

A photograph of a modern multi-story building with a mix of red brick and white-framed glass windows. The building is partially obscured by bare trees in the foreground. A small yellow sign with the IAR Systems logo is visible in the lower left foreground. The ground is covered in snow.

IAR Systems Group AB

Interim Report jan-sept 2016

Best quarter on record – Operating margin of 35%

Sales for the period of SEK 243m and EBITDA of SEK 82m

Profit summary	January-September		July-September		Full-year
SEK m	2016	2015	2016	2015	2015
Net sales	243.4	235.8	81.1	79.8	311.7
Operating expenses	-173.6	-170.8	-52.6	-54.8	-228.3
Operating profit	69.8	65.0	28.5	25.0	83.4

January-September 2016

- Net sales of SEK 243.4m (235.8)
- EBITDA of SEK 82.0m (76.1), corresponding to an EBITDA margin of 33.7% (32.3)
- Operating profit of SEK 69.8m (65.0), corresponding to an operating margin of 28.7% (27.6)
- Profit before tax of SEK 69.7 (64.9)
- Earnings per share of SEK 5.38 (4.96) after current tax
- Basic earnings per share of SEK 4.27 (3.93) and diluted earnings per share of SEK 4.27 (3.93)
- Cash flow from operating activities of SEK 74.7m (70.6)
- Net cash of SEK 61.6m (62.6) 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-September		July-September		Full-year
	2016	2015	2016	2015	2015
EBITDA margin, %	33.7	32.3	40.6	36.2	31.5
Operating margin, %	28.7	27.6	35.1	31.3	26.8
Net cash, SEK m	61.6	62.6	61.6	62.6	87.6
No. of employees at end of period	166	164	166	164	164

July-September 2016

- Net sales of SEK 81.1m (79.8)
- EBITDA of SEK 32.9m (28.9), corresponding to an EBITDA margin of 40.6% (36.2)
- Operating profit of SEK 28.5m (25.0), corresponding to an operating margin of 35.1% (31.3)
- Profit before tax of SEK 28.5m (25.0)
- Earnings per share of SEK 2.18 (1.90) after current tax
- Basic earnings per share of SEK 1.73 (1.49) and diluted earnings per share of SEK 1.73 (1.49)
- Cash flow from operating activities of SEK 32.1m (20.6)

Best quarterly result on record!



Once again, we set a new quarterly earnings record!

Increased revenue for licenses combined with continued growth in support contracts yielded higher profitability. We also recorded higher sales for add-on products, primarily C-STAT, in the third quarter. Quarterly earnings were also positively impacted by the revenue generated from our royalty agreement concerning the Renesas Synergy Platform signed with Renesas in April. During the quarter, Renesas continued the launch of the platform in several countries in Asia.

During the third quarter, the breakdown between the regions was more balanced insofar as the countries that were previously experiencing a challenging situation performed somewhat better. Europe continues to account for 36%, Americas for 38% and Asia for 24%.

Europe has displayed the strongest performance during the year and to leverage the substantial growth potential in the region, a new EMEA Regional Manager was appointed during the quarter. In recent months, we have made a number of strategic recruitments as part of a global initiative.

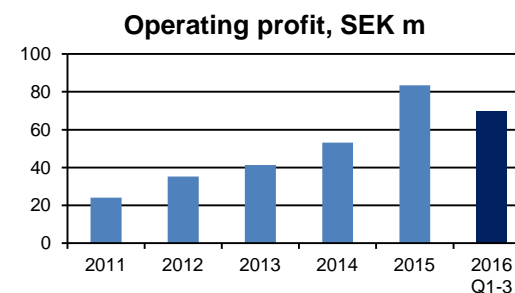
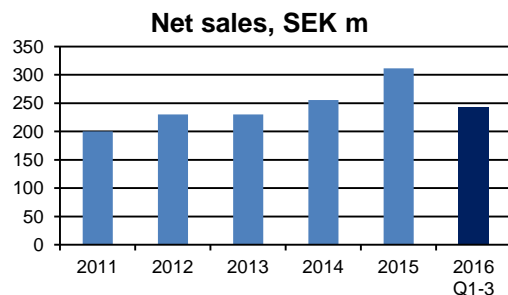
Consolidation remains a clear trend in the market. During the third quarter, Softbank's acquisition of ARM was completed and we are monitoring the new conditions this may present for us. This is only a small part of the ongoing consolidation of the market and I am convinced that this is a trend that we will see continue in the future.

Apart from consolidation, the Internet of Things (IoT) remains the major market trend for many players. More and more operators realize the potential and are positioning themselves with new offerings. In 2015, we launched an IoT portal, IAR Connect, as part of our focus on the IoT.

In the third quarter, we took a further step in our mission to provide information on the development of IoT by launching an IoT Dashboard. We have created this dashboard to meet the increasing demand we have seen for a single place where all stakeholders can find what we think is the most important information regarding IoT. Our IoT Dashboard will gather information and be continuously updated with news, trend reports, blog entries, interviews and statistics. You can find our IoT Dashboard at www.iarconnect.com/iot-dashboard.

In the last quarter of the year, we will maintain the pace in the multitude of activities we have initiated as part of our heightened ambition to continue refining our product offering.

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 the primary drivers in the market. Many of IAR Systems' customers in a range of different industries are placing ever-increasing demands on functional safety, code quality and streamlined work flows. One industry showing major general growth is the automotive industry, where vehicles are becoming more advanced and consumers are looking for more safety features and an enhanced driving experience.

The IoT is continuing to drive market growth. Complete development platforms are in demand in this and other innovative areas, since they enable faster delivery of new products to the market. As part of IAR Systems' investment in IoT, the company has signed an exclusive royalty agreement with Renesas for this kind of solution. The Renesas Synergy Platform provides a comprehensive solution for innovative product development. The agreement with Renesas means that IAR Systems is complementing its current license-based business model with a royalty-based model. The license-based 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.

Dashboard for Internet of Things

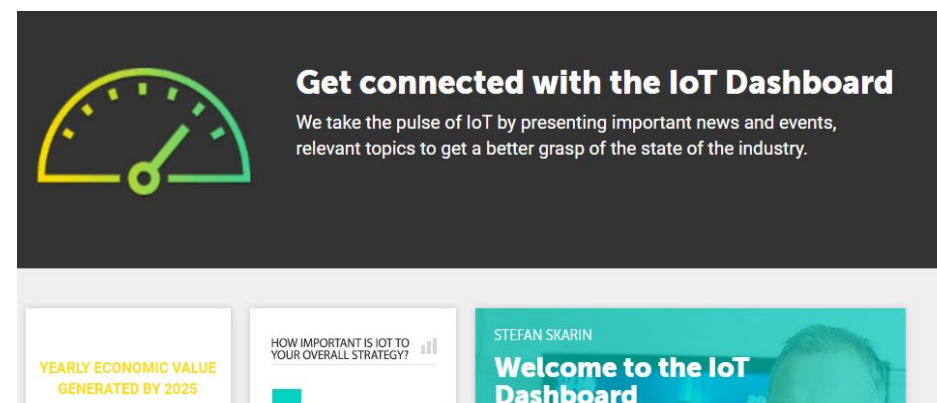
In the third quarter, IAR Systems launched an IoT Dashboard on the IAR Connect portal. On the dashboard, anyone who is interested in the IoT can browse news, trend reports, interviews and statistics in the area and IAR Systems' view of these. The page provides a direct link to those who wish to monitor developments in IoT and will be updated continuously.

Read the latest on IoT on our own IoT Dashboard
www.iarconnect.com/iot-dashboard 

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 2.7m and comprised a fixed minimum revenue.

Regarding the regions, the breakdown of revenue is similar to earlier in the year; refer to the illustration on page 4. Europe remains stable and this is also the case for Asia. In the Americas, an unreliable market meant that there were a few challenges also in the third quarter. IAR Systems has taken measures to enhance efficiency in the Americas, which are expected to generate effects in 2017.

Market consolidation is continuing and this trend is most clearly manifested through various acquisitions of process suppliers. The telecoms company Softbank's acquisition of ARM was completed during the third quarter and it became general knowledge that Renesas is interested in acquiring the processor maker Intersil. This trend will continue and IAR Systems is monitoring the new conditions arising for the company as a result of these consolidations.



Products and technology

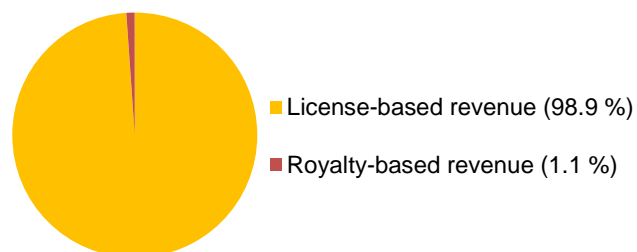
During the year, IAR Systems broadened its code analysis offering and updated the in-demand add-on product C-STAT. The update facilitates expanded analysis possibilities in a total of 11 models of the IAR Embedded Workbench development tool. A major advantage of C-STAT is that it can be used to ensure the quality of the code early in the development cycle, because the developer does not need a complete program to analyze the code. Another key feature of C-STAT is that the tool helps customers meet the automotive industry standards MISRA C:2004, MISRA C++:2008 and MISRA C:2012.

Interest in combining IAR Systems' add-on products C-STAT, which conducts an analysis of the source code, and C-RUN, which conducts an analysis when the code is executed, remained strong in the third quarter. These add-on products are entirely integrated in IAR Embedded Workbench, giving customers a complete code analysis naturally integrated into their daily activities. The combination of C-STAT and C-RUN also enables customers to ensure the quality of the code throughout the entire development cycle.

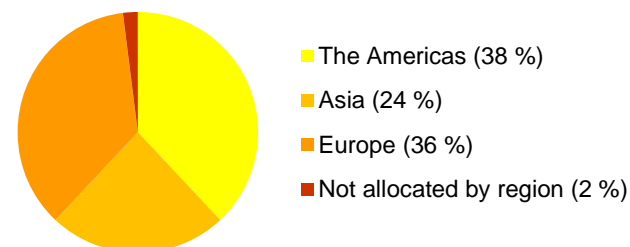
Another important launch in 2016 was a new debug probe, I-jet Trace for Cortex-A/R/M, which provides developers with advanced debugging capabilities. This product supports trace debugging for all types of ARM Cortex processors. This launch means that IAR Systems now offers complete support for trace debugging of embedded systems based on ARM processors.

IAR Systems is making ongoing investments in its product portfolio, offering new functions that facilitate customers' daily work and support for new processors in the market. Aside from the above launches, during the year, the company expanded its already broad processor support by adding support for ARM's new ARMv8-M architecture. In the third quarter, processor support was broadened further with a range of different new processors specially adapted for IoT and connected products.

Revenue categories, Q1-Q3 2016



Breakdown of revenue, Q1-Q3 2016



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 September 30, 2016 was SEK 190.00 (103.25). IAR Systems Group's market capitalization on the same date was SEK 2,400m (1,304). The number of shareholders in IAR Systems Group at September 30, 2016 was 9,042 (8,525). Of these shareholders, 543 (539) held more than 1,000 shares each.

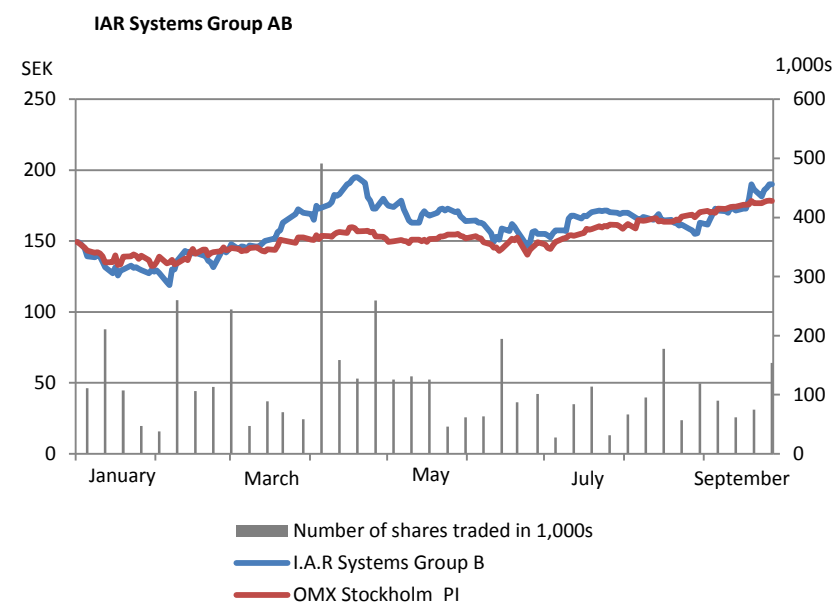
Breakdown of shareholdings	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
1-100	6,003	66%	1%	1%
101-1 000	2,496	28%	8%	7%
1,001-10,000	452	5%	10%	10%
10,001-	91	1%	81%	82%
Total	9,042	100%	100%	100%

Geographical distribution	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
Sweden	8,792	97%	89%	89%
Europe excl. Sweden	205	2%	8%	8%
Other countries	45	1%	3%	2%
Total	9,042	100%	100%	100%

Largest shareholders (votes)	No. of shares	Share of capital, %	Share of votes, %
Handelsbanken Fonder	1,228,560	10%	9%
Second Swedish National Pension Fund	1,085,415	9%	8%
Danica Pension*	233,775	2%	8%
Swedbank Robur Fonder	994,083	8%	7%
Catella Fondförvaltning	888,552	7%	7%
Other	8,201,676	64%	61%
Total	12,632,061	100%	100%

*of which, 100,000 class A shares

Foreign shareholders held approximately 11% (16) of the share capital and 11% (15) of the votes. IAR Systems Group's share capital at September 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-September 2016

NET SALES AND PROFIT

Net sales for the period rose 3% compared with the corresponding period in the preceding year and amounted to SEK 243.4m (235.8), of which SEK 81.1m (79.8) was attributable to the third quarter. Royalty-based revenue of SEK 2.7m (-) from the agreement with Renesas Electronics Corporation was reported during the period, of which SEK 0.9m (-) during the third quarter. In a year-on-year comparison, currency translation had a positive impact of SEK 3.5m on net sales for the period, of which SEK 3.2m pertained to the third quarter.

EBITDA for the period totaled SEK 82.0m (76.1), corresponding to an EBITDA margin of 33.7% (32.3). EBITDA for the third quarter totaled SEK 32.9m (28.9), corresponding to an EBITDA margin of 40.6% (36.2) for the period. Operating profit for the period increased 7% to SEK 69.8m (65.0). Operating profit for the third quarter amounted to SEK 28.5m (25.0). Legal costs of SEK 4m (-) in the USA were charged to operating profit for the period.

Operating expenses were cut by SEK 11.6m (10.9) during the period through the capitalization of development costs for software and debug probes. Of the internal expenses that were capitalized, SEK 8.9m (8.3) pertains to personnel costs. In a year-on-year comparison, currency translation had a positive impact of SEK 2.4m on operating profit for the period, of which SEK 2.2m pertained to the third 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 15%. In Asia, Japan and China have recovered compared with the sales trend in the preceding year, while Korea posted a weaker sales performance in the latter half of the period. Sales growth in local currency in Asia was 2%. 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 4%. The difference between the sales growth for the period in local currency of 4% and the increased net sales of 3% comprised prepaid maintenance revenue of -1%.

INVESTMENTS AND FINANCING

Investments in property, plant and equipment for the period totaled SEK 1.1m (1.0), of which SEK 0.2m (0.5) was attributable to the third quarter. Investments in intangible assets for the period amounted to SEK 13.2m (13.9), of which SEK 3.8m (3.8) pertained to the third quarter. Most of these investments, SEK 11.6m (10.9), 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 September 30, 2016, was 69 % (73).

CASH FLOW, CASH AND CASH EQUIVALENTS

Cash flow from operating activities for the period amounted to SEK 74.7m (70.6), of which SEK 32.1m (20.6) pertained to the third quarter. Payments of legal costs of SEK 4m in the USA were charged to cash flow for the period.

Cash flow from investing activities for the period totaled SEK -14.6m (-15.0), of which SEK -4.2m (-4.3) was attributable to the third quarter. Investments were principally made in intangible assets during the period.

Cash flow from financing activities for the period totaled SEK -88.4m (-63.3), of which SEK -0.0m (-0,0) pertained to the third quarter. Dividends totaling SEK 88.4m (63.2) were paid to the company's shareholders during the

period.

As of September 30, 2016, the Group had net cash of SEK 61.6m (62.6). Cash and cash equivalents at the end of the period totaled SEK 63.8m (64.5). 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 88.8m (89.5).

EMPLOYEES

The number of employees in IAR Systems at the end of the period was 166 (164). The average number of employees during the period was 158 (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 9.1m (9.1). The Parent Company posted a loss after financial items of SEK -1.6m (-1.0). Net investments in property, plant and equipment amounted to SEK 0.0m (0.0).

Cash and cash equivalents at September 30, 2016 totaled SEK 3.7 (3.3). 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.

NOMINATING COMMITTEE

In accordance with the decision of the AGM in April 2016, the nominating committee has been appointed and consists of Malin Björkmo (Handelsbanken Fonder), Håkan Berg (Robur) and Jonas Eixman (Second Swedish National Pension Fund). Malin Björkmo was appointed Chairman of the nominating committee.

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, October 20, 2016

Stefan Skarin
CEO of IAR Systems Group AB

FINANCIAL CALENDAR 2017

Year-end report 2016, February 14, 2017
Interim report Jan–Mar 2017, April 26, 2017
2017 Annual General Meeting, April 26, 2017
Interim report Jan–Jun 2017, August 16, 2017
Interim report Jan–Sep 2017, October 24, 2017

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REVIEW REPORT

Introduction

We have reviewed the interim report for IAR Systems Group AB (publ) for the period from January 1 to September 30, 2016. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope and focus of the review

We conducted our review in accordance with the International Standard on Review Engagements Performed by the Independent Auditor of the Entity (ISRE 2410).

A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and a substantially more limited scope compared with the focus and scope of an audit conducted in accordance with the International Standards on Auditing and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant circumstances that might be identified in an audit. Therefore, the conclusion expressed on the basis of a review does not provide the same level of assurance as a conclusion expressed on the basis of an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report has not, in all material aspects, been compiled in accordance with IAS 34 Interim Reporting and the Swedish Annual Accounts Act, and for the Parent Company, in accordance with the Swedish Annual Accounts Act.

Stockholm, October 20, 2016

Deloitte AB

Erik Olin

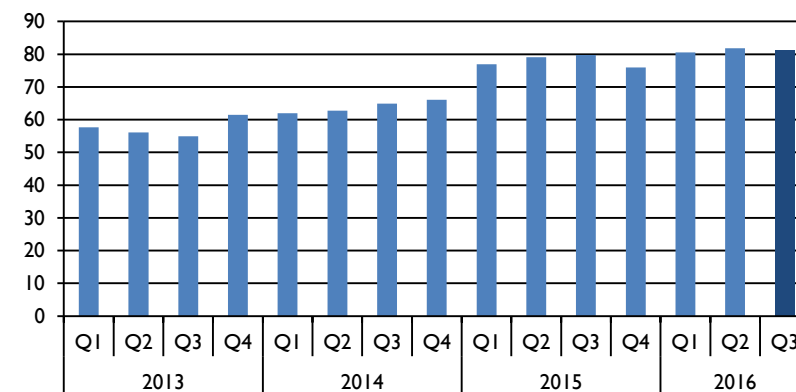
Income statement

CONDENSED CONSOLIDATED INCOME STATEMENT

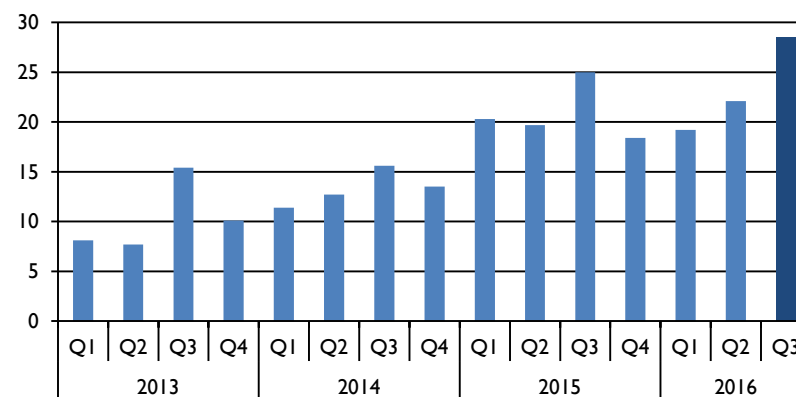
SEK m	Note	9 months Jan-Sep		3 months Jul-Sep		Full-year
		2016	2015	2016	2015	2015
Net sales	1.2	243.4	235.8	81.1	79.8	311.7
Goods for resale		-9.3	-9.2	-2.3	-3.0	-10.3
Other external expenses		-36.2	-37.2	-10.5	-12.0	-51.1
Personnel costs		-115.9	-113.3	-35.4	-35.9	-152.0
Depreciation of property, plant and equipment		-1.9	-1.9	-0.7	-0.6	-2.5
Amortization of intangible assets		-10.3	-9.2	-3.7	-3.3	-12.4
Operating profit		69.8	65.0	28.5	25.0	83.4
Financial income		0.0	0.0	0.0	0.0	0.1
Financial expenses		-0.1	-0.1	-0.0	-0.0	-0.2
Profit before tax		69.7	64.9	28.5	25.0	83.3
Tax		-15.8	-15.3	-6.7	-6.2	-19.9
Profit for the period		53.9	49.6	21.8	18.8	63.4
Earnings per share for the period, basic, SEK		4.27	3.93	1.73	1.49	5.02
Earnings per share for the period, diluted, SEK		4.27	3.93	1.73	1.49	5.02

STATEMENT OF COMPREHENSIVE INCOME		9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m		2016	2015	2016	2015	2015
Profit for the period		53.9	49.6	21.8	18.8	63.4
Other comprehensive income for the period						
Items that will be reclassified subsequently to profit or loss:						
Exchange differences		1.7	2.4	0.8	0.5	2.1
Total other comprehensive income		1.7	2.4	0.8	0.5	2.1
Comprehensive income for the period		55.6	52.0	22.6	19.3	65.5
Comprehensive income for the period attributable to owners of the Parent Company		55.6	52.0	22.6	19.3	65.5

Net sales, SEK m



Operating profit, SEK m

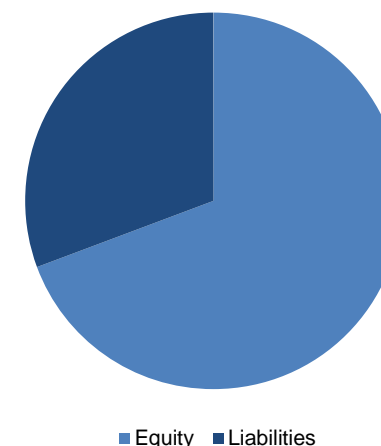


Balance sheet

CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Sep 30, 2016	Sep 30, 2015	Dec 31, 2015
ASSETS				
Non-current assets				
Goodwill	3	114.0	113.6	113.5
Other intangible assets	4	81.7	78.2	78.8
Property, plant and equipment		6.2	6.9	6.5
Financial assets		5.2	6.2	5.0
Deferred tax assets	5	23.4	40.2	36.8
Total non-current assets		230.5	245.1	240.6
Current assets				
Inventories		5.9	3.7	5.1
Other current assets	7	24.1	22.0	20.1
Trade receivables		48.3	43.9	43.5
Cash and cash equivalents		63.8	64.5	89.4
Total current assets		142.1	134.1	158.1
TOTAL ASSETS		372.6	379.2	398.7
EQUITY AND LIABILITIES				
Total equity		258.1	277.4	290.9
Non-current liabilities				
Interest-bearing liabilities		1.1	0.9	0.6
Other non-current liabilities		1.5	1.0	1.1
Deferred tax liabilities		17.1	16.6	16.5
Total non-current liabilities		19.7	18.5	18.2
Current liabilities				
Trade payables		3.1	4.8	4.8
Interest-bearing liabilities		1.1	1.0	1.2
Other current liabilities	7	90.6	77.5	83.6
Total current liabilities		94.8	83.3	89.6
TOTAL EQUITY AND LIABILITIES		372.6	379.2	398.7

Equity/assets ratio, %
September 30, 2016



Changes in equity

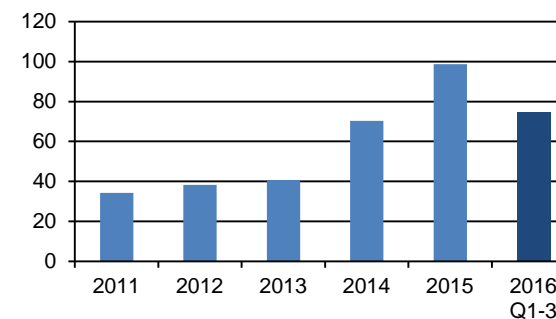
GROUP	9 months Jan- Sep		3 months Jul- Sep		Full- year
SEK m	2016	2015	2016	2015	2015
Equity at beginning of period	290.9	288.6	235.5	258.1	288.6
Dividends	-88.4	-63.2	-	-	-63.2
Comprehensive income for the period	55.6	52.0	22.6	19.3	65.5
Equity at end of period	258.1	277.4	258.1	277.4	290.9
of which, attributable to owners of the Parent Company	258.1	277.4	258.1	277.4	290.9

Cash flows

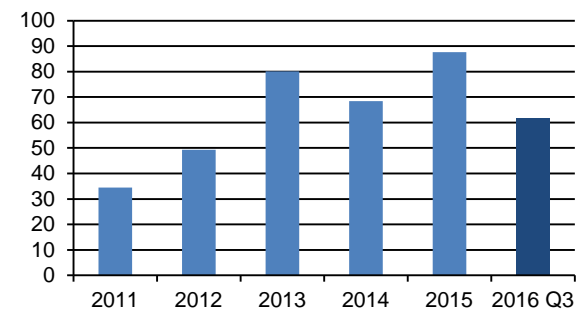
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2016	2015	2016	2015	2015
Incoming payments from customers	238.4	232.2	81.7	78.3	309.2
Outgoing payments to suppliers and employees	-160.6	-159.2	-48.5	-57.0	-207.6
Interest received	0.0	0.0	0.0	0.0	0.0
Interest paid	-0.0	-0.1	-0.0	-0.0	-0.2
Income taxes paid	-3.1	-2.3	-1.1	-0.7	-2.7
Cash flow from operating activities	74.7	70.6	32.1	20.6	98.7
Investments in property, plant and equipment	-1.1	-1.0	-0.2	-0.5	-1.1
Investments in intangible assets	-13.2	-13.9	-3.8	-3.8	-17.7
Other investments	-0.3	-0.1	-0.2	-0.0	1.1
Cash flow from investing activities	-14.6	-15.0	-4.2	-4.3	-17.7
Amortization of financial liabilities	-0.0	-0.1	-0.0	-0.0	-0.4
Dividends	-88.4	-63.2	-	-	-63.2
Cash flow from financing activities	-88.4	-63.3	-0.0	-0.0	-63.6
Cash flow for the period	-28.3	-7.7	27.9	16.3	17.4
Cash and cash equivalents at beginning of period	89.4	70.7	34.9	47.8	70.7
Exchange difference in cash and cash equivalents					
- attributable to cash and cash equivalents at beginning of period	2.5	1.6	0.8	0.6	1.3
- attributable to cash flow for the period	0.2	-0.1	0.2	-0.2	0.0
Cash and cash equivalents at end of period	63.8	64.5	63.8	64.5	89.4
CASH AND CASH EQUIVALENTS, GROUP					
SEK m	Sep 30, 2016	Sep 30, 2015			Dec 31, 2015
Cash and cash equivalents at end of period	63.8	64.5			89.4
Unutilized overdraft facilities	25.0	25.0			25.0
Total available cash and cash equivalents	88.8	89.5			114.4

Cash flow from operating activities, SEK m



Net cash, SEK m



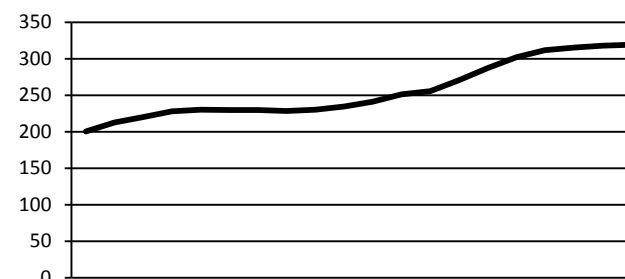
Key ratios

Certain financial performance measures are presented in this interim report that 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.

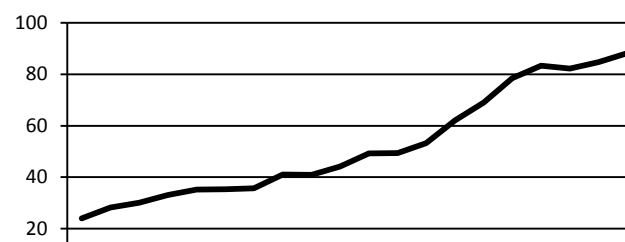
GROUP	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2016	2015	2016	2015	2015
Alternative performance measures					
Gross margin, %	96.2	96.1	97.2	96.2	96.7
EBITDA, %	33.7	32.3	40.6	36.2	31.5
Operating margin, %	28.7	27.6	35.1	31.3	26.8
Profit margin, %	28.6	27.5	35.1	31.3	26.7
Cash flow, %	30.7	29.9	39.6	25.8	31.7
Equity/assets ratio, %	69.3	73.2			73.0
Return on equity, %	19.6	17.5	8.8	7.0	21.9
Return on capital employed, %	25.2	22.8	11.5	9.3	28.6
Capital employed, SEK m	260.3	279.3			292.7
Net cash, SEK m	61.6	62.6			87.6
Net debt/equity ratio, multiple	-0.24	-0.23			-0.30
Sales per employee, SEK m	1.5	1.5	0.5	0.5	2.0
Other key ratios					
No. of employees at end of period	166	164			164
Average no. of employees	158	157	160	155	157
SHARE DATA					
	2016	2015	2016	2015	2015
Equity per share, SEK	20.44	21.96			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	5.91	5.59	2.54	1.63	7.81
Earnings per share, basic, after current tax, SEK*	5.38	4.96	2.18	1.90	6.33
Earnings per share, SEK*	4.27	3.93	1.73	1.49	5.02
Earnings per share, diluted, SEK	4.27	3.93	1.73	1.49	5.02

*Definition in accordance with IFRS

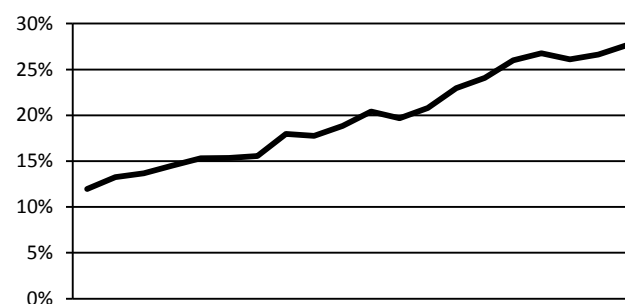
Net sales, rolling 12 months



Operating profit, rolling 12 months



Operating margin, rolling 12 months



Quarterly overview and multi-year overview

Certain financial performance measures are presented in this interim report that 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	Q3	81.1	32.9	40.6	28.5	35.1	1.73	8.8	2.54	20.44	190.00	2,400
	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
2014	Q1	76.9	23.7	30.8	20.3	26.4	1.23	5.2	1.45	24.36	104.00	1,314
	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
2013	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
	Q4	61.5	12.6	20.5	10.1	16.4	0.58	2.5	0.84	23.90	39.77	491
2012	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
2011	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
2010	Q1	58.0	9.3	16.0	8.0	13.8	0.48	2.2	0.12	22.22	32.37	355
	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
2009	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
2008	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
2007	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

	9 months Jan-Sep		Full-year
SEK m	2016	2015	2015
Net sales	9.1	9.1	12.2
Operating expenses	-10.7	-10.0	-16.2
Depreciation of property, plant and equipment	-0.0	-0.1	-0.1
Operating loss	-1.6	-1.0	-4.1
Result from financial investments	0.0	-0.0	70.0
Profit/loss before tax	-1.6	-1.0	65.9
Tax	0.4	0.2	-14.5
Profit/loss for the period	-1.2	-0.8	51.4

Statement of comprehensive income

SEK m	2016	2015	2015
Profit/loss for the period	-1.2	-0.8	51.4
Total other comprehensive income	-	-	-
Comprehensive income for the period	-1.2	-0.8	51.4

Condensed balance sheet

SEK m	Sep 30, 2016	Sep 30, 2015	Dec 31, 2015
ASSETS			
Non-current assets			
Property, plant and equipment	0.2	0.2	0.2
Shares in subsidiaries	189.4	189.4	189.4
Other financial assets	3.3	4.6	3.3
Deferred tax assets	32.1	46.4	31.7
Total non-current assets	225.0	240.6	224.6
Current assets			
Receivables from subsidiaries	0.0	0.0	40.0
Other current assets	0.6	0.7	1.0
Cash and cash equivalents	3.7	3.3	4.2
Total current assets	4.3	4.0	45.2
TOTAL ASSETS	229.3	244.6	269.8
EQUITY AND LIABILITIES			
Total equity	175.3	212.8	265.0
Current liabilities			
Trade payables	0.1	0.3	0.4
Liabilities to subsidiaries	48.4	30.0	-
Other current liabilities	5.5	1.5	4.4
Total current liabilities	54.0	31.8	4.8
TOTAL EQUITY AND LIABILITIES	229.3	244.6	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 as of the January-June 2016 interim report.

2 NET SALES

Net sales are distributed into the following revenue categories:

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2016	2015	2016	2015	2015
License-based revenue	240.7	235.8	80.2	79.8	311.7
Royalty-based revenue	2.7	-	0.9	-	-
Net sales	243.4	235.8	81.1	79.8	311.7

As part of the agreement with Renesas Synergy, 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 September 30, 2016 amounted to SEK 114.0m (113.6). This increase of SEK 0.5m for the period was a result of translation differences.

4 OTHER INTANGIBLE ASSETS

Operating expenses were cut by SEK 11.6m (10.9) during the period through the capitalization of development costs for debug probes and analysis tools. Of the internal expenses that were capitalized, SEK 8.9m (8.3) 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 September 30, 2016, the Group had accumulated loss carryforwards of approximately SEK 83m (158), all of which were attributable to its Swedish operations. The deferred tax asset is recognized in the balance sheet in an amount of SEK 23.4m (40.2), of which SEK 18.3m (34.7) pertains to loss carryforwards.

6 PLEDGED ASSETS

SEK m	Sep 30, 2016	Sep 30, 2015	Dec 31, 2015
To secure pensions	1.8	1.8	1.8
To secure liabilities to credit institutions	2.2	1.9	1.8
Total pledged assets	4.0	3.7	3.6

7 COMPARATIVE FIGURES AT SEPTEMBER 30, 2015

The comparative figures for other current assets and other current liabilities at September 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 September 30, 2015 was 73%, compared with the previously recognized equity/assets ratio of 75%. 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.

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2016	2015	2016	2015	2015
Tax	15.8	15.3	6.7	6.2	19.9
Deferred tax	-14.0	-13.0	-5.7	-5.2	-16.5
Current tax	1.8	2.3	1.0	1.0	3.4

Profit before tax	69.7	64.9	28.5	25.0	83.3
Current tax	-1.8	-2.3	-1.0	-1.0	-3.4
Profit after current tax	67.9	62.6	27.5	24.0	79.9

Average no. of shares, million	12.63	12.63	12.63	12.63	12.63
Earnings per share after current tax, SEK	5.38	4.96	2.18	1.90	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	Sep 30, 2016	Sep 30, 2015	Jun 30, 2016	Jun 30, 2015	Dec 31, 2015	Dec 31, 2014
Total assets	372.6	379.2	353.1	359.2	398.7	380.7
Non-interest-bearing liabilities	-112.3	-99.9	-115.3	-99.0	-106.0	-90.5
Capital employed	260.3	279.3	237.8	260.2	292.7	290.2

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2016	2015	2016	2015	2015
Profit before tax	69.7	64.9	28.5	25.0	83.3
Financial expenses	0.1	0.1	0.0	0.0	0.2
Profit before tax plus financial expenses	69.8	65.0	28.5	25.0	83.5
Return on capital employed, %	25.2	22.8	11.5	9.3	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



processor 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.