

IAR Systems Group AB Year-end report 2016

Best year on record – Operating margin of 29%

Sales for the year of SEK 328m and EBITDA of SEK 113m

Profit summary SEK m	Full-year		October-December	
	2016	2015	2016	2015
Net sales	328.4	311.7	85.0	75.9
Operating expenses	-231.9	-228.3	-58.3	-57.5
Operating profit	96.5	83.4	26.7	18.4

Full-year 2016

- Net sales of SEK 328.4m (311.7)
- EBITDA of SEK 113.2m (98.3), corresponding to an EBITDA margin of 34.5% (31.5)
- Operating profit of SEK 96.5m (83.4), corresponding to an operating margin of 29.4% (26.8)
- Profit before tax of SEK 96.1m (83.3)
- Earnings per share of SEK 7.38 (6.33) after current tax
- Basic earnings per share of SEK 5.86 (5.02) and diluted earnings per share of SEK 5.86 (5.02)
- Cash flow from operating activities of SEK 114.2m (98.7)
- Net cash of SEK 96.5m (87.6) at the end of the period
- The Board intends to propose an ordinary dividend of SEK 5.00 for approval by the AGM on April 26, 2017

Key events during the year

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	Full-year		October-December	
	2016	2015	2016	2015
EBITDA margin, %	34.5	31.5	36.7	29.2
Operating margin, %	29.4	26.8	31.4	24.2
Net cash, SEK m	96.5	87.6	96.5	87.6
No. of employees at end of period	165	164	165	164

October-December 2016

- Net sales of SEK 85.0m (75.9)
- EBITDA of SEK 31.2m (22.2), corresponding to an EBITDA margin of 36.7% (29.2)
- Operating profit of SEK 26.7m (18.4), corresponding to an operating margin of 31.4% (24.2)
- Profit before tax of SEK 26.4m (18.4)
- Earnings per share of SEK 2.00 (1.36) after current tax
- Basic earnings per share of SEK 1.59 (1.09) and diluted earnings per share of SEK 1.59 (1.09)
- Cash flow from operating activities of SEK 39.5m (28.1)

Best year on record and investments for 2017!



Increased revenue for new licenses combined with continued growth in support contracts created higher profitability. During the fourth quarter, we set a sales record for our add-on product C-STAT and our recently launched debug probe I-jet Trace.

Quarterly earnings were also positively impacted by the revenue generated from our royalty agreement for Renesas Synergy

Platform, signed with Renesas in April.

Europe reported strong growth, Asia somewhat weaker growth and the Americas, which are still restructuring, no growth during the fourth quarter. Europe was also the strongest region during the year, with the most significant growth noted in Northern Europe and our distribution activities.

That America and Asia have lower growth than Europe depends on different factors. However the regions have a common ambition to increase growth in 2017 in line with the investments made in 2016.

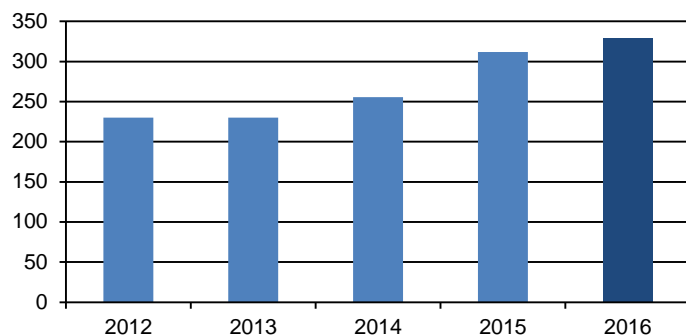
Consolidation remained a clear market trend. During the fourth quarter, Qualcomm announced its acquisition of NXP, which was formed through an earlier merger of NXP and Freescale. This represents only a small part of the ongoing consolidation of the market and I am convinced that this trend will continue.

Apart from consolidation, the Internet of Things (IoT) remains a major market trend and an area where many players are vying for a foothold. More and more operators are realizing the potential in this area and positioning themselves with new offerings. In 2015, we launched an IoT portal, IAR Connect, as part of our focus on IoT. We have now taken a further step in this initiative by launching an IoT Dashboard, which we created to meet the ever-increasing demand we have seen for a single channel where all stakeholders can find what we consider to be 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.

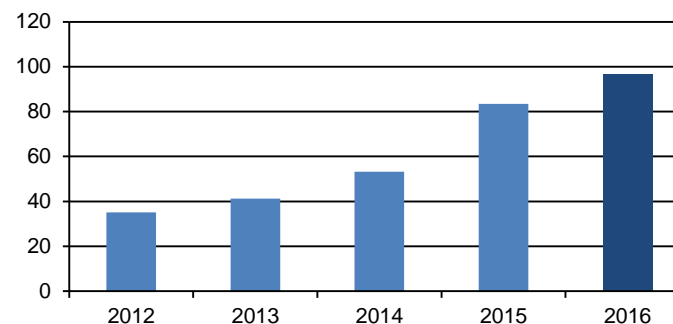
We are pleased to report our best year on record and feel inspired and motivated to use our strong market position and the investments we made during the year to continue refining our technology and organization in 2017.

Stefan Skarin, CEO of IAR Systems Group AB

Net sales, SEK m



Operating profit, SEK m



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.

IoT is continuing to drive market growth. Complete development platforms are 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 IoT, the company has signed an exclusive royalty agreement with Renesas for this kind of solution. 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. 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 4.1m, and comprised a fixed minimum remuneration.

Regarding the regions, the breakdown of revenue is similar to earlier in the year, refer to the illustration on page 4. Europe and Asia both remain stable. The Americas continued to restructure in order to enhance efficiency, which is expected to generate effects in 2017.

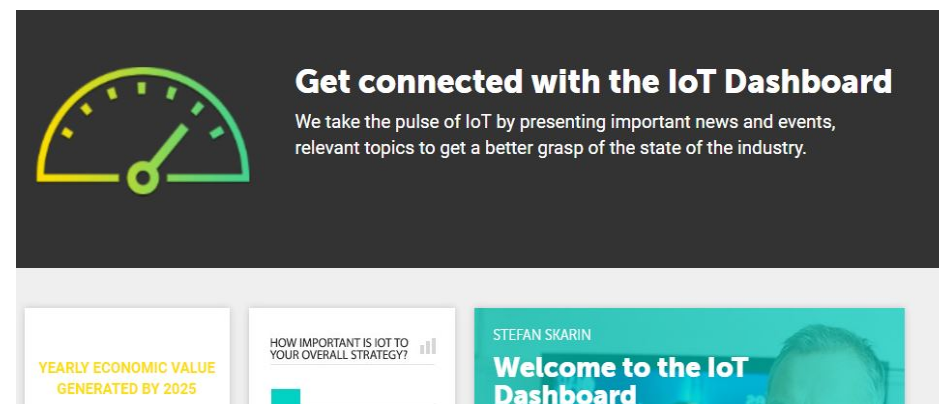
Market consolidation is continuing and this trend is most clearly manifested through various acquisitions of process suppliers. During the fourth quarter, Qualcomm announced its acquisition of NXP, which was formed through an earlier merger of NXP and Freescale. We expect this trend to continue and IAR Systems is monitoring the new conditions arising for the company as a result of these consolidations.

IoT Dashboard

In the third quarter, IAR Systems launched an IoT Dashboard on the IAR Connect portal. On the dashboard, anyone who is interested in IoT can browse news, trend reports, interviews and statistics in the field as well as IAR Systems' view of these. The page provides a direct link for 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



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 to have 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. 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.

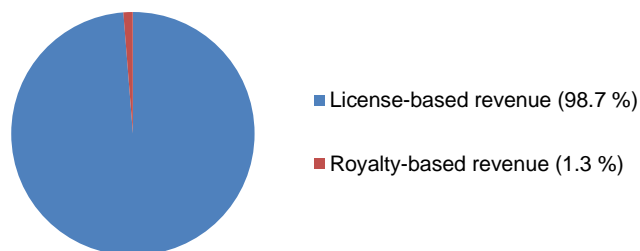
Another large and important launch during the year was Renesas Synergy Platform. Together with Renesas and a number of other partners, we have developed a technology platform with both hardware and software, where products

from various suppliers have been adapted and integrated so customers receive a complete environment for the development of embedded applications.

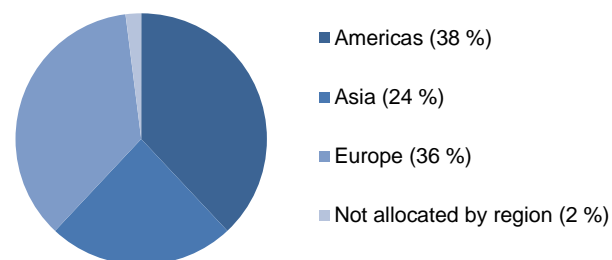
Other important additions to the product portfolio during 2016 include the expansion of debug probes for Trace, in the form of I-jet Trace for Cortex-A/R/M. This product supports trace debugging for all types of ARM Cortex processors. The company also launched a new version of I-jet Trace for Cortex-M with a significantly larger memory size. These launches mean that IAR Systems now offers highly advanced support for trace debugging of embedded systems based on ARM processors. This has also contributed to a substantial increase in sales of trace probes.

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. During the year, processor support was broadened further with a range of different new processors specially adapted for IoT and connected products.

Revenue categories 2016



Breakdown of revenue 2016



The IAR Systems share

IAR Systems Group's class B share is quoted on the Mid Cap list of Nasdaq Stockholm. During the year, the share price varied from a low of SEK 119.00 (75.00) to a high of SEK 206.00 (156.00). The share price at December 31, 2016 was SEK 206.00 (150.00). IAR Systems Group's market capitalization on the same date was SEK 2,602 (1,895). The number of shareholders in IAR Systems Group at December 31, 2016 was 8,645 (8,946). Of these shareholders, 518 (562) held more than 1,000 shares each.

Breakdown of shareholdings	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
1-100	5,771	67%	1%	1%
101-1 000	2,356	27%	7%	7%
1,001-10,000	421	5%	10%	9%
10,001-	97	1%	82%	83%
Total	8,645	100%	100%	100%

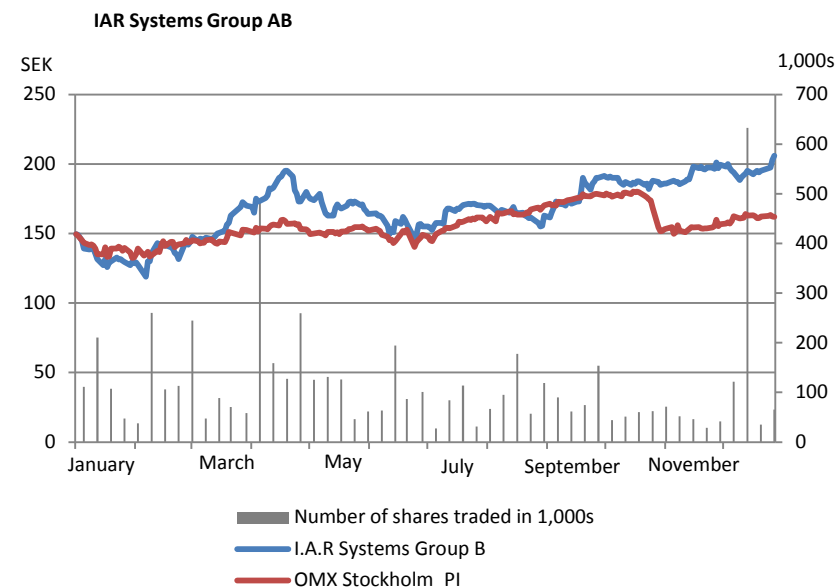
Geographical distribution	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
Sweden	8,397	97%	87%	88%
Europe excl. Sweden	204	2%	10%	9%
Other countries	44	1%	3%	3%
Total	8,645	100%	100%	100%

Largest shareholders (votes)	No. of shares	Share of capital, %	Share of votes, %
Handelsbanken Fonder	1,178,419	9%	9%
Second Swedish National Pension Fund	1,135,415	9%	8%
Danica Pension*	234,971	2%	8%
Ribbskottet AB	875,000	7%	6%
Catella Fondförvaltning	848,952	7%	6%
Other	8,359,304	66%	63%
Total	12,632,061	100%	100%

*of which 100,000 class A shares

Foreign shareholders held approximately 13% (16) of the share capital and 12% (15) of the votes.

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



Financial information

NET SALES AND PROFIT

Net sales for the year rose 5% compared with the corresponding period in the preceding year and amounted to SEK 328.4m (311.7), of which SEK 85.0m (75.9) was attributable to the fourth quarter. Royalty-based revenue of SEK 4.1m (-) from the agreement with Renesas Electronics Corporation was reported during the year, of which SEK 1.4m (-) during the fourth quarter. In a year-on-year comparison, currency translation had a positive impact of SEK 9.2m on net sales for the year, of which SEK 5.7m pertained to the fourth quarter.

EBITDA for the year totaled SEK 113.2m (98.3), corresponding to an EBITDA margin for the year of 34.5% (31.5). EBITDA for the fourth quarter totaled SEK 31.2m (22.2), corresponding to an EBITDA margin of 36.7% (29.2) for the quarter. Operating profit for the year increased 16% to SEK 96.5m (83.4). Operating profit for the fourth quarter amounted to SEK 26.7m (18.4). Legal costs of SEK 4.0m (-) in the USA were charged to operating profit for the year.

Operating expenses were cut by SEK 15.7m (13.5) during the year through the capitalization of development costs for software and debug probes. Of the internal expenses that were capitalized, SEK 12.1m (10.3) pertains to personnel costs. In a year-on-year comparison, currency translation had a positive impact of SEK 5.9m on operating profit for the year, of which SEK 3.5m pertained to the fourth quarter.

Financial expenses consist mainly of an impairment of the company's financial holdings in Northern Parklife 0.3 (-) million as a result of the negative earnings trend in the company.

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 13%. In Asia, Japan and China have recovered compared with the sales trend in the preceding year. Korea posted a weaker sales performance in the latter half of the period. Sales growth in local currency in Asia was 3%. The market in the Americas faced the greatest challenges during the period. Sales efficiency was lower, and the market was uncertain. Sales growth in local currency in the Americas was negative and amounted to -2%. Measures have been taken to enhance efficiency in the Americas. The measures are expected to generate effects in 2017.

In a year-on-year comparison, total sales growth in local currency was 5%. The difference between the sales growth for the year in local currency of 5% and the increased net sales of 5% comprised prepaid maintenance revenue of -3% and a foreign exchange effect of +3%.

	Sales growth in local currency	Prepaid maintenance revenue	Foreign exchange effect	Growth in net sales	Share of net sales
Americas	-2%	-2%	1%	-2%	38%
Europe	13%	-5%	1%	9%	36%
Asia	3%	-2%	9%	9%	24%
Not allocated	81%	-	-	81%	2%
Total	5%	-3%	3%	5%	100%

INVESTMENTS AND FINANCING

Investments in property, plant and equipment for the year totaled SEK 1.3m (1.1),

of which SEK 0.2m (0.1) was attributable to the fourth quarter. Investments in intangible assets for the year amounted to SEK 17.3m (17.7), of which SEK 4.1m (3.8) pertained to the fourth quarter. Most of these investments, SEK 15.7m (13.5), pertain to the capitalization of development costs for software and debug probes. The investments were in line with the company's plans. The equity/assets ratio at December 31, 2016 was 71% (73).

CASH FLOW, CASH AND CASH EQUIVALENTS

Cash flow from operating activities for the year amounted to SEK 114.2m (98.7), of which SEK 39.5m (28.1) pertained to the fourth quarter. Payments of legal costs of SEK 4.0 in the USA were charged to cash flow for the year.

Cash flow from investing activities for the period totaled SEK -18.9m (-17.7), of which SEK -4.3m (-2.7) was attributable to the fourth quarter. Investments were principally made in intangible assets during the year.

Cash flow from financing activities for the year totaled SEK -88.4m (-63.6), of which SEK -0.0m (-0.3) pertained to the fourth quarter. Dividends totaling SEK 88.4m (63.2) were paid to the company's shareholders during the year.

At December 31, 2016, the Group had net cash of SEK 96.5m (87.6). Cash and cash equivalents at year-end totaled SEK 99.2m (89.4). 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 124.2m (114.4).

EMPLOYEES

The number of employees in IAR Systems at year-end was 165 (164). The average number of employees during the period was 159 (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 year amounted to SEK 12.2m (12.2). Profit after financial items amounted to SEK 83.1m (65.9). Net

investments in property, plant and equipment amounted to SEK 0.0m (0.0). Cash and cash equivalents at December 31, 2016 totaled SEK 3.5m (4.2). The number of employees in the Parent Company at the end of the period was 4 (4).

2017 ANNUAL GENERAL MEETING

The Annual General Meeting of IAR Systems Group will be held on April 26, 2017, at Spårvagnshallarna, Birger Jarlsgatan 57 A, in Stockholm.

IAR Systems Group's annual report will be available starting at the end of March 2017 on the company's website, www.iar.com, and at the company's offices at Kungsgatan 33 in Stockholm and Strandbodgatan 1 in Uppsala.

NOMINATING COMMITTEE

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

PROPOSED DIVIDEND

The Board intends to propose an ordinary dividend of **SEK 5.00** per share for approval by the Annual General Meeting on April 26, 2017. The motion entails a total dividend of SEK 63.2m.

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.

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, Tuesday, February 14, 2017

Stefan Skarin
CEO of IAR Systems Group AB

www.iar.com

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Stefan Ström, CFO, phone +46 708 651 068

REVIEW

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

FINANCIAL CALENDAR 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

IAR SYSTEMS GROUP AB (PUBL)

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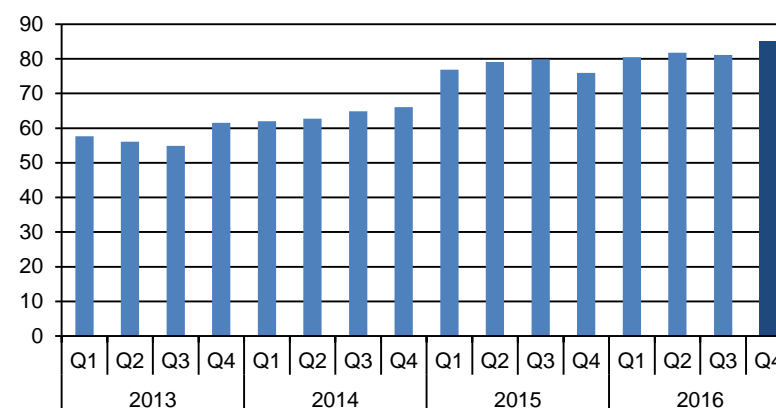
Income statement

CONDENSED CONSOLIDATED INCOME STATEMENT

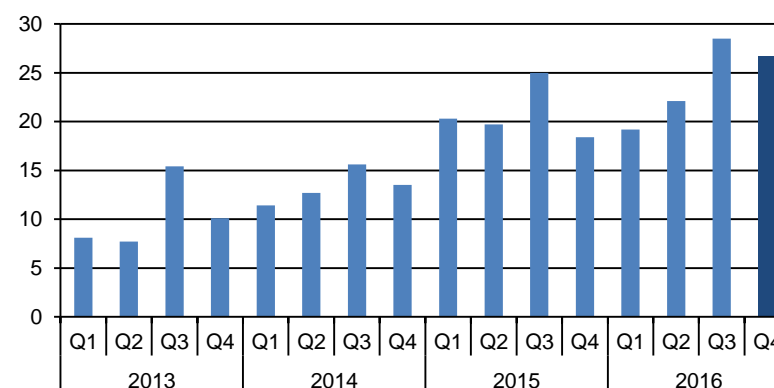
SEK m	Note	Full-year		3 months Oct-Dec	
		2016	2015	2016	2015
Net sales	1.2	328.4	311.7	85.0	75.9
Goods for resale		-12.2	-10.3	-2.9	-1.1
Other external expenses		-48.4	-51.1	-12.2	-13.9
Personnel costs		-154.6	-152.0	-38.7	-38.7
Depreciation of property, plant and equipment		-2.5	-2.5	-0.6	-0.6
Amortization of intangible assets		-14.2	-12.4	-3.9	-3.2
Operating profit		96.5	83.4	26.7	18.4
Financial income		0.0	0.1	0.0	0.1
Financial expenses		-0.4	-0.2	-0.3	-0.1
Profit before tax		96.1	83.3	26.4	18.4
Tax		-22.1	-19.9	-6.3	-4.6
Profit for the period		74.0	63.4	20.1	13.8
Earnings per share for the period, basic, SEK		5.86	5.02	1.59	1.09
Earnings per share for the period, diluted, SEK		5.86	5.02	1.59	1.09

STATEMENT OF COMPREHENSIVE INCOME SEK m	Full-year		3 months Oct-Dec	
	2016	2015	2016	2015
Profit for the period	74.0	63.4	20.1	13.8
Other comprehensive income for the period				
Items that will be reclassified subsequently to profit or loss:				
Exchange differences	3.0	2.1	1.3	-0.3
Total other comprehensive income	3.0	2.1	1.3	-0.3
Comprehensive income for the period	77.0	65.5	21.4	13.5
Comprehensive income for the period attributable to owners of the Parent Company	77.0	65.5	21.4	13.5

Net sales, SEK m



Operating profit, SEK m

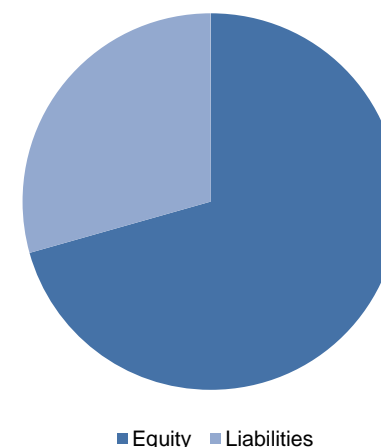


Balance sheet

CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Dec 31, 201	Dec 31, 2015
ASSETS			
Non-current assets			
Goodwill	3	114.9	113.5
Other intangible assets	4	82.1	78.8
Property, plant and equipment		6.2	6.5
Financial assets		4.8	5.0
Deferred tax assets	5	15.9	36.8
Total non-current assets		223.9	240.6
Current assets			
Inventories		5.6	5.1
Other current assets		18.9	20.1
Trade receivables		48.3	43.5
Cash and cash equivalents		99.2	89.4
Total current assets		172.0	158.1
TOTAL ASSETS		395.9	398.7
EQUITY AND LIABILITIES			
Total equity		279.5	290.9
Non-current liabilities			
Interest-bearing liabilities		1.6	0.6
Other non-current liabilities		1.4	1.1
Deferred tax liabilities		14.8	16.5
Total non-current liabilities		17.8	18.2
Current liabilities			
Trade payables		5.3	4.8
Interest-bearing liabilities		1.1	1.2
Other current liabilities		92.2	83.6
Total current liabilities		98.6	89.6
TOTAL EQUITY AND LIABILITIES		395.9	398.7

Equity/assets ratio, %
December 31, 2016



Changes in equity

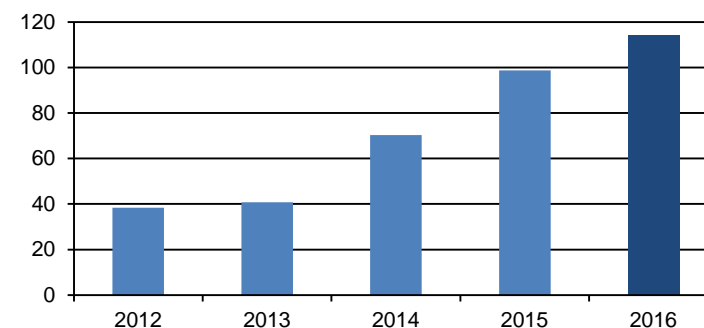
GROUP SEK m	Full-year		3 months Oct-Dec	
	2016	2015	2016	2015
Equity at beginning of period	290.9	288.6	258.1	277.4
Dividends	-88.4	-63.2	-	-
Comprehensive income for the period	77.0	65.5	21.4	13.5
Equity at end of period	279.5	290.9	279.5	290.9
of which, attributable to owners of the Parent Company	279.5	290.9	279.5	290.9

Cash flows

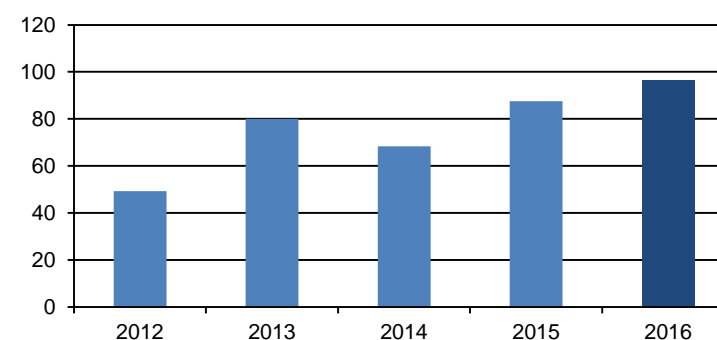
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

SEK m	Full-year		3 months Oct-Dec	
	2016	2015	2016	2015
Incoming payments from customers	323.5	309.2	85.1	77.0
Outgoing payments to suppliers and employees	-205.8	-207.6	-45.2	-48.4
Interest received	0.0	0.0	0.0	0.0
Interest paid	-0.0	-0.2	-0.0	-0.1
Income taxes paid	-3.5	-2.7	-0.4	-0.4
Cash flow from operating activities	114.2	98.7	39.5	28.1
Investments in property, plant and equipment	-1.3	-1.1	-0.2	-0.1
Investments in intangible assets	-17.3	-17.7	-4.1	-3.8
Sales in other investments	-0.3	-	-0.0	-
Investments in other investments	-	1.1	-	1.2
Cash flow from investing activities	-18.9	-17.7	-4.3	-2.7
Amortization of financial liabilities	-0.0	-0.4	-0.0	-0.3
Dividends	-88.4	-63.2	-	-
Cash flow from financing activities	-88.4	-63.6	-0.0	-0.3
Cash flow for the period	6.9	17.4	35.2	25.1
Cash and cash equivalents at beginning of period	89.4	70.7	63.8	64.5
Exchange difference in cash and cash equivalents				
- attributable to cash and cash equivalents at beginning of period	2.6	1.3	0.1	-0.3
- attributable to cash flow for the period	0.3	0.0	0.1	0.1
Cash and cash equivalents at end of period	99.2	89.4	99.2	89.4
CASH AND CASH EQUIVALENTS, GROUP				
SEK m	Dec 31, 2016	Dec 31, 2015		
Cash and cash equivalents at end of period	99.2	89.4		
Unutilized overdraft facilities	25.0	25.0		
Total available cash and cash equivalents	124.2	114.4		

Cash flow from operating activities, SEK m



Net cash, SEK m

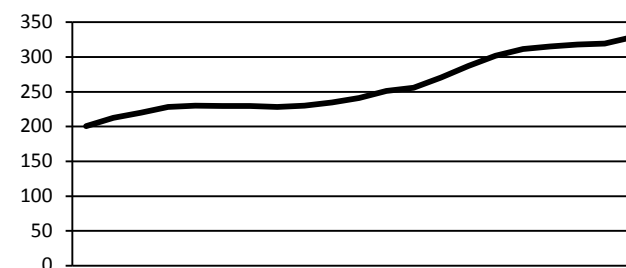


Key ratios

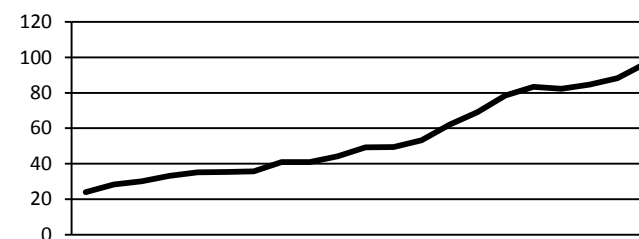
Certain financial performance measures are presented in this interim report that are not defined in accordance with IFRS. The company believes that these performance measures provide valuable supplementary information to investors and the company's management since they facilitate evaluations of the 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	Full-year		3 months Oct-Dec	
	2016	2015	2016	2015
Alternative performance measures				
Gross margin, %	96.3	96.7	96.6	98.6
EBITDA, %	34.5	31.5	36.7	29.2
Operating margin, %	29.4	26.8	31.4	24.2
Profit margin, %	29.3	26.7	31.1	24.2
Cash flow, %	34.8	31.7	46.5	37.0
Equity/assets ratio, %	70.6	73.0		
Return on equity, %	25.9	21.9	7.5	4.9
Return on capital employed, %	33.6	28.6	9.85	6.4
Capital employed, SEK m	282.2	292.7		
Net cash, SEK m	96.5	87.6		
Net debt/equity ratio, multiple	-0.35	-0.30		
Other key ratios				
No. of employees at end of period	165	164		
Average no. of employees	159	157	160	157
Sales per employee, SEK m	2.1	2.0	0.5	0.5
SHARE DATA				
	Full-year		3 months Oct-Dec	
	2016	2015	2016	2015
Equity per share, SEK	22.13	23.03		
No. of shares at end of period, million	12.63	12.63	12.63	12.63
Average no. of shares, million	12.63	12.63	12.63	12.63
Average number of shares after dilution, million	12.63	12.63	12.63	12.63
Cash flow from operating activities per share, SEK	9.04	7.81	3.13	2.22
Earnings per share, basic, after current tax, SEK*	7.38	6.33	2.00	1.36
Earnings per share, SEK*	5.86	5.02	1.59	1.09
Earnings per share, diluted, SEK	5.86	5.02	1.59	1.09

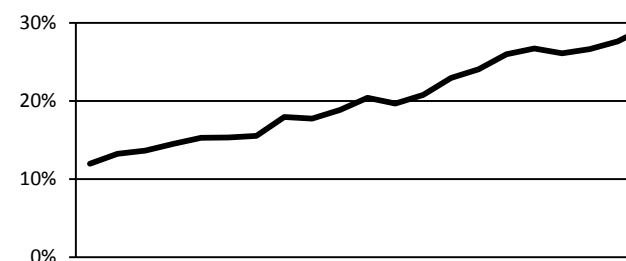
Net sales, rolling 12 months



Operating profit, rolling 12 months



Operating margin, rolling 12 months



*Definition in accordance with IFRS

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	Q4	85.0	31.2	36.7	26.7	31.4	1.59	7.5	3.13	22.13	206.00	2,602
	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
	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
2016		328.4	113.2	34.5	96.5	29.4	5.86	25.9	9.04	22.13	206.00	2,602
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

	Full-year	
SEK m	2016	2015
Net sales	12.2	12.2
Operating expenses	-15.8	-16.2
Depreciation of property, plant and equipment	-0.0	-0.1
Operating loss	-3.6	-4.1
Result from financial investments	86.7	70.0
Profit before tax	83.1	65.9
Tax	-18.4	-14.5
Profit for the period	64.7	51.4

Statement of comprehensive income

SEK m	2016	2015
Profit for the period	64.7	51.4
Total other comprehensive income	-	-
Comprehensive income for the period	64.7	51.4

Condensed balance sheet

SEK m	Dec 31, 2016	Dec 31, 2015
ASSETS		
Non-current assets		
Property, plant and equipment	0.2	0.2
Shares in subsidiaries	189.4	189.4
Other financial assets	3.0	3.3
Deferred tax assets	13.3	31.7
Total non-current assets	205.9	224.6
Current assets		
Receivables from subsidiaries	38.6	40.0
Other current assets	0.6	1.0
Cash and cash equivalents	3.5	4.2
Total current assets	42.7	45.2
TOTAL ASSETS	248.6	269.8
EQUITY AND LIABILITIES		
Total equity	241.3	265.0
Current liabilities		
Trade payables	0.4	0.4
Other current liabilities	6.9	4.4
Total current liabilities	7.3	4.8
TOTAL EQUITY AND LIABILITIES	248.6	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	Full-year		3 months Oct-Dec	
	2016	2015	2016	2015
License-based revenue	324.3	311.7	83.6	75.9
Royalty-based revenue	4.1	-	1.4	-
Net sales	328.4	311.7	85.0	75.9

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 December 31, 2016 amounted to SEK 114.9m (113.5). This increase of SEK 1.4m for the year was a result of translation differences.

4 OTHER INTANGIBLE ASSETS

Operating expenses were reduced by SEK 15.7m (13.5) during the year through the capitalization of development costs for debug probes and analysis tools. Of the internal expenses that were capitalized, SEK 12.1m (10.3) 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 December 31, 2016, the Group had accumulated loss carryforwards of approximately SEK 63m (147), all of which were attributable to its Swedish operations. The deferred tax asset is recognized in the balance sheet in an amount of SEK 15.9m (36.8), of which SEK 13.9m (32.3) pertains to loss carryforwards.

6 PLEDGED ASSETS

SEK m	Dec 31, 2016	Dec 31, 2015
To secure pensions	1.8	1.8
To secure liabilities to credit institutions	2.6	1.8
Total pledged assets	4.4	3.6

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 shares	Profit for the period after tax divided by the average number of shares at the end of the period. Definition in accordance with IFRS.
Sales growth in local currency	Net sales in local currency compared to sales in local currency corresponding period last year.
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.

SEK m	Full-year		3 months Oct-Dec	
	2016	2015	2016	2015
Tax	22.1	19.9	6.3	43.6
Deferred tax	-19.2	-16.5	-5.2	-3.5
Current tax	2.9	3.4	1.1	1.1
Profit before tax	96.1	83.3	26.4	18.4
Current tax	-2.9	-3.4	-1.1	-1.1
Profit after current tax	93.2	79.9	25.3	17.3
Average no. of shares, million	12.63	12.63	12.63	12.63
Earnings per share after current tax, SEK	7.38	6.33	2.00	1.36

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

SEK m	Dec 31,	Dec 31,	Sep 30,	Sep 30,	Sep 30,
	2016	2015	2016	2015	2014
Total assets	395.9	398.7	372.6	379.2	380.7
Non-interest-bearing liabilities	-113.7	-106.0	-112.3	-99.9	-89.8
Capital employed	282.2	292.7	260.3	279.3	290.9
Profit before tax	96.1	83.3	25.6	18.4	
Financial expenses	0.4	0.2	0.0	0.1	
Profit before tax plus financial expenses	96.5	83.5	25.6	18.5	
Return on capital employed, %	33.6	28.6	9.5	6.4	

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.

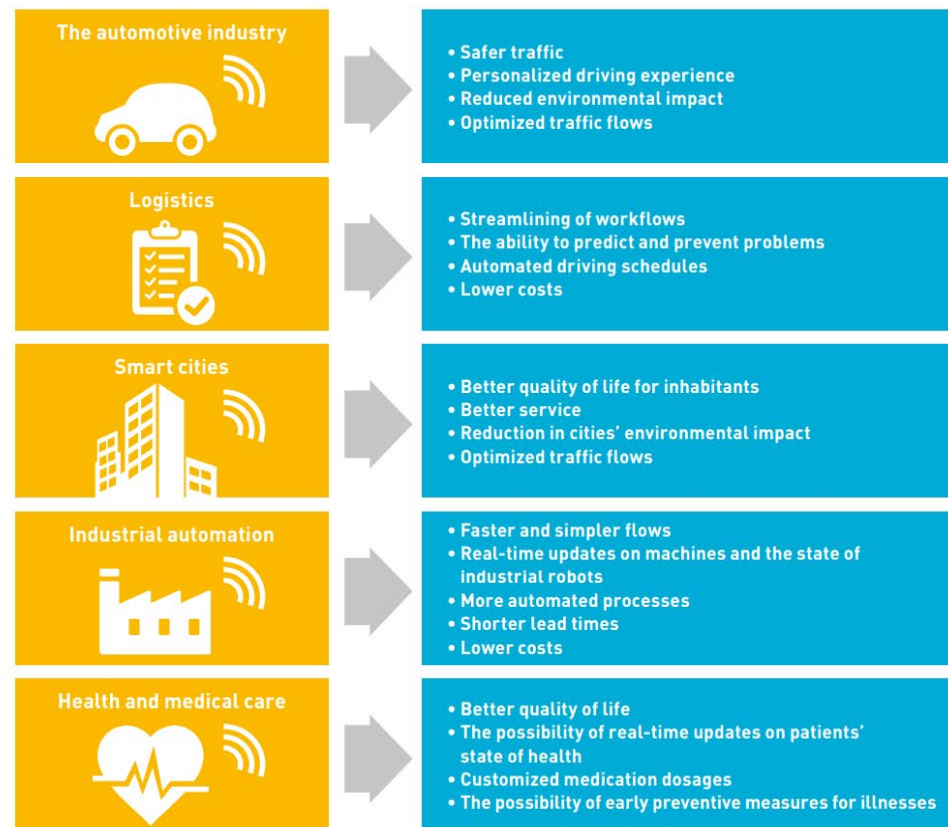
IAR Systems' product portfolio is continually being refined, and in recent years the company expanded its portfolio by offering add-on products. Aside from driving lucrative additional sales, a broader product portfolio enables IAR Systems to further strengthen its competitiveness.

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.