

Net sales of SEK 256m, EBITDA of SEK 64m and cash flow of SEK 70m  
Operating margin of 21%

Profit summary	Full year		October-December	
	2014	2013	2014	2013
SEK M				
Net sales	255.7	230.2	66.1	61.5
Other operating income	-	6.0	-	-
Operating expenses	-202.5	-194.9	-52.6	-51.4
Operating profit	53.2	41.3	13.5	10.1

Key ratios	Full year		October-December	
	2014	2013	2014	2013
Growth, %	11.1	0.0	7.5	3.4
EBITDA margin, %	24.9	22.0	24.7	20.5
Operating margin, %	20.8	17.9	20.4	16.4
Net cash, SEK M	68.4	80.1	68.4	80.1
No. of employees at end of period	169	168	169	168

#### Full year 2014

- Net sales of SEK 255.7m (230.2)
- EBITDA of SEK 63.6m (50.6)
- Operating profit of SEK 53.2m (41.3)
- Profit before tax of SEK 53.6m (41.4)
- Cash flow from operating activities of SEK 70.3m (40.7)
- Net cash at year-end of SEK 68.4m (80.1)
- EBITDA margin of 24.9% (22.0)
- Operating margin of 20.8% (17.9)
- Earnings per share after current tax of SEK 4.15 (3.20)
- Basic earnings per share of SEK 3.37 (2.59) and diluted earnings per share of SEK 3.35 (2.58)
- The Board intends to propose a total dividend of SEK 5.00 per share for approval by the AGM on April 29, 2015. The ordinary dividend is proposed at SEK 4.00 and the extraordinary dividend at SEK 1.00, for a total distribution of SEK 63.2m.

#### October-December 2014

- Net sales of SEK 66.1m (61.5)
- EBITDA of SEK 16.3m (12.6)
- Operating profit of SEK 13.5m (10.1)
- Profit before tax of SEK 13.5m (10.3)
- Cash flow from operating activities of SEK 16.0m (10.0)
- EBITDA margin of 24.7% (20.5)
- Operating margin of 20.4% (16.4)
- Earnings per share after current tax of SEK 1.04 (0.76)
- Earnings per share of SEK 0.84 (0.58) before dilution and SEK 0.84 (0.57) after dilution

#### Key events during the year

- Launch of C-RUN as an add-on product
- The new issue of 287,500 class B shares through the exercise of subscription warrants provided the company with proceeds SEK 9.8m
- SEK 62.7m was transferred to the shareholders through a redemption procedure in the second quarter of the year

# CEO's comments

2014 was a solid year for IAR Systems. Sales continued to grow and we set new records on both an annual and quarterly basis. The same applies to our profitability trend and the strong cash flow from operating activities of SEK 70m.

One key milestone during the year was the launch of IAR Systems' first in-house developed add-on product, C-RUN. The analysis performed by C-RUN enables developers to identify weaknesses at an early stage of the development process, reducing both costs and time-to-market compared to if an error is discovered later in the process.

The goal for C-RUN, and for future add-on products created by IAR Systems, is to provide a wider portfolio of tools for developing smart products. This makes it easier for our customers to standardize their development on software from IAR Systems, which will further strengthen our strategic position.

In the fourth quarter we saw positive growth in demand for support and update agreements, SUAs. However, this is not immediately visible on the revenue line of the income statement, since these

agreements are recognized over a 12-month period. Increased sales of SUAs give IAR Systems a more even revenue flow and a strong cash flow.

The beginning of 2015 will be defined by a high level of marketing activity, including participation in the world's largest exhibition and conference for embedded systems (Embedded World in Nuremberg, Germany). Our focus will remain on refining the company's offering and seizing the opportunities arising in the market for the Internet of Things.

Stefan Skarin  
CEO of IAR Systems Group AB

	Growth Proprietary products	Growth 3rd-party products	Foreign exchange effects	Total growth	SEK M
Americas	9%	-3%	6%	12%	96.7
Asia	16%	0%	1%	17%	59.7
Europe	8%	-0%	6%	14%	97.2
Not allocated by region	-72%	-0%	0%	-72%	2.1
<b>Total</b>	<b>8%</b>	<b>-1%</b>	<b>4%</b>	<b>11%</b>	<b>255.7</b>

# Customers and market

IAR Systems has once again set new sales records, primarily in the ARM product area. Sales of C-RUN are rising steadily and are expected to grow in pace with customer upgrades to the latest versions of the ARM products.

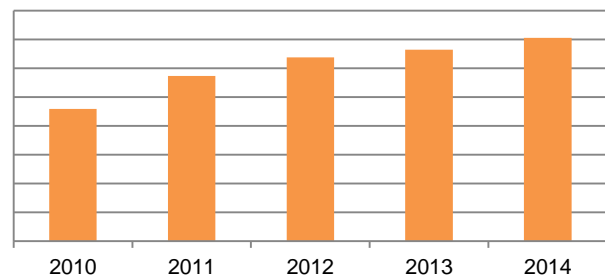
Demand remains strong in all markets. The fourth quarter was mainly characterized by a number of smaller contracts. The final quarter of the 2014 also saw a share of renewals of service and update agreements, many of which run for the calendar year. We have increased our sales of proprietary products across all regions. Growth for proprietary products during the year was 16% in Asia, 8% in Europe and 9% in the Americas. A decrease in the share of sales for third-party products during the year had a negative impact on growth primarily in the Americas. Overall, growth in local currency was 16% in Asia, 8% in Europe and 6% in the Americas.

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.

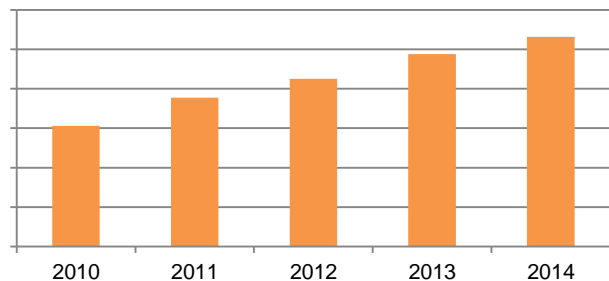
Some of the growth we have reported in recent years can be tied to a concept known as the "Internet of Things". The Internet of Things is about utilizing existing products better and for new purposes by connecting them to the Internet. The goal is to increase the information flow from devices that can 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 in their product development. Now these products will also be programmed to communicate with the Internet, which will boost demand for our tools.

All regions have reported growth over the past five years. This growth is mainly attributable to areas that reflect general market growth in the use of embedded systems, which also includes the Internet of Things, an increased focus on proprietary software and higher efficiency in the organization.

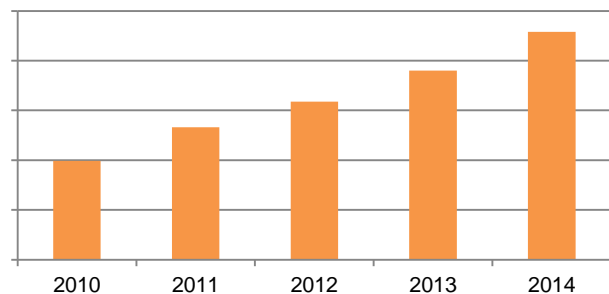
IAR SYSTEMS' DEVELOPMENT BY REGION  
Net sales in the Americas (USD)



Net sales in Europe (EUR)



Net sales in Asia (JPY)



# Products and technology

The fourth quarter was marked by the effects of C-RUN, our ever first add-on product, and a number of product launches. These consisted mainly of support for several different new processors, but also of a new debug probe with tracing functionality.

Products launched in the fourth quarter were primarily related to ARM and a continued focus on C-RUN.

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 aimed at understanding their needs and requirements for add-on products.

C-RUN is seamlessly integrated with IAR Embedded Workbench, 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 have successively increased during the year as more and more customers upgrade to the latest versions of the ARM products.

In the third quarter we launched a new version of IAR Embedded Workbench (EWARM) that supports processors from ARM. This version of EWARM has been updated primarily with optimizations to support ARM's new Cortex M7 processor core. ARM has positioned Cortex M7 for a market that demands high performance, such as the automotive industry, communication-intensive solutions and the Internet of Things. IAR Systems, which has

historically launched support for new processors from ARM, has also set a new world record in code performance – a record that ARM has chosen to use in its marketing of the new processor.

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. During the period 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 declined as a result of a strategic decision to focus on proprietary products with a higher 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

## Q4 2014

30 September

IAR Systems reports world's top code efficiency and is first above 5.0 CoreMark/MHz for ARM's new M7 core

11 November

IAR Systems launches support for NXP low-power sensor dual-core series

13 November

IAR Systems launches support for Atmel Smart MCUs and MPUs

18 November

IAR Systems launches support for Renesas RZ/T1

18 November

IAR Systems launches new debug probe with trace functionality, I-jet Trace

20 November

IAR Systems releases new version of STM8 from ST

8 December

IAR Systems releases new version of MSP430 from Texas Instruments

9 December

IAR Systems releases new version of the 8051 product with new functions focused on the Internet of Things

## Q1 2014

January 30, 2014

IAR Systems boosts ease of use for embedded development of Renesas Super-H-based applications

February 25, 2014

IAR Systems unveils C-RUN, an extension product for runtime analysis of developed code

February 25, 2014

IAR Systems adds functionality for multicore applications to world-leading development tools for ARM

February 26, 2014

IAR Embedded Workbench strengthens development of new low-power ARM CortexM0+ core from STMicroelectronics February 26, 2014

IAR Systems enhances functionality for Renesas for RX MCUs

March 31, 2014

IAR Systems improves user-friendliness for Freescale HCS12

## Q2 2014

April 10, 2014

IAR Embedded Workbench is a featured IDE for Freescale Kinetis microcontrollers

April 16, 2014

IAR Systems releases new version of development tools for Renesas RL78 processors

April 25, 2014

IAR Systems adds stack usage analysis for Renesas RX processors

May 19, 2014

IAR Systems delivers C-RUN for ARM processors

June 17, 2014

IAR Systems enhances Renesas' ARM R-IN32M3 development platform

June 24, 2014

IAR Systems provides support for Texas Instruments' new EnergyTrace technology

## Q3 2014

24 September 2014

IAR Systems releases new version of leading development tool for ARM

# Financial information

## JANUARY – DECEMBER 2014

### SALES AND PROFIT

Net sales for the full year rose by 11% compared to the previous year and amounted to SEK 255.7m (230.2), of which SEK 66.1m (61.5) for the fourth quarter. In a year-on-year comparison, foreign exchange effects had a positive impact on sales for the year of SEK 9.8m, of which SEK 4.8m for the fourth quarter.

EBITDA for the year was SEK 63.6m (50.6), which is equal to an EBITDA margin of 24.9% (22.0).

Operating profit for the year improved by 29% and reached SEK 53.2m (41.3), of which SEK 13.5m (10.1) for the fourth quarter. Operating profit for the prior year was positively affected by an amount of SEK 4.0m from an insurance claim in the third quarter. In a year-on-year comparison, foreign exchange effects had a positive impact on operating profit for the year of SEK 6.3m, of which SEK 2.6m for the fourth quarter.

The total income tax expense was SEK 11.4m, which is equal to a tax rate of just over 21%. The lower tax rate in 2014 is explained by a large refund to the company of previous years' tax expense in the USA.

### INVESTMENTS AND FINANCING

Investments in property, plant and equipment for the year are reported at SEK 4.2m (2.0), of which SEK 1.9m (0.2) for the fourth quarter.

Investments in intangible assets for the period totaled SEK 27.9m (19.2), of which SEK 4.3m (5.9) for the fourth quarter. Investments in intangibles consist mainly of own staff expenses for the development of debug probes and add-on products. These investments are equal to around 20% of the company's total development costs, which amount to SEK 85m. During the year, the investments also include acquired IP rights amounting to SEK 8.8m.

The investments are in line with the company's plans. The equity/assets ratio at year-end 2014 was 77% (80).

### CASH FLOW, CASH AND CASH EQUIVALENTS

Cash flow from operating activities for the year was SEK 70.3m (40.7), of which SEK 16.0m (10.0) for the fourth 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.

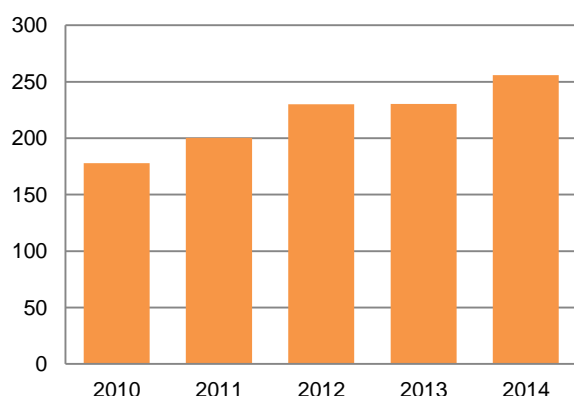
Cash flow from investing activities for the year totaled SEK -31.7m (-19.1), of which SEK -5.5m (-4.4) for the fourth quarter. The year's investments include acquired IP rights amounting to SEK 8.8m.

Cash flow from financing activities for the year was SEK -53.2m (11.8), of which SEK -0.0m (21.3) for the fourth quarter. During the year, 287,500 subscription warrants were exercised to subscribe for new class B shares. The issue of these new shares has provided the company with proceeds of SEK 9.8m.

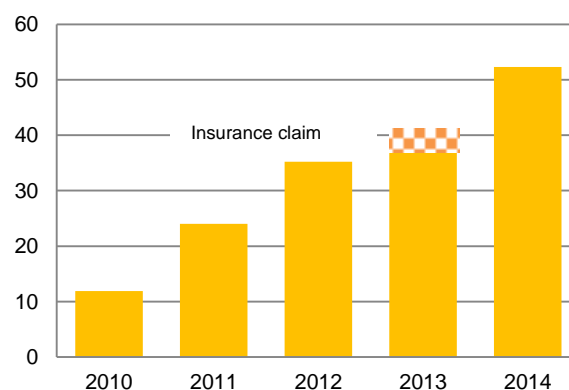
Instead of dividends, the company has carried out a mandatory redemption program in which SEK 62.7m was transferred to the shareholders through a 2-for-1 share split combined with a redemption procedure.

On December 31, 2014, the Group had net cash of SEK 68.4m (80.1). Cash and cash equivalents on the same date amounted to SEK 70.7m (82.5), of which 0.0m (0.7) 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 95.7m (106.8).

Net sales (SEK M)



Operating profit (SEK M)



## EMPLOYEES

The number of employees in IAR Systems at the end of the year was 169 (168). The average number of employees during the year was 159 (160).

## PARENT COMPANY

The activities of the Parent Company consist of group management, finance and IR/PR functions. The Parent Company's net sales for the period are reported at SEK 12.5m (12.5). Profit after financial items was SEK 39.3m (19.2). Net investments in property, plant and equipment totaled SEK 0.0m (0.3). On December 31, 2014, the Parent Company had cash and cash equivalents of SEK 4.4m (45.4), of which 0.0m (0.7) consisted of blocked funds for the acquisition of Signum. The Parent Company's total available cash and cash equivalents thus amounted to SEK 4.4m (44.7). The number of employees in the Parent Company at the end of the year 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 below, 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. The impairment test that was carried out at year-end 2014 showed no indication of impairment. Goodwill at December 31, 2014, amounted to SEK 112.4m, which represents an increase of SEK 1.7m during the year as an effect of translation differences.

## 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 December 31, 2014, the Group had cumulative loss carryforwards of around SEK 214m, all of which are attributable to Sweden. In the balance sheet, these losses are recognized at SEK 51.4m (59.2), of which SEK 47.2m (56.2) refers to loss carryforwards.

## 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 year the share price varied from a low of SEK 39.77 (35.60) to a high of SEK 80.75 (46.80). The share price at December 31, 2014, was SEK 74.75 (43.00). IAR Systems Group's market capitalization on the same date was SEK 944m (531).

The number of shareholders in IAR Systems Group at December 31, 2014, was 8,030 (7,875). Of these, 479 (420) held more than 1,000 shares each. Foreign shareholders held approximately 20% (20) of the share capital and 19% (18) of the votes.

During the year, the warrant series TO4B 2011/2014 has been exercised to subscribe for 287,500 new class B shares. The issue of new shares has provided the company with proceeds of SEK 9.8m. The warrant program expired on June 18, 2014.

IAR Systems Group's share capital at December 31, 2014, amounted to SEK 126,320,614, divided between 12,632,061 shares of which 100,000 are of class A and 12,532,061 are of class B.

## SHARE PRICE PERFORMANCE JANUARY – DECEMBER 2014





## **2015 ANNUAL GENERAL MEETING**

The Annual General Meeting of IAR Systems Group will be held on April 29, 2015, at Lundqvist och Lindqvist, Klarabergsviadukten 90, in Stockholm.

IAR Systems Group's annual report will be available starting at the end of March 2015 on the company's website [www.iar.com](http://www.iar.com) and at the company's offices at Kungsgatan 33 in Stockholm and Strandbodgatan 1 in Uppsala.

In accordance with the decision of the AGM in April 2014, the nominating committee has been appointed and consists of Ulf Strömsten (Catella), Peter Larsson and Tedde Jeansson. Ulf Strömsten was elected chairman of the nominating committee.

In his role as major shareholder and CEO, Stefan Skarin has been co-opted to take part in meetings of the nominating committee.

## **PROPOSED DIVIDEND**

The Board intends to propose a total dividend of SEK 5.00 for approval by the AGM on April 29, 2015. The dividend ordinary is proposed at SEK 4.00 and an extraordinary dividend at SEK 1.00. The proposal is equal to a total distribution of SEK 63.2m.

## **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, Thursday, February 12, 2015

Stefan Skarin  
CEO of IAR Systems Group AB

## **FINANCIAL CALENDAR 2015**

Interim report Jan – Mar 2015, April 29, 2015

Annual General Meeting 2015, April 29, 2015

Interim report Jan – June 2015, August 20, 2015

Interim report Jan – Sept 2015, October 22, 2015

## **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

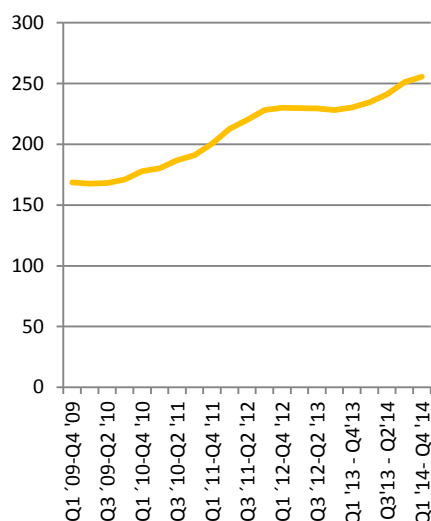
## SUMMARY CONSOLIDATED INCOME STATEMENTS

SEK M	Full year		3 mths Oct-Dec	
	2014	2013	2014	2013
Net sales	255.7	230.2	66.1	61.5
Other operating income	-	6.0	-	-
Goods for resale	-12.9	-14.5	-3.0	-3.5
Other external expenses	-42.1	-41.3	-11.6	-10.3
Personnel costs	-137.1	-129.8	-35.2	-35.1
Depreciation of property, plant and equipment	-2.3	-2.2	-0.6	-0.6
Amortization of intangible assets	-8.1	-7.1	-2.2	-1.9
Operating profit	53.2	41.3	13.5	10.1
Financial income	0.6	0.3	0.1	0.2
Financial expenses	-0.2	-0.2	-0.1	-0.0
Profit before tax	53.6	41.4	13.5	10.3
Income tax	-11.4	-11.5	-2.9	-3.4
<b>Profit for the period</b>	<b>42.2</b>	<b>29.9</b>	<b>10.6</b>	<b>6.9</b>
Earnings per share for the period, basic, SEK	3.37	2.59	0.84	0.58
Earnings per share for the period, diluted, SEK	3.34	2.37	0.84	0.55

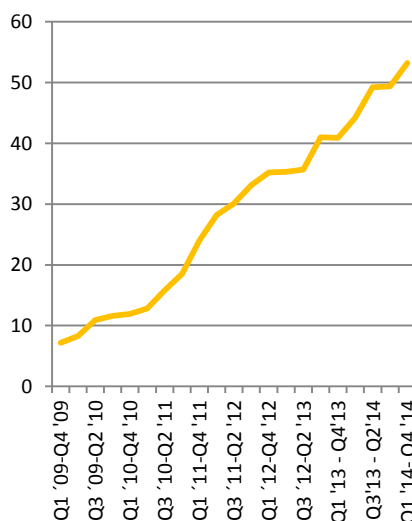
## STATEMENTS OF COMPREHENSIVE INCOME

SEK M	Full year		3 mths Oct-Dec	
	2014	2013	2014	2013
Profit for the period	42.2	29.9	10.6	6.9
<b>Other comprehensive income for the period</b>				
Items that will be reclassified subsequently to profit or loss:				
Foreign exchange gains/losses	4.6	-0.5	2.3	-0.2
Total other comprehensive income	4.6	-0.5	2.3	-0.2
<b>Comprehensive income for the period</b>	<b>46.8</b>	<b>29.4</b>	<b>12.9</b>	<b>6.7</b>
Comprehensive income for the period attributable to owners of the Parent Company	46.8	29.4	12.9	6.7

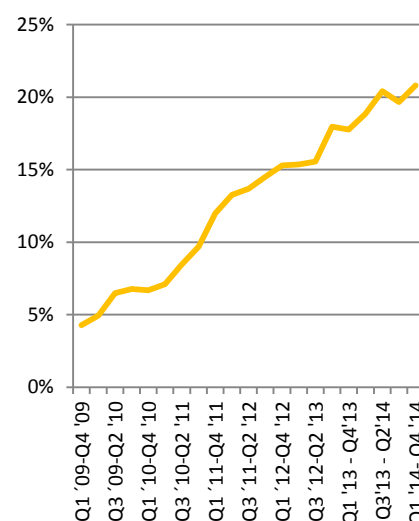
**Net sales**  
rolling 12 months



**Operating profit**  
rolling 12 months



**Operating margin**  
rolling 12 months



# Balance sheets

## SUMMARY CONSOLIDATED BALANCE SHEETS SEK M

	Dec 31, 2014	Dec 31, 2013
<b>ASSETS</b>		
Non-current assets		
Goodwill	112.4	110.7
Other intangible assets	73.5	53.7
Property, plant and equipment	8.0	6.1
Financial assets	6.0	5.3
Deferred tax asset	51.4	59.2
<b>Total non-current assets</b>	<b>251.3</b>	<b>235.0</b>
Current assets		
Inventories	3.7	3.3
Other current assets	10.6	14.6
Trade receivables	39.1	34.1
Blocked funds	-	0.7
Cash and cash equivalents	70.7	81.8
<b>Total current assets</b>	<b>124.1</b>	<b>134.5</b>
<b>TOTAL ASSETS</b>	<b>375.4</b>	<b>369.5</b>
<b>EQUITY AND LIABILITIES</b>		
Total equity	288.6	295.0
Non-current liabilities		
Interest-bearing liabilities	1.5	1.1
Deferred tax liabilities	14.6	13.3
<b>Total non-current liabilities</b>	<b>16.1</b>	<b>14.4</b>
Non-current liabilities		
Interest-bearing liabilities	5.2	5.7
Deferred tax liabilities	0.8	1.3
<b>Total non-current liabilities</b>	<b>64.7</b>	<b>53.1</b>
<b>Non-current liabilities</b>	<b>70.7</b>	<b>60.1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>375.4</b>	<b>369.5</b>
Pledged assets	4.1	4.9
Contingent liabilities	-	-

# Changes in equity

GROUP SEK M	Full year		3 mths Oct-Dec	
	2014	2013	2014	2013
Equity at beginning of period	295.0	253.8	275.7	267.0
Dividends	-	-22.8	-	-
Redemption procedure	-63.0	-	-	-
New share issue	9.8	22.3	-	21.3
Sale of shares	-	12.3	-	-
Comprehensive income for the period	46.8	29.4	12.9	6.7
Equity at end of period	288.6	295.0	288.6	295.0
of which, attributable to owners of the Parent Company	288.6	295.0	288.6	295.0

# Cash flows

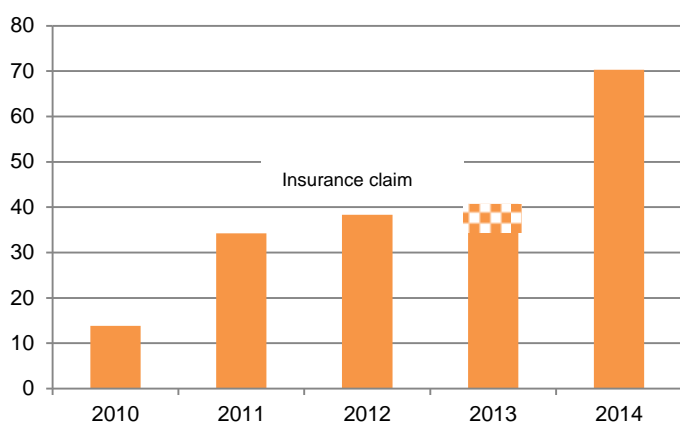
## SUMMARY CONSOLIDATED CASH FLOW STATEMENTS

SEK M	Full year		3 mths Oct-Dec	
	2014	2013	2014	2013
Incoming payments from customers	250.4	234.6	61.8	61.5
Outgoing payments to suppliers and employees	-179.1	-187.4	-45.6	-51.1
Interest received	0.4	0.3	0.0	0.2
Interest paid	-0.1	-0.2	-0.0	-0.1
Income tax paid	-1.3	-6.6	-0.2	-0.5
Cash flow from operating activities	70.3	40.7	16.0	10.0
Investments in property, plant and equipment	-4.4	-1.9	-1.9	-0.5
Investments in intangible assets	-27.9	-19.2	-4.3	-5.9
Other investments	0.6	2.0	0.7	2.0
Cash flow from investing activities	-31.7	-19.1	-5.5	-4.4
New share issue	9.8	22.3	-	21.3
Sale of shares	-	12.3	-	-
New borrowings	0.0	-	0.0	-
Amortization of financial liabilities	-0.0	-0.0	-0.0	-0.0
Redemption procedure	-63.0	-	-	-
Dividends to owners of the Parent Company	-	-22.8	-	-
Cash flow from financing activities	-53.2	11.8	0.0	21.3
Cash flow for the period	-14.6	33.4	10.5	26.9
Cash and cash equivalents at beginning of period	81.8	49.0	58.8	54.8
Exchange difference in cash and cash equivalents				
- attributable to cash and cash equivalents at beginning of period	2.4	-0.5	0.9	0.2
- attributable to cash flow for the period	1.1	-0.1	0.5	-0.1
Cash and cash equivalents at end of period	70.7	81.8	70.7	81.8

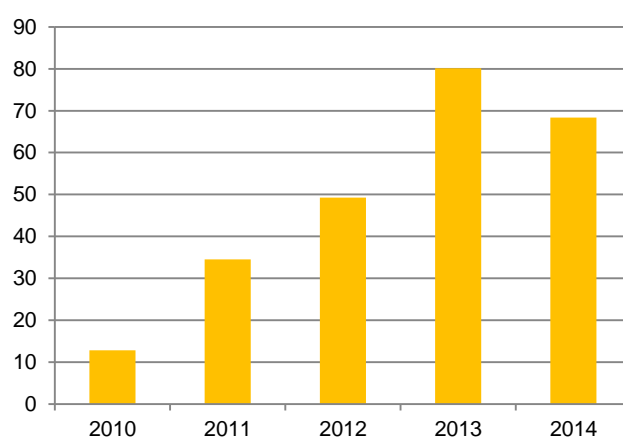
## CASH AND CASH EQUIVALENTS, GROUP

SEK M	Dec 31, 2014	131231
Cash and cash equivalents at end of period	70.7	81.8
Unutilized overdraft facilities	25.0	25.0
Total available cash and cash equivalents	95.7	106.8

Cash flow from operating activities, SEK M



Net cash, SEK M



# Key ratios

GROUP	Full year		3 mths Oct-Dec	
	2014	2013	2014	2013
Gross margin, %	95.0	93.7	95.5	94.3
EBITDA, %	24.9	22.0	24.7	20.5
Operating margin, %	20.8	17.9	20.4	16.4
Profit margin, %	21.0	18.0	20.4	16.7
Cash flow, %	27.5	17.7	24.2	16.3
Equity/assets ratio, %	76.9	79.8		
Return on equity, %	14.5	10.9	3.8	2.5
Return on capital employed, %	18.3	15.0	4.7	3.6
Capital employed, SEK M	290.9	297.4		
Net cash, SEK M	68.4	80.1		
Net debt/equity ratio, times	-0.24	-0.27		
Number of employees at end of period	169	168		
Average number of employees	159	160	158	163
Net sales per employee, SEK M	1.6	1.4	0.4	0.4

SHARE DATA	Full year		3 mths Oct-Dec	
	2014	2013	2014	2013
Equity per share, SEK	22.85	23.90		
Number of shares at end of period, millions	12.63	12.34		
Average number of shares, millions	12.54	11.53	12.63	11.91
Average number of shares after dilution, millions	12.63	12.63	12.63	12.63
Cash flow from operating activities per share, SEK	5.61	3.53	1.27	0.84
Earnings per share, basic, after current tax, SEK	4.15	3.20	1.04	0.76
Earnings per share, basic, SEK	3.37	2.59	0.84	0.58
Earnings per share, diluted, SEK	3.35	2.58	0.84	0.57

## 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	Q4	66.1	13.5	20.4	3.8	22.85	1.27
	Q3	64.9	15.6	24.0	5.0	21.83	1.89
	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

## Summary income statements

SEK M	Full year	
	2014	2013
Net sales	12.5	12.5
Other operating income	-	6.0
Operating expenses	-15.4	-14.8
Depreciation of property, plant and equipment	-0.1	-0.1
Operating profit/loss	-3.0	3.6
Result from financial investments	42.3	15.6
Profit/loss before tax	39.3	19.2
Income tax	-8.7	-3.1
Profit/loss for the period	30.6	16.1

## Statements of comprehensive income

PARENT COMPANY SEK M	Full year	
	2014	2013
Profit for the period	30.6	16.1
Total other comprehensive income	-	-
Comprehensive income for the period	30.6	16.1

## Summary balance sheets

SEK M	2014-12-31	2013-12-31
<b>ASSETS</b>		
Non-current assets		
Property, plant and equipment	0.3	0.4
Shares in subsidiaries	189.4	189.4
Other financial assets	4.6	4.0
Deferred tax asset	46.2	54.9
Total non-current assets	240.5	248.7
Current assets		
Receivables from subsidiaries	35.3	10.0
Other current assets	0.6	1.7
Blocked funds	-	0.7
Cash and cash equivalents	4.4	44.7
Total current assets	40.3	57.1
<b>TOTAL ASSETS</b>	<b>280.8</b>	<b>305.8</b>
<b>EQUITY AND LIABILITIES</b>		
Total equity	276.8	299.4
Current liabilities		
Trade payables	0.3	0.6
Other current liabilities	3.7	5.8
Total current liabilities	4.0	6.4
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>280.8</b>	<b>305.8</b>

# 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.

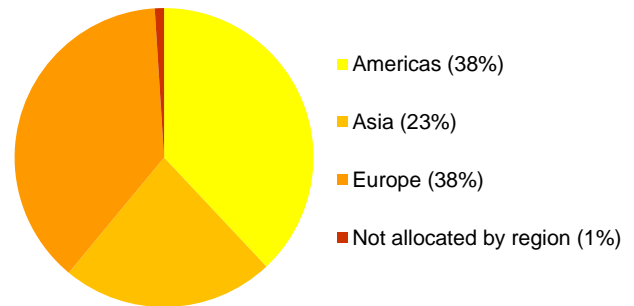
Our market position is strongest in the most advanced systems for 32-bit architecture (often ARM-based), which now account for 62% of net sales.

## 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' toolchain.

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 2014, IAR Systems has been active for over 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 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 micro-processors.

## 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.

## 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.

## 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.

## 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.



# Definitions

<b>Current tax</b>	The tax payable or refundable for the current year as well as adjustments to current tax of prior periods.
<b>Gross margin</b>	Operating profit before amortization/depreciation as a percentage of net sales.
<b>Equity</b>	Reported equity including 73.7% of untaxed reserves.
<b>Equity per share</b>	Equity divided by the number of shares at the end of the period.
<b>Cash flow</b>	Cash flow from operating activities as a percentage of net sales.
<b>Net cash</b>	Interest-bearing assets less interest-bearing liabilities.
<b>Net debt/equity ratio</b>	Net interest-bearing liabilities divided by equity.
<b>Earnings per share, basic</b>	Profit for the period after tax divided by the average number of shares during the period.
<b>Earnings per share, diluted</b>	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.
<b>Return on equity</b>	Profit after financial items less full tax as a percentage of average equity.
<b>Return on capital employed</b>	Profit after financial items plus financial expenses as a percentage of average capital employed.
<b>Operating margin</b>	Operating profit as a percentage of net sales.
<b>Equity/assets ratio</b>	Equity as a percentage of total assets.
<b>Capital employed</b>	Total assets less non-interest-bearing liabilities.
<b>Profit margin</b>	Profit after financial items as a percentage of net sales.

# Industry-specific glossary

<b>Application</b>	Another word for a program developed by the user of IAR Systems' tools, to be run on a processor in an embedded system.
<b>Architecture</b>	A microprocessor architecture is a specific combination of integrated circuit design and instructions that control how the processor works.
<b>ARM</b>	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.
<b>ARM Cortex</b>	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.
<b>Chip vendor</b>	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.
<b>Debug probe</b>	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.
<b>Debugger</b>	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.
<b>Digitalization trend</b>	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.
<b>Emulator</b>	Another name for debug probe.
<b>IAR Embedded Workbench</b>	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.
<b>Embedded system</b>	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.
<b>Integrated circuit (IC)</b>	A small, typically rectangular silicon substrate onto which micrometer-sized transistors are mounted, sometimes in numbers of more than one million.
<b>Compiler</b>	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.
<b>Microprocessor</b>	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.
<b>Power debugging</b>	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.
<b>Processor</b>	When the word is used in connection with IAR Systems' products, processor is an abbreviation of <i>microprocessor</i> .
<b>RTOS</b>	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.
<b>Standardization</b>	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.
<b>SUA</b>	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.
<b>Development kit</b>	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.
<b>Development tools</b>	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.

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