

48 75 76 75 64 6B 6F 6E 74 6F 72 3A 20 55 70 70 73 61 6C 61

4C 6F 6E 64 6F 6E

50 61 72 69 73

4D C3 BC 6E 63 68 65 6E

53 65 6F 75 6C

54 6F 6B 79 6F

53 61 6E 20 46 72 61 6E 63 69 73 63 6F

42 6F 73 74 6F 6E

53 68 61 6E 67 68 61 69

4C 6F 73 20 41 6E 67 65 6C 65 73

44 61 6C 6C 61 73

# IAR SYSTEMS GROUP

ANNUAL REPORT 2013  
ÅRSREDOVISNING 2013

2013 アニュアルレポート

2013 연차보고서

# Contents

<b>01</b>	IAR SYSTEMS IN 60 SECONDS	<b>22</b>	TECHNICAL MILESTONES IN 2013
<b>02</b>	HIGHLIGHTS OF 2013	<b>23</b>	RISKS AND RISK MANAGEMENT
<b>04</b>	COMMENTS FROM THE CEO	<b>24</b>	THE IAR SYSTEMS SHARE
<b>06</b>	IAR SYSTEMS – INVESTMENT CASE	<b>26</b>	FINANCIAL OVERVIEW
<b>08</b>	MISSION, GOALS AND STRATEGY	<b>28</b>	ADMINISTRATION REPORT
<b>10</b>	MARKET AND CUSTOMERS	<b>32</b>	FINANCIAL STATEMENTS
<b>13</b>	IAR SYSTEMS EUROPE	<b>40</b>	NOTES
<b>14</b>	IAR SYSTEMS ASIA	<b>58</b>	AUDITOR'S REPORT
<b>15</b>	IAR SYSTEMS AMERICAS	<b>59</b>	CORPORATE GOVERNANCE REPORT
<b>16</b>	GREEN INNOVATION PROGRAM	<b>65</b>	BOARD OF DIRECTORS
<b>18</b>	IAR SYSTEMS' OFFERING	<b>66</b>	MANAGEMENT AND AUDITOR
<b>20</b>	OUR EMPLOYEES	<b>68</b>	GLOSSARY

## 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 Thursday, April 24, 2013, at Spårvagnshallarna, Birger Jarlsgatan 57 A, in Stockholm.

Starting at the end of March, IAR Systems Group's annual report will be available on IAR Systems' website ([www.iar.com/sv/investerare](http://www.iar.com/sv/investerare)) 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, 2014.
- > provide notification of their intention to participate in the AGM not later than Monday, April 16, 2014, in writing to IAR Systems Group AB (publ), Kungsgatan 33, SE-111 56 Stockholm, Sweden, or via the company's website [www.iar.com/sv/Investerare/](http://www.iar.com/sv/Investerare/)

The notification should include:

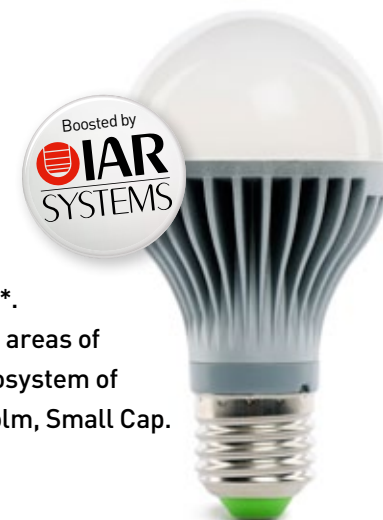
- > name, address, telephone number, personal or corporate identity number and registered shareholding.

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.

### FINANCIAL CALENDAR

Interim report Jan-Mar	April 24 2014
Interim report Jan-June	August 19 2014
Interim report Jan-Sept	October 21 2014

# 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 46,000 customers 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 semiconductor vendors. IAR Systems Group AB is listed on NASDAQ OMX Stockholm, Small Cap.

NET SALES

**SEK 230m**

OPERATING PROFIT

**SEK 41m**

NET CASH

**SEK 80m**

PROPOSAL FOR REDEMPTION  
PROGRAM OF SEK 5.0 PER SHARE

**SEK 5.00**

## Key ratios

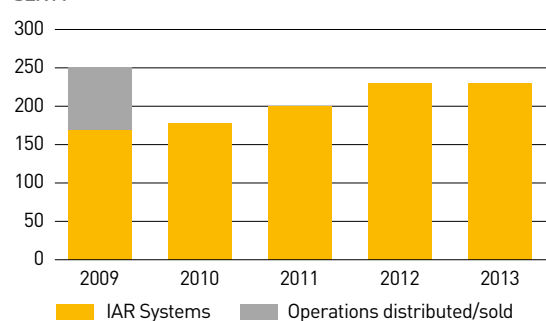
	2013	2012
Net sales, SEK M	230.2	230.1
Operating profit, SEK M	41.3	35.2
Gross margin, %	93.7	89.9
Operating margin, %	17.9	15.3
Gross profit, %	18.0	15.3
Cash flow, %	17.7	16.6
Equity/assets ratio, %	79.8	78.3
Return on equity, %	10.9	5.3
Return on capital employed, %	15.0	14.3
Capital employed, SEK M	297.4	256.1
Net cash, SEK M	80.1	49.3
Net debt/equity ratio, times	-0.27	-0.19
No. of employees at end of year	168	157
Average no. of employees	160	149

## Sales by market, SEK M

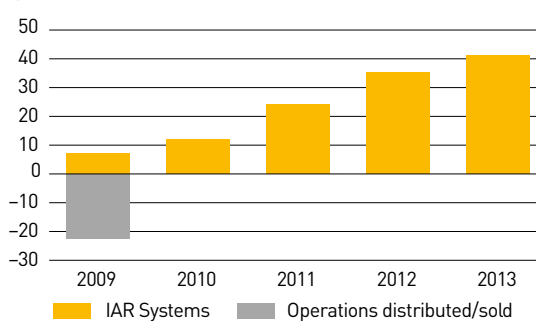
	2013	2012	Change
Americas	86.5	86.4	0%
Asia	51.2	54.6	-4%
Europe	85.0	74.0	15%
Non-regionalized	7.5	15.1	-50%
<b>TOTAL</b>	<b>230.2</b>	<b>230.1</b>	<b>0%</b>

Change by market	Proprietary products	Third-party products	Currency	Total
America	+12%	-8%	-4%	0%
Asia	+15%	-3%	-17%	-4%
Europe	+20%	-4%	-1%	15%
Non-regionalized	-29%	-21%	0%	-50%
<b>TOTAL</b>	<b>+12%</b>	<b>-6%</b>	<b>-6%</b>	<b>0%</b>

Net sales, proforma  
SEK M



Operating profit, proforma  
SEK M



# Highlights of 2013

## 2013

### KEY EVENTS FOR THE FULL YEAR

- > Launch of certified versions of IAR Embedded Workbench for ARM and Renesas RX
- > Several world records for code performance
- > Sales record for license sales – proprietary products grow by 12%
- > Operating profit of over SEK 41m – improvement of 17%
- > The Board proposes that a capital distribution be made to the shareholders through a redemption program equal to SEK 5.00 per share

## Q1

JANUARY – MARCH 2013

- > Establishment of an indirect sales organization for Europe
- > A quarter marked by stability and product launches
- > Launch of I-scope debug probe
- > Asia grows by 18%
- > Launch of IAR Academy in Europe

## Q2

APRIL – JUNE 2013

- > Launch of certified version of IAR Embedded Workbench for ARM processors
- > Several major contracts during the quarter
- > Americas grow by 18%

## Q3

JULY – AUGUST 2013

- > Launch of IAR Academy in Asia and the Americas
- > Highest quarterly profit of all time
- > Operating margin exceeds 20%
- > Sale of 334,600 treasury shares for a value of SEK 12.3m

## Q4

SEPTEMBER – DECEMBER 2013

- > Launch of certified version of IAR Embedded Workbench for Renesas RX processors
- > Best quarterly sales ever
- > New issue of 651,000 class B shares as a result of exercised subscription warrants provides proceeds of SEK 22.3m
- > Europe grows by 30%
- > The Board proposes that a capital distribution be made to the shareholders through a redemption program equal to SEK 5.00 per share.





# Comments from the CEO

The promise we made ahead of 2013 was to continue on our path as the market-leader in development tools for embedded systems. We also had an ambition to surprise, a feat I think we have succeeded in achieving although we could have done so more clearly.

We have a year behind us with many important product launches, which is vital for us when it comes to defending our market-leading position. This year we also had several products that set world records in code speed. These world records are not only significant in themselves, but also because they also include products in the lower market segments (8/16-bit) which remain important to us. We have sold more proprietary products (the debug probes I-jet and I-scope from our acquisition of Signum in 2011) and more licenses for our own products IAR Embedded Workbench than ever before. Together these represent a major product success.

We have had two new and important product launches in the fast-growing segment for safety-critical products. Our customers, especially in the automotive and pharmaceutical industries, have rigorous safety requirements for their products. The products should not only be stable in their functionality, but should also be as accurate and maintenance-free as possible. These requirements are perhaps most pronounced in the automotive industry, where there are more controlling and safety-critical functions than ever before. The industry has gathered these safety requirements in different safety standards of which some are classified in ISO certifications.

In the past year we succeeded in certifying two different products (ARM and Renesas RX) according to these important standards. This gives us not only a unique market position, but also a confirmation

that our products have the required quality. This is actually something that has generated more sales than the certified products themselves, simply due to the fact that the customers feel secure with our product offering.

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**We are selling more proprietary products than ever and have been able to lower our costs through increased efficiency.**

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We are global through our organization around the world. This year we have leveraged this in a new way by offering training for our customers through IAR Academy, a service that has long been sought after and has received a very positive response.

Organizationally, we have continued on our path to fine-tune and enhance our sales organization and have coordinated and effectivized our development resources even more.

Financially, it has been difficult to keep pace with our sales successes due to significant foreign exchange effects in parts of the world. For several reasons, foreign exchange effects are a result of the impact of the global economy. Although Japan has had major challenges with the effects of the global economy and conflicts with neighboring countries, Japan is the country where we enjoyed the greatest success this year. Japan has also been an important market when it comes to our collaboration with one of the world's largest processor vendors, Renesas. It is important not only in terms of its size and market dominance, but also because we are the only supplier in the world with complete support for all Renesas processors. This relationship relation creates both potential and a strong offering.





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## We want to do more, much more, **for our customers, partners, employees, shareholders and the market for embedded systems.**

---

Europe has also had a successful year thanks to the division we have made between sales directly to end customers and sales via distributors. It is primarily France and Germany that showed the strongest growth, but also the Nordic region.

USA had an uneven year with major contracts in individual quarters and declining sales of third-party projects, which is having a positive impact on our gross margin.

If we make a continued analysis of our gross margin and financial position, we have managed to increase both our gross margin and operating margin. We are selling more proprietary products that ever, and have been able to lower our costs though increased efficiency. We have met our long-term sales target and have a little way to go in reaching our long-term profitability target. The success of our business model has perhaps been most visible in our cash flow. The average contract with many transactions creates a very stable cash flow from operating activities. Furthermore, through the sale

of treasury shares and employee warrants we have increased our net cash and gained new institutional owners.

We have never been stronger and have never before been so focused on our value added as we are ahead of 2014.

We have entered 2014 with a more effective organization than ever and our goals have never been more clear. My and our ambition has never been higher. We want to do more, much more, for our customers, partners, employees, shareholders and the market for embedded systems.

Uppsala, March 17, 2014

Stefan Skarin  
CEO, IAR Systems Group AB



# IAR Systems Investment Case 2014

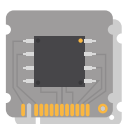
IAR Systems is a market-leading provider of development tools for embedded systems. With its long experience in the industry, IAR Systems has gathered 30 years of developing the product portfolio, building up the customer base and presence, and building up its expertise.

## ABOUT IAR SYSTEMS

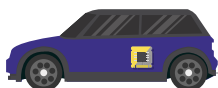
IAR Systems is a market-leading provider of development tools for embedded systems. With its long experience in the industry, IAR Systems has gathered 30 years of developing the product portfolio, building up the customer base and presence, and building up its expertise. IAR Systems has a unique market position based on its leading technology, global reach and large and loyal customer base. IAR Systems' license-based business model provides a platform for growth and profitability, which makes IAR Systems an attractive investment alternative.

## IAR Systems' role in product development

A product developer buys a processor. Before the processor can be used in a smart product, it must be programmed.



The product developer uses IAR Embedded Workbench so that the processor is given the right instructions to control the end product.



An end product reaches the market.

**IAR Systems has a unique market position based on its leading technology, global reach and large and loyal customer base.**

## PRODUCTS AT THE LEADING EDGE OF TECHNOLOGY

IAR Systems is a software company that provides software for programming of processors. These processors are programmed for use in an embedded system. Today there are countless examples of products containing embedded systems and they are found across all industries, such as the automotive and manufacturing industries, home electronics, medical and health care, the defense industry, etc. Virtually all sales take place through IAR Embedded Workbench. This is a product that is appreciated for its capacity to generate high quality and compact code without compromising on functionality or code speed.

## 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 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. It is also of major benefit to the customer to be able to use the same development environment even when they intend to change processor. In addition to a lower learning curve, the developer can reuse 70-80% 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 the following primary drivers:

- > 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. There are several areas that are showing this



clear trend and one of the most recent is “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 the market in terms of both technology and suppliers, which means that IAR Systems, with its strong market position, has an excellent ability to survive. IAR Systems is strengthening its market position among the customers seeking security in a stable and global supplier.
- > Growth in energy-efficient solutions for digital electronic products, which underlines the importance of IAR Systems continuing to deliver innovative solutions for energy-efficient programming of microprocessors.

## GLOBAL REACH

IAR Systems has international reach and more than 95% 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, Brazil, France, Japan, China, South Korea, the UK, Germany and the USA. 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 150 000 licenses, which has led to a customer base of 46,000 organizations.

Our customers include well known companies like Honeywell, Microsoft, Samsung, Philips, GE, Ericsson, Miele, Electrolux, BMW, etc. In recent years, many of these companies have chosen to standardize their development on software from IAR Systems.

## ECOSYSTEM OF PARTNERS

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. The choice of processor is often the first choice a customer makes in development of new digital products. By using IAR Systems products, the customer has no need to evaluate the tool in connection with evaluation of the processor. This is a major advantage for the customer.

## ARM AN IMPORTANT PART OF THE ECOSYSTEM

ARM represents a large share of microprocessor development. This applies to functionality and low power consumption combined with a low manufacturing cost for vendors that choose 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.

## IAR Systems’ role in the ecosystem



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 from IAR Systems for older processors with new products that support ARM.

## 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 workplace that contributes to personal well-being and professional development.

# Business mission, goals and strategy

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

## BUSINESS MISSION

IAR Systems brings value to organizations that develop products for embedded systems.

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 more quickly to their markets.

## LONG-TERM FINANCIAL GOALS

In 2011 the Board established the following long-term 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.

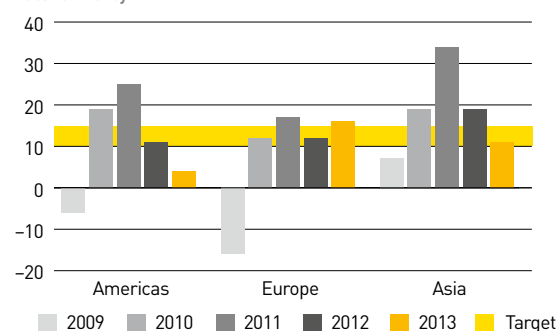
**We aim to create lasting relationships with our customers and partners, guided by our mission and our ambition.**

## STRATEGIC CORNERSTONES

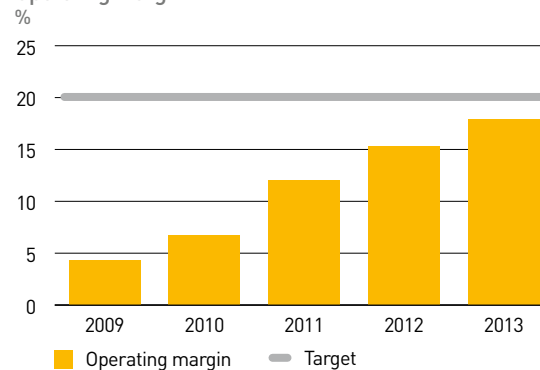
To meet these goals, IAR Systems applies a strategy with five cornerstones:

- > 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.

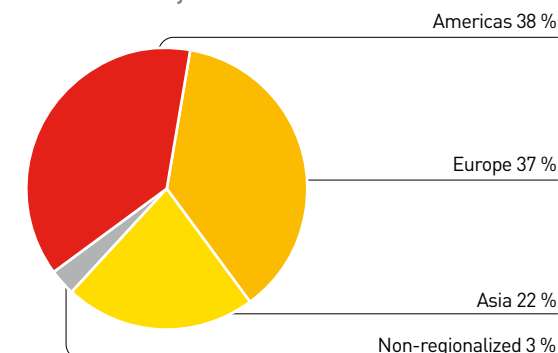
Sales growth  
Local currency



Operating margin  
%



Share of sales by market



IAR Systems strategy is to **offer the customers technological independence** in an environment that is evolving rapidly.



#### *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, Brazil, France, Japan, China, South Korea, the UK, Germany and the USA. 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. 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.

## AMBITION 2013

ESTABLISH AN OFFERING OF TRAINING SERVICES FOR EXISTING AND NEW CUSTOMERS

INCREASED FUNCTIONALITY FOR THE MOST ADVANCED PROCESSORS FROM ARM AND RENESAS

OFFER A NEW SALES ORGANIZATION FOR THE INDIRECT SALES CHANNEL IN EUROPE

## OUTCOME 2013

IAR ACADEMY ESTABLISHED AS A GLOBAL TRAINING AND EDUCATION OFFERING

A LARGE NUMBER OF PRODUCT OPTIMIZATIONS LAUNCHED DURING THE YEAR WITH WORLD RECORD RESULTS FOR BOTH THE RENESAS AND ARM PRODUCTS

AN INDIRECT SALES ORGANIZATION IS ESTABLISHED IN 2013

## AMBITION 2014

LAUNCH MORE PRODUCTS THAT CATER TO THE EXISTING CUSTOMER BASE IN ORDER TO INCREASE THE SALES POTENTIAL

GREATER NUMBER AND SCOPE OF GLOBAL AGREEMENTS WITH THE MOST IMPORTANT CUSTOMERS

ESTABLISH ADDITIONAL SUPPORT SERVICES FOR EXISTING AND NEW CUSTOMERS

# 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.

## 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.

A few examples of fast-growing areas are:

- > The automotive industry, for example for fuel control, anti-lock brakes, lighting and power windows.
- > Products that contain functions for wireless transmission of information.
- > Healthcare applications like blood pressure meters, pulse meters, blood glucose meters, etc.

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 more and more safety features in the industrial, automotive and medical device areas are now controlled by a processor. The trend in which embedded systems are becoming safety-critical is heightening the need for control and certification of these systems system.

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

## The Internet of Things

In the past few years there has been a great deal of publicity about a concept called "The Internet of Things". "Things" in this context refer to devices in our everyday lives that can be used for better and other purposes by being connected to the Internet. The goal is to increase the flow of information from things that can be used to position, change, measure, etc. IAR Systems is exceptionally well positioned to help its customers apply The Internet of Things, since the company's 46,000 customers have used our tools to program their products. Now these products will also be programmed to communicate with the Internet.



these systems also require connection to the Internet for communication and control, a concept 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. 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.

## A focus on the code



Thomas Sporrang, Global FAE (Field Application Engineer)

We have realized that there are many things that can steal the focus from the developer. Everything from noisy workplaces to colleagues that interrupt and constant status meetings. And even if we can't influence all of these factors that disrupt a developer's work, we want to create an environment for the developer that is stable, qualitative, user-friendly and reliable. *An environment where developers can focus on their code.* We do this through our tools, since we want to contribute to enabling the developer to focus on his or her code through our development environment.

We contribute to enabling developers to focus on their code by:

- > Supporting most of the available processors on the market, from 8-bit processors to the latest ARM Cortex-M and Cortex-A processors from vendors such as TI, Freescale, STMicroelectronics, Atmel and Renesas
- > Offering the highest performing tools in the industry
- > Offering our function rich debuggers with integrated tools such as stack and performance analysis and power consumption profiling
- > Helping the developer to quickly get started through thousands of example products, step-by-step guidance and an intuitive development environment
- > Offering a wide ecosystem of integrated RTOSes, middleware, analysis tools, configuration tools, etc., that the developer can need to streamline development
- > Providing extensive documentation, technical training (IAR Academy) and professional technical support across all time zones

### 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 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 tools for measuring power consumption on the market, but IAR Systems' innovative solution that links power consumption to the developed code has gained widespread attention in the market and more and more of IAR Systems' 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. During the year, IAR Systems' products for ARM and Renesas (RX) processors were ISO-certified by the German certification agency TÜV SÜD.

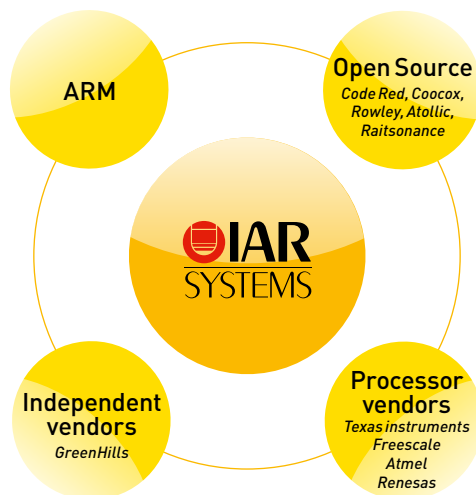
The developer must be able to **reuse both code and knowledge** from one project to the next.

## 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. 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.

## A COMPETITIVE MARKET



## TOOLS FOR PROGRAMMING OF CODE ARE OFFERED BY PLAYERS OF FOUR DIFFERENT TYPES

		1	2	3	4
		Processor vendors	Open Source	ARM	GreenHills
<b>INDEPENDENT SUPPLIER</b>	●		◐		●
<b>BROAD SUPPORT FOR ALL KEY ARCHITECTURES</b>	●		◐		●
<b>SUPPORT FOR ALL MAJOR PROCESSOR VENDORS</b>	●		●		●
<b>GOOD SUPPORT &amp; CUSTOMER SERVICE</b>	●	◐		●	◐
<b>USER-FRIENDLY TOOLS</b>	●	◐	◐	●	◐
<b>DOCUMENTATION</b>	●	◐		●	●
<b>IN-HOUSE SOFTWARE DEVELOPMENT</b>	●	◐		●	●
<b>EFFECTIVE &amp; SMALL CODE SIZE</b>	●	◐	◐	●	●
<b>BROAD RTOS &amp; MIDDLEWARE SUPPORT</b>	●	◐		●	
<b>BROAD SOFTWARE SUPPORT</b>	●	◐	●	●	

- 1) Processor vendors that offer support 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.

## 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.



# IAR Systems Europe

# 37%

IAR Systems continued to grow in Europe during 2013 and Europe now accounts for 37% of the company's sales. The expanding market for ARM processors and interest in safety-critical systems in the automotive industry are driving this growth.



Sales Manager  
Germany

**Andreas Thomas**

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

The German market for embedded systems is the third largest after the USA and Japan. In the past year I saw a further increase from the previous year's growth in the automotive industry, mainly due to the increase in safety-critical systems.

**Our customers in Europe include**  
**ABB, AGFA Gevaert Health Care,**  
**Autoliv Electronics, Bosch, Danfoss**  
**Randall, Draeger, Endress+Hauser,**  
**Ericsson Mobile Platforms, GE Sens-**  
**ing, Invensys Appliance Controls,**  
**Kamstrup A/S, Kongsberg, Laerdal**  
**Medical, Landis+Gyr AG, Leica Geo-**  
**systems, Miele, Novo Nordisk A/S,**  
**OSRAM GmbH, Pepperl+Fuchs**

*What was on the agenda for your region in 2013?*

We have seen powerful interest from our German customers when it comes to our TÜV SÜD-certified versions of IAR Embedded Workbench for ARM and Renesas RX. There has also been an interest in our offering of support for Eclipse as an alternative, which enables the German customers to use tools and debuggers in an Eclipse IDE. In addition, in February we launched our training program IAR Academy, and during the year we carried out several successful training courses at our offices in Europe.

*In 2013 IAR Systems celebrated its 30-year anniversary. As an experienced player in the market for embedded systems, what do you see as the most influential trends in this sector?*

One key trend we are seeing is a rising complexity in the products and an increase amount of software code per product.

*The products themselves have also changed.*

*What are the most important trends in this regard?*

There is a greater focus on more innovative products. Adding more advanced functions that improve the customer's products and thereby make them stand out from the competitors.

*What do you have to say about customer needs?*

*What is important to them today?*

Since the software for embedded systems is becoming increasingly integrated in product development, this is leading to increased product complexity. As a result, the market is demanding more functions in the products and an increased need to cut costs and minimize time to market. This naturally places higher demands on the customers and their products, and are vital needs that we at IAR Systems must meet with our software.

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

In view of the performance advantages we have, we can more easily handle the challenges we face in development of software for embedded systems. Our strategies to meet these challenges are:

- Test the code earlier in the development process
- Improve the capacity to handle software configurations
- Keep the code as simple as possible

*Do you have any final comments you want to share?*

In Germany we are noticing that our service and our broad support for processors have high priority among our customers, and in 2014 we will continue working to satisfy their requirements.

# IAR Systems Asia



# 22%

Despite macroeconomic challenges in Japan, IAR Systems continued to grow in Asia during 2013. Asia accounts for 22% of the company's sales. Time to market, reduced development costs and standardization on a toolchain are driving sales in the region.



**Sales Manager  
South Korea**  
**Chul-Won Kim**

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

IAR Systems started delivering products the Korean market in 1994 through a distributor. In February 2012 IAR Systems opened its own office in Seoul, South Korea. Since then we have worked to lay a stable foundation and are now ready to take a step forward.

*What was on the agenda for your region in 2013?*

In 2013 we focused on our sales organization. As a result of this stronger focus, we grew by over 30% compared to 2012.

*In 2013 IAR Systems celebrated its 30-year anniversary. As an experienced player in the market for embedded systems, what do you see as the most influential trends in this sector?*

One influential trend I have noted in South Korea is a closer collaboration between ARM and processor makers that have a focus on ARM-based products. The trend I can see is that these are trying

to cooperate with global companies that make the end products. IAR Systems, with IAR Embedded Workbench, is also a key trend in South Korea, and we collaborate closely with both processor and system vendors.

**Our customers in Asia include**  
**Mitsubishi Electric Corporation,**  
**Panasonic Communications,**  
**Toshiba, Hitachi, OKI, Nintendo,**  
**Casio, Epson, Yamaha, Terumo,**  
**ICOM, Denso, Brother, Omron,**  
**JVC Kenwood, Ricoh, Azbil, SEGA,**  
**Murata Manufacturing, Alps Elec-**  
**tric, Sony, Yokogawa, Fujixerox,**  
**Daikin Industries, Canon, Olympus,**  
**Nikon, Minebea, The Nippon Signal**

*The products themselves have also changed. What are the most important trends in this regard?*

I would say it is probably the rapid development of new technology and implementation of the new technological trends. Standardization is another trend we are seeing growth for in South Korea.

*What do you have to say about customer needs?*

*What is important to them today?*

The demand for customers is to cut their development costs and development times, a need that we are noticing more and more. In view of this, it is increasingly important for the customer to standardize on a development tool.

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

The market for embedded systems in South Korea is growing and is expected to continue growing in the future. Products for embedded systems are already full of complexity and functionality based on advanced technology, and I think this will also be an opportunity for us. The cell phone industry with its smart phones and the automotive industry are also areas where we see major potential and possibilities.

*Do you have any final comments you want to share?*

I look forward to expanding our operations, our products and our strategy for the Korean market.

# IAR Systems **Americas**

# 38%

The Americans remain IAR Systems' largest market and accounted for 38% of the company's sales in 2013. In a growing industry, local presence is often decisive – in 2013 we hired more sales staff and opened an additional office, which will increase the scope for continued success in the future.



Sales Manager  
Americas  
**Henry Acquafresca**

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

IAR Systems has provided the USA and Canada with development solutions since the start in 1983. The American market is an integral part of our operations and accounts for 38% of our sales. We have three offices in the USA: Foster City, California, Boston, Massachusetts, and Dallas, Texas. We have hired sales staff at all offices so that we can continue to offer our customers the sales support they seek.

*What was on the agenda for your region in 2013?*

Our agenda was to meet our sales targets in the Americas. We achieved this by hiring additional

**Our customers in Americas include  
Black & Decker, Daimler Chrysler  
AG, Delphi Automotive Systems,  
Ember, Hewlett-Packard,  
Honeywell Inc., Lear Corporation,**

sales staff at our offices in Boston and Foster City, and by opening our new office in Dallas. Another goal was to offer training services to our new and existing customers, so we expanded our technical training program, IAR Academy, from Europe to the USA and other countries.

*In 2013 IAR Systems celebrated its 30-year anniversary. As an experienced player in the market for embedded systems, what do you see as the most influential trends in this sector?*

Our customers are demanding improvements in our products that can give them advantages relative to their competitors. They want our compilers to produce the fastest code, for our user interface to be easy to use, for our ecosystem of partners to be strong, for our debuggers to find all of the bugs and for our technical support to continue to be of assistance when they need us. They want all of this at a reasonable price, and we therefore offer our volume license program with discounts and other benefits to those customers who have more than a certain number of licenses.

*The products themselves have also changed. What are the most important trends in this regard?*

One trend we see, and are in a good position to help with, is standardization. IAR Systems offers support for the widest range of 8/16/32-bit processors in the industry, which includes 30+ architectures and more

than 8,000 processors. This means that a customer can move between different processors without having to learn a new IDE. Since the compiler technology is the same, this makes it easy for the customer to share code between different projects.

*What do you have to say about customer needs? What is important to them today?*

I think the most important customer demands today are that the customers want to get their products out on the market faster and at a lower cost. We are working continuously to help our customers create the best products possible, and to do this with more rapid delivery, since this reduces their development costs.

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

The USA is a very wide market for embedded systems. Our opportunity is to continue serving this wide market by offering the best products.

*Do you have any final comments you want to share?*

IAR Systems already has a strong presence in the US market, but embedded systems are still a fast-growing sector. We continuously improve our products to stay abreast of demands from the industry. And I look forward to working with all of our new and existing customers in the future.

# Green Innovation Program

Many of the most successful innovations in the renewable energy and clean tech fields over the past twenty years have been developed by small, entrepreneur-driven technology companies. To support and further this development, IAR Systems has started IAR Green Innovation Program.

During the course of the project, IAR Green Innovation Program can sponsor selected organizations with up to SEK 150,000 in the form of licenses for IAR Systems' products: IAR Embedded Workbench or IAR visualSTATE. In this way, researchers and engineers are given easier access to development tools for embedded systems so that more environmentally-friendly products can be created.

A number of educational institutions and entrepreneurs are involved in projects within the IAR Green Innovation Program. Let us present a few of these:



FORZEH2 HYDROGEN CAR  
THE NETHERLANDS

ILUMI LIGHTNING  
TEXAS, USA

STANFORD SOLAR CAR PROJECT  
KALIFORNIEN, USA

BRITISH COLUMBIA INSTITUTE OF TECHNOLOGY  
VANCOUVER, CANADA

ST-POLITO  
ITALY



Forze is a hydrogen racing team, consisting of about 70 students from the Technical University of Delft, the Netherlands. Since 2007 the team develops hydrogen racing cars. Forze combines racing with innovative and sustainable technology, and by racing with water as the only emission Forze shows that sustainability is not a limitation, but a challenge. IAR Green Innovation Program sponsors Forze with development tools.

ilumi is a Bluetooth-enabled LED light that is controlled and programmed through an easy mobile app. One of the most important aspects of the technology in ilumi is the development tool. IAR Embedded Workbench has accelerated the development in terms of coding, testing and integrating hardware with mobile applications.

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 power 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. The project is sponsored by the IAR Green Innovation program.

British Columbia Institute Of Technology has developed a prototype for a low-power mobile health monitoring system for mobile hospitals in disaster areas. In development of the product, they used IAR Embedded Workbench.

IAR Green Innovation Program sponsors ST-Polito with licenses for research on the energy efficiency, automotive and transport, healthcare and biomedicine, consumer and communication areas. For this they are using IAR Embedded Workbench.



## GREEN INNOVATION PROGRAM CASE: ilumi Lightning

We interviewed Swapnil Bora, one of the founders behind ilumi Lightning, and asked him to tell us more about ilumi and what IAR Green Innovation Program has meant for the project.

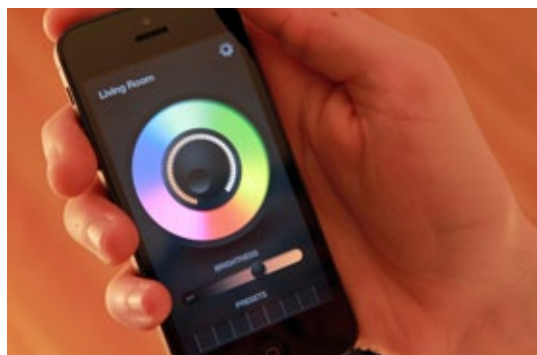
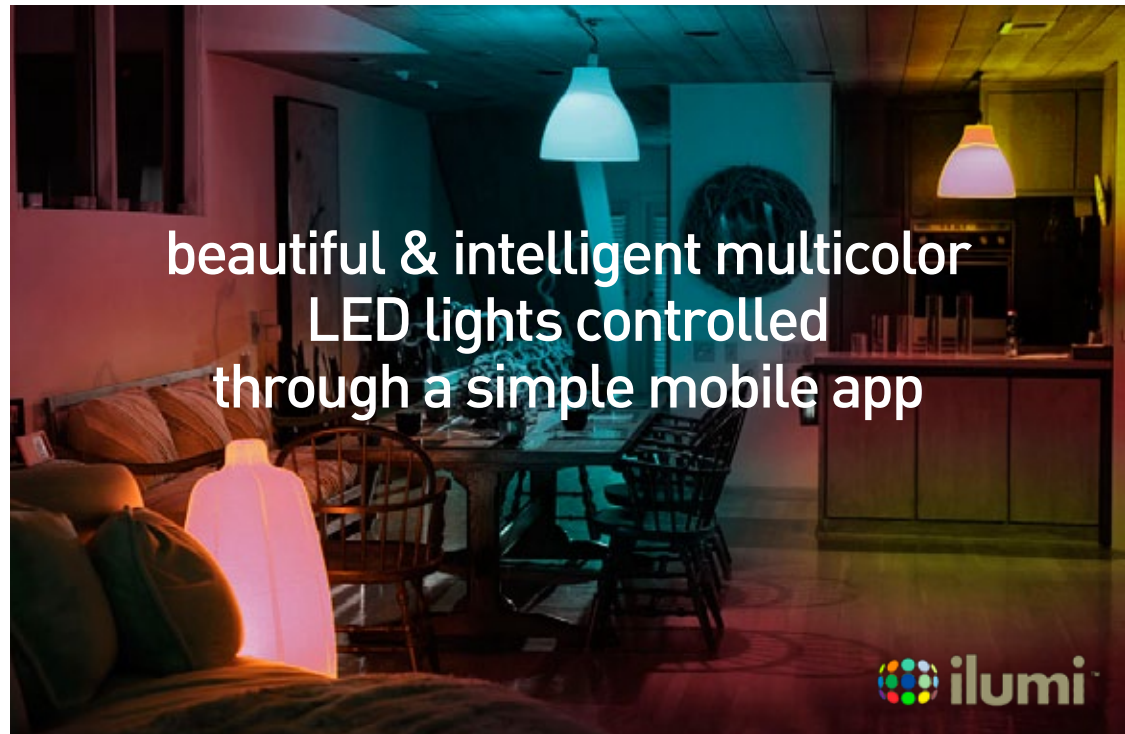
*Describe ilumi for our shareholders!*

ilumi consists of intelligent and adjustable LED lights that can be easily controlled with a mobile app for iPhone or Android.

*And this is good for the world, isn't it?*

Absolutely! Light is extremely important: it creates a mood, defines a space and even influences how we feel. ilumi goes far beyond just turning your lamps on or off, for us it's about having the exactly right light at the right time.

In addition, ilumi uses seven times less energy than traditional light bulbs and lasts for up to 20 years, so ilumi is good for both your wallet and the environment.



*How has IAR Embedded Workbench helped you in developed of ilumi?*

ilumi is a Bluetooth-enabled LED light that is controlled and programmed through an easy iOS or Android app that opens up a world of amazing lighting experiences. The firmware is one of the most important aspects of the technology. IAR Systems' easy and intuitive user interface and excellent debugging capabilities have accelerated the development in terms of coding, testing and integrating hardware with mobile applications. IAR Embedded Workbench

has been critical for development of our complex codes and has consistently delivered robust and functional performance. Furthermore, IAR Systems offers ready reference material and excellent service that has speeded up development of our products.

*When can we expect to see ilumi products on store shelves?*

The first ilumi lights will be launched on the market at the beginning of 2014. If you want to know more, you are welcome to visit our website [www.ilumi.com](http://www.ilumi.com)

# IAR Systems' offering

IAR Systems sells proprietary development tools that are used to program processors in embedded systems. These control electronic products in many different areas, such as industrial automation, medical devices, consumer electronics, the automotive industry and telecommunications.

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 a code library with programming functions that the developer can use, example projects and manuals.

## IAR Systems has a complete toolchain for programming of embedded systems



### DEBUG PROBES

IAR Systems also offers a range of in-house developed 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 2013 a new probe (I-scope) was launched for improved current and voltage measurement. 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).

## ECOSYSTEM OF PARTNERS

PROCESSORS  
ANALYSIS TOOLS  
DESIGN, CONSULTANTS & TRAINERS  
DEBUGGERS  
HARDWARE & DEVELOPMENT KITS  
DATABASES  
RTOS  
COMMUNICATION SOFTWARE

*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 add-on products in areas such as communication. This ecosystem has been formed over a period of 30 years through close collaboration and technical integration. 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 8,000 different processors.*



# IAR Systems' development environment

## 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.

## 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.

## 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.

## IAR INFORMATION CENTER



The first thing the developer meets when IAR Systems' software is started is IAR Information Center. Here the developer finds:

**Getting started:** Guidelines for starting projects, adding files, compiling, linking and debugging.

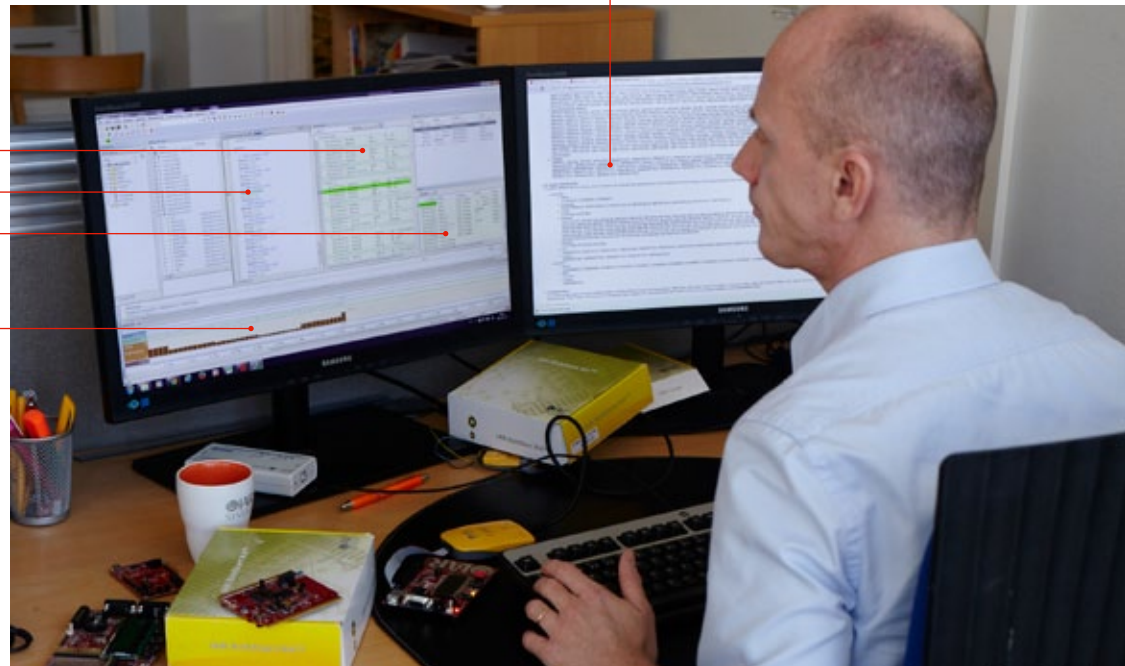
**User manuals:** Complete product documentation in PDF format provides all of the user and reference information the developer needs.

**Example projects:** Example applications that show hardware and peripheral equipment for specific units and development boards.

**Guidance:** Guidance to familiarize the developer with IAR Systems' development environment (IDE) and the functions IAR C-SPY Debugger.

**Support:** For questions about how the developer uses his or her product, reports a problem or finds support resources.

**Version facts:** Here you can read about the latest functions, new processor support and bug fixes.



# Our employees

IAR Systems is a knowledge-intensive and value-driven company that places high demands on ambition and innovation among its employees. Our global organization, our agile sales force and our enduring passion for product development attract skilled and talented people to the company in all of the countries where we are active. Our goal is to be the preferred choice for the top employees and managers in our industry.

89 % % % % %  
PERCENT

Around 89% of the employees hold a university degree. IAR Systems offers a stimulating and educational environment with extensive on-the-job training and a structured transfer of knowledge between individuals and departments. Employee turnover in the company is low because our employees are given challenging work duties in order to develop and because they thrive in our work environment.

60   
DEVELOPERS

More than 60 people work with development of IAR Systems' products and technology at our offices in Uppsala and Camarillo, Los Angeles. Uppsala is the base for most of the product organization, with some ten product managers who have a constant ear to the market. Development and production of our debug probes take place mainly in Uppsala, but also in Camarillo, Los Angeles.

750   
MAN YEARS

Together, the developers have 750 man years of experience with the current version of IAR Embedded Workbench. On the average, each individual developer has worked for the company for more than ten years. It takes between one and two years for a developer to become highly productive in his or her work – and is in other words a major investment for the company. It is therefore vital that we succeed in retaining our developers by offering interesting challenges and a stimulating work environment.

10   
LANGUAGES

In 10 languages across 6 different time zones, our support organization provides fantastic opportunities to meet our customers' needs nearly around the clock and around the world. The employees in the support organization often have an engineering degree and many years of industry experience, and are highly appreciated by our customers for the high level of expertise and feeling for service – which is naturally one of our greatest competitive advantages.

30   
CONTACTS

30 contacts per day is the average for a sales representative at IAR Systems. Our sales staff is spread over a wide geographical area and has relationship-building as its foremost skill. The sales methods vary with the local culture, but the sales process is the same for all. To meet our customers' high demands on technical knowhow and to provide maximum service, our sales force works in close collaboration with our Field Application Engineers (FAE). A FAE has a background as an engineer with long experience in the industry, in combination with a certain level of sales experience, and works in the borderland between sales and technology. Our sales process and customer treatment are important competitive advantages for the company and in 2013 we have worked to train our sales staff in process, products and customer treatment. In 2014 we will take the next step in this training.

At IAR Systems we believe that cooperation makes us more than the sum of our parts. It is the quality of cooperation across office, departmental and national borders that is reflected in the meeting with the customer, with people who want to work here, with shareholders and investors. It is the quality of IAR Systems' cooperative ability that will continue to bring us success and enable us to meet our highly placed goals.

One of our greatest advantages is our global organization through which we can interact with customers in all of our different markets. At the same time, it is a challenge to have many different time zones and cultures in our internal communication. It is therefore important to be responsive in efforts to develop processes and tools for our human resources. Finding a balance where we benefit from factors like our cultural differences but still giving our employees the feeling that we are a single IAR Systems.

### COMPETENCE MAINTENANCE

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

### INCENTIVE SCHEME 2011–2014

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.

### CAREER OPPORTUNITIES

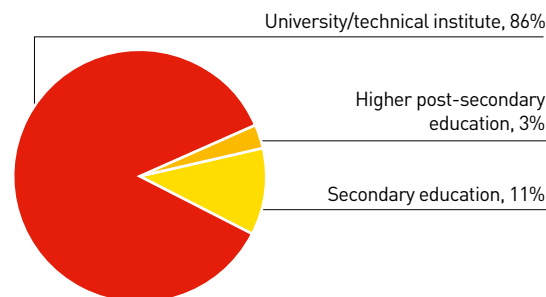
Working for IAR Systems means being on the front line – either as a developer, sales rep, technical support engineer, marketer, FAE, etc. Sharing knowledge and experience with highly qualified and motivated employees to create the most competitive customer solutions. Balancing work and free time in a healthy way, and the satisfying feeling of knowing that the results of your work are appreciated by leading companies around the world.



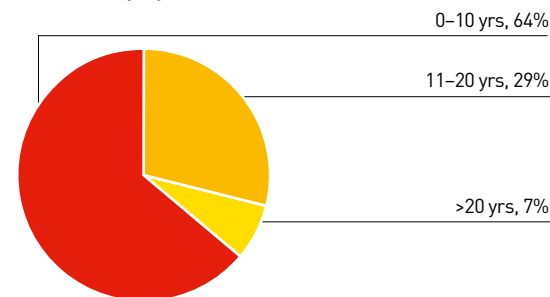
Employees <sup>1</sup>	2013	2012	2011	2010
Number of employees	160	149	137	132
Gender distribution, %				
Men	74	72	73	77
Women	26	28	27	23
Geographical spread, %				
Sweden	60	58	62	73
Rest of Europe	5	8	5	4
USA	23	21	21	14
Asia	12	13	12	9

<sup>1</sup> Based on the average number of employees during the year.

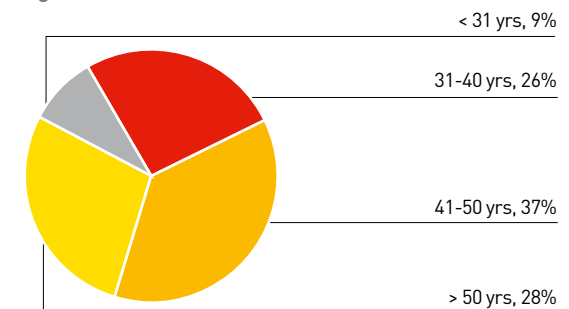
Educational level



Term of employment



Age distribution



# Technical milestones in 2013



## JANUARY 29, 2013

IAR Systems achieves unmatched code speed for an ARM Cortex-M4 based processor from the partner Freescale. The results are measured using Embedded Microprocessor Benchmark Consortiums (EEMBC) benchmark CoreMark, which tests the processor's performance. This performance result is the highest published score to date for the enormously popular ARM Cortex-M4 processor.

## JANUARY 21, 2013

IAR Systems further improves ease of use for developers of Atmel AVR 8-bit applications.

## JANUARY 29, 2013

Freescale® Semiconductor partners with IAR Systems to reach new performance high.

## FEBRUARY 21, 2013

IAR Systems supports the XMC1000 low-price ARM Cortex-M0 microcontrollers from Infineon.

## FEBRUARY 26, 2013

IAR Systems further strengthens product portfolio for power analysis.

## FEBRUARY 26, 2013

IAR Systems offers in-depth technical education through the launch of the training program IAR Academy. To address the growing complexity and need for shortened time to market among customers who use IAR Systems' development tools, a training program is launched under the name IAR Academy. The wide-ranging program is aimed at both new and experienced users of IAR Embedded Workbench, and has been launched on a broad front during the year in all key markets where IAR Systems has local offices.



## FEBRUARY 26, 2013

Softing Industrial Automation chooses to standardize its development of embedded systems on IAR Systems' tools.

## FEBRUARY 26, 2013

At the world's largest industry expo for embedded systems, Embedded World in Germany, IAR Systems launches exciting new functionality in the world-leading tool suite IAR Embedded Workbench. With the help of IAR Systems' new debug probe I-scope, programmers can measure power consumption in individual modules on a circuit board. Developers who use I-scope can thus much more easily detect which program code is causing high power consumption, quickly correct flaws in the code design and possibly extend the battery lifetime of a system.

## MARCH 6, 2013

IAR Systems chosen by GainSpan as sole supplier of tools for development of a new platform for wireless communication.

## MARCH 13, 2013

IAR Systems releases new version of development tools for STMicroelectronics' STM8.

## MARCH 18, 2013

IAR Systems provides development tools for Microsemi's SmartFusion2 SoC FPGAs.

## MARCH 19, 2013

IAR Systems updates leading development tools for low-power Renesas microprocessors.

## MARCH 22, 2013

IAR Systems launches tools for development of embedded automotive applications based on Renesas' new RH850 core.

## MARCH 27, 2013

IAR Systems boost capabilities for design and verification of embedded applications based on state machines.

## APRIL 9, 2013

IAR Embedded Workbench is certified for development of safety-critical systems.

## APRIL 22, 2013

IAR Systems offers powerful development tools for Renesas Electronics' new RX100.

## APRIL 23, 2013

IAR Systems new probe for energy optimization is now available for delivery.



## OCTOBER 30, 2013

The absolutely most popular product in IAR Systems' product portfolio is released in a new version. In this version, IAR Embedded Workbench for ARM offers the ability to carry out power analysis of all ARM processors, for example with the help of I-scope which was launched earlier in the year. Other include features are a new and simple way to integrate external code analysis tools that are increasingly used by customers to analyze code and find code bugs early in the development cycle, thereby creating more secure code.

## JUNE 4, 2013

IAR Systems launches updated version of development tools for Renesas V850.

## JUNE 26, 2013

IAR Systems launches updated version of development tools for Renesas M16C and R8C.

## JUNE 27, 2013

IAR Embedded Workbench for ARM is extended with easy integration of analysis tools and wide support for power optimization.

## JUNE 27, 2013

IAR Systems strengthens its ARM offering with market-leading development tools for Renesas Electronics' new RZ family of microprocessors.

## JULY 3, 2013

IAR Systems adds support for Atmel's new SAM D20 microprocessors.

## JULY 9, 2013

IAR Systems updated development tools for Atmel AVR32 result in 80 percent faster code.

## JULY 10, 2013

IAR Systems launches full support for ARM-based Vybrid Controller Solutions from Freescale.

## JULY 22, 2013

IAR Systems launches Experiment! — a series of development kits for creative, easy and low-cost evaluation.

## AUGUST 5, 2013

IAR Systems supports new Kinetis E series microprocessors from Freescale.

## AUGUST 27, 2013

IAR Systems continues commitment to serving the fast-growing Brazilian market.

## SEPTEMBER 9, 2013

IAR Systems extends its US operations with the opening of an office in Texas.

## SEPTEMBER 27, 2013

IAR Systems updates its leading development tools for Texas Instruments ultra-low-power MSP430-processors.

## SEPTEMBER 30, 2013

Analog Devices chooses IAR Systems as sole provider of development tools for its new ADSP-CM40x control processors.

## OCTOBER 30, 2013

IAR Systems launches sponsor program to promote eco-friendly digital innovation.

## OCTOBER 30, 2013

IAR Systems releases new version of leading development tools for ARM.

## NOVEMBER 12, 2013

As the only tools provider covering the entire range of Renesas 8-, 16- and 32-bit microcontroller families, IAR Systems is proud to announce full development tools support for Renesas' new high performance RXv2 core. Early support in IAR Embedded Workbench is possible as a result of the strategic alliance between IAR Systems and Renesas, one of the world's leading processor makers, thereby building further on a more than 20-year successful relationship between the companies. Thanks to IAR Systems' powerful optimization technology, developers of embedded systems can realize fantastic performance while at the same time maintaining good energy efficiency.

## NOVEMBER 7, 2013

IAR Systems launches starter kits for the new high-performance ARM Cortex-M4 series from STMicroelectronics.

## NOVEMBER 12, 2013

IAR Embedded Workbench supports Renesas' new high-performance RXv2 core.

## NOVEMBER 19, 2013

IAR Systems updates its leading development tools for 8051-based microprocessors.

## NOVEMBER 21, 2013

IAR Systems improves performance of development tools for Texas Instruments' ultra-low-power MSP430 microcontrollers.

## NOVEMBER 26, 2013

IAR Systems and Renesas Electronics Europe offer certified tools for safety-critical development.

## NOVEMBER 27, 2013

IAR Systems appoints Director of Global Customer Support.

## DECEMBER 4, 2013

IAR Systems launches complete starter kit for evaluation of Renesas' low-power RX111 microprocessors.

## DECEMBER 19, 2013

IAR Systems updates its popular development tools for Atmel AVR 8-bit microcontrollers.

## DECEMBER 20, 2013

IAR Systems further simplifies designing and testing of state machine-based embedded applications.



# Risks and risk management

Like all business activities, IAR Systems' operations are associated with risks. Certain risks are within the company's control, while others are not. IAR Systems continuously identifies and manages the company's risks. The most significant risks and how we manage them are described below.

## THREE TYPES OF RISKS

In working with risks and risk management, we have divided the risks into three categories.

**Market risks** refer to external factors and events in the markets where IAR Systems is active that can damage the conditions for us to meet our established goals. Market risks are events that we have limited opportunity to influence, but which we must be prepared for.

**Operational risks** refer primarily to internal factors and events that can damage the conditions for us to meet our established goals and that are part of our day-to-day operating activities to manage.

**Financial risks** refer to fluctuations in IAR Systems' profit and cash flow as a result of changes in exchange rates, interest rates, financing and credit risks. For a more in-depth description of financial risks, see Note 2.

To a certain extent, IAR Systems can protect itself from risks through insurance. IAR Systems has group-wide insurance coverage that is supplemented with local solutions where this is deemed necessary. The insurance is revised yearly in consultation with an external party. Among other things, the insurance covers property, business interruption, crime against property, legal expenses, liability and board/CEO liability.

		PROBABILITY					IMPACT				
		1	2	3	4	5	1	2	3	4	5
		Improbable	Unlikely	Possible	Likely	Probable	Insignificant	Minor	Medium	Large	Very large
RISK AREA	DESCRIPTION										
Macro-economic development	The customers' demand and willingness to invest are tied to their beliefs about future economic growth and macroeconomic development in their own market.				4			2			
Products and technology	New fundamentally changed working methods, rapid technology shifts and changes in customer behavior create a risk for changed customer requirements that will affect IAR Systems' market position.			3				3			
Competitors	New and stronger competitors can lead to a risk for decreased demand for IAR Systems' software.			3				3			
Customer structure	Far-reaching dependency on individual industries can have a major impact on sales if an entire industry is having difficulties.		2					2			
Income structure	A large share of one-time projects or maintenance agreements with short terms of validity creates uncertainty if economic growth declines.		2					3			
Competence maintenance	IAR Systems' key competencies are found primarily in technological development and in the relationships with the customers.			3				3			
Foreign exchange risk	Foreign exchange risk is the risk for variations in the value of financial instruments due to movements in foreign exchange rates.				4				4		
Liquidity risk	Liquidity risk refer to the risk that financing cannot be obtained, or can be obtained only at a significantly higher cost.	1						1			
Credit risk	Credit risk refers to the risk that a party in a transaction with a financial instrument will be unable to meet its obligations. The main credit risk is that IAR Systems will not receive payment of trade receivables.	1						1			
IAR SYSTEMS' RISK MANAGEMENT											
Macro-economic development		IAR Systems meet these risks by selling the company's software in multiple industries around the world. IAR Systems works actively to adapt the company's software and organization to the prevailing demand situation.									
Products and technology		IAR Systems has well established and strategic partnerships with all of the world's processor makers, which means that the company's software supports more processors and architectures than any other product on the market. IAR Systems makes up the hub of an ecosystem of partners in processor manufacturing, real time operating systems (RTOS) and add-on products.									
Competitors		IAR Systems meets the risk for competition as an independent provider of development tools for embedded systems by offering user-friendly, effective and fast software that supports the majority of architectures and processors. In addition, support and customer service are offered.									
Customer structure		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.									
Income structure		IAR Systems strives to increase the share of recurring customers. The share of recurring customers is already high and amounts to around 95%.									
Competence maintenance		IAR Systems works actively to retain and develop skills and competency in the company. Through training and knowledge sharing, competency and loyalty are strengthened in the Group. IAR Systems has low employee turnover and a good working environment.									
Foreign exchange risk		IAR Systems operates internationally and is exposed to foreign exchange risk arising from exposure to different currencies, primarily the USD, EUR and Japanese JPY. The Group's sales in foreign currency account for around 95% of total sales. Most of the company's expenses are denominated in SEK. Measures to manage the transaction-related foreign exchange risk are established in the Group's finance policy. The aim is to minimize the short-term impact on profit of exchange rate movements and at the same time create long-term freedom of action.									
Liquidity risk		IAR Systems' liquidity risk is assessed to be relatively limited. At December 31, 2013, the Group had net cash of SEK 80m.									
Credit risk		IAR Systems' credit risk is assessed to be relatively low. Trade receivables are divided between a large number of counterparties in different industries, markets and customer types. The Group has established guidelines for ensuring that sales are made to customers with a suitable credit background. Historically, the cost of bad debt losses has been low. To limit risks, the company's credit policy contains guidelines and provisions for credit assessment of new customers, terms of payment and routines and processes for management of past due receivables.									



# The IAR Systems share

IAR Systems Group's class B share is quoted on the Small Cap list of NASDAQ OMX Stockholm, under ticker symbol IAR. The share price at December 31, 2013, was SEK 43.00 (38.10) and market capitalization was SEK 531m (433).

## SHARE DATA

IAR Systems Group's class B share (IAR B) is quoted on the Small Cap list of NASDAQ OMX Stockholm, and a round lot consists of 1 (one) share. In 2013 the share price (last price paid, reinvested value), varied from a low of SEK 35.60 (25.30) to a high of SEK 46.80 (44.90). The share price at December 31, 2013, was SEK 43.00 (38.10). IAR Systems Group's market capitalization on the same date was SEK 531m (433).

The number of shareholders in IAR Systems Group at December 31, 2013, was 7,875 (8,547), of whom 420 (438) held more than 1,000 shares each. Foreign shareholders held approximately 20% (22)% of the share capital and 18% (27) of the votes.

IAR Systems Groups' share capital at December 31, 2013, amounted to SEK 123,445,614, divided between 12,344,561 shares of which 100,000 are of class A and 12,244,561 are of class B.

## TREASURY SHARES

During the year, all 334,600 class B shares that were held in treasury by IAR Systems at the beginning of the year were sold. The sale provided the company with proceeds of SEK 12.4m. The buyers were a number of institutional investors, which has strengthened the company's ownership base. The proceeds from the sale of the shares have improved the company's liquidity.

## DIVIDEND

The Board proposes to the AGM on 24 April 2014 that no dividend be paid, but that the shareholders be given a capital distribution of 5.00 per share (-).

## Development of the share capital

Year	Transaction	Quota value	Change in no. of shares	Total no. of shares	Change in share capital	Total share capital, SEK
1990	The company is formed	100	500	500	50,000	50,000
1993	100-for-1 split	1	49,500	50,000	-	50,000
1994	Bonus issue, 9-for-1	1	450,000	500,000	450,000	500,000
1996	Bonus issue, 5-for-1	1	2,500,000	3,000,000	2,500,000	3,000,000
1996	New share issue	1	129,600	3,129,600	129,600	3,129,600
1997	New share issue	1	220,920	3,350,520	220,920	3,350,520
1998	New share issue	1	940,000	4,290,520	940,000	4,290,520
1999	New share issue	1	302,656	4,593,176	302,656	4,593,176
2000	New share issue	1	736,000	5,329,176	736,000	5,329,176
2000	Bonus issue, 4-for-1	1	21,316,704	26,645,880	21,316,704	26,645,880
2000	New share issue	1	5,500	26,651,380	5,500	26,651,380
2001	New share issue	1	1,637,124	28,288,504	1,637,124	28,288,504
2004	New share issue	1	3,757,000	32,045,504	3,757,000	32,045,504
2005	New share issue	1	67,734,169	99,779,673	67,734,169	99,779,673
2006	New share issue	1	7,175,454	106,955,127	7,175,454	106,955,127
2007	New share issue	1	9,930,487	116,885,614	9,930,487	116,885,614
2008	Reverse split, 1-for-10	10	-105,197,053	11,688,561	-	116,885,614
2012	New share issue	10	5,000	11,693,561	50,000	116,935,614
2013	New share issue	10	651,000	12,344,561	6,510,000	123,445,614

Operations were started in 1985 and were managed in Nocom Nordic Communication until February 1998. The current operating company was started in 1990.

This corresponds to a total distribution to the shareholders of SEK 61.7m. In the previous year a dividend of SEK 2.00 per share was paid, corresponding to a total of SEK 22.8m. The Board intends to propose to the AGM that the distribution to the shareholders take place through a redemption program. The Board's complete proposal will be presented in good time prior to the AGM.

## 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

Share data	2013	2012
Equity per share, SEK	23.90	22.34
Number of shares at end of year, millions	12.34	11.36
Average number of shares, millions	11.53	11.23
Cash flow from operating activities per share, SEK	3.53	3.41
Earnings per share, SEK <sup>1</sup>	2.59	1.16
Dividend per share, SEK	2.00	1.00
Number of shareholders	7,875	8,547
Last price paid on December 31 or similar, SEK	43.00	38.10

<sup>1</sup> Basic earnings per share.

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 T04B

The Annual General Meeting (AGM) in May 2011 resolved that the company would issue not more than 1,168,856 subscription warrants, each entitling the holder to subscribe for one class B share in IAR Systems Group AB. A total of 1,017,000 warrants were subscribed for on market-based terms in July 2011. Each warrant gives the holder the right to subscribe for one new class B share in IAR Systems Group AB for a price of SEK 34.30 during the period through June 2014.

Prior to 2013, warrants were exercised to subscribe for 5,000 new class B shares. During the year, warrants were exercised to subscribe for 651,000 new class B shares. After this, there are 361,000 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 also authorized, on one or several occasions during the period until the next AGM, 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 shares shall be acquired on NASDAQ OMX Stockholm at price that is within the registered price interval at any given time. The motive for the authorization is to give the Board greater freedom of action in optimizing the company's capital structure. The Board of Directors was furthermore authorized to decide on the sale of the company's treasury shares in exchange for cash payment with deviation from the shareholder's pre-emptive rights or as payment for the acquisition of a company or operation.

## Largest shareholders at December 31, 2013<sup>1</sup>

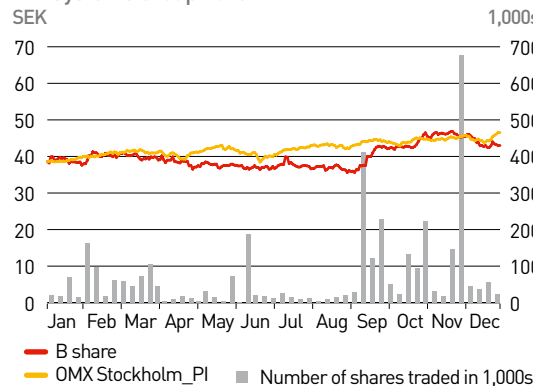
	No. of A shares	No. of B shares	Total no. of shares	% of capital	Total no. of votes	% of votes
Catella Fondförvaltning		988,150	988,150	8.0	988,150	7.5
Andra AP-fonden		828,730	828,730	6.7	828,730	6.2
Handelsbanken Fonder		778,880	778,880	6.3	778,880	5.9
Ribbskottet AB		750,000	750,000	6.1	750,000	5.6
UBS AG Clients account		711,447	711,447	5.8	711,447	5.4
Danica Pension	100,000	421,356	521,356	4.2	1,421,356	10.7
Hajskæret Invest AB		486,640	486,640	3.9	486,640	3.7
Tamt AB		420,000	420,000	3.4	420,000	3.2
Försäkringsaktiebolaget Avanza Pension		394,699	394,699	3.2	394,699	3.0
Pictet & Cie		385,000	385,000	3.1	385,000	2.9
Herculaneum Holdings AB		328,131	328,131	2.7	328,131	2.5
Länsförsäkringar Fondförvaltning AB		254,735	254,735	2.1	254,735	1.9
Zimbrine Holding BV		253,632	253,632	2.1	253,632	1.9
Kristoffer Jeansson		250,000	250,000	2.0	250,000	1.9
Humble Kapitalförvaltning AB		240,000	240,000	1.9	240,000	1.8
<b>Total 15 largest shareholders</b>	<b>100,000</b>	<b>7,491,400</b>	<b>7,591,400</b>	<b>61.5</b>	<b>8,491,400</b>	<b>64.1</b>
Others		4,753,161	4,753,161	38.5	4,753,161	35.9
<b>Total</b>	<b>100,000</b>	<b>12,244,561</b>	<b>12,344,561</b>	<b>100.0</b>	<b>13,244,561</b>	<b>100.0</b>

<sup>1</sup> Shares held directly and through nominees.

## Distribution of shareholdings at December 31, 2013

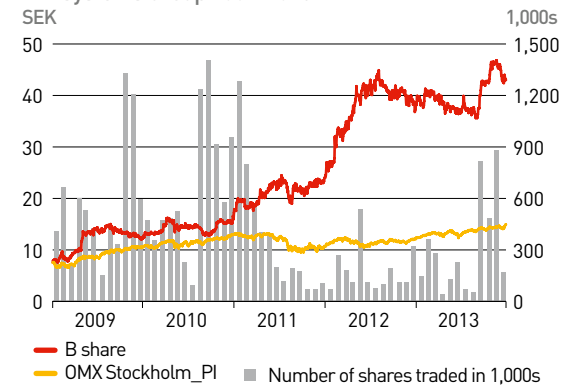
	No. of A shares	No. of B shares	Total no. of shares	% of capital	Total no. of votes	% of votes	No. of share- holders	% of share- holders
1-100	-	160,605	160,605	1.3	160,605	1.2	5,662	71.9
101-1,000	-	637,541	637,541	5.2	637,541	4.8	1,793	22.8
1 001-5,000	-	671,611	671,611	5.4	671,611	5.1	288	3.7
5,001-10,000	-	359,815	359,815	2.9	359,815	2.7	48	0.6
10,001-	100,000	10,414,989	10,514,989	85.2	11,414,989	86.2	84	1.0
<b>Total</b>	<b>100,000</b>	<b>12,244,561</b>	<b>12,344,561</b>	<b>100.0</b>	<b>13,244,561</b>	<b>100.0</b>	<b>7,875</b>	<b>100.0</b>

## IAR Systems Group 2013



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## IAR Systems Group 2009-2013



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# Financial overview

Income statements, SEK M	2013	2012	2011	2010	2009
Net sales	230.2	230.1	200.4	177.9	251.3
Other operating income	6.0	-	-	-	-
Operating expenses	-185.6	-188.3	-171.0	-161.8	-241.6
Depreciation of property, plant and equipment	-2.2	-2.3	-1.7	-1.2	-1.9
Amortization of intangible assets	-7.1	-4.3	-3.7	-3.0	-4.4
Impairment losses on intangible assets	-	-	-	-	-18.7
<b>Operating profit/loss</b>	<b>41.3</b>	<b>35.2</b>	<b>24.0</b>	<b>11.9</b>	<b>-15.3</b>
Result from financial investments	0.1	-0.1	0.1	0.0	-1.0
<b>Profit/loss before tax</b>	<b>41.4</b>	<b>35.1</b>	<b>24.1</b>	<b>11.9</b>	<b>-16.3</b>
Income tax	-11.5	-22.1	2.9	0.0	0.0
<b>Profit/loss after tax</b>	<b>29.9</b>	<b>13.0</b>	<b>27.0</b>	<b>11.9</b>	<b>-16.3</b>
Profit/loss from operations distributed/sold	-	-	-45.8	8.9	18.2
<b>PROFIT/LOSS FOR THE YEAR</b>	<b>29.9</b>	<b>13.0</b>	<b>-18.8</b>	<b>20.8</b>	<b>1.9</b>

Balance sheets, SEK M	2013	2012	2011	2010	2009
<b>ASSETS</b>					
<b>Non-current assets</b>					
Goodwill	110.7	110.7	110.7	132.1	288.7
Other intangible assets	53.7	41.6	28.2	26.7	30.3
Property, plant and equipment	6.1	6.3	5.8	5.9	54.3
Financial assets	64.5	67.3	79.6	80.7	107.3
<b>Total non-current assets</b>	<b>235.0</b>	<b>225.9</b>	<b>224.3</b>	<b>245.4</b>	<b>480.6</b>
<b>Current assets</b>					
Inventories	3.3	3.9	4.6	1.9	73.5
Other current assets	14.6	13.6	11.3	15.6	33.2
Trade receivables	34.1	29.1	32.2	33.8	90.5
Blocked cash and cash equivalents	0.7	2.6	6.9	-	-
Cash and cash equivalents	81.8	49.0	29.6	25.1	60.6
<b>Total current assets</b>	<b>134.5</b>	<b>98.2</b>	<b>84.6</b>	<b>76.4</b>	<b>257.8</b>
Assets in disposal groups held for distribution	-	-	-	422.4	-
<b>TOTAL ASSETS</b>	<b>369.5</b>	<b>324.1</b>	<b>308.9</b>	<b>744.2</b>	<b>738.4</b>

<b>EQUITY AND LIABILITIES</b>					
<b>Total equity</b>	<b>295.0</b>	<b>253.8</b>	<b>241.1</b>	<b>598.5</b>	<b>591.9</b>
<b>Non-current liabilities</b>					
Borrowings	1.1	1.1	1.5	2.0	27.4
Provisions	13.3	8.7	3.5	4.8	7.6
<b>Total non-current liabilities</b>	<b>14.4</b>	<b>9.8</b>	<b>5.0</b>	<b>6.8</b>	<b>35.0</b>
<b>Current liabilities</b>					
Trade payables	5.7	6.1	10.7	14.1	35.9
Borrowings	1.3	1.2	0.5	10.3	5.0
Provisions	-	-	-	-	-
Other current liabilities	53.1	53.2	51.6	46.8	70.6
<b>Total current liabilities</b>	<b>60.1</b>	<b>60.5</b>	<b>62.8</b>	<b>71.2</b>	<b>111.5</b>
Assets in disposal groups held for distribution	-	-	-	67.7	-
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>369.5</b>	<b>324.1</b>	<b>308.9</b>	<b>744.2</b>	<b>738.4</b>



## Cash flows in summary, SEK M

	2013	2012	2011	2010	2009
Cash flow from operating activities	40.7	38.3	34.2	13.8	18.8
Cash flow from operating activities for operations distributed/sold	-	-	8.5	6.0	32.9
<b>Total cash flow from operating activities</b>	<b>40.7</b>	<b>38.3</b>	<b>42.7</b>	<b>19.8</b>	<b>51.7</b>
Cash flow from investing activities	-19.1	-18.1	-32.8	-12.6	-4.5
Cash flow from investing activities for operations distributed/sold	-	-	-0.9	-8.6	26.0
<b>Total cash flow from investing activities</b>	<b>-19.1</b>	<b>-18.1</b>	<b>-33.7</b>	<b>-21.2</b>	<b>21.5</b>
Cash flow from financing activities	11.8	0.6	7.7	-3.1	-5.9
Cash flow from financing activities for operations distributed/sold	-	-	-39.7	-4.1	-39.0
<b>Total cash flow from financing activities</b>	<b>11.8</b>	<b>0.6</b>	<b>-32.0</b>	<b>-7.2</b>	<b>-44.9</b>
Cash flow for the year	33.4	20.8	9.1	-1.9	8.4
The year's cash flow for operations distributed/sold	-	-	-32.1	-6.7	19.9
<b>TOTAL CASH FLOW FOR THE YEAR</b>	<b>33.4</b>	<b>20.8</b>	<b>-23.0</b>	<b>-8.6</b>	<b>28.3</b>

## Key ratios

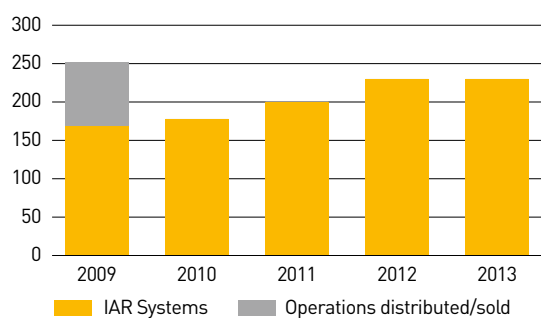
	2013	2012	2011	2010	2009
Gross margin,%	93.7	89.9	90.5	88.1	81.2
Operating margin,%	17.9	15.3	12.0	6.7	-6.1
Profit margin,%	18.0	15.3	12.0	6.7	-6.5
Cash flow,%	17.7	16.6	17.1	7.8	7.5
Equity/assets ratio,%	79.8	78.3	78.1	80.4	80.2
Return on equity,%	10.9	5.3	6.4	3.5	0.3
Return on capital employed,%	15.1	14.3	5.8	3.5	1.0
Capital employed, SEK M	297.4	256.1	243.1	610.8	593.3
Net cash, SEK M	80.1	49.3	34.5	12.8	27.4
Net debt/equity ratio, times	-0.27	-0.19	-0.14	-0.02	-0.05
Number of employees at end of period	168	157	157	135	173
Average number of employees	160	149	137	132	173
Net sales per employee, SEK M	1.4	1.5	1.5	1.3	1.5

## Data per share

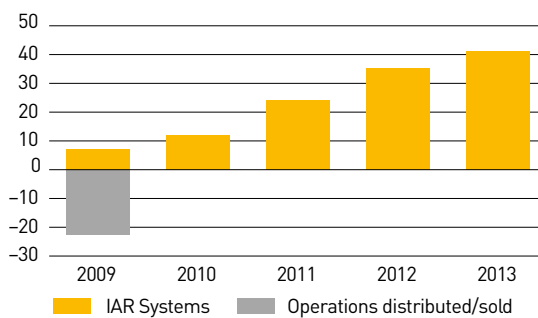
	2013	2012	2011	2010	2009
Equity per share, SEK	23.90	22.34	21.82	54.16	53.57
Number of shares at end of period, millions	12.34	11.36	11.05	11.05	11.05
Average number of shares, millions	11.53	11.23	11.05	11.05	11.05
Cash flow from operating activities per share, SEK	3.53	3.41	3.09	1.25	1.70
Earnings per share, continuing operations, SEK <sup>1</sup>	2.59	1.16	2.44	1.08	-1.48
Earnings per share, operations distrib./sold, SEK <sup>1</sup>	-	-	-4.14	0.80	1.65
Dividend per share, SEK	2.00	1.00	-	1.25	0.60
Last price paid on Dec. 31 or similar, SEK	43.00	38.10	24.50	17.74	24.40

<sup>1</sup> Basic earnings per share.

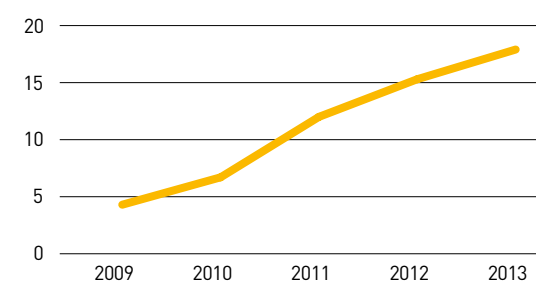
Net sales, proforma  
SEK M



Operating profit, proforma  
SEK M

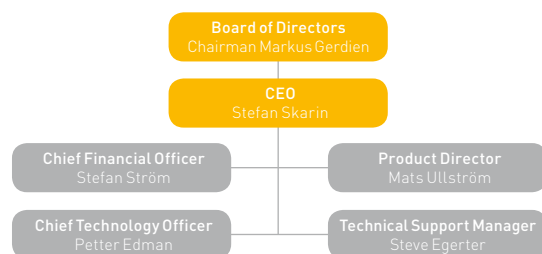


Operating margin, proforma  
%



# 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 2013. The company is domiciled in Stockholm, corporate identification number 556400-7200.



## HIGHLIGHTS OF 2013

- Net sales for the year amounted to SEK 230.2m (230.1)
- Operating profit for the year reached SEK 41.3m (35.2)
- The year's cash flow from operating activities was SEK 40.7m (38.3)
- Growth in proprietary products in local currency was 12% (12)
- Record sales in the number of licenses
- Several world records in performance
- Launch of certified version of IAR Embedded Workbench for ARM and Renesas RX
- Dividend of SEK 2.00 per share

## PROFIT AND CASH FLOW

Consolidated net sales amounted to SEK 230.2m, compared to SEK 230.1m for 2012. Sales of proprietary products in local currency grew by a total of 12% , divided between 12% in the Americas, 20% in Europe, 15% in Asia and a decrease in non-regionalized revenue by 29%.

Foreign exchange effects had a negative impact on the year's net sales of SEK 13.9m in comparison with the previous year.

The Americas accounted for 38% of net sales, Europe for 37%, Asia for 22% and Global revenue for 3%.

The earnings trend during the year was positive and operating profit rose to SEK 41.3m (35.2). The year's operating profit was positively affected by the settlement of an insurance claim for approximately SEK 4m. Operating profit was negatively affected by foreign exchange effects of SEK 7.3m compared to the previous year.

Operating margin for the year improved to 17.9%, compared to 15.3% in 2012. Excluding the effect of the insurance claim, operating margin was 16.2%.

Personnel costs are the Group's largest cost item and account for around 67% of total costs. More than half of the Group's total costs, 53%, are attributable to operations in Sweden.

The year's cash flow from operating activities was SEK 40.7m (38.3).

## BALANCE SHEET ITEMS AND FINANCIAL POSITION

Consolidated cash and cash equivalents at the end of the year totaled SEK 81.8m, compared to SEK 49.0m at December 31, 2012. Added to this were unutilized bank overdraft facilities of SEK 25.0m (25.0). The Group's interest-bearing liabilities amounted to SEK 2.4m, compared to SEK 2.3m at December 31, 2012.

At December 31, 2013, the Group had net cash of SEK 80.1m (49.3), in addition to a holding of 0 treasury shares (334,600).

Consolidated goodwill at December 31, 2013, amounted to SEK 110.7m (110.7). This goodwill item is attributable to the acquisition of IAR Systems in 2005 and the acquisition of Signum Systems Corp in 2011. Goodwill is tested for impairment yearly and is measured at cost less accumulated impairment. The impairment test that was performed in 2013 gave no evidence of impairment.

Other intangible assets in the form of trademarks, software and customer agreements amounted to SEK 53.7m (41.6).

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, 2013, the Group had cumulative loss carryforwards of around SEK 255m. In the balance sheet, these loss carryforwards have been taken up at SEK 56.2m (58.4).

Equity at December 31, 2013, amounted to SEK 295.0m, compared to SEK 253.8m at December 31, 2012. The increase in equity is due to the year's profit of SEK 29.9m, dividends to shareholders of SEK -22.8m, the sale of treasury shares for

SEK 12.3m, the issue of new shares through the exercise of subscription warrants for SEK 22.3m and foreign exchange effects of SEK -0.5m.

The equity/assets ratio at December 31, 2013, was 80% (78). Pledged assets decreased during the year and totaled SEK 4.9m (6.7) at December 31, 2013.

## INVESTMENTS

Investments in property, plant and equipment for the year are reported at SEK 2.0m (2.8). Investments in intangible assets amounted to SEK 19.2m (17.7).

## 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, has a high proportion of employees with advanced academic degrees.

At IAR Systems, 89% of the employees have a higher post-secondary education and 11% have a secondary education. The average age of the Group's employees is 44 years. Like many other companies in the IT sector the Group has an uneven gender balance, with 26% women and 74% men at year-end 2013. The number of employees during 2013 was 160 (149).

## 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 Group'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

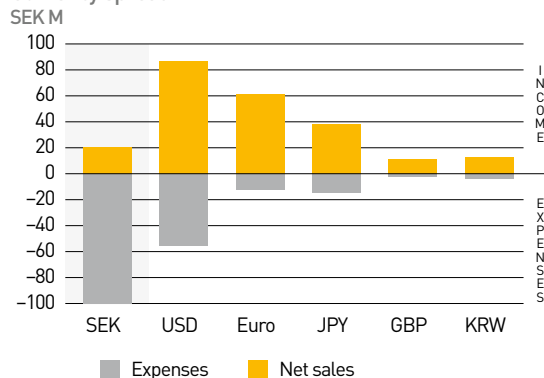
policy. The goal is to minimize the short-term earnings impact of foreign exchange movements and at the same time create long-term freedom of action.

Foreign exchange risk arises in translation of trade receivables in foreign currency, mainly USD, EUR and JPY. The Group's sales in foreign currency, mainly USD, EUR and JPY, make up around 91% of total sales. Of the cost of goods sold, which accounts for around 8% of the Group's cost mass, approximately 88% of purchases are denominated in foreign currency, also primarily in USD, EUR and JPY. 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.

#### Sensitivity analysis

Dec 31, 2013	Change	Effect on profit
Cost of goods sold	+/- 5%	-/+ SEK 0.7m
Payroll expenses	+/- 5%	-/+ SEK 6.9m
Currency – EUR	+/- 5%	+/- SEK 2.4m
Currency – USD	+/- 5%	+/- SEK 1.5m
Currency – JPY	+/- 5%	+/- SEK 1.2m
Variable interest	+/- 1%-point	+/- SEK 0.0m

#### Currency spread



#### Financing and liquidity risk

The Group's financial position is strong. In 2013, dividends were paid in a total amount of SEK 22.8m. No share buybacks took place during the year. A total of 334,600 class B shares were sold for a combined value of SEK 12.3m. The issue of 651,000 class B shares took place in connection with the exercise of warrants. The issue provided the company with proceeds of SEK 22.3m. The equity/assets ratio at December 31, 2013, was 80% (78).

At year-end there were cash and cash equivalents of SEK 81.8m (49.0) and unutilized bank overdraft facilities of SEK 25.0m (25.0). Interest-bearing liabilities on the same date amounted to SEK 2.4m (2.3).

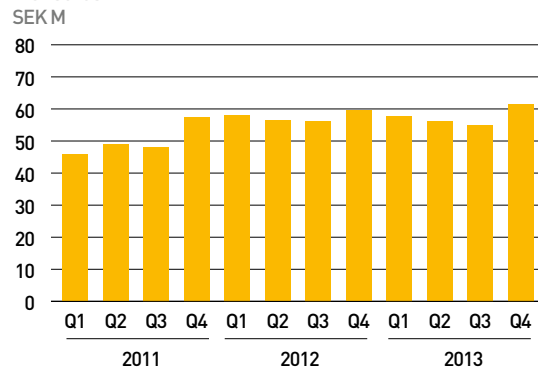
#### Credit risk

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.

#### Net sales



#### GUIDELINES FOR REMUNERATION AND OTHER TERMS OF EMPLOYMENT OF SENIOR EXECUTIVES

The Board of Directors proposes to the 2014 AGM that the guidelines for remuneration to senior executives that were adopted by the 2013 AGM continue to apply.

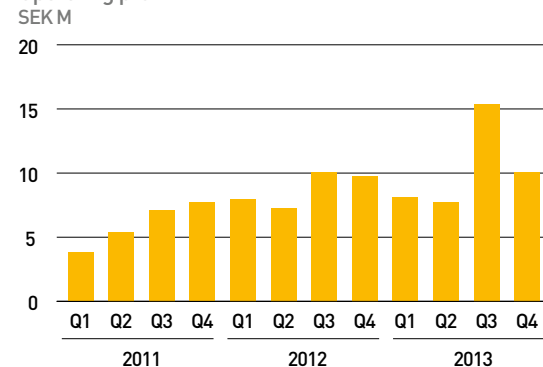
The 2013 AGM approved the Board's proposed guidelines for remuneration to the company's senior executives as stated in Note 6 and in the corporate governance report. The Board's proposal corresponds to the previously applied guidelines for remuneration to the company's senior executives in all essential 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 2014.

#### Deviation from the guidelines

The Board of Directors shall have the right to deviate from the above guidelines in individual cases

#### Operating profit





where the Board finds special reason to do so. In 2013 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, 2013, amounted to SEK 123,445,614, divided between 12,344,561 shares of which 100,000 are of class A and 12,244,561 are of class B.

### Share price performance

In 2013 the share price varied from a low of SEK 35.60 (25.30) to a high of SEK 46.80 (44.90). The share price at December 31, 2013, was SEK 43.00 (38.10). IAR Systems Group's market capitalization on the same date was SEK 531m (433).

### Ownership and control

The number of shareholders in IAR Systems Group at December 31, 2013, was 7,875 (8,547), of whom 420 (438) held more than 1,000 shares each. Foreign shareholders held approximately 20% (22) of the share capital and 18% (27) 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.

### Proposed appropriation of profits

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

Share premium reserve	83,721,617.71
Retained earnings	76,184,227.65
Profit for the year	16,137,211.05
<b>TOTAL, SEK</b>	<b>176,043,056.41</b>

The Board proposes that the profits of SEK 176,043,056 be disposed of so that the shareholders be distributed SEK 61,722,805 through a 2-for-1 share split combined with a mandatory share redemption procedure. The procedure means that each share will be divided into an ordinary share and a redemption share. The redemption share is proposed to be redeemed by SEK 5.00 per share,

which corresponds to a distribution of SEK 61.7 to the company's shareholders.

### *The Board's motivated statement on the proposed transfer of value through a mandatory redemption procedure*

The proposed transfer of value to the shareholders will reduce the Parent Company's equity/assets ratio from 97.9% to 97.4 % and the Group's equity/assets ratio from 79.8% to 75.8%. This equity assets ratio is adequate, given that the company's and the Group's operations are conducted with continued profitability.

### *Liquidity in the company and the Group is assessed to be maintained at a continued secure level*

The Board's assessment is that the proposed transfer of value will not inhibit the company, or other companies in the Group, from meeting their obligations in the short or long term, nor from making the requisite investments. The proposed transfer of value is thereby justifiable with consideration to the provisions in the Swedish Companies Act, Chapter 17, 3 § 2–3 (the cautionary rule).

Quarterly overview	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales, SEK M	45.8	48.9	48.2	57.5	58.0	56.4	56.2	59.5	57.7	56.1	54.9	61.5
Other operating income, SEK M	-	-	-	-	-	-	-	-	-	-	6.0	-
Operating expenses, SEK M	-42	-43.5	-41.1	-49.8	-50.0	-49.1	-46.1	-49.7	-49.6	-48.4	-45.5	-51.4
Operating profit, SEK M	3.8	5.4	7.1	7.7	8.0	7.3	10.1	9.8	8.1	7.7	15.4	10.1
Operating margin, %	8.3	11.0	14.7	13.4	13.8	12.9	18.0	16.5	14.0	13.7	28.1	16.4
Return on equity, %	0.6	1.4	3.3	4.5	2.2	3.1	3.8	-2.1	2.3	2.4	4.3	2.5
Equity per share, SEK	50.35	20.09	20.92	21.82	22.22	22.15	22.84	22.34	22.87	21.42	22.78	23.90
Cash flow from operating activities per share, SEK	-0.37	1.19	1.07	1.20	0.12	1.39	0.68	1.34	0.17	0.97	1.56	0.84

# Consolidated income statement

SEK M	Note	2013	2012
Net sales	1 2 3	230.2	230.1
Other operating income		6.0	-
Goods for resale	4	-14.5	-23.3
Other external expenses	5	-41.3	-44.5
Personnel costs	6	-129.8	-120.5
Depreciation of property, plant and equipment	11	-2.2	-2.3
Avskrivningar av immateriella tillgångar	10	-7.1	-4.3
<b>Operating profit</b>		<b>41.3</b>	<b>35.2</b>
Financial investments			
Financial income	7	0.3	0.6
Financial expenses	7	-0.2	-0.7
<b>Profit before tax</b>		<b>41.4</b>	<b>35.1</b>
Income tax expense	8	-11.5	-22.1
<b>PROFIT FOR THE YEAR</b>		<b>29.9</b>	<b>13.0</b>

SEK M	Note	2013	2012
<i>Profit for the year attributable to:</i>			
Owners of the Parent Company		29.9	13.0
<i>Earnings per share calculated on profit for the year attributable to owners of the Parent Company, SEK</i>			
– basic	9	2.59	1.16
– diluted	9	2.40	1.06

# Consolidated statement of comprehensive income

SEK M	2013	2012
<b>Profit for the year</b>	<b>29.9</b>	<b>13.0</b>
<b>Other comprehensive income:</b>		
<i>Items that will be reclassified subsequently to profit or loss</i>		
Foreign exchange gains/losses	-0.5	-0.9
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>29.4</b>	<b>12.1</b>
Comprehensive income for the year attributable to owners of the Parent Company	29.4	12.1

# Consolidated balance sheet

SEK M	Note	Dec 31 2013	Dec 31 2012
<b>ASSETS</b>	<b>1 2 3</b>		
<b>Non-current assets</b>			
Intangible assets	<b>10</b>	164.4	152.3
<b>Property, plant and equipment</b>	<b>11</b>		
Leasehold improvements		0.1	0.2
Equipment		6.0	6.1
Total property, plant and equipment		6.1	6.3
Financial assets			
Other non-current receivables	<b>12 17</b>	5.3	4.9
Deferred tax assets	<b>8</b>	59.2	62.4
Total financial assets		64.5	67.3
<b>Total non-current assets</b>		<b>235.0</b>	<b>225.9</b>
<b>Current assets</b>			
Inventories		3.3	3.9
<b>Current receivables</b>			
Trade receivables	<b>13</b>	34.1	29.1
Other current receivables	<b>14</b>	1.9	5.0
Prepaid expenses and accrued income	<b>15</b>	12.7	8.6
		52.0	46.6
Blocked cash and cash equivalents	<b>16</b>	0.7	2.6
Cash and cash equivalents	<b>16</b>	81.8	49.0
<b>Total current assets</b>		<b>134.5</b>	<b>98.2</b>
<b>TOTAL ASSETS</b>		<b>369.5</b>	<b>324.1</b>

SEK M	Note	Dec 31 2013	Dec 31 2012
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>18</b>		
Share capital		123.4	116.9
Other contributed capital		16.5	0.7
Reserves		-1.1	-0.5
Retained earnings including profit for the year		156.2	136.9
<b>Total equity</b>		<b>295.0</b>	<b>253.8</b>
<b>Non-current liabilities</b>			
Borrowings	<b>11 17</b>	1.1	1.1
Deferred tax liabilities	<b>8</b>	12.5	8.7
<b>Total non-current liabilities</b>		<b>13.6</b>	<b>9.8</b>
<b>Current liabilities</b>			
Trade payables		5.7	6.1
Borrowings	<b>11 17</b>	1.3	1.2
Tax liabilities	<b>8</b>	-	1.7
Other liabilities		5.5	5.9
Accrued expenses and prepaid income	<b>19</b>	48.4	45.6
<b>Total current liabilities</b>		<b>60.9</b>	<b>60.5</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>369.5</b>	<b>324.1</b>

# Consolidated statement of changes in equity

SEK M	Note	Share capital	Other contri- buted capital	Reserves	Retained earnings	Total equity
Balance at January 1, 2012		116.9	0.6	0.3	123.3	241.1
Profit for the year					13.0	13.0
<b>Other comprehensive income</b>						
Foreign exchange gains/losses				-0.9		-0.9
<b>Total comprehensive income</b>				-0.9	13.0	12.1
<b>Transactions with owners</b>						
Sales of shares					11.6	11.6
New share issue		0.0	0.1			0.1
Dividends					-11.1	-11.1
<b>Total transactions with owners</b>		0.0	0.1	-	0.5	0.6
Balance at January 1, 2013		116.9	0.7	-0.6	136.8	253.8
Profit for the year					29.9	29.9
<b>Other comprehensive income</b>						
Foreign exchange gains/losses				-0.5		-0.5
<b>Total comprehensive income</b>				-0.5	29.9	29.4
<b>Transactions with owners</b>						
Sales of shares					12.3	12.3
New share issue		6.5	15.8			22.3
Dividends					-22.8	-22.8
<b>Total transactions with owners</b>		6.5	15.8		-10.5	11.8
CLOSING BALANCE, DECEMBER 31, 2013		123.4	16.5	-1.1	156.2	295.0

## COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2013, amounted to SEK 123,445,614, divided between 100,000 class A shares and 12,244,561 class B shares. All shares have a quota value of SEK 10 each.

# Consolidated cash flow statement

SEK M	Note	2013	2012
<b>Operating activities</b>			
Incoming payments from customers		234.6	234.1
Outgoing payments to suppliers and employees		-187.4	-191.0
<b>Cash flow from operating activities before interest and income taxes paid</b>		<b>47.2</b>	<b>43.1</b>
Interest received		0.3	0.6
Interest paid		-0.2	-0.2
Income taxes paid		-6.6	-5.2
<b>Cash flow from operating activities</b>		<b>40.7</b>	<b>38.3</b>
<b>Investing activities</b>			
Investments in property, plant and equipment	11	-1.9	-2.1
Investments in intangible assets	10	-19.2	-20.3
Investments in subsidiaries	10	-	-
Other investments		2.0	4.3
<b>Cash flow from investing activities</b>		<b>-19.1</b>	<b>-18.1</b>
<b>Financing activities</b>			
New share issue		22.3	0.1
Sale of shares		12.3	11.6
Dividends to owners of the Parent Company		-22.8	-11.1
Proceeds from new borrowings		0.0	0.0
<b>Cash flow from financing activities</b>		<b>11.8</b>	<b>0.6</b>
<b>Cash flow for the year</b>		<b>33.4</b>	<b>20.8</b>
Cash and cash equivalents at beginning of year		49.0	29.6
Foreign exchange gains/losses in cash and cash equivalents			
- attributable to cash and cash equivalents at beginning of year		-0.5	-1.1
- attributable to the year's cash flow		-0.1	-0.3
<b>Cash and cash equivalents at end of year</b>	16	<b>81.8</b>	<b>49.0</b>

# Parent Company income statement

SEK M	Note	2013	2012
Net sales	1 2 3	12.5	12.2
Other operating income		6.0	-
Other external expenses	5	-4.4	-5.3
Personnel costs	6	-10.4	-9.5
Depreciation of property, plant and equipment	11	-0.1	-0.1
<b>Operating profit/loss</b>		<b>3.6</b>	<b>-2.7</b>
<b>Result from financial investments</b>			
Total financial income	7	15.6	45.1
Total financial expenses	7	-0.0	-0.0
<b>Profit before tax</b>		<b>19.2</b>	<b>42.4</b>
Income tax expense	8	-3.1	-15.2
<b>PROFIT/LOSS FOR THE YEAR</b>		<b>16.1</b>	<b>27.2</b>

# Parent Company statement of comprehensive income

SEK M	2013	2012
<b>Profit/loss for the year</b>	<b>16.1</b>	<b>27.2</b>
Other comprehensive income	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>16.1</b>	<b>27.2</b>



# Parent Company balance sheet

SEK M	Note	Dec 31 2013	Dec 31 2012
<b>ASSETS</b>	<b>1 2 3</b>		
<b>Non-current assets</b>			
<i>Property, plant and equipment</i>			
Equipment	11	0.4	0.2
Total property, plant and equipment		0.4	0.2
<i>Financial assets</i>			
Shares in group companies	21	189.4	189.4
Other non-current receivables	12	4.0	3.7
Deferred tax assets	8	54.9	58.0
Total financial assets		248.3	251.1
<b>Total non-current assets</b>		<b>248.7</b>	<b>251.3</b>
<b>Current assets</b>			
<i>Current receivables</i>			
Receivables from subsidiaries		10.0	10.0
Tax assets		0.4	0.4
Other current receivables	14	0.7	1.2
Prepaid expenses and accrued income	15	0.6	0.6
		11.7	12.2
Blocked cash and cash equivalents	16	0.7	2.6
Cash in hand and at bank	16	44.7	14.8
<b>Total current assets</b>		<b>57.1</b>	<b>29.6</b>
<b>TOTAL ASSETS</b>		<b>305.8</b>	<b>280.9</b>

SEK M	Note	Dec 31 2013	Dec 31 2012
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	18		
<i>Restricted equity</i>			
Share capital		123.4	116.9
Statutory reserve		-	-
		123.4	116.9
<i>Non-restricted equity</i>			
Share premium reserve		83.8	55.7
Retained earnings		76.1	71.7
Profit/loss for the year		16.1	27.2
		176.0	154.6
<b>Total equity</b>		<b>299.4</b>	<b>271.5</b>
<b>Non-current liabilities</b>			
Other non-current liabilities	17	-	2.0
<b>Total non-current liabilities</b>		<b>-</b>	<b>2.0</b>
<b>Current liabilities</b>			
Trade payables		0.6	0.6
Other liabilities		2.2	3.4
Accrued expenses and prepaid income	19	3.6	3.4
<b>Total current liabilities</b>		<b>6.4</b>	<b>7.4</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>305.8</b>	<b>280.9</b>
<b>Pledged assets</b>	20	2.1	4.0
<b>Contingent liabilities</b>		<b>-</b>	<b>-</b>

# Parent Company statement of changes in equity

SEK M	Note	Share capital	Share premium reserve	Retained earnings	Total equity
Opening balance, January 1, 2012		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
<b>Total changes in equity not recognized in the income statement</b>		<b>0.0</b>	<b>11.8</b>	<b>-11.1</b>	<b>0.7</b>
Profit/loss for the year				27.2	27.2
<b>Closing balance, December 31, 2012</b>		<b>116.9</b>	<b>55.7</b>	<b>98.9</b>	<b>271.5</b>
Sale of shares			12.3	-	12.3
New share issue		6.5	15.8	-	22.3
Dividends paid				-22.8	-22.8
<b>Total changes in equity not recognized in the income statement</b>		<b>6.5</b>	<b>28.1</b>	<b>-22.8</b>	<b>11.8</b>
Profit/loss for the year				16.1	16.1
<b>CLOSING BALANCE, DECEMBER 31, 2013</b>		<b>123.4</b>	<b>83.8</b>	<b>92.2</b>	<b>299.4</b>

## COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2013, amounted to SEK 123,445,614, divided between 100,000 class A shares and 12,244,561 class B shares. All shares have a quota value of SEK 10 each.

# Parent Company cash flow statement

SEK M	Note	2013	2012
<b>Operating activities</b>			
Incoming payments from customers		18.5	14.6
Outgoing payments to suppliers and employees		-14.7	-36.0
<b>Cash flow from operating activities before interest and income taxes paid</b>		<b>3.8</b>	<b>-21.4</b>
Interest received		0.2	0.4
Dividends received		5.4	28.6
Interest paid		-0.0	-0.0
<b>Cash flow from operating activities</b>		<b>9.4</b>	<b>7.6</b>
<b>Investing activities</b>			
Investments in subsidiaries		-3.2	-5.7
Investments in property, plant and equipment	11	-0.3	-0.1
Decrease in blocked cash and cash equivalents		1.9	4.3
Decrease in financial receivables		0.3	1.0
<b>Cash flow from investing activities</b>		<b>-1.3</b>	<b>-0.5</b>
<b>Financing activities</b>			
Repayment of borrowings		-	-
Sale of shares		12.3	11.6
New share issue		22.3	0.2
Dividends paid		-22.8	-11.1
Increase in borrowings from subsidiaries		-	-
Group contributions		10.0	5.9
<b>Cash flow from financing activities</b>		<b>21.8</b>	<b>6.6</b>
<b>Cash flow for the year</b>		<b>29.9</b>	<b>13.7</b>
Cash and cash equivalents at beginning of year		14.8	1.1
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	18	<b>44.7</b>	<b>14.8</b>

# 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 17 March 2014.

### 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 2013

The following new and change IFRSs are effective for the financial year 2013.

##### IFRS 13 Fair Value Measurement

The new standard IFRS 13 replaces the earlier guidance found in the respective standard for fair value measurement. The standard is applicable for fair value measurement of both financial and non-financial items. Fair value is defined as the price that that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date ("exit price"). IFRS 13 has been applied prospectively with effect from January 1, 2013. The introduction of IFRS 13 has not had any material impact on the Group's or the Parent Company's measurement of financial instruments. IFRS 13 has

required the presentation of additional quantitative and qualitative disclosures about fair value measurement in the annual report, see Note 17.

##### IFRS 7 Financial Instruments: Disclosures

The amendments to IFRS 7 includes increased disclosure requirements for offsetting of financial assets and financial liabilities. The Group has no derivative instruments that are covered by offsetting agreements.

##### IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

Amendments to IAS 1, Presentation of Financial Statements, have included additional disclosures in other comprehensive income so that items of OCI are grouped in two categories: a) items that will not be reclassified subsequently to profit or loss, and b) items that will not be reclassified to profit or loss if certain criteria are met. The Group's application of the changes in IAS 1 is shown in the consolidated statement of comprehensive income.

##### Other IFRS changes

The amendment to IAS 36 that is effective as of 2014 through which the disclosure requirement for recoverable amount has been removed has been adopted early with effect from the 2013 financial year. No other new or revised IFRSs or IFRIC interpretations aside from those described above have been applied or have had any material impact on the financial statements, profit or disclosures of the Group or the Parent Company.

#### New accounting standards as of 2014

The International Accounting Standards Board (IASB) and International Financial Reporting Standards Interpretations Committee (IFRS IC) have published a number of new and changed standards and interpretations that are not yet effective. Of these, the following are deemed applicable for the Group.

Standards	Effective for periods beginning on or after:
IFRS 10 Consolidated Financial Statements	January 1, 2014
IFRS 12 Disclosures of Interests in Other Entities	January 1, 2014
Changes in IFRS 10, IFRS 11 and IFRS 12 (transitional provisions)	January 1, 2014
Amendments to IAS 32, Financial Instruments: Presentation (offsetting of financial assets and financial liabilities)	January 1, 2014
Annual improvements to IFRSs	July 1, 2014
IFRS 9 Financial Instruments, and concurrent amendments to IFRS 9 and IFRS 7	January 1, 2015

None of the above interpretations has been applied early.

IFRS 10, Consolidated Financial Statements, replaces those parts of IAS 27 Consolidated and Separate Financial Statements that are concerned with when and how an owner company should prepare consolidated financial statements. IFRS 10 also supersedes SIC-12, which addresses when a special purpose entity (SPE) should be consolidated, in its

entirety. The objective of IFRS 10 is to establish a single basis for consolidation of all companies, regardless of the nature of the investment entity. That principal is control. The definition of control includes the following three sub-components: a) power over the investment entity, b) exposure, or rights, to variable returns from its involvement with the investment entity, and c) the ability to use its power over the investment entity to affect the amount of its returns. IFRS 10 contains detailed guidance for how a company should apply the principle of control in different situations, including agent relationships and holdings of potential voting rights.

IFRS 12, Disclosure of Interests in Other Entities, is to be applied by companies that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 establishes the objectives for disclosures and specifies the minimum disclosures a company must provide to meet these objectives. Companies are required to provide information that helps users of its financial statements to assess the character of and risks attributable to interests in other entities, and the impact that these entities have on the company's financial statements.

In June 2012 the IASB published changes in IFRS 10, IFRS 11 and IFRS 12 in order to clarify certain transitional provisions on first-time application of these standards.

Annual improvements to IFRSs refers to the package containing improvements in a number of different standards and interpretations.

The Group is currently analyzing the effects of the above standards and does not intend to apply these until January 1, 2014 (i.e. starting from the effective date for application of these standards in the EU). The Group's preliminary assessment is that these new standards will not have any material impact on the Group's financial position and profit.

IFRS 9, Financial Instruments, published in November 2009, introduces new requirements for classification and measurement of financial assets. In October IFRS 9 was amended with requirements for classification and measurement of financial liabilities and derecognition. Pursuant to amendments to IFRS 9 published in December 2011, IFRS 9 is effective for financial years beginning on or after January 1, 2015. The Group is currently analyzing the effects of implementation of IFRS 9.

## 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 alignment 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 taken to equity and recognized as an item in comprehensive income. When a foreign operation is disposed of or sold, such foreign exchange gains and losses are recognized in the income statement as part of the capital gain or loss on the sale.

Note 1, cont'd

The following exchange rates have been used:

Country	Currency	Closing day rate	Average rate
USA	1 USD	6.5084 (6.5156)	6.5140 (6.7754)
France, Germany	1 EUR	8.9430 (8.6166)	8.6494 (8.7053)
UK	1 GBP	10.7329 (10.4914)	10.1863 (10.7340)
Japan	1 JPY	0.0669 (0.0756)	0.0618 (0.0851)
China	1 CNY	1.0732 (1.0456)	1.0596 (1.0738)
South Korea	1 KRW	0.0062 (0.0061)	0.0060 (0.0060)

### 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.

Goodwill is allocated to the lowest cash-generating units or groups of cash-generating units that can be expected to benefit from the business combination that has given rise to the goodwill item. Goodwill is tested for impairment at the lowest level in the Group at which goodwill is monitored by for internal management purposes, which is not larger than an operating segment and for the Group consists of IAR Systems.

#### 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 and liabilities

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.



## Recognition and measurement of financial liabilities

Financial liabilities are divided between liabilities at fair value through profit or loss and other liabilities. The basic principle for other liabilities is that they are measured at amortized cost or historical cost.

### 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 subcomponents, 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 over the term of the contract 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

*Note 1, cont'd*

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.

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 2013 refer to the following areas:

*IAS 27 Consolidated and Separate Financial Statements*

The Swedish Financial Reporting Board has issued an amendment to RFR 2 regarding reporting of group contributions. 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.

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

*Pursuant to amendments to IAS 37* regarding contingent liabilities, all guarantee commitments must be recognized as contingent liabilities, regardless of the probability of a future outflow.

**Changes in RFR 2 that are not yet effective**

Of the changes in RFR 2 that have not yet gone into effect, it is the company's assessment that this will not have any impact on the financial position and profit of the Parent Company.

**1.23 Group and shareholder contributions**

The Parent Company recognizes group contributions in accordance with the main rule in RFR 2.

**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 recognized 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 10).

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 long-term 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 assessed operation 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, 2013, the Group had cumulative loss carryforwards of approximately SEK 255m. All loss carryforwards are found in Sweden and can be used for an unlimited period.

A total deferred tax asset of SEK 56,2m is recognized in the consolidated balance sheet at December 31, 2013, 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, which is the IFRS standard for revenue recognition. According to this standard, 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 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), the euro (EUR) and the Japanese yen (JPY). 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, EUR and JPY, make up around 91% of total sales. Of the cost of goods sold, which accounts around 8% of the Group's cost

Note 2, cont'd

mass, approximately 88% of purchases are denominated in foreign currency, also primarily in USD, EUR and JPY.

Measures to handle the transaction-related currency risk are established in the Group's finance policy. The objective is to minimize the short-term effect of the foreign exchange movement on profit while at the same time creating long-term freedom of action.

SEK M	Total	SEK	USD	EUR	JPY	Other currencies
Net sales	230.2	20.2	86.8	61.0	38.4	23.8
Cost of goods sold	14.5	1.7	6.9	3.7	2.1	0.1
Other expenses	174.4	98.3	48.9	8.8	12.6	5.8

(iii) 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's 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 2013. 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, 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Finance leases	1.3	0.2	0.9	-
Bank overdraft facilities	-	-	-	-
Trade and other payables <sup>1</sup>	6.4	-	-	-

At December 31, 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bankloans	-	-	-	-
Finance leases	1.2	0.5	0.6	-
Bank overdraft facilities	-	-	-	-
Trade and other payables <sup>1</sup>	8.4	-	-	-

<sup>1</sup> 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, 2013	Change	Effect on profit
Cost of goods sold	+/- 5%	+/- SEK 0.7m
Payroll expenses	+/- 5%	+/- SEK 6.9m
Currency - EUR	+/- 5%	+/- SEK 2.4m
Currency - USD	+/- 5%	+/- SEK 1.5m
Currency - JPY	+/- 5%	+/- SEK 1.2m
Variable interest	+/-1%-point	+/- SEK 0.0m

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 - JPY	+/- 5%	+/- SEK 1.0m
Variable interest	+/-1%-point	+/- SEK 0.0m

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.

Note 2, cont'd

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, 2013 and 2012 was as follows:

	2013	2012
Total borrowings (Note 17)	2.4	2.3
Less cash and cash equivalents and blocked funds (Note 17)	-82.5	-51.6
Net debt	-80.1	-49.3
Total equity	295.0	251.1
Invested capital	214.9	201.8
Net debt/equity ratio	-37%	-24%

## Note 3 Segment reporting

### GEOGRAPHICAL AREAS

SEK M	Sales		Non-current assets		Investments	
	2013	2012	2013	2012	2013	2012
<b>Americas</b>						
USA	78.9	87.1	0.2	0.3	0.3	0.6
Other countries	8.7	7.8	-	-	-	-
	87.6	94.9	0.2	0.3	0.3	0.6
<b>Asien</b>						
Japan	31.0	35.5	0.1	0.3	0.0	0.0
Other countries	25.5	23.4	0.2	0.3	0.0	0.0
	56.5	58.9	0.3	0.6	0.0	0.0
<b>EMEA</b>						
UK	10.7	7.6	0.0	0.0	0.0	0.0
Germany	34.0	29.3	0.1	0.1	0.0	0.0
Other countries	29.5	25.4	0.0	0.0	0.0	-
	74.2	62.3	0.1	0.1	0.0	0.0
<b>Nordic region</b>						
Sweden	5.7	7.2	234.4	224.9	21.3	20.3
Other countries	6.2	6.8	-	-	-	-
	11.9	14.0	234.4	224.9	21.3	20.3
<b>Total</b>	<b>230.2</b>	<b>230.1</b>	<b>235.0</b>	<b>225.9</b>	<b>21.6</b>	<b>20.9</b>

## 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

SEK M	Group		Parent Company	
	2013	2012	2013	2012
<b>Deloitte</b>				
Audit of the financial statements	0.7	0.5	0.1	0.0
	0.0	-	0.0	-
Tax advisory services	0.1	0.0	0.0	0.0
Other services	0.1	-	0.1	0.0
<b>Total Deloitte</b>	<b>0.9</b>	<b>0.5</b>	<b>0.2</b>	<b>0.0</b>
<b>Others</b>				
Audit of the financial statements	-	-	-	-
Audit-related services other than the audit	-	0.6	-	0.5
Tax advisory services	-	0.7	-	0.0
Other services	0.0	-	0.0	-
<b>Total others</b>	<b>0.0</b>	<b>1.3</b>	<b>0.0</b>	<b>0.5</b>
<b>Total fees to auditors</b>	<b>0.9</b>	<b>1.8</b>	<b>0.2</b>	<b>0.5</b>

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 2013 was 160 (149). The breakdown of the average number of employees by country and, in Sweden, by location, is shown in the table below.

The majority, 60% (58%), are employed in Sweden (calculated on the average number of employees during the year).

### AVERAGE NUMBER OF EMPLOYEES

	2013		2012	
	No. of employees	Of whom, men	No. of employees	Of whom, men
<b>Parent Company</b>				
Stockholm	4	75%	4	75%
<b>Subsidiaries in Sweden</b>				
Uppsala	92	75%	83	75%
<b>Subsidiaries outside Sweden</b>				
UK	3	67%	3	67%
Germany	4	50%	5	60%
France	3	67%	3	67%
USA	35	74%	32	72%
South Korea	4	75%	4	75%
China	3	67%	3	67%
Japan	12	75%	12	75%
<b>Total subsidiaries</b>	<b>156</b>	<b>74%</b>	<b>145</b>	<b>69%</b>
<b>Total Group</b>	<b>160</b>	<b>74%</b>	<b>149</b>	<b>72%</b>

### GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES IN THE GROUP

	2013		2012	
	No. of employees	Of whom, men	No. of employees	Of whom, men
<b>Group (incl. subsidiaries)</b>				
Board members	5	80%	5	80%
CEO and other senior executive	2	100%	2	100%
Presidents in subsidiaries	-	-	-	-
<b>Parent Company</b>				
Board members	5	80%	5	80%
CEO and other senior executive	2	100%	2	100%

### SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES

The Group's total payroll costs amounted to SEK 137.1m (127.8), of which social security expenses accounted for SEK 27.1m (23.6) and pensions for SEK 8.9m (8.3).

	2013		2012	
	Salaries and other remuneration	Social security expenses (of which pension costs)	Salaries and other remuneration	Social security expenses (of which pension costs)
<b>SEK M</b>				
Parent Company	7.5	3.2 (0.8)	6.9	2.9 (0.7)
Subsidiaries	93.6	32.8 (8.1)	89.0	29.0 (7.6)
<b>Total Group</b>	<b>101.1</b>	<b>36.0 (8.9)</b>	<b>95.9</b>	<b>31.9 (8.3)</b>

Of the Group's total pension costs, SEK 0.3 (0.3) is attributable to board members and presidents. Of the Parent Company's total pension costs, SEK 0.3 (0.3) 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

	2013		2012	
	Board, CEO and other senior executives	Other employees	Board, CEO and other senior executives	Other employees
<b>SEK M</b>				
Parent Company	6.2	1.3	6.0	0.9
Subsidiaries in Sweden	-	49.7	-	44.0
Subsidiaries outside Sweden	-	43.9	-	45.0
<b>Total Group</b>	<b>6.2</b>	<b>94.9</b>	<b>6.0</b>	<b>89.9</b>

### 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 2013 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



**REMUNERATION AND OTHER BENEFITS DURING THE YEAR**

Remuneration to the Board of Directors, CEO and other senior executives in 2013

SEK M	Basic salary / board fees		Variable salary		Other benefits		Pension costs		Other remuneration		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Board Chairman Markus Gerdien	0.2	0.1	-	-	-	-	-	-	-	-	0.2	0.1
Board member Peter Larsson	0.2	0.3	-	-	-	-	-	-	-	-	0.2	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
CEO Stefan Skarin	2.8	2.6	0.7	0.8	0.1	0.1	0.3	0.3	-	-	3.9	3.8
CFO Stefan Ström	1.7	1.6	0.4	0.4	0.1	0.1	0.3	0.3	-	-	2.5	2.4
<b>Total</b>	<b>5.1</b>	<b>4.8</b>	<b>1.1</b>	<b>1.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.6</b>	<b>0.6</b>	<b>-</b>	<b>-</b>	<b>7.0</b>	<b>6.8</b>

**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 2013 were unchanged compared to those applied in 2012.

For 2013, 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 another senior executive 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 2013 was based on the Group's net sales and operating profit. The bonus amount for 2013 was equal to 24% (31) of basic salary.

For the other senior executive, variable salary for 2013 was based on the Group's net sales and operating profit. The bonus amount for the other senior executive for 2013 was equal to 20% (27) 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

SEK M	Group		Parent Company	
	2013	2012	2013	2012
Interest income	0.3	0.6	0.2	0.4
Dividends from subsidiaries	-	-	5.4	28.6
Foreign exchange gains	-	-	0.0	0.2
Group contributions received	-	-	10.0	15.9
<b>Total financial income</b>	<b>0.3</b>	<b>0.6</b>	<b>15.6</b>	<b>45.1</b>
Interest expenses	-0.1	-0.1	-0.0	-0.0
Foreign exchange losses	-0.0	-0.1	-	-
Finance leases	-0.1	-0.5	-	-
<b>Total financial expenses</b>	<b>-0.2</b>	<b>-0.7</b>	<b>-0.0</b>	<b>-0.0</b>
<b>Net financial items</b>	<b>0.1</b>	<b>-0.1</b>	<b>15.6</b>	<b>45.1</b>

## Note 8 Income tax expense

The following components are included in income tax expense.

SEK M	Group		Parent Company	
	2013	2012	2013	2012
Current tax on profit for the year	-4.5	-5.5	-	-
Deferred tax	-7.0	-16.6	-3.1	-15.2
<b>Total tax on profit for the year</b>	<b>-11.5</b>	<b>-22.1</b>	<b>-3.1</b>	<b>-15.2</b>

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

SEK M	Group		Parent Company	
	2013	2012	2013	2012
<b>The year's deferred tax expense/income</b>				
intangible assets	-2.7	-6.0	-	-
utilization of loss carryforwards	-2.2	-3.4	-3.1	-3.8
changed tax rate	-	-11.4	-	-11.4
support and maintenance contracts	-1.7	2.3	-	-
untaxed reserves	-	0.9	-	-
other temporary differences	-0.4	1.0	-	-
<b>Total deferred tax in the income statement</b>	<b>-7.0</b>	<b>-16.6</b>	<b>-3.1</b>	<b>-15.2</b>

SEK M	Group		Parent Company	
	2013	2012	2013	2012
<b>Reconciliation between effective tax and tax based on the applicable tax rate</b>				
Reported profit before tax	41.3	35.1	19.2	42.4
Tax according to the applicable tax rate	-11.3	-10.5	-4.3	-11.2
Tax effect of non-deductible expenses	-0.2	-0.2	-0.0	-0.0
Tax effect of non-taxable income	0.0	0.0	1.2	7.4
Deferred tax expense related to changed tax rate	-	-11.4	-	-11.4
<b>Tax on profit for the year according to the income statement</b>	<b>-11.5</b>	<b>-22.1</b>	<b>-3.1</b>	<b>-15.2</b>

### TAX RATE

In computing deferred tax on temporary differences, a 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.

SEK M	Group		Parent Company	
	2013	2012	2013	2012
Deferred tax liabilities attributable to intangible assets	-11.0	-8.3	-	-
Deferred tax liabilities attributable to untaxed reserves	-0.3	-0.3	-	-
Deferred tax liabilities attributable to other temporary differences	-1.2	-0.1	-	-
<b>Total deferred tax liabilities</b>	<b>-12.5</b>	<b>-8.7</b>	<b>-</b>	<b>-</b>
Deferred tax assets attributable to loss carryforwards	56.2	58.4	54.9	58.0
Deferred tax assets attributable to support and maintenance contracts	0.9	2.6	-	-
Deferred tax assets attributable to other temporary differences	2.1	1.4	-	-
<b>Total deferred tax assets</b>	<b>59.2</b>	<b>62.4</b>	<b>54.9</b>	<b>58.0</b>
<b>Total deferred tax assets, net</b>	<b>46.7</b>	<b>53.7</b>	<b>54.9</b>	<b>58.0</b>

At December 31, 2013, the Group had total unutilized loss carryforwards in continuing operations of SEK 255m (265). Based on these loss carryforwards, the Group has recognized a deferred tax asset of SEK 56.2m (58.4). 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 Earnings per share (basic and diluted)

SEK M	Group	
	2013	2012
Profit/loss, SEK M	29.9	13.0
Basic earnings per share, SEK	2.59	1.16
Diluted earnings per share, SEK	2.40	1.06
<b>Number of shares</b>		
Average number of shares before dilution, millions	11.53	11.23
Average number of shares after dilution, millions	12.46	12.24

### 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.

**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 an 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 10 Intangible assets

Group, SEK M	Goodwill		Trademarks		Customer contracts		Software incl. internally generated software development costs		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Opening cost	110.7	110.7	11.7	11.7	3.4	3.4	45.5	29.6	171.3	155.4
Purchases	-	-	-	-	-	-	19.2	17.7	19.2	17.7
Sales and disposals	-	-	-	-	-	-	-1.7	-1.8	-1.7	-1.8
<b>Closing accumulated cost</b>	<b>110.7</b>	<b>110.7</b>	<b>11.7</b>	<b>11.7</b>	<b>3.4</b>	<b>3.4</b>	<b>63.0</b>	<b>45.5</b>	<b>188.8</b>	<b>171.3</b>
Opening amortization	-	-	-6.0	-5.3	-3.4	-3.4	-9.6	-7.8	-19.0	-16.5
Sales and disposals	-	-	-	-	-	-	1.7	1.8	1.7	1.8
The year's amortization	-	-	-0.8	-0.7	-	-	-6.3	-3.6	-7.1	-4.3
<b>Closing accumulated amortization</b>	<b>-</b>	<b>-</b>	<b>-6.8</b>	<b>-6.0</b>	<b>-3.4</b>	<b>-3.4</b>	<b>-14.2</b>	<b>-9.6</b>	<b>-24.4</b>	<b>-19.0</b>
Opening impairment	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-
<b>Closing accumulated impairment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Closing carrying amount</b>	<b>110.7</b>	<b>110.7</b>	<b>4.9</b>	<b>5.7</b>	<b>0.0</b>	<b>0.0</b>	<b>48.8</b>	<b>35.9</b>	<b>164.4</b>	<b>152.3</b>

**IMPAIRMENT TESTING OF INTANGIBLE ASSETS**

Goodwill is tested for impairment at the lowest level in the Group at which goodwill is monitored by for internal management purposes, which is not larger than an operating segment for the Group is IAR Systems.

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 long-term 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 management's estimated forecast	Acc. to 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 2013.

## Note 11 Property, plant and equipment

Group, SEK M	Leasehold improvements		Equipment		Total	
	2013	2012	2013	2012	2013	2012
Opening cost	0.6	0.5	16.3	13.6	16.9	14.1
Purchases	0.0	0.1	1.6	2.0	1.6	2.2
Purchases through finance leases	-	-	0.8	1.0	0.8	1.0
Sales and disposals	-	-	-1.5	-0.3	-1.5	-0.3
<b>Closing accumulated cost</b>	<b>0.6</b>	<b>0.6</b>	<b>17.2</b>	<b>16.3</b>	<b>17.8</b>	<b>16.9</b>
Opening depreciation	-0.4	-0.3	-10.2	-8.0	-10.6	-8.3
Sales and disposals	-	-	1.1	0.0	1.1	0.0
The year's depreciation of finance leases	-	-	-0.6	-0.4	-0.6	-0.4
The year's depreciation	-0.1	-0.1	-1.5	-1.8	-1.6	-1.9
<b>Closing accumulated depreciation</b>	<b>-0.5</b>	<b>-0.4</b>	<b>-11.2</b>	<b>-10.2</b>	<b>11.7</b>	<b>-10.6</b>
<b>Closing carrying amount</b>	<b>0.1</b>	<b>0.2</b>	<b>6.0</b>	<b>6.1</b>	<b>6.1</b>	<b>6.3</b>
<b>Parent Company, SEK M</b>						
Opening cost	-	-	0.5	0.4	0.5	0.4
Purchases	-	-	0.3	0.1	0.3	0.1
Sales and disposals	-	-	-0.2	-	-0.2	-
<b>Closing accumulated cost</b>	<b>-</b>	<b>-</b>	<b>0.6</b>	<b>0.5</b>	<b>0.6</b>	<b>0.5</b>
Opening depreciation	-	-	-0.3	-0.2	-0.3	-0.2
Sales and disposals	-	-	0.2	-	0.2	-
The year's depreciation	-	-	-0.1	-0.1	-0.1	-0.1
<b>Closing accumulated depreciation</b>	<b>-</b>	<b>-</b>	<b>-0.2</b>	<b>-0.3</b>	<b>-0.2</b>	<b>-0.3</b>
<b>Closing carrying amount</b>	<b>-</b>	<b>-</b>	<b>0.4</b>	<b>0.2</b>	<b>0.4</b>	<b>0.2</b>

### OPERATING LEASES

During the year, lease payments under operating leases in the Group amounted to SEK 12.2m (11.5). 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:

SEK M	Group		Parent Company	
	2013	2012	2013	2012
Due for payment within 1 year	12.0	7.1	0.3	0.3
Due for payment within 2 years	9.0	5.0	0.2	0.3
Due for payment within 3 years	1.6	4.3	-	0.2
Due for payment within 4 years	1.0	1.0	-	-
Due for payment in 5 years or later	1.0	1.0	-	-

### FINANCE LEASES

The majority of finance leases refer to company cars. The accumulated cost of finance leases at December 31 2013, was SEK 3.5m (3.1).

Accumulated amortization at year-end amounted to SEK 1.1m (0.8). 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 0.7m (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	2013	2012
Current portion (due within 1 year)	1.3	1.2
Non-current portion (due within 5 years)	1.1	1.1
Non-current portion (due later than 5 years)	-	-
<b>Total</b>	<b>2.4</b>	<b>2.3</b>

## Note 12 Other non-current receivables

SEK M	Group		Parent Company	
	2013	2012	2013	2012
Receivable from NorNor Holding AB	3.9	3.6	3.9	3.6
Other	1.4	1.3	0.1	0.1
	5.3	4.9	4.0	3.7

The total receivable from NorNor Holding AB amounts to SEK 4.5m (4.7), of which SEK 0.6m is current (1.1). The shares in Northern Parklife AB have been pledged as collateral for the receivable.

## Note 13 Trade and other receivables

SEK M	Group	
	2013	2012
Trade receivables	34.5	29.9
Provisions for doubtful debts	-0.4	-0.8
Trade receivables, net	34.1	29.1
Prepaid expenses and accrued income	12.7	8.6
Other receivables	1.9	5.0
	48.7	42.7

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, 2013, trade receivables amounting to SEK 8.7m (9.7) were past due but not assessed to be 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		
SEK M	Group	
	2013	2012
Less than 3 months	8.0	8.0
3-6 months	0.5	1.0
More than 6 months	0.2	0.7
	8.7	9.7

### THE CARRYING AMOUNTS, BY CURRENCY, FOR THE GROUP'S TRADE AND OTHER RECEIVABLES ARE AS FOLLOWS

Currency	Group	
	2013	2012
SEK	12.1	15.1
EUR	13.1	8.3
USD	16.1	13.1
Other currencies	7.4	6.2
	48.7	42.7

### CHANGES IN PROVISIONS FOR DOUBTFUL DEBTS

SEK M	Group	
	2013	2012
Provisions at January 1	0.8	0.3
The year's provisions for doubtful debts	0.4	1.1
Receivables written off during the year as uncollectable	-0.5	-0.4
Reversed unutilized amount	-0.3	-0.2
Provisions at December 31	0.4	0.8

### 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, 2013.

## Note 14 Other current receivables

SEK M	Group		Parent Company	
	2013	2012	2013	2012
Work in progress	-	2.6	-	-
Rent guarantee	0.1	0.2	-	-
Receivable from NorNor Holding AB	0.6	1.1	0.6	1.1
Other	1.2	1.1	0.1	0.1
Total other current receivables	1.9	5.0	0.7	1.2

## Note 15 Prepaid expenses and accrued income

SEK M	Group		Parent Company	
	2013	2012	2013	2012
Accrued income	5.2	1.6	-	-
Prepaid rents	1.5	1.2	0.1	0.1
Prepaid insurance premiums	1.1	0.8	0.0	0.0
Other prepaid expenses	4.9	5.0	0.5	0.5
Total prepaid expenses and accrued income	12.7	8.6	0.6	0.6

## Note 16 Cash and cash equivalents

SEK M	Group		Parent Company	
	2013	2012	2013	2012
Cash and cash equivalents at end of year	81.8	49.0	44.7	14.8
Unutilized committed credit facilities	25.0	25.0	-	-
Total disposable cash and cash equivalents	106.8	74.0	44.7	14.8
Blocked cash and cash equivalents	0.7	2.6	0.7	2.6

## Note 17 Financial instruments

SEK M	Loans and receivables	Other liabilities	Total
<b>December 31, 2013</b>			
<b>Non-current financial receivables</b>			
Other financial receivables	4.5		4.5
<b>Current financial receivables</b>			
Trade and other receivables excl. prepaid expenses	35.4		35.4
Blocked cash and cash equivalents	0.7		0.7
<b>Cash and cash equivalents</b>			
Cash and cash equivalents	81.8		81.8
<b>Total</b>	<b>122.4</b>		<b>122.4</b>
<b>Non-current liabilities</b>			
Borrowings (excluding finance lease liabilities)		-	-
Finance lease liabilities		1.1	1.1
<b>Current liabilities</b>			
Borrowings (excluding finance lease liabilities)		-	-
Finance lease liabilities		1.3	1.3
Trade and other payables excl. non-financial liabilities		6.4	6.4
<b>Total</b>		<b>8.8</b>	<b>8.8</b>

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

### 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.

SEK M	Group	
	2013	2012
Cash in hand and at bank	81.8	49.0
<b>Cash and cash equivalents</b>	<b>81.8</b>	<b>49.0</b>

### Trade and other receivables

SEK M	Group	
	2013	2012
Trade receivables	34.1	29.1
Accrued income	-	-
Other current receivables	1.9	5.0
<b>Trade and other receivables</b>	<b>36.0</b>	<b>34.1</b>

### NET BORROWINGS

The Group's net borrowings at December 31, 2013, amounted to SEK -80.1m (-49.3). The table below shows how the Group calculates net borrowings and what they include.

SEK M	Group	
	2013	2012
Current borrowings	-	-
Current portion of non-current borrowings	-	-
Current portion of finance lease liabilities	1.3	1.2
<b>Total current borrowings</b>	<b>1.3</b>	<b>1.2</b>
Non-current borrowings	-	-
Non-current portion of finance lease liabilities	1.1	1.1
<b>Total non-current borrowings</b>	<b>1.1</b>	<b>1.1</b>
<b>Total borrowings</b>	<b>2.4</b>	<b>2.3</b>
Cash and cash equivalents	81.8	49.0
Blocked cash and cash equivalents	0.7	2.6
<b>Net borrowings</b>	<b>-80.1</b>	<b>-49.3</b>
<b>Bank overdraft facility</b>	<b>25.0</b>	<b>25.0</b>

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

### INTEREST-BEARING LIABILITIES

The Group's total interest-bearing liabilities at December 31, 2013, amounted to SEK 2.4m (2.3), of which SEK 1.1m (1.1) refers to non-current borrowings excluding those maturing in the next 12 months. Non-current borrowings maturing within 12 months amount to SEK 1.3m (1.2). The table below shows the carrying amounts of the Group's interest-bearing liabilities.



Note 17, cont'd

## Borrowings

			Group	
Type of loan	Interest rate	Currency	2013	2012
<b>Other non-current liabilities</b>				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	1.1	1.1
<b>Current portion of non-current liabilities</b>				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	1.3	1.2
Bank overdraft facilities	Variable	SEK	-	-
			2.4	2.3

## INFORMATION ABOUT MEASUREMENT AT FAIR VALUE

For cash and cash equivalents, trade receivables, trade payables and borrowings, the carrying amount is a good approximation of fair value since the maturity is short. For borrowings, the carrying amount is a good approximation of fair value since the interest rate if variable and the credit margin is relatively unchanged.

For other financial receivables, a calculation of fair value based on discounted future cash flows, where a discount rate that reflects the counterparty's credit risk comprises the most significant input, cannot result in any material difference compared to fair value. For that reason, the carrying amount is assessed to be a good approximation of fair value.

## Note 18 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, 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
<b>Total number of shares at December 31, 2012</b>	<b>100,000</b>	<b>11,593,561</b>	<b>11,693,561</b>
Number at January 1, 2013	100,000	11,593,561	11,693,561
Treasury shares at January 1, 2013		-334,600	
New share issue in 2013		651,000	
Sold in 2013		334,600	
<b>Total number of shares at December 31, 2013</b>	<b>100,000</b>	<b>12,244,561</b>	<b>12,344,561</b>

The share capital is divided among 12.344.561 shares, of which 100.000 are class A shares and 12.244.561 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 19 Accrued expenses and prepaid income

SEK M	Group		Parent Company	
	2013	2012	2013	2012
Accrued salaries and social security expenses	10.0	10.3	3.2	3.1
Accrued trade payables	0.1	1.9	0.0	-
Prepaid income	35.8	31.6	-	-
Other items	1.7	1.8	0.4	0.3
<b>Total accrued expenses and prepaid income</b>	<b>47.6</b>	<b>45.6</b>	<b>3.6</b>	<b>3.4</b>

## Note 20 Pledged assets

SEK M	Group		Parent Company	
	2013	2012	2013	2012
<b>To secure own liabilities</b>				
To secure pensions and similar obligations:				
Direct pension obligations	1.8	1.8	1.4	1.4
To secure liabilities to credit institutions:				
Machinery held under				
- finance leases	2.4	2.3	-	-
<b>Total assets pledged to secure own liabilities</b>	<b>4.2</b>	<b>4.1</b>	<b>1.4</b>	<b>1.4</b>
<b>To secure other commitments</b>				
Blocked cash and cash equivalents	0.7	2.6	0.7	2.6
Guarantees	-	-	-	-
<b>Total pledged assets</b>	<b>4.9</b>	<b>6.7</b>	<b>2.1</b>	<b>4.0</b>

## Note 21 Shares in group companies

SEK M	Parent Company	
	2013	2012
Opening cost	189.4	189.4
Closing accumulated cost	189.4	189.4
Opening impairment losses	-	-
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 2013	Carrying amount 2012
<b>Direct holdings:</b>							
IAR Systems AB	556230-7107	Uppsala	100.0%	100.0%	22,846,224	162.3	162.3
Signum Systems Corp	1473886	Camarillo, USA	100.0%	100.0%	100,000	27.1	27.1
<b>Indirect holdings through subsidiaries</b>							
IAR Systems Software Inc	1830665	Foster City, USA	100.0%	100.0%	-	-	-
IAR Systems Ltd	2190612	Oxford, England	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 22 Related party transactions

Of the Parent Company's total expenses of SEK 4.4m (5.3), 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 24, 2014, for adoption.

Stockholm, 17 March 2014

**Stefan Skarin**  
*President and CEO*  
*Board member*

**Markus Gerdien**  
*Board Chairman*

**Peter Larsson**  
*Board member*

**Karin Moberg**  
*Board member*

**Jonas Mårtensson**  
*Board member*

Our auditor's report was submitted on March 17, 2014  
Deloitte AB

**Erik Olin**  
*Authorized Public Accountant*  
*Auditor in Charge*

# Auditor's 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, 2013, to December 31, 2013. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 28–57.*

## **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, 2013, 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, 2013, 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.

## **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, 2013, to December 31, 2013.

## **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.

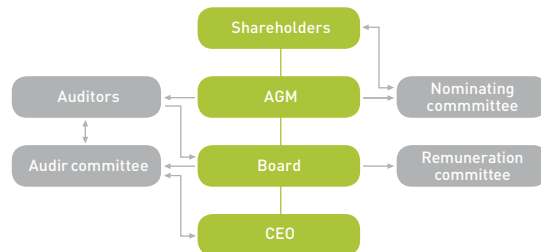
Stockholm, March 17, 2014  
Deloitte AB

Erik Olin  
Authorized Public Accountant

# Corporate governance report

IAR Systems Group is a Swedish public limited company domiciled in Stockholm, Sweden. In 2013 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 2013 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](http://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 12,344,561, 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, 2013, was 7,875 (8,547), of whom 420 (438) held more than 1,000 shares each. Foreign shareholders held approximately 20% (22) of the share capital and 18% (27) of the votes. For additional information about the shareholders and ownership structure, see page 24-25.

## 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](http://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.

## 2013 ANNUAL GENERAL MEETING

The AGM re-elected sitting Board members Markus Gerdien, Peter Larsson, Karin Moberg, Jonas Mårtensson and Stefan Skarin. The AGM appointed Markus Gerdien 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 2.00 per 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 51 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 perform 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 2013*

In 2013 the Board held 12 meetings, of which six were scheduled and six 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 2013

	Year elected	Dependent status	Remuneration committee	Audit committee
Markus Gerdien, Chairman	2011	No	Chairman	Chairman
Peter Larsson	2010	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 2013**

4/2	IAR Systems' annual accounts for 2012
22/4	Interim report for Q1 2013
22/4	Statutory meeting
22/8	Interim report for Q2 2013
23/10	Interim report for Q3 2013
11/12	Budget and business plan for 2014

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 2013 s 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 64 for a description of the nominating committee and other board committees.

**AUDITORS**

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 2013 AGM, at which time Deloitte was elected as auditor to serve for the period until the end of the 2014 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 September 30, his evaluation of internal control and the audit of the annual accounts for 2013. S On one occasion

in 2013, 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. He 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 0.1m in 2013. The auditor is paid fees in accordance with the decision of the AGM. For information about fees to auditors in 2012 and 2013, see Note 5 on page 47.

**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

**REMUNERATION TO THE BOARD**

SEK thousand	2013	2012
Markus Gerdien, Chairman	242	125
Peter Larsson	183	300
Karin Moberg	125	125
Jonas Mårtensson	125	125
Stefan Skarin	-	-

**ATTENDANCE AT BOARD MEETINGS IN 2013**

	4/2	5/3	7/3	22/4	22/4 Stat.	22/8	13/9	17/9	23/10	22/11	11/12	11/12	Total
Markus Gerdien, Chairman	●	●	●	●	●	●	●	●	●	●	●	●	12/12
Peter Larsson	●	●	●	●	●	●	●	●	●	●	●	●	12/12
Karin Moberg	●	●	●	●	●	●	●	●	●	●	●	●	12/12
Jonas Mårtensson	●	●	●	●	●	●	●	●	●	●	●	●	12/12
Stefan Skarin	●	●	●	●	●	●	●	●	●	●	●	●	12/12

● Attended    ● Did not attend

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 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 2013 were unchanged compared to those applied in 2012.

For 2013, 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 a maximum of six monthly salaries.

### 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

## REMUNERATION TO THE CEO AND CFO IN 2013

SEK thousand	Year	Fixed salary	Variable salary	Benefits	Pension costs	Total
Stefan Skarin, CEO	2013	2,805	675	134	300	3,914
	2012	2,585	800	136	302	3,823
Stefan Ström, CFO	2013	1,728	337	132	301	2,498
	2012	1,529	410	135	301	2,375

analysis performed at the group level, this important aspect of internal control contributes to ensuring that the financial reports contain no material mis-statements.

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.

## 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

Markus Gerdien, Chairman  
Peter Larsson • 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 2014 AGM, 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

Markus Gerdien, Chairman  
Peter Larsson • 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.

All members have attended the committee's two meetings.

## NOMINATING COMMITTEE

*The Code states that the nominating committee is a body of the AGM 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 • Markus Gerdien

The AGM on April 22, 2013, resolved to appoint a nominating committee according to the following principles. By September 30, 2013, 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 2014 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 2014 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 2014 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 2015 AGM

## 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 2013 on pages 59–64 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. In our opinion, the corporate governance report has been prepared

and its statutory content is consistent with the annual accounts and the consolidated accounts. edovisningen och koncernredovisningen.

Stockholm, March 17, 2014  
Deloitte AB

Erik Olin  
Authorized Public Accountant

# Board of Directors



## Peter Larsson

Regular Board member.

**Born in:** 1964.

**Board member:** Since 2010. In the years 2010-2013 also Chairman.

**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

Regular 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 Norden, CEO of Interleaf Norden and several senior international positions at Oracle Corporation.

**Shareholdings:** 100,000 class A shares (via endowment insurance), 321,000 class B shares (via endowment insurance) and 40,000 subscription warrants TO4B (via endowment insurance).

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

## Karin Moberg

Regular 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

Regular Board member.

**Born in:** 1963.

**Board member:** Since 2010.

**Position:** Partner and board member in 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 and Deltaco AB.

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

**Shareholdings:** 100,000 class B shares.

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

## Markus Gardien

Board Chairman.

**Born in:** 1960.

**Board member:** Since 2011.

**Education:** Computer science and economics, Stockholm University.

**Other board assignments:** Chairman of Emeric Partners AB and Medius AB. Chairman of member of Common Agenda Venture Management 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.

# Group Management

## Stefan Skarin

**Position:** CEO

Stefan has been CEO of IAR Systems since April 2009. Stefan has been a Board member of IAR Systems Group AB (formerly Intoi AB) since 2002 and CEO since February 2008 (as well as CEO between 2001 and 2006). As CEO of Intoi, Stefan was a driving force behind Intoi's acquisition of IAR Systems in 2005 and Intoi's focus on IAR Systems in 2011. Stefan has over 20 years of experience in the IT software industry, among other things as Sales Director at Adobe Nordic, CEO of Interleaf Norden and several senior international positions at Oracle Corporation.

Stefan was born in 1962 and has an education from IHM Business School and economics studies at Stockholm University.

**Shareholdings:** IAR A 100,000 (via endowment insurance)  
IAR B 321,000 (via endowment insurance)

**Subscription warrants:** IAR T04B 40,000 (via endowment insurance)

See also Board of Directors above.

## Stefan Ström

**Position:** CFO

Stefan has been CFO of IAR Systems since April 2009. Stefan has been Chief Operating Officer (COO), CEO 2006-2008 and CFO of IAR Systems Group AB since 1997 (formerly Intoi AB). Stefan was a driving force behind the acquisition of IAR Systems in 2005 and Intoi's focus on IAR Systems in 2011.

Stefan was born in 1958 and holds an M.B.A from Lund University.

**Shareholdings:** IAR B 10,355  
+ 310 (wife/children)

**Subscription warrants:** IAR T04B 10,000

## Steve Egarter

**Position:** Technical Support Manager

Steve Egarter has long experience in the embedded industry, including more than 10 years with IAR Systems. Previously, he worked in the security electronics industry in various technical roles. Steve graduated from Lakehead University in 2000 with a B.Sc. in Electrical Engineering and also has a diploma in electronics technology with a focus on communication from the Radio College of Canada. He works at IAR System's office in Boston, Massachusetts, USA.

**Shareholdings:** No holdings

**Subscription warrants:** No holdings

## Petter Edman

**Position:** Chief Technology Officer

Petter has worked for IAR Systems for more than 15 years in the number of positions in technical development. Prior to this, Petter has several years of experience from the telecom industry, previously has team leader for Ellemtel, an R&D organization that was owned jointly by Ericsson and Swedish Telecom.

Petter has and M.Sc. in Engineering Physics, with a focus on computer technology, from the University of Uppsala.

**Shareholdings:** No holdings.

**Subscription warrants:** IAR T04B 10,000

## Mats Ullström

**Position:** Product Director

Mats has worked for IAR Systems since 2001. Prior to this, Mats worked in positions such as Professional Services Manager at Mimer Information Technology and as a software consultant at Programator Consulting AB.

Mats was born in 1963 holds a M.Sc. in Computer Science from Uppsala University.

**Shareholdings:** No holdings.

**Subscription warrants:** IAR T04B 2 000

## Auditor

### Erik Olin

Born in 1973 • Authorized Public Accountant • Auditor for IAR Systems Group AB since 2012 • Deloitte AB.





Petter Edman

Stefan Ström

Steve Egerter

Stefan Skarin

Mats Ullström



# 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 compiler is a computer program (or set of programs) that transforms source code written in a programming language (similar to English) into instructions that the microprocessor can understand and execute.

**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.

**DEBUGPROBE** 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.

**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.

**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, dish-washers, 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.

**EMULATOR** Another name for debug probe.

**IAR EMBEDDED WORKBENCH** IAR Embedded Workbench is a high-performance tool suite for development of software for small and mid-sized (8-, 16-, and 32-bit) microprocessors. IAR Systems collaborates with all world-leading 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.

**INTERNET OF THINGS** Products that are connected to the Internet.

**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 dictionary.



