model. As an individual un-listed share, volatility was assessed as above the Stockholm Stock Exchange average for the OMX Index over recent years before the option plan. Because the price of the share warrants is judged to correspond to the assessed fair value, consolidated profit was not charged at granting. However, provisioning was conducted for social security contributions on an ongoing basis in accordance with each country's regulations.

Input data used in the valuation of plans 2009:III and 2009:IV	
Expected dividend (SEK)	0.00
Volatility (%)	30
Term (years)	2.4
Share price at grant date (SEK)	0.66
Annual risk-free interest (%)	2.5
Exercise price (SEK)	0.75

In the subscription period, Transmode held an option to re-purchase the share warrants at market value if the holder's employment terminated before subscription is consummated.

In accordance with existing share warrant terms, due to the dividends paid by Transmode in 2010, the above exercise price was restated from SEK 0.75 to SEK 0.60 per ordinary share in 2010.

An EGM on April 7, 2011 resolved to conduct a reverse split of the company's share in the ratio of 1:20, whereby 20 existing shares were consolidated into one new share. Accordingly, in accordance with the terms and conditions of the share warrants, the subscription price and the number of shares each share warrant conferred entitlement to subscribe for were restated, whereupon each share warrant entitled the holder to subscribe for 0.05 new shares at a subscription price of SEK 12.00 per share.

Holdings and changes in share warrants in the 2009:IV are as follows:

	2013	2012
January 1	-	220,000
Exercised	-	-220,000
December 31	**–**	**220,000**

Holdings and changes in share warrants in the 2009:IV are as follows:

	2013	2012
January 1	-	2,105,000
Re-purchased	-	-
Exercised	-	-2,105,000
December 31	**-**	**-**

NOTE 18

Inventories

Inventories of SEK 85.9 (99.4) m comprise finished goods, products in progress and raw materials.

Expensed impairment losses on inventories amount to SEK 2.0 (1.6) m. Impairment losses have been conducted for established and assessed obsolescence. The expense is included in cost of goods and services provided in the Income Statement.

No impairment losses were reversed in the years 2012–2013. Provisioning to obsolescence reserve is based on age and rate of turnover and amounts to SEK 21.1 (22.5) m.

	2013	2012
Raw materials	9.6	21.1
Products in progress	6.3	5.3
Finished goods	91.1	95.5
Obsolescence	-21.1	-22.5
Total	**85.9**	**99.4**

NOTE 19

Accounts Receivable

	2013	2012
Accounts receivable	184.7	150.4
Less: provision for bad debt	-	-
Accounts receivable, net	**184.7**	**150.4**

Changes in the provision for bad debt in the years 2012 to 2013 are stated in the following table.

	2013	2012
Opening balance, January 1	-	-0.1
Reversed unutilized amounts	-	0.1
Closing balance, December 31	**-**	**-**

An age analysis of the group's outstanding accounts receivable as of December 31, for 2012 and 2013 is stated in the following table. The amounts exclude debt written off. Net accounts receivable thus correspond to the maximum credit risk for the group in addition to that provisioned in the financial statements. The group has no pledges as collateral for these credit risks.

	2013	2012
Non-overdue accounts receivable	168.8	137.5
Overdue by 1–30 days	6.4	12.4
Overdue by 31–90 days	4.6	2.2
Overdue by 91–180 days	9.5	0.4
Overdue by over 180 days	-4.7	-2.1
Accounts receivable, net	**184.7**	**150.4**

NOTE 20

Other Current Receivables

	2013	2012
Income taxes recoverable	4.6	8.7
Sales tax recoverable	15.2	13.3
Other receivables	0.7	5.4
Total	**20.5**	**27.4**

NOTE 21

Prepaid Expenses and Accrued Income

	2013	2012
Prepaid rent	3.2	2.5
Prepaid staff-related insurance policies	1.0	0.8
Prepaid licensing expenses	4.4	1.7
Accrued interest income	0.3	1.3
Accrued income	2.5	0.3
Other prepaid expenses	1.9	1.5
Total	**13.3**	**8.1**

NOTE 22

Cash and Cash Equivalents

	2013	2012
Cash and cash equivalents	431.5	376.8
Total	**431.5**	**376.8**

Cash and cash equivalents include bank balances that accrue interest at varying rates, based on daily deposit rates and fixed-term, investments in securities, etc. accruing interest as agreed from time to time.

The fair value of cash and cash equivalents is the same as book value.

NOTE 23

Share Capital and Reserves

Share Capital

As of December 31, 2013, there are 27,788,676 shares of Transmode AB with a quotient value of SEK 0.20. All shares are fully paid-up.

	No. of Shares	Share Capital	Unregistered Share Capital	Other Paid-up Capital	Total
January 1, 2012	27,307,048	5.5	0.0	642.5	648.0
Registration of new share issue	7,700	0.0	0.0	-	0.0
New issue on conversion of share warrants	473,928	0.1	-	3.5	3.6
December 31, 2012	**27,788,676**	**5.6**	**-**	**646.0**	**651.6**
January 1, 2013	27,788,676	5.6	-	646.0	651.6
December 31, 2013	**27,788,676**	**5.6**	**-**	**646.0**	**651.6**

Option plans

The company had no outstanding share warrants as of December 31, 2013. More information in Note 17.

Other reserves

Other reserves consist of translation differences of SEK −0.9 (−0.9) m attributable to equity in foreign subsidiaries.

NOTE 24

Long-term liabilities

Items within long-term liabilities are reviewed in Notes 10, 25 and 26.

Bank Credits/Factoring Customer Invoices

As of December 31, 2013 the company had an unutilized credit facility of SEK 12.0 (-) m, of which SEK 7.2 (-) m had been utilized for bank guarantees issued.

NOTE 25

Other Provisions

Provisions for Pensions

Provisions for pensions relate to an endowment insurance for the CEO that is described in more detail in Note 26.

Provisions for Guarantees

The provision relates to expected expenditure for guarantee commitments to customers. Partly for commitments relating to specific customer projects and partly for general commitments according to standard agreements, but also for expected expenditure of a goodwill nature. The provision is based on historical and forward-looking information regarding expenses and guarantee periods, for example. The majority of the guarantee expenses during the remaining guarantee period are expected to occur within the next 12 months and is thus recognized as a short-term provision. That portion of guarantee expenses expected to occur after 12 months is recognized as a long-term provision.

Provision for Compensation to Founders

This provision relates to expected compensation to founders of Transmode Systems AB and Transmode AB. This compensation was agreed coincident with Transmode AB acquiring Transmode Systems AB. The payment from the company is expected within 12 months from the founders potentially selling shares in Transmode AB. Payment will be conducted at one or more occasions depending on when and how many shares are sold on each occasion. The first payment was made in the fourth quarter of 2011 and a second payment was made in 2012.

Other Provisions

Other provisions primarily consist of commitments linked to rights of return for customers. Expected expenses are measured in accordance with the rules for onerous contracts as the difference between the initial sales price and the net realizable value.

Other Provisions Note 25

December 31, 2012	Pensions	Guarantees	Compensation Founders	Other	Total
January 1, 2012	0.9	10.3	1.7	2.7	15.6
Additional provisions	0.2	16.4	-	1.3	17.9
Utilized in the year	-	-3.7	-0.8	-1.3	-5.8
Reversed unutilized amounts	-	-1.9	-	-	-1.9
Change in value	-0.2	-	-	-	-0.2
December 31, 2012	**0.9**	**21.1**	**0.9**	**2.7**	**25.6**
Short-term	-	18.0	0.9	2.3	21.2
Long-term	0.9	3.1	-	0.4	4.4
Total	**0.9**	**21.1**	**0.9**	**2.7**	**25.6**

December 31, 2013	Pensions	Guarantees	Compensation Founders	Other	Total
January 1, 2013	0.9	21.1	0.9	2.7	25.6
Additional provisions	0.3	10.2	-	0.2	10.7
Utilized in the year	-	-11.7	-	-0.5	-12.2
Reversed unutilized amounts	-	-0.2	-0.9	-1.7	-2.8
Change in value	0.2	-	-	-	0.2
December 31, 2013	**1.4**	**19.4**	**-**	**0.7**	**21.5**
Short-term	-	16.5	-	0.1	16.6
Long-term	1.4	2.9	-	0.6	4.9
Total	**1.4**	**19.4**	**-**	**0.7**	**21.5**

NOTE 26

Pensions

Commitments for old-age and survivors' pensions for salaried employees in Sweden are vested through an insurance policy with Alecta. According to pronouncement UFR 3 issued by the Swedish Financial Reporting Board, this is a multi-employer defined benefit plan. For the financial year 2013, the group did not have access to such information that makes it possible to report this plan as a defined benefit plan. Thus the ITP pension plan secured through insurance with Alecta is reported as a defined contribution plan. Expenditure for pension policies in the year insured with Alecta amount to SEK 12.5 (12.7) m. Alecta's surplus can be distributed to policy-holders and/or insured parties. At year-end 2013, Alecta's surplus expressed as its collective consolidation ratio was 148% (129). The collective consolidation ratio comprises the market value of Alecta's assets as a percentage of its insurance commitments, calculated according to Alecta's actuarial calculation assumptions, which are not consistent with IAS 19.

As part of his pension plan, the Chief Executive Officer has chosen an endowment insurance held by Transmode AB. This policy is recognized as a financial asset. The expected pension payments and employer's contributions on it are stated as a long- term provision.

Commitments for foreign pensions are reported in accordance with local regulations in each country.

NOTE 27

Accounts Payable and Other Current Liabilities

	2013	2012
Accounts payable	103.0	93.0
Advances from customers	1.4	1.2
VAT liability	0.9	1.2
Social security contributions and employee withholding taxes	14.6	7.6
Other current liabilities	3.2	1.4
Total	**123.1**	**104.4**

Accounts payable are non interest-bearing and normally settled on their stated due date, usually within 30–60 days from invoice date. See Note 30 for liabilities to related parties. Other current liabilities are non interest-bearing and settled within 12 months.

NOTE 28

Accrued Expenses and Deferred Income

Group	2013	2012
Accrued personnel expenses	38.1	34.1
Prepaid income	17.7	5.9
Other accrued expenses	15.2	20.0
Total	**71.0**	**60.0**

Parent Company	2013	2012
Accrued personnel expenses	4.3	5.8
Other accrued expenses	1.2	1.5
Total	**5.5**	**7.3**

NOTE 29

Commitments, Pledged Assets and Contingent Liabilities

Operating Lease Commitments – the Group as Lessee

The group has entered commercial lease arrangements regarding premises. The lease arrangements have differing terms, indexation clauses and extension options. Future minimum lease payments for irrevocable operating lease arrangements as of December 31 are as follows:

	2013	2012
Within one year	14.0	12.5
After more than one year but within five years	57.0	30.0
After more than five years	6.6	0.1
Total	**77.6**	**42.6**
Expenses for operating lease commitments	9.6	9.2

Pledged Assets

	2013	2012
Blocked funds	0.5	0.5
Total	**0.5**	**0.5**

Floating Charge

	2013	2012
Priority 1	9.0	8.6
Priority 2	3.0	3.0
Priority 3	8.9	25.9
Priority 4	9.0	-
Priority 5	8.9	-
Total	**38.8**	**37.5**

Of outstanding floating charges, the company holds SEK 17.9 (25.9) m.

Pledges

The group's endowment insurance, which is part of the pension plan for the Chief Executive Officer, is pledged. The pledgee is the Chief Executive Officer.

Contingent Liabilities

The group has no contingent liabilities requiring any disclosure for the years 2012 and 2013.

NOTE 30

Transactions with Related Parties

The Consolidated Accounts include the financial statements of Transmode AB and the subsidiaries in the following table:

	Corporate ID No.	Country	Equity Holding %
Directly owned subsidiaries			
Transmode Systems AB	556587-0028	Sweden	100
Indirectly owned subsidiaries			
Transmode Systems Inc	3457703	USA	100
Transmode (UK) Ltd	4968653	UK	100
Transmode Systems Germany GmbH	00724618305	Germany	100
Transmode Systems Asia Pte Ltd	200413703N	Singapore	100
Transmode Systems Canada Inc	6562281	Canada	100
Transmode Systems Italy S.r.l.	06189330969	Italy	100

No subsidiaries were incorporated in 2012 or 2013. Transmode AB is the group parent company.

Transactions with Related Parties

The company conducted transactions with related parties amounting to SEK –0.9 (–0.6) m in the year. This expense wholly relates to Directors' fees and fees for committee work to companies wholly or partly owned by two Board members, which are included in the following table.

Salary and Benefits to Senior Managers in the Group

2013	Basic salary/ Director's Fee	Performance-related Pay	Share-based Compen-sation	Pension Expense	Other Benefits	Total
Chairman of the board						
Tom Nyman[2)]	0.4	-	-	-	-	0.4
Kent Sander[3)]	0.1	-	-	-	-	0.1
Other Board members						
Axel Roos	0.2	-	-	-	-	0.2
Eva Lindqvist	0.1	-	-	-	-	0.1
Gerd Tenzer	0.3	-	-	-	-	0.3
Kevin Taylor	0.3	-	-	-	-	0.3
Torbjörn Nilsson	0.2	-	-	-	-	0.2
Helena Nordman-Knutson	0.2	-	-	-	-	0.2
Roland Thornton	0.2	-	-	-	-	0.2
Chief Executive Officer	2.5	1.2	0.1	0.7	-	4.5
Other senior managers (10 people)	11.5	4.0	0.4	2.9	1.0	19.8
Total	**16.0**	**5.2**	**0.5**	**3.6**	**1.0**	**26.3**

2012	Basic salary/ Director's Fee	Performance-related Pay	Pension Expense	Other Benefits	Total
Chairman of the board					
Kent Sander	0.4	-	-	-	0.4
Other Board members					
Axel Roos	0.2	-	-	-	0.2
Eva Lindqvist	0.2	-	-	-	0.2
Gerd Tenzer	0.2	-	-	-	0.2
Kevin Taylor	0.2	-	-	-	0.2
Tom Nyman	0.2	-	-	-	0.2
Torbjörn Nilsson	0.2	-	-	-	0.2
Chief Executive Officer	2.4	1.2	0.7	-	4.3
Other senior managers (7 people)	9.4	2.9	3.0	0.2	15.5
Total	**13.4**	**4.1**	**3.7**	**0.2**	**21.4**

1) Including total fees for committee work of SEK 0.2 (0.2) m. 2) Tom Nyman was appointed Chairman at the AGM 2013. 3) Kent Sander resigned as Chairman at the AGM 2013.

Note 30 Transactions with Related Parties, cont.

Chief Executive Officer
The Chief Executive Officer took up his position in March 2007. Basic annual salary is SEK 2.5 (2.4) m. Maximum performance-related pay is 120% (120) of basic annual salary. Pension is defined contribution and amounts to 28% (28) of basic annual salary. Upon termination initiated by the employee, a notice period of six months applies, and upon termination initiated by the company, a notice period of six months applies. For termination initiated by the company, extra remuneration of six months' salary may be payable if certain conditions are satisfied. The Chief Executive Officer is included in the incentive scheme and has preliminarily been allotted 1.218 matching rights and 4,874 performance rights that can be obtained provided that the conditions described in Note 17 are met. The maximum number of shares cannot be determined until all saving shares have been acquired.

Other Senior Managers
Other senior managers have a maximum performance-related pay portion of 30–141% of basic annual salary. All other senior managers' pensions are based on the ITP pension plan. For the group consisting of other senior managers, notice periods are between three and nine months for termination initiated by themselves. For termination initiated by the company, notice periods are between three and nine months. Certain senior managers also have additional remuneration corresponding to a maximum of six months' salary. In no case does total basic remuneration during notice periods, including additional remuneration, exceed 12 months' salary. Other senior managers are encompassed by the incentive scheme and have preliminarily been allotted 5,491 matching rights and 16,117 performance rights that can be obtained provided that the conditions described in Note 17 are met. The maximum number of shares cannot be determined until all saving shares have been acquired.

NOTE 31

Financial Risk Management

Financial Risk Factors
The group has various financial assets and liabilities such as accounts receivable, accounts payable and other assets and liabilities that arise in operating activities. In addition, the group's financial assets and liabilities primarily comprise bank balances. In 2005 to 2010, the capital structure was altered from being exclusively owner financed to being primarily funded via equity since 2011.

Through its operations, the group is exposed to various financial risks; market risks (including interest risks on cash flows and currency risk), credit risks and liquidity risks.

The Board of Directors has prepared a finance policy for overall financial risk management and for specific segments including financial risks within the group. The Board of Directors has delegated responsibility for ongoing observance of its policy to the group management. The management of financial risk factors, regarding currency forward contracts, customer credit and the investment of surplus liquidity, is conducted centrally at the group's accounting function in Sweden according to guidelines adopted by the Board of Directors.

Generally, considering global economic conditions, financial risks are considered to have been relatively unchanged at year-end 2013 compared to year-end 2012. Nor, apart from volatile exchange rates, has the group been directly affected by this.

Interest Risks on Cash Flow
The group's interest-bearing assets, in the form of bank balances, increased by SEK 54.7 (83.0) m in 2013 after dividend paid of SEK 50.0 (41.7) m.

The company did not have any borrowings from credit institutions in the year, and accordingly, the group's exposure to interest risks as of the reporting date consists of bank balances exclusively. According to the prevailing finance policy, the Board of Directors takes decisions on interest fixings for each individual major funding facility based on a general risk assessment. According to the current policy, at least 50% of potential new borrowings should have fixed interest for at least three years. In the years 2012 and 2013, the group did not use any interest derivatives.

The following table illustrates how changes in interest rates on the net of interest-bearing assets and liabilities with variable interest, with all other variables unchanged, would have affected consolidated profit before tax.

Sensitivity analysis for changes in interest rates	2013	2012
Change in Basis Points	+/−100	+/−100
Effect on Profit before Tax, approx. (SEK m)	+/−4	+/−3

Currency Risk
The group has business with counterparties in countries other than Sweden. Accordingly, the group is exposed to transaction exposure where exchange rates between the transaction currency and Transmode's functional currency (SEK) change over time. Currency risks arise when future business transactions or recognized assets or liabilities are expressed in another currency, usually EUR, GBP and USD, which is not the entity's functional currency, which almost exclusively means Swedish kronor (SEK) for the Transmode group.

The group's ambition is to attempt to control its cash flows in foreign currencies by matching payments made and received. Bank balances are usually almost exclusively in SEK, whereupon cash exposure is limited in terms of currency risk.

According to its finance policy, unmatched net flows can be hedged using financial derivatives. However, with the aim of reducing certain short-term effects of fluctuations in exchange rates, in 2012 and 2013, the Board of Directors decided that parts of accounts receivable and anticipated accounts receivable denominated in EUR and GBP and parts of the expected net outflow, of goods purchases less good sales, denominated in USD should be hedged by currency forward contracts according to the adopted policy.

At year-end 2013, the company had currency forward contracts regarding commitments to sell currencies totaling EUR 19.7 m at an average spot rate of SEK/EUR 8.84 and a total of GBP 1.9 m at a spot rate of SEK/GBP 10.42. The remaining maturity of outstanding currency forward contracts was less than 12 months and has been classified as other current receivables and other current liabilities.

Fair value of derivative instruments	2013	2012
Other current receivables	-	0.2
Other current liabilitie	-2.7	-0.9
Net receivable/(liability)	**-2.7**	**-0.7**

For those transactions made in EUR, GBP and USD, the following table illustrates how exchange rate variations, all other variables unchanged, would have affected consolidated gross profit before tax, excluding the effect of currency forward contracts.

Note 31 Financial Risk Management, cont.

Effect on Profit before Tax from a Change in the Exchange Rate	2013	2012
Change in exchange rate	+/−1%	+/−1%
EUR	+/−4 MSEK	+/−4 MSEK
GBP	+/−2 MSEK	+/−3 MSEK
USD	−/+1 MSEK	−/+1 MSEK

The effect of translation differences on consolidated equity is marginal because operations and net investments in foreign subsidiaries are limited.

Credit Risk

Primarily, the group's end-customers are network operators, services providers, corporations and public institutions in Europe and North America. Sales to end-customers are mainly direct, but also through resellers. Outstanding accounts receivable are monitored continuously, and the group's exposure to credit risks is judged to be fairly low, as in the previous year. The need for provisioning of doubtful debt is effected continuously at customer level. The maximum credit risk for accounts receivable is the same as the carrying amount stated in Note 19. This Note also provides an age analysis of overdue accounts receivable for which payment had not been received as of the reporting date. At year-end 2013 and 2012, the company had no provisions for doubtful debt. As in 2012, there was no bad debt in 2013.

The group has a large number of customers, although a small number of them represent a relatively high share of outstanding accounts receivable. The company has no credit insurance for outstanding accounts receivable. The following summary states the share of total accounts receivable attributable to the five customers with the largest outstanding balances as of the reporting date, December 31.

Concentration of Accounts Receivable as of December 31	2013	2012
Total accounts receivable	184.7	150.4
Of which 5 largest customers[1)]	84.9	95.9
Of which 5 largest customers'[1)] share of total accounts receivable (%)	46.0	63.8

[1)] Legal entity, and where applicable, collection of legal entities in the same group.

The credit risk on cash and cash equivalent receivables is judged as low because in accordance with the finance policy surplus liquidity can only be deposited in bank accounts and time-finite investment at banks in Sweden.

Liquidity Risk

The group has surplus liquidity, which is continuously deposited in bank accounts and on fixed-term deposits. A maximum of 25% of the fixed-term investments have longer maturities than six months, although never exceeding 12 months. However, full flexibility in terms of liquidity can be achieved by cancelling outstanding fixed-term investments in advance, at low cost.

The group's policy is to maintain a liquidity reserve of a minimum of 8% of the forthcoming 12 months' sales. The group management also monitors forecasts of the group's liquidity reserves in the short and long term.

The following table illustrates maturities of the group's financial liabilities based on contracted terms.

December 31, 2013	<1 year	>1 year
Accounts payable	103.0	-
Other liabilities [1)]	91.1	-
December 31, 2012	<1 year	>1 year
Accounts payable	93.0	-
Other liabilities [1)]	71.4	-

[1)] Includes other current liabilities and accrued expenses and deferred income.

Managing Capital Risks

In 2007 and until mid-2009, the group was largely financed by equity and interest-bearing loans. The group has monitored and analyzed this capital continuously on the basis of changes in items including net debt, equity/assets ratio and cash flow. The general objective of capital risk management has been to ensure the group's ability to continue its expansion and simultaneously maintain an optimal capital structure with the aim of limiting the cost of capital.

To maintain or alter its capital structure, the group can pay out capital to shareholders or otherwise re-pay capital to shareholders. According to the dividend policy approved by Transmode's Board of Directors, the goal is to propose a yearly dividend, which over time, amounts to between 25 and 50% of Transmode's profit for the year for the previous financial year. In 2013, the company paid a total dividend to shareholders of SEK 50.0 (41.7) m. The Board of Directors has decided to propose a dividend of SEK 50.0 m for the financial year 2013, corresponding to some 41% of profit for the year. The Board of Directors has also resolved to propose extra dividends of SEK 130.6 m for the financial year 2013. The group can also issue new shares or sell assets to alter its capital structure. .

The following table reviews the group's debt/equity ratio and equity/assets ratio in the years 2012 to 2013.

	2013	2012
Interest-bearing loans	-	-
Shareholders' equity	702.4	632.8
Total assets	954.8	851.2
Debt/equity ratio (%)	-	-
Equity/assets ratio (%)	73.6	74.3

NOTE 32

Financial Instruments

Fair Values of Financial Instruments
There were no finance lease liabilities at the end of 2012 or 2013. For other financial instruments, such as accounts receivable, accounts payable and other assets and liabilities, carrying amounts are considered a close approximation of fair values, because their term is short.

Derivative instruments are recognized at fair value via the Income Statement and are in tier 2 of the value measurement hierarchy.

Classification of Financial Instruments

December 31, 2012	Loan receivables and Accounts receivable to Maturity	Assets Measured at Fair Value via the Income Statement
Other financial assets	2.6	-
Accounts receivable	150.4	-
Other current receivables	-	0.2
Cash and cash equivalents	376.8	-
Total assets	**529.8**	**0.2**

December 31, 2012	Financial Liabilities Reported at Amortized Cost	Liabilities Measured at Fair Value via the Income Statement
Accounts payable	93.0	-
Other current liabilities	-	0.9
Accrued expenses	20.0	-
Total liabilities	**113.0**	**0.9**

December 31, 2013	Loan receivables and Accounts Receivable to Maturity	Assets Measured and Fair Value via the Income Statement
Other financial assets	5.3	-
Accounts receivable	184.7	-
Cash and cash equivalents	431.5	-
Total assets	**621.5**	**-**

December 31, 2013	Financial Liabilities Reported at Amortized Cost	Liabilities Measured at Fair Value via the Income Statement
Accounts payable	103.0	-
Other current liabilities	-	2.7
Accrued expenses	15.2	-
Total liabilities	**118.2**	**2.7**

NOTE 33

Participations in Group Companies

Parent Company	2013	2012
Opening balance, January 1	369.4	369.4
Carrying amount at end of period	**369.4**	**369.4**

	Corporate ID Number	Country	Equity Holding %	Book Value
Directly owned subsidiaries				
Transmode Systems AB	556587-0028	Sweden	100	369.4
Indirectly owned subsidiaries				
Transmode Incentive AB	556599-4596	Sweden	100	
Transmode Systems Inc	3457703	USA	100	
Transmode (UK) Ltd	4968653	UK	100	
Transmode Systems Germany GmbH	00724618305	Germany	100	
Transmode Systems Asia Pte Ltd	200413703N	Singapore	100	
Transmode Systems Canada Inc	6562281	Canada	100	
Transmode Systems Italy S.r.l.	06189330969	Italy	100	

MULTI-YEAR SUMMARY

	2013	2012	2011	2010	2009
Total sales (SEK m)	1,029.1	1,010.9	916.9	699.3	570.1
Gross profit (SEK m)	521.5	498.8	462.9	358.6	281.6
Adjusted EBITDA (SEK m)*	184.9	200.3	193.7	122.1	77.3
Adjusted operating profit/loss (SEK m)*	148.5	170.7	168.2	108.4	64.7
Operating profit/loss (SEK m)	148.5	170.7	149.1	107.6	57.4
Profit for the year	123.3	139.2	116.3	81.4	44.3
Working capital (SEK m)	90.9	99.2	81.6	47.6	58.1
Net cash (+)/net debt (–) (SEK m)	432.0	377.3	294.3	206.5	300.3
Cash flow from operating activities (SEK m)	174.7	176.7	139.4	133.6	154.9
Change in total sales (%)	1.8	10.2	31.1	22.7	-6.1
Gross margin (%)	50.7	49.3	50.5	51.3	49.4
Adjusted EBITDA margin (%)*	18.0	19.8	21.1	17.5	13.6
Adjusted operating margin (%)*	14.4	16.9	18.3	15.5	11.3
Operating margin (%)	14.4	16.9	16.3	15.4	10.1
Profit margin (%)	12.0	13.8	12.7	11.6	7.8
Working capital/total sales (%)	10.6	10.0	8.4	8.8	13.4
Equity/assets ratio (%)	73.6	74.3	70.4	73.9	78.7

* For 2009, 2010 and 2011 operating profit was adjusted by SEK 7.3 m, 0.8 m and 19.1 m for expenses related to the company's IPO on NASDAQ OMX Stockholm.

DEFINITIONS

Regions
Americas: North and South America
EMEA: Europe, Middle East and Africa
APAC: Asia and Pacific region

Customers
Legal entity, and where applicable, a group of legal entities in the same group.

Total sales
Income from sale of goods and services.

Invoicing
Non-allocated income from sale of goods and services.

Growth
Change in total sales:
Change from the corresponding preceding period as a percentage of total sales.

Earnings measures
EBITDA:
Operating profit/loss before amortization and depreciation of intangible and tangible fixed assets.

Margin measures
Gross margin
Gross profit as a percentage of total sales.

EBITDA margin
Operating profit/loss before amortization and depreciation of intangible and tangible fixed assets (EBITDA) as a percentage of total sales.

Operating margin
Operating profit/loss as a percentage of total sales.

Profit margin
Profit for the year as a percentage of total sales.

Capital structure
Working capital:
Inventories, accounts receivable and other non interest-bearing current assets less accounts payable and other interest-free current liabilities. The working capital percentage measurement is based on the average of data as of the end of each quarter for the last 12-month period (five measurements) and is stated as a percentage of total sales calculated on a rolling 12-month period.

Net cash/net debt
Cash and cash equivalents and interest-bearing financial fixed assets less interest-bearing liabilities.

Equity/assets ratio
Shareholders' equity as a percentage of total assets.

Debt/equity ratio
Interest-bearing liabilities divided by equity.

BOARD OF DIRECTORS' CERTIFICATION AND SIGNATURES

The undersigned hereby certify that the Consolidated Accounts and Annual Accounts have been prepared in accordance with IFRS (International Financial Reporting Standards) as endorsed by the EU and generally accepted accounting practice, and give a true and fair view of the group's and the company's financial position and profits, and that the Group Directors' Report and Directors' Report give a true and fair view of the progress of the group's and company's operations, financial position and results of operations, and review the essential risks and uncertainty factors facing the companies in the group.

Stockholm, Sweden, March 18, 2014

Tom Nyman Chairman of the Board	Torbjörn Nilsson Board member
Helena Nordman-Knutson Board member	Axel Roos Board member
Kevin Taylor Board member	Gerd Tenzer Board member
Roland R. Thornton Board member	Karl Thedéen Chief Executive Officer

Our Audit Report was presented on March 19, 2014
PricewaterhouseCoopers AB

Johan Engstam
Authorized Public Accountant

AUDITORS´ REPORT

To the annual meeting of the shareholders
of Transmode AB,
corporate identity number 556588-9101

Report on the annual accounts and consolidated accounts
We have audited the annual accounts and consolidated accounts of Transmode AB for the year 2013. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 27–66.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts
The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Transmode AB for the year 2013.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act and that the corporate governance statement has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions
We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm March 19, 2014
PricewaterhouseCoopers AB

Johan Engstam
Authorized Public Accountant

BOARD OF DIRECTORS

Tom Nyman
CHAIRMAN OF THE BOARD OF DIRECTORS
Born: 1960
Elected to the Board of Directors in 2005 and elected Chairman of the Board in 2013.
Other positions: Mr. Nyman is Chairman of the Board of Birdstep AS, Adra Match AS, op5 AB and Netigate AB. He also serves on the Boards of Tom Nyman AB and Pod Investment AB.
Education: Mr. Nyman holds a Bachelor of Business Administration degree from Stockholm University.
Number of shares held in Transmode:
See Director's Report on page 32

Torbjörn Nilsson
Born: 1953
Elected to the Board of Directors in 2010.
Other positions: Mr. Nilsson is a Board member of Flexenclosure AB (publ), Clavister AB, TJN MediaCom AB, ENEA AB and IPCO AS.
Education: Mr. Nilsson holds a Master of Science degree in Engineering from Lund University and a Master of Business Administration degree from Stockholm University.
Number of shares held in Transmode:
18,816

Gerd Tenzer
Born: 1943
Elected to the Board of Directors in 2008.
Other positions: Mr. Tenzer is Chairman of the Board of German company Sutter Verzeichnisverlag GmbH & Co. KG.
Mr. Tenzer is also a Board member of CombiSec GmbH of Germany, PayCash S.A. of Luxemburg, and VascoDe Technologies Ltd. of Israel.
Education: Mr. Tenzer holds an Engineering Diploma from the University of Aachen in Germany.
Number of shares held in Transmode:
22,500

Helena Nordman-Knutson
Born: 1964
Elected to the Board of Directors in 2013.
Other positions: Senior Consultant at Hallvarsson & Halvarsson
Education: Ms. Nordman-Knutson holds a Master of Business Administration degree, majoring in international marketing, from the Swedish School of Economics, Helsinki, Finland and a Master of Political Sciences degree, majoring in international politics, from the University of Helsinki, Finland.
Number of shares held in Transmode: -

Roland R. Thornton
Born: 1952
Elected to the Board of Directors in 2013.
Other positions: Mr. Thornton serves on the Denver Foundation, he is also a Board member of the Denver Rotary Club and is Past President from 2009 to 2010.
Mr. Thornton is also a Board member of the Food Bank of the Rockies.
Education: Mr. Thornton graduated from Indiana University with a Bachelor of Science degree with a concentration in business administration.
Number of shares held in Transmode: -

Kevin Taylor
Born: 1961
Elected to the Board of Directors in 2012.
Other positions: Mr. Taylor is President of BT Global Services' business and operations in the Asia-Pacific, Middle East, Africa and Turkey region, Chairman of HKFC Youth Rugby, a voting member of the Hong Kong Jockey Club and a Board member of Hyder Consulting.
Education: De La Salle School; St. Illtyds, Cardiff
Number of shares held in Transmode: 2,300

Axel Roos
Born: 1971
Elected to the Board of Directors in 2011.
Other positions: Mr. Roos is a Board member and CEO of Pod Investment AB. Chairman of Trälleborgsintressenter AB. Board member of Dyrken Aktiebolag, Aktiebolaget Skåneintressenter, Aktiebolaget Sydsvenska Intressenter, Gravhögen AB and Fredrik Roos Stiftelse. Deputy Board member of Mediplast AB and OP5 AB.
Education: Mr. Roos holds a Master of Laws degree from Lund University. Authorized Financial Analyst and Certified European Financial Analyst, Stockholm School of Economics.
Number of shares held in Transmode:
See Director's Report on page 32

Karl Thedéen

CHIEF EXECUTIVE OFFICER (SINCE 2007)
Born: 1963
Education: Mr. Thedéen holds a Master of Science degree in Systems Engineering from KTH, the Royal Institute of Technology, Stockholm.
Previous positions: Mr. Thedéen has held various senior positions within Ericsson Group including Board member of Ericsson Network Technologies AB from 2004 – 2007 and Vice President of the Wireline Product Area for Ericsson AB, from 2004 – 2006 as well as Sales Manager for TeliaSonera in 2002–2004.
Other current positions: Mr. Thedéen serves as a Board member of Latour Industries AB.
Number of shares held: 416,500

Ola Elmeland

VICE PRESIDENT, MARKETING (SINCE 2007)
Born: 1961
Education: Mr. Elmeland holds a Master of Business Administration degree from IMD in Lausanne, Switzerland and a Master of Science degree in Electronic Engineering from Linköping Institute of Technology, Sweden.
Previous positions: Mr. Elmeland previously served in various managerial positions with Ericsson from 1986–2006, including Vice President Marketing from 1999–2002 and Business Development Manager, Nordic and Baltics, from 2003–2006.
Other current positions: Mr. Elmeland serves as a Board member of TC Connect Aktiebolag.
Number of shares held: 22,900 personally and via closely related parties

Ingrid Nordmark

VICE PRESIDENT, RESEARCH & DEVELOPMENT (SINCE 2013)
Born: 1960
Education: Mrs. Nordmark holds a Master of Science degree in Engineering Physics and Electrical Engineering from Linköping University, Sweden.
Previous positions: Ingrid Nordmark served in various managerial positions with Ericsson from 1994–2013. In the past six years, she has primarily been responsible for the development of Ericsson's LTE portfolio, the fourth generation of mobile systems.
Number of shares held: -

Dan Rydberg

VICE PRESIDENT, OPERATIONS AND CUSTOMER SERVICES (SINCE 2010)
Born: 1956
Education: Mr. Rydberg holds a Master of Science degree in Metallurgy from KTH, the Royal Institute of Technology, Stockholm.
Previous positions: Mr. Rydberg was Managing Director of Maquet Critical Care AB from 2007–2010 and COO 2003–2007, further served as Board member of Maquet Nordic AB from 2008–2010. Before that Mr Rydberg held several Director and management positions within Ericsson AB and SKF AB.
Number of shares held: 500

Sten Nordell

CHIEF TECHNICAL OFFICER (SINCE 2009)
Born: 1958
Education: Mr. Nordell holds a Bachelor of Business Administration and Economics degree from Stockholm University. Mr. Nordell also studied Natural Sciences and Computer Technology at KTH, the Royal Institute of Technology, Stockholm, in co-operation with Åsö Adult Education College in Stockholm for one year.
Previous positions: Mr. Nordell served as Chief Convergence Officer of Telenor AB from 2007–2008 and Vice President of Network and Platform Strategy of Telenor AS from 2003–2007.
Other current positions: Mr. Nordell is also a Board member of Acreo AB.
Number of shares held: 50,000

Björn Andersson

VICE PRESIDENT, AMERICAS (SINCE 2013)
Born: 1971
Education: Mr. Andersson holds a Bachelor of Science degree in Computer Electronics from Umeå University, Sweden.
Previous positions: Mr. Andersson previously served as Transmode's Vice President Sales from 2006–2013, Director of Pre-Sales from 2005–2006 and Account Manager/Solution Manager for Lumentis AB from 2002–2005. Prior to Lumentis, Mr. Andersson served as Product Manager at Ericsson Telecom and as Key Account Manager at Sycamore Networks.
Number of shares held: 51,533

MANAGEMENT GROUP

Johan Wilsby

CHIEF FINANCIAL OFFICER (SINCE 2013)
Born: 1966
Education: Mr. Wilsby holds a Master of Science degree, majoring in Finance and Marketing from the Stockholm School of Economics, Sweden.
Previous positions: Mr. Wilsby previously served as Director of Finance & Administration of the Nordic and Baltic operations of Hewlett-Packard from 2008–2013. Mr. Wilsby worked for Microsoft from 1994, where he was Director of Finance & Administration for Western Europe from 2004–2007
Number of shares held: 2,800

Lena Båvegård

VICE PRESIDENT, QUALITY AND SUSTAINABILITY (SINCE 2013)
Born: 1967
Education: Ms. Båvegård holds a Master of Science in Electrical Engineering from KTH, the Royal Institute of Technology, Stockholm.
Previous Positions: Ms. Båvegård previously served in various managerial positions at Q-Med from 2005–2011 including Director of Quality Assurance, various positions within Ericsson from 1991–1999 and as a consultant in the telecommunications and medical technology industries from 1999–2005.
Number of shares held: 1,000 via closely related parties

Mark Burton

VICE PRESIDENT, EUROPE (SINCE 2013)
Born: 1967
Education: Mr. Burton holds a Higher National Diploma in Electronics and Telecommunications Engineering from Coventry Technical College in the UK.
Previous positions: Mr. Burton joined Transmode in 2007 and has managed the business in the UK & Ireland. Has held senior management positions including VP of UK Carrier Sales at Nortel and key sales positions at Fujitsu & GPT/Marconi.
Number of shares held: 12,815 personally and via closely related parties

Magnus Grenfeldt

WAS APPOINTED VICE PRESIDENT, NORDICS AND CIS/MEA, IN 2013.
Born: 1969
Education: Mr. Grenfeldt holds a Master of Science degree in Materials Physics from Uppsala University, Sweden.
Previous positions: Mr. Grenfeldt joined Transmode in 2012 as Director of Solutions Sales. He has over 15 years' telecommunications industry experience and has held senior management positions including Sales Director, Nordics and Baltics at ADVA, Senior Manager of Business Development at Sycamore Networks and various managerial positions at Ericsson.
Number of shares held: -

Jonas Persson

VICE PRESIDENT, HUMAN RESOURCES (SINCE 2013)
Born: 1966
Education: Mr. Persson holds a Bachelor of Science degree in Human Resources and Labour Relations from the University of Gothenburg, Sweden.
Previous positions: Mr. Persson previously served as Nordic HR Manager at Toshiba TEC Nordic from 2009–2013 and as HR Manager at Accor Hotels Scandinavia from 2005–2009. Prior to Accor Hotels, Mr. Persson served as HR Manager at Enea Embedded Technology AB from 2000–2005.
Number of shares held: -

Mark Stevens

VICE PRESIDENT, APAC (SINCE 2014)
Born: 1957
Education: Mr. Stevens holds a Master of Business Administration from the University of Melbourne and a Bachelor of Engineering degree from Monash University.
Previous positions: Mr. Stevens has over 20 years' experience in the telecommunications industry in the APAC region.
He has held senior management positions for companies including Nortel Networks, and most recently, ECI Telecom.
Number of shares held: -

ANNUAL GENERAL MEETING 2014

Annual General Meeting
The Annual General Meeting of the shareholders of Transmode AB will be held on Thursday 10 April 2014, at 9 a.m. at the offices of the Company, at Grev Turegatan 16, Stockholm, Sweden.

Registration
Shareholders who wish to participate at the Annual General Meeting must notify the Company of their intention no later than on Friday 4 April 2014 at 4 p.m. at the following address: Transmode AB, Årsstämman, Box 42114, 126 14 Stockholm or by phone, +46 8 410 881 01 or on the Company's web page www.transmode.com (not available for legal persons).

If participating by proxy, a proxy form must be in original (along with any authorization document, such as company certificates of registration), and be in Transmodes' possession before the Annual General Meeting. More information and the proxy form is available on Transmodes' web page: www.transmode.com.

Participation at the meeting
To be entiteled to participate at the Meeting, shareholders be registered in the shareholders' register maintained by Euroclear Sweden AB ("Euroclear") on Friday 4 April 2014 and notify the Company of their intention to participate in the Meeting not later than on Friday 4 April 2014 at 4 p.m.

Nominee-registered shares
Shareholders whose shares have been registered in the name of a nominee must, in order to be entitled to exercise voting rights at the Annual General Meeting, temporarily register their shares with Euroclear in their own name. A shareholder who wishes to be recorded in the share register in his/her own name, must notify his/her nominee thereof in due time before Friday 4 April 2014, at which day such registration shall be effected.

Proposed dividend
The Board of Directors proposes a dividend of SEK 1.80 per share (1.80) and an extra dividend of SEK 4.70 per share (–). A total dividend of SEK 6.50 per share (1.80).

Record day for payment of the dividend:	April 15 2014
Payment date for the dividend:	April 22 2014

Notice of Annual General Meeting
Notice of the Annual General Meeting is made through advertisement in the Official Swedish Gazette (Post-och Inrikes Tidningar) and publication on the Company's website.

Documents that will be presented at the General Annual Meeting are available on the Company's website. The documentation will also be sent free of charge to the shareholder who so requests and states its address.

INVESTORS INFORMATION

Calendar

Annual General Meeting	April 10, 2014
Interim report, January – March	April 29, 204
Interim report, January – June	July 17, 2014
Interim report, January – September	October 22, 2014

www.transmode.com

1 Investors
Under Investors you can find information about The Share, financial information, Corporate Governance and Reports.

2 About Transmode
Under About Transmode you can amongst others find press releases, Transmode Sustainability Report and Contact information.

Investor Relations

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