

## INTERIM REPORT JANUARY-JUNE 2012



### Sales up by 21% and operating margin of 13%

- Net sales of SEK 114.4m (94.7), of which SEK 56.4m (48.9) in the second quarter
- Operating profit of SEK 15.3m (9.2), of which SEK 7.3m (5.4) in the second quarter
- Profit before tax of SEK 15.3m (9.0), of which SEK 7.7m (5.3) in the second quarter
- The period's cash flow from operating activities was SEK 15.4m (9.1) and net cash at the end of the quarter totaled SEK 42.6m (28.8)
- Operating margin of 13.4% (9.7) for the six-month period and 12.9% (11.0) for the second quarter
- Earnings per share before dilution and calculated on profit from continuing operations after current tax amounted to SEK 1.23 (0.76), of which SEK 0.61 (0.44) for the second quarter
- In local currency, net sales for the period increased by 19% in the USA, 14% in Europe and 23% in Asia compared to the same period of last year

#### Key events during the period

- IAR Systems opens sales office in Seoul, South Korea
- IAR Systems' debug probe I-jet delivered in all markets
- Sale of 300,000 treasury shares in May 2012 for a value of SEK 11.6m

# CEO's comments

## JANUARY – JUNE 2012

### Growth in sales and profit

All regions reported higher sales. The rise in sales for the period was strongest in Asia, but the other markets are also showing continued growth compared to the previous year. In the first half of the year, net sales in SEK increased by 21% to SEK 114.4m. Net sales for the second quarter were up by SEK 7.5m, equal to growth of 15%. In local currency, growth for the period was 19% in the Americas, 14% in Europe and 23% in Asia. The corresponding growth rate in local currency for the second quarter was 13% in the Americas, 8% in Europa and 26% in Asia.

### Growth behind improvement in earnings

The earnings trend is positive and operating profit for the first six months rose by more than SEK 6m to SEK 15.3m (9.2), of which SEK 7.3m (5.4) referred to the second quarter. Operating margin has continued to improve and reached 13.4% for the first half of the year, compared to 9.7% for the same period of last year. The revenue mix in the second quarter led to a somewhat lower operating margin of 12.9% (11.0%), compared to 13.4% for the period as a whole. Operating margin for the full year 2011 was 12.0%.

### Several interesting product launches

The launch of IAR Systems' new portfolio of debug probes, a result of the acquisition of Signum Systems Corporation in September 2011, was well received by both customers and the press. In the second quarter we launched several new versions of the most important products that support ARM, Renesas and Texas Instruments.

### ARM continues to consolidate the 32-bit market

We are seeing continued growth in the ARM sector, where the range of new applications for ARM Cortex is expanding. The number of processor manufacturers that are selecting ARM technology is rising steadily. Sales of products for ARM have shown the highest growth and increased by 29% in the first six months, compared to the same period of last year.

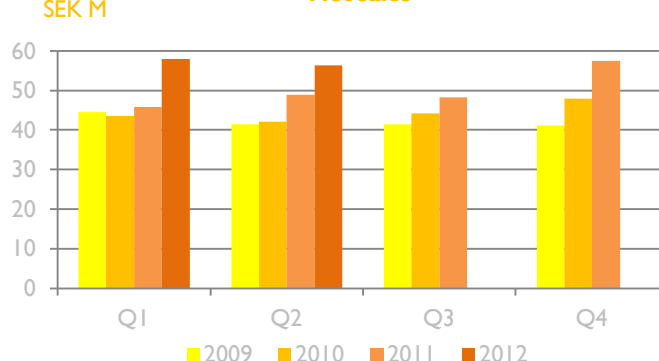
### Ongoing interest in standardizing on IAR Systems

Our customers are reassessing their product and supplier requirements in order to earn a higher return on investment. They are seeking a simpler and more efficient workflow, greater flexibility in their development process and reliable support when and where they need it. We are noting a rising demand for our products thanks to our position as an experienced and independent supplier of user-friendly development tools with an extensive offering of training and support services.

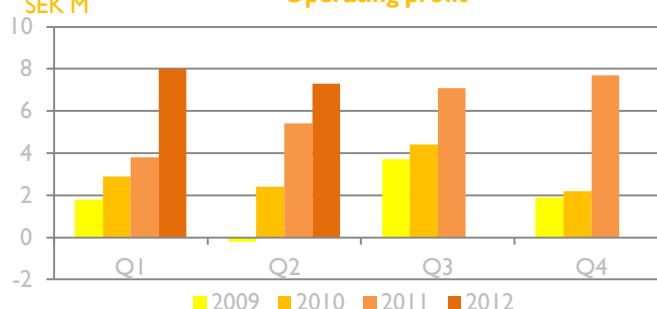
In the upcoming quarters we will continue to concentrate on marketing activities such as major trade shows in the USA and Japan and several customer seminars. In terms of sales, we have maintained the focus on refining our offering to meet the needs of key customers and better utilize our larger sales organization.

Stefan Skarin, President and CEO of IAR Systems Group AB

SEK M Net sales



SEK M Operating profit



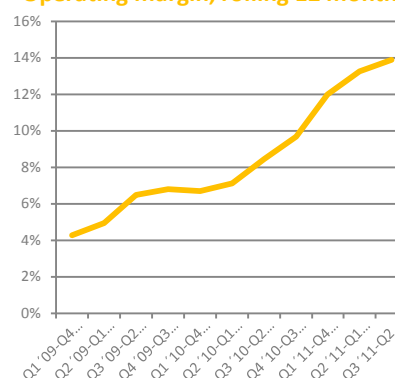
### PROFIT SUMMARY,

SEK M	Jan-June 2012	Jan-June 2011	Full year 2011
Net sales	114.4	94.7	200.4
Operating expenses	-99.1	-85.5	-176.4
Operating profit	15.3	9.2	24.0

### KEY RATIOS

	Jan-June 2012	Jan-June 2011	Full year 2011
Growth, %	20.8	10.5	12.6
Operating margin, %	13.4	9.7	12.0
Equity/assets ratio, %	78.8	80.6	78.1
Net cash, SEK M	42.6	28.8	34.5
No. of employees at end of period	156	133	157

Operating margin, rolling 12 months



### Customers and market

The second quarter saw continued growth driven by higher demand for applications based on technology from ARM. More and more manufacturers are starting to use ARM's Cortex family of processors.

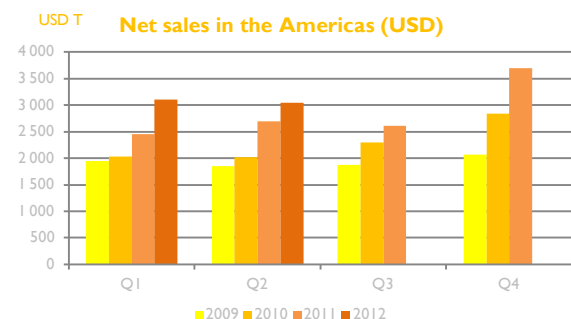
Alongside sales of licenses, customers are increasingly renewing their support and maintenance contracts, a trend that is partly explained by a somewhat weaker global economy.

We have continued to grow in all regions where the European market is showing weakest development due to the growing impact of the downturn in Europe. The opening of a new office in Seoul to strengthen the focus on the South Korean market led to higher sales for the first half of 2012.

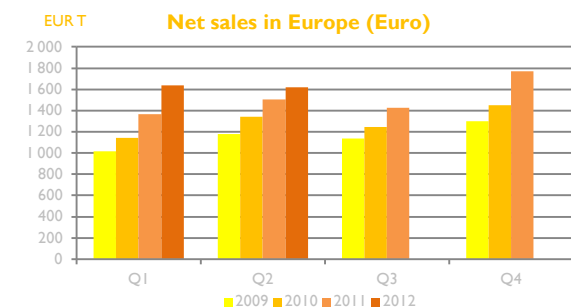
In the second quarter IAR Systems started to deliver its new product, the debug probe I-jet.

A total of 24 enterprise agreements were signed in the second quarter. So far this year IAR Systems has signed 41 enterprise agreements, compared to 57 for the full year 2011. The aim of the enterprise agreements is to strengthen the ties to our largest and most important customers. By providing these customers with products and services that offer greater flexibility and security, we can create more long-term relationships and increase the business volume.

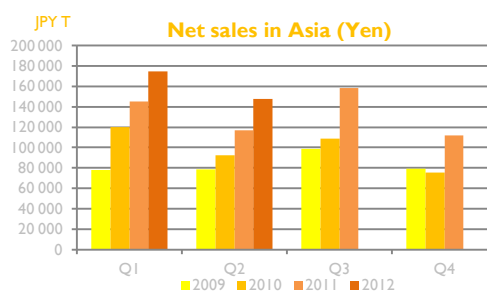
### IAR Systems' development by region



- The Americas account for approximately 40% of revenue
- In local currency, net sales for the period rose by 19%
- Largest increase in enterprise agreements of all regions



- Europe excl. the Nordics, accounts for around 30% of revenue
- In local currency, net sales for the period increased by 14%
- Direct sales started in Denmark



- Asia accounts for around 25% of revenue
- In local currency, net sales for the period were up by 23%
- 4,000 visitors to IAR's stand at the ESEC trade show in Japan

### Products and technology

Several significant new products were introduced in the second quarter. IAR Systems launched a new version of IAR Embedded Workbench for ARM processors. The version contains several enhancements such as a new text editor, a new source browser, broader support for ARM processors and performance optimizations.

IAR Systems works continuously to optimize its product for speed. For many customers it is vital to create code with the shortest possible execution time, since this has a high impact on factors like power consumption. The new version of IAR Embedded Workbench for ARM has gained attention since the code it generates is 50% faster than that created by competitor products such as the open-source GCC compiler. According to independent measurements, IAR Embedded Workbench generates the market's fastest code for ARM Cortex-M3.

Improved optimizations, a new text editor and a new source browser are also key performance and feature enhancements in the new version of IAR Embedded Workbench for Renesas Electronics' RX processor family.

The new version of IAR Embedded Workbench for Texas Instruments' MSP430 series of processors also contains the new text editor and source browser, but has perhaps aroused most interest for its integration with TI's code analysis software ULP Advisor (Ultra Low Power), which gives developers detailed tips on how to minimize power consumption in its embedded systems. In the second quarter IAR Systems started to deliver the debug probe I-jet, a product resulting from the strategic acquisition of Signum Systems Corporation in September 2011.

## Sales and profit

Net sales for the first six months rose by 21% over the same period of last year and reached SEK 114.4m (94.7). All regions reported growth compared to the same period of 2011. Operating profit for the period was up by 66% and amounted to SEK 15.3m (9.2). The improvement in earnings is mainly attributable to the increase in sales.

## Investments and financing

Investments in property, plant and equipment for the period are reported at SEK 0.9m (1.3). Investments in intangible assets during the period totaled SEK 8.3m (3.2). These investments consist mainly of staff expenses for development of the I-jet debug probe, which was launched during the period. The investments are on par and in line with the company's plans. The equity/assets ratio at June 30, 2012, was 79% (81).

## Cash flow, cash and cash equivalents

Cash flow from operating activities for the period was SEK 15.4m (9.1), of which SEK 14.1m (13.2) referred to the second quarter. Cash flow from investing activities for the period amounted to SEK -7.8m (-4.5), of which SEK -3.8m (-2.5) referred to the second quarter. Cash flow from financing activities for the period was SEK 0.3m (7.2), of which SEK 0.4 (0.0) referred to the second quarter. Dividends of SEK 11.1m were paid during the second quarter, when the company also sold 300,000 treasury shares. The sale provided the company with proceeds of SEK 11.6m. On June 30, 2012, the Group had net cash of SEK 42.6m (28.8), in addition to a holding of 334,600 (634,600) treasury shares. Cash and cash equivalents at June 30, 2012, totaled SEK 44.4m (30.9), of which SEK 6.9m (-) consisted of blocked funds for the acquisition of Signum. On the same date, there were unutilized bank overdraft facilities of SEK 25.0m (25.0). The Group's total available cash and cash equivalents thus amounted to SEK 62.5m (55.9).

## Employees

The number of employees in IAR Systems at the end of the period was 156 (133). The average number of employees during the period was 151 (133).

## Parent Company

The activities of the Parent Company consist of group management, finance and IR/PR functions. The Parent Company's net sales for the period amounted to SEK 6.1m (7.9). Profit after financial items was SEK 27.4m (-33.8). Net investments in property, plant and equipment totaled SEK 0.0m (0.0). At June 30, 2012, the Parent Company had cash and cash equivalents of SEK 19.8m (0.3), of which SEK 6.9m (-) consisted of blocked funds for the acquisition of Signum. On the same date, there were unutilized

bank overdraft facilities of SEK 0m (25.0). The Parent Company's total available cash and cash equivalents thus amounted to SEK 12.9m (25.3). The number of employees in the Parent Company at the end of the period was 4 (4).

## Accounting policies

The consolidated financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) as endorsed for application in the EU. In addition, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups, has been applied. This consolidated interim report has been prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and IAS 34, Interim Financial Reporting. The accounts of the Parent Company are presented in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities.

The new or changed IFRSs effective as of January 1, 2012, have not had any impact on the consolidated financial statements during the period. The Group's accounting policies are thus unchanged from those applied in the prior year.

## Goodwill

Goodwill is tested for impairment yearly and is measured at cost less accumulated impairment. The impairment test is based on the budget for 2012 and the management's forecasts for 2013 and 2014. For the period thereafter, a future annual growth rate of 2% is assumed. The growth rate in 2011 was 12%. Goodwill at June 30, 2012, amounted to SEK 110.7m.

## Deferred tax asset

The deferred tax asset attributable to loss carryforwards is recognized only to the extent that it is probable that the loss carryforwards can be utilized against future taxable profits. At June 30, 2012, the Group had cumulative loss carryforwards of around SEK 274m. In the balance sheet, the current estimated value of these losses is SEK 72.1m (69.2).

## Reporting of operations distributed/sold

The operations in Deltaco AB, Northern Parklife AB and the related subsidiaries were distributed and sold during the previous year. Profit from these operations is reported under profit from operations distributed/sold. Continuing operations consist of IAR Systems and central functions in the Parent Company. The comparison figures in the following financial information refer to continuing operations unless otherwise stated.

## The IAR Systems Group share

IAR Systems Group's class B share is quoted on the Small Cap list of the NASDAQ OMX Nordic Exchange Stockholm. During the

period the share price (based on reinvested values) varied from a low of SEK 25.40 (17.58) to a high of SEK 43.00 (23.60). The share price at June 30, 2012, was SEK 43.00 (23.60). IAR Systems Group's market capitalization on the same date was SEK 488m (261).

The subsidiary Deltaco AB was distributed to the shareholders in the previous year. Deltaco AB is quoted on NASDAQ OMX First North since April 2011. The share price for the comparison figures is based on reinvested values with respect to the distribution.

The number of shareholders in IAR Systems Group at June 30, 2012, was 9,079 (9,685), of which 462 (536) held more than 1,000 shares each. Foreign shareholders held approximately 18% (29) of the share capital and 24% (34) of the votes.

During the period, the warrant series T04B 2011/2014 was exercised to subscribe for 1,000 new class B shares.

No shares were repurchased during the period. However, 300,000 class B shares were sold, which provided the company with SEK 11.6m. The buyers were a number of institutional investors, which will strengthen the company's ownership base. The proceeds from the sale will be used to finance conditional consideration in connection with the acquisition of Signum Systems Corp.

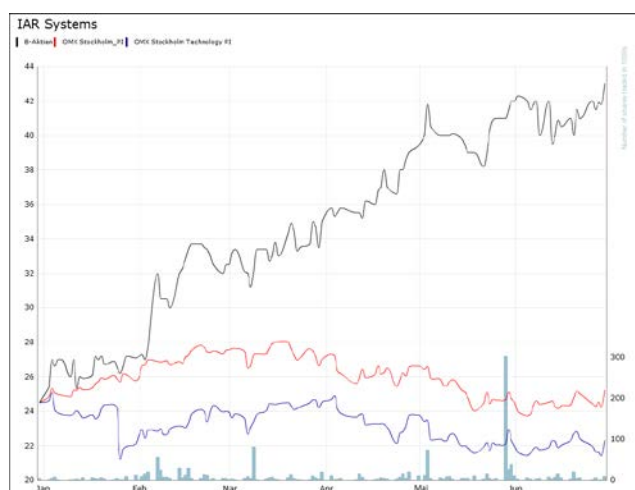
After the sale, IAR Systems held a total of 334,600 class B shares with a combined historical cost of SEK 14.2m at June 30, 2012.

These shares are not included in the share data at June 30, 2012.

IAR Systems Group's share capital at June 30, 2012, amounted to SEK 116,895,614, divided between 11,689,561 shares of which 100,000 are of class A and 11,589,561 are of class B. Of these, 334,600 class B shares are held in treasury by IAR Systems Group.

This means that the number of class B shares on the market at June 30, 2012, was 11,254,961.

### Share price performance, January – June 2012



### Warrant series T04B

The Annual General Meeting (AGM) in May 2011 resolved that the company would issue not more than 1,168,856 subscription warrants, each entitling the holder to subscribe for one class B share in IAR Systems Group AB. A total of 1,017,000 warrants were subscribed for on market-based terms in July 2011. Each warrant gives the holder the right to subscribe for one new class B share in IAR Systems Group AB for a price of SEK 34.30 during the

period through June 2014. During the period, warrants were exercised to subscribe for 1,000 new class B shares, after which there are 1,016,000 unutilized warrants issued to employees.

### 2012 Annual General Meeting

The Annual General Meeting re-elected Peter Larsson, Markus Gerdien, Karin Moberg, Jonas Mårtensson and Stefan Skarin as ordinary Board members and elected Peter Larsson as Board Chairman.

The AGM furthermore resolved that board fees would be paid in an annual amount of SEK 300,000 to the Board Chairman and SEK 125,000 to each of the other Board members. No fees are paid to the Board members who are employed in the company.

As the new auditor, the AGM elected Deloitte AB with Authorized Public Accountant Erik Olin as Auditor in Charge. The AGM resolved to appoint a nominating committee whereby the Board Chairman shall convene the company's three largest shareholders, each of which shall then have the right to appoint one member to the nominating committee. In addition, the Board Chairman may be a member of the nominating committee.

The AGM resolved to pay a dividend of SEK 1.00 per share.

The Board was authorized, on one or several occasions during the period until the next AGM, to decide on the new issue of class B shares in a number equal to not more than 10% of all registered shares in the company on the date of the AGM in exchange for non-cash consideration. The motive for the authorization is to provide opportunities for acquisitions with payment through a non-cash issue.

The Board was authorized, on one or several occasions during the period until the next AGM, to decide on the purchase of a maximum number of class B treasury shares whereby the holding of treasury shares at no time exceeds 10% of all registered shares in the company. The motive for the authorization is to give the Board greater freedom of action in optimizing the company's capital structure. The AGM also authorized the Board to decide on the sale of treasury shares as payment for the acquisition of companies and operations.

### Financial calendar 2012

Interim report for January-September 2012, October 24, 2012

### Significant risks and uncertainties

The market for IAR Systems' software is evolving rapidly and forecasts about future development are therefore associated with uncertainty. IAR Systems Group's assessment is that no significant risks and uncertainties have changed or arisen aside from those described in the annual report for 2011 under the heading "Risks and risk management" on pages 24-25 and in Note 2 on pages 43-45. No essential changes have taken place since that time.

### Future outlook

The Board's long-term financial targets are for IAR Systems Group's net sales to grow by 10-15% annually in local currency and for the operating margin to exceed 20% over a business cycle.

### Statement of assurance

The Board of Directors and the CEO hereby give their assurance that the interim report provides a true and fair view of the financial position and results of operations of the Parent Company and the Group and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

Stockholm, Tuesday, August 24, 2012

Stefan Skarin  
President & CEO

Peter Larsson  
Board Chairman

Markus Gerdien  
Board member

Karin Moberg  
Board member

Jonas Mårtensson  
Board member

### IAR Systems Group AB (publ)

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Stefan Skarin, President and CEO, tel +46 708 651005

Stefan Ström, CFO, tel +46 708 651068

### Review report

#### *Introduction*

We have reviewed the interim report for IAR Systems Group AB (publ) for the period from January 1 to June 30, 2012. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim financial information based on our review.

#### *Scope of review*

We conducted our review in accordance with Standard on Review Engagements SÖG 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by FAR. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA (International Standards on Auditing) and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion based on an audit.

#### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not, in all material aspects, prepared in accordance with IAS 34 and the Swedish Annual Accounts Act for the Group and in accordance with the Swedish Annual Accounts Act for the Parent Company.

Stockholm, July 24, 2012

Deloitte AB

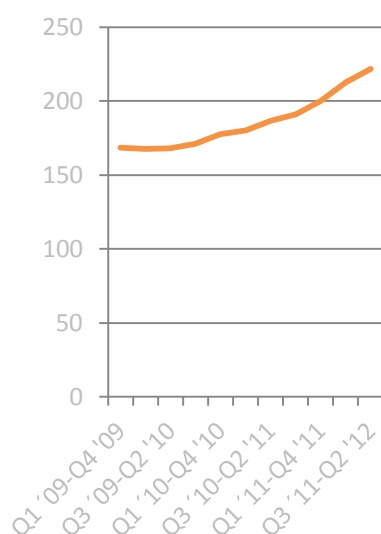
Erik Olin  
Authorized Public Accountant

# Income statements

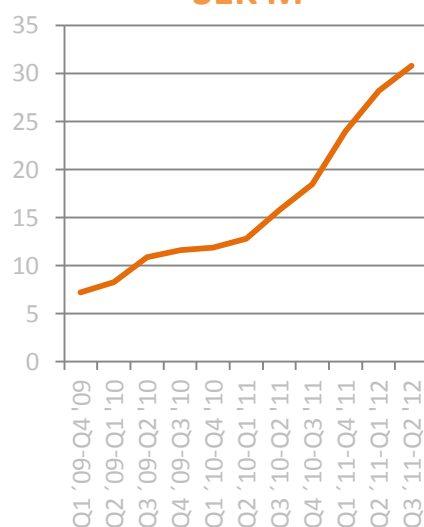
INCOME STATEMENTS, GROUP		6 mths Jan-June		3 mths Apr-June		Full year
SEK M	2012	2011	2012	2011	2011	
Net sales	114.4	94.7	56.4	48.9	200.4	
Goods for resale	-12.6	-9.2	-5.3	-4.3	-19.0	
Other external expenses	-22.6	-14.3	-12.6	-6.5	-31.8	
Personnel costs	-61.1	-59.5	-29.7	-31.4	-120.2	
Depreciation of property, plant and equipment	-1.0	-0.8	-0.5	-0.4	-1.7	
Amortization of intangible assets	-1.8	-1.7	-1.0	-0.9	-3.7	
<b>Operating profit</b>	<b>15.3</b>	<b>9.2</b>	<b>7.3</b>	<b>5.4</b>	<b>24.0</b>	
Financial income	0.4	0.2	0.4	0.0	0.9	
Financial expenses	-0.4	-0.4	0.0	-0.1	-0.8	
<b>Profit before tax</b>	<b>15.3</b>	<b>9.0</b>	<b>7.7</b>	<b>5.3</b>	<b>24.1</b>	
Income tax	-5.3	0.0	-3.0	0.0	2.9	
<b>Profit for the period from continuing operations</b>	<b>10.0</b>	<b>9.0</b>	<b>4.7</b>	<b>5.3</b>	<b>27.0</b>	
Profit from operations distributed/sold	-	-45.8	-	0.0	-45.8	
<b>Profit for the period</b>	<b>10.0</b>	<b>-36.8</b>	<b>4.7</b>	<b>5.3</b>	<b>-18.8</b>	
<i>Earnings per share for the period, calculated on profit from continuing operations, basic, SEK</i>	<i>0.90</i>	<i>0.81</i>	<i>0.42</i>	<i>0.48</i>	<i>2.44</i>	
<i>Earnings per share for the period, calculated on profit from continuing operations, diluted, SEK</i>	<i>0.83</i>	<i>0.81</i>	<i>0.39</i>	<i>0.48</i>	<i>2.44</i>	
<i>Earnings per share for the period, calculated on profit from operations distributed/sold, basic, SEK</i>	<i>-</i>	<i>-4.14</i>	<i>-</i>	<i>0.00</i>	<i>-4.14</i>	
<i>Earnings per share for the period, calculated on profit from operations distributed/sold, diluted, SEK</i>	<i>-</i>	<i>-4.14</i>	<i>-</i>	<i>0.00</i>	<i>-4.14</i>	
<i>Earnings per share for the period, basic, SEK</i>	<i>0.90</i>	<i>-3.33</i>	<i>0.42</i>	<i>0.48</i>	<i>-1.70</i>	
<i>Earnings per share for the period, diluted, SEK</i>	<i>0.83</i>	<i>-3.33</i>	<i>0.39</i>	<i>0.48</i>	<i>-1.70</i>	

STATEMENTS OF COMPREHENSIVE INCOME		6 mths Jan-June		3 mths Apr-June		Full year
SEK M	2012	2011	2012	2011	2011	
<b>Profit for the period</b>	<b>10.0</b>	<b>-36.8</b>	<b>4.7</b>	<b>5.3</b>	<b>-18.8</b>	
Other comprehensive income for the period						
Foreign exchange gains/losses	-0.1	0.1	0.7	0.1	0.6	
Total other comprehensive income	-0.1	0.1	0.7	0.1	0.6	
<b>Comprehensive income for the period</b>	<b>9.9</b>	<b>-36.7</b>	<b>5.4</b>	<b>5.4</b>	<b>-18.2</b>	
<i>Comprehensive income for the period attributable to owners of the parent</i>	<i>9.9</i>	<i>-36.7</i>	<i>5.4</i>	<i>5.4</i>	<i>-18.2</i>	

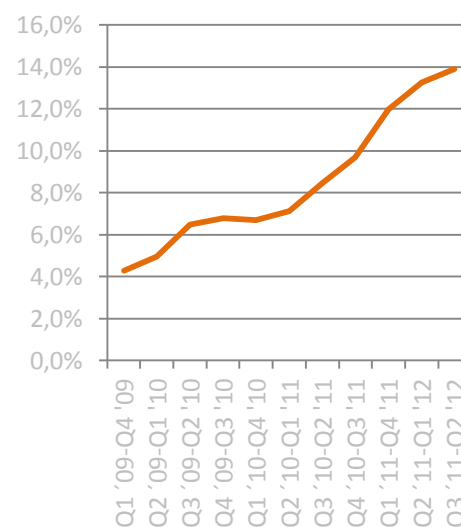
**Net sales, rolling 12 months, SEK M**



**Operating profit, rolling 12 months, SEK M**



**Operating margin, rolling 12 months**



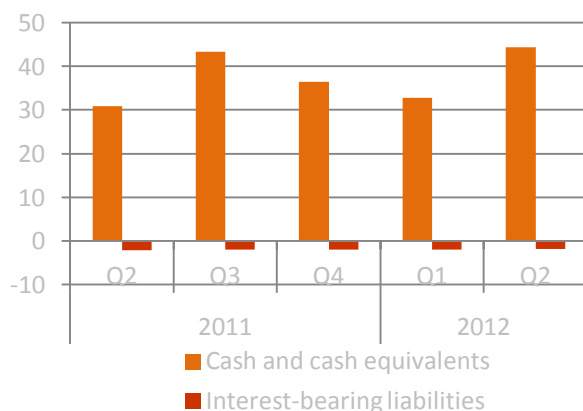


# Balance sheets

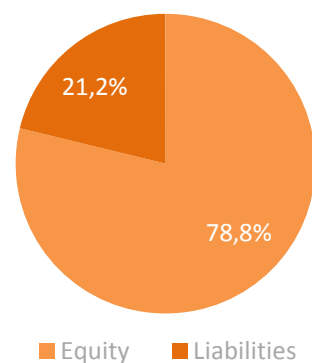
BALANCE SHEETS, GROUP		June 30, 2012		June 30, 2011		Dec 31, 2011	
SEK M							
<b>ASSETS</b>							
<b>Non-current assets</b>							
Goodwill		110.7		97.4		110.7	
Other intangible assets		34.7		25.0		28.2	
Property, plant and equipment		5.7		5.1		5.8	
Financial assets		5.6		6.8		5.8	
Deferred tax asset		72.1		69.2		73.8	
<b>Total non-current assets</b>		<b>228.8</b>		<b>203.5</b>		<b>224.3</b>	
<b>Current assets</b>							
Inventories		3.9		2.8		4.6	
Other current assets		13.0		13.9		11.3	
Trade receivables		29.1		24.5		32.2	
Blocked funds		6.9		-		6.9	
Cash and cash equivalents		37.5		30.9		29.6	
<b>Total current assets</b>		<b>90.4</b>		<b>72.1</b>		<b>84.6</b>	
<b>TOTAL ASSETS</b>		<b>319.2</b>		<b>275.6</b>		<b>308.9</b>	
<b>EQUITY AND LIABILITIES</b>							
<b>Total equity</b>		<b>251.5</b>		<b>222.0</b>		<b>241.1</b>	
<b>Non-current liabilities</b>							
Interest-bearing liabilities		1.3		1.6		1.5	
Deferred tax liabilities		5.6		3.6		3.5	
<b>Total non-current liabilities</b>		<b>6.9</b>		<b>5.2</b>		<b>5.0</b>	
<b>Current liabilities</b>							
Trade payables		7.2		7.1		10.7	
Interest-bearing liabilities		0.5		0.5		0.5	
Other current liabilities		53.1		40.8		51.6	
<b>Total current liabilities</b>		<b>60.8</b>		<b>48.4</b>		<b>62.8</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>319.2</b>		<b>275.6</b>		<b>308.9</b>	
Pledged assets		10.0		3.5		10.3	
Contingent liabilities		-		-		-	

CHANGES IN EQUITY, GROUP		6 mths Jan-June		3 mths Apr-June		Full year	
SEK M		2012		2011		2011	
Equity at beginning of period		241.1		598.5		245.6	
Dividends		-11.1		-339.8		-11.1	
New share issue		0.0		-		0.0	
Issue of subscription warrants		-		-		-	
Sale of shares		11.6		-		11.6	
Comprehensive income for the period		9.9		-36.7		5.4	
<b>Equity at end of period</b>		<b>251.5</b>		<b>222.0</b>		<b>251.5</b>	

Net cash, Q2 2011 - Q2 2012



Equity/assets ratio, June 30, 2012



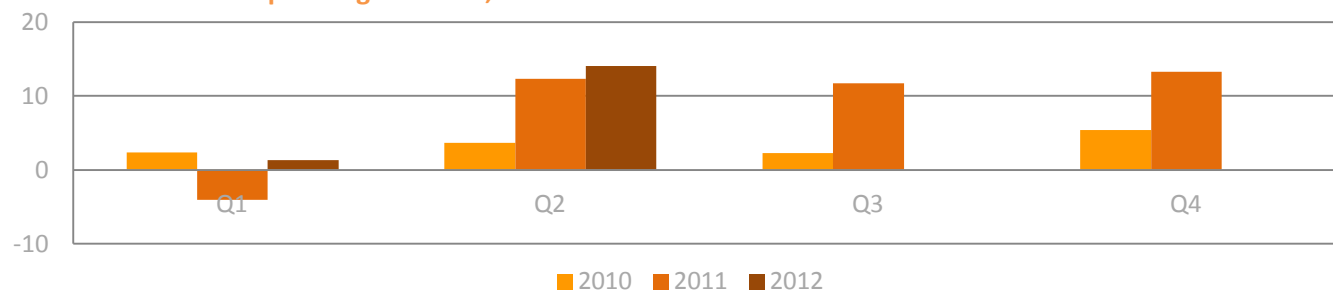


# Cash flows

CASH FLOWS, GROUP SEK M	6 mths Jan-June		3 mths Apr-June		Full year
	2012	2011	2012	2011	2011
Incoming payments from customers	116.8	90.7	58.1	47.5	187.5
Outgoing payments to suppliers and employees	-97.3	-80.5	-42.7	-34.0	-154.2
Interest received	0.1	0.3	0.1	0.0	2.0
Interest paid	-0.1	-0.4	-0.1	-0.1	-0.8
Income tax paid	-4.1	-1.0	-1.3	-0.2	-0.3
<b>Cash flow from operating activities</b>	<b>15.4</b>	<b>9.1</b>	<b>14.1</b>	<b>13.2</b>	<b>34.2</b>
Cash flow from operating activities for operations distributed/sold	-	8.5	-	0.0	8.5
<b>Total cash flow from operating activities</b>	<b>15.4</b>	<b>17.6</b>	<b>14.1</b>	<b>13.2</b>	<b>42.7</b>
Investments in property, plant and equipment	-1.0	-1.3	-0.5	-0.7	-2.8
Investments in intangible assets	-7.1	-3.2	-3.5	-1.8	-8.2
Investments in subsidiaries	-	-	-	-	-21.6
Other investments	0.3	-	0.2	-	-0.2
<b>Cash flow from investing activities</b>	<b>-7.8</b>	<b>-4.5</b>	<b>-3.8</b>	<b>-2.5</b>	<b>-32.8</b>
Cash flow from investing activities for operations distributed/sold	-	-0.9	-	0.0	-0.9
<b>Total cash flow from investing activities</b>	<b>-7.8</b>	<b>-5.4</b>	<b>-3.8</b>	<b>-2.5</b>	<b>-33.7</b>
Warrant series T04B	-	-	-	-	0.6
New share issue	0.0	-	0.0	-	-
Sale of shares	11.6	-	11.6	-	-
New borrowings	-	7.2	-	0.0	7.1
Dividends paid	-11.1	-	-11.1	-	-
Repayment of financial liabilities	-0.2	-	-0.1	-	-
<b>Cash flow from financing activities</b>	<b>0.3</b>	<b>7.2</b>	<b>0.4</b>	<b>0.0</b>	<b>7.7</b>
Cash flow from financing activities for operations distributed/sold	-	-39.7	-	-40.0	-39.7
<b>Total cash flow from financing activities</b>	<b>0.3</b>	<b>-32.5</b>	<b>0.4</b>	<b>-40.0</b>	<b>-32.0</b>
<b>Cash flow for the period</b>	<b>7.9</b>	<b>-20.3</b>	<b>10.7</b>	<b>-29.3</b>	<b>-23.0</b>
Cash and cash equivalents at beginning of period	29.6	52.0	25.8	59.8	52.0
Exchange difference in cash and cash equivalents					
- attributable to cash and cash equivalents at beginning of period	-0.1	-0.8	0.9	0.3	0.4
- attributable to cash flow for the period	0.1	0.0	0.1	0.1	0.2
<b>Cash and cash equivalents at end of period</b>	<b>37.5</b>	<b>30.9</b>	<b>37.5</b>	<b>30.9</b>	<b>29.6</b>

CASH AND CASH EQUIVALENTS, GROUP SEK M	6 mths Jan-June		3 mths Apr-June		Full year
	2012	2011	2012	2011	2011
Cash and cash equivalents at end of period	37.5	30.9	37.5	30.9	29.6
Unutilized overdraft facilities	25.0	25.0	25.0	25.0	25.0
<b>Total available cash and cash equivalents</b>	<b>62.5</b>	<b>55.9</b>	<b>62.5</b>	<b>55.9</b>	<b>54.6</b>

Cash flow from operating activities, SEK M



# Key ratios

KEY RATIOS, GROUP	6 mths Jan-June		3 mths Apr-June		Full year
	2012	2011	2012	2011	2011
Gross margin, %	89.0	90.3	90.6	91.2	90.5
Operating margin, %	13.4	9.7	12.9	11.0	12.0
Profit margin, %	13.4	9.5	13.7	10.8	12.0
Cash flow, %	13.5	9.7	25.0	27.2	17.1
Equity/assets ratio, %	78.8	80.6			78.1
Return on equity, %	4.1	2.2	1.9	1.4	5.7
Return on capital employed, %	6.2	2.3	2.9	1.4	5.8
Capital employed, SEK M	253.3	224.1			243.1
Net cash, SEK M	42.6	28.8			34.5
Net debt/equity ratio, times	-0.17	-0.13			-0.14
Number of employees at end of period	156	133			157
Average number of employees	151	133	150	133	137
Net sales per employee, SEK M	0.8	0.7	0.4	0.4	1.5

Share data	6 mths Jan-June		3 mths Apr-June		Full year
	2012	2011	2012	2011	2011
Equity per share, SEK	22.15	20.09			21.82
Equity per share, diluted, SEK	23.15	20.09			21.82
Number of shares at end of period, millions	11.35	11.05			11.05
Number of shares at end of period, diluted, millions	12.37	11.05			11.05
Average number of shares, millions	11.10	11.05	11.15	11.05	11.05
Average number of shares, diluted, millions	12.12	11.05	12.17	11.05	11.05
Cash flow from operating activities per share, SEK	1.39	0.83	1.27	1.20	3.10
Earnings per share, basic, calculated on continuing operations and after current tax, SEK	1.23	0.76	0.61	0.44	1.97
Earnings per share, SEK	0.90	-3.33	0.42	0.48	-1.70
Earnings per share, diluted, SEK	0.83	-3.33	0.39	0.48	-1.70

QUARTERLY OVERVIEW, CONTINUING OPERATIONS SEK M	2012			2011		2010				
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net sales, SEK M	56.4	58.0	57.5	48.2	48.9	45.8	48.0	44.2	42.1	43.6
Operating profit, SEK M	7.3	8.0	7.7	7.1	5.4	3.8	2.2	4.4	2.4	2.9
Operating margin, %	12.9	13.8	13.4	14.7	11.0	8.3	4.6	10.0	5.7	6.7
Return on equity, %	3.1	2.2	4.5	3.3	1.4	0.6	-0.6	1.4	1.1	1.6
Equity per share, SEK	22.15	22.22	21.82	20.92	20.09	50.35	54.16	55.50	53.81	54.42
Cash flow from operating activities per share, SEK	1.39	0.12	1.20	1.06	1.30	-0.37	0.47	0.23	0.33	0.22

# Parent Company

INCOME STATEMENTS, PARENT COMPANY			
SEK M	2012	6 mths Jan-June 2011	Full year 2011
Net sales	6.1	7.9	14.1
Operating expenses	-7.2	-8.3	-20.4
Depreciation of property, plant and equipment	-0.0	-0.1	-0.2
<b>Operating profit/loss</b>	<b>-1.1</b>	<b>-0.5</b>	<b>-6.5</b>
Result from financial investments	28.5	-33.3	-12.1
<b>Profit/loss after financial items</b>	<b>27.4</b>	<b>-33.8</b>	<b>-18.6</b>
Income tax	0.3	0.0	5.6
<b>Profit/loss for the period</b>	<b>27.7</b>	<b>-33.8</b>	<b>-13.0</b>

STATEMENT OF COMPREHENSIVE INCOME, PARENT COMPANY			
SEK M	2012	6 mths Jan-June 2011	Full year 2011
Profit/loss for the period	27.7	-33.8	-13.0
Total other comprehensive income	-	-	-
<b>Comprehensive income for the period</b>	<b>27.7</b>	<b>-33.8</b>	<b>-13.0</b>

BALANCE SHEETS, PARENT COMPANY			
SEK M	June 30, 2012	June 30, 2011	Dec 31, 2011
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	0.2	0.3	0.2
Shares in subsidiaries	189.4	162.3	189.4
Other financial assets	4.2	5.6	4.5
Deferred tax asset	73.5	67.5	73.2
<b>Total non-current assets</b>	<b>267.3</b>	<b>235.7</b>	<b>267.3</b>
<b>Current assets</b>			
Receivables from subsidiaries	0.3	3.6	0.3
Other current assets	4.4	4.4	4.3
Blocked funds	6.9	-	6.9
Cash and cash equivalents	12.9	0.3	1.1
<b>Total current assets</b>	<b>24.5</b>	<b>8.3</b>	<b>12.6</b>
<b>TOTAL ASSETS</b>	<b>291.8</b>	<b>244.0</b>	<b>279.9</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Total equity</b>	<b>271.9</b>	<b>222.0</b>	<b>243.6</b>
<b>Non-current liabilities</b>			
Provisions	5.6	-	5.5
Non-current liabilities to subsidiaries	5.9	-	20.4
<b>Total non-current liabilities</b>	<b>11.5</b>	<b>-</b>	<b>25.9</b>
<b>Current liabilities</b>			
Trade payables	0.6	0.6	1.2
Interest-bearing liabilities	-	18.6	0.0
Other current liabilities	7.8	2.8	9.2
<b>Total current liabilities</b>	<b>8.4</b>	<b>22.0</b>	<b>10.4</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>291.8</b>	<b>244.0</b>	<b>279.9</b>

# ABOUT IAR SYSTEMS

## Intoi becomes IAR Systems Group

Intoi acquired IAR Systems in 2005 and has been a driving force in its repositioning from a more consulting-oriented business to a pure software company. In order to focus on IAR Systems, Intoi distributed Deltaco and sold Northern in April 2011.

The restructuring was completed in the first quarter of 2011 and the Group is now wholly focused on IAR Systems. As a result of the restructuring, Intoi has also changed name to IAR Systems Group AB.

## Business model and products

IAR Systems' products consist of software that is used to program embedded systems that control products in areas such as industrial automation, medical devices, consumer electronics and the automotive industry. We are at the cutting edge of technology with development tools that support most of the world's processor manufacturers and therefore also embedded systems.

IAR System is growing faster than the market and has good potential for continued growth. The business model is based on standardized software, which means that all customers essentially use the same product. In addition, we have increased the scalability of the business model by raising the share of licenses from 62% to 88% of net sales. This provides a high gross margin and creates a scalable business model with significant capacity to boost profitability.

IAR Systems' development tools are available in a wide range of versions for 8-, 16- and 32-bit processors. The company's focus on the most advanced systems based on 32-bit architecture has been highly successful. In recent years, growth has been driven mainly by the 32-bit segment. Our market position is strongest in the most advanced systems for 32-bit architecture (often ARM-based), which now account for 62% of net sales.

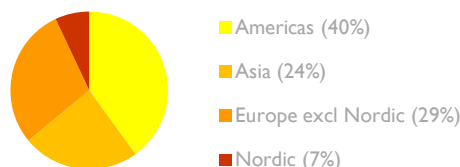
## Customers and sales

IAR Systems' software is used by many of the world's largest corporations, but also by thousands of small and mid-sized companies that develop digital products. The more than

14,000 customers are found across all industries and all regions of the world.

IAR Systems combines a good inflow of new customers with very loyal customer relationships. A full 90% of all sales go to recurring customers. IAR Systems works actively to sell more licenses to each customer, where the goal is for the customers to standardize on IAR Systems' tool chain.

## Breakdown of revenue



## Ecosystem

IAR Systems is the hub of a powerful ecosystem of partners that include all of the world's leading maker of processors, including ST, Texas Instruments, NXP, Renesas, Freescale, Toshiba, Fujitsu and Atmel, and suppliers of real time operating systems (RTOS) and middleware. This close collaboration gives IAR Systems extensive resources, knowledge and scope for sales. But above all, it ensures that IAR Systems' software supports more processors in more architectures than any other tools on the market. With software tools from IAR Systems, the customers can work in the same environment for all processors in their current and future projects.

## ARM

ARM Holdings plc is a multinational company based in Cambridge, UK, that has developed a standard for microprocessor chips. ARM is one of the largest and fastest-growing companies in the industry and dominates the market for processors for smart phones. For many years IAR Systems has been committed to providing reliable and powerful development tools for a wide spectrum of ARM processors. IAR Systems is one of the leading suppliers of development tools for processors based on ARM technology.

## Investment case for IAR Systems

### At the cutting edge of technology

IAR Systems' software is a technical leader and the company is often first in the market to offer new functionality. IAR Systems was the first to launch a new tool to analyze power consumption in processors, known as power debugging.

### A changing market

The market is driven by digitalization and is undergoing rapid changes in pace with:

- Growth in the number of digital products
- Growth in the number of processors
- A rising level of complexity in the processors
- Growth in ARM processors
- Growth in energy-efficient solutions

### Global reach

IAR Systems has international reach through its head office in Uppsala, Sweden, and sales offices in Sweden, the USA, Japan, France, China, South Korea, Germany and the UK. The office in South Korea opened during 2012. In addition, the company is represented in 25 other countries through distributors.

### A wide and loyal customer base

IAR Systems' software is used by many of the world's largest corporations, but also by thousands of small and mid-sized companies that develop digital products. Software from IAR Systems is used by more than 120,000 developers in over 14,000 organizations.

### Close to the processor manufacturers

IAR Systems works closely with the world's leading processor manufacturers. This collaboration gives IAR Systems resources, knowledge and scope for sales. But above all, it ensures that IAR Systems' software supports more processors in more architectures than any other tools on the market. With software tools from IAR Systems, the customers can work in the same environment for all processors in their current and future projects.

### Skilled employees

IAR Systems is a knowledge-intensive organization that has attracted expertise and talents from many countries. IAR Systems places high demands on ambition and innovation and is a dynamic workplace that contributes to personal well-being and professional development.

## DEFINITIONS

Gross margin	Operating profit before amortization/depreciation as a percentage of net sales.
Equity	Reported equity including 73.7% of untaxed reserves.
Equity per share	Equity divided by the number of shares at the end of the period.
Cash flow	Cash flow from operating activities as a percentage of net sales.
Net cash	Interest-bearing assets less interest-bearing liabilities.
Net debt/equity ratio	Net interest-bearing liabilities divided by equity.
Earnings per share, basic	Profit for the period after tax divided by the average number of shares during the period.
Earnings per share, diluted	Diluted earnings per share are calculated by dividing profit attributable to owners of the Parent Company by the weighted average number of shares outstanding during the period including outstanding options/warrants.
Return on equity	Profit after financial items less full tax as a percentage of average equity.
Return on capital employed	Profit after financial items plus financial expenses as a percentage of average capital employed.
Operating margin	Operating profit as a percentage of net sales.
Equity/assets ratio	Equity as a percentage of total assets.
Capital employed	Total assets less non interest-bearing liabilities.
Profit margin	Profit after financial items as a percentage of net sales.
Gross margin	Operating profit before amortization/depreciation as a percentage of net sales.

## INDUSTRY-SPECIFIC GLOSSARY

Application	Another word for a program developed by the user of IAR Systems' tools, to be run on a processor in an embedded system.
Architecture	A microprocessor architecture is a specific combination of integrated circuit design and instructions that control how the processor works.
ARM	ARM Holdings plc is a multinational company that licenses a standard for processors. The headquarters are located in Cambridge, UK. ARM is one of the largest and fastest-growing companies in the industry and dominates the market for smart phones, but is also growing in other segments.
ARM Cortex	ARM Cortex is a product family of low-energy, easy-to-use microprocessors that has been developed to enable partners to develop more functions at a lower cost, simplify reuse of program code and increase power efficiency.
Chip	Another name for an integrated circuit (IC).
Chip maker	A chip maker or chip vendor produces integrated circuits (ICs). IAR Systems is the hub of a powerful ecosystem of partners that include suppliers of real-time operating systems (RTOS), so-called "middleware" and the world's leading chip makers.
Debug probe	An electronic tool that measures how a processor works when the program code is executed and can therefore be used to locate problems and errors in a program that a developer has created.
Debugger	Computer software that helps a programmer to locate problems and errors in the program that he/she has created by analyzing and showing what is happening "under the surface" when the program code is executed, often with the help of a debug probe.
Digitalization trend	Growth in the number of digital products worldwide. More and more products are digital and contain computer chips in order to be mobile, remote-controlled, energy-efficient, upgradable, etc.
Emulator	Another name for debug probe.
IAR Embedded Workbench	IAR Embedded Workbench is a high-performance tool suite for development of software for small and mid-sized (8-, 16-, and 32-bit) microprocessors. IAR Systems collaborates with all world-leading chip makers to guarantee that our tools can be used for more processor architectures than any other development tool on the market.
Embedded system	An embedded (computer) system consists of one or more microprocessors with related circuits and the software that is run in the system. Embedded systems control the functions in electronic products such as cell phones, coffee machines, credit card readers, dishwashers, etc. IAR Systems' customers develop and market products that are driven by embedded systems. Embedded systems are being increasingly used products worldwide, in pace with the so-called digitalization trend.
Integrated circuit (IC)	A small, typically rectangular silicon substrate onto which micrometer-sized transistors are mounted, sometimes in numbers of more than one million.
Compiler	A compiler is a computer program (or set of programs) that transforms source code written in a programming language (similar to English) into instructions that the microprocessor can understand and execute.
Microprocessor	A microprocessor consists of a single integrated circuit (or at most a few integrated circuits). The circuit incorporates the functions of a computer's central processing unit (CPU) with storage of code and data.
Power debugging	Power debugging is a programming technology that makes it easier to see how the finished product's power consumption is directly related to the source code written by a programmer. This makes it possible to detect which program code is causing unexpectedly high power consumption.
Processor	When the word is used in connection with IAR Systems' products, processor is an abbreviation of <i>microprocessor</i> .
RTOS	An operating system (OS) is a set of programs that manage a computer's hardware resources and provide common services for application software. The operating system is the most important type of software in a computer system. A real-time operating system (RTOS) is specialized at quickly and reliably handling input and output data from the computer system, which is important in embedded systems.
Standardization	By standardizing on IAR Systems' tool chain, customers can significantly improve their efficiency and time-to-market for new products. In a single environment, they can move freely between 8-, 16-, 32-bit MCUs from all major vendors in all relevant architectures, including all ARM cores.
SUA	Software products from IAR Systems usually include a 12-month "Support and Update Agreement" (SUA) that gives the customer access to new product versions, product updates, technical support, etc.
Development kit	A development kit (also called a starter kit or evaluation kit) contains all of the equipment and software needed for a programmer to design, develop, integrate and test his or her products. IAR Systems offers fully integrated kits for development of embedded application software. Each kit contains an evaluation board and development tools (software) with example applications.
Development tools	The software tools used by programmers to create their own programs. The most important of these is an editor in which to write source code, a compiler to transform the source code into instructions that the processor can use, a linker that combines smaller program segments into an executable program, and a debugger that is used to locate problems in a program. IAR Embedded Workbench is a set of development tools.
8, 16, 32-bit	Processor architectures vary in complexity and size. 8-, 16- and 32-bit define the amount of code and data the processor can address. The general rule is that the larger the architecture, the more powerful and expensive the processors.