ANNUAL REPORT 2012

Contents

Annual General Meeting

The Annual General Meeting of IAR Systems Group AB (publ), corporate identity number 556400-7200, will be held at 6:00 p.m. on Monday, 22 April 2013, at Nalen Konferens, Regeringsgatan 34, Stockholm, Sweden. The entrance to the Stacken room where the meeting will be held is located at David Bagares gata 17.

Starting at the end of March, IAR Systems Group's annual report will be available on IAR Systems' website (www.iar.com/en/investors) and at the company's offices at Kungsgatan 33 in Stockholm, and at Strandbodgatan 1 in Uppsala, Sweden.

NOTIFICATION

Shareholders who wish to participate in the Annual General Meeting ("AGM") must:

> be recorded in the register of shareholders maintained by Euroclear Sweden AB not later than Wednesday, April 16, 2013.
> provide notification of their intention to participate in the AGM not later than Monday, April 16, 2013, in writing to IAR Systems Group AB (publ), Kungsgatan 33, SE-111 56 Stockholm, Sweden, by fax +46 8-410 920 01 or via the company's website www.iar.com/en/investors/

The notification should include:

> name, address, telephone number, personal or corporate identity number and registered shareholding.

To be entitled to participate in the AGM, shareholders whose shares are registered in the name of a nominee should request that the shares be temporarily re-registered in their own name in good time prior to April 16, 2013. When applicable, proof of authorization such as forms of proxy and certificates of registration should be sent to the company prior to the AGM. Shareholders who wish to be accompanied by one or two assistants must inform the company by the same date and in the same manner applicable to shareholders.

DIVIDEND

The Board of Directors intends to propose a dividend of SEK 2.00 per share for the financial year 2012.

Financial calendar

Interim report	Jan-Mar 2013	April 22, 2013
Interim report	Jan-Jun 2013	August 22, 2013
Interim report	Jan-Sep 2013	October 23, 2013

IAR Systems in 60 seconds

IAR Systems is the world's leading independent provider of software for programming of processors in embedded systems*. The software is used by around 20,000 large and small corporations to develop products based on 8 -, 16 - and 32-bit processors, mainly in the areas of industrial automation, medical devices, consumer electronics and the automotive industry. IAR Systems has a powerful ecosystem of partners that include the world's leading processor vendors. IAR Systems Group AB is listed on NASDAQ OMX Stockholm.

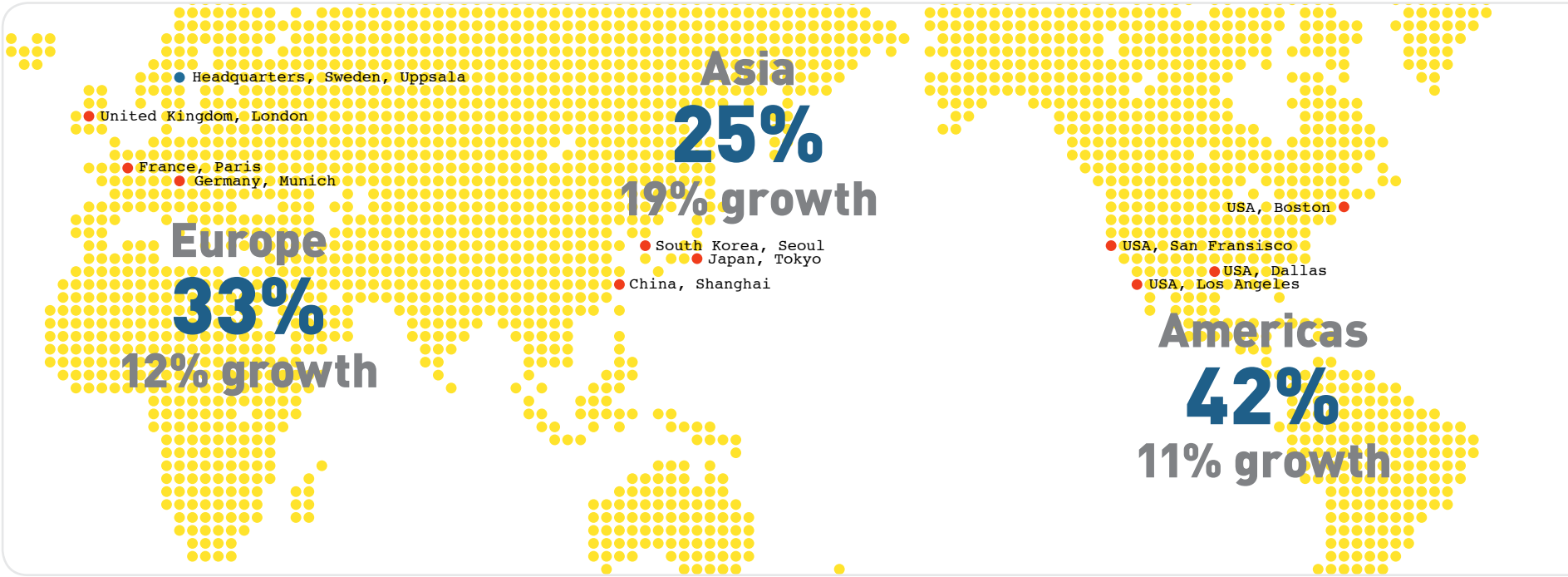
Net sales 230.1m (200.4)

Net cash 49.3m (34.5)

Growth 14.8% (12.6)

Operating margin 15.3% (12.0)

Operating profit 35.2m (24.0)



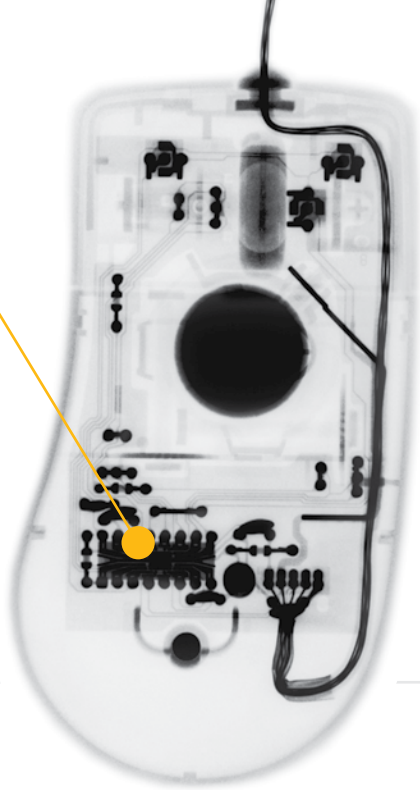
** See glossary on page 69.*

Highlights of 2012

- Sales record of SEK 230m – growth of 15%.
- Highest operating profit ever at SEK 35m – improvement of 47%.
- The previous year's acquisition Signum delivers full support for all of IAR Systems' products.
- The Board proposes a doubled dividend.
- New sales office opened in South Korea.

IAR Systems was here!

IAR Systems' tools are used for programming of processors in embedded system. We are part of your everyday life!



First quarter 2012

- Strong development in all markets.
- New sales office opened in South Korea.
- New support for ARM's new Cortex-M0+ core and Freescale's new Kinetis-L processor family.
- Benchmark test results show that the code generated by IAR Embedded Workbench is 30% smaller than for competitors.

Second quarter 2012

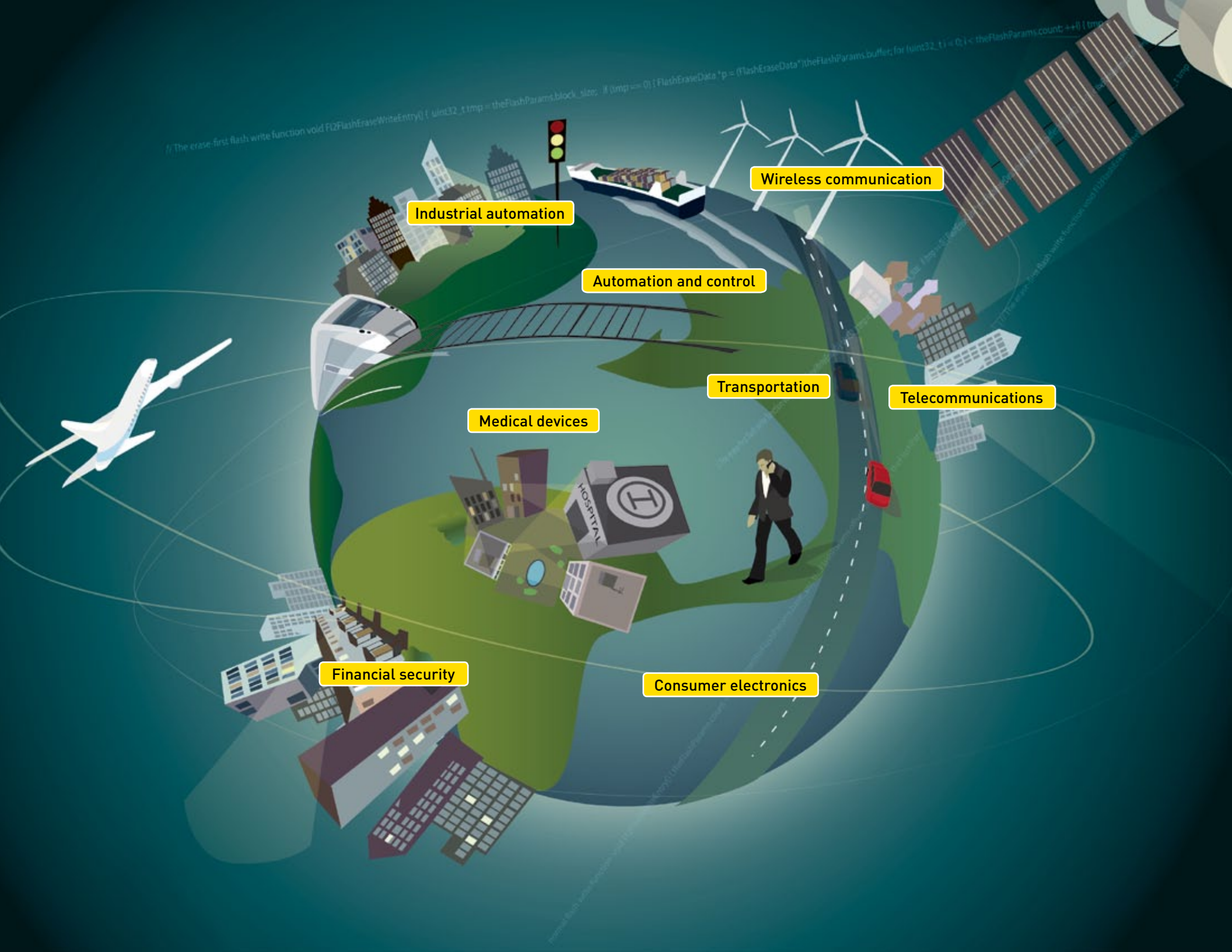
- Sustained growth, led by Asia with growth of 26%.
- Debug probe I-jet delivered globally.
- New version of IAR Embedded Workbench for ARM and for Renesas' RX processor family launched with new text editor, new source browser and performance enhancements.
- Sale of 300,000 treasury shares for a value of SEK 11.6m.

Third quarter 2012

- Continued growth, led by Europe with growth of 22%.
- Highest quarterly profit of all time.
- Independent measurements show that IAR Embedded Workbench generates the market's fastest code for a number of ARM and Renesas products.
- New version of IAR Embedded Workbench for TI MSP430 including integration with ULP Advisor (Ultra Low Power).

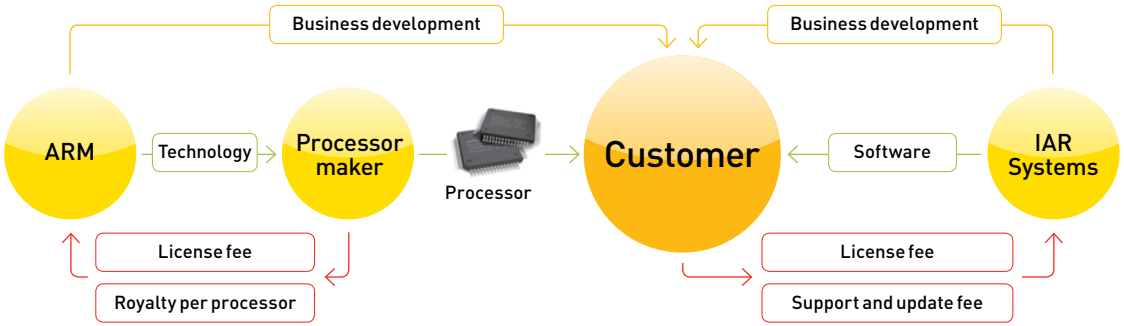
Fourth quarter 2012

- Best quarterly sales ever, despite lower growth rate.
- Debug probe JTAGjet launched with full integration in IAR Embedded Workbench, which means that IAR Systems offers advanced processor support with debug probes for all ARM processors.
- The Board intends to propose a dividend of SEK 2.00 per share for approval by the AGM in April 2013.


Wireless communication
Industrial automation
Automation and control
Transportation
Telecommunications
Medical devices
HOSPITAL
Financial security
Consumer electronics

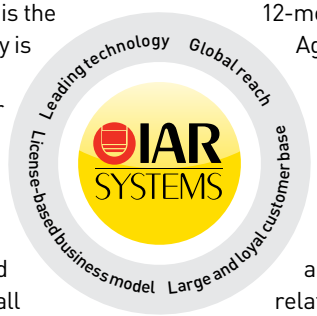
IAR Systems – Investment Case 2013

IAR Systems is a leading provider of software for development of embedded systems. IAR Systems has a unique market position based on its leading technology, global reach and large and loyal customer base. As of 2013, IAR Systems has been active for 30 years.



PRODUCTS AT THE LEADING EDGE OF TECHNOLOGY

IAR Systems AB is a provider of software for programming of processors in embedded systems. IAR Systems' software is the technical leader and the company is often first on the market to offer new functionality and support for new processors. These processors are programmed for use in an embedded system. Today there are countless examples of products containing embedded systems. They are found across all industries, such as the automotive and manufacturing industries, home electronics, medical and health care, the defense industry, etc.



IAR Embedded Workbench is appreciated for its capacity to generate high quality and compact code without compromising on functionality or code speed. IAR Embedded Workbench supports 20 different architectures and more than 7,800 processors, which represents the market's broadest support.

BUSINESS MODEL

IAR Embedded Workbench is licensed to the customer, who is often an individual developer, for a license fee. The license fee also includes a 12-month free-of-charge Support and Update Agreement (SUA) that can be renewed at an annual cost equal to 20% of the product's price. In addition, customers with multiple users can choose different types of agreements (enterprise agreements) to achieve greater flexibility in product usage and extended service. For IAR Systems these agreements are important in creating a closer and longer relationship with the customer, which also results in a both higher and more even revenue flow.

CUSTOMER BENEFIT

IAR Systems provides customer benefit through consistently high product quality, ease-of-use and an independent position. This gives the customers far-reaching flexibility to create solutions in their development environment. In addition to a lower learning curve, the developer can reuse up to 80% of the previously developed code, thereby offering valuable savings in both time and resources.

A CHANGING MARKET

The market for embedded systems is undergoing rapid changes in pace with drivers such as:

- Growth in the number of digital electronic products and the number of embedded systems per digital electronic product. This is increasing the need for more developers of embedded systems, which is expanding the market for IAR Systems. According to Cisco, a world-leading supplier of networking solutions for the Internet, the market for Internet communication between devices is growing at a much faster rate than communication created by people. This is measured and called "The Internet of Things".
- A rising level of complexity in the embedded systems. For IAR Systems, this means that user-friendly products are growing in value among both existing and potential customers.
- Consolidation of technology and suppliers is further intensifying competition in the market. IAR Systems has a strong market position and a long and successful history, which strengthens the company's status among customers seeking a stable, secure and global supplier.

- Growth in energy-efficient solutions for digital electronic products. In view of this, it is important for IAR Systems to continue delivering innovative solutions for energy-efficient programming of microprocessors.

GLOBAL REACH

IAR Systems has international reach and more than 90% of its sales are attributable to markets outside the Nordic region. The corporate headquarters and product development are based in Uppsala, Sweden, and to a certain extent the USA. Sales and support are conducted from local offices in Sweden, the USA, Japan, France, China, Germany, Brazil, South Korea and the UK. In addition, the company is represented in 30 other countries via 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. Since the start IAR Systems has sold more than 120,000 licenses, creating a customer base of 19,000 organizations. Our customers include well known companies like ABB, Bosch, Siemens, GE, Hewlett-Packard, Motorola, Electrolux, Panasonic Communications, etc. In recent years, many of these companies have chosen to standardize their development on software from IAR Systems. In 2012 the share of enterprise agreements more than doubled compared to 2011. This has favorable implications for our market position and will also strengthen our future earning ability.

The Internet of Things

Thingsquare, a pioneering supplier of software that connects the physical world through the Internet, has selected IAR Embedded Workbench for development of its Thingsquare Mist connectivity platform for home and building automation and smart lighting.

IAR Systems' software gives Thingsquare and its customers the compact and highly efficient code that is fundamental when smart objects communicate with each other over the Internet.

Thingsquare Mist uses Contiki, an open source operating system for The Internet of Things that was created by Thingsquare's founder Adam Dunkels.

ECOSYSTEM

Thanks to its long presence in the market, IAR Systems has created an ecosystem of partners that complement and broaden the company's offering. IAR Systems is unique with its independent range of products that support virtually all of the market's processors for embedded systems. ARM represents a large share of microprocessor development with regard to functionality and low power consumption. This, in combination with a low manufacturing cost, is motivating many vendors to make processors based on this technology. IAR Systems was early to offer products targeting ARM and today offers complete support for all ARM processors. ARM has achieved an extremely high market penetration for its technology since companies, which are also customers of IAR Systems, that choose to use microprocessors from ARM can lower their manufacturing costs without technological limitations. This has led to a large influx of customers opting for ARM technology. For IAR Systems, this means that many customers are supplementing their existing products for older processors with new products that support microprocessors from ARM. This is something we sometimes describe as technical migration from 8/16 bit to 32 bit or measure in terms of customer loyalty and recurring customers.

> *A license-based business model provides the conditions for growth and profitability. This makes IAR Systems an attractive investment alternative.*

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.

Comments from the CEO

What a fantastic year 2012 turned out to be! We promised that 2012 would be a memorable year for our shareholders, customers and employees. In many ways this was a challenging promise since we have been around for a long time and the past few years have also been eventful, successful and definitely notable.

> *For us, 2013 will also be focused on exceeding expectations, strengthening our offering and more clearly defining our value to our shareholders, customers and partners.*

We started the year by opening a sales office in South Korea. We have been in South Korea for several years but were aware that some of our larger customers were seeking closer contact with us. Several of these customers have their own offices in different parts of the world and therefore knew that they could expect better product support and more frequent dialogue through our presence in the region. South Korea is well worth mentioning as part of our record year, as the results far exceeded the ambitious budget we planned according to. Aside from our several distributors in the region, we have been established in Asia for many years mainly through our offices in Japan and China. In recent years Asia has accounted for the greatest growth, so in this year's annual report we have chosen to present a short interview with Kiyofumi Uemura, who is responsible for this region.

IAR Systems is a product company in the sense that the products steer our sales to a large extent. Not only because they are market-leading but also because it is crucial that they are constantly updated, since much of the technology surrounding our products is changing and evolving at an astonishing rate. In the past year we noted that several of our competitors are positioning themselves by improving their products and enhancing their performance. This performance can be measured by studying the speed of the code created by the product. There is an independent organization that continuously performs such tests.

We also understand from our customers that faster processor code is an important variable in ensuring low energy consumption in a processor. We decided to see what we could do with regard to speed optimization and the results of this became visible in the spring when we set several world records for code speed. These achievements were strengthened and improved with even more products during the autumn. So we have not only a record year to take pride in, but also an actual world record.

SALES RECORD FOR PRODUCTS & REGIONS

In terms of sales, we broke several records in 2012. Those of you who monitor the company are certainly already aware of this. That which has perhaps not been as clear is that we also set sales records for our larger products like IAR Embedded Workbench for ARM and Renesas. 2012 also saw a large number of sales records in several countries, primarily in our largest region, the USA, where we recorded nine months in a row with sales of over USD 1 million. In total, we had 39 consecutive months with higher sales than in the corresponding months of the previous year. A record well worth celebrating! We also signed more major customer agreements than in earlier years and closed more contracts than ever before. This is something we want to more clearly highlight and we have therefore expanded our annual report with several customer references.

2012 – THE FIRST YEAR WITH OUR OWN DEBUG PROBES

Something that is more difficult to measure, but which we are enormously proud of, is the launch of our new product portfolio of debug probes. This was possible thanks to the acquisition of Signum in 2011.

Debug probes are important to us, mainly because they promote increased sales of our software. In addition, they complement our offering in a decisive way for customers seeking to standardize on our solutions. Furthermore, we can offer more functionality in our software if we have our own probes.

PRESENCE, LEADING PRODUCTS AND LONG-TERM APPROACH

From a purely financial perspective, we can look back on our strongest year ever from both a sales and profit standpoint. Not only that, but we can sum up the year as the very best in the company's 30-year history. For the third consecutive year we achieved organic growth in excess of our long-term financial target and a significant year-on-year improvement in earnings.

Our promise for the new year is about continuing on the path that has given us so many opportunities for pride and success. A path that enables us to have leading products, be where our customers want us to be and continue delivering quality, security and a long-term approach. For us, 2013 will also be focused on exceeding expectations, strengthening our offering and more clearly defining our value to our shareholders, customers and partners.

Uppsala, March 7, 2013

Stefan Skarin
CEO, IAR Systems

Business mission, goals and strategies

We aim to develop lasting relationships with customers and partners, guided by our mission and our ambition.

BUSINESS MISSION

IAR Systems brings value to organizations that develop embedded products. We provide the tools and services that make embedded software development fast, efficient and reliable. This enables our customers across the globe to deliver better products faster to their markets.

LONG-TERM FINANCIAL GOALS

At the beginning of 2011 the Board established long-term financial goals for IAR Systems:

- For net sales to grow by 10–15% annually in local currency.
- For operating margin to exceed 20% over a business cycle.

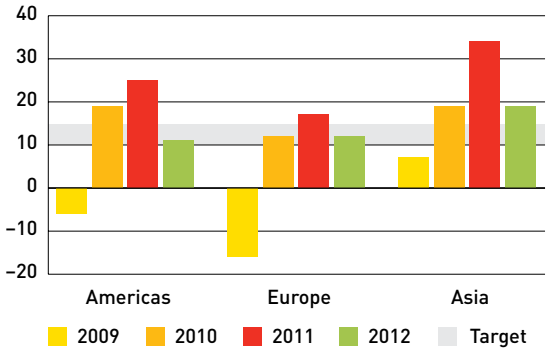
> *IAR Systems' independent position gives the company a unique offering*

STRATEGIC CORNERSTONES

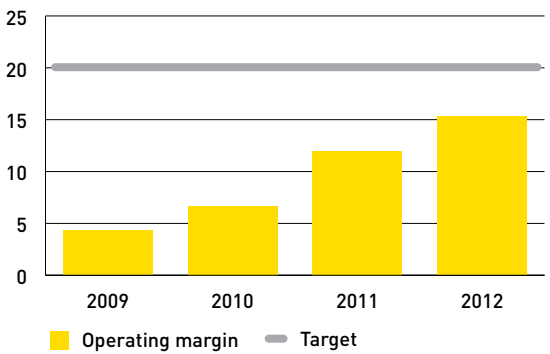
To meet these goals, IAR Systems applies a strategy with five cornerstones:

- To offer customer value through user-friendliness, reliability and efficiency.
- To develop technically leading software for embedded systems.
- To deepen the relationship with existing customers by successively widening the offering of products and services.
- To expand the customer base through increased local presence worldwide.
- To actively develop the ecosystem of partners and thereby defend the position as an independent provider of software for embedded systems.

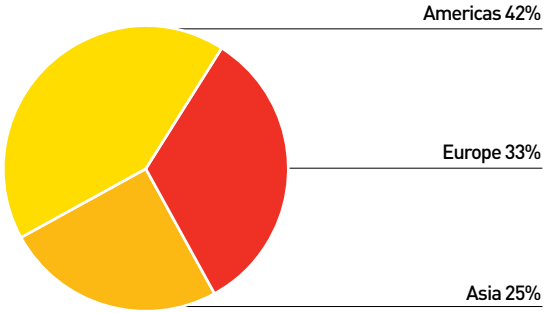
Sales growth
Local currency



Operating margin
%



Share of sales by market



Ambition 2012	Outcome 2012	Ambition 2013
Widen the offering of add-on products and services for the existing customer base.	Launch of I-jet and JTAGjet-Trace.	Establish an offering of training services for existing and new customers.
Develop the offering for the more advanced processors.	Support ARM's application processors and offering of Trace solutions.	Extended functionality for the most advanced microprocessors from ARM and Renesas.
Open an office in South Korea.	Office opened in South Korea in February 2012.	Establish a new sales organization for the indirect sales channel in Europe.

Sales strategy

IAR Systems' sales strategy is founded on license-based sales in all geographical regions and to all industries. The company has global reach through its corporate headquarters in Uppsala, Sweden, and sales offices in Sweden, the USA, Japan, Brazil, France, China, Germany, the UK and South Korea. In addition, the company is represented in another 30 countries via distributors.

Product strategy

IAR Systems' product strategy is to offer proprietary software for developers of embedded systems. IAR Systems operates in a fast-changing market. The company's strategy is to offer the customers technological independence in an environment that is evolving rapidly. For that reason, the company continuously invests in innovation and development at its headquarters in Uppsala and at Signum in Los Angeles. IAR Systems owns the rights to all of its products and services.

Product development is focused mainly on enhancement of product features and functionality and adaptation to increasingly demanding processors and embedded systems.

IAR Systems' software is independent in relation to vendors of processors for embedded systems, real-time operating systems (RTOS) and hardware solutions.

"IAR Systems has always developed its products without any dependency on specific vendors. This means that our products are always targeted to meet needs and opportunities that we can see for ourselves, and that we currently have one of the industry's widest and most diverse ecosystems of suppliers.

IAR Systems' offering

IAR Systems is the world's leading independent provider of software for programming of processors in embedded systems. These control electronic products in many different areas, such as industrial automation, medical devices, consumer electronics, the automotive industry and telecommunication.

Ecosystem of partners

As one of a small number of independent providers of development tools for embedded systems, IAR Systems has secured a position at the hub of an ecosystem of cooperating partners and suppliers of processors, real-time operating systems and middleware. This ecosystem has been formed over a period of nearly 30 years through knowledge sharing, technical integration and joint product development. Thanks to its independent status, IAR Systems can collaborate with all of the world's major processor vendors, which explains why the company's software supports more devices in more processor architectures than any other tools on the market. Today the company's software can be used to program over 7,800 different processors.

COMPLETE TOOL CHAIN

The core of the product portfolio is the tool suite IAR Embedded Workbench, which contains a text editor, a compiler, an assembler, a linker and a debugger gathered in a smart and user-friendly interface. It also incorporates code examples, programming functions that the developer can use, example projects and manuals.

DEBUG PROBES

IAR Systems also offers a range of in-circuit debug probes. The probes are hardware components that are used to connect a processor to a PC host for real-time tracing, analysis and debugging of code. IAR Systems' probes are fully integrated with IAR Embedded Workbench, and thanks to parallel development of both the software and hardware, the company has a unique grasp of the entire development workflow. As a result, the customer can easily detect and identify problems and has access to seamless support across the entire tool chain.

The core of the probe portfolio consists of I-jet and JTAGjet-Trace. In addition, there are a number of debuggers for specialized needs.

COMPLIMENTARY SOFTWARE

IAR Systems also offers IAR visualSTATE, a set of development tools for designing applications based on state machines. It creates a more graphical and flow-based model for development and can be integrated with IAR Embedded Workbench.

To help developers quickly get started in designing and testing their applications, IAR Systems offers a range of different starter kits that contain evaluation editions of the software, as well as hardware in the form of a development board.

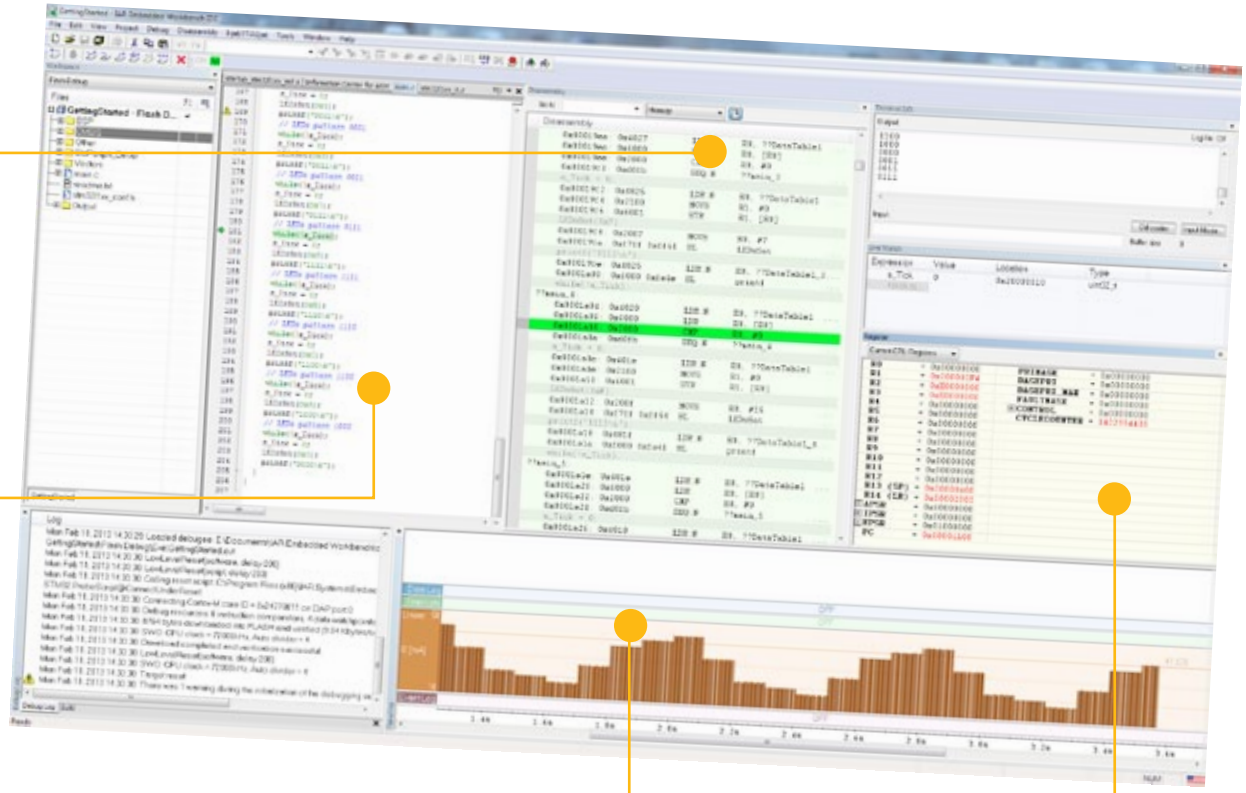
To further support its customers, IAR Systems also sells add-on products from partner companies, such as real time operating systems (RTOS).

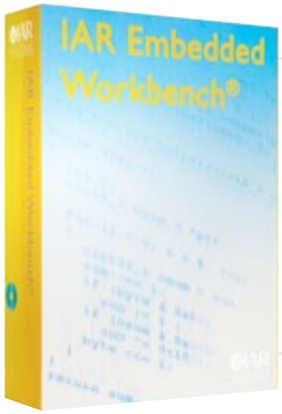
Compiler

Here, C/C++ code is transformed into instructions that the processor can interpret, i.e. ones and zeros. If this is done as intelligently as possible it is possible to keep the code small and fast, which can save both memory and energy. IAR Systems' compilers are acknowledged for creating code that is highly compact and efficient.

Editor

Here, the developer writes source code in the programming languages C or C++. In 2012 IAR Systems launched a new editor with new time-saving functions that simplify the development process.





IAR EMBEDDED WORKBENCH

IAR Embedded Workbench is one of the world's most widely used development tools for programming of embedded systems. It gives the developer a complete toolchain that incorporates a text editor, a compiler, an assembler and a debugger in a single smart and user-friendly interface.

Power debugging

Here, the developer can see a graphic display of the application's power consumption connected directly to the code. This innovative technology developed by IAR Systems is called power debugging, and it facilitates efforts to optimize an application's power consumption.

Debugging

Here, the developer can test, debug and analyze an application. This is a critical step in development, since this is where the developer ensures that the application behaves as intended and performs its tasks in a robust, correct and efficient manner.

22,000

support agreements worldwide

TECHNICAL SUPPORT

IAR Systems offers extensive, professional technical support for all of its products. The company has a number of offices around the world and can offer rapid support across multiple time zones and languages. And thanks to close contact with the development department, there is an in-depth technical insight. The software products normally include a 12-month free-of-charge Support and Update Agreement (SUA) that can be renewed by the customer at an annual cost equal to 20% of the product's price. Today more than 22,000 customers have active support agreements with IAR Systems, and there are also a number of customized agreements with major customers. We have interviewed IAR Systems' Technical Support Manager in the USA, Steve Egerter, about IAR Systems' support offering.

Steve Egerter, Technical Support Manager, USA

Steve, tell us about yourself and your role at IAR Systems!

I have worked with technical support at IAR Systems in the USA for more than 12 years. I am currently responsible for the American support team, where I organize the workflow for our support engineers so that we can quickly deal with all of our customers' problems and questions.

What challenges do you see in your role?

The challenges I run into are about trying to satisfy everyone. It's a challenge to ensure that the customers are given the best service we can give them, without burdening one member of our support team more than the others.

What is the vision that guides you in your work?

I am passionate about providing good service! I try to put myself in the customer's shoes and ask myself how I would want to be treated, and then try to respond in an appropriate way. My goal is for every customer to feel that we are alert to their needs and really care, and that we take all problems and questions seriously.

Why do you think support is important?

Support is important for several reasons. First of all, there is a vast amount of information out there – user manuals, technical information and code examples. So it can take time for the users to find what they're looking for. The support team can save our customers a lot of effort by pointing out the right technical comment or part of a manual. Secondly, it's important for our customers to have a person to talk to if they run into difficulties and need to analyze where the problem lies.

How would you describe a typical support customer for IAR Systems?

It's hard to describe a typical customer since we see such a wide range of different types. Our customers include both students and experienced developers, and everything in between. Some customers are working on tight schedules and need a fast answer, while others have simple questions that are asked out of pure curiosity.

How do you think the customers have changed during your time at IAR Systems?

During my time at IAR Systems, the focus has increasingly shifted to the 32-bit architectures. I would say that this means that our customers are more specialized in their skill sets. We have added quite a few functions to our products during this time, so our customers naturally have more questions about how to use these.

How would you sum up 2012?

2012 was a good year! We made many excellent additions to our support and introduced a few important enhancements in our products.

What trends do you think will affect customers and the support services you offer?

As IAR Systems continues to renew itself by delivering new functions to existing products and new products, I think that our customers will have an even greater need for professional qualitative support and that our support team will have the opportunity to be even more useful in guiding our customers through their development process.

What do you expect from 2013?

In 2013 I think we will see more growth in the industry and technology than we have seen in earlier years. What this means for support is that we have to strive to give the best support possible through hard work and by continuing to learning new technology.

Market

IAR Systems' customers are companies that develop digital electronic products in areas such as automation and control, medical devices, consumer electronics and the automotive industry. The ongoing spread of digital technology is gradually increasing the number of companies, developers and development projects for embedded systems, which is also driving the need for development tools.

RAPID GROWTH IN THE NUMBER OF APPLICATION AREAS

The number of digital electronic products and new application areas where processors are used is rising steadily. In 2012 alone, 27 billion processors were produced for use in different digital electronic products.

A few examples of fast-growing areas are:

- The automotive industry, for automation and control, fuel control, anti-lock brakes, lighting and power windows.
- Smart cards that are used for digital identification, in credit and debit cards and in the healthcare sector.
- For healthcare applications like blood pressure meters, pulse meters, blood glucose meters, etc.
- Smartphones and mobile devices with a touch screen.

One distinct trend in the market for embedded systems is a mounting degree of complexity. As the processors become increasingly powerful, this is creating new conditions for more advanced systems. The use of a processor is often an inexpensive way to achieve functions such as automation and control. Another effect of this rising use of processors is that that more and more safety features in the industrial, automotive and medical device areas are now controlled by a processor, such as anti-lock (ABS) brakes. The trend in which embedded systems are becoming safety-critical is heightening the need for control and certification of these systems.

Another trend is a growing need for energy-efficient solutions, since processors are used in an expanding range of applications and many of these are battery-powered. In addition, a large share of these systems also require connection to the Internet for communication and control, a phenomenon that has become known as "The Internet of Things".

The rapid pace of development for digital electronics is also placing higher demands on fast time to market, and many vendors are seeking to reuse code from earlier projects as far as possible as a means for shortening lead times.

GRADUAL CONSOLIDATION OF THE PROCESSOR MARKET

Embedded systems can require processors of varying complexity. In simple terms, these differences can be divided into 8-, 16- and 32-bit architectures, of which 32-bit are the most advanced. IAR Systems' tool suite IAR Embedded Workbench supports all of these architectures. Today, the 32-bit segment accounts for the largest share of sales.

neoventa

IAR Systems offers a stable and fast development environment, in addition to good support. Other decisive factors behind our choice of IAR Embedded Workbench are that it gives us highly optimized code, support for third-party tools, effective debugging and tracing and access to the new power debugging technology.

CHRISTOFFER GUSTAFSSON,
SOFTWARE ENGINEER AT NEOVENTA

Neoventa is a Swedish medical device company that was founded in 1997. They develop, manufactures and markets Stan, an innovative fetal monitoring solution for use during labor and delivery to improve obstetric care.

pacemaker, heat pump, elevator, pregnancy test, thermos, pump, fan, display, toaster, refrigerator, calculator, LED lamp, copier, battery charger, safety razor, GPS, heart-lung machi

This is due to the increasing level of complexity in digital electronic products.

One company that is successfully expanding in the processor market is UK-based ARM Holdings, which develops standards for processors. The company has established a strong position among global processor vendors and is contributing to a trend in which manufacturers are increasingly abandoning their own designs to instead use ARM's standards for their new processors. According to ARM's business model, processor makers pay a license fee to ARM for use of their design. One major advantage of ARM processors is their low power consumption, which makes them particularly suitable for laptop and handheld devices, but also that they enable development of more advanced embedded systems at a reasonable cost. Today ARM's design is found in around 95% of all cell phones and forecasts predict the greatest future growth in embedded systems in pace with more advanced applications.

In pace with the gradual consolidation of the processor industry, more and more players want to be able to offer tools for the growing ARM market.

INCREASED NEED FOR DEVELOPMENT TOOLS

Despite growing use of more advanced processors, companies often use a combination of 8-, 16- and 32-bit architectures. Price, performance and knowledge are common reasons for combining processors. In working to shorten the development time, many companies are dependent on the ability to reuse code from one project to another, which is facilitated when you use a single toolchain.

> *"The developer must be able to reuse both code and knowledge from one project to the next*

The most time-consuming aspects of a development project are devoted to writing, testing and debugging the code, which are also the areas of use covered by IAR Embedded Workbench. A rising degree of complexity and shorter lead times have intensified the need for user-friendly development tools that are fully integrated and can be seamlessly connected to other development tools. Two trends arising from this higher complexity are a need for more tools for testing, debugging and analysis and the use of real-time operating systems (RTOS) and middleware.

The ambition to find energy-efficient solutions has generated strong demand for low-energy processors and tools that support development of these solutions. There are a number of different tool for measuring energy consumption on the market, but IAR Systems' innovative solution that links energy consumption to the developed code has gained widespread attention in the market and more and more customers are starting to use this technology.

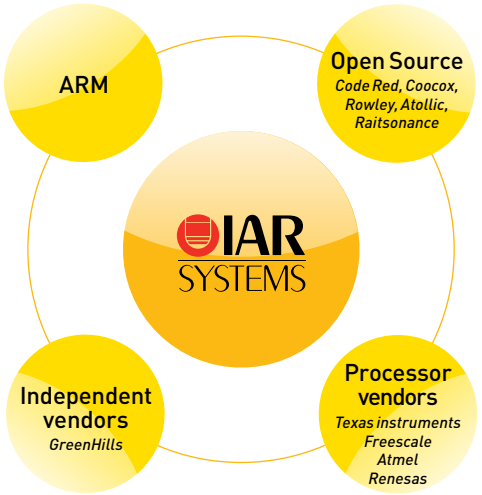
Since embedded systems are being increasingly used in safety-critical products, for many customers it is important that the development tools comply with applicable industry standards such as. C, C++, and MISRA-C. It is also more important that the tools are well tested and documented, which facilitates certification of the customer's digital electronic products.

CUSTOMER REQUIREMENTS

IAR Systems' customers are active across a wide range of areas, but many of their challenges and needs are recurring.

These include demands on the rapid launch of new products, resource-efficient development and compact and energy-efficient code, particularly when it comes to battery-powered products.

A competitive market



trol, carburetor, coffee maker, clock, wireless functions, signal lighting, aircraft equipment, meter, sensor, glucose meter, electric motor controller, game console, card reader, copier, a

In addition, many have to be able to handle highly complex applications and changes to a different processor and architecture. Furthermore, this work is often dependent on global group collaboration.

To meet these requirements it is vital that customers can quickly get started with new projects, that license management can be handled efficiently even for global companies, and that it is possible to change processor without having to learn a new development environment. The developer must also be able to reuse both code and knowledge from one project to the next.

STANDARDIZATION

In order to satisfy customer needs, tool suppliers such as IAR Systems must provide user-friendly, dependable and versatile tools that support rapid and simple programming. The tools must also allow the creation of fast, efficient and reliable code that can be thoroughly and effectively debugged. Added to this, suppliers must offer broad support for different architectures and processors, which enables reuse of code and offers freedom in the choice of processor vendor. In order to avoid delays for the customer, it is also important to offer high quality global service and support.

Tools that meet these criteria provide a platform for standardized development. Many of IAR Systems' customers have chosen to standardize their development on the company's tools, since IAR Systems offers all of this. These customers include the German white goods giant Miele, the smart metering supplier Landis+Gyr, US-based Gainspan which is a leader in wireless networks and the industrial automation company Pepperl+Fuchs.

Tools for programming of code are offered by four different type of vendors

1. Processor vendors that provide software for their own processors, such as Texas Instruments, Freescale, Atmel and Renesas. These offer software as part of the sale of their own processors.
2. Software suppliers that build their products on Open Source. These suppliers do not develop their own compiler but instead add functionality and service based on open source solutions.
3. ARM through the development tools ARM RealView and Keil.
4. A few independent software suppliers, such as US-based GreenHills.

	IAR SYSTEMS	1 Processor vendors	2 Open Source	3 ARM	4 GreenHills
Independent supplier	●		◐		●
Broad support for all key architectures	●		◐		●
Support for all major processor vendors	●		●		●
Good support and customer service	●	◐		●	◐
User-friendliness	●	◐	◐	●	◐
Documentation	●	◐		●	●
In-house software development	●	◐		●	●
Effective and small code size	●	◐	◐	●	●
Broad RTOS and middleware support	●	◐		●	
Broad hardware support	●	◐	●	●	

anti-lock brakes, x-ray machine, cell phone, electric shaver, lock, smart card, keyboard, radio, traffic signal, router, water heater, parking meter, chromatograph, industrial robot, alarm

Technical Perspectives

What makes IAR Embedded Workbench a cutting-edge technology?

Since 1983 IAR Systems has devoted several hundred man years to improving and enhancing our development tools. 30 years of combined knowledge and long terms of employment mean that many of the world's foremost developers of programming tools for embedded systems work for IAR Systems. In 2012 alone we spent 70,000 hours on further development and released a total of 22 new product versions.

USER-FRIENDLY TOOLS

IAR Embedded Workbench is a complete toolchain for programming, debugging and testing. The seamless integration between editor, project manager, compiler, assembler, linker and debugger results in effective working methods with simple commands. We strive to continuously optimize the user-friendliness of our tools and in 2012 we released several major enhancements such as a new editor, a new source browser and functionality for stack analysis.

Alongside the tools, IAR Systems offers a wide range of finished configuration files, flash loaders and several thousand example projects that make it easy for developers to get started.

WORLD CLASS PERFORMANCE

Our compilers are widely acknowledged for generating code that is highly compact and executes rapidly. Having high performance code is important to our customers, not least in view of its effect on power consumption. We therefore devote considerable effort to making both general and processor-specific optimizations that enable us to maintain our leading position in this area. In 2012 we focused a little extra on optimizations, which resulted in several world records according to the CoreMark benchmark that is used to evaluate the performance of different processor cores. Processor vendors compete with each other to achieve high CoreMark scores, and they use our tools to maximize the results.

In working to also tweak performance on the debugger side, we noticed that the limitations were not found in our software but in the available hardware. In 2012 we therefore launched our own debug probes I-jet and JTAGjet-Trace: high performance probes for debugging and tracing that are fully integrated with IAR Embedded Workbench and are easy for developers to get started using.

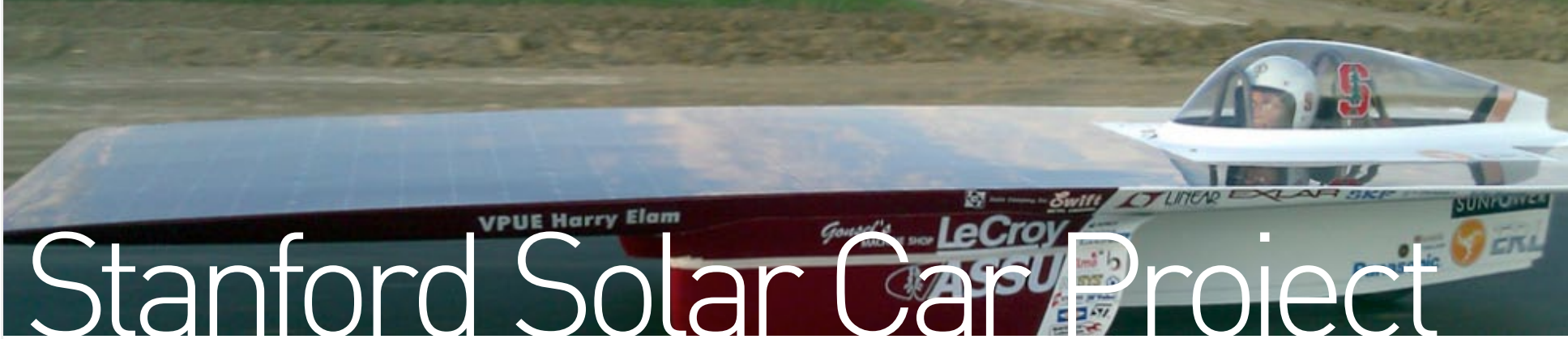
RELIABLE PRODUCTS

Ever since we created our first compiler 30 years ago, our software has been subject to rigorous testing. To ensure the quality of all our compilers, we run them through more than a half million lines of C and C++ test code, several times, in our proprietary testing framework. In addition, they are validated with the help of a number of in-depth tests from independent conformance testing companies such as Plum Hall, Perennial and Dinkumware.

To further safeguard the quality of the generated code we are careful to comply with the industry's language standards, such as ISO/IEC 9899:1990 (C94/C90/C89/ANSI C), ISO/IEC 9899:1999 (C99/ Standard C) and ISO/IEC 1488:2003 (Standard C++).

> *Our compilers are widely acknowledged for generating code that is highly compact and executes rapidly. Having high performance code is important to our customers, not least in view of its effect on power consumption. Processor vendors compete with each other, and they use our tools to maximize the results.*

We have also been active in designing ARM's CMSIS (Cortex Microcontroller Software Interface Standard). In addition, our compilers contain an integrated tool for control of MISRA C, a standard that is used in the automotive industry to facilitate code safety, portability and reliability in the context of embedded systems.



Stanford Solar Car Project

Stanford Solar Car Project powered by IAR Embedded Workbench

The Stanford Solar Car Project (SSCP) at Stanford University is a student-run, donation-funded project that is fueled by its members' passion for environmentally sustainable technology. In addition, the project is a real challenge. The students design and build a solar powered car which is then entered in a 3,000-km race across Australia: the World Solar Challenge. The race is held every second year, and the competing cars must get all of their energy from the sun or the kinetic energy of the vehicle. One of the most complex issues in the challenge is to obtain optimum efficiency from the electronics that regulate energy consumption. Another important aspect is to gather real-time data from the systems that control the wheels, battery and suspension in order to immediately detect any problems that can arise during the race.

BROAD SUPPORT FOR PROCESSORS

With support for over 20 different architectures and more than 7,800 processors, IAR Embedded Workbench is the tool with the market's broadest support today. IAR Embedded Workbench is based on a joint platform that enables all products to easily take advantage of the latest functionality. In addition, each product has an architecture-specific component in which the architecture-specific instruction set and instruction-specific optimizations and keywords are implemented. Through close collaboration with our processor partners, we develop header files, device files, debugging support and example projects for each individual processor.

IAR Systems is one of the few suppliers that support all ARM architectures and today supports a total of 2,500 ARM-based processors, which is more than anyone else.

WIDE RANGE OF ADD-ON TOOLS

With IAR Embedded Workbench, the developer also has access to a large ecosystem of third-party tools that can be easily integrated with the software. Examples of such tools include real-time operating systems, protocol stacks, control tools and debug probes. IAR Systems offers a Service Delivery Package (SDK) that specifies the interface and makes it easier for partners to integrate their tools with IAR Embedded Workbench. IAR Systems also devotes a lot of time to preparing a large number of pre-configured files, for example for headers, linkers and processors, to simplify integration for our customers.

In 2012 IAR Systems released a proprietary integration with Eclipse. Eclipse is an open source integrated development environment (IDE) that is used primarily for its extensible plug-in system. IAR Systems has chosen to offer this integration as an optional alternative to its own IDE.

INNOVATION

IAR Systems has a constant ambition to lie at the leading edge of technology in order to provide the fastest and most efficient and reliable development environment possible for programming of embedded systems. Our development department sets aside time specifically for finding new inspiration and ideas, and the company is often first on the market to offer new functionality for the wide range of developers. One of the most notable examples is power debugging. This is a technology developed by IAR Systems that allows detailed analysis of an application's energy consumption directly linked to the source code. In this way, developers can optimize their code so that the system uses as little energy as possible. In 2012 the introduction of features such as new functionality for stack usage analysis, project connections and an in-line assembler won wide appreciation among developers.

IAR Systems in Asia

Asia accounts for 25% of IAR Systems' sales and has steadily gained importance in recent years, although growth in 2012 was inhibited somewhat by uncertainty in the market. A large share of IAR Systems' sales in Asia take place in Japan. The key factors behind our increasingly strong position here are a combination of the growing ARM market and our initiative to develop and maintain IAR Embedded Workbench for ARM in Japanese.

We are also seeing stronger growth in several of our distribution markets, such as Taiwan, Singapore and Thailand. For many years IAR Systems has also been represented through a distributor in South Korea, but in February 2012 we opened our own office in Seoul. The new office has several functions, including sales, technical support, sales administration and logistics, and is thus an important expansion of the company's global service offering. The establishment in South Korea has been highly successful so far and the company doubled its sales there during 2012 compared to the previous year. For several years IAR Systems has developed a close collaboration with the leading Asian processor vendors Renesas, Toshiba, Fujitsu and Samsung.

Asia is showing a strong interest in the more advanced processors and a need to develop low-energy products. This has created a larger market for ARM-based processors and a rising number of Asian vendors launched new ARM-based processors during 2012.

Icom

Icom is a company located in Osaka, Japan, and is a maker of wireless communication products. Since its establishment in 1954, Icom has a long history as a trusted manufacturer of radio, navigation and communications receivers.

"IAR Systems' products are highly appreciated for their user-friendliness, their Japanese language support and the fact that it is possible to manage and debug several projects simultaneously within the same workspace. We also have a high level of confidence in IAR Systems' technical support, which always gives us fast answers.

Customers in Asia: Mitsubishi Electric Corp., Panasonic Communications, Toshiba, Hitachi, OKI, Nintendo, Casio, Epson, Yamaha, Terumo, ICOM, Denso, Brother, Omron, JVC

Asia is gaining importance!

Asia has gained importance for IAR Systems through faster growth than for the company in general at the same time that the establishment in South Korea has created greater interest among the shareholders. We have interviewed IAR Systems' Sales Manager in Asia, Kiyofumi Uemura, about the foremost issues related to the region's development and future.

IAR Systems has delivered development tools for programming of processors in embedded systems to Japan for many years. Can you give us a brief introduction to the region?

IAR Systems started delivering products to the Japanese market for embedded systems in 1986, at that time through a distributor. In 2004 we opened our own sales and support office. The market for embedded systems in Japan is known for placing high demands on quality and service, and IAR Systems has been well received here thanks to its position as a loyal and longstanding partner.

What was on the agenda for the region in 2012?

In February an office was opened in Seoul, South Korea. This was the third office in Asia and a very successful establishment. Our return from South Korea increased by 100 percent during 2012 compared to 2011.

The newly opened sales office was placed in South Korea. What is the reason for this, and will you open additional offices in the near future?

South Korea is one of Asia's most important markets for embedded systems and many global companies are established there. Since the market for embedded systems in the region is growing, we are always open to the possibility of expansion. This can take the form of a new distributor or opening a new local office.

What challenges related to design and development of embedded systems do developers face today? And how is IAR Systems responding to these challenges?

The world and the market are evolving rapidly and this is creating powerful demand for development of products and services to meet different needs. IAR Systems is responding to this by saving time, money and labor for the developers through an understanding of the acknowledged standards.

Energy consumption is a key design element in battery-powered embedded processors. How do IAR Systems' development tools help developers to handle and improve battery life?

With IAR Systems' power debugging methodology, software developers are able to monitor now much energy is consumed. Thanks to a direct connection with the source code, programmers can analyze how their written program code affects a product's power consumption. Power debugging is integrated in IAR Embedded Workbench, which allows programmers to develop energy-efficient products already from the start.

In 2013 IAR Systems is celebrating its 30th anniversary. As an experienced player in the market for embedded systems, what do you see as the key trends in this sector?

From a purely technical perspective the global trends are mainly related to technological advances and increased complexity, and that it should be easy to start new development projects.

The products themselves have also changed. What are the most important trends in that respect?

It's the industry that sets the standards for both hardware components and freestanding "middleware". Working with acknowledged standards saves time, money and labor. This also applies to the tools that are used to develop applications in embedded systems.

Kiyofumi Uemura is IAR Systems' Sales Manager in Asia since 2006.

How about customer requirements? What is important to them today?

The important thing is to lower the costs for training and maintenance, and to simplify the procurement process. Using the same toolchain for all processor architectures is the solution to the customers' problems and demands.

How do you think these trends are affecting your customers?

Customers who standardize their toolchain not only benefit from lower costs, they also gain greater opportunities in relation to the next generation of technologies.

What future opportunities do you see in the market for embedded systems? And which of these are specific to Asia?

Because the number of embedded products and their complexity will increase more than ever before, the global market for embedded systems is headed for continued powerful growth. Asia will account for the highest growth of all regions, since region is made up of many expanding markets like China and the emerging markets of Southeast Asia.

Any final comments you would like to share?

IAR Systems has been well known in both the European and US markets for many years. Since IAR Systems is a Swedish company, this has not been the case in Asia for purely geographical reasons. This means that IAR Systems has excellent scope to expand its business in Asia in the years ahead!

C Kenwood, Ricoh, Azbil, SEGA, Murata Manufacturing, Alps Electric, Daikin, Sony, Yokogawa, Fujixerox, Daikin Industries, Canon, Olympus, Nikon, Minebea, The Nippon Signal,

IAR Systems in the Americas

The USA is IAR Systems' largest market and accounts for 42% of the company's sales. The recession in the USA impacted the market for embedded systems during 2012, but there are several bright spots. Although the market has been hesitant, more and more digital products are being developed in the USA and in 2012 IAR Systems' recorded its best sales ever in the country.

We are also seeing a growing interest in IAR Systems' products in Latin America, primarily in Brazil and Mexico. Greater complexity, Internet-connected products and a need for energy-efficient solutions are global trends that are also clearly visible in the American market. Due to the rising degree of complexity, development projects in the USA have become longer and the projects often demand more developers. This, in turn, has increased the customers' focus on short lead times and better cost control for development of embedded systems.

Sales of 8- and 16-bit architectures are stable in the USA, with the bulk of growth taking place mainly in the market for 32-bit processors and ARM processors in particular. Many processor manufacturers are finding it increasingly difficult to differentiate their offerings since a large share are ARM-based.

In the market for development tools, many customers in the USA are seeking to simplify their development by using a chain of development tools. The purpose of using a chain is often to minimize the time needed to learn new tools, simplify the use of different processors and reduce the cost for development tools. Greater cost awareness is also leading to a gradual shift towards centralized purchasing and global framework agreements.

Grid2Home

Grid2Home is a communications software company at the forefront of Smart Energy Profile 2.0 connectivity technologies.

"We chose to standardize on IAR Embedded Workbench because we wanted to support the broadest offering of processors with a single toolchain," says Bourton. "With IAR Systems we have been able to do just that. The result is that we can provide reliable code to our customers quickly. Since neither we nor our customers have to migrate the code, the development time has decreased significantly."

Customers in the Americas: Black & Decker, Daimler Chrysler AG, Delphi Automotive Systems, Ember, Hewlett-Packard, Honeywell Inc., Lear Corporation, Lockheed Martin, Motorola

IAR Systems in Europe

In spite of a market downturn, IAR Systems continued to grow in Europe during 2012 and the region now accounts for 33% of the company's sales. Key explanations include the growing market for ARM processors and a rising number of development projects in the automotive industry, industrial automation, energy-efficient systems and process automation.

Our direct markets in Germany, the UK, France and Sweden account for a large share of sales in Europe, but we are also seeing a growing interest in IAR Systems' products in Eastern Europe and Russia where we currently use distributors.

The European automotive industry is slowly becoming more active with an increased share of new development based on software. The need for fuel control and new types of safety-critical systems has contributed strongly to more widespread use of processors in auto manufacturing. Industrial automation is another area under development where processors are being increasingly used as a safe and cost-effective replacement for different types of mechanical control.

Distinct trends in Europe include greater cost-awareness, an interest in safety-critical systems, higher complexity and a need for faster time to market. In the past year the need to cut costs and minimize risks has resulted in longer decision-making processes, but also a rising interest in reusing code from earlier projects and standardizing on a development environment. High product quality, broad support for processors and good technical support are the main factors that have attracted more and more customers to IAR Systems in Europe.

IAR Systems' headquarters in Uppsala

ABB

ABB is a global leader in power and automation technologies and is contributing a more sustainable society. ABB's solutions make it possible to increase access to renewable energy and to use the energy that is produced more effectively, for example through energy-efficient products and control of processes for greater resource-efficiency and productivity.

"It was above all the compiler that motivated us to choose IAR Systems. It generates high quality, fast and compact code. IAR Systems also has an excellent support team that is easy to come in contact with."

Mattias Rehnman, Software Architect at ABB Control Products

Customers in Europe: ABB, AGFA Gevaert Health Care, Autoliv Electronics, Bosch, Danfoss Randall, Draeger, Endress+Hauser, Ericsson Mobile Platforms, GE Sensing, Invensys A

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.

SKILLED EMPLOYEES

More than 85% of the employees hold a university degree. The software industry is evolving rapidly and the company offers a stimulating and educational environment with extensive on-the-job training and a structured transfer of knowledge between individuals and departments.

IAR Systems has a low employee turnover rate and, by industry standards, a good gender and age distribution.

Together, the developers at IAR Systems have more than 700 man years of experience of the current version of IAR Embedded Workbench.

PRODUCT DEVELOPMENT ORGANIZATION

IAR Systems' product development takes place mainly at the headquarters in Uppsala and the company's office in Camarillo, Los Angeles. A total of more than 60 people are active in technological development. These are organized in a technological development department and a product development department that work actively to meet market requirements.

The developers at IAR Systems have long and solid experience of working with IAR Embedded Workbench. On the average, each individual developer has worked for the company for more than ten years. Together, the developers have more than 700 man years of experience with the current version of IAR Embedded Workbench.

SALES ORGANIZATION

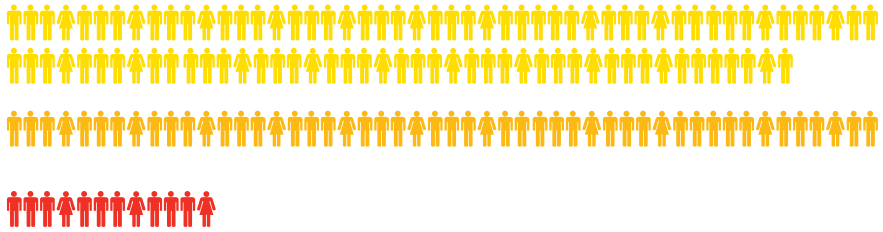
IAR Systems' sales organization is led from the corporate headquarters in Uppsala and has local staff at offices in the USA (a total of three offices), Japan, South Korea, China, Germany, the UK, France and Brazil. IAR Systems regularly holds training courses on the product offering for the company's sales representatives and distributors.

SUPPORT AND SERVICE ORGANIZATION

IAR Systems offers customer support in ten languages and across several different time zones. Through effective tools, well structured routines and knowledgeable staff, this department provides highly appreciated support to a global customer base.

PERFORMANCE DEVELOPMENT

IAR Systems' key competencies are found in technological development and relationships with the customers. The strengths in these areas are a valuable competitive advantage and the company works actively to retain and develop its expertise. Training and the exchange of experiences



Term of employment (yrs)	Employees (no.)	Experience (yrs)	Average experience (yrs)
0-10	95	329	3.5
11-20	50	702	14.0
21-	12	298	25.0
Total	157	1 329	8.5

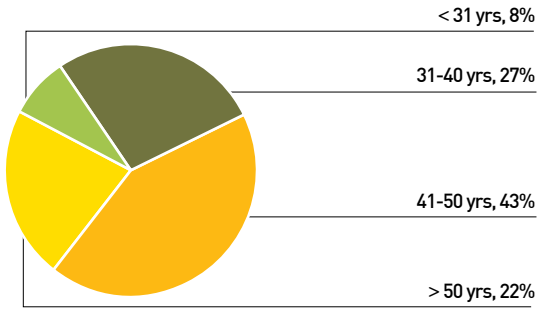
contribute to greater loyalty and the company's culture encourages sharing and development of knowledge between the employees.

INCENTIVE SCHEME

IAR Systems aims to offer competitive salaries. In May 2011 a share-based incentive scheme was introduced to improve the conditions to recruit and retain competent personnel and raise the level of motivation among the employees.

Employees	2012	2011	2010
Gender distribution, %			
Men	72	73	77
Women	28	27	23
Geographical spread, %			
Sweden	58	62	73
Rest of Europe	8	5	4
USA	21	21	14
Asia	13	12	9
Educational level, %			
University/technical institute	85	87	90
Higher post-secondary education	2	3	2
Secondary education	13	10	8
Compulsory schooling	-	-	-

Age distribution



The IAR share

IAR Systems Group's class B share is quoted on the Small Cap list of NASDAQ OMX, under ticker symbol IAR. The share price at December 31, 2012, was SEK 38.10 (24.50) and market capitalization on the same date was SEK 433m (270).

SHARE DATA

IAR Systems Group's class B share is quoted on the Small Cap list of the NASDAQ OMX Nordic Exchange. A round lot consists of 1 (one) share. In 2012 the share price (last price paid, reinvested value), varied from a low of SEK 25.30 (17.58) to a high of SEK 44.90 (24.50). The share price at December 31, 2012, was SEK 38.10 (24.50). IAR Systems Group's market capitalization on the same date was SEK 433m (270). In calculation of market capitalization and other share data, IAR Systems Group's holdings of treasury shares have not been included.

The number of shareholders in IAR Systems Group at December 31, 2012, was 8,547 (9,293), of whom 438 (481) held more than 1,000 shares each. Foreign shareholders held approximately 22% (18) of the share capital and 27% (24) of the votes.

IAR Systems Group's share capital at December 31, 2012, amounted to SEK 116 935 614, divided between 11,693,561 shares of which 100,000 are of class A and 11,593,561 are of class B. Of these, 334,600 class B shares are held in treasury by IAR Systems Group following buybacks in 2007 and 2008. This means that the number of class B shares on the market at December 31, 2012, was 11,258,961.

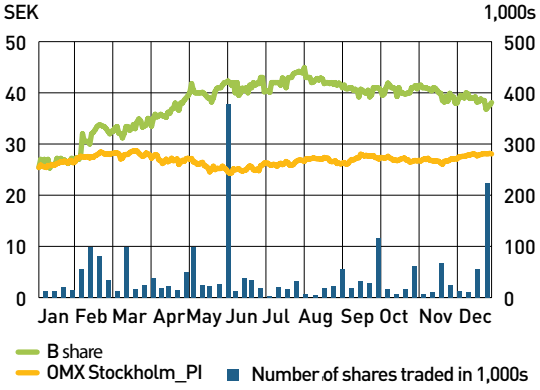
TREASURY SHARES

No share buybacks were carried out during the year. However, 300,000 class B shares were sold, providing 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 of shares were used to finance contingent consideration in connection with the acquisition of Signum Systems Corp that was paid in October 2012. After the sale, IAR Systems Group holds a total of 334,600 B class B shares with a combined historical cost of SEK 14.2m. These shares, which are now held in treasury by IAR Systems Group, are not included in the share data at December 31, 2012.

DIVIDEND

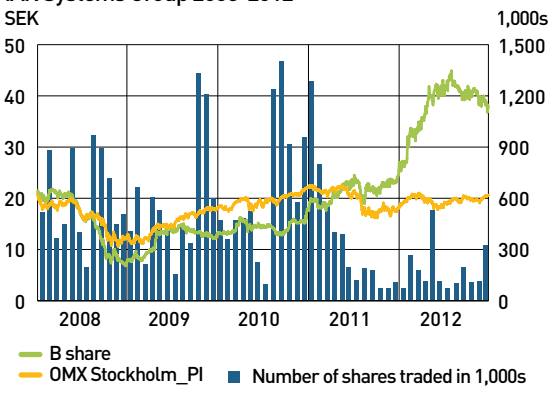
The Board intends to propose a dividend of SEK 2.00 per share (1.00) for approval by the AGM on April 22, 2013. The proposal is equal to a total distribution of SEK 23.4m.

IAR Systems Group 2012



© NASDAQ OMX

IAR Systems Group 2008-2012



© NASDAQ OMX

Share data	2012	2011
Equity per share, SEK	22.34	21.82
Number of shares at end of year, millions	11.36	11.05
Average number of shares, millions	11.23	11.05
Cash flow from operating activities per share, SEK	3.41	3.09
Earnings per share calculated on profit from continuing operations, SEK[2]	1.16	2.44
Earnings per share calculated on profit from operations distributed/sold, SEK[2]	-	–4.14
Earnings per share calculated on total profit, SEK[2]	1.16	–1.70
Dividend per share, SEK	1.00	-[1]
Number of shareholders	8,547	9,239
Last price paid on Dec. 31 or similar, SEK	38.10	24.50

[1] In April 2011 the shares in Deltaco were distributed to the shareholders and Deltaco was listed on First North.

[2] Basic earnings per share.

DIVIDEND POLICY

The Board of Directors intends to propose an annual dividend, or other similar transfer of value, corresponding to 30–50% of profit after tax. In addition, the Board may recommend a further transfer of capital to the shareholders, provided that the Board considers this action to be justified in view of the anticipated future cash flow and the company's investment plans.

WARRANT SERIES TO4B

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 year, warrants were exercised to subscribe for 5,000 new class B shares. After this, there are 1,012,000 unutilized warrants issued to employees.

AUTHORIZATIONS

The Board of Directors was authorized, on one or several occasions during the period until the next AGM, to decide on the 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 scope for acquisitions with payment through a non-cash issue.

The Board of Directors was furthermore authorized to decide on the repurchase of a maximum number of class B 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 the company's own shares as consideration for the acquisition of companies or operations.

Largest shareholders at December 31, 2012[1]

	No. of A shares	No. of B shares	Total no. of shares	% of capital	Total no. of votes	% of votes
Catella Fondförvaltning		1,000,571	1,000,571	8.8	1,000,571	8.2
UBS AG Clients account		711,502	711,502	6.3	711,502	5.8
Ribbskottet AB		700,000	700,000	6.2	700,000	5.7
Tamt AB		455,000	455,000	4.0	455,000	3.7
AOB Förvaltning AB		449,104	449,104	4.0	449,104	3.7
Hajskaeret Invest AB		436,640	436,640	3.8	436,640	3.6
Länsförsäkringar Fondförvaltning AB		399,735	399,735	3.5	399,735	3.3
Pictet & Cie		385,025	385,025	3.4	385,025	3.1
Handelsbanken Fonder		373,138	373,138	3.3	373,138	3.0
Boda Invest AS	100,000	250,000	350,000	3.1	1,250,000	10.2
Herculaneum Holdings AB		328,131	328,131	2.9	328,131	2.7
Försäkringsaktiebolaget Avanza Pension		315,250	315,250	2.8	315,250	2.6
Kristoffer Jeansson		250,000	250,000	2.2	250,000	2.0
Cecilia Jeansson		220,000	220,000	1.9	220,000	1.8
Monterro Holdings AB		198,459	198,459	1.7	198,459	1.6
Total 15 largest shareholders	**100,000**	**6,472,555**	**6,572,555**	**57.9**	**7,472,555**	**61.0**
Others		4,786,406	4,786,406	42.1	4,786,406	39.0
Total	**100,000**	**11,258,961**	**11,358,961**	**100.0**	**12,258,961**	**100.0**

[1] Shares held directly and through trustees. Added to this are 334,600 class B shares held in treasury by IAR Systems Group following buybacks.

Distribution of shareholdings at December 31, 2012[1]

	No. of A shares	No. of B shares	Total no. of shares	% of capital	Total no. of votes	% of votes	No. of share-holders	% of share-holders
1-100	-	178,068	178,068	1.6	178,068	1.5	6,122	71.6
101-1,000	-	709,333	709,333	6.2	709,333	5.8	1,987	23.3
1,001-5,000	-	721,452	721,452	6.3	721,452	5.9	312	3.7
5,001-10,000	-	347,840	347,840	3.1	347,840	2.8	46	0.5
10,001-	100,000	9,302,268	9,402,268	82.8	10,302,268	84.0	80	0.9
Total	**100,000**	**11,258,961**	**11,358,961**	**100.0**	**12,258,961**	**100.0**	**8,547**	**100.0**

[1] Excluding the 334,600 class B shares held in treasury by IAR Systems Group following buybacks.

Financial overview

2012 can be summed up as the third consecutive year of growth in sales and profit.

In the past few years the Group has undergone a comprehensive transformation from an IT conglomerate to a focused IT company with software for programming of processors in embedded systems. During the five years covered by the financial overview, the Group has gone from four operating units to one.

Nocom Drift was sold in 2008: Reported in the income statement and cash flows for 2008.

Deltaco was distributed to the shareholders in 2011 (see press release from December 2010): Reported in the income statement, balance sheet and cash flows for 2008.

Northern was sold in 2011: Reported in the income statements and cash flows for 2008 and 2009, and in the balance sheets for 2008, 2009 and 2010.

IAR Systems is reported in continuing operations for all five years.

Income statements, SEK M	2012	2011	2010	2009	2008
Net sales	230.1	200.4	177.9	251.3	579.3
Operating expenses	–188.3	–171.0	–161.8	–241.6	–537.4
Depreciation of property, plant and equipment	–2.3	–1.7	–1.2	–1.9	–5.1
Amortization of intangible assets	–4.3	–3.7	–3.0	–4.4	–5.1
Impairment losses on intangible assets	-	-	-	–18.7	-
Operating profit/loss	**35.2**	**24.0**	**11.9**	**–15.3**	**31.7**
Result from financial investments	–0.1	0.1	0.0	–1.0	–2.2
Profit/loss before tax	**35.1**	**24.1**	**11.9**	**–16.3**	**29.5**
Income tax	–22.1	2.9	0.0	0.0	2.1
Profit/loss after tax	**13.0**	**27.0**	**11.9**	**–16.3**	**31.6**
Profit/loss from operations distributed/sold	-	–45.8	8.9	18.2	-
PROFIT/LOSS FOR THE YEAR	**13.0**	**–18.8**	**20.8**	**1.9**	**31.6**

Balance sheets, SEK M	2012	2011	2010	2009	2008
ASSETS					
Non-current assets					
Goodwill	110.7	110.7	132.1	288.7	304.5
Other intangible assets	41.6	28.2	26.7	30.3	32.9
Property, plant and equipment	6.3	5.8	5.9	54.3	83.0
Financial assets	67.3	79.6	80.7	107.3	115.1
Total non-current assets	**225.9**	**224.3**	**245.4**	**480.6**	**535.5**
Current assets					
Inventories	3.9	4.6	1.9	73.5	66.5
Other current assets	13.6	11.3	15.6	33.2	39.8
Trade receivables	29.1	32.2	33.8	90.5	83.4
Blocked cash and cash equivalents	2.6	6.9	-	-	-
Cash and cash equivalents	49.0	29.6	25.1	60.6	32.3
Total current assets	**98.2**	**84.6**	**76.4**	**257.8**	**222.0**
Assets in disposal groups held for distribution	-	-	422.4	-	-
TOTAL ASSETS	**324.1**	**308.9**	**744.2**	**738.4**	**757.5**
EQUITY AND LIABILITIES					
Total equity	**253.8**	**241.1**	**598.5**	**591.9**	**596.7**
Non-current liabilities					
Borrowings	1.1	1.5	2.0	27.4	41.2
Provisions	8.7	3.5	4.8	7.6	8.6
Total non-current liabilities	**9.8**	**5.0**	**6.8**	**35.0**	**49.8**
Current liabilities					
Trade payables	6.1	10.7	14.1	35.9	17.0
Borrowings	1.2	0.5	10.3	5.0	29.5
Provisions	-	-	-	-	1.0
Other current liabilities	53.2	51.6	46.8	70.6	63.5
Total current liabilities	**60.5**	**62.8**	**71.2**	**111.5**	**111.0**
Assets in disposal groups held for distribution	-	-	67.7	-	-
TOTAL EQUITY AND LIABILITIES	**324.1**	**308.9**	**744.2**	**738.4**	**757.5**

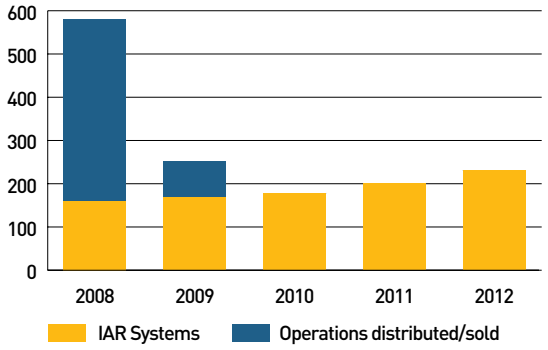
Cash flows in summary, SEK M	2012	2011	2010	2009	2008
Cash flow from operating activities	38.3	34.2	13.8	18.8	22.5
Cash flow from operating activities for operations distributed/sold	-	8.5	6.0	32.9	-
Total cash flow from operating activities	**38.3**	**42.7**	**19.8**	**51.7**	**22.5**
Cash flow from investing activities	–18.1	–32.8	–12.6	–4.5	–52.9
Cash flow from investing activities for operations distributed/sold	-	–0.9	–8.6	26.0	-
Total cash flow from investing activities	**–18.1**	**–33.7**	**–21.2**	**21.5**	**–52.9**
Cash flow from financing activities	0.6	7.7	–3.1	–5.9	23.5
Cash flow from financing activities for operations distributed/sold	-	–39.7	–4.1	–39.0	-
Total cash flow from financing activities	**0.6**	**–32.0**	**–7.2**	**–44.9**	**23.5**
Cash flow for the year	20.8	9.1	–1.9	8.4	–6.9
The year's cash flow for operations distributed/sold	-	–32.1	–6.7	19.9	-
TOTAL CASH FLOW FOR THE YEAR	**20.8**	**–23.0**	**–8.6**	**28.3**	**–6.9**

Data per share	2012	2011	2010	2009	2008
Equity per share, SEK	22.34	21.82	54.16	53.57	53.98
Number of shares at end of period, millions	11.36	11.05	11.05	11.05	11.05
Average number of shares, millions	11.23	11.05	11.05	11.05	11.08
Cash flow from operating activities per share, SEK	3.41	3.09	1.25	1.70	2.03
Earnings per share, continuing operations, SEK[1]	1.16	2.44	1.08	–1.48	–1.48
Earnings per share, operations distributed/sold, SEK[1]	-	–4.14	0.80	1.65	-
Dividend per share, SEK	1.00	-	1.25	0.60	2.00
Last price paid on Dec. 31 or similar, SEK	38.10	24.50	17.74	24.40	13.35

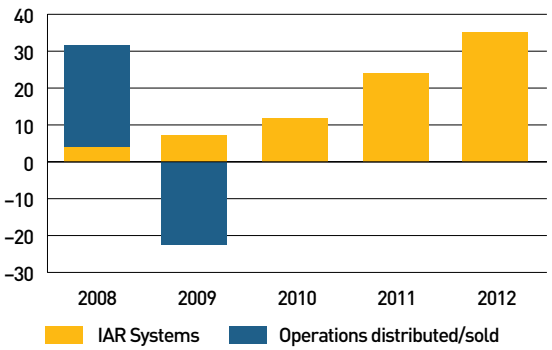
Key ratios	2012	2011	2010	2009	2008
Gross margin, %	89.9	90.5	88.1	81.2	50.6
Operating margin, %	15.3	12.0	6.7	–6.1	5.5
Profit margin, %	15.3	12.0	6.7	–6.5	5.1
Cash flow, %	16.6	17.1	7.8	7.5	3.9
Equity/assets ratio, %	78.3	78.1	80.4	80.2	78.8
Return on equity, %	5.3	6.4	3.5	0.3	5.3
Return on capital employed, %	14.3	5.8	3.5	1.0	5.2
Capital employed, SEK M	256.1	243.1	610.8	593.3	667.4
Net cash, SEK M	49.3	34.5	12.8	27.4	–38.4
Net debt/equity ratio, times	–0.19	–0.14	–0.02	–0.05	0.06
Number of employees at end of period	157	157	135	173	242
Average number of employees	149	137	132	173	233
Net sales per employee, SEK M	1.5	1.5	1.3	1.5	2.5

[1] Basic earnings per share.

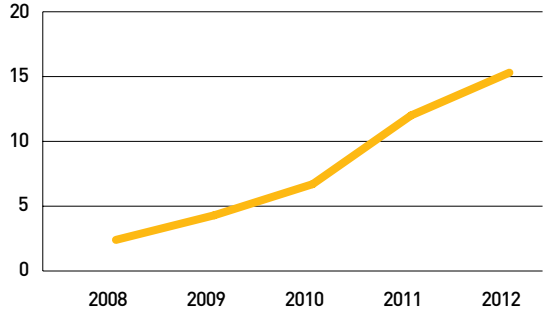
Net sales, proforma
SEK M



Operating profit, proforma
SEK M

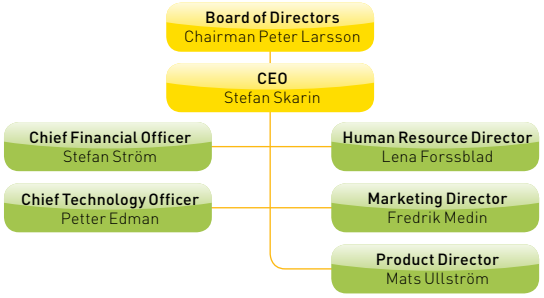


Operating margin, proforma
%



Administration report

The Board of Directors and the CEO hereby present the annual report and consolidated financial statements for IAR Systems Group AB for the financial year 2012. The company is domiciled in Stockholm, corporate identification number 556400-7200.



HIGHLIGHTS OF 2012

- Net sales for the year amounted to SEK 230.1m (200.4) (+15%).
- Operating profit for the year reached SEK 35.2m (24.0) (+47%).
- The year's cash flow from operating activities was SEK 38.3m (34.2).
- Sales office opened in Seoul, South Korea.
- Debug probe I-jet delivered in all markets.
- Dividend of SEK 1.00 per share.
- A change in the corporate tax rate from 26.3% to 22.0% was charged to profit for the year in an amount of SEK 11.5m.

PROFIT AND CASH FLOW

Consolidated net sales amounted to SEK 230.1m, compared to SEK 200.4m for 2011, which is an increase of 15%. Sales grew by 11% in the Americas, 12% in Europe and 19% in Asia.

The Americas accounted for 42% of sales, Europe for 33% and Asia for 25%.

The earnings trend during the year was positive and operating profit rose to SEK 35.2m (24.0). The operating margin also improved and reached 15.3% for the year, compared to 12.0% in 2011.

Personnel costs are the Group's largest cost item and account for around 62% of total costs. More than half of the Group's total costs, 52%, are attributable to operations in Sweden.

The year's cash flow from operating activities was SEK 38.3m (34.2).

BALANCE SHEET ITEMS AND FINANCIAL POSITION

Consolidated cash and cash equivalents at December 31, 2012, totaled SEK 51.6m, compared to SEK 36.5m at December 31, 2011. Added to this were unutilized bank overdraft facilities of SEK 25.0m (25.0). The Group's interest-bearing liabilities amounted to SEK 2.3m, compared to SEK 2.0m at December 31, 2011.

At December 31, 2012, the Group thus had net cash of SEK 49.3m (34.5), in addition to a holding of 334,600 treasury shares (634,600).

Consolidated goodwill at December 31, 2012, amounted to SEK 110.7m. This goodwill item is attributable to the acquisition of IAR Systems in 2005 and the year's acquisition of Signum Systems Corp. Goodwill is tested for impairment yearly and is measured at cost less accumulated impairment. The impairment test that was performed in 2012 gave no evidence of impairment.

Other intangible assets in the form of trademarks, software and customer agreements amounted to SEK 46.6m (28.2).

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 December 31, 2012, the Group had cumulative loss carryforwards of around SEK 265m. In the balance sheet, these loss carryforwards have been taken up at SEK 58.4m (73.2) based on a corporate tax rate of 22.0% as of 2013. The change in the tax rate from 26.3% has been charged to profit for the year in an amount of SEK 11.4m.

Equity at December 31, 2012, amounted to SEK 253.8m, compared to SEK 241.1m at December 31, 2011. The increase in equity is due to the year's profit of SEK 13.0m, dividends to shareholders of SEK –11.1m, the sale of treasury shares for SEK 11.6m, the issue of new shares through the exercise of subscription warrants for SEK 0.0m and foreign exchange effects of SEK –0.8m.

The equity/assets ratio at December 31, 2012, was 78% (78). Pledged assets decreased during the year and totaled SEK 6.7m (10.7) at December 31, 2012. No changes took place in reported contingent liabilities.

INVESTMENTS

Investments in property, plant and equipment for the year are reported at SEK 3.2m (3.3). The year's investments in intangible assets totaled SEK 17.7m (21.6).

MARKET AND CUSTOMERS

IAR Systems' customers are companies that develop digital electronic products in areas such as automation and control, medical devices, consumer electronics and the automotive industry. The ongoing spread of digital technology is gradually increasing the number of companies, developers and development projects for embedded systems, which is also driving the need for development tools.

One distinct trend in the market for embedded systems is a mounting degree of complexity. As the processors become increasingly powerful, this is creating new conditions for more advanced systems. The use of a processor is often an inexpensive way to achieve functions such as automation and control. Another effect of this rising use of processors is that that more and more safety features in the industrial, automotive and medical device areas are now controlled by a processor, such as anti-slip and anti-lock (ABS) brakes. The trend in which embedded systems are becoming safety-critical is heightening the need for control and certification of these systems.

Another trend is a growing need for energy-efficient solutions, since processors are used in an expanding range of applications and many of these are battery-powered. In addition, a large share of these systems also require connection to the Internet for communication and control, a phenomenon that has become known as "The Internet of Things".

The rapid pace of development in the market for digital electronics is also placing higher demands on fast time to market, and many vendors are seeking to reuse code from earlier projects as far as possible as a means for shortening lead times.

EMPLOYEES

The company's competitiveness depends on the ability to recruit, retain, and develop qualified staff. The company's success is determined by how well the leadership resources are developed and inspire the commitment of the personnel. IAR Systems' corporate culture is characterized by openness, social responsibility and professionalism.

The company strives for a personnel policy and a work environment that inspire the employees to develop in their professional roles.

The Group's employees are typified by a high level of technical expertise and long industry experience. IAR Systems, which develops software, had a high proportion of employees with advanced academic degrees.

At IAR Systems, 87% of the employees have a higher post-secondary education and 13% have a secondary education. The average age of the Group's employees is 43 years. Like many other companies in the IT sector, the Group has an uneven gender balance, with 28% women and 72% men at the end of 2012. The number of employees during 2012 was 149 (137).

SOCIAL RESPONSIBILITY

IAR Systems' policy for social responsibility is to conduct business in accordance with the applicable laws and regulations. Integrity, honesty, frankness and honorability are of the utmost importance in all business and community relations. The Group expects all of its employees to be honest in their dealings with customers, suppliers and competitors and to perform their duties in a manner that safeguards the company's good name and reputation.

IAR Systems analyzes its operations from a social responsibility perspective and creates guidelines for the company to conduct itself in a responsible and ethically sound manner. In order to do this, the subsidiaries must obtain information about, and comply with, the relevant laws, regulations and international conventions.

In addition, the Parent Company strives to continuously reduce the subsidiaries' environmental impact and improve their actions in the social area and with regard to human rights. The Group also encourages all suppliers to work with similar goals for social responsibility.

ENVIRONMENT

IAR Systems has a low environmental impact in production, since the company conducts no processing activities.

RISKS

Through its operations, the company is exposed to various types of financial risk. Financial risks refer to the risk for fluctuations in the company's earnings and cash flow arising from in exchange rate movements, interest rate levels, financing risk and credit risk.

Foreign exchange risk

Foreign exchange risk is defined as the risk for variations in the value of financial instruments due to changes in foreign exchange rates. The company's measures to manage transaction-related foreign exchange risk are established in the finance policy. The goal is to minimize the short-term earnings impact of foreign exchange movements and at the same time create long-term freedom of action.

Foreign exchange risk arises in translation of trade receivables in foreign currency, mainly USD and EUR. The Group's sales in foreign currency, mainly USD and EUR, make up around 94% of total sales. Of the cost of goods sold, which accounts for

around 12% of the Group's cost mass, approximately 86% of purchases are denominated in foreign currency, also primarily in USD and EUR. The Group's translation exposure, i.e. the risk for changes in the subsidiaries' consolidated net assets arising from exchange rate fluctuations, is limited and no measures are currently taken to further hedge translation exposure in foreign currency.

Currency sensitivity analysis (operating profit)

SEK 000s	
1% weakening of SEK against USD	+472
1% weakening of SEK against EUR	+393
1% weakening of SEK against JPY	+199
1% weakening of SEK against another currency	+155

Sensitivity analysis

Dec. 31, 2012	Change	Effect on profit
Cost of goods sold	+/– 5%	+/– SEK 1.2m
Payroll expenses	+/– 5%	+/– SEK 6.0m
Currency – EUR	+/– 5%	+/– SEK 2.0m
Currency – USD	+/– 5%	+/– SEK 2.4m
Currency – YEN	+/– 5%	+/– SEK 1.0m
Variable interest	+/– 1%-point	+/– SEK 0.0m

Financing and liquidity risk

The Group's financial position is strong. In 2012, dividends were paid in a total amount of SEK 11.1m. No share buybacks took place during the year. A total of 300,000 class B shares were sold for a combined value of SEK 11.6m. The equity/assets ratio at December 31, 2012, was 78% (78). At year-end there were cash and cash equivalents of SEK 51.6m (36.5) and unutilized bank overdraft facilities of SEK 25.0m (25.0). Interest-bearing liabilities on the same date amounted to SEK 2.3m (2.0).

Credit risk

The Group's credit risk is mainly related to the customers' ability to pay. Customers undergo standard credit assessment according to established routines. Historically, credit losses have been low.

Interest rate risk

Interest rate risk is defined as the risk for variations in the value of financial instruments due to changes in market interest rates. The company's loans carry variable interest. At present, there are no investments in equity instruments.

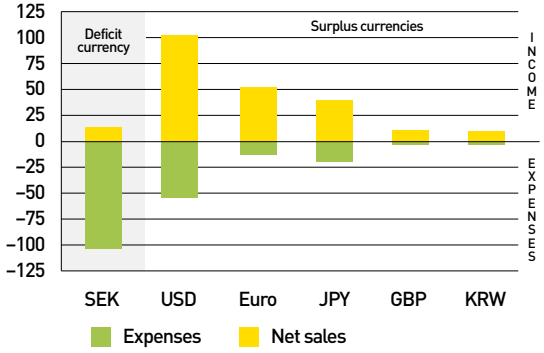
GUIDELINES FOR REMUNERATION AND OTHER TERMS OF EMPLOYMENT OF SENIOR EXECUTIVES

The Board of Directors proposes to the 2013 AGM that the guidelines for remuneration to senior executives that were adopted by the 2012 AGM continue to apply.

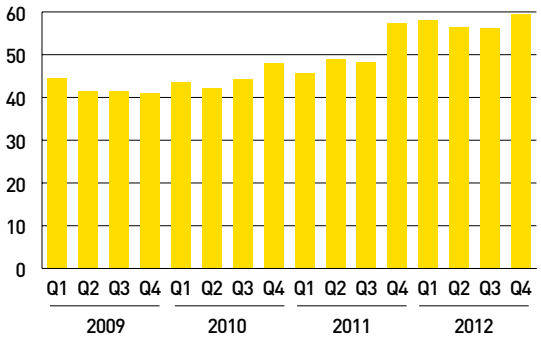
The 2012 approved the Board's proposed guidelines for remuneration to the company's senior executives as stated in Note 6 and in the corporate governance report. The Board's proposal corresponds to the previously applied guidelines for remuneration to the company's senior executives in all essential respects. The principles apply to employment contracts entered into after the decision of the AGM and in cases where changes are made in existing terms of employment after this date. Senior executives refer to the Chief Executive Officer and the Chief Financial Officer. The Board of Directors has appointed a remuneration committee for preparation of matters related to remuneration and other terms of employment for the Executive Management.

No changes are proposed for 2013.

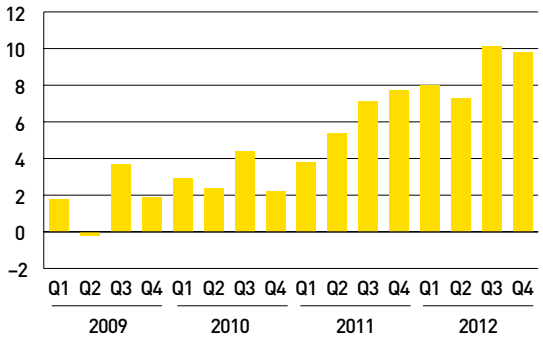
Currency spread
SEK M



Net sales, continuing operations
SEK M



Operating profit, continuing operations
SEK M



Deviation from the guidelines

The Board of Directors shall have the right to deviate from the above guidelines in individual cases where the Board finds special reason to do so. In 2012 there were no deviations from the guidelines approved by the Annual General Meeting.

THE IAR SHARE

IAR Systems Group's class B share is quoted on the Small Cap list of the NASDAQ OMX Nordic Exchange. IAR Systems Group's share capital at December 31, 2012, amounted to SEK 116,935,614, divided between 11,693,561 shares of which 100,000 are of class A and 11,593,561 are of class B. Of these, 334,600 class B shares are held in treasury by IAR Systems Group following buybacks. This means that the number of class B shares on the market at December 31, 2012, was 11,258,961.

Share price performance

In 2012 the share price varied from a low of SEK 25.30 (17.58) to a high of SEK 44.90 (24.50). The share price at December 31, 2012, was SEK 38.10 (24.50). IAR Systems Group's market capitalization on the same date was SEK 433m (270).

In 2011 the subsidiary Deltaco AB was distributed to the shareholders. Deltaco AB is quoted on NASDAQ OMX First North since April 2011. The comparative information has been restated in view of the distribution.

Ownership and control

The number of shareholders in IAR Systems Group at December 31, 2012, was 8,547 (9,293), of whom 438 (481) held more than 1,000 shares each. Foreign shareholders held approximately 22% (18) of the share capital and 27% (24) of the votes.

For additional information about the IAR share, see pages 24-25.

Dividend policy

The Board of Directors intends to propose an annual dividend, or other similar transfer of value, corresponding to 30–50% of profit after tax. In addition, the Board may recommend a further transfer of capital to the shareholders, provided that the Board considers this action to be justified in view of the anticipated future cash flow and the company's investment plans.

Dividend 2013

The Board intends to propose a dividend of SEK 2.00 per share (1.00) for approval by the AGM in April 2013.

Proposed appropriation of profits

The funds at the disposal of the Annual General Meeting are as follows

Share premium reserve	55,639,768.71
Retained earnings	71,735,382.47
Profit for the year	27,228,767.18
TOTAL	154,603,918.36

The Board of Directors proposes that these profits be appropriated as follows:

A dividend of SEK 2.00 per share	23,387,122.00
To be carried forward to new account	131,216,796.36
TOTAL	154,603,918.36

Quarterly overview, continuing operations	2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales, SEK M	43.6	42.1	44.2	48.0	45.8	48.9	48.2	57.5	58.0	56.4	56.2	59.5
Operating expenses, SEK M	–40.7	–39.7	–39.8	–45.8	–42	–43.5	–41.1	–49.8	–50.0	–49.1	–46.1	–49.7
Operating profit, SEK M	2.9	2.4	4.4	2.2	3.8	5.4	7.1	7.7	8.0	7.3	10.1	9.8
Operating margin, %	6.7	5.7	10.0	4.6	8.3	11.0	14.7	13.4	13.8	12.9	18.0	16.5
Return on equity, %	1.6	1.1	1.4	–0.6	0.6	1.4	3.3	4.5	2.2	3.1	3.8	–2.1
Equity per share, SEK	54.42	53.81	55.50	54.16	50.35	20.09	20.92	21.82	22.22	22.15	22.84	22.34
Cash flow from operating activities per share, SEK	0.22	0.33	0.23	0.47	–0.37	1.19	1.07	1.20	0.12	1.39	0.68	1.34

Consolidated income statement

SEK M	Note	2012	2011
Net sales	1 2 3	230.1	200.4
Goods for resale	4	–23.3	–19.0
Other external expenses	5	–44.5	–35.3
Personnel costs	6	–120.5	–116.7
Depreciation of property, plant and equipment	12	–2.3	–1.7
Amortization of intangible assets	11	–4.3	–3.7
Operating profit		**35.2**	**24.0**
Financial investments			
Financial income	7	0.6	0.9
Financial expenses	7	–0.7	–0.8
Profit before tax		**35.1**	**24.1**
Income tax expense	8	–22.1	2.9
Profit for the year from continuing operations		**13.0**	**27.0**
Profit for the year from operations distributed/sold	9	-	–45.8
PROFIT FOR THE YEAR		13.0	–18.8

SEK M	Note	2012	2011
Profit for the year attributable to:			
Owners of the Parent Company		13.0	–18.8
Earnings per share calculated on profit in continuing operations attributable to owners of the Parent Company during the year, SEK			
– basic	10	1.16	2.44
– diluted	10	1.06	2.44
Earnings per share calculated on profit from operations distributed/sold, SEK			
– basic	10	-	–4.14
– diluted	10	-	–4.14
Earnings per share calculated on profit for the year attributable to owners of the Parent Company during the year, SEK			
– basic	10	1.16	–1.70
– diluted	10	1.06	–1.70

Consolidated statement of comprehensive income

SEK M	2012	2011
Profit for the year	**13.0**	**–18.8**
Other comprehensive income:		
Foreign exchange gains/losses	–0.9	0.6
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	12.1	18.2
Comprehensive income for the year attributable to owners of the Parent Company	12.1	18.2

Consolidated balance sheet

SEK M	Note	Dec 31 2012	Dec 31 2011
ASSETS	1 2 3		
Non-current assets			
Intangible assets	11	152.3	138.9
Property, plant and equipment	12		
Leasehold improvements		0.2	0.2
Equipment		6.1	5.6
Total property, plant and equipment		6.3	5.8
Financial assets			
Other non-current receivables	13 18	4.9	5.8
Deferred tax assets	8	62.4	73.8
Total financial assets		67.3	79.6
Total non-current assets		**225.9**	**224.3**
Current assets			
Inventories		3.9	4.6
Current receivables			
Trade receivables	14	29.1	32.2
Other current receivables	15	5.0	6.0
Prepaid expenses and accrued income	16	8.6	5.3
		46.6	48.1
Blocked cash and cash equivalents	17	2.6	6.9
Cash and cash equivalents	17	49.0	29.6
Total current assets		**98.2**	**84.6**
Assets in disposal groups held for distribution	9	-	-
TOTAL ASSETS		324.1	308.9

SEK M	Note	Dec 31 2012	Dec 31 2011
EQUITY AND LIABILITIES			
Equity	19		
Share capital		116.9	116.9
Other contributed capital		0.6	0.6
Reserves		–0.5	0.3
Retained earnings including profit for the year		136.8	123.3
Total equity		**253.8**	**241.1**
Non-current liabilities			
Borrowings	12 20	1.1	1.5
Deferred tax liabilities	8	8.7	3.5
Total non-current liabilities		**9.8**	**5.0**
Current liabilities			
Trade payables		6.1	10.7
Borrowings	12 20	1.2	0.5
Tax liabilities	8	1.7	1.8
Other liabilities		5.9	4.1
Accrued expenses and prepaid income	21	45.6	45.7
Total current liabilities		**60.5**	**62.8**
Liabilities in disposal groups held for distribution	9	-	-
TOTAL EQUITY AND LIABILITIES		324.1	308.9

Consolidated statement of changes in equity

SEK M	Note	Share capital	Other contributed capital	Reserves	Retained earnings	Total equity
Balance at January 1, 2011	19	**116.9**	**289.2**	**–0.3**	**192.7**	**598.5**
Profit for the year					–18.8	–18.8
Other comprehensive income						
Foreign exchange gains/losses				0.6		0.6
Total comprehensive income				**0.6**	**–18.8**	**–18.2**
Transactions with owners						
Provisions to non-restricted reserves			–289.2		289.2	-
Issue of subscription warrants			0.6			0.6
Dividends					–339.8	–339.8
Total transactions with owners			**–288.6**	**-**	**–50.6**	**–339.2**
Opening balance, January 1, 2012		**116.9**	**0.6**	**0.3**	**123.3**	**241.1**
Profit for the year					13.0	13.0
Other comprehensive income						
Foreign exchange gains/losses				–0.9		–0.9
Total comprehensive income				**–0.9**	**13.0**	**12.1**
Transactions with owners						
Sales of shares					11.6	11.6
New share issue		0.0			0.1	0.1
Dividends					–11.1	–11.1
Total transactions with owners		**0.0**		**-**	**0.6**	**0.6**
CLOSING BALANCE, DECEMBER 31, 2012		116.9	0.6	–0.5	136.8	253.8

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2012, amounted to SEK 116,935,614, divided between 100,000 class A shares and 11,593,561 class B shares. All shares have a quota value of SEK 10 each.

Consolidated cash flow statement

SEK M	Note	2012	2011
Operating activities			
Incoming payments from customers		234.1	187.5
Outgoing payments to suppliers and employees		–191.0	–154.2
Cash flow from operating activities before interest and income taxes paid		**43.1**	**33.3**
Interest received		0.6	2.0
Interest paid		–0.2	–0.8
Income taxes paid		–5.2	–0.3
Cash flow from operating activities for continuing operations		**38.3**	**34.2**
Cash flow from operating activities for operations distributed/sold		-	8.5
Cash flow from operating activities		**38.3**	**42.7**
Investing activities			
Investments in property, plant and equipment	12	–2.1	–2.8
Investments in intangible assets	11	–20.3	–8.2
Investments in subsidiaries	11	-	–21.6
Other investments		4.3	–0.2
Cash flow from investing activities for continuing operations		**–18.1**	**–32.8**
Cash flow from investing activities for operations distributed/sold		-	–0.9
Cash flow from investing activities		**–18.1**	**–33.7**
Financing activities			
Issue of subscription warrants		-	0.6
New share issue		0.1	-
Sale of shares		11.6	-
Dividends to owners of the Parent Company		–11.1	-
Proceeds from new borrowings		0.0	7.1
Cash flow from financing activities for continuing operations		**0.6**	**7.7**
Cash flow from financing activities for operations distributed/sold		-	–39.7
Cash flow from financing activities		**0.6**	**–32.0**
Cash flow for the year		**20.8**	**–23.0**
Cash and cash equivalents at beginning of year		29.6	52.0
Foreign exchange gains/losses in cash and cash equivalents			
- attributable to cash and cash equivalents at beginning of year		–1.1	0.4
- attributable to the year's cash and cash equivalents		–0.3	0.2
Cash and cash equivalents at end of year	17	**49.0**	**29.6**

Parent Company income statement

SEK M	Note	2012	2011
Net sales	1 2 3	12.2	14.1
Other external expenses	5	–5.3	–9.8
Personnel costs	6	–9.5	–10.6
Depreciation of property, plant and equipment	12	–0.1	–0.2
Operating profit/loss		**–2.7**	**–6.5**
Result from financial investments			
Total financial income	7	45.1	139.4
Total financial expenses	7	–0.0	–151.5
Profit before tax		**42.4**	**–18.6**
Income tax expense	8	–15.2	5.6
PROFIT/LOSS FOR THE YEAR		27.2	–13.0

Parent Company statement of comprehensive income

SEK M	2012	2011
Profit/loss for the year	**27.2**	**–13.0**
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	27.2	–13.0

Parent Company balance sheet

SEK M	Note	Dec 31 2012	Dec 31 2011
ASSETS	1 2 3		
Non-current assets			
Property, plant and equipment			
Equipment	12	0.2	0.2
Total property, plant and equipment		0.2	0.2
Financial assets			
Shares in group companies	24	189.4	189.4
Other non-current receivables	13	3.7	4.5
Deferred tax assets	8	58.0	73.2
Total financial assets		251.1	267.1
Total non-current assets		**251.3**	**267.3**
Current assets			
Current receivables			
Receivables from subsidiaries		10.0	0.3
Tax assets		0.4	0.4
Other current receivables	15	1.2	3.3
Prepaid expenses and accrued income	16	0.6	0.6
		12.2	4.6
Blocked cash and cash equivalents	17	2.6	6.9
Cash in hand and at bank	17	14.8	1.1
Total current assets		**29.6**	**12.6**
TOTAL ASSETS		280.9	279.9

SEK M	Note	Dec 31 2012	Dec 31 2011
EQUITY AND LIABILITIES			
Equity	19		
Restricted equity			
Share capital		116.9	116.9
Statutory reserve		-	-
		116.9	116.9
Non-restricted equity			
Share premium reserve		55.7	43.9
Retained earnings		71.7	95.8
Profit/loss for the year		27.2	–13.0
		154.6	126.7
Total equity		**271.5**	**243.6**
Non-current liabilities			
Liabilities to subsidiaries		-	20.4
Other non-current liabilities	20	2.0	5.5
Total non-current liabilities		**2.0**	**25.9**
Current liabilities			
Trade payables		0.6	1.2
Other liabilities		3.4	5.8
Accrued expenses and prepaid income	21	3.4	3.4
Total current liabilities		**7.4**	**10.4**
TOTAL EQUITY AND LIABILITIES		280.9	279.9
Pledged assets	23	4.0	8.3
Contingent liabilities		-	-

Parent Company statement of changes in equity

SEK M	Note	Share capital	Other contri-buted capital	Share premium reserve	Retained earnings	Total equity
Opening balance, January 1, 2011	19	**116.9**	**270.2**	**43.3**	**52.8**	**483.2**
Provisions to non-restricted reserves			–270.2		270.2	0.0
Issue of subscription warrants				0.6		0.6
Dividends paid					–227.2	–227.2
Total income and expenses recognized directly in equity		**-**	**–270.2**	**0.6**	**43.0**	**–226.6**
Profit for the year					–13.0	–13.0
Closing balance, December 31, 2011		**116.9**	**-**	**43.9**	**82.8**	**243.6**
Sale of shares				11.6	-	11.6
New share issue		0.0		0.2	-	0.2
Dividends paid					–11.1	–11.1
Total income and expenses recognizeddirectly in equity		**0.0**	**-**	**11.8**	**–11.1**	**0.7**
Profit/loss for the year					27.2	27.2
CLOSING BALANCE, DECEMBER 31, 2012		116.9	-	55.7	98.9	271.5

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2012, amounted to SEK 116,935,614, divided between 100,000 class A shares and 11,593,561 class B shares. All shares have a quota value of SEK 10 each.

Parent Company cash flow statement

SEK M	Note	2012	2011
Operating activities			
Incoming payments from customers		14.6	13.8
Outgoing payments to suppliers and employees		–36.0	–18.7
Cash flow from operating activities before interest and income taxes paid		**–21.4**	**–4.9**
Interest received		0.4	0.2
Dividends received		28.6	-
Interest paid		–0.0	–0.7
Cash flow from operating activities		**7.6**	**–5.4**
Investing activities			
Investments in subsidiaries		–5.7	–22.9
Investments in property, plant and equipment	12	–0.1	0.0
Decrease in blocked cash and cash equivalents		4.3	-
Decrease in financial receivables		1.0	4.5
Cash flow from investing activities		**–0.5**	**–18.4**
Financing activities			
Repayment of borrowings		-	–9.6
Sale of shares		11.6	-
New share issue		0.2	-
Dividends paid		–11.1	-
Increase in borrowings from subsidiaries		-	14.7
Group contributions		5.9	19.5
Cash flow from financing activities		**6.6**	**24.6**
Cash flow for the year		**13.7**	**0.8**
Cash and cash equivalents at beginning of year		1.1	0.3
CASH AND CASH EQUIVALENTS AT END OF YEAR	19	14.8	1.1

Notes

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

IAR Systems Group AB (publ), corporate identification number 556400-7200, is a Swedish-registered limited liability company domiciled in Stockholm, Sweden. The address to the company's head office is Kungsgatan 33, SE-111 56 Stockholm, Sweden. IAR Systems Group AB is the Parent Company of a group that was founded in 1985 and listed on the stock exchange in 1999. Business is conducted in the subsidiary IAR Systems AB.

IAR Systems Group AB is quoted on NASDAQ OMX, ticker symbol IAR.

The consolidated financial statements were approved for publication by the Board of Directors on March 7, 2013.

GROUP

1.1 Basis of presentation

IAR Systems Group AB's consolidated financial statements are presented in accordance with the Swedish Annual Accounts Act, RFR 1, Supplementary Accounting Rules for Groups, International Financial Reporting Standards (IFRS) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) that have been endorsed for application in the EU.

The functional currency of the Parent Company is Swedish kronor (SEK), which is also the presentation currency of the Parent Company and the Group. The financial statements are therefore presented in SEK. All amounts, unless otherwise stated, are rounded off to the nearest one hundred thousandth. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires the management to exercise its judgment in the process of applying the company's accounting policies. The estimates and assumptions are based on past experience and a number of other factors that are considered reasonable under the given circumstances. The results of these estimates and assumptions are then used to make judgments about the carrying value of assets and liabilities that cannot be readily determined from other sources. Actual outcomes may differ from these estimates and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant for the consolidated financial statements are disclosed in Note 1 below.

New or changed accounting IFRSs and IFRIC interpretations applicable for 2012
The following new and change IFRSs are effective for the financial year 2012:

Standards
Amendments to IFRS 7, Financial Instruments: Disclosures
Amendments to IAS 12, Income Taxes

Amendments to IFRS 7, Financial Instruments:
Disclosures, increases the disclosure requirements for transfer transactions of financial assets. These amendments are intended to provide greater transparency about the nature and extent of risk arising from a financial asset that is transferred to a third party but in which the company retains a certain continued exposure. The amendments also require additional disclosures if the transfer of financial assets is not distributed evenly over the period.

Amendments to IAS 12, Income Taxes, provide an exception to the general principle in IAS 12 for measurement of deferred tax liabilities and deferred tax assets based on how the company expects to recover or settle the carrying amount of the corresponding asset or liability. The exception applies to investment properties carried at fair value in accordance with IAS 40, Investment Property, where deferred tax is measured based on an assumption that the carrying amount of the investment property will be recovered through a sale and not through use.

There are no new IFRIC interpretations that are effective for the financial year 2012.

The management's assessment is that none of the new or changed IFRSs have had any impact on the Group's financial statements for 2012.

New or changed accounting IFRSs or IFRIC interpretations not yet effective
The International Accounting Standards Board (IASB) has published the following new and changed IFRSs that are not yet effective:

Standards	Effective for annual periods beginning on or after:
Amendments to IAS 1, Presentation of Financial Statements (Presentation of Items of Other Comprehensive Income)	July 1, 2012
Amendments to IAS 19, Employee Benefits	January 1, 2013
IFRS 13, Fair Value Measurement	January 1, 2013
Improvements to IFRSs, 2009-2011 cycle*	January 1, 2013
Amendments to IFRS 7, Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)	January 1, 2013
Amendments to IAS 32, Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities)	January 1, 2014
IFRS 10, Consolidated Financial Statements	January 1, 2014
IFRS 11, Joint Arrangements	January 1, 2014
IFRS 12, Disclosures of Interests in Other Entities	January 1, 2014
Amendments to IFRS 10, IFRS 11 and IFRS 12 (Transitional provisions)**	January 1, 2014
Amendments to IAS 27, Separate Financial Statements	January 1, 2014
Amendments to IAS 28, Investments in Associates and Joint Ventures	January 1, 2014
Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)*	January 1, 2014
IFRS 9, Financial Instruments, and concurrent amendments to IFRS 9 and IFRS 7*	January 1, 2015

* *Not yet approved for application in the EU.*

** *Not yet approved for application in the EU. According to the IASB, standards IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 are effective for annual periods beginning on or after January 1, 2013, but in the EU these will not be effective until annual periods beginning on or after January 1, 2014.*

The above new and changed IFRSs or IFRIC interpretations have not yet been applied by the Group.

The management's assessment is that none of the other new or changed IFRSs or IFRIC interpretations will have any significant impact on the Group's financial statements in the period when they are first adopted.

1.2 Scope of consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies in a manner generally accompanying ownership of more than 50% 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 and are deconsolidated from the date on which control ceases.

Business combinations are reported according to the acquisition method of accounting. The consideration transferred for the acquisition of a subsidiary consists of the fair value of assets acquired and liabilities assumed by the Group from the previous owner of the acquiree and the equity instruments issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from an agreement for contingent consideration. The identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values on the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interests (NCI's) in the acquiree either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred. In a business combination achieved in stages, any previously held equity interest in the acquiree is remeasured at fair value on the acquisition date. Any resulting gains or losses are recognized in profit or loss. Any contingent consideration payable by the Group is measured at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration that is classified as a contingent asset or liability are recognized in accordance with IAS 39 either in profit or loss or in other comprehensive income. If contingent consideration is classified as an equity instrument, it is not remeasured and settlement is accounted for within equity. Goodwill is initially measured as the amount by which the acquisition date fair value of consideration transferred and the fair value of non-controlling interests exceeds the fair value of identifiable assets acquired and liabilities assumed. . If the amount of consideration transferred is lower than the fair value of the acquiree's net assets, the resulting gain is recognized directly in profit or loss. All intra-group balances and transactions arising from transactions between group companies are eliminated.

Gains or losses that arise on transactions between group companies and are recognized as assets are also eliminated. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies applied by the Group.

1.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the function responsible for allocating resources and assessing the performance of the operating segments. In the Group, this function has been identified as the CEO of the company.

The Group has one operating segment: IAR Systems.

1.4 Foreign currency translation

a) Functional and presentation currency

The items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment where the entity operates (the functional currency). The consolidated financial statements are presented in Swedish kronor (SEK), which is the functional and presentation currency of the Parent Company.

b) Transactions and balances

Foreign currency transactions are translated to the functional currency at the exchange rates prevailing on the transaction dates or the dates on which the items are remeasured. Foreign exchange gains/losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities in foreign currencies at the closing day rate are recognized in the income statement.

c) Group companies

The results and financial positions of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency other than the presentation currency are translated into the Group's presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing day rate of exchange,
- income and expenses for each income statement are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the dates of the transactions, in which case income and expenses are translated at the rates on the dates of the transactions), and all resulting foreign exchange gains and losses are recognized as a separate component of equity.

On consolidation, foreign exchange gains and losses resulting from the translation of the net investment in foreign operations are recognized in the statement of comprehensive income and accumulated as a separate component of equity. When a foreign operation is disposed of or sold, the cumulative amount of exchange gain/losses attributable to the operation is recognized in the income statement as part of the capital gain or loss on the sale.

The following exchange rates have been used:

Country	Currency	Closing day rate	Average rate
USA	1 USD	6.5156 (6.9234)	6.7754 (6.4969)
France. Germany	1 EUR	8.6166 (8.9447)	8.7053 (9.0305)
UK	1 GBP	10.4914 (10.6768)	10.7340 (10.4115)
Japan	1 JPY	0.0756 (0.0892)	0.0851 (0.0817)
China	1 CNY	1.0456 (1.0998)	1.0738 (1.0057)
South Korea	1 KRW	0.0061 (0.0060)	0.0060 (0.0059)

1.5 Property, plant and equipment

All items of property, plant and equipment (PPE) are measured at cost less accumulated depreciation and any impairment losses. The residual values and useful lives of assets are reviewed at each balance sheet date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. On disposal of the asset, any resulting gains are recognized in other income and losses are recognized in other operating expenses. Subsequent expenditure is included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the asset will flow the Group and the cost of the asset can be measured reliably. All other

repairs and maintenance are expensed in the income statement during the financial period in which they are incurred. Depreciation of PPE is calculated using the straight-line method to allocate the cost of the asset over its estimated useful life, as follows:

Computers	3 years
Other equipment	5 years
Leasehold improvements:	
Remaining lease period	1–5 years

1.6 Intangible assets

a) Goodwill

Goodwill is initially measured as the difference between the aggregate of the acquisition date fair value of the consideration transferred and the amount of any non-controlling interests, and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is tested for impairment annually and is carried at cost less accumulated impairment losses. The gain or loss arising on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

In testing for impairment, goodwill is allocated to cash-generating units. The smallest cash-generating unit used is IAR Systems.

Goodwill is allocated to the cash-generating unit or group of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

b) Trademarks

Trademarks are stated at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortization. Trademarks are amortized over their estimated useful lives of 5–15 years.

c) Software

Software is stated at historical cost. Software has a finite useful life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the software over its estimated useful life of 3-12 years.

IAR Systems conducts development activities. Development costs may be capitalized as intangible assets if, among other things, the Group can demonstrate the technical and financial feasibility of completing the asset and the value of the asset can be reliably measured.

Costs for development are expensed if, at the time of completion of the development work, it is not possible to assess with adequate certainty the profit generating ability of the future end-products. In cases where components are adapted for sale in a local market, for example Japan, the costs for this are capitalized as an asset that is amortized over a period of three years.

d) Customer contracts

Customer contracts are stated at historical cost. Customer contracts have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of customer contracts over their estimated useful life of five years.

1.7 Impairment

Assets that have an indefinite useful life are not subject to amortization/depreciation and are tested annually for impairment. Assets that are subject to amortization/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Previously recognized impairment losses on non-financial assets other than goodwill are reviewed for possible reversal of the impairment at each balance sheet date.

1.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated variable costs necessary to make a sale.

1.9 Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. These are included in current assets, with the exception of items maturing more than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables consist of trade and other receivables, as well as cash and cash equivalents in the balance sheet.

Recognition and measurement of financial assets

The purchase or sale of a financial asset is recognized on the trade date, which is the date on which Group commits to purchase or sell the asset. Financial instruments are initially recognized at fair value plus transaction costs, which applies to all financial assets not measured at fair value through profit or loss.

Loans and receivables are initially measured at amortized cost with the application of the effective interest rate method.

At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired.

1.10 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected within one year or earlier (or in the normal operating cycle of the business if this is longer), they are classified as current assets. If not, they are classified as non-current assets.

Trade receivables are initially measured at fair value and subsequently at amortized cost with the application of the effective interest rate method, less provisions for impairment. Since the expected maturity of trade receivables is short, these are carried at their nominal amount, less provisions for impairment.

1.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank deposits.

1.12 Borrowings

Borrowings are initially measured at fair value, net of transaction costs incurred.

Borrowings are subsequently measured at amortized cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer payment of the liability for at least 12 months after the balance sheet date. A financial

liability is derecognized from the balance sheet when the obligation is discharged, cancelled or otherwise extinguished.

1.13 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. Trade payables are initially measured at fair value and subsequently at amortized cost with the application of the effective interest rate method. Since the expected maturity of trade payables is short, these are carried at their nominal amount.

1.14 Current and deferred income tax

The income tax expense for the period consists of current tax and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In such cases, the resulting tax effect is also recognized in other comprehensive income or equity, respectively.

The current income tax expense is calculated on the basis of the tax laws that have been enacted or substantively enacted at the balance sheet date in the countries where the Parent Company and its subsidiaries operate and generate taxable income. The management regularly evaluates positions taken in tax returns with respect to situations in which the applicable tax regulations are subject to interpretation and, when deemed appropriate, makes provisions on the basis of amounts that are expected to be paid to the tax authorities.

The reported income tax expense includes tax payable or receivable with respect to the year's profit or loss, adjustments in current tax from earlier periods and changes in deferred tax. All tax liabilities/receivables are measured at the nominal amount according to the tax rules and tax rates that have been enacted or substantively enacted at the balance sheet date. For items that are recognized in the income statement, the related tax effects are also recognized in the income statement.

Deferred tax is calculated according to the balance sheet method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts.

Temporary differences are not recognized for consolidated goodwill or shares in subsidiaries that are not expected to be taxed in the foreseeable future. Deferred income tax assets relating to tax loss carryforwards or other future tax deductions are recognized only to the extent that it is probable that future taxable profit will be available against which the deduction can be utilized.

1.15 Provisions

Provisions for contingent consideration and legal claims are recognized when the Group has a present obligation (legal or constructive) that has arisen as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably.

1.16 Employee benefits

a) Pension obligations

The Group has defined contribution pension plans under which each company pays fixed contributions to a separate legal entity and has no legal or constructive obligation to pay further contributions. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that the Group may receive a cash refund or a reduction in future payments.

b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminate an employee or group of employees according to a detailed formal plan and is without realistic possibility of withdrawal; or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

c) Bonus plans

The Group recognizes a liability and an expense for bonuses when there is a legal obligation, in accordance with the company's bonus models, based on sales and/or profit.

1.17 Revenue recognition

Revenue is measured as the fair value of consideration received or receivable for the sale of goods and services net of VAT and discounts and after elimination of inter-company sales. In certain cases the Group's sales contracts include delivery of several different sub-components, so-called multiple elements. In these cases the Group has allocated revenue based on the estimated fair values of the respective sub-components in order to facilitate accurate recognition of revenue. Interest income is recognized using the effective interest rate method.

Net sales consist of revenue arising from the sale of development tools for embedded systems, contract work and maintenance contracts.

Revenue from software license fees is recognized upon delivery, which is not considered to have occurred until the access code for the license or the CD with the software has been made available to the customer.

Contract work is of two different types, new development contracts and maintenance contracts, both of which are carried out at a fixed price. Revenue from new development contracts is recognized in pace with the estimated fair value of that which has been delivered to the customer, which is primarily based on the stage of completion of the transaction. Revenue arising from maintenance contracts and support is accrued on a straight-line basis over the term of the contract. Revenue is recognized only to the extent of the expenses recognized that are likely to be recoverable from the customer.

1.18 Foreign exchange gains and losses

Realized foreign exchange gains and losses attributable to purchases in the normal course of business are recognized in goods for resale. Foreign exchange gains and losses arising on remeasurement of loans and financial receivables in foreign currencies are recognized in financial income or expenses.

1.19 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain items property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between amortization of the liability and finance charges to produce a constant periodic rate of interest on the remaining balance of the liability. The corresponding obligation to pay future leasing charges, net of finance charges, is included in the balance sheet items non-current borrowings and current borrowings.

Note 1, cont´d.

The interest element of the finance charge is recognized in the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease period.

1.20 Borrowing costs

The Group has no borrowing costs that are directly attributable to the purchase, construction or production of assets that take a substantial period of time to get ready for their intended use or sale. In view of this, borrowing costs are expensed in the period in which they are incurred.

1.21 Cash flow statement

The cash flow statement is presented in accordance with the direct method. The reported cash flow includes only transactions that lead to cash receipts or payments. Cash and cash equivalents comprise cash on hand and bank deposits, together with short-term, highly liquid investments that are subject to an insignificant risk of changes in value, are traded on an open market in known amounts or have a remaining maturity of three months or less from the date of acquisition.

PARENT COMPANY

1.22 Accounting policies of the Parent Company

The annual financial statements of the Parent Company are presented in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities. RFR 2 states that in the annual report for the legal entity, the Parent Company shall apply all EU-endorsed IFRSs and statements as far as possible within the framework of the Annual Accounts Act and with respect to the connection between accounting and taxation. This recommendation defines the exceptions and additional disclosures compared to IFRS. The differences between the accounting policies applied by the Group and the Parent Company are described below. The following accounting policies for the Parent Company have been applied consistently for all periods presented in the Parent Company's financial statements.

Changes in accounting policies

The amendments to RFR 2, Accounting for Legal Entities, that have gone into effect and apply to the financial year 2012 refer to the following areas:

IFRS 7, Financial Instruments: Disclosures
Introduction of a requirement for specification of financial assets.

IAS 1, Presentation of Financial Statements
Introduction of a requirement for specification of larger amounts included in prepaid expenses and accrued income and accrued expenses and prepaid income.

IAS 10, Events After the Reporting Period
Clarification regarding the voluntary exception related to group contributions paid. Due to the connection between reporting and taxation, the rules for recognition of dividends do not need to be applied in legal entities with regard to group contributions.

IAS 11, Construction Contracts
Clarification that only fixed price construction contracts are excepted from recognition in accordance with IAS 11 in legal entities.

IAS 18, Revenue
The exception regarding recognition of cost plus contracts, i.e. that expenses for work in progress on running account do not need to be taken up as an asset in legal entities, has been removed in the sections related to IAS 11, Construction Contracts, IAS 18, Revenue, and IFRIC 15, Agreements for the Construction of Real Estate.

IAS 18, Revenue
Addition of a clarification regarding fixed price contracts stating that legal entities may use the alternative treatment for revenue recognition in accordance with Chapter 2, § 4 of the Swedish Annual Accounts Act, when the service has been rendered.

IAS 19, Employee Benefits
The rule against recognition of actuarial gains and losses in other comprehensive income has been removed.

The other changes in RFR 2 have not had any significant impact on the Parent Company's financial statements.

Amendments to RFR 2 that are not yet effective

The Swedish Financial Reporting Board has published an amendment to RFR 2 regarding recognition of group contributions that is effective for annual periods beginning on or after January 1, 2013. The amendment permits companies to choose whether to recognize group contributions according to the recommendation's main rule or according to an alternative rule. Under the main rule, the parent company recognizes group contributions received from a subsidiary as financial income and group contributions paid to a subsidiary as an increase in the investment in group companies. Under the alternative rule, group contributions that the parent company receives from or pays to a subsidiary are recognized as year-end appropriations.

This change has not been applied in advance.

1.23 Group and shareholder contributions

The Parent Company recognizes group contributions in accordance with RFR 2, Accounting for Legal Entities, whereby group contributions received are recognized as financial income. Group contributions paid are recognized in accordance with the alternative rule in RFR 2 as an expense in the income statement.

1.24 Finance leases

In the Parent Company, all leases are recognized according to the rules for operating leases regardless of whether they are operating or finance leases.

1.25 Dividends

The Parent Company recognizes dividends from subsidiaries when the right to receive payment is deemed certain.

1.26 Shares in group companies

In the Parent Company's financial statements, shares in group companies are measured at cost less any impairment losses. Dividends received from subsidiaries are recognised only to the extent that these derive from profits arising after the acquisition date.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable

under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that are associated with a significant risk for material adjustments to the carrying amounts of assets and liabilities within the next financial year are described below.

a) Impairment testing of goodwill

The Group tests goodwill for impairment annually, in accordance with the accounting policy stated in 1.7 above. The recoverable amounts of cash-generating units have been determined based on calculations of value in use. These calculations require the use of estimates (Note 11).

Value in use is calculated on the basis of projected future cash flows.

The growth rate used is based on past performance and the management's expectations for market development. For year 1, this corresponds to the budget and business plan established by the Board of Directors. For years 2 and 3, this corresponds to the management's forecasts. Cash flows beyond the three-year period are extrapolated based on a growth rate of 2%. This growth rate does not exceed the estimated growth rate for the market.

The estimated operating margin used in calculation of value in use is based on past performance and the management's expectations for market development. For year 1, this corresponds to the budget and business plan established by the Board of Directors. For years 2 and 3, this corresponds to the management's forecasts. Cash flows beyond the three-year period are extrapolated based on an estimated operating margin on a level with year 3.

The discount rate used, 11%, is stated before tax and is assessed to reflect specific risks relating to the operating segment.

b) Income taxes

The Group is subject to income taxation in several countries. Extensive judgment is required to determine the provision for income taxes in the consolidated financial statements. There are many transactions and calculations for which the ultimate tax determination is uncertain at the date of the transactions and calculations. The Group has substantial accumulated loss carryforwards.

At December 31, 2012, the Group had cumulative loss carryforwards of approximately SEK 265m. All loss carryforwards are found in Sweden and can be used for an unlimited period.

A total deferred tax asset of SEK 58.4m is recognized in the consolidated balance sheet at December 31, 2012, based on these loss carryforwards. The value of loss carryforwards is recognized as an asset to the extent that it is probable that the loss carryforwards can be utilized against future taxable profits. The assessed value is based on previous performance and the management's expectations for market development.

c) Revenue recognition

The Group reports revenue in accordance with IAS 18, Revenue, whereby revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the seller and these can be measured reliably. Revenue is measured according to the principles described in 1.17 above.

The company assesses the probability that the economic benefits will flow to the Group on the basis of several factors, such as a customer's payment history and credit rating. In certain cases, the Group requires a deposit from the customer. If the company deems a debt to be doubtful, a provision is made to cover the debt until it is possible to determine whether or not the Group will receive payment. Prepayments are recorded as current liabilities until they are earned. In certain cases, the Group's sales contracts include delivery of several different sub-components, so-called multiple elements. In these cases, the Group has allocated revenue based on the estimated fair values of the respective sub-components in order to facilitate accurate revenue recognition.

NOTE 2 FINANCIAL RISK MANAGEMENT

OPERATIONAL RISKS

Customers

IAR Systems strives to build long-term relationships with its customers. The Group has a good spread across customer categories, industries and geographical markets and no single customer accounts for a large share of the Group's total sales. Despite this, the loss of one or more major customers may have a negative impact on the Group's business and results.

Employees

The employees' knowledge about the products and their relationships with the customers are valuable competitive advantages. There is a risk that key personnel will leave the company, but expertise and loyalty are strengthened through training and knowledge sharing. IAR Systems has low employee turnover and a good working environment.

Technology

In the IT sector, it is of the utmost importance to offer products and services using advanced technology. IAR Systems' in-house developed software is technologically advanced. However, it cannot be ruled out that the company could be negatively affected by future technology shifts.

Competitors

IAR Systems competes with both international and domestic companies. The company enhances its competitiveness by building knowledge, investing in technological development and strengthening its customer relationships.

Business cycle

The business cycle is difficult to predict and has an impact on the company's sales and earnings. The management closely monitors trends in the business cycle. The company's customers are found in a range of different areas, which reduces sensitivity to the business cycle.

Financial risk factors

The carrying amounts, less accumulated impairment, of trade receivables and trade payables are assumed to correspond to their fair values, since these items are of a short-term nature. Through its operations, the Group is exposed to various types of financial risk: market risk (including foreign exchange, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management policy is focused on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Group's financial performance. Risk management is handled centrally according to policies that are adopted by the Board of Directors.

The management identifies, evaluates and hedges financial risks.

a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to different currencies, predominantly the US dollar (USD) and euro (EUR). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the functional currency of the entity.

The Group's sales in foreign currency, mainly USD and EUR, make up around 94% of total sales. Of the cost of goods sold, which accounts around 12% of the Group's cost mass, approximately 86% of purchases are denominated in foreign currency, also primarily USD and EUR.

Note 2, cont'd.

SEK M	Total	SEK	USD	EUR	JPY	Other currencies
Net sales	230.1	14.3	102.6	52.2	39.8	21.2
Cost of goods sold	23.3	3.3	12.3	4.0	3.6	0.1
Other expenses	171.6	97.7	43.1	8.9	16.3	5.6

(ii) Price risk
The Group is not assessed to be exposed to any price risk that could have a significant impact on the Group's profit or financial position.

(iii) Interest rate risk related to cash flows and fair value
Because the Group has a net cash surplus, interest rate risk is deemed minor.

b) Credit risk
Credit risk is managed at the group level. Credit risk arises from cash and cash equivalents, deposits with banks and credit exposures to customers, including outstanding receivables and contractual transactions. For banks, only independently rated parties with a minimum credit rating of "A" are accepted. Individual risk limits for customers are set based on internal credit assessments with external support in accordance with the limits set by the management.

The utilization of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and the management does not expect any losses from non-payment by these counterparties in excess of the amount for which provisions have been made.

CREDIT RISKS IN TRADE RECEIVABLES
The Group has sales to a large number of customers. Most of the Group' sales go to customers outside Sweden and the USA is a large and important market.

Sales are subject to normal delivery and payment conditions. The Group's credit granting policy contains rules to ensure that management of customer credits includes credit assessment, credit limits, decision-making levels and handling of doubtful debts. No specific customer or group of customers accounted for a significant share of trade receivables at year-end 2012. Historically, the Group's bad debt losses have not been significant in scope.

c) Liquidity risk
The Group manages liquidity risk by ensuring that it has adequate cash and cash equivalents and short-term investments with a liquid market while maintaining sufficient access to financing through committed credit facilities. Due to the dynamic nature of the Group's operations, the management achieves flexibility in financing by maintaining agreements for lines of credit. In addition, the management closely monitors rolling forecasts of the Group's liquidity reserve, consisting of undrawn committed credit facilities and cash and cash equivalents, on the basis of anticipated cash flows.

The table below analyses the maturity structure of the Group's financial liabilities grouped according to the period remaining to the contractual maturity. The amounts shown in the table are the contractual undiscounted cash flows.

At December 31, 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Finance leases	1.2	0.5	0.6	-
Bank overdraft facilities	-	-	-	-
Trade and other payables[1]	8.4	-	-	-

At December 31, 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Finance leases	0.5	0.6	0.9	-
Bank overdraft facilities	-	-	-	-
Trade and other payables[1]	11.8	-	-	-

[1] *The maturity analysis refers only to financial instruments, for which reason items such as accrued social security expenses are not included.*

SENSITIVITY ANALYSIS
The risks described here and in the administration report can result in either lower income or higher expenses for the Group. The table below shows the effects on consolidated profit or loss after tax resulting from changes in a number of items in the income statement.

Sensitivity analysis

At December 31, 2012	Change	Effect on profit
Cost of goods sold	+/– 5%	+/– SEK 1.2m
Payroll expenses	+/– 5%	+/– SEK 6.0m
Currency – EUR	+/– 5%	+/– SEK 1.9m
Currency – USD	+/– 5%	+/– SEK 2.4m
Currency – YEN	+/– 5%	+/– SEK 1.0m
Variable interest	+/–1%-point	+/– SEK 0.0m

At December 31, 2011	Change	Effect on profit
Cost of goods sold	+/– 5%	+/– SEK 1.0m
Payroll expenses	+/– 5%	+/– SEK 5.9m
Currency – EUR	+/– 5%	+/– SEK 1.9m
Currency – USD	+/– 5%	+/– SEK 2.1m
Currency – YEN	+/– 5%	+/– SEK 1.2m
Variable interest	+/–1%-point	+/– SEK 0.0m

Note 2, cont'd.

CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure as a means for reducing the cost of capital.

In order to maintain or adjust the capital structure, the Group may change the amount of dividends paid to the shareholders, repay capital to shareholders, issue new shares or sell assets to reduce debt.

Like other companies, the Group monitors capital on the basis of the net debt/equity ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total equity is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The Group's target is a net debt/equity ratio of between 0% and –10%.

The net debt/equity ratio at December 31, 2012 and 2011 was as follows:

	2012	2011
Total borrowings (Note 20)	2.3	2.0
Less cash and cash equivalents (Note 17)	–51.6	–36.5
Net debt	–49.3	–34.5
Shareholders' equity	251.1	241.1
Total equity	201.8	206.6
Net debt/equity ratio	–24%	–17%

NOTE 3 SEGMENT REPORTING

Following the distribution of Deltaco and the sale of Northern Parklife, there is now only one operating segment that consists of the entire Group.

	Continuing operations IAR Systems		Reconciling item Group distributed operations		Reconciling item Group sold operations		Reconciling item Group other		Group	
January-December	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
External sales	230.1	200.4							230.1	200.4
Internal sales	0.0	0.0							0.0	0.0
Total income	**230.1**	**200.4**							**230.1**	**200.4**
Goods for resale	–23.3	–19.0							–23.3	–19.0
Personnel costs	–120.5	–116.7							–120.5	–116.7
Other external expenses	–44.5	–35.3							–44.5	–35.3
Depreciation of property, plant and equipment	–2.3	–1.7							–2.3	–1.7
Amortization of intangible assets	–4.3	–3.7							–4.3	–3.7
Operating profit	**35.2**	**24.0**							**35.2**	**24.0**
Net financial items	–0.1	0.1							–0.1	0.1
Profit before tax	**35.1**	**24.1**							**35.1**	**24.1**
Income tax expense	–22.1	2.9							–22.1	2.9
Profit from continuing operations	**13.0**	**27.0**							**13.0**	**27.0**
Profit from operations distributed/sold	-	-	-	2.1	-	–2.9	-	-	-	–0.8
Gain/loss on distribution/sale	-	-	-	-	-	–45.0	-	-	-	–45.0
Profit/loss for the year	**13.0**	**27.0**	**-**	**2.1**	**-**	**–47.9**			**13.0**	**–18.8**
Other disclosures										
Total assets	324.1	308.9	-	-	-	-	-	-	324.1	308.9
Total liabilities	70.3	67.8	-	-	-	-	-	-	70.3	67.8
Investments in property, plant and equipment	3.2	3.3	-	-	-	-	-	-	3.2	3.3
Investments in intangible assets	17.7	21.6	-	-	-	-	-	-	17.7	21.6
Depreciation of property, plant and equipment	–2.3	–1.7	-	-	-	-	-	-	–2.3	–1.7
Amortization intangible assets	–4.3	–3.7	-	-	-	-	-	-	–4.3	–3.7

Note 3, cont´d.

GEOGRAPHICAL AREAS

	Sales		Assets		Investments	
SEK M	2012	2011	2012	2011	2012	2011
Americas						
USA	87.1	65.6	28.8	24.9	0.6	0.0
Other countries	7.8	10.4	-	-	-	-
	94.9	76.0	28.8	24.9	0.6	0.0
Asia						
Japan	35.5	33.0	8.2	8.1	0.0	0.7
Other countries	23.4	15.2	5.6	2.0	0.0	0.3
	58.9	48.2	13.8	10.1	0.0	1.0
EMEA						
UK	7.6	7.5	4.0	4.1	0.0	0.0
Germany	29.3	30.0	11.6	8.3	0.0	0.1
Other countries	25.4	22.8	3.6	-	-	-
	62.3	60.3	19.2	12.4	0.0	0.1
Nordic region						
Sweden	7.2	9.2	262.3	261.5	20.3	23.8
Other countries	6.8	6.7	-	-	-	-
	14.0	15.9	262.3	261.5	20.3	23.8
Total	**230.1**	**200.4**	**324.1**	**308.9**	**20.9**	**24.9**

NOTE 4 GOODS FOR RESALE

The item "goods for resale" within consolidated operating profit includes foreign exchange gains/losses of SEK 0.0m (–0.1) pertaining to operating receivables and liabilities.

Operating profit in the Parent Company includes foreign exchange gains/losses of SEK 0.0m (0.0).

NOTE 5 OTHER EXTERNAL EXPENSES

FEES TO AUDITORS

	Group		Parent Company	
MSEK	2012	2011	2012	2011
Deloitte				
Audit of the financial statements	0.5	-	0.0	-
Audit-related services other than the audit	-	-	-	-
Tax advisory services	0.0	-	0.0	-
Other services	-	-	0.0	-
Total Deloitte	**0.5**	**-**	**0.0**	**-**
Others				
Audit of the financial statements	-	0.9	-	0.3
Audit-related services other than the audit	0.6	0.1	0.5	-
Tax advisory services	0.7	0.2	0.0	0.1
Others	-	0.7	-	0.6
Total others	**1.3**	**1.9**	**0.5**	**1.0**
Total fees to auditors	**1.8**	**1.9**	**0.5**	**1.0**

The audit of the financial statements refers to fees for the statutory audit, i.e. work that has been necessary in order to issue the audit report, as well as so-called audit advice provided in connection with the audit of the financial statements.

NOTE 6 PERSONNEL COSTS

AVERAGE NUMBER OF EMPLOYEES

The average number of employees in the Group during 2012 was 149 (137). The breakdown of the average number of employees by country and, in Sweden, by location, is shown in the table below.

The majority, 58% (67%), are employed in Sweden (calculated on the average number of employees during the year).

AVERAGE NUMBER OF EMPLOYEES

	2012		2011	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Parent Company				
Stockholm	4	75%	4	75%
Subsidiaries in Sweden				
Uppsala	83	75%	88	79%
Subsidiaries outside Sweden				
UK	3	67%	3	67%
Germany	5	40%	5	60%
France	3	67%	-	-
USA	32	72%	21	67%
South Korea	4	75%	1	100%
China	3	75%	4	50%
Japan	12	75%	11	73%
Total subsidiaries	**145**	**69%**	**133**	**67%**
Total Group	**149**	**72%**	**137**	**73%**

GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES IN THE GROUP

	2012		2011	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Group (incl. subsidiaries)				
Board members	5	80%	5	80%
CEO and other senior executives	2	100%	2	100%
Presidents in subsidiaries	-	-	-	-
Parent Company				
Board members	5	80%	5	80%
CEO and other senior executives	2	100%	2	100%

SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES

The Group's total payroll costs in continuing operations amounted to SEK 127.8m (118.4), of which social security expenses accounted for SEK 23.6m (21.5) and pensions for SEK 8.3m (11.3).

	2012		2011	
SEK M	Salaries and other remuneration	Social security expenses (of which pension costs)	Salaries and other remuneration	Social security expenses (of which pension costs)
Parent Company	6.9	2.9 (0.7)	7.2	3.7 (1.3)
Subsidiaries	89.0	29.0 (7.6)	78.4	29.1 (10.0)
Total Group	**95.9**	**31.9 (8.3)**	**85.6**	**32.8 (11.3)**

Of the Group's total pension costs, SEK 0.3m (0.6) is attributable to board members and presidents. Of the Parent Company's total pension costs, SEK 0.3m (0.6) is attributable to the Board of Directors and CEO.

BREAKDOWN OF SALARIES AND OTHER REMUNERATION BY COUNTRY BETWEEN BOARD MEMBERS, THE CEO, OTHER SENIOR EXECUTIVES AND OTHER EMPLOYEES

	2012		2011	
SEK M	Board, CEO and other senior executives	Other employees	Board, CEO and other senior executives	Other employees
Parent Company	6.0	0.9	6.2	1.0
Subsidiaries in Sweden	-	44.0	-	45.3
Subsidiaries outside Sweden	-	45.0	-	33.1
Total Group	**6.0**	**89.9**	**6.2**	**79.4**

REMUNERATION TO SENIOR EXECUTIVES

The Chairman and other members of the Board of Directors are paid fees in accordance with the decision of the Annual General Meeting, which has also approved the principles for remuneration for senior executives. No additional remuneration is paid for work on the Board's committees.

No board fees are paid to members who receive salary from companies in the IAR Group. In 2012 this rule applied to Stefan Skarin.

BOARD OF DIRECTORS

The Annual General Meeting of IAR Systems Group AB approved board fees as follows:

Board Chairman	SEK 300,000
Other Board members who do not receive salary from companies in the IAR Group (3 people)	SEK 125,000 per member

Note 6, cont´d.

REMUNERATION AND OTHER BENEFITS DURING THE YEAR

Remuneration to the Board of Directors, CEO and other senior executives in 2012

	Basic salary/ board fees		Variable salary		Other benefits		Pension costs		Other remuneration		Total	
SEK M	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Board Chairman Peter Larsson	0.3	0.3									0.3	0.3
Board member Karin Moberg	0.1	0.1									0.1	0.1
Board member Jonas Mårtensson	0.1	0.1		–		–		–	–	–	0.1	0.1
Board member Markus Gerdien (May 4, 2011 -)	0.1	0.1		–		–		–	–	–	0.1	0.1
Board member Björn Abild (- May 3, 2011)	-	0.0		–		–		–	–	–	-	0.0
CEO Stefan Skarin	2.6	2.6	0.8	1.0	0.1	0.1	0.3	0.6	-	-	3.8	4.3
CFO Stefan Ström	1.6	1.6	0.4	0.4	0.1	0.1	0.3	0.6	-	-	2.4	2.7
Total	**4.8**	**4.8**	**1.2**	**1.4**	**0.2**	**0.2**	**0.6**	**1.2**	**-**	**-**	**6.8**	**7.6**

PRINCIPLES

The principles for remuneration for the CEO and other senior executives are drawn up by the remuneration committee and presented to the Board, which puts forward proposals for such principles for approval by the AGM. The remuneration principles for 2012 were unchanged compared to those applied in 2011.

For 2012, the Group has applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM.

Remuneration to the CEO and the CFO consists of basic salary, variable salary, other benefits and pension. The maximum of variable salary for the CEO and CFO corresponds to 50% of basic salary. Pension benefits and other benefits are paid as part of the total remuneration package.

The amount of variable salary for the CEO and other senior executives is determined by the company's Board of Directors from time to time. Variable salary is based on actual outcomes in relation to individually set targets.

VARIABLE SALARY

For the CEO, variable salary for 2012 was based on the Group's net sales and operating profit. The bonus amount for 2012 was equal to 31% (39) of basic salary.

For other senior executives, variable salary for 2012 was based on the Group's net sales and operating profit. The bonus amount for 2012 for other senior executives was equal to 27% (22) of basic salary.

SHARE-BASED INCENTIVE SCHEMES

The AGM on May 3, 2011, resolved to approve a share-based incentive scheme. The offer to acquire subscription warrants at a market premium was directed to all employees in the Group. A total of 1,168,856 subscription warrants were issued, of which 1,017,000 were subscribed for 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.

The CEO and CFO subscribed for 250,000 and 60,000 warrants, respectively. The other 707,000 subscribed warrants were subscribed for by a total of 67 employees in a number of between 500 and 60,000 warrants each. The employees who chose to participate in the scheme thus subscribed for an average of just over 10,550 warrants each.

PENSION AGREEMENTS

The CEO and CFO are covered by pension insurance corresponding to the ITP plan, but with a contractual retirement age of 60 years. All other senior executives are covered by pension insurance corresponding to the ITP plan. All of the Group's pension plans are of the defined contribution type.

TERMINATION BENEFITS

In the event of dismissal by the company, the CEO and CFO are entitled to full salary during a notice period of 12 months and termination benefits corresponding to a maximum of six monthly salaries after the notice period.

The term of notice for the CEO and CFO in relation to the company is six months.

All senior executives are entitled to salary and other contractual benefits during the notice period.

NOTE 7 FINANCIAL INCOME AND EXPENSES

	Group		Parent Company	
SEK M	2012	2011	2012	2011
Interest income	0.6	0.9	0.4	0.2
Dividends from subsidiaries	-	-	28.6	119.7
Foreign exchange gains		-	0.2	-
Group contributions received	-	-	15.9	19.5
Total financial income	**0.6**	**0.9**	**45.1**	**139.4**
Interest expenses	–0.1	–0.7	–0.0	–0.7
Foreign exchange losses	–0.1	–0.0	-	–0.0
Finance leases	–0.5	–0.1	-	-
Impairment loss on shares in subsidiaries	-	-	-	–119.7
Loss on the sale of shares in subsidiaries	-	-	-	–31.1
Total financial expenses	**–0.7**	**–0.8**	**–0.0**	**–151.5**
Net financial items	**–0.1**	**0.1**	**45.1**	**–12.1**

NOTE 8 INCOME TAX EXPENSE

The following components are included in income tax expense.

	Group		Parent Company	
SEK M	2012	2011	2012	2011
Current tax on profit for the year	–5.5	–1.0	-	-
Deferred tax	–16.6	3.9	–15.2	5.6
Total tax on profit for the year	**–22.1**	**2.9**	**–15.2**	**5.6**

The income tax expense for the financial year can be reconciled against profit before tax as follows:

	Group		Parent Company	
SEK M	2012	2011	2012	2011
The year's deferred tax expense/income				
Deferred tax expenses pertaining to:				
intangible assets	–6.0	-	-	-
utilization of loss carrryforwards	–3.4	2.9	–3.8	5.6
changed tax rate	–11.4	-	–11.4	-
other temporary differences	–0.1	–0.7	-	-
Deferred tax income pertaining to:				
support and maintenance contracts	2.3	0.0	-	-
intangible assets	-	0.9	-	-
untaxed reserves	0.9	0.8	-	-
other temporary differences	1.1	-	-	-
Total deferred tax in the income statement	**–16.6**	**3.9**	**–15.2**	**5.6**

	Group		Parent Company	
SEK M	2012	2011	2012	2011
Reconciliation between effective tax and tax based on the applicable tax rate				
Reported profit before tax	35.1	24.1	42.4	–18.6
Tax according to the applicable tax rate	–10.5	–6.3	–11.2	4.9
Tax effect of non-deductible expenses	–0.2	–1.3	–0.0	–39.7
Tax effect of non-taxable income	0.0	0.0	7.4	31.5
Refund of paid tax after review of earlier tax assessment	-	-	-	-
Utilization of previously uncapitalized loss carryforwards	-	10.5	-	8.9
Deferred tax expense related to changed tax rate	–11.4	-	–11.4	-
Tax on profit for the year according to the income statement	**–22.1**	**2.9**	**–15.2**	**5.6**

TAX RATE

In the fourth quarter of 2012 with Swedish parliament decided to lower the Swedish corporate tax rate from 26.3% to 22%. In computing deferred tax on temporary differences at December 31, 2012, the reduced tax rate of 22% has been used.

TEMPORARY DIFFERENCES

Temporary differences arise when the carrying amount of an asset or liability differs from its tax base. Temporary differences pertaining to the following items have resulted in deferred tax liabilities and deferred tax assets. Temporary differences pertaining to software, trademarks and customer contracts have resulted in deferred tax liabilities and temporary differences pertaining to loss carryforwards have resulted in deferred tax assets.

	Group		Parent Company	
SEK M	2012	2011	2012	2011
Deferred tax liabilities attributable to intangible assets	–8.3	–2.3	-	-
Deferred tax liabilities attributable to untaxed reserves	–0.3	–1.2		
Deferred tax liabilities attributable to other temporary differences	–0.1	-	-	-
Total deferred tax liabilities	**–8.7**	**–3.5**	**-**	**-**
Deferred tax assets attributable to loss carryforwards	58.4	73.2	58.0	73.2
Deferred tax assets attributable to support and maintenance contracts	2.6	0.3	-	-
Deferred tax assets attributable to other temporary differences	1.4	0.3	-	-
Total deferred tax assets	**62.4**	**73.8**	**58.0**	**73.2**
Total deferred tax assets, net	**53.7**	**70.3**	**58.0**	**73.2**

At December 31, 201s, the Group had total unutilized loss carryforwards in continuing operations of SEK 265m (280). Based on these loss carryforwards, the Group has recognized a deferred tax asset of SEK 58.4m (73.2). Deferred tax assets are recognized only to the extent that it is probable that these loss carryforwards can be offset against future taxable profits. The assessment of the Group's future earnings performance is based on both reported profit in recent years and on an improved outlook for profitability. The recognized tax assets refer primarily to IAR Systems Group AB.

There is no expiry date for the above loss carryforwards.

NOTE 9 OPERATIONS FOR DISTRIBUTION AND SALE

In December 2010 the Board of Directors called an Extraordinary General Meeting (EGM) to resolve on a proposal to distribute the shares in Deltaco AB to the shareholders. An EGM was held in January 2011 and a decision was made to approve the distribution, which was then carried out in April 2011.

Profit from Deltaco AB is recognized in the item "Profit from operations distributed/sold" for 2011.

In April, Northern Parklife AB with related subsidiaries was sold to its own management. The sale was approved by an EGM in May 2011.

Profit from Northern Parklife AB is recognized in the item "Profit from operations distributed/sold" for 2011.

Note 9, cont'd.

Cash flows from Deltaco and Northern are recognized in the item "Cash flow from operations distributed/sold".

PROFIT FOR THE YEAR FROM OPERATIONS DISTRIBUTED AND SOLD

	Deltaco		Northern		Total	
SEK M	2012	2011	2012	2011	2012	2011
Profit for the year from distributed operations	-	2.1	-	-	-	2.1
Profit for the year from sold operations	-	-	-	–2.9	-	–2.9
Gains/losses on the sale of subsidiaries	-	-	-	–45.0	-	–45.0
Profit from operations distributed/sold	**-**	**2.1**	**-**	**–47.9**	**-**	**–45.8**

PROFIT/LOSS FOR OPERATIONS DISTRIBUTED AND SOLD

	Deltaco		Northern	
SEK M	2012	2011	2012	2011
Net sales	-	103.5	-	12.6
Operating expenses	-	–100.2	-	–14.9
Depreciation of property, plant and equipment	-	–0.6	-	–0.1
Amortization of intangible assets	-	–0.2	-	–0.2
Operating profit/loss	**-**	**2.5**	**-**	**–2.6**
Net financial items	-	–0.4	-	–0.3
Profit/loss before tax	**-**	**2.1**	**-**	**–2.9**
Income tax expense	-	0.0	-	0.0
Profit/loss for the year	**-**	**2.1**	**-**	**–2.9**

HOLDINGS OF ASSETS FOR DISTRIBUTION AND RELATED LIABILITIES

ASSETS, SEK M	Dec 31, 2012	Dec 31, 2011
Intangible assets	-	-
Property, plant and equipment	-	-
Financial assets	-	-
Total non-current assets	**-**	**-**
Inventories	-	-
Trade receivables	-	-
Other current assets	-	-
Cash and cash equivalents	-	-
Total current assets	**-**	**-**
Total assets held for distribution	**-**	**-**

LIABILITIES, SEK M	Dec 31, 2012	Dec 31, 2011
Borrowings, non-current	-	-
Provisions	-	-
Total non-current liabilities	**-**	**-**
Trade payables	-	-
Borrowings, current	-	-
Other current liabilities	-	-
Total current liabilities	**-**	**-**
Liabilities attributable to assets held for distribution	**-**	**-**

NET CASH FLOWS FROM OPERATIONS DISTRIBUTED/SOLD, SEK M

	2012	2011
Cash flow from operating activities	-	8.5
Cash flow from investing activities	-	–0.9
Cash flow from financing activities	-	–39.7
Net cash flow	**-**	**–32.1**

NOTE 10 EARNINGS PER SHARE (BASIC AND DILUTED)

	Group	
SEK M	2012	2011
Continuing operations		
Profit/loss, SEK M	13.0	27.0
Basic earnings per share, SEK	1.16	2.44
Diluted earnings per share, SEK	1.06	2.44
Operations distributed/sold		
Profit/loss, SEK M	-	–45.8
Basic earnings per share, SEK	-	–4.14
Diluted earnings per share, SEK	-	–4.14
Total		
Profit/loss, SEK M	13.0	–18.8
Basic earnings per share, SEK	1.16	–1.70
Diluted earnings per share, SEK	1.06	–1.70
Number of shares		
Average number of shares before dilution, millions	11.23	11.05
Average number of shares after dilution, millions	12.24	11.05

BASIC

Basic 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.

Note 10, cont'd.

DILUTED

Profit for the year after tax is divided by the average number of shares outstanding during the year after dilution. The dilutive effect of warrants is determined based on the following assumptions: (1) all warrants with a exercise price that is lower than the market value per share at the end of the respective period are exercised and new shares issued, (2) the net proceeds generated by the exercise of warrants is equal to the number of warrants exercised multiplied by the value of the exercise price, (3) the net proceeds are used to repurchase shares at a price equal to the market price per share according to (1) above. The increase in the number of shares in the company is thus equal to the number of shares issued through the exercise of warrants less the number of shares repurchased with the net proceeds received.

NOTE 11 INTANGIBLE ASSETS

	Goodwill		Trademarks		Customer contracts		Software incl. internally generated software development costs		Total	
Group, SEK M	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Opening cost	110.7	147.9	11.7	16.3	3.4	7.5	29.6	26.2	155.4	197.9
Purchases	-	13.3		-		-	17.7	8.3	17.7	21.6
Sales and disposals	-	–50.5	-	–4.6	-	–4.1	–1.8	–4.9	–1.8	–64.1
Closing accumulated cost	**110.7**	**110.7**	**11.7**	**11.7**	**3.4**	**3.4**	**45.5**	**29.6**	**171.3**	**155.4**
Opening amortization	-	-	–5.3	–6.8	–3.4	–6.2	–7.8	–7.4	–16.5	–20.4
Sales and disposals	-	-	-	2.3	-	2.8	1.8	2.5	1.8	7.6
The year's amortization in continuing operations	-	-	–0.7	–0.8	-	-	–3.6	–2.9	–4.3	–3.7
Closing accumulated amortization	**-**	**-**	**–6.0**	**–5.3**	**–3.4**	**–3.4**	**–9.6**	**–7.8**	**–19.0**	**–16.5**
Opening impairment	-	–15.8	-	–1.7	-	–1.2	-	-	-	–18.7
Sales	-	15.8	-	1.7	-	1.2	-	-	-	18.7
Closing accumulated impairment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Closing carrying amount	**110.7**	**110.7**	**5.7**	**6.4**	**0.0**	**0.0**	**35.9**	**21.8**	**152.3**	**138.9**

IMPAIRMENT TESTING OF INTANGIBLE ASSETS

The value of the Group's goodwill has been estimated at the lowest level where cash flows can be separately identified, i.e. at the operating segment level. Value in use is calculated on the basis of projected future cash flows.

The growth rate used is based on past performance and the management's expectations for market development. The growth rate used is based on past performance and the management's expectations for market development. For year 1, this corresponds to the budget and business plan established by the Board of Directors. For years 2 and 3, this corresponds to the management's forecasts. Cash flows beyond the three-year period are extrapolated based on a growth rate of 2%. This growth rate does not exceed the estimated growth rate for the market.

The estimated operating margin used in calculation of value in use is based on past performance and the management's expectations for market development. For year 1, this corresponds to the budget and business plan established by the Board of Directors. For years 2 and 3, this corresponds to the management's forecasts. Cash flows beyond the three-year period are extrapolated based on an estimated operating margin on a level with year 3.

The discount rate used, 11%, is stated before tax and is assessed to reflect specific risks relating to the operating segment.

Assumption	Growth rate	Operating margin	Discount rate (before tax)
Year 1 (Budget)	Acc. to the Board's adopted budget	Acc. to the Board's adopted budget	11% (11%)
Years 2-3 (forecast period)	Acc. to the management's estimated forecast	Acc. to the management's estimated forecast	11% (11%)
Terminal value	2% (2%)	On a level with year 3	11% (11%)

To support impairment testing of goodwill in the Group, the Group has carried out an overall analysis of the sensitivity of the variables used in the model. An adverse change in each of the key assumptions included in the business plan, a decrease in annual sales growth and operating margins beyond the forecast period or an increase in the discount rate, of which each is reasonably possible, shows that there is nonetheless a good margin between the recoverable value and carrying amount. The management has therefore made the assessment that there was no indication of impairment of goodwill at the end of 2012.

NOTE 12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements		Equipment		Total	
Group, SEK M	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Opening cost	0.5	0.3	13.6	17.1	14.1	17.4
Purchases	0.1	0.2	2.0	2.8	2.2	3.0
Purchases through finance leases	-	-	1.0	0.3	1.0	0.3
Sales and disposals	-	-	–0.3	–6.6	–0.3	–6.6
Closing accumulated cost	**0.6**	**0.5**	**16.3**	**13.6**	**16.9**	**14.1**
Opening depreciation	–0.3	–0.2	–8.0	–11.3	–8.3	–11.5
Sales and disposals	-	-	0.2	4.9	0.2	4.9
The year's depreciation of finance leases	-	-	–0.4	–0.4	–0.4	–0.4
The year's depreciation in continuing operations	–0.1	–0.1	–2.0	–1.2	–2.1	–1.3
Closing accumulated depreciation	**–0.4**	**–0.3**	**–10.2**	**–8.0**	**–10.6**	**–8.3**
Closing carrying amount	**-0.2**	**0.2**	**6.1**	**5.6**	**6.3**	**5.8**
Parent Company, SEK M						
Opening cost	-	-	0.4	2.1	0.4	2.1
Purchases	-	-	0.1	-	0.1	-
Sales and disposals	-	-	-	–1.7	-	–1.7
Closing accumulated cost	**-**	**-**	**0.5**	**0.4**	**0.5**	**0.4**
Opening depreciation	-	-	–0.2	–1.7	–0.2	–1.7
Sales and disposals	-	-	-	1.7	-	1.7
The year's depreciation in continuing operations	-	-	–0.1	–0.2	–0.1	–0.2
Closing accumulated depreciation	**-**	**-**	**–0.3**	**–0.2**	**–0.3**	**–0.2**
Closing carrying amount	**-**	**-**	**0.2**	**0.2**	**0.2**	**0.2**

OPERATING LEASES

During the year, lease payments under operating leases in the Group amounted to SEK 11.5m (10.4). The majority of operating leases consist of leases for premises. The Parent Company classifies all leases, whether operating or finance leases, as operating leases. The aggregate amount of future minimum lease payments at the balance sheet date under non-cancellable operating leases grouped by period to maturity was as follows:

	Group		Parent Company	
SEK M	**2012**	**2011**	**2012**	**2011**
Due for payment within 1 year	7.1	10.3	0.3	0.1
Due for payment within 2 years	5.0	5.2	0.3	0.0
Due for payment within 3 years	4.3	4.3	0.2	0.0
Due for payment within 4 years	1.0	2.9	-	-
Due for payment in 5 years or later	1.0	3.0	-	-

FINANCE LEASES

The majority of finance leases refer to company cars. The accumulated cost of finance leases at December 31, 2012, was SEK 3.1m (3.0).

Accumulated amortization at year-end amounted to SEK 0.8m (1.0). These obligations are recognized in equipment in the balance sheet.

Lease payments for company cars are affected by interest rate levels, and are thus variable. Total lease charges of SEK 0.5m (0.5) were paid during the year.

The present value of future payment obligations under finance leases is recognized in liabilities to credit institutions, divided between current and non-current liabilities, as follows:

Group, SEK M	**2012**	**2011**
Current portion (due within 1 year)	1.2	0.5
Non-current portion (due within 5 years)	1.1	1.5
Non-current portion (due later than 5 years)	-	-
Total	**2.3**	**2.0**

NOTE 13 OTHER NON-CURRENT RECEIVABLES

	Group		Parent Company	
SEK M	2012	2011	2012	2011
Receivable from NorNor Holding AB	3.6	4.5	3.6	4.5
Other	1.3	1.3	0.1	-
	4.9	**5.8**	**3.7**	**4.5**

The total receivable from NorNor Holding AB amounts to SEK 4.7m (5.6), of which SEK 1.1m is current (1.1). The shares in Northern Parklife AB have been pledged as collateral for the receivable.

NOTE 14 TRADE AND OTHER RECEIVABLES

	Group	
SEK M	2012	2011
Trade receivables	29.9	32.5
Provisions for doubtful debts	–0.8	–0.3
Trade receivables, net	29.1	32.2
Prepaid expenses and accrued income	8.6	5.3
Other receivables	5.0	6.0
	42.7	**43.5**

The fair values of trade receivables are assessed to approximate their carrying amounts. The estimated fair value has not been discounted, since the assessment is that this would not have any significant effect on fair value.

At December 31, 2012, trade receivables amounting to SEK 9.7m (8.1) were past due but not impaired. These apply a number of independent customers that have not had any previous payment difficulties. An age analysis of these trade receivables is shown below:

AGE ANALYSIS OF PAST DUE TRADE RECEIVABLES	Group	
SEK M	2012	2011
Less than 3 months	8.0	6.6
3-6 months	1.0	1.2
More than 6 months	0.7	0.3
	9.7	**8.1**

THE CARRYING AMOUNTS, BY CURRENCY, FOR THE GROUP'S TRADE AND OTHER RECEIVABLES ARE AS FOLLOWS	Group	
Currency	2012	2011
SEK	15.1	13.2
EUR	8.3	7.7
USD	13.1	16.9
Other currencies	6.2	5.7
	42.7	**43.5**

CHANGES IN PROVISIONS FOR DOUBTFUL DEBTS	Group	
SEK M	2012	2011
Provisions at January 1	0.3	1.7
The year's provisions for doubtful debts	1.1	0.5
Receivables written off during the year as uncollectable	–0.4	–1.6
Reversed unutilized amount	–0.2	–0.3
Provisions at December 31	**0.8**	**0.3**

CREDIT QUALITY

The credit quality of trade receivables is deemed good, based on historical credit losses, and the risks are limited in view of the large size of the customer base. No individual customer accounted for more than 5% of total trade receivables at December 31, 2012.

NOTE 15 OTHER CURRENT RECEIVABLES

	Group		Parent Company	
SEK M	2012	2011	2012	2011
Work in progress	2.6	1.2	-	-
Rent guarantee	0.2	0.2	-	-
Receivable from NorNor Holding AB	1.1	1.1	1.1	1.1
Receivable from Northern Parklife AB	-	2.0	-	2.0
Other	1.1	1.5	0.1	0.2
Total other current receivables	**5.0**	**6.0**	**1.2**	**3.3**

NOTE 16 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
SEK M	2012	2011	2012	2011
Accrued income	1.6	-	-	-
Prepaid rents	1.2	1.2	0.1	0.1
Prepaid insurance premiums	0.8	0.8	0.0	0.1
Other prepaid expenses	5.0	3.3	0.5	0.4
Total prepaid expenses and accrued income	**8.6**	**5.3**	**0.6**	**0.6**

NOTE 17 CASH AND CASH EQUIVALENTS

	Group		Parent Company	
SEK M	2012	2011	2012	2011
Cash and cash equivalents at end of year	**49.0**	**29.6**	**14.8**	**1.1**
Unutilized committed credit facilities	25.0	25.0	-	25.0
Total disposable cash and cash equivalents	**74.0**	**54.6**	**14.8**	**26.1**
Blocked cash and cash equivalents	**2.6**	**6.9**	**2.6**	**6.9**

NOTE 18 FINANCIAL INSTRUMENTS

SEK M	Loans and receivables	Other liabilities	Total
December 31, 2012			
Non-current financial receivables			
Other financial receivables	4.9		4.9
Current financial receivables			
Trade and other receivables excl. prepaid expenses	34.1		34.1
Blocked cash and cash equivalents	2.6		2.6
Cash and cash equivalents			
Cash and cash equivalents	49.0		49.0
Total	**90.6**	**0.0**	**90.6**
Non-current liabilities			
Borrowings (excluding finance lease liabilities)		-	-
Finance lease liabilities		1.1	1.1
Current liabilities			
Borrowings (excluding finance lease liabilities)		-	-
Finance lease liabilities		1.2	1.2
Trade and other payables excl. non-financial liabilities		8.4	8.4
Total		**10.7**	**10.7**

SEK M	Loans and receivables	Other liabilities	Total
December 31, 2011			
Non-current financial receivables			
Other financial receivables	5.8		5.8
Current financial receivables			
Trade and other receivables excl. prepaid expenses	38.2		38.2
Blocked cash and cash equivalents	6.9		6.9
Cash and cash equivalents			
Cash and cash equivalents	29.6		29.6
Total	**80.5**	**0.0**	**80.5**
Non-current liabilities			
Borrowings (excluding finance lease liabilities)		-	-
Finance lease liabilities		1.5	1.5
Current liabilities			
Borrowings (excluding finance lease liabilities)		-	-
Finance lease liabilities		0.5	0.5
Trade and other payables excl. non-financial liabilities		11.8	11.8
Total		**13.8**	**13.8**

Cash and cash equivalents

Cash and cash equivalents, as defined by the Group, consist of cash in hand and at bank. The table below shows key figures for cash and cash equivalents. The carrying amount of cash and cash equivalents approximates fair value.

	Group	
SEK M	2012	2011
Cash in hand and at bank	49.0	29.6
Cash and cash equivalents	**49.0**	**29.6**

Trade and other receivables

	Group	
SEK M	2012	2011
Trade receivables	29.1	32.2
Accrued income	-	-
Other current receivables	5.0	6.0
Trade and other receivables	**34.1**	**38.2**

Net borrowings

The Group's net borrowings at December 31, 2012, amounted to SEK –49.3m (–34.5). The table below shows how the Group calculates net borrowings and what they include.

	Group	
SEK M	2012	2011
Current borrowings	-	-
Current portion of non-current borrowings	-	-
Current portion of finance lease liabilities	1.2	0.5
Total current borrowings	1.2	0.5
Non-current borrowings	-	-
Non-current portion of finance lease liabilities	1.1	1.5
Total non-current borrowings	1.1	2.0
Total borrowings	**2.3**	**2.0**
Cash and cash equivalents	49.0	29.6
Blocked cash and cash equivalents	2.6	6.9
Net borrowings	**–49.3**	**–34.5**
Bank overdraft facility	**25.0**	**25.0**

The bank overdraft facility is not included in net borrowings. However, the bank overdraft facility can be used for current and non-current borrowings.

Note 18, cont'd.

Interest-bearing liabilities

The Group's total interest-bearing liabilities at December 31, 2012, amounted to SEK 2.3m (2.0), of which SEK 1.1m (1.5) refers to non-current borrowings excluding those maturing in the next 12 months. Non-current borrowings maturing within 12 months amount to SEK 1.2m (0.5). The table below shows the carrying amounts of the Group's interest-bearing liabilities.

Borrowings

			Group	
Type of loan	**Interest rate**	**Currency**	**2012**	**2011**
Other non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	1.1	1.5
Current portion of non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	1.2	0.5
Bank overdraft facilities	Variable	SEK	-	-
			2.3	**2.0**

NOTE 19 SHARE CAPITAL

A specification of changes in shareholders' equity is found in the statement of changes in equity.

Number of shares: **Parent Company**	**A shares**	**B shares**	**Total number**
Number at January 1, 2011	100,000	11,588,561	11,688,561
Treasury shares at January 1, 2011		–634,600	
Buybacks in 2011		-	
Number at December 31, 2011, excluding treasury shares	**100,000**	**10,953,961**	**11,053,961**
Number at January 1, 2012	100,000	11,588,561	11,688,561
Treasury shares at January 1, 2012		–634,600	
New share issue in 2012		5,000	
Sold in 2012		300,000	
Number at December 31, 2012, excluding treasury shares	100,000	11,258,961	11,358,961
Total number of shares at December 31, 2012	**100,000**	**11,593,561**	**11,693,561**

The share capital is divided among 11,693,561 shares, of which 100,000 are class A shares and 11,593,614 are class B shares. All shares have a quota value of SEK 10 and grant equal rights to the company's assets and profits. Class A shares grant entitlement to 10 votes and class B shares to one vote. At general shareholder meetings, each holder of voting stock is entitled to exercise the full number of votes held or represented by proxy without restriction.

NOTE 20 BORROWINGS

	Group		Parent Company	
SEK M	**2012**	**2011**	**2012**	**2011**
Non-current				
Bank loans	-	-	-	-
Finance leases	1.1	1.5	-	-
Total non-current borrowings	**1.1**	**1.5**	**-**	**-**
Current				
Bank overdraft facilities	-	-	-	-
Finance leases	1.2	0.5	-	-
Bank loans	-	-	-	-
Total current borrowings	**1.2**	**0.5**	**-**	**-**
Total borrowings	**2.3**	**2.0**	**-**	**-**

Maturity structure of non-current borrowings

	Group		Parent Company	
SEK M	**2012**	**2011**	**2012**	**2011**
Between 1 and 2 years	0.5	0.6	-	-
Between 2 and 5 years	0.6	0.9	-	-
Later than 5 years	-	-	-	-
Total non-current borrowings	**1.1**	**1.5**	**-**	**-**

All borrowings at December 31, 2012, refer to finance lease obligations and are denominated in SEK.

NOTE 21 ACCRUED EXPENSES AND PREPAID INCOME

	Group		Parent Company	
SEK M	**2012**	**2011**	**2012**	**2011**
Accrued salaries and social security expenses	10.3	9.2	3.1	3.0
Accrued trade payables	1.9	-	-	-
Prepaid income	31.6	33.6	-	-
Other items	1.8	2.9	0.3	0.4
Total accrued expenses and prepaid income	**45.6**	**45.7**	**3.4**	**3.4**

NOTE 22 REPORT ON THE YEAR'S BUSINESS COMBINATIONS (2011)

On October 3, 2011, the Group acquired all of the shares in the US-based company Signum Systems Corp. The acquisition has provided the opportunity to combine Signum's technology with IAR Systems' development tool IAR Embedded Workbench, thereby giving IAR Systems access to a new market for integrated software and hardware solutions for advanced processors.

The acquisition of Signum Systems Corp includes contingent consideration that is payable over a period of three years based on the attainment of predetermined delivery variables. The maximum amount of contingent consideration has been set at USD 1.6m, of which USD 1.0m will be paid in cash and the remaining USD 0.6m in the form of shares in IAR Systems Group AB. Among other things, the contingent consideration is conditional on the seller's continued participation in these operations. It has been deemed appropriate to report contingent consideration as a separate transaction in accordance with IAS 19, Employee Benefits, and IFRS 2, Share-based Payment.

Transaction costs for the acquisition were charged to profit for the previous year in an amount of SEK 0.6m and are recognized on the income statement line "operating expenses".

The goodwill arising in connection with the acquisition refers to the synergies that the acquisition is expected to generate. Through a combination of Signum's technology and IAR Systems' development tool IAR Embedded Workbench, IAR Systems can deliver integrated software and hardware solutions for advanced processors.

1. SUMMARY INFORMATION, SEK M

Cash consideration paid	16.1
Cash and cash equivalents in the company	–1.4
Cash flow from the transaction	**14.7**
Assets acquired excluding cash and cash equivalents	2.3
Liabilities assumed	–0.9
Net assets acquired	**1.4**
Goodwill	**13.3**

2. SIGNUM SYSTEMS CORPORATION

Date of acquisition:	October 3, 2011
Nature of acquisition:	Shares in the company
Acquired share of equity:	100%
Consideration transferred:	SEK 16.1m

3. PURCHASE PRICE ALLOCATION, SEK M

	Fair value of assets acquired and liabilities assumed
ASSETS	
Goodwill	13.3
Property, plant and equipment	0.1
Other current assets	2.2
Cash and cash equivalents	1.4
TOTAL ASSETS	17.0
LIABILITIES	
Current liabilities	0.9
TOTAL LIABILITIES	0.9

4. THE ACQUIRED UNIT'S IMPACT ON PROFIT FOR THE YEAR FROM THE DATE OF ACQUISITION

Income statement, SEK M	2011
Net sales	1.6
Operating expenses	–1.4
Depreciation of property, plant and equipment	–0.0
Amortization of intangible assets	-
Operating profit	**0.2**
Result from financial investments	–0.0
Profit before tax	**0.2**
Income tax expense	–0.3
Profit/loss from the acquired unit	**–0.1**

5. CONSOLIDATED PROFIT IF THE ACQUIRED UNIT HAD BEEN ACQUIRED AT JANUARY 1, 2011

Income statement, SEK M	Group 2011	Signum Jan 1-Oct 2	Adjusted Group 2011
2011			
Net sales	200.4	8.1	209.5
Operating expenses	–171.0	–7.8	–178.8
Depreciation of property, plant and equipment	–1.7	–0.0	–1.7
Amortization of intangible assets	–3.7	-	–3.7
Operating profit	24.0	0.3	24.3
Result from financial investments	0.1	–0.0	0.1
Profit before tax	24.1	0.3	24.4
Income tax expense	2.9	–0.0	2.9
Profit for the year from continuing operations	27.0	0.3	27.3

NOTE 23 PLEDGED ASSETS

	Group		Parent Company	
SEK M	2012	2011	2012	2011
To secure own liabilities				
To secure pensions and similar obligations:				
Direct pension obligations	1.8	1.8	1.4	1.4
To secure liabilities to credit institutions:				
Floating charges	-	-	-	-
Property mortgages	-	-	-	-
Machinery held under				
- finance leases	2.3	2.0	-	-
Total assets pledged to secure own liabilities	**4.1**	**3.8**	**1.4**	**1.4**
To secure other commitments				
Blocked cash and cash equivalents	2.6	6.9	2.6	6.9
Guarantees	-	-	-	-
Total pledged assets	**6.7**	**10.7**	**4.0**	**8.3**

NOTE 24 SHARES IN GROUP COMPANIES

	Parent Company	
SEK M	2012	2011
Opening cost	189.4	571.4
Acquired subsidiaries	-	27.1
Distributed subsidiaries	-	–379.9
Sold subsidiaries	-	–29.2
Closing accumulated cost	**189.4**	**189.4**
Opening impairment losses	-	-157.1
Distributed subsidiaries	-	157.1
Closing accumulated impairment losses	**-**	**-**
Closing carrying amount	**189.4**	**189.4**

Parent Company holdings

SEK M	Corp. ID no.	Domicile	% of capital	% of votes	No. of shares	Carrying amount 2012	Carrying amount 2011
Direct holdings:							
IAR Systems AB	556230-7107	Uppsala	100.0%	100.0%		162.3	162.3
Signum Systems Corp	1473886	Camarillo, USA	100.0%	100.0%		27.1	27.1
Indirect holdings through subsidiaries:							
IAR Systems Software Inc.	1830665	Foster City, USA	100.0%	100.0%	-	-	-
IAR Systems Ltd	2190612	Oxford, UK	100.0%	100.0%	-	-	-
IAR Systems GmbH	HRB 175145	Munich, Germany	100.0%	100.0%	-	-	-
IAR Systems KK	0111-01-034174	Tokyo, Japan	100.0%	100.0%	-	-	-
IAR Software Technology Consulting (SH) Co. Ltd	660701822	Shanghai, China	100.0%	100.0%	-	-	-
IAR Systems Korea Co	110111-4699679	Seoul, South Korea	100.0%	100.0%	-	-	-
IAR Systems Sarl	539 357 327 R.C.S Paris	Paris, France	100.0%	100.0%	-	-	-
Closing carrying amount						**189.4**	**189.4**

NOTE 25 RELATED PARTY TRANSACTIONS

Of the Parent Company's total expenses of SEK 5.3m (9.8), 0% (0) refers to purchases from other companies in the Group. Of the Parent Company's total sales revenue, 100% (100) refers to inter-company sales. Of the year's total purchasing costs and sales revenue in the subsidiaries, 0% (0) refers to purchases from the Parent Company and 0% (0) refers to sales to the Parent Company.

TRANSACTIONS WITH OTHER RELATED PARTIES

No transactions with related parties have taken place other than those stated in Note 6.

The Board of Directors and the CEO hereby give their assurance that the consolidated financial statements have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and give a true and fair view of the Group's financial position and results of operations. The annual report has been prepared in accordance with generally accepted accounting principles in Sweden and gives a true and fair view of the Parent Company's financial position and results of operations. The administration report for the Group and the Parent Company provides a true and fair view of the business activities, financial position and results of operations of the Group and the Parent Company and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

The annual report will be put before the Annual General Meeting on April 22, 2013, for adoption.

Stockholm, March 7, 2013

Stefan Skarin
President and CEO
Board member

Peter Larsson
Board Chairman

Markus Gerdien
Board member

Karin Moberg
Board member

Jonas Mårtensson
Board member

Our audit report was submitted on March 14, 2013
Deloitte AB

Erik Olin
Authorized Public Accountant
Auditor in Charge

Audit report

To the annual meeting of shareholders in I.A.R. Systems Group AB, corporate identification number 556400-7200. Report on the annual accounts and the consolidated accounts.

We have audited the annual accounts and consolidated accounts of I.A.R. Systems Group AB for the financial year from January 1, 2012, to December 31, 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 28-60.

Responsibilities of the Board of Directors and the CEO for the annual accounts and consolidated accounts
The Board of Directors and the CEO 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 CEO 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 judgment, 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 CEO, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as of December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and 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 December 31, 2012, and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is 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.

Other disclosures
The annual accounts and consolidated accounts for 2011 were audited by another auditor elected by the general meeting of shareholders who in an audit report dated March 6, 2012, expressed an opinion on these annual accounts and consolidated accounts in accordance with the standard format.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the CEO of I.A.R. Systems Group AB for the financial year from January 1, 2012, to December 31, 2012.

Responsibilities of the Board of Directors and the CEO
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 CEO 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 CEO is liable to the company. We also examined whether any member of the Board of Directors or the CEO 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 opinion.

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 CEO be discharged from liability for the financial year.

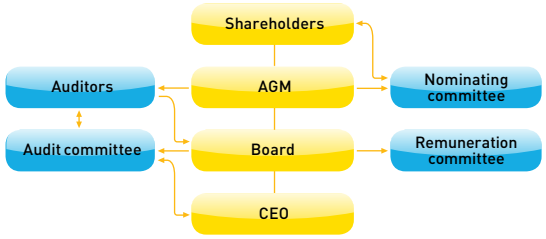
Stockholm, March 14, 2013
Deloitte AB

Erik Olin
Authorized Public Accountant

Corporate governance report

IAR Systems Group is a Swedish public limited company domiciled in Stockholm, Sweden. In 2012 the Group conducted operations in Sweden, Germany, England, France, the USA, Japan, South Korea and China. The IAR share is quoted on the Small Cap list of NASDAQ OMX Stockholm.

The corporate governance report for 2012 has been reviewed by IAR Systems Group's auditors, in accordance with the provisions in the Swedish Annual Accounts Act.



Corporate governance in the Parent Company and the Group is regulated among other things by the Articles of Association, the Swedish Companies Act and NASDAQ OMX Stockholm's Rules for Issuers, which for IAR Systems include application of the Swedish Code of Corporate Governance ("the Code") since July 1, 2008.

IAR Systems Group's Articles of Association can be found at www.iar.com under the heading "Investors". IAR Systems Group complies with the rules in the Swedish Companies Act regarding the appointment and dismissal of board members and regarding amendments to the Articles of Association. IAR Systems Group has not acted in violation of any of NASDAQ OMX Stockholm's Rules for Issuers or generally accepted practices in the stock market.

SHAREHOLDERS

IAR Systems Group's shares have been quoted on NASDAQ OMX Stockholm since 1999. The share capital in IAR Systems Group consists of class A shares, which carry ten votes each, and class B shares, carrying one vote each. The total number of shares is 11,693,561, of which 100,000 are of class A. All classes of shares grant equal rights to the company's assets and profits.

The number of shareholders in IAR Systems Group at December 31, 2012, was 8,547 (9,293), of whom 438 (481) held more than 1,000 shares each. Foreign shareholders held approximately 22% (18) of the share capital and 27% (24) of the votes. For additional information about the shareholders and ownership structure, see page 25.

GENERAL MEETING OF SHAREHOLDERS

The general meeting of shareholders is the highest decision-making body through which the shareholders exercise their influence over the company. Shareholders who wish to participate in the general meeting, personally or through a proxy, must be recorded in the share register five weekdays prior to the general meeting and must notify the company as specified in the notice to attend the meeting.

Notice of a general meeting is given through an announcement in the official gazette Post- och Inrikes Tidningar and on the company's website (www.iar.com). On the date of the notice, an announcement stating that notice has been given shall be published in Svenska Dagbladet.

The Annual General Meeting (AGM) shall be held within six months from the end of the financial year. At the AGM the shareholders resolve among other things on election of Board members and, when appropriate, election of auditors, the principles for appointment of the nominating committee and discharge from liability for the Board of Directors and the CEO for the past year. The AGM also resolves on adoption of the financial statements, appropriation of profits, fees for the Board of Directors and auditors and principles for remuneration for the CEO and other senior executives.

2012 ANNUAL GENERAL MEETING

The AGM re-elected sitting Board members Peter Larsson, Markus Gerdien, Karin Moberg, Jonas Mårtensson and Stefan Skarin. The AGM appointed Peter Larsson as Board Chairman.

It was furthermore decided 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.

The AGM resolved to appoint a nominating committee according to the following. The Board

Chairman shall convene the company's three largest shareholders in terms of voting power, each of which shall then appoint a member to the nominating committee. In addition, the Board Chairman can be appointed as a member of the nominating committee.

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

The Board of Directors was authorized, on one or several occasions during the period until the next AGM, to decide on the 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 in kind.

The Board of Directors was furthermore authorized to decide on the repurchase of a maximum number of class B 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 the company's own shares as consideration for the acquisition of companies or operations.

BOARD OF DIRECTORS

The Board of Directors consists of five members elected by the AGM and no deputies. The members elected by the AGM are appointed to serve for the period until the next AGM in accordance with the Code. There is no rule stipulating the maximum period of time for which a member can serve on the Board. The Board members and their dependency status in relation to the company's shareholders, etc., are shown in the table below.

The average age of the Board members is 50 years and one of the five members is a woman. The nominating committee considers all of the Board members except one to be independent in relation to the company, its management and the company's major shareholders. IAR Systems Group meets the requirements in the Code regarding the Board of Directors' independence in relation to the company, its management and the company's major shareholders.

Work and responsibilities of the Board

According to the Swedish Companies Act, the Board is also responsible for ensuring that the Group's organization is suitably structured so that the company's accounting, cash management and other financial circumstances can be controlled satisfactorily. The work of the Board is regulated by the Swedish Companies Act, the Articles of Association, the Code and the rules of procedure that are adopted yearly by the Board. The rules of procedure describe the division of responsibilities between the Board of Directors, the Board Chairman and the CEO, and also contain provisions to secure the Board's need for continuous information and financial reporting, as well as instructions for the CEO.

Among other things, the rules of procedure state that the Board Chairman and CEO shall work closely to monitor the Group's development and to plan and lead board meetings. The Chairman is responsible for ensuring that the Board carries out an annual self-assessment of its performance and evaluates its own work routines, and that the Board is continuously provided with the information needed to carry out its duties effectively. The Chairman represents the company in matters related to the shareholders.

The tasks of the Board are to formulate IAR Systems Group's overall goals and strategies, to prepare budgets and business plans, to discuss and approve the annual accounts and interim reports, and to establish key policies and regulatory systems. The Board monitors the Group's financial performance, ensures the quality of the financial reporting and internal control and regularly follows up and evaluates the business activities based on the Board's established targets and guidelines. The Board also decides on major investments and changes in IAR Systems Group's organization and operations.

Work of the Board in 2012

In 2012 the Board held 13 meetings, of which six were scheduled and seven were extra meetings. Each of the regular meetings followed an approved agenda, and both the proposed agendas and underlying documentation were sent to the Board members prior to each meeting. The CEO and certain other senior executives in the company have taken part in board meetings in a reporting capacity and the company's CFO has served as secretary of the Board. At the board meetings, the Board has dealt with the fixed items on the agenda for each meeting, such as the business and market situation, financial reporting and monitoring, the financial position and investments.

Board of Directors	Year elected	Dependent status	Remuneration committee	Audit committee
Peter Larsson, Chairman	2010	No	Chairman	Chairman
Markus Gerdien	2011	No	Member	Member
Karin Moberg	2010	No	Member	Member
Jonas Mårtensson	2010	No	Member	Member
Stefan Skarin	2002	Yes	-	-

Key issues at scheduled board meetings in 2012

6/2	IAR Systems' annual accounts for 2011
24/4	Interim report for Q1 2012
24/4	Statutory meeting
24/7	Interim report for Q2 2012
24/10	Interim report for Q3 2012
10/12	Budget and business plan for 2013

The Board members' attendance at meetings is shown in the table below.

Remuneration to the Board

The Chairman and other members of the Board of Directors are paid fees in accordance with the decision of the AGM. No additional remuneration is paid for work on the Board's committees. No board fees are paid to members who receive salary from companies in IAR Systems Group. In 2012 this rule applied to Stefan Skarin.

BOARD COMMITTEES AND COMMITTEE WORK

In order to handle the Board members' independence there are two committees, the remuneration committee and the audit committee, whose members are appointed by the Board. The main task of these committees is to prepare proposals for decision by the Board. The committees do not constitute any delegation of the legal responsibilities of the Board and its members. The issues dealt with at the committee meetings are reported orally to the Board at the following board meetings. No additional remuneration is paid for work on the Board's committees. See also page 66 for a description of the nominating committee and other board committees.

AUDITORS

Responsibilities of the auditor

The independent auditor is appointed by the AGM and its task is to examine the company's financial reporting and the administration of the company by the Board of Directors and the CEO. The auditor was appointed by the 2012 AGM, at which time Deloitte was elected as auditor to serve for the period until the end of the 2013 AGM. Auditor in Charge is Erik Olin (born in 1973). In addition to IAR Systems Group, he has audit assignments for Connecta, Micro Systemation, Microsoft Sverige and Tata Consultancy Services Sverige, among others.

On two occasions in 2012, the Auditor in Charge met with the Board to present the focus and scope of the audit, report his observations from the review of the interim report at June 30, his evaluation of internal control and the audit of the annual accounts for 2012.

On one occasion in 2012, the Board met with the auditor without the presence of the CEO or other member of the company's management.

Deloitte issues an audit report regarding IAR Systems Group AB, IAR Systems AB and the Group. Deloitte also performs non-audit services for the companies in the IAR Group. These have mainly consisted of tax consultations in direct connection with the audit. For this work, Deloitte invoiced a total amount of SEK 0.0m in 2012.

The auditor is paid fees in accordance with the decision of the AGM. For information about fees to auditors in 2011 and 2012, see Note 5 on page 48.

CEO

The Board appoints the President of IAR Systems Group AB, who is also the CEO. The CEO is responsible for day-to-day management of operations in the Parent Company and the Group.

The CEO supervises operations according to the instructions adopted by the Board. He is responsible for ensuring that the Board members are supplied with the necessary information and decision data ahead of Board meetings, presents reports and submits well founded proposals for decision. The CEO provides the members of the Board monthly with the information needed to monitor the financial position, activities and development of the Parent Company and the Group and keeps the Board Chairman continuously informed about operations.

The CEO takes the necessary measures to ensure that the company's financial accounting and reporting are carried out in compliance with

Remuneration to the Board

SEK thousand	2012	2011
Peter Larsson, Chairman	300	300
Björn Abild	-	42 [1]
Markus Gerdien	125	83 [2]
Karin Moberg	125	125
Jonas Mårtensson	125	125
Stefan Skarin	-	-

[1] *For the period from January 1 to May 3, 2011*

[2] *For the period from May 4 to December 31, 2011*

Attendance at board meetings in 2012

	6/2	6/3	24/4	24/4 stat.	24/5	28/5	24/7	23/8	28/8	20/9	24/10	23/11	10/12	Total
Peter Larsson, Chairman	●	●	●	●	●	●	●	●	●	●	●	●	●	13/13
Markus Gerdien	●	●	●	●	●	●	●	●	●	●	●	●	●	13/13
Karin Moberg	●	●	●	●	●	●	●	●	●	●	●	●	●	13/13
Jonas Mårtensson	●	●	●	●	●	●	●	●	●	●	●	●	●	13/13
Stefan Skarin	●	●	●	●	●	●	●	●	●	●	●	●	●	13/13

● Attended

law and that financial management is handled in a satisfactory manner. A more detailed description of the division of responsibilities between the Board and the CEO is provided in written instructions to the CEO, which are updated yearly.

Stefan Skarin has been President and CEO since February 2008.

REMUNERATION FOR THE CEO AND OTHER SENIOR EXECUTIVES

The principles for remuneration for the CEO and other senior executives are drawn up by the remuneration committee and presented to the Board, which puts forward proposals for such principles for approval by the AGM. The remuneration principles for 2012 were unchanged compared to those applied in 2011.

For 2012, the Group has applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM. Remuneration to the CEO and the CFO consists of basic salary, variable salary, other benefits and pension. The maximum of variable salary for the CEO and CFO corresponds to 50% of basic salary. Pension benefits and other benefits are paid as part of the total remuneration package.

In the event of dismissal by the company, the CEO and CFO are entitled to full salary during a notice period of 12 months and termination benefits corresponding to six monthly salaries after the notice period.

Remuneration to the CEO and CFO in 2012

SEK thousand	Year	Fixed salary	Variable salary	Benefits	Pension costs	Total
Stefan Skarin, CEO	2012	2,585	800	136	302	3,823
	2011	2,593	1,000	144	603	4,340
Stefan Ström, CFO	2012	1,529	410	135	301	2,375
	2011	1,611	360	144	599	2,714

INTERNAL CONTROL

The Swedish Companies Act and the Swedish Code of Corporate Governance state that the Board of Directors is responsible for ensuring that the company has satisfactory internal control, for staying informed about the company's internal control system and for evaluating the effectiveness of this system.

This report has been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Code of Corporate Governance, section 7.4.

Control environment

The basis for internal control in IAR Systems Group is the control environment, which includes the organizational structure, decision-making paths, powers and responsibilities. The control environment is documented and communicated in the form of normative documents such as internal policies, guidelines and instructions. These include the division of responsibilities between the Board of Directors and the CEO and instructions for signatory powers, accounting and reporting.

Risk assessment

The Board of Directors has ultimate responsibility for the company's risk management. Controlled risk-taking is achieved through a well defined organization and decision-making procedures that include a high level of risk awareness among the employees and the application of uniform definitions and principles within an established framework. The primary risk areas are the account closing process in connection with financial reporting, operational risks and legal risk.

Control activities

The Group's business processes include financial controls that regulate approval and reporting of business transactions. The account closing and reporting process contains controls for aspects such as accounting, valuation and disclosure requirements and regarding the application of significant accounting policies and estimates both in the individual subsidiaries and at the group level.

Certain subsidiaries in IAR Systems Group have their own financial directors that take part in planning and evaluation of financial results in their units. Regular analysis of financial reporting in the respective units covers significant items such as assets, liabilities, revenue, expenses and cash flow. For the subsidiaries that do not have their own financial directors, a more in-depth analysis is carried out at the group level. Together with the analysis performed at the group level, this important aspect of internal control contributes to ensuring that the financial reports contain no material misstatements.

The quality of the external financial reports is safeguarded through a number of procedures and routines. Aside from careful auditing of the annual accounts, the auditor also reviews the interim report for the second quarter. All reports and press releases are posted on IAR Systems Group's website in connection with publication.

NOMINATING COMMITTEE

The Code states that the nominating committee is a company body whose only task is to prepare and put forward proposals for resolution by the AGM regarding election and remuneration and, when appropriate, procedural matters for the upcoming nominating committee. Regardless of how they have been appointed, the members of the nominating committee shall serve the interests of all shareholders.

Nominating committee, 3 meetings
Ulf Strömsten, Catella, Chairman
Tedde Jeansson Jr.
Peter Larsson

The AGM on April 24, 2012, resolved to appoint a nominating committee according to the following principles. By September 30, 2012, at the latest, the Board Chairman shall convene the three largest shareholders in the company in terms of voting power, each of which shall then appoint a member to the nominating committee. In addition, the Board Chairman can be appointed as a member of the nominating committee. The composition of the nominating committee shall be made public not later than six months prior to the 2013 AGM.

The nominating committee has evaluated the Board's performance, qualifications and composition. The nominating committee's proposals have been announced in the notice to attend the AGM, on the company's website and at the 2013 AGM. The members have not received any fees or remuneration from IAR Systems Group for their work on the nominating committee.

All members have attended the nominating committee's three meetings.

Proposals to be put before the 2013 AGM for decision:

- Chairman of the AGM
- The number of Board members and amount of board fees, divided between the Chairman and other Board members
- Election of Board members and the Board Chairman
- Election of an auditor and fees to the company's auditor
- The nominating committee ahead of the 2014 AGM

REMUNERATION COMMITTEE

The remuneration and other terms of employment of senior executives should be designed to secure the company's access to executives with the requisite qualifications, at a cost that is adapted to company's circumstances and so as to ensure that they have the intended effects on the company's operations.

Remuneration committee, 4 meetings
Peter Larsson, Chairman
Markus Gerdien
Karin Moberg
Jonas Mårtensson

IAR Systems Group's remuneration committee complies with the provisions in the Code, which state among other things that the members of the remuneration committee shall be independent in relation to the company and its management. All members of the remuneration committee are independent in relation to the company, its management and the company's major shareholders.

The remuneration committee is appointed by the Board. The committee has addressed matters of principle regarding variable salary for senior executives and general matters related to guidelines and policies for senior executives. The committee has also dealt with the salary and other terms of employment for the CEO.

Ahead of the 2013, the committee will prepare proposed principles for remuneration and other terms of employment for senior executives which the Board will then present for approval by the AGM in accordance with the Swedish Companies Act and the Code. All members have attended the committee's four meetings.

AUDIT COMMITTEE

The tasks of the audit committee are to assist the Board in monitoring and evaluating the external audit process, to support the work of the Board in ensuring the quality of the company's financial reporting, to maintain continuous contact with the company's auditor and to study and assess reports from the independent auditor.

Audit committee, 2 meetings
Peter Larsson, Chairman
Markus Gerdien
Karin Moberg
Jonas Mårtensson

All members of the audit committee are independent in relation to the company, its management and the shareholders in accordance with the Code.

The committee is also responsible for assessing the auditors' independent status in relation to the company, including the scope of the auditors' non audit-related services for the company.

In 2012, alongside recurring yearly matters related to quality assurance of the financial reporting, the committee had a special focus on the performance of the year's newly elected auditor and his impressions from the audit.

All members have attended the committee's two meetings.

AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT

To the general meeting of shareholders in IAR Systems Group AB, corporate identity number 556400-7200

The Board of Directors is responsible for the corporate governance report for the year 2012 on pages 62–66 and for ensuring that it has been prepared in accordance with the Annual Accounts Act. We have read the corporate governance report and based on that reading and our knowledge of the company and the group, we believe that we have reasonable basis for our opinion set out below. This means that our statutory examination of the corporate governance report has a different focus and is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Vi In our opinion, the corporate governance report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, March 14, 2013
Deloitte AB
Erik Olin, *Authorized Public Accountant*

Board of Directors

Peter Larsson

Board Chairman.

Born in: 1964.

Board Chairman: Since 2010.

Position: -

Education: B. Sc. in Computer and System Science, Stockholm University.

Other board assignments: Chairman of EPiServer AB and Pricer AB, member of the boards of Q-Matic AB and Common Agenda Venture Management AB.

Experience: More than 20 years of experience in the software industry, among other things as CEO of EPiServer AB, Protect Data AB and Pointsec Mobile Technologies AB.

Shareholdings: 476,590 class B shares.

Independent in relation to the company and its management. Independent in relation to the company's major shareholders.

Stefan Skarin

Ordinary Board member.

Born in: 1962.

Board member: Since 2002.

Position: CEO of IAR Systems Group AB and IAR Systems AB.

Education: IHM Business School and economics studies at Stockholm University.

Other board assignments: -

Experience: Sales Director at Adobe Nordic, CEO of Interleaf Norden and several senior international positions at Oracle Corporation.

Shareholdings: 100,000 class A shares (via company), 250,000 class B shares (via company) and 200,000 subscription warrants TO4B (held directly).

Dependent in relation to the company and its management. Dependent in relation to the company's major shareholders.

Karin Moberg

Ordinary Board member.

Born in: 1963.

Board member: Since 2010.

Position: Founder and CEO of FriendsOfAdam.

Education: M.B.A.

Other board assignments: Chairman of Caretech AB, member of the boards of SBAB Bank and Doro AB.

Experience: Member of the board of the Seventh National Pension Fund for 9 years. 14 years of experience in senior executive positions at TeliaSonera, among other things as President of Telia e-bolaget, Marketing Director and Acting Head of Group Communications.

Shareholdings: 0 shares.

Independent in relation to the company and its management. Independent in relation to the company's major shareholders.

Jonas Mårtensson

Ordinary Board member.

Born in: 1963.

Board member: Since 2010.

Position: Partner and board member of Alted AB.

Education: M.B.A, Stockholm School of Economics.

Other board assignments: Chairman of Ownpower Projects Europe AB and Transticket AB, member of the boards of Doro AB, Deltaco AB and PanVision AB.

Experience: 17 years of experience in corporate finance at SEB Enskilda, Maizels, Westerberg & Co and Nordea.

Shareholdings: 130,000 class B shares.

Independent in relation to the company and its management. Independent in relation to the company's major shareholders.

Markus Gerdien

Ordinary Board member.

Born in: 1960.

Board member: Since 2011.

Education: Computer science and economics, Stockholm University.

Other board assignments: Member of the board of Emric AB, Chairman of Common Agenda Venture Management AB and deputy board member of S & M Charter AB.

Experience: 20 years in the software industry, among other things as President of Front Capital Systems AB, Executive Vice President Market & Business Development at Observer Group AB, Executive Vice President Market Technology at NASDAQ OMX Group, board assignments in Orc Group AB and COO of Orc Group AB.

Shareholdings: 5,000 class B shares.

Independent in relation to the company and its management. Independent in relation to the company's major shareholders.

Management

Stefan Skarin

Position: President and Chief Executive Officer (CEO).

Born in: 1962.

Employed since: 1999.

Education: IHM Business School and economics studies at Stockholm University.

Experience: Director at Adobe Nordic, CEO of Interleaf Norden and several senior international positions at Oracle Corporation.

Shareholdings: 100,000 class A shares (via company), 250,000 class B shares (via company) and 200,000 subscription warrants TO4B (held directly).

See also Board of Directors above.

Stefan Ström

Position: Chief Financial Officer (CFO).

Born in: 1958.

Employed since: 1997.

Education: M.B.A., Lund University.

Experience: President and CEO of IAR Systems Group AB 2006 – February 2008.

Shareholdings: 10,355 class B shares (held directly) 60,000 subscription warrants TO4B (held directly) and 100 class B shares (through family).

Auditor

Erik Olin

Born in: 1973.

Authorized Public Accountant.

Auditor for IAR Systems Group AB since 2012.

Deloitte AB.

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.

COMPILER • A complier 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.

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.

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.

DIGITALIZATION TREND • Growth in the number of digital products worldwide. More and more products are digital and contain computer processors in order to be mobile, remote-controlled, energy-efficient, upgradable, etc.

EMULATOR • Another name for debug probe.

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.

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 processor makers to guarantee that our tools can be used for more processor architectures than any other development tool on the market.

INTEGRATED CIRCUIT (IC) • A small, typically rectangular silicon substrate onto which micrometer-sized transistors are mounted, sometimes in numbers of more than one million.

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 microprocessor.

PROCESSOR MAKER • A processor maker or processor 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 processor makers.

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.

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.

Sources: IAR Systems, Wikipedia, IDG's dicitionary.

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