



IAR SYSTEMS

ANNUAL REPORT 2014

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Annual General Meeting

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The Annual General Meeting of IAR Systems Group AB (publ), corporate identity number 556400-7200, will be held at 6:00 p.m. on Wednesday, April 29, 2015, at Lundqvist och Lindqvist, Klarabergsviadukten 90, in Stockholm.

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

Notification

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

- > be recorded in the register of shareholders maintained by Euro-clear Sweden AB not later than Thursday, April 23, 2015.
- > provide notification of their intention to participate in the AGM not later than Thursday, April 23, 2015, in writing to IAR Systems Group AB (publ), Kungsgatan 33, SE-111 56 Stockholm, Sweden, or via the company's website www.iar.com/Investors

The notification should include:

- > name, address, telephone number, personal or corporate 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 23, 2015. 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 2015

Interim report Jan-Mar 2015
2015 Annual General Meeting
Interim report Jan-June 2015
Interim report Jan-Sept 2015

April 29, 2015
April 29, 2015
August 20, 2015
October 22, 2015

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 Stockholm, Small Cap.

NET SALES

SEK 255.7m

OPERATING PROFIT

SEK 53.2m

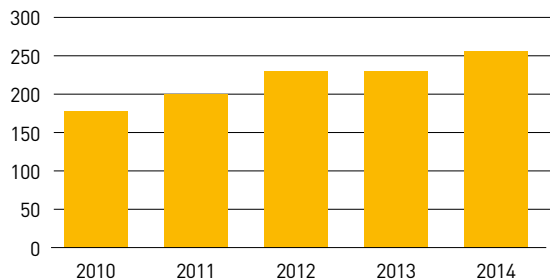
NET CASH

SEK 68.4m

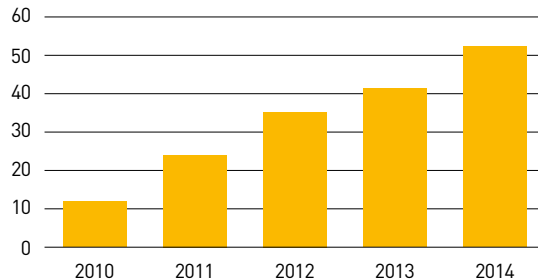
PROPOSED DIVIDEND (PER SHARE)

SEK 5.00

Net sales
SEK M



Operating profit
SEK M



Key ratios

	2014	2013
Net sales, SEK M	255.7	230.2
Operating profit, SEK M	53.2	41.3
Gross margin, %	95.0	93.7
EBITDA margin, %	24.9	22.0
Operating margin, %	20.8	17.9
Gross profit, %	21.0	18.0
Cash flow, %	27.5	17.7
Equity/assets ratio, %	76.9	79.8
Return on equity, %	14.5	10.9
Return on capital employed, %	19.4	15.0
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
No. of employees at end of year	169	168
Average no. of employees	159	160

Sales by market, SEK M

	2014	2013	Change
Americas	96.7	86.5	12%
Asia	59.7	51.2	17%
Europe	97.2	85.0	14%
Non-regionalized	2.1	7.5	-72%
TOTAL	255.7	230.2	11%

Change by market	Proprietary products	Third-party products	Currency	Total
Americas	9%	-3%	6%	12%
Asia	16%	0%	1%	17%
Europe	8%	-0%	6%	14%
Non-regionalized	-72%	0%	0%	-72%
TOTAL	8%	-1%	4%	11%

Highlights of 2014

2014

KEY EVENTS FOR THE FULL YEAR

- ⦿ Participation in 10 trade shows
- ⦿ 23 courses completed by IAR Academy
- ⦿ Sales record for number of licenses sold – proprietary products up by 8%
- ⦿ Operating profit of SEK 53.2m – an improvement by 23%
- ⦿ The Board proposes a dividend of SEK 5.00 per share

Q1

JANUARY – MARCH 2014

- ⦿ Operating profit increased by 40%
- ⦿ Operating margin strengthened from 14% to 18%
- ⦿ Launch of the add-on product C-RUN for runtime analysis of developed code
- ⦿ The issue of 190,000 class B shares through the exercise of subscription warrants provided the company with proceeds of SEK 6.5m

Q2

APRIL – JUNE 2014

- ⦿ Growth of 12% and operating profit improved by 65%
- ⦿ Operating margin reached 20%
- ⦿ The new issue of 287,500 class B shares (of which 55,500 under registration) through the exercise of subscription warrants provided the company with proceeds of SEK 9.8m
- ⦿ Instead of a dividend, SEK 62.7m was transferred to the shareholders through a redemption procedure
- ⦿ All offices achieved sales records in local currency
- ⦿ Delivery of the product C-RUN to customers who work with ARM processors

Q3

JULY – SEPTEMBER 2014

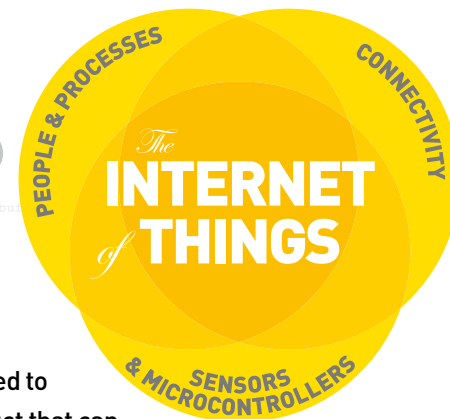
- ⦿ Best operating profit of all time, reaching SEK 15.6m
- ⦿ Operating margin was 24%
- ⦿ Cash flow from operating activities amounted to SEK 23.9m
- ⦿ All offices achieved sales records in local currency
- ⦿ Sales in Europe grew for the 23rd consecutive quarter

Q4

OCTOBER – DECEMBER 2014

- ⦿ Operating margin of 20,4% (16.4)
- ⦿ Increased demand for support and upgrade agreements
- ⦿ IAR Systems reports the world's top code efficiency and is first in the world above 5.0 CoreMark/MHz for ARM's new Cortex-M7 core
- ⦿ Launch of new debug probe with trace functionality: I-jet Trace

The Internet of Things

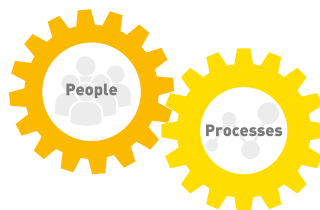


The Internet of Things (IoT) is a concept encompassing the vast array of physical objects (things) that are connected to the Internet. These objects contain integrated technology that allows them to communicate with each other and with the Internet. The Internet of Things has enormous potential, especially considering that the flow of data from things is expected to continue growing exponentially. This is creating exciting opportunities, since virtually all industries have a device or product that can be further utilized through the Internet of Things, for example to increase profit or reduce costs for the company. Interaction between sensors through the Internet of Things and, for example, processors is creating both new types of services and smart applications.

THE MARKET FOR EMBEDDED SYSTEMS IN THE INTERNET OF THINGS

- The market consists of around 450,000 developers who develop embedded systems
- Close to one million of IAR Systems' customers' products include functionality for the Internet of Things
- Potential for sales of add-on products for integrated IoT solutions

WITH THE INTERNET OF THINGS, IT IS POSSIBLE TO INTEGRATE DATA, PEOPLE, PROCESSES AND SYSTEMS IN NEW NETWORKS AND SOLUTIONS THAT ENABLE AN INTERPLAY FOR BETTER DECISION MAKING

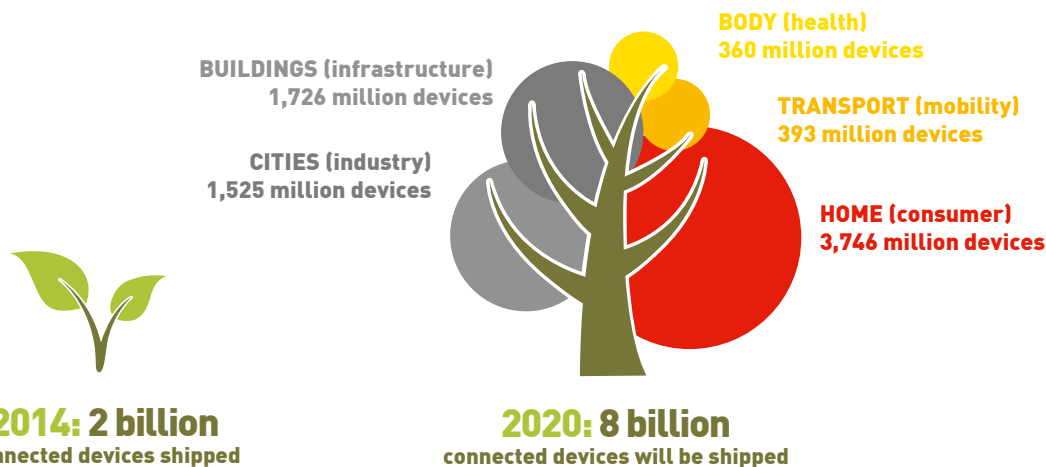


- Customer relations and support
- Analysis and Cloud/API
- Upgrading & configuration
- Remote monitoring and maintenance
- Financing
- Localization and tracking
- Control and automation
- Security / Energy
- Mobile units and applications

OTHER MARKETS FOR THE INTERNET OF THINGS

- The market is made up of around 9,000,000 developers
- Customers and suppliers are investing in the market for the Internet of Things
- The technology and investments are business-driven

HOW BIG IS THE MARKET FOR THE INTERNET OF THINGS?



WHY THE INTERNET OF THINGS NOW?

- The price of processors is continuing to fall
- IP addresses have been given limitless efficiency through IPV6
- Major investments are being made by Cisco, Google, Oracle, ARM, etc.
- Communities are investing in Smart Cities to promote more sustainable development

Comments from the CEO

In recent years IAR Systems has successfully changed its business model. In 2014 we showed that we can develop successful add-on products, maintain good growth and, not least, deliver high and increasing profitability.

In the past year we launched C-RUN, our first in-house developed add-on product. The analysis performed by C-RUN enables developers to identify weaknesses at an early stage of the development process, which can provide significant savings in both time and money. The overall idea for C-RUN, as well as for future add-on products, is to make it even easier for our customers to standardize the product development on IAR Systems' products. By offering a wider and more complete toolbox for development of smart products, we will further strengthen our unique strategic position.

Our plan is to develop new add-on products and continue to launch an add-on product of an importance equal to C-RUN every year. Several trends, particularly the evolution of the Internet of Things, indicate that we are entering a period when there are convincing strategic reasons to invest as a means for strengthening the company and accelerating future growth. Together, our increased

focus on launching strategic products and other growth initiatives form a plan for future growth for IAR Systems.

This business plan describes investments and growth initiatives such as a strong market presence, new add-on products and a sharper focus on new technology and R&D. I am convinced that these investments will result in a company that is both bigger and even more profitable than IAR Systems today. The growth plan is also expected to go hand in hand with sustained high profitability and a strong cash flow from operating activities. This is indicated by the Board's proposal to continue to distribute SEK 5 per share to the shareholders.

In the short term the market will always change, but I expect IAR Systems to continue growing in 2015 with retained high profitability. In a longer perspective the growth outlook remains stable with regard to both the market and our timetable. I am basing this on the following three points:

- ① With the new business model in place and a highly efficient organization, we are now ready to take the next step.
- ① The market is entering a growth period, largely driven by the Internet of Things and related areas, and in this scenario it is vital that we are correctly positioned.
- ① There is immense value in our market position. By devoting more resources to investments in new technology, skills development, recruitment, and an increased market presence in the years ahead, we see potential to further enhance IAR Systems' unique position.

We can anticipate very exciting development in the market and by seizing these opportunities, we will generate higher growth for our shareholders. I am eager to set out into 2015 together with you as a shareholder, partner or customer. Being at the forefront of IAR Systems is the best job in the world, and I look forward to having you along on the journey!

GROWTH IN 2014	Growth for proprietary products	Growth for third-party products	Foreign exchange effect	Total growth	MSEK
Americas	9%	-3%	6%	12%	SEK 96.7m
Asia	16%	0%	1%	17%	SEK 59.7m
Europe	8%	-0%	6%	14%	SEK 97.2m
Non-regionalized	-72%	0%	0%	-72%	SEK 2.1m
Total	8%	-1%	4%	11%	SEK 255.7m

Stockholm, March 17, 2015

Stefan Skarin
CEO, IAR Systems Group AB



Investment case

IAR Systems is the world's leading independent provider of software for programming of processors in embedded systems.

A PROFITABLE GROWTH COMPANY

IAR Systems holds a unique market position with its leading technology, and since the start 30 years ago the company has continuously developed its software, IAR Embedded Workbench, to meet customer demand. Today IAR Embedded Workbench supports some 10,000 processors and IAR Systems has around 46,000 customers worldwide. IAR Systems is headquartered in Uppsala, Sweden, but due to the

company's international reach, more than 95% of sales are attributable to markets outside the Nordic region. Most product development takes place in Uppsala, but to a certain extent also in the USA. In addition, there are sales offices in Sweden, Brazil, France, Japan, China, Korea, the UK, Germany and the USA. Through distributors, IAR Systems is represented in an additional 30 countries around the world.

WORLD-LEADING PLAYER IN STRONG PARTNER NETWORK

IAR Systems plays a key role in well-established networks and cooperates with the leading players in the market. This ecosystem of partners both complements and broadens the company's offering. Thanks to strategic partnerships and longstanding knowledge sharing with leading processor manufacturers such as Renesas, ARM,

IAR Embedded Workbench currently supports around **10,000 processors, which is the broadest support in the market.**



As a result of this broad support, many of the world's largest corporations and thousands of small and mid-sized companies have chosen to standardize their development on IAR Systems' software.

Freescale and Texas Instruments, IAR Systems has the market's most comprehensive processor support by a wide margin.

The company has a license-based revenue model in which IAR Systems sells a license to a user, typically an individual developer, who is then authorized to use IAR Embedded Workbench. The model is flexible and can be adapted depending on the number of users that need to be equipped with IAR Embedded Workbench. This model creates closer relationships with the customers at the same time that it generates a more consistent revenue stream.

UNIQUE OFFERING AND COMPETITIVE ADVANTAGES

In a digitalized world, the software that IAR Embedded Workbench represents is a key enabler for the development of smart products.

Today smart products are found across all industries – from the automotive, manufacturing, home electronics to medical, healthcare and defense. All of these products contain one or more

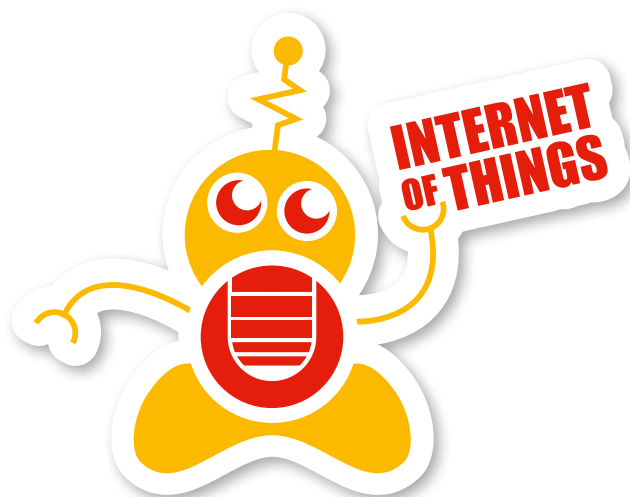
processors and IAR Embedded Workbench helps the developer to program the processors so that they fulfill their function in the embedded system.

IAR Embedded Workbench supports around 10,000 processors for embedded systems, which is a major reason why IAR Systems holds such a unique position in the market. This broad support creates far-reaching flexibility and benefits for the customers, since they don't need to take the choice of software into consideration in their processor buying decision. The customers can also maintain their development environment even when they intend to change processors. In addition, the developer can reuse 70-80% of the previously developed code when changing to a new processor. This generates valuable savings in both time and money.

IAR Systems offers a well-equipped toolbox that contains most of what a developer needs to program an embedded system. The products are under continuous development and IAR Systems has identified several opportunities to complement the toolbox in the coming years. Aside from driving lucrative additional sales, a wider product

portfolio enables IAR Systems to further strengthen its competitiveness. With the IAR Embedded Workbench, customers can develop products that are faster and less expensive. The software has also been highly successful due to the high quality of its generated code and its ability to reduce code size without sacrificing functionality or performance.

IAR Systems has over 46,000 customers and a return customer rate of 95%. The main explanation for the high percentage of returning customers, aside from the broad support and comprehensive offering, is that IAR Systems delivers high quality and user-friendliness in its products.



In 2014 we welcomed I.2, our own symbol for IoT that was seen at industry trade shows around the world during the year.

NEW GROWTH OPPORTUNITIES

The market is now facing continued growth driven by the Internet of Things. In 2014 it was estimated the two billion products (valued at USD 180 billion) connected to the Internet of Things will be sold. By 2020 the number of products sold will reach 8 billion, representing a value of over USD 1 trillion. IAR Embedded Workbench enables the Internet of Things by linking together products with technologies so that they can communicate. IAR Systems has already demonstrated the strength of its business model and is thus well positioned to capitalize on this opportunity.

Historically, the number of users of IAR Systems' products, C developers, has been stable. The Internet of Things will generate increased demand for smart products and therefore also the need for C developers. Many of the nine million IoT developers will also need to start working with products containing embedded systems, and will become potential new users of IAR Systems' products. The timing for this is uncertain, but IAR Systems intends to be optimally positioned to take advantage of the growth opportunities generated by the Internet of Things.

MARKET GROWTH WILL ACCELERATE

The driving forces that characterize the market for development tools for embedded systems include:

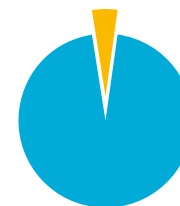
- ◉ Growth in number of smart products and the number of embedded systems per product signifies an increased need for the development tools that IAR Systems offers.
- ◉ Rising demand for user-friendliness in tools for the development of increasingly complex embedded systems. For IAR Systems, this is enhancing the value of IAR Embedded Workbench's renowned user-friendliness among existing and potential customers.
- ◉ Growing demand for a complete toolbox, as developers realize the benefits of obtaining all the functionality needed from a single supplier, who is also independent and offers support and certified quality-assured products.
- ◉ Growth in energy-smart solutions for smart products. This illustrates the importance of IAR Systems remaining innovative in terms of energy-efficient programming of processors.

IAR Systems has a strong position as a stable and global supplier, which provides security for the customers.

IAR SYSTEMS' CURRENT MARKET, APPROX.

450,000

C DEVELOPERS



POTENTIAL MARKET, APPROX.

9,000,000

IOT DEVELOPERS

Business mission, goals & 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 processor 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

The Board has 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.

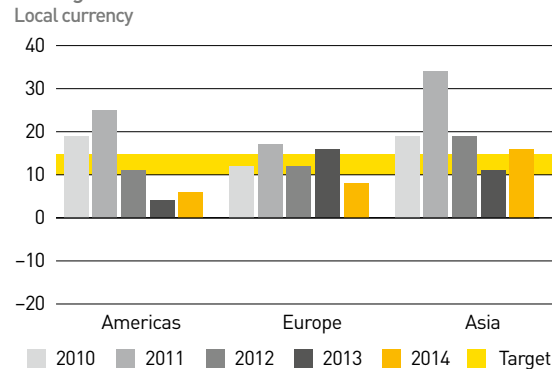
IAR Systems has **one of the industries most extensive and diverse ecosystems** of processor suppliers and partners

STRATEGIC CORNERSTONES

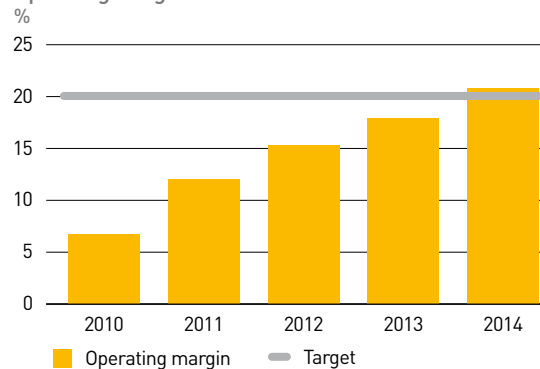
To meet these goals, IAR Systems applies a strategy with five cornerstones:

- > To offer customer value through user-friendliness, reliability and efficiency.
- > To develop technologically 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.

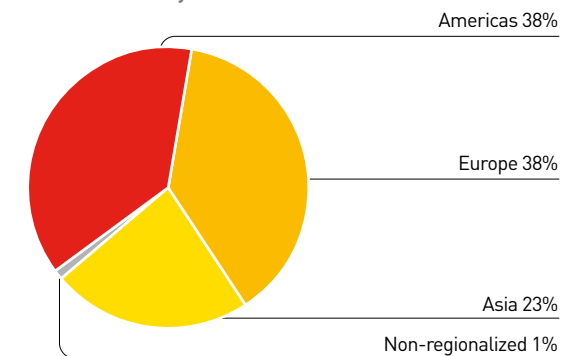
Sales growth



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 without a focus on specific 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 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 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.

OUTCOME 2014

LAUNCH OF C-RUN AS THE FIRST ADD-ON PRODUCT FOR ANALYSIS OF CODE.

135 NEW ENTERPRISE AGREEMENTS WERE SIGNED IN 2014.

DURING THE YEAR IAR ACADEMY ESTABLISHED ITSELF AS A PROMINENT PLAYER IN THE SEGMENT AND THE COMPANY HAS RAISED THE NUMBER OF CUSTOMER-ADAPTED TRAINING COURSES IN RESPONSE TO INCREASED DEMAND.

AMBITION 2015

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

FORM STRATEGIC PARTNERSHIPS FOR AN EXPANDED OFFERING IN THE MARKET FOR THE INTERNET OF THINGS.

CONTINUE TO ESTABLISH MORE SUPPORT SERVICES FOR EXISTING AND NEW CUSTOMERS.

Market and customers

```
FlashWriteFunction void F12FlashWriteEntry() { theFlashParams.count = FlashWrite(theFlashParams.base_ptr, theFlashParams.offset_into_block, theFlashParams.count, theFlashParams.buffer); } // The above-test flash write function
```

IAR Systems' customers are companies that develop digital products. The customers are found across several industries, such as automation and control, medical devices, consumer electronics and the automotive industry. The ongoing spread of digital technology is leading to steady growth in the number of companies, developers and development projects for embedded systems. This is also increasing the need for development tools. IAR Systems has the development tools to meet these needs.

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.
- Healthcare applications like blood pressure meters, pulse meters, blood glucose meters, etc.
- The Internet of Things, products that contain functions for wireless transmission of information, for example in smart homes and GPS running watches.

One distinct trend in the market 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. The advance of the Internet of Things means that more and more of the products that are programmed also require connection to the Internet for communication and control, which IAR Embedded Workbench makes possible.

The increasingly rapid pace of development in the digital market is also placing higher demands on product developers to get their products to market quickly. This is fuelling demand to reuse code from earlier projects to a greater extent, since

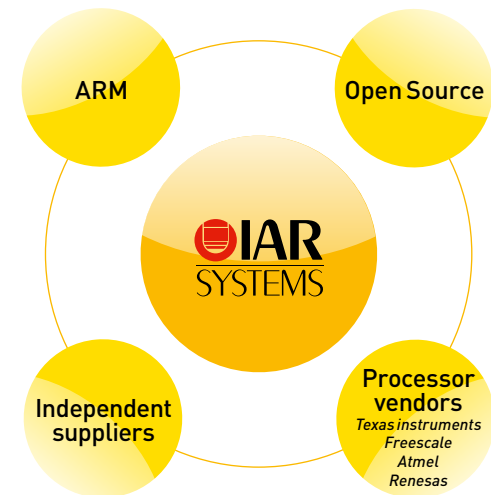
The ambition to shorten development times means that many companies are **dependent on the ability to reuse code.**

this both streamlines the development process and results in shorter lead times. Another 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. Additionally, 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.

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.

PLAYERS IN THE MARKET




UK-based ARM Holding develops standards for processors and has established a strong position in the market. This is contributing to a trend in which manufacturers are increasingly abandoning their own designs to instead use ARM's standards for their new processors. One major advantage of ARM processors is their low power consumption, which makes them particularly suitable for laptop and handheld devices. IAR Systems is the leader for these processors.

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. The ambition to shorten development times means that 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, such as IAR Embedded Workbench and its large toolbox.

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 need to find energy-efficient solutions has generated strong demand for low-energy processors and tools that

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

		1	2	3	4
		Processor vendor	Open Source	ARM	Independent suppliers
INDEPENDENT SUPPLIER	●		◐		●
BROAD SUPPORT FOR ALL KEY ARCHITECTURES	●		◐		●
SUPPORT FOR ALL MAJOR PROCESSOR VENDORS	●		●		●
GOOD SUPPORT & CUSTOMER SERVICE	●	◐		●	◐
USER-FRIENDLY TOOLS	●	◐	◐	●	◐
DOCUMENTATION	●	◐		●	●
IN-HOUSE SOFTWARE DEVELOPMENT	●	◐		●	●
EFFECTIVE & SMALL CODE SIZE	●	◐	◐	●	●
BROAD RTOS & MIDDLEWARE SUPPORT	●	◐		●	
BROAD SOFTWARE SUPPORT	●	◐	●	●	

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.

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.

IAR Systems recently launched its first in-house developed add-on product that makes it possible to analyze code at an early stage of the development process than before.

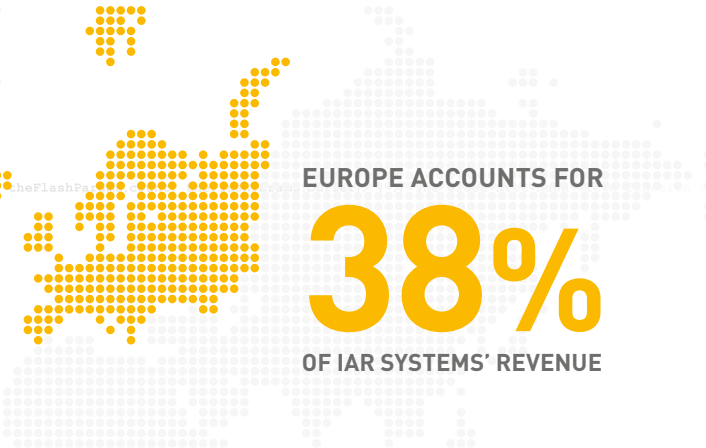
Since embedded systems are being increasingly used in safety-critical products, for many customers

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. In 2013 and 2014, IAR Systems' products for ARM, Renesas RX and Renesas RL78 were certified for functional safety by the German certification agency TÜV SÜD.

The add-on product, C-RUN, meets the customers need for efficient and cost-saving development processes.



IAR Systems Europe



2014 was another fantastic year for IAR Systems in Europe. Sales in the UK and the Nordic region showed the highest growth, but Germany also reported growth in spite of a weak economy.



Andreas Thomas
Sales Manager Germany

Our customers in Europe include

ABB, AGFA Gevaert Health Care, Autoliv Electronics, Bosch, Danfoss Randall, Draeger, Endress+Hauser, Ericsson Mobile Platforms, GE Sensing, Invensys Appliance Controls

Key ratios for IAR Systems Europe	2014	2013
Net sales, SEK M	96.7	85.0
Growth in SEK, %	14	15
Share of IAR Systems' revenue, %	38	37

What was on the agenda for your region in 2014?

In 2014 the main focus was on the new product C-RUN and naturally also on our major customers and our ongoing sales work. Internally, we also had a stronger focus on our sales strategies to increase the clarity of our offering in the German market – that we offer a total solution as suppliers of development tools in the market for embedded systems. During 2014 we have also faced challenges related to the German economy, which has created uncertainty among our customers with regard to future investments.

What trends are you seeing in your region?

Safety-certified products and functional safety are an important trend at the moment. In particular, many customers in the automotive industry are demanding products that are certified. We can meet this need through our safety-certified products for ARM and the Renesas products RX and RL78. We are also seeing demand for products with a

focus on wireless functions, mainly for applications related to the Internet of Things.

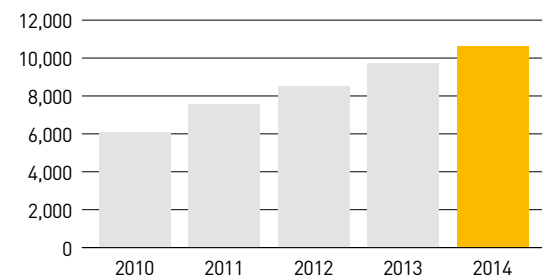
Another trend that we have noted in recent years and that escalated in 2014 is increased demand from customers in the automotive industry. Not only are the vehicles becoming more advanced, but more rigorous requirements for improved safety and longer vehicle life are placing new demands on powerful tools. We have automobile manufacturers as customers, but also a growing influx of customers that are suppliers to automobile manufacturers. This is a trend that appears set to continue and, in certain areas, to increase dramatically.

What are your expectations for 2015?

My expectations for 2015 are that our customers will increase their investments in analysis and debugging tools. I also hope that the already growing global interest in the Internet of Things will spread even further in the German market. A factor that is

more difficult to control on our own is my hope to see improved conditions for an upturn in the German economy so that our customers can increase their investments in our technology.

Net sales Europe
EUR thousand



IAR Systems Asia

In 2014, improved macroeconomic conditions in Asia enabled to region to report continued growth in all quarters. It is above all Japan that is showing growth, but also South Korea and the countries where we have distribution. Taiwan was one of the distribution countries that grew most in the world during 2014.



Kiyofumi Uemura
Sales Manager Asia

What was on the agenda for your region in 2014?

We had a strong focus on reinforcing our relationships with customers and partners during 2014. Since the products our customers develop are increasingly complex, the customers no longer demand a single tool but are looking for a total solution. It is therefore vital for us to further strengthen our customer relationships so that we can even better understand their needs, and in connection with this also find solutions to meet customer needs in collaboration with our partners. These efforts have been successful and we have a good platform to build on in 2015.

What trends are you seeing in your region?

We have seen greater interest in Internet of Things solutions, and more products than ever before are being developed in this area. Developers today are seeking solutions that are adapted for IoT. Many of IAR Systems' existing customers are now working in new areas related to IoT and IAR Systems is well

Our customers in Europe include

Mitsubishi Electric Corporation, Panasonic Communications, Toshiba, Hitachi, OKI, Nintendo, Casio, Epson, Yamaha, Terumo, ICOM, Denso, Brother, Omron, JVC Kenwood

positioned to address the developers' new challenges.

What are your expectations for 2015?

I expect for us to grow in Asia, thanks to two main factors: IoT, which I mentioned earlier, and the automotive industry. I see that customers in the automotive industry are demanding our high quality products and services since these live up to the required standards in areas like safety-critical development. I believe that IAR Systems will enlarge its customer base in this segment over the next few years as a result of this.

We are seeing powerful demand growth in the automotive industry, a market that is not only expanding but also includes more and increasingly advanced products. In 2014 it was interesting to follow the rising interest in low-power solutions in the automotive industry. Low-power solutions may not be entirely necessary today, but are an investment for auto makers so that they can increase their

ASIA ACCOUNTS FOR

23%

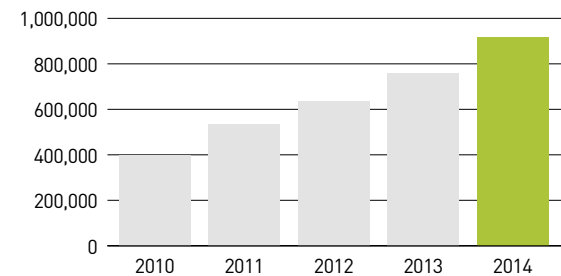
OF IAR SYSTEMS' REVENUE

Key ratios for IAR Systems Asia	2014	2013
Net sales, SEK M	59.7	51.2
Growth in SEK, %	17	-4
Share of IAR Systems' revenue, %	23	22

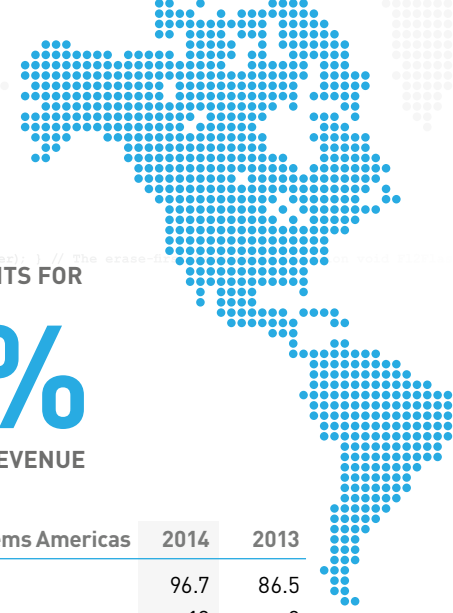
capacity to manufacture hybrid-powered vehicles in the future. To capture these new opportunities, I have been given global responsibility for IAR Systems' efforts targeting the automotive industry. This is a role that I really look forward to taking on during 2015 alongside my role to continue developing IAR Systems in Asia.

Net sales Asia

JPY thousand



IAR Systems Americas



North and South America, including the USA, which is our largest geographical region, underwent an organization change in early 2014. This change quickly had a positive impact on sales and resulted in several quarters that were the region's best ever. We also signed a few major contracts with global customers based in the USA.



Henry Acquafresca
Sales Manager Americas

Our customers in North and South America include Black & Decker, Daimler Chrysler AG, Delphi Automotive Systems, Ember, Hewlett-Packard, Honeywell Inc., Lear Corporation, Lockheed

What was on the agenda in your region in 2014?

The plan for 2014 was to preserve our 38% share of sales revenue for IAR Systems. We had specific growth targets that we needed to meet as a company, and if we kept our share at 38% we would meet the target for the region. We also worked on better integration of our American sales team. In 2013 we hired new sales staff, opened an office in Texas and changed the areas of responsibility for the management. So we were now faced with the task of becoming a single team. In 2014 we standardized our sales processes in both North and South America, as well as in the rest of the world. It is crucial that our international customers are given the same answers to their questions everywhere in the world. These processes are now in place and everyone is following them, which is helping us to achieve our sales target and our 38% share of sales revenue that we were so eager to maintain.

What trends are you seeing in your region?

I see that our existing customers are continuing to demand high quality products from us. Our customers are under extreme pressure to finish their projects on time. They rely on us to provide the very latest products, but also to give them support and help them when they need us.

I am also seeing the more and more customers are realizing the value of our solutions. And by that I mean how use-friendly the software is, our outstanding speed optimizations, the wide range of 8-, 16- and 32-bit processors that we support, and our high quality technical support. There are many who would like to cut their costs by using free or cheap tools, but they are aware that better tools, which are sometimes more expensive, often lead to savings in the long term.

AMERICAS ACCOUNTS FOR

38%

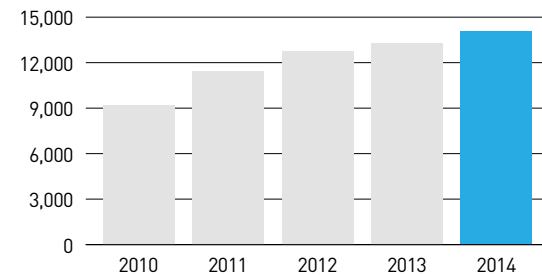
OF IAR SYSTEMS' REVENUE

Key ratios for IAR Systems Americas	2014	2013
Net sales, SEK M	96.7	86.5
Growth in SEK, %	12	0
Share of IAR Systems' revenue, %	38	38

What are your expectations for 2015?

My expectation for 2015 is continued growth in our region. In addition to improving our existing products during 2014 we added several products to the portfolio, including our debug probe I-jet Trace and the analysis tool C-RUN. I expect these products to help us grow our business among the existing customers and to sell the tool to new customers.

Net sales Americas
USD thousand



IAR Systems'

complete 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 FLAGSHIP PRODUCT IS IAR EMBEDDED WORKBENCH

The core of IAR Systems' product portfolio is IAR Embedded Workbench, a software product that consists of a complete set of tools for programming of processors in embedded systems. The software is known among developers around the world for its user-friendliness, high performance and the quality of the generated code.

SUPPORT AND EDUCATION

IAR Systems offers its customers continuous product maintenance, which means direct access to new product versions and updates, as well as technical support. This support is available across all time zones so that the customers can get the most out of the products. With their long industry experience, the support engineers are highly appreciated by the customers, which is naturally one of IAR Systems' major competitive advantages. In addition to an



extensive range of support services, IAR Systems also offers the training program IAR Academy. IAR Academy consists of a number of different courses in programming and is aimed at both new and experienced users of IAR Systems' products.

COMPLEMENTARY PRODUCTS

Integrated analysis functionality in IAR Embedded Workbench, C-RUN, is IAR Systems' latest addition to its product portfolio. C-RUN is an add-on product that analyzes code when it is run in the developer's application and helps the developer to identify any weaknesses in the code at an early stage of the development process.

IAR Systems also offers a range of in-house developed debug probes. The probes are hardware components that can be used in basic to more advanced development for real-time tracing, analysis

and debugging of code. The aim of the probes is to create simpler and more flexible work flows. All probes are fully integrated with IAR Systems' complete development tool IAR Embedded Workbench. In 2014 the company launched a new probe, I-jet Trace, which offers advanced debugging functionality.

IAR Systems also offers IAR visualSTATE a set of development tools for designing applications based on state machines. To help developers quickly get started and test IAR Embedded Workbench, IAR Systems also offers a range of different starter (evaluation) kits.

STRONG PARTNER NETWORK AROUND THE PRODUCTS

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.

Technical milestones

```
void FlashWriteFunction void Fl2FlashWriteEntry() { theFlashParams.count = FlashWrite(theFlashParams.base_ptr, theFlashParams.offset_into_block, theFlashParams.count, theFlashParams.buffer); } // The erase-first flash write function
```

Q1 2014

JANUARY

- IAR Systems updates its development tool for Renesas SuperH-based applications

FEBRUARY

- IAR Systems offers free technical seminars at Embedded World 2014
- IAR Systems launches C-RUN and is thus the first supplier of development tools for embedded systems to introduce a fully integrated tool for runtime analysis of code
- IAR Systems releases new version of the world-leading development tools for ARM
- IAR Embedded Workbench supports STMicroelectronics' new low-power ARM Cortex-M0 +- processor
- IAR Systems joins Renesas' partner program to promote RX-based development

MARCH

- IAR Systems releases new version of development tools for Freescale HCS12

Q2 2014

APRIL

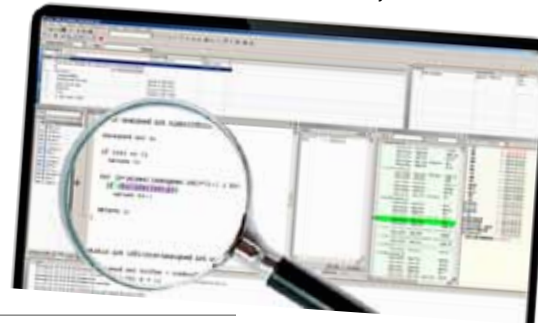
- Freescale selects IAR Embedded Workbench as a recommended tool for development of its new Kinetis processors
- IAR Systems adds analysis functionality to its tools for Renesas RX
- IAR Systems releases new version of development tools for Renesas low-power RL78 processors

MAY

- The analysis tool C-RUN is now available for ARM

JUNE

- IAR Systems enhances Renesas' R-IN32M3 development platform
- IAR Systems' development tools support Texas Instruments' new EnergyTrace technology



Q3 2014

SEPTEMBER

- IAR Systems offers free technical seminars at ARM TechCon 2014
- IAR Systems supports the new ARM Cortex-M7 processor
- IAR Embedded Workbench delivers outstanding performance for the new ARM Cortex-M7 processor
- IAR Systems dominates the tools market for ARM Cortex-M with leading code efficiency



Q4 2014

OCTOBER

- Energy innovator for developing countries, Local Energy Appliances, joins IAR Systems' sponsorship program IAR Green Innovation Program

NOVEMBER

- IAR Systems' tools supports the new NXP dual-core low-power processors
- IAR Systems adds support for all of Atmel's SMART processors
- IAR Systems supports Renesas' new RZ/T1 processors
- IAR Systems expands its product offering with the new debug probe I-jet Trace for advanced debugging
- IAR Systems updates its development tools for STMicroelectronics' STM8 processors

DECEMBER

- IAR Systems releases new version of its popular development tools for Texas Instruments MSP430
- IAR Systems releases the 2015 course schedule for the training program IAR Academy
- IAR Systems updates tools for development of 8051-based applications
- IAR Systems enters into technical collaboration with CAST to boost 8051 development
- IAR Systems reports major interest in the add-on product C-RUN

Meet *Product Director* Mats



IAR Systems has a management team that is made up of the CEO and four other key executives in the company. Mats Ullström, Product Director, is a member of the management team. Mats has overall responsibility for IAR Systems' product portfolio. That includes responsibility for both short-term activities, such as individual product launches, and more long-term strategic plans for our product development, such as acquisitions, all in cooperation with the product managers and IAR Systems' CTO. Mats also heads the product department, which consists of a team product managers who are experts in their respective product areas, and has direct responsibility for activities like product launches. Mats is also responsible for the price structures, price models and price levels for our products. We asked Mats to answer a few questions about his perspectives on IAR Systems' offering, the market in general and the future.

What is it that makes IAR Systems' product offering unique?

> **Mats** I would say that it is a combination of our product breadth, with support for the most popular 8-, 16- and 32-bit processors on the market, and our global presence with offices covering virtually all parts of the world. In addition, we have a very strong mix of user-friendliness, quality, functionality and performance in our products, which has been proven among other things by a large number of world records according to the internationally accepted standard for performance benchmarks, Coremark.

IAR Systems has grown rapidly in recent years, in what areas have you seen the greatest growth?

> **Mats** IAR Systems is growing in all industries and customer segments, but the strongest growth has taken place in tools for ARM Cortex-M-processors. There, we have a dominant market share in a segment that is growing dramatically.

On the performance side, we have set several world records for code speed and code size

Being a market-leader places high demands on differentiating yourself from the competitors, how has IAR Systems succeeded at that?

> **Mats** IAR Systems has always focused intensively on user-friendliness, product quality and performance. We have certified our products according to quality standards such as ISO 26262 and IEC 61508. On the performance side, we have set several world records in code speed and code size for all ARM Cortex-M-based processor cores. In addition to that, IAR Systems has invested in a global presence in the form of a large number of sales and support offices. This enables us to provide first class support in the local language in all major geographical markets.



IAR Embedded Workbench

In the past few years IAR Systems has launched several safety-certified products. What is the reason for this, and how have these products been received?

> **Mats** With the introduction of the relatively new safety standard for the automotive industry a few years ago, ISO 26262, safety certification became an increasingly strong preference from the market. The new standard also clarified the requirements in a way that made it possible to certify a compiler. As a result of this, together with a need for certified tools from a few key customers, we decided to carry out a product certification. In addition to seeing a relatively large number of customers who have purchased the safety-certified version of IAR Embedded Workbench, one side effect of this product certification has been to further strengthen the product suppliers' positive image of us. Safety certification has set a stamp of quality on the entire company, even on the products that are not certified at present.

One major launch in 2014 was C-RUN, the first add-on product to IAR Embedded Workbench. What was the reason for the launch and how has the product been received?

> **Mats** Among our customers we have seen a need for a wider range of products that complement IAR Embedded Workbench in a way that simplifies our customer's work. C-RUN is a perfect example of this type of product complement, since it helps the customer to find any problems in the developed code at an early stage. As everyone knows, the earlier in a process you find your errors, the cheaper it is to correct them. After a somewhat cautious start, we are now seeing robust growth in sales of C-RUN.

The Internet of Things was the big trend in 2014. How well do you feel that IAR Systems' offering is positioned for this?

> **Mats** With our powerful and high quality product portfolio, in combination with our already very strong market position and extensive partner network, we are uniquely positioned to win substantial market shares in the fast-growing IoT area.

What other trends do you see in the future, and how will these trends affect IAR Systems' product offering?









> **Mats** I could talk endlessly on this topic, but I will try to sum up a few key trends.

Aside from IoT, which will obviously have a strong impact on the market going forward, I anticipate rising demand for support for the latest C/C++ standard (2011/2014). This is something we intend to address. Increasingly advanced processor cores will also stimulate demand for more advanced debugging functions. There, I can see a need to further develop our technology for debugging and debug probes, not least with regard to trace debugging. Presumably, we can also count on greater pressure to support technical platforms for development other than today's Windows. In the future we also expect to launch additional add-on products in line with C-RUN.

IAR Systems' flagship product

IAR Embedded Workbench is a complete toolbox with the software tools that developers of embedded systems need to build their products. IAR Embedded Workbench is used by developers around the world to program 8-, 16- and 32-bit processors in embedded systems.



-  **C/C++ Compiler** Excellent size optimizations and speed performance
-  **Certified** Independent toolchain validations and functional safety certification
-  **Documentation** Top-class user documentation to make the most out of the product
-  **Device support** The broadest ARM MCU device support in the industry
-  **Runtime Analysis** Feature rich, fully integrated and high performance runtime analysis tool C-RUN
-  **IDE** Built from the ground up for Embedded development with flexible project management and a user friendly workflow
-  **Debugger** Seamless integration, comprehensive functionality and high performance debug probes
-  **Ecosystem** Industry's broadest ecosystem of RTOS, middleware, GUI, configurators and test tools
-  **Technical support** Worldwide professional technical support

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 tools on the market. This, in combination with the tools' well known user-friendliness, good results in generated code quality and performance make them world-leading in their market.

New product in 2014: C-RUN



We are known for our user-friendly and high performance development tools. With C-RUN we take our world-leading ARM tools to a new level. Development tools with analysis functionality that are both powerful and user-friendly offer something completely new for developers of embedded systems.

Stefan Skarin, CEO

The integrated analysis functionality in IAR Embedded Workbench is IAR Systems' latest addition to the product portfolio. C-RUN is a whole new product that that performs runtime analysis of code in the developers application. With C-RUN developers can analyze their applications along every step of the development process. The tight

integration between C-RUN and IAR Embedded Workbench support the entire development flow, from implementation to testing and debugging. C-RUN has been developed in-house by IAR Systems' own experts at development tools, and makes code analysis an early and natural part of the development process.

HELLO! WE WERE AMONG THE FIRST TO TRY C-RUN!



IAR Systems

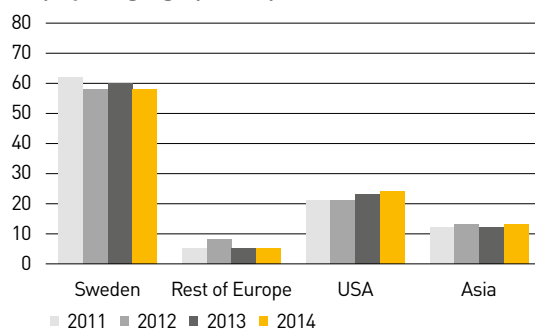
a global workplace

As the market-leader, IAR Systems always strives to be the preferred choice for the most talented and competent employees and managers in the industry. The company's success also lies in utilizing the strengths and individual of the existing competencies, and continuously promoting personal development and well being by offering new challenges for the employees.

KNOWLEDGE-INTENSIVE WORKPLACE

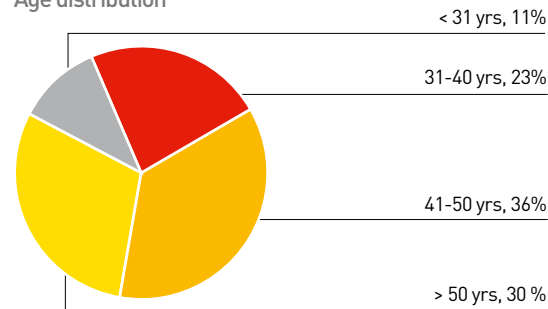
IAR Systems is a knowledge-intensive and value-driven company that places high demands on ambition and innovation among its employees. The company's global organization, its rapid sales organization and its enduring passion for product development attract skilled and talented people to the company in all of the countries where the company is active.

Employees, geographical spread



The employees' diverse cultural backgrounds, unique perspectives and local familiarity are important contributing factors behind IAR Systems' strong presence worldwide, and enable us to meet customers in their own market. By sharing knowledge and experience between highly qualified and motivated employees, IAR Systems creates the most competitive customer solutions.

Age distribution



CUTTING-EDGE EXPERTISE IN TECHNOLOGY AND CUSTOMER RELATIONS

IAR Systems' key competencies are found in technological development and customer relations. The strengths in these areas are valuable competitive advantages and the company works actively to retain and develop expertise. Training and the exchange of experiences contribute to strengthening loyalty and the company's culture encourages sharing and development of knowledge between the employees.

In 2014 the company completed a share-based incentive scheme that had been in progress since May 2011. This scheme was aimed at improving the conditions to recruit and retain competent personnel and raise the level of motivation among the employees.

Employees ¹	2014	2013	2012	2011
Number of employees	169	160	149	137
Gender distribution, %				
Men	74	74	72	73
Women	26	26	28	27

¹ Based on the average number of employees during the year.

BREAKDOWN BY FUNCTION



PRODUCT 11



ADMINISTRATION/IT, ETC. 27



DEVELOPMENT 64



FAE 10 (FIELD APPLICATION ENGINEER)



SUPPORT 21



SALES 31



MARKETING 5

SUSTAINABLE RESPONSIBILITY

As a global company, IAR Systems' employees are accustomed to thinking in a global perspective on several levels. Taking shared responsibility for day-to-day efforts to minimize the company's environmental impact is a matter of course. The company's policy is for all employees to have a healthy working environment, for paper and other office materials to be recycled, and that health a fitness activities and social interaction in the workplace are important factors for success. IAR Systems allows its employees to be innovative and creative in the workplace, which also encourages them to think along solution-oriented lines with regard to sustainable development.

IAR Systems' employees develop and sell software, and by delivering this to customers electronically rather than physically, the company takes major responsibility in minimizing environmental impact related to its products. Furthermore, the company offers a sponsorship program, IAR Green Innovation Program, to promote innovative development projects focusing on environmentally-friendly digital technology.

86% WITH UNIVERSITY DEGREE

Around 86% of our employees hold a degree from a university or technical institute.

64 DEVELOPERS

More than 60 people work with development of IAR Systems' products and technology at our offices in Uppsala and Camarillo, Los Angeles.

800 MAN YEARS

Together, IAR Systems' developers have 800 man years of experience with the current version of IAR Embedded Workbench. On the average, every developer has worked for the company for more than 10 years.

10 LANGUAGES

In 10 languages across 6 different time zones, our support organization is available to meet customer needs nearly around the clock and around the world.

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.

Meet *employee* Dannielle

IAR Systems' office in California is the workplace of Dannielle Burgard, Finance and Administration Manager for the entire USA organization. She grew up in California and has mostly been stationed in the heart of Silicon Valley. She has over ten years of experience in operational management and corporate finance.



Tell us about yourself and your role at IAR Systems

> **Dannielle** I have worked at IAR Systems for six years now and most of my time has been devoted to leading the company's internal organization in the USA, with a primary focus on finance, logistics, customer service and administration. My team and I work closely with all of the company's departments to ensure that we are delivering an excellent customer experience.

In your opinion, which three words characterize IAR Systems as a workplace?

> **Dannielle**

Innovation

Aside from making it possible for all of us to participate in an innovative market and industry, there is also a culture of being creative on the job at IAR Systems. The company's focus on maintaining a pleasant and balanced working environment creates conditions where we can all continue to be innovative and proud to be a part of IAR Systems.

The company and its employees together share an ambition to continuously develop and expand our offering to customers in all industries.

Ambition

Our corporate vision has a strong message that all employees are proud of. This means that everyone can contribute to the company and the workplace.

Stability

The company is well established in the Americas region, and our USA headquarters in San Francisco, California opened as early as 1993. Since the our sales and support organization has grown, and to maximize service to our customers, we now have sales teams in Plano, Texas, and Marlborough, Massachusetts. Since 2010 we have enlarged our sales force by 25% and our support staff by 50%, and our total workforce in the USA has increased by 52%. This expansion demonstrates our region's continued contribution to the company's success.

In your day-to-day work, how do you notice that IAR Systems is a global company?

> **Dannielle** I can see that IAR Systems is a global company in many ways. The greatest indication is how we all work together in the organization. Communication is vital, and we all strive to maintain strong communication across departmental and national borders and constantly work as a global team. We always work closely together to achieve the desired results.

Customer case: iLumi

iLumi's color tunable LED lights give you complete wireless control over your lighting through the easy-to-use iLumi app. Just replace your regular light bulb with an iLumi Smartbulb and create a fantastic color atmosphere. Program the lighting to achieve energy-effective lighting as an added bonus.

What has happened at iLumi since our latest interview?

> **iLumi** 2014 was an exciting year for the iLumi team. We were featured the popular American TV show Shark Tank, billionaire Mark Cuban invested in the company, we launched and shipped thousands of iLumi Smartbulbs all over the world starting in May, and were granted our first American patent.

The Internet of Thing has enormous potential. How do you see iLumi's role in the market created by IoT?

> **iLumi** We think it's fantastic that the Internet of Things is making an enormous breakthrough thanks to embedded data processing, wireless connectivity and app control. At iLumi we are passionate about transforming everyday things into extraordinary experiences that improve people's lives and are good for the environment. And we have started with something as common and yet powerful as light.

In what ways is iLumi contributing to a greener world?

> **iLumi** Our Smartbulb products consists of LED lights that are 5-7 times more energy-efficient than traditional light bulbs. And they last for up to 20 years. The advantages are visible on the electricity bill and in the total energy consumption. Furthermore, since an iLumi Smartbulb essentially gives you a lighting control system in a single light, we have several customers who have used iLumi as an alternative to lighting control systems. This not only saves thousands of dollars compared to the cost of a traditional control system, it also provides the opportunity to use an existing infrastructure instead of paying in both money and in the form of environmental impact to rewire or carry out more extensive renovation work.

How did IAR Systems help you during the buildup phase of iLumi?

> **iLumi** iLumi is a smart Bluetooth-enabled LED light that is controlled and programmed through an easy iOS or Android app, and that opens a world of amazing lighting experiences. The embedded firmware is one of the most important aspects of our technology, and IAR Systems' easy and intuitive user interface and excellent debugging capabilities have accelerated the development in terms of coding, testing and integrating hardware with different mobile applications. IAR Systems' development environment has been critical in our development of complex applications, and has consistently delivered stable product performance. Ready reference materials for the software and excellent service speeded up the pace of product development.



The IAR Systems share

IAR Systems Group's class B share is quoted on the Small Cap list of NASDAQ Stockholm, under ticker symbol IAR. The share price at December 31, 2014, was SEK 74.75 (43.00) and market capitalization was SEK 944m (531).

SHARE DATA

IAR Systems Group's class B share (IAR B) is quoted on the Small Cap list of NASDAQ Stockholm, and a round lot consists of 1 (one) share. In 2014 the share price (last price paid, reinvested value), 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 whom 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.

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

DIVIDEND PROPOSAL

The Board of Directors intends to propose to the AGM on April 29, 2015, a dividend of SEK 5.00 per share. In the previous year, the company carried out a capital distribution corresponding to SEK 5.00 per share through an automatic redemption procedure.

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

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
2014	New share issue	10	287,500	12,632,061	2,875,000	126,320,614

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

Board may recommend a further transfer of capital to the shareholders, provided that the Board considers this action to be justified in view of the anticipated future cash flow and the company's investment plans.

WARRANT SERIES 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 which 943,500 warrants were exercised to subscribe for class B shares. A total of 287,500 warrants were exercised in 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 through June 18, 2014.

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 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 preemptive rights or as payment for the acquisition of a company or operation.

Share data

	2014	2013
Equity per share, SEK	22.85	23.90
Number of shares at end of year, millions	12.63	12.34
Average number of shares, millions	12.54	11.53
Cash flow from operating activities per share, SEK	5.61	3.53
Earnings per share, SEK ¹	3.37	2.59
Dividend per share, SEK	5.00	2.00
Number of shareholders	8,030	7,875
Last price paid on December 31 or similar, SEK	74.75	43.00

¹ Basic earnings per share.

Largest shareholders at December 31, 2014¹

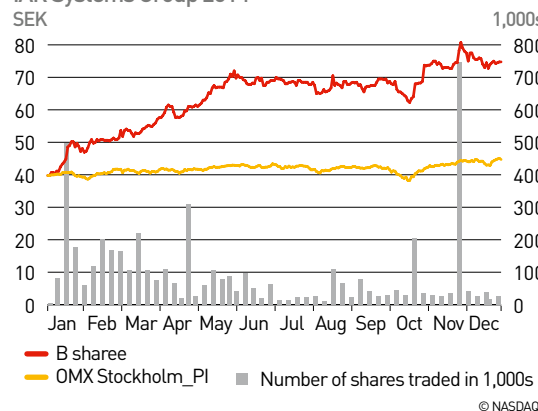
	No. of A shares	No. of B shares	Total no. of shares	% of capital	Total no. of votes	% of votes
Catella Småbolagsfond		1,048,000	1,048,000	8.3	1,048,000	7.7
Andra AP-fonden		974,530	974,530	7.7	974,530	7.2
Handelsbanken Fonder		960,790	960,790	7.6	960,790	7.1
Ribbskottet AB		750,000	750,000	5.9	750,000	5.5
Danica Pension	100,000	379,591	479,591	3.8	1,379,591	10.2
Fidelity FD-Europe Small Comp		474,711	474,711	3.8	474,711	3.5
Försäkringsaktiefbolaget Avanza Pension		460,281	460,281	3.6	460,281	3.4
Lannebo Micro Cap		445,953	445,953	3.5	445,953	3.3
UBS AG Clients account		421,322	421,322	3.3	421,322	3.1
Banque Pictet & Cie		357,851	357,851	2.8	357,851	2.6
Hajskaret Invest AB		306,640	306,640	2.4	306,640	2.3
Kristoffer Jeansson		250,000	250,000	2.0	250,000	1.9
Swedbank Robur Ny Teknik BTI		250,000	250,000	2.0	250,000	1.9
Swedbank Robur Småbolagsfond Sverige		250,000	238,400	2.0	250,000	1.9
Tamt AB		250,000	220,000	2.0	250,000	1.9
Total 15 largest shareholders	100,000	7,579,669	7,679,669	60.8	8,579,669	63.4
Other		4,952,392	4,952,392	39.2	4,952,392	36.6
Total	100,000	12,532,061	12,632,061	100.0	13,532,061	100.0

¹ Shares held directly and through nominees.

Distribution of shareholdings at December 31, 2014

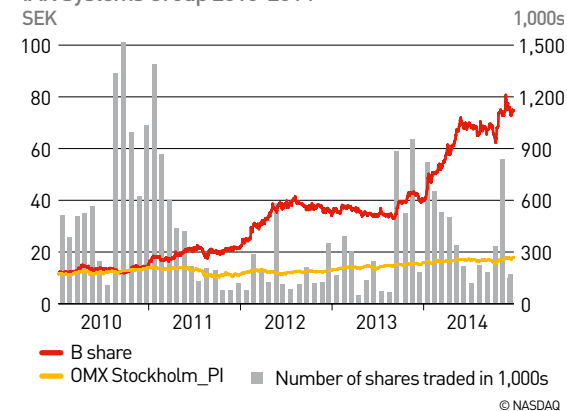
	No. of A shares	No. of B shares	Total no. of shares	% of capital	Total no. of votes	% of votes	No. of shareholders	% of shareholders
1-100	-	160,317	160,317	1.3	160,317	1.2	5,524	68.8
101-1.000	-	745,546	745,546	5.9	745,546	5.5	2,027	25.2
1.001-5.000	-	764,757	764,757	6.0	764,757	5.6	337	4.2
5.001-10.000	-	431,008	431,008	3.4	431,008	3.2	56	0.7
10.001-	100,000	10,430,433	10,530,433	83.4	11,430,433	84.5	86	1.1
Total	100,000	12,532,061	12,632,061	100.0	13,532,061	100.0	8,030	100.0

IAR Systems Group 2014



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IAR Systems Group 2010-2014



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Financial overview

FlashWriteFunction void F12FlashWriteEntry() { theFlashParams.count = FlashWrite(theFlashParams.base_ptr, theFlashParams.offset_into_block, theFlashParams.count, theFlashParams.buffer); } // The erase-first flash write function

Income statements, SEK M

	2014	2013	2012	2011	2010
Net sales	255.7	230.2	230.1	200.4	177.9
Other operating income	-	6.0	-	-	-
Operating expenses	-192.1	-185.6	-188.3	-171.0	-161.8
Depreciation of property, plant and equipment	-2.3	-2.2	-2.3	-1.7	-1.2
Amortization of intangible assets	-8.1	-7.1	-4.3	-3.7	-3.0
Operating profit	53.2	41.3	35.2	24.0	11.9
Result from financial investments	0.4	0.1	-0.1	0.1	0.0
Profit before tax	53.6	41.4	35.1	24.1	11.9
Income tax	-11.4	-11.5	-22.1	2.9	0.0
Profit after tax	42.2	29.9	13.0	27.0	11.9
Profit/loss from operations distributed/sold	-	-	-	-45.8	8.9
PROFIT/LOSS FOR THE YEAR	42.2	29.9	13.0	-18.8	20.8

Key ratios

	2014	2013	2012	2011	2010
Gross margin, %	95.0	93.7	89.9	90.5	88.1
EBITDA margin, %	24.9	22.0	18.2	14.7	9.1
Operating margin, %	20.8	17.9	15.3	12.0	6.7
Profit margin, %	21.0	18.0	15.3	12.0	6.7
Cash flow, %	27.5	17.7	16.6	17.1	7.8
Equity/assets ratio, %	76.9	79.8	78.3	78.1	80.4
Return on equity, %	14.5	10.9	5.3	6.4	3.5
Return on capital employed, %	19.4	15.1	14.3	5.8	3.5
Capital employed, SEK M	290.9	297.4	256.1	243.1	610.8
Net cash, SEK M	68.4	80.1	49.3	34.5	12.8
Net debt/equity ratio, times	-0.24	-0.27	-0.19	-0.14	-0.02
Number of employees at end of period	169	168	157	157	135
Average number of employees	159	160	149	137	132
Net sales per employee, SEK M	1.6	1.4	1.5	1.5	1.3

Balance sheets, SEK M

Assets

	2014	2013	2012	2011	2010
Non-current assets					
Goodwill	112.4	110.7	110.7	110.7	132.1
Other intangible assets	73.5	53.7	41.6	28.2	26.7
Property, plant and equipment	8.0	6.1	6.3	5.8	5.9
Financial assets	57.4	64.5	67.3	79.6	80.7
Total non-current assets	251.3	235.0	225.9	224.3	245.4
Current assets					
Inventories	3.7	3.3	3.9	4.6	1.9
Other current assets	10.6	14.6	13.6	11.3	15.6
Trade receivables	39.1	34.1	29.1	32.2	33.8
Blocked cash and cash equivalents	-	0.7	2.6	6.9	-
Cash and cash equivalents	70.7	81.8	49.0	29.6	25.1
Total current assets	124.1	134.5	98.2	84.6	76.4
Assets in disposal groups held for distribution	-	-	-	-	422.4
TOTAL ASSETS	375.4	369.5	324.1	308.9	744.2

Equity and liabilities

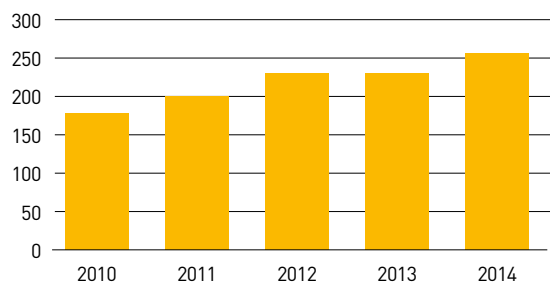
	2014	2013	2012	2011	2010
Total equity	288.6	295.0	253.8	241.1	598.5
Non-current liabilities					
Borrowings	1.5	1.1	1.1	1.5	2.0
Provisions	14.6	13.3	8.7	3.5	4.8
Total non-current liabilities	16.1	14.4	9.8	5.0	6.8
Current liabilities					
Trade payables	5.2	5.7	6.1	10.7	14.1
Borrowings	0.8	1.3	1.2	0.5	10.3
Other current liabilities	64.7	53.1	53.2	51.6	46.8
Total current liabilities	70.7	60.1	60.5	62.8	71.2
Assets in disposal groups held for distribution	-	-	-	-	67.7
TOTAL EQUITY AND LIABILITIES	375.4	369.5	324.1	308.9	744.2

Cash flows in summary, SEK M	2014	2013	2012	2011	2010
Cash flow from operating activities	70.3	40.7	38.3	34.2	13.8
Cash flow from operating activities for operations distributed/sold	-	-	-	8.5	6.0
Total cash flow from operating activities	70.3	40.7	38.3	42.7	19.8
Cash flow from investing activities	-31.7	-19.1	-18.1	-32.8	-12.6
Cash flow from investing activities for operations distributed/sold	-	-	-	-0.9	-8.6
Total cash flow from investing activities	-31.7	-19.1	-18.1	-33.7	-21.2
Cash flow from financing activities	-53.2	11.8	0.6	7.7	-3.1
Cash flow from financing activities for operations distributed/sold	-	-	-	-39.7	-4.1
Total cash flow from financing activities	-53.2	11.8	0.6	-32.0	-7.2
Cash flow for the year	-14.6	33.4	20.8	9.1	-1.9
The year's cash flow for operations distributed/sold	-	-	-	-32.1	-6.7
TOTAL CASH FLOW FOR THE YEAR	-14.6	33.4	20.8	-23.0	-8.6

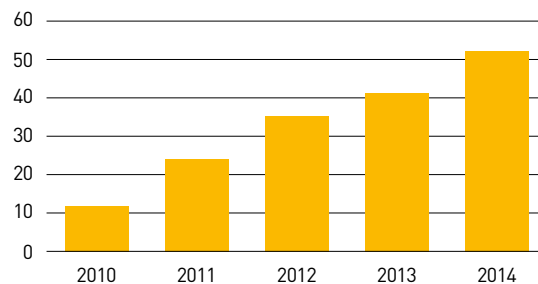
Data per share	2014	2013	2012	2011	2010
Equity per share, SEK	22.85	23.90	22.34	21.82	54.16
Number of shares at end of period, millions	12.63	12.34	11.36	11.05	11.05
Average number of shares, millions	12.54	11.53	11.23	11.05	11.05
Cash flow from operating activities per share, SEK	5.61	3.53	3.41	3.09	1.25
Earnings per share, continuing operations, SEK ¹	3.37	2.59	1.16	2.44	1.08
Earnings per share, operations distributed/sold, SEK ¹	-	-	-	-4.14	0.80
Dividend per share, SEK	5.00	2.00	1.00	-	1.25
Last price paid on December 31 or similar, SEK	74.75	43.00	38.10	24.50	17.7

¹ Basic earnings per share.

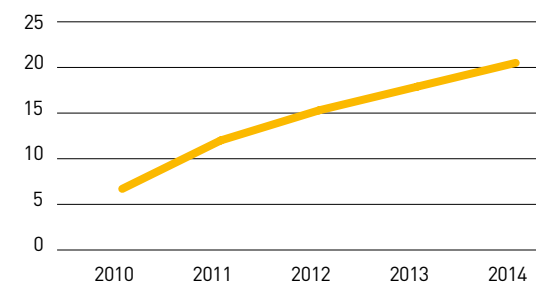
Net sales
SEK M



Operating profit
SEK M



Operating margin
%



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.

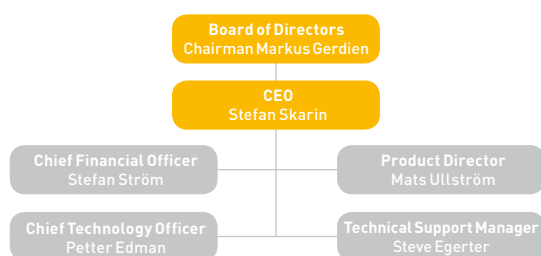
Financial risks refer to fluctuations in IAR Systems' profit and cash flow as a result of changes in exchange rates, interest rates, financing and credit risks. For a more in-depth description of financial risks, see Note 2.

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 Improbable	2 Unlikely	3 Possible	4 Likely	5 Probable	1 Insignificant	2 Minor	3 Medium	4 Large	5 Very large
RISK AREA	DESCRIPTION						IAR SYSTEMS' RISK MANAGEMENT				
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				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	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				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	New and stronger competitors can lead to a risk for decreased demand for IAR Systems' software.	3	3				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	Far-reaching dependency on individual industries can have a major impact on sales if an entire industry is having difficulties.	2	2				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	A large share of one-time projects or maintenance agreements with short terms of validity creates uncertainty if economic growth declines.	2	3				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' key competencies are found primarily in technological development and in the relationships with the customers.	3	3				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	Foreign exchange risk is the risk for variations in the value of financial instruments due to movements in foreign exchange rates.	4	4				IAR Systems operates internationally and is exposed to foreign exchange risk arising from exposure to different currencies, primarily the US dollar (USD), euro (EUR) and Japanese yen (JPY). The Group's sales in foreign currency account for around 93% 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	Liquidity risk refer to the risk that financing cannot be obtained, or can be obtained only at a significantly higher cost.	1	1				IAR Systems' liquidity risk is assessed to be relatively limited. At December 31, 2014, the Group had net cash of SEK 68m.				
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' 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.				

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 2014. The company is domiciled in Stockholm, corporate identification number 556400-7200.



HIGHLIGHTS OF 2014

- Net sales for the year amounted to SEK 255.7m (230.2)
- Operating profit for the year reached SEK 53.2m (41.3)
- The year's cash flow from operating activities was SEK 70.3m (40.7)
- Growth in proprietary products in local currency was 8% (12)
- SEK 62.7m was transferred to the shareholders through a mandatory redemption procedure in the second quarter of the year

PROFIT AND CASH FLOW

Consolidated net sales amounted to SEK 255.7m, compared to SEK 230.2m for 2013. Sales of proprietary products in local currency grew by a total of 8%, divided between 9% in the Americas, 8% in Europe, 16% in Asia and a decrease in non-regionalized revenue by 72%.

Foreign exchange effects had a positive impact on the year's net sales of SEK 9.8m in comparison with the previous year.

The Americas accounted for 38% (38) of net sales, Europe for 38% (37), Asia for 23% (22) and global revenue for 1% (3).

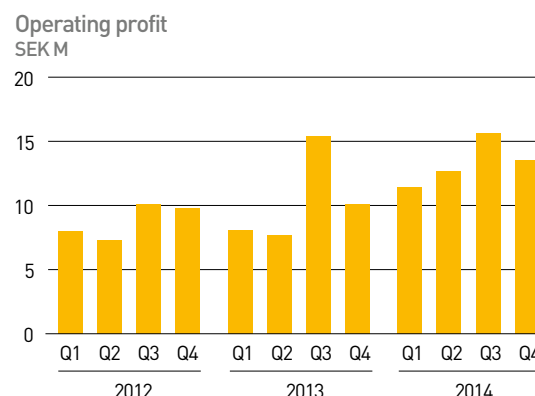
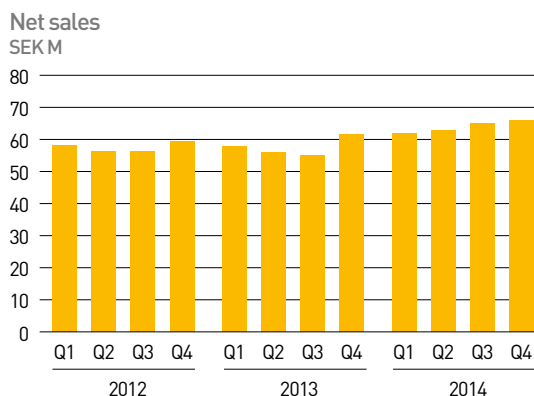
The earnings trend during the year was positive and operating profit rose to SEK 53.2m (41.3).

Operating profit for 2013 was positively affected by the settlement of an insurance claim for approximately SEK 4m. Operating profit was positively affected by foreign exchange effects of SEK 6.3M compared to the previous year.

Operating margin for the year improved to 20.8%, compared to 17.9% in 2013. Excluding the effect of the insurance claim, operating margin for 2013 was 16.2%.

Personnel costs are the Group's largest cost item and account for around 68% (67) of total costs. Of the Group's total costs, 60% (53) are attributable to operations in Sweden.

The year's cash flow from operating activities was SEK 70.3m (40.7).



BALANCE SHEET ITEMS AND FINANCIAL POSITION

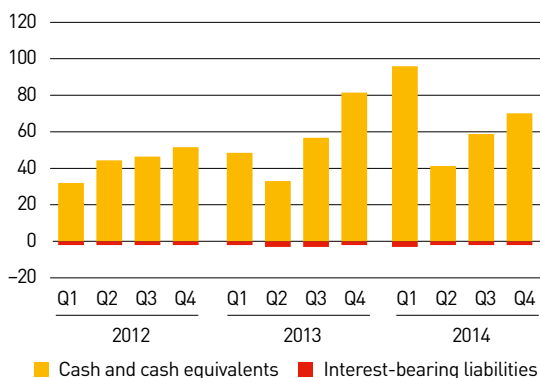
Consolidated cash and cash equivalents at the end of the year totaled SEK 70.7m, compared to SEK 81.8 at December 31, 2013. Added to this were unutilized bank overdraft facilities of SEK 25.0m (25.0). The Group's interest-bearing liabilities amounted to SEK 2.3m, compared to SEK 2.4m at 31 December 2013. At December 31, 2014, the Group had net cash of SEK 68.4m (80.1).

Consolidated goodwill at December 31, 2014, amounted to SEK 112.4m (110.7). The impairment test that was performed at year-end gave no evidence of impairment. The increase in goodwill during the year is a result of translation differences. Other intangible assets in the form of trademarks, software and customer agreements amounted to SEK 73.5m (53.7).

At December 31, 2014, the Group had cumulative loss carryforwards of around SEK 214m. In the balance sheet, deferred tax assets are taken up at SEK 51.4m (59.2), of which loss carryforwards accounted for SEK 47.2m (56.2).

Equity at December 31, 2014, amounted to SEK 288.6m, compared to SEK 295.0m on December 31, 2013. The change in equity is due to the year's profit of SEK 42.2m, the mandatory redemption

Net cash flow
SEK M



procedure for SEK -63.0m, the issue of new shares through the exercise of warrants for SEK 9.8m and foreign exchange effects of SEK 4.6m.

The equity/assets ratio at December 31, 2014, was 77% (80). Pledged assets decreased during the year and totaled SEK 4.1m (4.9) at December 31, 2014.

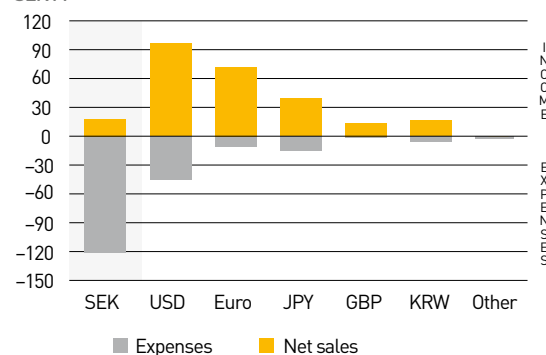
INVESTMENTS

Investments in property, plant and equipment for the year are reported at SEK 4.2m (2.0). Investments in intangible assets amounted to SEK 27.9m (19.2) and refer mainly to costs for own staff for the development of debug probes and analysis tools. These investments are equal to approximately 20% of the company's total development costs, which amounted to SEK 85m in 2014. Investments in 2014 also include acquired IP rights for a total of SEK 8.8m.

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,

Currency spread
SEK M



which is also driving the need for development tools. IAR Systems has the development tools to meet these needs.

One distinct trend in the market 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. The advance of the Internet of Things means that more and more of the products that are programmed also require connection to the Internet for communication and control, which IAR Embedded Workbench makes possible.

The increasingly rapid pace of development in the digital market is also placing higher demands on product developers to get their products to market quickly. This is fuelling demand to reuse code from earlier projects to a greater extent, since this both streamlines the development process and results in shorter lead times.

Another 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.

Additionally, 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.

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 the employees are engaged and empowered. 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, 86% (89) of the employees have a higher post-secondary education and 14% (11) have a secondary education. The average age of the Group's employees is 44 years (44). Like many other companies in the IT sector the Group has an uneven gender balance, with 26% (26) women and 74% (74) men at year-end 2014. The number of employees during 2014 was 159 (160).

SOCIAL RESPONSIBILITY

IAR Systems' policy for social responsibility is to conduct business in accordance with the applicable laws and regulations. Integrity, honesty, frankness and honor 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 by the company's board of directors. 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. No hedging of foreign currency cash flows was done during the financial year. The company's measures to manage foreign exchange risk, in accordance with the Group's internal pricing strategy, are to invoice each sales company monthly and thereafter exchange the received foreign currency for Swedish kronor.

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 93% of total sales. Of the cost of goods sold, which accounts for around 6% of the Group's cost mass, approximately 84% of purchases are denominated in foreign currency, also primarily in USD, EUR and JPY. 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

December 31, 2014	Change	Effect on profit
Cost of goods sold	+/- 5%	SEK +/- 0.6m
Payroll expenses	+/- 5%	SEK +/- 7.1m
Currency - EUR	+/- 5%	SEK +/- 3.1m
Currency - USD	+/- 5%	SEK +/- 2.6m
Currency - JPY	+/- 5%	SEK +/- 1.2m
Variable interest	+/- 1%-point	SEK +/- 0.0m

Financing and liquidity risk

The Group's financial position is strong. A mandatory redemption program was carried out during the year, which meant that SEK 62.7m was transferred to the shareholders. No share buybacks have taken place. The issue of 287,500 class B shares took place through the exercise of subscription warrants. The issue provided the company with proceeds of SEK 9.8m. The equity/assets ratio at December 31, 2014, was 77% (80).

At year-end there were cash and cash equivalents of SEK 70.7m (81.8) and unutilized bank overdraft facilities of SEK 25.0m (25.0). Interest-bearing liabilities on the same date amounted to SEK 2.3m (2.4).

Credit risk

Credit risk is associated mainly with the ability of the company's customers to pay. Customers undergo standard credit assessment according to established routines. Historically, credit losses have been low.

Interest rate risk

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

GUIDELINES FOR REMUNERATION AND OTHER TERMS OF EMPLOYMENT OF SENIOR EXECUTIVES

The Board of Directors proposes to the 2015 AGM that the guidelines for remuneration to senior executives that were adopted by the 2014 AGM continue to apply. 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. The group of other senior executives was expanded in 2014 to include the four individuals who aside from the CEO made up the Executive Management during the year. The comparative figures for the group of other senior executives for 2013 have been changed to correspond to the same definition of other senior executives as in 2014, and refer to three individuals.

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 2015.

Deviation from the guidelines

The Board of Directors shall have the right to deviate from the above guidelines in individual cases where the Board finds special reason to do so. In 2014 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 Nordic Exchange. 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

In 2014 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).

Ownership and control

The number of shareholders in IAR Systems Group at December 31, 2014, was 8.030 (7.875), of whom 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. For additional information about the IAR share, see pages 26-27.

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, SEK:

Share premium reserve	90.534.923.71
Retained earnings	29.412.352.84
Profit for the year	30.549.035.19
TOTAL, SEK	150.496.311.74

The Board proposes that the profits be disposed of as follows:

Dividend of SEK 5.00 per share	63.160.305.00
To be carried forward to new account	87.336.006.74
TOTAL, SEK	150.496.311.74

Quarterly overview	2012				2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales, SEK M	58.0	56.4	56.2	59.5	57.7	56.1	54.9	61.5	62.0	62.7	64.9	66.1
Other operating income, SEK M	-	-	-	-	-	-	6.0	-	-	-	-	-
Operating expenses, SEK M	-50.0	-49.1	-46.1	-49.7	-49.6	-48.4	-45.5	-51.4	-50.6	-50.0	-49.3	-52.6
Operating profit, SEK M	8.0	7.3	10.1	9.8	8.1	7.7	15.4	10.1	11.4	12.7	15.6	13.5
EBITDA margin, %	16.0	15.6	21.4	19.7	18.0	17.3	36.2	20.5	2.1	24.2	28.4	24.7
Operating margin, %	13.8	12.9	18.0	16.5	14.0	13.7	28.1	16.4	18.4	20.3	24.0	20.4
Return on equity, %	2.2	3.1	3.8	-2.1	2.3	2.4	4.3	2.5	2.8	3.4	5.0	3.8
Equity per share, SEK	22.22	22.15	22.84	22.34	22.87	21.42	22.78	23.90	24.68	20.72	21.83	22.85
Cash flow from operating activities per share, SEK	0.12	1.39	0.68	1.34	0.17	0.97	1.56	0.84	1.12	1.33	1.89	1.27

Consolidated income statement

SEK M	Note	2014	2013	MSEK	Note	2014	2013
Net sales	1 2 3	255.7	230.2	<i>Profit for the year attributable to:</i>			
Other operating income		-	6.0	Owners of the Parent Company		42.2	29.9
Goods for resale	4	-12.9	-14.5	<i>Earnings per share calculated on profit for the year</i>			
Other external expenses	5	-42.1	-41.3	<i>attributable to owners of the Parent Company, SEK</i>			
Personnel costs	6	-137.1	-129.8	- basic	9	3.37	2.59
Depreciation of property, plant and equipment	11	-2.3	-2.2	- diluted	9	3.34	2.37
Amortization of intangible assets	10	-8.1	-7.1				
Operating profit		53.2	41.3				
Financial investments							
Financial income	7	0.6	0.3				
Financial expenses	7	-0.2	-0.2				
Profit before tax		53.6	41.4				
Income tax expense	8	-11.4	-11.5				
PROFIT FOR THE YEAR		42.2	29.9				

Consolidated statement of comprehensive income

SEK M	2014	2013
Profit for the year	42.2	29.9
Other comprehensive income:		
<i>Items that will be reclassified subsequently to profit or loss</i>		
Foreign exchange gains/losses	4.6	-0.5
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	46.8	29.4
Comprehensive income for the year attributable to owners of the Parent Company	46.8	29.4

Consolidated balance sheet

SEK M	Note	Dec 31 2014	Dec 31 2013
ASSETS	1 2 3		
Non-current assets			
Intangible assets	10		
Goodwill		112.4	110.7
Other intangible assets		73.5	53.7
Total intangible assets		185.9	164.4
Property, plant and equipment	11		
Leasehold improvements		0.1	0.1
Equipment		7.9	6.0
Total property, plant and equipment		8.0	6.1
Financial assets			
Other non-current receivables	12 17	1.5	5.3
Other non-current securities	13	4.5	-
Deferred tax assets	8	51.4	59.2
Total financial assets		57.4	64.5
Total non-current assets		251.3	235.0
Current assets			
Inventories		3.7	3.3
Current receivables			
Trade receivables	14	39.1	34.1
Other current receivables	15	3.1	1.9
Prepaid expenses and accrued income	16	7.5	12.7
		53.4	52.0
Blocked cash and cash equivalents	17	-	0.7
Cash and cash equivalents	17	70.7	81.8
Total current assets		124.1	134.5
TOTAL ASSETS		375.4	369.5

Development of the Group's assets

	Non-current assets	Current assets
2014	66.9%	33.1%
2013	63.6%	36.4%

SEK M	Note	Dec 31 2014	Dec 31 2013
EQUITY AND LIABILITIES			
Equity	19		
Share capital		126.3	123.4
Other contributed capital		23.4	16.5
Reserves		3.5	-1.1
Retained earnings including profit for the year		135.4	156.2
Total equity		288.6	295.0
Non-current liabilities			
Borrowings	11 18	1.5	1.1
Deferred tax liabilities	8	14.6	12.5
Total non-current liabilities		16.1	13.6
Current liabilities			
Trade payables		5.2	5.7
Borrowings	11 18	0.8	1.3
Tax liabilities	8	-	-
Other liabilities		9.3	5.5
Accrued expenses and prepaid income	20	55.4	48.4
Total current liabilities		70.7	60.9
TOTAL EQUITY AND LIABILITIES		375.4	369.5

Development of the Group's equity and liabilities

	Equity	Non-current liabilities	Current liabilities
2014	76.9%	4.3%	18.8%
2013	79.8%	3.7%	16.5%

Consolidated statement of changes in equity

SEK M	Note	Share capital	Other contri- buted capital	Reserves	Retained earnings	Total equity
Balance at January 1, 2013		116.9	0.7	-0.6	136.8	253.8
Profit for the year					29.9	29.9
Other comprehensive income						
Foreign exchange gains/losses				-0.5		-0.5
Total comprehensive income				-0.5	29.9	29.4
Transactions with owners						
Sales of shares					12.3	12.3
New share issue		6.5	15.8			22.3
Dividends					-22.8	-22.8
Total transactions with owners		6.5	15.8		-10.5	11.8
Balance at January 1, 2014		123.4	16.5	-1.1	156.2	295.0
Profit for the year					42.2	42.2
Other comprehensive income						
Foreign exchange gains/losses				4.6		4.6
Total comprehensive income				4.6	42.2	46.8
Transactions with owners						
New share issue		2.9	6.9			9.8
Redemption procedure					-63.0	-63.0
Total transactions with owners		2.9	6.9		-63.0	-53.2
CLOSING BALANCE, DECEMBER 31, 2014		126.3	23.4	3.5	135.4	288.6

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2014, amounted to SEK 12,320,614, divided between 100,000 class A shares and 12,532,061 class B shares. All shares have a quota value of SEK 10 each.

Consolidated cash flow statement

SEK M	Note	2014	2013
Operating activities			
Incoming payments from customers		250.4	234.6
Outgoing payments to suppliers and employees		-179.1	-187.4
Cash flow from operating activities before interest and income taxes paid		71.3	47.2
Interest received		0.4	0.3
Interest paid		-0.1	-0.2
Income taxes paid		-1.3	-6.6
Cash flow from operating activities		70.3	40.7
Investing activities			
Investments in property, plant and equipment	11	-4.4	-1.9
Investments in intangible assets	10	-27.9	-19.2
Investments in subsidiaries	10	-	-
Other investments		0.6	2.0
Cash flow from investing activities		-31.7	-19.1
Financing activities			
New share issue		9.8	22.3
Sale of shares		-	12.3
Dividends to owners of the Parent Company		-	-22.8
Redemption procedure		-63.0	-
Proceeds from new borrowings		0.0	0.0
Cash flow from financing activities		-53.2	11.8
Cash flow for the year			
Cash and cash equivalents at beginning of year		-14.6	33.4
Foreign exchange gains/losses in cash and cash equivalents		81.8	49.0
- attributable to cash and cash equivalents at beginning of year		2.4	-0.5
- attributable to the year's cash flow		1.1	-0.1
Cash and cash equivalents at end of year	17	70.7	81.8

Development of the Group's cash flow

Opening cash and cash equivalents, January 1, 2014	SEK 81.8 M
Operating activities	SEK 70.3 M
Investing activities	SEK -31.7 M
Financing activities	SEK -53.2 M
Foreign exchange differences: cash and cash equivalents	SEK 3.5 M
Closing cash and cash equivalents, December 31, 2014	SEK 70.7 M

Parent Company income statement

SEK M	Note	2014	2013
Net sales	1 2 3	12.5	12.5
Other operating income		-	6.0
Other external expenses	5	-4.5	-4.4
Personnel costs	6	-10.9	-10.4
Depreciation of property, plant and equipment	11	-0.1	-0.1
Operating profit/loss		-3.0	3.6
Financial investments			
Financial income	7	42.4	15.6
Financial expenses	7	-0.1	-0.0
Profit before tax		39.3	19.2
Income tax expense	8	-8.7	-3.1
PROFIT FOR THE YEAR		30.6	16.1

Parent Company statement of comprehensive income

SEK M	2014	2013
Profit for the year	30.6	16.1
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	30.6	16.1

Parent Company balance sheet

SEK M	Note	Dec 31 2014	Dec 31 2013
ASSETS			
Non-current assets			
Property, plant and equipment			
Equipment	11	0.3	0.4
Total property, plant and equipment		0.3	0.4
Financial assets			
Shares in group companies	22	189.4	189.4
Other non-current securities	13	4.5	-
Other non-current receivables	12	0.1	4.0
Deferred tax assets	8	46.2	54.9
Total financial assets		240.2	248.3
Total non-current assets		240.5	248.7
Current assets			
Current receivables			
Receivables from subsidiaries		35.3	10.0
Tax assets		0.1	0.4
Other current receivables	15	0.2	0.7
Prepaid expenses and accrued income	16	0.3	0.6
		35.9	11.7
Blocked cash and cash equivalents	17	-	0.7
Cash in hand and at bank	17	4.4	44.7
Total current assets		40.3	57.1
TOTAL ASSETS		280.8	305.8

SEK M	Note	Dec 31 2014	Dec 31 2013
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital	19	126.3	123.4
Statutory reserve		-	-
		126.3	123.4
<i>Non-restricted equity</i>			
Share premium reserve		90.5	83.6
Retained earnings		29.4	76.3
Profit for the year		30.6	16.1
		150.5	176.0
Total equity		276.8	299.4
Current liabilities			
Trade payables		0.3	0.6
Other liabilities		0.4	2.2
Accrued expenses and prepaid income	20	3.3	3.6
Total current liabilities		4.0	6.4
TOTAL EQUITY AND LIABILITIES		280.8	305.8
Pledged assets	21	1.4	2.1
Contingent liabilities		-	-

Parent Company

statement of changes in equity

SEK M	Note	Share capital	Share premium reserve	Retained earnings	Total equity
Opening balance, January 1, 2013		116.9	55.5	99.1	271.5
Sale of shares			12.3	-	12.3
New share issue		6.5	15.8	-	22.3
Dividends paid				-22.8	-22.8
Total changes in equity not recognized in the income statement		6.5	28.1	-22.8	11.8
Profit for the year				16.1	16.1
Closing balance, December 31, 2013		123.4	83.6	92.4	299.4
New share issue		2.9	6.9		9.8
Redemption procedure				-63.0	-63.0
Total changes in equity not recognized in the income statement		2.9	6.9	-63.0	-53.2
Profit for the year				30.6	30.6
CLOSING BALANCE, DECEMBER 31, 2014		126.3	90.5	60.0	276.8

COMMENTS ON THE CHANGES IN EQUITY:

The share capital at December 31, 2014, amounted to 126,320,614, divided between 100,000 class A shares and 12,532,061 class B shares. All shares have a quota value of SEK 10 each.

Parent Company cash flow statement

SEK M	Note	2014	2013
Operating activities			
Incoming payments from subsidiaries		12.5	18.5
Outgoing payments to suppliers and employees		-17.3	-14.7
Cash flow from operating activities before interest and income taxes paid		-4.8	3.8
Interest received		0.4	0.2
Dividends received		-	5.4
Interest paid		-0.1	-0.0
Cash flow from operating activities		-4.5	9.4
Investing activities			
Investments in subsidiaries		-	-3.2
Investments in property, plant and equipment	11	-0.0	-0.3
Decrease in blocked cash and cash equivalents		0.7	1.9
Decrease in financial receivables		0.0	0.3
Cash flow from investing activities		0.7	-1.3
Financing activities			
Sale of shares		-	12.3
New share issue		9.8	22.3
Dividends paid		-	-22.8
Redemption procedure		-63.0	-
Increase in borrowings from subsidiaries		-25.3	-
Group contributions		42.0	10.0
Cash flow from financing activities		-36.5	21.8
Cash flow for the year		-40.3	29.9
Cash and cash equivalents at beginning of year		44.7	14.8
CASH AND CASH EQUIVALENTS AT END OF YEAR	18	4.4	44.7

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 Stockholm, ticker symbol IAR.

The consolidated financial statements were approved for publication by the Board of Directors on 17 March 2015.

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, except as stated below.

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 and changed standards and interpretations applicable for 2014

The following new and changed standards have been applied for the financial year 2014.

IFRS 10 Consolidated Financial Statements

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. The application of IFRS 10 has not had any impact on the Group's profit or financial position.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 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. The application of IFRS 12 has resulted in additional disclosure requirements regarding subsidiaries in the Group, see Note 22.

IAS 36 Impairment

Amendments to IAS 36 regarding disclosures about the recoverable amount of non-financial assets were early adopted in the annual report for 2013.

Other new and changed standards

Other new and changed standards and interpretations aside from those mentioned above have not been applied or have not had any material impact on the Group's financial statements.

New and changed standards and interpretations that are not yet effective

The new and changed standards and interpretations that have been issued but are effective for financial periods starting on or after January 1, 2015, have not yet been applied by the Group. Below is a description of new and changed standards and interpretations that are assessed to have an impact on the Group's financial statements in the period when they are applied for the first time.

The International Accounting Standards Board (IASB) has issued the following new and changed standards that are not yet effective:

Standards	Effective for financial periods beginning on or after:
IFRS 15 Revenue from Contracts with Customers *	January 1, 2017
IFRS 9 Financial Instruments *	January 1, 2018

* Not approved in the EU

IFRS 15 *Revenue from Contracts with Customers* was issued on May 28, 2014, and will replace IAS 18 Revenue and IAS 11 Construction Contracts. The application of IFRS 15 is mandatory for all IFRS reporting companies for financial years starting on or after January 1, 2017.

IFRS 15 provides a model for revenue recognition for nearly all revenue that arises from contracts with customers, with the exception of leases, financial instruments and insurance contracts. The basic principle for revenue recognition is for an entity to recognize revenue when all of the risks and rewards associated with goods and/or services are transferred to the customers in exchange for compensation for these goods and/or services.

The new standard may have consequences for services contracts, sales with different mixes of goods and/or services, long-term contracts, consulting fees, license-based sales

Note 1, cont'd

and possibly for underlying guarantee contracts. The management has not yet carried out a detailed analysis of the effects of application of IFRS 15 and can therefore not yet quantify the effects.

IFRS 9 *Financial Instruments* was issued on July 24, 2014, and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard has been issued in phases, of which the version that was issued in July 2014 supersedes all previous versions. The standard introduces new requirements for classification and measurement of financial instruments, derecognition, impairment and general hedge accounting. The standard is mandatory for financial periods beginning on or after January 1, 2018, and has not yet been endorsed by the EU.

The management's assessment is that the application of IFRS 9 may affect the carrying amounts of the Group's assets and liabilities in the financial statements. The management has not yet carried out a detailed analysis of the effects of application of IFRS 9 and can therefore not yet quantify the effects.

The management's assessment is that the other new and changed standards and interpretations that are not yet effective will not have any material impact on the Group's financial statements when they are applied for the first time.

1.2 Basis of consolidation

The consolidated financial statements include the Parent Company IAR Systems Group AB and those companies over which the Parent Company has control (subsidiaries). Control exists when the Parent Company has power over the investee, is exposed to or has rights to variable returns from its involvement with the investee and has the ability to use that power over the investee to affect its returns. The composition of the Group is presented in 22.

The Parent Company reassesses whether control exists if facts and circumstances indicate that any of the above factors have changed.

Subsidiaries are consolidated from the date on which control is transferred to the Parent Company and are deconsolidated from the date on which control ceases. This means that income and expenses for a subsidiary that is acquired or sold during the current financial year are included in the consolidated income statement and statement of comprehensive income from the date on which the Parent Company gains control and until the date when control passes from the Parent Company.

Consolidated profit and components of other comprehensive income are attributable to owners of the Parent Company and to non-controlling interests even if this leads to a negative value for non-controlling interests.

Accounting policies of subsidiaries have been adjusted, when necessary, to ensure consistency with those policies applied by Group. All inter-company balances and transactions, including unrealized gains and losses attributable to inter-company transactions, have been eliminated on consolidation.

1.3 Business combinations

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.

1.4 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.

1.5 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	7.8117 (6.5084)	6.8577 (6.5140)
France. Germany	1 EUR	9.5155 (8.9430)	9.0968 (8.6494)
UK	1 GBP	12.1388 (10.7329)	11.2917 (10.1863)
Japan	1 JPY	0.0654 (0.0669)	0.0649 (0.0618)
China	1 CNY	1.2595 (1.0732)	1.1135 (1.0596)
South Korea	1 KRW	0.0071 (0.0062)	0.0065 (0.0060)

1.6 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

1.7 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. In the Group, development expenses are capitalized as intangible assets if, and only if, it is technologically and financially feasible to complete the asset, the company intends to complete the asset and to use or sell it, the asset is expected to generate future economic benefits and the cost of the asset can be measured reliably.

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.

1.8 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.

1.9 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.

1.10 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.

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.

1.11 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.

1.12 Cash and cash equivalents

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

1.13 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.

1.14 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.

1.15 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.

1.16 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.

1.17 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.

1.18 Revenue recognition

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

Note 1, cont'd

1.19 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.

1.20 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.

1.21 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.

1.22 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

1.23 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, have not had any material impact on the financial statements of the Parent Company.

Amendments to RFR 2 that are not yet effective

The future amendments to RFR 2 are not assessed to have any material impact on the financial statements of the Parent Company.

1.24 Group and shareholder contributions

The Parent Company recognizes group contributions received as financial income. Group contributions rendered are recognized as an expense in the income statement.

1.25 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, which means that the lease expense is recognized on the straight-line basis over term of the lease.

1.26 Dividends

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

1.27 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 JUDGMENTS

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 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 operating margin on a level with year 3.

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

b) Income taxes

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

Note 1, cont'd

at the date of the transactions and calculations. The Group has substantial accumulated loss carryforwards.

On the balance sheet date, the Group had cumulative loss carryforwards of approximately SEK 214m. All loss carryforwards are found in Sweden and can be used for an unlimited period.

A total deferred tax asset of SEK 47.2m is recognized in the consolidated balance sheet at December 31, 2014, 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 achieve accounting that reflects the underlying economics of the transaction.

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 assessed to be 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) 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 93% of total sales. Of the cost of goods sold, which accounts around 6% of the Group's cost mass, approximately 84% 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. No hedging of foreign currency cash flows was done during the financial year. The company's measures to manage foreign exchange risk, in accordance with the Group's internal pricing strategy, are to invoice each sales company monthly and thereafter exchange the received foreign currency for Swedish kronor.

SEK M	Total	SEK	USD	EUR	JPY	Other currencies
Net sales	255.7	18.1	96.5	71.8	39.2	30.1
Cost of goods sold	12.9	2.1	4.6	2.3	2.7	1.2
Other expenses	189.6	119.2	40.4	8.4	12.8	8.8

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.

Note 2, cont'd

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, 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Finance leases	0.8	0.9	0.6	-
Bank overdraft facilities	-	-	-	-
Trade and other payables ¹	5.3	-	-	-

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 ¹	6.4	-	-	-

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

SENSITIVITY ANALYSIS

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

Sensitivity analysis At December 31, 2014	Change	Effect on profit
Cost of goods sold	+/- 5%	SEK +/- 0.6m
Payroll expenses	+/- 5%	SEK +/- 7.1m
Currency – EUR	+/- 5%	SEK +/- 3.1m
Currency – USD	+/- 5%	SEK +/- 2.6m
Currency – JPY	+/- 5%	SEK +/- 1.2m
Variable interest	+/-1% point	SEK +/- 0.0m

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

CAPITAL RISK MANAGEMENT

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

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

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

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

The net debt/equity ratio at December 31, 2014 and 2013 was as follows:

	2014	2013
Total borrowings (Note 18)	2.3	2.4
Less cash and cash equivalents and blocked funds (Note 17)	-70.7	-82.5
Net debt	-68.4	-80.1
Total equity	288.6	295.0
Invested capital	220.2	214.9
Net debt/equity ratio	-31%	-37%

Note 3 Segment reporting

GEOGRAPHICAL AREAS

SEK M	Sales		Non-current assets		Investments	
	2014	2013	2014	2013	2014	2013
Americas						
USA	86.2	78.9	1.4	0.1	1.3	0.3
Other countries	6.9	8.7	-	-	-	-
	93.1	87.6	1.4	0.2	1.3	0.3
Asia						
Japan	34.5	31.0	0.1	0.1	0.0	0.0
Other countries	30.9	25.5	0.1	0.2	0.0	0.0
	65.4	56.5	0.2	0.3	0.0	0.0
EMEA						
UK	13.2	10.7	0.0	0.0	0.0	0.0
Germany	38.5	34.0	0.1	0.1	0.0	0.0
Other countries	32.2	29.5	0.0	0.0	0.0	0.0
	83.9	74.2	0.1	0.1	0.0	0.0
Nordic region						
Sweden	5.6	5.7	192.2	169.9	30.8	21.3
Other countries	7.7	6.2	-	-	-	-
	13.3	11.9	192.2	169.9	30.8	21.3
Total	255.7	230.2	193.9	170.5	32.1	21.6

Note 4 Goods for resale

The item "goods for resale" within consolidated operating profit includes foreign exchange gains/losses of SEK 0.0m (0.0) 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	
	2014	2013	2014	2013
Deloitte				
Audit of the financial statements	0.6	0.7	0.0	0.1
Audit-related services other than the audit	-	0.0	-	0.0
Tax	0.2	0.1	0.0	0.0
Other services	0.0	0.1	-	0.1
Total Deloitte	0.8	0.9	0.0	0.2
Total fees to auditors	0.8	0.9	0.0	0.2

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 expenses

AVERAGE NUMBER OF EMPLOYEES

The average number of employees in the Group during 2014 was 159 (160). The breakdown of the average number of employees by country and, in Sweden, by location, is shown in the table below.

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

AVERAGE NUMBER OF EMPLOYEES

	2014		2013	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Parent Company				
Stockholm	4	75%	4	75%
Subsidiaries in Sweden				
Uppsala	89	78%	92	75%
Subsidiaries outside Sweden				
UK	1	0%	3	67%
Germany	5	40%	4	50%
France	2	50%	3	67%
USA	38	74%	35	74%
South Korea	5	80%	4	75%
China	3	67%	3	67%
Japan	12	75%	12	75%
Total subsidiaries	155	74%	156	74%
Total Group	159	74%	160	74%

Note 6, cont'd

GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES IN THE GROUP

	2014		2013	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Group (incl. subsidiaries)				
Board members	5	80%	5	80%
CEO and other senior executives	5	100%	4	100%
Presidents in subsidiaries	-	-	-	-
Parent Company				
Board members	5	80%	5	80%
CEO and other senior executives	2	100%	2	100%

SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES

The Group's total payroll costs amounted to SEK 143.1m (137.1) of which social security expenses accounted for SEK 27.3m (27.1) and pensions for SEK 9.4m (8.9). Of the Group's total payroll costs, SEK 13.4m (14.1) have been spend on assets and have been capitalized as internally-generated development costs.

	2014		2013	
	Salaries and other remuneration	Social security expenses (of which pension costs)	Salaries and other remuneration	Social security expenses (of which pension costs)
SEK M				
Parent Company	8.2	3.4 (0.8)	7.5	3.2 (0.8)
Subsidiaries	98.2	33.3 (8.6)	93.6	32.8 (8.1)
Total Group	106.4	36.7 (9.4)	101.1	36.0 (8.9)

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

	2014		2013	
	Board, CEO and other senior executives	Other employees	Board, CEO and other senior executives	Other employees
SEK M				
Parent Company	7.0	1.2	6.2	1.3
Subsidiaries in Sweden	2.3	47.1	2.0	47.7
Subsidiaries outside Sweden	1.5	47.3	-	43.9
Total Group	10.8	95.6	8.2	92.9

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 2014 this rule applied to Stefan Skarin. The group of other senior executives was expanded in 2014 to include the four individuals who aside from the CEO made up the Executive Management during the year. The comparative figures for the group of other senior executives for 2013 have been changed to correspond to the same definition of other senior executives as in 2014, and refer to three individuals.

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

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 2014 were unchanged compared to those applied in 2013.

For 2014 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 other senior executives consists of basic salary, variable salary, other benefits and pension. The maximum of variable salary for the CEO and other senior executives 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 2014 was based on the Group's net sales and operating profit. The bonus amount for 2014 was equal to 45% (24) of basic salary.

For the other senior executive, the bonus for 2014 was based on the Group's net sales and operating profit. The bonus amount for the other senior executive for 2014 was equal to 28% (20) 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 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.

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.

Note 6, cont'd

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. For other senior executives, there is a mutual term of notice of between three and six months. All senior executives are entitled to salary and other contractual benefits during the notice period.

REMUNERATION AND OTHER BENEFITS DURING THE YEAR

Remuneration to the Board of Directors, CEO and other senior executives in 2014

SEK M	Basic salary/ board fees		Variable salary		Other benefits		Pension costs		Other remuneration		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Board Chairman Markus Gerdien	0.3	0.2	-	-	-	-	-	-	-	-	0.3	0.2
Board member Peter Larsson	0.1	0.2	-	-	-	-	-	-	-	-	0.1	0.2
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	2.8	1.3	0.7	0.1	0.1	0.3	0.3	-	-	4.5	3.9
Other senior executives	4.8	3.4	1.3	0.7	0.2	0.2	0.8	0.6	-	-	7.1	4.9
Total	8.2	6.8	2.6	1.4	0.3	0.3	1.1	0.9	-	-	12.2	9.4

Note 7 Financial income and expenses

SEK M	Group		Parent Company	
	2014	2013	2014	2013
Interest income	0.4	0.3	0.4	0.2
Dividends from subsidiaries	-	-	-	5.4
Foreign exchange gains	0.2	-	0.0	0.0
Group contributions received	-	-	42.0	10.0
Total financial income	0.6	0.3	42.4	15.6
Interest expenses	-0.1	-0.1	-0.1	-0.0
Foreign exchange differences	-0.0	-0.0	-	-
Finance leases	-0.1	-0.1	-	-
Total financial expenses	-0.2	-0.2	-0.1	-0.0
Net financial items	0.4	0.1	42.3	15.6

Note 8 Income tax expense

The following components are included in income tax expense.

SEK M	Group		Parent Company	
	2014	2013	2014	2013
Current tax on profit for the year	-1.5	-4.5	-	-
Deferred tax	-9.9	-7.0	-8.7	-3.1
Total tax on profit for the year	-11.4	-11.5	-8.7	-3.1

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

SEK M	Group		Parent Company	
	2014	2013	2014	2013
The year's deferred tax expense/income				
intangible assets	-3.0	-2.7	-	-
utilization of loss carryforwards	-9.0	-2.2	-8.7	-3.1
support and upgrade agreements	0.4	-1.7	-	-
untaxed reserves	-	-	-	-
other temporary differences	1.7	-0.4	-	-
Total deferred tax in the income statement	-9.9	-7.0	-8.7	-3.1

SEK M	Group		Parent Company	
	2014	2013	2014	2013
Reconciliation between effective tax and tax based on the applicable tax rate				
Reported profit before tax	53.6	41.3	39.3	19.2
Tax according to the applicable tax rate	-12.7	-11.3	-8.6	-4.3
Tax effect of non-deductible expenses	-0.2	-0.2	-0.1	-0.0
Tax effect of non-taxable income	0.0	0.0	0.0	1.2
Total	-12.9	-11.5	-8.7	-3.1
Prior year adjustments	1.5	-	-	-
Tax on profit for the year according to the income statement	-11.4	-11.5	-8.7	-3.1

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	
	2014	2013	2014	2013
Deferred tax liabilities attributable to intangible assets	-14.0	-11.0	-	-
Deferred tax liabilities attributable to untaxed reserves	-0.3	-0.3	-	-
Deferred tax liabilities attributable to other temporary differences	-0.3	-1.2	-	-
Total deferred tax liabilities	-14.6	-12.5	-	-
Deferred tax assets attributable to loss carryforwards	47.2	56.2	46.2	54.9
Deferred tax assets attributable to support and upgrade agreements	1.3	0.9	-	-
Deferred tax assets attributable to other temporary differences	2.9	2.1	-	-
Total deferred tax assets	51.4	59.2	46.2	54.9
Total deferred tax assets, net	36.8	46.7	46.2	54.9

On the balance sheet date, the Group had total unused loss carryforwards in continuing operations of SEK 214m (255). Based on these loss carryforwards, the Group has recognized a deferred tax asset of SEK 47.2m (56.2). Deferred tax assets are recognized only to the extent that it is probable that these loss carryforwards can be offset against future taxable profits. The assessment of the Group's future earnings performance is based on both reported profit in recent years and on an improved outlook for profitability. The recognized tax assets refer primarily to IAR Systems Group AB.

There is no expiry date for the above loss carryforwards.

Note 9 Earnings per share

	Group	
	2014	2013
Profit, SEK M	42.2	29.9
Basic earnings per share, SEK	3.37	2.59
Diluted earnings per share, SEK	3.34	2.37
Number of shares		
Average number of shares before dilution, millions	12.54	11.53
Average number of shares after dilution, millions	12.63	12.63

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 a exercise price that is lower than the market value per share at the end of the respective period are exercised and new shares issued, (2) the net proceeds

generated by the exercise of warrants is equal to the number of warrants exercised multiplied by the value of the exercise price, (3) the net proceeds are used to repurchase shares at a price equal to the market price per share according to (1) above. The increase in the number of shares in the company is thus equal to the number of shares issued through the exercise of warrants less the number of shares repurchased with the net proceeds received.

Note 10 Intangible assets

Group, SEK M	Goodwill		Trademarks		Customer contracts		Software incl. internally generated software development costs		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Opening cost	110.7	110.7	11.7	11.7	3.4	3.4	63.0	45.5	188.8	171.3
Purchases	-	-	-	-	-	-	27.9	19.2	27.9	19.2
Translation difference	1.7	-	-	-	-	-	-	-	1.7	-
Sales and disposals	-	-	-	-	-	-	-	-1.7	-	-1.7
Closing accumulated cost	112.4	110.7	11.7	11.7	3.4	3.4	90.9	63.0	218.4	188.8
Opening amortization	-	-	-6.8	-6.0	-3.4	-3.4	-14.2	-9.6	-24.4	-19.0
Sales and disposals	-	-	-	-	-	-	-	1.7	-	1.7
The year's amortization	-	-	-0.8	-0.8	-	-	-7.3	-6.3	-8.1	-7.1
Closing accumulated amortization	-	-	-7.6	-6.8	-3.4	-3.4	-21.5	-14.2	-32.5	-24.4
Opening impairment	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-
Closing accumulated impairment	-	-	-	-	-	-	-	-	-	-
Closing carrying amount	112.4	110.7	4.1	4.9	0.0	0.0	69.4	48.8	185.9	164.4

THE YEAR'S INVESTMENTS

Of the year's investments in software including internally-generated software development costs, SEK 11.0m (0.9) has been acquired separately and SEK 16.9m (18.3) consists of internally generated costs. Of the internally generated costs, SEK 13.4m (14.1) refers to personnel expenses.

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. 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 2014.

Note 11 Property, plant and equipment

Group, SEK M	Leasehold improvements		Equipment		Total	
	2014	2013	2014	2013	2014	2013
Opening cost	0.6	0.6	17.2	16.3	17.8	16.9
Purchases	0.0	0.0	3.4	1.6	3.4	1.6
Purchases through finance leases	-	-	1.6	0.8	1.6	0.8
Translation differences	-	-	0.6	-	0.6	-
Sales and disposals	-	-	-2.3	-1.5	-2.3	-1.5
Closing accumulated cost	0.6	0.6	20.5	17.2	21.1	17.8
Opening depreciation	-0.5	-0.4	-11.2	-10.2	-11.7	-10.6
Sales and disposals	-	-	1.4	1.1	1.4	1.1
Translation differences	-	-	-0.5	-	-0.5	-
The year's depreciation of finance leases	-	-	-0.6	-0.6	-0.6	-0.6
The year's depreciation	-0.0	-0.1	-1.7	-1.5	-1.7	-1.6
Closing accumulated depreciation	-0.5	-0.5	-12.6	-11.2	-13.1	-11.7
Closing carrying amount	0.1	0.1	7.9	6.0	8.0	6.1
Parent Company, SEK M						
Opening cost	-	-	0.6	0.5	0.6	0.5
Purchases	-	-	-	0.3	-	0.3
Sales and disposals	-	-	-	-0.2	-	-0.2
Closing accumulated cost	-	-	0.6	0.6	0.6	0.6
Opening depreciation	-	-	-0.2	-0.3	-0.2	-0.3
Sales and disposals	-	-	-	0.2	-	0.2
The year's depreciation	-	-	-0.1	-0.1	-0.1	-0.1
Closing accumulated depreciation	-	-	-0.3	-0.2	-0.3	-0.2
Closing carrying amount	-	-	0.3	0.4	0.3	0.4

OPERATING LEASES

During the year, lease payments under operating leases in the Group amounted to SEK 12.2m (12.2). 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	
	2014	2013	2014	2013
Due for payment within 1 year	12.4	12.0	0.3	0.3
Due for payment within 2 years	5.5	9.0	0.3	0.2
Due for payment within 3 years	4.3	1.6	0.3	-
Due for payment within 4 years	1.3	1.0	0.2	-
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 2014, was SEK 2.9m (3.5).

Accumulated amortization at year-end amounted to SEK 0.6m (1.1). 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 0.6m (0.7) 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	2014	2013
Current portion (due within 1 year)	0.8	1.3
Non-current portion (due within 5 years)	1.5	1.1
Non-current portion (due later than 5 years)	-	-
Total	2.3	2.4

Note 12 Other non-current receivables

SEK M	Group		Parent Company	
	2014	2013	2014	2013
Receivable from NorNor Holding AB	-	3.9	-	3.9
Other	1.5	1.4	0.1	0.1
	1.5	5.3	0.1	4.0

During the year, the previous receivable from NorNor Holding AB which amounted to SEK 4.5m has been converted to a shareholding in NorNor Holding AB. Of the total receivable from NorNor Holding, SEK 3.9m was recognized in non-current receivables and SEK 0.6m in current receivables at 31 December 2013.

Note 13 Other non-current securities

SEK M	Share of capital	Group		Parent Company	
		2014	2013	2014	2013
Shareholding in NorNor Holding AB	15%	4.5	-	4.5	-
		4.5	-	4.5	-

Other non-current securities consist of unlisted shares in NorNor Holding AB. The holding corresponds to approximately 15% of the total number of shares in NorNor Holding AB. The holding is recognized at historical cost, since it is not possible to reliably estimate the fair value. The reason why it has not been possible to reliably estimate the fair value is that the future cash flows are too uncertain. At December 31 the carrying amount was SEK 4,5m. IAR Systems intends to divest the holding.

Note 14 Trade and other receivables

SEK M	Group	
	2014	2013
Trade receivables	39.7	34.5
Provisions for doubtful debts	-0.6	-0.4
Trade receivables, net	39.1	34.1
Prepaid expenses and accrued income	7.5	12.7
Other receivables	3.1	1.9
	49.7	48.7

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, 2014, trade receivables amounting to SEK 7,5m (8,7) 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	
	2014	2013
Less than 3 months	7.5	8.0
3-6 months	0.0	0.5
More than 6 months	0.0	0.2
	7.5	8.7

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

Currency	Group	
	2014	2013
SEK	11.6	12.1
EUR	12.7	13.1
USD	15.7	16.1
Other currencies	9.7	7.4
	49.7	48.7

CHANGES IN PROVISIONS FOR DOUBTFUL DEBTS

SEK M	Group	
	2014	2013
Provisions at January 1	0.4	0.8
The year's provisions for doubtful debts	0.6	0.4
Receivables written off during the year as uncollectable	-0.3	-0.5
Reversed unutilized amount	-0.1	-0.3
Provisions at December 31	0.6	0.4

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.

Note 15 Other current receivables

SEK M	Group		Parent Company	
	2014	2013	2014	2013
Work in progress	1.4	-	-	-
Rent guarantee	0.1	0.1	-	-
Receivable from NorNor Holding AB	-	0.6	-	0.6
Other	1.6	1.2	0.2	0.1
Total other current receivables	3.1	1.9	0.2	0.7

Note 16 Prepaid expenses and accrued income

SEK M	Group		Parent Company	
	2014	2013	2014	2013
Accrued income	0.4	5.2	-	-
Prepaid rents	1.5	1.5	0.1	0.1
Prepaid insurance premiums	1.0	1.1	0.0	0.0
Other prepaid expenses	4.6	4.9	0.2	0.5
Total prepaid expenses and accrued income	7.5	12.7	0.3	0.6

Note 17 Cash and cash equivalents

SEK M	Group		Parent Company	
	2014	2013	2014	2013
Cash and cash equivalents at end of year	70.7	81.8	4.4	44.7
Unutilized committed credit facilities	25.0	25.0	-	-
Total disposable cash and cash equivalents	95.7	106.8	4.4	44.7
Blocked cash and cash equivalents	-	0.7	-	0.7

Note 18 Financial instruments

SEK M, December 31, 2014	Loans and receivables	Other liabilities	Total
Non-current financial assets			
Other financial assets		1.5	1.5
Other non-current securities		4.5	4.5
Current financial receivables			
Trade and other receivables excl. prepaid expenses		41.2	41.2
Cash and cash equivalents			
Cash and cash equivalents		70.7	70.7
Total		117.9	117.9
Non-current liabilities			
Finance lease liabilities		1.5	1.5
Current liabilities			
Finance lease liabilities		0.8	0.8
Trade and other payables excl. non-financial liabilities		5.3	5.3
Total		7.6	7.6

SEK M, December 31, 2013	Loans and receivables	Other liabilities	Total
December 31, 2013			
Non-current financial receivables			
Other financial receivables	4.5		4.5
Current financial receivables			
Trade and other receivables excl. prepaid expenses	35.4		35.4
Blocked cash and cash equivalents	0.7		0.7
Cash and cash equivalents			
Cash and cash equivalents	81.8		81.8
Total	122.4		122.4

Non-current liabilities			
Finance lease liabilities		1.1	1.1
Current liabilities			
Finance lease liabilities		1.3	1.3
Trade and other payables excl. non-financial liabilities		6.4	6.4
Total		8.8	8.8

CASH AND CASH EQUIVALENTS

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

SEK M	Group	
	2014	2013
Cash in hand and at bank	70.7	81.8
Cash and cash equivalents	70.7	81.8

Trade and other receivables

MSEK	Group	
	2014	2013
Trade receivables	39.1	34.1
Other current receivables	3.1	1.9
Trade and other receivables	42.2	36.0

NET BORROWINGS

The Group's net borrowings at December 31, 2014, amounted to SEK -68,4m (-80,1). The table on the next page shows how the Group calculates net borrowings and what they include.

SEK M	Group	
	2014	2013
Current borrowings	-	-
Current portion of non-current borrowings	-	-
Current portion of finance lease liabilities	0.8	1.3
Total current borrowings	0.8	1.3
Non-current borrowings	-	-
Non-current portion of finance lease liabilities	1.5	1.1
Total non-current borrowings	1.5	1.1
Total borrowings	2.3	2.4
Cash and cash equivalents	70.7	81.8
Blocked cash and cash equivalents	-	0.7
Net borrowings	-68.4	-80.1
Bank overdraft facility	25.0	25.0

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

INTEREST-BEARING LIABILITIES

The Group's total interest-bearing liabilities at December 31, 2013, amounted to SEK 2.3m (2.4), of which SEK 1.5m (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 0.8m (1.3). The table below shows the carrying amounts of the Group's interest-bearing liabilities.

Borrowings

Type of loan	Interest rate	Currency	Group	
			2014	2013
Other non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	1.5	1.1
Current portion of non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	0.8	1.3
Bank overdraft facilities	Variable	SEK	-	-
			2.3	2.4

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 is variable and the credit margin is relatively unchanged.

Note 19 Share capital

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

Number of shares:	A shares	B shares	Total number
Parent Company			
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	
Total number of shares at December 31, 2013	100,000	12,244,561	12,344,561
Number at January 1, 2014	100,000	12,244,561	12,344,561
Treasury shares at January 1, 2014		-	
New share issue in 2014		287,500	
Sold in 2014		-	
Total number of shares at December 31, 2014	100,000	12,532,061	12,632,061

The share capital is divided among 12,632,061 shares, of which 100,000 are class A shares and 12,532,061 are class B shares. All shares have a quota value of SEK 10 and grant equal rights to the company's assets and profits. Class A shares grant entitlement to 10 votes and class B shares to one vote. At general shareholder meetings, each holder of voting stock is entitled to exercise the full number of votes held or represented by proxy without restriction.

Note 20 Accrued expenses and prepaid income

SEK M	Group		Parent Company	
	2014	2013	2014	2013
Accrued salaries and social security expenses	10.0	10.0	3.1	3.2
Accrued trade payables	0.1	0.1	0.0	0.0
Prepaid income	42.7	35.8	-	-
Other items	2.6	2.5	0.2	0.4
Total accrued expenses and prepaid income	55.4	48.4	3.3	3.6

Note 21 Pledged assets

SEK M	Group		Parent Company	
	2014	2013	2014	2013
To secure own liabilities				
To secure pensions and similar obligations:				
Direct pension obligations	1.8	1.8	1.4	1.4
To secure liabilities to credit institutions:				
Machinery held under				
- finance leases	2.3	2.4	-	-
Total assets pledged to secure own liabilities	4.1	4.2	1.4	1.4
To secure other commitments				
Blocked cash and cash equivalents	-	0.7	-	0.7
Guarantees	-	-	-	-
Total pledged assets	4.1	4.9	1.4	2.1

Note 22, cont'd

Parent Company holdings

SEK M	Corp. ID no,	Domicile	% of capital	% of votes	No. of shares	Carrying amount 2014	Carrying amount 2013
Direct holdings:							
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
Indirect holdings through subsidiaries							
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	München, 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

Group composition

Information about the Group's composition at the end of the financial year is provided below:

Primary activity	Geographic operations	Dec. 31, 2014	Dec. 31, 2013
Product development	Europe	1	1
Product development	Americas	1	1
Sales office	Europe	3	3
Sales office	Americas	1	1
Sales office	Asia	3	3

Note 22 Shares in Group companies

SEK M	Parent Company	
	2014	2013
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

Subsidiaries

IAR Systems Group conducts operations in a number of different geographical markets, which means that the Group has subsidiaries in many parts of the world. The Parent Company has control over a subsidiary when it is exposed to or has the right to variable returns from its involvement in the subsidiary and has ability to use that power over the subsidiary. All subsidiaries are wholly owned directly, or indirectly, the Parent Company IAR Systems Group AB (publ).

Note 23 Related party transactions

Of the Parent Company's total expenses of SEK 4.5m (4.4), 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 29, 2015, for adoption.

Stockholm, March 17, 2015

Stefan Skarin
President and CEO
Board member

Markus Gardien
Board Chairman

Peter Larsson
Board member

Karin Moberg
Board member

Jonas Mårtensson
Board member

Our auditor's report was submitted on March 17, 2015
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, 2014, to December 31, 2014. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 31-60.

Responsibilities of the Board of Directors and the CEO for the annual accounts and consolidated accounts

The Board of Directors and the CEO are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the CEO determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the CEO, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as of December 31, 2014, 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, 2014, 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, 2014, to December 31, 2014.

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 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.

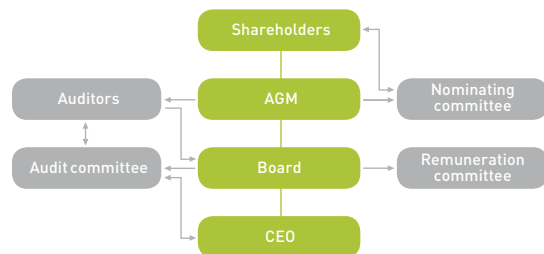
Stockholm, March 17, 2015
Deloitte AB

Erik Olin
Authorized Public Accountant

Corporate governance report

IAR Systems Group is a Swedish public limited company domiciled in Stockholm, Sweden. In 2014 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 Stockholm.

The corporate governance report for 2014 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 Stockholm's Rules for Issuers, which for IAR Systems include application of the Swedish Code of Corporate Governance ("the Code") since July 1, 2008.

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

SHAREHOLDERS

IAR Systems Group's shares have been quoted on NASDAQ 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 12,632,061, 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, 2014, was 8,030 (7,875), of whom 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. For additional information about the shareholders and ownership structure, see pages 26-27.

GENERAL MEETING OF SHAREHOLDERS

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

Notice of a general meeting is given through an announcement in the official gazette Post- och Inrikes Tidningar and on the company's website (www.iar.com). On the date of the notice, an

announcement stating that notice has been given shall be published in Svenska Dagbladet.

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

2014 AGM

The AGM re-elected sitting Board members Markus Gardien, Peter Larsson, Karin Moberg, Jonas Mårtensson and Stefan Skarin. The AGM appointed Markus Gardien 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 in accordance with the Board's proposal to pay a dividend of SEK 5.00 per share for 2013, through a mandatory redemption procedure.

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 member-selected 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 52 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 2014

In 2014 the Board held 13 meetings, of which six were scheduled and seven were extra meetings. Each of the regular meetings followed an approved agenda, and both the proposed agendas and underlying documentation were sent to the Board members prior to each meeting. The CEO and certain other senior executives in the company have taken part in board meetings in a reporting capacity and the company's CFO has served as secretary of the Board. At the board meetings, the Board has dealt with the fixed items on the agenda

BOARD 2014

	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	-	-

for each meeting, such as the business and market situation, financial reporting and monitoring, the financial position and investments.

Key issues at scheduled board meetings in 2014

5/2	IAR Systems annual accounts for 2013
24/4	Interim report for Q1 2014
24/4	Statutory meeting
19/8	Interim report for Q2 2014
20/10	Interim report for Q3 2014
8/12	Budget and business plan for 2015

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 2014 this rule applied to Stefan Skarin.

BOARD COMMITTEES AND COMMITTEE WORK

In order to handle the Board members' independence there are two committees, the remuneration committee and the audit committee, whose

members are appointed by the Board. The main task of these committees is to prepare proposals for decision by the Board. The committees do not constitute any delegation of the legal responsibilities of the Board and its members. The issues dealt with at the committee meetings are reported orally to the Board at the following board meetings. No additional remuneration is paid for work on the Board's committees. See also pages 66-67 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 2014 AGM, at which time Deloitte was elected as auditor to serve for the period until the end of the 2015 AGM. Auditor in Charge is Erik Olin (born in 1973). In addition to IAR Systems Group, he has audit assignments for TeliaSonera Sverige, 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 2014. On one occasion in 2014, 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 0,2m in 2014. The auditor is paid fees in accordance with the decision of the AGM. For information about fees to auditors in 2013 and 2014, see Note 5 on page 50.

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

REMUNERATION TO THE BOARD

SEK thousand	2014	2013
Markus Gerdien, Chairman	300	242
Peter Larsson	125	183
Karin Moberg	125	125
Jonas Mårtensson	125	125
Stefan Skarin	-	-

ATTENDANCE AT BOARD MEETINGS IN 2014

	5/2	17/3	19/3	24/4	24/4 Stat.	7/5	23/5	10/6	19/6	19/8	11/9	20/10	8/12	Total
Markus Gerdien, Chairman	●	●	●	●	●	●	●	●	●	●	●	●	●	13/13
Peter Larsson	●	●	●	●	●	●	●	●	●	●	●	●	●	12/13
Karin Moberg	●	●	●	●	●	●	●	●	●	●	●	●	●	11/13
Jonas Mårtensson	●	●	●	●	●	●	●	●	●	●	●	●	●	12/13
Stefan Skarin	●	●	●	●	●	●	●	●	●	●	●	●	●	13/13

● Attended ● Did not attend

Board monthly with the information needed to monitor the financial position, activities and development of the Parent Company and the Group and keeps the Board Chairman continuously informed about operations.

The CEO takes the necessary measures to ensure that the company's financial accounting and reporting are carried out in compliance with 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 2014 were unchanged compared to those applied in 2013. The group of other senior executives was expanded in 2014 to include the four individuals who aside from the CEO made up the

Executive Management during the year. The comparative figures for the group of other senior executives for 2013 have been changed to correspond to the same definition of other senior executives as in 2014, and refer to three individuals.

For 2014, 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 other senior executives consists of basic salary, variable salary, other benefits and pension. The maximum of variable salary for the CEO and other senior executives 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. For other senior executives, there is a mutual notice period of between three and six months.

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.

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.

REMUNERATION TO THE CEO AND OTHER SENIOR EXECUTIVES 2014

SEK thousand	Year	Fixed salary	Variable salary	Benefits	Pension costs	Total
Stefan Skarin, CEO	2014	2,773	1,257	154	308	4,492
	2013	2,805	675	134	300	3,914
Other senior executives	2014	4,760	1,324	244	806	7,134
	2013	3,389	700	228	632	4,949

Certain subsidiaries in IAR Systems Group have their own financial directors that take part in planning and evaluation of financial results in their units. Regular analysis of financial reporting in the respective units covers significant items such as assets, liabilities, revenue, expenses and cash flow. For

the subsidiaries that do not have their own financial directors, a more in-depth analysis is carried out at the group level. Together with the analysis performed at the group level, this important aspect of internal control contributes to ensuring that the financial reports contain no material misstatements.

The quality of the external financial reports is safeguarded through a number of procedures and routines. 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 2015 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 24, 2014, resolved to appoint a nominating committee according to the following principles. By September 30, 2014, 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 2015 AGM.

The nominating committee has evaluated the Board's performance, qualifications and composition. In its evaluation of the Board, the nominating committee has placed particular emphasis and the requirement for diversity and breadth on the Board and the requirement to strive for an even gender distribution. The nominating committee's

proposals have been announced in the notice to attend the AGM, on the company's website and at the 2015 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 2015 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 2016 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 2014 on pages 62-67 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.

Stockholm, March 17, 2015
Deloitte AB

Erik Olin,
Authorized Public Accountant

Board of Directors

Peter Larsson

Regular Board member.

Born in: 1964.

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

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

Other board assignments: Managing Partner and chairman of Monterro 1 AB. Chairman of Lundalogik AB. Member of the boards of Q-Matic AB, Herculaneum AB, PKL Holdings AB and Axiomatics AB.

Experience: CEO of EpiServer Group AB and Protect AB. Former chairman of Pricer AB, Episerver AB, Q-Matic AB.

Shareholding: 336,590 class B shares (via company).

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 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: 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 DistIT 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 Gerdien

Board Chairman.

Born in: 1960.

Board member: Since 2011.

Education: Computer science and economics, Stockholm University.

Other board assignments: Chairman of Medius AB and Common Agenda Venture Management AB, member of the boards of Emric Partners AB and Apptus Technologies 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.



Peter Larsson

Stefan Skarin

Karin Moberg

Jonas Mårtensson

Markus Gerdien

Group Management

Stefan Skarin

Position: Chief Executive Officer

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: Via endowment insurance

See also Board of Directors on page 68.

Stefan Ström

Position: Chief Financial Officer

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: Via endowment insurance, and 310 class B shares (family)

Steve Egerter

Position: Technical Support Manager

Steve Egerter 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

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: 10,000 class B shares.

Mats Ullström

Position: Production 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: 2,000 class B shares.

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 and sells this to processor manufacturers worldwide. IAR Systems is the tool supplier that supports the most ARM-based processors in the market for embedded systems.

ARM CORTEX ARM Cortex is a product family of low-energy, easy-to-use microprocessors that has been developed to enable partners to develop more functions at a lower cost, simplify reuse of program code and increase power efficiency.

CHIP Another word for an integrated circuit (IC).

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.

C-RUN An add-on product for IAR Embedded Workbench that analyzes the code when it is executed in a developer's application. By using C-RUN, developers can identify errors and bug at an early stage of the development process.

DEBUGGER Computer software that helps programmers to locate problems and errors in the program that they have 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.

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.

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 for the specific hardware.

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, 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.

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 The Internet of Things is a term that refers the trend in which objects and products are connected to the Internet, and can thereby communicate with each other.

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.

RENESAS A processor vendor with a wide product portfolio and a longstanding partnership with IAR Systems. IAR Systems is the tool supplier that supports the most Renesas processors in the market for embedded systems.

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 SUA stands for "Support and Update Agreement". Software products from IAR Systems usually include a 12-month SUA that gives the customer access to new product versions, product updates, technical support, etc.

SAFETY CERTIFICATION When the word is used in connection with IAR Systems' products, it refers to the development tools that are safety certified to meet the needs of customers who develop embedded systems with high demands on safety. IAR Systems offers tools that are certified according to the international standard for functional safety, IEC 61508, and the ISO 26262 standard that is used in the automotive industry.

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.

