

A photograph of a modern building with a mix of red brick and white-framed glass windows. The building is multi-storied, and some windows are lit up. In the foreground, there are bare trees and a small yellow sign with the IAR Systems logo. Bicycles are parked along a path in front of the building.

# **IAR Systems Group AB**

*Interim Report Jan-March 2016*

# Net sales of SEK 80m, EBITDA of SEK 23m

## Cash flow of SEK 22m, operating margin of 24%

Profit summary	January– March		Full-year	Key ratios	January– March		Full-year
SEK m	2016	2015	2015		2016	2015	2015
Net sales	80.5	76.9	311.7	EBITDA margin, %	28.7	30.8	31.5
Operating expenses	-61.3	-56.6	-228.3	Operating margin, %	23.9	26.4	26.8
Operating profit	19.2	20.3	83.4	Net cash, SEK m	103.9	83.9	87.6
				No. of employees at end of period	164	167	164

### January–March 2016

- Net sales of SEK 80.5m (76.9)
- EBITDA of SEK 23.1m (23.7), corresponding to an EBITDA margin of 28.7% (30.8)
- Operating profit of SEK 19.2m (20.3), corresponding to an operating margin of 23.9% (26.4)  
Non-recurring costs mainly in the form of legal costs in the US have been charged to operating profit of about SEK 4m.
- Profit before tax of SEK 19.2m (20.3)
- Earnings per share of SEK 1.51 (1.55) after current tax
- Basic earnings per share of SEK 1.20 (1.23) and diluted earnings per share of SEK 1.20 (1.23)
- Cash flow from operating activities of SEK 22.0m (18.3)
- Net cash of SEK 103.9m (83.9) at the end of the period

### Events after the end of the reporting period

In April 2016, IAR Systems signed an exclusive royalty agreement with Renesas Electronics Corporation for Renesas Synergy Platform, an all-inclusive solution for innovative product development within new emerging technologies such as the Internet of Things. The new agreement will provide revenue from royalties for each microprocessor used in the products the customer eventually manufactures. The agreement covers all Renesas Synergy Platform microcontrollers.



## Comments from the CEO

We have raised our ambitions for the year and have increased activity in several areas during the quarter. We are in a strong position thanks to our technology, and this is something we would like to exploit further. By investing in existing, new and more effective sales channels, we make it possible to position ourselves more widely on the market.

As part of our investment in the Internet of Things (IoT), we have signed an exclusive royalty agreement with Renesas for the all-inclusive solution Renesas Synergy Platform. With this agreement, we are complementing our current license-based business model, which is based on the number of users, with a royalty-based business model. The new agreement will provide revenue from royalties for each microprocessor used in the products the customer eventually manufactures.

The Renesas Synergy Platform represents a highly unique comprehensive solution that will speed up the development of more innovative products in new markets such as the Internet of Things, which will strengthen our position and benefit us as the number of connected products in the market increases. I notice on a daily basis how more and more people are understanding the potential of the Internet of Things and how our customers globally are seeing multiple opportunities to have their products communicate over the Internet.

Stefan Skarin and Ali Sebt, Renesas, present Renesas Synergy Platform at Embedded World 2016.



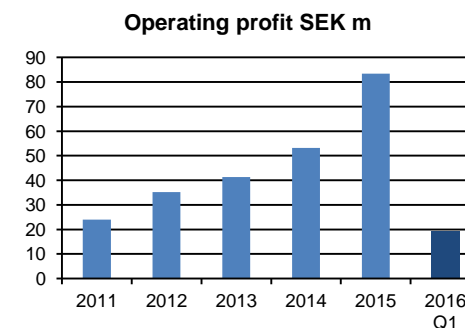
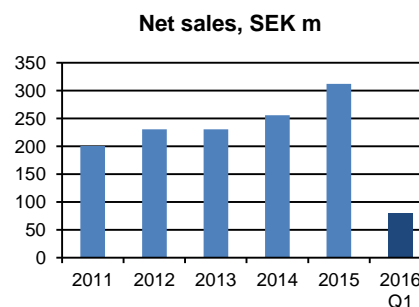
During the quarter, we took part in the market's largest trade fair, Embedded World, which broke the visitor record this year with over 30,000 visitors. There was a recurring focus on the IoT and security throughout the fair, and we took the opportunity to present Renesas Synergy Platform together with Ali Sebt, CEO of Renesas Electronics America.

To satisfy the needs of customers, we continuously invest in our products through constant improvement of their functionality and development of new functions. In 2016, we also want to be more actively involved in the ongoing consolidation of the market, which means increasing the pace of expansion of our add-on tools offering by also including acquisitions as an alternative to proprietary products.

We are also reporting quarterly revenue of over SEK 80m for the first time, thanks to increased demand. Europe and Asia developed strongly during the quarter. There was a positive trend in most European countries as a result of a general recovery following a weaker 2015. In Asia, Korea and China noted a recovery compared to the year-earlier period, and Japan is still in a period of stable development. The market in the Americas faced the greatest challenges during the first quarter. The sales efficiency has been lower at the same time as the market is unstable. Our assessment is that this will continue to be the case in the Americas market until the US presidential election is over.

With our enhanced business model, we have taken a large step forward in our ambition to strengthen the company in the long term, and we will begin reporting royalty-based revenue in this interim report. Recurring themes in 2016 will include refining our offering, focusing on strategic partner relations and increasing activity with larger customers. The launch of Renesas Synergy Platform will continue and, in the near future, be characterized by a number of important product launches as a result of our raised ambitions.

*Stefan Skarin, CEO of IAR Systems Group AB*



# Market and customers

The growing complexity of products and demands for faster delivery to the market remain major market forces. Many of our customers in a range of different industries are placing ever greater demands on functional safety, code quality and streamlined work flows. One industry showing major general growth is the automotive industry, in pace with vehicles becoming more advanced and consumers looking for more safety features and an improved driving experience.

The Internet of Things continued to drive market growth during the first quarter and this will lead to heightened potential for years to come. The market's biggest trade fair, Embedded World in Nuremberg, Germany, got under way in February and also focused on the Internet of Things. The majority of those in attendance highlighted safety and integrity aspects of the Internet of Things.

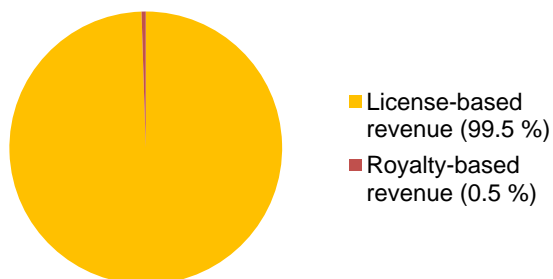
Complete development platforms that enable faster delivery of new and innovative products to the market are also increasingly in demand. As part of our investment in the Internet of Things, we have signed an exclusive royalty agreement with Renesas for precisely this kind of solution. The Renesas Synergy Platform provides a comprehensive solution for innovative product development in new markets, such as the Internet of Things. With this agreement, we are complementing our current license-based business model, which is based on the number of users, with a

royalty-based business model. The new agreement will provide revenue from royalties for each microprocessor used in the products the customer eventually manufactures. The Renesas Synergy Platform is an entirely unique and all-inclusive solution that has the potential to capture a large share of the market in the long term.

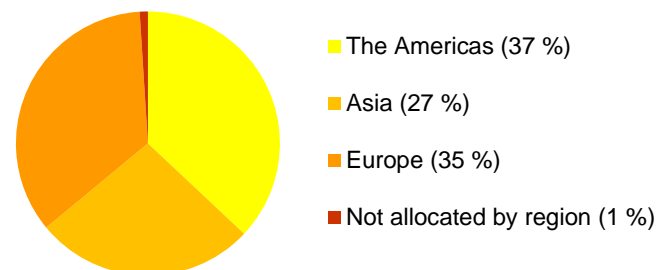
IAR Systems' current business model is entirely based on the number of license-users of the company's software, which leads to revenue for the company when the customer develops its products. The new agreement means that license-based revenue will be supplemented by royalty-based revenue. For a customer in the new model, the company will now receive revenue throughout the entire period in which the customer's products are produced, which could last many years.

As far as our regions are concerned, Europe and Asia have shown strong developments during the quarter. There was a positive trend in most European countries as a result of a general recovery following a weaker 2015. In Asia, Japan remains stable and Korea and China have also recovered compared with the year-earlier period. The market in the Americas faced the greatest challenges during the first quarter, mainly due to a turbulent market.

**Revenue categories, Q1 2016**



**Breakdown of revenue, Q1 2016**



# Products and technology

IAR Systems' 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. In addition to IAR Embedded Workbench, IAR Systems offers several complementary products.

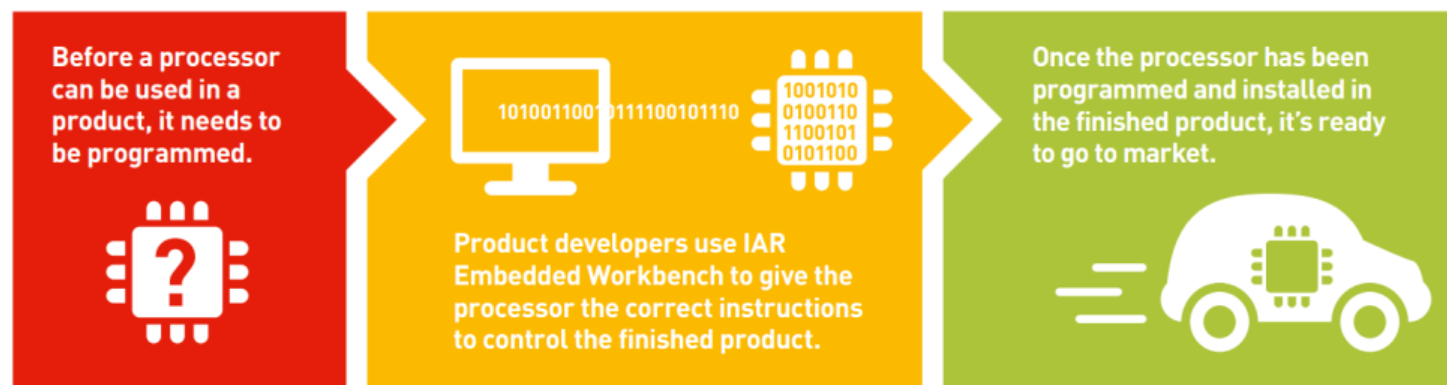
During the first quarter, we further expanded our code analysis offering and added support for C-STAT, a static analysis add-on product, to our tools for Renesas RH850, which is a specially adapted processor group for the automotive industry. This means that C-STAT is now supported by 11 versions of IAR Embedded Workbench. C-STAT performs code analysis by checking the code against a large number of coding standards. A major advantage is that C-STAT can be used to ensure the quality of the code early in the development cycle, because the developer does not need to wait for a fully executable program to analyze the code. Another important feature of C-STAT is that it contains support for the industry standards MISRA C:2004, MISRA C++:2008 and MISRA C:2012, which are all increasingly important for our customers.

Interest continued to grow during the first quarter in combining our analysis products – C-STAT, which performs analysis of the source code level, and C-RUN, which performs analysis during runtime. This combination gives customers the tools for a complete code analysis and ensures the quality of the code throughout the entire development cycle.

Our services for general support, product updates and technical support represent an important part of our product offering. We saw increased demand for these services towards the end of 2015, and we have also focused on them during the first quarter of this year. Our assessment is that this demand will remain high as the level of product complexity increases and more demands are placed on getting products to market quickly.

The remaining part of 2016 will be characterized by our continuing investments in our product portfolio, which will offer new functions that facilitate our customers' daily work. An updated version of C-STAT and honed technology within IAR Embedded Workbench are already anticipated for the second quarter.

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





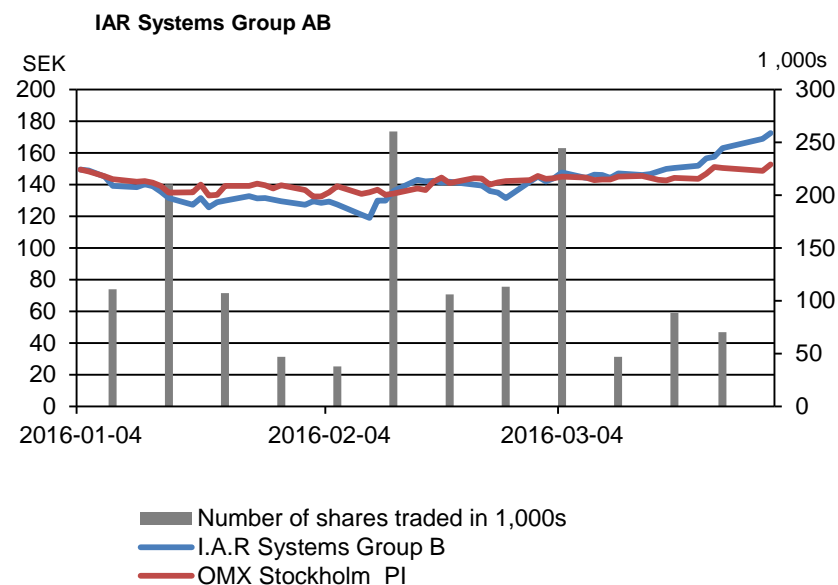
# The IAR Systems share

IAR Systems Group's class B share is quoted on the Small Cap list of Nasdaq Stockholm. During the period, the share price varied from a low of SEK 119.00 (75.00) to a high of SEK 172.50 (115.75). The share price at March 31, 2016 was SEK 172.50 (104.00). IAR Systems Group's market capitalization on the same date was SEK 2,179m (1,314). The number of shareholders in IAR Systems Group at March 31, 2016 was 8,807 (8,389). Of these shareholders, 540 (518) held more than 1,000 shares each.

Breakdown of shareholdings	No. of shareholders	No. of share-holders, %	Share of capital, %	Share of votes, %
1-100	5,767	66%	1%	1%
101-1,000	2,500	28%	7%	7%
1,001-10,000	454	5%	11%	10%
10,001-	86	1%	81%	82%
Total	8,807	100%	100%	100%
Geographical distribution	No. of shareholders	No..of share-holders, %	Share of capital, %	Share of votes, %
Sweden	8,557	97%	82%	83%
Europe excl. Sweden	203	2%	16%	15%
Other countries	47	1%	2%	2%
Total	8,807	100%	100%	100%
Largest shareholders (votes)	No. of shares		Share of capital, %	Share of votes, %
Handelsbanken Fonder	1,184,750		9%	9%
Danica Pension	236,315		2%	8%
Swedbank Robur Fonder	994,083		8%	7%
Andra AP Fonden	981,927		8%	7%
Catella Fondförvaltning	977,599		8%	7%
Other	8,257,387		65%	62%
Total	12.632.061		100%	100%

Foreign shareholders held approximately 18% (21) of the share capital and 17% (19) of the votes.

IAR Systems Group's share capital at March 31, 2016 amounted to SEK 126,320,614, divided between 12,632,061 shares, of which 100,000 are class A shares and 12,532,061 are class B shares.



# Financial information

*January–March 2016*

## **NET SALES AND PROFIT**

Net sales for the period rose 5% compared with the corresponding period in the preceding year and amounted to SEK 80.5m (76.9).

Sales in Europe and Asia developed strongly during the period. There was a positive sales trend in most European countries as a result of a general recovery following a weaker 2015. In Asia, sales in Japan remain stable and Korea and China have also recovered compared with sales in the year-earlier period. The market in the Americas faced the greatest challenges during the first quarter, mainly due to a turbulent market. The sales efficiency has been lower at the same time as the market is unstable. Royalty-based revenue of SEK 0.4m from the agreement with Renesas Synergy was reported during the period. In a year-on-year comparison, currency translation had a positive impact of SEK 0.5m on net sales for the period.

EBITDA for the period totaled SEK 23.1m (23.7), corresponding to an EBITDA margin for the period of 28.7% (30.8). Operating profit for the period declined 5% to SEK 19.2m (20.3).

Non-recurring costs mainly in the form of legal costs in the US have been charged to operating profit of SEK 4m. Operating expenses were cut by SEK 3.8m (3.7) during the period through the capitalization of development costs for compilers and debug probes. Of the internal expenses that were capitalized, SEK 3.0m (2.8) pertains to personnel costs. In a year-on-year comparison, currency translation had a positive impact of SEK 0.3m on operating profit for the period.

## **INVESTMENTS AND FINANCING**

Investments in property, plant and equipment for the period totaled SEK 0.5m (0.4). Investments in intangible assets totaled SEK 4.7m (5.1) during the period. Most of these investments, SEK 3.8m (3.7), pertained to internal staff expenses for the development of compilers and debug probes. The investments were in line with the company's plans. The equity/assets ratio at March 31, 2016, was 74% (76).

## **CASH FLOW, CASH AND CASH EQUIVALENTS**

Cash flow has improved further following a strong 2015. In principle, the company has no loans and net cash increased SEK 16m during the period.

Cash flow from operating activities for the period amounted to SEK 22.0m (18.3). This is in line with operating profit, which is recognized for the period after adjustment for amortization/depreciation and tax paid.

Cash flow from investing activities for the period totaled SEK -5.2m (-5.5).

Investments were principally made in intangible assets during the period.

Cash flow from financing activities for the period totaled SEK -0.0 (-0.0).

As of March 31, 2016, the Group had net cash of SEK 103.9m (83.9). Cash and cash equivalents at the end of the period totaled SEK 106.0m (86.0). In addition, the Group had unutilized bank overdraft facilities of SEK 25.0m (25.0). The Group's total available cash and cash equivalents thus amounted to SEK 131.0m (111.0).

## **EMPLOYEES**

The number of employees in IAR Systems at the end of the period was 164 (167).

The average number of employees during the period was 157 (158).

## **PARENT COMPANY**

The activities of the Parent Company consist of Group management, finance and IR/PR functions. The Parent Company's net sales for the period amounted to SEK 3.0m (3.0). The Parent Company posted a loss after financial items of SEK -0.5m (-0.7). Net investments in property, plant and equipment amounted to SEK 0.0m (0.0).

Cash and cash equivalents at March 31, 2016, totaled SEK 1.2m (4.2). The number of employees in the Parent Company at the end of the period was 4 (4).

## **SIGNIFICANT RISKS AND UNCERTAINTIES**

The market for IAR Systems' software is evolving rapidly and forecasts about future

developments are thus uncertain. IAR Systems Group's assessment is that no significant risks and uncertainties have changed or arisen aside from those described in the annual report for 2015 under "Risks and risk management" on page 30, under "Administration report" on page 33 and in Note 2 on pages 48-49. No material changes have taken place since that time.

#### **FUTURE OUTLOOK**

The Board's financial targets are for IAR Systems Group's sales to grow by 10-15% annually in local currency and for the operating margin to exceed 25% over a business cycle.

Stockholm, April 27, 2016

Stefan Skarin  
CEO of IAR Systems Group AB

#### **FINANCIAL CALENDAR 2016**

2016 Annual General Meeting, Wednesday, April 27, 2016

Interim report Jan–Jun 2016, August 18, 2016

Interim report Jan–Sep 2016, October 20, 2016

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

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Phone +46 8 410 920 00

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

Stefan Skarin, President and CEO, phone +46 708 651 005

Stefan Ström, CFO, phone +46 708 651 068

#### **REVIEW**

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



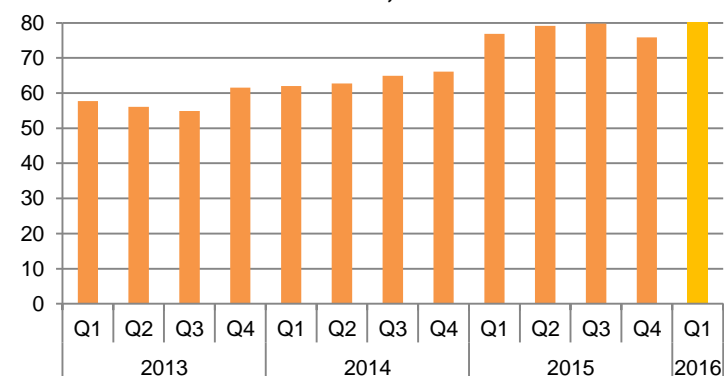
# Income statement

## CONDENSED CONSOLIDATED INCOME STATEMENT

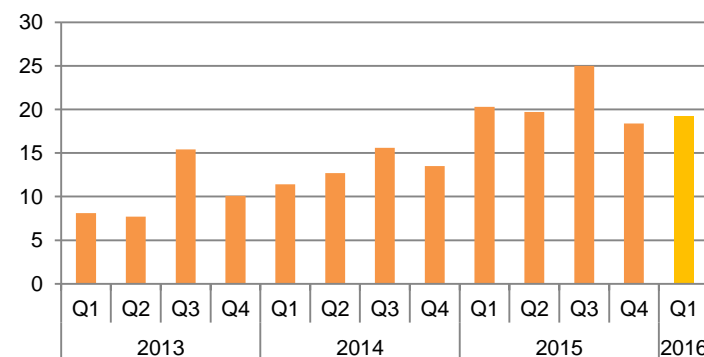
SEK m	Note	3 months Jan-Mar		Full-year
		2016	2015	2015
Net sales	1.2	80.5	76.9	311.7
Goods for resale		-3.3	-3.1	-10.3
Other external expenses		-15.8	-11.7	-51.1
Personnel costs		-38.3	-38.4	-152.0
Depreciation of property, plant and equipment		-0.6	-0.6	-2.5
Amortization of intangible assets		-3.3	-2.8	-12.4
<b>Operating profit</b>		<b>19.2</b>	<b>20.3</b>	<b>83.4</b>
Financial income		0.0	0.0	0.1
Financial expenses		-0.0	-0.0	-0.2
<b>Profit before tax</b>		<b>19.2</b>	<b>20.3</b>	<b>83.3</b>
Tax		-4.0	-4.8	-19.9
<b>Profit for the period</b>		<b>15.2</b>	<b>15.5</b>	<b>63.4</b>
Earnings per share for the period, basic, SEK		1.20	1.23	5.02
Earnings per share for the period, diluted, SEK		1.20	1.23	5.02

STATEMENT OF COMPREHENSIVE INCOME		3 months Jan-Mar		Full-year
SEK m		2016	2015	2015
Profit for the period		15.2	15.5	63.4
<b>Other comprehensive income for the period</b>				
Items that will be reclassified subsequently to profit or loss:				
Exchange differences		-0.4	3.6	2.1
Total other comprehensive income		-0.4	3.6	2.1
<b>Comprehensive income for the period</b>		<b>14.8</b>	<b>19.1</b>	<b>65.5</b>
Comprehensive income for the period attributable to owners of the Parent Company		14.8	19.1	65.5

Net sales, SEK m



Operating profit, SEK m

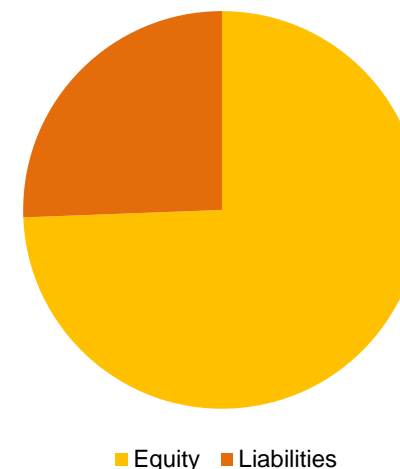


# Balance sheet

## CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Mar 31, 2016	Mar 31, 2015	Dec 31, 2015
<b>ASSETS</b>				
Non-current assets				
Goodwill	3	113.1	114.0	113.5
Other intangible assets	4	80.2	75.8	78.8
Property, plant and equipment		6.8	7.7	6.5
Financial assets		5.0	6.1	5.0
Deferred tax assets	5	32.7	47.2	36.8
Total non-current assets		237.8	250.8	240.6
Current assets				
Inventories		5.4	3.2	5.1
Other current assets		20.2	16.3	20.1
Trade receivables		41.5	46.6	43.5
Cash and cash equivalents		106.0	86.0	89.4
Total current assets		173.1	152.1	158.1
<b>TOTAL ASSETS</b>		<b>410.9</b>	<b>402.9</b>	<b>398.7</b>
<b>EQUITY AND LIABILITIES</b>				
Total equity		305.7	307.7	290.9
Non-current liabilities				
Interest-bearing liabilities		1.0	1.7	0.6
Other non-current liabilities		1.2	1.2	1.1
Deferred tax liabilities		16.4	14.7	16.5
Total non-current liabilities		18.6	17.6	18.2
Current liabilities				
Trade payables		4.6	6.2	4.8
Interest-bearing liabilities		1.1	0.4	1.2
Other current liabilities		80.9	71.0	83.6
Total current liabilities		86.6	77.6	89.6
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>410.9</b>	<b>402.9</b>	<b>398.7</b>

Equity/assets ratio, %  
March 31, 2016



## Changes in equity

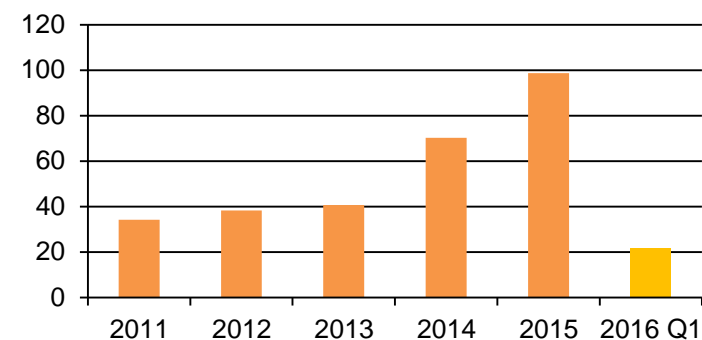
GROUP SEK m	3 months Jan- Mar		Full- year 2015
	2016	2015	
Equity at beginning of period	290.9	288.6	288.6
Dividends	-	-	-63.2
Comprehensive income for the period	14.8	19.1	65.5
<b>Equity at end of period</b>	<b>305.7</b>	<b>307.7</b>	<b>290.9</b>
of which, attributable to owners of the Parent Company	305.7	307.7	290.9

# Cash flows

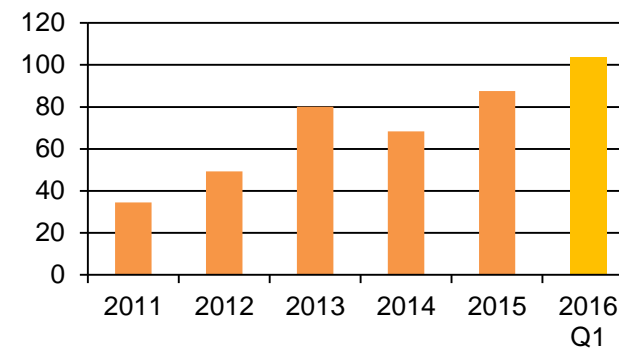
## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

SEK m	3 months Jan-Mar		Full-year 2015
	2016	2015	
Incoming payments from customers	82.7	69.5	309.2
Outgoing payments to suppliers and employees	-59.6	-50.3	-207.6
Interest received	0.0	0.0	0.0
Interest paid	-0.0	-0.0	-0.2
Income taxes paid	-1.1	-0.9	-2.7
Cash flow from operating activities	22.0	18.3	98.7
Investments in property, plant and equipment	-0.5	-0.4	-1.1
Investments in intangible assets	-4.7	-5.1	-17.7
Other investments	-0.0	-0.0	1.1
Cash flow from investing activities	-5.2	-5.5	-17.7
Amortization of financial liabilities	-0.0	0.0	-0.4
Dividends	-	-0.0	-63.2
Cash flow from financing activities	-0.0	-0.0	-63.6
Cash flow for the period	16.8	12.8	17.4
Cash and cash equivalents at beginning of period	89.4	70.7	70.7
Exchange difference in cash and cash equivalents			
- attributable to cash and cash equivalents at beginning of period	-0.2	2.4	1.3
- attributable to cash flow for the period	-0.0	0.1	0.0
Cash and cash equivalents at end of period	106.0	86.0	89.4
<b>CASH AND CASH EQUIVALENTS, GROUP</b>			
SEK m	Mar 31, 2016	Mar 31, 2015	Dec 31, 2015
Cash and cash equivalents at end of period	106.0	86.0	89.4
Unutilized overdraft facilities	25.0	25.0	25.0
Total disposable cash and cash equivalents	131.0	111.0	114.4

**Cash flow from operating activities, SEK m**



**Net cash, SEK m**

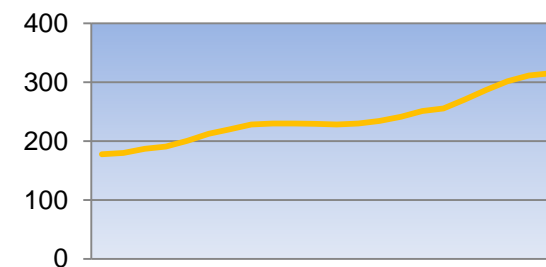


## Key ratios

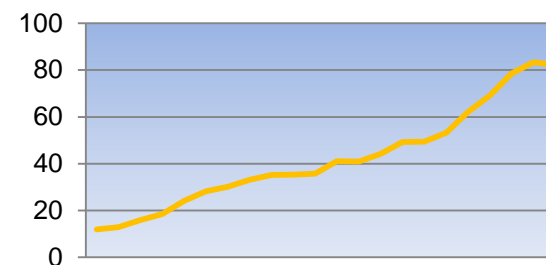
GROUP	3 months Jan-Mar		Full-year
	2016	2015	2015
Gross margin, %	95.9	96.0	96.7
EBITDA, %	28.7	30.8	31.5
Operating margin, %	23.9	26.4	26.8
Profit margin, %	23.9	26.4	26.7
Cash flow, %	27.3	23.8	31.7
Equity/assets ratio, %	74.4	76.4	73.0
Return on equity, %	5.1	5.2	21.9
Return on capital employed, %	6.4	6.8	28.6
Capital employed, SEK m	307.8	309.8	292.7
Net cash, SEK m	103.9	83.9	87.6
Net debt/equity ratio, multiple	-0.34	-0.27	-0.30
No. of employees at end of period	164	167	164
Average no. of employees	157	158	157
Sales per employee, SEK m	0.5	0.5	2.0

SHARE DATA	3 months Jan-Mar		Full-year
	2016	2015	2015
Equity per share, SEK	24.20	24.36	23.03
No. of shares at end of period, million	12.63	12.63	12.63
Average no. of shares, million	12.63	12.63	12.63
Average number of shares after dilution, million	12.63	12.63	12.63
Cash flow from operating activities per share, SEK	1.74	1.45	7.81
Earnings per share, basic, after current tax, SEK	1.51	1.55	6.33
Earnings per share, SEK	1.20	1.23	5.02
Earnings per share, diluted, SEK	1.20	1.23	5.02

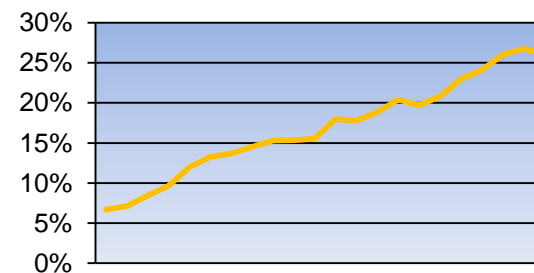
**Net sales,  
rolling 12 months**



**Operating profit,  
rolling 12 months**



**Operating margin,  
rolling 12 months**



## Quarterly overview

		Net sales, SEK m	EBITDA, SEK m	EBITDA margin, %	Operating profit, SEK m	Operating margin, %	Earnings per share, SEK	Return on equity, %	Cash flow from operating activities per share, SEK	Equity per share, SEK	Share price, SEK	Market capitalization, SEK m
2016	Q1	80.5	23.1	28.7	19.2	23.9	1.20	5.1	1.74	24.20	172.50	2,179
2015	Q4	75.9	22.2	29.2	18.4	24.2	1.09	4.9	2.22	23.03	150.00	1,895
	Q3	79.8	28.9	36.2	25.0	31.3	1.49	7.0	1.63	21.96	103.25	1,304
	Q2	79.1	23.5	29.7	19.7	24.9	1.21	5.4	2.51	20.43	99.75	1,260
	Q1	76.9	23.7	30.8	20.3	26.4	1.23	5.2	1.45	24.36	104.00	1,314
2014	Q4	66.1	16.3	24.7	13.5	20.4	0.84	3.8	1.27	22.85	74.75	944
	Q3	64.9	18.4	28.4	15.6	24.0	1.06	5.0	1.89	21.83	68.25	862
	Q2	62.7	15.2	24.2	12.7	20.3	0.78	3.4	1.33	20.72	68.50	861
	Q1	62.0	13.7	22.1	11.4	18.4	0.68	2.8	1.12	24.68	57.57	780
2013	Q4	61.5	12.6	20.5	10.1	16.4	0.58	2.5	0.84	23.90	39.77	491
	Q3	54.9	17.9	32.6	15.4	28.1	0.96	4.3	1.56	22.77	38.93	453
	Q2	56.1	9.7	17.3	7.7	13.7	0.53	2.4	0.97	21.42	34.40	388
	Q1	57.7	10.4	18.0	8.1	14.0	0.53	2.3	0.17	22.87	36.07	407
2012	Q4	59.5	11.7	19.7	9.8	16.5	-0.48	-2.1	1.34	22.34	35.24	397
	Q3	56.2	12.0	21.4	10.1	18.0	0.75	3.3	0.68	22.84	37.82	426
	Q2	56.4	8.8	15.6	7.3	12.9	0.42	1.9	1.27	22.15	39.77	448
	Q1	58.0	9.3	16.0	8.0	13.8	0.48	2.2	0.12	22.22	32.37	355
2011	Q4	57.5	9.4	16.3	7.7	13.4	0.96	4.5	1.20	21.82	22.66	248
	Q3	48.2	8.3	17.2	7.1	14.7	0.67	3.3	1.07	20.92	20.25	222
	Q2	48.9	6.7	13.7	5.4	11.0	0.49	1.4	1.19	20.09	21.83	239
	Q1	45.8	5.0	10.9	3.8	8.3	0.33	0.6	-0.37	50.35	17.76	195
2010	Q4	48.0	3.5	7.3	2.2	4.6	0.19	-0.6	0.47	54.16	16.41	180
	Q3	44.2	5.5	12.4	4.4	10.0	0.39	1.4	0.23	55.50	12.58	138
	Q2	42.1	3.2	7.6	2.4	5.7	0.24	1.1	0.33	53.81	13.65	150
	Q1	43.6	3.9	8.9	2.9	6.7	0.26	1.6	0.22	54.42	13.89	152

# Parent Company

## Condensed income statement

SEK m	3 months Jan-Mar		Full-year 2015
	2016	2015	
Net sales	3.0	3.0	12.2
Operating expenses	-3.5	-3.7	-16.2
Depreciation of property, plant and equipment	-0.0	-0.0	-0.1
Operating loss	-0.5	-0.7	-4.1
Result from financial investments	0.0	0.0	70.0
Profit/loss before tax	-0.5	-0.7	65.9
Tax	0.1	0.1	-14.5
Profit/loss for the period	-0.4	-0.6	51.4

## Statement of comprehensive income

SEK m	2016	2015	2015
Profit/loss for the period	-0.4	-0.6	51.4
Total other comprehensive income	-	-	-
Comprehensive income/loss for the period	-0.4	-0.6	51.4

## Condensed balance sheet

SEK m	Mar 31, 2016	Mar 31, 2015	Dec 31, 2015
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	0.2	0.3	0.2
Shares in subsidiaries	189.4	189.4	189.4
Other financial assets	3.3	4.6	3.3
Deferred tax assets	31.8	46.3	31.7
Total non-current assets	224.7	240.6	224.6
Current assets			
Receivables from subsidiaries	40.0	35.0	40.0
Other current assets	0.9	0.8	1.0
Cash and cash equivalents	1.2	1.9	4.2
Total current assets	42.1	37.7	45.2
<b>TOTAL ASSETS</b>	<b>266.8</b>	<b>278.3</b>	<b>269.8</b>
<b>EQUITY AND LIABILITIES</b>			
Total equity	264.6	276.2	265.0
Current liabilities			
Trade payables	0.3	0.3	0.4
Other current liabilities	1.9	1.8	4.4
Total current liabilities	2.2	2.1	4.8
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>266.8</b>	<b>278.3</b>	<b>269.8</b>





# Notes

## 1 ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) as adopted for application in the EU. In addition, the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups has been applied. This consolidated interim report has been prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and IAS 34 Interim Financial Reporting. The accounts of the Parent Company have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities.

The accounting standards applied for the Group and the Parent Company are the same as those applied in preparation of the most recent annual report.

New or revised IFRS, interpretations from the IFRS Interpretations Committee and amendments to RFR 2 effective as of January 1, 2016, have not had any material impact on the financial statements of the Group or the Parent Company.

Information in accordance with IAS 34 Interim Financial Reporting is included in both the notes and in other parts of the interim report.

## 2 NET SALES

Net sales are distributed into the following revenue categories:

SEK m	3 months Jan-Mar		Full-year
	2016	2015	2015
License-based revenue	80.1	76.9	311.7
Royalty-based revenue	0.4	-	-
Net sales	80.5	76.9	311.7

## 6 PLEDGED ASSETS

SEK m	Mar 31, 2016	Mar 31, 2015	Dec 31, 2015
To secure pensions	1.8	1.8	1.8
To secure liabilities to credit institutions	2.2	2.1	1.8
Total pledged assets	4.0	3.9	3.6

As part of the agreement with Renesas Synergy, IAR Systems receives guaranteed revenue based on the provision of specific services. The recognized royalty-based revenue refers to accrued revenue based on this guarantee level as remuneration for services supplied during the period.

## 3 GOODWILL

Goodwill is tested annually for impairment and recognized at cost less accumulated impairment. The impairment test performed at year-end gave no evidence of impairment. Goodwill at March 31, 2016, amounted to SEK 113.1m (114.0). This decrease of SEK 0.4m for the period was a result of translation differences.

## 4 OTHER INTANGIBLE ASSETS

Operating expenses were cut by SEK 3.8m (3.7) during the period through the capitalization of development costs for debug probes and analysis tools.

Of the internal expenses that were capitalized, SEK 3.0m (2.8) pertains to personnel costs.

## 5 DEFERRED TAX ASSETS

The deferred tax asset attributable to loss carryforwards is recognized only to the extent that it is probable that the loss carryforwards can be utilized against future taxable profits. As of March 31, 2016, the Group had accumulated loss carryforwards of approximately SEK 127m (192), all of which were attributable to its Swedish operations. The deferred tax asset is recognized in the balance sheet in an amount of SEK 32.7m (47.2), of which SEK 27.8m (42.3) pertains to loss carryforwards.

# Definitions

Gross margin	Net sales less the cost of goods for resale as a percentage of net sales.
EBITDA	Earnings before interest, tax, depreciation and amortization.
EBITDA margin	Earnings before interest, tax, depreciation and amortization (EBITDA) in relation to sales, expressed as a percentage.
Equity	Recognized equity including 78.0% of untaxed reserves.
Equity per share	Equity divided by the number of shares at the end of the period.
Cash flow	Cash flow from operating activities as a percentage of net sales.
Net cash	Interest-bearing assets less interest-bearing liabilities.
Net debt/equity ratio	Net interest-bearing liabilities divided by equity.
Earnings per share	Profit for the period after tax divided by the average number of shares at the end of the period.
Earnings per share after current tax	Profit for the period after current tax divided by the average number of shares during the period.
Return on equity	Profit after financial items less full tax as a percentage of average equity.
Return on capital employed	Profit after financial items plus financial expenses as a percentage of average capital employed.
Operating margin	Operating profit as a percentage of net sales.
Equity/assets ratio	Equity as a percentage of total assets.
Capital employed	Total assets less non-interest-bearing liabilities.
Profit margin	Profit after financial items as a percentage of net sales.

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

## 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.

## A UNIQUE OFFERING PROVIDES COMPETITIVE ADVANTAGES

In a digitized 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.

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

## IAR Systems' role in the market



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 quality and expertise. IAR Systems has a large and loyal customer base, with a share of repeat customers around 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.

## 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 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

## Opportunities presented by the Internet of Things



# Industry-specific glossary

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).
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.
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 in embedded systems that control digital products.
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.
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 etc. 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.
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.
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.*