

## Growth of 12% and operating profit up by 65%

Operating margin of 20.3% (13.7%). EBITDA margin of 24.2% (17.3%)

Profit summary	January – June		April – June		Full year
SEK M	2014	2013	2014	2013	2013
Net sales	124.7	113.8	62.7	56.1	230.2
Other operating income	-	-	-	-	6.0
Operating expenses	-100.6	-98.0	-50.0	-48.4	-194.9
Operating profit	24.1	15.8	12.7	7.7	41.3

Key ratios	January – June		April – June		Full year
	2014	2013	2014	2013	2013
Growth, %	9.6	-0.5	11.8	-0.5	0.0
Operating margin, %	19.3	13.9	20.3	13.7	17.9
EBITDA margin, %	23.2	17.7	24.2	17.3	22.0
Net cash, SEK M	39.4	30.3	39.4	30.3	80.1
No. of employees at end of period	167	167	167	167	168

### January – June 2014

- Net sales of SEK 124.7m (113.8)
- EBITDA of SEK 28.9m (20.1)
- Operating profit of SEK 24.1m (15.8)
- Profit before tax of SEK 24.5m (15.9)
- Cash flow from operating activities of SEK 30.5m (12.9)
- Net cash at the end of the quarter was SEK 39.4m (30.3)
- EBITDA margin of 23.2% (17.7)
- Operating margin of 19.3% (13.9)
- Earnings per share after current tax amounted to SEK 1.85 (1.20)
- Earnings per share of SEK 1.46 (1.05) before dilution and SEK 1.46 (0.97) after dilution

### April – June 2014

- Net sales of SEK 62.7m (56.1)
- EBITDA of SEK 15.2m (9.7)
- Operating profit of SEK 12.7m (7.7)
- Profit before tax of SEK 12.9m (7.8)
- EBITDA margin of 24.2% (17.3)
- Operating margin of 20.3% (13.7)
- Earnings per share after current tax amounted to SEK 0.98 (0.55)
- Earnings per share of SEK 0.77 (0.53) before dilution and SEK 0.77 (0.49) after dilution

### Key events during the period

- Launch of C-RUN add-on product for runtime analysis of developed code and delivery of C-RUN for ARM processors
- The new issue of 287,500 class B shares (of which 55,500 are under registration) through the exercise of subscription warrants provided the company with proceeds of SEK 9.8m
- Through a redemption program during Q2, SEK 62.7m has been transferred to the shareholders.

# CEO's comments

In the second quarter IAR Systems grew by 12% as a consequence of continued growth in all regions. The earnings improvement of 65% is a testament to the effectiveness of our scalable business model.

## Net sales

All regions set new sales records in local currency. Net sales in the second quarter of 2014 rose by 12% compared to the same quarter of last year and amounted to SEK 62.7m (56.1).

Asia showed growth for the 14th consecutive quarter and Europe for the 22nd consecutive quarter compared to the same quarter of last year. At the same time, the Americas achieved higher growth through increased efficiency and a few major contracts.

For the period from January to June the Group reported net sales of SEK 124.7m (113.8), which corresponds to growth in Swedish kronor of 10% compared to the first six months of last year.

Sales of the company's proprietary products have boosted revenue by SEK 11.1m, which also represents growth of 10% (for more information, see the table below).

## Profit

Operating profit for the second quarter was up by 65% compared to the second quarter of 2013 and reached SEK 12.7m (7.7), which is due to higher sales and the focus on sales of proprietary products with better margins. The improved result is equivalent to 75% of the revenue increase.

Operating profit for the period from January to June

amounted to SEK 24.1m (15.8).

Operating margin strengthened to 20.3% (13.7) for the second quarter and 19.3% (13.9) for the period.

## Cash flow

Cash flow from operating activities improved for the period and totaled SEK 30.5m (12.9).

To increase the clarity of our reporting, the table presents growth by region and product group, as well as foreign exchange effects. Later in the report this is also described from a market and product perspective.

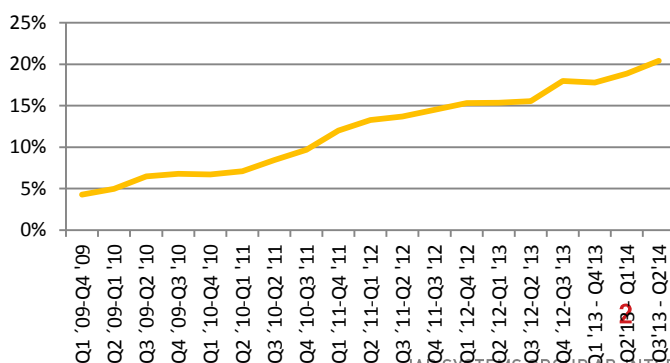
During the period we both launched C-RUN and delivered a version of C-RUN for ARM processors. C-RUN is a first add-on product that complements our development tool IAR Embedded Workbench. Many activities in the near future will be centered around the launch of C-RUN and efforts to continue enhancing the company's offering in general, but also in the market for the Internet of Things.

Stefan Skarin

President and CEO of IAR Systems Group AB

Period January - June	Growth Proprietary Products	Growth 3rd-Party Products	Foreign exchange effects	Total growth	SEK M
Americas	10%	-3%	0%	7%	46.2
Asia	20%	-0%	-3%	17%	29.6
Europe	12%	-0%	4%	16%	47.9
Not allocated by region	-76%	0%	0%	-76%	1.0
<b>Total</b>	<b>10%</b>	<b>-1%</b>	<b>1%</b>	<b>10%</b>	<b>124.7</b>

Operating margin, rolling 12 months (excluding effect of insurance claim in Q3 2013)



# Customers and market

The second quarter showed stable sales development, strengthened by a few major contracts in the Americas at the end of the quarter. IAR Systems set new sales records in all regions and in the ARM product area.

Demand remains strong in all markets. As predicted, the trend in the Americas is upward following the organizational changes carried out at the end of the first quarter. At the same time, sales in the Americas have been positively affected by a number of major contracts. We have increased our sales of proprietary products in all regions. Growth for proprietary products during the period was 20% in Asia, 12% in Europe and 10% in the Americas. A continued decrease in the share of sales for third-party products during the period had a negative impact on growth primarily in the Americas. Overall, growth in local currency was 17% in Asia, 16% in Europe and 7% in the Americas. In the first half of 2014 the company reported revenue of SEK 1.0m that is not allocated to any of the above regions. The corresponding revenue for the first half of 2013 was SEK 4.2m. Total growth in local currency was thus 10%.

The market for ARM has continued to expand with increased migration of customer products from 8/16-bit to 32-bit architectures. The most powerful demand is being seen for the lower end ARM processor series.

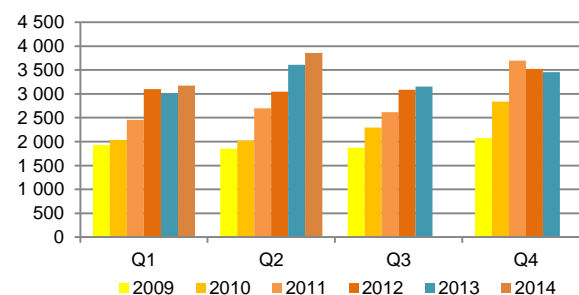
The growing complexity of the customers' products is also raising the importance of a well-functioning ecosystem of partners surrounding our products. This is an area where we have previously chosen to also act as a reseller on demand. By focusing the sales organization on proprietary products with a higher gross margin than third-party products, we have increased our profitability.

Some of the growth we have reported in recent years can be tied to a concept known as the "Internet of Things". The Internet of Things is about utilizing existing products better and for new purposes by connecting them to the Internet. The goal is to increase the information flow from devices that can be used to position, change, measure,

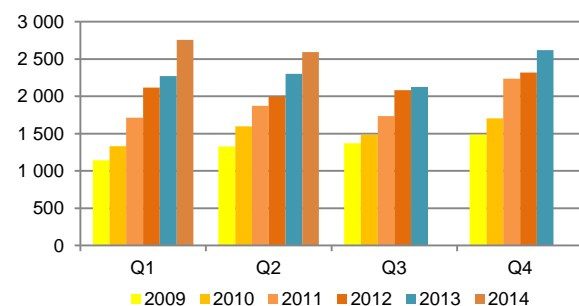
etc. IAR Systems is ideally equipped to help our customers apply the Internet of Things in their products. We currently have 46,000 customers who are already using IAR Embedded Workbench to program their products. Now these products will also be programmed to communicate with the Internet, which will boost demand for our tools.

## IAR SYSTEMS' DEVELOPMENT BY REGION

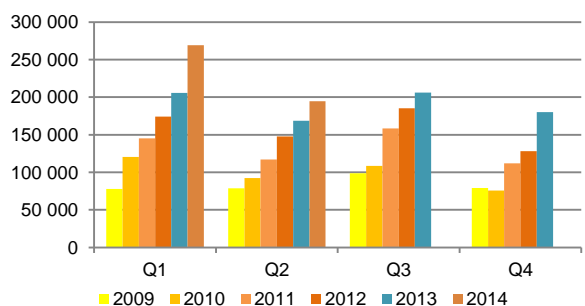
Net sales in the Americas (USD th)



Net sales in Europe (EUR th)



Net sales in Asia (JPY th)



# Products and technology

The second quarter was also marked by C-RUN, our first ever add-on product, through the delivery of a version of C-RUN for ARM's processors.

C-RUN, a tool that helps our customers and individual developers to analyze their code, is an in-house developed product that is fully integrated with IAR Embedded Workbench and offers feature-rich and powerful performance.

Several new products were launched during the quarter, but the period was most strongly marked by the delivery of C-RUN for ARM's processors. C-RUN is an in-house developed add-on product that is a result of recent years' close collaboration with a large number of customers and attention to their needs and requirements for add-on products.

C-RUN is fully integrated, which is vital in order to capitalize on both use and sales of products for the development toolsuite IAR Embedded Workbench, IAR Systems' flagship product. In addition, C-RUN offers functionality and performance that are adapted for users of IAR Systems' products. This gives C-RUN a unique market position, since there is no competing tool that knows our products better.

C-RUN will be available for the majority of the most widely demanded products, which means that we can continue to position our offering as independent when it comes to the choice of different processors. The financial effects of C-RUN were marginal in the second quarter but are expected to be greater in the latter half of the year.

In the first quarter we launched a new version of IAR Embedded Workbench that supports processors from ARM. This version of IAR Embedded Workbench has been primarily updated for more advanced usage. In the most advanced applications, multiple processors are used at the same time to increase the performance of the product. Aside from the above, there was a good spread of product launches during the second quarter. The main launches were related to Renesas' products,

but also included unique functions and applications for both Freescale and Texas Instruments. IAR Systems' independent position is vital in strengthening the company's offering through broad support for a wide range of processors.

In 2013 IAR Systems launched a certified version of IAR Embedded Workbench for ARM and Renesas RX processors. The certification took place through TÜV SÜD, a leading international body for testing and certification of industrial products. The certification means that the product meets the requirements for ISO 26262 and IEC 61508, which are highly important in the market for embedded systems. In the second quarter we saw higher demand for the certified versions of our products. Demand for other products has also increased with respect to the certification, since our customers see our certification as proof of the quality of the product, documentation and development process.

Sales of third-party products have continued to decline as a result of a strategic decision to focus on proprietary products in order to increase the gross margin. Third-party products consist primarily of evaluation kits, real time operating systems (RTOS), and the earlier portfolio of debug probes.

We carry out many product launches in the course of a year and to increase the amount of information about all product launches, we present an annual overview on the following page. For those who are interested in additional and, in particular, more technical information, visit our website, [www.iar.com](http://www.iar.com).

# Product launches in the past 12 months

## Q2 2014

<b>April 10</b>	IAR Embedded Workbench is a featured IDE for Freescale Kinetis microcontrollers
<b>April 16</b>	IAR Systems releases new version of development tools for Renesas RL78 processors
<b>April 25</b>	IAR Systems adds stack usage analysis for Renesas RX processors
<b>May 19</b>	IAR Systems delivers C-RUN for ARM processors
<b>June 17</b>	IAR Systems enhances Renesas' ARM R-IN32M3 development platform
<b>June 24</b>	IAR Systems provides support for Texas Instruments' new EnergyTrace technology

Q3 2013	Q4 2013	Q1 2014
<p><b>July 3, 2013</b> IAR Systems adds support for Atmel's new SAM D20 microprocessors</p> <p><b>July 9, 2013</b> IAR Systems updated development tools for Atmel AVR32 result in 80% faster code</p> <p><b>July 10, 2013</b> IAR Systems launches full support for ARM-based Vybrid Controller Solutions from Freescale</p> <p><b>July 22, 2013</b> IAR Systems launches Experiment! – a series of development kits for creative, easy and low-cost evaluation</p> <p><b>August 5, 2013</b> IAR Systems supports new Kinetis E series microprocessors from Freescale</p> <p><b>September 27, 2013</b> IAR Systems updates its leading development tools for Texas Instruments ultra-low-power MSP430-processors</p> <p><b>September 30, 2013</b> Analog Devices chooses IAR Systems as sole provider of development tools for its new ADSP-CM40x control processors</p>	<p><b>October 30, 2013</b> IAR Systems releases new version of leading development tools for ARM</p> <p><b>November 7, 2013</b> IAR Systems launches starter kits for the new high-performance ARM Cortex-M4 series from STMicroelectronics</p> <p><b>November 12, 2013</b> IAR Embedded Workbench supports Renesas' new high-performance RXv2 core</p> <p><b>November 19, 2013</b> IAR Systems updates its leading development tools for 8051-based microprocessors</p> <p><b>November 21, 2013</b> IAR Systems improves performance of development tools for Texas Instruments' ultra-low-power MSP430 microcontrollers</p> <p><b>November 26, 2013</b> IAR Systems and Renesas Electronics Europe offer certified tools for safety-critical development</p> <p><b>December 4, 2013</b> IAR Systems launches complete starter kit for evaluation of Renesas' low-power RX111 microprocessors</p> <p><b>December 19, 2013</b> IAR Systems updates its popular development tools for Atmel AVR 8-bit microcontrollers</p>	<p><b>January 30, 2014</b> IAR Systems boosts ease of use for embedded development of Renesas Super-H-based applications</p> <p><b>February 25, 2014</b> IAR Systems unveils C-RUN, an extension product for runtime analysis of developed code</p> <p><b>February 25, 2014</b> IAR Systems adds functionality for multicore applications to world-leading development tools for ARM</p> <p><b>February 26, 2014</b> IAR Embedded Workbench strengthens development of new low-power ARM CortexM0+ core from STMicroelectronics</p> <p><b>February 26, 2014</b> IAR Systems enhances functionality for Renesas for RX MCUs</p> <p><b>March 31, 2014</b> IAR Systems improves user-friendliness for Freescale HCS12</p>

# Financial information

JANUARY – JUNE 2014

## SALES AND PROFIT

Net sales for the period rose by 10.4% compared to the same period of last year and amounted to SEK 124.7m (113.8), of which SEK 62.7m (56.1) for the second quarter. In a year-on-year comparison, foreign exchange effects had a positive impact on sales for the period of SEK 1.4m, of which SEK 1.2m for the second quarter.

Operating profit for the period improved by 52% and reached SEK 24.1m (15.8), of which SEK 12.7m (7.7) for the second quarter. In a year-on-year comparison, foreign exchange effects had a positive impact on operating profit for the period of SEK 1.1m, of which SEK 1.0m for the second quarter.

## INVESTMENTS AND FINANCING

Investments in property, plant and equipment for the quarter are reported at SEK 1.3m (1.3), of which SEK 0.7m (0.6) for the second quarter.

Investments in intangible assets for the period totaled SEK 17.7m (9.1), of which SEK 11.9m (4.7) for the second quarter. These investments consist mainly of own staff expenses for the development of debug probes. In the second quarter, the investments also include acquired IP rights amounting to SEK 6.6m. The investments are in line with the company's plans.

The equity/assets ratio at June 30, 2014, was 76% (77).

## CASH FLOW, CASH AND CASH EQUIVALENTS

Cash flow from operating activities for the period was SEK 30.5m (12.9), of which SEK 16.7m (11.1) for the second quarter. The improved cash flow is an effect of the company's earnings growth and the fact that the previous year closed with high sales at the end of December, which has affected cash flow in 2014.

Cash flow from investing activities for the period was SEK -19.2m (-9.8), of which SEK -12.7m (-5.1) for the second quarter. In the second quarter, the investments also include acquired IP rights amounting to SEK 6.6m.

Cash flow from financing activities for the period was SEK -53.1m (-21.7), of which SEK -59.6m (-22.7) for the second quarter. The company has car-

ried out a mandatory redemption program in which SEK 62.7m was transferred to the shareholders through a 2-for-1 share split combined with a redemption procedure.

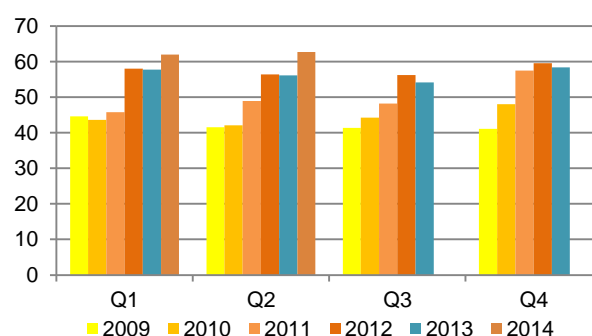
During the period, 287,500 subscription warrants were exercised to subscribe for new class B shares. Of these, 55,500 were under registration at June 30, 2014. The issue of these new shares has provided the company with proceeds of SEK 9.8m. On June 30, 2014, the Group had net cash of SEK 39.4m (30.3). Cash and cash equivalents on the same date amounted to SEK 41.8m (32.8), of which SEK 0.7m (2.7) consisted of blocked funds for the acquisition of Signum.

In addition, there were unutilized bank overdraft facilities of SEK 25.0m (25.0). The Group's total available cash and cash equivalents thus amounted to SEK 66.1m (51.5).

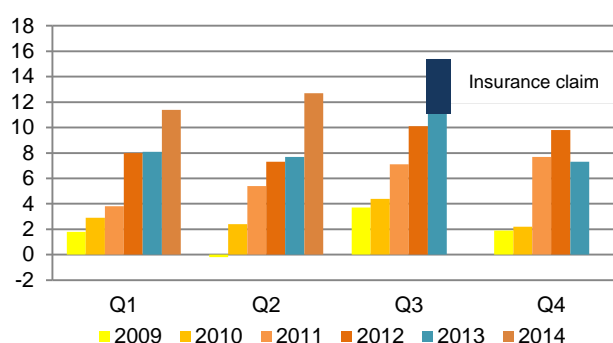
## EMPLOYEES

The number of employees in IAR Systems at the end of the quarter was 167 (167). The average number of employees during the period was 161 (159).

Net sales (SEK M)



Operating profit (SEK M)





## PARENT COMPANY

The activities of the Parent Company consist of group management, finance and IR/PR functions. The Parent Company's net sales for the quarter amounted to SEK 6.4m (6.1). Profit after financial items was SEK -0.5m (4.3). Net investments in property, plant and equipment totaled SEK 0.0m (0.2).

At June 30, 2014, the Parent Company had cash and cash equivalents of SEK 5.3m (8.7), of which SEK 0.7m (2.7) consisted of blocked funds for the acquisition of Signum. The Parent Company's total available cash and cash equivalents thus amounted to SEK 4.6m (6.0).

The number of employees in the Parent Company at the end of the quarter was 4 (4).

## ACCOUNTING POLICIES

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

The new or revised IFRS standards, interpretations from the IFRS Interpretations Committee and amendments to RFR 2 that are effective as of January 1, 2014, have not had any material impact on the financial statements of the Group or the Parent Company.

## GOODWILL

Goodwill is tested for impairment yearly and is measured at cost less accumulated impairment. Goodwill at June 30, 2014, amounted to SEK 110.4m.

## DEFERRED TAX ASSET

The deferred tax asset attributable to loss carryforwards is recognized only to the extent that it is probable that the loss carryforwards can be utilized

against future taxable profits. At June 30, 2014, the Group had cumulative loss carryforwards of around SEK 233m, all of which are attributable to Sweden. In the balance sheet, these losses are recognized at SEK 51.2m (59.0).

## THE IAR SYSTEMS GROUP SHARE

IAR Systems Group's class B share is quoted on the Small Cap list of the NASDAQ OMX Nordic Exchange Stockholm. During the quarter the share price varied from a low of SEK 39.77 (36.40) to a high of SEK 75.00 (41.30). The share price at June 30, 2014, was SEK 68.50 (37.20).

IAR Systems Group's market capitalization on the same date was SEK 861m (424).

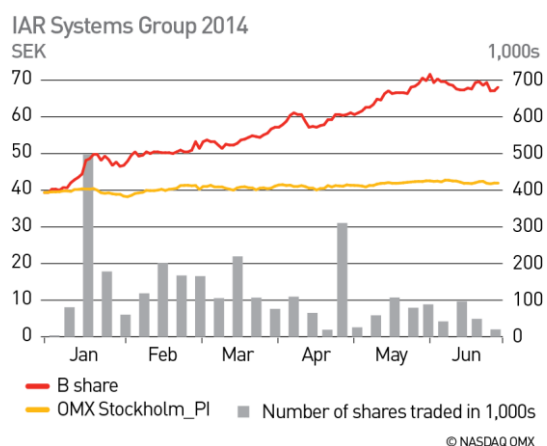
The number of shareholders in IAR Systems Group at June 30, 2014, was 8,238 (8,221). Of these, 456 (422) held more than 1,000 shares each. Foreign shareholders held approximately 22% (21) of the share capital and 20% (27) of the votes.

During the year, the warrant series T04B 2011/2014 has been exercised to subscribe for 287,500 new class B shares, of which 55,500 are under registration with the Swedish Companies Registration Office.

The issue of new shares has provided the company with proceeds of SEK 9.8m.

IAR Systems Group's share capital at June 30, 2014, amounted to SEK 125,765,614, divided between 12,576,561 shares of which 100,000 are of class A and 12,476,561 are of class B. In addition, at the end of the quarter there were 55,500 class B shares under registration (see above).

## SHARE PRICE PERFORMANCE JANUARY – JUNE 2014



## **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. Of these, 943,500 warrants were exercised to subscribe for class B shares. In the first half of 2014 the holders exercised 287,500 warrants, of which 55,500 class B shares were under registration at June 30, 2014.

Each warrant gave 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.

## **2014 ANNUAL GENERAL MEETING**

The Annual General Meeting of IAR Systems Group was held on April 24, 2014. For information about the Annual General Meeting and the resolutions passed there, visit the company's website [www.iar.com](http://www.iar.com).

## **SIGNIFICANT RISKS AND UNCERTAINTIES**

The market for IAR Systems' software is evolving rapidly and forecasts about future development are therefore associated with uncertainty. IAR Systems Group's assessment is that no significant risks and uncertainties have changed or arisen aside from those described in the annual report for 2013 under "Administration report" on page 23 and in Note 2 on pages 45-47. No material changes have taken place since that time.

## **FUTURE OUTLOOK**

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

Stockholm, Tuesday, August 19, 2014

Stefan Skarin  
President and CEO of IAR Systems Group AB

## **FINANCIAL CALENDAR 2014**

Interim report Jan – Sep 2014, October 21, 2014

## **IAR SYSTEMS GROUP AB (PUBL)**

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## **REVIEW REPORT**

This report has not been examined by the company's independent auditor.



# Income statements

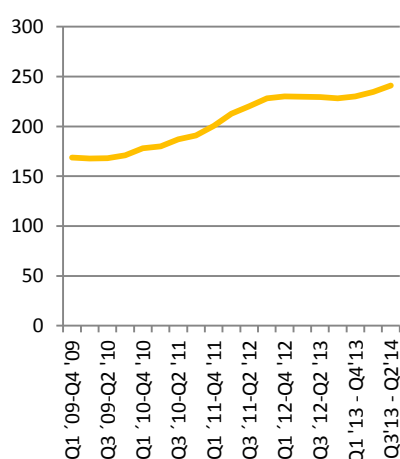
## INCOME STATEMENTS, GROUP

SEK M	6 mths Jan-Jun		3 mths Apr-Jun		Full year 2013
	2014	2013	2014	2013	
Net sales	124.7	113.8	62.7	56.1	230.2
Other operating income	-	-	-	-	6.0
Goods for resale	-6.0	-6.7	-2.6	-2.2	-14.5
Other external expenses	-20.2	-20.9	-9.5	-10.2	-41.3
Personnel costs	-69.6	-66.1	-35.4	-34.0	-129.8
Depreciation of property, plant and equipment	-1.0	-1.2	-0.5	-0.5	-2.2
Amortization of intangible assets	-3.8	-3.1	-2.0	-1.5	-7.1
Operating profit	24.1	15.8	12.7	7.7	41.3
Financial income	0.5	0.2	0.2	0.1	0.3
Financial expenses	-0.1	-0.1	-0.0	-0.0	-0.2
Profit before tax	24.5	15.9	12.9	7.8	41.4
Income tax	-6.3	-3.9	-3.2	-1.8	-11.5
Profit for the period	18.2	12.0	9.7	6.0	29.9
Earnings per share for the period, basic, SEK	1.46	1.05	0.77	0.53	2.59
Earnings per share for the period, diluted, SEK	1.44	0.97	0.77	0.49	2.40

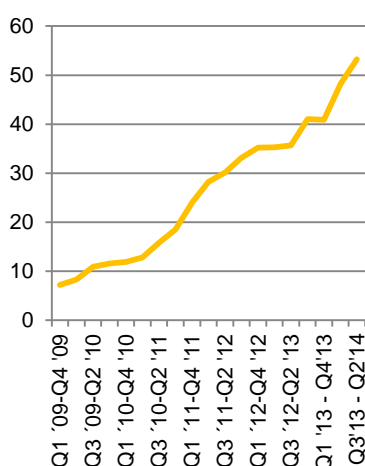
## STATEMENTS OF COMPREHENSIVE INCOME

SEK M	6 mths Jan-Jun		3 mths Apr-Jun		Full year 2013
	2014	2013	2014	2013	
Profit for the period	18.2	12.0	9.7	6.0	29.9
Other comprehensive income for the period					
Items that will be reclassified subsequently to profit or loss					
Foreign exchange gains/losses	0.5	0.0	1.1	0.3	-0.5
Total other comprehensive income	0.5	0.0	1.1	0.3	-0.5
Comprehensive income for the period	18.7	12.0	10.8	6.3	29.4
Comprehensive income for the period attributable to owners of the Parent Company	18.7	12.0	10.8	6.3	29.4

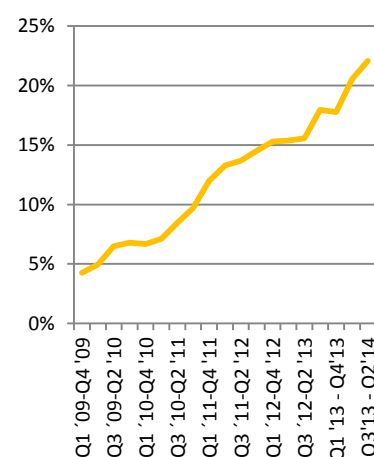
**Net sales  
rolling 12 months**



**Operating profit  
rolling 12 months**



**Operating margin  
rolling 12 months**



# Balance sheets

## BALANCE SHEETS, GROUP

SEK M

	Jun 30 2014	Jun 30 2014	Dec 31 2013
<b>ASSETS</b>			
Non-current assets			
Goodwill	110.5	110.7	110.7
Other intangible assets	67.6	47.5	53.7
Property, plant and equipment	6.4	6.4	6.1
Financial assets	6.0	4.6	5.3
Deferred tax asset	55.5	62.1	59.2
<b>Total non-current assets</b>	<b>246.0</b>	<b>231.3</b>	<b>235.0</b>
Current assets			
Inventories	4.4	4.9	3.3
Other current assets	14.7	12.8	14.6
Trade receivables	38.2	35.6	34.1
Blocked funds	0.7	2.7	0.7
Cash and cash equivalents	41.1	30.1	81.8
<b>Total current assets</b>	<b>99.1</b>	<b>86.1</b>	<b>134.5</b>
<b>TOTAL ASSETS</b>	<b>345.1</b>	<b>317.4</b>	<b>369.5</b>
<b>EQUITY AND LIABILITIES</b>			
Total equity	260.6	244.0	295.0
Non-current liabilities			
Interest-bearing liabilities	1.9	1.3	1.1
Deferred tax liabilities	13.7	10.1	13.3
<b>Total non-current liabilities</b>	<b>15.6</b>	<b>11.4</b>	<b>14.4</b>
Current liabilities			
Trade payables	4.1	5.1	5.7
Interest-bearing liabilities	0.5	1.2	1.3
Other current liabilities	64.3	55.7	53.1
<b>Total current liabilities</b>	<b>68.9</b>	<b>62.0</b>	<b>60.1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>345.1</b>	<b>317.4</b>	<b>369.5</b>
Pledged assets	5.0	6.0	4.9
Contingent liabilities	-	-	-

# Changes in equity

GROUP

SEK M

	6 mths Jan-Jun		3 mths Apr-Jun		Full year
	2014	2013	2014	2013	2013
Equity at beginning of period	295.0	253.8	309.4	260.5	253.8
Dividends	-	-22.8	-	-22.8	-22.8
Redemption procedure	-62.9	-	-62.9	-	-
New share issue	9.8	1.0	3.3	0.0	22.3
Sale of shares	-	-	-	-	12.3
Comprehensive income for the period	18.7	12.0	10.5	6.3	29.4
Equity at end of period	260.6	244.0	260.6	244.0	295.0
of which, attributable to owners of the Parent Company	260.6	244.0	260.6	244.0	295.0

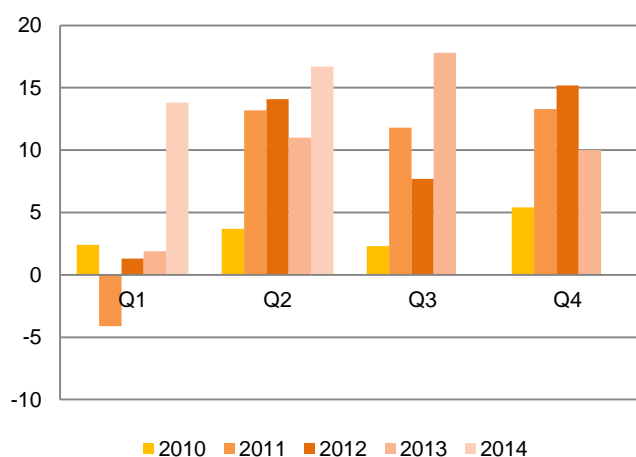
# Cash flows

GROUP	6 mths Jan-Jun		3 mths Apr-Jun		Full year
SEK M	2014	2013	2014	2013	2013
Incoming payments from customers	120.7	109.6	57.2	55.1	234.6
Outgoing payments to suppliers and employees	-88.9	-93.2	-39.4	-42.4	-187.4
Interest received	0.4	0.1	0.1	0.1	0.3
Interest paid	-0.1	-0.1	-0.1	-0.1	-0.2
Income tax paid	-1.6	-3.5	-1.1	-1.6	-6.6
Cash flow from operating activities	30.5	12.9	16.7	11.1	40.7
Investments in property, plant and equipment	-1.3	-1.1	-0.6	-0.4	-1.9
Investments in intangible assets	-17.8	-9.1	-12.0	-4.7	-19.2
Other investments	-0.1	0.4	-0.1	0.0	2.0
Cash flow from investing activities	-19.2	-9.8	-12.7	-5.1	-19.1
New share issue	9.8	1.0	3.3	-	22.3
Sale of shares	-	-	-	-	12.3
New borrowings	0.0	0.1	0.0	0.1	0.0
Amortization of financial liabilities	-0.0	-0.0	-0.0	-0.0	-0.0
Redemption procedure	-62.9	-	-62.9	-	-
Dividends to owners of the Parent Company	-	-22.8	-	-22.8	-22.8
Cash flow from financing activities	-53.1	-21.7	-59.6	-22.7	11.8
Cash flow for the period	-41.8	-18.6	-55.6	-16.7	33.4
Cash and cash equivalents at beginning of period	81.8	49.0	95.7	46.4	49.0
Exchange difference in cash and cash equivalents					
- attributable to cash and cash equivalents at beginning of period	1.0	-0.1	0.9	0.6	-0.5
- attributable to cash flow for the period	0.1	-0.2	0.1	-0.2	-0.1
Cash and cash equivalents at end of period	41.1	30.1	41.1	30.1	81.8

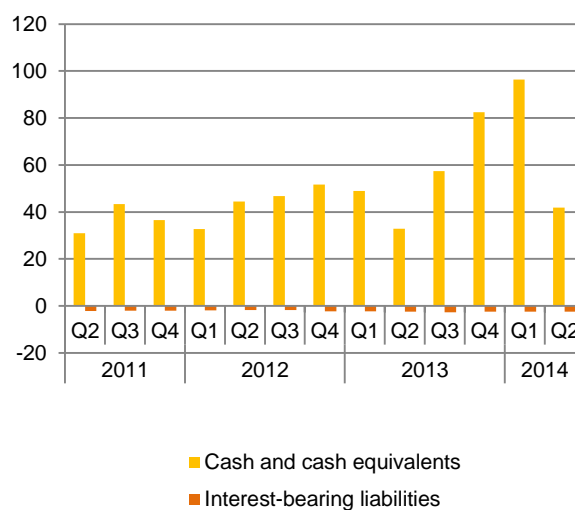
## CASH AND CASH EQUIVALENTS, GROUP

SEK M	Jun 30	Jun 30	Dec 31
	2014	2013	2013
Cash and cash equivalents at end of period	41.1	30.1	81.8
Unutilized overdraft facilities	25.0	25.0	25.0
Total available cash and cash equivalents	66.1	55.1	106.8

## Cash flow from operating activities, SEK M



## Net cash Q2 2011 – Q2 2014



# Key ratios

GROUP	6 mths Jan-Jun		3 mths Apr-Jun		Full year
	2014	2013	2014	2013	2013
Gross margin, %	95.2	94.1	95.9	96.1	93.7
EBITDA, %	23.2	17.7	24.2	17.3	22.0
Operating margin, %	19.3	13.9	20.3	13.7	17.9
Profit margin, %	19.6	14.0	20.6	13.9	18.0
Cash flow, %	24.5	11.3	26.6	19.8	17.7
Equity/assets ratio, %	75.5	76.9			79.8
Return on equity, %	6.6	4.8	3.4	2.4	10.9
Return on capital employed, %	8.8	6.3	4.5	3.0	15.0
Capital employed, SEK M	263.0	246.8			297.4
Net cash, SEK M	39.4	30.3			80.1
Net debt/equity ratio, times	-0.15	-0.12			-0.27
Number of employees at end of period	167	167			168
Average number of employees	161	159	159	160	160
Net sales per employee, SEK M	0.8	0.7	0.4	0.4	1.4

SHARE DATA	6 mths Jan-Jun		3 mths Apr-Jun		Full year
	2014	2013	2014	2013	2013
Equity per share, SEK	20.72	21.42			23.90
Number of shares at end of period, millions	12.58	11.39			12.34
Number of shares at end of period, diluted, millions	12.63	12.37			12.71
Average number of shares, millions	12.45	11.37	12.55	11.39	11.53
Average number of shares, diluted, millions	12.50	12.37	12.60	12.37	12.46
Cash flow from operating activities per share, SEK	2.45	1.13	1.33	0.97	3.53
Earnings per share, basic, after current tax, SEK	1.86	1.20	0.98	0.55	3.20
Earnings per share, basic, SEK	1.46	1.05	0.77	0.53	2.59
Earnings per share, diluted, SEK	1.46	0.97	0.77	0.49	2.40

## QUARTERLY OVERVIEW

		Net sales, SEK M	Operating profit, SEK M	Operating margin, %	Return on equity, %	Equity per share, SEK	Cash flow from operating activities per share, SEK
2014	Q2	62.7	12.7	20.3	3.4	20.72	1.33
	Q1	62.0	11.4	18.4	2.8	24.68	1.12
2013	Q4	61.5	10.1	16.4	2.5	23.90	0.84
	Q3	54.9	15.4	28.1	4.3	22.77	1.56
	Q2	56.1	7.7	13.7	2.4	21.42	0.97
	Q1	57.7	8.1	14.0	2.3	22.87	0.17
2012	Q4	59.5	9.8	16.5	-2.1	22.34	1.34
	Q3	56.2	10.1	18.0	3.3	22.84	0.68
	Q2	56.4	7.3	12.9	1.9	22.15	1.27
	Q1	58.0	8.0	13.8	2.2	22.22	0.12
2011	Q4	57.5	7.7	13.4	4.5	21.82	1.20
	Q3	48.2	7.1	14.7	3.3	20.92	1.07
	Q2	48.9	5.4	11.0	1.4	20.09	1.19
	Q1	45.8	3.8	8.3	0.6	50.35	-0.37
2010	Q4	48.0	2.2	4.6	-0.6	54.16	0.47
	Q3	44.2	4.4	10.0	1.4	55.50	0.23
	Q2	42.1	2.4	5.7	1.1	53.81	0.33
	Q1	43.6	2.9	6.7	1.6	54.42	0.22

# Parent Company

## Income statements

PARENT COMPANY	6 mths Jan-Jun		Full year
SEK M	2014	2013	2013
Net sales	6.4	6.1	12.5
Other operating income	-	-	6.0
Operating expenses	-7.2	-7.1	-14.8
Depreciation of property, plant and equipment	-0.0	-0.0	-0.1
Operating profit/loss	-0.8	-1.0	3.6
Result from financial investments	0.3	5.3	15.6
Profit before tax	-0.5	4.3	19.2
Income tax	0.1	0.2	-3.1
Profit for the period	-0.4	4.5	16.1

## Statement of comprehensive income

PARENT COMPANY	6 mths Jan-Jun		Full year
SEK M	2014	2013	2013
Profit for the period	-0.4	4.5	16.1
Total other comprehensive income	-	-	-
Comprehensive income for the period	-0.4	4.5	16.1

## Balance sheets

BALANCE SHEETS, GROUP	Jun 30	Jun 30	Dec 31
SEK M	2014	2013	2013
<strong>ASSETS</strong>			
Non-current assets			
Property, plant and equipment	0.3	0.4	0.4
Shares in subsidiaries	189.4	189.4	189.4
Other financial assets	3.5	3.5	4.0
Deferred tax asset	55.0	58.2	54.9
Total non-current assets	248.2	251.5	248.7
Current assets			
Receivables from subsidiaries	0.0	0.4	10.0
Other current assets	2.2	2.3	1.7
Blocked funds	0.7	2.7	0.7
Cash and cash equivalents	4.6	6.0	44.7
Total current assets	7.5	11.4	57.1
<strong>TOTAL ASSETS</strong>	<strong>255.7</strong>	<strong>262.9</strong>	<strong>305.8</strong>
<strong>EQUITY AND LIABILITIES</strong>			
Total equity	246.1	254.3	299.4
Non-current liabilities			
Provisions	-	2.0	-
Total non-current liabilities	-	2.0	-
Current liabilities			
Trade payables	0.3	0.8	0.6
Other current liabilities	9.3	5.8	5.8
Total current liabilities	9.6	6.6	6.4
<strong>TOTAL EQUITY AND LIABILITIES</strong>	<strong>255.7</strong>	<strong>262.9</strong>	<strong>305.8</strong>

# About IAR Systems

## BUSINESS MODEL AND PRODUCTS

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

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

IAR Systems' development tools are available in a wide range of versions for 8-, 16- and 32-bit processors. The company's focus on the most advanced systems based on 32-bit architecture has been highly successful. In recent years, growth has been driven mainly by the 32-bit segment.

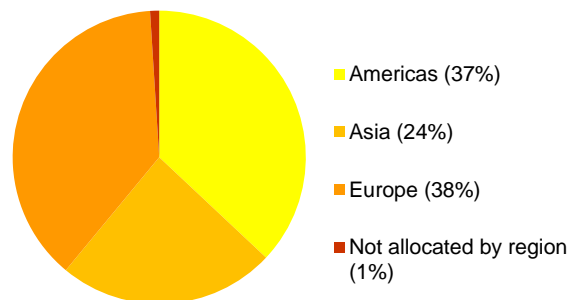
Our market position is strongest in the most advanced systems for 32-bit architecture (often ARM-based), which now account for 62% of net sales.

## CUSTOMERS AND SALES

IAR Systems' software is used by many of the world's largest corporations, but also by thousands of small and mid-sized companies that develop digital products. The more than 46,000 customers are found across all industries and all regions of the world.

IAR Systems combines a good inflow of new customers with very loyal customer relationships. A full 95% of all sales go to recurring customers. IAR Systems works actively to sell more licenses to each customer, where the goal is for the customers to standardize on IAR Systems' tool chain.

## Breakdown of revenue



## ECOSYSTEM

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

## ARM

ARM Holdings plc is a multinational company based in Cambridge, UK, that has developed a standard for microprocessor chips. ARM is one of the largest and fastest-growing companies in the industry and dominates the market for processors for smartphones.

For many years IAR Systems has been committed to providing reliable and powerful development tools for a wide spectrum of ARM processors. IAR Systems is one of the leading suppliers of development tools for processors based on ARM technology.



# Investment case for IAR Systems

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

## A CHANGING MARKET

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

- Growth in the number of digital products
- Growth in the number of processors per product
- Increased code complexity in the processors
- Growth in ARM-based processors
- Growth in energy-smart solutions

## GLOBAL REACH

IAR Systems has international reach through its headquarters in Uppsala, Sweden, and sales and support offices in Sweden, the USA, Japan, Brazil, France, China, South Korea, Germany and the UK. The office in South Korea opened during 2012. In addition, the company is represented in 30 other countries through distributors.

## A WIDE AND LOYAL CUSTOMER BASE

IAR Systems' software is used by many of the world's largest corporations, but also by thousands of small and mid-sized companies that develop digital products. Software from IAR Systems is used by more than 120,000 developers in over 46,000 organizations.

## CLOSE TO THE PROCESSOR MAKERS

IAR Systems works closely with the world's leading processor manufacturers. This collaboration gives IAR Systems resources, knowledge and opportunities for sales. But above all, it ensures that IAR Systems' software supports more processors in more architectures than any other tools on the market. With software from IAR Systems, the customers can run projects on multiple processors in a single development environment.

## SKILLED EMPLOYEES

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

# Definitions

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

## Industry-specific glossary

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