

The background of the cover is a photograph of five people walking across a metal bridge or walkway. They are all wearing bright yellow jackets. The scene is set outdoors with buildings and trees in the background, and a bright sun in the upper right corner creating a lens flare effect. The text "ANNUAL REPORT 2016" is overlaid at the bottom right.

ANNUAL REPORT 2016



IAR SYSTEMS' office in Seoul, South Korea, was opened in 2012 and now has a team of five people.

ANNUAL GENERAL MEETING

The Annual General Meeting of IAR Systems Group AB (publ), corporate identification number 556400-7200, will be held at 6:00 p.m. on Wednesday, April 26, 2017, at Spårvagnshallarna, Birger Jarlsgatan 57 A in Stockholm.

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

Notification

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

- › be recorded in the register of shareholders maintained by Euroclear Sweden AB not later than Thursday, April 20, 2017.
- › provide written notification of their intention to participate in the AGM not later than Thursday, April 20, 2017, to IAR Systems Group AB (publ) at Kungsgatan 33, SE-111 56 Stockholm, Sweden, or via the company's website: www.iar.com/investors.

The notification should include:

- › name, address, telephone number, personal or corporate identification number and registered shareholding.

To be entitled to participate in the AGM, shareholders whose shares are registered in the name of a nominee should request that the shares be temporarily re-registered in their own name in good time prior to April 20, 2017. When applicable, proof of authorization such as forms of proxy and certificates of registration should be sent to the company prior to the AGM. Shareholders who wish to be accompanied by one or two assistants must notify the company by the same date and in the same manner applicable to shareholders.



FINANCIAL CALENDAR 2017

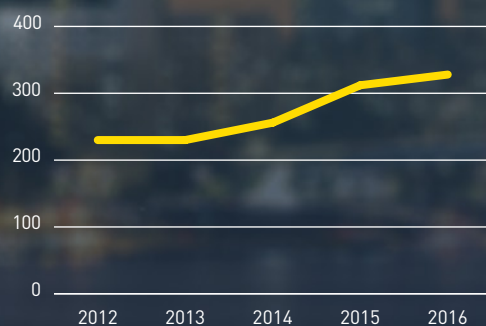
Year-end-report 2016	February 14, 2017
Interim report January-March 2016	April 26, 2017
2016 Annual General Meeting	April 26, 2017
Interim report January-June 2016	August 16, 2017
Interim report January-September 2016	October 24, 2017

IAR SYSTEMS IN 60 SECONDS



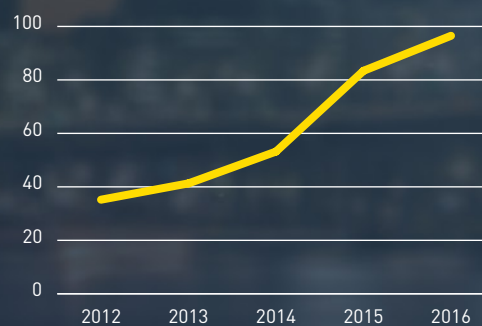
Sales 2016

SEK 328.4m +5%



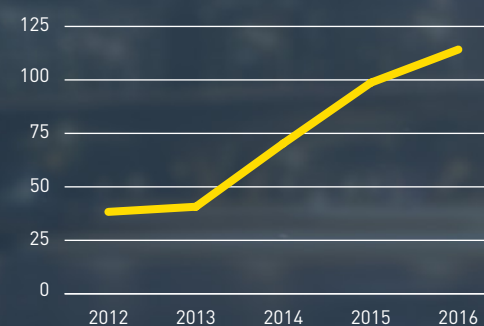
Operation profit 2016

SEK 96.5m +16%



Cash flow from operating activities 2016

SEK 114.2m +16%



Proposed dividend: **SEK 5.00.**

FOCUS ON INNOVATIONS OF THE FUTURE

The time has come for me to sum up and reflect on another year, which is always a pleasure as I consider myself to have the best job in the world!

One of the major events of 2016 was the signing of an agreement with Renesas for the Renesas Synergy Platform. This agreement and partnership is the result of the second phase of our strategic development, which represents a further development started in 2014 after having stabilized our profitability and exceeded our financial target with an operating margin of over 20%. Once the agreement with Renesas was finalized in 2016, I shifted my focus to planning the next phase of IAR Systems' refinement. A business model with license-based revenue continues to form our solid foundation, and we also have exceptional technology as well as loyal customers. Our stable development is based on us continuing to implement our strategic planning as successfully as we have over the past few years.

When we began targeting the market for the Internet of Things (IoT) several years ago, we knew that our technology and stable relationships in the market would pave the way for us to take action and achieve volume in terms of products rather than developers. This is an aspect that makes the IoT market extremely interesting to us. Ensuring we did not risk our financial stability or our independence was also important to us. It therefore represents a major milestone to be able to round off the year with an exclusive agreement with Renesas that provides us with royalty-based revenue for processors at a minimal cost and no risk on our

part. This is also clear proof that we not only aim to strengthen our position in the short term, but also to safeguard it in the long term.

Before moving on to 2017, I would like to reflect on the outcome of our strategic work in 2016. The Americas faced a challenging year in terms of capturing increased demand in the market, which is something I would like to clearly state was not a result of external factors but rather of our own execution. We are working intensively to improve this. On the other hand, one region that succeeded in capturing increased market demand was EMEA, which helped to secure our sales growth during the year. APAC had a stable year with a certain level of variation between the different markets.

Early in the year, we announced that we were involved in an ongoing transaction intended to expand our offering and secure a position for us in the ongoing consolidation. Unfortunately, this transaction was not completed, which led to the loss of a unique add-on product, which had been part of the plan for 2016. During the year, we therefore focused on strengthening our existing product offering in several different areas.

My promises for 2016 included interaction and relationships as well as refinement of our products. I feel confident in announcing our promises for 2017, since we have been truly focused and meticulous

in our planning for the next phase of our strategic development. We enter 2017 on the back of a financial performance that has never been better in terms of sales, earnings or cash flow. We also bring with us a clear strategic plan and, ahead of 2017, have invested, recruited and organized in a way that enables us to have a clear focus moving forward.

As part of having the best job in the world, I am constantly focused on our everyday tactics, coming up with ideas about how to fulfill our ambitions and remain dedicated to our employees, customers and partners. My sights are clearly set on our future innovations as well as those of our customers.

See you soon.

Stockholm, March 7, 2017

STEFAN SKARIN
CEO, IAR Systems Group AB



“When we began targeting the market for the Internet of Things several years ago, we knew that our technology and stable relationships in the market would pave the way for us to take action.”

STEFAN SKARIN
CEO, IAR Systems



2016

Best year on record, characterized by key investments, recruitments and organizational changes to ensure clear focus moving forward.

- > Sales for the year of SEK 328m.
- > EBITDA of SEK 113m.
- > Operating margin of 29%.

NOV

Participation in several trade fairs in Europe, including the Embedded Conference Scandinavia in Kista, Sweden.

OCT

Participation in the world's largest ARM event, ARM TechCon, in Santa Clara, California in the USA.

SEP

Appointment of EMEA Regional Manager.

JUL

Appointment of Country Managers for the USA and Japan.

MAY

Participation in our first trade fair focused exclusively on IoT, IoT DevCon, in Santa Clara, California in the USA.

APR

Establishment of a new business model and exclusive royalty agreement with Renesas for Renesas Synergy Platform.

FEB

Participation in the industry's largest trade fair, Embedded World, in Nuremberg, Germany.

IAR Systems' headquarters have been based in Uppsala since the company was founded in 1983 and have a view of Uppland County's longest river, Fyrisån.

HIGHLIGHTS OF 2016

Q4

Net sales (75.9)

SEK 85.0m

Operating profit (18.4)

SEK 26.5m

Cash flow from operating activities (28.1)

SEK 39.5m

Q1

Net sales (76.9)

SEK 80.5m

Operating profit (20.3)

SEK 19.2m

Cash flow from operating activities (18.3)

SEK 22.0m

Q3

Net sales (79.8)

SEK 81.1m

Operating profit (25.0)

SEK 28.5m

Cash flow from operating activities (20.6)

SEK 32.1m

Q2

Net sales (79.1)

SEK 81.8m

Operating profit (19.7)

SEK 22.1m

Cash flow from operating activities (31.7)

SEK 20.6m

INVESTMENT CASE

IAR Systems is the world's leading provider of software for programming of processors in embedded systems. The software is used by many of the world's largest corporations as well as thousands of small and medium-sized companies, mainly within industrial automation, medical technology, telecommunication, consumer electronics and the automotive industry. The superior technology and service offered by IAR Systems enables customers to create the products of today and the innovations of tomorrow.

A PROFITABLE GROWTH COMPANY

IAR Systems is in a unique market position thanks to its leading technology. The company was founded more than 30 years ago, and since then has continually evolved and refined its products in order to meet customer demand. Our headquarters are located 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 USA. 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 consistent revenue stream. In addition, the company focuses on markets which it deems to have significant potential, for example, the automotive industry and the Internet of Things.

As part of IAR Systems' investment in the Internet of Things, the company has signed an exclusive royalty agreement with Renesas for the Renesas Synergy Platform, providing 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 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.

SUPERIOR TECHNOLOGY

In an increasingly digitized world, the software that IAR Systems offers is a key enabler for the development of smart products. Today, digital products are found in every industry – from consumer electronics, medical technology and healthcare to manufacturing and the automotive industry. All smart products have an embedded system controlled by one or more processors. The developer requires software to program instructions into the processor that then controls the smart product. IAR Systems' IAR Embedded Workbench helps developers program these processors so that they fulfill their function in the embedded system. This complete software helps facilitate, streamline and quality-assure customers' product development.

IAR Embedded Workbench is available in a number of different versions in order to match different types

of processors. It is continually updated with improved functionality and support for new processors in order to meet the needs of customers and the market. IAR Embedded Workbench supports over 11,000 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, and can also reuse 70-80% of previously developed code. This produces valuable savings in terms of both time and money.

IAR Systems' product portfolio is continually being refined, and in recent years the company has expanded its portfolio by offering add-on products that facilitate customers' day-to-day work. Aside from driving lucrative additional sales, a broader product portfolio enables IAR Systems to further strengthen its competitiveness. IAR Systems is able to offer all customers who purchase software a comprehensive support contract that gives them access to technical support and continuous product updates. IAR Systems' support department is well-known and much appreciated for its extensive experience and impressive expertise which provide added value for customers.

DEDICATED TEAM WITH AN EMPHASIS ON SERVICE

IAR Systems' global organization and its enduring passion for product development and technology attract skilled and talented people to the company in all of the countries in which it operates. Our employees' diverse cultural backgrounds, unique perspectives and

local knowledge are important contributing factors to IAR Systems' strong presence worldwide, and enable the company to meet customers in their own market. By sharing knowledge and experience among highly qualified and motivated employees, IAR Systems creates the most competitive customer solutions.

INTERNET OF THINGS DRIVES GROWTH

The market is now facing continued growth driven by the Internet of Things as more and more people realize the potential contained in this area. Connected products and services have grown enormously in recently years, and it is estimated that there will be more than 50 billion connected products by 2020. Almost all industries have devices and products that could be developed further through improved communication and connectivity. There are therefore many opportunities linked to the Internet of Things in almost every area, from the automotive industry, health and medical care, and logistics to smart cities and industrial automation.

IAR Systems helps to make the Internet of Things possible, enabling innovation in this field by linking products with technologies, and has already demonstrated the strength of its business model. Thanks to its technology and strong market position, IAR Systems is well equipped to meet customers' needs for stable and complete solutions for efficient product development linked to the Internet of Things. The cooperation with Renesas for the Renesas Synergy Platform is part of IAR Systems' investment in the Internet of Things.



OLA SÖDERSTRÖM is one of the 52 developers who work at IAR Systems' headquarters in Uppsala.

MISSION, TARGETS AND STRATEGY

We enable companies worldwide to create the products of today and the innovations of tomorrow.

BUSINESS MISSION

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

LONG-TERM FINANCIAL TARGETS

The Board has established the following long-term targets for IAR Systems:

- › For net sales to grow by 10-15% annually in local currency.
- › For the operating margin to exceed 25% over a business cycle.

STRATEGIC CORNERSTONES

To meet these targets, IAR Systems applies a strategy with five cornerstones:

- › To offer customer value through user-friendliness, reliability and efficiency.
- › To develop technologically leading software for embedded systems.
- › To deepen our relationship with existing customers by gradually expanding our range of products and services.
- › To expand our customer base through an increased local presence worldwide.
- › To actively establish close cooperation with the most important players in the market to create long-term customer value and a unique market position.

SALES STRATEGY

IAR Systems' sales strategy is founded on license-based sales in all geographical regions and all specific industries. In addition, the company focuses on markets which it deems to have significant potential, for example, the automotive industry and the Internet of Things. During 2016, IAR Systems has added a royalty-based business model through the signed agreement with Renesas Electronics Corporation for the




Renesas Synergy Platform. The 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.

The company has global reach through its corporate headquarters in Uppsala, Sweden, and sales and support offices in Sweden, France, Japan, China, South Korea, Germany and the USA. The company is also represented in another 43 countries via distributors.

PRODUCT STRATEGY

IAR Systems' product strategy is to offer proprietary software for embedded systems development and to offer its customers technological independence in a rapidly evolving environment. For this reason, the company continuously invests in innovation and development at its Uppsala headquarters and Los Angeles office. IAR Systems owns the rights to all of its products and services. Product development is focused mainly on enhancement of product features and functionality as well as adaptation to increasingly demanding processors and embedded systems. IAR Systems' software is independent in relation to vendors of processors for embedded systems.

AMBITION, OUTCOME AND PLAN

AMBITION 2016 	OUTCOME 2016 	PLAN 2017 
<p>Continue to launch more products that cater to our existing customer base in order to increase sales potential.</p>	<p>Updated ARM offering with support for the latest safety-focused ARMv8-M architecture, more advanced debugging options and optimized performance to maintain leading market position.</p>	<p>Expand our offering to include vertical markets with major potential.</p>
<p>Refine our strategic partnership with Renesas in the IoT market.</p>	<p>Signed exclusive agreement with Renesas Electronics for Renesas Synergy Platform.</p>	<p>Refine our offering by establishing new strategic partnerships.</p>
<p>Evaluate complementary business models focused on simplifying and streamlining use of our technology.</p>	<p>Established a royalty-based business model for Renesas Synergy Platform.</p>	<p>Increase participation in the ongoing consolidation of the market.</p>

SUPERIOR TECHNOLOGY THAT FUTURE-PROOFS CUSTOMERS' PRODUCT DEVELOPMENT

Since early 1983, we have offered superior technology that future-proofs customers' product development. By delivering tried-and-tested, high-quality products, we are able to help companies in a range of industries across the globe to become competitive in their respective markets.

Our products facilitate, streamline and quality-assure the development process for our customers. We collaborate with selected partners to consistently provide customers with a complete solution. We always focus on and listen to customers' needs in order to update our offering in a way that satisfies their requirements and needs.

COMPLETE SOFTWARE THAT SIMPLIFIES AND STREAMLINES DEVELOPMENT

All digital products have an embedded system controlled by one or more processors. Development tools are required to help developers program these processors so that they work correctly and fulfill their function. Our

IAR Embedded Workbench is a complete high-performance toolchain that enables developers to program instructions into the processor(s) that control the digital product.

One of the most important features of IAR Embedded Workbench is that the software can deliver outstanding code optimizations, which enables customers to maximize the potential of the embedded system. The software ensures that the code is in line with industry standards, thereby guaranteeing its reliability when applied.

IAR Embedded Workbench is available in 22 different versions in order to match different types of processors. It is continually updated with improved functionality and support for new processors. There are also safety-certified versions that streamline and facilitate development of safety-critical products – for example, in the automotive industry.

In addition to IAR Embedded Workbench, IAR Systems offers several complementary products that further facilitate developers' work.

SIGNIFICANT PRODUCT LAUNCHES DURING THE YEAR

Launch of the **RENASAS SYNERGY PLATFORM** in partnership with Renesas.

Expanded offering for **CODE ANALYSIS** via enhanced version of the C-STAT add-on product.



“Our products are well known for their high quality and reliability. This makes me and my team of developers incredibly proud of our work and the fact that we are a part of our customers' success.”

SUSANNE DAHLÉN
Development Director, IAR Systems

UPDATED PROCESSOR SUPPORT for a range of new processor versions, many of which were specially adapted for development within the Internet of Things.

NEW DEBUG PROBES that provide developers with advanced debugging capabilities.

PERFORMANCE OPTIMIZATION of products and produced code.

The add-on products C-STAT and C-RUN are fully integrated into IAR Embedded Workbench and enable the code to be quality-assured at an early stage. Instead of carrying out code analyses exclusively at the

end of the development process, these analysis tools provide a complete code analysis naturally integrated into day-to-day work as well as full control over the code throughout the entire process.

We also offer debug probes that provide developers with advanced debugging capabilities. The probes are used to create simpler and more flexible work flows. In addition to this, we also offer IAR visualSTATE, a product used to develop state and event-driven embedded systems and, together with the IAR Embedded Workbench, permits streamlined design of applications with a complex structure.

COMPREHENSIVE TECHNICAL SUPPORT AND SERVICE

We offer our customers a committed sales and support team on hand to support them at every stage. The team is available for discussion and coaching to ensure that we deliver a suitable solution for each customer's needs. We love to share our expertise in order to help customers enhance their productivity.

We are able to offer all customers who purchase software a comprehensive support contract that gives them access to technical support from IAR Systems' high-quality global support organization. With their extensive industry experience, the support engineers are highly appreciated by customers. The support contract also guarantees continuous product maintenance in the form of direct access to new product versions and updates.

We also provide IAR Academy, a training program aimed at both new and experienced users of our products. IAR Academy consists of a number of different courses in programming and aims to offer companies and developers a knowledge boost while maximizing their software investment.



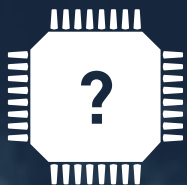
“The world is constantly changing and posing new demands, but throughout our long and successful history, IAR Systems has shown that we’re capable of rapid change and development.”

PETTER EDMAN
CTO, IAR Systems



IAR SYSTEMS' office in Tokyo has a dedicated team of sales, support, marketing and administrative staff.

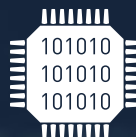
IAR SYSTEMS' ROLE IN ITS CUSTOMERS' PRODUCT DEVELOPMENT



Before a processor can be used in a product, it needs to be programmed.



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Product developers use IAR Embedded Workbench to give the processor the correct instructions to control the finished product.



Once the processor has been programmed and installed in the finished product, it's ready to go to market.

COLLABORATION WITH RENESAS

Renesas Synergy Platform – for more innovative products within the Internet of Things and other up-and-coming markets.

In 2016, we signed an exclusive royalty agreement with Renesas Electronics Corporation concerning the development platform Renesas Synergy Platform. The agreement with Renesas means that we are complementing our 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.

The Renesas Synergy Platform speeds up development of more innovative products in new markets, such as the Internet of Things. The Renesas Synergy Platform offers processors, software and support. The platform gives customers a complete, quality-assured solution that speeds up the development process and enables greater focus to be placed on innovation. Together with Renesas, IAR Systems has developed a version of IAR Embedded Workbench that is specially adapted to the Renesas Synergy Platform.

RENESAS Synergy™





IAR SYSTEMS' CUSTOMERS
ARE LOCATED ACROSS
THE GLOBE AND IN A WIDE
RANGE OF INDUSTRIES.



UNIQUE POSITION IN THE MARKET FOR EMBEDDED SYSTEMS

IAR Systems delivers high-quality products to companies that develop digital products. Our customers are located across the entire globe and in a number of different industries.

The spread of digital technology is leading to steady growth in the number of companies working on embedded systems. Thanks to our products and service, we are able to offer a complete solution to these companies and their developers. Our superior technology combined with our long history and dedicated team of employees gives us a unique position in the market.

As digital technology continues to spread, the market for embedded systems is in a state of constant change. There are a number of market trends that are particularly noteworthy. These principally include the consolidation of suppliers, customer requirements regarding streamlining and safety, growing product

complexity and the Internet of Things, which is driving the market.

CONSOLIDATION AND EVOLUTION OF PARTNER NETWORK

One clear trend in recent years is the consolidation of the market through both major and minor acquisitions. Several large processor vendors and other types of suppliers are merging in order to strengthen their positions by expanding and deepening their product portfolios. This is leading to changes in IAR Systems' partner network. Despite these developments in terms of technology and suppliers, we have a strong viability thanks to our broad market position, high-quality technology and close collaboration with selected partners that help us meet the demands of the market and our customers.

REQUIREMENTS FOR STREAMLINED PRODUCT DEVELOPMENT

The increasingly rapid pace of development in the digital market is also placing higher demands on product developers to get their products to market quickly. This is fueling demand for solutions that enable code from earlier projects to be reused, since this both streamlines the development process and results in shorter lead times. Of all the tool vendors in the market, our development tools support the greatest number of processors and thereby offer the ability to reuse code. Development projects get off the ground quickly since developers do not need to learn new tools.

INCREASING COMPLEXITY OF EMBEDDED SYSTEMS

Embedded systems may require processors of varying complexity. In simple terms, these differences can be divided into 8-, 16- and 32-bit processors, of which 32-bit are the most advanced. IAR Systems' toolchain, IAR Embedded Workbench, supports all of these processor



“The embedded systems industry is growing tremendously thanks to major interest in the Internet of Things, and it’s really exciting to be an active part of this development.”

TORA FRIDHOLM
Global Marketing Manager, IAR Systems

architectures. As the processors become increasingly powerful, this is creating new conditions for more advanced systems.

One trend arising from this greater complexity is the need for more tools for testing, debugging and analysis. For this reason, we have been investing for several years in facilitating this aspect for developers – for example, via the add-on products C-STAT and C-RUN, which provide full control over the code throughout the entire development process.

REQUIREMENTS FOR MORE ENERGY-EFFICIENT SOLUTIONS

The need for energy-efficient and low-power solutions is being driven by the fact that processors are now used for more purposes than before and that many products are now battery-powered. The need to find energy-efficient solutions has generated strong demand for low-energy processors and tools that support development of these solutions. Our products are known for producing compact and efficient code, making them a safe choice for many when developing energy-efficient products.

GREATER FOCUS ON SAFETY AND CODE QUALITY

Today, more and more safety features in the industrial, automotive and medical technology areas are controlled by processors. This development is principally taking place in the automotive industry, where vehicles are becoming more advanced as motorists and consumers look for more safety features and an enhanced driving experience.

With embedded systems now becoming safety-critical, the need for control and certification of these systems is being heightened. Many of our customers

in a range of different industries are therefore placing ever greater demands on functional safety, code quality and streamlined work flows. As a result, it is also becoming increasingly important to many customers that their development tools comply with applicable industry standards such as MISRA-C. Many customers require the tools to be thoroughly tested and documented, which facilitates certification of their products. Our IAR Embedded Workbench is available in versions certified for safety-critical development by the certification agency TÜV SÜD.

THE INTERNET OF THINGS – THE GREATEST INDUSTRIAL CHANGE IN DECADES

Connected products and services have grown enormously in recently years, and there is much to be gained in almost every industry by improving the communication between products and services. The Internet of Things is driving a large amount of growth in our industry as more and more people realize its potential.

The Internet of Things consists of many different parts, but one thing all products in the segment have in common is that they communicate in some way with other objects and services, either over the Internet or within corporate or industrial networks. The enormous quantity of information that can be obtained from objects and people makes it possible to create smart, attractive and helpful goods and services. However, as more and more data is collected from both machines and humans, important safety aspects come into play, such as how to manage and store sensitive and functional data. The design of automatic processes may also be an issue, for example. Stable technical solutions combined with awareness is the key to solving these challenges.

Complete development platforms are in demand in the Internet of Things and other areas of innovation. Having all required parts assembled in one package enables many innovators to bring new products to market more quickly. As part of IAR Systems' investment in the Internet of Things, the company collaborates with Renesas Electronics on such a solution, known as Renesas Synergy Platform.





BRINGING THE IOT AND GREEN TECHNOLOGY TO THE FOREFRONT

Our products have helped Noa Technologies develop an innovative fleet management solution, which involves managing and controlling a fleet of vehicles.

Noa Technologies' solution consists of software, a cloud-based platform used to identify, track, manage and optimize connected devices, and connected devices

that are attached to a vehicle and can be tracked and managed. While the solution has initially focused on rental bike systems, Noa hopes it will be used in other industries in the future to streamline the management of different kinds of fleet.

"IAR Systems' product IAR Embedded Workbench has one of the most comprehensive toolboxes with fundamental debugging features and a very powerful build tool. It also provides a very consistent compile tool, which enables us to optimize the performance of our products. In addition to the technology, IAR Systems also has a great, and very responsive, customer support team."

PEDRO SILVA
 Hardware Engineering Manager,
 Noa Technologies



NOA TECHNOLOGIES uses IAR Systems software to develop its products.



IAR SYSTEMS' GLOBAL PRESENCE

EMEA

Uppsala, Munich, Paris.

AMERICAS

San Francisco, Boston, Dallas, Los Angeles.

APAC

Tokyo, Seoul, Shanghai.

In addition, representation
through distributors in 43 countries.



ASIA PACIFIC

CUSTOMER RELATIONSHIPS EXTREMELY IMPORTANT IN APAC

Kiyofumi Uemura has worked at IAR Systems for ten years and is currently responsible for the APAC region and the company's global business within the automotive industry. Kiyofumi works out of our office in Tokyo, Japan.

"In 2016, I was given a new role involving global responsibility for the automotive industry. The automotive industry is one of the fastest growing markets in the world and I am looking forward to this new challenge.

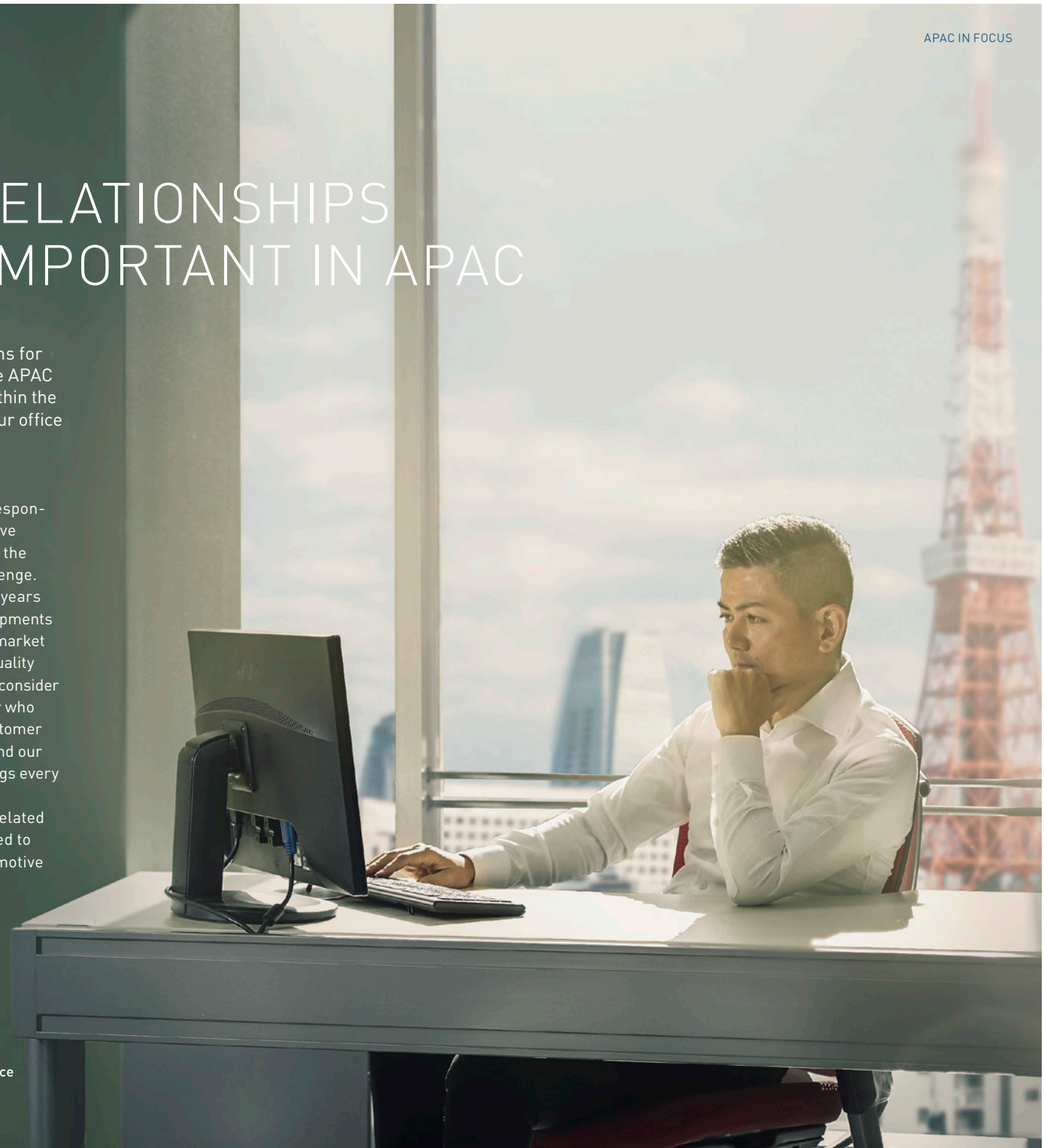
"I've worked at IAR Systems for more than ten years and have been able to closely follow market developments related to embedded systems in APAC. The APAC market is known for placing strict requirements on both quality and service, and IAR Systems' customers in APAC consider it a major advantage that we are a trusted partner who has been active in the market for a long time. Customer relationships are extremely important in APAC, and our sales representatives are out at customer meetings every day of the week.

"My new role as head of automotive industry-related business is an exciting challenge and I am pleased to have the chance to be a part of the growing automotive market."

KIYOFUMI UEMURA

APAC Director and Global Automotive Director, IAR Systems

KIYOFUMI UEMURA arrives at his desk at the Tokyo office between numerous meetings and business trips.



NORTH AND SOUTH AMERICA

GLOBAL AWARENESS THROUGH KNOWLEDGE SHARING

Rich D'Souza has extensive experience of technical sales thanks to his background in a number of technical market areas, such as IoT, the pharmaceutical industry and the aviation industry. Rich started out as US Country Manager in 2016 and works out of our office in San Francisco, USA.

"We have established customers in every market and are well positioned to focus on and expand into new key markets in the Americas, the automotive industry being one example.

"We have a global approach at IAR Systems that is demonstrated in various ways, such as the way we communicate with each other continuously regardless of where in the world we are located. Although I personally work out of the San Francisco office, I noticed early on that we share knowledge and experience between offices and discuss customer challenges across the globe.

"2016 was an inspiring introductory year for me as part of the IAR Systems team! I am impressed by the talent in this organization and look forward to building on the foundations we laid in 2016 as we move forward during 2017."

RICH D'SOUZA
US Country Manager, IAR Systems

RICH D'SOUZA works out of IAR Systems' San Francisco office. The office is located in Silicon Valley, where the offices of many of the world's largest technology companies are found.

EUROPE, MIDDLE EAST AND AFRICA

COMPREHENSIVE COMMITMENT TO SATISFYING CUSTOMER NEEDS

Thomas Sporrang has worked at IAR Systems for 14 years and is currently responsible for the EMEA region. Thomas spent 2016 working out of our office in Boston but is now back at our headquarters in Uppsala.

“During my year at the Boston office, I learned a lot about how the American market works, and I can bring that knowledge with me to my new role as head of the EMEA region.

“Looking back at 2016, it has become clear to me that there is a trend among our customers in all industries and segments whereby software is becoming a larger and more important part of customer projects. I am also seeing a faster rate of investment among both processor vendors and customers in EMEA, which shows that the software for embedded systems is on the way to becoming a key factor in more and more business areas, particularly within the Internet of Things and the automotive industry.

“I look forward to continuing this journey we set out on during 2016, which has enabled us to become involved in customer relationships at a new and deeper level. We do this to ensure we lead the way in terms of market developments, but also to identify current needs and the action we need to take to remain successful in the future. It is incredibly inspiring to be involved in the innovations of our customers, seeing

their products come to life and enter the market. I am grateful to have the chance to work with my committed sales team. We always set the bar high when it comes to our targets and are exceptionally ambitious.”

THOMAS SPORRONG
EMEA Regional Manager, IAR Systems

In his role, **THOMAS SPORRONG** has a close relationship with customers across the entire EMEA region.



A GLOBAL WORKPLACE WITH A PASSION FOR TECHNOLOGY

IAR Systems has 165 employees across three continents, with the majority working at the company's headquarters in Uppsala. Around a third of its employees work on product and technology development. The rest are distributed among sales, support, marketing, sales engineers, IT/administration, and product and technology. About 86% of the company's employees hold a degree from a university or technical institute.

BROAD EXPERTISE AND UNIQUE PERSPECTIVES

Our global organization and its enduring passion for product development and technology attract skilled and talented people to the company in all of the countries in which we operate. Our employees' diverse cultural backgrounds, unique perspectives and local knowledge are important contributing factors to our strong presence worldwide, and enable us to meet customers in their own market. By sharing knowledge and experience among highly qualified and motivated employees, we create the most competitive customer solutions.

SUSTAINABLE RESPONSIBILITY

We are a company that operates all over the world, and our employees are therefore used to thinking from a global perspective. The company's policy is for all employees to have a healthy working environment, to recycle office materials, and for health and fitness activities and social interaction in the workplace to be important factors for success. Our employees develop

and sell software, and by delivering a large proportion of this to customers digitally rather than physically, the company takes major responsibility in minimizing the environmental impact of its products. In addition, we offer a sponsorship program, IAR Green Innovation Program, to promote innovative development projects focusing on environmentally friendly digital technology.

HR Manager ANNA HOLMGREN works at the company's Uppsala office.

CLOSE RELATIONSHIP WITH CUSTOMERS AND THEIR PRODUCTS

Rafael Taubinger has worked at IAR Systems for nearly ten years. Having worked at the company's offices in Germany, Brazil, the USA and Sweden, he now serves as Global FAE Manager at the Uppsala office.

"I have worked at IAR Systems for nearly ten years at our offices in Germany, Brazil, the USA and Sweden. My role as Global FAE means I have a close relationship with our customers and many of their interesting projects. Many of the products our customers develop are both revolutionary and fascinating, as they have an impact on how all of us live our lives.

"This proximity also means that I travel a lot to meet our customers, and I always have a sense of pride whenever I look back at my calendar. Looking back at the last eight months alone, for example, I can list customer visits I made to Germany, Japan, Brazil and the USA in particular, where I have visited at least 20 states over the past year. I also take part in numerous trade fairs across the globe. Some people no doubt wonder whether the airport is my workplace, and it does indeed feel like something of a second home to me.

"IAR Systems is a truly global company. We have offices across the globe and we are proud to speak more than ten languages over six different time zones. Being able to speak the local language facilitates our interactions and negotiations with customers, but our technology and the fact that we are so connected globally as a company have the greatest impact. IAR Systems' future-proof technology is valued by our customers across the globe and in every industry.

"The passion shown by our employees at IAR Systems and our teamwork make all the difference when working with our customers on a global level."

RAFAEL TAUBINGER

Global FAE Manager (Field Application Engineer),
IAR Systems

As part of his role, **RAFAEL TAUBINGER** often travels between customer meetings, trade fairs and the office.



IAR SYSTEMS' office in Munich opened 25 years ago and now houses an experienced sales and support team.



FINANCIAL REPORTING

- 26** The IAR Systems share
- 28** Financial overview
- 32** Risk management
- 33** Administration report
- 37** Financial statements
- 45** Notes
- 65** Auditor's report
- 68** Corporate governance report
- 72** Board of Directors
- 74** Management and auditor
- 76** Industry-specific glossary

THE IAR SYSTEMS SHARE

IAR Systems Group's class B share is quoted on the Mid Cap list of Nasdaq Stockholm, under the ticker symbol IAR. The share price at December 31, 2016, was SEK 206.00 (150.00) and market capitalization was SEK 2,602m (1,895).

SHARE DATA

IAR Systems Group's class B share (IAR B) is quoted on the Mid Cap list of Nasdaq Stockholm, and a round lot consists of 1 (one) share. In 2016, the share price (last price paid, reinvested value) 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 2,602m (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. 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 of class A and 12,532,061 are of class B.

DIVIDEND PROPOSAL

The Board of Directors intends to propose to the AGM on April 26, 2017, a dividend of SEK 5.00 (7.00) per share.

DIVIDEND POLICY

The Board of Directors intends to propose an annual dividend, or other similar transfer of value, corresponding to 30-50% of profit after tax. In addition, the Board may recommend a further transfer of capital to the shareholders, provided that the Board considers this action to be justified in view of anticipated future cash flow and the company's investment plans.

AUTHORIZATIONS

The Board of Directors was authorized, on one or several occasions during the period until the next AGM, to decide on the issue of class B shares in a number equal to not more than 10% of all registered shares in the company on the date of the AGM in exchange for non-cash consideration. The motive for the authorization is to provide scope for acquisitions with payment through a non-cash issue. The Board of Directors was also authorized, on one or several occasions during the period until the next AGM, to decide

on the repurchase of a maximum number of class B shares whereby the holding of treasury shares at no time exceeds 10% of all registered shares in the company. The shares are to be acquired on Nasdaq Stockholm at a price that is within the registered price interval at any given time. The motive for the authorization is to give the Board greater freedom of

action in optimizing the company's capital structure. The Board of Directors was furthermore authorized to decide on the sale of the company's treasury shares in exchange for cash payment, disapplying the shareholder's preemptive rights, or as payment for the acquisition of a company or operation.

LARGEST SHAREHOLDERS AT DECEMBER 31, 2016¹

	No. of class A shares	No. of class B shares	Total no. of shares	% of capital	Total no. of votes	% of votes
Handelsbanken Fonder		1,178,419	1,178,419	9.3	1,178,419	8.7
Second Swedish National Pension Fund		1,135,415	1,135,415	9.0	1,135,415	8.4
Ribbskottet AB		875,000	875,000	6.9	875,000	6.5
Catella Fondförvaltning		848,952	848,952	6.7	848,952	6.3
First Swedish National Pension Fund		770,157	770,157	6.1	770,157	5.7
SEB S.A. Client Assets UCITS		616,480	616,480	4.9	616,480	4.5
Försäkringsaktiebolaget Avanza Pension		482,758	482,758	3.8	482,758	3.6
Swedbank Robur Fonder		384,093	384,093	3.1	384,093	2.8
Danica Pension	100,000	134,971	234,971	1.9	1,134,971	8.4
Third Swedish National Pension Fund		230,959	230,959	1.8	230,959	1.7
Stefan Engqvist		220,000	220,000	1.7	220,000	1.6
State Street Bank & Trust Com., Boston		210,000	210,000	1.7	210,000	1.5
Theodor Jeansson		170,000	170,000	1.3	170,000	1.3
Länsförsäkringar Fondförvaltning AB		168,385	168,385	1.3	168,385	1.2
Jonas Wikström		159,000	159,000	1.3	159,000	1.2
Total 15 largest shareholders	100,000	7,584,589	7,684,589	60.8	8,584,589	63.4
Other		4,947,472	4,947,472	39.2	4,947,472	36.6
Total	100,000	12,532,061	12,632,061	100.0	13,532,061	100.0

¹ Shares held directly and through nominees.

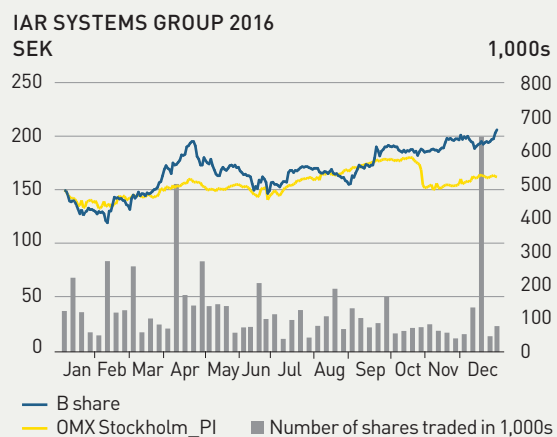
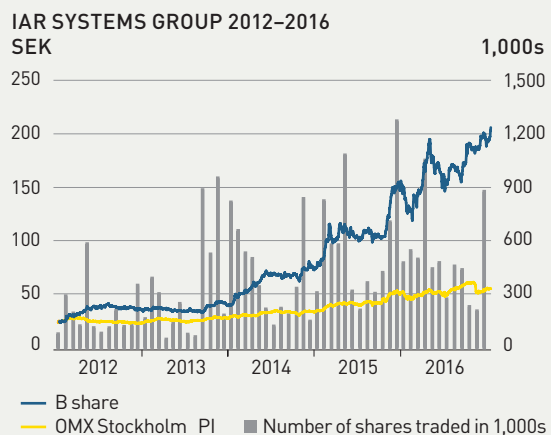
DISTRIBUTION OF SHAREHOLDINGS AT DECEMBER 31, 2016¹

	No. of class A shares	No. of class B shares	Total no. of shares	% of capital	Total no. of votes	% of votes	No. of share- holders	% of share- holders
1-100	-	179,937	179,937	1.4	179,937	1.3	5,801	64.8
101-1 000	-	872,648	872,648	6.9	872,648	6.4	2,583	28.9
1,001-5,000	-	821,318	821,318	6.5	821,318	6.1	416	4.7
5,001-10,000	-	426,135	426,135	3.4	426,135	3.2	52	0.6
10,001-	100,000	10,232,023	10,332,023	81.8	11,232,023	83.0	94	1.0
Total	100,000	12,532,061	12,632,061	100.0	13,532,061	100.0	8,946	100.0

¹ Shares held directly and through nominees.

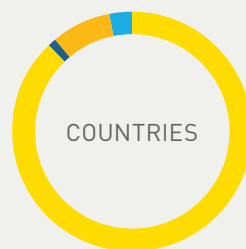
SHARE PRICE

The graphs are based on the share price, last price paid (reinvested value), which has risen from SEK 23.49 at January 1, 2012, to SEK 206.00 at December 30, 2016.



SHAREHOLDER DATA

Shareholder data is based on information from Euroclear Sweden AB at December 30, 2016 and pertains to the share of votes, unless otherwise stated.



- 88% ■ Sweden
- 1% ■ Other Nordic countries
- 8% ■ Europe excl. Nordic region
- 3% ■ USA
- 0% ■ Rest of the world



- 27% ■ Natural persons
- 73% ■ Legal entities

SHARE DATA

	2016	2015
Equity per share, SEK	22.06	23.03
No. of shares at end of year, million	12.63	12.63
Average no. of shares, million	12.63	12.63
Cash flow from operating activities per share, SEK	9.04	7.81
Earnings per share, SEK ¹	5.86	5.02
Dividend or equivalent per share, SEK	7.00	5.00
No. of shareholders	8,645	8,946
Last price paid on December 31 or similar, SEK	206.00	150.00

¹ Definition in accordance with IFRS.

FINANCIAL OVERVIEW

CONDENSED INCOME STATEMENT

SEK m	2016	2015	2014	2013	2012
Net sales	328.4	311.7	255.7	230.2	230.1
Other operating income	-	-	-	6.0	-
Operating expenses	-215.2	-213.4	-192.1	-185.6	-188.3
Depreciation of property, plant and equipment	-2.5	-2.5	-2.3	-2.2	-2.3
Amortization of intangible assets	-14.2	-12.4	-8.1	-7.1	-4.3
Operating profit	96.5	83.4	53.2	41.3	35.2
Result from financial investments	-0.4	-0.1	0.4	0.1	-0.1
Profit before tax	96.1	83.3	53.6	41.4	35.1
Tax	-22.1	-19.9	-11.4	-11.5	-22.1
PROFIT FOR THE YEAR	74.0	63.4	42.2	29.9	13.0

KEY RATIOS

Certain financial performance measures presented in the Annual Report were not defined in accordance with IFRS. The company believes that these performance measures provide valuable supplementary information to the company's investors and 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

KEY RATIOS

	2016	2015	2014	2013	2012
Alternative performance measures					
Gross margin, %	96.3	96.7	95.0	93.7	89.9
EBITDA margin, %	34.5	31.5	24.9	22.0	18.2
Operating margin, %	29.4	26.8	20.8	17.9	15.3
Profit margin, %	29.3	26.7	21.0	18.0	15.3
Cash flow, %	34.8	31.7	27.5	17.7	16.6
Equity/assets ratio, %	70.6	73.0	75.8	79.8	78.3
Return on equity, %	25.9	21.9	14.5	10.9	5.3
Return on capital employed, %	33.6	28.6	19.4	15.1	14.3
Capital employed, SEK m	282.2	292.7	290.9	297.4	256.1
Net cash, SEK m	96.5	87.6	68.4	80.1	49.3
Net debt/equity ratio, multiple	-0.35	-0.30	-0.24	-0.27	-0.19
Other key ratios					
No. of employees at end of period	165	164	169	168	157
Sales per employee, SEK m	2.1	2.0	1.6	1.4	1.5
Average no. of employees	159	157	159	160	149

CONDENSED CASH FLOW STATEMENT

SEK m	2016	2015	2014	2013	2012
Cash flow from operating activities	114.2	98.7	70.3	40.7	38.3
Cash flow from investing activities	-18.9	-17.7	-31.7	-19.1	-18.1
Cash flow from financing activities	-88.4	-63.6	-53.2	11.8	0.6
TOTAL CASH FLOW FOR THE YEAR	6.9	17.4	-14.6	33.4	20.8

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. For definitions and reconciliations, refer to page 31.

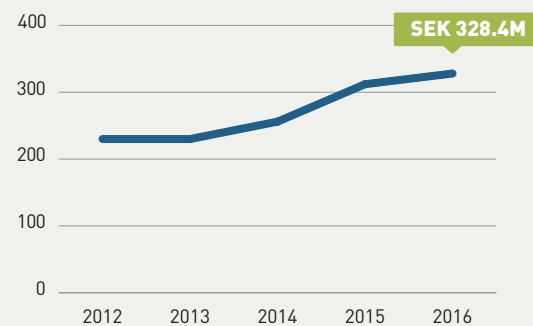
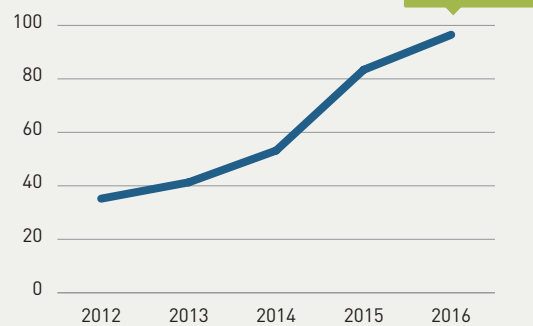
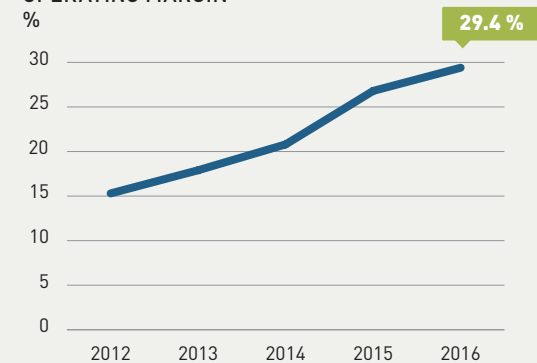
DATA PER SHARE

	2016	2015	2014	2013	2012
Equity per share, SEK	22.13	23.03	22.85	23.90	22.34
No. of shares at end of period, million	12.63	12.63	12.63	12.34	11.36
Average no. of shares, million	12.63	12.63	12.54	11.53	11.23
Cash flow from operating activities per share, SEK	9.04	7.81	5.61	3.53	3.41
Earnings per share, SEK ¹	5.86	5.02	3.37	2.59	1.16
Dividend per share, SEK	7.00	5.00	5.00	2.00	1.00
Last price paid on December 31 or similar, SEK	206.00	150.00	74.75	43.00	38.10

¹ Definition in accordance with IFRS.

CONDENSED BALANCE SHEET

ASSETS, SEK m	2016	2015	2014	2013	2012	EQUITY AND LIABILITIES, SEK m	2016	2015	2014	2013	2012
Non-current assets						Total equity	279.5	290.9	288.6	295.0	253.8
Goodwill	114.9	113.5	112.4	110.7	110.7	Non-current liabilities					
Other intangible assets	82.1	78.8	73.5	53.7	41.6	Interest-bearing liabilities	1.6	0.6	1.5	1.1	1.1
Property, plant and equipment	6.2	6.5	8.0	6.1	6.3	Other non-current liabilities	1.4	1.1	1.1	0.7	0.4
Financial assets	20.7	41.8	57.4	64.5	67.3	Provisions	14.8	16.5	14.6	13.3	8.7
Total non-current assets	223.9	240.6	251.3	235.0	225.9	Total non-current liabilities	17.8	18.2	17.2	15.1	10.2
Current assets						Current liabilities					
Inventories	5.6	5.1	3.7	3.3	3.9	Trade payables	5.3	4.8	5.2	5.7	6.1
Other current assets	18.9	20.1	15.9	14.6	13.6	Interest-bearing liabilities	1.1	1.2	0.8	1.3	1.2
Trade receivables	48.3	43.5	39.1	34.1	29.1	Other current liabilities	92.2	83.6	68.9	52.4	52.8
Blocked cash and cash equivalents	-	-	-	0.7	2.6	Total current liabilities	98.6	89.6	74.9	59.4	60.1
Cash and cash equivalents	99.2	89.4	70.7	81.8	49.0	TOTAL EQUITY AND LIABILITIES	395.9	398.7	380.7	369.5	324.1
Total current assets	172.0	158.1	129.4	134.5	98.2						
TOTAL ASSETS	395.9	398.7	380.7	369.5	324.1						

NET SALES
SEK MOPERATING PROFIT
SEK MOPERATING MARGIN
%

QUARTERLY OVERVIEW AND MULTI-YEAR OVERVIEW

Certain financial performance measures presented in the Annual Report were 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. For definitions and reconciliations, refer to page 31.

		Net sales, SEK m	EBITDA, SEK m	EBITDA margin, %	Operating profit, SEK m	Profit 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.

DEFINITIONS

Gross margin	Net sales less the cost of goods sold 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 Group 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.
Non-interest-bearing liabilities	Total liabilities excluding interest-bearing liabilities.
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.
Return on equity	Profit after tax as a percentage of average equity.
Return on capital employed	Profit before tax plus financial expenses as a percentage of average capital employed.
Interest-bearing liabilities	Borrowings in banks or the equivalent.
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 before tax as a percentage of net sales

* Definition in accordance with IFRS.

RECONCILIATIONS, ALTERNATIVE PERFORMANCE MEASURES

EBITDA is calculated as follows:

SEK m	2016	2015	2014	2013	2012
Operating profit	96.5	83.4	53.2	41.3	35.2
Depreciation of property, plant and equipment	2.5	2.5	2.3	2.2	2.3
Amortization of intangible assets	14.2	12.4	8.1	7.1	4.3
EBITDA	113.2	98.3	63.6	50.6	41.8

Return on capital employed is calculated as profit before tax plus financial expenses as a percentage of capital employed.

SEK m	161231	151231	141231	131231	121231	111231
Total assets	395.9	398.7	380.7	369.5	324.1	308.9
Non-interest-bearing liabilities	-113.7	-106.0	-89.8	-72.1	-68.0	-65.8
Capital employed	282.2	292.7	290.9	297.4	256.1	243.1

SEK m	2016	2015	2014	2013	2012
Profit before tax	96.1	83.3	53.6	41.4	35.1
Financial expenses	0.4	0.2	0.2	0.2	0.7
Profit before tax plus financial expenses	96.5	83.5	53.8	41.6	35.8
Return on capital employed, %	33.6	28.6	19.4	15.1	14.3

RISK MANAGEMENT

Like all business activities, IAR Systems' operations are associated with risks. Certain risks are within the company's control, while others are not. IAR Systems continuously identifies and manages the company's risks. The most significant risks and how we manage them are described below.

THREE TYPES OF RISKS

In working with risks and risk management, we have divided the risks into three categories.

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

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

Financial risks refers to fluctuations in IAR Systems' profit and cash flow as a result of changes in exchange rates, interest rates, financing and credit risks. For a more in-depth description of financial risks, see Note 2.

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

		PROBABILITY					IMPACT					
		1	2	3	4	5	IAR SYSTEMS' RISK MANAGEMENT					
RISK AREA	DESCRIPTION											
MARKET RISKS												
Macroeconomic development	Customers' demand and willingness to invest are tied to their beliefs about future economic growth and the state of macroeconomic development in their own market.				4		2					IAR Systems manages these risks by selling the company's software in multiple industries around the world. IAR Systems works actively to adapt the company's software and organization to the prevailing demand situation.
Products and technology	New fundamentally changed working methods, rapid technology shifts and changes in customer behavior create a risk of changed customer requirements that could affect IAR Systems' market position.				4					3		IAR Systems has well-established and strategic partnerships with all the principal processor makers, which means that the company's software supports more processors and architectures than any other product on the market. IAR Systems is the hub of an ecosystem of partners in processor manufacturing, real time operating systems (RTOS) and add-on products.
Competitors	New and stronger competitors may lead to a risk of decreased demand for IAR Systems' software.				3					3		IAR Systems meets the risk of competition as an independent provider of development tools for embedded systems by offering user-friendly, effective and fast software that supports the majority of architectures and processors. The company also offers support service.
OPERATIONAL RISKS												
Customer structure	Far-reaching dependency on individual industries could have a major impact on sales if an entire industry is experiencing difficulties.				2					2		IAR Systems strives to build long-term relationships with its customers. The Group is well diversified among customer categories, industries and geographical markets and no single customer accounts for a large share of the Group's total sales.
Income structure	A large share of one-time projects or maintenance agreements with short durations creates uncertainty if economic growth slows.				2					2		IAR Systems is endeavoring to increase the share of repeat customers. The share of repeat customers is already high and amounts to about 95%.
Supply of qualified personnel	IAR Systems' key competencies are found primarily in technological development and in its customer relationships.				3					3		IAR Systems works actively to retain and develop skills and competency in the company. Competency and loyalty are strengthened in the Group through training and knowledge sharing. IAR Systems has low employee turnover and distinct, shared core values.
FINANCIAL RISKS												
Foreign exchange risk	Foreign exchange risk refers to the risk of fluctuations in the company's transaction flows due to movements in foreign exchange rates.					5				4		IAR Systems operates internationally and is exposed to foreign exchange risk arising from exposure to different currencies, primarily the US dollar (USD), euro (EUR) and Japanese yen (JPY). The Group's sales in foreign currency account for about 93% of total sales. Most of the company's expenses are denominated in SEK. Measures to manage transaction-related foreign exchange risk are established in the Group's finance policy. The objective is to minimize the short-term effect of the foreign exchange movement on profit while at the same time creating long-term freedom of action.
Liquidity risk	Liquidity risk refers to the risk that financing cannot be obtained, or can be obtained only at a significantly higher cost.					1				1		IAR Systems' liquidity risk is deemed to be relatively limited. At December 31, 2016, the Group had net cash of SEK 96.5m.
Credit risk	Credit risk refers to the risk that a party in a transaction with a financial instrument will be unable to meet its obligations. The main credit risk is that IAR Systems will not receive payment for trade receivables.					1				1		IAR Systems' credit risk is assessed to be relatively low. Trade receivables are distributed across a large number of counterparties in different industries, markets and customer types. The Group has established guidelines for ensuring that sales are made to customers with a suitable credit background. Historically, the cost of bad debt losses has been low. To limit risks, the company's credit policy contains guidelines and provisions for credit assessment of new customers, terms of payment and routines and processes for management of past due receivables.

ADMINISTRATION REPORT

The Board of Directors and the CEO hereby present the annual report and consolidated financial statements for IAR Systems Group AB for the financial year 2016. The company is domiciled in Stockholm, corporate identification number 556400-7200.

PROFIT AND CASH FLOW

Consolidated net sales amounted to SEK 328.4m, compared with SEK 311.7m for 2015. Currency translation had a positive impact of SEK 9.2m (33.6) on sales for the year compared with the preceding year.

The earnings trend during the year was positive and operating profit rose to SEK 96.5m (83.4). Currency translation had a positive effect of SEK 5.9m (17.8) on operating profit compared with the preceding year.

The operating margin for the year improved to 29.4%, compared with 26.8% in 2015.

Personnel costs are the Group's largest cost item and account for about 67% (67) of total costs. Of the Group's total costs, 55% (57) are attributable to operations in Sweden.

The year's cash flow from operating activities totaled SEK 114.2m (98.7).

SALES TREND

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. South 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 year. Sales efficiency was lower, while the market was uncertain. Sales growth in local currency in the Americas 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 5% sales growth for the year has resulted in a corresponding increase in net sales, since the accrual of prepaid maintenance revenue (-3%) was offset by positive foreign exchange effects (3%).

The Americas accounted for 38% (41) of sales, Europe for 36% (35), Asia for 24% (23) and global revenue for 2% (1).

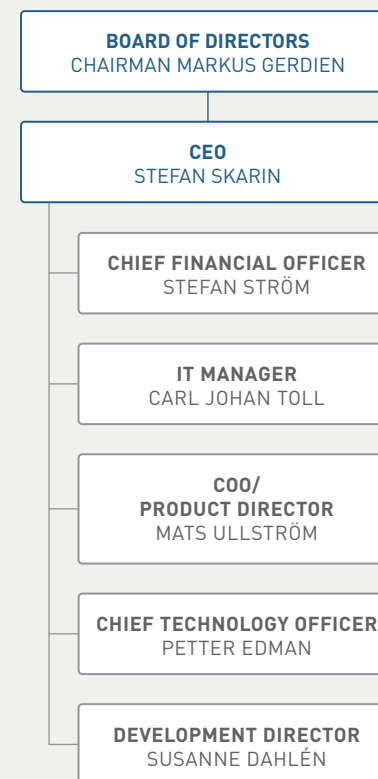
BALANCE SHEET ITEMS AND FINANCIAL POSITION

Consolidated cash and cash equivalents at the end of the year amounted to SEK 99.2m, compared with SEK 89.4 at December 31, 2015. The Group also had unutilized bank overdraft facilities totaling SEK 25.0m (25.0).

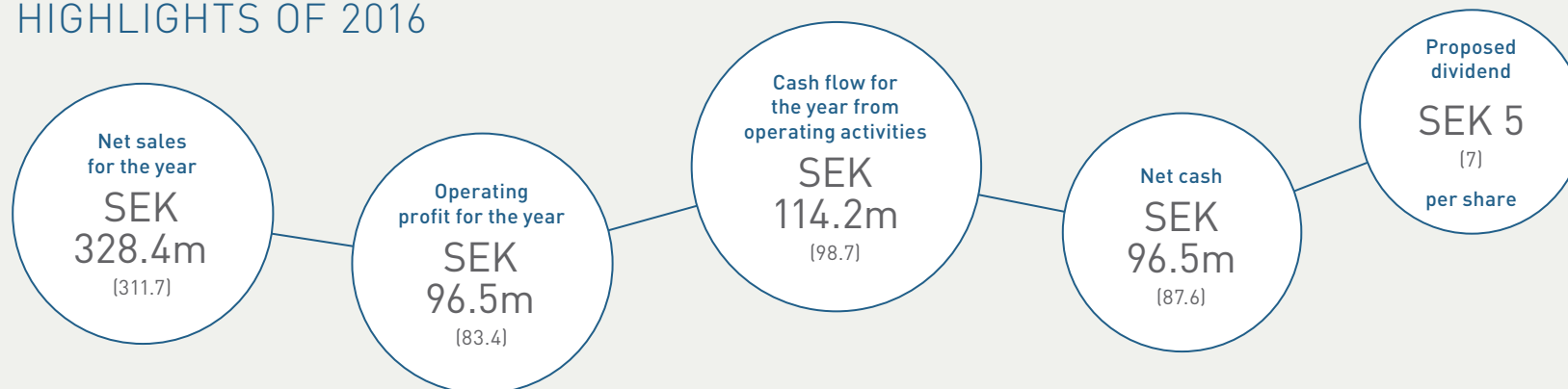
The Group's interest-bearing liabilities amounted to SEK 2.7m, compared with SEK 1.8m at December 31, 2015.

At December 31, 2016, the Group had net cash of SEK 96.5m (87.6).

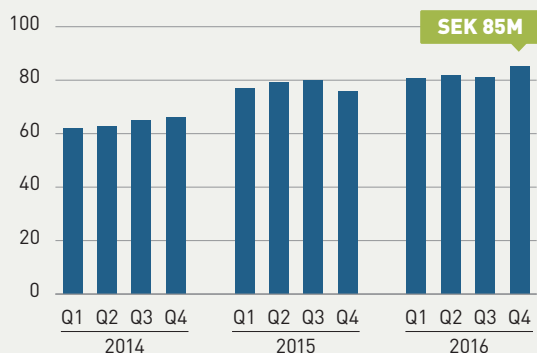
Consolidated goodwill at December 31, 2015 amounted to SEK 114.9m (113.5). The impairment test performed at year-end did not indicate any requirement for impairment. The increase in goodwill during the year was a result of



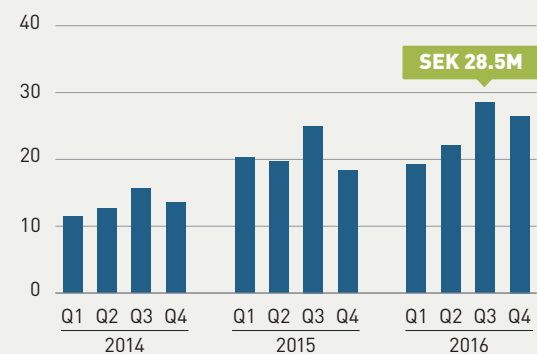
HIGHLIGHTS OF 2016



**NET SALES
SEK M**



**OPERATING PROFIT
SEK M**



currency translation. Other intangible assets in the form of trademarks, software, internally generated software development costs and customer agreements totaled SEK 82.1m (78.8).

At December 31, 2016, the Group had accumulated loss carryforwards of approximately SEK 63m (147). 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 unutilized loss carryforwards.

Equity at December 31, 2016 amounted to SEK 279.5m, compared with SEK 290.9m on December 31, 2015. The change in equity is due to profit for the year of SEK +74.0m, dividend payments of SEK -88.4m and currency translation of SEK +3.0m.

The equity/assets ratio at December 31, 2016 was 71% (73). Pledged assets decreased during the year and totaled SEK 4.5m (3.6) at December 31, 2016.

INVESTMENTS

Investments in property, plant and equipment for the year amounted to SEK 1.3m (1.1). Investments in intangible assets totaled SEK 17.3m (17.7). Investments in intangible assets pertained primarily to costs for in-house staff for the development of debug probes and analysis tools. Of the year's investments, SEK 1.6m (4.2) was acquired separately and SEK 15.7m (13.5) comprises internally generated costs. Of the internally generated costs, SEK 12.1m (10.3) pertains to personnel costs.

MARKET AND CUSTOMERS

IAR Systems delivers high-quality products to companies that develop digital products. Its customers are located across the entire globe and in a number of different industries. The ongoing spread of digital technology is leading to steady growth in the number of companies working on embedded systems.

Thanks to its products and service, IAR Systems is able to offer a complete solution for these companies and their developers. The company's cutting-edge technology combined with its long history and committed team of employees provides a unique position in the market.

As digital technology continues to spread, the market for embedded systems is in a state of constant change. There are a number of market trends that are particularly noteworthy. These principally include the consolidation of suppliers, customer requirements regarding streamlining and safety, growing product complexity and IoT, which is driving the market.

As part of IAR Systems' investment in IoT, the company

signed an exclusive royalty agreement with Renesas Electronics Corporation in 2016 for its development platform, Renesas Synergy Platform.

EMPLOYEES

The company's competitiveness depends on its ability to recruit, retain, and develop qualified staff. The company's success is determined by how well its leadership resources are developed and the sense of dedication and empowerment among its employees. IAR Systems' corporate culture is characterized by openness, social responsibility and professionalism. Its global organization and its employees' enduring passion for product development and technology attract skilled and talented people to the company in all of the countries where it operates.

The company strives for a personnel policy and a work environment that inspire its employees to develop in their professional roles.

The Group's employees are typified by a high level of technical expertise and extensive industry experience. IAR Systems also has a high proportion of employees with advanced academic degrees. At IAR Systems, 87% (86) of employees have a post-secondary or higher education, and 13% (14) have a secondary education. The average age of the Group's employees is 45 (44). At year-end 2016, the gender distribution was 27% (26) women and 73% (74) men. The average number of employees in 2016 was 159 (157).

SOCIAL RESPONSIBILITY

IAR Systems' policy for social responsibility is to conduct business in accordance with the applicable laws and regulations. Integrity, honesty, frankness and honor are of the utmost importance in all business and community relations. The Group expects all of its employees to be honest in their dealings with customers, suppliers and competitors and to perform their duties in a manner that safeguards the company's good name and reputation.

IAR Systems analyzes its operations from a social responsibility perspective and creates guidelines for the company to conduct itself in a responsible and ethically sound manner. In order to do this, the subsidiaries must obtain information about, and comply with, the relevant laws, regulations and international conventions.

In addition, the Parent Company strives to continuously reduce the subsidiaries' environmental impact and improve their actions with respect to social responsibility and human rights. The Group also encourages all suppliers to adopt similar goals for social responsibility.

ENVIRONMENT

IAR Systems has a low environmental impact from production, since the company conducts no processing activities.

RISKS

Through its operations, the company is exposed to various types of financial risk. Financial risks refer to the risk of fluctuations in the Group's earnings, financial position and cash flow arising from exchange rate movements, interest rate levels, financing risk and credit risk.

Foreign exchange risk

Foreign exchange risk is the risk of fluctuations in the value of financial instruments due to movements in foreign exchange rates. The company's measures to manage transaction-related foreign exchange risk are established in the finance policy by the company's Board of Directors. The objective is to minimize the short-term effect of the foreign exchange movement on profit while at the same time creating long-term freedom of action. No hedging of foreign currency cash flows was carried out during the financial year. The company's measures to manage foreign exchange risk, in accordance with the Group's internal pricing strategy, are to invoice each sales company monthly and thereafter exchange the received foreign currency for SEK.

Foreign exchange risk arises in the translation of trade receivables in foreign currency, mainly USD, EUR and JPY. Sales in foreign currency, mainly USD, EUR and JPY, account for approximately 94% (95) of total sales. Of the cost of goods sold, which accounts for about 5% (5) of the Group's cost mass, approximately 84% (79) of purchases are denominated in foreign currency, primarily in USD, EUR and JPY. Translation exposure, meaning the risk of changes in the subsidiaries' consolidated net assets arising from exchange rate fluctuations, is limited and no measures are currently being taken to further hedge translation exposure in foreign currency.

SENSITIVITY ANALYSIS

In the table at the top of the next column the effects on consolidated profit or loss after tax resulting from changes in a number of items in the income statement. Since the Group does not recognize any value changes in other comprehensive income pertaining to transaction and interest rate exposure, the corresponding effect occurs under equity.

Dec 31, 2016	Change	Effect on profit
Cost of goods sold	+/- 5%	SEK +/- 0.5m
Payroll expenses	+/- 5%	SEK +/- 6.3m
Currency – EUR	+/- 5%	SEK +/- 3.2m
Currency – USD	+/- 5%	SEK +/- 2.5m
Currency – JPY	+/- 5%	SEK +/- 1.3m
Variable interest	+/- 1 percentage point	SEK +/- 0.0m

Financing and liquidity risk

The Group's financial position is strong. Dividends totaling SEK 88.4m (63.2) were paid to the company's shareholders. The equity/assets ratio at year-end was 71% (73).

At December 31, 2016, the Group had cash and cash equivalents of SEK 99.2m (89.4) and unutilized bank overdraft facilities of SEK 25.0m (25.0). Interest-bearing liabilities on the same date amounted to SEK 2.7m (1.8).

Credit risk

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

Interest rate risk

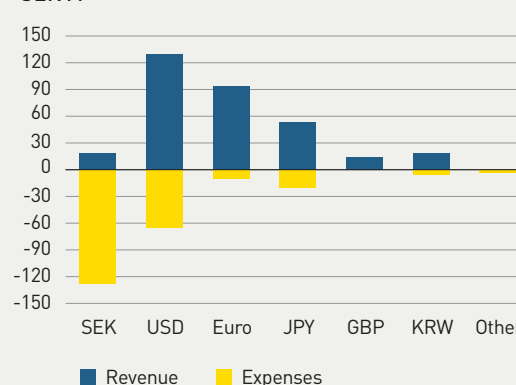
Interest rate risk is defined as the risk of variations in the value of financial instruments due to changes in market interest rates. The Group's loans carry variable interest. At present, there are no investments in derivative instruments.

GUIDELINES FOR REMUNERATION AND OTHER TERMS OF EMPLOYMENT FOR SENIOR EXECUTIVES

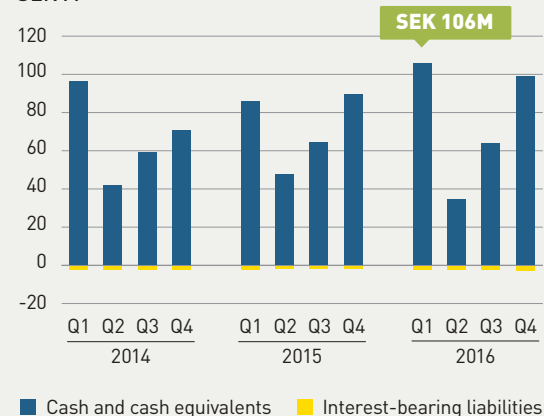
The Board of Directors proposes to the 2017 AGM that the guidelines for remuneration to senior executives that were adopted by the 2016 AGM continue to apply.

The 2015 AGM approved the Board's proposed guidelines for remuneration to the company's senior executives as stated in Note 6 and in the corporate governance report. The Board's proposal corresponds to the previously applied guidelines for remuneration to the company's senior executives in all essential respects. The principles apply to employment contracts entered into after the decision of the AGM and in cases where changes are made to existing terms of employment after this date. In accordance with the resolution passed by the AGM, the group of other senior executives was reduced in 2016, from the previous six members to comprise the CFO and COO.

CURRENCY SPREAD SEK M



NET CASH SEK M



The Board of Directors has appointed a remuneration committee for the preparation of matters related to remuneration and other terms of employment for the company's management.

No changes are proposed for 2017.

Deviation from the guidelines

The Board of Directors has the right to deviate from the above guidelines in individual cases where the Board finds special reason to do so. In 2016, there were no deviations from the guidelines approved by the AGM.

THE IAR SHARE

IAR Systems Group's class B share is quoted on the Mid Cap list of Nasdaq Stockholm. 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 of class A and 12,532,061 are of class B.

Share price performance

During the year, the share price varied from a low of SEK 119.00 (75.00) to a high of SEK 206.00 (156.00). The share price at December 31 was SEK 206.00 (150.00). IAR Systems Group's market capitalization on the same date was SEK 2,602m (1,895).

Ownership and control

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. Foreign shareholders held approximately 13% (16) of the share capital and 12% (15) of the votes. For additional information about the IAR share, see pages 26-27.

DIVIDEND POLICY

The Board of Directors intends to propose an annual dividend, or other similar transfer of value, corresponding to 30-50% of profit after tax. In addition, the Board may recommend a further transfer of capital to the shareholders,

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

Proposed appropriation of profits

The funds at the disposal of the Annual General Meeting are as follows (SEK):

Share premium reserve	50,226,463.88
Retained earnings	-
Profit for the year	64,746,941.62
Total, SEK	114,973,405.50

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

Dividend of SEK 5.00 per share	63,160,305.00
To be carried forward to new account	51,813,100.50
Total, SEK	114,973,405.50

QUARTERLY OVERVIEW	2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales, SEK m	62.0	62.7	64.9	66.1	76.9	79.1	79.8	75.9	80.5	81.8	81.1	85.0
Operating expenses, SEK m	-50.6	-50.0	-49.3	-52.6	-56.6	-59.4	-54.8	-57.5	-61.3	-59.7	-52.6	-58.3
Operating profit, SEK m	11.4	12.7	15.6	13.5	20.3	19.7	25.0	18.4	19.2	22.1	28.5	26.7
EBITDA margin, % *	2.1	24.2	28.4	24.7	30.8	29.7	31.3	29.4	28.7	31.8	40.6	36.7
Operating margin, % *	18.4	20.3	24.0	20.4	26.4	24.9	31.3	24.2	23.9	27.0	35.1	31.4
Return on equity, %	2.8	3.4	5.0	3.8	5.2	5.4	7.0	4.9	5.1	6.2	8.8	7.5
Equity per share, SEK *	24.68	20.72	21.83	22.85	24.36	20.43	21.96	23.03	24.20	18.64	20.44	22.13
Cash flow from operating activities per share, SEK *	1.12	1.33	1.89	1.27	1.45	2.51	1.63	2.22	1.74	1.63	2.54	3.13

* This key ratio pertains to an alternative performance measure not defined by IFRS. For further information, refer to page 31.

CONSOLIDATED INCOME STATEMENT

SEK m	Note	2016	2015	SEK m	Note	2016	2015
Net sales	1,2,3	328.4	311.7	<i>Profit for the year attributable to:</i>			
Goods for resale	4	-12.2	-10.3	Owners of the Parent Company		74.0	63.4
Other external expenses	5	-48.4	-51.1	<i>Earnings per share calculated on profit for the</i>			
Personnel costs	6	-154.6	-152.0	<i>year attributable to owners of the Parent Company, SEK</i>			
Depreciation of property, plant and equipment	11	-2.5	-2.5	- basic	9	5.86	5.02
Amortization of intangible assets	10	-14.2	-12.4	- diluted	9	5.86	5.02
Operating profit		96.5	83.4				
Financial investments							
Financial income	7	0.0	0.1				
Financial expenses	7	-0.4	-0.2				
Profit before tax		96.1	83.3				
Income taxes	8	-22.1	-19.9				
PROFIT FOR THE YEAR		74.0	63.4				

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK m	2016	2015
Profit for the year	74.0	63.4
Other comprehensive income:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences	3.0	2.1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	77.0	65.5
Comprehensive income for the year attributable to owners of the Parent Company	77.0	65.5

CONSOLIDATED BALANCE SHEET

SEK m	Note	Dec 31, 2016	Dec 31, 2015
ASSETS	1,2,3		
Non-current assets			
Intangible assets	10		
Goodwill		114.9	113.5
Other intangible assets		82.1	78.8
Total intangible assets		197.0	192.3
Property, plant and equipment	11		
Leasehold improvements		0.1	0.1
Equipment		6.1	6.4
Total property, plant and equipment		6.2	6.5
Financial assets			
Other non-current receivables	12,18	1.9	1.8
Other non-current securities	13	2.9	3.2
Deferred tax assets	8	15.9	36.8
Total financial assets		20.7	41.8
Total non-current assets		223.9	240.6
Current assets			
Inventories		5.6	5.1
Current receivables			
Trade receivables	14	48.3	43.5
Other current receivables	15	1.4	1.2
Prepaid expenses and accrued income	16	17.5	18.9
		72.8	68.7
Cash and cash equivalents	17	99.2	89.4
Total current assets		172.0	158.1
TOTAL ASSETS		395.9	398.7

SEK m	Note	Dec 31, 2016	Dec 31, 2015
EQUITY AND LIABILITIES			
Equity	19,20		
Share capital		126.3	126.3
Other contributed capital		23.4	23.4
Reserves		8.6	5.6
Retained earnings including profit for the year		121.2	135.6
Total equity		279.5	290.9
Non-current liabilities			
Borrowings	11,18	1.6	0.6
Other non-current liabilities		1.4	1.1
Deferred tax liabilities	8	14.8	16.5
Total non-current liabilities		17.8	18.2
Current liabilities			
Trade payables		5.3	4.8
Borrowings	11,18	1.1	1.2
Tax liabilities	8	0.1	0.7
Other liabilities		7.3	7.0
Accrued expenses and prepaid income	21	84.8	75.9
Total current liabilities		98.6	89.6
TOTAL EQUITY AND LIABILITIES		395.9	398.7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEK m	Share capital	Other contributed capital	Reserves	Retained earnings	Total equity
Opening balance, January 1, 2015	126.3	23.4	3.5	135.4	288.6
Profit for the year				63.4	63.4
Other comprehensive income					
Translation differences			2.1		2.1
Total comprehensive income			2.1	63.4	65.5
Transactions with owners					
Dividend				-63.2	-63.2
Total transactions with owners				-63.2	-63.2
Opening balance, January 1, 2016	126.3	23.4	5.6	135.6	290.9
Profit for the year				74.0	74.0
Other comprehensive income					
Translation differences			3.0		3.0
Total comprehensive income			3.0	74.0	77.0
Transactions with owners					
Dividend				-88.4	-88.4
Total transactions with owners				-88.4	-88.4
CLOSING BALANCE, DECEMBER 31, 2016	126.3	23.4	8.6	121.2	279.5

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2016 amounted to SEK 126,320,614, divided between 100,000 class A shares and 12,532,061 class B shares. All shares have a quota value of SEK 10 each.

CONSOLIDATED CASH FLOW STATEMENT

SEK m	Note	2016	2015
Operating activities			
Incoming payments from customers		323.5	309.2
Outgoing payments to suppliers and employees		-205.8	-207.6
Cash flow from operating activities before interest and income taxes paid		117.7	101.6
Interest received		0.0	0.0
Interest paid		-0.0	-0.2
Income taxes paid		-3.5	-2.7
Cash flow from operating activities		114.2	98.7
Investing activities			
Investments in intangible assets	10	-17.3	-17.7
Investments in property, plant and equipment	11	-1.3	-1.7
Investments in other investments		-0.3	-
Sales in other investments		-	1.1
Cash flow from investing activities		-18.9	-17.7
Financing activities			
Dividends to Parent Company shareholders		-88.4	-63.2
Amortization of financial liabilities		-0.0	-0.4
Cash flow from financing activities		-88.4	-63.6
Cash flow for the year			
Cash and cash equivalents at beginning of year		89.4	70.7
Exchange difference in cash and cash equivalents			
– attributable to cash and cash equivalents at beginning of year		2.6	1.3
– attributable to cash flow for the year		0.3	0.0
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	99.2	89.4

PARENT COMPANY INCOME STATEMENT

SEK m	Note	2016	2015
Net sales	1,2,3	12.2	12.2
Other external expenses	5	-4.9	-4.0
Personnel costs	6	-10.9	-12.2
Depreciation of property, plant and equipment	11	-0.0	-0.1
Operating loss		-3.6	-4.1
Result from financial investments			
Total financial income	7	87.0	70.0
Total financial expenses	7	-0.3	-0.0
Profit before tax		83.1	65.9
Tax on profit for the year	8	-18.4	-14.5
PROFIT FOR THE YEAR		64.7	51.4

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

SEK m	2016	2015
Profit for the year	64.7	51.4
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	64.7	51.4

PARENT COMPANY BALANCE SHEET

SEK m	Note	Dec 31, 2016	Dec 31, 2015
ASSETS	1,2,3		
Non-current assets			
Property, plant and equipment			
Equipment	11	0.2	0.2
Total property, plant and equipment		0.2	0.2
Financial assets			
Participations in Group companies	23	189.4	189.4
Other non-current securities	13	2.9	3.2
Other non-current receivables	12	0.1	0.1
Deferred tax assets	8	13.3	31.7
Total financial assets		205.7	224.4
Total non-current assets		205.9	224.6
Current assets			
Current receivables			
Receivables from subsidiaries		38.6	40.0
Tax receivables		0.2	0.2
Other current receivables	15	-	0.4
Prepaid expenses and accrued income	16	0.4	0.4
		39.2	41.0
Cash in hand and bank deposits	17	3.5	4.2
Total current assets		42.7	45.2
TOTAL ASSETS		248.6	269.8

SEK m	Note	Dec 31, 2016	Dec 31, 2015
EQUITY AND LIABILITIES			
Equity	19,20		
<i>Restricted equity</i>			
Share capital		126.3	126.3
Statutory reserve		-	-
		126.3	126.3
<i>Non-restricted equity</i>			
Share premium reserve		50.3	60.4
Retained earnings		0.0	26.9
Profit for the year		64.7	51.4
		115.0	138.7
Total equity		241.3	265.0
Current liabilities			
Trade payables		0.4	0.4
Other liabilities		1.1	0.4
Accrued expenses and prepaid income	21	5.8	4.0
Total current liabilities		7.3	4.8
TOTAL EQUITY AND LIABILITIES		248.6	269.8

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

SEK m	Share capital	Share premium reserve	Retained earnings	Total equity
Opening balance, January 1, 2015	126.3	60.4	90.1	276.8
New share issue				
Dividend			-63.2	-63.2
Total changes in equity not recognized in the income statement			-63.2	-63.2
Profit for the year			51.4	51.4
Opening balance, January 1, 2016	126.3	60.4	78.3	265.0
Reallocation		-10.1	10.1	-
Dividend			-88.4	-88.4
Total changes in equity not recognized in the income statement		-10.1	-78.3	-88.4
Profit for the year			64.7	64.7
CLOSING BALANCE, DECEMBER 31, 2016	126.3	50.3	64.7	241.3

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2016 amounted to SEK 126,320,614, divided between 100,000 class A shares and 12,532,061 class B shares. All shares have a quota value of SEK 10 each.

PARENT COMPANY CASH FLOW STATEMENT

SEK m	Note	2016	2015
Operating activities			
Incoming payments from subsidiaries		12.2	12.2
Outgoing payments to suppliers and employees		-12.9	-15.8
Cash flow from operating activities before interest and income taxes paid		-0.7	-3.6
Interest received		0.0	0.0
Interest paid		-0.0	-0.0
Cash flow from operating activities		-0.7	-3.6
Investing activities			
Investments in property, plant and equipment	11	-0.0	-0.0
Decrease in financial investments		-	1.3
Cash flow from investing activities		-0.0	1.3
Financing activities			
Dividends paid		-88.4	-63.2
Decrease in borrowings from subsidiaries		1.4	-
Increase in borrowings from subsidiaries		-	-4.7
Group contributions		87.0	70.0
Cash flow from financing activities		0.0	2.1
Cash flow for the year		-0.7	-0.2
Cash and cash equivalents at beginning of year		4.2	4.4
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	3.5	4.2

NOTES

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

IAR Systems Group AB (publ), corporate identification number 556400-7200, is a Swedish registered limited liability company domiciled in Stockholm, Sweden. The address of the company's head office is Kungsgatan 33, SE-111 56 Stockholm, Sweden. IAR Systems Group is the Parent Company of a Group that was founded in 1985 and listed on the stock exchange in 1999.

IAR Systems Group AB is quoted on Nasdaq Stockholm, ticker symbol IAR.

The consolidated financial statements were approved for publication by the Board of Directors on March 7, 2017.

GROUP

1.1 Basis of presentation

IAR Systems Group AB's consolidated financial statements are presented in accordance with the Swedish Annual Accounts Act, RFR 1, Supplementary Accounting Rules for Groups, International Financial Reporting Standards (IFRS) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) that have been endorsed for application in the EU.

The functional currency of the Parent Company is Swedish kronor (SEK), which is also the presentation currency of the Parent Company and the Group. The financial statements are therefore presented in SEK. All amounts, unless otherwise stated, are rounded off to the nearest million. The consolidated financial statements have been prepared according to the cost method, except as stated below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires that management exercise its judgment in the process of applying the company's accounting policies. The estimates and assumptions are based on past experience and a number of other factors that are considered reasonable under the given circumstances. The results of these estimates and assumptions are then used to make judgments about the carrying value of assets and liabilities that cannot be readily determined from other sources. Actual outcomes may differ from these estimates and judgments. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant for the consolidated financial statements, are disclosed in Note 1 below.

New and amended standards and interpretations applicable for 2016

According to management's assessment, the new or amended standards and new interpretations that took effect as of the current financial year have not had any material impact on the Group's 2016 financial statements.

New and amended standards and interpretations that are not yet effective

The new or amended standards and new interpretations that have been issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) but are effective for financial years starting on or after January 1, 2017 have not yet been applied by the Group.

The IASB has issued the following new and amended standards that are not yet effective:

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

IFRS 9 Financial Instruments will replace *IAS 39 Financial Instruments: Recognition and Measurement*.

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

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

The rules for impairment in IFRS 9 are based on a three-stage model, where the recognition of impairment losses is governed by changes in the credit risk of the financial assets. In other words, the occurrence of a loss event is no longer necessary for an impairment loss to be recognized. However, the standard comprises rules for the simplification of trade receivables and lease receivables. These rules entail that a reserve for credit losses may be recognized immediately, and that no evaluation is required with respect to changes in credit risk.

In terms of hedge accounting, the three types of hedge accounting models currently specified in IAS 39 (cash flow hedges, fair value hedges and net investment hedges) are to remain. However, IFRS 9 entails greater flexibility with respect to the transactions to which hedge accounting may be applied. The standard entails expanded possibilities to hedge risk components in non-financial items and that more types of instruments can be included in a hedging relationship. In addition, the quantitative requirement for effectiveness of between 80 and 125% is no longer a requirement.

Management's assessment is that IFRS 9 will not have any material impact on the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers will replace IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 provides a model for revenue recognition (five-stage model) that is based on the time at which the control of goods or services is transferred to the customer. The fundamental principle is that a company recognizes revenue to account for the transfer of goods and services promised to customers by using an amount that reflects the payment that the company expects to be entitled to in exchange for such goods or services. IAR has performed a preliminary analysis of the impact that IFRS 15 will have on the Group's financial reporting.

Most of the Group's income pertains to license-based revenue. In most cases, in conjunction with the sale of a license, a one-year agreement is signed for technical support and upgrades. Licenses, technical support and upgrades are deemed to be three separate performance obligations in accordance with IFRS 15 and must thus be reported separately.

The customer is "entitled to use" the license in its existing condition, and as of the date when the customer obtains the software key, the customer can control the use of, and essentially obtain all the remaining benefits of, the license. Based on IAR's preliminary assessment, revenue from a license is normally recognized when the customer has obtained the software key.

CONT. NOTE 1

IAR's undertaking pertaining to "upgrades" entails that the customer is entitled to receive upgrades if and when such are released. IAR provides such continuous upgrades on a number of occasions and deems that updates are transferred to customers regularly throughout the contractual period. The undertaking pertaining to technological support is transferred to the customer "when needed." Utilized technical support does not fluctuate significantly between months and customers pay a flat sum regardless of the number of times the service is utilized. The performance obligation for upgrades and technical support is transferred to the customer "over time" and accrual of the revenue on a straight-line basis over the contractual period is deemed to be true and fair. Revenue from sales of technical support and upgrades from year two and forward are recognized in a manner corresponding to the above.

When assessing the transaction price, consideration must be given to discounts, if any. IAR currently analyzes how and on what grounds the transaction price is to be set for the preliminarily identified performance obligations.

IAR has essentially been recognizing revenue from licenses, technical support and upgrades as described above pursuant to IAS 18 and, consequently, management's current assessment is that IFRS 15 will not have any material impact on the consolidated financial statements when the standard is applied for the first time.

IFRS 16 *Leases* will replace IAS 17 *Leases*. For the lessee, IFRS 16 essentially entails that all leases are to be recognized in the statement of financial position. Consequently, operating and finance leases will no longer be classified. The underlying asset in the lease is recognized in the statement of financial position. In subsequent periods, usufruct is recognized at cost less depreciation and any impairment losses and adjusted for any remeasurement of the lease liability. Lease liabilities are recognized in the statement of financial position and recognized continuously at amortized cost less transacted lease payments. Leasing liabilities are remeasured when changes are made to, for example, the lease term, residual value guarantees or lease payments.

Current operating expenses attributable to operating leases will be replaced with depreciation and interest expenses, which will impact the income statement.

Short-term leasing contracts (12 months or shorter) and leases where the underlying asset amounts to a minor value do not need to be recognized in the balance sheet. These will be recognized in operating profit in the same manner as current operating leases.

The new standard contains more extensive disclosure requirements compared with the current standard. For lessors, IFRS 16 entails no actual differences compared with IAS 17.

Management has not yet carried out a detailed analysis of the effects of the application of IFRS 16.

Other new and amended standards and statements from IFRIC are not expected to have any material impact when they are applied for the first time.

1.2 Consolidated financial statements

The consolidated financial statements include the Parent Company IAR Systems Group AB and those companies over which the Parent Company has control (subsidiaries). Control exists when the Parent Company has power over the investee, is exposed to or has rights to variable returns from its involvement with the investee and has the ability to use that control over the investee to affect its returns. The composition of the Group is presented in Note 23.

The Parent Company reassesses whether control exists if facts and circumstances indicate that any of the above factors have changed.

Subsidiaries are consolidated from the date on which control is transferred to the Parent Company and are deconsolidated from the date on which control ceases. This means that income and expenses for a subsidiary that is acquired or sold during the current financial year are included in the consolidated income statement and statement of comprehensive income from the date on which the Parent Company gains control and until the date when control passes from the Parent Company.

Consolidated profit and components of other comprehensive income are attributable to owners of the Parent Company and to non-controlling interests even if this leads to a negative value for non-controlling interests.

The accounting policies of subsidiaries have been adjusted, when necessary, to ensure consistency with those policies applied by Group. All inter-company transactions, balances and unrealized gains and losses attributable to inter-company transactions have been eliminated on consolidation.

1.3 Business combinations

Business combinations are reported according to the acquisition method of accounting. The consideration transferred for the acquisition of a subsidiary consists of the fair value of the assets transferred and the liabilities assumed by the Group from the previous owner of the acquired company and the equity instruments issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from an agreement for contingent consideration. The identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values on the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interests in the acquired company either at fair value or at the holding's proportionate share of the carrying amount of the acquired company's identifiable net assets. Acquisition-related costs are expensed as incurred. In a business combination achieved in stages, any previously held equity interest in the acquired company is remeasured at fair value on the acquisition date. Any resulting gains or losses are recognized in profit or loss. Any contingent consideration payable by the Group is measured at fair value at the acquisition date. Subsequent changes in the fair value of a contingent consideration that is classified as a contingent asset or liability are recognized in accordance with IAS 39 either in profit or loss or in other comprehensive income. If a contingent consideration is classified as an equity instrument, it is not remeasured and settlement is accounted for within equity. Goodwill is initially measured as the difference between the aggregate of the acquisition date fair value of the consideration transferred and the amount of any non-controlling interests, and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If the amount of consideration transferred is lower than the fair value of the acquired company's net assets, the resulting gain is recognized directly in profit or loss. All inter-company transactions, balance sheet items, income and expenses arising from transactions between Group companies are eliminated.

1.4 Segment reporting

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

The Group has one operating segment: IAR Systems.

1.5 Foreign currency translation

a) Functional and presentation currency

The items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment where the entity operates (the functional currency). The consolidated financial statements are presented in SEK, which is the functional and presentation currency of the Parent Company.

b) Transactions and balances

Foreign currency transactions are translated to the functional currency at the exchange rates prevailing on the transaction dates or the dates on which the items are remeasured. Foreign

CONT. NOTE 1

exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities in foreign currencies at the closing day rate are recognized in the income statement.

c) Group companies

The results and financial positions of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency other than the presentation currency are translated into the Group's presentation currency as follows:

- › assets and liabilities for each balance sheet presented are translated at the closing day rate of exchange,
- › income and expenses for each income statement are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the dates of the transactions, in which case income and expenses are translated at the rates on the dates of the transactions), and all resulting foreign exchange gains and losses are recognized as a separate component of equity.

On consolidation, foreign exchange gains and losses resulting from the translation of the net investment in foreign operations are taken to equity and recognized as an item in comprehensive income. When a foreign operation is disposed of or sold, such foreign exchange gains and losses are recognized in the income statement as part of the capital gain or loss on the sale.

The following exchange rates have been used:

Country	Currency	Closing day rate	Average rate
USA	USD 1	9.0971 (8.3524)	8.5613 (8.4350)
France, Germany	EUR 1	9.5669 (9.1350)	9.4704 (9.3562)
UK	GBP 1	11.1787 (12.3785)	11.5664 (12.8962)
Japan	JPY 1	0.0777 (0.0693)	0.0790 (0.0697)
China	CNY 1	1.3091 (1.2868)	1.2879 (1.3424)
South Korea	KRW 1	0.0076 (0.0071)	0.0074 (0.0075)

1.6 Property, plant and equipment

All items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. The residual values and useful lives of assets are reviewed at each balance sheet date and adjusted if appropriate. An asset's carrying amount is impaired immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. On disposal of the asset, any resulting gains are recognized in other income and losses are recognized in other operating expenses. Subsequent expenditure is included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the asset will flow the Group and the cost of the asset can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred. Property, plant and equipment are systematically depreciated over their estimated useful life. Straight-line depreciation periods are used and the following depreciation periods hereby apply:

Computers	3 years
Other equipment	5 years
Leasehold improvements:	
Remaining lease period	1–5 years

1.7 Intangible assets**a) Goodwill**

Goodwill is initially measured as the difference between the aggregate of the acquisition date fair value of the consideration transferred and the amount of any non-controlling interests, and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is tested for impairment annually, or more often in the event that there are indications of a decrease in value, to identify any impairment requirements, and is recognized at cost less accumulated impairment losses. The gain or loss arising on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to the lowest cash-generating units or groups of cash-generating units that can be expected to benefit from the business combination that has given rise to the goodwill item. Goodwill is tested for impairment at the lowest level in the Group at which goodwill is monitored for internal management purposes, which is not larger than an operating segment and for the Group comprises IAR Systems.

b) Trademarks

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

c) Software

Intangible assets with determinable useful lives that are acquired separately are recognized at cost less accumulated amortization and any accumulated impairment. Amortization takes place on a straight-line basis over the asset's estimated useful life, which is expected to be either five or six years. The estimated useful life and amortization method is tested at least once at the end of each financial year, and the impact of any changes to assessments is recognized prospectively.

d) Internally generated intangible assets – capitalized expenditure for the development of software and debug probes

Internally generated intangible assets that originate from the Group's development of software (primarily IAR Embedded Workbench) and debug probes are recognized only if the following conditions are met:

- › it is technically feasible to complete the intangible asset and utilize it or sell it,
- › the company aims to complete the intangible asset and utilize it or sell it,
- › there are prerequisites in place to utilize or sell the intangible asset,
- › the company can demonstrate that the intangible asset will generate probable, future economic benefits,
- › there are adequate technical, financial and other resources available to complete the development and to utilize or sell the intangible asset, and
- › the expenditure associated with the intangible asset during its development can be reliably calculated.

If it is not possible to recognize an internally generated intangible asset, the costs for development are recognized as expenses in the period in which they occur. Following initial recognition, internally generated intangible assets are recognized at cost less accumulated amortization and any accumulated impairment.

The estimated useful life for internally generated assets is six to ten years depending on the type of product the capitalization concerns. IAR Systems operates in a rapidly changing market, since developments in processor manufacture/design and particularly in the area of usage (processors are being used in a growing number of products and more processors are being used in the products) is changing rapidly. IAR Systems' tools are created in order

CONT. NOTE 1

to program these processors – this market is not changing as rapidly and, although the company's products are being further developed, the basic platform remains intact. The estimated useful life and amortization method is tested at least once at the end of each financial year, and the impact of any changes to assessments is recognized prospectively.

d) Customer contracts

Customer contracts are recognized at cost. Customer contracts have a finite useful life and are recognized at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of customer contracts over their estimated useful life of five years.

1.8 Impairment losses

Assets that have an indefinite useful life are not subject to amortization/depreciation and are instead tested for impairment. Impairment testing is done annually and when indications of impairment requirements exist. Assets that are subject to amortization/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Previously recognized impairment losses on non-financial assets other than goodwill are reviewed for possible reversal of the impairment at each balance sheet date.

1.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated variable costs necessary to make a sale.

1.10 Financial assets and liabilities

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. These are included in current assets, with the exception of items maturing more than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables consist of trade and other receivables, as well as cash and cash equivalents in the balance sheet.

Recognition and measurement of financial assets

The purchase or sale of a financial asset is recognized on the trade date, which is the date on which Group commits to purchase or sell the asset. Financial instruments are initially recognized at fair value plus transaction costs, which applies to all financial assets not measured at fair value through profit or loss. At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is to be impaired.

Recognition and measurement of financial liabilities

Financial liabilities are divided between liabilities at fair value through profit or loss and other liabilities. The basic principle for other liabilities is that they are measured at amortized cost or cost.

1.11 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If payment is expected within one year or earlier (or in the

normal operating cycle of the business if this is longer), they are classified as current assets. If not, they are classified as non-current assets.

Trade receivables are initially measured at fair value and subsequently at amortized cost with the application of the effective interest rate method, less provisions for impairment. Since the expected maturity of trade receivables is short, these are recognized at their nominal amount, less provisions for impairment.

1.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank deposits.

1.13 Borrowings

Borrowings are initially measured at fair value, net of transaction costs incurred.

Borrowings are subsequently measured at amortized cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer payment of the liability for at least 12 months after the balance sheet date. A financial liability is derecognized from the balance sheet when the obligation is discharged, canceled or otherwise extinguished.

1.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. Trade payables are initially measured at fair value and subsequently at amortized cost with the application of the effective interest rate method. Since the expected maturity of trade payables is short, these are recognized at their nominal amount.

1.15 Current and deferred tax

The tax expense for the period consists of current tax and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In such cases, the resulting tax effect is also recognized in other comprehensive income or equity, respectively.

The current income tax expense is calculated on the basis of the tax laws that have been enacted or substantively enacted at the balance sheet date in the countries where the Parent Company and its subsidiaries operate and generate taxable income. Management regularly evaluates positions taken in tax returns with respect to situations in which the applicable tax regulations are subject to interpretation and, when deemed appropriate, makes provisions on the basis of amounts that are expected to be paid to the tax authorities.

The reported income tax expense includes tax payable or receivable with respect to the year's profit or loss, adjustments in current tax from earlier periods and changes in deferred tax. All tax liabilities/receivables are measured at the nominal amount according to the tax rules and tax rates that have been enacted or substantively enacted at the balance sheet date. For items that are recognized in the income statement, the related tax effects are also recognized in the income statement.

Deferred tax is calculated according to the balance sheet method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts.

Temporary differences are not recognized for consolidated goodwill or shares in subsidiaries that are not expected to be taxed in the foreseeable future. Deferred tax assets relating to tax loss carryforwards or other future tax deductions are recognized only to the extent that it is probable that future taxable profit will be available against which the deduction can be utilized.

CONT. NOTE 1

1.16 Provisions

Provisions for contingent consideration and legal claims are recognized when the Group has a legal or informal obligation arising as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably.

1.17 Employee benefits**a) Pension obligations**

The Group has defined contribution pension plans under which each company pays fixed contributions to a separate legal entity and has no legal or constructive obligation to pay further contributions. The contributions are recognized as personnel costs when they are due. Prepaid contributions are recognized as an asset to the extent that the Group may receive a cash refund or a reduction in future payments.

b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to terminate the employment of an employee or group of employees according to a detailed formal plan and is without realistic possibility of withdrawal, or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

c) Bonus plans

The Group recognizes a liability and an expense for bonuses when there is a legal obligation, in accordance with the company's bonus models, based on sales and/or profit.

1.18 Revenue recognition

Revenue is measured as the fair value of the consideration received or receivable for the sale of goods and services, net of VAT and discounts, and after elimination of inter-company sales. In certain cases, the Group's sales contracts include delivery of several different subcomponents, so-called multiple elements. In these cases, the Group has allocated revenue based on the estimated fair values of the respective sub-components in order to achieve accounting that reflects the underlying economics of the transaction. Interest income is recognized over the term of the contract using the effective interest rate method.

Net sales consist of revenue arising from the sale of development tools for embedded systems, contract work and maintenance contracts.

Revenue from software license fees is recognized upon delivery, which is not considered to have occurred until the access code for the license or the CD with the software has been made available to the customer.

Revenue arising from upgrade agreements and support is accrued on a straight-line basis over the term of the contract. Revenue is recognized only to the extent of the expenses recognized that are likely to be recoverable from the customer.

1.19 Foreign exchange gains and losses

Realized foreign exchange gains and losses attributable to purchases in the normal course of business are recognized in cost of goods sold. Foreign exchange gains and losses arising on remeasurement of loans and financial receivables in foreign currencies are recognized in financial income or expenses.

1.20 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any

incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain items of property, plant and equipment. Leases of non-current assets where the Group bears essentially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between amortization of the liability and financial expenses to produce a constant periodic rate of interest on the remaining balance of the liability. The corresponding obligation to pay future leasing charges, net of financial expenses, is included in the balance sheet items "Non-current borrowings" and "Current borrowings".

The interest portion of the financial expenses is recognized in the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Non-current assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease period.

1.21 Borrowing costs

The Group has no borrowing costs that are directly attributable to the purchase, construction or production of assets that take a substantial period of time to prepare for their intended use or sale. In view of this, borrowing costs are expensed in the period in which they are incurred.

1.22 Cash flow statement

The cash flow statement is presented in accordance with the direct method. The reported cash flow includes only transactions that lead to cash receipts or payments. Cash and cash equivalents comprise cash on hand and bank deposits, together with short-term financial investments that are subject to an insignificant risk of changes in value, are traded on an open market in known amounts or have a remaining maturity of three months or less from the date of acquisition.

PARENT COMPANY**1.23 Accounting policies of the Parent Company**

The annual financial statements of the Parent Company are presented in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. RFR 2 states that in the annual report for the legal entity, the Parent Company is to apply all EU-endorsed IFRSs and statements as far as possible within the framework of the Annual Accounts Act and with consideration given to the connection between accounting and taxation. This recommendation defines the exceptions and additional disclosures compared to IFRS. The differences between the accounting policies applied by the Group and the Parent Company are described below. The following accounting policies for the Parent Company have been applied consistently for all periods presented in the Parent Company's financial statements.

Amendments to accounting policies

The amendments to RFR 2 Accounting for Legal Entities that took effect and apply for the 2016 financial year have not had any material impact on the Parent Company's 2016 financial statements.

Amendments to RFR 2 that are not yet effective

The Parent Company has not yet begun to apply the amendments to RFR 2 Accounting for Legal Entities that took effect January 1, 2017 or later. Management's assessment is that these amendments will not have any material impact on the Parent Company's financial statements when they are applied for the first time.

CONT. NOTE 1

1.24 Group contributions

The Parent Company recognizes contributions in accordance with the principle rule, which entails that Group contributions received as financial income and Group contributions paid to subsidiaries are recognized as an increase in participations in Group companies.

1.25 Finance leases

In the Parent Company, all leases are recognized according to the rules for operating leases regardless of whether they are operating or finance leases, which means that the lease expense is recognized on the straight-line basis over term of the lease.

1.26 Dividends

The Parent Company recognizes dividends from subsidiaries when the right to receive payment is deemed certain.

1.27 Participations in Group companies

In the Parent Company's financial statements, participations in subsidiaries are measured at cost less any impairment losses. Dividends received from subsidiaries are recognized only to the extent that these derive from profits arising after the acquisition date.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that are associated with a significant risk for material adjustments to the carrying amounts of assets and liabilities within the next financial year are described below.

a) Impairment testing of goodwill and other intangible assets

The Group tests goodwill for impairment annually, in accordance with the accounting policy stated in 1.7 above. The recoverable amounts of cash-generating units have been determined based on calculations of value in use. These calculations require the use of estimates (Note 10).

Value in use is calculated on the basis of projected future cash flows.

The growth rate used is based on past performance and management's expectations for market development. For year one, this corresponds to the budget and business plan established by the Board of Directors. For years two and three, this corresponds to management's forecasts. Cash flows beyond the three-year period are extrapolated based on a growth rate of 2%. This growth rate does not exceed the long-term growth rate for the market.

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

The discount rate used, 7.4% (8.5), is stated before tax and is deemed to reflect specific risks relating to the operating segment.

For other intangible assets, corresponding impairment testing is performed for assets that have not yet been utilized or if other indicators exist that may impact the value of the assets. The impairment test is based on an assessment of the asset's future cash flow. The discount rate used, 7.4% (8.5), is stated before tax and is deemed to reflect specific risks relating to the asset.

b) Income tax

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

On the balance sheet date, the Group had cumulative loss carryforwards of approximately SEK 63m (147). All loss carryforwards are found in Sweden and can be used for an unlimited period.

A total deferred tax asset of SEK 13.9m (32.3) is recognized in the consolidated balance sheet at December 31, 2016, based on these loss carryforwards. The value of loss carryforwards is recognized as an asset to the extent that it is probable that the loss carryforwards can be utilized against future taxable profits. The assessed value is based on previous performance and management's expectations for market development.

c) Revenue recognition

The Group recognizes revenue in accordance with IAS 18, which is the IFRS for revenue recognition. According to this standard, revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the seller and these can be measured reliably. Revenue is measured according to the principles described in 1.18 above.

The company assesses the probability that the economic benefits will flow to the Group on the basis of several factors, such as a customer's payment history and credit rating. In certain cases, the Group requires a deposit from the customer. If the company deems a debt to be doubtful, a provision is made to cover the debt until it is possible to determine whether or not the Group will receive payment. Prepayments are recognized as current liabilities until they are earned. In certain cases, the Group's sales contracts include delivery of several different sub-components, so-called multiple elements. In these cases, the Group has allocated revenue based on the estimated fair values of the respective sub-components in order to achieve accounting that reflects the underlying economics of the transaction.

NOTE 2 FINANCIAL RISK MANAGEMENT**OPERATIONAL RISKS****Customers**

IAR Systems strives to build long-term relationships with its customers. The Group is well diversified among customer categories, industries and geographical markets and no single customer accounts for a large share of the Group's total sales. Despite this, the loss of one or more major customers could have a negative impact on the Group's business and results.

Employees

The employees' knowledge about the products and their relationships with the customers are valuable competitive advantages. Although there is a risk that key personnel will leave the company, expertise and loyalty are strengthened through training and knowledge sharing. IAR Systems has low employee turnover and a good working environment.

Technology

In the IT sector, it is of the utmost importance to offer products and services using advanced technology. IAR Systems' in-house developed software is assessed to be technologically advanced. However, it cannot be ruled out that the company could be negatively affected by future technology shifts.

CONT. NOTE 2

Competitors

IAR Systems competes with both international and domestic companies. The company enhances its competitiveness by building knowledge, investing in technological development and strengthening its customer relationships.

Business cycle

The business cycle is difficult to predict and has an impact on the company's sales and earnings. Management closely monitors trends in the business cycle. The company's customers operate in a range of areas, which reduces sensitivity to the business cycle.

Financial risk factors

The carrying amounts, less accumulated impairment, of trade receivables and trade payables are assumed to correspond to their fair values, since these items are of a short-term nature. Through its operations, the Group is exposed to various types of financial risk: foreign exchange risk, credit risk and liquidity risk. The Group's overall risk management policy is focused on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Group's financial performance. Risk management is handled according to policies that are adopted by the Board of Directors.

Management identifies, evaluates and hedges financial risks.

a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to different currencies, predominantly the US dollar (USD), the euro (EUR) and the Japanese yen (JPY). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the functional currency of the entity.

The Group's sales in foreign currency, mainly USD, EUR and JPY, account for approximately 94% (95) of total sales. Of the cost of goods sold, which accounts for about 5% (5) of the Group's cost mass, approximately 84% (79) of purchases are denominated in foreign currency, also primarily in USD, EUR and JPY.

Measures to manage transaction-related foreign exchange risk are established in the Group's finance policy. The objective is to minimize the short-term effect of the foreign exchange movement on profit while at the same time creating long-term freedom of action. No hedging of foreign currency cash flows was carried out during the financial year. The company's measures to manage foreign exchange risk, in accordance with the Group's internal pricing strategy, are to invoice each sales company monthly and thereafter exchange the received foreign currency for SEK.

SEK m	Total	SEK	USD	EUR	JPY	Other currencies
Sales	328.4	18.9	130.1	93.6	53.1	32.7
Cost of goods sold	12.2	2.0	6.2	0.9	1.6	1.5
Other expenses	219.7	126.3	58.7	9.4	17.9	7.4

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, deposits with banks and credit exposures to customers, including outstanding receivables and contractual transactions. For banks, only independently rated parties with a minimum credit rating of "A" are accepted. Individual risk limits for customers are set based on internal credit assessments with external support in accordance with the limits set by management.

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

CREDIT RISKS IN TRADE RECEIVABLES

The Group conducts sales to a large number of customers. Most of the Group's sales are made to customers outside Sweden and the USA is a large and important market.

Sales are subject to normal delivery and payment conditions. The Group's credit granting policy contains rules to ensure that management of customer credits includes credit assessment, credit limits, decision-making levels and management of doubtful debts. No specific customer or group of customers accounted for a significant share of trade receivables at year-end 2016. Historically, the Group's bad debt losses have not been significant in scope.

c) Liquidity risk

The Group manages liquidity risk by ensuring that it has adequate cash and cash equivalents and short-term investments with a liquid market while maintaining sufficient access to financing through committed credit facilities. Due to the dynamic nature of the Group's operations, management achieves flexibility in financing by maintaining agreements for withdrawable lines of credit. In addition, management closely monitors rolling forecasts of the Group's liquidity reserve, consisting of undrawn committed credit facilities and cash and cash equivalents, on the basis of anticipated cash flows.

The table below analyzes the maturity structure of the Group's financial liabilities grouped according to the period remaining in the contractual maturity. The amounts shown in the table are the contractual undiscounted cash flows.

At December 31, 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Finance leases	1.1	0.4	1.2	-
Bank overdraft facilities	-	-	-	-
Trade and other payables ¹	5.7	-	-	-
At December 31, 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Finance leases	1.2	0.6	-	-
Bank overdraft facilities	-	-	-	-
Trade and other payables ¹	5.4	-	-	-

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

CONT. NOTE 2

SENSITIVITY ANALYSIS

The risks described here and in the administration report can result in either lower revenue or higher expenses for the Group. The table below shows the effects on consolidated profit or loss after tax resulting from changes in a number of items in the income statement. Since the Group does not recognize any value changes in other comprehensive income, the corresponding effect occurs under equity.

Sensitivity analysis At December 31, 2016	Change	Effect on profit
Cost of goods sold	+/- 5%	SEK +/- 0.5m
Payroll expenses	+/- 5%	SEK +/- 6.3m
Currency – EUR	+/- 5%	SEK +/- 3.2m
Currency – USD	+/- 5%	SEK +/- 2.5m
Currency – JPY	+/- 5%	SEK +/- 1.3m
Variable interest	+/- 1 percentage point	SEK +/- 0.0m

Sensitivity analysis At December 31, 2015	Change	Effect on profit
Cost of goods sold	+/- 5%	SEK +/- 0.4m
Payroll expenses	+/- 5%	SEK +/- 6.1m
Currency – EUR	+/- 5%	SEK +/- 2.9m
Currency – USD	+/- 5%	SEK +/- 2.6m
Currency – JPY	+/- 5%	SEK +/- 1.2m
Variable interest	+/- 1 percentage point	SEK +/- 0.0m

CAPITAL RISK MANAGEMENT

The Group's objectives when managing the capital structure are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure as a means of reducing the cost of capital.

In order to maintain or adjust the capital structure, the Group may change the amount of dividends paid to the shareholders, repay capital to shareholders, issue new shares or sell assets to reduce debt.

Like other companies, the Group monitors capital on the basis of the net debt/equity ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including "Current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total equity is calculated as "Equity" as shown in the consolidated balance sheet plus net debt.

The net debt/equity ratio at December 31, 2016 and 2015 was as follows:

	2016	2015
Total borrowings (Note 18)	2.7	1.8
Less cash and cash equivalents (Note 18)	-99.2	-89.4
Net debt	-96.5	-87.6
Total equity	279.5	290.9
Total capital	183.0	203.3
Net debt/equity ratio	-53%	-43%

NOTE 3 SEGMENT REPORTING

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

GEOGRAPHICAL AREAS

SEK m	Sales		Non-current assets		Investments	
	2016	2015	2016	2015	2016	2015
Americas						
USA	111.4	114.6	1.5	1.6	0.2	0.6
Other countries	9.9	10.7	-	-	-	-
	121.3	125.3	1.5	1.6	0.2	0.6
Asia						
Japan	51.9	41.4	0.0	0.1	0.0	0.0
Other countries	40.0	36.1	0.1	0.1	0.0	0.1
	91.9	77.5	0.1	0.2	0.0	0.1
EMEA						
UK	15.0	15.3	0.0	0.0	0.0	0.0
Germany	40.3	37.9	0.1	0.1	0.0	0.1
Other countries	45.0	39.8	0.0	0.0	0.0	0.0
	100.3	93.0	0.1	0.1	0.0	0.1
Nordic region						
Sweden	6.5	6.5	201.5	196.9	18.7	17.9
Other countries	8.4	9.4	-	-	-	-
	14.9	15.9	201.5	196.9	18.7	17.9
Total	328.4	311.7	203.2	198.8	18.9	18.7

No single customer accounted for 10% or more of the Group's revenue in 2016 and 2015.

NOTE 4 GOODS FOR RESALE

The item "Goods for resale" in consolidated operating profit includes foreign exchange gains/losses of SEK 0.0m (0.0) pertaining to operating receivables and liabilities.

Operating profit in the Parent Company includes foreign exchange gains/losses of SEK 0.0m (0.0).

NOTE 5 OTHER EXTERNAL EXPENSES

FEES TO AUDITORS

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Deloitte				
Audit of the financial statements	0.7	0.6	0.0	0.0
Audit-related services other than the audit	-	-	-	-
Tax consultancy	0.1	0.2	-	0.1
Other services	0.0	0.0	-	-
Total Deloitte	0.8	0.8	0.0	0.1
Total fees to auditors	0.8	0.8	0.0	0.1

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

NOTE 6 PERSONNEL COSTS

AVERAGE NUMBER OF EMPLOYEES

The average number of employees in the Group during 2016 was 159 (157). The breakdown of the average number of employees by country and, in Sweden, by location, is shown in the table below.

The majority, 59% (61%), are employed in Sweden (calculated on the average number of employees during the year).

AVERAGE NUMBER OF EMPLOYEES

	2016		2015	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Parent Company				
Stockholm	4	75%	4	75%
Subsidiaries in Sweden				
Uppsala	90	76%	91	77%
Subsidiaries outside Sweden				
UK	-	-	1	0%
Germany	5	40%	5	40%
France	2	50%	2	50%
USA	37	70%	36	72%
South Korea	5	80%	5	80%
China	2	50%	2	50%
Japan	14	79%	11	92%
Total subsidiaries	155	73%	153	74%
Total Group	159	73%	157	74%

GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES IN THE GROUP

	2016		2015	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Group (incl. subsidiaries)				
Board members	5	80%	5	80%
CEO and other senior executives	3	100%	7	86%
Presidents of subsidiaries	-	-	-	-
Parent Company				
Board members	5	80%	5	80%
CEO and other senior executives	2	100%	2	100%

SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES

The Group's total payroll costs amounted to SEK 159.7m (155.4), of which social security expenses accounted for SEK 29.8m (29.4) and pensions for SEK 10.8m (10.2). Of the Group's total payroll costs, SEK 9.1m (8.0) has been spent on assets and have been capitalized as internally generated development costs.

SEK m	2016		2015	
	Salaries and other remuneration	Social security expenses (of which pension costs)	Salaries and other remuneration	Social security expenses (of which pension costs)
Parent Company	7.7	3.8 (1.0)	8.5	3.6 (0.9)
Subsidiaries	111.4	36.8 (9.8)	107.3	36.0 (9.3)
Total Group	119.1	40.6 (10.8)	115.8	39.6 (10.2)

Of the Group's total pension costs, SEK 0.3m (0.3) is attributable to Board members and presidents. Of the Parent Company's total pension costs, SEK 0.3m (0.3) is attributable to Board members and the CEO.

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

SEK m	2016		2015	
	Board, CEO and other senior executives	Other employees	Board, CEO and other senior executives	Other employees
Parent Company	6.6	1.1	7.4	1.1
Subsidiaries in Sweden	1.5	52.4	1.7	51.4
Subsidiaries outside Sweden	-	57.5	-	54.2
Total Group	8.1	111.0	9.1	106.7

REMUNERATION TO SENIOR EXECUTIVES

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

CONT. NOTE 6

No Board fees are paid to members who receive a salary from companies in the IAR Group. In 2016, this rule applied to Stefan Skarin. In accordance with the resolution passed by the AGM, the group of other senior executives was reduced in 2016, from the previous six members to comprise the CFO and COO.

BOARD OF DIRECTORS

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

Board Chairman	SEK 375,000
Other Board members who do not receive a salary from companies in the IAR Group (3 people)	SEK 165,000 per member

PRINCIPLES

The principles for remuneration to the CEO and other senior executives are prepared by the remuneration committee and presented to the Board, which puts forward proposals for such principles for approval by the AGM.

For 2016, the Group applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM.

Remuneration to the CEO and other senior executives is to consist of fixed salary, variable salary, pension and other customary benefits. The maximum of variable salary for the CEO and other senior executives corresponds to 50% of fixed salary. Pension benefits and other benefits are paid as part of the total remuneration package.

The amount of variable salary for the CEO is periodically determined by the company's Board of Directors. The CEO approves the remuneration and terms and conditions of employment for other senior executives on the basis of the principles for remuneration of

senior executives adopted at the AGM. Variable salary is based on actual outcomes in relation to individually set targets.

VARIABLE REMUNERATION

For the CEO, variable salary for 2016 was based on the Group's sales and operating profit. The bonus amount for 2016 was equal to 28% (48) of basic salary.

For the other senior executives, the bonus for 2016 was based on the Group's sales and operating profit. The bonus amount for other senior executives in 2016 was equal to 23% (31) of basic salary.

PENSION AGREEMENTS

The CEO and CFO are covered by pension insurance corresponding to the ITP plan, but with a contractual retirement age of 60 years. All other senior executives are covered by pension insurance corresponding to the ITP plan. All of the Group's pension plans are defined contribution plans.

TERMINATION BENEFITS

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

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

REMUNERATION AND OTHER BENEFITS DURING THE YEAR

Remuneration to the Board of Directors, CEO and other senior executives in 2016

SEK m	Fixed salary/ Board fees		Variable salary		Other benefits		Pension expenses		Other remuneration		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Board Chairman Markus Gerdien	0.3	0.3	-	-	-	-	-	-	-	-	0.3	0.3
Board member Peter Larsson	0.2	0.1	-	-	-	-	-	-	-	-	0.2	0.1
Board member Karin Moberg	-	0.1	-	-	-	-	-	-	-	-	-	0.1
Board Member Jonas Mårtensson	0.2	0.1	-	-	-	-	-	-	-	-	0.2	0.1
Board Member Maria Wasing	0.2	0.1	-	-	-	-	-	-	-	-	0.2	0.1
CEO Stefan Skarin	2.7	2.8	0.8	1.3	0.2	0.2	0.3	0.3	-	-	4.0	4.6
Other senior executives	3.0	3.2	0.7	1.1	0.2	0.2	0.7	0.7	-	-	4.6	5.2
Total	6.6	6.7	1.5	2.4	0.4	0.4	1.0	1.0	-	-	9.5	10.5

NOTE 7 FINANCIAL INCOME AND EXPENSES

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Interest income	0.0	0.1	0.0	0.0
Foreign exchange gains	0.0	0.0	-	-
Group contributions received	-	-	87.0	70.0
Total financial income	0.0	0.1	87.0	70.0
Interest expenses	-0.0	-0.1	-0.0	-0.0
Foreign exchange losses	-	-	-	-
Impairment losses for shares in NorNor Holding AB	-0.3	-	-0.3	-
Finance leases	-0.1	-0.1	-	-
Total financial expenses	-0.4	-0.2	-0.3	-0.0
Net financial items	-0.4	-0.1	86.7	70.0

NOTE 8 TAX

The following components are included in the tax expense.

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Current tax on profit for the year	-2.9	-3.4	-	-
Deferred tax	-19.2	-16.5	-18.4	-14.5
Total tax on profit for the year	-22.1	-19.9	-18.4	-14.5

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

SEK m	Group		Parent Company	
	2016	2015	2016	2015
The year's deferred tax expense/income				
intangible assets	1.2	-0.2	-	-
utilization of loss carryforwards	-18.4	-14.9	-18.4	-14.5
support and upgrade agreements	0.1	0.2	-	-
untaxed reserves	0.0	0.2	-	-
other temporary differences	-2.1	-1.8	-	-
Total deferred tax in the income statement	-19.2	-16.5	-18.4	-14.5

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Reconciliation between effective tax and tax based on the applicable tax rate				
Reported profit before tax	96.1	83.3	83.1	65.9
Tax according to the applicable tax rate	-21.9	-19.7	-18.3	-14.5
Tax effect of non-deductible expenses	-0.2	-0.2	-0.1	-0.0
Tax effect of non-taxable income	0.0	0.0	0.0	0.0
Total	-22.1	-19.9	-18.4	-14.5
Prior year adjustments	-	-	-	-
Tax on profit for the year according to the income statement	-22.1	-19.9	-18.4	-14.5

TAX RATE

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

TEMPORARY DIFFERENCES

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

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Deferred tax liabilities attributable to intangible assets	-13.0	-14.2	-	-
Deferred tax liabilities attributable to untaxed reserves	-0.1	-0.1	-	-
Deferred tax liabilities attributable to other temporary differences	-1.7	-2.2	-	-
Total deferred tax liabilities	-14.8	-16.5	-	-
Deferred tax assets attributable to loss carryforwards	13.9	32.3	13.3	31.7
Deferred tax assets attributable to support and upgrade agreements	1.6	1.5	-	-
Deferred tax assets attributable to other temporary differences	0.4	3.0	-	-
Total deferred tax assets	15.9	36.8	13.3	31.7
Total deferred tax assets, net	1.1	20.3	13.3	31.7

CONT. NOTE 8

On the balance sheet date, the Group had total unutilized loss carryforwards in continuing operations of SEK 63m (147). Based on these loss carryforwards, the Group has recognized a deferred tax asset of SEK 13.9m (32.3). Deferred tax assets are recognized only to the extent that it is probable that these loss carryforwards can be offset against future taxable profits. The assessment of the Group's future earnings performance is based on both reported profit in recent years and on an improved outlook for profitability. The recognized tax assets refer primarily to IAR Systems Group AB.

There is no expiry date for the above loss carryforwards.

NOTE 9 EARNINGS PER SHARE

	Group	
	2016	2015
Profit, SEK m	74.0	63.4
Basic earnings per share, SEK	5.86	5.02
Diluted earnings per share, SEK	5.86	5.02
Number of shares		
Average number of shares before dilution, millions	12.63	12.63
Average number of shares after dilution, million	12.63	12.63

NOTE 10 INTANGIBLE ASSETS

	Goodwill		Trademarks		Customer contracts		Software		Internally generated software development costs		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
GROUP, SEK m												
Opening cost	113.5	112.4	11.7	11.7	3.4	3.4	22.8	19.6	84.8	71.3	236.2	218.4
Investments	-	-	-	-	-	-	1.6	4.2	15.7	13.5	17.3	17.7
Translation differences	1.4	1.1	-	-	-	-	0.2	-	-	-	1.6	1.1
Sales and disposals	-	-	-	-	-3.4	-	-	-1.0	-	-	-3.4	-1.0
Closing accumulated cost	114.9	113.5	11.7	11.7	0.0	3.4	24.6	22.8	100.5	84.8	251.7	236.2
Opening amortization	-	-	-8.4	-7.6	-3.4	-3.4	-8.7	-7.0	-23.4	-14.5	-43.9	-32.5
Sales and disposals	-	-	-	-	3.4	-	-	1.0	-	-	3.4	1.0
Amortization for the year	-	-	-0.8	-0.8	-	-	-3.3	-2.7	-10.1	-8.9	-14.2	-12.4
Closing accumulated amortization	-	-	-9.2	-8.4	0.0	-3.4	-12.0	-8.7	-33.5	-23.4	-54.7	-43.9
Opening impairment	-	-	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-	-
Closing accumulated impairment	-	-	-	-	-	-	-	-	-	-	-	-
Carrying amount	114.9	113.5	2.5	3.3	0.0	0.0	12.6	14.1	67.0	61.4	197.0	192.3

BASIC

Basic earnings per share are calculated by dividing profit attributable to owners of the Parent Company by the weighted average number of shares outstanding during the period.

DILUTED

Profit for the year after tax is divided by the average number of shares outstanding during the year after dilution. The dilutive effect of warrants is determined based on the following assumptions: (1) all warrants with a exercise price that is lower than the market value per share at the end of the respective period are exercised and new shares issued, (2) the net proceeds generated by the exercise of warrants are equal to the number of warrants exercised multiplied by the value of the exercise price, (3) the net proceeds are used to repurchase shares at a price equal to the market price per share according to (1) above. The increase in the number of shares in the company is thus equal to the number of shares issued through the exercise of warrants less the number of shares repurchased with the net proceeds received.

CONT. NOTE 10

DESCRIPTION

Goodwill	Attributable to the acquisition of IAR Systems AB (2005) and Signum Systems Corp (2011).
Trademarks	Attributable to the acquisition of IAR Systems AB (2005).
Customer contracts	Attributable to the acquisition of IAR Systems AB (2005).
Software	Refers to externally acquired/company-specific systems, such as accounting systems, CRM systems and the company's website.
Internally generated software development costs	Refers to capitalized internal expenses for software development (primarily IAR Embedded Workbench) and debug probes.

USEFUL LIVES

Useful lives are determined based on various factors, such as asset class and the product's economic useful life. The assessment of the asset's useful life is tested annually. The following useful lives are applied:

Trademarks	15 years
Customer contracts	5 years
Software	5–6 years
Internally generated software development costs	6–10 years

INVESTMENTS FOR THE YEAR

Of the year's investments of SEK 17.3m (17.7), SEK 1.6m (4.2) pertains to software and SEK 15.7m (13.5) pertains to internally generated software development costs. Of the internally generated costs, SEK 12.1m (10.3) pertains to personnel costs.

IMPAIRMENT TESTING OF INTANGIBLE ASSETS

Goodwill is tested for impairment at the lowest level in the Group at which goodwill is monitored for internal management purposes, which is not larger than an operating segment and for the Group comprises IAR Systems. For other intangible assets, corresponding impairment testing is performed for assets that have not yet been utilized or if other indicators exist that may impact the value of the assets.

The growth rate used is based on past performance and management's expectations for market development. For year one, this corresponds to the budget and business plan established by the Board of Directors. For years two and three, this corresponds to management's forecasts. Cash flows beyond the three-year period are extrapolated based on a growth rate of 2% (2). This growth rate does not exceed the long-term growth rate for the market.

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

The discount rate used, 7.4% (8.5), is stated before tax and is deemed to reflect specific risks relating to the operating segment.

Assumption	Growth rate	Operating margin	Discount rate (before tax)
Year 1 (Budget)	Acc. to the Board's adopted budget	Acc. to the Board's adopted budget	7.4% (8.5%)
Years 2–3 (forecast period)	Acc. to management's estimated forecast	Acc. to management's estimated forecast	7.4% (8.5%)
Terminal value	2% (2%)	On par with year 3	7.4% (8.5%)

To support impairment testing of goodwill in the Group, the Group has carried out an overall analysis of the sensitivity of the variables used in the model. An adverse change in each of the key assumptions included in the business plan, a decrease in annual sales growth and operating margins beyond the forecast period or an increase in the discount rate, of which each is reasonably possible, shows that there is nonetheless a good margin between the recoverable value and carrying amount. Management has therefore made the assessment that there was no indication of impairment of goodwill at the end of 2016. Impairment testing for other intangible assets is based on estimated future cash flows. At December 31, ongoing investments in internally generated software development costs amounted to SEK 12.9m (18.5). The discount rate used, 7.4%, is stated before tax and is deemed to reflect specific risks relating to the asset.

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

GROUP, SEK m	Leasehold improvements		Equipment		Total	
	2016	2015	2016	2015	2016	2015
Opening cost	0.6	0.6	21.1	20.5	21.7	21.1
Investments	0.0	0.0	0.7	1.0	0.7	1.0
Investments through finance leases	-	-	2.1	-	2.1	-
Translation differences	-	-	0.4	0.2	0.4	0.2
Sales and disposals	-	-	-2.6	-0.6	-2.6	-0.6
Closing accumulated cost	0.6	0.6	21.7	21.1	22.3	21.7
Opening depreciation	-0.5	-0.5	-14.7	-12.6	-15.2	-13.1
Sales and disposals	-	-	1.9	0.6	1.9	0.6
Translation differences	-	-	-0.3	-0.2	-0.3	-0.2
Depreciation of finance leases for the year	-	-	-0.5	-0.5	-0.5	-0.5
Depreciation for the year	-0.0	-0.0	-2.0	-2.0	-2.0	-2.0
Closing accumulated depreciation	-0.5	-0.5	-15.6	-14.7	-16.1	-15.2
Carrying amount	0.1	0.1	6.1	6.4	6.2	6.5
PARENT COMPANY, SEK m	2016	2015	2016	2015	2016	2015
Opening cost	-	-	0.6	0.6	0.6	0.6
Investments	-	-	-	-	-	-
Sales and disposals	-	-	-	-	-	-
Closing accumulated cost	-	-	0.6	0.6	0.6	0.6
Opening depreciation	-	-	-0.4	-0.3	-0.4	-0.3
Sales and disposals	-	-	-	-	-	-
Depreciation for the year	-	-	-0.0	-0.1	-0.0	-0.1
Closing accumulated depreciation	-	-	-0.4	-0.4	-0.4	-0.4
Carrying amount	-	-	0.2	0.2	0.2	0.2

OPERATING LEASES

During the year, lease payments under operating leases in the Group amounted to SEK 13.7m (13.5). The majority of operating leases consist of leases for premises. The Parent Company classifies all leases, whether operating or finance leases, as operating leases. The aggregate amount of future minimum lease payments at the balance sheet date under non-cancellable operating leases grouped by period to maturity was as follows:

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Due for payment within 1 year	12.7	12.2	0.3	0.3
Due for payment within 2 years	7.0	7.7	0.2	0.3
Due for payment within 3 years	5.9	5.5	-	0.2
Due for payment within 4 years	1.1	1.5	-	-
Due for payment in 5 years or later	1.1	1.1	-	-

FINANCE LEASES

The majority of finance leases refer to company cars. The accumulated cost of finance leases at December 31, 2016 was SEK 3.4m (2.9).

Accumulated depreciation at year-end amounted to SEK 0.8m (1.1). These obligations are recognized under "Equipment" in the balance sheet.

Lease payments for company cars are affected by interest rate levels, and are thus variable. Total lease charges of SEK 0.6m (0.5) were paid during the year.

The present value of future payment obligations under finance leases is recognized in liabilities to credit institutions, divided between current and non-current liabilities, as follows:

GROUP, SEK m	2016	2015
Current portion (due within 1 year)	1.1	1.2
Non-current portion (due within 5 years)	1.6	0.6
Non-current portion (due later than 5 years)	-	-
Total	2.7	1.8

NOTE 12. OTHER NON-CURRENT RECEIVABLES

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Deposits	1.6	1.5	0.1	0.1
Other	0.3	0.3	-	-
	1.9	1.8	0.1	0.1

NOTE 13. OTHER NON-CURRENT SECURITIES

SEK m	Share of capital	Group		Parent Company	
		2016	2015	2016	2015
Shareholding in NorNor Holding AB	10% (10%)	2.9	3.2	2.9	3.2
		2.9	3.2	2.9	3.2

Other non-current securities consist of unlisted shares in NorNor Holding AB. The holding corresponds to approximately 10% of the total number of shares in NorNor Holding AB. The holding is recognized at historical cost, less amortization, since it is not possible to reliably estimate the fair value. The reason why it has not been possible to reliably estimate the fair value is that the future cash flows are too uncertain. Amortization of SEK 0.3m reflects the continued negative trend in the company. IAR Systems intends to divest the holding.

NOTE 14. TRADE AND OTHER RECEIVABLES

SEK m	Group	
	2016	2015
Trade receivables	48.5	43.9
Provisions for doubtful debts	-0.2	-0.4
Trade receivables, net	48.3	43.5
Prepaid expenses and accrued income	17.5	18.9
Other receivables	1.4	1.2
	67.2	63.6

The fair values of trade receivables are deemed to correspond with their carrying amounts. The estimated fair value has not been discounted, since the assessment is that this would not have any significant effect on fair value.

At December 31, 2016, trade receivables amounting to SEK 10.0m (10.5) were past due but not assessed to be impaired. These pertain to a number of independent customers that have not had any previous payment difficulties. An age analysis of these trade receivables is shown below:

SEK m	Group	
	2016	2015
AGE ANALYSIS OF PAST DUE TRADE RECEIVABLES		
Less than 3 months	8.7	10.1
3-6 months	0.3	0.2
More than 6 months	1.0	0.2
	10.0	10.5

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

Currency	Group	
	2016	2015
SEK	9.5	11.8
EUR	22.9	19.8
USD	24.4	22.1
Other currencies	10.4	9.9
	67.2	63.6

CHANGES IN PROVISIONS FOR DOUBTFUL DEBTS

SEK m	Group	
	2016	2015
Provisions at January 1	0.4	0.6
The year's provisions for doubtful debts	0.1	0.3
Receivables written off during the year as uncollectable	-0.2	-0.1
Reversed unutilized amount	-0.1	-0.4
Provisions at December 31	0.2	0.4

CREDIT QUALITY

The credit quality of trade receivables is deemed good, based on historical credit losses, and the risks are limited in view of the large size of the customer base. No individual customer accounted for more than 5% of total trade receivables at December 31, 2016.

NOTE 15. OTHER CURRENT RECEIVABLES

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Rent guarantees	0.0	0.0	-	-
Other	1.4	1.2	-	0.4
Total other current receivables	1.4	1.2	-	0.4

NOTE 16. PREPAID EXPENSES AND ACCRUED INCOME

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Accrued income	10.4	11.3	-	-
Prepaid rents	1.7	1.5	0.1	0.1
Prepaid insurance premiums	1.3	1.0	0.1	0.1
Other prepaid expenses	4.1	5.1	0.2	0.2
Total prepaid expenses and accrued income	17.5	18.9	0.4	0.4

NOTE 17. CASH AND CASH EQUIVALENTS

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Cash and cash equivalents at end of year	99.2	89.4	3.5	4.2
Unutilized committed credit facilities	25.0	25.0	-	-
Total available cash and cash equivalents	124.2	114.4	3.5	4.2

NOTE 18. FINANCIAL INSTRUMENTS

SEK m, December 31, 2016	Loans and receivables	Other liabilities	Total
Non-current financial assets			
Other financial receivables	1.9		1.9
Other non-current securities	2.9		2.9
Current financial receivables			
Trade and other receivables excl. prepaid expenses	48.4		48.4
Cash and cash equivalents			
Cash and cash equivalents	99.2		99.2
Total	152.4		152.4
Non-current liabilities			
Finance lease liabilities		1.6	1.6
Current liabilities			
Finance lease liabilities		1.1	1.1
Trade and other payables excl. non-financial liabilities		5.7	5.7
Total		8.4	8.4

SEK m, December 31, 2015	Loans and receivables	Other liabilities	Total
Non-current financial assets			
Other financial receivables	1.8		1.8
Other non-current securities	3.2		3.2
Current financial receivables			
Trade and other receivables excl. prepaid expenses	44.2		44.2
Cash and cash equivalents			
Cash and cash equivalents	89.4		89.4
Total	138.6		138.6

Non-current liabilities			
Finance lease liabilities		0.6	0.6
Current liabilities			
Finance lease liabilities		1.2	1.2
Trade and other payables excl. non-financial liabilities		5.4	5.4
Total		7.2	7.2

CASH AND CASH EQUIVALENTS

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

SEK m	Group	
	2016	2015
Cash in hand and bank deposits	99.2	89.4
Cash and cash equivalents	99.2	89.4

TRADE AND OTHER RECEIVABLES

SEK m	Group	
	2016	2015
Trade receivables	48.3	43.5
Other current receivables	1.4	1.2
Trade and other receivables	49.7	44.7

NET CASH

The Group's net cash at December 31, 2016 amounted to SEK 96.5m (87.6). The table on the next page shows how the Group calculates net cash and what it includes.

NOTE 18. CONT.

SEK m	Group	
	2016	2015
Current borrowings	-	-
Current portion of non-current borrowings	-	-
Current portion of finance lease liabilities	1.1	1.2
Total current borrowings	1.1	1.2
Non-current borrowings	-	-
Non-current portion of finance lease liabilities	1.6	0.6
Total non-current borrowings	1.6	0.6
Total borrowings	2.7	1.8
Cash and cash equivalents	99.2	89.4
Net cash	-96.5	-87.6
Bank overdraft facility	25.0	25.0

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

INTEREST-BEARING LIABILITIES

The Group's total interest-bearing liabilities at December 31, 2016 amounted to SEK 2.7m (1.8), of which SEK 1.6m (0.6) pertains to non-current borrowings excluding those maturing in the next 12 months. Non-current borrowings maturing within 12 months amount to SEK 1.1m (1.2). The table below shows the carrying amounts of the Group's interest-bearing liabilities.

BORROWINGS

Type of loan	Interest rate	Currency	Group	
			2016	2015
Other non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	1.6	0.6
Current portion of non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	1.1	1.2
Bank overdraft facilities	Variable	SEK	-	-
			2.7	1.8

INFORMATION ABOUT MEASUREMENT AT FAIR VALUE

For cash and cash equivalents, trade receivables, trade payables and borrowings, the carrying amount is a good approximation of fair value since the maturity is short. For borrowings, the carrying amount is a good approximation of fair value since the interest rate is variable and the credit margin is relatively unchanged.

NOTE 19. SHARE CAPITAL

A specification of changes in equity is found in the statement of changes in equity.

Number of shares: Parent Company	Class A shares	Class B shares	Total number
Number at January 1, 2015	100,000	12,532,061	12,632,061
Treasury shares at January 1, 2015		-	
New share issue in 2015		-	
Sold in 2015		-	
Total number of shares at December 31, 2015	100,000	12,532,061	12,632,061
Number at January 1, 2016	100,000	12,532,061	12,632,061
Treasury shares at January 1, 2016		-	
New share issue in 2016		-	
Sold in 2016		-	
Total number of shares at December 31, 2016	100,000	12,532,061	12,632,061

The share capital is divided among 12,632,061 shares, of which 100,000 are class A shares and 12,532,061 are class B shares. All shares have a quota value of SEK 10 and grant equal rights to the company's assets and profits. Class A shares grant entitlement to 10 votes and class B shares to one vote. At general shareholder meetings, each holder of voting shares is entitled to exercise the full number of votes held or represented by proxy without restriction.

NOTE 20. PROPOSED APPROPRIATION OF PROFITS

The funds at the disposal of the Annual General Meeting are as follows (SEK):

Share premium reserve	50,226,463.88
Retained earnings	-
Profit for the year	64,746,941.62
TOTAL, SEK	114,973,405.50

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

Dividend of SEK 5.00 per share	63,160,305.00
To be carried forward to new account	51,813,100.50
TOTAL, SEK	114,973,405.50

NOTE 21. ACCRUED EXPENSES AND DEFERRED INCOME

SEK m	Group		Parent Company	
	2016	2015	2016	2015
Accrued salaries and social security expenses	10.1	12.2	2.8	3.8
Deferred income	72.3	60.9	-	-
Other items	2.4	2.8	3.0	0.2
Total accrued expenses and deferred income	84.8	75.9	5.8	4.0

NOTE 22. PLEDGED ASSETS

SEK m	Group		Parent Company	
	2016	2015	2016	2015
To secure own liabilities				
To secure pensions and similar obligations:				
Direct pension obligations	1.8	1.8	1.4	1.4
To secure liabilities to credit institutions:				
Machinery held under - finance leases	2.7	1.8	-	-
Total assets pledged to secure own liabilities	4.5	3.6	1.4	1.4
To secure other commitments				
Guarantees	-	-	-	-
Total pledged assets	4.5	3.6	1.4	1.4

NOTE 23. PARTICIPATIONS IN GROUP COMPANIES

SEK m	Group	
	2016	2015
Opening cost	189.4	189.4
Closing accumulated cost	189.4	189.4
Opening impairment	-	-
Closing accumulated impairment	-	-
Closing carrying amount	189.4	189.4

Subsidiaries

IAR Systems Group conducts operations in a number of different geographical markets, which means that the Group has subsidiaries in many parts of the world. The Parent Company has control over a subsidiary when it is exposed to or has the right to variable returns from its involvement in the subsidiary and has the ability to use that control over the subsidiary to influence its returns. All subsidiaries are directly or indirectly wholly owned by the Parent Company IAR Systems Group AB (publ).

Group composition

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

Primary activity	Geographic operations	Dec 31, 2016	Dec 31, 2015
Product development	Europe	1	1
Product development	Americas	1	1
Sales office	Europe	2	2
Sales office	Americas	1	1
Sales office	Asia	3	3

NOTE 23. CONT.

PARENT COMPANY HOLDINGS

SEK m	Corp. ID no.	Domicile	% of capital	% of votes	No. of shares	Carrying amount 2016	Carrying amount 2015
Direct holdings:							
IAR Systems AB	556230-7107	Uppsala, Sweden	100.0%	100.0%	22,846,224	162.3	162.3
Signum Systems Corp	1473886	Camarillo, USA	100.0%	100.0%	100,000	27.1	27.1
Indirect holdings through subsidiaries:							
IAR Systems Software Inc	1830665	Foster City, USA	100.0%	100.0%	-	-	-
IAR Systems Ltd	2190612	Oxford, England	100.0%	100.0%	-	-	-
IAR Systems GmbH	HRB 175145	Munich, Germany	100.0%	100.0%	-	-	-
IAR Systems KK	0111-01-034174	Tokyo, Japan	100.0%	100.0%	-	-	-
IAR Software Technology Consulting (SH) Co. Ltd	660701822	Shanghai, China	100.0%	100.0%	-	-	-
IAR Systems Korea Co	110111-4699679	Seoul, South Korea	100.0%	100.0%	-	-	-
IAR Systems Sarl	539 357 327 R.C.S. Paris	Paris, France	100.0%	100.0%	-	-	-
IAR Systems Jönköping AB	556456-7690	Jönköping, Sweden	100.0%	100.0%	-	-	-
Closing carrying amount						189.4	189.4

NOTE 24. RELATED PARTY TRANSACTIONS

Of the Parent Company's total expenses of SEK 4.9m (4.0), 0% (0) pertains to purchases from other companies in the Group. Of the Parent Company's total sales revenue, 100% (100) pertains to inter-company sales. Of the year's total purchasing costs and sales revenue in the subsidiaries, 0% (0) pertains to purchases from the Parent Company and 0% (0) to sales to the Parent Company.

TRANSACTIONS WITH OTHER RELATED PARTIES

No transactions with related parties have taken place other than those stated in Note 6.

The Board of Directors and the CEO hereby give their assurance that the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and give a true and fair view of the Group's financial position and results of operations. The annual report has been prepared in accordance with generally accepted accounting principles in Sweden and gives a true and fair view of the Parent Company's financial position and results of operations. The administration report for the Group and the Parent Company provides a true and fair view of the business activities, financial position and results of operations of the Group and the Parent Company and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

The annual report will be presented to the Annual General Meeting for adoption on April 26, 2017.

Stockholm, March 7, 2017



Stefan Skarin
President and CEO
Board member



Markus Gerdien
Board Chairman



Peter Larsson
Board member



Jonas Mårtensson
Board member



Maria Wasing
Board member

Our auditor's report was submitted on March 7, 2017
Deloitte AB



Erik Olin
Authorized Public Accountant
Auditor in Charge

AUDITOR'S REPORT

To the general meeting of the shareholders of IAR Systems Group AB (publ) corporate identity number 556400-7200

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

OPINIONS

We have audited the annual accounts and consolidated accounts of IAR Systems Group AB (publ) for the financial year 2016-01-01 - 2016-12-31 except for the corporate governance statement on pages 68-71. The annual accounts and consolidated accounts of the company are included on pages 33-64 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 68-71. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

BASIS FOR OPINIONS

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Revenue recognition

Risk assessment

Consolidated net sales amounts to SEK 328.4 (311.7) million and derives from sales of both products and services. We have classified this as a key audit matter since revenue is significant and consist of a large number of smaller transactions where product and services in some cases is bundled into one customer offering, which may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). Revenue recognition should reflect the economic substance of each deliverable and revenue should be allocated based on the relative fair value of each separately identifiable deliverable. The fair value for each separately identifiable deliverable and the timing of the recognition of revenue may have a significant impact on the Group's net sales and earnings.

For further information, please refer to the Group's accounting policies in Note 1 on page 49 and description of significant estimates and assumptions in page 50.

Our audit procedures

Our audit procedures included but were not limited to:

- › evaluation of the appropriateness of the Group's revenue recognition principles and compliance with the same for each significant revenue stream
- › gaining an understanding of significant transactions flows and testing of key internal controls mitigating the risk of significant financial statements misstatements
- › detailed testing for a sample of revenue transactions including reconciliation to customer contracts and testing of cut off based on deliverables
- › detailed testing for a sample of revenue transactions with respect of existence and completeness of revenue by comparing reported revenue with customer payments and review of revenue accruals at year end.

Recognition and valuation of capitalized software development cost

Risk assessment

Consolidated capitalized software development cost amounts to SEK 67.0 (61.4) million and includes internally generated development costs. Development costs are capitalized when the criteria's, described in the Group's accounting policies in not 1 on page 47 are met.

The capitalization and subsequent measurement of internally generated software are based on the management's assessment of the future economic benefits. There is a risk that the development costs do not qualify for capitalization and that the carrying value of individual software applications exceeds the recoverable amount, which could have a significant impact on the Group's earnings and financial position.

For further information, please refer to the Group's accounting policies in Note 1 on page 47 and description of significant estimates and assumptions on page 50.

Our audit procedures

Our audit procedures included but were not limited to:

- › evaluation of the appropriateness of the Group's principles for capitalization of internally generated software development costs
- › gaining an understanding of the company's process for capitalization, amortization and impairment of capitalized software development costs and review of key internal controls mitigating the risk of significant financial statement misstatements
- › detailed testing for a sample of capitalized software development costs and evaluation of management's assessment that capitalized development costs meets the criteria for capitalization
- › evaluation if the methodology used by management for impairment testing of capitalized software development costs is in accordance to IFRS 36 and if assumptions used by management in the impairment model is reasonable and disclosures in the annual report appropriate.

OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-32 and 72-76. The Board of Directors and the Managing Director are responsible for this other information.

AUDITOR'S REPORT, cont.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

AUDITOR'S RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- › Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- › Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- › Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- › Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's

report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- › Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- › Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of IAR Systems Group AB (publ) for the financial year 2016-01-01 - 2016-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At

the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

AUDITOR'S RESPONSIBILITY

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- › has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- › in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

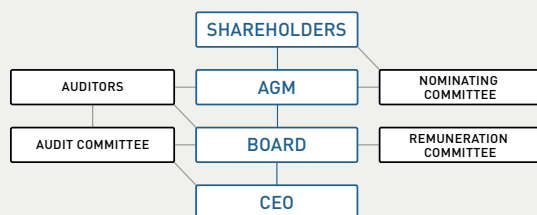
Stockholm, March 7, 2017

Deloitte AB

Erik Olin
Authorized Public Accountant

CORPORATE GOVERNANCE REPORT

IAR Systems Group is a Swedish public limited company domiciled in Stockholm, Sweden. In 2016, the Group conducted operations in Sweden, Germany, France, the USA, Japan, South Korea and China. The IAR Systems share is quoted on the Mid Cap list of Nasdaq Stockholm.



The corporate governance report for 2016 has been reviewed by IAR Systems Group's auditors, in accordance with the provisions of the Swedish Annual Accounts Act.

Corporate governance in the Parent Company and the Group is regulated by such documents as the Articles of Association, the Swedish Companies Act and Nasdaq Stockholm's Rules for Issuers, which for IAR Systems include application of the Swedish Code of Corporate Governance ("the Code") since July 1, 2008.

IAR Systems Group's Articles of Association can be found at www.iar.com under the heading "Investors". IAR Systems Group complies with the rules in the Swedish Companies Act regarding the appointment and dismissal of board members and regarding amendments to the Articles of Association. IAR Systems Group has not acted in violation of any of Nasdaq Stockholm's Rules for Issuers or generally accepted practices in the stock market.

SHAREHOLDERS

IAR Systems Group's shares have been quoted on Nasdaq Stockholm since 1999. The share capital in IAR Systems Group consists of class A shares, which carry ten votes each, and class B shares, which carry one vote each. The total number of shares is 12,632,061, of which 100,000 are of class A. All classes of shares grant equal rights to the company's assets and profits.

The number of shareholders in IAR Systems Group at December 31, 2016 was 8,645 (8,946). Of these shareholders, 518 (562) held more than 1,000 shares each. Foreign shareholders held approximately 13% (16) of the share capital and

12% (15) of the votes. For additional information about the shareholders and ownership structure, see pages 26-27.

GENERAL MEETING OF SHAREHOLDERS

The general meeting of shareholders is the highest decision-making body through which the shareholders exercise their influence over the company. Shareholders who wish to participate in the general meeting, personally or through a proxy, must be recorded in the share register five weekdays prior to the general meeting and must notify the company in the manner specified in the convening the meeting.

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

The Annual General Meeting (AGM) is to be held within six months from the end of the financial year. At the AGM, the shareholders resolve on the election of Board members and, when appropriate, the election of auditors, the principles for appointment of the nominating committee and discharge from liability for the Board of Directors and the CEO for the past year. The AGM also resolves on the adoption of the financial statements, appropriation of profits, fees for the Board of Directors and auditors and principles for remuneration for the CEO and other senior executives.

2016 ANNUAL GENERAL MEETING

The AGM re-elected sitting Board members Markus Gerdien, Peter Larsson, Jonas Mårtensson, Stefan Skarin and Maria Wasing. The AGM appointed Markus Gerdien as Board Chairman.

It was furthermore decided that Board fees would be paid in an annual amount of SEK 375,000 to the Board Chairman and SEK 165,000 to each of the other Board members. No fees are paid to the Board members who are employed in the company.

The AGM resolved to appoint a nominating committee according to the following. The Board Chairman is to convene the company's three largest shareholders in terms of voting power, each of which is then to appoint a member to the nominating committee. In addition, the Chairman of the Board may be appointed to the nominating committee.

The AGM resolved in accordance with the Board's proposal to pay a dividend of SEK 7.00 per share for 2015.

The Board of Directors was authorized, on one or several

occasions during the period until the next AGM, to decide on the issue of class B shares in a number equal to not more than 10% of the existing share capital in the company on the date of the AGM in exchange for non-cash consideration. The motive for the authorization is to provide scope for acquisitions with payment through a non-cash issue.

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

BOARD OF DIRECTORS

The Board of Directors consists of five members elected by the AGM and no deputies. The members elected by the AGM are appointed to serve for the period until the next AGM in accordance with the Code. There is no rule stipulating the maximum period of time for which a member can serve on the Board. The Board members and their dependency status in relation to the company's shareholders, etc., are shown in the table below.

The average age of the Board members is 52 years and one of the five members is a woman. The nominating committee considers all of the Board members except one to be independent in relation to the company, its management and the company's major shareholders. IAR Systems Group meets the requirements in the Code regarding the Board of Directors' independence in relation to the company, its management and the company's major shareholders.

Work and responsibilities of the Board

According to the Swedish Companies Act, the Board is also responsible for ensuring that the Group's organization is suitably structured so that the company's accounting, cash management and other financial circumstances can be controlled satisfactorily. The work of the Board is regulated by the Swedish Companies Act, the Articles of Association, the Code and the rules of procedure that are adopted yearly by the Board. The rules of procedure describe the division of responsibilities between the Board of Directors, the Board Chairman and the CEO, and also contain provisions

to secure the Board's need for continuous information and financial reporting, as well as instructions for the CEO.

Among other things, the rules of procedure state that the Board Chairman and CEO are to work closely to monitor the Group's development and to plan and lead Board meetings. The Chairman is responsible for ensuring that the Board carries out an annual self-assessment of its performance and evaluates its own work routines, and that the Board is continuously provided with the information needed to perform its duties effectively. The Chairman represents the company in matters related to the shareholders.

The tasks of the Board are to formulate IAR Systems Group's overall goals and strategies, to prepare budgets and business plans, to discuss and approve the annual accounts and interim reports, and to establish key policies and regulatory systems. The Board monitors the Group's financial performance, ensures the quality of the financial reporting and internal control, and regularly follows up and evaluates the business activities based on the Board's established targets and guidelines. The Board also decides on major investments and changes in IAR Systems Group's organization and operations.

Work of the Board in 2016

In 2016, the Board held seven meetings, of which six were scheduled and one was an extraordinary meeting. Each of the regular meetings followed an approved agenda, and both the proposed agendas and underlying documentation were sent to the Board members prior to each meeting. The CEO and certain other senior executives in the company took part in Board meetings in a reporting capacity and the company's CFO served as secretary of the Board. At the Board meetings, the Board dealt with the fixed items on the agenda for each meeting, such as the business and market situation, financial reporting and monitoring, the company's financial position and investments. The Board members' attendance at meetings is shown in the table below.

BOARD 2016

	Elected	Dependent	Remuneration committee	Audit committee
Markus Gardien, Chairman	2011	No	Chairman	Chairman
Peter Larsson	2010	No	Member	Member
Maria Wasing	2015	No	Member	Member
Jonas Mårtensson	2010	No	Member	Member
Stefan Skarin	2002	Yes	-	-

Remuneration to the Board

The Chairman and other members of the Board of Directors are paid fees in accordance with the decision of the AGM. No additional remuneration is paid for work on the Board's committees. No Board fees are paid to members who receive a salary from companies in IAR Systems Group. In 2016, this rule applied to Stefan Skarin.

BOARD COMMITTEES AND COMMITTEE WORK

In order to address the Board members' independence, two committees have been established: the remuneration committee and the audit committee, whose members are appointed by the Board. The main task of these committees is to prepare proposals for decision by the Board. The committees do not constitute any delegation of the legal responsibilities of the Board and its members. The issues dealt with at the committee meetings are reported verbally to the Board at the following Board meetings. No additional remuneration is paid for work on the Board's committees. See also page 71 for a description of the nominating committee and other Board committees.

AUDITORS

The independent auditor is appointed by the AGM and its task is to examine the company's financial reporting and the administration of the company by the Board of Directors and the CEO. The auditor was appointed by the 2016 AGM, at which time Deloitte was elected as auditor to serve for the period until the end of the 2017 AGM. Auditor in Charge is Erik Olin (born in 1973). In addition to IAR Systems Group, he has audit assignments for CLX Communications, Micro Systemation, NetEnt, Microsoft Sweden and TeliaSonera Sweden, among others.

On two occasions in 2016, the Auditor in Charge met with the Board to present the focus and scope of the audit, report his observations from the review of the interim report at September 30, his evaluation of internal control and the audit of the annual accounts for the 2016 financial year. On

one occasion in 2016, the Board met with the auditor without the presence of the CEO or other members of the company's management.

Deloitte issues an audit report regarding IAR Systems Group AB, IAR Systems AB and the Group. Deloitte also performs non-audit services for the companies in the IAR Group. These have mainly consisted of tax consultations in direct connection with the audit. For this work, Deloitte invoiced a total amount of SEK 0.1m (0.2) in 2016. The auditor is paid fees in accordance with the decision of the AGM. For information about fees to auditors in 2015 and 2016, see Note 5 on page 53.

CEO

The Board appoints the President of IAR Systems Group AB, who is also the CEO. The CEO is responsible for day-to-day management of operations in the Parent Company and the Group.

The CEO supervises operations according to the instructions adopted by the Board. He is responsible for ensuring that the Board members are supplied with the necessary information and decision data ahead of Board meetings, presents reports and submits well-founded proposals for decision. The CEO provides the members of the Board monthly with the information needed to monitor the financial position, activities and development of the Parent Company and the Group and keeps the Board Chairman continuously informed about operations.

The CEO takes the necessary measures to ensure that the company's financial accounting and reporting are carried out in compliance with law and that financial management is handled in a satisfactory manner. A more detailed description of the division of responsibilities between the Board and the CEO is provided in written instructions to the CEO, which are updated annually.

Stefan Skarin has been President and CEO since February 2008.

REMUNERATION TO THE BOARD

SEK thousand	2016	2015
Markus Gardien, Chairman	358	317
Peter Larsson	160	142
Maria Wasing	160	100
Jonas Mårtensson	160	142
Stefan Skarin	-	-
Karin Moberg	-	42

REMUNERATION TO THE CEO AND OTHER SENIOR EXECUTIVES

The principles for remuneration to the CEO and other senior executives are prepared by the remuneration committee and presented to the Board, which puts forward proposals for such principles for approval by the AGM. In accordance with the resolution passed by the AGM, the group of other senior executives was reduced in 2016, from the previous six members to comprise the CFO and COO. For 2016, the Group applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM. Remuneration to the CEO and other senior executives consists of fixed salary, variable salary, pension and other customary benefits. The maximum variable salary for the CEO and other senior executives corresponds to 50% of fixed salary. Pension benefits and other benefits are paid as part of the total remuneration package.

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

INTERNAL CONTROL

The Swedish Companies Act and the Swedish Code of Corporate Governance state that the Board of Directors is

responsible for ensuring that the company has satisfactory internal control, for staying informed about the company's internal control system and for evaluating the effectiveness of this system.

Control environment

The basis for internal control in IAR Systems Group is the control environment, which includes the organizational structure, decision-making paths, powers and responsibilities. The control environment is documented and communicated in the form of normative documents such as internal policies, guidelines and instructions. These include the division of responsibilities between the Board of Directors and the CEO and instructions for signatory powers, accounting and reporting.

Risk assessment

The Board of Directors has ultimate responsibility for the company's risk management. Controlled risk-taking is achieved through a well defined organization and decision-making procedures that include a high level of risk awareness among the employees and the application of uniform definitions and principles within an established framework. The primary risk areas are the account closing process in connection with financial reporting, operational risks and legal risk.

Control activities

The Group's business processes include financial controls that regulate approval and reporting of business transactions. The account closing and reporting process contains controls for aspects such as accounting, valuation and disclosure requirements and regarding the application of significant accounting policies and estimates both in the individual subsidiaries and at the Group level.

Certain subsidiaries in IAR Systems Group have their own financial directors that take part in planning and evaluation of financial results in their units. Regular analysis of financial reporting in the respective units covers significant items such as assets, liabilities, revenue, expenses and cash flow. For the subsidiaries that do not have their own financial directors, a more in-depth analysis is carried out at the Group level. Together with the analysis performed at the Group level, this important aspect of internal control contributes to ensuring that the financial reports contain no material misstatements.

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

REMUNERATION TO THE CEO AND OTHER SENIOR EXECUTIVES 2016

SEK thousand	Year	Fixed salary	Variable salary	Benefits	Pension costs	Total
Stefan Skarin, CEO	2016	2,763	787	152	325	4,027
	2015	2,763	1,335	153	311	4,562
Other senior executives	2016	3,050	709	190	697	4,646
	2015	3,175	1,155	172	703	5,205

ATTENDANCE AT BOARD MEETINGS IN 2016

	Feb 9	Mar 17	Apr 27	Apr 27 Stat.	Aug 17	Oct 20	Dec 7	Total
Markus Gerdien, Chairman	✓	✓	✓	✓	✓	✓	✓	7/7
Peter Larsson	✓	✓	✓	✓	✓	✓	✓	7/7
Maria Wasing	✓	✓	✓	✓	✓	✓	✓	7/7
Jonas Mårtensson	✓	✓	✓	✓	✓	✓	✓	7/7
Stefan Skarin	✓	✓	✓	✓	✓	✓	✓	7/7

✓ Attended – Did not attend

BOARD'S FINANCIAL CALENDAR

Quarter	Month	Activity
Q1	February	Meeting regarding year-end report and the financial results for the full-year
	March	Approval of the annual report
Q2	April	Q1 report meeting Statutory meeting
	August	Q2 report meeting
Q4	October	Q3 report meeting
	December	Meeting regarding business plan and financial plan

REMUNERATION COMMITTEE

The remuneration and other terms of employment for senior executives are to be designed to secure the company's access to executives with the requisite qualifications, at a cost that is adapted to company's circumstances and so as to ensure that they have the intended effects on the company's operations.

REMUNERATION COMMITTEE, TWO MEETINGS

Markus Gerdien, *Chairman*

Peter Larsson, Maria Wasing, Jonas Mårtensson

IAR Systems Group's remuneration committee complies with the provisions in the Code, which state, among other things, that the members of the remuneration committee are to be independent in relation to the company and its management. All members of the remuneration committee are independent in relation to the company, its management and the company's major shareholders. The remuneration committee is appointed by the Board. The committee has addressed matters of principle regarding variable salary for senior executives and general matters related to guidelines and policies for senior executives. The committee has also dealt with the salary and other terms of employment for the CEO.

Ahead of the 2017 AGM, the committee will prepare proposed principles for remuneration and other terms of employment for senior executives which the Board will then present for approval by the AGM in accordance with the Swedish Companies Act and the Code. All members attended the committee's two meetings.

AUDIT COMMITTEE

The tasks of the audit committee are to assist the Board in monitoring and evaluating the external audit process, to support the work of the Board in ensuring the quality of the company's financial reporting, to maintain continuous contact with the company's auditor and to study and assess reports from the independent auditor.

AUDIT COMMITTEE, TWO MEETINGS

Markus Gerdien, *Chairman*

Peter Larsson, Maria Wasing, Jonas Mårtensson

All members of the audit committee are independent in relation to the company, its management and the shareholders in accordance with the Code.

The committee is also responsible for assessing the auditors' independent status in relation to the company, including the scope of the auditors' non audit-related services for the company.

All members attended the committee's two meetings.

NOMINATING COMMITTEE

The Code states that the nominating committee is a body of the AGM whose only task is to prepare and put forward proposals for resolution by the AGM regarding election and remuneration and, when appropriate, procedural matters for the upcoming nominating committee.

Regardless of how they have been appointed, the members of the nominating committee are to serve the interests of all shareholders.

NOMINATING COMMITTEE, EIGHT MEETINGS

(UP TO AND INCLUDING FEBRUARY 15, 2017)

Malin Björkmo, Handelsbanken Fonder, *Chairman*

Håkan Berg, Robur, Jonas Eixman, Second Swedish National Pension Fund and Martin Nilsson, Catella Fondförvaltning

The AGM on April 27, 2016 resolved to appoint a nominating committee according to the following principles. By September 30, 2016, at the latest, the Board Chairman shall convene the three largest shareholders in the company in terms of voting power, each of which shall then appoint a member to the nominating committee. In addition, the Chairman of the Board may be appointed to the nominating committee. The composition of the nominating committee is to be made public not later than six months prior to the 2017 AGM. In the event of material changes to the ownership structure, the composition of the nominating committee may be changed in accordance with the above policies.

The nominating committee has interviewed all the Board members and evaluated the Board's performance, qualifications and composition. In its evaluation of the Board, the nominating committee has placed particular emphasis on the requirement for diversity and breadth on the Board and the requirement to strive for an even gender distribution. Shareholders were welcome to submit proposals and viewpoints to the nominating committee. The nominating committee's proposals have been announced in the notice to attend the AGM, on the company's website and at the 2017 AGM.

The members have not received any fees or remuneration from IAR Systems Group for their work on the nominating committee. All of the Board members were present at the

eight meetings, with the exception of Martin Nilsson, who has been part of the nominating committee since January 2017. Martin Nilsson has participated in three meetings.

Proposals to be submitted to the 2017 AGM for resolution:

- › Chairman of the AGM
- › The number of Board members and amount of Board fees, divided between the Chairman and other Board members
- › Election of Board members and the Board Chairman
- › Election of auditor and fees to the company's auditor
- › The nominating committee ahead of the 2018 AGM

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the general meeting of the shareholders in IAR Systems Group AB (publ) corporate identity number 556400-7200.

ENGAGEMENT AND RESPONSIBILITY

It is the board of directors who is responsible for the corporate governance statement for the financial year 2016-01-01 - 2016-12-31 on pages 68-71 and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

OPINIONS

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, March 7, 2017

Deloitte AB

Erik Olin, *Authorized Public Accountant*

BOARD OF DIRECTORS

PETER LARSSON BOARD MEMBER

Born in: 1964.

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

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

Other board assignments: Peter is the Chairman of Lundalogik AB and Outpost24 AB, and a member of the boards of Palette Software & Consulting and Hypergene AB.

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

Shareholdings: 459 class B shares (January 31, 2017)

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

STEFAN SKARIN BOARD MEMBER

Born in: 1962.

Board member: Since 2002.

Position: CEO 2001-2006 and since February 2008.

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

Other board assignments: Member of the board Mycronic.

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

Shareholdings: Via endowment insurance.

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

MARIA WASING BOARD MEMBER

Born in: 1970.

Board member: Since 2015.

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

Other board assignments: -

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

Shareholdings: 500 class B shares (January 31, 2017)

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

MARKUS GERDIEN BOARD CHAIRMAN

Born in: 1960.

Board member: Since 2011.

Education: System and Computer Science and Economics.

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

Experience: More than 25 years in the software industry, and senior positions in product-oriented software companies such as President of Front Capital Systems AB, Executive Vice President Market & Business Development at Observer Group AB, Executive Vice President Market Technology at NASDAQ OMX Group, board assignments in Orc Group AB and COO of Orc Group AB.

Shareholdings: 5,000 class B shares (January 31, 2017)

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

JONAS MÅRTENSSON BOARD MEMBER

Born in: 1963.

Board member: Since 2010.

Position: Employee at Alted AB since 2006 where he is also part-owner and Board member. Education: M.B.A. from the Stockholm School of Economics.

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

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

Shareholdings: 30,000 class B shares (January 31, 2017)

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



PETER LARSSON
BOARD MEMBER

STEFAN SKARIN
BOARD MEMBER

MARIA WASING
BOARD MEMBER

MARKUS GERDIEN
BOARD CHAIRMAN

JONAS MÅRTENSSON
BOARD MEMBER

GROUP MANAGEMENT

STEFAN STRÖM CHIEF FINANCIAL OFFICER

Stefan has been CFO of IAR Systems since April 2009. Stefan has been Chief Operating Officer (COO), CEO 2006-2008 and CFO of IAR Systems Group AB since 1997 (formerly Intoi AB). Stefan was a driving force behind the acquisition of IAR Systems in 2005 and Intoi's focus on IAR Systems in 2011. Stefan was born in 1958 and holds an M.B.A. from Lund University.

Shareholdings: Shares in an endowment insurance + 300 class B shares (wife) (January 31, 2017)

SUSANNE DAHLÉN DEVELOPMENT DIRECTOR

Susanne has worked for IAR Systems since 1995 in different positions, such as Support Engineer, Technical Writer/Information Architect, and Documentation Manager. Susanne was born in 1965 and studied computer science and language at Uppsala University.

Shareholdings: No Shares (January 31, 2017).

PETTER EDMAN CHIEF TECHNOLOGY OFFICER

Petter has worked for IAR Systems for more than 15 years in a number of positions in technical development. Prior to this, Petter gained several years of experience from the telecom industry, previously as team leader for Ellemtel, an R&D organization that was owned jointly by Ericsson and Swedish Telecom. Petter was born in 1964 and has an M.Sc. in Engineering Physics, with a focus on computer technology, from the University of Uppsala.

Shareholdings: 10.000 class B shares (January 31, 2017).

MATS ULLSTRÖM PRODUCT DIRECTOR & COO

Director Mats has worked for IAR Systems since 2001. Prior to this, Mats worked in positions such as Professional Services Manager at Mimer Information Technology and as a software consultant at Programator Consulting AB. Mats was born in 1963 and holds a Master of Computer Science from Uppsala University

Shareholdings: 2.000 class B shares (January 31, 2017).

STEFAN SKARIN CHIEF EXECUTIVE OFFICER

Stefan has been CEO of IAR Systems since April 2009. Stefan has been a Board member of IAR Systems Group AB (formerly Intoi AB) since 2002 and CEO since February 2008 (as well as CEO between 2001 and 2006). As CEO of Intoi, Stefan was a driving force behind Intoi's acquisition of IAR Systems in 2005 and Intoi's focus on IAR Systems in 2011. Stefan has over 20 years of experience in the IT and software industry, including as Sales Director at Adobe Nordic, CEO of Interleaf Norden and several senior international positions at Oracle Corporation. Stefan was born in 1962 and has an education from IHM Business School and economics studies at Stockholm University.

Shareholdings: Shares in an endowment insurance

CARL JOHAN TOLL IT MANAGER

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

Shareholdings: 2.000 class B shares (January 31, 2017).

AUDITOR

ERIK OLIN

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



STEFAN STRÖM
CHIEF FINANCIAL OFFICER

PETTER EDMAN
CHIEF TECHNOLOGY OFFICER

STEFAN SKARIN
CHIEF EXECUTIVE OFFICER

SUSANNE DAHLÉN
DEVELOPMENT DIRECTOR

MATS ULLSTRÖM
PRODUCT DIRECTOR & COO

CARL JOHAN TOLL
IT MANAGER

INDUSTRY-SPECIFIC GLOSSARY

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.

APPLICATION An application is another word for a program developed by the user of IAR Systems' tools, to be run on a processor in an embedded system.

ARCHITECTURE A processor architecture is a specific combination of integrated circuit design and instructions that control how the processor works.

ARM ARM Holdings plc is a multinational company that licenses a standard for processors and sells this standard to processor makers worldwide. IAR Systems is the tool supplier that supports the most ARM-based processors in the market for embedded systems.

CHIP Chip is another word for an integrated circuit (IC).

COMPILER A compiler is a computer program (or set of programs) that transforms source code written in a programming language into instructions that the microprocessor can understand and execute.

C-RUN C-RUN is 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 C-STAT is 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 A debug probe is an electronic tool that measures how a processor works when the program code is executed and can therefore be used to locate problems and errors in a program that a developer has created.

DEBUGGER A debugger is a computer software that helps programmers to locate problems and errors in the program that they have created by analyzing and showing what is happening "under the surface" when the program code is executed, often with the help of a debug probe.

EMBEDDED SYSTEM An embedded (computer) system consists of one or more microprocessors with related circuits and the software that is run in the system. Embedded systems control the functions in digital products such as industrial robots, reversing cameras, credit card readers, dishwashers, etc. IAR Systems' customers develop and market products that are driven by embedded systems.

IAR EMBEDDED WORKBENCH IAR Embedded Workbench is a software and a complete set of development tools that is used to program processors in embedded systems. The most important of these include a compiler, a debugger, an editor in which source code can be written, and a linker that combines smaller program segments into an executable program.

IAR VISUALSTATE IAR VisualSTATE is a software for programming embedded systems based on state machines and enables efficient design of complex applications.

INTEGRATED CIRCUIT (IC) An integrated circuit is 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 (IoT) is a collective term for the trend of equipping objects such as machinery, vehicles and household appliances, 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 Renesas is one of the world's largest processor vendors, with a wide product portfolio and a long-standing partnership with IAR Systems. IAR Systems is the tool supplier that supports the most Renesas processors in the market for embedded systems.

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

Sources: IAR Systems, Wikipedia, IDG's dictionary.

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