

IAR Systems Group AB

Interim Report Jan-June 2016



Net sales of SEK 162m, EBITDA of SEK 49m

Cash flow of SEK 43m, operating margin of 25%

Profit summary	January–June		April–June		Full-year
SEK m	2016	2015	2016	2015	2015
Net sales	162.3	156.0	81.8	79.1	311.7
Operating expenses	-121.0	-116.0	-59.7	-59.4	-228.3
Operating profit	41.3	40.0	22.1	19.7	83.4

January–June 2016

- Net sales of SEK 162.3m (156.0)
- EBITDA of SEK 49.1m (47.2), corresponding to an EBITDA margin of 30.3% (30.3)
- Operating profit of SEK 41.3m (40.0), corresponding to an operating margin of 25.4% (25.6)
- Profit before tax of SEK 41.2m (39.9)
- Earnings per share of SEK 3.20 (3.06) after current tax
- Basic earnings per share of SEK 2.54 (2.44) and diluted earnings per share of SEK 2.54 (2.44)
- Cash flow from operating activities of SEK 42.6m (50.0)
- Net cash of SEK 32.6m (45.7) at the end of the period

Key events during the reporting period

In April 2016, IAR Systems signed an exclusive royalty agreement with Renesas Electronics Corporation for Renesas Synergy Platform, a comprehensive solution for innovative product development in new markets, 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 types of processors offered in Renesas Synergy Platform.

Key ratios	January–June		April–June		Full-year
	2016	2015	2016	2015	2015
EBITDA margin, %	30.3	30.3	31.8	29.7	31.5
Operating margin, %	25.4	25.6	27.0	24.9	26.8
Net cash, SEK m	32.6	45.7	32.6	45.7	87.6
No. of employees at end of period	164	163	164	163	164

April–June 2016

- Net sales of SEK 81.8m (79.1)
- EBITDA of SEK 26.0m (23.5), corresponding to an EBITDA margin of 31.8% (29.7)
- Operating profit of SEK 22.1m (19.7), corresponding to an operating margin of 27.0% (24.9)
- Profit before tax of SEK 22.0m (19.6)
- Earnings per share of SEK 1.69 (1.50) after current tax
- Basic earnings per share of SEK 1.34 (1.21) and diluted earnings per share of SEK 1.34 (1.21)
- Cash flow from operating activities of SEK 20.6m (31.7)

Strategic recruitments and increased demand



During the second quarter, we saw continued demand for our products in the automotive industry and for other more advanced solutions. Accordingly, we are focusing particularly on this segment and during the period our former Japan Country Manager was given a new role to lead our efforts in the growing automotive industry. The new Japan Country Manager is Hiroshi Ishikawa, who has extensive experience in sales and technology. To meet recent challenges in the Americas, we recruited a US Country Manager, Rich D'Souza, who has strong experience both from the embedded systems market and of building a sales-focused organization. I am convinced that this appointment will enhance the efficiency of our work

in the Americas and result in increased growth in 2017.

Our profitability is continuing to increase and our revenue was stable in the second quarter. Europe was the region that reported the largest sales growth (16%). Demand for maintenance contracts is growing in line with longer customer development times and a slower rate of processor changes. This creates a more even revenue recognition since revenue is allocated over a 12-month period and, accordingly, we measure growth in both recognized revenue and sales. Total sales growth, including the gross value maintenance contracts sold during the period, amounted to 7% for the period. Prepaid maintenance revenue at June 30 amounted to SEK 70m.

The Internet of Things remains a key market trend, and in April we signed an exclusive royalty agreement with Renesas Electronics Corporation for Renesas Synergy Platform. 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 is why we invest our 30 years of technology in the platform. This investment will strengthen our position and benefit us as the number of connected products in the market increases.

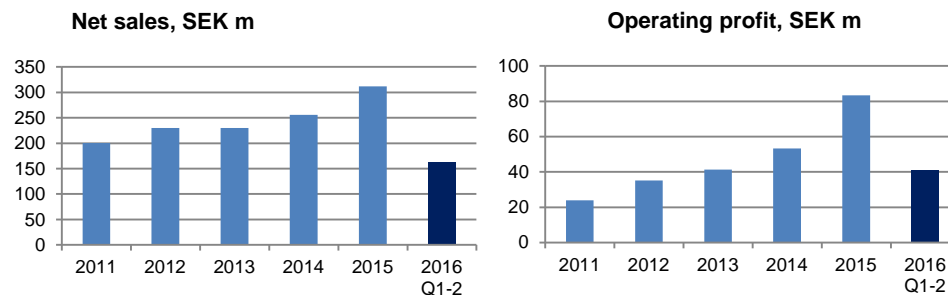
The Renesas Synergy Platform was launched in all regions during the first six months of 2016 and Renesas assesses demand to be higher than expected.

The agreement with Renesas means that we are complementing our current license-based business model with a royalty-based business model. Based on our enhanced business model and partnership with Renesas, we have taken a large step forward in our ambition to strengthen the company in the long term, and we report royalty-based revenue separately.

Another market trend that I am closely following is ongoing consolidation. It recently became known that ARM has become a takeover candidate for Japanese company Softbank, and we are assessing the new conditions that this will offer us.

The remainder of the year will be focused on strategic partner relationships, such as our partnership with Renesas, and the automotive industry. We will also increase activity with our large customers. I am tremendously proud that we are part of our customers' products and during the year we will continue to invest in our products with improved performance and new functionality. We make it possible for our customers to be competitive in their respective markets by continuously listening to them and meeting their needs.

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 IAR Systems' customers in a range of different industries are placing ever greater demands on functional safety, code quality and streamlined workflows. 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 enhanced driving experience.

The Internet of Things continued to drive market growth and this will lead to heightened potential for years to come. Complete development platforms are increasingly in demand in this and other rapidly advancing areas, since they enable faster delivery of new products to the market. As part of IAR Systems' investment in the Internet of Things, the company has 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. The Renesas Synergy Platform is an entirely unique solution that has the potential to capture a large share of the market in the long term.

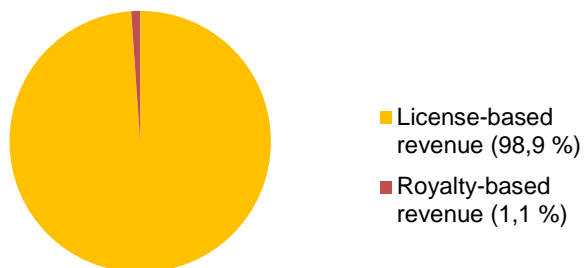
The agreement with Renesas means that IAR Systems is complementing its license-based business model with a royalty-based business model. The license-based business model is entirely based on the number of license-users of the company's software, which leads to revenue for the company when the customer

develops its products. The new agreement with Renesas will provide revenue from royalties for each microprocessor used in the products the customer eventually manufactures. For a customer in the new model, IAR Systems will receive revenue throughout the entire period in which the customer's products are produced, which could last many years. Royalty-based revenue for the period amounted to SEK 1.8m, of which SEK 1.4m pertained to the second quarter.

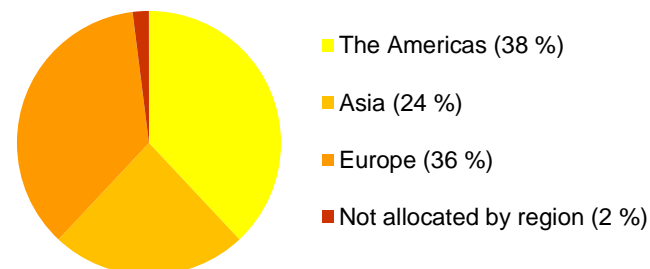
As far as the regions are concerned, Europe in particular showed strong developments during the quarter. There was a positive trend in most European countries as a result of a general recovery following a weaker 2015. In Asia, Korea and China have recovered compared with the preceding year, while Japan posted a weaker earnings performance in the latter half of the quarter. The market in the Americas faced the greatest challenges during the period, due to both an uncertain market and lower sales efficiency than in the past. IAR Systems has taken measures to enhance efficiency in the Americas that are expected to generate effects in 2017.

Market consolidation is continuing and this trend is most clearly manifested as major acquisitions of process suppliers. In July, ARM, the market-leading supplier of advanced processor technology, became a takeover candidate following an offer from telecoms company Softbank.

Revenue categories, Q1-Q2 2016



Breakdown of revenue, Q1-Q2 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 processor families. 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, IAR Systems further expanded its code analysis offering and added support for C-STAT, a static analysis add-on product, to its tools for Renesas RH850, the specially adapted processor family 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 key feature of C-STAT is that the tool aids customers in ensuring compliance with the automotive-industry standards MISRA C:2004, MISRA C++:2008 and MISRA C:2012.

An updated C-STAT with expanded analysis features was launched in the second quarter. Interest is continuing to grow in combining IAR Systems' analysis products C-STAT, which performs analysis of the source code, and C-RUN, which performs analysis during runtime. This combination gives customers complete code analysis naturally integrated into daily work and ensures the quality of the code throughout the entire development cycle.

Another important launch in the second quarter was a new debug probe, I-jet Trace for Cortex-A/R/M, which provides developers with advanced debugging capabilities. This product supports trace debugging for all types of ARM Cortex processors. This launch means that IAR Systems now offers complete support for trace debugging of embedded systems based on ARM processors.

In 2016, IAR Systems will make continuing investments in its product portfolio, which will offer new functions that facilitate customers' daily work. In addition to previously mentioned launches, the company updated its broad processor support during the quarter by adding support for the new ARMv8-M processor architecture for the Internet of Things.

The launch of Renesas Synergy Platform: Update for the second quarter

Our activities

- ✓ 14 customer events on three continents
- ✓ 40+ press clippings on our participation since the first launch in February 2016
- ✓ High demand and positive feedback from customers
- ✓ IAR Systems has performed IAR Embedded Workbench trainings globally for Renesas

Renesas Synergy Platform

- ✓ Processors, software and support in a complete, quality-ensured solution
- ✓ Includes specially adapted version of IAR Embedded Workbench
- ✓ Optimized performance (code size and code speed)
- ✓ Support and maintenance included and provided by Renesas
- ✓ Integrated analysis tools C-RUN and C-STAT

Customer benefits

- ✓ Get started quickly
- ✓ Speed up the development process
- ✓ Lowered up-front investment
- ✓ Complete integrated platform
- ✓ Integrated workflow
- ✓ Focus on innovation

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 195.00 (116.25). The share price at June 30, 2016 was SEK 157.00 (99.75). IAR Systems Group's market capitalization on the same date was SEK 1,983m (1,260). The number of shareholders in IAR Systems Group at June 30, 2016 was 9,058 (8,693). Of these shareholders, 540 (530) held more than 1,000 shares each.

Breakdown of shareholdings	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
1-100	5,957	66%	1%	1%
101-1,000	2,561	28%	8%	7%
1,001-10,000	454	5%	10%	10%
10,001-	86	1%	81%	82%
Total	9,058	100%	100%	100%

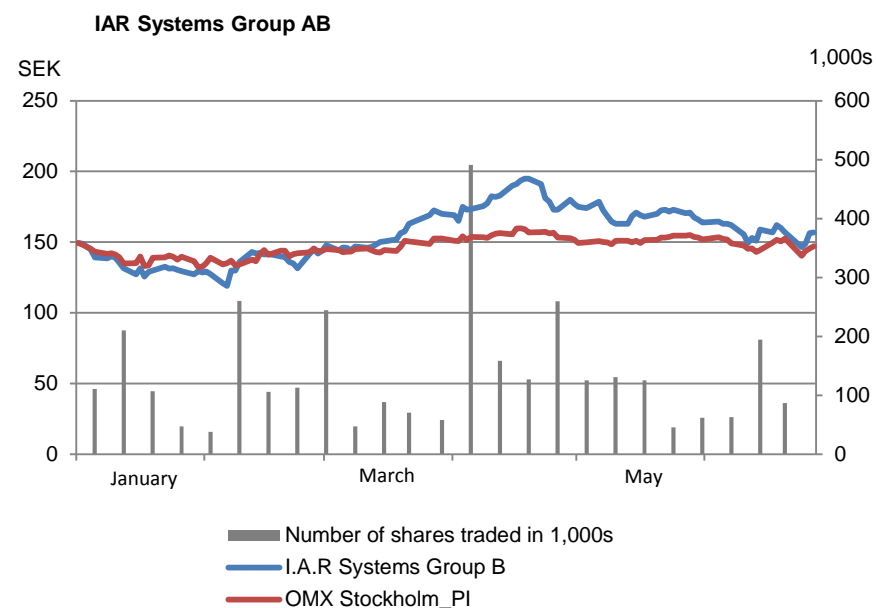
Geographical distribution	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
Sweden	8,800	97%	80%	82%
Europe excl. Sweden	213	2%	17%	16%
Other countries	45	1%	3%	2%
Total	9,058	100%	100%	100%

Largest shareholders (votes)	No. of shares	Share of capital, %	Share of votes, %
Andra AP fonden	1,085,415	9%	8%
Handelsbanken Fonder	1,081,546	9%	8%
Danica Pension*	255,075	2%	8%
Catella Fondförvaltning	1,032,599	8%	8%
Swedbank Robur Fonder	994,083	8%	7%
Other	8,183,343	64%	61%
Total	12,632,061	100%	100%

*of which 100,000 class A shares

Foreign shareholders held approximately 20% (21) of the share capital and 18% (19) of the votes.

IAR Systems Group's share capital at June 30, 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-June 2016

NET SALES AND PROFIT

Net sales for the period rose 4% compared with the corresponding period in the preceding year and amounted to SEK 162.3m (156.0), of which SEK 81.8m (79.1) was attributable to the second quarter. Royalty-based revenue of SEK 1.8m (-) from the agreement with Renesas Electronics Corporation was reported during the period, of which SEK 1.4m (-) during the quarter. In a year-on-year comparison, currency translation had a positive impact of SEK 0.3m on net sales for the period, of which SEK -0.2m pertained to the second quarter.

EBITDA for the period totaled SEK 49.1m (47.2), corresponding to an EBITDA margin of 30.3% (30.3). EBITDA for the second quarter totaled SEK 26.0m (23.5), corresponding to an EBITDA margin of 31.8% (29.7). Operating profit for the period increased 3% to SEK 41.3m (40.0). Operating profit for the second quarter amounted to SEK 22.1m (19.7). Legal costs of SEK 4m in the USA were charged to operating profit for the period.

Operating expenses were cut by SEK 7.9m (7.5) during the period through the capitalization of development costs for software and debug probes. Of the internal expenses that were capitalized, SEK 6.1m (5.6) pertains to personnel costs. In a year-on-year comparison, currency translation had a positive impact of SEK 0.2m on operating profit for the period, of which SEK -0.1m pertained to the second quarter.

SALES TREND

There was a positive sales trend in most European countries as a result of a general recovery following a weaker 2015. Sales growth in local currency in Europe was 16%. In Asia, Korea and China have recovered compared with the sales trend in the preceding year, while Japan posted a weaker earnings performance in the latter half of the period. Sales growth in local currency in Asia was 7%. The market in the Americas faced the greatest challenges during the period. Sales efficiency

was lower, at the same time as the market was uncertain. Sales growth in local currency in the Americas was -5%. Measures have been taken to enhance efficiency in the Americas that are expected to generate effects in 2017.

In a year-on-year comparison, total sales growth in local currency was 7%. The difference between the sales growth for the period in local currency of 7% and the increased net sales of 4% comprised prepaid maintenance revenue of -3%.

INVESTMENTS AND FINANCING

Investments in property, plant and equipment for the period totaled SEK 0.8m (0.5), of which SEK 0.3m (0.1) was attributable to the second quarter. Investments in intangible assets for the period amounted to SEK 9.4m (10.1), of which SEK 4.7m (5.0) pertained to the second quarter. Most of these investments, SEK 7.9m (7.5), pertained to internal staff expenses for the development of software and debug probes. The investments were in line with the company's plans. The equity/assets ratio at June 30, 2016, was 67% (72).

CASH FLOW, CASH AND CASH EQUIVALENTS

Cash flow from operating activities for the period amounted to SEK 42.6m (50.0), of which SEK 20.6m (31.7) pertained to the second quarter. Payments of legal costs of SEK 4m in the USA were charged to operating profit for the second quarter.

Cash flow from investing activities for the period totaled SEK -10.4m (-10.7), of which SEK -5.2m (-5.2) pertained to the second quarter. Investments were principally made in intangible assets during the period.

Cash flow from financing activities for the period totaled SEK -88.4 (-63.3). Dividends totaling SEK 88.4m (63.2) were paid to the company's shareholders. As of June 30, 2016, the Group had net cash of SEK 32.6m (45.7). Cash and cash equivalents at the end of the period totaled SEK 34.9m (47.8). 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 59.9m (72.8).

EMPLOYEES

The number of employees in IAR Systems at the end of the period was 164 (163). The average number of employees during the period was 156 (157).

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 6.1m (6.1). The Parent Company posted a loss after financial items of SEK -2.1m (-1.3). Net investments in property, plant and equipment amounted to SEK 0.0m (0.0).

Cash and cash equivalents at June 30, 2016 totaled SEK 1.3m (3.1). The number of employees in the Parent Company at the end of the period was 4 (4).

2016 ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of IAR Systems Group was held on April 27. For information about the AGM and the resolutions passed, refer to the company's website: www.iar.com.

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, Thursday, August 18, 2016

Stefan Skarin
CEO of IAR Systems Group AB

FINANCIAL CALENDAR 2016

Interim report Jan-Sep 2016, October 20, 2016

IAR SYSTEMS GROUP AB (PUBL)

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REVIEW

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

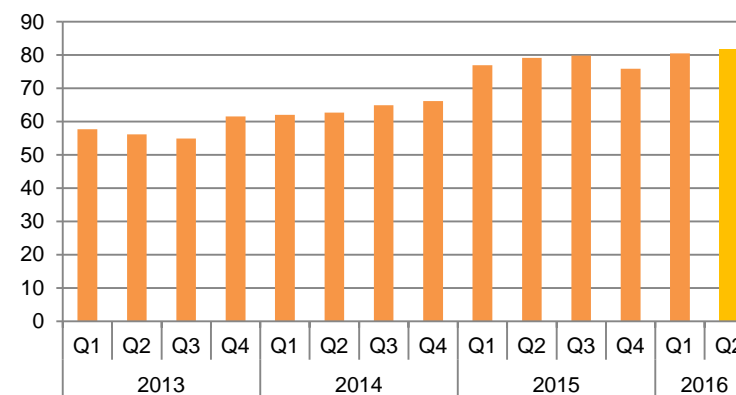
Income statement

CONDENSED CONSOLIDATED INCOME STATEMENT

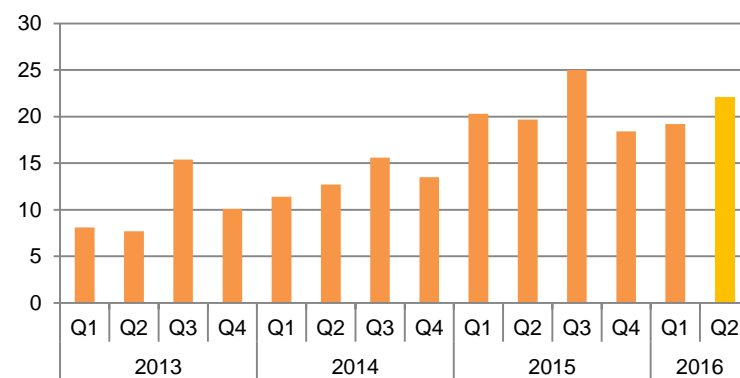
SEK m	Note	6 months Jan-Jun		3 months Apr-Jun		Full-year 2015
		2016	2015	2016	2015	
Net sales	1.2	162.3	156.0	81.8	79.1	311.7
Goods for resale		-7.0	-6.2	-3.7	-3.1	-10.3
Other external expenses		-25.7	-25.2	-9.9	-13.5	-51.1
Personnel costs		-80.5	-77.4	-42.2	-39.0	-152.0
Depreciation of property, plant and equipment		-1.2	-1.3	-0.6	-0.7	-2.5
Amortization of intangible assets		-6.6	-5.9	-3.3	-3.1	-12.4
Operating profit		41.3	40.0	22.1	19.7	83.4
Financial income		0.0	0.0	0.0	0.0	0.1
Financial expenses		-0.1	-0.1	-0.1	-0.1	-0.2
Profit before tax		41.2	39.9	22.0	19.6	83.3
Tax		-9.1	-9.1	-5.1	-4.3	-19.9
Profit for the period		32.1	30.8	16.9	15.3	63.4
Earnings per share for the period, basic, SEK		2.54	2.44	1.34	1.21	5.02
Earnings per share for the period, diluted, SEK		2.54	2.44	1.34	1.21	5.02

STATEMENT OF COMPREHENSIVE INCOME SEK m	6 months Jan-Jun		3 months Apr-Jun		Full-year 2015
	2016	2015	2016	2015	
Profit for the period	32.1	30.8	16.9	15.3	63.4
Other comprehensive income for the period					
Items that will be reclassified subsequently to profit or loss:					
Exchange differences	0.9	1.9	1.3	-1.7	2.1
Total other comprehensive income	0.9	1.9	1.3	-1.7	2.1
Comprehensive income for the period	33.0	32.7	18.2	13.6	65.5
Comprehensive income for the period attributable to owners of the Parent Company	33.0	32.7	18.2	13.6	65.5

Net sales, SEK m



Operating profit, SEK m

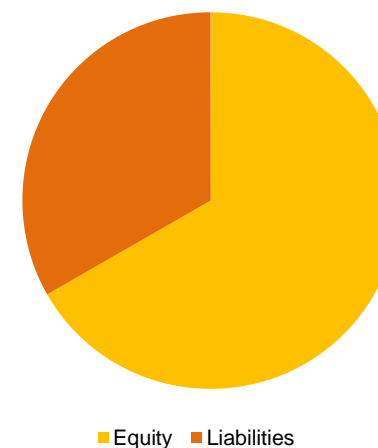


Balance sheet

CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Jun 30, 2016	Jun 30, 2015	Dec 31, 2015
ASSETS				
Non-current assets				
Goodwill	3	113.7	113.3	113.5
Other intangible assets	4	81.7	77.4	78.8
Property, plant and equipment		6.6	7.2	6.5
Financial assets		5.0	6.2	5.0
Deferred tax assets	5	29.0	44.2	36.8
Total non-current assets		236.0	248.3	240.6
Current assets				
Inventories		5.6	4.0	5.1
Other current assets	7	27.9	17.1	20.1
Trade receivables		48.7	42.0	43.5
Cash and cash equivalents		34.9	47.8	89.4
Total current assets		117.1	110.9	158.1
TOTAL ASSETS		353.1	359.2	398.7
EQUITY AND LIABILITIES				
Total equity		235.5	258.1	290.9
Non-current liabilities				
Interest-bearing liabilities		1.0	1.6	0.6
Other non-current liabilities		1.3	1.2	1.1
Deferred tax liabilities		17.0	15.4	16.5
Total non-current liabilities		19.3	18.2	18.2
Current liabilities				
Trade payables		4.0	5.1	4.8
Interest-bearing liabilities		1.3	0.5	1.2
Other current liabilities	7	93.0	77.3	83.6
Total current liabilities		98.3	82.9	89.6
TOTAL EQUITY AND LIABILITIES		353.1	359.2	398.7

Equity/asset ratio, %
June 30, 2016



Changes in equity

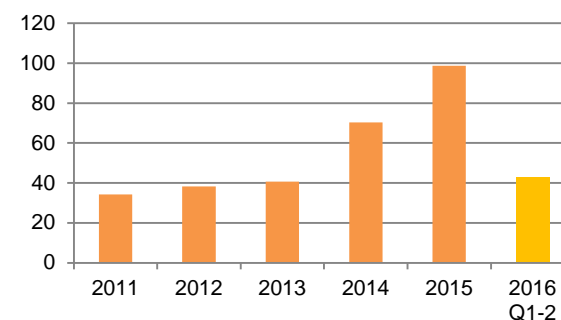
GROUP	6 months Jan- Jun		3 months Apr- Jun		Full- year
SEK m	2016	2015	2016	2015	2015
Equity at beginning of period	290.9	288.6	305.7	307.7	288.6
Dividends	-88.4	-63.2	-88.4	-63.2	-63.2
Comprehensive income for the period	33.0	32.7	18.2	13.6	65.5
Equity at end of period	235.5	258.1	235.5	258.1	290.9
of which, attributable to owners of the Parent Company	235.5	258.1	235.5	258.1	290.9

Cash flows

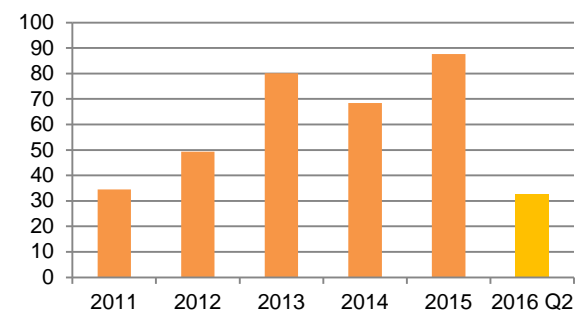
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

SEK m	6 months Jan-Jun		3 months Apr-Jun		Full-year 2015
	2016	2015	2016	2015	
Incoming payments from customers	156.7	153.9	74.0	84.4	309.2
Outgoing payments to suppliers and employees	-112.1	-102.2	-52.5	-51.9	-207.6
Interest received	0.0	0.0	0.0	0.0	0.0
Interest paid	-0.0	-0.1	-0.0	-0.1	-0.2
Income taxes paid	-2.0	-1.6	-0.9	-0.7	-2.7
Cash flow from operating activities	42.6	50.0	20.6	31.7	98.7
Investments in property, plant and equipment	-0.8	-0.5	-0.3	-0.1	-1.1
Investments in intangible assets	-9.4	-10.1	-4.7	-5.0	-17.7
Other investments	-0.2	-0.1	-0.2	-0.1	1.1
Cash flow from investing activities	-10.4	-10.7	-5.2	-5.2	-17.7
Amortization of financial liabilities	-0.0	-0.1	-0.0	-0.1	-0.4
Dividends	-88.4	-63.2	-88.4	-63.2	-63.2
Cash flow from financing activities	-88.4	-63.3	-88.4	-63.3	-63.6
Cash flow for the period	-56.2	-24.0	-73.0	-36.8	17.4
Cash and cash equivalents at beginning of period	89.4	70.7	106.0	86.0	70.7
Exchange difference in cash and cash equivalents					
- attributable to cash and cash equivalents at beginning of period	1.7	1.0	1.9	-1.4	1.3
- attributable to cash flow for the period	-0.0	0.1	0.0	0.0	0.0
Cash and cash equivalents at end of period	34.9	47.8	34.9	47.8	89.4
CASH AND CASH EQUIVALENTS, GROUP					
SEK m	Jun 30, 2016	Jun 30, 2015			Dec 31, 2015
Cash and cash equivalents at end of period	34.9	47.8			89.4
Unutilized overdraft facilities	25.0	25.0			25.0
Total available cash and cash equivalents	59.9	72.8			114.4

Cash flow from operating activities, SEK m



Net cash, SEK m



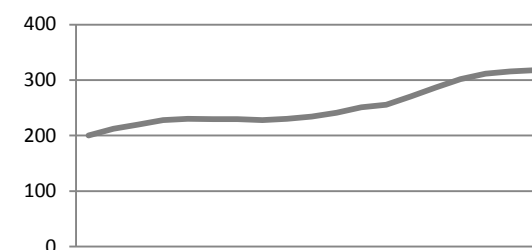
Key ratios

Certain financial performance measures presented in this interim report are not defined in accordance with IFRS. The company believes that these performance measures provide valuable supplementary information to investors and the company's management since they facilitate evaluations of the company's earnings trend and financial position. These financial performance measures are not always comparable with the measures used by other companies since not all companies calculate financial performance measures in the same way. Accordingly, these financial performance measures must not be regarded as a replacement for the measures defined in accordance with IFRS. The tables below present performance measures that are not defined in accordance with IFRS, unless otherwise stated.

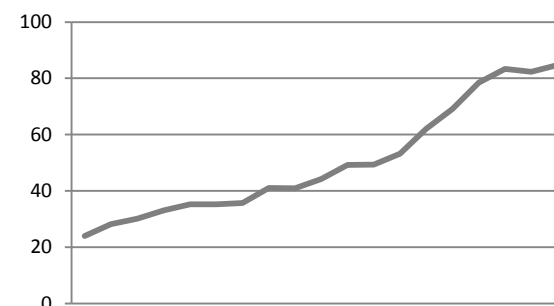
GROUP	6 months Jan-Jun		3 months Apr-Jun		Full-year
	2016	2015	2016	2015	2015
Alternative performance measures					
Gross margin, %	95.7	96.0	95.5	96.1	96.7
EBITDA, %	30.3	30.3	31.8	29.7	31.5
Operating margin, %	25.4	25.6	27.0	24.9	26.8
Profit margin, %	25.4	25.6	26.9	24.8	26.7
Cash flow, %	26.2	32.1	25.2	40.1	31.7
Equity/assets ratio, %	66.7	71.9			73.0
Return on equity, %	12.2	11.3	6.2	5.4	21.9
Return on capital employed, %	15.6	14.5	8.1	6.9	28.6
Capital employed, SEK m	237.8	259.8			292.7
Net cash, SEK m	32.6	45.7			87.6
Net debt/equity ratio, multiple	-0.14	-0.18			-0.30
Sales per employee, SEK m	1.0	1.0	0.5	0.5	2.0
Other key ratios					
No. of employees at end of period	164	163			164
Average no. of employees	158	157	155	156	157
SHARE DATA					
	2016	2015	2016	2015	2015
Equity per share, SEK	18.64	20.43			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	12.63	12.63
Average number of shares after dilution, million	12.63	12.63	12.63	12.63	12.63
Cash flow from operating activities per share, SEK	3.37	3.96	1.63	2.51	7.81
Earnings per share, basic, after current tax, SEK*	3.20	3.06	1.69	1.50	6.33
Earnings per share, SEK*	2.54	2.44	1.34	1.21	5.02
Earnings per share, diluted, SEK	2.54	2.44	1.34	1.21	5.02

*Definition in accordance with IFRS

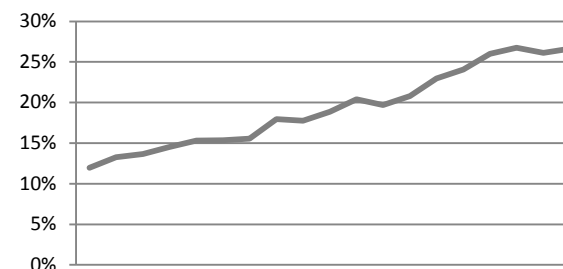
Net sales, rolling 12 months



Operating profit, rolling 12 months



Operating margin, rolling 12 months



Quarterly overview and multi-year overview

Certain financial performance measures presented in this interim report are not defined in accordance with IFRS. The company believes that these performance measures provide valuable supplementary information to investors and the company's management since they facilitate evaluations of the company's earnings trend and financial position. These financial performance measures are not always comparable with the measures used by other companies since not all companies calculate financial performance measures in the same way. Accordingly, these financial performance measures must not be regarded as a replacement for the measures defined in accordance with IFRS. The tables below present performance measures that are not defined in accordance with IFRS, unless otherwise stated.

		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	Q2	81.8	26.0	31.8	22.1	27.0	1.34	6.2	1.63	18.64	157.00	1,983
	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
2015		311.7	98.3	31.5	83.4	26.8	5.02	21.9	7.81	23.03	150.00	1,895
2014		255.7	63.6	24.9	53.2	20.8	3.37	14.5	5.61	22.85	74.75	944
2013		230.2	50.6	22.0	41.3	17.9	2.59	10.9	3.53	23.90	39.77	491
2012		230.1	41.8	18.2	35.2	15.3	1.16	5.3	3.41	22.34	35.24	397
2011		200.4	29.4	14.7	24.0	12.0	-1.70	6.4	3.09	21.82	22.66	248
2010		177.9	16.1	9.1	11.9	6.7	1.88	3.5	1.25	54.16	16.41	180

*Definition in accordance with IFRS

Parent Company

Condensed income statement

SEK m	6 months Jan-Jun		Full-year
	2016	2015	2015
Net sales	6.1	6.1	12.2
Operating expenses	-8.2	-7.4	-16.2
Depreciation of property, plant and equipment	-0.0	-0.0	-0.1
Operating loss	-2.1	-1.3	-4.1
Result from financial investments	0.0	-0.0	70.0
Profit/loss before tax	-2.1	-1.3	65.9
Tax	0.5	0.3	-14.5
Profit/loss for the period	-1.6	-1.0	51.4

Statement of comprehensive income

SEK m	2016	2015	2015
Profit/loss for the period	-1.6	1.0	51.4
Total other comprehensive income	-	-	-
Comprehensive income for the period	-1.6	1.0	51.4

Condensed balance sheet

SEK m	Jun 30, 2016	Jun 30, 2015	Dec 31, 2015
ASSETS			
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	32.2	46.5	31.7
Total non-current assets	225.1	240.8	224.6
Current assets			
Receivables from subsidiaries	0.0	0.1	40.0
Other current assets	0.7	0.7	1.0
Cash and cash equivalents	1.3	3.1	4.2
Total current assets	2.0	3.9	45.2
TOTAL ASSETS	227.1	244.7	269.8
EQUITY AND LIABILITIES			
Total equity	174.9	212.6	265.0
Current liabilities			
Trade payables	0.4	0.3	0.4
Liabilities to subsidiaries	46.1	30.1	-
Other current liabilities	5.7	1.8	4.4
Total current liabilities	52.2	32.1	4.8
TOTAL EQUITY AND LIABILITIES	227.1	244.7	269.8



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. The EMSA's Guidelines on Alternative Performance Measures are applied from this interim report.

2 NET SALES

Net sales are distributed into the following revenue categories:

	6 months Jan-Jun		3 months Apr-Jun		Full-year
SEK m	2016	2015	2016	2015	2015
License-based revenue	160.5	156.0	80.4	79.1	311.7
Royalty-based revenue	1.8	-	1.4	-	-
Net sales	162.3	156.0	81.8	79.1	311.7

As part of the agreement with Renesas Synergy Platform, IAR Systems receives a guaranteed annual minimum remuneration. The royalty-based revenue recognized pertains to the guaranteed minimum remuneration for 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 June 30, 2016, amounted to SEK 113.7m (113.3). This increase of SEK 0.2m for the period was a result of translation differences.

4 OTHER INTANGIBLE ASSETS

Operating expenses were cut by SEK 7.9m (7.5) during the period through the capitalization of development costs for debug probes and analysis tools. Of the internal expenses that were capitalized, SEK 6.1m (5.6) 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 June 30, 2016, the Group had accumulated loss carryforwards of approximately SEK 113m (179), all of which were attributable to its Swedish operations. The deferred tax asset is recognized in the balance sheet in an amount of SEK 29.0m (44.2), of which SEK 24.8m (39.3) pertains to loss carryforwards.

6 PLEDGED ASSETS

SEK m	Jun 30, 2016	Jun 30, 2015	Dec 31, 2015
To secure pensions	1.8	1.8	1.8
To secure liabilities to credit institutions	2.3	2.1	1.8
Total pledged assets	4.1	3.9	3.6

7 COMPARATIVE FIGURES AT JUNE 30, 2015

The comparative figures for other current assets and other current liabilities at June 30, 2015 have been adjusted with respect to the gross recognition of prepaid support revenue, which was previously recognized in a net amount against accrued license-based revenue. After this adjustment, the equity/assets ratio at June 30, 2015 was 72%, compared with the previously recognized equity/assets ratio of 73%. No other key ratios were impacted by the adjustment.

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, group	Recognized equity including 78.0% of untaxed reserves. Average equity is calculated as equity at the beginning of the year plus equity at the end of the year divided by two.
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	Cash and cash equivalents less interest-bearing liabilities.
Net interest-bearing liabilities	Interest-bearing liabilities less cash and cash equivalents.
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. Definition in accordance with IFRS.
Earnings per share after current tax	Profit for the period after current tax divided by the average number of shares during the period. Definition in accordance with IFRS.
Return on equity	Profit before tax less full tax as a percentage of average equity.
Return on capital employed	Profit before tax plus financial expenses as a percentage of average capital employed.
Operating margin	Operating profit as a percentage of net sales.
Operating profit	Profit before tax less financial income plus financial expenses.
Equity/assets ratio	Equity as a percentage of total assets.
Capital employed	Total assets less non-interest-bearing liabilities. Average capital employed is calculated as capital employed at the beginning of the year plus capital employed at the end of the year divided by two.
Profit margin	Profit after financial items as a percentage of net sales.

Reconciliations

Earnings per share after current tax is calculated as profit for the period after current tax divided by the average number of shares during the period.

	6 months Jan-Jun		3 months Apr-Jun		Full-year
	2016	2015	2016	2015	2015
SEK m					
Tax	9.1	9.1	5.1	4.3	19.9
Deferred tax	-8.3	-7.8	-4.4	-3.7	-16.5
Current tax	0.8	1.3	0.7	0.6	3.4
Profit before tax	41.2	39.9	22.0	19.6	83.3
Current tax	-0.8	-1.3	-0.7	-0.6	-3.4
Profit after current tax	40.4	38.6	21.3	19.0	79.9
Average no. of shares, million	12.63	12.63	12.63	12.63	12.63
Earnings per share after current tax, SEK	3.20	3.06	1.69	1.50	6.33

Return on capital employed is calculated as profit after financial items plus financial expenses as a percentage of average capital employed.

SEK m	Jun 30, 2016	Jun 30, 2015	Mar 31, 2016	Mar 31, 2015	Dec 31, 2015	Dec 31, 2014
Total assets	353.1	359.2	410.9	402.9	398.7	380.7
Non-interest-bearing liabilities	-115.3	-99.0	-103.1	-93.7	-106.0	-90.5
Capital employed	237.8	260.2	307.8	309.2	292.7	290.2

	6 months Jan-Jun		3 months Apr-Jun		Full-year
	2016	2015	2016	2015	2015
Profit before tax	41.2	39.9	22.0	19.6	83.3
Financial expenses	0.1	0.1	0.1	0.1	0.2
Profit before tax plus financial expenses	41.3	40.0	22.1	19.7	83.5
Return on capital employed, %	15.6	14.5	8.1	6.9	28.6

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 developers can reuse 70-80% of the previously

IAR Systems' role in the market



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.