

Transmode AB (publ)

Interim Report January-March 2015

January-March 2015

- Sales were SEK 289.3 (231.3) m, an increase of 25.1%, or 11.0% adjusted for exchange rate fluctuations.
- Operating profit was SEK 47.1 (21.5) m, corresponding to an operating margin of 16.3% (9.3).
- Net profit was SEK 37.8 (18.6) m.
- Basic and diluted earnings per share were SEK 1.36 (0.67).
- Cash flow from operating activities was SEK 43.1 (1.6) m.

SEK m	Jan-Mar			Oct-Dec	
	2015	2014	Change %	2014	Change %
Sales by region:					
EMEA	231.5	192.7	20.1	195.3	18.5
Americas	47.4	29.8	59.0	48.8	-2.9
APAC	10.4	8.8	18.5	11.6	-10.3
Total Sales	289.3	231.3	25.1	255.7	13.1
Operating profit	47.1	21.5	119.9	25.6	85.0
Operating margin (%)	16.3	9.3		10.0	
Profit for the period	37.8	18.6	102.9	21.4	76.5
Diluted and basic earnings per share (SEK)	1.36	0.67	103.0	0.77	76.5
Cash flow from operating activities	43.1	1.6		39.7	

A strong start to 2015 — back in profitable growth

The positive progress of the final quarter 2014 continued in the first quarter of the year. Sales increased by 25% year on year to SEK 289 m. Operating profit was SEK 47 m, equating to an operating margin of 16%, driven by a high gross margin of 52%. I'm very pleased that we're able to report such high growth and profitability levels again.

Our new 100G products continue to gain very positive responses from both existing and new customers. Liberty Global, the world's largest international cable TV operator, has started to build 100G networks across Europe using Transmode's TM-Series platform. The features of these products such as low energy consumption, size and pricing, open up new business opportunities including solutions for Data Center Interconnect (DCI), which we saw several examples of in the quarter. Our strategic initiative on increased partner sales and a sharper focus on service sales has paid off, and indicates continued stable progress in the quarter.

The Americas reported a very strong sales increase of 59%, with good activity in North and South America, and increased sales from existing and new customers. Our initiative and strategic change of our operations in the Americas, which commenced in late-2013, is paying off very positively, and we believe this region will keep generating high growth in 2015.

EMEA reported a sales increase of 20%, mainly driven by increased sales of Data Center Interconnect (DCI) products to network operators and enterprise customers. Several of our largest customers in EMEA have a somewhat lower rate of investment, but we think that most of them will be in growth for the full year 2015.

APAC remains fairly project dependent, but did achieve growth of 18%, mainly explained by positive progress in Southeast Asia. Our initiative on new partners in APAC is continuing to produce positive results.

Based on this good profitability, we're continuing to make selective investments in product development and marketing to create the potential for continued profitable growth.

I'm pleased that we're back in high growth, and have reported profits for this quarter consistent with some of our best quarters. I'm reiterating my positive view of our market, driven by the brisk underlying growth of data traffic in metro networks, as corroborated by progress in recent quarters.

Karl Thedéen
Chief Executive Officer

Significant Events in the Quarter

Transmode announced that regional operator COMLINK in the US has started deploying 100G Managed services using Transmode's TM-Series platform

In the quarter, FNE Finland upgraded its network using Transmode's Metro 100G Solution, based on pluggable optics and supporting the latest coherent CFP technology.

Transmode initiated a collaboration with APFUTURA and integrated its APEX outside plant management system for additional fixed network elements with Transmode's Enlighten™ network management ecosystem.

Cabildo Insular de Tenerife (the Tenerife Authority on the Canary Islands, Spain) has built a high-capacity network using equipment from Transmode and APFUTURA.

In the quarter, Transmode demoed its new 100G products at several sector conferences including Metro Connect in the US and WDM & Next Generation Optical Networking in South Africa.

Sales

January-March 2015

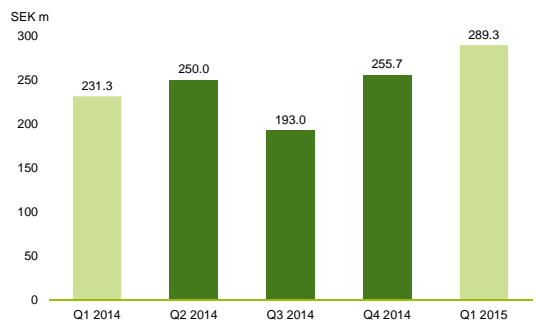
Sales in the quarter were SEK 289.3 (231.3) m, an increase of 25.1% year on year. Adjusted for exchange rate fluctuations, the increase was 11.0%.

Sales in EMEA were up by 20.1% or by 9.7% adjusted for exchange rate fluctuations. This growth is driven by sales to small and medium-sized customers, primarily from solutions for Data Center Interconnect (DCI). Several of Transmode's largest customers are still showing indications of a lower rate of investment than in the first quarter of the previous year.

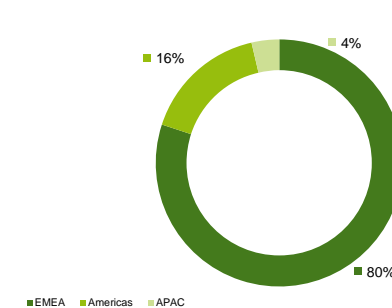
Sales increased by 59.0% in the Americas (North and South America), or by 23.3% adjusted for exchange rate fluctuations. The high sales increase in the Americas is mainly driven by large-scale deliveries to several major existing accounts in the US.

In APAC, which is more project dependent and thus subject to quarterly fluctuations, sales increased by 18.5% to SEK 10.4 m, or decreased by 8.1% adjusted for exchange rate fluctuations. Our new partner initiative in the region is continuing to generate positive results.

Total sales by quarter, Q1 2014 – Q1 2015



Total sales by region, January-March 201



Total sales by region

SEK m	Jan-Mar 2015	2014	Jan-Mar Change %
EMEA	231.5	192.7	20.1
Americas	47.4	29.8	59.0
APAC	10.4	8.8	18.5
Total Sales	289.3	231.3	25.1

Results of Operations

January-March 2015

Gross profit for the quarter was SEK 151.7 (113.6) m, corresponding to a gross margin of 52.5% (49.1). The increased gross margin is due to a combination of product mix and higher service sales.

Gross profit in the first quarter of the previous year would have been SEK 9.1 m higher after adjustments for exchange rate fluctuations against the SEK.

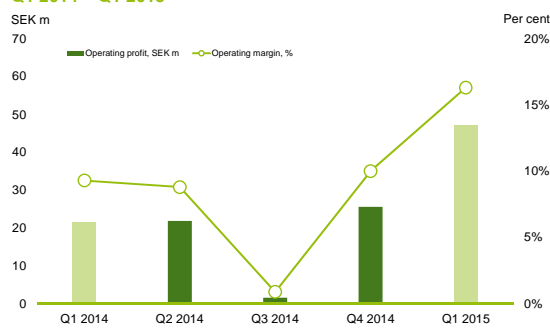
Operating expenses for the quarter, excluding other income and other operating expenses, were SEK 105.7 (92.2) m. Research and development expenses increased in the quarter, mainly explained by reduced capitalization and increased amortization. Development expenses of SEK 12.5 (19.7) m were capitalized in the period, and amortization of capitalized development expenditure was SEK 9.8 (7.4) m. The increased operating expenses are mainly due to a sharper focus on business

development, product launches and negative exchange rate development. Transmode is maintaining cost control consistent with the previously reported cost and efficiency program, but is simultaneously continuing to invest in segments where there is growth opportunities.

Other operating expenses are largely net exchange rate games of SEK 1.1 (0.3) m, of which gains on currency contracts of SEK 1.3 (loss of 0.4) m and losses on balances with customers and suppliers of SEK 0.2 (gains of 0.7) m.

Operating profit for the quarter was SEK 47.1 (21.5) m, corresponding to an operating margin of 16.3% (9.3).

Quarterly operating profit and operating margin Q1 2014 – Q1 2015



Cash Flow, Investments and Financial Position

January-March 2015

Cash flow from operating activities was SEK 43.1 (1.6) m in the period. Transmode is reporting improved cash flow in the quarter despite working capital increasing, mainly because of a strong profit after financial items.

Working capital at the end of the period was SEK 89.3 (121.1) m.

Investments in property, plant and equipment in the period were SEK 3.8 (0.9) m. Investments in intangible assets were SEK 14.6 (19.7) m, of which capitalized development expenses were SEK 12.5 (19.7) m, and software licenses for Transmode's new products were SEK 2.1 (-) m.

In the first quarter of the previous year, the company made SEK 3.3 m of treasury share purchases in its incentive program.

Total cash flow for January - March was SEK -24.7 (-22.4) m.

Transmode's cash and cash equivalents were SEK 319.5 (410.1) m at the end of March. Arranged

credit facilities were SEK 12.0 (12.0) m, of which SEK 4.3 (4.1) m were utilized for bank guarantees issued.

As of 31 March 2015, the company had currency forward contracts on commitments to sell currency of EUR 13.5 m at an average spot rate of SEK/EUR 9.34 and GBP 3.9 m at an average spot rate of SEK/GBP 12.14. The fair value of currency forward contracts is recognized as other current assets and other current liabilities.

Fair value of derivative instruments

SEK m	31 Mar 2015	31 Mar 2014	31 Dec 2014
Other current assets	0.7	-	-
Other current liabilities	-2.3	-0.9	-5.0
Net asset/(liability)	-1.6	-0.9	-5.0

Currency forward contracts are recognized in valuation hierarchy level 2 in accordance with IFRS 13. For other financial instruments, fair value corresponds to book value.

Equity and the Transmode Share

Consolidated equity was SEK 622.0 (718.2) m at the end of March 2015. The total number of shares was 27,788,676 as of 31 March 2015. Transmode acquired a total of 79,440 treasury shares. This brings the total number of outstanding shares to 27,709,236.

The consolidated equity/assets ratio was 68.4% (73.9) at the end of March 2015.

Employees

Transmode had 276 (290) employees as of 31 March 2015. The average number of employees in the quarter was 276 (289).

Transactions with Related Parties

There were no significant transactions with related parties in the first three months of 2015.

Risks and Uncertainty Factors

Transmode's operations are exposed to certain risks that can affect its business, results of operations or financial position to a lesser or greater extent. Transmode has established a process for identifying risks and decision-making relating to risk management.

Transmode's Annual Report for 2014 describes the company's risk exposure from perspectives including market, operations, customers and finances. In Transmode's assessment, since the presentation of the Annual Report, no additional significant risks and uncertainty factors have arisen that could be

expected to affect the company. However, the macroeconomic situation has meant that the exchange rate against the SEK for our most important currencies, GBP, USD and EUR, has been, and may remain, volatile.

The political situation in Eastern Europe has not had an impact on our business, but we are monitoring progress closely.

Parent Company

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

Parent company sales in the quarter were SEK 5.5 (5.9) m, all of which relate to invoicing of services sold to subsidiaries. Operating profit/loss was SEK -1.9 (-1.3) m. At the end of the reporting period, the parent company held cash and cash equivalents of SEK 32.7 (99.7) m.

Accounting Policies

This Interim Report has been prepared in accordance with IFRS (International Financial Reporting Standards) as endorsed by the EU Commission for application in the EU. This Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. For a description of the group's accounting policies and definitions of certain terms, please refer to the Annual Report 2014. The policies applied are essentially unchanged since the previous year.

The parent company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act and RFR 2, Accounting for Legal Entities. In most cases, this implies that the parent company applies the same IFRS/IAS as in the Consolidated Accounts, albeit subject to certain exemptions as stated in the Consolidated Accounts for 2014.

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

Significant Events after the End of the Reporting Period

Transmode's Board of Directors has unanimously recommend the shareholders of Transmode to accept the public offer from Infinera, announced on 9 April 2015.

In the third quarter of 2015, Johan Wilsby, Transmode's CFO will be leaving Transmode for a new appointment outside the company. A recruitment process for a replacement has begun.

Transmode has reported that Liberty Global, the world's largest international cable TV operator, has started to build 100G networks in Europe using Transmode's TM-series platform.

The AGM on 16 April re-elected Board members Torbjörn Nilsson, Helena Nordman-Knutson, Tom Nyman, Axel Roos, Kevin Taylor and Roland Thornton. Ian Jenks was elected as a new Board member. The AGM re-elected Tom Nyman as Chairman of the Board.

Approving the Board of Directors' proposal, the AGM approved a dividend to shareholders of SEK 1.95 per share. Monday 20 April 2015 was set as the record date for the dividend. Dividends are scheduled for disbursement on Thursday 23 April 2015.

The AGM also adopted the Board of Directors' proposal for a long-term incentive program. This program involves the foundation of a long-term share savings program involving all of Transmode's some 290 employees, and may involve maximum granting of 161,200 shares.

The AGM also approved the Board of Directors' proposal to authorize the Board of Directors to decide to purchase treasury shares on NASDAQ Stockholm, corresponding to a maximum of 1.6% of all the shares of the company (involves all the share savings programs 2013-2015 approved by AGM) and the transfer of a maximum of 161,200 treasury shares to participants in the 2015 program.

Seasonality

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

Operating expenses are also sequentially low in the third quarter, due to the majority of vacations being taken.

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 substantial need for investment in equipment that increases the capacity of optical fiber networks. At present, there is nothing to suggest that these underlying drivers are weakening.

Reporting Dates

- Interim Report, April-June, 16 July 2015
- Interim Report, July-September, 22 October 2015

Invitation to Press and Analysts' Conference Call

Transmode AB will host a conference call (in English) for investors, analysts and the media on 29 April at 9.00 a.m. where Karl Thedéen, CEO, and Johan Wilsby, CFO, will present and comment on Transmode's Interim Report. To participate, call +44 (0)203 428 1436, or alternatively the Swedish no. +46 (0)8 566 42701, and state "Transmode conference call" a few minutes before the scheduled start. The conference call and the presentation will also be streamed live on Transmode's website: <http://www.transmode.com/sv/investerare/rapporter/delarsrapporter>. The presentation will also be available on the company's website after the conference concludes.

Financial Statements

Condensed Consolidated Income Statement

SEK m	Jan-Mar		Apr 2014-	Jan-Dec
	2015	2014	Mar 2015	2014
Sales	289.3	231.3	988.0	930.0
Cost of goods and services provided	-137.6	-117.7	-478.7	-458.8
Gross profit	151.7	113.6	509.3	471.2
Other income	1.1	0.3	0.2	0.1
Research and development expenses	-46.2	-36.4	-167.6	-157.8
Selling expenses	-48.8	-46.0	-201.9	-199.1
Administrative expenses	-10.7	-9.8	-39.7	-38.8
Other operating expenses	0.0	-0.2	-4.1	-5.0
Operating profit	47.1	21.5	96.2	70.6
Net financial income / expenses	0.9	2.0	5.7	6.8
Profit before tax	48.0	23.5	101.9	77.4
Taxes	-10.2	-4.9	-21.2	-15.9
Profit for the period	37.8	18.6	80.7	61.5
Attributable to:				
Equity holders of the parent company	37.8	18.6	80.7	61.5
Average no of shares before dilution ('000)	27,709	27,728	27,709	27,714
Basic earnings per share (SEK)	1.36	0.67	2.91	2.22
Average no of shares after dilution ('000)	27,709	27,728	27,709	27,714
Diluted earnings per share (SEK)	1.36	0.67	2.91	2.22
Operating profit above includes				
– Amortization of intangible fixed assets	-11.6	-8.9	-42.1	-39.4
– Depreciation of tangible fixed assets	-2.8	-2.2	-10.1	-9.5

Condensed Consolidated Statement of Comprehensive Income

SEK m	Jan-Mar		Apr 2014-	Jan-Dec
	2015	2014	Mar 2015	2014
Profit for the period	37.8	18.6	80.7	61.5
Other comprehensive income				
Items that can be subsequently reversed in the Income Statement				
Translation differences	0.7	0.0	1.8	1.1
Income tax relating to components of other comprehensive income	–	–	–	–
Other comprehensive income for the period, net of tax	0.7	0.0	1.8	1.1
Total comprehensive income for the period	38.5	18.6	82.5	62.6
Attributable to:				
Equity holders of the parent company	38.5	18.6	82.5	62.6

Condensed Consolidated Statement of Financial Position

SEK m	31 Mar 2015	31 Mar 2014	31 Dec 2014
ASSETS			
Goodwill	88.4	88.4	88.4
Capitalized development expenses	127.8	100.1	125.1
Other intangible assets	6.4	8.8	6.1
Tangible fixed assets	27.8	23.4	26.8
Deferred tax asset	3.4	2.2	3.4
Other financial assets	5.9	5.4	5.9
Total non-current assets	259.7	228.3	255.7
Inventories	102.1	93.8	89.0
Accounts receivable	191.2	204.6	168.6
Other current assets	36.4	26.2	37.6
Cash and cash equivalents	319.5	410.1	294.8
Total current assets	649.2	734.7	590.0
TOTAL ASSETS	908.9	963.0	845.7
EQUITY AND LIABILITIES			
Equity	622.0	718.2	583.0
Deferred tax liability	41.1	36.4	40.7
Provisions	5.4	5.0	5.1
Total long-term liabilities	46.5	41.4	45.8
Accounts payable	126.6	103.0	96.9
Provisions	10.6	14.5	11.6
Other current liabilities	103.2	85.9	108.4
Total current liabilities	240.4	203.4	216.9
TOTAL EQUITY AND LIABILITIES	908.9	963.0	845.7

Condensed Consolidated Statement of Cash Flows

SEK m	Jan-Mar		Apr 2014-		Jan-Dec
	2015	2014	Mar 2015	2015	2014
Profit after financial items	48.0	23.5	101.9		77.4
Non-cash items	19.0	8.0	61.2		50.2
Income tax paid	-4.2	-6.3	-9.7		-11.8
Cash flow from operating activities before changes in working capital	62.8	25.2	153.4		115.8
Changes in working capital	-19.7	-23.6	15.6		11.7
Cash flow from operating activities	43.1	1.6	169.0		127.5
Acquisitions of intangible and tangible assets	-18.4	-20.6	-81.9		-84.1
Change in other financial assets	0.0	-0.1	-0.5		-0.6
Cash flow from investing activities	-18.4	-20.7	-82.4		-84.7
Purchases of treasury shares	–	-3.3	–		-3.3
Dividend to equity holders of the parent	–	–	-180.1		-180.1
Cash flow from financing activities	–	-3.3	-180.1		-183.4
Increase / decrease in cash and cash equivalents	24.7	-22.4	-93.5		-140.6
Cash and cash equivalents at the beginning of the period	294.8	431.5	410.1		431.5
Exchange rate differences in cash and cash equivalents	0.0	1.0	2.9		3.9
Cash and cash equivalents at the end of the period	319.5	410.1	319.5		294.8

Condensed Statement of Changes in Equity

SEK m	Jan-Mar		Apr 2014-		Jan-Dec
	2015	2014	Mar 2015	2015	2014
Opening balance	583.0	702.4	718.2		702.4
Total comprehensive income for the period	38.5	18.6	82.5		62.6
Share-based payment	0.5	0.5	1.4		1.4
Purchases of treasury shares	–	-3.3	–		-3.3
Dividend to equity holders of the parent	–	–	-180.1		-180.1
Closing balance	622.0	718.2	622.0		583.0

Key ratios

	Jan-Mar 2015	2014	Apr 2014- Mar 2015	Jan-Dec 2014
SEK m / %				
Sales by region (SEK m):				
EMEA	231.5	192.7	799.8	761.0
Americas	47.4	29.8	152.6	135.0
APAC	10.4	8.8	35.6	34.0
Total Sales	289.3	231.3	988.0	930.0
Gross profit (SEK m)	151.7	113.6	509.3	471.2
Operating profit (SEK m)	47.1	21.5	96.2	70.6
Profit for the period (SEK m)	37.8	18.6	80.7	61.5
Working capital (SEK m)	89.3	121.1	89.3	78.2
Net cash (SEK m)	319.6	410.6	319.6	295.3
Cash flow from operating activities (SEK m)	43.1	1.6	169.0	127.5
Sales, change in (%)	25.1	-3.8	-3.2	-9.6
Gross margin (%)	52.5	49.1	51.6	50.7
Operating margin (%)	16.3	9.3	9.7	7.6
Profit margin (%)	13.1	8.1	8.2	6.6
Working capital/sales (%)	9.1	11.1	9.1	9.7
Equity/assets ratio (%)	68.4	73.9	68.4	68.9
No of shares at end of period ('000)	27,789	27,789	27,789	27,789
No of outstanding shares at end of period ('000)	27,709	27,709	27,709	27,709

For definitions of key ratios, please refer to the Annual Report for 2014, which is available at the company's website: www.transmode.com.

Condensed Parent Company Income Statement

SEK m	Jan-Mar		Apr 2014-	Jan-Dec
	2015	2014	Mar 2015	2014
Sales	5.5	5.9	21.6	22.0
Administrative expenses	-7.4	-7.2	-28.5	-28.3
Other operating income and expenses	0.0	0.0	0.0	0.0
Operating profit/loss	-1.9	-1.3	-6.9	-6.3
Net financial income / expenses	0.6	1.2	58.4	59.0
Profit/loss after financial expenses	-1.3	-0.1	51.5	52.7
	0.3	0.0	-0.4	-0.7
Profit/loss for the period	-1.0	-0.1	51.1	52.0

Condensed Parent Company Balance Sheet

SEK m	31 Mar	31 Mar	31 Dec
	2015	2014	2014
Assets			
Financial fixed assets	470.4	468.2	469.3
Total non-current assets	470.4	468.2	469.3
Other current assets	67.5	130.4	68.5
Cash and cash equivalents	32.7	99.7	34.4
Total current assets	100.2	230.1	102.9
Total assets	570.6	698.3	572.2
Equity and liabilities			
Equity	559.5	687.0	559.9
Provisions	2.4	1.7	2.0
Other current liabilities	8.7	9.6	10.3
Total current liabilities	8.7	9.6	10.3
Total liabilities and equity	570.6	698.3	572.2
Pledged assets	None	None	None
Contingent liabilities	None	None	None

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

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

Stockholm, Sweden, 28 April 2015

Karl Thedéen
Chief Executive Officer

This Report has not been reviewed by the company's auditors.

This information is mandatory for Transmode AB (publ) to publish pursuant to the Swedish Securities Markets Act and/or the Swedish Financial Instruments Trading Act. The information was submitted for publication at 8.00 a.m. on 29 April 2015.

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

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About Transmode

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

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

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

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