

Transmode AB (publ)

Interim Report January-March 2014

January-March 2014

- Sales were SEK 231.3 (240.3) m, corresponding to a decrease of 3.8%, and 6.9% adjusted for exchange rate fluctuations.
- Operating profit was SEK 21.5 (41.1) m, corresponding to an operating margin of 9.3% (17.1).
- Net profit was SEK 18.6 (31.9) m.
- Diluted and basic earnings per share were SEK 0.67 (1.15).
- Cash flow from operating activities was SEK 1.6 (59.7) m.

SEK m	Jan-Mar			Oct-Dec	
	2014	2013	Change %	2013	Change %
Sales by region:					
EMEA	192.7	188.5	2.2	192.9	-0.1
Americas	29.8	46.7	-36.2	24.3	22.8
APAC	8.8	5.1	71.8	6.1	45.1
Total Sales	231.3	240.3	-3.8	223.3	3.6
Operating profit	21.5	41.1	-47.9	9.3	128.5
Operating margin (%)	9.3	17.1		4.2	
Profit for the period	18.6	31.9	-41.5	10.9	70.6
Diluted and basic earnings per share (SEK)	0.67	1.15	-41.5	0.39	70.6
Cash flow from operating activities	1.6	59.7	-97.3	71.7	-97.8

CEO's Statement: Clear strategy for profitable growth

Sales volume on our biggest market, EMEA, remained stable in the first quarter of the year. Volumes remained low in the Americas, affecting overall sales which totaled SEK 231 m. Although this was an improvement on the preceding quarter, the figure was slightly down year-on-year. Gross margin remained sound, and lower expenses compared to the previous quarter contributed to an operating margin of 9.3%.

I retain my positive view of Transmode's market, even if growth can fluctuate between individual quarters and regions. In order to capitalize more on market opportunities and improve our growth rate and profitability, we're continuing to implement a number of initiatives within our strategic framework.

We're taking a combined approach to expanding outside Europe, and are developing business with existing customers, approaching new customers and simultaneously increasing our focus on partners. This is taking place within the framework of our regional sales organization, which we introduced last year. Our partners are an important channel for reaching enterprise customers and smaller network operators, and we're focusing on developing existing collaborations as well as identifying new partners.

Discussions are also underway with a number of large customers relating to various niche applications such as Mobile Fronthaul and passive optical infrastructure. This allows us to utilize the flexibility of our products to approach new customer segments.

Our ambition is to lead the integration of Ethernet functionality in packet-optical networks, and we launched several new products in the first quarter. The new 100G Layer 2 Ethernet muxponder is the first of its kind on the market.

We also launched a new generation of compact products in the quarter. Our family of "Hex cards" improve the cost-efficiency and competitiveness of our products for critical characteristics such as high density and low power consumption.

Underlying market growth remains positive, mainly driven by video traffic, with many of our customers reporting annual traffic increases of 40-50%. Our products, based on WDM and Ethernet technology in combination with fiber, meet our customers' capacity needs. There are no signs to suggest that the underlying drivers have changed, and our customers' long-term investment needs remain substantial.

I'm confident that our growth strategy of focusing on geographical expansion, innovative products and efficient operations will pay off. Transmode is in a strong financial position with clear financial targets, and we're well positioned for continued profitable growth.

Karl Thedéen
Chief Executive Officer

Significant Events in the Quarter

Transmode launched the industry's first 100G solution with pluggable optics for metro networks. The solution supports both Layer 1 WDM transport and Layer 2 packet-optical applications and addresses the specific challenges of the metro network environment, providing 100 Gbit/s per wavelength transmission.

The company also launched a family of ultra-compact Hex cards with six independent transponder functions in a single slot. The new cards are ideally-suited to high density and low power applications, such as data center applications.

Transmode participated in a number of industry conferences in the quarter, including Telecom Exchange and Metro Connect in the US, and WDM & Next Generation Optical Networking in Singapore. We've also demonstrated our Mobile Fronthaul solution to a number of customers in APAC.

Sales

January-March 2014

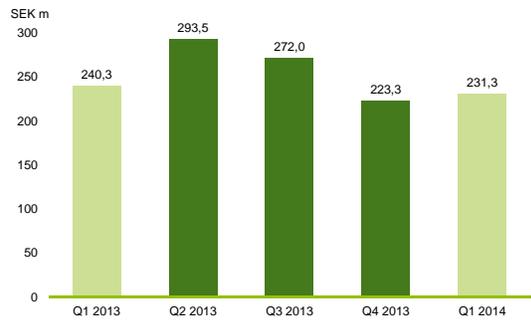
Sales in the quarter were SEK 231.3 (240.3) m, down by 3.8% year-on-year. Adjusted for exchange rate fluctuations, the decrease was 6.9%.

EMEA grew by 2.2%, but contracted by 1.9% adjusted for exchange rate fluctuations. Transmode's major customers made stable progress, with the exception of the largest client in the Nordics which recently completed a network roll-out.

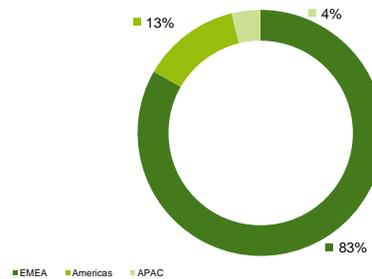
Sales decreased by 36.2% in the Americas (North and South America), or by 36.5% adjusted for exchange rate fluctuations. In Mexico, Transmode is still affected by the regulatory situation on the telecoms market, although there have been some positive signs. Volumes remain low in the rest of North America, mainly because existing customer volumes have not progressed as anticipated. We're continuing to introduce a series of changes within the framework of our new regional organizational structure in order to secure new customers and develop existing business.

In APAC, where individual projects can cause greater quarterly fluctuations, sales increased by 71.8% to SEK 8.8 m, or by 71.0% adjusted for exchange rate fluctuations.

Total sales by quarter, Q1 2013 – Q1 2014



Total sales by region, January-March 2014



Total sales by region

SEK m	Jan-Mar 2014	2013	Jan-Mar Change %
EMEA	192.7	188.5	2.2
Americas	29.8	46.7	-36.2
APAC	8.8	5.1	71.8
Total Sales	231.3	240.3	-3.8

Results of Operations

January-March 2014

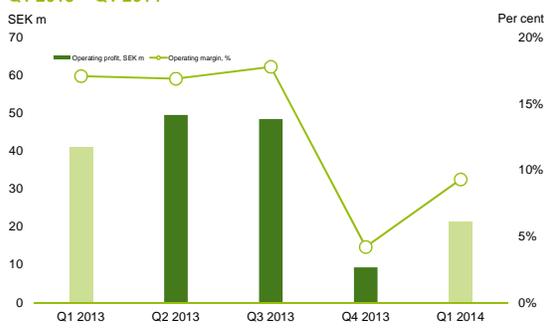
Gross profit for the quarter was SEK 113.6 (121.6) m, corresponding to a gross margin of 49.1% (50.6). The reduction of the gross margin relates to the reclassification of manufacturing-related development expenses of 0.6 percentage points and to a combination of exchange rate fluctuation and product and customer mix. Gross profit in the first quarter of the previous year would have been SEK 7.5 m higher adjusted for exchange rate fluctuations against the SEK.

Operating expenses for the quarter, excluding other income and other operating expenses, were SEK 92.2 (81.0) m. The increase is due to the company's continued expansion, product development and sales initiatives. Development expenses of SEK 19.7 (12.5) m were capitalized in the period, and amortization of capitalized development expenses was SEK 7.4 (3.9) m.

Other income of SEK 0.3 (0.5) m is largely net currency gains, of which losses on currency contracts was SEK 0.4 m (profits SEK 4.5 m) and gains on the translation of balances with customers and suppliers of SEK 0.7 m (losses SEK 4.0 m). Other operating expenses were SEK 0.2 (0.0) m.

The operating profit for the quarter was SEK 21.5 (41.1) m, corresponding to an operating margin of 9.3% (17.1).

Operating profit and operating margin by quarter, Q1 2013 – Q1 2014



Cash Flow, Investments and Financial Position

January-March 2014

Cash flow from operating activities was SEK 1.6 (59.7) m in the period. The reduction is mainly due to lower net financial income/expenses and increased working capital. Working capital at the end of the period was SEK 121.1 (82.0) m.

Investments in property, plant and equipment in the period were SEK 0.9 (0.5) m. Investments in intangible assets in the form of capitalized development expenses were SEK 19.7 (12.5) m.

In the quarter, Transmode acquired treasury shares for SEK 3.3 (-) m, relating to its incentive program.

Total cash flow for the period was SEK -22.4 (46.4) m.

Transmode's cash and cash equivalents were SEK 410.1 (421.1) m at the end of the quarter. Arranged credit facilities were SEK 12.0 (12.0) m, of which SEK 4.1 (-) m were utilized for issued bank guarantees.

As of 31 March 2014 the company had currency forward contracts on commitments to sell currency of EUR 20.8 m at an average spot rate of SEK/EUR 8.93, and GBP 3.7 m at an average spot rate of SEK/GBP of 10.72. The fair value of currency forward contracts is recognized as other current assets and other current liabilities.

Fair value of derivative instruments

SEK m	31 Mar 2014	31 Mar 2013	31 Dec 2013
Other current assets	-	3.6	-
Other current liabilities	-0.9	-	-2.7
Net asset/(liability)	-0.9	3.6	-2.7

Currency forward contracts are recognized in valuation hierarchy tier 2 in accordance with IFRS 13.

For other financial instruments, fair value corresponds to book value.

Equity and the Transmode Share

Consolidated equity was SEK 718.2 (664.5) m at the end of the quarter. The total number of shares was 27,788,676 as of 31 March 2014. Transmode has in total purchased 79,440 treasury shares, of which 33,000 (-) shares in the quarter. Accordingly, the outstanding number of shares was 27,709,236.

The consolidated equity/assets ratio was 73.9% (73.9) at the end of 2013.

Employees

Transmode had 290 (263) employees as of 31 March 2014, against 284 at the end of 2013. The average number of employees in the quarter was 289 (266).

The year-on-year increase in the number of employees is mainly due to new recruitment in the product development and sales divisions.

Transactions with Related Parties

There were no significant transactions with related parties in the first three months of 2014.

Risks and Uncertainty Factors

Transmode's operations are exposed to certain risks that can affect its operations, results of operations or financial position to a lesser or greater extent.

Transmode has established a process for identifying risks and decision-making relating to risk management.

Transmode's Annual Report for 2013 describes the company's risk exposure from perspectives including market, operations, customers and finances. In Transmode's assessment, since the presentation of the Annual Report, no additional significant risks and uncertainty factors have arisen that could be expected to affect the company. The macroeconomic concerns have implied that the exchange rate of the Swedish krona against our most important foreign currencies, GBP, USD and EUR, has been, and may remain, volatile.

Regarding the political situation in Eastern Europe we did not see any effects on our business but we are monitoring the development closely.

Parent Company

The parent company, Transmode AB, is primarily a holding company, which holds and manages shares in subsidiaries and also sells certain group-wide services to subsidiaries. At the end of the quarter, the parent company had 15 (13) employees.

Parent company sales were SEK 5.9 (4.2) m in the first quarter, all of which relate to invoicing of services sold to subsidiaries. Operating profit/loss was SEK -1.3 (-1.4) m. At the end of the reporting period, parent company cash and cash equivalents were SEK 99.7 (113.3).

Accounting Policies

This Interim Report has been prepared in accordance with IFRS (International Financial Reporting Standards) as endorsed by the EU Commission for application in the EU. This Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. For a description of the group's accounting policies and definitions of certain terms, please refer to the Annual Report 2013. The policies applied are essentially unchanged on the previous year.

The parent company's financial statements have been prepared in accordance with the Swedish

Annual Accounts Act and RFR 2, Accounting for Legal Entities. In most cases, this implies that the parent company applies the same IFRS/IAS as in the Consolidated Accounts, albeit subject to certain exemptions as stated in the Consolidated Accounts for 2013.

New and revised IFRSs that have become effective after 1 January 2014 have not had any effect on Transmode's financial position and results of operations.

Accounting of Development Expenses - Revised Estimate

Transmode reports its profit or loss in an Income Statement classified by function in accordance with IAS 1 item 99, and recognizes research and development expenses in a separate line after gross profit/loss. The company's accounting policies in the Annual Accounts state that the amortization of capitalized development expenses is part of reported R&D expenses. But NASDAQ OMX Stockholm considers this amortization as part of cost of goods sold and services rendered, and that it should be included in the computation of gross margin.

Based on NASDAQ OMX Stockholm's observation effective April 2014, Transmode has identified certain manufacturing-related development expenses that will be reported as cost of goods sold and services rendered from 2014. Up until year-end 2013, these items were reported as R&D expenses. For the full year 2013, these manufacturing-related development expenses totaled some SEK 4.6 m. As this represents a revised estimate and the amount is not of material significance, Transmode will not be presenting a pro forma Income Statement for 2013.

Significant Events after the End of the Reporting Period

The Annual General Meeting on 10 April re-elected ordinary Board members Torbjörn Nilsson, Helena Nordman-Knutson, Tom Nyman, Axel Roos, Kevin Taylor, Gerd Tenzer and Roland Thornton. The AGM re-elected Tom Nyman Chairman of the Board.

The Annual General Meeting approved the Board of Directors' proposal of a dividend to shareholders of SEK 6.50 per share, of which SEK 1.80 is ordinary dividend and SEK 4.70 extra dividend. The dividend payment was made via Euroclear on 22 April.

The AGM approved the Board of Directors' proposal for a long-term incentive program. This program involves the creation of a long-term share savings program for all Transmode's 300 or so

employees and may entail a maximum allocation of 136,457 shares.

The AGM also approved the Board of Directors' proposal to authorize the Board to decide on purchases of treasury shares on NASDAQ OMX Stockholm, corresponding to a maximum of 1% of all the shares of the company, and on the transfer of a maximum of 136,457 treasury shares to participants in the program.

Seasonality

Transmode experiences some seasonal effect on the company's sales from quarter to quarter. In recent years, like many other companies in the telecom industry, Transmode's sales have tended to be lower in the first quarter and higher in the fourth quarter. However, the division of sales between quarters is primarily controlled by the larger customers' purchasing patterns.

Additionally operating expenses are sequentially low in the third quarter, when the majority of vacations are taken.

Outlook

Our market is driven by the underlying increase in data traffic driven by video applications, business services, cloud services 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 these underlying drivers are weakening.

Reporting Dates

- Interim Report, April-June: 17 July 2014
- Interim Report, July-September: 22 October 2014

Invitation to press and analysts' conference

Transmode AB will hold a telephone conference (in English) for the press, investors and analysts on 29 April at 09:00 a.m. where Karl Thedéen, CEO and Johan Wilsby, CFO will present and comment on Transmode's Interim Report. To participate, call +44 203 1940552, or alternatively the Swedish no. +46 8 50556483, and state "Transmode conference call" a few minutes before the scheduled start. The conference and the presentation will also be streamed live on Transmode's website: <http://www.transmode.com/en/investors/reports/interim-reports>. The presentation will also be available on the company's website after the conference concludes.

Financial Statement

Condensed Consolidated Income Statement

SEK m	Jan-Mar 2014	2013	Apr 2013- Mar 2014	Jan-Dec 2013
Sales	231.3	240.3	1,020.1	1,029.1
Cost of goods and services provided	-117.7	-118.7	-506.6	-507.6
Gross profit	113.6	121.6	513.5	521.5
Other income	0.3	0.5	0.9	0.9
Research and development expenses	-36.4	-33.9	-158.1	-155.6
Selling expenses	-46.0	-39.3	-186.4	-179.7
Administrative expenses	-9.8	-7.8	-37.0	-35.0
Other operating expenses	-0.2	0.0	-4.0	-3.6
Operating profit	21.5	41.1	128.9	148.5
Net financial income / expenses	2.0	-0.5	9.5	7.0
Profit before tax	23.5	40.6	138.4	155.5
Taxes	-4.9	-8.7	-28.4	-32.2
Profit for the period	18.6	31.9	110.0	123.3
Attributable to:				
Equity holders of the parent company	18.6	31.9	110.0	123.3
Average no of shares before dilution ('000)	27,728	27,789	27,767	27,782
Basic earnings per share (SEK)	0.67	1.15	3.97	4.44
Average no of shares after dilution ('000)	27,728	27,789	27,767	27,782
Diluted earnings per share (SEK)	0.67	1.15	3.97	4.44
Operating profit above includes				
– Amortization of intangible fixed assets	-8.9	-5.1	-32.5	-28.7
– Depreciation of tangible fixed assets	-2.2	-1.8	-8.1	-7.7

Condensed Consolidated Statement of Comprehensive Income

SEK m	Jan-Mar 2014	2013	Apr 2013- Mar 2014	Jan-Dec 2013
Profit for the period	18.6	31.9	110.0	123.3
Other comprehensive income				
Items that can be subsequently reversed in the Income Statement				
Translation differences	0.0	-0.2	0.2	0.0
Income tax relating to components of other comprehensive income	–	–	–	–
Other comprehensive income for the period, net of tax	0.0	-0.2	0.2	0.0
Total comprehensive income for the period	18.6	31.7	110.2	123.3
Attributable to:				
Equity holders of the parent company	18.6	31.7	110.2	123.3

Condensed Consolidated Statement of Financial Position

SEK m	31 Mar 2014	31 Mar 2013	31 Dec 2013
ASSETS			
Goodwill	88.4	88.4	88.4
Capitalized development expenses	100.1	72.8	87.8
Other intangible assets	8.8	9.4	10.3
Tangible fixed assets	23.4	20.8	24.9
Deferred tax asset	2.2	1.2	2.2
Other financial assets	5.4	2.8	5.3
Total non-current assets	228.3	195.4	218.9
Inventories	93.8	87.8	85.9
Accounts receivable	204.6	154.7	184.7
Other current assets	26.2	40.0	33.8
Cash and cash equivalents	410.1	421.1	431.5
Total current assets	734.7	703.6	735.9
TOTAL ASSETS	963.0	899.0	954.8
EQUITY AND LIABILITIES			
Equity	718.2	664.5	702.4
Deferred tax liability	36.4	29.5	33.9
Provisions	5.0	4.5	4.9
Total long-term liabilities	41.4	34.0	38.8
Accounts payable	103.0	94.7	103.0
Provisions	14.5	22.0	16.6
Other current liabilities	85.9	83.8	94.0
Total current liabilities	203.4	200.5	213.6
TOTAL EQUITY AND LIABILITIES	963.0	899.0	954.8

Condensed Consolidated Statement of Cash Flows

SEK m	Jan-Mar		Apr 2013-	Jan-Dec
	2014	2013	Mar 2014	2013
Profit after financial items	23.5	40.6	138.4	155.5
Non-cash items	8.0	11.8	29.2	33.0
Income tax paid	-6.3	-6.8	-25.3	-25.8
Cash flow from operating activities before changes in working capital	25.2	45.6	142.3	162.7
Changes in working capital	-23.6	14.1	-25.7	12.0
Cash flow from operating activities	1.6	59.7	116.6	174.7
Acquisitions of intangible and tangible assets	-20.6	-13.0	-70.1	-62.5
Change in other financial assets	-0.1	-0.3	-2.4	-2.6
Cash flow from investing activities	-20.7	-13.3	-72.5	-65.1
Purchases of treasury shares	-3.3	–	-8.1	-4.8
Dividend to equity holders of the parent	–	–	-50.0	-50.0
Cash flow from financing activities	-3.3	0.0	-58.1	-54.8
Increase / decrease in cash and cash equivalents	-22.4	46.4	-14.0	54.8
Cash and cash equivalents at the beginning of the period	431.5	376.8	421.1	376.8
Exchange rate differences in cash and cash equivalents	1.0	-2.1	3.0	-0.1
Cash and cash equivalents at the end of the period	410.1	421.1	410.1	431.5

Condensed Statement of Changes in Equity

SEK m	Jan-Mar		Apr 2013-	Jan-Dec
	2014	2013	Mar 2014	2013
Opening balance	702.4	632.8	664.5	632.8
Total comprehensive income for the period	18.6	31.7	110.2	123.3
Share-based payment	0.5	–	1.6	1.1
Purchases of treasury shares	-3.3	–	-8.1	-4.8
Dividend to equity holders of the parent	–	–	-50.0	-50.0
Closing balance	718.2	664.5	718.2	702.4

Key ratios

	Jan-Mar 2014	2013	Apr 2013- Mar 2014	Jan-Dec 2013
SEK m / %				
Sales by region (SEK m):				
EMEA	192.7	188.5	862.6	858.4
Americas	29.8	46.7	106.8	123.7
APAC	8.8	5.1	50.7	47.0
Total Sales	231.3	240.3	1,020.1	1,029.1
Gross profit (SEK m)	113.6	121.6	513.5	521.5
Operating profit (SEK m)	21.5	41.1	128.9	148.5
Profit for the period (SEK m)	18.6	31.9	110.0	123.3
Working capital (SEK m)	121.1	82.0	121.1	90.9
Net cash (SEK m)	410.6	421.6	410.6	432.0
Cash flow from operating activities (SEK m)	1.6	59.7	116.6	174.7
Sales, change in (%)	-3.8	2.2	0.4	1.8
Gross margin (%)	49.1	50.6	50.3	50.7
Operating margin (%)	9.3	17.1	12.6	14.4
Profit margin (%)	8.1	13.3	10.8	12.0
Working capital/sales (%)	11.1	10.0	11.1	10.6
Equity/assets ratio (%)	73.9	73.9	73.9	73.6
No of shares at end of period ('000)	27,789	27,789	27,789	27,789
No of shares the outstanding warrants confer the right to at the end of the period ('000)	-	-	-	-

For definitions of key ratios, please refer to the Annual Report for 2013, which is available at the company's website: www.transmode.com.

Condensed Parent Company Income Statement

SEK m	Jan-Mar		Apr 2013-	Jan-Dec
	2014	2013	Mar 2014	2013
Sales	5.9	4.2	21.8	20.1
Administrative expenses	-7.2	-5.6	-28.3	-26.7
Other operating income and expenses	0.0	0.0	0.3	0.3
Operating profit/loss	-1.3	-1.4	-6.2	-6.3
Net financial income / expenses	1.2	1.1	177.2	177.1
Profit/loss after financial expenses	-0.1	-0.3	171.0	170.8
	0.0	0.1	-0.8	-0.7
Profit/loss for the period	-0.1	-0.2	170.2	170.1

Condensed Parent Company Balance Sheet

SEK m	31 Mar 2014	31 Mar 2013	31 Dec 2013
Assets			
Financial fixed assets	468.2	466.3	467.7
Total non-current assets	468.2	466.3	467.7
Other current assets	130.4	2.6	122.5
Cash and cash equivalents	99.7	113.3	110.0
Total current assets	230.1	115.9	232.5
Total assets	698.3	582.2	700.2
Equity and liabilities			
Equity	687.0	573.2	689.9
Provisions	1.7	1.7	1.5
Other current liabilities	9.6	7.3	8.8
Total current liabilities	9.6	7.3	8.8
Total liabilities and equity	698.3	582.2	700.2
Pledged assets	None	None	None
Contingent liabilities	None	None	None

The Board of Directors and CEO hereby certify that this Interim Report gives a true and fair view of the group's operations, sales, results of operations and financial position. The information presented

corresponds to fact and no material omissions have been made that could affect the presentation of the group and parent company in the accounts.

Stockholm, Sweden, 28 April 2014

Karl Thedéen
Chief Executive Officer

This Report has not been subject to review by the company's auditors.

This information is mandatory for Transmode AB (publ) to publish pursuant to the Swedish Securities Markets Act and/or the Swedish Financial Instruments Trading Act. The information was submitted for publication at 8:00 a.m. on Tuesday 29 April 2014.

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

For more information contact:

Ola Elmeland, VP Marketing & Communications
ola.elmeland@transmode.com
+46 (0)8 506 88 271

Transmode in Brief

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.

Transmode is headquartered in Stockholm, Sweden and is listed on the NASDAQ OMX Stockholm Exchange (TRMO). 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.

For additional information about Transmode, please visit www.transmode.com.