



IAR SYSTEMS ANNUAL REPORT 2015

**We are proud to be part of  
the products of today and the innovations of tomorrow**

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## Cover

The cover photo was taken at one of the compiler team's Friday meetings.

## Annual General Meeting

The Annual General Meeting of IAR Systems Group AB (publ), corporate identification number 556400-7200, will be held at 6:00 p.m. on Wednesday, April 27, 2016, at Spårvagnshallarna, Birger Jarlsgatan 57 A in Stockholm.

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

### Notification

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

- be recorded in the register of shareholders maintained by Euroclear Sweden AB not later than Thursday, April 21, 2016.
- provide written notification of their intention to participate in the AGM not later than Thursday, April 21, 2016, to IAR Systems Group AB (publ) at Kungsgatan 33, SE-111 56 Stockholm, Sweden, or via the company's website: [www.iar.com/investors](http://www.iar.com/investors)

The notification should include:

- name, address, telephone number, personal or corporate identification 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 21, 2016. 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 notify the company by the same date and in the same manner applicable to shareholders.



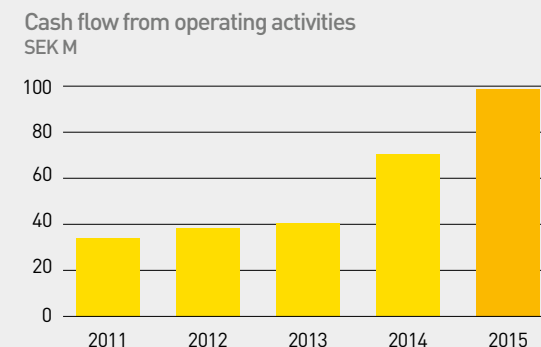
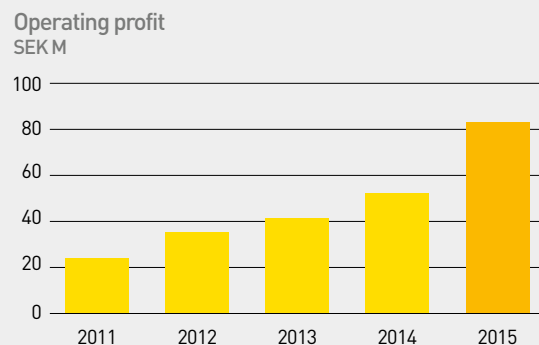
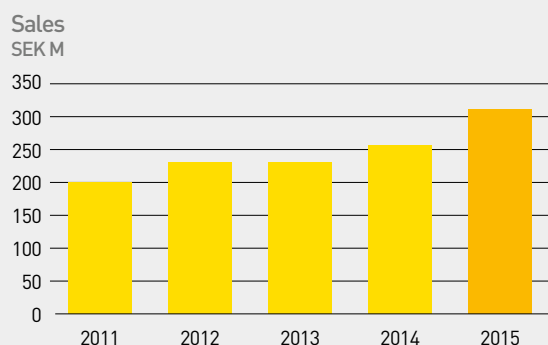
### Financial calendar 2016

Interim report January-March 2016	April 27, 2016
2016 Annual General Meeting	April 27, 2016
Interim report January-June 2016	August 18, 2016
Interim report January-September 2016	October 20, 2016

# IAR Systems in 60 seconds

IAR Systems is the world's leading independent provider of software for programming of processors in embedded systems. IAR Systems' software is used by many of the world's largest corporations, as well as thousands of small and medium-sized companies that develop products based on 8-, 16- and 32-bit processors. The company's customers mainly operate in industrial automation, medical technology, telecommunications, consumer electronics and the automotive industry. IAR Systems Group AB is listed on the Small Cap list of Nasdaq Stockholm.

- Sales SEK 311.7m ▲ +22%
- Operating profit SEK 83.4m ▲ +57%
- Net cash SEK 87.6m ▲ +28%
- Proposed dividend: SEK 5.00  
+ extraordinary dividend of SEK 2.00,  
totaling SEK 7.00 per share ▲ +SEK 2



## Comments from the CEO

# 2015 was an outstanding year!

It was a year of meetings, relationships, opportunities, challenges, new products and record-breaking sales and profit.

We anticipated that 2015 would be a year when the market would present us with exciting new opportunities. Looking back, we can see that this is exactly what happened. Embedded systems, which we have devoted ourselves to for over 30 years, are now found in more places and products than ever before. In 2015, the consolidation of suppliers that has been under way for several years continued, and you don't need a crystal ball developed by IAR Systems to see that it will continue for the next couple of years. We are also part of the Internet of Things, the largest transformation of the IT industry in decades, and this makes us proud of our journey so far.

We promised high ambition! We've continued the successful improvement of our product portfolio, adding yet another add-on product. C-STAT, which complements our code analysis offering, is a bigger success than its predecessor C-RUN, which came out in 2014. Our analysis products are well suited to the growing market for safety-certified products. This is not only because there are now more formal requirements for code; the importance of code quality is also increasing, along with the complexity of the embedded systems being developed today. Our message and offering in the field are growing rapidly, and our technology has put us in an extremely strong position among current digital products.

Sales in our regions are better than they have

been for several years. This demand is mainly attributable to our add-on products, but we are also seeing increased demand for support and maintenance services. Our customers continued to grow and diversify their performance at the global level, resulting in a higher number of global

enterprise agreements. The automotive and medical technology industries are showing the fastest growth rates. When it comes to customers' product requirements, low energy consumption continues to be one of their top objectives. This is one of the factors driving our customers



**“ We are also part of the Internet of Things, the largest transformation of the IT industry in decades, and this makes us proud of our journey so far. ”**



to continuously refine their products by incorporating our technology, thereby gaining superior performance and global support.

It was clear in 2015 that our relationships are important to us. Our relationship with Renesas, which has endured for more than 25 years, has grown into a major future opportunity – not only because we are integrating our technologies and sharing business models, but also because we are creating opportunities in new markets such as the Internet of Things. Together we've created a platform of technologies to guarantee the performance and quality of customers' future innovations, in a shorter time and with less complexity.

We are proud of 2015! We've been in the industry longer than most, and this experience

gives us confidence while also serving as a source of inspiration for the future. 2016 will be about continued interaction, relationships and the refinement of our products. This also most likely means new market opportunities, more consolidations and a changing operating environment.

We are now entering 2016 with a strong belief in the future, a continued ambition and a desire to show our customers, partners and shareholders that we are more prepared than ever.

Stockholm, March 17, 2016

Stefan Skarin  
CEO, IAR Systems Group AB



# Highlights of 2015

- Net sales of SEK 76m (66) and operating profit of SEK 18m (13)
- Cash flow from operating activities amounted to SEK 28m (16)
- The Board of Directors established new financial objectives

- Net sales of SEK 80m (65) and operating profit of SEK 25m (16)
- Cash flow from operating activities amounted to SEK 21m (24)
- Launch of IAR Connect – a portal for the Internet of Things



- Net sales of SEK 77m (62) and operating profit of SEK 20m (11)
- Cash flow from operating activities amounted to SEK 18m (14)
- Launch of C-STAT – an add-on product for code analysis

- Net sales of SEK 79m (62) and operating profit of SEK 20m (13)
- Cash flow from operating activities amounted to SEK 32m (16)
- Launch of strategic partnership with Renesas on the Internet of Things

# Investment case

IAR Systems is the world's leading independent provider of software for programming of processors in embedded systems. Embedded systems are found everywhere today, controlling functions in digital products in many different areas. IAR Systems is a profitable company with a unique offering, a central role in well-established partner networks and new opportunities for growth.

## **A PROFITABLE GROWTH COMPANY**

IAR Systems is in a unique market position thanks to its leading technology. The company was founded over 30 years ago, and since then has continually evolved and refined its products in order to meet customer demand.

Workbench. The model is flexible and can be adapted depending on the number of users the customer needs. This model creates closer relationships with customers at the same time as it generates a consistent revenue stream.

IAR Embedded Workbench supports over 10,000 processors for embedded systems with 8- 16- and 32-bit architecture, 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 customers, since they can maintain their development environment even when they intend to change processors for reasons such as a new project. In addition, with IAR Embedded Workbench developers can reuse 70-80% of the previously developed code when changing to a new processor, producing valuable savings in both time and money.

IAR Systems' product portfolio is continually being refined, and in recent years the company expanded its portfolio by offering add-on products. Aside from driving lucrative additional sales, a broader product portfolio enables IAR Systems to further strengthen its competitiveness.

With IAR Embedded Workbench, customers can develop products that are faster, cheaper and more efficient than before. When customers sign a support contract, they gain access to continual product maintenance and updates as well as worldwide technical support. IAR Systems' support department is well-known and much appreciated for its expertise and quality.

## **In a digitalized global world, the software that IAR Systems offers is a key enabler for the development of smart products.**

IAR Systems is headquartered in Uppsala, Sweden, but due to the company's international reach, over 95% of sales are attributable to markets outside the Nordic region. Most product development takes place in Uppsala, but also to a certain extent in the USA. In addition, there are sales and support offices in Sweden, Germany, France, Japan, China, Korea, the USA and Brazil. IAR Systems is represented in an additional 43 countries around the world through its distributors.

The company has a license-based sales model in which IAR Systems sells a license to a user who is then authorized to use IAR Embedded

## **A UNIQUE OFFERING PROVIDES COMPETITIVE ADVANTAGES**

In a digitalized global world, the software that IAR Systems offers is a key enabler for the development of smart products. Today, smart products are found across all industries – from consumer electronics, medical technology and healthcare to manufacturing and the automotive industry. All smart products contain one or more processors. IAR Systems' IAR Embedded Workbench helps developers program these processors so that they fulfill their function in the embedded system.

cont'd 

IAR Systems has a large and loyal customer base, with a share of repeat customers of about 95%. The main explanation for the high percentage of repeat customers, aside from broad support and a comprehensive offering, is that IAR Systems delivers high-quality and user-friendly products.

### A WORLD-LEADING PLAYER IN A LARGE 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 long-standing knowledge sharing with leading processor makers such as Renesas, NXP, STMicroelectronics and Texas Instruments, as well as the leading supplier of processor licenses ARM, IAR Systems has by far the market's most comprehensive processor support and a completely independent position as a tool supplier. These partnerships also result in exchanges of technology through software integrations with partnering tools and the like, which additionally strengthens IAR Systems' products.

## IAR Systems' role in the market



### NEW GROWTH OPPORTUNITIES

The market is now facing further growth driven by the Internet of Things. Connected products and services have grown enormously in recently years. IAR Systems enables the Internet of Things and innovation in this field by linking products and technologies. 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/C++ developers, has been stable. The Internet of Things will generate increased demand for smart products with embedded systems and therefore also boost the need for C/C++ developers. In addition, many of the developers currently working on some type of IoT-related development in languages other than C/C++ will need to start working with products containing embedded systems, thus becoming potential new users of IAR Systems' products.





**The number of connected products and services have grown enormously in recent years, and this trend will continue.**

# Mission, goals and strategy

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

## BUSINESS MISSION

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

## 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 the operating margin to exceed 25% over a business cycle.

## 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 our relationship with existing customers by gradually expanding our range of products and services.
- To expand our customer base through an increased local presence worldwide.
- To actively develop the ecosystem of partners and thereby defend the company's position as an independent provider of software for embedded systems.

## Sales strategy

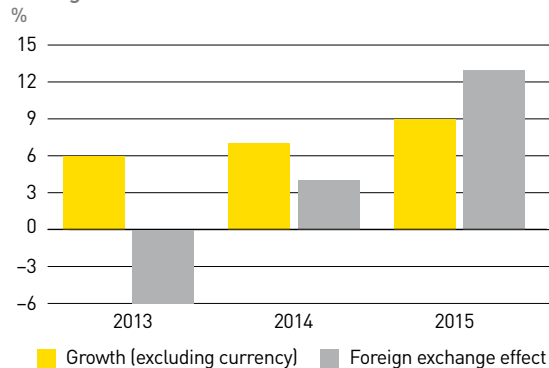
IAR Systems' sales strategy is founded on license-based sales in all geographical regions without focusing on specific industries. The company has global reach through its corporate headquarters in Uppsala, Sweden, and sales offices in Sweden, Brazil, France, Japan, China, South Korea, Germany and the USA. In addition, the company is represented in another 43 countries via distributors.

## Product strategy

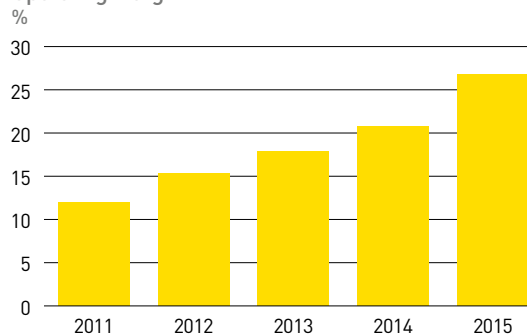
IAR Systems' product strategy is to offer proprietary software for embedded systems development and to offer its customers technological independence in a rapidly evolving environment. For this reason, the company continuously invests in innovation and development at its Uppsala headquarters and Los Angeles office. IAR Systems owns the rights to all of its products and services.

Product development is focused mainly on enhancement of product features and functionality, as well as adaptation to increasingly demanding processors and embedded systems. IAR Systems' software is independent in relation to vendors of processors for embedded systems.

Sales growth



Operating margin



**IAR Systems' product strategy is to offer proprietary software for embedded systems development and to offer its customers technological independence in a rapidly evolving environment.**



**Ambition 2015**

**Outcome 2015**

**Ambition 2016**

Launch more products that cater to our existing customer base in order to increase sales potential.

Increase the number and scope of global agreements with the company's most important customers.

Establish additional support services for new and existing customers.

Launch of C-STAT as another add-on product for the analysis of code, in addition to C-RUN which was launched in 2014.

110 new enterprise agreements were signed in 2015, many of which were of major strategic importance.

The number of company-specific training courses has grown as the number of scheduled courses has increased.

Continue to launch more products that cater to our existing customer base in order to increase sales potential.

Continue to refine our strategic partnership with Renesas in the market for the Internet of Things.

Evaluate complementary business models based on simplifying and streamlining use of our technology.

# Market and customers

IAR Systems' customers are companies that develop digital products. The company's customers operate in many industries such as industrial automation, medical technology, telecommunications, consumer electronics and the automotive industry. The ongoing spread of digital technology is leading to steady growth in the number of companies and developers working on 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 products and new application areas where processors are used is rising steadily. A few examples of fast-growing areas are:

- The automotive industry, through a growing number of functions such as safety systems, backup cameras, and media and navigation systems.
- Healthcare and medical technology, for applications such as more advanced blood pressure and pulse meters, defibrillators, pacemakers, X-ray equipment, etc.
- The industrial sector, for automated processes and expanded machine control, greater use of industrial robots, etc.
- The Internet of Things in many areas, such as smart homes, wearables, smart cities, etc.

## **A GREATER NEED FOR ENERGY-EFFICIENT SOLUTIONS**

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 need to find energy-efficient solutions has generated strong demand for low-energy processors and tools that support development of these solutions. The advance of the Internet of Things means that more

and more of the products that are programmed also require a connection to the Internet for communication and control. This growth in energy-efficient solutions is continually rising, which illustrates how important it is that IAR Systems remain innovative in terms of solutions for energy-efficient programming of processors.

## **REQUIREMENTS FOR STREAMLINED PRODUCT DEVELOPMENT**

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 fueling demand for solutions that enable code from earlier projects to be reused, since this both streamlines the development process and results in shorter lead times.

Of all the tool vendors in the market, IAR Systems' development tools support the greatest number processors and thereby offer the ability to reuse code. Development projects get off the ground quickly since developers do not need to learn new tools.

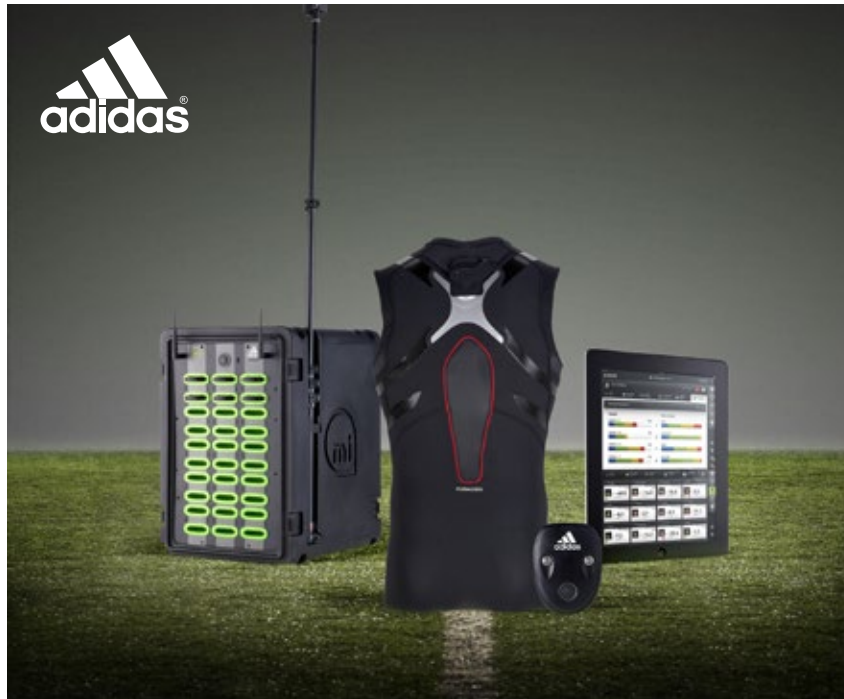
## **GROWING COMPLEXITY OF PRODUCTS AND SYSTEMS**

Embedded systems may require processors of varying complexity. In simple terms, these differences can be divided into 8-, 16- and 32-bit processors, of

which 32-bit are the most advanced. IAR Systems' tool suite, IAR Embedded Workbench, supports all of these processor architectures. Today, the 32-bit segment accounts for the largest share of sales, but in recent years the 8-bit segment has seen an upturn thanks to the Internet of Things. As the processors become increasingly powerful and more advanced, this paves the way for more advanced systems. 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 and middleware.

## **CODE QUALITY AND SECURITY REQUIREMENTS**

Today, more and more safety features in the industrial, automotive and medical technology areas are controlled by processors. With embedded systems now becoming safety-critical, the need for control and certification of these systems is being heightened. As a result, it is important to many customers that their development tools comply with applicable industry standards such as MISRA-C. Many customers require the tools to be thoroughly tested and documented, which facilitates certification of their products. IAR Systems' products for ARM, Renesas RX and Renesas RL78 are certified for safety-critical development by the German certification agency TÜV SÜD.



## adidas selects IAR Systems for development of smart personal physiological system

Products for the Internet of Things are becoming increasingly popular, and wearables that monitor personal health and workout results are a major trend.

adidas AG in Germany has used IAR Systems' IAR Embedded Workbench to develop exactly this type of product. The adidas miCoach Elite Team System is the first system of its kind that uses personal physiological data in real time. The system measures and analyzes players' physiological data and transmits it directly, for example, to the coach on the side-line. This provides the coach with good insight into player performance and work rate. The system has already been used by several football clubs around the world.

In addition to the miCoach project, adidas has used software from IAR Systems in other development projects for several years.

In 2014, IAR Systems launched its first proprietary add-on product C-RUN, and the company's second add-on product, C-STAT, came out in 2015. These tools enable complete code analysis that is clear and user-friendly. In addition to ensuring code quality throughout the entire process, developers can use C-STAT to ensure compliance with industrial requirements and coding standards. Both C-RUN and C-STAT meet customers' need for efficient and cost-saving development processes.

### CONSOLIDATION OF THE MARKET

One clear trend in recent years is the continuing consolidation of the market through a number of major and minor acquisitions. In 2015, several major processor vendors and other players announced mergers in order to strengthen their positions by expanding and deepening their product portfolios.

One major player in the market is UK-based ARM Holding, which develops standards for processors. ARM Holding has established a strong market position, leading more and more manufacturers to abandon their own designs and use ARM's standards for their new processors instead. Despite the consolidation of both technology and vendors in the market, IAR Systems has strong viability thanks to its broad and independent market position.

### INCREASED NEED FOR USER-FRIENDLY DEVELOPMENT TOOLS

Despite growing use of more advanced processors, companies still frequently use a combination of 8-, 16- and 32-bit processors. 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 through the use of a single tool chain. 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. IAR Embedded Workbench offers all of this.

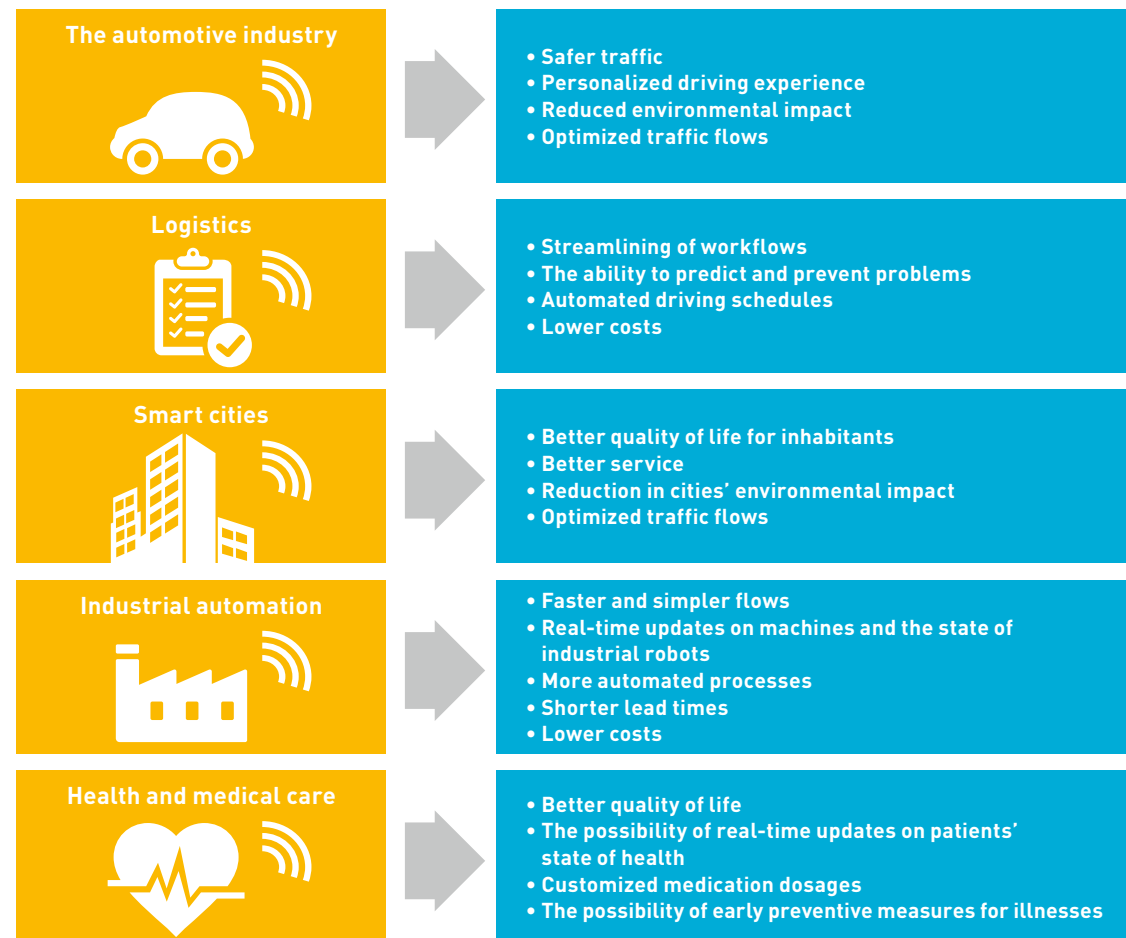
# The Internet of Things drives growth

The Internet of Things is a collective term for the trend to equip machinery, vehicles, household appliances, etc. with sensors and processors so that they can perceive and communicate with the world around them. This trend has tremendous potential and is creating many exciting opportunities for both companies and individuals.

## Opportunities presented by the Internet of Things

For many people and companies, the Internet of Things and the connected world have already changed and improved life in numerous ways. Essentially all industries have products that could be utilized even more through improved communication and the ability to connect through the Internet of Things. This does not necessarily mean that everything is connected to the Internet; it might also apply to networks within companies and industries. The Internet of Things and the enormous quantity of information that can be obtained from objects and people makes it possible to create smart, attractive and helpful goods and services.

The Internet of Things involves a number of security aspects. As more and more data is collected from both machines and humans, the most important question is how to manage and store sensitive and functional data, but the design of automatic processes, for example, may also be an issue. Stable technical solutions combined with awareness is the key to solving these challenges.





# IAR CONNECT

## IAR SYSTEMS' PORTAL FOR THE INTERNET OF THINGS

To meet the demands of the connected world, new product innovations must be brought to market fast and easy. More and more development teams are without geographical boundaries and should have high-quality solutions and the support they need brought right to them. The solutions should support current needs, as well as future requirements. IAR Connect represents this next-generation embedded development that is globalized, customized and simplified.

IAR Connect is a portal that displays development platforms and alliances within the Internet of Things. The portal also serves as a meeting place for people interested in the Internet of Things and emerging technologies that are rapidly advancing.



*The best way to take advantage of the possibilities of the new connected world is by providing new technology offerings, sharing knowledge and establishing strategic alliances.*

*With IAR Connect, we enable innovation by connecting people and technologies, and I am confident that IAR Connect will inspire and give everyone who is interested an opportunity to explore the potential of the Internet of Things.*

Stefan Skarin



[www.iarconnect.com](http://www.iarconnect.com)



# Products and technology

IAR Systems develops and sells proprietary development tools that are used by companies all over the world to program processors in embedded systems.

**Petter Edman, CTO**

The company's flagship product, IAR Embedded Workbench, is a complete high-performance toolchain. IAR Embedded Workbench is available in 22 different versions in order to match different types of processors. It is continually updated with support for new processors and improved functionality. Customers may purchase a complete technical support package, which provides access to technical support from IAR Systems' high-quality worldwide support organization, as well as continuous product maintenance. In addition to IAR Embedded Workbench, IAR Systems offers several complementary products.

**“ Everything is available from the same environment, and it only takes five minutes to get going.**

CTO Petter Edman is primarily focused on IAR Systems' long-term strategic technology development. He works closely with product managers and is surrounded by a large team of developers. He also stays in touch with IAR Systems' extensive network of industry partners in order to stay up to date on what is happening at their companies.

*How would you describe IAR Systems' offering from your point of view?*

I think that our offering is the most advanced in the market. Our compiler technology in IAR Embedded Workbench is best in class, and the majority of processor vendors choose to publish benchmarks for the code speed, size and low energy consumption they achieve with our tools because they produce the best results. In my opinion, our debugger is the easiest to use in the market while also being one of the most powerful. In addition, we have the add-on tools C-RUN and C-STAT, which help users analyze and locate elusive problems. Everything is available from the same environment, and it only takes five minutes to get going.



**What have you focused on as CTO in 2015?**

The biggest event in our product portfolio by far last year was the launch of our C-STAT analysis tool, which was also number one on my priority list by a wide margin. Of course, when you've been working so hard on something for a long time, it's particularly gratifying to see it receive such a positive reception from customers. Sales have exceed our expectations, if anything. We also recruited some new people and made some minor changes to the organization during the year. One major event was the appointment of a new manager for the development department.

This recruitment gives me the ability to devote myself more fully to our technology.

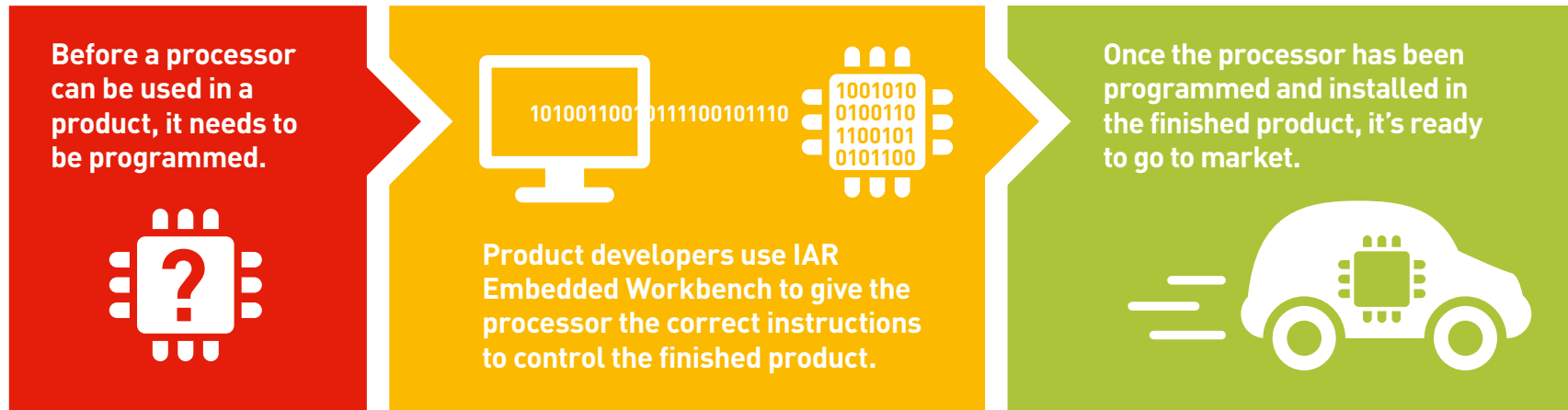
**What sort of challenges and opportunities do you anticipate in the year ahead?**

In 2016, we'll continue to refine our products by adding support for new processors and honing our compiler technology. We are also planning several improvements to our debugger and C-STAT, as well as numerous secret projects.

Looking ahead to the longer term, my objective is to ensure that we maintain and strengthen our position as the market's leading supplier

of development tools. The world is constantly changing and posing new demands, but throughout our long and successful history, we at IAR Systems have shown that we're capable of rapid change and development. It's part of our DNA. With a company like this and all of the capable employees around me, I'm confident that we have a bright and exciting future ahead of us!

## IAR Systems' role in its customers' product development



# Newcomer to the product family: C-STAT

IAR Systems has launched several add-on products for code analysis in recent years to strengthen its offering. In 2015, the company launched C-STAT, an add-on product that performs static code analysis.

Static code analysis means that the tool is doing an analysis on the source code level, enabling developers to verify the quality of the code at an early stage and ensure compliance with rules and coding standards. In 2014, the company launched

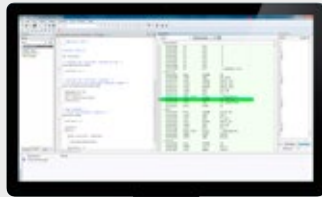
C-RUN, which makes it possible to analyze code by monitoring application execution. Using both C-STAT and C-RUN gives developers total control over their code throughout the entire development process. These add-on products are completely

integrated with IAR Embedded Workbench and they do not require a separate installation, allowing developers to get started quickly.

## How do developers use IAR Embedded Workbench with C-STAT and C-RUN?

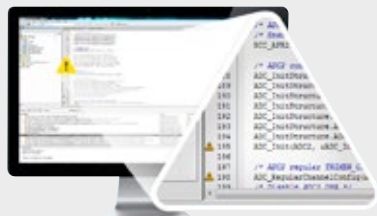
### STEP 1

The developer implements the project's design in code in IAR Embedded Workbench.



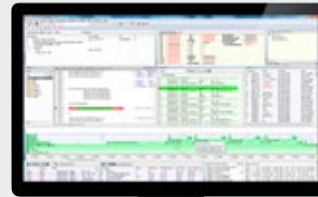
### C-STAT analyzes the source code.

The developer goes over potential problems in the code detected by C-STAT.



### STEP 2

IAR Embedded Workbench helps the developer build and debug the project.



### C-RUN analyzes the project.

The developer uses C-RUN to investigate the errors that occurred when executing the code.

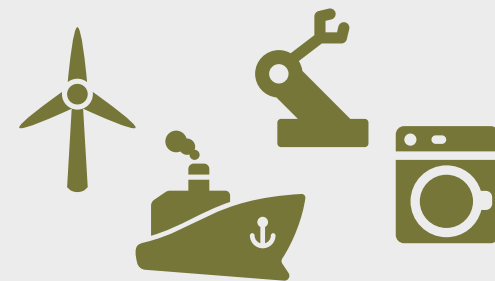


### STEP 3

The project is complete, and the project can go on to production for the market.



### Ready for production!



# Landis+Gyr are using C-STAT

Landis+Gyr is the largest global player in smart metering. The company offers meters and solutions that empower utilities and end-customers around the world to improve their energy efficiency, reduce their energy costs and contribute to a sustainable use of resources. Since several years, the company is a customer of IAR Systems.

Landis+Gyr was founded in 1896, and is an independent growth platform of the Toshiba Corporation (TKY: 6502) and 40% owned by the Innovation Network Corporation of Japan (INCJ). The company has annual sales of more than USD 1.5 billion, operates in 31 countries across five continents, and employs more than 5,700 people. More information is available at [Landisgyr.com](http://Landisgyr.com)



As a long-standing customer of IAR Systems, Landis+Gyr has been using IAR Embedded Workbench in several development projects during many years. Ian McNutt, Global Head of R&D Industrial and Grid Metering, Smart Grid and Load Management at Landis+Gyr, comments:

*The compiler and the other parts in IAR Embedded Workbench are proven over a number of years to be of a high quality covering a wide range of micro controllers from several processor manufacturers. The combination of the tools and the flexible licensing model and support provided by IAR Systems completes the package for us.*



During 2015, Landis+Gyr started using the code analysis tool C-STAT.

*The main reason for us when we chose to start using C-STAT was that we are always striving to improve the quality of our products. When firmware is becoming more and more complex, we need tools which can help us find bugs early in the development process in order to reduce time to market and development costs, and improve the final product quality. C-STAT provides a good balance between tool cost and the available features.*



C-STAT is being used on six sites within Landis+Gyr.

*C-STAT is easy to integrate into our development process and quickly indicates where errors or potential problems exist in the code. Our Software Engineers using the tool were soon won over and now see a clear benefit of using the tool in the product development.*



## Behind the scenes at IAR Systems

# Meet Ambjörn, one of our developers

About 60 developers work on IAR Systems' products at our Uppsala office. Ambjörn Lundgren is one of them.

IAR Systems' development department is a place where people stay for a long time. Ambjörn has worked there for 17 years and has a lot of positive things to say.

### *What do you do at IAR Systems?*

I'm a programmer and I mostly work on IAR Embedded Workbench and our license management system.

### *What happens during a typical workday?*

I like mornings the best. I start by reading my notes from the end of the previous day to orient myself. Next I check my email. If there's nothing urgent like a support case, I get a cup of coffee and think about what I'm going to do next. Then I sit down at the computer, often cross-legged, sip my coffee and figure out what I'm going to do. I've usually gotten through quite a lot when it's time for the morning coffee break at 9:00. After our coffee break, the project team I'm working with for the time being confers briefly before starting in on that day's work. Then I forge ahead during the day.

### *What's the most fun thing about your job?*

I think it's producing something that's really user-friendly, for example, using the feedback we get from users to create something really good. This really makes me happy.

### *What three traits do you think best describe IAR Systems?*

**Positive stress** – I can't speak for everyone at IAR Systems, but in my view the company makes sure that all stress is positive stress. As a result, you're always welcome to discuss things over with your colleagues. This increases our sense of solidarity, and it certainly seems more efficient to ask someone who knows about something rather than reinventing the wheel. Plus it makes you happy to help someone else, and to be an expert in your area.

**Consideration** – The company cares about its employees. There's never any trouble if you want to take parental leave, for example, or if you need an ergonomic chair.

**Low employee turnover** – Most of the developers have worked for the company for over ten years. Young people join the company, but very few people leave. As a result, many developers have a lot of experience to base their decisions on and expertise in their areas. This also leads to an emphasis on quality. As a developer, you don't want to cobble together something mediocre if you know that you'll be working with the code for a long time.

# Ambjörn's day

- 08:15** Report my hours for the end of last week and the day before.
- 08:17** Check my notes about what I was working on yesterday before I left the office. Oh that's right, we were having problems with a new project that called a .flash file instead of a .board file. I have to dig into that one. But first, time to check my email.
- 08:19** Got a support request email and had a cup of coffee.
- 08:45** Support email resolved.
- 09:00** Coffee break
- 09:30** Call in a colleague to help me identify the problem with the flash files.
- 10:00** Global update (monthly meeting for all employees). We get a report about how things went at trade fairs and conferences etc.
- 10:45** Time to get a grip on the .flash files. Just have to check my email before I begin. Two new emails from the manager of the license management system, and one reply to my email from this morning. The email this morning: it doesn't seem to have anything to do with the generation of the evaluation license. Root around a bit in the documentation and send another reply to the support department. Check an email from the boss. Walk over and discuss the issue with her. We decide that this is something we need to take care of. I add it as a new case in our case management system.
- 11:30** Lunch
- 12:22** Dig into the problem that my colleague and I identified earlier today.
- 1:00** Meeting on long-term architecture visions for our products.
- 2:12** Back from the meeting. Continue to work on today's tasks.
- 5:12** Check in the source code in the shared code database and go home.



# Our cooperation with Renesas

Renesas and IAR Systems have had a close partnership for more than 25 years. During 2015, this cooperation was further strengthened as IAR Systems' development tools are the only commercial tools that are part of the Renesas Synergy Platform.



**Ali Sebt is the President of Renesas Electronics America, and the Senior Vice President of Renesas Electronics. He is also driving the Internet of Things strategy for Renesas.**

*From your perspective, how have you seen the relationship between Renesas and IAR Systems evolve until today and how will it further evolve?*

Our long-term relationship has evolved into a partnership. Over the past two and a half decades, we have shared experience and knowledge to ensure that our mutual customers have access to IAR Systems' world-class solutions and can take full advantage of the potential of our microcontrollers. Now we are entering an era of platform focus.

With cooperation around the platforms, we enable customers to focus on their core competencies and less on building infrastructures.

*The embedded market has been under consolidation for a few years, especially when it comes to semiconductor vendors such as Renesas. How do you see this evolution continue, and how do you see the embedded market evolve in a long-term perspective?*

The current massive consolidation wave is a natural phenomenon that our industry has and will experience when certain semiconductor solutions become commodities. The emergence of IoT will force the embedded market to undergo changes that have parallels to the enterprise world when IT technologies became prevalent. Therefore, the embedded world will evolve from a sale of products to a sale of products and services. When embedded machines get connected, cloud-based technologies will enable the sale of services. And similarly, just as IT in the enterprise world enabled a "pay as you go" model, IoT will create the same paradigm for embedded applications and services.

*During 2015, you launched the Renesas Synergy Platform, which is ground breaking and very innovative in a very traditional market. What were the main reasons for creating the Renesas Synergy Platform?*

When we architected the Renesas Synergy Platform, we took into consideration that IoT will quickly separate the "haves" and "the have nots."

To develop a traditional non-connected embedded machine with fixed functions is a completely different thing compared to developing a connected machine with multi-dimensional functions.

**“With cooperation around the platforms, we enable customers to focus on their core competencies and less on building infrastructures.”**

To develop an IoT-based machine, developers will need commercial and stable technical solutions as well as new levels of design environment flexibility. These new requirements are expensive both in terms of cost and competence. The Renesas Synergy Platform provides a great deal of these assets in a shrink wrap package for customers to get started.

*2015 was a very successful year for Renesas. What do you wish for in 2016?*

For 2016, I am convinced that Renesas' proven best-in-class quality along with innovations in the field of IoT and automotive will continue to empower our customers to grow in their respective markets.



**You run into products  
programmed with tools from  
IAR Systems everywhere you go.**

# Meet some of IAR Systems' employees!



**Nathalie Bringeland, System Developer**

Nathalie works on system development with a particular focus on our customer management system. She studied a research program at Uppsala University's faculty of medicine. Her research centered on data analysis and visualization of epigenetics and its role in childhood obesity.

*I've been working at IAR Systems for about six months, and I felt from the beginning that IAR Systems has an extremely friendly and welcoming atmosphere, where there's plenty of leeway to be yourself on the job. My colleagues are gifted, skilled and truly enthusiastic about their work. I think this is related to the fact that our colleagues and managers value and highlight everyone's work. Right now, I'm the only woman in the IT department, but the only thing I did was to look for a job that combines my professional and personal interests!* ”

**Lotta Frimanson, Product Manager**

Lotta is the product manager for several versions of IAR Embedded Workbench, as well as the person in charge of our RTOS partner program. She has an M.Sc. in Engineering Physics from Uppsala University.

*The rapid pace of development in the embedded systems market creates new challenges and new things to learn every day. IAR Systems is truly a global company, and I have the privilege of working with numerous partners and colleagues around the world.* ”







**Tora Fridholm, Global Marketing Manager**

Tora is the Global Marketing Manager and is in charge of product marketing. She has a Masters degree in language technology/computational linguistics from Uppsala University.

*The embedded systems industry is growing tremendously thanks to major interest in the Internet of Things, and it's really exciting to be an active part of this development. One of the major challenges of my job is to communicate at multiple levels: we have to explain our offering at both a high business level and a detailed technical level. I love finding the perfect wording for a press release, or a graphic image that brings our website to a new level. But of course, the best thing of all is meeting our users and partners face to face, for example, at industry trade fairs around the world.*



**Susanne Dahlén, Documentation Manager**

Susanne is in charge of the group that produces user documentation for the company's products. She studied both computer science and languages at university to gain the combination of skills that is required in her professional role. Susanne is also the Chairman of the Swedish Association for Technical Communicators.

*Producing user documentation is fun since it entails an exciting mix of language, technology, communication and teamwork. And getting to do this at IAR Systems is particularly interesting, since there's scope for continuous improvement and I get to have a lot of say in my work.*



# IAR Systems – a global workplace

IAR Systems has 164 employees in eight countries, with the majority working at IAR Systems' headquarters in Uppsala. About 60 people work on IAR Systems' technology and products. The rest are distributed among sales, support, marketing, sales engineers, IT/administration, and product and technology development. About 86% of our employees hold a degree from a university or technical institute.

## A KNOWLEDGE-INTENSIVE WORKPLACE

The company's global organization and its enduring passion for product development attract skilled and talented people to the company in all of the countries where it operates. Our employees' diverse cultural backgrounds, unique perspectives and local knowledge 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 among highly qualified and motivated employees, IAR Systems creates the most competitive customer solutions.

## CUTTING-EDGE EXPERTISE IN TECHNOLOGY AND CUSTOMER RELATIONSHIPS

IAR Systems' key competencies are in the areas of technology development and customer relationships. Training and the exchange of experiences contribute to strengthening loyalty and the company's culture encourages knowledge sharing and development among employees.

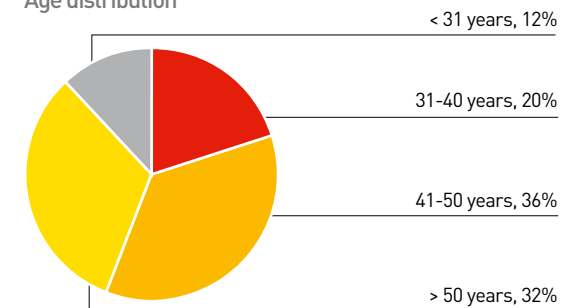
## SUSTAINABLE RESPONSIBILITY

IAR Systems is a company that operates all over the world, and therefore its employees are used to thinking from a global perspective. The company's

policy is for all employees to have a healthy working environment, to recycle office materials, and for health and fitness activities and social interaction in the workplace to be important factors for success. IAR Systems' employees develop and sell software, and by delivering this to customers electronically rather than physically, the company takes major responsibility in minimizing the environmental impact of its products. In addition, the company offers a sponsorship program, the IAR Green Innovation Program, to promote innovative development projects focusing on environmentally friendly digital technology.



Age distribution



Employees	2015	2014	2013	2012
Number of employees	164	169	160	149
Gender distribution, %				
Men	74	74	74	72
Women	26	26	26	28



***Thomas Sporrang, Global Field Application Engineer (FAE) Manager, explains what it's like to work at IAR Systems from a global perspective.***

I started my career at IAR Systems in Uppsala 13 years ago, and today I work from our Boston office. In my early career as a traveling application engineer/FAE in Europe, I gained useful experience in customers' challenges and opportunities in the area of embedded systems. I also saw how our software clearly makes a huge difference in customers' daily jobs as they work to achieve their ambitious goals. Today, my role means managing other application engineers. Having the opportunity to do this from our Boston office is proof of the kind of global organization we have today and the opportunities available for IAR Systems employees.

There are lots of exciting aspects to working at IAR Systems. One thing I personally think is truly exciting, year after year, is meeting with customers all over the world. Our customers are facing similar challenges whether they're developing cars, consumer electronics, medical equipment or industrial applications: pressure to make development deadlines, ambitious objectives and tough competition, and they also have tremendous pride and commitment to the products they're developing.

Getting to travel around and be a representative for IAR Systems' high-quality products and discuss solutions to customers' challenges is always a positive experience. I'm often struck at these meetings by IAR Systems' excellent reputation and the respect it has from its customers, regardless of whether they're in San Francisco, Seoul, Tokyo, Munich or Stockholm.

Working globally has become something of a lifestyle for me – to find yourself in a constant process of learning, traveling and competing, and to feel the energy in IAR Systems' organization. There's always something extra exciting going on in one of our offices around the world! Today, IAR Systems is a true global workplace, where you have daily contact with colleagues from different parts of the world and we know each other even across national borders. Regardless of which office in the world I'm visiting, I always feel just as welcome, and feeling the ambition and drive in the organization is a tremendous source of energy.

# The IAR Systems share

IAR Systems Group's class B share is quoted on the Small Cap list of Nasdaq Stockholm, under the ticker symbol IAR. The share price at December 31, 2015, was SEK 150.00 (74.75) and market capitalization was SEK 1,895m (944).

## 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 2015, the share price (last price paid, reinvested value) varied from a low of SEK 75.00 (39.77) to a high of SEK 156.00 (80.75). The share price at December 31, 2015, was SEK 150.00 (74.75). IAR Systems Group's market capitalization on the same date was SEK 1,895m (944).

The number of shareholders in IAR Systems Group at December 31, 2015, was 8,946 (8,030). Of these shareholders, 562 (479) held more than 1,000 shares each. Foreign shareholders held approximately 16% (20) of the share capital and 15% (19) of the votes.

At December 31, 2015, IAR Systems Groups' share capital 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.

## DIVIDEND PROPOSAL

The Board of Directors intends to propose to the AGM on April 27, 2016, a dividend of SEK 7.00 (5.00) per share.

## DIVIDEND POLICY

The Board of Directors aims 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

## 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	Split 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.*

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

## 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

## LARGEST SHAREHOLDERS AT DECEMBER 31, 2015<sup>1</sup>

	Number of class A shares	Number of class B shares	Total no. of shares	% of capital	Total no. of votes	% of votes
Catella Småbolagsfond		1,157,646	1,157,646	9.2	1,157,646	8.6
Handelsbanken Fonder		1,043,644	1,043,644	8.2	1,043,644	7.7
Swedbank Robur Fonder		994,083	994,083	7.9	994,083	7.4
Andra AP-fonden		974,530	974,530	7.7	974,530	7.2
Ribbskottet AB		800,000	800,000	6.3	800,000	5.9
Försäkringsaktiebolaget Avanza Pension		557,712	557,712	4.4	557,712	4.1
Första AP-fonden		500,000	500,000	4.0	500,000	3.7
Skandinaviska Enskilda Banken SA		270,571	270,571	2.1	270,571	2.0
Danica Pension	100,000	134,290	234,290	1.9	1,134,290	8.4
Theodor Jeansson		230,000	230,000	1.8	230,000	1.7
Stefan Engqvist		215,000	215,000	1.7	215,000	1.6
State Street Bank & Trust Com., Boston		180,000	180,000	1.4	180,000	1.3
Jonas Wikström		153,000	153,000	1.2	153,000	1.1
Kristoffer Jeansson		150,000	150,000	1.2	150,000	1.1
Thomas Wenhoff		150,000	150,000	1.2	150,000	1.1
<b>Total 15 largest shareholders</b>	<b>100,000</b>	<b>7,510,476</b>	<b>7,610,476</b>	<b>60.2</b>	<b>8,510,476</b>	<b>62.9</b>
Other		5,021,585	5,021,585	39.8	5,021,585	37.1
<b>Total</b>	<b>100,000</b>	<b>12,532,061</b>	<b>12,632,061</b>	<b>100.0</b>	<b>13,532,061</b>	<b>100.0</b>

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

## DISTRIBUTION OF SHAREHOLDINGS AT DECEMBER 31, 2015<sup>1</sup>

	Number of class A shares	Number of class B shares	Total no. of shares	% of capital	Total no. of votes	% of votes	No. of shareholders	% of shareholders
1-100	-	182,687	182,687	1.5	182,687	1.4	5,801	64.8
101-1 000	-	966,318	966,318	7.6	966,318	7.1	2,583	28.9
1 001-5 000	-	938,898	938,898	7.4	938,898	6.9	416	4.7
5 001-10 000	-	392,795	392,795	3.1	392,795	2.9	52	0.6
10 001-	100,000	10,051,363	10,151,363	80.4	11,051,363	81.7	94	1.0
<b>Total</b>	<b>100,000</b>	<b>12,532,061</b>	<b>12,632,061</b>	<b>100.0</b>	<b>13,532,061</b>	<b>100.0</b>	<b>8,946</b>	<b>100.0</b>

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

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 are to be acquired on Nasdaq Stockholm at a 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, disapplying the shareholder's preemptive rights, or as payment for the acquisition of a company or operation.

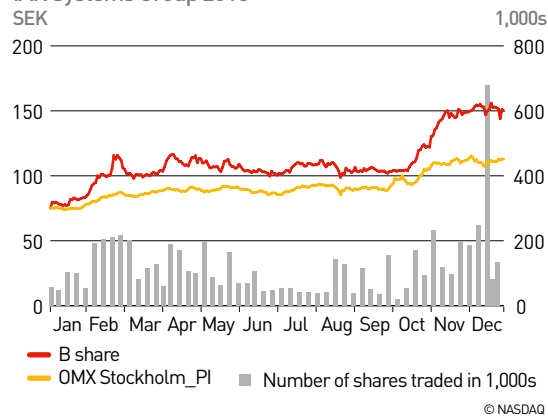
## SHARE DATA

	2015	2014
Equity per share, SEK	23.03	22.85
No. of shares at end of year, millions	12.63	12.63
Average no. of shares, millions	12.63	12.54
Cash flow from operating activities, per share, SEK	7.81	5.61
Earnings per share, SEK <sup>1</sup>	5.02	3.37
Dividend or equivalent per share, SEK <sup>2</sup>	7.00	5.00
Number of shareholders	8,946	8,030
Last price paid on December 31 or similar, SEK	150.00	74.75

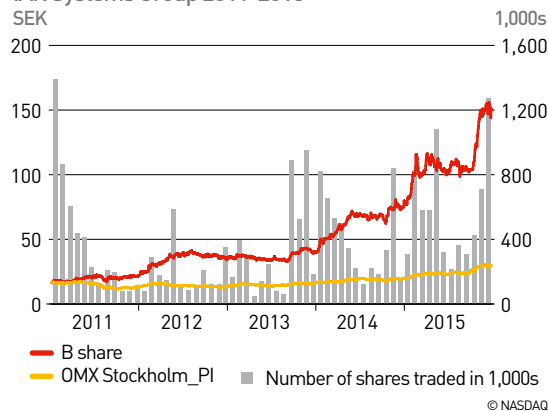
<sup>1</sup> Basic earnings per share.

<sup>2</sup> 2015 cash dividend as proposed.

## IAR Systems Group 2015



## IAR Systems Group 2011-2015



# Financial overview

INCOME STATEMENTS, SEK M	2015	2014	2013	2012	2011
Net sales	311.7	255.7	230.2	230.1	200.4
Other operating income	-	-	6.0	-	-
Operating expenses	-213.4	-192.1	-185.6	-188.3	-171.0
Depreciation of property, plant and equipment	-2.5	-2.3	-2.2	-2.3	-1.7
Amortization of intangible assets	-12.4	-8.1	-7.1	-4.3	-3.7
<b>Operating profit</b>	<b>83.4</b>	<b>53.2</b>	<b>41.3</b>	<b>35.2</b>	<b>24.0</b>
Result from financial investments	-0.1	0.4	0.1	-0.1	0.1
<b>Profit before tax</b>	<b>83.3</b>	<b>53.6</b>	<b>41.4</b>	<b>35.1</b>	<b>24.1</b>
Tax	-19.9	-11.4	-11.5	-22.1	2.9
<b>Profit after tax</b>	<b>63.4</b>	<b>42.2</b>	<b>29.9</b>	<b>13.0</b>	<b>27.0</b>
Profit/loss from operations distributed/sold	-	-	-	-	-45.8
<b>PROFIT FOR THE YEAR</b>	<b>63.4</b>	<b>42.2</b>	<b>29.9</b>	<b>13.0</b>	<b>-18.8</b>

KEY RATIOS	2015	2014	2013	2012	2011
Gross margin, %	96.7	95.0	93.7	89.9	90.5
EBITDA margin, %	31.5	24.9	22.0	18.2	14.7
Operating margin, %	26.8	20.8	17.9	15.3	12.0
Profit margin, %	26.7	21.0	18.0	15.3	12.0
Cash flow, %	31.7	27.5	17.7	16.6	17.1
Equity/assets ratio, %	73.0	75.8	79.8	78.3	78.1
Return on equity, %	21.9	14.5	10.9	5.3	6.4
Return on capital employed, %	28.6	19.4	15.1	14.3	5.8
Capital employed, SEK m	292.7	290.9	297.4	256.1	243.1
Net cash, SEK m	87.6	68.4	80.1	49.3	34.5
Net debt/equity ratio, multiple	-0.30	-0.24	-0.27	-0.19	-0.14
Number of employees at end of period	164	169	168	157	157
Average number of employees	157	159	160	149	137
Sales per employee, SEK m	2.0	1.6	1.4	1.5	1.5

## BALANCE SHEETS, SEK M

ASSETS, SEK M	2015	2014	2013	2012	2011
<b>Non-current assets</b>					
Goodwill	113.5	112.4	110.7	110.7	110.7
Other intangible assets	78.8	73.5	53.7	41.6	28.2
Property, plant and equipment	6.5	8.0	6.1	6.3	5.8
Financial assets	41.8	57.4	64.5	67.3	79.6
<b>Total non-current assets</b>	<b>240.6</b>	<b>251.3</b>	<b>235.0</b>	<b>225.9</b>	<b>224.3</b>
<b>Current assets</b>					
Inventories	5.1	3.7	3.3	3.9	4.6
Other current assets	20.1	15.9	14.6	13.6	11.3
Trade receivables	43.5	39.1	34.1	29.1	32.2
Blocked cash and cash equivalents	-	-	0.7	2.6	6.9
Cash and cash equivalents	89.4	70.7	81.8	49.0	29.6
<b>Total current assets</b>	<b>158.8</b>	<b>129.4</b>	<b>134.5</b>	<b>98.2</b>	<b>84.6</b>
<b>TOTAL ASSETS</b>	<b>398.7</b>	<b>380.7</b>	<b>369.5</b>	<b>324.1</b>	<b>308.9</b>

EQUITY AND LIABILITIES, SEK M	2015	2014	2013	2012	2011
<b>Total equity</b>	<b>290.9</b>	<b>288.6</b>	<b>295.0</b>	<b>253.8</b>	<b>241.1</b>
<b>Non-current liabilities</b>					
Borrowings	0.6	1.5	1.1	1.1	1.5
Other non-current liabilities	1.1	1.1	0.7	0.4	-
Provisions	16.5	14.6	13.3	8.7	3.5
<b>Total non-current liabilities</b>	<b>18.2</b>	<b>17.2</b>	<b>15.1</b>	<b>10.2</b>	<b>5.0</b>
<b>Current liabilities</b>					
Trade payables	4.8	5.2	5.7	6.1	10.7
Borrowings	1.2	0.8	1.3	1.2	0.5
Other current liabilities	83.6	68.9	52.4	52.8	51.6
<b>Total current liabilities</b>	<b>89.6</b>	<b>74.9</b>	<b>59.4</b>	<b>60.1</b>	<b>62.8</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>398.7</b>	<b>380.7</b>	<b>369.5</b>	<b>324.1</b>	<b>308.9</b>

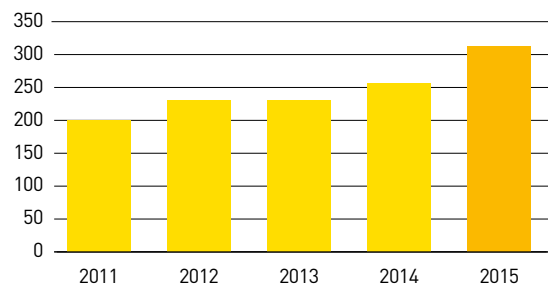
<b>CASH FLOWS IN SUMMARY, SEK M</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Cash flow from operating activities	98.7	70.3	40.7	38.3	34.2
Cash flow from operating activities for operations distributed/sold	-	-	-	-	8.5
<b>Total cash flow from operating activities</b>	<b>98.7</b>	<b>70.3</b>	<b>40.7</b>	<b>38.3</b>	<b>42.7</b>
Cash flow from investing activities	-17.7	-31.7	-19.1	-18.1	-32.8
Cash flow from investing activities for operations distributed/sold	-	-	-	-	-0.9
<b>Total cash flow from investing activities</b>	<b>-17.7</b>	<b>-31.7</b>	<b>-19.1</b>	<b>-18.1</b>	<b>-33.7</b>
Cash flow from financing activities	-63.6	-53.2	11.8	0.6	7.7
Cash flow from financing activities for operations distributed/sold	-	-	-	-	-39.7
<b>Total cash flow from financing activities</b>	<b>-63.6</b>	<b>-53.2</b>	<b>11.8</b>	<b>0.6</b>	<b>-32.0</b>
Cash flow for the year	17.4	-14.6	33.4	20.8	9.1
The year's cash flow for operations distributed/sold	-	-	-	-	-32.1
<b>TOTAL CASH FLOW FOR THE YEAR</b>	<b>17.4</b>	<b>-14.6</b>	<b>33.4</b>	<b>20.8</b>	<b>-23.0</b>

<b>DATA PER SHARE</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Equity per share, SEK	23.03	22.85	23.90	22.34	21.82
Number of shares at end of period, millions	12.63	12.63	12.34	11.36	11.05
Average number of shares, millions	12.63	12.54	11.53	11.23	11.05
Cash flow from operating activities per share, SEK	7.81	5.61	3.53	3.41	3.09
Earnings per share, continuing operations, SEK <sup>1</sup>	5.02	3.37	2.59	1.16	2.44
Earnings per share, operations distributed/sold, SEK <sup>1</sup>	-	-	-	-	-4.14
Dividend per share, SEK <sup>2</sup>	7.00	5.00	5.00	2.00	1.00
Last price paid on December 31 or similar, SEK	150.00	74.75	43.00	38.10	24.50

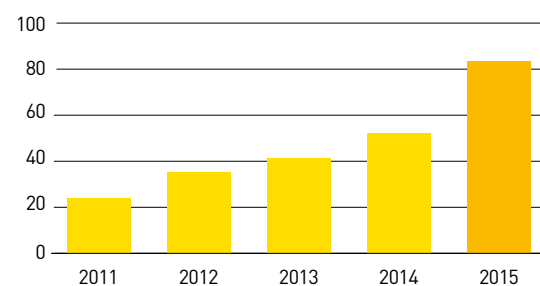
<sup>1</sup> Basic earnings per share.

<sup>2</sup> 2015 cash dividend as proposed.

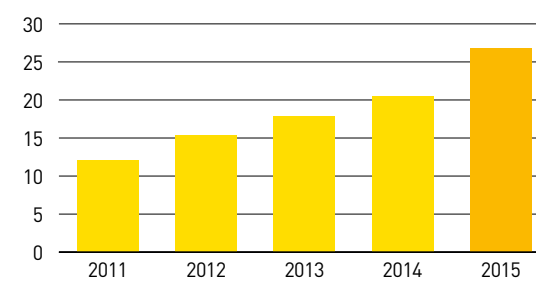
Sales  
SEK M



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** refers to external factors and events in the markets where IAR Systems is active that could damage our prospects of meeting our established targets. Market risks are events that we have limited opportunity to influence, but which we must be prepared for.

**Operational risks** refers primarily to internal factors and events that could damage our prospects for meeting our established goals and whose management is part of our day-to-day operating activities.

**Financial risks** refers 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.

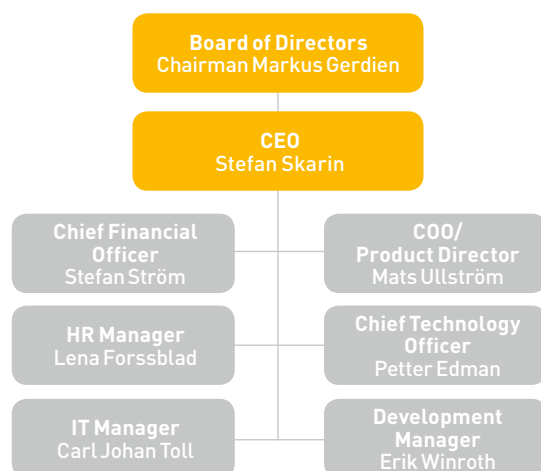
To a certain extent, IAR Systems can protect itself from risks through insurance. IAR Systems has Group-wide insurance coverage that is supplemented with local solutions where this is deemed necessary. The insurance is reviewed yearly in consultation with an external party. The insurance covers property,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

		PROBABILITY					IMPACT				
		1	2	3	4	5	1	2	3	4	5
RISK AREA	DESCRIPTION										
<b>Macro-economic development</b>	Customers' demand and willingness to invest are tied to their beliefs about future economic growth and the state of macro-economic development in their own market.				4			2			
<b>Products and technology</b>	New fundamentally changed working methods, rapid technology shifts and changes in customer behavior create a risk of changed customer requirements that could affect IAR Systems' market position.			3				3			
<b>Competitors</b>	New and stronger competitors may lead to a risk of decreased demand for IAR Systems' software.			3				3			
<b>Customer structure</b>	Far-reaching dependency on individual industries could have a major impact on sales if an entire industry is experiencing difficulties.			2				2			
<b>Income structure</b>	A large share of one-time projects or maintenance agreements with short durations creates uncertainty if economic growth slows.			2					3		
<b>Supply of qualified personnel</b>	IAR Systems' key competencies are found primarily in technological development and in its customer relationships.			3					3		
<b>Foreign exchange risk</b>	Foreign exchange risk is the risk of fluctuations in the value of financial instruments due to movements in foreign exchange rates.				4					4	
<b>Liquidity risk</b>	Liquidity risk refers to the risk that financing cannot be obtained, or can be obtained only at a significantly higher cost.				1					1	
<b>Credit risk</b>	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 for trade receivables.				1					1	
		<b>IAR SYSTEMS' RISK MANAGEMENT</b>									
		IAR Systems manages 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.									
		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 is the hub of an ecosystem of partners in processor manufacturing, real time operating systems (RTOS) and add-on products.									
		IAR Systems meets the risk of 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. The company also offers support and customer service.									
		IAR Systems strives to build long-term relationships with its customers. The Group is well diversified among customer categories, industries and geographical markets and no single customer accounts for a large share of the Group's total sales.									
		IAR Systems is endeavoring to increase the share of repeat customers. The share of repeat customers is already high and amounts at about 95%.									
		IAR Systems works actively to retain and develop skills and competency in the company. Competency and loyalty are strengthened in the Group through training and knowledge sharing. IAR Systems has low employee turnover and a good working environment.									
		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 about 93% of total sales. Most of the company's expenses are denominated in SEK. Measures to manage transaction-related foreign exchange risk are established in the Group's finance policy. The objective is to minimize the short-term effect of currency fluctuations on profit while at the same time creating long-term freedom of action.									
		IAR Systems' liquidity risk is assessed to be relatively limited. At December 31, 2015, the Group had net cash of SEK 88m.									
		IAR Systems' credit risk is assessed to be relatively low. Trade receivables are distributed across 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 2015. The company is domiciled in Stockholm, corporate identification number 556400-7200.



## HIGHLIGHTS OF 2015

- Net sales for the year amounted to SEK 311.7m (255.7)
- Operating profit for the year totaled SEK 83.4m (53.2)
- The year's cash flow from operating activities amounted to SEK 98.7m (70.3)
- Growth in proprietary products in local currency was 9% (8)
- Proposed dividend of SEK 7.00 per share

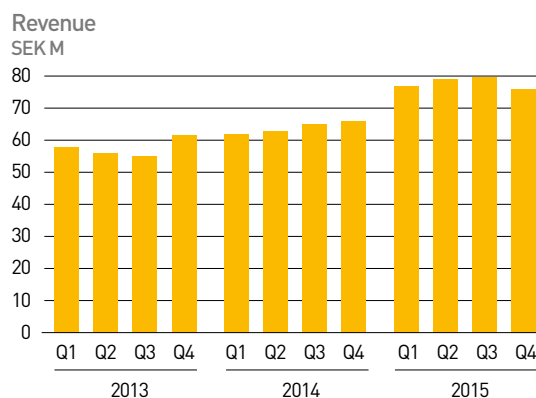
## PROFIT AND CASH FLOW

Consolidated net sales amounted to SEK 311.7m, compared with SEK 255.7m for 2014. Sales of proprietary products in local currency grew a total of 9% (8), of which 7% (9) was attributable to the Americas, 9% (8) to Europe, 11% (16) to Asia and 42% (neg: 72%) to non-regionalized revenue.

Currency translation had a positive impact of SEK 33.6m (9.8) on sales for the year compared with the preceding year.

The Americas accounted for 41% (38) of net sales, Europe for 35% (38), Asia for 23% (23) and global revenue for 1% (1).

The earnings trend during the year was positive and operating profit rose to SEK 83.4m (53.2). Currency translation had a positive effect of SEK 17.8m (6.3) on operating profit compared with the preceding year.



The operating margin for the year improved to 26.8%, compared to 20.8% in 2014.

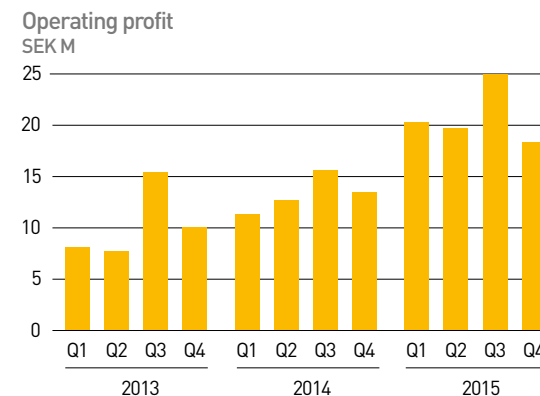
Personnel costs are the Group's largest cost item and account for about 67% (68) of total costs. Of the Group's total costs, 57% (60) are attributable to operations in Sweden.

The year's cash flow from operating activities totaled SEK 98.7m (70.3).

## BALANCE SHEET ITEMS AND FINANCIAL POSITION

Consolidated cash and cash equivalents at the end of the year amounted to SEK 89.4m, compared with SEK 70.7 at December 31, 2014. The Group also had unutilized bank overdraft facilities totaling SEK 25.0m (25.0).

The Group's interest-bearing liabilities amounted to SEK 1.8m, compared with SEK 2.3m



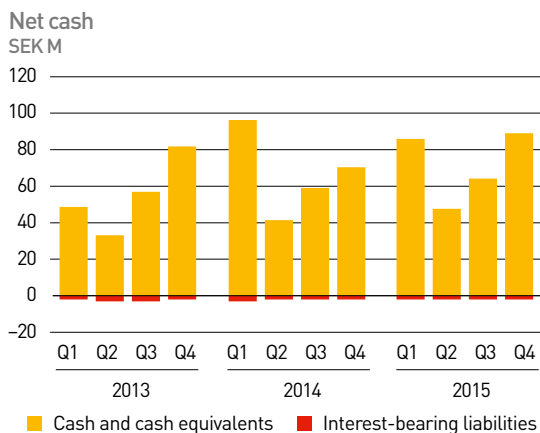
at December 31, 2014. At December 31, 2015, the Group had net cash of SEK 87.6m (68.4).

Consolidated goodwill at December 31, 2015 amounted to SEK 113.5m (112.4). The impairment test performed at year-end gave no evidence of impairment. The increase in goodwill during the year was a result of translation differences. Other intangible assets in the form of trademarks, software and customer agreements amounted to SEK 78.8m (73.5).

At December 31, 2015, the Group had accumulated loss carryforwards of approximately SEK 147m (214). The deferred tax asset is recognized in the balance sheet in an amount of SEK 36.8m (51.4), of which SEK 32.3m (47.2) pertains to loss carryforwards.

Equity at December 31, 2015 amounted to SEK 290.9m, compared with SEK 288.6m on December 31, 2014. The change in equity is due to profit for the year of SEK 63.2m, dividend payments of SEK 63.2m and positive foreign exchange effects of SEK 2.1m.

The equity/assets ratio at December 31, 2015, was 73% (76). Pledged assets decreased during the year and totaled SEK 3.6m (4.1) at December 31, 2015.



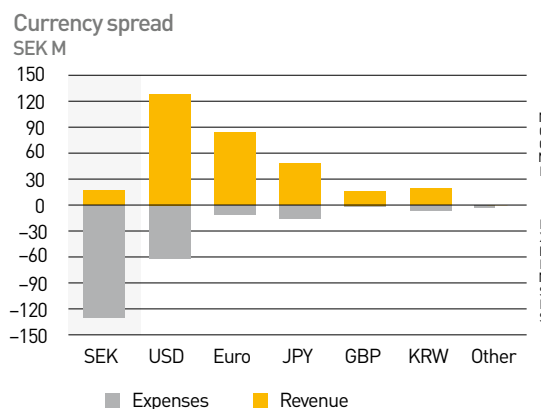
## INVESTMENTS

Investments in property, plant and equipment for the year amounted to SEK 1.1m (4.4). Investments in intangible assets totaled SEK 17.7m (27.9) and pertained primarily to costs for in-house staff for the development of debug probes and analysis tools. Of the year's investments, SEK 4.2m (11.0) was acquired separately and SEK 13.5m (16.9) comprises internally generated costs. Of the internally generated costs, SEK 10.3m (13.4) pertains to personnel costs. Investments in 2014 also included acquired IP rights for a total of SEK 8.8m.

## MARKET AND CUSTOMERS

IAR Systems' customers are companies that develop digital products. The company's customers operate in numerous industries, including industrial automation, medical technology, telecommunications, consumer electronics and the automotive industry. The ongoing spread of digital technology in the market is leading to steady growth in the number of companies and developers specializing in embedded systems. This is also resulting in a greater need for development tools. IAR Systems offers the development tools to meet these needs.

One distinct trend in the market is a growing need for energy-efficient solutions, which has



created strong demand for low-energy processors and tools that support the development of these solutions. The advance of the Internet of Things means that a growing number of products that are programmed also require connection to the Internet for communication and control.

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 fueling demand for solutions that enable code from earlier projects to be reused, 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, a growing number of safety features in the industrial, automotive and medical device areas are now controlled by a processor. With embedded systems now becoming safety-critical, the need for control and certification of these systems is being heightened.

## EMPLOYEES

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

IAR Systems' key competencies are found in technological development and customer relations. Training and the exchange of experiences help to strengthen loyalty and the company's culture encourages sharing and development of knowledge between the employees. IAR Systems has a high proportion of employees with advanced academic degrees. At IAR Systems, 86% (86) of the employees have a higher post-secondary education and

14% (14) have a secondary education. The average age of the Group's employees is 44 (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 2015. The number of employees during 2015 was 157 (159).

## 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 with respect to social responsibility and human rights. The Group also encourages all suppliers to adopt similar goals for social responsibility.

## ENVIRONMENT

IAR Systems has a low environmental impact from 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 of fluctuations in the Group's earnings and cash flow arising from exchange rate movements, interest rate levels, financing risk and credit risk.

## Foreign exchange risk

Foreign exchange risk is the risk of variations in the value of financial instruments due to movements in foreign exchange rates. The company's measures to manage transaction-related foreign exchange risk are established in the finance policy by the company's Board of Directors. 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 carried out 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 SEK.

Foreign exchange risk arises in translation of trade receivables in foreign currency, mainly USD, EUR and JPY. Sales in foreign currency, mainly USD, EUR and JPY, account for approximately 95% of total sales. Of the cost of goods sold, which accounts for about 5% of the Group's cost mass, approximately 79% of purchases are denominated in foreign currency, also primarily in USD, EUR and JPY. Translation exposure, meaning the risk of changes in the subsidiaries' consolidated net assets arising from exchange rate fluctuations, is limited and no measures are currently being taken to further hedge translation exposure in foreign currency.

## Sensitivity analysis

Dec 31, 2015	Change	Effect on profit
Cost of goods sold	+/- 5%	-/+ SEK 0.5m
Payroll expenses	+/- 5%	-/+ SEK 7.8m
Currency – EUR	+/- 5%	+/- SEK 3.7m
Currency – USD	+/- 5%	+/- SEK 3.3m
Currency – JPY	+/- 5%	+/- SEK 1.6m
Variable interest	+/- 1% point	+/- SEK 0.0m

## Financing and liquidity risk

The Group's financial position is strong. Dividends totaling SEK 63.2m (62.7) were paid to the

company's shareholders. The equity/assets ratio at year-end was 75% (77).

At December 31, 2015, the Group had cash and cash equivalents of SEK 89.4m (70.7) and unutilized bank overdraft facilities of SEK 25.0m (25.0). Interest-bearing liabilities on the same date amounted to SEK 1.8m (2.3).

## Credit risk

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

## Interest rate risk

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

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

The 2015 AGM approved the Board's proposed guidelines for remuneration to the company's senior executives as stated in Note 6 and in the corporate governance report. The Board's proposal corresponds to the previously applied guidelines for remuneration to the company's senior executives in all essential respects. The principles apply to employment contracts entered into after the decision of the AGM and in cases where changes are made to existing terms of employment after this date. The group of senior executives was expanded by one person in 2015. This group comprises the CEO, the CFO and the COO. Remuneration to the senior executive who joined the group during the year was also consistent with the guidelines approved by the AGM.

The Board of Directors has appointed a

remuneration committee for the preparation of matters related to remuneration and other terms of employment for the company's management.

The Board intends to submit a new proposal to the 2016 AGM regarding remuneration to the CEO and other senior executives.

#### *Deviation from the guidelines*

The Board of Directors has the right to deviate from the above guidelines in individual cases where the Board finds special reason to do so. In 2015, there were no deviations from the guidelines approved by the AGM.

#### **THE IAR SHARE**

IAR Systems Group's class B share is quoted on the Small Cap list of Nasdaq Stockholm. IAR Systems Group's share capital at December 31, 2015 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*

During the year, the share price varied from a low of SEK 75.00 (39.77) to a high of SEK 156.00 (80.75). The share price at December 31 was SEK 150.00 (74.75). IAR Systems Group's market capitalization on the same date was SEK 1,895m (944).

#### *Ownership and control*

The number of shareholders in IAR Systems Group at December 31, 2015 was 8,946 (8,030). Of these shareholders, 562 (479) held more than 1,000 shares each. Foreign shareholders held approximately 16% (20) of the share capital and 15% (19) 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	60,388,446.71
Retained earnings	26,947,560.03
Profit for the year	51,314,884.14
<b>TOTAL, SEK</b>	<b>138,650,890.88</b>

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

Dividend of SEK 7.00 per share	88,424,427.00
To be carried forward to new account	50,226,463.88
<b>TOTAL, SEK</b>	<b>138,650,890.88</b>

<b>Quarterly overview</b>	2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue, SEK m	57.7	56.1	54.9	61.5	62.0	62.7	64.9	66.1	76.9	79.1	79.8	75.9
Other operating income, SEK m	-	-	6.0	-	-	-	-	-	-	-	-	-
Operating expenses, MSEK	-49.6	-48.4	-45.5	-51.4	-50.6	-50.0	-49.3	-52.6	-56.6	-59.4	-54.8	-57.5
Operating profit, SEK m	8.1	7.7	15.4	10.1	11.4	12.7	15.6	13.5	20.3	19.7	25.0	18.4
EBITDA margin, %	18.0	17.3	36.2	20.5	2.1	24.2	28.4	24.7	30.8	29.7	36.2	29.2
Operating margin, %	14.0	13.7	28.1	16.4	18.4	20.3	24.0	20.4	26.4	24.9	31.3	24.2
Return on equity, %	2.3	2.4	4.3	2.5	2.8	3.4	5.0	3.8	5.2	5.4	7.0	4.9
Equity per share, SEK	22.87	21.42	22.78	23.90	24.68	20.72	21.83	22.85	24.36	20.43	21.96	23.03
Cash flow from operating activities per share, SEK	0.17	0.97	1.56	0.84	1.12	1.33	1.89	1.27	1.45	2.51	1.63	2.22

# Consolidated income statement

SEK m	Note	2015	2014	SEK m	Note	2015	2014
Net sales	1 2 3	311.7	255.7	<i>Profit for the year attributable to: Owners of the Parent Company</i>		63.4	42.2
Goods for resale	4	-10.3	-12.9				
Other external expenses	5	-51.1	-42.1				
Personnel costs	6	-152.0	-137.1				
Depreciation of property, plant and equipment	11	-2.5	-2.3				
Amortization of intangible assets	10	-12.4	-8.1				
<b>Operating profit</b>		<b>83.4</b>	<b>53.2</b>	<i>Earnings per share calculated on profit for the year attributable to owners of the Parent Company, SEK</i>			
Financial investments							
Financial income	7	0.1	0.6		- basic	9	5.02
Financial expenses	7	-0.2	-0.2	- diluted	9	5.02	3.34
<b>Profit before tax</b>		<b>83.3</b>	<b>53.6</b>				
Income tax expense	8	-19.9	-11.4				
<b>PROFIT FOR THE YEAR</b>		<b>63.4</b>	<b>42.2</b>				

# Consolidated statement of comprehensive income

SEK m	2015	2014
<b>Profit for the year</b>	<b>63.4</b>	<b>42.2</b>
<b>Other comprehensive income:</b>		
<i>Items that will be reclassified subsequently to profit or loss</i>		
Exchange differences	2.1	4.6
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>65.5</b>	<b>46.8</b>
Comprehensive income for the year attributable to owners of the Parent Company	65.5	46.8

# Consolidated balance sheet

SEK m	Note	Dec 31, 2015	Dec 31, 2014
<b>ASSETS</b>	<b>1 2 3</b>		
<b>Non-current assets</b>			
<b>Intangible assets</b>	<b>10</b>		
Goodwill		113.5	112.4
Other intangible assets		78.8	73.5
<b>Total intangible assets</b>		<b>192.3</b>	<b>185.9</b>
<b>Property, plant and equipment</b>	<b>11</b>		
Leasehold improvements		0.1	0.1
Equipment		6.4	7.9
<b>Total property, plant and equipment</b>		<b>6.5</b>	<b>8.0</b>
<b>Financial assets</b>			
Other non-current receivables	<b>12 17</b>	1.8	1.5
Other non-current securities	<b>13</b>	3.2	4.5
Deferred tax assets	<b>8</b>	36.8	51.4
<b>Total financial assets</b>		<b>41.8</b>	<b>57.4</b>
<b>Total non-current assets</b>		<b>240.6</b>	<b>251.3</b>
<b>Current assets</b>			
Inventories		5.1	3.7
<b>Current receivables</b>			
Trade receivables	<b>14</b>	43.5	39.1
Other current receivables	<b>15</b>	1.2	3.1
Prepaid expenses and accrued income	<b>16</b>	18.9	12.8
		68.7	58.7
Cash and cash equivalents	<b>17</b>	89.4	70.7
<b>Total current assets</b>		<b>158.1</b>	<b>129.4</b>
<b>TOTAL ASSETS</b>		<b>398.7</b>	<b>380.7</b>

Development of the Group's assets

	Non-current assets	Current assets
2015	60.2%	39.8%
2014	66.0%	34.0%

SEK m	Note	Dec 31, 2015	Dec 31, 2014
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>19</b>		
Share capital		126.3	126.3
Other contributed capital		23.4	23.4
Reserves		5.6	3.5
Retained earnings including profit for the year		135.6	135.4
<b>Total equity</b>		<b>290.9</b>	<b>288.6</b>
<b>Non-current liabilities</b>			
Borrowings	<b>11 18</b>	0.6	1.5
Other non-current liabilities		1.1	1.1
Deferred tax liabilities	<b>8</b>	16.5	14.6
<b>Total non-current liabilities</b>		<b>18.2</b>	<b>17.2</b>
<b>Current liabilities</b>			
Trade payables		4.8	5.2
Borrowings	<b>11 18</b>	1.2	0.8
Tax liabilities	<b>8</b>	0.7	-
Other liabilities		7.0	8.2
Accrued expenses and prepaid income	<b>20</b>	75.9	60.7
<b>Total current liabilities</b>		<b>89.6</b>	<b>74.9</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>398.7</b>	<b>380.7</b>

Development of the Group's equity and liabilities

	Equity	Non-current liabilities	Current liabilities
2015	73.0%	4.6%	22.4%
2014	75.8%	4.5%	19.7%

# Consolidated statement of changes in equity

SEK m	Share capital	Other contributed capital	Reserves	Retained earnings	Total equity
Opening balance, January 1, 2014	123.4	16.5	-1.1	156.2	295.0
Profit for the year				42.2	42.2
<b>Other comprehensive income</b>					
Translation differences			4.6		4.6
<b>Total comprehensive income</b>			<b>4.6</b>	<b>42.2</b>	<b>46.8</b>
<b>Transactions with owners</b>					
New share issue	2.9	6.9			9.8
Redemption procedure				-63.0	-63.0
<b>Total transactions with owners</b>	<b>2.9</b>	<b>6.9</b>	<b>-</b>	<b>-63.0</b>	<b>-53.2</b>
Opening balance, January 1, 2015	126.3	23.4	3.5	135.4	288.6
Profit for the year				63.4	63.4
<b>Other comprehensive income</b>					
Translation differences			2.1		2.1
<b>Total comprehensive income</b>			<b>2.1</b>	<b>63.4</b>	<b>65.5</b>
<b>Transactions with owners</b>					
Dividends				-63.2	-63.2
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-63.2</b>	<b>-63.2</b>
<b>CLOSING BALANCE, DECEMBER 31, 2015</b>	<b>126.3</b>	<b>23.4</b>	<b>5.6</b>	<b>135.6</b>	<b>290.9</b>

## COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2015 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.

# Consolidated cash flow statement

SEK m	Note	2015	2014
<b>Operating activities</b>			
Incoming payments from customers		309.2	250.4
Outgoing payments to suppliers and employees		-207.6	-179.1
<b>Cash flow from operating activities before interest and income taxes paid</b>		<b>101.6</b>	<b>71.3</b>
Interest received		0.0	0.4
Interest paid		-0.2	-0.1
Income taxes paid		-2.7	-1.3
<b>Cash flow from operating activities</b>		<b>98.7</b>	<b>70.3</b>
<b>Investing activities</b>			
Investments in property, plant and equipment	11	-1.1	-4.4
Investments in intangible assets	10	-17.7	-27.9
Other investments		1.1	0.6
<b>Cash flow from investing activities</b>		<b>-17.7</b>	<b>-31.7</b>
<b>Financing activities</b>			
New share issue		-	9.8
Dividends to owners of the Parent Company		-63.2	-
Redemption procedure		-	-63.0
Amortization of financial liabilities		-0.4	0.0
<b>Cash flow from financing activities</b>		<b>-63.6</b>	<b>-53.2</b>
<b>Cash flow for the year</b>		<b>17.4</b>	<b>-14.6</b>
Cash and cash equivalents at beginning of year		70.7	81.8
Exchange difference in cash and cash equivalents			
- attributable to cash and cash equivalents at beginning of year		1.3	2.4
- attributable to cash flow for the year		0.0	1.1
<b>Cash and cash equivalents at end of year</b>	17	<b>89.4</b>	<b>70.7</b>

## Development of the Group's cash flow

Opening cash and cash equivalents, January 1, 2015	SEK 70.7m
Operating activities	SEK 98.7m
Investing activities	SEK -17.7m
Financing activities	SEK -63.6m
Exchange difference: cash and cash equivalents	SEK 1.3m
Closing cash and cash equivalents, December 31, 2015	SEK 89.4m



# Parent Company income statement

SEK m	Note	2015	2014
Net sales	1 2 3	12.2	12.5
Other external expenses	5	-4.0	-4.5
Personnel costs	6	-12.2	-10.9
Depreciation of property, plant and equipment	11	-0.1	-0.1
<b>Operating loss</b>		<b>-4.1</b>	<b>-3.0</b>
<b>Result from financial investments</b>			
Total financial income	7	70.0	42.4
Total financial expenses	7	-0.0	-0.1
<b>Profit before tax</b>		<b>65.9</b>	<b>39.3</b>
Tax on profit for the year	8	-14.5	-8.7
<b>PROFIT FOR THE YEAR</b>		<b>51.4</b>	<b>30.6</b>

# Parent Company statement of comprehensive income

SEK m	2015	2014
<b>Profit for the year</b>	<b>51.4</b>	<b>30.6</b>
Other comprehensive income	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>51.4</b>	<b>30.6</b>

# Parent Company balance sheet

SEK m	Note	Dec 31, 2015	Dec 31, 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Property, plant and equipment</b>			
Equipment	11	0.2	0.3
Total property, plant and equipment		0.2	0.3
<b>Financial assets</b>			
Shares in Group companies	22	189.4	189.4
Other non-current securities	13	3.2	4.5
Other non-current receivables	12	0.1	0.1
Deferred tax assets	8	31.7	46.2
Total financial assets		224.4	240.2
<b>Total non-current assets</b>		<b>224.6</b>	<b>240.5</b>
<b>Current assets</b>			
<b>Current receivables</b>			
Receivables from subsidiaries		40.0	35.3
Tax assets		0.2	0.1
Other current receivables	15	0.4	0.2
Prepaid expenses and accrued income	16	0.4	0.3
		41.0	35.9
Blocked funds	17	-	-
Cash in hand and at bank	17	4.2	4.4
<b>Total current assets</b>		<b>45.2</b>	<b>40.3</b>
<b>TOTAL ASSETS</b>		<b>269.8</b>	<b>280.8</b>

SEK m	Note	Dec 31, 2015	Dec 31, 2014
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<i>Restricted equity</i>			
Share capital	19	126.3	126.3
Statutory reserve		-	-
		126.3	126.3
<i>Non-restricted equity</i>			
Share premium reserve		60.4	60.4
Retained earnings		26.9	59.5
Profit for the year		51.4	30.6
		138.7	150.5
<b>Total equity</b>		<b>265.0</b>	<b>276.8</b>
<b>Current liabilities</b>			
Trade payables		0.4	0.3
Other liabilities		0.4	0.4
Accrued expenses and prepaid income	20	4.0	3.3
<b>Total current liabilities</b>		<b>4.8</b>	<b>4.0</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>269.8</b>	<b>280.8</b>
Pledged assets	21	1.4	1.4
Contingent liabilities		-	-

# Parent Company statement of changes in equity

SEK m	Share capital	Share premium reserve	Retained earnings	Total equity
Opening balance, January 1, 2014	123.4	53.5	122.5	299.4
New share issue	2.9	6.9		9.8
Redemption procedure			-63.0	-63.0
<b>Total changes in equity not recognized in the income statement</b>	<b>2.9</b>	<b>6.9</b>	<b>-63.0</b>	<b>-53.2</b>
Profit for the year			30.6	30.6
Opening balance, December 1, 2015	126.3	60.4	90.1	276.8
New share issue				
Dividends			-63.2	-63.2
<b>Total changes in equity not recognized in the income statement</b>	<b>-</b>	<b>-</b>	<b>-63.2</b>	<b>-63.2</b>
Profit for the year			51.4	51.4
<b>CLOSING BALANCE, DECEMBER 31, 2015</b>	<b>126.3</b>	<b>60.4</b>	<b>78.3</b>	<b>265.0</b>

## COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2015 amounted to SEK 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	2015	2014
<b>Operating activities</b>			
Incoming payments from subsidiaries		12.2	12.5
Outgoing payments to suppliers and employees		-15.8	-17.3
<b>Cash flow from operating activities before interest and income taxes paid</b>		<b>-3.6</b>	<b>-4.8</b>
Interest received		0.0	0.4
Interest paid		-0.0	-0.1
<b>Cash flow from operating activities</b>		<b>-3.6</b>	<b>-4.5</b>
<b>Investing activities</b>			
Investments in property, plant and equipment	11	-0.0	-0.0
Decrease in blocked funds		-	0.7
Divestment of financial investment		1.3	0.0
<b>Cash flow from investing activities</b>		<b>1.3</b>	<b>0.7</b>
<b>Financing activities</b>			
New share issue		-	9.8
Dividends paid		-63.2	-
Redemption procedure		-	-63.0
Increase in borrowings from subsidiaries		-4.7	-25.3
Group contributions		70.0	42.0
<b>Cash flow from financing activities</b>		<b>2.1</b>	<b>-36.5</b>
<b>Cash flow for the year</b>		<b>-0.2</b>	<b>-40.3</b>
Cash and cash equivalents at beginning of year		4.4	44.7
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	18	<b>4.2</b>	<b>4.4</b>

# Notes

## NOTE 1 Summary of significant accounting policies

### GENERAL

IAR Systems Group AB (publ), corporate identification number 556400-7200, is a Swedish registered limited liability company domiciled in Stockholm, Sweden. The address of the company's head office is Kungsgatan 33, SE-111 56 Stockholm, Sweden. IAR Systems Group 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 March 17, 2016.

### 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 according to the cost method, 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 that management 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 judgments. 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 amended standards and interpretations applicable for 2015

According to management's assessment, the new or amended standards and new interpretations that took effect as of the current financial year have not had any material impact on the Group's 2015 financial statements.

#### New and amended standards and interpretations that are not yet effective

The new or amended standards and new interpretations that have been issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) but are effective for financial years starting on or after January 1, 2016 have not yet been applied by the Group. Below is a description of those that are expected 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 amended standards that are not yet effective:

Standards	To be applied for financial years beginning:
IFRS 9 Financial Instruments	on or after January 1, 2018
IFRS 15 Revenue from Contracts with Customers	on or after January 1, 2018
IFRS 16 Leases	on or after January 1, 2019

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 and the version that was issued in July 2014 supersedes all previous versions.

IFRS 9 contains new principles for how financial assets are to be classified and measured. The determining factors for the measurement category to which a financial asset belongs are the company's purpose for the holding of the asset (meaning the company's "business model") and the financial asset's contractual cash flows.

The new standard also includes new rules for the impairment testing of financial assets which entail that the earlier "incurred loss method" is replaced by a new "expected loss method".

The purpose of the new rules for hedge accounting is that the company's risk management is to be reflected in the reporting. The standard entails expanded possibilities to hedge risk components in non-financial items and that more types of instruments can be included in a hedging relationship. In addition, the quantitative requirement of effectiveness is no longer a requirement. IFRS 9 is applicable to financial years beginning on or after January 1, 2018, and has not yet been endorsed by the EU.

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. Management has not yet carried out a detailed analysis of the effects of the application of IFRS 9 and can therefore not yet quantify the effects.

IFRS 15 Revenue from Contracts with Customers was issued on May 28, 2014, and will replace IAS 18 Revenue and IAS 11 Construction Contracts. 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 according to IFRS 15 is that a company should recognize revenue in the manner that reflects the transfer of the promised product or service to the customer, at the amount that the company expects to have the right to receive in exchange for the product or service. Revenue is recognized once the customer obtains control over the product or service. There is significantly more guidance in IFRS 15 for specific areas and the disclosure requirements are extensive. IFRS 15 is applicable to financial years beginning on or after January 1, 2018 and early application is permitted. The standard has not yet been endorsed by the EU. Management has not yet carried out a detailed analysis of the effects of the application of IFRS 15 and can therefore not yet quantify the effects.

IFRS 16 Leases was issued on January 13, 2016, and will replace IAS 17 Leases. IFRS 16 introduces a "right of use model" and, for the lessee, means that essentially all leases are to be recognized in the balance sheet and that classification as operating and finance leases should thus be avoided. Exceptions to this are leases with a lease term that is 12 months or less and leases that amount to minor amounts. Depreciation on the asset and interest expenses on the liability are recognized in the income statement. The standard contains more extensive disclosure requirements compared with the current standard. For lessors, IFRS 16 entails no actual differences compared with IAS 17. IFRS 16 is applicable for financial years beginning on January 1, 2019 and early application is permitted on condition that IFRS 15 is applied at the same time. The standard has not yet been endorsed by the EU. The management has not yet carried out a detailed analysis of the effects of application of IFRS 16 and can therefore not yet quantify the effects.

The management's assessment is that the other new or amended standards and new 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 Consolidated financial statements

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 control 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.

The accounting policies of subsidiaries have been adjusted, when necessary, to ensure consistency with those policies applied by Group. All inter-company transactions, balances and 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 the assets transferred and the liabilities assumed by the Group from the previous owner of the acquired company 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 in the acquired company either at fair value or at the holding's proportionate share of the carrying amount of the acquired company'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 acquired company 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 a 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 a 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 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. If the amount of consideration transferred is lower than the fair value of the acquired company's net assets, the resulting gain is recognized directly in profit or loss. All inter-company transactions, balance sheet items, income and expenses 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 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 and 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	USD 1	8.3524 (7.8117)	8.4350 (6.8577)
France, Germany	EUR 1	9.1350 (9.5155)	9.3562 (9.0968)
UK	GBP 1	12.3785 (12.1388)	12.8962 (11.2917)
Japan	JPY 1	0.0693 (0.0654)	0.0697 (0.0649)
China	CNY 1	1.2868 (1.2595)	1.3424 (1.1135)
Korea	KRW 1	0.0071 (0.0071)	0.0075 (0.0065)

### 1.6 Property, plant and equipment

All items of property, plant and equipment 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 impaired 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 period in which they are incurred. Property, plant and equipment are systematically depreciated over their estimated useful life. Straight-line depreciation periods are used and the following depreciation periods hereby apply:

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, or more often in the event that there are indications of a decrease in value, to identify any impairment requirements, and is recognized 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 for internal management purposes, which is not larger than an operating segment and for the Group comprises IAR Systems.

#### b) Trademarks

Trademarks are recognized at cost. Trademarks have a finite useful life and are recognized at cost less accumulated amortization. Trademarks are amortized over their estimated useful lives of 5-15 years.

#### c) Software

Software is recognized at cost. Software has a finite useful life and is recognized 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 recognized at cost. Customer contracts have a finite useful life and are recognized 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 losses

Assets that have an indefinite useful life are not subject to amortization/depreciation and are instead tested for impairment. Impairment testing is done annually and when indications of impairment requirements exist. 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 recognized 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 to be 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 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 payment 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 recognized 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, canceled 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 recognized at their nominal amount.

#### 1.15 Current and deferred tax

The 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. 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 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 personnel costs 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 terminate the employment of 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 the 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 prepare 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 financial 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 is to apply all EU-endorsed IFRSs and statements as far as possible within the framework of the Annual Accounts Act and with consideration given 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.

#### Amendments in accounting policies

The amendments to RFR 2 Accounting for Legal Entities that took effect and apply for the 2015 financial year have not had any material impact on the Parent Company's 2015 financial statements.

#### Amendments to RFR 2 that are not yet effective

The Parent Company has not yet begun to apply the amendments to RFR 2 Accounting for Legal Entities that took effect January 1, 2016. Below is a description of the amendments that are expected to have an impact on the Parent Company's financial statements in the period when they are applied for the first time.

#### IFRS 7 Financial Instruments: Disclosures

Greater disclosure requirements in legal entities to clarify the meaning of "based on acquisition value according to the Annual Accounts Act". Accounting policies are covered in this. According to management's assessment, the amendment entails expanded accounting policies.

According to management's assessment, the other amendments to RFR 2, which are not yet effective, are not expected to have any material impact on the Parent Company's financial statements when they are applied for the first time.

#### 1.24 Group and shareholder contributions

Group contributions are recognized according to the main rule. Group contributions received from subsidiaries are recognized as financial income. Group contributions paid by the Parent Company to subsidiaries are recognized as an increase in shares in Group companies.

#### 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.

The growth rate used is based on past performance and management's expectations for market development. For year one, this corresponds to the budget and business plan established by the Board of Directors. For years two and three, 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 the calculation of value in use is based on past performance and management's expectations for market development. For year one, this

Note 1, cont'd

corresponds to the budget and business plan established by the Board of Directors. For years two and three, this corresponds to management's forecasts. Cash flows beyond the three-year period are extrapolated based on an estimated operating margin on a level with year three.

The discount rate used, 8.5% (11.0), is stated before tax and is deemed to reflect specific risks relating to the operating segment.

#### b) Income tax

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

On the balance sheet date, the Group had cumulative loss carryforwards of approximately SEK 147m (214). All loss carryforwards are found in Sweden and can be used for an unlimited period.

A total deferred tax asset of SEK 32.3m (47.2) is recognized in the consolidated balance sheet at December 31, 2015, 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 management's expectations for market development.

#### c) Revenue recognition

The Group reports revenue in accordance with IAS 18, 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 1.18 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 recognized 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 could 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. Although there is a risk that key personnel will leave the company, 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. Management closely monitors trends in the business cycle. The company's customers operate in a range of 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: foreign exchange 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.

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, account for approximately 95% of total sales. Of the cost of goods sold, which accounts for about 5% of the Group's cost mass, approximately 79% of purchases are denominated in foreign currency, also primarily in USD, EUR and JPY.

Measures to manage the transaction-related foreign exchange 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 carried out 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 SEK.

SEK m	Total	SEK	USD	EUR	JPY	Other currencies
Sales	311.7	16.6	128.3	83.8	47.7	35.3
Cost of goods sold	10.3	2.2	4.0	1.7	1.4	1.0
Other expenses	218.0	127.6	57.8	9.0	14.4	9.2

Note 2, cont'd

### 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 management.

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

### CREDIT RISKS IN TRADE RECEIVABLES

The Group conducts sales to a large number of customers. Most of the Group's sales are made 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 management of doubtful debts. No specific customer or group of customers accounted for a significant share of trade receivables at year-end 2015. 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, management achieves flexibility in financing by maintaining agreements for withdrawable lines of credit. In addition, 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 analyzes the maturity structure of the Group's financial liabilities grouped according to the period remaining in the contractual maturity. The amounts shown in the table are the contractual undiscounted cash flows.

At December 31, 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Finance leases	1.2	0.6	-	-
Bank overdraft facilities	-	-	-	-
Trade and other payables <sup>1</sup>	5.4	-	-	-

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 <sup>1</sup>	6.3	-	-	-

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

### SENSITIVITY ANALYSIS

The risks described here and in the administration report can result in either lower revenue 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, 2015	Change	Effect on profit
Cost of goods sold	+/- 5%	-/+ SEK 0.5m
Payroll expenses	+/- 5%	-/+ SEK 7.8m
Currency – EUR	+/- 5%	+/- SEK 3.7m
Currency – USD	+/- 5%	+/- SEK 3.3m
Currency – JPY	+/- 5%	+/- SEK 1.6m
Variable interest	+/-1 percentage point	+/- SEK 0.0m

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 percentage point	+/- SEK 0.0m

### CAPITAL RISK MANAGEMENT

The Group's objectives when managing the capital structure 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 of 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, 2015 and 2014 was as follows:

	2015	2014
Total borrowings (Note 18)	1.8	2.3
Less cash and cash equivalents (Note 18)	-89.4	-70.7
Net debt	-87.6	-68.4
Total equity	290.9	288.6
Total capital	203.3	220.2
Net debt/equity ratio	-43%	-31%

## NOTE 3 Segment reporting

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

### GEOGRAPHICAL AREAS

SEK m	Sales		Non-current assets		Investments	
	2015	2014	2015	2014	2015	2014
<b>Americas</b>						
USA	114.6	86.2	1.6	1.4	0.6	1.3
Other countries	10.7	6.9	-	-	-	-
	125.3	93.1	1.6	1.4	0.6	1.3
<b>Asia</b>						
Japan	41.4	34.5	0.1	0.1	0.0	0.0
Other countries	36.1	30.9	0.1	0.1	0.1	0.0
	77.5	65.4	0.2	0.2	0.1	0.0
<b>EMEA</b>						
UK	15.3	13.2	0.0	0.0	0.0	0.0
Germany	37.9	38.5	0.1	0.1	0.1	0.0
Other countries	39.8	32.2	0.0	0.0	0.0	0.0
	93.0	83.9	0.1	0.1	0.1	0.0
<b>Nordic region</b>						
Sweden	6.5	5.6	196.9	192.2	17.9	30.8
Other countries	9.4	7.7	-	-	-	-
	15.9	13.3	196.9	192.2	17.9	30.8
<b>Total</b>	<b>311.7</b>	<b>255.7</b>	<b>198.8</b>	<b>193.9</b>	<b>18.7</b>	<b>32.1</b>

## NOTE 4 Goods for resale

The item "goods for resale" in 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	
	2015	2014	2015	2014
<b>Deloitte</b>				
Audit of the financial statements	0.6	0.6	0.0	0.0
Audit-related services other than the audit	-	-	-	-
Tax consultancy	0.2	0.2	0.1	0.0
Other services	0.0	0.0	-	-
<b>Total Deloitte</b>	<b>0.8</b>	<b>0.8</b>	<b>0.1</b>	<b>0.0</b>
<b>Total fees to auditors</b>	<b>0.8</b>	<b>0.8</b>	<b>0.1</b>	<b>0.0</b>

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

## NOTE 6 Personnel costs

### AVERAGE NUMBER OF EMPLOYEES

The average number of employees in the Group during 2015 was 157 (159). The breakdown of the average number of employees by country and, in Sweden, by location, is shown in the table below.

The majority, 61% (58%), are employed in Sweden (calculated on the average number of employees during the year).

AVERAGE NUMBER OF EMPLOYEES	2015		2014	
	No. of employees	Of whom, men	No. of employees	Of whom, men
<b>Parent Company</b>				
Stockholm	4	75%	4	75%
<b>Subsidiaries in Sweden</b>				
Uppsala	91	77%	89	78%
<b>Subsidiaries outside Sweden</b>				
UK	1	0%	1	0%
Germany	5	40%	5	40%
France	2	50%	2	50%
USA	36	72%	38	74%
South Korea	5	80%	5	80%
China	2	50%	3	67%
Japan	11	92%	12	75%
<b>Total subsidiaries</b>	<b>153</b>	<b>74%</b>	<b>155</b>	<b>74%</b>
<b>Total Group</b>	<b>157</b>	<b>74%</b>	<b>159</b>	<b>74%</b>

Note 6, cont'd

#### GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES IN THE GROUP

	2015		2014	
	Number	Of whom, men	Number	Of whom, men
<b>Group (incl. subsidiaries)</b>				
Board members	5	80%	5	80%
CEO and other senior executives	7	86%	5	100%
Presidents of subsidiaries	-	-	-	-
<b>Parent Company</b>				
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 155.4m (143.1), of which social security expenses accounted for SEK 29.4m (27.3) and pensions for SEK 10.2m (9.4). Of the Group's total payroll costs, SEK 10.3m (13.4) has been spent on assets and have been capitalized as internally generated development costs.

	2015		2014	
	Salaries and other remuneration	Social security expenses (of which, pension costs)	Salaries and other remuneration	Social security expenses (of which, pension costs)
<b>SEK m</b>				
Parent Company	8.5	3.6 [0.9]	8.2	3.4 [0.8]
Subsidiaries	107.3	36.0 [9.3]	98.2	33.3 [8.6]
<b>Total Group</b>	<b>115.8</b>	<b>39.6 [10.2]</b>	<b>106.4</b>	<b>36.7 [9.4]</b>

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 Board members and the CEO.

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

	2015		2014	
	Board, CEO and other senior executives	Other employees	Board, CEO and other senior executives	Other employees
<b>SEK m</b>				
Parent Company	7.4	1.1	7.0	1.2
Subsidiaries in Sweden	1.7	51.4	1.2	48.2
Subsidiaries outside Sweden	-	54.2	-	48.8
<b>Total Group</b>	<b>9.1</b>	<b>106.7</b>	<b>8.2</b>	<b>98.2</b>

#### REMUNERATION TO SENIOR EXECUTIVES

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

No Board fees are paid to members who receive a salary from companies in the IAR Group. In 2015, this rule applied to Stefan Skarin. The group of senior executives was expanded by one person in 2015. The group comprises the CEO, the CFO and the COO. Remuneration to the senior executive who joined the group during the year was also consistent with the guidelines approved by the AGM.

#### BOARD OF DIRECTORS

The AGM of IAR Systems Group AB approved Board fees as follows:

Board Chairman	SEK 325,000
Other Board members who do not receive a salary from companies in the IAR Group (3 people)	SEK 150,000 per member

#### PRINCIPLES

The principles for remuneration to the CEO and other senior executives are prepared 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 2015 were unchanged compared to those applied in 2014.

For 2015, the Group 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 variable salary for the CEO and other senior executives corresponds to 30-50% of basic salary. Pension benefits and other benefits are paid as part of the total remuneration package.

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

#### VARIABLE SALARY

For the CEO, variable salary for 2015 was based on the Group's sales and operating profit. The bonus amount for 2015 was equal to 48% (45) of basic salary.

For the other senior executives, the bonus for 2015 was based on the Group's sales and operating profit. The bonus amount for the other senior executives for 2015 was equal to 36% (30) of basic salary.

#### 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 defined contribution plans.

#### TERMINATION BENEFITS

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

If employment is terminated by the CEO or other senior executives the notice period is six months.

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

Note 6, cont'd

## REMUNERATION AND OTHER BENEFITS DURING THE YEAR

Remuneration to the Board of Directors, CEO and other senior executives in 2015

SEK m	Basic salary/ Board fees		Variable salary		Other benefits		Pension costs		Other remuneration		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Board Chairman Markus Gerdien	0.3	0.3	-	-	-	-	-	-	-	-	0.3	0.3
Board member Peter Larsson	0.1	0.1	-	-	-	-	-	-	-	-	0.1	0.1
Board member Karin Moberg	0.1	0.1	-	-	-	-	-	-	-	-	0.1	0.1
Board member Jonas Mårtensson	0.1	0.1	-	-	-	-	-	-	-	-	0.1	0.1
Board member Maria Wasing	0.1	-	-	-	-	-	-	-	-	-	0.1	-
CEO Stefan Skarin	2.8	2.8	1.3	1.3	0.2	0.1	0.3	0.3	-	-	4.6	4.5
Other senior executives	3.2	2.7	1.1	0.8	0.2	0.2	0.7	0.6	-	-	5.2	4.3
<b>Total</b>	<b>6.7</b>	<b>6.1</b>	<b>2.4</b>	<b>2.1</b>	<b>0.4</b>	<b>0.3</b>	<b>1.0</b>	<b>0.9</b>	<b>-</b>	<b>-</b>	<b>10.5</b>	<b>9.4</b>

## NOTE 7 Financial income and expenses

SEK m	Group		Parent Company	
	2015	2014	2015	2014
Interest income	0.1	0.4	0.0	0.4
Foreign exchange gains	0.0	0.2	-	0.0
Group contributions received	-	-	70.0	42.0
<b>Total financial income</b>	<b>0.1</b>	<b>0.6</b>	<b>70.0</b>	<b>42.4</b>
Interest expenses	-0.1	-0.1	-0.0	-0.1
Foreign exchange losses	-	-0.0	-	-
Finance leases	-0.1	-0.1	-	-
<b>Total financial expenses</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.0</b>	<b>-0.1</b>
<b>Net financial items</b>	<b>-0.1</b>	<b>0.4</b>	<b>70.0</b>	<b>42.3</b>

## NOTE 8 Tax

The following components are included in the tax expense.

SEK m	Group		Parent Company	
	2015	2014	2015	2014
Current tax on profit for the year	-3.5	-1.5	-	-
Deferred tax	-16.4	-9.9	-	-8.7
<b>Total tax on profit for the year</b>	<b>-19.9</b>	<b>-11.4</b>	<b>-14.5</b>	<b>-8.7</b>

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

SEK m	Group		Parent Company	
	2015	2014	2015	2014
<b>The year's deferred tax expense/income</b>				
intangible assets	-0.2	-3.0	-	-
utilization of loss carryforwards	-14.9	-9.0	-14.5	-8.7
support and upgrade agreements	0.2	0.4	-	-
untaxed reserves	0.2	-	-	-
other temporary differences	-1.8	1.7	-	-
<b>Total deferred tax in the income statement</b>	<b>-16.4</b>	<b>-9.9</b>	<b>-14.5</b>	<b>-8.7</b>

Note 8, cont'd

SEK m	Group		Parent Company	
	2015	2014	2015	2014
<b>Reconciliation between effective tax and tax based on the applicable tax rate</b>				
Reported profit before tax	83.3	53.6	65.9	39.3
Tax according to the applicable tax rate	-19.7	-12.7	-14.5	-8.6
Tax effect of non-deductible expenses	-0.2	-0.2	-0.0	-0.1
Tax effect of non-taxable income	0.0	0.0	0.0	0.0
<b>Total</b>	<b>-19.9</b>	<b>-12.9</b>	<b>-14.5</b>	<b>-8.7</b>
Prior year adjustments	-	1,5	-	-
<b>Tax on profit for the year according to the income statement</b>	<b>-19,9</b>	<b>-11,4</b>	<b>-14,5</b>	<b>-8,7</b>

#### TAX RATE

In computing deferred tax on temporary differences, a tax rate of 22% has been used.

#### TEMPORARY DIFFERENCES

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

SEK m	Group		Parent Company	
	2015	2014	2015	2014
Deferred tax liabilities attributable to intangible assets	-14.2	-14.0	-	-
Deferred tax liabilities attributable to untaxed reserves	-0.1	-0.3	-	-
Deferred tax liabilities attributable to other temporary differences	-2.2	-0.3	-	-
<b>Total deferred tax liabilities</b>	<b>-16.5</b>	<b>-14.6</b>	<b>-</b>	<b>-</b>
Deferred tax assets attributable to loss carryforwards	-32.3	-47.2	-31.7	-46.2
Deferred tax assets attributable to support and upgrade agreements	1.5	1.3	-	-
Deferred tax assets attributable to other temporary differences	3.0	2.9	-	-
<b>Total deferred tax assets</b>	<b>36.8</b>	<b>51.4</b>	<b>31.7</b>	<b>46.2</b>
<b>Total deferred tax assets, net</b>	<b>20.3</b>	<b>36.8</b>	<b>31.7</b>	<b>46.2</b>

On the balance sheet date, the Group had total unused loss carryforwards in continuing operations of SEK 147m [214]. Based on these loss carryforwards, the Group has recognized a deferred tax asset of SEK 32.3m [47.2]. 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	
	2015	2014
Profit, SEK m	63.4	42.2
Basic earnings per share, SEK	5.02	3.37
Diluted earnings per share, SEK	5.02	3.34
<b>Number of shares</b>		
Average number of shares before dilution, millions	12.63	12.54
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 an exercise price that is lower than the market value per share at the end of the respective period are exercised and new shares issued, (2) the net proceeds generated by the exercise of warrants are 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	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Opening cost	112.4	110.7	11.7	11.7	3.4	3.4	90.9	63.0	218.4	188.8
Purchases	-	-	-	-	-	-	17.7	27.9	17.7	27.9
Translation differences	1.1	1.7	-	-	-	-	0.0	-	1.1	1.7
Sales and disposals	-	-	-	-	-	-	-1.0	-	-1.0	-
<b>Closing accumulated cost</b>	<b>113.5</b>	<b>112.4</b>	<b>11.7</b>	<b>11.7</b>	<b>3.4</b>	<b>3.4</b>	<b>107.6</b>	<b>90.9</b>	<b>236.2</b>	<b>218.4</b>
Opening amortization	-	-	-7.6	-6.8	-3.4	-3.4	-21.5	-14.2	-32.5	-24.4
Sales and disposals	-	-	-	-	-	-	1.0	-	1.0	-
Amortization for the year	-	-	-0.8	-0.8	-	-	-11.6	-7.3	-12.4	-8.1
<b>Closing accumulated amortization</b>	<b>-</b>	<b>-</b>	<b>-8.4</b>	<b>-7.6</b>	<b>-3.4</b>	<b>-3.4</b>	<b>-32.1</b>	<b>-21.5</b>	<b>-43.9</b>	<b>-32.5</b>
Opening impairment	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-
<b>Closing accumulated impairment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Carrying amount</b>	<b>113.5</b>	<b>112.4</b>	<b>3.3</b>	<b>4.1</b>	<b>0.0</b>	<b>0.0</b>	<b>75.5</b>	<b>69.4</b>	<b>192.3</b>	<b>185.9</b>

### INVESTMENTS FOR THE YEARR

Of the year's investments in software, including internally generated software development costs, SEK 4.2m (11.0) has been acquired separately and SEK 13.5m (16.9) consists of internally generated costs. Of the internally generated costs, SEK 10.3m (13.4) pertains to personnel costs.

### IMPAIRMENT TESTING OF INTANGIBLE ASSETS

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

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

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	8.5% (11.0%)
Years 2-3 (forecast period)	Acc. to management's estimated forecast	Acc. to management's estimated forecast	8.5% (11.0%)
Terminal value	2% (2%)	On level with year 3	8.5% (11.0%)

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. Management has therefore made the assessment that there was no indication of impairment of goodwill at the end of 2015.



## NOTE 11 Property, plant and equipment

Group, SEK m	Leasehold improvements		Equipment		Total	
	2015	2014	2015	2014	2015	2014
Opening cost	0.6	0.6	20.5	17.2	21.1	17.8
Purchases	0.0	0.0	1.0	3.4	1.0	3.4
Purchases through finance leases	-	-	-	1.6	-	1.6
Translation differences	-	-	0.2	0.6	0.2	0.6
Sales and disposals	-	-	-0.6	-2.3	-0.6	-2.3
<b>Closing accumulated cost</b>	<b>0.6</b>	<b>0.6</b>	<b>21.1</b>	<b>20.5</b>	<b>21.7</b>	<b>21.1</b>
Opening depreciation	-0.5	-0.5	-12.6	-11.2	-13.1	-11.7
Sales and disposals	-	-	0.6	1.4	0.6	1.4
Translation differences	-	-	0.2	0.5	0.2	0.5
Depreciation for the year on finance leases	-	-	-0.5	-0.6	-0.5	-0.6
Depreciation for the year	-0.0	-0.0	-2.0	-1.7	-2.0	-1.7
<b>Closing accumulated depreciation</b>	<b>-0.5</b>	<b>-0.5</b>	<b>-14.7</b>	<b>-12.6</b>	<b>-15.2</b>	<b>-13.1</b>
<b>Carrying amount</b>	<b>0.1</b>	<b>0.1</b>	<b>6.4</b>	<b>7.9</b>	<b>6.5</b>	<b>8.0</b>
<b>Parent Company, SEK m</b>						
Opening cost	-	-	0.6	0.6	0.6	0.6
Purchases	-	-	-	-	-	-
Sales and disposals	-	-	-	-	-	-
<b>Closing accumulated cost</b>	<b>-</b>	<b>-</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>
Opening depreciation	-	-	-0.3	-0.2	-0.3	-0.2
Sales and disposals	-	-	-	-	-	-
Depreciation for the year	-	-	-0.1	-0.1	-0.1	-0.1
<b>Closing accumulated depreciation</b>	<b>-</b>	<b>-</b>	<b>-0.4</b>	<b>-0.3</b>	<b>-0.4</b>	<b>-0.3</b>
<b>Carrying amount</b>	<b>-</b>	<b>-</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>

### OPERATING LEASES

During the year, lease payments under operating leases in the Group amounted to SEK 13.5m (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	
	2015	2014	2015	2014
Due for payment within 1 year	12.2	12.4	0.3	0.3
Due for payment within 2 years	7.7	5.5	0.3	0.3
Due for payment within 3 years	5.5	4.3	0.2	0.3
Due for payment within 4 years	1.5	1.3	-	0.2
Due for payment in 5 years or later	1.1	1.0	-	-

### FINANCE LEASES

The majority of finance leases refer to company cars. The accumulated cost of finance leases at December 31, 2015 was SEK 2.9m (2.9).

Accumulated amortization at year-end amounted to SEK 1.1m (0.6). These obligations are recognized in equipment in the balance sheet.

Lease payments for company cars are affected by interest rate levels, and are thus variable. Total lease charges of SEK 0.5m (0.6) 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	2015	2014
Current portion (due within 1 year)	1.2	0.8
Non-current portion (due within 5 years)	0.6	1.5
Non-current portion (due later than 5 years)	-	-
<b>Total</b>	<b>1.8</b>	<b>2.3</b>

## NOTE 12 Other non-current receivables

SEK m	Group		Parent Company	
	2015	2014	2015	2014
Deposits	1.5	1.2	0.1	0.1
Other	0.3	0.3	-	-
	1.8	1.5	0.1	0.1

## NOTE 13 Other non-current securities

SEK m	Share of capital	Group		Parent Company	
		2015	2014	2015	2014
Shareholding in NorNor Holding AB	10% (15%)	3.2	4.5	3.2	4.5
		3.2	4.5	3.2	4.5

Other non-current securities consist of unlisted shares in NorNor Holding AB. The holding corresponds to approximately 10% of the total number of shares in NorNor Holding AB. In December, 5% of the holding in NorNor Holding AB was divested. The remaining holding is measured at fair value based on the transaction.

## NOTE 14 Trade and other receivables

SEK m	Group	
	2015	2014
Trade receivables	43.9	39.7
Provisions for doubtful debts	-0.4	-0.6
Trade receivables	43.5	39.1
Prepaid expenses and accrued income	19.6	12.8
Other receivables	1.2	3.1
	64.3	55.0

The fair values of trade receivables are deemed to correspond with 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, 2015, trade receivables amounting to SEK 10.5 m (7.5) were past due but not assessed to be impaired. These pertain to a number of independent customers that

have not had any previous payment difficulties. An age analysis of these trade receivables is shown below:

SEK m	Group	
	2015	2014
AGE ANALYSIS OF PAST DUE TRADE RECEIVABLES		
Less than 3 months	10.1	7.5
3-6 months	0.2	0.0
More than 6 months	0.2	0.0
	10.5	7.5

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

Currency	Group	
	2015	2014
SEK	12.5	11.6
EUR	19.8	18.0
USD	22.1	15.7
Other currencies	9.9	9.7
	64.3	55.0

## CHANGES IN PROVISIONS FOR DOUBTFUL DEBTS

SEK m	Group	
	2015	2014
Provisions at January 1	0.6	0.4
The year's provisions for doubtful debts	0.3	0.6
Receivables written off during the year as uncollectable	-0.1	-0.3
Reversed unutilized amount	-0.4	-0.1
Provisions at December 31	0.4	0.6

## 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, 2015.

## NOTE 15 Other current receivables

SEK m	Group		Parent Company	
	2015	2014	2015	2014
Work in progress	-	1.4	-	-
Rent guarantees	0.0	0.1	-	-
Other	1.2	1.6	0.4	0.2
Total other current receivables	1.2	3.1	0.4	0.2

## NOTE 16 Prepaid expenses and accrued income

SEK m	Group		Parent Company	
	2015	2014	2015	2014
Accrued income	11.3	5.7	-	-
Prepaid rents	1.5	1.5	0.1	0.1
Prepaid insurance premiums	1.0	1.0	0.1	0.0
Other prepaid expenses	5.1	4.6	0.2	0.2
<b>Total prepaid expenses and accrued income</b>	<b>18.9</b>	<b>12.8</b>	<b>0.4</b>	<b>0.3</b>

## NOTE 17 Cash and cash equivalents

SEK m	Group		Parent Company	
	2015	2014	2015	2014
Cash and cash equivalents at end of year	89.4	70.7	4.2	4.4
Unutilized committed credit facilities	25.0	25.0	-	-
<b>Total available cash and cash equivalents</b>	<b>114.4</b>	<b>95.7</b>	<b>4.2</b>	<b>4.4</b>

## NOTE 18 Financial instruments

SEK m, December 31, 2015	Loans and receivables	Other liabilities	Total
<b>Non-current financial assets</b>			
Other financial receivables		1.7	1.7
Other non-current securities		3.2	3.2
<b>Current financial receivables</b>			
Trade and other receivables excl. prepaid expenses	44.2		44.2
<b>Cash and cash equivalents</b>			
Cash and cash equivalents	89.4		89.4
<b>Total</b>	<b>138.5</b>		<b>138.5</b>
<b>Non-current liabilities</b>			
Finance lease liabilities		0.6	0.6
<b>Current liabilities</b>			
Finance lease liabilities		1.2	1.2
Trade and other payables excl. non-financial liabilities		5.4	5.4
<b>Total</b>		<b>7.2</b>	<b>7.2</b>

SEK m, December 31, 2014	Loans and receivables	Other liabilities	Total
<b>Non-current financial assets</b>			
Other financial receivables	1.5		1.5
Other non-current securities	4.5		4.5
<b>Current financial receivables</b>			
Trade and other receivables excl. prepaid expenses	40.9		40.9
<b>Cash and cash equivalents</b>			
Cash and cash equivalents	70.7		70.7
<b>Total</b>	<b>117.6</b>		<b>117.6</b>

<b>Non-current liabilities</b>			
Finance lease liabilities		1.5	1.5
<b>Current liabilities</b>			
Finance lease liabilities		0.8	0.8
Trade and other payables excl. non-financial liabilities		6.3	6.3
<b>Total</b>		<b>8.6</b>	<b>8.6</b>

### CASH AND CASH EQUIVALENTS

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

SEK m	Group	
	2015	2014
Cash in hand and at bank	89.4	70.7
<b>Cash and cash equivalents</b>	<b>89.4</b>	<b>70.7</b>

### Trade and other receivables

SEK m	Group	
	2015	2014
Trade receivables	43.5	39.1
Other current receivables	1.2	3.1
<b>Trade and other receivables</b>	<b>44.7</b>	<b>42.2</b>

### NET BORROWINGS

The Group's net borrowings at December 31, 2015 amounted to SEK -87.6m (-68.4). The table on the next page shows how the Group calculates net borrowings and what they include.

SEK m	Group	
	2015	2014
Current borrowings	-	-
Current portion of non-current borrowings	-	-
Current portion of finance lease liabilities	1.2	0.8
<b>Total current borrowings</b>	<b>1.2</b>	<b>0.8</b>
Non-current borrowings	-	-
Non-current portion of finance lease liabilities	0.6	1.5
<b>Total non-current borrowings</b>	<b>0.6</b>	<b>1.5</b>
<b>Total borrowings</b>	<b>1.8</b>	<b>2.3</b>
Cash and cash equivalents	89.4	70.7
Blocked funds	-	-
<b>Net borrowings</b>	<b>-87.6</b>	<b>-68.4</b>
<b>Bank overdraft facility</b>	<b>25.0</b>	<b>25.0</b>

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

#### INTEREST-BEARING LIABILITIES

The Group's total interest-bearing liabilities at December 31, 2015 amounted to SEK 1.8m (2.3), of which SEK 0.6m (1.5) pertains to non-current borrowings excluding those maturing in the next 12 months. Non-current borrowings maturing within 12 months amount to SEK 1.2m (0.8). The table below shows the carrying amounts of the Group's interest-bearing liabilities.

#### Borrowings

Type of loan	Interest rate	Currency	Group	
			2015	2014
<b>Other non-current liabilities</b>				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	0.6	1.5
<b>Current portion of non-current liabilities</b>				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	1.2	0.8
Bank overdraft facilities	Variable	SEK	-	-
			<b>1.8</b>	<b>2.3</b>

#### 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 equity is found in the statement of changes in equity.

#### Number of shares:

Parent Company	Class A shares	Class B shares	Total number
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	-	-	-
<b>Total number of shares at December 31, 2014</b>	<b>100,000</b>	<b>12,532,061</b>	<b>12,632,061</b>
Number at January 1, 2015	100,000	12,532,061	12,632,061
Treasury shares at January 1, 2015	-	-	-
New share issue in 2015	-	-	-
Sold in 2015	-	-	-
<b>Total no. of shares at December 31, 2015</b>	<b>100,000</b>	<b>12,532,061</b>	<b>12,632,061</b>

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 deferred income

SEK m	Group		Parent Company	
	2015	2014	2015	2014
Accrued salaries and social security expenses	12.2	10.0	3.8	3.1
Accrued trade payables	-	0.1	-	0.0
Deferred income	60.9	48.0	-	-
Other items	2.8	2.6	0.2	0.2
<b>Total accrued expenses and deferred income</b>	<b>75.9</b>	<b>60.7</b>	<b>4.0</b>	<b>3.3</b>

## NOTE 21 Pledged assets

SEK m	Group		Parent Company	
	2015	2014	2015	2014
<b>To secure own liabilities</b>				
To secure pensions and similar obligations:				
Direct pension obligations	1.8	1.8	1.4	1.4
To secure liabilities to credit institutions:				
Machinery held under				
- finance leases	1.8	2.3	-	-
<b>Total assets pledged to secure own liabilities</b>	<b>3.6</b>	<b>4.1</b>	<b>1.4</b>	<b>1.4</b>
<b>To secure other commitments</b>				
Guarantees	-	-	-	-
<b>Total pledged assets</b>	<b>3.6</b>	<b>4.1</b>	<b>1.4</b>	<b>1.4</b>

Note 22, cont'd

### Parent Company holdings

SEK m	Corp. ID no.	Domicile	% of capital	% of votes	No. of shares	Carrying amount 2015	Carrying amount 2014
<b>Direct holdings:</b>							
IAR Systems AB	556230-7107	Uppsala	100.0%	100.0%	22,846,224	162.3	162.3
Signum Systems Corp	1473886	Camarillo, USA	100.0%	100.0%	100,000	27.1	27.1
<b>Indirect holdings through subsidiaries</b>							
IAR Systems Software Inc	1830665	Foster City, USA	100.0%	100.0%	-	-	-
IAR Systems Ltd	2190612	Oxford, England	100.0%	100.0%	-	-	-
IAR Systems GmbH	HRB 175145	Munich, Germany	100.0%	100.0%	-	-	-
IAR Systems KK	0111-01-034174	Tokyo, Japan	100.0%	100.0%	-	-	-
IAR Software Technology Consulting (SH) Co. Ltd	660701822	Shanghai, China	100.0%	100.0%	-	-	-
IAR Systems Korea Co	110111-4699679	Seoul, South Korea	100.0%	100.0%	-	-	-
IAR Systems Sarl	539,357,327 R.C.S Paris	Paris, France	100.0%	100.0%	-	-	-
<b>Closing carrying amount</b>						<b>189.4</b>	<b>189.4</b>

### Group composition

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

Primary activity	Geographic operations	Dec 31, 2015	Dec 31, 2014
Product development	Europe	1	1
Product development	Americas	1	1
Sales office	Europe	2	3
Sales office	Americas	1	1
Sales office	Asia	3	3

## NOTE 22 Shares in Group companies

SEK m	Parent Company	
	2015	2014
Opening cost	189.4	189.4
<b>Closing accumulated cost</b>	<b>189.4</b>	<b>189.4</b>
Opening impairment	-	-
<b>Closing accumulated impairment</b>	<b>-</b>	<b>-</b>
<b>Closing carrying amount</b>	<b>189.4</b>	<b>189.4</b>

### 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 control over the subsidiary to influence its returns. All subsidiaries are directly or indirectly wholly owned by the Parent Company IAR Systems Group AB (publ).

## NOTE 23 Related party transactions

Of the Parent Company's total expenses of SEK 4.0m (4.5), 0% (0) pertains to purchases from other companies in the Group. Of the Parent Company's total sales revenue, 100% (100) pertains to inter-company sales. Of the year's total purchasing costs and sales revenue in the subsidiaries, 0% (0) pertains to purchases from the Parent Company and 0% (0) 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 the International Financial Reporting Standards (IFRS) 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 presented to the Annual General Meeting for adoption on April 27, 2016.

Stockholm, March 17, 2016

**Stefan Skarin**

*President and CEO*

*Board member*

**Markus Gerdien**

*Board Chairman*

**Peter Larsson**

*Board member*

**Jonas Mårtensson**

*Board member*

**Maria Wasing**

*Board member*

Our auditor's report was submitted on March 17, 2016

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, 2015 to December 31, 2015. 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 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, 2015, 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, 2015, 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, 2015 to December 31, 2015.

## **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.

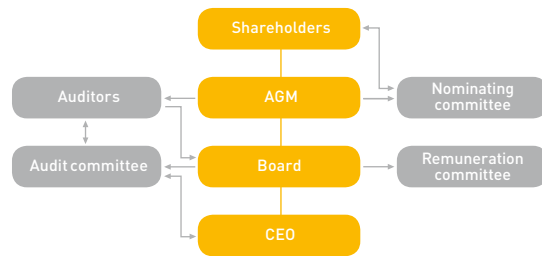
Stockholm, March 17, 2016  
Deloitte AB

Erik Olin  
Authorized Public Accountant

# Corporate governance report

IAR Systems Group is a Swedish public limited company domiciled in Stockholm, Sweden. In 2015, the Group conducted operations in Sweden, Germany, the UK, 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 2015 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 by such documents as 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](http://www.iar.com) under the heading "Investors". IAR Systems Group complies with the rules in the Swedish Companies Act regarding the appointment and dismissal of board members and regarding amendments to the Articles of Association. IAR Systems Group has not acted in violation of any of Nasdaq 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, which carry 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, 2015, was 8,946 (8,030). Of these shareholders, 562 (479) held more than 1,000 shares each. Foreign shareholders held approximately 16% (20) of the share capital and 15% (19) 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 in the manner specified in the convening the meeting.

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

The Annual General Meeting (AGM) is to be held within six months from the end of the financial year. At the AGM, the shareholders resolve on the election of Board members and, when appropriate, the 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 the 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.

## 2015 ANNUAL GENERAL MEETING

The AGM re-elected sitting Board members Markus Gerdien, Peter Larsson, Jonas Mårtensson and Stefan Skarin, and Maria Wasing was elected as a new Board member. Karin Moberg had declined re-election. The AGM appointed Markus Gerdien as Board Chairman.

It was furthermore decided that Board fees would be paid in an annual amount of SEK 325,000 to the Board Chairman and SEK 150,000 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 is to convene the company's three largest shareholders in terms of voting power, each of which is then to 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 2014.

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 the existing share capital in the company on the date of the AGM in exchange for non-cash consideration. The motive for the authorization is to provide scope for acquisitions with payment through a non-cash issue.

The Board of Directors was furthermore authorized to decide on the repurchase of a maximum number of class B shares whereby the holding of treasury shares at no time exceeds 10% of all registered shares in the company. The motive for the authorization is to give the Board greater freedom of action in optimizing the company's capital structure. The AGM also authorized the Board to decide on the sale of the company's own shares as consideration for the acquisition of companies or operations.

## BOARD OF DIRECTORS

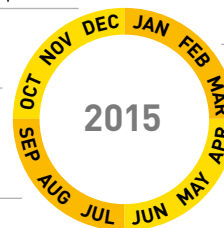
The Board of Directors consists of five members elected by the AGM and no deputies. The members selected by the AGM are appointed to serve for the period until the next AGM in accordance with the Code. There is no rule stipulating the maximum period of time for which a member can serve on the Board. 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 51 years and one of the five members is a woman. The nominating committee considers all of the Board members except one to be independent in relation to the company, its management and the company's

Meeting regarding business plan and financial plan

Q3 report meeting

Q2 report meeting



Meeting regarding year-end report and the financial results for the full-year

Q1 report meeting

Statutory meeting

## BOARD OF DIRECTORS 2015

	Elected	Dependent status	Remuneration Committee	Audit Committee
Markus Gerdien, Chairman	2011	No	Chairman	Chairman
Peter Larsson	2010	No	Member	Member
Karin Moberg <i>(withdrew April 29)</i>	2010	No	Member	Member
Maria Wasing <i>(joined April 29)</i>	2015	No	Member	Member
Jonas Mårtensson	2010	No	Member	Member
Stefan Skarin	2002	Yes	-	-

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 are to 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 2015

In 2015, the Board held eight meetings, of which six were scheduled and two were extraordinary meetings. Each of the regular meetings followed an approved agenda, and both the proposed agendas and underlying documentation were sent to the Board members prior to each meeting. The CEO and certain other senior executives in the company have taken part in Board meetings in a reporting capacity and the company's CFO has served as secretary of the Board. At the Board meetings, the Board has dealt with the fixed items on the agenda for each meeting, such as the business and market situation, financial reporting and monitoring, the company's financial position and investments. 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 a salary from companies in IAR Systems Group. In 2015, this rule applied to Stefan Skarin.

#### BOARD COMMITTEES AND COMMITTEE WORK

In order to address the Board members' independence, two committees have been established: 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 verbally 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 2015 AGM, at which time Deloitte was elected as auditor to serve for the period until the end of the 2016 AGM. Auditor in Charge is Erik Olin (born in 1973). In addition to IAR Systems Group, he has audit assignments for CLX Communications, Micro Systemation, NetEnt, Microsoft Sweden and TeliaSonera Sweden, among others.

On two occasions in 2015, 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 2015. On one occasion in 2015, the Board met with the auditor without the presence of the CEO or other members of the company's management.

Deloitte issues an audit report regarding

## REMUNERATION TO THE BOARD

SEK thousand	2015	2014
Markus Gerdien, Chairman	317	300
Peter Larsson	142	125
Karin Moberg	42	125
Maria Wasing	100	-
Jonas Mårtensson	142	125
Stefan Skarin	-	-

## ATTENDANCE AT BOARD MEETINGS IN 2015

	11/2	17/3	29/4	29/4 Stat.	12/5	17/8	21/10	10/12	Total
Markus Gerdien, Chairman	●	●	●	●	●	●	●	●	8/8
Peter Larsson	●	●	●	●	●	●	●	●	8/8
Karin Moberg <i>(withdrew Apr. 29)</i>	●	●	●	-	-	-	-	-	3/3
Maria Wasing <i>(joined Apr. 29)</i>	-	-	-	●	●	●	●	●	5/5
Jonas Mårtensson	●	●	●	●	●	●	●	●	8/8
Stefan Skarin	●	●	●	●	●	●	●	●	8/8

● Attended ● Did not attend

IAR Systems Group AB, IAR Systems AB and the Group. Deloitte also performs non-audit services for the companies in the IAR Group. These have mainly consisted of tax consultations in direct connection with the audit. For this work, Deloitte invoiced a total amount of SEK 0.2m (0.2) in 2015. The auditor is paid fees in accordance with the decision of the AGM. For information about fees to auditors in 2014 and 2015, 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 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 annually.

Stefan Skarin has been President and CEO since February 2008.

### REMUNERATION TO THE CEO AND OTHER SENIOR EXECUTIVES

The principles for remuneration to 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 2015 were unchanged compared to those applied in 2014. The group of senior executives was expanded by one person in 2015. The group comprises the CEO, the CFO and the COO. For 2015, Group applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM. This also applies to the senior executives who joined the Group during the year. 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 30-50% 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 other senior executives are entitled to full salary during a notice period of 12 months and termination benefits corresponding to a maximum of six monthly salaries.

### INTERNAL CONTROL

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

#### *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.

## REMUNERATION TO THE CEO AND OTHER SENIOR EXECUTIVES 2015

SEK thousand	Year	Fixed salary	Variable salary	Benefits	Pension costs	Total
Stefan Skarin, CEO	2015	2,763	1,335	153	311	4,562
	2014	2,773	1,257	154	308	4,492
Other senior executives	2015	3,175	1,155	172	703	5,205
	2014	2,690	800	183	575	4,248

The primary risk areas are the account closing process in connection with financial reporting, operational risks and legal risk.

#### **Control activities**

The Group's business processes include financial controls that regulate approval and reporting of business transactions. The account closing and reporting process contains controls for aspects such as accounting, valuation and disclosure

requirements and regarding the application of significant accounting policies and estimates both in the individual subsidiaries and at the Group level.

Certain subsidiaries in IAR Systems Group have their own financial directors that take part in planning and evaluation of financial results in their units. Regular analysis of financial reporting in the respective units covers significant items such as assets, liabilities, revenue, expenses and cash flow. For the subsidiaries that do not have their own financial

directors, a more in-depth analysis is carried out at the Group level. Together with the analysis performed at the Group level, this important aspect of internal control contributes to ensuring that the financial reports contain no material misstatements.

The quality of the external financial reports is safeguarded through a number of procedures and routines. All reports and press releases are posted on IAR Systems Group's website in connection with publication.

## REMUNERATION COMMITTEE

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*The remuneration and other terms of employment for senior executives are to 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, THREE MEETINGS**

Markus Gerdien, Chairman  
Peter Larsson • Maria Wasing • 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 are to 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 2016 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 nominating committee's three meetings.

## AUDIT COMMITTEE

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*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, TWO MEETINGS**

Markus Gerdien, Chairman  
Peter Larsson • Maria Wasing • 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

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*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 are to serve the interests of all shareholders.*

### NOMINATING COMMITTEE, THREE MEETINGS

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Ulf Strömsten, Catella, Chairman  
Tedde Jeansson Jr • Håkan Berg, Robur.

The AGM on April 29, 2015, resolved to appoint a nominating committee according to the following principles. By Wednesday, September 30, 2015, at the latest, the Board Chairman is to convene the three largest shareholders in the company in terms of voting power, each of which is then to 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 is to be made public not later than six months prior to the 2016 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 on 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 2016 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 2016 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 2017 AGM

## AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT

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*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 2015 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 a 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, 2016  
Deloitte AB

Erik Olin, *Authorized Public Accountant*

# Board of Directors

## Markus Gerdien

Board Chairman.

**Born in:** 1960.

**Board member:** Since 2011.

**Education:** System and Computer Science and Economics.

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

**Experience:** More than 25 years in the software industry, and senior positions in product-oriented software companies such 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 (February 29, 2016).

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

## Peter Larsson

Regular Board member.

**Born in:** 1964.

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

**Education:** Bachelor of Science in Computer and System Science from Stockholm University.

**Other board assignments:** Peter is the Chairman of Lundalogik AB and a member of the boards of Palette Software & Consulting and Axiomatics.

**Experience:** More than 20 years' experience of the software industry, including as the President of EPiServer AB, Protect Data AB and Pointsec Mobile Technologies AB.

**Shareholdings:** 83,590 class B shares (February 29, 2016).

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 2001-2006 and since February 2008.

**Education:** IHM, international sales, communication and management programs and economics studies at Stockholm University.

**Other board assignments:** -

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

**Shareholdings:** Via endowment insurance.

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

## Jonas Mårtensson

Regular Board member.

**Born in:** 1963.

**Board member:** Since 2010.

**Position:** Employee at Alted AB since 2006 where he is also part-owner and Board member.

**Education:** M.B.A. from the Stockholm School of Economics.

**Other board assignments:** Chairman of Ownpower Projects Europe AB and member of the boards of Doro AB, DistIT AB, Alcadon Holding AB and JNM Invest AB.

**Experience:** Jonas worked for 17 years at investment banks (SEB Enskilda, Maizels, Westerberg & Co and Nordea) as an adviser in business ownership transfers and with raising capital and IPOs.

**Shareholdings:** 30,000 class B shares (February 29, 2016).

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

## Maria Wasing

Regular Board member.

**Born in:** 1970.

**Board member:** Since 2015.

**Education:** Bachelor of Science in Business Administration: Marketing from the University of Arkansas at Little Rock.

**Other board assignments:** -

**Experience:** Maria has more than 20 years' experience of software companies and the online industry and, in this time, has held senior positions in marketing, communication, sales and partner strategy.

**Shareholdings:** 500 class B shares (February 29, 2016).

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



Markus Gerdien

Jonas Mårtensson

Maria Wasing

Stefan Skarin

Peter Larsson

# 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 and software industry, including 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.

## 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:** Through endowment insurance, and 310 class B shares (wife/children) (February 29, 2016).

## Carl Johan Toll

**Position:** IT Manager

Carl Johan was born in 1962, studied mathematics and computer engineering at Uppsala University, and has worked at IAR Systems since August 2014. Before this, he worked for nine years as the IT Manager of SDR Svensk Direktreklam and for 15 years at Nocom in several different roles.

**Shareholdings:** 2,000 class B shares (February 29, 2016).

## Petter Edman

**Position:** Chief Technology Officer

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

Petter was born in 1964 and has an M.Sc. in Engineering Physics, with a focus on computer technology, from the University of Uppsala.

**Shareholdings:** 10,000 class B shares (February 29, 2016).

## Lena Forssblad

**Position:** HR Manager

Lena has worked for IAR Systems in senior positions since 2001. She has a degree in behavioral science and business administration from Umeå University.

Lena was born in 1963 and previously worked as the HR Manager of St. Eriks Ögonsjukhus hospital in Stockholm. She also has previous experience from working with HR in a municipality.

**Shareholdings:** -

## Mats Ullström

**Position:** COO/Product Director

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

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

**Shareholdings:** 2,000 class B shares (February 29, 2016).

## Erik Winroth

**Position:** Development Manager

Erik has worked at IAR Systems since September 2015 and has more than 20 years' experience of software development, mainly in embedded systems. His experience in management is mainly in the defense industry with more than 15 years in various senior positions.

Erik was born in 1967 and holds an M.Sc. in Engineering from the Department of Engineering Sciences at Uppsala University.

**Shareholdings:** 100 class B shares (February 29, 2016).

# Auditor

## Erik Olin

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





Erik Winroth

Lena Forssblad

Stefan Skarin

Stefan Ström

Mats Ullström

Carl Johan Toll

Petter Edman

# 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 processor 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 standard to processor makers worldwide. IAR Systems is the tool supplier that supports the most ARM-based processors in the market for embedded systems.

## CHIP

Another word for an integrated circuit (IC).

## COMPILER

A computer program (or set of programs) that transforms source code written in a programming language 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 bugs at an early stage of the development process.

## C-STAT

An add-on product for IAR Embedded Workbench that executes a static code analysis. Using C-STAT, developers can verify the quality of the code at an early stage and ensure compliance with rules and coding standards.

## DEBUG PROBE

An electronic tool that measures how a processor works when the program code is executed and can therefore be used to locate problems and errors in a program that a developer has created.

## DEBUGGER

Computer software that helps 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.

## DEVELOPMENT TOOL

When used in connection with IAR Systems' products, development tool refers to IAR Embedded Workbench, which comprises a complete set of development tools. These software tools are used by programmers to create their own programs. The most important of these include an editor in which source code can be written, 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.

## 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 digital products such as industrial robots, reversing cameras, credit card readers, dishwashers, etc. IAR Systems' customers develop and market products that are driven by embedded systems.

## 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.

## 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 collective term for the trend of equipping objects such as machinery, vehicles, household appliances, as well as animals and humans, with sensors and processors so that they can perceive and communicate with the world around them.

## 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.

## PROCESSOR

When the word is used in connection with IAR Systems' products, processor is an abbreviation of microprocessor.

## RENESAS

One of the world's largest processor vendors, with a wide product portfolio and a long-standing partnership with IAR Systems. IAR Systems is the tool supplier that supports the most Renesas processors in the market for embedded systems.

## SOURCE CODE

Also referred to as program text, program code or sometimes simply program or code, source code comprises instructions, data and comments in a specific programming language. Programmers use source code to write, correct and make changes.

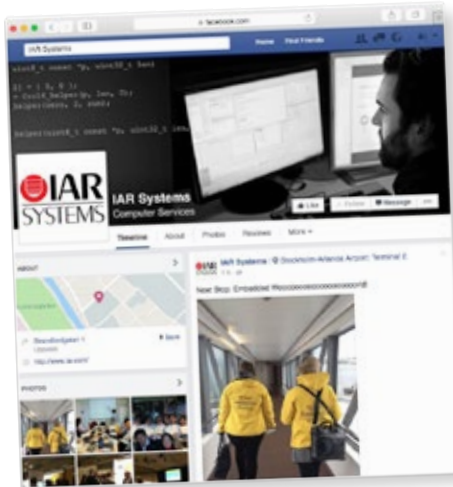
## 8-, 16-, 32-BIT

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 processor.

Sources:

IAR Systems, Wikipedia, IDG's dictionary.

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