

# THINK GROWTH INNOVATION & EFFICIENCY



## Growth

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 Wave-length Division Multiplexing (WDM) technology. This segment is worth an estimated USD 5 billion, with estimated yearly growth of 9% between 2014 and 2019\*.

## Innovation

Transmode's innovative 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.

## Efficiency

Transmode has over 650 customers in more than 50 countries worldwide. Its customer base includes enterprises and network operators that own, or have access to, fiber networks. Transmode's operations are largely conducted at its head office in Stockholm, which creates the right conditions for quick decision making and efficient operations. Transmode has been listed on NASDAQ OMX Stockholm since 2011.

\* Source: Infonetics Research, Optical Network Hardware, 4Q14

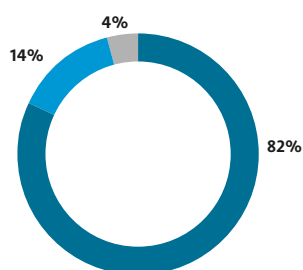
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## HIGHLIGHTS OF THE YEAR

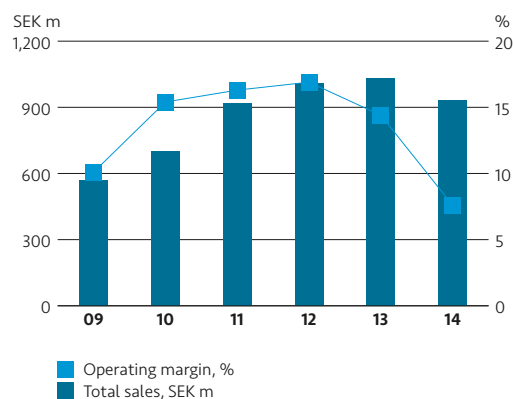
- Sales were SEK 930.0 (1,029.1) m, a decrease of 9.6%, or 14.9% adjusted for exchange rate fluctuations.
- Operating profit was SEK 70.6 (148.5) m including restructuring expenses, which corresponds to an operating margin of 7.6% (14.4). Excluding restructuring expenses of SEK 8.9 m, operating earnings were SEK 79.5 m, and the operating margin was 8.5%.
- Net profit was SEK 61.5 (123.3) m.
- Basic and diluted earnings per share were SEK 2.22 (4.44).
- Cash flow from operating activities was SEK 127.5 (174.7) m.
- The Board of Directors has decided to propose a dividend of SEK 1.95 (1.80) per share to the AGM. An extra dividend of SEK 4.70 per share was also paid in the previous year.

Sales by Region, % of Total Sales



- EMEA (Europe, Middle East and Africa)
- Americas (North and South America)
- APAC (Asia-Pacific)

Total Sales and Operating Margin



### Key Ratios

	2014	2013	2012	2011	2010	2009
Total sales, SEK m	930.0	1,029.1	1,010.9	916.9	699.3	570.1
Operating profit/loss, SEK m	70.6	148.5	170.7	149.1	107.6	57.4
Operating margin, %	7.6	14.4	16.9	16.3	15.4	10.1
Net profit, SEK m	61.5	123.3	139.2	116.3	81.4	44.3
Cash flow from operating activities, SEK m	127.5	174.7	176.7	139.4	133.6	154.9
Number of employees at year-end	281	284	269	228	197	162

# STRONGER POSITIONING IN A GROWTH MARKET



***"The fourth quarter offered clear signals of a turnaround, with strong demand for our new 100G products."***

**The combination of new, innovative products, intensified sales efforts and continued rapid traffic growth in metro networks, mean I see great potential for profitable growth in 2015.**

2014 was a challenging year from a sales perspective. However, I'm pleased that the measures we took to regain profitable growth paid off. The fourth quarter offered clear signals of a turnaround, with strong demand for our new 100G products.

We grew in all markets. Our positive progress was clearest in the Americas, where change is being driven by new management, and largely, a new team. Thanks to growth in the quarter, combined with continued high gross margins, our operating margin recovered.

## **Our Financial Targets**

In 2014, the growth rate in the global Metro WDM market was 5%, which can be set against the long-term growth forecast of 9%\*.

Our target is to outgrow the global market for WDM equipment. We didn't succeed in this respect in 2014, when our sales were down by 10%. The explanation lies in reduced revenues from several of our largest accounts in Europe, and like most other companies in the telecom industry, we are heavily dependent on a limited number of customers. It's important to emphasize that neither the somewhat lower growth rate in the market overall, or our own sales performance, are due to any downturn in the general need for capacity. Our customers report that data volumes in optical metro networks are continuing to increase in the order of 40–60% per year, driven not least, by expanding video traffic. This rapid increase is expected to be sustained for the long term.

Our continued sharp focus on cost-efficiency meant that we were able to maintain a gross margin of just over 50%, a sector-leading standard, where we have been stable for many years. However, our operating margin reduced to 8%, which was wholly a consequence of reduced sales. This remains sector-leading profitability, but somewhat below our 12% target over a business cycle.

Thanks to our healthy cash flow and the company's continued strong financial position, the

\*Source: Infonetics Research, Optical Network Hardware, 4Q14

Board of Directors has decided to propose a dividend of SEK 1.95 to the AGM, which is above Transmode's long-term dividend target of paying 25–50% of net profit in the preceding financial year.

#### Measures for Profitable Growth

To lift our earnings and growth, we took a range of measures in the year that included us focusing and intensifying our sales efforts on existing and new business accounts. We see good potential to expand our addressable market outside the traditional target groups of cable TV and telecom operators. A growing number of network operators are building fiber for different applications, including business customers with data centers or content providers. Our regional and local partners play a key role in accessing these new customer groups, and we are continuing to strengthen our partnering program to tie in more partners and give them the right tools.

We also reduced our costs through an efficiency program, which implications included downsizing staff by some 15 people. These savings also give us scope to make selective investments in segments where we see growth potential.

#### Innovative Products

During the year we launched a series of new innovative products for 100G and 10G networking, which brings us a really competitive portfolio, especially in terms of key criteria that are crucial to metro networks like energy efficiency, size and pricing. This was without doubt the largest launch of exiting new products for many years. Market reception was very positive, and notably in North America, we saw clear signals of just how important energy efficiency is to our customers. Over 20 customers, including several of our largest accounts, also placed orders for our 100G products.

We also developed new products for Mobile Front-haul and Mobile Backhaul networks, which is a really attractive market for us.

#### Active Sustainability Work

Transmode conducts an active sustainability work, which has two central aspects: ethics in our business and to reduced climate impact of our products. Our Code of Conduct and the associated control mechanisms will ensure that all our people do business in the right way, and at year-end, most of our resellers and suppliers had signed up by our Code of Conduct. Our products are sector leaders in terms of low energy consumption, and this remains a high priority in our product development process.

#### Optimism for 2015

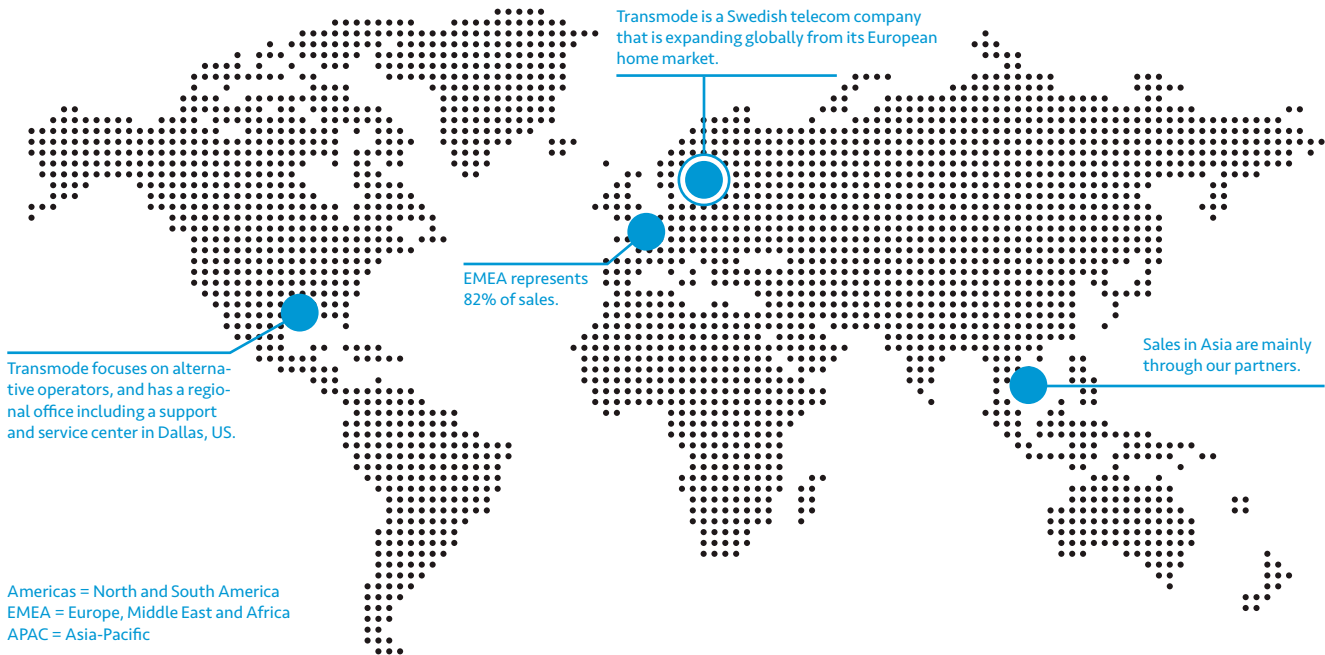
I see many reasons for optimism for 2015. Our focus is largely on capitalizing on the new innovative products that we've been rolling out at full speed since the beginning of the year. We're enjoying strong momentum in the Americas with many new business opportunities. Our partner network is growing and becoming more efficient. Our service sales are in a positive trend, with good growth potential. Furthermore, the savings we've executed have given us the opportunity to invest where we see the need.

I also take a continued positive view of our market, driven by the high underlying traffic growth in metro networks. With our strong close to 2014 and high order intake, I'm now really confident about our potential to create growth with good profitability in 2015.



Karl Thedéen, CEO

# STRATEGY FOR PROFITABLE GROWTH



## Mission Statement

Delivering packet-optical networking solutions that increase network capacity in a cost-effective and sustainable 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 net profit for the preceding financial 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 in a sustainable gigabit society.



### Strategies

Our strategies for achieving our targets are:

#### **GROWTH**

##### *Focusing on Our Core Segment— Alternative Operators and Metro WDM*

In deregulated markets, there are a large number of alternative operators and cable TV operators that need flexible, scalable and cost-efficient WDM solutions for metro networks. In this segment, which is in growth on all continents, Transmode has its largest customer base.

##### *Geographical Growth—Expansion outside Our Home Market of Europe*

The majority of Transmode's sales are in Europe. For continued growth, it is important that we expand 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. As we expand geographically, our Code of Conduct is a key tool for maintaining high standards of business ethics, environmental consideration and corporate social responsibility right through the value chain.

#### **INNOVATION**

##### *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. Transmode has developed a strong portfolio and market positioning in this segment—packet-optical networks.

##### *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. This flexibility is 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 with cost and energy efficiency. Business customers, who benefit from energy-efficient and compact products in data centers, are another example.

#### **EFFICIENCY**

##### *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 and strategic partnerships in segments that complement its existing product portfolio, bring access to new geographical markets and/or enhance opportunities in selected customer segments.

GROWTH

# THINK AMERICAS





Transmode's sales performance in North America was positive in 2014, with progressively improving numbers through the year.

"Much of the explanation is that we continued to sharpen our focus on addressing new customers, specifically cable operators, building on the template of our successes in the European cable market," comments Björn Anderson, Vice President of Transmode Americas.

This had results including Transmode winning several new accounts in the year: Pangaea Networks, which upgraded its optical network in the New York region to enable it to offer customer-specific, high-capacity services was one example. Another is RST Global Communications LLC, which built out new optical access networks offering high-capacity video, data and telephony services in North Carolina and its surroundings.

"We also reengineered our working methods and advanced positioning with our major customers in the US and Mexico," adds Björn.

Sales activities are headed up from the regional office in Dallas, Texas, where Björn put together much of his new team in the year. The office also includes a support and service center.

"The North American market features a very pressing need for bandwidth, simultaneous with a growing demand for compact and energy-efficient products."

"This means the new products launched in the year gave us a big boost, which consistently, feature high capacity and low energy consumption," concludes Björn.



Björn Andersson, Vice President Americas

# RAPID EXPANSION OF TRAFFIC IN NETWORKS

## Growing Data Traffic

The high growth of mobile and fixed telephone and data networks worldwide is the growth driver of Transmode's market. There are several underlying drivers of this traffic expansion, the single most important being the brisk expansion of video transmission, 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, especially in metro networks. Moreover, more numerous and more advanced terminals like tablets, smart phones, gaming consoles and laptops are also connecting. The overall effect of this is estimated growth in global IP traffic averaging some 21% yearly from 2013 to 2018, and traffic growth in metro networks growing by an expected 40%-plus yearly.\*

This traffic expansion means that our customers need to expand the capacity of their networks—while also needing to keep costs 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, which can be divided between regional networks, aggregation networks and access networks. This 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.

## 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 (see figure).

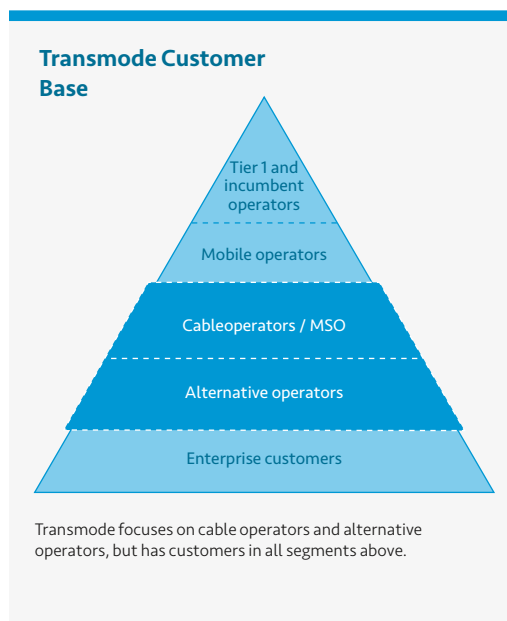
The company has installed over 50,000 systems with over 650 network operators. In the year, its five largest accounts generated 51% of invoicing.

A number of major new contracts were announced in the year, with counterparties including Pangaea Networks and RST Global Communications in the US and Fiberail in Malaysia.

Consistent high customer satisfaction is a critical success factor for Transmode, as evidenced in contexts including a high repeat purchase frequency.

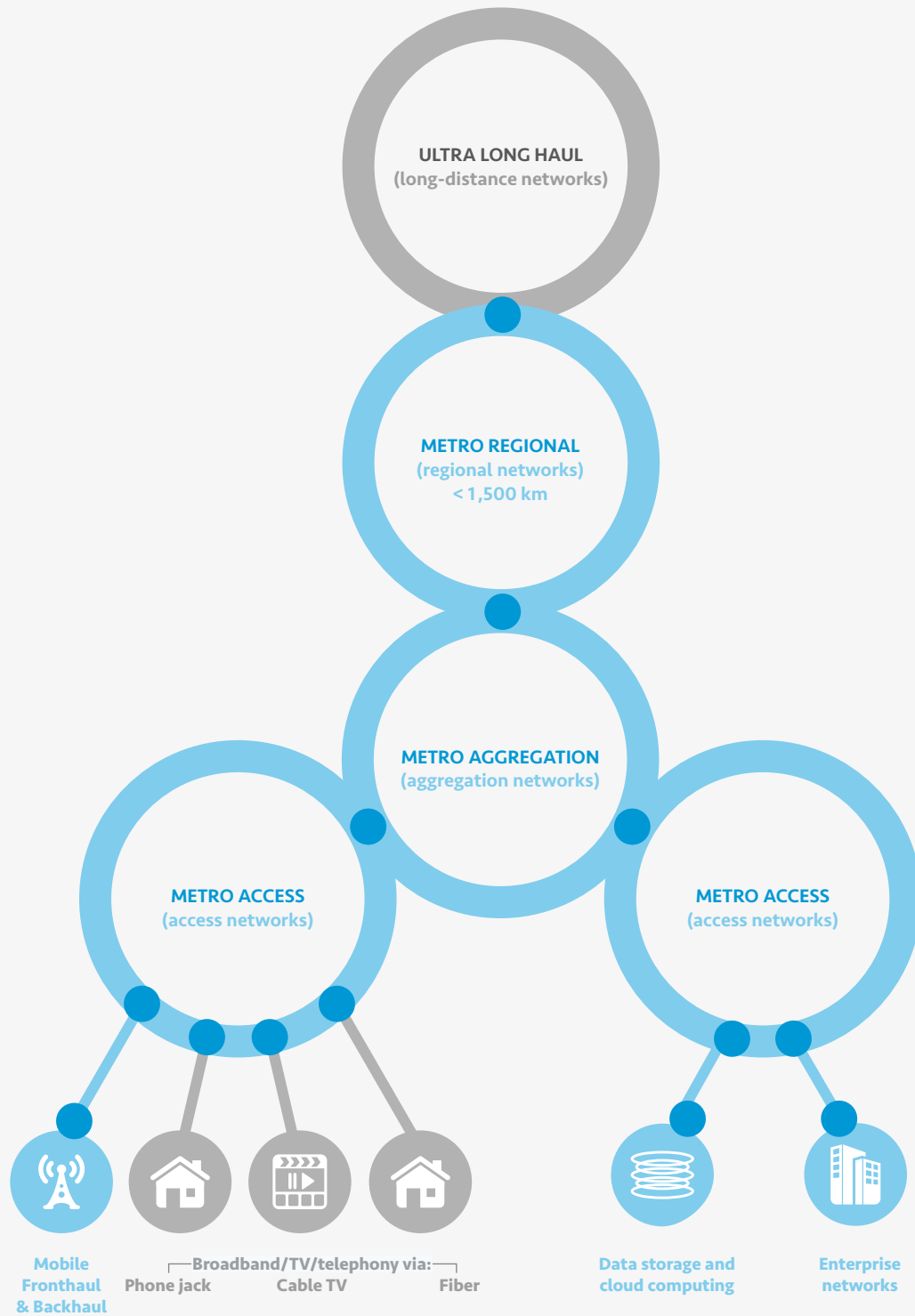
## Competitors

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



\* Source: Cisco VNI June 2014

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.

■ Transmode's Offering

# REGIONAL SALES ORGANIZATION SUPPORTING CONTINUED EXPANSION

## Geographical Expansion

Transmode does business worldwide, and continuously endeavors to expand into new geographical markets. Its regional sales organization supports its geographical expansion, strengthening customer relationships by bringing competence and resources close to customers.

Transmode sells its products and services through its own sales team and partners. Its largest partner is NEC of Japan, who it operates a strategic global partnership with. It also has a number of regional and local partners, a few examples being ATEA, Telindus, Xantaro, Opnet and SAK Data. Transmode has a total of over 50 partners. Its partnering program continued to evolve in the year, with the aim of further enhancing its potential to access new customers in the business and alternative operator segments. The split between direct and reseller sales varies between regions, but for the company overall, the direct sales share was 77% in 2014.



SEK m	2014	2013	2012
Americas	135.0	123.7	185.6

**14%**  
Share of  
Transmode's  
sales

## Americas

The Americas (North and South America) represented 44% of the global Metro WDM market in 2014\*.

Transmode's regional sales increased by 9% in the year. Sales in North America went progressively more positive through the year as a result of focused and successful sales initiatives. Uncertainty in the Mexican telecom market eased, helping increase investments by one of Transmode's major customers. In 2014, the Americas represented 14% of Transmode's sales.

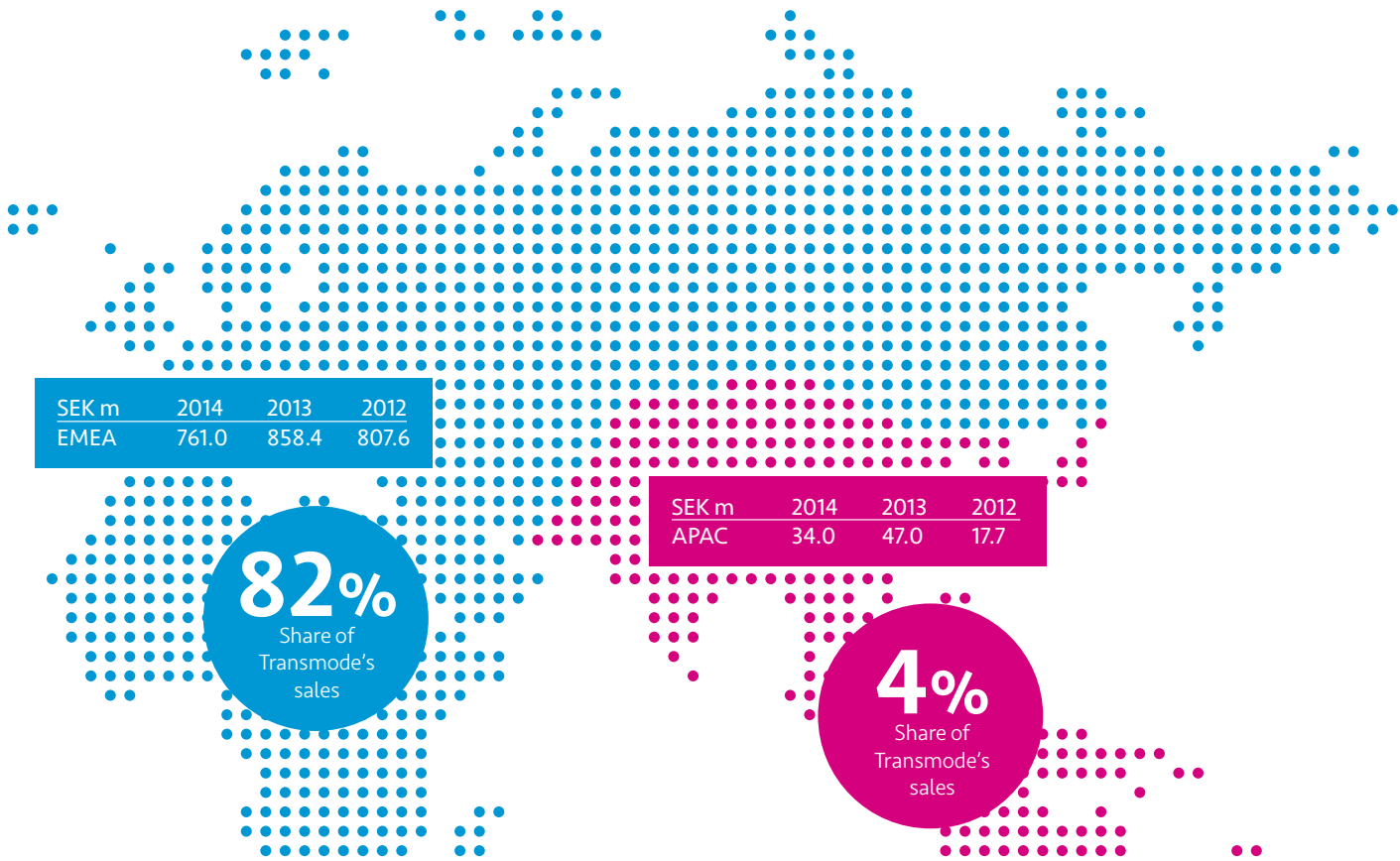
The North American market is highly deregulated with large numbers of alternative operators, which Transmode primarily addresses. Transmode secured several new business accounts in the year, including Pangaea Networks, which upgraded its optical network in New York, RST Global Communications, which built a high-capacity network in North Carolina, and TekLinks, which built an optical network in Alabama.

Transmode's support and service center in Dallas, US, continued to help maintain strong relationships with partners and customers.

Combined with a further advancement of its regional presence, a sharper focus on cable TV operators is an important initiative for continued growth. More information on page 6-7.

\* Source: Infonetics Research, Optical Network Hardware, 4Q14

## GEOGRAPHICAL OUTLOOK



### EMEA

In 2014, EMEA (Europe, the Middle East and Africa) represented 26% of the total global Metro WDM market\*. Transmode's sales in this region decreased by 11% in the year due to several of the company's largest customers running fewer build-out projects, and thus, more investments in metro networks. Sales to other customers in this region were at about the same level as 2013. EMEA represented 82% of Transmode's sales.

Transmode has over 400 customers in Europe, and high market shares, primarily in the Nordics. Business development in the Middle East and Africa is conducted on a project basis, and mainly in collaboration with partners.

To secure continued growth in EMEA, Transmode's focus is on increasing sales to its current customer base, a greater presence with the large telecom operators, as well as further expansion and enhanced collaborations with partners.

### APAC

APAC (Asia - Pacific) represents 30% of the global market\*. Transmode's sales in the region decreased by 28% in the year, mainly because sales in 2013 included one very large-scale contract with Transmode's largest customer in the region, and that no new major projects were executed in the year.

Transmode's operations in APAC are primarily focused on Malaysia, Japan and Hong Kong. More than other regions, this market is dominated by large corporations, which means expansion there takes somewhat longer, and that fluctuations between years and quarters can be fairly sizeable from time to time. In 2014, this region represented 4% of Transmode's sales.

Transmode signed major contracts on accounts including Fiberail in the year, which upgraded its packet-optical core network to 100G in Malaysia. This deal was secured in collaboration with new local partner Nera Telecommunications Ltd. Universiti Teknologi Malaysia (UTM) selected Transmode as its provider of an integrated packet-optical metro core and access network.

To continue growth, the focus is on increasing sales on existing accounts, and to keep developing partner contracts.

INNOVATION

# THINK 100G



Progress in optical networks is continuously towards higher speeds per wavelength. On long haul networks, where the need for capacity is greatest, transmission speeds in 100 Gbit/s have been employed for a few years. But this technology has been too bulky, energy intensive and costly for use in metro networks.

The situation changed in 2014, when Transmode was able to develop a new generation of innovative 100G products optimized for metro networks. At the beginning of the year, Transmode launched the first 100G solution with pluggable coherent optics for use in WDM networks and packet-optical networks. The three new cards are compact, energy-efficient and cost-efficient, supporting traditional optical transport and applications with integrated Ethernet switching functionality. This solution is the only one of its kind on the market.

The demand for 100G is also now gathering momentum in metro networks, and Transmode's new products are opening up significant new business opportunities. One example is interconnecting data centers, where the combination of high capacity and low power consumption, as well as compact size, are critical characteristics. Telecom operators, who with the functionality of these new solutions, get the opportunity to offer new, value-added services to customers, are another attractive customer group. Existing customers are also exhibiting great demand for these new 100G products. Transmode has delivered over 20,000 TM-Series chassis to more than 650 customers, which the new cards fit, and accordingly, upgrades are very smooth. Reactions to these new products from existing and potential customers have been very positive.



Sten Nordell, Chief Technology Officer

# 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 speed of optical fiber is now 10 Gbit/s (Gigabit per second) per wavelength, but customer needs for capacity are increasing constantly. Transmode launched a new generation of 100G products optimized for metro networks in 2014, which cut the cost of applications of 100G in metro networks, conferred greater flexibility and simpler management of spare parts and operations. They also reduce power consumption, and enable users to get more units in a smaller space.

Flexibility is crucial for the remote control of wavelengths and data streams centrally, and to enhance network functionality as needs change. Transmode's products deliver a high level of flexibility in networks.

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 high priority for Transmode. One of the 100G cards that Transmode launched in the year has integrated Ethernet switching functionality.

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

Transmode's operation and maintenance system Enlighten™ enables customers to plan, manage and develop their networks efficiently. New functiona-

lity is being continuously added to enable customers to cut operating expenses and benefit from new network functionality.

Transmode has broad-based competence in all technology segments central to its business; software, hardware, optics and communication technologies such as Ethernet. The core of the company's R&D work is gradually migrating towards software. Over two-thirds of the company's developers now work on software.

Research and development expenses amounted to SEK 157.8 m, or 17% of the company's sales.

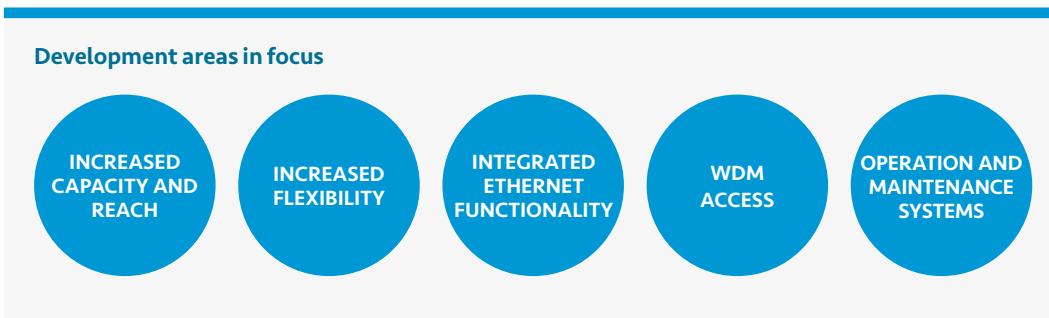
## Effective Development

Transmode ensures effective product development by possessing 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 fully. The R&D department applies an agile working method, enabling new solutions and functionality to be quality assured with short intervals, so enhancements can also be delivered to customers quickly and often.

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 build-





ding houses the R&D, Delivery & Logistics, Marketing, Sales Support, Technical Customer Support, Finance, Administration and Management departments.

Having all these functions accessible within a few minutes' walk facilitates close collaboration between all of them. It also enables quick feedback, enables a fast 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 low cost. Collaboration with these contract manufacturers brings the possibility of growth without the need for investment in substantial manufacturing resources. A high share of manufacturing is still conducted in Sweden, which facilitates the development and launch of new products, which is conducted in close collaboration with contract manufacturers.

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 services sales increased in 2014. The largest service segments are software upgrades and technical customer support, while pre-staging and spare parts supply are growing fastest.

**Awards**

Transmode gained recognition in a number of contexts in the year, including being a finalist in Light Reading's Leading Light Awards 2014 in the Best New Product (Telecom) category, and winner in Telecom Asia Readers' Choice & Innovation Awards 2014 in the Optical Innovation Award category. Transmode's 100G metro solution was nominated as a finalist in the Fierce Innovation Awards in the Core/Transport category, and Transmode's 100G metro solution gained a high 4.5 out of 5 rating in Broadband Technology Report's 2014 Diamond Technology Reviews.

**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.

See also page 24–25

# 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 the need for data capacity is 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. Transmode launched a new generation of compact and energy-efficient 100G products in 2014. These new products fit existing chassis, which means upgrades are easy. Transmode also launched a new generation of 10 Gbit/s products with six transponders—"HEX"—and extremely low energy consumption of 5W/10G transponder.

Other products enhance network flexibility such as ROADMs (reconfigurable optical add/drop multiplexors), which can be used to remote control light and wavelengths. Some one-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. Transmode's iAccess solution and its market-leading iWDM-PON technology enable network operators to build scalable and cost-efficient Ethernet access for a raft of these applications.

Transmode also launched a new Fronthaul Muxponder optimized for the transport of multiple CPRI and Synchronous Ethernet services over a single 10G wavelength in the year. The new Muxponder has even lower latency than its predecessor, and both units have significantly better synchronization characteristics than comparable products, to satisfy the high standards of CPRI transport.

Transmode also offers units that can manage and transmit Ethernet traffic such as intelligent muxponders that include functionality for switching this traffic. Transmode launched the market's first fully pluggable 100G metro solution with coherent optics in the year, which also has integrated Ethernet switching functionality. This combines high flexibility with low energy consumption and a compact implementation. The unit is a member of Transmode's Native Packet Optical 2.0 family, which helps 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 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 2014 through step-wise implementation of software defined networking—SDN. This enables customers to automate planning and the opening of new optical connections in their networks.

Cost-efficiency and scalability are consistent qualities of Transmode products, enabling customers to progressively expand capacity and functionality as needs change. This also means that their initial

### 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, coverage 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.

investment is limited. Moreover, scalability implies that with the same product portfolio, Transmode can satisfy demand in access and 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's services sales share continued to increase in 2014, to some 8% of total sales. The largest service segment, software upgrades and technical customer support, made good progress. Those service segments with the highest growth were spare parts and pre-staging.

Transmode's Technical Assistance Center delivers 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 operates 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. This also reduces the risk of installation errors.

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



Pre-staging means that equipment is assembled and configured prior to delivery, enabling faster and simpler installation with the customer.

EFFICIENCY

# THINK ONE SITE



Two of Transmode's key strengths are high efficiency and satisfied customers. A very high share of operations being at a single site—the headquarters in Stockholm—is an important contributor here. This building houses the R&D, Logistics, Marketing, Customer Support, Finance, Administration and Management departments.

This closeness facilitates collaboration between different functions and enables rapid feedback, as well as creating short decision paths, resulting in the right products, containing the functionality customers really need, being developed quickly.

In R&D, Transmode's software development is based on agile working methods, where developers and testers operate in scrum teams that regularly meet for follow-ups and planning. Experience shows that this makes development work more cost-effective and innovative.

The overall structure means that people get a clearer picture of the whole company, and of their contribution to the big picture.



Ingrid Nordmark,  
Vice President, Research & Development

# FOCUS ON RESPONSIBLE BUSINESS AND ENERGY-EFFICIENCY

One of Transmode's overall targets is to contribute to a sustainable society, and the company works continuously to achieve this. Its ambition is to be an industry leader in sustainability, and to ensure its suppliers and partners share this ambition. Clearly greater interest in Transmode's sustainability work was evident from many customers in 2014, and the organization is well prepared for this through the systematic sustainability work of recent years.

Transmode has been affiliated to the UN Global Compact since 2011, and applies the Compact's principles on human rights, labor rights, environment and anti-corruption.

## Responsible Business

One of Transmode's priorities is to ensure that all employees do business responsibly and ethically. This question has become more significant as sales have increased on new markets worldwide. The company's Code of Conduct, based on the principles of the Global Compact, is a vital tool in this process. All employees take yearly training in the Code of Conduct and its application.

Transmode's Supplier Conduct Principles apply the corresponding standards to the company's suppliers, and implementation of a Code of Conduct for the company's partners also commenced in 2014. By year-end, most of the company's suppliers and partners had undertaken to follow these principles.

Additionally, a more systematic and in-depth internal process for following up and evaluating ethical risks was introduced in 2014. A Risk Management Committee is monitoring the sales work of geographical regions, and reports all potential incidents to Group Management.

## Energy-efficient Products

Transmode's most important contribution to a sustainable society is its energy-efficient products. For customers, 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. These design rules have resulted in products with sector-leading energy performance, which means that often, energy consumption can be cut by up to 75% compared to other solutions available on the market. A clear tendency for energy consumption to become a more important factor for customers was evident in 2014, and low energy consumption remains a high priority in the product development process.

## Environmental Impact

Business travel and transportation create the greatest environmental impact in Transmode's business. Transmode measures greenhouse gas emissions regularly, which is the basis of identifying actions to reduce them. Transportation to customers and from suppliers was further consolidated onto fewer and larger deliveries in the year, and the company is promoting more widespread use of videoconferencing.

However, the growing geographical diversity of operations has meant it has proven difficult to reduce business travel to any great extent. Transmode has compensated for emissions arising from business travel via Plan Vivo, a carbon offset project in Mexico.

## Sustainability Targets

Overarching sustainability targets direct Transmode's sustainability work towards continuous improvements in priority segments. More information in Transmode's Sustainability Report.

## Stakeholder Dialogue

Transmode was in dialogue with a number of key stakeholders in the year—customers, resellers/partners, shareholders, financial analysts, employees and unions—to get a clearer view of the sustainability issues they regard as most critical for Transmode to work on and communicate about. This was conducted as part of a larger process—a materiality analysis—to complement and verify those aspects prioritized in-house.

The stakeholder dialogue concluded in January 2015, and corroborated sustainability work primarily maintaining its focus on:

- Reducing the environmental footprint from our products, our operations and the supply chain.
- Developing working conditions within Transmode, and supporting good employment conditions in the supply chain through continued implementation of the Supplier Conduct Principles.
- Promoting business ethics and anti-corruption through continued implementation of the Code of Conduct internally and towards partners and suppliers, and through the internal risk assessment process.



More extensive information about Transmode's sustainability efforts are available in the Sustainability Report which is available on [www.transmode.com](http://www.transmode.com)

Low Power Design



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<sub>2</sub> 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**

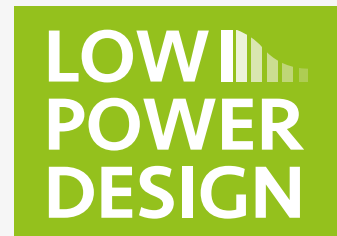
Transmodes Low Power design means the need for cooling is reduced. Every kilowatt saved in equipment power saves up to 0.5 kilowatt of air conditioning as the system generates less heat.

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





# COMPETENCE AND DEDICATION

Transmode's ability to hire and retain competent people is critical to the company's potential to deliver innovative solutions of the highest quality. Accordingly, Transmode puts a big emphasis on being an attractive employer, and on creating an environment where employees are happy and develop.

## Values

Transmode's corporate culture can be summarized in five values, defining what characterizes the company and its people: competence, innovation, openness, dedication and business focus. These values are an important component in hiring people and appraising their performance.

## Diversity and Equal Opportunities

Transmode's diversity and equal opportunities are essential for creating a workplace that stimulates creative thinking and innovation. People speak some 15 different languages within Transmode's organization, and have a broad spectrum of social and professional backgrounds. At year-end, there were 281 (284) employees. Transmode conducts a regular review of salary differences. In 2014, the company produced an equal opportunities plan, which will be updated regularly.

## Competence Development

A new performance management system was implemented in the year. The intention of this new system is firstly to provide clearer follow-up on individual targets, and secondly, to improve competence development and the potential for professional development within the company.

## Trainee Program

A new trainee program enrolling seven recent graduates from universities and institutes of higher education commenced in August 2014. The program ran for six months, and offered a broad-based introduction to the company, with an emphasis on technology and programming. Although the focus was on R&D, much of the program was spent with other departments, in order to create a broader understanding of our whole business.

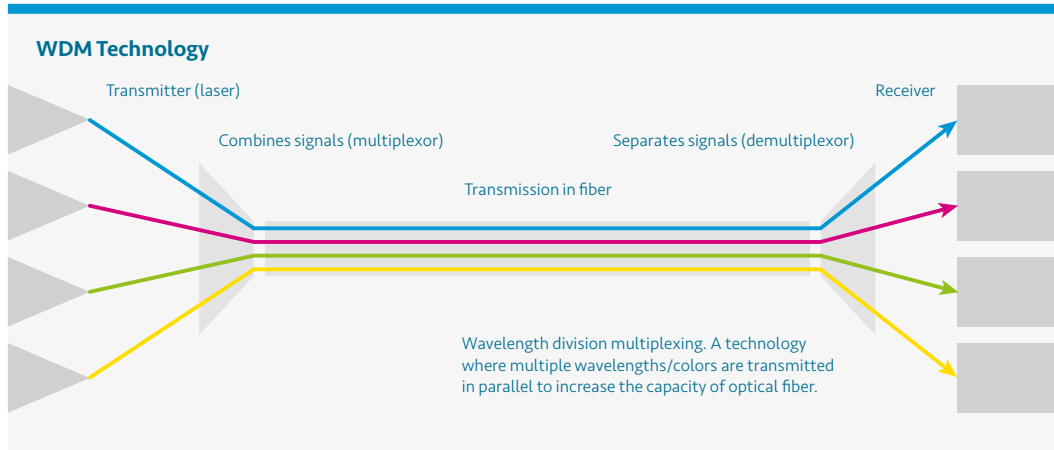
## Employer Branding

Work on reinforcing Transmode's image as an attractive employer continued. Transmode created a focus group in the year to identify the most effective ways to market the company to potential future employees. In 2014, Transmode participated in a number of activities linked to universities and institutes of higher education, including careers events at the Royal Institute of Technology, Stockholm and the Institute of Technology at Linköping University, Sweden.

## Cost and Efficiency Program

To improve profitability and enable continued investments in developing products and markets, Transmode executed a cost and efficiency program in fall 2014. Unfortunately, this program resulted in some 15 employees having to leave the company. In tandem, Transmode executed a wide range of measures to enable the program to be executed with greatest possible respect for the people involved, and to retain the motivation of people not directly affected.

# PACKET – OPTICAL NETWORKS



Transmode delivers systems and solutions for the transmission of information—data, speech and video traffic—over optical fiber within a campus, city or a whole country. This information is digital and transported as data packets transmitted through fiber using wavelength division multiplexing, WDM.

## Optical Communication and WDM

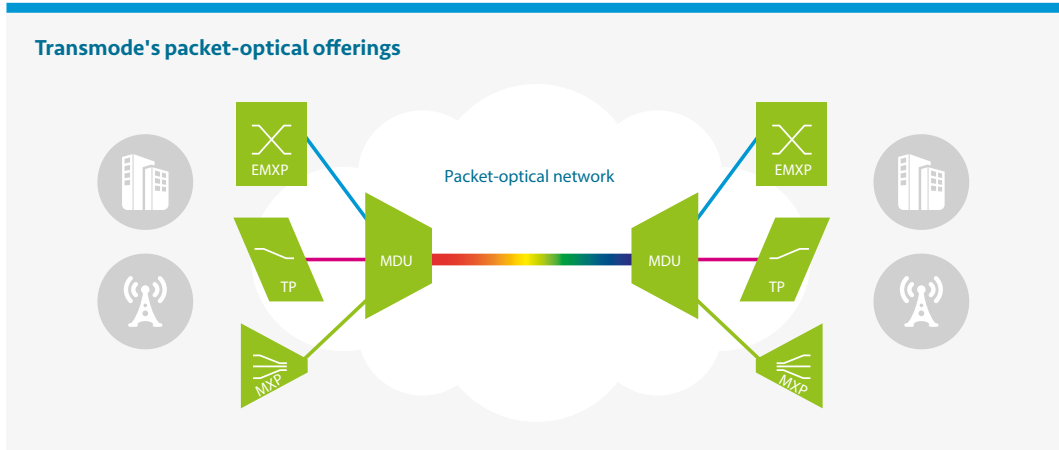
Information in optical fiber networks is transmitted as laser-generated light pulses. The light is channeled in optical fibers, i.e. fine fibers of high-quality glass inside a protective sheath. Because light pulses are attenuated only very little by the fiber, they can be transmitted for hundreds of kilometers without their form degrading, and using optical amplifiers, transmission distances can be increased further. Optical networks offer big advantages over other networks built from copper wires and electric signals in terms of coverage, fault frequency, noise sensitivity, weight and transmission capacity, and accordingly, they are predominant in new telecommunication networks.

A single optical fiber can simultaneously transmit light of many different colors, and by utilizing different colors, i.e. wavelengths, in the same fiber, separate information flows can be transmitted in parallel end to end using wavelength division multiplexing (WDM). Standard WDM technology increases fiber transmission capacity many times over, with for example, 80 or more wavelengths being used in dense WDM (DWDM) systems and 16 wavelengths for coarse WDM (CWDM). A multiplexor (MDU) combines wavelengths to be transmitted by the WDM system and a demultiplexor then separates the different wavelengths at the receiving node.

Multiplexors and demultiplexors are usually integrated in a single unit—known as a transponder or muxponder—that also integrate other electronics for modifying incoming signals for optical transmission. The lasers and optical receivers that transmit and receive light pulses in a fiber are critical components of transponders/muxponders. Often, these functions are combined in a transceiver, delivered in pluggable modules for different transmission speeds, wavelength spectrums and coverage: SFP, XFP and CFP modules.

In a typical communication network, WDM systems are used to interlink the network nodes in rings or point-to-point connections. However, not all network wavelengths are necessarily headed for the same destination node. Using an optical add/drop multiplexor (OADM) in the node, a single wavelength can be dropped and its information used locally, while other wavelengths pass the node, to other destinations. To further improve flexibility, reconfigurable optical add/drop multiplexers (ROADM), enable dynamic control of how wavelengths are routed between nodes, so entire optical networks can be managed remotely. Utilizing ROADMs in an optical network further enhances network scalability, because customers can utilize existing fiber still more effectively.

The transmission channel created by a wavelength in an optical network functions so that a signal fed into a network emerges unaltered at the destination node. Accordingly, optical networks are usually considered to process signals on the physical layer, designated as layer 1 in the OSI model, and thus optical networks execute layer 1 transport.



**Packet Networks and Ethernet**

The information transmitted on wavelengths over an optical network is digitally encoded as a stream of ones and zeros, or bits. Usually, the data speed, such as 10 Mbit/s or 100 Mbit/s that can be transmitted by transponders sludge/muxponders is stated. The bitstream is also divided into chunks of information, called data packets or frames, which apart from the information carried, also include information on the packet destination, priority etc. The most common standard for packaging digital information is the Ethernet protocol, and at packet level, the optical network works as an Ethernet with functionality optimized for data transport.

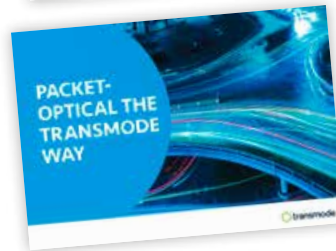
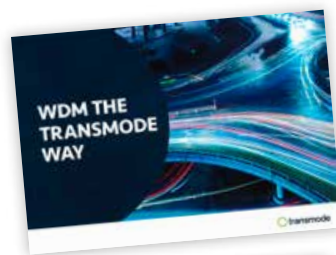
Because Ethernet frames also include address and priority information, traffic can be multiplexed from different sources and virtual connections can also be created at the Ethernet level, designated as layer 2 in the OSI model, and thus execute layer 2 transport. One big advantage of layer 2 transport is that this method enables statistical multiplexing, i.e. data packets only need to occupy capacity on a wavelength when there is actually information to transmit. Statistical multiplexing enables available wavelengths to be filled with useful information that can be utilized far more effectively, especially when traffic is in burst mode, as is common in many data applications. The Ethernet also enables important traffic, such as speech connections that cannot be delayed, to gain higher priority on networks than file transfers between computers, for example.

In contemporary network solutions, layer 1 and layer 2 transport functions are often executed by the same physical equipment. By combining transponder/muxponder functionality with the capacity to process Ethernet frames in an Ethernet switch, a high-performance and economical packet-based switch is created. A network of packet-based optical switches and ROADMs controlled remotely from a central network management node create a very flexible platform for operators that want to deliver advanced, high-capacity communication services for customers.

**Transmode's Innovation**

WDM and Ethernet are global standards. Customers are demanding this standardization, which guarantees the availability of the necessary components and ensures the interoperability of systems from different vendors. Transmode implements these standards innovatively in its products. For example, Transmode offers a packet-optical switch on a circuit board that can be simply plugged into an existing chassis, creating very attractive upgrade potential for customer networks. Transmode also offers compact energy-efficient access solutions that can extend WDM technology right out to access networks in mobile and fixed networks cost-efficiently through iWDM-PON and Mobile Fronthaul.

*For more information on the technology of packet-optical networks, please refer to the books "WDM the Transmode Way" and "Packet-Optical the Transmode Way," available free for download from Transmode's website: [www.transmode.com](http://www.transmode.com)*



See Technology Definitions on the backcover.

# THE TRANSMODE SHARE

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

Stockholm. A total of 5,956,660 shares were traded during 2014 at NASDAQ OMX Stockholm, representing an increase of 13.7% compared to 2013.

## Ownership

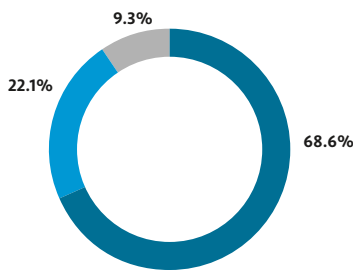
The total number of shares of the company as of 31 December was 27,788,676 and the holdings of the ten largest shareholders were 79.8%. The total number of Transmode shareholders was 2,865.

### Shareholders\*

	No. of Shares	% of Equity and Votes
Pod Investment AB	9,223,140	33.2
Lannebo fonder	3,652,623	13.2
Swedbank Robur fonder	2,365,670	8.5
Nordea Bank Norge Nominee	2,224,842	8.0
Nordea Investment Funds	1,563,033	5.6
JPM Chase NA	980,965	3.5
Lancelot Avalon	696,762	2.5
AMF Försäkring & Fonder	660,834	2.4
Karl Thedéen	416,500	1.5
Riksbankens Jubileumsfond	400,000	1.4
Other shareholders	5,604,307	20.2
<b>Total</b>	<b>27,788,676</b>	<b>100.0</b>

\* 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. Source: Euroclear as of 30 December 2014.

## Ownership Structure %



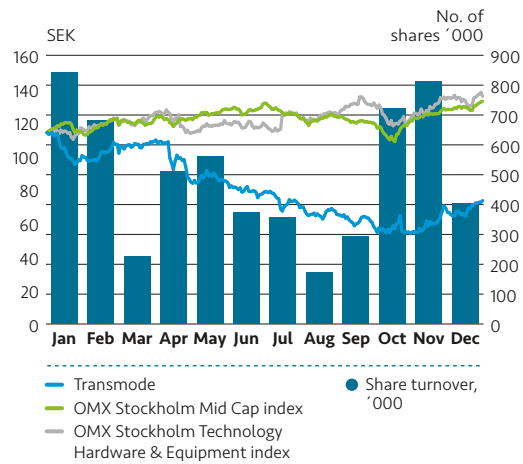
- Swedish institutions, funds, companies etc.
- Foreign-domiciled investors
- Swedish individual investors

Source: Euroclear as of 30 December 2014

## Share Price Performance

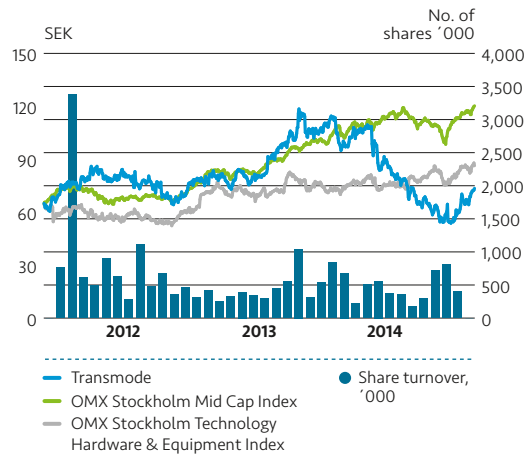
The share decreased by 36% in 2014, compared with the OMX Stockholm Technology Hardware and Equipment Index which increased by 16%. During the same period, the OMX Stockholm Mid Cap Index increased by 18%. At year-end, the market capitalization was SEK 2,042 m based on a share price of SEK 73.50. The shares are traded predominantly on NASDAQ OMX

## Share Price Performance, 2014\*



\* Source: NASDAQ OMX

## Share Price Performance, 2012-2014\*



\* Source: NASDAQ OMX

## Dividend Policy

The Board of Directors has decided to propose a dividend of SEK 1.95 (1.80) per share to the AGM.

For more information see Proposed Appropriation of Profits of Transmode AB, page 35.



For information on the financial analysts that monitor Transmode, see [www.transmode.com](http://www.transmode.com)



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# DIRECTORS' REPORT

The Board of Directors of Transmode AB hereby submits the following Annual Accounts and Consolidated Accounts for the financial year January 1, 2014–December 31, 2014. 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

The Consolidated Accounts of Transmode AB (556588-9101) for the financial year 2014 were approved for issue in accordance with a decision by the Board of Directors on March 23, 2015. Transmode AB is a limited company incorporated and domiciled in Stockholm, Sweden. Transmode has its head office 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 in the form of cost-efficient Ethernet services, ultra-low latency, low power consumption and future proof network design.

Since 2000 the company has installed more than 50,000 systems for over 650 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 9% in 2014-2019.

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, Italy, Spain, France, Russia, Malaysia, Singapore, 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 77% in 2014.

At year-end 2014, Transmode had 281 employees, a decrease of 3 employees on year-end 2013.

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](http://www.transmode.com)

## Significant Events in the Financial Year

### Geographical Expansion

Transmode does business worldwide, and continuously endeavors to expand into new geographical markets. Its regional sales organization supports its geographical expansion, strengthening customer relationships by bringing competence and resources close to customers. Transmode sells its products and services through its own sales team and partners. Its partnering program continued to evolve in the year, with the aim of further enhancing its potential to access new customers in the business and alternative operator segments.

Independent analyst Infonetics Research estimates that Transmode's core market of Metro WDM equipment, worth some USD 5.3 bn, grew by some 5.3% worldwide measured in US dollars in 2014. Transmode's sales decreased by 9.6%, or 14.9% after adjusting for exchange rate fluctuations.

## Customers

Since 2000, Transmode has delivered to a total of over 650 network operators worldwide, and the company delivered to 395 network operators in 44 countries in the year. A number of new contracts were announced in the year, including Pangaea Networks and RST Global Communications in the US and Fiberail in Malaysia.

## Products

Transmode launched a number of new, innovative products and services in 2014, including a new generation of compact and energy-efficient 100G products. Transmode also launched a new generation of 10 Gbit/s products with six transponders per card—HEX—and extremely low energy consumption of 5W/10G transponder. Transmode also launched the market's first fully pluggable 100G metro solution with coherent optics in the year, which also has integrated Ethernet switching functionality. Additionally, Transmode launched a new Mobile Fronthaul Muxponder optimized for the transport of multiple CPRI and Synchronous Ethernet services over a single 10G wavelength.

## Cost and Efficiency Program

To improve profitability and enable continued investments in product and market development, Transmode executed a cost and efficiency program in fall 2014. This program involves downscaling the cost base by some SEK 40 m annualized, and involves a combination of downsizing employed staff and consultants, as well as other savings. The staff reductions were completed in early-October, while other savings are being executed, and this program will generate its main effect in 2015.

## Other

Transmode gained recognition in the year, securing a number of honors including being a finalist in Light Reading's Leading Light Awards 2014 in the Best New Product (Telecom) category, and the winner in Telecom Asia Readers' Choice & Innovation Awards 2014 in the Optical Innovation Award category. Transmode's 100G metro solution was nominated as a finalist in the Fierce Innovation Awards in the Core/Transport category, and Transmode's 100G metro solution gained a high 4.5 out of 5 rating in Broadband Technology Reports in the 2014 Diamond Technology Reviews.

## 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, 2014 were:

<i>Shareholders<sup>1)</sup></i>	No. of Outstanding Shares	Proportion of Equity and Votes %
Pod Investment AB	9,223,140	33.2
Lannebo Fonder	3,652,623	13.2
Swedbank Robur Fonder	2,365,670	8.5
Nordea Bank Norge Nominee	2,224,842	8.0
Nordea Investment Funds	1,563,033	5.6
JPM Chase NA	980,965	3.5
Lancelot Avalon	696,762	2.5
AMF - Försäkring och Fonder	660,834	2.4
Karl Thedéen	416,500	1.5
Riksbankens Jubileumsfond	400,000	1.4
Övriga aktieägare	5,604,307	20.2
<b>Total</b>	<b>27,788,676</b>	<b>100.0</b>

<sup>1)</sup> 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 930.0 (1,029.1) m in 2014, a decrease of 9.6% (increase of 1.8) on 2013. Adjusted for exchange rate fluctuations, the decrease was 14.9% (increase of 4.7).

The decrease was primarily sourced from EMEA, where sales were down by 11.4%, or by 16.8% adjusted for exchange rate fluctuations. In the Americas, sales increased by 9.2%, or by 4.9% adjusted for exchange rate fluctuations. The increase in the Americas was from North and South America, and primarily driven from major existing accounts. In APAC, where individual projects can cause fluctuations between periods, sales decreased by 27.7%, or by 30.8% adjusted for exchange rate fluctuations.

In 2014, invoicing to the company's five largest customers, and where applicable, collections of several customers within the same group, represented 51.0% (53.3) of total invoicing, and the direct sales share was 77.0% (80.7).

### Results of Operations

Gross profit including restructuring expenses of SEK 2.1 m (-) was SEK 471.2 (521.5) m for 2014, and gross margin was 50.7% (50.7). Overall, exchange rate fluctuations against the Swedish krona had a positive effect on gross profit of SEK 51.2 m net. The impact on gross profit was computed by restating gross profit for 2013 with year-2014 exchange rates.

Operating expenses, excluding other revenues and other operating expenses, were SEK 395.7 (370.3) m in 2014. These expenses include restructuring expenses of SEK 6.8 (-) m. The increase is primarily a result of the company's product development and sales initiatives. At the end of December 2014, the company had 281 (284) employees. In 2014, development expenses of SEK 70.3 (47.5) m were capitalized, and amortization of capitalized development expenses was SEK 30.8 (23.9) m. Adjusted for the capitalization and amortization of development expenses, expenditure for research and development increased to SEK 197.3 (179.2) m, or by 10.1% on the previous year.

Other operating expenses of SEK 5.0 (3.6) m mainly consist of losses on currency contracts of SEK 14.1 (10.0) m and gains on the translation of balances with customers and suppliers of SEK 9.3 (6.4) m.

Operating profit was SEK 70.6 (148.5) m and operating margin including restructuring expenses was 7.6% (14.4).

Profit for the year was SEK 61.5 (123.3) m, a 50.1% decrease.

In 2014, as in 2013, the company did not have any significant transactions with related parties.

### Cash Flow and Investments

Cash flow from operating activities was SEK 127.5 (174.7) m in 2014.

Working capital at the end of the year was SEK 78.2 (90.9) m. In absolute terms, the reduction in working capital compared to the previous year is due to lower accounts receivable.

Investments in tangible fixed assets in the year were SEK 11.6 (10.5) m. Investments in intangible fixed assets were SEK 72.5 (52.0) m, of which capitalized development expenses were SEK 70.3 (47.5) m and software licenses for the company's new products of SEK 2.2 (4.5) m.

Transmode paid dividends of SEK 180.1 (50.0) m in the year. Transmode acquired treasury shares relating to incentive programs totaling SEK 3.3 (4.8) m in the year. Total cash flow for the year was SEK -140.6 (54.8) m.

### Cash and Cash Equivalents, Financing

The group's cash and cash equivalents were SEK 294.8 (431.5) m at year-end 2014. Arranged credit facilities were SEK 12.0 (12.0) m, of which SEK 3.9 (7.2) m was utilized for bank guarantees issued.

As in 2013, there were no interest-bearing liabilities to credit institutions or for finance leases at year-end 2014.

## 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 speed of optical fiber is now 10 Gbit/s (Gigabit per second) per wavelength. But customer needs for capacity are constantly increasing. Transmode launched a new generation of 100G products optimized for metro networks in 2014, which cut the cost of applications of 100G in metro networks, conferred greater flexibility and simpler management of spare parts and operations. They also reduce power consumption, and enable users to get more units in a smaller space.

Flexibility is crucial for the remote control of wavelengths and data streams centrally and enhancing network functionality as needs change. Transmode's products deliver a high level of flexibility in networks.

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. One of the 100G cards that Transmode launched in the year has integrated Ethernet switching functionality.

In the access area, Transmode is developing products for the needs arising when optical fiber and wavelength division multiplexing technology (WDM) extends further out in 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 plan, manage and develop their networks efficiently. New functions are being continuously added to this system to enable customers to reduce their operating expenses and benefit from new network functionality.

Transmode has broad-based competence in all technology segments central to its business; software, hardware, optics and communication technologies such as Ethernet. The core of the company's R&D work is gradually migrating towards software. Over two-thirds of the company's developers now work on software. Research and development expenses amounted to SEK 157.8 (155.6) m, or 17.0% (15.1) of the company's sales.

In order to support its research and development work, Transmode is a member of a number of organizations such as TM Forum, an industrial organization that promotes standardization in operations and maintenance, MEF, which standardizes and certifies Ethernet products, the Open Networking Foundation (ONF) which conducts standardization initiatives relating to Software Defined Architecture (SDN), OpenDaylight, a collaborative open source code project that promotes Software Defined Networking (SDN), Network Functions Virtualization (NFV), the International Telecommunication Union (ITU) a dedicated United Nations (UN) body whose purposes include developing global standards for optical transport networks, the Broadband Forum, a collaborative venture working on access solutions for fixed networks, and the 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.

One of Transmode's overarching targets is to contribute to a sustainable society, and the company works continuously to achieve this. Its ambition is to be a sector leader in sustainability, and to ensure its suppliers and partners share this ambition.

Transmode has been affiliated to the UN Global Compact since June 2011, and applies the Compact's principles on human rights, labor law, environment and anti-corruption.

All employees take yearly training in the company's Code of Conduct, which is based on the principles of the Global Compact, and includes a whistle-blower function. Transmode's Supplier Conduct Principles apply the corresponding standards to the company's suppliers, and implementation of a Code of Conduct for the company's partners also commenced in 2014. By year-end, most of the company's suppliers and partners have undertaken to follow these principles. The analysis of subcontractor usage of conflict minerals also commenced in the year. Additionally, a more systematic and in-depth internal process for following up and evaluating ethical risks was introduced in 2014. A Risk Management Committee is monitoring the sales work of geographical regions, and reports all potential incidents to Group 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.

The company also compiled and published its third Sustainability Report in 2013, which reviews its CSR-related activities, in accordance with Global Reporting Initiatives guidelines, GRI G3.1 for level C.

**Human Resources**

The group had 281 employees on December 31, down by 3 employees (increase of 15) since December 2013. The average number of full-time employees in 2014 was 288, against 270 in 2013.

The salary and remuneration guidelines for senior managers of the group approved by the AGM 2014 are stated in Note 30. The guidelines that the Board of Directors is proposing to the AGM 2015 are essentially consistent with the guidelines approved in 2014.

**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 competitive 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.

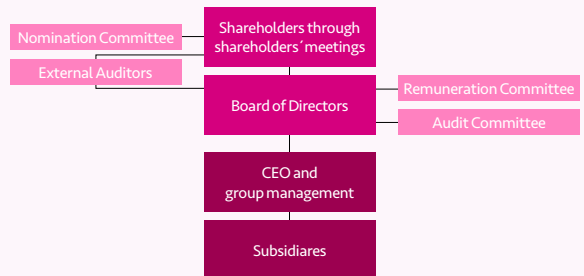
**Financial Risks and Risk Management**

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 eight 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 and 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](http://www.bolagsstyrning.se)).
- NASDAQ OMX Stockholm's Rules for Issuers (available at [www.nasdaqomx.com](http://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 deviates from the Swedish Code of Corporate Governance provisions that a board member shall not be chairman of the nomination committee and that if more than one member of

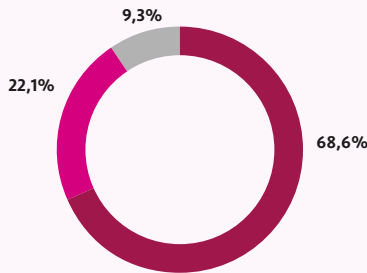


the board is on the nomination committee, no more than one of these may be dependent of a major shareholder in the company. The reason that the company deviates from the Code is that the nomination committee believes that participation in the nomination committee is a central part in the exercise of ownership and that it is natural that a representative of the largest shareholder is chairman of the nomination committee. According to the resolution by the annual general meeting, the chairman of the board shall be a member of the nomination committee. Tom Nyman is the chairman of the board, and in such capacity member of the nomination committee. Axel Roos is a member of the board of Transmode and represents Pod Investment, Transmode's largest shareholder, in the nomination committee. Tom Nyman and Axel Roos are not independent in relation to Pod Investment.

**Shareholders**

As of December 31, 2014, Transmode had some 2,900 shareholders, which held a total of 27,788,676 shares of the company.

Owner structure, %



- Swedish institutions, funds, companies etc.
- Foreign-domiciled investors
- Swedish individual investors

Source: Euroclear Sweden as of December 30, 2014 (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 10, 2014 elected Tom Nyman as Chairman of the Board and Torbjörn Nilsson, Axel Roos, Kevin Taylor, Gerd Tenzer, Roland Thornton and Helena Nordman-Knutson as 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 6.50 per share, or a total of SEK 180.6 m.

Complete minutes are available at the company's website, [www.transmode.com](http://www.transmode.com) under "Corporate Governance."

**Nomination Committee**

The Nomination Committee procedure adopted at the AGM in April 2014 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 2014 and other shareholder information available to the company at this date. The names of the appointed members of the Nomination 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](http://www.transmode.com) under "Corporate Governance." Based on the above nomination process, on 29 September 2014, Transmode reported that the company's Nomination Committee for the AGM 2015 has the following members: Axel Roos (appointed by Pod Investment AB), Johan Lannebo (appointed by Lannebo Fonder), Marianne Flink (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 2015 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 2016.

### 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](http://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 yearly 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 2014, 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 resources 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 Chair-

man 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:

## DIRECTORS' REPORT

- 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 and 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 2014 - April 2015

Composition of the Board of Directors and its Committees, April 2014 - April 2015

Name	Elected Yr.	Non-affiliated*	Board	Rem. Comm.	Aud. Comm.	Remun.***
Tom Nyman****	2005	No <sup>1)</sup>	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 <sup>2)</sup>	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 2014 to the AGM 2015, including remuneration for committee work, where applicable.

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

<sup>1)</sup> Tom Nyman is an employee of Pod Investment AB, which holds 33.2% of the shares of Transmode as of December 31, 2014. Tom Nyman Holding AB, a company owned by Tom Nyman, holds 10.0% of the shares of Pod Investment AB.

<sup>2)</sup> Via Grävhögen AB, Axel Roos is a partner in Pod Investment AB, which holds 33.2% of the shares of Transmode as of December 31, 2014. Grävhögen AB, a company owned by Axel Roos, holds 10.0% of the shares of Pod Investment AB.

Board Members' Attendance in 2014

Name	Meetings*	Remuneration Committee	Audit Committee
Tom Nyman	16/16	7/7	4/4
Torbjörn Nilsson	15/16	7/7	
Roland Thornton	14/16		
Helena Nordman-Knutson	16/16		4/4
Axel Roos	15/16	7/7	4/4
Gerd Tenzer	15/16		
Kevin Taylor	15/16		

\* Total 16 Board meetings in 2014, including 10 telephone conferences and 3 per capsulam meetings. In 2013, the corresponding numbers were 12 Board meetings, including 8 telephone conferences and 2 per capsulam meetings.

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

### Chief Executive Officer and Group Management

The Chief Executive Officer (CEO) Karl Thedén 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 21 (27) meetings where minutes were taken in 2014.

For information on each member of Group Management's shareholdings, age and other assignments etc., refer to page 70-71 in the printed Annual Report.

### Audit

The AGM 2014 elected audit firm PricewaterhouseCoopers (PwC) as auditor with Johan Engstam as Auditor-in-Charge until the AGM 2015. 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 (2) occasions in 2014, 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 2014, this occurred in November.

In March 2014, 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 2014. Moreover, in fall 2014, PwC conducted its annual audit of the company's administration and internal controls and a preparatory review of the annual financial statements for 2014. 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 delegated 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 2014, 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 con-

troller 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 2014, the parent company had 12 (14) employees.

In 2014, parent company sales were SEK 22.0 (20.1) m, all invoicing of services sold to subsidiaries. The operating profit/loss was SEK -6.3 (-6.3) m.

The parent company's profit for the year was SEK 52.0 (170.1) m.

At the end of the reporting period, the parent company held SEK 34.4 (110.0) m of cash and cash equivalents.

### Significant Events after the End of the Financial Year

Transmode has announced that regional operator COMLINK in the US has begun to supply services for 100Gbit/s using Transmode's TM-Series.

Transmode has also announced that FNE Finland Oy will be upgrading its network using Transmode's 100 G solution for metro networks.

### Dividend

Thanks to Transmode's healthy cash flow and the company's continued strong financial position, the Board has decided to propose a dividend of SEK 1.95 (1.80) per share to the AGM, corresponding to a total of SEK 54.2 (50.0) m, for the financial year 2014. This dividend corresponds to 88% (41) of net profit for 2014.

In the previous year, the AGM also resolved to pay an extra dividend of SEK 4.70 per share, corresponding to a total of SEK 130.6 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.

## DIRECTORS' REPORT

### Proposed Appropriation of Profits of Transmode AB

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

Share premium reserve	SEK 18,026,687
Retained profits	SEK 1,404,680
Profit for the year	SEK 52,038,305
Total	SEK 71,469,672

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

Dividend of SEK 1.95 per share, total	SEK 54,187,918
Carried forward	SEK 17,281,754
Total	SEK 71,469,672

Because the Board of Directors is proposing that the AGM on April 16, 2015 resolves on a dividend of SEK 1.95 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 76% of the parent company's non-restricted equity and 10% and 9% 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 23, 2015. The Parent Company and Consolidated Income Statement and Balance Sheet will be subject to adoption at the Annual General Meeting on April 16, 2015.

# ACCOUNTS

## Consolidated Income Statement for the financial year as of December 31

SEK M	NOTE	2014	2013
Sale of goods		857.2	964.7
Sale of services		72.8	64.4
<b>Total sales</b>	3	<b>930.0</b>	<b>1,029.1</b>
Cost of goods and services provided	5	-458.8	-507.6
<b>Gross profit</b>		<b>471.2</b>	<b>521.5</b>
Other income	4	0.1	0.9
Research and development costs		-157.8	-155.6
Selling expenses		-199.1	-179.7
Administrative expenses		-38.8	-35.0
Other operating expenses	4	-5.0	-3.6
<b>Operating profit/loss</b>	5, 6, 7, 8	<b>70.6</b>	<b>148.5</b>
Financial income	9	7.1	6.5
Financial expenses	9	-0.3	0.5
<b>Net financial income/expenses</b>		<b>6.8</b>	<b>7.0</b>
Taxes	10	-15.9	-32.2
<b>Profit for the year</b>		<b>61.5</b>	<b>123.3</b>
Attributable to:			
Equity holders of the parent company		61.5	123.3
Earnings per share:	11		
basic		2.22	4.44
diluted		2.22	4.44

## Consolidated Statement of Comprehensive Income for the financial year as of December 31

SEK M	NOTE	2014	2013
<b>Profit for the year</b>		<b>61.5</b>	<b>123.3</b>
<b>Other comprehensive income</b>			
Translation difference		1.1	0.0
<b>Other comprehensive income for the period, net after tax</b>		<b>1.1</b>	<b>0.0</b>
<b>Total comprehensive income for the period</b>		<b>62.6</b>	<b>123.3</b>
Attributable to:			
Equity holders of the parent company		62.6	123.3

## ACCOUNTS

### Consolidated Statement of Financial Position

as of December 31

SEK M	NOTE	2014	2013
<b>ASSETS</b>			
<b>Fixed assets</b>			
<i>Intangible assets</i>			
	14		
Goodwill	15	88.4	88.4
Licenses		4.9	4.4
Capitalized development expenses		125.1	87.8
Technology		1.2	5.9
		<b>219.6</b>	<b>186.5</b>
<i>Tangible assets</i>			
	13		
Leasehold improvements		1.2	1.8
Machinery and equipment		25.6	23.1
		<b>26.8</b>	<b>24.9</b>
<i>Financial assets</i>			
Deferred tax asset	10	3.4	2.2
Other financial assets	16	5.9	5.3
		<b>9.3</b>	<b>7.5</b>
<b>Total non-current assets</b>		<b>255.7</b>	<b>218.9</b>
<b>Current assets</b>			
Inventories	18	89.0	85.9
Accounts receivable	19	168.6	184.7
Other current receivables	20	21.8	20.5
Prepaid expenses and accrued income	21	15.8	13.3
Cash and cash equivalents	22	294.8	431.5
<b>Total current assets</b>		<b>590.0</b>	<b>735.9</b>
<b>TOTAL ASSETS</b>		<b>845.7</b>	<b>954.8</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent company</b>			
	12, 17, 23		
Share capital		5.6	5.6
Other contributed capital		537.0	646.0
Translation difference		0.2	-0.9
Accumulated profit or loss		40.2	51.7
<b>Total equity</b>		<b>583.0</b>	<b>702.4</b>
<b>Long-term liabilities</b>			
	24		
Other provisions	25, 26	5.1	4.9
Deferred tax liability	10	40.7	33.9
<b>Total long-term liabilities</b>		<b>45.8</b>	<b>38.8</b>
<b>Current liabilities</b>			
Accounts payable	27	96.9	103.0
Tax liability		5.2	2.9
Provisions	25	11.6	16.6
Other current liabilities	27	25.3	20.1
Accrued expenses and deferred income	28	77.9	71.0
<b>Total current liabilities</b>		<b>216.9</b>	<b>213.6</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>845.7</b>	<b>954.8</b>

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

## ACCOUNTS

### Consolidated Statement of Cash Flows

for the financial year as of December 31

SEK M	NOTE	2014	2013
<b>Cash flow from operating activities</b>			
Profit/loss after financial items		77.4	155.5
Adjustment for non-cash items			
Depreciation and amortization		48.9	36.4
Profit/loss from disposals and retirements of non-current assets		0.2	-
Change in provisions		4.8	-4.4
Net financial income/expense		-6.8	-7.0
Interest paid		0.0	0.0
Interest received		3.4	7.4
Other received/paid financial income/expense		-0.3	0.6
Income tax paid		-11.8	-25.8
<b>Cash flow from operating activities before changes in working capital</b>		<b>115.8</b>	<b>162.7</b>
Increase (-)/decrease (+) in inventories		-11.3	14.9
Increase (-)/decrease (+) in trade receivables		12.0	-33.4
Increase (+)/decrease (-) in trade payables		11.0	30.5
<b>Cash flow from operating activities</b>		<b>127.5</b>	<b>174.7</b>
<b>Cash flow from investing activities</b>			
Acquisitions of intangible assets	14	-72.5	-52.0
Acquisitions of tangible assets	13	-11.6	-10.5
Change in other financial assets		-0.6	-2.6
<b>Cash flow from investing activities</b>		<b>-84.7</b>	<b>-65.1</b>
<b>Cash flow from financing activities</b>			
Purchases of treasury shares		-3.3	-4.8
Dividend to equity holders of the parent company		-180.1	-50.0
<b>Cash flow from financing activities</b>		<b>-183.4</b>	<b>-54.8</b>
<b>Increase/decrease in cash and cash equivalents</b>		<b>-140.6</b>	<b>54.8</b>
Cash and cash equivalents, at beginning of year		431.5	376.8
Exchange rate difference in cash and cash equivalents		3.9	-0.1
<b>Cash and cash equivalents, at end of year</b>		<b>294.8</b>	<b>431.5</b>



## ACCOUNTS

### Consolidated Changes in Equity

**SEK M**

	Share Capital	Other Contributed Capital	Translation Difference	Accumulated Profit/Loss	Total Equity
<b>Opening balance January 1, 2013</b>	<b>5.6</b>	<b>646.0</b>	<b>-0.9</b>	<b>-17.9</b>	<b>632.8</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>0.0</b>	<b>123.3</b>	<b>123.3</b>
Transactions with shareholders:					
Purchases of treasury shares	-	-	-	-4.8	-4.8
Share-based compensation	-	-	-	1.1	1.1
Dividend to parent company's shareholders	-	-	-	-50.0	-50.0
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-53.7</b>	<b>-53.7</b>
<b>Closing balance December 31, 2013</b>	<b>5.6</b>	<b>646.0</b>	<b>-0.9</b>	<b>51.7</b>	<b>702.4</b>
<b>Opening balance January 1, 2014</b>	<b>5.6</b>	<b>646.0</b>	<b>-0.9</b>	<b>51.7</b>	<b>702.4</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>1.1</b>	<b>61.5</b>	<b>62.6</b>
Transactions with shareholders:					
Purchases of treasury shares	-	-3.3	-	-	-3.3
Share-based compensation	-	-	-	1.4	1.4
Dividend to parent company's shareholders	-	-105.7	-	-74.4	-180.1
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-109.0</b>	<b>-</b>	<b>-73.0</b>	<b>-182.0</b>
<b>Closing balance December 31, 2014</b>	<b>5.6</b>	<b>537.0</b>	<b>0,2</b>	<b>40.2</b>	<b>583.0</b>

## ACCOUNTS

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

SEK M	NOTE	2014	2013
Sale of services		22.0	20.1
<b>Total sales</b>		<b>22.0</b>	<b>20.1</b>
Other income	4	0.0	0.3
Administrative expenses		-28.3	-26.7
Other operating expenses	4	-0.0	-
<b>Operating profit/loss</b>	<b>6, 7</b>	<b>-6.3</b>	<b>-6.3</b>
Financial income	9	59.0	177.1
Financial expenses	9	0.0	0.0
<b>Net financial income/expenses</b>		<b>59.0</b>	<b>177.1</b>
Taxes		-0.7	-0.7
<b>Profit for the year</b>		<b>52.0</b>	<b>170.1</b>

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

SEK M	NOTE	2014	2013
<b>Profit for the year</b>		<b>52.0</b>	<b>170.1</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the period</b>		<b>52.0</b>	<b>170.1</b>

## ACCOUNTS

### Parent Company Balance Sheet

as of December 31

SEK M	NOT	2014	2013
<b>ASSETS</b>			
<b>Fixed assets</b>			
<i>Financial assets</i>			
Participations in group companies	33	369.4	369.4
Receivables from group companies		97.9	96.7
Deferred tax asset	10	0.4	0.4
Other financial assets		1.6	1.2
<b>Total non-current assets</b>		<b>469.3</b>	<b>467.7</b>
<b>Current assets</b>			
Receivables from group companies		63.1	118.3
Other current receivables		4.8	4.0
Prepaid expenses and accrued income		0.6	0.2
Cash and cash equivalents		34.4	110.0
<b>Total current assets</b>		<b>102.9</b>	<b>232.5</b>
<b>TOTAL ASSETS</b>		<b>572.2</b>	<b>700.2</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	12, 17, 23		
<i>Restricted equity</i>			
Share capital		5.6	5.6
Statutory reserve		482.9	482.9
		<b>488.5</b>	<b>488.5</b>
<i>Non-restricted equity</i>			
Share premium reserve		18.0	127.0
Profit/loss brought/carried forward		1.4	-95.7
Profit for the year		52.0	170.1
		<b>71.4</b>	<b>201.4</b>
<b>Total equity</b>		<b>559.9</b>	<b>689.9</b>
<b>Provisions</b>			
Other provisions		2.0	1.5
<b>Total provisions</b>		<b>2.0</b>	<b>1.5</b>
<b>Current liabilities</b>			
Accounts payable		1.4	1.5
Provisions		-	0.1
Other current liabilities		2.5	1.7
Accrued expenses and deferred income	28	6.4	5.5
<b>Total current liabilities</b>		<b>10.3</b>	<b>8.8</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>572.2</b>	<b>700.2</b>
<b>Pledged assets and contingent liabilities</b>			
<i>Pledged assets</i>		None	None
<i>Contingent liabilities</i>		None	None

## ACCOUNTS

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

SEK M	2014	2013
<b>Cash flow from operating activities</b>		
Profit/loss after financial items	52.7	170.8
Adjustment for non-cash items		
Change in provisions	0.4	0.0
Other non-cash items	0.0	0.2
Net financial income/expense	-59.0	-177.1
Interest paid	0.0	0.0
Interest received	3.9	4.7
Other paid/received financial income/expense	115.5	52.2
Income taxes paid	0.0	0.0
<b>Cash flow from operating activities before changes in working capital</b>	<b>113.5</b>	<b>50.8</b>
Increase (-)/decrease (+) in trade receivables	-6.5	0.6
Increase (+)/decrease (-) in trade payables	1.1	-2.9
<b>Cash flow from operating activities</b>	<b>108.1</b>	<b>48.5</b>
<b>Cash flow from investing activities</b>		
Change in other financial assets	-0.4	-0.4
<b>Cash flow from investing activities</b>	<b>-0.4</b>	<b>-0.4</b>
<b>Cash flow from financing activities</b>		
Dividend	-180.1	-50.0
Purchases of treasury shares	-3.3	-4.8
<b>Cash flow from financing activities</b>	<b>-183.4</b>	<b>-54.8</b>
<b>Decrease in cash and cash equivalents</b>	<b>-75.7</b>	<b>-6.7</b>
Cash and cash equivalents, at beginning of year	110.0	116.7
Exchange rate difference in cash and cash equivalents	0.1	0.0
<b>Cash and cash equivalents, at end of year</b>	<b>34.4</b>	<b>110.0</b>

## ACCOUNTS

### Parent Company Changes in Equity

**SEK M**

	Share Capital	Statutory Reserve	Share Premium Reserve	Accumulated Profit/loss	Total Equity
<b>Opening balance January 1, 2013</b>	<b>5.6</b>	<b>482.9</b>	<b>127.0</b>	<b>-42.0</b>	<b>573.5</b>
Profit for the year	-	-	-	170.1	170.1
<b>Total recognized income and expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>170.1</b>	<b>170.1</b>
Transactions with shareholders:					
Purchases of treasury shares	-	-	-	-4.8	-4.8
Share-based compensation	-	-	-	1.1	1.1
Dividend	-	-	-	-50.0	-50.0
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-53.7</b>	<b>-53.7</b>
<b>Closing balance December 31, 2013</b>	<b>5.6</b>	<b>482.9</b>	<b>127.0</b>	<b>74.4</b>	<b>689.9</b>
<b>Opening balance January 1, 2014</b>	<b>5.6</b>	<b>482.9</b>	<b>127.0</b>	<b>74.4</b>	<b>689.9</b>
Profit for the year	-	-	-	52.0	52.0
<b>Total recognized income and expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>52.0</b>	<b>52.0</b>
Transactions with shareholders:					
Purchases of treasury shares	-	-	-3.3	-	-3.3
Share-based compensation	-	-	-	1.4	1.4
Dividend	-	-	-105.7	-74.4	-180.1
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-109.0</b>	<b>-73.0</b>	<b>-182.0</b>
<b>Closing balance December 31, 2014</b>	<b>5.6</b>	<b>482.9</b>	<b>18.0</b>	<b>53.4</b>	<b>559.9</b>



# NOTES

## NOTE 1

### Corporate Information

The Consolidated Accounts of Transmode AB (556588-9101) for the financial year 2014 were approved for issue in accordance with a decision by the Board of Directors on March 23, 2015. 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).

Since 2000 the company has installed more than 50,000 systems for over 650 fixed and mobile network operators, service providers, large enterprises and public institutions in over 50 countries across the globe.

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 of 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.

## 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 Accounting Rules for Groups and IFRS (International Financial Reporting 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

The following standards have been applied by the group for the first time from January 1, 2014 and have an effect on the group's financial statements:

Implementation of IFRS 10 "Consolidated Financial Statements," IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" have not had any effect on the group's financial statements.

Other standards, amendments and interpretation statements that come into effect for financial years beginning January 1, 2014 have no material effect on the group's financial statements.

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

A number of new standards and interpretation statements come into effect for financial years that begin after January 1, 2014 and have not been applied in preparation of these financial state-

ments. None of them are expected to have any material effect on the group's financial statements, apart from those that follow:

IFRS 9, "Financial Instruments", deals with measurement, recognition and reporting of financial assets and liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the elements of IAS 39 that relate to the measurement and recognition of financial instruments. The standard should be applied to financial years that begin on January 1, 2018. Prospective application is permitted. The group has not yet evaluated the effects of implementation of this standard.

IFRS 15 "Revenue from Contracts with Customers" formalizes the recognition of revenue. The principles IFRS 15 is based on should give users of financial statements more usable information on the company's revenues. This increased liability for disclosure means that information on the nature of income, the timing of settlement, uncertainties associated with revenue recognition and cash flow attributable to the company's customer contracts should be presented. According to IFRS 15, a revenue item should be recognized when the customer gains control over the sold good or service and has the possibility of using or obtaining benefit from the service. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and the associated SIC and IFRIC. IFRS 15 comes into effect on January 1, 2017. Prospective application is permitted. The group has not yet evaluated the effects of implementation of the standard.

None of the other IFRS or IFRIC interpretation statements that have not yet come into effect are expected to have any material effect on the group.

## 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:

#### 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, 2014 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, 2014 was SEK 125.1 (87.8) 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

## Note 2.2 Significant Accounting Judgments and Estimates, cont.

inventory obsolescence is established. The total inventory value, net of inventory obsolescence is SEK 89.0 (85.9) m as of December 31, 2014. The provision for obsolescence amounts to SEK 29.4 (21.1) 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, 2014 and 2013, 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 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 the majority of all invoicing to customers is executed and where basically all assets are located.



### Note 2.3 Summary of Significant Accounting Principles, cont.

#### 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 also includes direct costs and an allocated part of common costs connected with the generation of revenue. Amortization of the intangible asset technology is included in research & development expenses. Amortization of the majority of capitalized development expenses is included in research & development expenses, and the minority in cost of goods sold and services rendered.

#### 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 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 recoverable 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. 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 re-

### Note 2.3 Summary of Significant Accounting Principles, cont.

viewed 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.

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

##### 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.

### Note 2.3 Summary of Significant Accounting Principles, cont.

#### *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 Compensation**

In 2014 and 2013, the group introduced incentive programs in the form of share-based compensation plans, 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 main 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.

## NOTES

### NOTE 3

#### Sales

<i>Group</i>	2014	2013
<i>Sales by region</i>		
Sweden	117.1	119.8
EMEA excluding Sweden	643.9	738.6
Americas	135.0	123.7
APAC	34.0	47.0
<b>Total</b>	<b>930.0</b>	<b>1,029.1</b>

There are 2 (3) customers that each represent over 10% of total sales. These customers' share of sales amounts to 19% and 12%, compared to 22%, 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 4 (5) countries that each represent over 10% of total sales. Together, sales to these countries amount to some 55% (68) of total sales.

<i>Group</i>	2014	2013
<i>Share of total sales from countries where share of sales &gt; 10%<sup>1)</sup></i>		
UK (%)	22	25
Sweden (%)	13	12
Germany (%)	10	11
Norway (%)	-	10
USA (%)	10	10
<b>Total</b>	<b>55</b>	<b>68</b>

<sup>1)</sup> If the sales from a country are less than 10% for the current year or comparative year, no value is stated.

### NOTE 4

#### Other Income and Other Operating Expenses

<i>Group</i>	2014	2013
<i>Other income</i>		
Other	0.1	0.9
<b>Total</b>	<b>0.1</b>	<b>0.9</b>

#### *Other operating expenses*

Exchange gains/losses on balances with customers and suppliers	-14.1	-10.0
Exchange gains/losses on currency contracts	9.3	6.4
Other	-0.2	0.0
<b>Total</b>	<b>-5.0</b>	<b>-3.6</b>

<i>Parent company</i>	2014	2013
<i>Other income</i>		
Exchange gains/losses on balances with customers and suppliers	0.0	0.0
Other	0.0	0.3
<b>Total</b>	<b>0.0</b>	<b>0.3</b>

The company limits risks of exchange rate fluctuations on balances with customers and suppliers using derivative instruments in the form of currency forward contracts. Exchange gains and exchange losses on balances with customers and suppliers and currency forward contracts are reported net. If the net consists of exchange gains, the items are reported as other income and if the net consists of exchange losses, they are reported as other operating expenses.

### NOTE 5

#### Expenses by Category

<i>Group</i>	2014	2013
Cost of goods and services provided <sup>1)</sup>	412.2	468.8
Other expenses	177.6	159.5
Personnel expenses	291.1	268.8
Depreciation and amortization of intangible assets and tangible assets	48.9	36.4
<b>Total operating expenses, gross</b>	<b>929.8</b>	<b>933.5</b>
Capitalization of development expenses	-70.3	-52.0
<b>Total operating expenses, net</b>	<b>859.5</b>	<b>881.5</b>

<sup>1)</sup> Cost of goods sold and services provided according to Income Statement classified by function reduced by allocated expenses of SEK 46.6 (38.8) m.

## NOTES

### NOTE 6

#### Auditors' Fees

Group	2014	2013
<b>PricewaterhouseCoopers</b>		
Audit assignment	1.0	1.0
Auditing services over and above audit assignment	0.1	0.1
Tax advisory services	0.0	0.0
Other services	0.2	0.2
<b>Total PricewaterhouseCoopers</b>	<b>1.3</b>	<b>1.3</b>
<b>The MGroup</b>		
Audit assignment	-	0.0
Other services	0.4	0.3
<b>Total MGroup</b>	<b>0.4</b>	<b>0.3</b>
<b>Total</b>	<b>1.7</b>	<b>1.6</b>
<b>Parent company</b>	<b>2014</b>	<b>2013</b>
<b>PricewaterhouseCoopers</b>		
Audit assignment	0.2	0.5
Auditing services over and above audit assignment	0.0	0.1
Tax advisory services	-	-
Other services	0.1	0.1
<b>Total PricewaterhouseCoopers</b>	<b>0.3</b>	<b>0.7</b>

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 2013 or 2014, 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	2014	Of which men %	2013	Of which men %
Sweden	246	76	231	77
UK	14	100	14	100
Germany	9	100	7	100
USA	18	89	17	88
Italy	1	100	1	100
<b>Group total</b>	<b>288</b>	<b>78</b>	<b>270</b>	<b>79</b>
<b>Parent company</b>	<b>2014</b>	<b>Of which men %</b>	<b>2013</b>	<b>Of which men %</b>
Sweden	14	36	13	31
<b>Parent company total</b>	<b>14</b>	<b>36</b>	<b>13</b>	<b>31</b>

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

Group	2014	Of which men %	2013	Of which men %
Board members apart from CEO	7	86	7	86
CEO and other Senior Managers	11	82	11	82
<b>Group total</b>	<b>18</b>	<b>83</b>	<b>18</b>	<b>83</b>

##### Salary and Other Benefits and Social Security Contributions

Group	2014		2013	
	Salary and Benefits	Social Security Contrib.	Salary and Benefits	Social Security Contrib.
	208.8	79.7	187.9	70.0
(of which pension expenses) <sup>1)</sup>		(25.1) <sup>1)</sup>		(18.8) <sup>1)</sup>

<sup>1)</sup> No pension expenses were attributable to the Board for 2014 or 2013.

Parent company	2014		2013	
	Salary and Benefits	Social Security Contrib.	Salary and Benefits	Social Security Contrib.
	14.6	6.7	12.8	6.3
(of which pension expenses)		(1.9)		(2.1)

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

Group	2014		2013	
	CEO and Board	Other Employees	CEO and Board	Other Employees
	6.1	202.7	5.8	182.1

See also Note 30.

Parent Company	2014		2013	
	CEO and Board	Other Employees	CEO and Board	Other Employees
	6.1	8.5	5.8	7.0

## NOTES

### Note 7 Employee Benefits, cont.

#### Incentive Schemes

As in the previous year, the group implemented 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	2014	2013
<i>Depreciation and amortization per asset</i>		
Capitalized development expenses	33.0	23.9
Technology	4.7	4.7
Licenses	1.7	0.1
Leasehold improvements	0.8	0.7
Machinery and equipment	8.7	7.0
<b>Total</b>	<b>48.9</b>	<b>36.4</b>
<i>Depreciation and amortization per function</i>		
Cost of goods and services provided	3.8	1.0
Research and development expenses	43.0	33.3
Selling expenses	1.7	1.7
Administration expenses	0.4	0.4
<b>Total</b>	<b>48.9</b>	<b>36.4</b>

#### NOTE 9

#### Financial Income and Expenses

Group	2014	2013
<i>Financial income</i>		
Interest income	3.2	6.5
Exchange gains/losses on financial assets	3.9	0.0
<b>Total</b>	<b>7.1</b>	<b>6.5</b>
<i>Financial expenses</i>		
Other interest and financial expenses	0.0	0.0
Exchange gains/losses on financial liabilities	-0.3	0.5
<b>Total</b>	<b>-0.3</b>	<b>0.5</b>
<i>Parent company</i>		
<i>Financial income</i>		
Interest income	0.5	1.7
Interest income from group companies	3.4	2.7
Dividend from group companies <sup>1)</sup>	-	52.2
Anticipated dividends from group companies <sup>2)</sup>	50.0	115.5
Group contribution received <sup>3)</sup>	5.0	5.0
Exchange gains/losses	0.1	0.0
<b>Total</b>	<b>59.0</b>	<b>177.1</b>

<sup>1)</sup> Dividend from subsidiary Transmode Systems AB.

<sup>2)</sup> Anticipated dividend from subsidiary Transmode Systems AB.

<sup>3)</sup> Group contribution received from subsidiary Transmode Systems AB.

Parent company	2014	2013
<i>Financial expenses</i>		
Other interest and financial expenses	0.0	0.0
Exchange gains/losses	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>

The company has cash and cash equivalents and balances with group companies in foreign currency. Exchange gains and losses from financial assets are reported as financial income. Corresponding items from financial liabilities are reported as financial expenses.

#### NOTE 10

#### Taxes

##### Group

The components of tax expenses for the financial years are:

	2014	2013
<i>Current tax</i>		
Tax on profit for the year	-10.2	-27.2
Tax attributable to previous year	-0.1	0.0
<i>Deferred tax</i>		
Occurrence and reversal of temporary differences	-6.6	-6.0
Tax related to business combinations	1.0	1.0
<b>Total tax</b>	<b>-15.9</b>	<b>-32.2</b>

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

	2014	2013
Recognized profit before tax	77.4	155.5
Tax calculated on Swedish enacted tax rate, 22.0% (22.0)	-17.0	-34.2
Tax attributable to previous year	-0.1	0.0
Non-taxable income	0.0	0.1
Non-deductible expenses	-0.6	-0.8
Taxable income not included in reported net profit for the year	-0.1	0.0
Effect of higher/lower tax rates for foreign subsidiaries	-0.9	-0.1
Tax effect of amortization of goodwill arising from the purchase of the net assets of group companies	2.8	2.8
Deductible deficits for which no deferred tax asset is recognized	-	0.0
<b>Tax recognized in the Consolidated Income Statement</b>	<b>-15.9</b>	<b>-32.2</b>

## NOTES

### Note 10 Taxes, cont.

<u>Current tax rate %</u>	2014	2013
Sweden	22.0	22.0
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:

<u>Deferred tax asset</u>	2014	2013
Other provisions for pensions	0.4	0.3
Other	3.0	1.9
<b>Total</b>	<b>3.4</b>	<b>2.2</b>

	2014	2013
Opening balance, January 1	2.2	1.2
Tax on provisions for pensions for the year	0.1	0.1
Other	1.1	0.9
<b>Closing balance, December 31</b>	<b>3.4</b>	<b>2.2</b>

Deferred tax liability are attributable to the following:

<u>Deferred tax liability</u>	2014	2013
Capitalized development expenses	27.5	19.3
Technology	0.3	1.3
Untaxed reserves	12.9	13.3
<b>Total</b>	<b>40.7</b>	<b>33.9</b>

	2014	2013
Opening balance, January 1	33.9	27.9
Tax on capitalized development expenses	8.2	5.2
Tax on untaxed reserves	-0.4	1.8
Tax on the year's amortization of technology	-1.0	-1.0
<b>Closing balance, December 31</b>	<b>40.7</b>	<b>33.9</b>

The group has no deductible loss carry-forwards.

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

### Parent company

<u>Deferred tax asset</u>	2014	2013
Other pension provisions	0.3	0.3
Other	0.1	0.1
<b>Total</b>	<b>0.4</b>	<b>0.4</b>

	2014	2013
Opening balance, January 1	0.4	0.3
Tax on pension provisions	0.0	0.1
Other	0.0	-
<b>Closing balance, December 31</b>	<b>0.4</b>	<b>0.4</b>

### NOTE 11

#### Earnings per Share

	2014	2013
Profit attributable to equity holders of the parent company	61.5	123.3
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share (000)	27,714	27,782
Adjustments for:		
Assumed exercise of stock options (000)	-	-
<b>Weighted average number of outstanding ordinary shares used to calculate diluted earnings per share (000)</b>	<b>27,714</b>	<b>27,782</b>
Basic earnings per share (SEK)	2.22	4.44
Diluted earnings per share (SEK)	2.22	4.44

### NOTE 12

#### Dividends

	2014	2013
Dividend paid on shares	-180.1	-50.0
	<b>-180.1</b>	<b>-50.0</b>

The Board of Directors is proposing to the AGM 2015 that dividends of SEK 1.95 (1.80) per share are paid corresponding to a total of SEK 54.2 (50.0) m. In the previous year, the Board of Directors also proposed an extra dividend of SEK 4.70 per share, corresponding to a total of SEK 130.6 m. In total, the proposed dividend is SEK 1.95 (6.50) per share, corresponding to a total of SEK 54.2 (180.6) m. The proposed dividend has not been reported as a liability in these financial statements. The dividend paid in 2014 is less than the dividend approved by the AGM 2014, because the company purchases of treasury shares.

## NOTES

### NOTE 13

#### Tangible Fixed Assets

<i>December 31, 2014</i>	Leasehold Improvement	Machinery and Equipment
January 1, 2014		
Cost	3.4	56.6
Cumulative depreciation	-1.6	-33.5
<b>Carrying amount</b>	<b>1.8</b>	<b>23.1</b>
January 1, 2014, opening carrying amount		
Purchases	0.2	11.4
Disposals and retirements	-	-0.2
Depreciation for the year	-0.8	-8.7
<b>December 31, 2014, closing carrying amount</b>	<b>1.2</b>	<b>25.6</b>
December 31, 2014		
Cost	3.6	65.0
Cumulative depreciation	-2.4	-39.4
<b>Carrying amount</b>	<b>1.2</b>	<b>25.6</b>

No impairment losses were taken in 2014. Obsolescence in the year reduced cost by SEK 3.0 m and cumulative depreciation by SEK 2.8 m, SEK -0.2 m net.

The estimated economic lives of other assets are as follows:

	2014	2013
Leasehold improvements	5 yr.	5 yr.
Machinery and equipment	3-5 yr.	3-5 yr.

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

No impairment losses were taken in 2013.

### NOTE 14

#### Intangible Fixed Assets

<i>December 31, 2014</i>	Goodwill	Capitalized Dev. Exp.	Licenses	Technology
January 1, 2014				
Cost	88.4	153.7	4.5	47.0
Cumulative depreciation	-	-65.9	-0.1	-41.1
<b>Carrying amount</b>	<b>88.4</b>	<b>87.8</b>	<b>4.4</b>	<b>5.9</b>
January 1, 2014, opening carrying amount				
Purchases	-	70.3	2.2	-
Depreciation for the year	-	-33.0	-1.7	-4.7
<b>December 31, 2014, closing carrying amount</b>	<b>88.4</b>	<b>125.1</b>	<b>4.9</b>	<b>1.2</b>
December 31, 2014				
Cost	88.4	224.0	6.7	47.0
Cumulative depreciation	-	-98.9	-1.8	-45.8
<b>Carrying amount</b>	<b>88.4</b>	<b>125.1</b>	<b>4.9</b>	<b>1.2</b>

No impairment losses were taken in 2014.

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

No impairment losses were taken in 2013.

The estimated economic lives of other assets are as follows:

	2014	2013
Technology	10 yr.	10 yr.
Capitalized development expenses	3-5 yr.	3-5 yr.
Licenses	3 yr.	3 yr.

Transmode acquired Lumentis AB in 2005. Intangible 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 2013 and 2014, assessed useful life is 3-5 years. Acquired software licenses are depreciated during the estimated remaining economic life of 3-5 years.



## NOTES

### 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:

	2014	2013
Optical networking solutions	88.4	88.4
<b>Total goodwill</b>	<b>88.4</b>	<b>88.4</b>

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 2014 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 increase market shares were used when preparing these forecasts. In the impairment test, the growth rate utilized to extrapolate cash flows after year 2018 is 3.0% (3.0). A discount rate of 11.0% (11.0) 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

<i>December 31, 2014</i>	Deposits Paid	Blocked Funds	Endowment Insurance	Total
Opening balance, January 1	3.3	0.5	1.5	5.3
Released funds	-	0.0	-	0.0
New deposits	0.2	-	-	0.2
Deposited premiums	-	-	0.2	0.2
Change in value	-	-	0.2	0.2
Interest received	-	0.0	-	0.0
<b>Closing balance, December 31</b>	<b>3.5</b>	<b>0.5</b>	<b>1.9</b>	<b>5.9</b>

<i>December 31, 2013</i>	Deposits Paid	Blocked Funds	Endowment 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
<b>Closing balance, December 31</b>	<b>3.3</b>	<b>0.5</b>	<b>1.5</b>	<b>5.3</b>

Blocked bank funds are collateral for bank guarantees issued.

### NOTE 17

#### Share-based Compensation

##### Long-term Incentive Program 2014

The AGM on April 10, 2014 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 four categories with a range of savings and allocation levels. The allocation date for the program was June 1, 2014.

Employees who chose 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 exceed a certain threshold.

In addition to the above, performance share rights can be allotted to participating 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, cont.****Scope**

In total, the program currently encompasses a maximum of 45,105 saving shares, which confer the right to allotment of a maximum of 131,066 shares in Transmode (of which a maximum of 45,105 are based on matching share rights and a maximum of 85,961 are based on performance share rights). 843 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 1.1 m for the year. The weighted average fair value of the allotted instruments is SEK 50.13.

The estimated cost of the program is based on the following assumptions:

- a share price of SEK 55.31,
- no compensation for dividends, using a yield figure in line with the proposal to the AGM 2014,
- 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.

**Long-term Incentive Program 2013**

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 exceed a certain threshold.

In addition to the above, performance share rights can be allotted to participating 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.

**Scope**

In total, the program currently encompasses a maximum of 27,544 (24,823) saving shares, which confer the right to allotment of a maximum of 74,212 (66,436) shares in Transmode (of which a maximum of 27,544 (24,823) are based on matching share rights and a maximum of 46,668 (41,613) are based on performance share rights). 1,236 (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 0.5 (1.6) m for the year. The weighted average fair value of the allotted instruments is SEK 82.20 (100.64).

The estimated cost of the program is based on the following assumptions:

- a share price of SEK 68.48 - 105.75,
- no compensation for dividends, using a yield figure in line with 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.

**NOTE 18****Inventories**

Inventories of SEK 89.0 (85.9) m comprise finished goods, products in progress and raw materials.

Expensed impairment losses on inventories amount to SEK 10.7 (2.0) 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.

Some impairment losses were reversed in the years 2014 and 2013.

Provisioning to obsolescence reserve is based on age and rate of turnover and amounts to SEK 29.4 (21.1) m.

	2014	2013
Raw materials	22.5	9.6
Products in progress	2.2	6.3
Finished goods	93.7	91.1
Obsolescence	-29.4	-21.1
<b>Total</b>	<b>89.0</b>	<b>85.9</b>

**NOTE 19****Accounts Receivable**

	2014	2013
Accounts receivable	168.6	184.7
Less: provision for bad debt	-	-
<b>Accounts receivable, net</b>	<b>168.6</b>	<b>184.7</b>

An age analysis of the group's outstanding accounts receivable as of December 31, for 2013 and 2014 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.

	2014	2013
Non-overdue accounts receivable	137.6	168.8
Overdue by 1 - 30 days	15.8	6.4
Overdue by 31 - 90 days	2.6	4.6
Overdue by 91 - 180 days	9.9	9.6
Overdue by over 180 days	2.7	-4.7
<b>Accounts receivable, net</b>	<b>168.6</b>	<b>184.7</b>

## NOTES

### NOTE 20

#### Other Current Receivables

	2014	2013
Income taxes recoverable	9.7	4.6
VAT recoverable	11.2	15.2
Other receivables	0.9	0.7
<b>Total</b>	<b>21.8</b>	<b>20.5</b>

### NOTE 21

#### Prepaid Expenses and Accrued Income

	2014	2013
Prepaid rent	3.3	3.2
Prepaid staff-related insurance policies	1.2	1.0
Prepaid licensing expenses	4.1	4.4
Accrued interest income	0.1	0.3
Accrued income	3.8	2.5
Other prepaid expenses	3.3	1.9
<b>Total</b>	<b>15.8</b>	<b>13.3</b>

### NOTE 23

#### Share Capital and Reserves

##### Share Capital

As of December 31, 2014, 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	Other Paid-up Capital	Total
January 1, 2013	27,788,676	5.6	646.0	651.6
<b>December 31, 2013</b>	<b>27,788,676</b>	<b>5.6</b>	<b>646.0</b>	<b>651.6</b>
January 1, 2014	27,788,676	5.6	646.0	651.6
Purchases of treasury shares			-3.3	-3.3
Dividend to parent company's shareholders			-105.7	-105.7
<b>December 31, 2014</b>	<b>27,788,676</b>	<b>5.6</b>	<b>537.0</b>	<b>542.6</b>

##### Other Reserves

Other reserves consist of translation differences of SEK 0.2 (-0.9) m attributable to equity in foreign subsidiaries.

### NOTE 22

#### Cash and Cash Equivalents

	2014	2013
Cash and cash equivalents	294.8	431.5
<b>Total</b>	<b>294.8</b>	<b>431.5</b>

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.

## NOTES

### 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, 2014 the company had an unutilized credit facility of SEK 12.0 (12.0) m, of which SEK 3.9 (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 first payment was made in the fourth quarter of 2011 and a second payment was made in 2012. The remaining provision was reversed in 2013 because no further compensation was expected to be paid.

##### Other Provisions

Other provisions partly consist of expected expenditure linked to a terminated rental option. This item also includes 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

<i>December 31, 2014</i>	Pensions	Guarantees	Compensation Founders	Other	Total
January 1, 2014	1.4	19.4	-	0.7	21.5
Additional provisions	0.3	2.7	-	0.8	3.8
Utilized in the year	-	-6.3	-	-	-6.3
Reversed unutilized amounts	-	-2.4	-	-0.1	-2.5
Change in value	0.2	-	-	-	0.2
<b>December 31, 2014</b>	<b>1.9</b>	<b>13.4</b>	<b>-</b>	<b>1.4</b>	<b>16.7</b>
Short-term	-	10.9	-	0.7	11.6
Long-term	1.9	2.5	-	0.7	5.1
<b>Total</b>	<b>1.9</b>	<b>13.4</b>	<b>-</b>	<b>1.4</b>	<b>16.7</b>
<hr/>					
<i>December 31, 2013</i>	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
<b>December 31, 2013</b>	<b>1.4</b>	<b>19.4</b>	<b>-</b>	<b>0.7</b>	<b>21.5</b>
Short-term	-	16.5	-	0.1	16.6
Long-term	1.4	2.9	-	0.6	4.9
<b>Total</b>	<b>1.4</b>	<b>19.4</b>	<b>-</b>	<b>0.7</b>	<b>21.5</b>

## NOTES

### 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 2014, 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 15.5 (12.5) m. Alecta's surplus can be distributed to policy-holders and/or insured parties. At year-end 2014, Alecta's surplus expressed as its collective consolidation ratio was 143% (148). 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. For 2015 expenditures for pension policies with Alecta are expected to be in line with 2014.

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 other provision.

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

### NOTE 27

#### Accounts Payable and Other Current Liabilities

	2014	2013
Accounts payable	96.9	103.0
Advances from customers	7.1	1.4
VAT liability	3.9	0.9
Social security contributions and employee withholding taxes	8.8	14.6
Other current liabilities	5.5	3.2
<b>Total</b>	<b>122.2</b>	<b>123.1</b>

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

<i>Group</i>	2014	2013
Accrued personnel expenses	35.4	38.1
Prepaid income	26.3	17.7
Other accrued expenses	16.2	15.2
<b>Total</b>	<b>77.9</b>	<b>71.0</b>
<i>Parent company</i>	2014	2013
Accrued personnel expenses	4.9	4.3
Other accrued expenses	1.5	1.2
<b>Total</b>	<b>6.4</b>	<b>5.5</b>

### 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:

	2014	2013
Within one year	14.8	14.0
After more than one year but within five years	43.5	57.0
After more than five years	-	6.6
<b>Total</b>	<b>58.3</b>	<b>77.6</b>

Expenses for operating lease commitments	13.2	9.6
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##### Pledged Assets

	2014	2013
Blocked funds	0.5	0.5
<b>Total</b>	<b>0.5</b>	<b>0.5</b>

##### Floating charge

	2014	2013
Priority 1	9.5	9.0
Priority 2	3.0	3.0
Priority 3	9.5	8.9
Priority 4	9.6	9.0
Priority 5	9.5	8.9
<b>Total</b>	<b>41.1</b>	<b>38.8</b>

Of outstanding floating charges, the company holds SEK 19.1 (17.9) 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 2014 and 2013.

## NOTES

### NOTE 30

#### Transactions with Related Parties

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

	Corp. ID no.	Country	Equity Holding %
Directly owned subsidiary			
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
Transmode Systems Hong Kong Ltd	2098382	Hong Kong	100

A new, indirectly held subsidiary was incorporated in Hong Kong in 2014, Transmode Systems Hong Kong Ltd. Transmode did not incorporate any subsidiaries in 2013. Transmode AB is the group parent company.

#### Transactions with Related Parties

The company conducted transactions with related parties amounting to SEK -1.0 (-0.9) 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

2014	Basic Salary/ Director's Fee <sup>1)</sup>	Performance- related Pay	Share-Based Compensation	Pension Expense	Other Benefits	Total
Chairman of the Board						
Tom Nyman	0.4	-	-	-	-	0.4
Other Board members						
Axel Roos	0.3	-	-	-	-	0.3
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	0.3	-	-	-	-	0.3
Chief Executive Officer	2.5	0.6	0.1	0.7	0.9	4.8
Other senior managers (10 people)	14.3	2.4	0.3	3.8	2.6	23.4
<b>Total</b>	<b>18.8</b>	<b>3.0</b>	<b>0.4</b>	<b>4.5</b>	<b>3.5</b>	<b>30.2</b>

2013	Basic Salary/ Director's Fee <sup>1)</sup>	Performance- related Pay	Share-Based Compensation	Pension Expense	Other Benefits	Total
Chairman of the Board						
Tom Nyman <sup>2)</sup>	0.4	-	-	-	-	0.4
Kent Sander <sup>3)</sup>	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
<b>Total</b>	<b>16.0</b>	<b>5.2</b>	<b>0.5</b>	<b>3.6</b>	<b>1.0</b>	<b>26.3</b>

<sup>1)</sup> Including total fees for committee work of SEK 0.2 (0.2) m. <sup>2)</sup> Tom Nyman was appointed Chairman at the AGM 2013. <sup>3)</sup> 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 (2.5) 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 2,217 (1,218) matching rights and 8,868 (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 benefits amount to SEK 0.9 m and are lump-sum compensation relating to changes to the compensation model.

**Other Senior Managers**

Other senior managers have a maximum performance-related pay portion of 30-163% 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 six 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 7,404 (5,491) matching rights and 22,212 (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 2014 compared to year-end 2013. 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, decreased by SEK 136.7 (decreased by 54.7) m in 2014 after dividend paid of SEK 180.1 (50.0) 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 2013 and 2014, 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**

	2014	2013
Change in Basis Points	+/-100	+/-100
Effect on Profit before Tax, approx. (SEK m)	+/-3	+/-4

**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 2014 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 2014, the company had currency forward contracts regarding commitments to sell currencies totaling EUR 16.6 m at an average spot rate of SEK/EUR 9.29 and a total of GBP 4.4 m at a spot rate of SEK/GBP 11.83. 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.

<b>Fair value of derivative instruments</b>	2014	2013
Other current receivables	-	-
Other current liabilities	-5.0	-2.7
<b>Net receivable/liability</b>	<b>-5.0</b>	<b>-2.7</b>

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.

## NOTES

### Note 31 Financial Risk Management, cont.

<i>Effect on Profit before Tax from a Change in the Exchange Rate</i>	2014	2013
Change in exchange rate	+/-1%	+/-1%
EUR	+/-SEK 4 m	+/-SEK 4 m
GBP	+/-SEK 2 m	+/-SEK 2 m
USD	-/+SEK 1 m	-/+SEK 1 m

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 2014 and 2013, the company had no provisions for doubtful debt. As in 2013, there was no bad debt in 2014.

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 company judges the credit risk of its largest customers as fairly low. 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.

<i>Concentration of Accounts Receivable as of December 31</i>	2014	2013
Total accounts receivable	168.6	184.7
Of which 5 largest customers <sup>1)</sup>	65.9	84.9
Of which 5 largest customers' share of total accounts receivable (%)	39.1	46.0

<sup>1)</sup> 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.

<i>December 31, 2014</i>	< 1 year	>1 year
Accounts payable	96.9	-
Other liabilities <sup>1)</sup>	103.2	-
<i>December 31, 2013</i>	< 1 year	>1 year
Accounts payable	103.0	-
Other liabilities <sup>1)</sup>	91.1	-

<sup>1)</sup> 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 capital to shareholders 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 2014, the company decided to pay a total dividend to shareholders of SEK 180.6 (50.0) m. The Board of Directors has decided to propose a dividend of SEK 54.2 m for the financial year 2014, corresponding to some 88% of profit for the year. 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 2013 to 2014.

	2014	2013
Interest-bearing loans	-	-
Shareholders' equity	583.0	702.4
Total assets	845.7	954.8
Debt/equity ratio	-	-
Equity/assets ratio (%)	68.9	73.6



## NOTES

### NOTE 32

#### Financial Instruments

##### Fair Values of Financial Instruments

There were no finance lease liabilities at the end of 2014 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

<i>December 31, 2014</i>	Loan Receivables and Accounts Receivable to Maturity	Assets Measured at Fair Value via the Income Statement
Other financial assets	5.9	-
Accounts receivable	168.6	-
Cash and cash equivalents	294.8	-
<b>Total assets</b>	<b>469.3</b>	<b>-</b>

<i>December 31, 2014</i>	Financial Liabilities Reported at Amortized Cost	Liabilities Measured at Fair Value via the Income Statement
Accounts payable	96.9	-
Provisions, current	0.7	-
Other current liabilities	-	5.0
Accrued expenses	16.2	-
<b>Total liabilities</b>	<b>113.8</b>	<b>5.0</b>

<i>December 31, 2013</i>	Loan Receivables and Accounts Receivable to Maturity	Assets Measured at Fair Value via the Income Statement
Other financial assets	5.3	-
Accounts receivable	184.7	-
Cash and cash equivalents	431.5	-
<b>Total assets</b>	<b>621.5</b>	<b>-</b>

<i>December 31, 2013</i>	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	-
<b>Total liabilities</b>	<b>118.2</b>	<b>2.7</b>

## NOTES

### NOTE 33

#### Participations in Group Companies

<i>Parent company</i>	2014	2013
Opening balance, January 1	369,4	369,4
<b>Carrying amount at end of period</b>	<b>369,4</b>	<b>369,4</b>

	Corporate ID Number	Country	Equity Holding %	Book Value
Directly owned subsidiary				
Transmode Systems AB	556587-0028	Sweden	100	369.4
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	
Transmode Systems Hong Kong Ltd	2098382	Hong Kong	100	

# MULTI-YEAR SUMMARY

	2014	2013	2012	2011	2010	2009
Total sales (SEK m)	930.0	1,029.1	1,010.9	916.9	699.3	570.1
Gross profit (SEK m)	471.2	521.5	498.8	462.9	358.6	281.6
Adjusted EBITDA (SEK m)*	119.5	184.9	200.3	193.7	122.1	77.3
Adjusted operating profit/loss (SEK m)*	70.6	148.5	170.7	168.2	108.4	64.7
Operating profit/loss (SEK m)	70.6	148.5	170.7	149.1	107.6	57.4
Profit for the year	61.5	123.3	139.2	116.3	81.4	44.3
Working capital (SEK m)	78.2	90.9	99.2	81.6	47.6	58.1
Net cash (+)/net debt (-) (SEK m)	295.3	432.0	377.3	294.3	206.5	300.3
Cash flow from operating activities (SEK m)	127.5	174.7	176.7	139.4	133.6	154.9
Change in total sales (%)	-9.6	1.8	10.2	31.1	22.7	-6.1
Gross margin (%)	50.7	50.7	49.3	50.5	51.3	49.4
Adjusted EBITDA margin (%)*	12.8	18.0	19.8	21.1	17.5	13.6
Adjusted operating margin (%)*	7.6	14.4	16.9	18.3	15.5	11.3
Operating margin (%)	7.6	14.4	16.9	16.3	15.4	10.1
Profit margin (%)	6.6	12.0	13.8	12.7	11.6	7.8
Working capital/total sales (%)	9.7	10.6	10.0	8.4	8.8	13.4
Equity/assets ratio (%)	68.9	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 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 23, 2015

Tom Nyman  
Chairman

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 24, 2015  
PricewaterhouseCoopers AB

Johan Engstam  
Authorized Public Accountant

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 2014. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 28–67.

#### *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 in accordance with the Annual Accounts Act and of the 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 opinions.

#### *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 2014 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 2014 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 2014.

#### *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.

#### *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 24 March 2015  
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:* 3,500 own and through legal person, see Director's Report on page 28.



### 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:* Helena Norman-Knutson is Director of Hallvarsson & Halvarsson and Board member of Rejlers AB and Sensys Traffic AB.

*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:* 1,000



### 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, A Board Member of the Hong Kong Rugby Union, Chairman of HKFC Youth Rugby, a Voting member of the Hong Kong Jockey Club and previously the Chairman of the British Chamber in Hong Kong.  
*Education:* De La Salle School; St. Illtyds, Cardiff

*Number of shares held in Transmode:* 9,597



### 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 Aktiefbolag, Aktiefbolaget Skåneintressenter, Aktiefbolaget Sydsvenska Intressenter, Gravhögen AB, Fredrik Roos Stiftelse and Axel Roos Förvaltning AB with subsidiaries. Deputy Board member of 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:* 2,000 own and through legal person, see Director's Report on page 28.

## MANAGEMENT GROUP



### 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 and HMS Networks AB.

*Number of shares held:* 418,486



### 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 AS.

*Number of shares held:* 23,778 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.

*Other current positions:* Ingrid Nordmark serves as Board member of DEK Technologies.

*Number of shares held:* 1,157



### 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 VP Operations 2003–2007, further served as Board member of Maquet Nordic AB from 2008–2010. Before that Mr Rydberg haft several Director and management positions within Ericsson AB and SKF AB.

*Number of shares held:* 1,082



### 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:* 50,701



### 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:* 56, 625



## 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:* 3, 996



### 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:* 3,636 own and 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:* 14,072 own and via closely related parties



### Magnus Grenfeldt

VICE PRESIDENT, PRODUCT MANAGEMENT, (SINCE 2014)

*Born:* 1969

*Education:* Mr. Grenfeldt holds a Master of Science degree in Materials Physics from Uppsala University, Sweden.

*Previous positions:* Mr Grenfeldt previously served as Transmode's Vice President Nordics and CIS/MEA from 2013–2014 and Director of Solutions Sales from 2012–2013. 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:* 845



### 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:* 442

# ANNUAL GENERAL MEETING 2015

## Annual General Meeting

The Annual General Meeting of the shareholders of Transmode AB will be held on Thursday 16 April 2015, at 16.00 a.m. at the offices of the Company, at Fredsbergsgatan 24, 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 10 April 2015 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](http://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](http://www.transmode.com).

## Participation at the meeting

To be entitled to participate at the Meeting, shareholders be registered in the shareholders' register maintained by Euroclear Sweden AB ("Euroclear") on Friday 10 April 2015 and notify the Company of their intention to participate in the Meeting not later than on Friday 10 April 2015.

## 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 10 April 2015, at which day such registration shall be effected.

## Proposed dividend

The Board of Directors proposes a dividend of SEK 1.95 per share (1.80).

Record day for payment of the dividend:	April 20 2015
Payment date for the dividend:	April 23 2015

## 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 16, 2015
Interim report, January – March	April 29, 2015
Interim report, January – June	July 16, 2015
Interim report, January – September	October 22, 2015

[www.transmode.com](http://www.transmode.com)



### Investors

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



### About Transmode

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

## Investor Relations

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**Head office**

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**Visit address**

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117 43 Stockholm

# TECHNOLOGY DEFINITIONS

PLEASE TURN PAGE

**Alternative operators** – Other telecom operators than the incumbent, former monopoly, operator

**CPRI** – Common Public Radio Interface, an interface between functions within a radio base station

**CWDM** – Coarse WDM, a basic version of wavelength-division multiplexing

**DWDM** – Dense WDM, a more advanced version of wavelength-division multiplexing

**Enlighten™** – The Transmode multi-layer management suite for packet-optical networks

**Ethernet** – A family of protocols and networking technologies for data communications

**Gbit/s** – The data rate of 10<sup>9</sup> binary digits (bits) per second

**IP traffic** – Data traffic following the rules of the Internet Protocol (IP) for data communications

**iWDM-PON** – The Transmode solution for WDM in the access network

**Layer 1** – The first layer of the OSI-model i.e. the physical layer

**Layer 2** – The second layer of the OSI-model i.e. the data link layer

**Long haul network** – Communications network between continents and over very long distances

**Metro network** – Communications network within a city or region, typically covering up to 1500 km

**Metro-WDM** – WDM-solutions optimized for metro networks

**Mobile Backhaul** – Transport of voice and data between base stations and the core of a mobile network

**Mobile Fronthaul** – Use of WDM between functions within a radio base station for mobile networks

**Multiplexor/Demultiplexor Unit (MDU)** – Filter combining and splitting optical wavelengths

**Muxponder (MXP)** – Unit multiplexing and transporting electrical signals over an optical network

**Native Packet Optical** – Resource efficient transport of Ethernet traffic over an optical network

**Node** – Point of intersection within a communications network

**OADM** – Optical Add-drop Multiplexor, unit adding and dropping WDM wavelengths

**Optical network** – Communications network using light pulses transported by optical fibers

**OSI model** – Open Systems Interconnection Model, conceptual model used in data communications

**Packet based optical switch (EMXP)** – Ethernet switch with integrated muxponder

**Packet-Optical** – Equipment combining OSI Layer 1 and Layer 2 functions

**Pre-staging** – Configuration and testing at Transmode before shipping to customer

**ROADM** – Reconfigurable Optical Add-drop Multiplexor

**SDN** – Software Defined Networking, decoupling of network functions and the physical network units

**Synchronous Ethernet** – An ITU-T-standard for how to distribute clock signals in a network

**Transponder (TP)** – Unit adapting electrical signals for transport over an optical network

**WDM** – Wavelength-Division Multiplexing