



ANNUAL REPORT 2017



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 25, 2018, at Spårvagnshallarna, Birger Jarlsgatan 57 A in Stockholm.

At the end of March, IAR Systems Group'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 share register maintained by Euroclear Sweden AB not later than Thursday, April 19, 2018.
- › provide notification of their intention to participate in the AGM not later than Thursday, April 19, 2018, in writing to IAR Systems Group AB (publ), 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 19, 2018. When applicable, proof of authorization, such as proxy forms 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 inform the company by the same date and in the same manner applicable to shareholders.

THE AUTOMOTIVE INDUSTRY is a market with growing potential for us, partly due to customer demand for more functions and partly due to innovation among automobile manufacturers.

2018

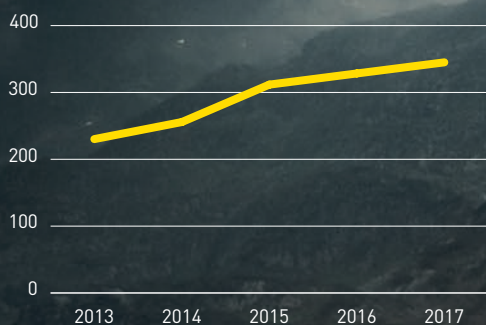
FINANCIAL CALENDAR 2018

Year-end report 2017	February 6, 2018
Interim report January-March 2018	April 25, 2018
2018 Annual General Meeting	April 25, 2018
Interim report January-June 2018	August 15, 2018
Interim report January-September 2018	9 November 2018



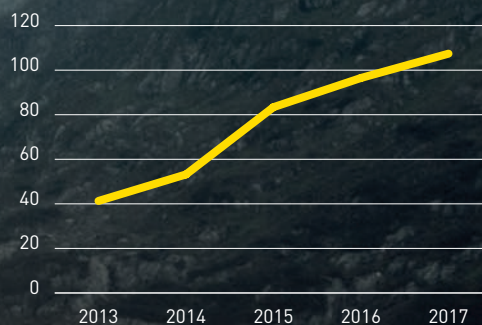
Net sales 2017

SEK 345m **+5%**



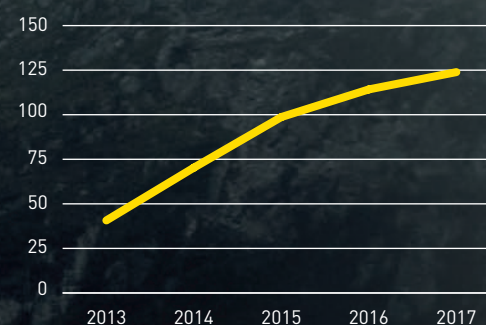
Operating profit 2017

SEK 107.4m **+11%**



Cash flow 2017

SEK 123.9m **+8%**



Proposed dividend: **SEK 5.00.**

Exciting year underpinned by our leading technology

We have been active in the embedded systems industry for a long time – longer than most in many respects. The industry has historically always been highly conservative, with the same business development patterns, the same relationships taking new forms and fundamentally the same solutions for new products. 2017 was the year in which we developed beyond our traditional sphere.

Using our leading technology and strong organization as a basis, we have shaken up the traditional aspects of the industry and developed in new directions. We were particularly successful in this regard this year, partly due to a newly-established relationship with Express Logic as well as our equity stake in Secure Thingz and a collaboration with Amazon Web Services (AWS), which is a new player for both us and the industry. You can read more about these relationships later in the Annual Report. For now, I would instead like to explain why these relationships are important for us and our future.

Over the past few years, we have spoken a lot about the rapidly increasing complexity in terms of product development among our customers. The pressure is mounting, not only as a result of new functions and requirements for energy efficiency, but also due to a desire to see greater connectivity between developed products and other products, internal networks and the Internet. When we have asked our customers, wireless functions are often highlighted as the most challenging aspect a developer can face.

The industry's solution when it comes to satisfying customers' growing need for less complexity is to link products and solutions together via a platform for developers. Renesas was the first to do so, but the trend has continued during year and can be seen most clearly among us, the suppliers. One example

is our collaboration with Express Logic regarding our respective offerings. The fact that AWS is making a serious move into the embedded systems industry is perhaps no great surprise given its potential, but it is very exciting. AWS, which is one of the world's leading companies with major resources, focuses on offering cloud services. This differs considerably from using the processor as a basis, which is otherwise the most common format in our industry. The fact that both AWS and Renesas chose us for our technology, quality and organization naturally feels extremely inspiring and gives us motivation for the future.

Connecting a product is not just a matter of advantages and customer benefit. It also results in increased vulnerability and security risks for our customers and our customers' customers. The two greatest security risks are perhaps not the ones most often discussed in the media. One such risk is product overproduction, meaning that the number of products produced in the manufacturing process at the factories exceeds the number ordered by our customers. Another is the risk of theft of the developed software in the product itself. It can be easy to steal developed software, since digital information is considerably easier to handle than a physical product. In short, these security risks – which are becoming increasingly common – are the reason we see potential in our investment in Secure Thingz. Through this investment, we can realize a new product

that focuses on securing our customers' development and providing them with a way to create secure products while also eradicating the risk of overproduction.

Our technology and product quality were crucial to the exciting developments that took place in 2017. We also offer a global organization that provides support throughout the entire process. Together, these factors have played a central role in our success over the past few years.

Once again this year, the performance of our regions varied, from quarter to quarter and between various countries. This resulted in a highly positive trend in Asia during the year, particularly in Japan. While the Americas and Europe varied widely during the year, overall the regions reported growth – although not as strong as we would have hoped. Naturally, it feels fantastic to have surpassed the magic number of SEK 100m in terms of operating profit, and, given our long-term view, it also feels reassuring that we have seen growth in 38 of the last 44 quarters.

Looking ahead, the focus in 2018 will be on realizing the plans we have drawn up for the year together with our new partners. I am confident the year will bring more new products as well as closer – rather than more – relationships. We also need to be clearer when describing our strengths, our operating environment and our ambition.

Using both familiar and new-found approaches, we will guide our customers, employees, alliances and owners towards new and exciting experiences in 2018.

Stockholm, March 8, 2018

STEFAN SKARIN CEO, IAR Systems Group AB



"Our technology and product quality were crucial to the exciting developments that took place in 2017. We also offer a global organization that provides support throughout the entire process. Together, these factors have played a central role in our success over the past few years."

STEFAN SKARIN CEO, IAR Systems

STEFAN in the Brunkeberg tunnel, a stone's throw from IAR Systems' offices on Kungsgatan in Stockholm.

Highlights of 2017

2017

Significant news

- › IAR Systems Group moved from Small Cap to Mid Cap list of Nasdaq Stockholm
- › Increased focus on the automotive industry
- › Collaboration with Express Logic regarding new IoT platform
- › Investment in data security through equity stake in Secure Thingz
- › Support for Amazon Web Services' new IoT operating system, Amazon FreeRTOS

Events during the year

- › Embedded world, Nuremberg
- › IoT DevCon, Santa Clara
- › Embedded Conference Finland, Helsinki
- › ElektronikExpo, Västerås
- › ESEC Japan, Tokyo
- › Arm TechCon, Santa Clara
- › Embedded Conference Scandinavia, Stockholm
- › ET, Yokohama
- › Embedded Systems Conference, San José
- › ESE Congress, Sindelfingen
- › IoT Security Foundation Conference, London
- › Arm Tech Symposia, Tokyo

INDUSTRIAL AUTOMATION is a market in which we have a strong customer base and that is constantly growing as everything becomes more digitized and connected to other products or via local networks.

Q4

Net sales (85.0)

SEK 87.6m

Operating profit (26.5)

SEK 26.7m

Cash flow from operating
activities (39.5)

SEK 33.3m

Q1

Net sales (80.5)

SEK 86.4m

Operating profit (19.2)

SEK 26.2m

Cash flow from operating
activities (18.3)

SEK 26.5m

Q3

Net sales (81.1)

SEK 84.2m

Operating profit (28.5)

SEK 28.6m

Cash flow from operating
activities (32.1)

SEK 31.8m

Q2

Net sales (81.8)

SEK 86.8m

Operating profit (22.1)

SEK 25.8m

Cash flow from operating
activities (20.6)

SEK 32.3m

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 in many different industries, such as industrial automation, medical technology, consumer electronics and the automotive industry. The first-class 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 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 as 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 (IoT).

As part of IAR Systems' investment in the IoT, the company signed an exclusive royalty agreement with Renesas Electronics 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 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 12,000 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 agreement 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. 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.

IoT drives growth

The market is now facing continued growth driven by IoT 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 IoT in almost every area, from the automotive industry, health and medical care, and logistics to smart cities and industrial automation. When it comes to IoT, there is considerable demand for more secure solutions, particularly in the automotive and medical technology industries. That is precisely why, in 2017, we invested in Secure Thingz in order to expand our product portfolio with a focus on security.

IAR Systems helps to make IoT 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 IoT.



RAFAEL TAUBINGER is Global FAE Manager based at the headquarters in Uppsala.

We enable the products of today and the innovations of tomorrow

Our mission is to bring 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 across the globe 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 quality.
- › To develop technologically leading software for embedded systems.
- › To deepen the 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 IoT.

During 2016, IAR Systems expanded its sales strategy by adding 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 Camarillo 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 2017



Outcome 2017



Plan 2018

<p>Expand our offering to include vertical markets with major potential.</p>		<p>For the first time in the history of the company, we launched our offering at a specific vertical market – the automotive industry.</p>		<p>Launch more new products that cater to our existing customer base in order to increase sales potential.</p>
<p>Refine our offering by establishing new strategic partnerships.</p>		<p>We entered into a close collaboration with Express Logic and Amazon Web Services for innovative development in the area of IoT.</p>		<p>Expand our offering by providing solutions that cover a greater proportion of our customers' development flows and manufacturing processes than before.</p>
<p>Increase participation in the ongoing consolidation of the market.</p>		<p>Through our equity stake in Secure Thingz, we actively participated in the increasingly rapid consolidation of the market in order to secure our position in the field of security, with a particular focus on IoT.</p>		<p>Be a driving force behind the establishment or further development of new industry standards in the market for embedded systems.</p>



SHAWN PRESTRIDGE, Senior FAE at our office in Texas in the USA, pictured here at the Arm TechCon trade fair in California in October 2017, where we launched our technical collaboration with Secure Thingz.

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 of embedded systems. 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

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 software is a complete high-performance set of tools that enables developers to easily and efficiently 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. The software supports all 8-, 16- and 32-bit processors from all major processor vendors, which ensures it has a unique position in the market. Thanks to a close collaboration with processor vendors worldwide, we are in a position to add support for new processors at an early stage.

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 versions of the software that are certified for developing systems with functional safety requirements, which is common, for example, in the automotive and medical technology industries.

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

Add-on products that simplify development

In addition to IAR Embedded Workbench, we offer several complementary products that further facilitate developers' work. 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 Visual State, a product that is 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 – in the automotive industry, for instance.

Comprehensive technical support and service

We offer our customers a committed sales, customer care 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 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 greatly appreciated by customers. The support contract also guarantees continuous product maintenance in the form of direct access to new product 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 aiming to offer developers a deeper knowledge of programming while maximizing their software investment.



"In my daily meetings with the various teams at the development department, I get a good insight into the operations, the initiatives that are under way, how the work is carried out, whether there is anything that is not working and whether my help is needed for anything. In addition to my role as a manager, I am also part of the company's management group. It is a very exciting part of my work.

We develop world-leading technology and products at the development department. It's a complex job, and an important part of my task is to be a driving force for change. It's not enough for us to simply develop our products. We must also develop our working methods. Together with others, I am currently pursuing a range of activities to improve and clarify our processes and roles.

It's important to foster good relationships in my work, not just at my own department. I always try to find time each day where I am able to build relationships and contacts in different ways, both at the department and within the management group, but also with people at other departments."

SUSANNE DAHLÉN Director of Engineering, IAR Systems

SUSANNE DAHLÉN is Director of Engineering at IAR Systems' headquarters in Uppsala as well as for the development team in Camarillo in the USA.

IMPORTANT
LAUNCHES
2017





ANDERS HOLMBERG has more than 25 years of experience in the embedded systems industry.

With a focus on new technology, new markets, new business models and new relationships

During 2017, Anders Holmberg has been appointed a new role at IAR Systems. The new role focuses on the planning and implementation of strategies to meet the company's broadened ambitions for future growth.

Anders has a background in Scientific Computing and started his career in parallel computing and high performance computing during the early 1990s. Since then, he has worked as both a developer and development manager. Over the past ten years, Anders has focused on advanced tools for developing embedded systems. Among other things, Anders has introduced the IAR Visual State software, been responsible for the functional safety certification of IAR Embedded Workbench and played a leading role in the launch of IAR Systems' add-on products for code analysis, C-RUN and C-STAT.

Anders Holmberg, what does your new role entail?

"In my role, I focus on researching new technology, new markets, new business models and new relationships. IAR Systems holds a leading position in the market for embedded systems and this, combined with our superior technology and strong financial position, makes it possible to build the potential for growth within areas not yet researched."

How has your first year been?

"My first year in my new role has been interesting and extremely fun! It has also been very stimulating and interesting to be able to drive issues forward from a new perspective."

What was on the agenda in 2017?

"One of the most important things I have been a part of and driven forward is our equity stake in Secure Thingz. Our collaboration with Amazon Web Services is also an important milestone, even though it is still in the starting blocks. I have also looked at potential takeover candidates, and kept an eye on exciting new technological areas, such as AI."

What were the most important trends in our industry in 2017, in your view?

"I noted three particularly important trends:

- › Security and safety have become the most important area for processor vendors, tool suppliers, our customers and our customers' end customers. This includes functional safety, which is about protecting people and property against damage, but the main focus has been on security measures that

minimize the risk of systems being compromised and protect information at every stage of the development process.

- › The ongoing consolidation among processor vendors has proved to be a continuing trend.
- › Platforms are becoming increasingly important, as many people see the opportunities associated with that type of solution."

What will your focus be in 2018?

"In 2018, I will continue working on new, exciting partnerships and developing existing partnerships, all based on our technology. I will also be evaluating potential takeovers."

How is the future looking for the embedded systems industry?

"Security will continue to be in the spotlight, mainly due to the continued increase in connected devices within the area of IoT and accompanying services. IoT also entails a greater focus on energy-efficient solutions. In addition, medical technology, fitness and health as a whole will drive the development of more IoT products within consumer electronics. If we look at the growing automotive industry, demand for embedded systems and processors will continue to increase, in this case due to digitization but also thanks to innovations such as connected, self-driving vehicles."

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 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:

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 market is also placing higher demands on product developers to get their products out 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 for each new project.

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 Embedded Workbench supports all of these processor 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.

Need for functional 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.

IoT – 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. IoT is driving a large amount of growth in our industry as more and more people realize its potential. Complete development platforms are in demand in IoT 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 our investment in IoT, we collaborate with Renesas Electronics on this type of platform solution, known as the Renesas Synergy Platform.

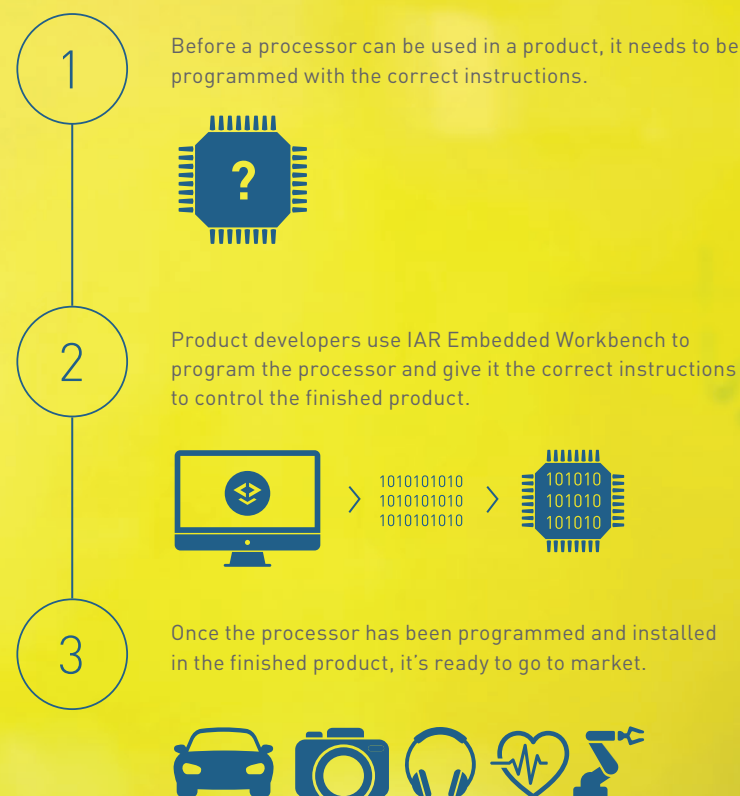
Greater focus on data security and reliability

With a growing number of connected devices, the company faces an increasing number of challenges in a range of industries. One of the biggest challenges is the ability to deliver fully secure systems. This also becomes relevant as more data is collected from both machines and humans, raising such questions as how to manage and store sensitive and functional data. The design of automatic update processes may also be an issue, for example. Stable technical solutions combined with awareness is the key to solving these challenges.

There is significant potential in the market when it comes to security, particularly within IoT, the automotive industry and medical technology. That is precisely why we invested in Secure Thingz in 2017 – to expand our product portfolio with a focus on security.

Our role in customers' product development

All digital products have an embedded system controlled by one or more processors.



IoT – for a sustainable future

Almost all industries have devices or products that could be utilized even more through improved communication and the ability to connect – in other words, through IoT. Companies could improve their profit and reduce their costs by introducing new business models and solutions, while improving quality of life across the globe at the same time. Improved products and smart cities will also create a more sustainable future.

IoT 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. For many people and companies, IoT and the connected world have already changed and improved life in numerous ways.

The presence of IoT in 2017

Most people today use connected products in some way: wearable technology, thermostats, toothbrushes, GPS, etc. IoT is now a part of our daily life and the market is developing rapidly. There has previously been extensive focus on products and applications, and although this was still the case in 2017, there has also been a greater focus on service and the ecosystem surrounding IoT. The following are some of the trends seen within IoT in 2017:

Artificial intelligence (AI)

AI refers to programs that display intelligent behavior and can help us make decisions that reflect human thought. For example, we can wear activity-tracking armbands that give us information about our sleep, calorie consumption and activity levels. If we add AI into the equation, the product would also be able to analyze the data and make decisions for us. For example, the product could tell you that you need to visit the doctor if it notes that you have an abnormal heartbeat.

Health and medical care

We have been collecting data within the field of healthcare for many years. With IoT, this data can now be analyzed more effectively and be connected to the Internet, which streamlines and enhances patient safety by way of smart sensors and technology. By analyzing data, healthcare professionals can identify patterns and prevent diseases while reducing costs. At the same time, companies can analyze data in order to develop better products. One example is sensors attached to healthcare equipment, whereby both hospitals and companies can check the status of the equipment and repair it before it breaks.

Security

During the year, more and more people began to discuss various security aspects within IoT – how products collect personal data from us, how companies can protect their systems from being compromised during development and production, and how to ensure that products out in the market can be updated securely.

Smart cities

A smart city is a digitized city that uses IoT to create a society that is more environmentally friendly, more efficient and smarter. By using intelligent sensors and data from these sensors, it is possible to create a connected city that can improve the quality of life of its inhabitants by way of innovative solutions in a number of areas, such as healthcare, education, energy, general safety, waste management and air quality. This has been discussed for several years but it is only now that a growing number of cities are choosing to become smart.

THE AUTOMOTIVE INDUSTRY

- › Safer traffic
- › Personalized driving experience
- › Reduced environmental impact
- › Optimized traffic flows



SMART CITIES is a market displaying strong growth. Barcelona is an example of a city that has a strategy for becoming smart and connected.

SMART CITIES

- › Better quality of life for inhabitants
- › Better service
- › Reduction in cities' environmental impact
- › Optimized traffic flows

HEALTH AND MEDICAL CARE

- › The possibility of real-time updates on patients' state of health
- › Customized medication dosages
- › The possibility of early preventive measures for diseases

INDUSTRIAL AUTOMATION

- › Faster and simpler flows
- › Real-time updates on machines and the state of industrial robots
- › More automated processes
- › Shorter lead times

LOGISTICS

- › Streamlining of workflows
- › The ability to predict and prevent problems
- › Automated driving schedules

Investing in a more secure IoT

We have been offering solutions to guarantee functional safety in embedded systems for a number of years now, which is a matter of protecting people and physical property from damage. By investing in Secure Thingz, we are expanding our offering to include security.

In April 2017, we acquired a 10% equity stake in Secure Thingz, a supplier of advanced security solutions for embedded systems in the field of IoT. In October, we announced that we had signed an agreement to increase our equity stake to 20%. This investment has enabled us to expand our product portfolio with a focus on security, which in turn allows us to offer our customers products that guarantee data security and reliability throughout the development and manufacturing process, which is becoming increasingly important as the number of connected devices grows.

By investing in Secure Thingz, we are expanding our offering to include data security. Taking data security into account throughout the entire chain – from software development to production – is incredibly important in terms of minimizing the risk of systems being compromised and protecting information and intangible assets at every stage of the process. This is particularly important in the areas of critical infrastructure, industrial IoT and the automotive market.

Secure Thingz delivers products and services for the development, management and deployment of embedded security in devices and products.

“IAR Systems has a proven history of creating software tools and services for robust embedded development. Through our partnership, we will provide a powerful solution to seamlessly integrate security, simplify the development process and enable devices to be secured against attacks over their entire lifetime.”

HAYDN POVEY CTO and Founder, Secure Thingz, and Board member in the IoT Security Foundation



What is security?

Security can mean different things depending on the area in question. There is an important distinction between safety, protection against damage, and security, protection against risks. Security involves ensuring that something does not occur, while safety is about minimizing the damage if something does occur. The term safety is used, in particular, when referring to protection against damage to people and property. In our industry, this is used in terms such as functional safety within the automotive industry. Security is often used in connection with data security and mainly refers to protection against unauthorized access, data theft, unauthorized changes or sabotage, for example, by hackers.

Four partnerships focusing on innovation

Renesas Electronics

Exclusive royalty agreement for Renesas Synergy Platform, a platform that streamlines and facilitates the innovative development of IoT products in the market for embedded systems.

Express Logic

Collaboration around X-Ware IoT Platform, a platform that satisfies industrial requirements and focuses on the development of fast and secure connectivity between sensors and devices.

Secure Thingz

An equity stake in Secure Thingz, a supplier of advanced security solutions for embedded systems in the field of IoT. Security solutions are particularly important within IoT in terms of critical infrastructure, industrial IoT and the automotive market.

Amazon Web Services

IAR Systems will support the new IoT operating system Amazon FreeRTOS, which enables developers to quickly get access to everything they need to easily develop and debug IoT applications.

“When we began targeting the market for IoT 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

SECURE THINGZ is a supplier of advanced security solutions for embedded systems. Here we can see the CEO, Global Sales Director, CTO and Founder of Secure Thingz together with Stefan Skarin at Embedded world 2017.

Numerous opportunities in the automotive industry

The automotive industry is seeing a rapid increase in the number of processor-controlled applications and products. Trends such as autonomous vehicles and smarter car technology are fueling development and innovation in all areas of the automotive industry.

In 2017, for the first time in the history of the company, we launched our offering at a specific vertical market – the automotive industry. This launch has allowed us to strengthen our focus on the automotive industry and customers who work within that field.

Unit costs and energy efficiency important factors

After 34 years in the market for embedded systems, we have extensive experience of delivering tools

known for their quality, reliability and efficiency. IAR Embedded Workbench is consistently ranked best in tests for fast and efficient code, which makes it the perfect choice for products that require low unit costs and energy efficiency, as in the automotive industry. IAR Systems' code analysis 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. The certified version of IAR Embedded Workbench also helps to quality-assure embedded

systems in vehicles approved in accordance with requirements defined in IEC 61508, the international standard for functional safety, and ISO 26262, which is used specifically within the automotive industry. In addition to IAR Embedded Workbench, we offer IAR Visual State, which is used to develop state and event-driven embedded systems and can be particularly useful in facilitating complex design projects within the automotive industry.

Customer base

Our automotive industry customers are mainly component suppliers and subcontractors for vehicle manufacturers in the following fields:

- › HUMAN MACHINE INTERFACE (HMI)
- › SMART FUEL SYSTEMS
- › INSTRUMENT PANELS
- › CHASSIS CONTROL
- › MULTIMEDIA SYSTEMS
- › NAVIGATION SYSTEMS
- › BODY ELECTRONICS
- › CONTROL SYSTEMS
- › CLIMATE CONTROL
- › DRIVER-ASSISTANCE SYSTEMS
- › STARTER ENGINES



10 OF THE 15 LARGEST COMPONENT SUPPLIERS AND SUBCONTRACTORS WITHIN THE AUTOMOTIVE INDUSTRY ARE OUR CUSTOMERS.

This figure is based on a survey of the hundred largest component suppliers and subcontractors presented in Automotive News magazine.



"We already have a large customer base in the automotive industry, and our increased focus on the industry will offer our customers both improvements to existing products and new products and services. This will provide them with more support in terms of bringing exciting products with guaranteed reliability and energy efficiency to market more quickly."

KIYOFUMI UEMURA Global Automotive Director

KIYOFUMI UEMURA presenting our offering to the automotive industry at Embedded world 2017, and talking about trends in the automotive industry.

DENSO chooses IAR Embedded Workbench for performance and safety certification

DENSO Corporation is a leading supplier of advanced automotive technology, systems and components for automotive manufacturers worldwide. The company is headquartered in Japan but has global reach through offices all over the world. DENSO is using IAR Embedded Workbench mainly for several small motor control applications based on 16-bit MCUs, and the use case is increasing for body, chassis, intelligent sensor and engine control of power train applications.

We interviewed a team of engineers at DENSO in Japan. This team is responsible for compiler evaluation, tool selection and quality assurance work for tool standardization within DENSO.

“IAR Systems’ tools differ from other companies’ tools due to the 16-bit MCUs support and a variety of development kits including board support package. Our impression is that most tool companies want to get into high-end market competition, so there are very few tool companies which provide a rich portfolio for low-end MCUs. We are hoping IAR Systems will continue to support low-end MCUs and in our case making it possible to use IAR Embedded Workbench for applications such as sensor control in automotive products.”

DENSO
Crafting the Core

In addition to the standard edition of IAR Embedded Workbench for RL78, DENSO is also using the functional safety edition of the toolchain. DENSO is working with several different automotive manufactures and they have different needs in the level of functional safety. To meet their requirements, DENSO decided to go with a pre-certified toolchain from IAR Systems.

“IAR Systems’ tools differ from other companies’ tools due to the 16-bit MCUs support and a variety of development kits including board support package.”

ENGINEERING TEAM DENSO

DENSO engineer comments:
“We need to pay all necessary cost and engineering resource to pass certification process, if the applied compiler is uncertified tool. If it is the case, a cost for getting certification is much higher than purchasing a pre-certified compiler tool.”

Flexibility, product longevity and local technical support add additional customer value

Other than the performance of the compiler, DENSO considered the following important reasons to choose tools from IAR Systems:

- › IAR Systems offers flexible licensing and pricing options for effective purchasing, as well as Support and Upgrade Agreement process.
- › Product longevity. Product lifecycle in automotive market is very long, usually more than 10 to 20 years. In order to secure such a long supply term, it is important to choose a component or a tool supplier who is committed to this business continuity.
- › IAR Systems offers local technical support through the office in Tokyo. Many companies with headquarters outside Japan only have small sales offices without any local technical support.
- › User support satisfaction. Timely response from IAR Systems Japan office is very helpful to the DENSO engineering team. In addition to that, IAR Systems offers local content-rich seminars which have increased DENSO’s satisfaction level of IAR Systems.

IAR Embedded Workbench facilitates development of eco-friendly racing cars

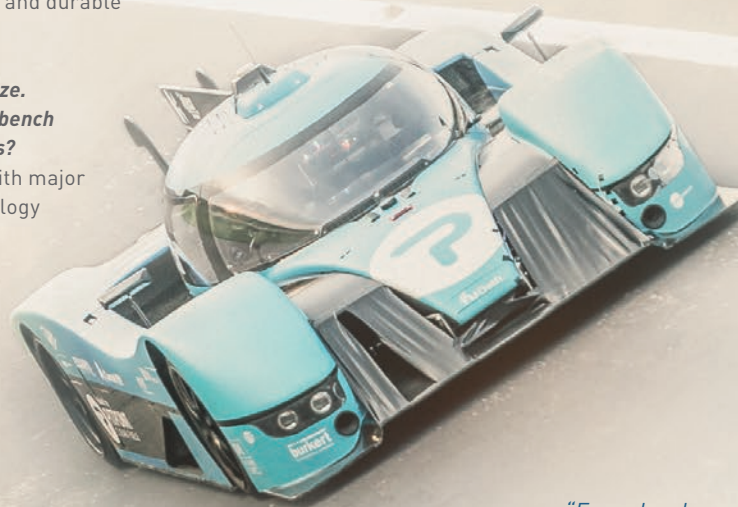
We launched the sponsor program IAR Green Innovation Program in 2013. IAR Green Innovation Program awards selected organizations, mainly student projects and startup companies, with the development tools they need to get started quickly. This way students, scientists and engineers get easy access to development tools, making it possible to create more eco-friendly, green products.

Forze, a group of students at the Technical University of Delft in the Netherlands, is one example of a project sponsored by IAR Green Innovation Program. Forze consists of about 70 students who together develop hydrogen racing cars with the goal of combining the spectacle of racing with innovative and durable technology.

Sanne Nielsen, Acquisitie Manager, Forze.
How are you using IAR Embedded Workbench and how does it help you in your success?

“Building a hydrogen race car comes with major challenges. The use of fuel cell technology in cars is quite new, which means there aren’t as many components available for our car. The parts we use are from companies operating in a scale of different industries that use different standards and protocols.

Many components we use have also been placed in a car. To combine a wide variety of different parts into one electronic system, we are in need of a powerful and intuitive coding environment.



Using IAR Embedded Workbench we are able to write software that allows all components in the system to communicate with each other. It is also possible to keep an overview of all the code, making it easier to alter or add code segments. With IAR Embedded Workbench, we are able to optimally combine everything in the system to get the most out of it.”

Jaan Marten Buis, Forze new Chief Software, comments:

“For myself, I am a programmer with moderate experience. Still, I did not have to spend a lot of time figuring out how IAR Embedded Workbench worked. The software is user-friendly and has good functionality. IAR Embedded Workbench provides numerous functions which I find quite helpful and that I use on a daily basis.”

How does IAR Embedded Workbench make a difference for your product development?

“IAR Embedded Workbench is fast and easy to use which saves time when we want to debug code, and this is very important for us as our car have a lot of code. It also allows for quick on-the-go adjustments in the code when a part is not working as expected. Thanks to this feature, the team can test multiple things during one test and get a more efficient process.”

“Forze has been using IAR Embedded Workbench in combination with Arm microcontrollers for about five years now. For the team’s engineers it is important to be able to write, test and debug the enormous amount of new low-level code, and IAR Embedded Workbench provides an excellent working environment for this.”

SANNE NIELSEN Acquisitie Manager, Forze

FORZE is one of the projects we are sponsoring as part of the IAR Green Innovation Program, a sponsorship program that supports innovative development projects in the field of environmentally friendly, digital technology.

Working “glocally” – globally with local knowledge

In 2011, we opened an office in Seoul, South Korea, which became our third office in Asia. A team consisting mainly of sales and support representatives works at this office, of which Jihee Park is one member.

What is your role?

“My focus is on sales support, logistics, customer care and administration. I’ve also recently started working on marketing, and my role there will be to coordinate and arrange local marketing activities.”

What is it like to work for a global company?

“I think people see IAR Systems as a global company in many ways, including their flexible working environment, open communication and the opportunities it offers for individual development. IAR Systems is also a workplace that supports me and motivates me to achieve my goals, while maximizing my potential

and skills. I enjoy the open communication we have globally, since it allows us to help each other and work closely together – this is an aspect I believe contributes to our ability to achieve more ambitious objectives and creates the conditions for innovation. The fact we are global also strengthens us in the sense that we all have different backgrounds, cultures and experiences that we can learn about from each other. I tend to see our work as ‘glocal,’ which means that we work globally but have local knowledge that enables us to adapt to the market in which we operate. It’s been great being part of the company since the office was established in Seoul, and I look forward to being part of IAR Systems’ future development.”

JIHEE PARK works at IAR Systems’ office in Seoul, South Korea and has been there since the office opened in 2011.

A workplace with a passion for technology

IAR Systems has 163 employees, with the majority working at the company's headquarters in Uppsala. In addition to the Uppsala office, we are distributed across ten offices on three continents. Our global organization enables us to meet customers in their own market and produce solutions that are adapted to their needs.

Around a third of our employees work on product and technology development. The rest are distributed among sales, support, marketing, FAE:s, IT/administration, and product and technology. Over 95% 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.

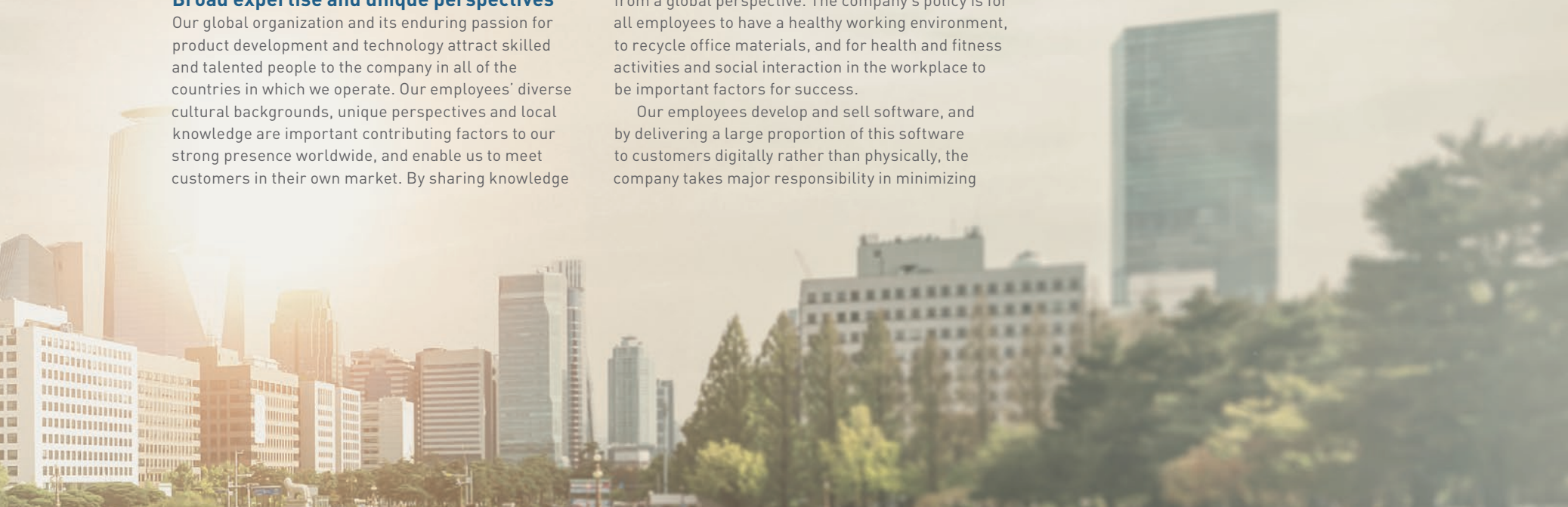
Sustainable responsibility

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 software 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, the IAR Green Innovation Program, to promote innovative development projects focusing on environmentally friendly digital technology.



Customer Care – with a focus on customer service

The main focus and priority of Customer Care is to take care of IAR Systems' customers and ensure that our relationship with them is effective and reliable. An IAR Systems customer has contact with Customer Care from the moment they purchase a product.

Customer Care offers guidance and support and ensures that the customer has been able to start using the product. IAR Systems' global Customer Care team focuses on giving the customer a positive and

informative experience and being a reliable partner when they need us. With local representatives in Uppsala, Foster City, Boston, Tokyo and Seoul, Customer Care is able to provide the same quality

of service in several different languages and across many different time zones.

"The best part of working in Customer Care is that you get to meet so many different kinds of people, and that you can build a relationship with the customers and have a new experience every day. Another great aspect is having the opportunity to be part of such a fantastic team. We have a lot of varied, complementary expertise in our a team, and this enables us to offer the customer the best possible support."

JOHANNA FRÖDEVİK Customer Care, Uppsala

"In my role in Customer Care, I think it is extremely gratifying and valuable to be part of a team that is such a major part of IAR Systems. I'm able to help our customers while also supporting my colleagues in their work. I aim to emphasize the "care" in customer care, and I'm proud to say that I think my work reflects this."

BEATRIZ TRAVIS Customer Care, Foster City

"As I have daily contact with our customers, I get an insight into their needs. This means I am able to use the information to improve our service and our products. When I hear that a customer is satisfied with our improvements, I feel that I have really achieved something important."

YU ASO Customer Care, Tokyo



CUSTOMER CARE is a global team that has daily customer contact. Here we can see Dannielle, Global Sales Operations Manager, together with the Customer Care team in Uppsala.



MEDICAL TECHNOLOGY AND HEALTH is a market where we have a large customer base and growing potential as all devices are becoming connected and smarter.

Financial reporting

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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, 2017, was SEK 189.00 (206.00) and market capitalization was SEK 2,387m (2,602).

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 2017, the share price (last price paid, reinvested value) varied from a low of SEK 162.00 (119.00) to a high of SEK 209.00 (206.00). The share price at December 31, 2017 was SEK 189.00 (206.00). IAR Systems Group's market capitalization on the same date was SEK 2,387 (2,602).

The number of shareholders in IAR Systems Group at December 31, 2017 was 8,062 (8,645). Of these shareholders, 484 (518) held more than 1,000 shares each. Foreign shareholders held approximately 25% (13) of the share capital and 23% (12) of the votes.

IAR Systems Group's share capital at December 31, 2017 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 25, 2018, a dividend of SEK 5.00 (5.00) 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, 2017¹

	No. of class A shares	No. of class B shares	Total no. of shares	% of capital	Total no. of votes	% of votes
Andra AP-fonden		1,135,415	1,135,415	9.0	1,135,415	8.4
Första AP-fonden		1,092,506	1,092,506	8.7	1,092,506	8.1
Ribbskottet AB		885,000	885,000	7.0	885,000	6.5
SEB SA Client Assets Ucits.		873,875	873,875	6.9	873,875	6.5
Handelsbanken Fonder		725,156	725,156	5.7	725,156	5.4
Catella Fondförvaltning		600,186	600,186	4.7	600,186	4.5
Tredje AP-fonden		568,170	568,170	4.5	568,170	4.2
Försäkringsaktiebolaget Avanza Pension		438,036	438,036	3.5	438,036	3.2
Swedbank Robur Fonder		344,083	344,083	2.7	344,083	2.5
SEB Investment Management		239,364	239,364	1.9	239,364	1.8
State Street Bank & Trust Com., Boston		233,649	233,649	1.9	233,649	1.7
Stefan Engqvist		221,877	221,877	1.8	221,877	1.6
Länsförsäkringar Fondförvaltning AB		220,458	220,458	1.7	220,458	1.6
Danica Pension	100,000	115,500	215,500	1.7	1,115,500	8.2
NTC Various Fiduciary Capacit		170,357	170,357	1.3	170,357	1.3
Total 15 largest shareholders	100,000	7,863,632	7,963,632	63.0	8,863,632	65.5
Other		4,668,429	4,668,429	37.0	4,668,429	34.5
Total	100,000	12,532,061	12,632,061	100.0	13,532,061	100.0

¹ Shares held directly and through nominees.

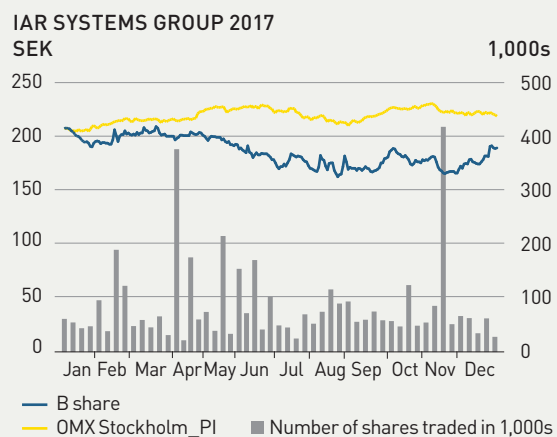
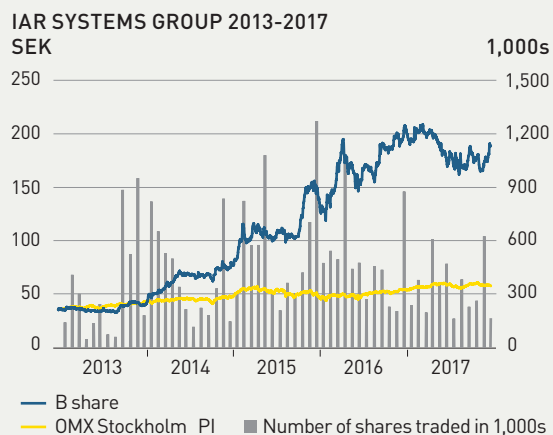
DISTRIBUTION OF SHAREHOLDINGS AT DECEMBER 31, 2017¹

	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	-	170,071	170,071	1.4	170,071	1.3	5,469	67.8
101-1,000	-	770,743	770,743	6.1	770,743	5.7	2,109	26.2
1,001-5,000	-	723,423	723,423	5.7	723,423	5.3	331	4.1
5,001-10,000	-	442,075	442,075	3.5	442,075	3.3	59	0.7
10,001-	100,000	10,425,749	10,525,749	83.3	11,425,749	84.4	94	1.2
Total	100,000	12,532,061	12,632,061	100.0	13,532,061	100.0	8,062	100.0

¹ Shares held directly and through nominees.

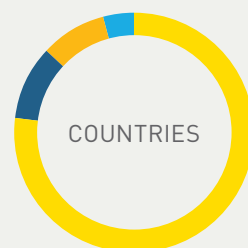
SHARE PRICE

The graphs are based on the share price, last price paid (reinvested value), which has risen from SEK 35.70 at January 1, 2013, to SEK 189.00 at December 31, 2017.



SHAREHOLDER DATA

Shareholder data is based on information from Euroclear Sweden AB at December 31, 2017 and pertains to the share of votes, unless otherwise stated.



- 77% ■ Sweden
- 10% ■ Other Nordic countries
- 9% ■ Europe excl. Nordic region
- 4% ■ USA
- 0% ■ Rest of the world



- 24% ■ Natural persons
- 76% ■ Legal entities

SHARE DATA

	2017	2016
Equity per share, SEK	22.99	22.06
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	9.81	9.04
Earnings per share, SEK ¹	6.33	5.86
Dividend or equivalent per share, SEK	5.00	7.00
No. of shareholders	8,062	8,645
Last price paid on December 31 or similar, SEK	189.00	206.00

¹ Definition in accordance with IFRS.

Financial overview

CONDENSED INCOME STATEMENT

SEK m	2017	2016	2015	2014	2013
Net sales	345.0	328.4	311.7	255.7	230.2
Other operating income	-	-	-	-	6.0
Operating expenses	-217.8	-215.2	-213.4	-192.1	-185.6
Depreciation of property, plant and equipment	-2.4	-2.5	-2.5	-2.3	-2.2
Amortization of intangible assets	-17.4	-14.2	-12.4	-8.1	-7.1
Operating profit	107.4	96.5	83.4	53.2	41.3
Result from financial investments	-1.7	-0.4	-0.1	0.4	0.1
Profit before tax	105.7	96.1	83.3	53.6	41.4
Tax	-25.7	-22.1	-19.9	-11.4	-11.5
PROFIT FOR THE YEAR	80.0	74.0	63.4	42.2	29.9

PERFORMANCE MEASURES

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

PERFORMANCE MEASURES

	2017	2016	2015	2014	2013
Alternative performance measures					
Gross margin, %	97.5	96.3	96.7	95.0	93.7
EBITDA margin, %	36.9	34.5	31.5	24.9	22.0
Operating margin, %	31.1	29.4	26.8	20.8	17.9
Profit margin, %	30.6	29.3	26.7	21.0	18.0
Cash flow, %	35.9	34.8	31.7	27.5	17.7
Equity/assets ratio, %	70.8	70.6	73.0	75.8	79.8
Return on equity, %	28.1	25.9	21.9	14.5	10.9
Return on capital employed, %	37.4	33.6	28.6	18.3	15.1
Capital employed, SEK m	292.9	282.2	292.7	290.9	297.4
Net cash, SEK m	117.0	96.5	87.6	68.4	80.1
Net debt/equity ratio, multiple	-0.40	-0.35	-0.30	-0.24	-0.27
Other performance measures					
No. of employees at end of period	163	165	164	169	168
Sales per employee, SEK m	2.2	2.1	2.0	1.6	1.4
Average no. of employees	153	159	157	159	160

CONDENSED CASH FLOW STATEMENT

SEK m	2017	2016	2015	2014	2013
Cash flow from operating activities	123.9	114.2	98.7	70.3	40.7
Cash flow from investing activities	-37.6	-18.9	-17.7	-31.7	-19.1
Cash flow from financing activities	-63.2	-88.4	-63.6	-53.2	11.8
TOTAL CASH FLOW FOR THE YEAR	23.1	6.9	17.4	-14.6	33.4

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 37-41.

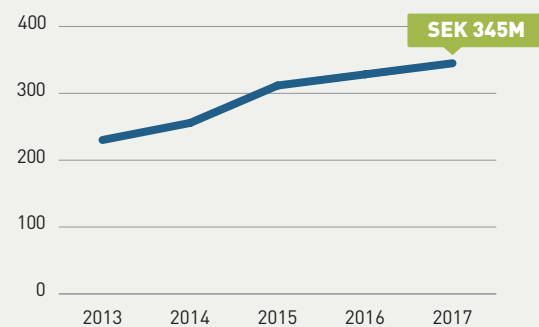
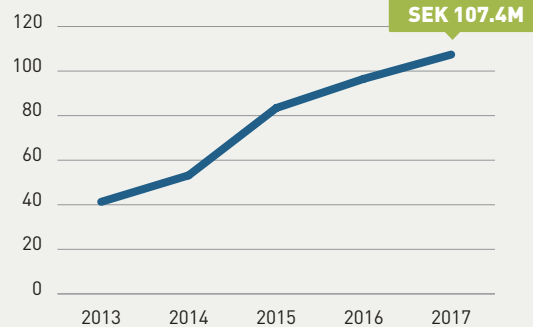
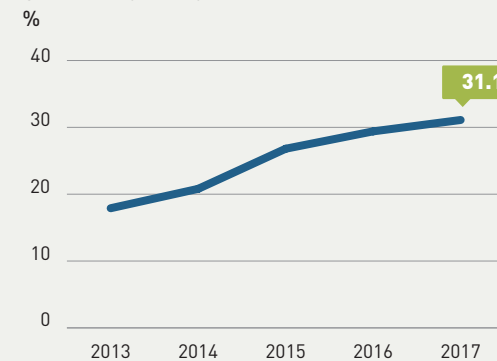
DATA PER SHARE

	2017	2016	2015	2014	2013
Equity per share, SEK	22.99	22.13	23.03	22.85	23.90
No. of shares at end of period, million	12.63	12.63	12.63	12.63	12.34
Average no. of shares, million	12.63	12.63	12.63	12.49	11.85
Cash flow from operating activities per share, SEK	9.81	9.04	7.81	5.63	3.43
Earnings per share, SEK ¹	6.33	5.86	5.02	3.37	2.59
Dividend per share, SEK	5.00	7.00	5.00	5.00	2.00
Last price paid on December 31 or similar, SEK	189.00	206.00	150.00	74.75	43.00

¹ Definition in accordance with IFRS.

CONDENSED BALANCE SHEET

ASSETS, SEK m	2017	2016	2015	2014	2013	EQUITY AND LIABILITIES, SEK m	2017	2016	2015	2014	2013
Non-current assets						Total equity	290.4	279.5	290.9	288.6	295.0
Goodwill	113.5	114.9	113.5	112.4	110.7	Non-current liabilities					
Other intangible assets	80.9	82.1	78.8	73.5	53.7	Interest-bearing liabilities	1.7	1.6	0.6	1.5	1.1
Property, plant and equipment	6.2	6.2	6.5	8.0	6.1	Other non-current liabilities	1.7	1.4	1.1	1.1	0.7
Financial assets	22.2	20.7	41.8	57.4	64.5	Provisions	14.0	14.8	16.5	14.6	13.3
Total non-current assets	222.8	223.9	240.6	251.3	235.0	Total non-current liabilities	17.4	17.8	18.2	17.2	15.1
Current assets						Current liabilities					
Inventories	5.2	5.6	5.1	3.7	3.3	Trade payables	5.7	5.3	4.8	5.2	5.7
Other current assets	11.8	18.9	20.1	15.9	14.6	Interest-bearing liabilities	0.8	1.1	1.2	0.8	1.3
Trade receivables	50.8	48.3	43.5	39.1	34.1	Other current liabilities	95.8	92.2	83.6	68.9	52.4
Blocked cash and cash equivalents	-	-	-	-	0.7	Total current liabilities	102.3	98.6	89.6	74.9	59.4
Cash and cash equivalents	119.5	99.2	89.4	70.7	81.8	TOTAL EQUITY AND LIABILITIES	410.1	395.9	398.7	380.7	369.5
Total current assets	187.3	172.0	158.1	129.4	134.5						
TOTAL ASSETS	410.1	395.9	398.7	380.7	369.5						

NET SALES
SEK MOPERATING PROFIT
SEK MOPERATING MARGIN
%

QUARTERLY OVERVIEW AND MULTI-YEAR OVERVIEW

		Net sales, SEK m	EBITDA, SEK m	EBITDA margin, %	Operating profit, SEK m	Operating margin, %	Earnings per share, SEK*	Return on equity, %	Cash flow from operating activities per share, SEK	Equity per share, SEK	Share price, SEK	Market capitalization, SEK m
2017	Q4	87.6	31.9	36.4	26.8	30.6	1.56	7.0	2.64	22.99	189.00	2,387
	Q3	84.2	33.8	40.1	28.6	34.0	1.61	7.7	2.52	21.56	180.50	2,280
	Q2	86.8	30.9	35.6	25.8	29.7	1.68	7.7	2.56	20.09	175.00	2,211
	Q1	86.4	30.6	35.4	26.2	30.3	1.49	6.5	2.10	23.58	200.00	2,526
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
2017		345.0	127.2	36.9	107.4	31.1	6.33	28.1	9.81	22.99	189.00	2,387
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	5.63	22.85	74.75	944
2013		230.2	50.6	22.0	41.3	17.9	2.59	10.9	3.43	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

The tables below present performance measures that are not defined in accordance with IFRS, unless otherwise stated. The following section RECONCILIATIONS presents reconciliations and accounts for the components included in the alternative performance measures used by the company.

Performance measure	Definition/Calculation	Use
Gross margin	Net sales less the cost of goods sold as a percentage of net sales.	Measures the company's profitability after cost of goods and is used to follow up cost-efficiency and the effect of changes to the product mix.
EBITDA	Earnings before interest, taxes, depreciation and amortization.	This measure basically shows the earnings-generating cash flow in operations. It provides an overview of the business's ability to generate, in absolute terms, resources for investments and payments to investors and is used as a comparison over time.
EBITDA margin	Earnings before interest, tax, depreciation and amortization (EBITDA) in relation to sales, expressed as a percentage.	Aims to show the profitability ratio for current operations.
Equity, Group	Recognized equity including 78.0% of untaxed reserves. Average equity is calculated as equity at the beginning of the year plus equity at the end of the year divided by two.	Measures the company's net value.
Equity per share	Equity divided by the number of shares at the end of the period.	Measures the company's net value per share.
Sales growth in local currency	Net sales in local currency compared to sales in local currency corresponding period last year.	Measures the company's sales growth in local currency and allows the assessment of growth without the influence of foreign exchange effects.
Cash flow	Cash flow from operating activities as a percentage of net sales.	Measures the company's cash generation in relation to net sales.
Cash flow from operating activities per share	Cash flow from operating activities divided by the average number of shares during the period.	Measures the company's cash generation in relation to the number of shares in the company.
Net cash	Cash and cash equivalents less interest-bearing liabilities.	A measure of the ability to use available cash and cash equivalents to pay off all liabilities if they were due for payment on the date of the calculation and thereby a measure of the risk in relation to the company's capital structure.
Net interest-bearing liabilities	Interest-bearing liabilities less cash and cash equivalents.	A measure used to follow the liability trend and see the size of the need for refinancing. This measure is one component in calculating net cash and the net debt/equity ratio.
Net debt/equity ratio	Net interest-bearing liabilities divided by equity.	This measure reflects the relationship between the Group's two forms of financing. A measure to show the proportion of loan capital in relation to the capital invested by the owners and accordingly a measure of financial strength and also the gearing effect of loans. A higher net debt/equity ratio entails a higher financial risk and higher financial gearing.
Earnings per share*	Profit for the period after tax divided by the average number of shares during the period.	A measure of the company's profitability after tax per share. This performance measure is important in assessing the value of a share.

* Definition in accordance with IFRS.

DEFINITIONS, CONT.

Performance measure	Definition/Calculation	Use
Earnings per share after current tax	Profit for the period after current tax divided by the average number of shares during the period.	The company has substantial loss carryforwards which have been gradually utilized in recent years. This measure shows the company's profitability after tax taking into consideration loss carryforwards utilized during the period.
Return on equity	Profit after tax as a percentage of average equity.	Return on equity shows the total accounting returns on capital invested by the owners and reflects the effects of both the profitability of operations and financial gearing. This measure is mainly used to analyze the profitability of owners over time.
Return on capital employed	Profit before tax plus financial expenses as a percentage of average capital employed.	Return on capital employed shows how well operations use the capital tied up in the business. This measure is mainly used to study the Group's profitability over time.
Interest-bearing liabilities	Borrowings in banks or the equivalent.	This measure is one component in calculating net cash and the net debt/equity ratio.
Operating margin	Operating profit as a percentage of net sales.	This measure reflects the operating profitability of the business. It is useful for following up profitability and efficiency in operations before taking into account capital tied up. This performance measure is used both internally in governance and follow-up of operations and to compare with other companies.
Operating profit	Profit before tax less financial income plus financial expenses.	Used to calculate the operating margin.
Equity/assets ratio	Equity as a percentage of total assets.	This performance measure shows the proportion of assets financed with equity and can be used as an indication of the company's long-term solvency.
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.	The capital made available to the company by shareholders and lenders. This shows the net capital invested in operating activities with the addition of financial assets.
Profit margin	Profit before tax as a percentage of net sales.	Profit margin shows the earnings capacity of the business from operating activities regardless of the tax situation in relation to the company's net sales and can be used to in a comparison with other companies in the same industry.

* Definition in accordance with IFRS.

RECONCILIATIONS

GROSS MARGIN is calculated as net sales less the cost of goods sold as a percentage of net sales.

SEK m	2017	2016	2015	2014	2013
Net sales	345.0	328.4	311.7	255.7	230.2
Goods for resale	-8.5	-12.2	-10.3	-12.9	-14.5
Gross profit	336.5	316.2	301.4	242.8	215.7
GROSS MARGIN	97.5%	96.3%	96.7%	95.0%	93.7%

EBITDA is calculated as operating profit before depreciation of property, plant and equipment, and amortization of intangible assets.

SEK m	2017	2016	2015	2014	2013
Operating profit	107.4	96.5	83.4	53.2	41.3
Depreciation of property, plant and equipment	2.4	2.5	2.5	2.3	2.2
Amortization of intangible assets	17.4	14.2	12.4	8.1	7.1
EBITDA	127.2	113.2	98.3	63.6	50.6

EBITDA MARGIN is calculated as EBITDA as a percentage of net sales.

SEK m	2017	2016	2015	2014	2013
Net sales	345.0	328.4	311.7	255.7	230.2
EBITDA	127.2	113.2	98.3	63.6	50.6
EBITDA MARGIN	36.9%	34.5%	31.5%	24.9%	22.0%

OPERATING MARGIN is calculated as operating profit as a percentage of net sales.

SEK m	2017	2016	2015	2014	2013
Net sales	345.0	328.4	311.7	255.7	230.2
Operating profit	107.4	96.5	83.4	53.2	41.3
OPERATING MARGIN	31.1%	29.4%	26.8%	20.8%	17.9%

PROFIT MARGIN is calculated as profit before tax as a percentage of net sales.

SEK m	2017	2016	2015	2014	2013
Net sales	345.0	328.4	311.7	255.7	230.2
Profit before tax	105.7	96.1	83.3	53.6	41.4
PROFIT MARGIN	30.6%	29.3%	26.7%	21.0%	18.0%

CASH FLOW is calculated as cash flow from operating activities as a percentage of net sales.

SEK m	2017	2016	2015	2014	2013
Net sales	345.0	328.4	311.7	255.7	230.2
Cash flow from operating activities	123.9	114.2	98.7	70.3	40.7
CASH FLOW	35.9%	34.8%	31.7%	27.5%	17.7%

EQUITY/ASSETS RATIO is calculated as equity as a percentage of total assets.

SEK m	2017	2016	2015	2014	2013
Equity	290.4	279.5	290.9	288.6	295.0
Total assets	410.1	395.9	398.7	380.7	369.5
EQUITY/ASSETS RATIO	70.8%	70.6%	73.0%	75.8%	79.8%

AVERAGE EQUITY is calculated as equity at the beginning of the year plus equity at the end of the year divided by two.

SEK m	2017	2016	2015	2014	2013	2012
Equity	290.4	279.5	290.9	288.6	295.0	253.8
AVERAGE EQUITY	285.0	285.2	289.8	291.8	274.4	

RECONCILIATIONS, CONT.

RETURN ON EQUITY is calculated as profit after tax as a percentage of average equity.

SEK m	2017	2016	2015	2014	2013
Profit after tax	80.0	74.0	63.4	42.2	29.9
Average equity	285.0	285.2	289.8	291.8	274.4
RETURN ON EQUITY	28.1%	25.9%	21.9%	14.5%	10.9%

INTEREST-BEARING LIABILITIES are calculated as non-current interest-bearing liabilities plus current interest-bearing liabilities.

SEK m	2017	2016	2015	2014	2013	2012
Non-current interest-bearing liabilities	1.7	1.6	0.6	1.5	1.1	1.1
Current interest-bearing liabilities	0.8	1.1	1.2	0.8	1.3	1.2
INTEREST-BEARING LIABILITIES	2.5	2.7	1.8	2.3	2.4	2.3

NON-INTEREST-BEARING LIABILITIES are calculated as non-current liabilities plus current liabilities less interest-bearing liabilities.

SEK m	2017	2016	2015	2014	2013	2012
Non-current liabilities	17.4	17.8	18.2	17.2	15.1	10.2
Current liabilities	102.3	98.6	89.6	74.9	59.4	60.1
Interest-bearing liabilities	-2.5	-2.7	-1.8	-2.3	-2.4	-2.3
NON-INTEREST-BEARING LIABILITIES	117.2	113.7	106.0	89.8	72.1	68.0

CAPITAL EMPLOYED is calculated as 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.

SEK m	2017	2016	2015	2014	2013	2012
Total assets	410.1	395.9	398.7	380.7	369.5	324.1
Non-interest-bearing liabilities	-117.2	-113.7	-106.0	-89.8	-72.1	-68.0
CAPITAL EMPLOYED	292.9	282.2	292.7	290.9	297.4	256.1
SEK m	2017	2016	2015	2014	2013	
Average capital employed	287.6	287.5	291.8	294.1	276.8	

RETURN ON CAPITAL EMPLOYED is calculated as profit before tax plus financial expenses as a percentage of average capital employed.

SEK m	2017	2016	2015	2014	2013
Profit before tax	105.7	96.1	83.3	53.6	41.4
Financial expenses	1.7	0.4	0.2	0.2	0.2
Profit before tax plus financial expenses	107.4	96.5	83.5	53.8	41.6
RETURN ON CAPITAL EMPLOYED	37.4%	33.6%	28.6%	18.3%	15.1%

NET CASH is calculated as cash and cash equivalents less interest-bearing liabilities.

SEK m	2017	2016	2015	2014	2013
Cash and cash equivalents	119.5	99.2	89.4	70.7	82.5
Interest-bearing liabilities	-2.5	-2.7	-1.8	-2.3	-2.4
NET CASH	117.0	96.5	87.6	68.4	80.1

RECONCILIATIONS, CONT.

NET DEBT/EQUITY RATIO is calculated as net interest-bearing liabilities divided by equity.

SEK m	2017	2016	2015	2014	2013
Interest-bearing liabilities	2.5	2.7	1.8	2.3	2.4
Cash and cash equivalents	-119.5	-99.2	-89.4	-70.7	-82.5
Net interest-bearing liabilities	-117.0	-96.5	-87.6	-68.4	-80.1
NET DEBT/EQUITY RATIO	-0.40	-0.35	-0.30	-0.24	-0.27

EQUITY PER SHARE is calculated as equity divided by the number of shares at the end of the year.

SEK m	2017	2016	2015	2014	2013
Equity	290.4	279.5	290.9	288.6	295.0
No. of shares at end of year, million	12.63	12.63	12.63	12.63	12.34
EQUITY PER SHARE	22.99	22.13	23.03	22.85	23.90

AVERAGE NUMBER OF SHARES is calculated as the number of shares at the beginning of the year plus the number of shares at the end of the year divided by two.

	2017	2016	2015	2014	2013	2012
No. of shares, million	12.63	12.63	12.63	12.63	12.34	11.36
AVERAGE NO. OF SHARES, MILLION	12.63	12.63	12.63	12.49	11.85	

CASH FLOW FROM OPERATING ACTIVITIES PER SHARE is calculated as cash flow from operating activities divided by the average number of shares.

SEK m	2017	2016	2015	2014	2013
Cash flow from operating activities	123.9	114.2	98.7	70.3	40.7
Average no. of shares, million	12.63	12.63	12.63	12.49	11.85
CASH FLOW FROM OPERATING ACTIVITIES PER SHARE	9.81	9.04	7.81	5.63	3.43

EARNINGS PER SHARE AFTER CURRENT TAX are calculated as profit for the year after current tax divided by the average number of shares.

SEK m	2017	2016	2015	2014	2013
Tax	25.7	22.1	19.9	11.4	11.5
Deferred tax	-12.4	-19.2	-16.5	-9.9	-7.0
Current tax	13.3	2.9	3.4	1.5	4.5
Profit before tax	105.7	96.1	83.3	53.6	41.4
Current tax	-13.3	-2.9	-3.4	-1.5	-4.5
Profit after current tax	92.4	93.2	79.9	52.1	36.9
Average no. of shares, million	12.63	12.63	12.63	12.49	11.85
EARNINGS PER SHARE AFTER CURRENT TAX	7.32	7.38	6.33	4.17	3.11

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 2017 financial year. The company is domiciled in Stockholm, corporate identification number 556400-7200.

Sales and net sales

The company reported growth in terms of both sales and net sales. The difference between these growth figures is that some sales (maintenance and support agreements) are allocated over the term of the contract.

In a year-on-year comparison, total sales growth in local currency was 6%. This 6% sales growth for the year resulted in an increase in net sales of 5% after the accrual of prepaid maintenance and support agreements (-1%) and negative foreign exchange effects (-0%).

Sales

2017 marked an increase in sales in the automotive industry. There was also a clear market trend of suppliers focusing on the automotive industry, where the number of processor-controlled applications is increasing sharply. Trends such as autonomous vehicles are fueling the development of both innovation and market positioning in all areas of the automotive industry. This trend was also clearly evident at the

2017 Embedded World trade fair in Germany, in which IAR Systems participated in a more ambitious capacity than ever before. At this year's fair, the company launched a number of products for the automotive industry as well as a major upgrade to its IAR Embedded Workbench for Arm.

The launch of Renesas Synergy Platform is proceeding as expected and manufacturing of Renesas Synergy processors began during the year, albeit in small volumes. Most users are in a development stage in their use of Renesas Synergy Platform and will therefore begin production in 2018.

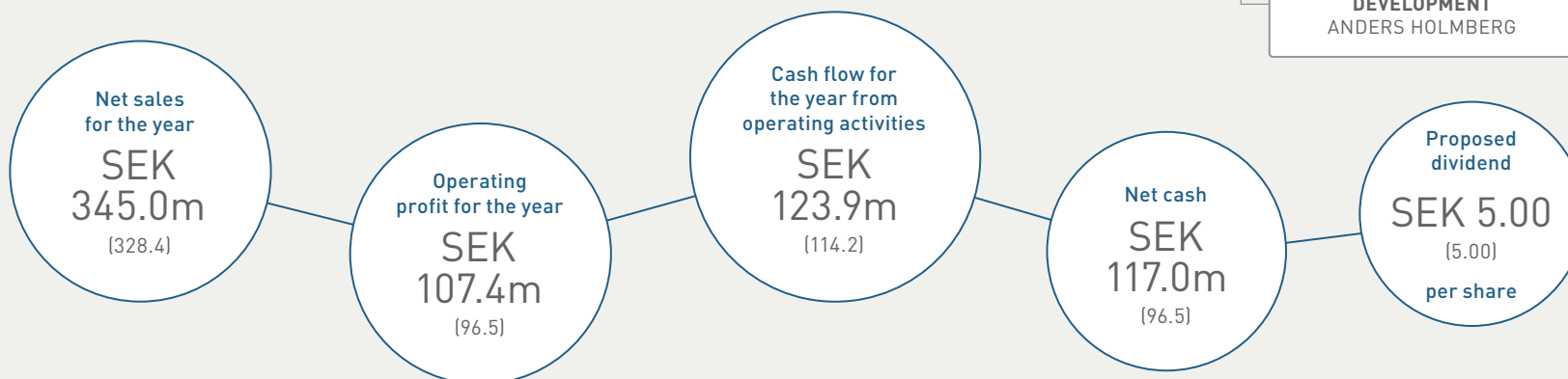
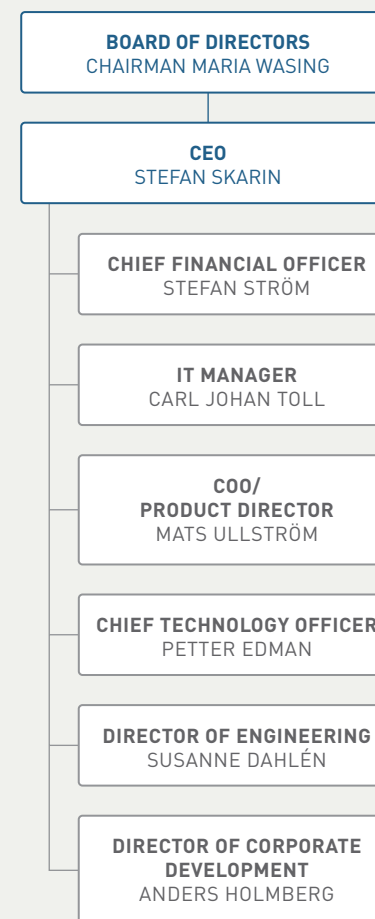
Net sales

Net sales for the year rose 5% compared with the corresponding period in the preceding year and amounted to SEK 345.0m (328.4).

Royalty-based revenue of SEK 6.8m (4.1) from the agreement with Renesas Electronics Corporation was reported during the year. The guaranteed share of remuneration for the year was slightly higher than in previous years since the agreement with Renesas was signed during the second quarter of 2016.

In a year-on-year comparison, currency translation had a negative impact of SEK 0.1m on net sales for the year.

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



Earnings

The company continued to deliver earnings and profitability improvements during 2017.

EBITDA for the year totaled SEK 127.2m (113.2), corresponding to an EBITDA margin of 36.9% (34.5) for the year. Operating profit for the year increased 11% to SEK 107.4m (96.5).

Operating expenses were cut by SEK 13.1m (15.7) during the year through the capitalization of development costs for software and debug probes. Of the internal expenses that were capitalized, SEK 10.4m (12.1) pertained to personnel costs.

Personnel costs are the Group's largest cost item and account for about 67% (67) of total costs. Of the Group's total costs, 58% (55) are attributable to operations in Sweden.

In a year-on-year comparison, currency translation had a positive impact of SEK 0.6m on operating profit for the year.

Financial expenses for the year mainly comprise an impairment loss in the first quarter of SEK 0.8m (-) for the holding in NorNor Holding AB as well as credit expenses for the increased credit margin of SEK 200m. The holding in NorNor Holding AB at year-end is measured at fair value, which meant that an additional change of SEK 2.9m in the value of the holding was charged to comprehensive income for the year. Following the recognition of this change in value, the carrying amount of the holding in NorNor Holding AB totals SEK 0m.

All tax loss carryforwards have now been utilized, which means that the Group's future earnings and cash flow will be charged with current payable tax.

Cash flow

Cash flow from operating activities for the years totaled SEK 123.9m (114.2).

Cash flow from investing activities for the year amounted to SEK -37.6m (-18.9). During the year, the company invested in an equity stake in Secure Thingz amounting to SEK 17.8m. In addition to this investment, the company mainly invested in intangible assets.

Cash flow from financing activities for the year totaled SEK -63.2m (-88.4) pertained in its entirety to dividends paid to the company's shareholders.

Balance sheet items and financial position

Consolidated cash and cash equivalents at the end of the year amounted to SEK 119.5m, compared with SEK 99.2 at December 31, 2016. The Group also had unutilized bank overdraft facilities totaling SEK 225.0m (25.0).

The Group's interest-bearing liabilities amounted to SEK 2.5m, compared with SEK 2.7m at December 31, 2016.

At December 31, 2017, the Group had net cash of SEK 117.0m (96.5).

Consolidated goodwill at December 31, 2017 amounted to SEK 113.5m (114.9). The impairment test performed at year-end did not indicate any requirement for impairment. The decline in goodwill during the year was a result of currency translation. Other intangible assets in the form of trademarks, software, internally generated software development costs and customer agreements totaled SEK 80.9m (82.1).

As of December 31, 2017, the Group had accumulated loss carryforwards of SEK 0m (63). The deferred tax asset is recognized in the balance sheet in an amount of SEK 2.7m (15.9), of which SEK 0.0m (13.9) pertains to unutilized loss carryforwards.

Equity at December 31, 2017 amounted to SEK 290.4m, compared with SEK 279.5m on December 31, 2016. The change in equity is due to profit for the year of SEK +80.0m, dividend payments of SEK -63.2m, currency translation of SEK -3.0m and changes in the value of non-current securities of SEK -2.9m.

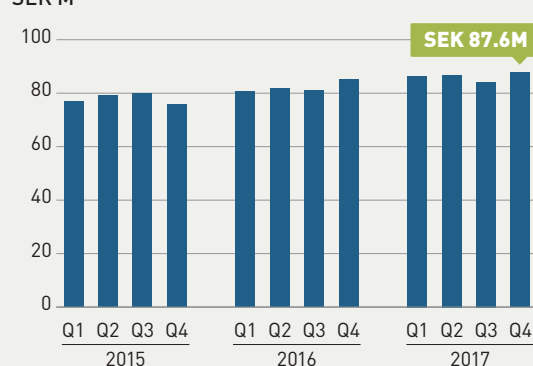
The equity/assets ratio at December 31, 2017 was 71% (71). Pledged assets decreased during the year and totaled SEK 4.3m (4.5) at December 31, 2017.

Investments

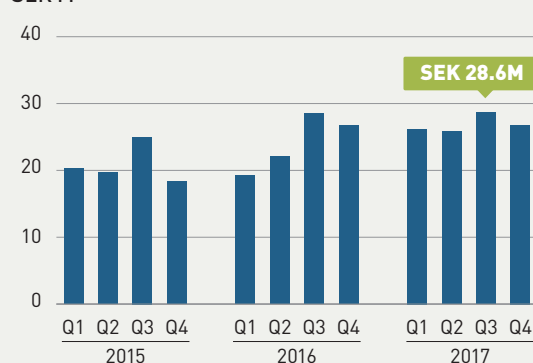
Investments in property, plant and equipment for the year amounted to SEK 2.5m (1.3). Investments in intangible assets totaled SEK 16.5m (17.3). Investments in intangible assets pertained primarily to costs for in-house staff for the development of debug probes and analysis tools. Of the year's investments, SEK 3.4m (1.6) was acquired separately and SEK 13.1m (15.7) comprises internally generated costs. Of the internally generated costs, SEK 10.4m (12.1) pertains to personnel costs.

In addition, the company invested in an equity stake in Secure Thingz amounting to SEK 17.8m during the second quarter of 2017. The holding in Secure Thingz corresponds to just over 10% of the total number of shares in the company and is classified as other non-current securities. In addition to the 10% holding, the company signed an agreement in the fourth quarter of 2017 to acquire a further 10%. These shares will be acquired once payment has been made, which is expected to take place in the first quarter of 2018. The agreement concerning the acquisition of these shares has been classified as a current derivative instrument. Both the non-current securities and the derivative instrument are recognized at fair value, with changes in value recognized against earnings.

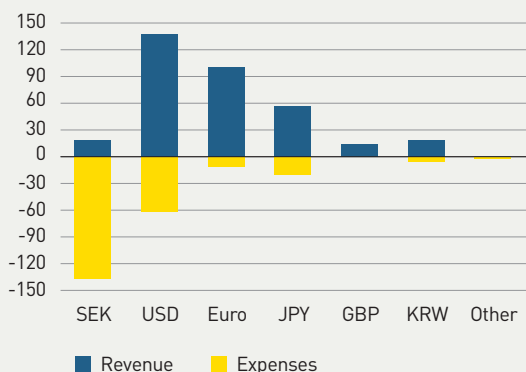
NET SALES SEK M



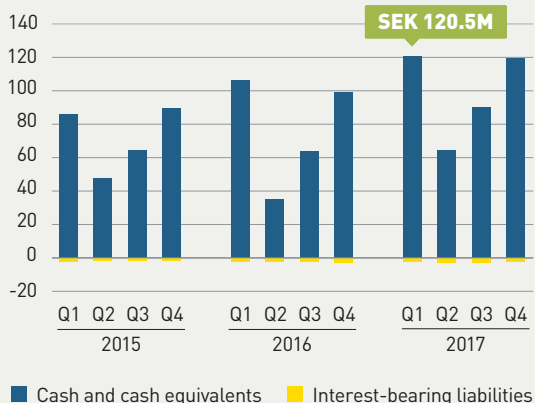
OPERATING PROFIT SEK M



**CURRENCY SPREAD
SEK M**



**NET CASH
SEK M**



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. IoT also entails a greater focus on customer requirements for improved security, and the company therefore invested in Secure Thingz in 2017 to expand our product portfolio with a focus on security.

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. Within the Group, 96% (87) of the employees have a higher post-secondary education and 4% (13) have a secondary education. The average age of the Group's employees is 46 (45). At year-end 2017, the gender distribution was 28% (27) women and 72% (73) men. The average number of employees in 2017 was 153 (159).

Sustainability and corporate social responsibility

IAR Systems' policy for corporate 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 encourages and 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 has a low environmental impact from production, since the company conducts no processing activities and enables environmentally friendly and sustainable technology by offering powerful tools with smart functions that facilitate an optimized power consumption and useful life. One example of such a function is power debugging, a programming technology that makes it easier to see how the finished product's power consumption is directly related to the source code written by a programmer. This makes it possible to detect which program code is causing unexpectedly high power consumption. For the past five years, the company has run the IAR Green Innovation Program, a sponsorship program that supports innovative development projects in the field of environmentally friendly, digital technology. IAR Green Innovation Program sponsors selected organizations, primarily student projects and start-up companies, providing them with the tools they need to get started. This gives students, researchers and engineers to easier access to development tools, thereby allowing more environmentally friendly products to be created.

All employees have the right to a safe and healthy work environment free from threats and discrimination. IAR Systems endeavors to be an equal opportunity employer and to offer a workplace, working conditions and employment terms characterized by equality.

Risks and 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 refer 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 refer 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.

Sensitivity analysis

The table here below shows 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, 2017	Change	Effect on profit
Cost of goods sold	+/- 5%	SEK +/- 0.3m
Payroll expenses	+/- 5%	SEK +/- 6.4m
Currency – EUR	+/- 5%	SEK +/- 3.5m
Currency – USD	+/- 5%	SEK +/- 3.0m
Currency – JPY	+/- 5%	SEK +/- 1.4m
Variable interest	+/- 1 percentage point	SEK +/- 0.0m

Guidelines for remuneration and other terms of employment for senior executives

The Board of Directors proposes to the 2018 AGM that the guidelines for remuneration to senior executives that were adopted by the 2017 AGM continue to apply.

The 2017 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. 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. The group Other senior executives refers to CFO and COO.

The Board of Directors has appointed a remuneration committee for the preparation of matters related to

		PROBABILITY					IMPACT						
		1	2	3	4	5							
		Improbable Unlikely Possible Likely Probable					1 Insignificant 2 Minor 3 Medium 4 Large 5 Very large						
RISK AREA	DESCRIPTION	IAR SYSTEMS' RISK MANAGEMENT											
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 95% 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, 2017, the Group had cash and cash equivalents of SEK 119.5m and unutilized bank overdraft facilities of SEK 225.0m. Interest-bearing liabilities on the same date amounted to SEK 2.5m.
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.

remuneration and other terms of employment for the company's management. No changes are proposed for 2018.

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 2017, there were no deviations from the guidelines approved by the AGM.

The IAR Systems 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, 2017, 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 162.00 (119.00) to a high of SEK 209.00 (206.00). The share price at December 31 was SEK 189.00 (206.00). IAR Systems

Group's market capitalization on the same date was SEK 2,387m (2,602).

Ownership and control

The number of shareholders in IAR Systems Group at December 31, 2017 was 8,062 (8,645). Of these shareholders, 484 (518) held more than 1,000 shares each. Foreign shareholders held approximately 25% (13) of the share capital and 23% (12) of the votes. For additional information about the IAR Systems share, see pages 32-33.

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	1,586,636.62
<u>Comprehensive income for the year</u>	<u>74,535,081.25</u>
Total, SEK	126,348,181.75

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

Dividend of SEK 5.00 per share	63,160,305.00
<u>To be carried forward to new account</u>	<u>63,187,876.75</u>
Total, SEK	126,348,181.75

MULTI-YEAR OVERVIEW

	2010	2011	2012	2013	2014	2015	2016	2017
Revenue, SEK m	177.9	200.4	230.1	230.2	255.7	311.7	328.4	345.0
Operating expenses, SEK m	-166.0	-176.4	-194.9	-188.9	-202.5	-228.3	-231.9	-237.6
Operating profit, SEK m	11.9	24.0	35.2	41.3	53.2	83.4	96.5	107.4
EBITDA margin, % *	9.1	14.7	18.2	22.0	24.9	31.5	34.5	36.9
Operating margin, % *	6.7	12.0	15.3	17.9	20.8	26.8	29.4	31.1
Return on equity, %	3.5	6.4	5.3	10.9	14.5	21.9	25.9	28.1
Equity per share, SEK *	54.16	21.82	22.34	23.90	22.85	23.03	22.13	22.99
Cash flow from operating activities per share, SEK *	1.25	3.09	3.41	3.43	5.63	7.81	9.04	9.81

* This performance measure pertains to an alternative performance measure not defined by IFRS. For further information, refer to page 37-41.

Consolidated income statement

SEK m	Note	2017	2016	SEK m	Note	2017	2016
Net sales	1, 2, 3	345.0	328.4	<i>Profit for the year attributable to:</i>			
Goods for resale	4	-8.5	-12.2	Owners of the Parent Company		80.0	74.0
Other external expenses	5	-49.2	-48.4	<i>Comprehensive income for the year attributable to:</i>			
Personnel costs	6	-160.1	-154.6	Owners of the Parent Company		74.1	77.0
Depreciation of property, plant and equipment	11	-2.4	-2.5	<i>Earnings per share calculated on profit for the</i>			
Amortization of intangible assets	10	-17.4	-14.2	<i>year attributable to owners of the Parent Company, SEK</i>			
Operating profit		107.4	96.5	- basic	9	6.33	5.86
Financial income	7	0.0	0.0	- diluted	9	6.33	5.86
Financial expenses	7	-1.7	-0.4				
Profit before tax		105.7	96.1				
Income taxes	8	-25.7	-22.1				
PROFIT FOR THE YEAR		80.0	74.0				

Consolidated statement of comprehensive income

SEK m	2017	2016
Profit for the year	80.0	74.0
Other comprehensive income:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Change in value of non-current securities	-2.9	-
Exchange differences	-3.0	3.0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	74.1	77.0
Comprehensive income for the year attributable to owners of the Parent Company	74.1	77.0

Consolidated balance sheet

SEK m	Note	Dec 31, 2017	Dec 31, 2016
ASSETS	1, 2, 3		
Non-current assets			
Intangible assets	10		
Goodwill		113.5	114.9
Other intangible assets		80.9	82.1
Total intangible assets		194.4	197.0
Property, plant and equipment	11		
Leasehold improvements		0.1	0.1
Equipment		6.1	6.1
Total property, plant and equipment		6.2	6.2
Financial assets			
Other non-current receivables	12, 18	1.7	1.9
Other non-current securities	13	17.8	2.9
Deferred tax assets	8	2.7	15.9
Total financial assets		22.2	20.7
Total non-current assets		222.8	223.9
Current assets			
Inventories		5.2	5.6
Current receivables			
Trade receivables	14	50.8	48.3
Other current receivables	15	1.0	1.4
Prepaid expenses and accrued income	16	10.8	17.5
		67.8	72.8
Cash and cash equivalents	17	119.5	99.2
Total current assets		187.3	172.0
TOTAL ASSETS		410.1	395.9

SEK m	Note	Dec 31, 2017	Dec 31, 2016
EQUITY AND LIABILITIES			
Equity	19, 20		
Share capital		126.3	126.3
Other contributed capital		23.4	23.4
Reserves		2.7	8.6
Retained earnings including profit for the year		138.0	121.2
Total equity		290.4	279.5
Non-current liabilities			
Borrowings	11, 18	1.7	1.6
Other non-current liabilities		1.7	1.4
Deferred tax liabilities	8	14.0	14.8
Total non-current liabilities		17.4	17.8
Current liabilities			
Trade payables		5.7	5.3
Borrowings	11, 18	0.8	1.1
Tax liabilities	8	10.0	0.1
Other liabilities		6.4	7.3
Accrued expenses and deferred income	21	79.4	84.8
Total current liabilities		102.3	98.6
TOTAL EQUITY AND LIABILITIES		410.1	395.9

Consolidated statement of changes in equity

SEK m	Share capital	Other contributed capital	Reserves	Retained earnings	Total equity
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
Opening balance, January 1, 2017	126.3	23.4	8.6	121.2	279.5
Profit for the year				80.0	80.0
Other comprehensive income					
Change in value of non-current securities			-2.9		-2.9
Translation differences			-3.0		-3.0
Total comprehensive income			-5.9	80.0	74.1
Transactions with owners					
Dividend				-63.2	-63.2
Total transactions with owners				-63.2	-63.2
CLOSING BALANCE, DECEMBER 31, 2017	126.3	23.4	2.7	138.0	290.4

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2017 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	2017	2016
Operating activities			
Incoming payments from customers		342.8	323.5
Outgoing payments to suppliers and employees		-214.6	-205.8
Cash flow from operating activities before interest and income taxes paid		128.2	117.7
Interest received		0.0	0.0
Interest paid		-0.9	-0.0
Income taxes paid		-3.4	-3.5
Cash flow from operating activities		123.9	114.2
Investing activities			
Investments in intangible assets	10	-16.5	-17.3
Investments in property, plant and equipment	11	-2.5	-1.3
Investments in other investments		-18.6	-0.3
Cash flow from investing activities		-37.6	-18.9
Financing activities			
Dividends to Parent Company shareholders		-63.2	-88.4
Amortization of financial liabilities		-0.0	-0.0
Cash flow from financing activities		-63.2	-88.4
Cash flow for the year		23.1	6.9
Cash and cash equivalents at beginning of year		99.2	89.4
Exchange difference in cash and cash equivalents			
– attributable to cash and cash equivalents at beginning of year		-2.4	2.6
– attributable to cash flow for the year		-0.4	0.3
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	119.5	99.2

Parent Company income statement

SEK m	Note	2017	2016
Net sales	1, 2, 3	12.2	12.2
Other external expenses	5	-4.2	-4.9
Personnel costs	6	-12.7	-10.9
Depreciation of property, plant and equipment	11	-0.1	-0.0
Operating profit		-4.8	-3.6
Result from financial investments			
Total financial income	7	105.7	87.0
Total financial expenses	7	-1.4	-0.3
Profit before tax		99.5	83.1
Tax on profit for the year	8	-22.1	-18.4
PROFIT FOR THE YEAR		77.4	64.7

Parent Company statement of comprehensive income

SEK m	2017	2016
Profit for the year	77.4	64.7
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Change in value of non-current securities	-2.9	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	74.5	64.7

Parent Company balance sheet

SEK m	Note	Dec 31, 2017	Dec 31, 2016
ASSETS	1, 2, 3		
Non-current assets			
Property, plant and equipment			
Equipment	11	0.1	0.2
Total property, plant and equipment		0.1	0.2
Financial assets			
Participations in Group companies	23	189.4	189.4
Other non-current securities	13	17.8	2.9
Other non-current receivables	12	0.1	0.1
Deferred tax assets	8	-	13.3
Total financial assets		207.3	205.7
Total non-current assets		207.4	205.9
Current assets			
Current receivables			
Receivables from subsidiaries		53.3	38.6
Tax receivables		-	0.2
Other current receivables	15	0.1	-
Prepaid expenses and accrued income	16	1.1	0.4
		54.5	39.2
Cash in hand and bank deposits	17	5.0	3.5
Total current assets		59.5	42.7
TOTAL ASSETS		266.9	248.6

SEK m	Note	Dec 31, 2017	Dec 31, 2016
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		50.2	50.3
Retained earnings		1.6	0.0
Comprehensive income for the year		74.5	64.7
		126.3	115.0
Total equity		252.6	241.3
Current liabilities			
Trade payables		0.7	0.4
Tax liabilities		8.6	-
Other liabilities		0.5	1.1
Accrued expenses and deferred income	21	4.5	5.8
Total current liabilities		14.3	7.3
TOTAL EQUITY AND LIABILITIES		266.9	248.6

Parent Company statement of changes in equity

SEK m	Share capital	Share premium reserve	Retained earnings	Total equity
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
Opening balance, January 1, 2017	126.3	50.3	64.7	241.3
Reallocation		-0.1	0.1	-
Dividend			-63.2	-63.2
Total changes in equity not recognized in the income statement		-0.1	-63.1	-63.2
Profit for the year			77.4	77.4
Other comprehensive income				
Change in value of non-current securities			-2.9	-63.2
Total comprehensive income			77.4	77.4
CLOSING BALANCE, DECEMBER 31, 2017	126.3	50.2	76.1	252.6

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2017 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	2017	2016
Operating activities			
Incoming payments from subsidiaries		12.2	12.2
Outgoing payments to suppliers and employees		-19.3	-12.9
Cash flow from operating activities before interest and income taxes paid		-7.1	-0.7
Interest received		0.0	0.0
Interest paid		-0.6	-0.0
Cash flow from operating activities		-0.6	-0.7
Investing activities			
Investments in property, plant and equipment	11	-0.0	-0.0
Increase in financial investments		-18.6	-
Cash flow from investing activities		-18.6	-0.0
Financing activities			
Dividends paid		-63.2	-88.4
Decrease in loans to subsidiaries		-	1.4
Increase in loans to subsidiaries		-14.7	-
Group contributions		105.7	87.0
Cash flow from financing activities		27.8	0.0
Cash flow for the year		1.5	-0.7
Cash and cash equivalents at beginning of year		3.5	4.2
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	5.0	3.5

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 8, 2018.

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 2017

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 2017 financial statements.

New and changed 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, 2018 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 hedge accounting and the classification and measurement of financial assets. IAR will apply IFRS 9 as of January 1, 2018, and has chosen to restate the 2017 comparative year. As part of the Group's IFRS 9 project, IAR has changed its classification of financial assets and created a new model for calculating credit reserves for trade receivables and earned but not invoiced amounts. IAR does not apply hedge accounting. The review showed that the transition to IFRS 9 will not have any material impact on the consolidated income statement or balance sheet, but will result in expanded disclosures in the consolidated financial statements.

The new model for calculating credit reserves for trade receivables is based on expected losses rather than losses that have occurred. IAR will use the simplified approach for trade receivables, meaning that the reserve will correspond to the expected loss for the entire useful life. The new calculation model is based on the historic share of default adjusted for future expectations and probability of default. The calculations made show a non-material increase in the Group's credit reserve for trade receivables.

IFRS 9 contains new principles for how financial assets are to be classified and measured. The measurement category to which a financial asset belongs depends partly on the company's business model [purpose for the holding of the financial asset] and partly on the financial asset's contractual cash flows. The Group's holding of equity instruments (NorNor Holding and Secure Thingz) have no contractual cash flows and are classified and measured at fair value through other comprehensive income.

IFRS 15 *Revenue from Contracts with Customers* will replace IAS 18 *Revenue* and IAS 11 *Construction Contracts*. IFRS 15 Revenue from Contracts with Customers 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. IFRS 15 replaces all previous standards, statements and interpretations concerning revenue recognition. IAR will apply IFRS 15 as of January 1, 2018. As part of the Group's IFRS 15 project, IAR has assessed its customer contracts in accordance with the five-stage model. The review showed that the transition to IFRS 15 will not have any material impact on the consolidated income statement or balance sheet, but will result in expanded disclosures in the consolidated financial statements.

The Group's accounting policies for each material revenue stream are presented below.

Revenue recognition

Revenue is measured based on the remuneration stated in the customer contract, excluding value-added tax (VAT). The group recognizes revenue when control of a product or service is transferred to a customer.

Most of the Group's revenue pertains to licenses. 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.

CONT. NOTE 1

Licenses

Licenses for software are delivered to customers electronically. Licenses are assessed to comprise the "right to use licenses" in accordance with IFRS 15, since the customer can control the use of, and receives essentially all remaining benefits associated with, the license at the time the license is delivered. Revenue from sales of licenses is recognized when the customer can control the use of the license, which normally occurs when the license has been transferred to the customer electronically.

Technical support

When necessary, the Group provides customers with technical support during the contract period. Utilized technical support does not fluctuate significantly between months and customers pay the same amount regardless of how many times the service is utilized. The performance obligation for technical support is transferred to the customer "over time" and the customer's access to technical support is considered to be evenly distributed over the entire contract period, which entails that revenue is recognized on a straight-line basis over the contract period.

Software updates

The offering of software updates entails an assurance that all updates developed by IAR during the contract period will be provided as and when they become available. The number of updates cannot be stated in advance. The performance obligation for software updates is considered to be transferred to the customer "over time" and the customer's utilization of the updates is considered to be evenly distributed over the entire contract period, which entails that revenue is recognized on a straight-line basis over the contract period.

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.

CONT. NOTE 1

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 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 exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences 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	8.2322 (9.0971)	8.5380 (8.5613)
France, Germany	EUR 1	9.8497 (9.5669)	9.6326 (9.4704)
UK	GBP 1	11.1045 (11.1787)	10.9896 (11.5664)
Japan	JPY 1	0.0731 (0.0777)	0.0761 (0.0790)
China	CNY 1	1.2642 (1.3091)	1.2631 (1.2879)
South Korea	KRW 1	0.0077 (0.0076)	0.0076 (0.0074)

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 to 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.

CONT. NOTE 1

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 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.

CONT. NOTE 1

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.

1.16 Provisions

Provisions for contingent consideration and legal claims are recognized when the Group has a present obligation (legal or constructive) that has arisen 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.

CONT. NOTE 1

Amendments to accounting policies

The amendments to RFR 2 Accounting for Legal Entities that took effect and apply for the 2017 financial year have not had any material impact on the Parent Company's 2017 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, 2018 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.

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, 9.2% (8.8), 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, 9.2% (8.8), is stated before tax and is deemed to reflect specific risks relating to the asset.

b) Unquoted equity instruments

Unquoted equity instruments are measured at fair value and changes in fair value are recognized in other comprehensive income. The group's main measurement method is based on the most recent transaction for the specific company if a transaction has recently occurred. Other adjustments of fair value may be made to reflect changes in circumstances since the most recent transaction if IAR deems these circumstance to have a material impact on fair value. While IAR applies its best judgment and compares the outcome with the main measurement method, all measurement models have limitations. The assessments of fair value of unquoted equity instruments recognized in the financial statements are not necessarily indicative of the price IAR would receive in the event of a transaction.

c) 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 previously had substantial loss carryforwards, which have now been fully utilized.

On the balance sheet date, the Group had cumulative loss carryforwards of approximately SEK 0m (63).

Accordingly, no deferred tax assets based on loss carryforwards are recognized in the consolidated balance sheet as of December 31, 2017. At the preceding year-end, a deferred tax asset of SEK 13.9m was recognized.

d) 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.

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 95% (94) of total sales. Of the cost of goods sold, which accounts for about 4% (5) of the Group's cost mass, approximately 81% (84) 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	345.0	18.0	137.1	100.7	57.1	32.1
Cost of goods sold	8.5	1.3	3.7	2.1	1.1	0.3
Other expenses	229.1	135.4	57.7	8.8	19.3	7.9

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 2017. 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, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Finance leases	0.8	1.2	0.5	-
Bank overdraft facilities	-	-	-	-
Trade and other payables ¹	5.8	-	-	-

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

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	-	-	-

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

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, 2017	Change	Effect on profit
Cost of goods sold	+/- 5%	SEK +/- 0.3m
Payroll expenses	+/- 5%	SEK +/- 6.4m
Currency – EUR	+/- 5%	SEK +/- 3.5m
Currency – USD	+/- 5%	SEK +/- 3.0m
Currency – JPY	+/- 5%	SEK +/- 1.4m
Variable interest	+/- 1 percentage point	SEK +/- 0.0m

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

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, 2017 and 2016 was as follows:

	2017	2016
Total borrowings (Note 18)	2.5	2.7
Less cash and cash equivalents (Note 18)	-119.5	-99.2
Net debt	-117.0	-96.5
Total equity	290.4	279.5
Total capital	173.4	183.0
Net debt/equity ratio	-67%	-53%

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	Net sales		Non-current assets		Investments	
	2017	2016	2017	2016	2017	2016
Americas						
USA	117.5	111.4	1.4	1.5	0.5	0.2
Other countries	9.3	9.9	-	-	-	-
	126.8	121.3	1.4	1.5	0.5	0.2
Asia						
Japan	58.5	51.9	0.0	0.0	0.0	0.0
Other countries	38.4	40.0	0.1	0.1	0.0	0.0
	96.9	91.9	0.1	0.1	0.0	0.0
EMEA						
UK	13.6	15.0	0.0	0.0	0.0	0.0
Germany	36.8	40.3	0.0	0.1	0.0	0.0
Other countries	55.9	45.0	0.0	0.0	0.0	0.0
	106.3	100.3	0.0	0.1	0.0	0.0
Nordic region						
Sweden	6.3	6.5	199.1	201.5	18.5	18.7
Other countries	8.7	8.4	-	-	-	-
	15.0	14.9	199.1	201.5	18.5	18.7
Total	345.0	328.4	200.6	203.2	19.0	18.9

No single customer accounted for 10% or more of the Group's net sales in 2017 and 2016. The geographical areas in the table above pertaining to net sales reflect the geographical region to which the customer belongs.

Note 4. Goods for resale

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

Operating profit in the Parent Company includes exchange differences of SEK 0.0m (0.0).

Note 5. Other external expenses

FEES TO AUDITORS

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Deloitte				
Audit of the financial statements	0.6	0.7	0.0	0.0
Audit-related services other than the audit of the financial statements	-	-	-	-
Tax consultancy	0.1	0.1	-	-
Other services	-	0.0	-	-
Total Deloitte	0.7	0.8	0.0	0.0
Total fees to auditors	0.7	0.8	0.0	0.0

The audit of the financial statements refers to fees for the statutory audit, meaning work that has been necessary in order to issue the auditor's 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 2017 was 153 (159). The breakdown of the average number of employees by country and, in Sweden, by location, is shown in the table below.

The majority, 58% (59%), are employed in Sweden (calculated on the average number of employees during the year).

AVERAGE NUMBER OF EMPLOYEES

	2017		2016	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Parent Company				
Stockholm	4	75%	4	75%
Subsidiaries in Sweden				
Uppsala	85	78%	90	76%
Subsidiaries outside Sweden				
Germany	5	40%	5	40%
France	2	50%	2	50%
USA	36	64%	37	70%
South Korea	5	80%	5	80%
China	2	50%	2	50%
Japan	14	71%	14	79%
Total subsidiaries	149	72%	155	73%
Total Group	153	72%	159	73%

GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES IN THE GROUP

	2017		2016	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Group (incl. subsidiaries)				
Board members	5	60%	5	80%
CEO and other senior executives	3	100%	3	100%
Presidents of subsidiaries	-	-	-	-
Parent Company				
Board members	5	60%	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 163.1m (159.7), of which social security expenses accounted for SEK 29.9m (29.8) and pensions for SEK 10.8m (10.8). Of the Group's total payroll costs, SEK 8.0m (9.1) has been spent on assets and have been capitalized as internally generated development costs.

SEK m	2017		2016	
	Salaries and other remuneration	Social security expenses (of which pension costs)	Salaries and other remuneration	Social security expenses (of which pension costs)
Parent Company	9.2	3.9 (1.0)	7.7	3.8 (1.0)
Subsidiaries	113.2	36.8 (9.8)	111.4	36.8 (9.8)
Total Group	122.4	40.7 (10.8)	119.1	40.6 (10.8)

CONT. NOTE 6

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	2017		2016	
	Board, CEO and other senior executives	Other employees	Board, CEO and other senior executives	Other employees
Parent Company	8.1	1.1	6.6	1.1
Subsidiaries in Sweden	1.8	52.9	1.5	52.4
Subsidiaries outside Sweden	-	58.5	-	57.5
Total Group	9.9	112.5	8.1	111.0

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.

No Board fees are paid to members who receive a salary from companies in the IAR Group. In 2017, this rule applied to Stefan Skarin. The group Other senior executives refers to 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

REMUNERATION AND OTHER BENEFITS DURING THE YEAR

Remuneration to the Board of Directors, CEO and other senior executives in 2017

SEK m	Fixed salary/ Board fees		Variable salary		Other benefits		Pension expenses		Other remuneration		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Board Chairman Maria Wasing ¹	0.3	0.2	-	-	-	-	-	-	-	-	0.3	0.2
Board member Lisa Kaati ²	0.1	-	-	-	-	-	-	-	-	-	0.1	-
Board member Kent Sander ²	0.1	-	-	-	-	-	-	-	-	-	0.1	-
Board Member Jonas Mårtensson	0.2	0.2	-	-	-	-	-	-	-	-	0.2	0.2
Board Chairman Markus Gerdien ³	0.1	0.3	-	-	-	-	-	-	-	-	0.1	0.3
Board member Peter Larsson ⁴	0.1	0.2	-	-	-	-	-	-	-	-	0.1	0.2
CEO Stefan Skarin	3.6	2.7	1.1	0.8	0.2	0.2	0.3	0.3	-	-	5.2	4.0
Other senior executives	3.3	3.0	1.0	0.7	0.2	0.2	0.8	0.7	-	-	5.3	4.6
Total	7.8	6.6	2.1	1.5	0.4	0.4	1.1	1.0	-	-	11.4	9.5

¹ Member until the Annual General Meeting on April 26, 2017, thereafter Chairman

² Member since the Annual General Meeting on April 26, 2017

³ Chairman until the Annual General Meeting on April 26, 2017

⁴ Member until the Annual General Meeting on April 26, 2017

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 2017, 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.

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 2017 was based on the Group's sales and operating profit. The bonus amount for 2017 was equal to 32% (28) of basic salary. For the other senior executives, the bonus for 2017 was based on the Group's sales and operating profit. The bonus amount for other senior executives in 2017 was equal to 28% (23) 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.

Note 7. Financial income and expenses

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Interest income	0.0	0.0	0.0	0.0
Exchange differences	0.0	0.0	-	-
Group contributions received	-	-	105.7	87.0
Total financial income	0.0	0.0	105.7	87.0
Interest expenses	-0.8	-0.0	-0.6	-0.0
Exchange differences	-0.0	-	-	-
Impairment losses for shares in NorNor Holding AB	-0.8	-0.3	-0.8	-0.3
Finance leases	-0.1	-0.1	-	-
Total financial expenses	-1.7	-0.4	-1.4	-0.3
Net financial items	-1.7	-0.4	104.3	86.7

Note 8. Tax

The following components are included in the tax expense.

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Current tax on profit for the year	-13.3	-2.9	-8.8	-
Deferred tax	-12.4	-19.2	-13.3	-18.4
Total tax on profit for the year	-25.7	-22.1	-22.1	-18.4

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

SEK m	Group		Parent Company	
	2017	2016	2017	2016
The year's deferred tax expense/income				
intangible assets	0.2	1.2	-	-
utilization of loss carryforwards	-13.9	-18.4	-13.3	-18.4
support and upgrade agreements	0.1	0.1	-	-
untaxed reserves	-0.9	0.0	-	-
other temporary differences	2.1	-2.1	-	-
Total deferred tax in the income statement	-12.5	-19.2	-13.3	-18.4

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Reconciliation between effective tax and tax based on the applicable tax rate				
Reported profit before tax	105.7	96.1	99.5	83.1
Tax according to the applicable tax rate	-25.0	-21.9	-21.9	-18.3
Tax effect of non-deductible expenses	-0.7	-0.2	-0.2	-0.1
Tax effect of non-taxable income	0.0	0.0	0.0	0.0
Total	-25.7	-22.1	-22.1	-18.4
Prior year adjustments	-	-	-	-
Tax on profit for the year according to the income statement	-25.7	-22.1	-22.1	-18.4

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. Temporary differences pertaining to loss carryforwards have resulted in deferred tax assets.

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Deferred tax liabilities attributable to intangible assets	-12.8	-13.0	-	-
Deferred tax liabilities attributable to untaxed reserves	-1.0	-0.1	-	-
Deferred tax liabilities attributable to other temporary differences	-0.2	-1.7	-	-
Total deferred tax liabilities	-14.0	-14.8	-	-
Deferred tax assets attributable to loss carryforwards	-	13.9	-	13.3
Deferred tax assets attributable to support and upgrade agreements	1.7	1.6	-	-
Deferred tax assets attributable to other temporary differences	1.0	0.4	-	-
Total deferred tax assets	2.7	15.9	-	13.3
Total deferred tax assets, net	-11.3	1.1	-	13.3

On the balance sheet date, the Group had total unutilized loss carryforwards in continuing operations of SEK 0 (63). Based on these loss carryforwards, the Group has recognized a deferred tax asset of SEK 0.0m (13.9).

Note 9. Earnings per share

	Group	
	2017	2016
Profit, SEK m	80.0	74.0
Basic earnings per share, SEK	6.33	5.86
Earnings per share, diluted, SEK	6.33	5.86
No. of shares		
Average number of shares before dilution, millions	12.63	12.63
Average number of shares, diluted, million	12.63	12.63

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.

Note 10. Intangible assets

GROUP, SEK m	Goodwill		Trademarks		Customer contracts		Software		Internally generated software development costs		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Opening cost	114.9	113.5	11.7	11.7	-	3.4	24.6	22.8	100.5	84.8	251.7	236.2
Investments	-	-	-	-	-	-	3.4	1.6	13.1	15.7	16.5	17.3
Translation differences	-1.4	1.4	-	-	-	-	-0.3	0.2	-	-	-1.7	1.6
Sales and disposals	-	-	-	-	-	-3.4	-0.2	-	-	-	-0.2	-3.4
Closing accumulated cost	113.5	114.9	11.7	11.7	-	0.0	27.5	24.6	113.6	100.5	266.3	251.7
Opening amortization	-	-	-9.2	-8.4	-	-3.4	-12.0	-8.7	-33.5	-23.4	-54.7	-43.9
Sales and disposals	-	-	-	-	-	3.4	0.2	-	-	-	0.2	3.4
Amortization for the year	-	-	-0.7	-0.8	-	-	-3.3	-3.3	-13.4	-10.1	-17.4	-14.2
Closing accumulated depreciation	-	-	-9.9	-9.2	-	0.0	-15.1	-12.0	-46.9	-33.5	-71.9	-54.7
Opening impairment	-	-	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-	-
Closing accumulated impairment	-	-	-	-	-	-	-	-	-	-	-	-
Carrying amount	113.5	114.9	1.8	2.5	-	0.0	12.4	12.6	66.7	67.0	194.4	197.0

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	5-10 years

Investments for the year

Of the year's investments of SEK 16.5m (17.3), SEK 3.4m (1.6) pertains to software and SEK 13.1m (15.7) pertains to internally generated software development costs. Of the internally generated costs, SEK 10.4m (12.1) 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, 9.2% (8.8), is stated before tax and is deemed to reflect specific risks relating to the asset.

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	9.2% (8.8%)
Years 2-3 (forecast period)	Acc. to management's estimated forecast	Acc. to management's estimated forecast	9.2% (8.8%)
Terminal value	2% (2%)	On par with year 3	9.2% (8.8%)

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 2017. 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 12.0m (12.9). The discount rate used, 9.2%, 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	
	2017	2016	2017	2016	2017	2016
Opening cost	0.6	0.6	21.7	21.1	22.3	21.7
Investments	0.0	0.0	2.5	0.7	2.5	0.7
Investments through finance leases	-	-	-	2.1	-	2.1
Translation differences	-	-	-0.4	0.4	-0.4	0.4
Sales and disposals	-	-	-0.3	-2.6	-0.3	-2.6
Closing accumulated cost	0.6	0.6	23.5	21.7	26.1	22.3
Opening depreciation	-0.5	-0.5	-15.6	-14.7	-16.1	-15.2
Sales and disposals	-	-	0.3	1.9	0.3	1.9
Translation differences	-	-	0.2	-0.3	0.2	-0.3
Depreciation of finance leases for the year	-	-	-0.6	-0.5	-0.6	-0.5
Depreciation for the year	-0.0	-0.0	-1.8	-2.0	-1.8	-2.0
Closing accumulated depreciation	-0.5	-0.5	17.4	-15.6	-17.9	-16.1
Carrying amount	0.1	0.1	6.1	6.1	6.2	6.2
PARENT COMPANY, SEK m	2017	2016	2017	2016	2017	2016
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	-0.4	-0.4	-0.4
Sales and disposals	-	-	-	-	-	-
Depreciation for the year	-	-	-0.1	-0.0	-0.1	-0.0
Closing accumulated depreciation	-	-	-0.5	-0.4	-0.5	-0.4
Carrying amount	-	-	0.1	0.2	0.1	0.2

Operating leases

During the year, lease payments under operating leases in the Group amounted to SEK 14.8m (13.7). 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	
	2017	2016	2017	2016
Due for payment within 1 year	14.8	12.7	0.3	0.3
Due for payment within 2 years	9.7	7.0	0.3	0.2
Due for payment within 3 years	4.0	5.9	0.3	-
Due for payment within 4 years	2.8	1.1	0.2	-
Due for payment in 5 years or later	7.6	1.1	-	-

Finance leases

The majority of finance leases refer to company cars. The accumulated cost of finance leases at December 31, 2017 was SEK 3.5m (3.4).

Accumulated depreciation at year-end amounted to SEK 1.0m (0.8). 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 0.7m (0.6) 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	2017	2016
Current portion (due within 1 year)	0.8	1.1
Non-current portion (due within 5 years)	1.7	1.6
Non-current portion (due later than 5 years)	-	-
Total	2.5	2.7

Note 12. Other non-current receivables

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Deposits	1.4	1.6	0.1	0.1
Other	0.3	0.3	-	-
	1.7	1.9	0.1	0.1

Note 13. Other non-current securities

SEK m	Share of capital	Group		Parent Company	
		2017	2016	2017	2016
Shareholding in Secure Thingz Inc	10% (-)	17.8	-	17.8	-
NorNor Holding AB	10% (10%)	-	2.9	-	2.9
		17.8	2.9	17.8	2.9

Other non-current securities consist of unlisted shares in Secure Thingz Inc and NorNor Holding AB. The holding in Secure Thingz corresponds to approximately 10% of the total number of shares. In addition to the 10% holding, the company signed an agreement in the fourth quarter of 2017 to acquire a further 10%. These shares will be acquired once payment has been made, which is expected to take place in the first quarter of 2018. The agreement concerning the acquisition of these shares has been classified as a current derivative instrument. Both the non-current securities and the derivative instrument are recognized at fair value, with changes in value recognized against earnings.

The holding in NorNor Holding AB also corresponds to approximately 10% of the total number of shares. The holding in NorNor Holding AB at year-end is measured at fair value, which meant that a change of SEK 2.9m in the value of the holding was charged to comprehensive income for the year. Following the recognition of this change in value, the carrying amount of the holding in NorNor Holding AB totals SEK 0m. IAR Systems intends to divest this holding.

Note 14. Trade and other receivables

SEK m	Group	
	2017	2016
Trade receivables	51.3	48.5
Provisions for doubtful debts	-0.5	-0.2
Trade receivables, net	50.8	48.3
Prepaid expenses and accrued income	10.8	17.5
Other receivables	1.0	1.4
	62.6	67.2

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, 2017, trade receivables amounting to SEK 11.8m (10.0) 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	
	2017	2016
Less than 3 months	10.8	8.7
3-6 months	0.4	0.3
More than 6 months	0.6	1.0
	11.8	10.0

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

Currency	Group	
	2017	2016
SEK	10.2	9.5
EUR	20.1	22.9
USD	20.2	24.4
Other currencies	12.1	10.4
	62.6	67.2

CHANGES IN PROVISIONS FOR DOUBTFUL DEBTS

SEK m	Group	
	2017	2016
Provisions at January 1	0.2	0.4
The year's provisions for doubtful debts	0.5	0.1
Receivables written off during the year as uncollectable	-0.2	-0.2
Reversed unutilized amount	0.0	-0.1
Provisions at December 31	0.5	0.2

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, 2017.

Note 15. Other current receivables

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Rent guarantees	0.1	0.0	-	-
Other	0.9	1.4	0.1	-
Total other current receivables	1.0	1.4	0.1	-

Note 16. Prepaid expenses and accrued income

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Accrued income	2.0	10.4	-	-
Prepaid rents	1.7	1.7	0.1	0.1
Prepaid insurance premiums	1.2	1.3	0.1	0.1
Other prepaid expenses	5.9	4.1	0.9	0.2
Total prepaid expenses and accrued income	10.8	17.5	1.1	0.4

Note 17. Cash and cash equivalents

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Cash in hand and bank deposits	119.5	99.2	5.0	3.5
Cash and cash equivalents at end of year	119.5	99.2	5.0	3.5
Unutilized committed credit facilities	225.0	25.0	200.0	-
Total available cash and cash equivalents	344.5	124.2	205.0	3.5

Note 18. Financial instruments

SEK m, December 31, 2017	Loans and receivables	Other liabilities	Total
Non-current financial assets			
Other financial receivables	1.7		1.7
Other non-current securities	17.8		17.8
Derivative instruments	0.0		0.0
Current financial receivables			
Trade and other receivables excl. prepaid expenses	50.9		50.9
Cash and cash equivalents			
Cash and cash equivalents	119.5		119.5
Total	189.9		189.9
Non-current liabilities			
Finance lease liabilities		1.7	1.7
Current liabilities			
Finance lease liabilities		0.8	0.8
Trade and other payables excl. non-financial liabilities		5.8	5.8
Total		8.3	8.3

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

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 performance measures for cash and cash equivalents. The carrying amount of cash and cash equivalents corresponds approximately to fair value.

SEK m	Group	
	2017	2016
Cash in hand and bank deposits	119.5	99.2
Cash and cash equivalents	119.5	99.2

TRADE AND OTHER RECEIVABLES

SEK m	Group	
	2017	2016
Trade receivables	50.8	48.3
Other current receivables	1.0	1.4
Trade and other receivables	51.8	49.7

CONT. NOTE 18

Net cash

The Group's net cash at December 31, 2017 amounted to SEK 117.0m (96.5). The table below shows how the Group calculates net cash and what it includes.

SEK m	Group	
	2017	2016
Current borrowings	-	-
Current portion of non-current borrowings	-	-
Current portion of finance lease liabilities	0.8	1.1
Total current borrowings	0.8	1.1
Non-current borrowings	-	-
Non-current portion of finance lease liabilities	1.7	1.6
Total non-current borrowings	1.7	1.6
Total borrowings	2.5	2.7
Cash and cash equivalents	119.5	99.2
Net cash	117.0	96.5
Bank overdraft facility	225.0	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, 2017 amounted to SEK 2.5m (2.7), of which SEK 1.7m (1.6) pertains to non-current borrowings excluding those maturing in the next 12 months. Non-current borrowings maturing within 12 months amount to SEK 0.8m (1.1). The table below shows the carrying amounts of the Group's interest-bearing liabilities.

BORROWINGS			Group	
Type of loan	Interest rate	Currency	2017	2016
Other non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	1.7	1.6
Current portion of non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	0.8	1.1
Bank overdraft facilities	Variable	SEK	-	-
			2.5	2.7

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.

Financial assets are measured at fair value and are shown in the table below.

As of December 31, 2016, no holdings were measured at fair value, and there is therefore only information as of December 31, 2017. Fair value is primarily based on own assumptions according to Level 3.

At the beginning of the year, the holding in NorNor Holding AB was measured at cost less amortization, since it was not possible to reliably estimate the fair value. At year-end, the holding was measured at fair value, which amounted to SEK 0m.

The company invested in an equity stake in Secure Thingz amounting to SEK 17.8m during the second quarter of 2017. The holding in Secure Thingz corresponds to just over 10% of the total number of shares in the company and is classified as other non-current securities. No change in value has taken place in the initial investment in Secure Thingz.

In addition to the 10% holding, the company signed an agreement in the fourth quarter of 2017 to acquire a further 10%. These shares will be acquired once payment has been made, which is expected to take place in the first quarter of 2018. The agreement concerning the acquisition of these shares has been classified as a current derivative instrument.

Group and Parent Company SEK m	Total	Shares	Derivative instruments
Financial instruments measured at fair value at beginning of year	-	-	-
Acquisitions during the year	17.8	17.8	0
Reclassification during the year	2.9	2.9	-
Unrealized change in value, recognized in other comprehensive income	-2.9	-2.9	-
Financial instruments measured at fair value at end of year	17.8	17.8	0

Fair value in accordance with the three levels above:

Level 1: Quoted prices in an active market place.

Level 2: Pricing model mainly based on observable market data for the asset.

Level 3: Pricing model mainly based on own assumptions.

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, 2016	100,000	12,532,061	12,632,061
Total number of shares at December 31, 2016	100,000	12,532,061	12,632,061
Number at January 1, 2017	100,000	12,532,061	12,632,061
Total number of shares at December 31, 2017	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 ten 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	1,586,636.62
Comprehensive income for the year	74,535,081.25
Total, SEK	126,348,181.75

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	63,187,876.75
Total, SEK	126,348,181.75

Note 21. Accrued expenses and deferred income

SEK m	Group		Parent Company	
	2017	2016	2017	2016
Accrued salaries and social security expenses	12.3	10.1	3.8	2.8
Deferred income	64.5	72.3	-	-
Other items	2.6	2.4	0.7	3.0
Total accrued expenses and deferred income	79.4	84.8	4.5	5.8

Note 22. Pledged assets

SEK m	Group		Parent Company	
	2017	2016	2017	2016
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	2.5	2.7	-	-
Total assets pledged to secure own liabilities	4.3	4.5	1.4	1.4
To secure other commitments				
Guarantees	-	-	-	-
Total pledged assets	4.3	4.5	1.4	1.4

Note 23. Participations in Group companies

SEK m	Group	
	2017	2016
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).

CONT. NOTE 23

Group composition

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

Primary activity	Geographic operations	Dec 31, 2017	Dec 31, 2016
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

PARENT COMPANY HOLDINGS

SEK m	Corp. ID no.	Domicile	% of capital	% of votes	No. of shares	Carrying amount 2017	Carrying amount 2016
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 Uppsala AB	556456-7690	Uppsala, 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 4.2m (4.9), 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 25, 2018.

Stockholm, March 8, 2018



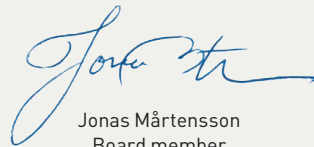
Stefan Skarin
President and CEO
Board member



Maria Wasing
Board Chairman



Kent Sander
Board member



Jonas Mårtensson
Board member



Lisa Kaati
Board member

Our auditor's report was submitted on March 8, 2018
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 2017-01-01 - 2017-12-31. The annual accounts and consolidated accounts of the company are included on pages 42-74 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 the parent company as of 31 December 2017 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 2017 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. 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.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's Board of Directors in accordance with the Audit Regulation (537/2014) Article 11.

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. This includes that, based on the best of our

knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Consolidated net sales amounts to SEK 345.0 (328.4) 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 55 and description of significant estimates and assumptions in page 60.

Our audit procedures included but were not limited to:

- › evaluation of the appropriateness of Group's revenue recognition principles and compliance with the same for each significant revenue stream
- › gaining an understanding of significant transactions flows and review 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

Consolidated capitalized software development cost amounts to SEK 66.7 (67.0) million and includes internally generated development costs. Development costs are capitalized when the criteria's, described in the Group's accounting policies on page 57 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 55 and description of significant estimates and assumptions on page 60.

Our audit procedures included but were not limited to:

- › evaluation of the appropriateness of 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.

Valuation of holdings in unlisted securities

Other financial assets amounts to SEK 17,8 (2,9) MSEK and consist of holdings in unlisted securities related to NorNor Holding and Secure Thingz valued at fair value. Valuation of holdings in unlisted securities valued at fair value are to a high degree based on the management's assessment and input from data that is not observable in the market, which means that a inaccurate assesment 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 55 and description of

significant estimates and assumptions on page 60 as well as description of the valuation method in note 13 on page 69.

Our audit procedures included but were not limited to:

- › evaluation of the appropriateness of Group's valuation principles for holdings in unlisted securities
- › evaluation of applied valuation models and assessments based on the requirements in IFRS 13 and the historical development of each holding
- › evaluation if disclosures in the annual report are in compliance with IFRS 13

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 1-41 and 82-87. The Board of Directors and the Managing Director are responsible for this other information.

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.

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.

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 2017-01-01 - 2017-12-31 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.

Deloitte AB, was appointed auditor of IAR Systems Group AB by the general meeting of the shareholders on the 2017-04-26 and has been the company's auditor since 2012-04-24.

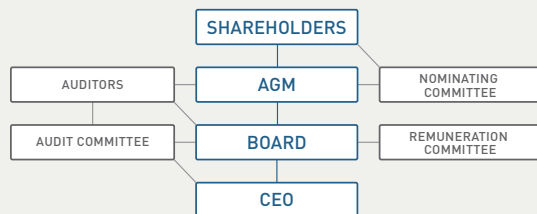
Stockholm, March 8, 2018

Deloitte AB

Erik Olin
Authorized Public Accountant

Corporate governance report

IAR Systems Group is a Swedish public limited company domiciled in Stockholm, Sweden. In 2017, 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 2017 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, 2017 was 8,062 (8,645). Of these shareholders, 454 (518) held more than 1,000 shares each. Foreign shareholders held approximately 25% (13) of the share capital and 23% (12) of the votes. For additional information about the shareholders and ownership structure, see pages 32-33.

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 of 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.

2017 Annual General Meeting

The AGM re-elected sitting Board members Maria Wasing, Jonas Mårtensson and Stefan Skarin. Lisa Kaati and Kent Sander were elected as new Board members. The AGM appointed Maria Wasing 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 5.00 per share for 2016.

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 on page 79.

The average age of the Board members is 52 years and two of the five members are women. 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 2017

In 2017, the Board held 11 meetings, of which six were scheduled and five were extraordinary meetings. 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 on page 80.

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 2017, this rule applied to Stefan Skarin.

BOARD 2017	Elected	Dependent	Remuneration committee	Audit committee
Maria Wasing, Chairman	2015	No	Chairman	Chairman
Jonas Mårtensson	2010	No	Member	Member
Lisa Kaati	2017	No	Member	Member
Kent Sander	2017	No	Member	Member
Stefan Skarin	2002	Yes	-	Member

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 81 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 2017 AGM, at which time Deloitte was elected as auditor to serve for the period until the end of the 2018 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 Telia Company Sweden, among others.

On two occasions in 2017, 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 2017 financial year. On one occasion in 2017, the Board met with the auditor without the presence of the CEO or other members of the company's management.

Deloitte issues an auditor's 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 (0.1) in 2017. The auditor is paid fees in accordance with the decision of the AGM. For information about fees to auditors in 2016 and 2017, see Note 5 on page 63.

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 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

REMUNERATION TO THE BOARD

SEK thousand	2017	2016
Maria Wasing, Chairman ¹	305	160
Jonas Mårtensson	165	160
Lisa Kaati ²	110	-
Kent Sander ²	110	-
Stefan Skarin	-	-
Markus Gerdien, Chairman ³	125	358
Peter Larsson ⁴	55	160

¹ Member until the Annual General Meeting on April 26, 2017, thereafter Chairman

² Member since the Annual General Meeting on April 26, 2017

³ Chairman until the Annual General Meeting on April 26, 2017

⁴ Member until the Annual General Meeting on April 26, 2017

for such principles for approval by the AGM. The group Other senior executives refers to CFO and COO. For 2017, 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.

Gender equality and diversity policy

Differences between people may include gender, ethnic origin, age, disability, religion and sexual orientation, but also experience, qualifications, living circumstances and values. In combination, this creates a dynamic diversity, which contributes new perspectives and ideas.

This collective diversity comprises IAR Systems' expertise, which is a strategic asset in the Group's business and operational development. IAR Systems views gender equality and diversity as both self-evident and a strength, and therefore strives for diversity in its staffing profile and in recruitment.

Our gender equality policy aims to discourage the selection of individuals as members of different groups based solely/primarily on gender, and to ensure that groups are not made up solely of one gender.

Positions are filled based on the stipulated applicant profile. When applicants have equivalent qualifications, IAR Systems is to ensure that the company's working groups have a good structure and that IAR Systems uses the time and expertise of its employees in a manner that promotes the development of both the business and the individual.

When choosing suitable applicants for vacant positions, the company must also work to achieve the broadest possible mix of ages and ethnic backgrounds.

The objective is to achieve as even a distribution as possible of all duties at the workplace, and for the company to discourage gender marking of various tasks and positions.

During the year, the values and goals encompassed by this policy played a distinct and active role in the company's daily activities.

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 2017

SEK thousand	Year	Fixed salary	Variable salary	Benefits	Pension costs	Total
Stefan Skarin, CEO	2017	3,602	1,140	151	310	5,203
	2016	2,763	787	152	325	4,027
Other senior executives	2017	3,309	1,016	207	736	5,268
	2016	3,050	709	190	697	4,646

ATTENDANCE AT BOARD MEETINGS IN 2017

	Apr 26												Total
	Feb 14	Mar 7	Mar 8	Apr 26	Stat.	Aug 16	Oct 17	Oct 18	Oct 31	Nov 13	Dec 14		
Maria Wasing, Chairman ¹	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Jonas Mårtensson	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Lisa Kaati ²					✓	✓	✓	✓	✓	✓	✓	✓	7/7
Kent Sander ²					✓	✓	✓	✓	✓	✓	✓	✓	6/7
Stefan Skarin	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/11
Markus Gardien, Chairman ³													4/4
Peter Larsson ⁴	✓	✓	✓	✓									4/4

¹ Member until the Annual General Meeting on April 26, 2017, thereafter Chairman

² Member since the Annual General Meeting on April 26, 2017

³ Chairman until the Annual General Meeting on April 26, 2017

⁴ Member until the Annual General Meeting on April 26, 2017

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
Q3	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

Maria Wasing, *Chairman*
Jonas Mårtensson, Lisa Kaati, Kent Sander

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 2018 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

Maria Wasing, *Chairman*
Jonas Mårtensson, Lisa Kaati, Kent Sander, Stefan Skarin

The committee is 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, four meetings

(up to and including February 15, 2018)
Jonas Eixmann, Andra AP-fonden, *Chairman*
Malin Björkmo, Handelsbanken Fonder, Anders Bladh, Ribbskottet AB and Mats Larsson, Första AP-fonden

The AGM on April 26, 2017 resolved to appoint a nominating committee according to the following principles. By September 30, 2017, 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 2018 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 2018 AGM.

The members have not received any fees or remuneration from IAR Systems Group for their work on the nominating committee. All members have attended the committee's four meetings.

Proposals to be submitted to the 2018 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 2019 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 2017-01-01 - 2017-12-31 on pages 78-81 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 8, 2018

Deloitte AB

Erik Olin, *Authorized Public Accountant*

Board of Directors

KENT SANDER BOARD MEMBER

Kent Sander, born in 1953, holds a BSc in Business Administration from Stockholm University. He is also Board Chairman of Tobii, Mr Green & Co and OnePhone Holding, and a Board member of Expander Business Consulting, Edgeware, DMP Microlearning and Triboron. Kent has over 30 years' experience from leading positions in international telecom and high-tech IT companies. He has served as CEO of TruePosition and had a long career at Ericsson, including the role of Executive VP Sales in the USA.

Shareholding: No holdings.

Independent in relation to the company and management.

Independent in relation to the company's major shareholders.

LISA KAATI BOARD MEMBER

Lisa Kaati, born in 1975, holds a PhD in Computer Science from Uppsala University and an Executive MBA from Stockholm University. Lisa works as a researcher at the Swedish Defence Research Agency (FOI) in the field of security informatics. She is also the Deputy Program Director of IoT Sweden, a strategic innovation program financed by Vinnova and other partners, focusing on how IoT can contribute to innovative social development.

Shareholding: 100 class B shares.

Independent in relation to the company and management.

Independent in relation to the company's major shareholders.

MARIA WASING BOARD CHAIRMAN

Maria Wasing, born in 1970, holds a BA in Business Administration: Marketing from the University of Arkansas at Little Rock. 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 at companies such as EpiServer and Industri-Matematik. In addition to her role as Board Chairman of IAR Systems, she is also CMO at Axiell and a Board member of Lundalogik.

Shareholding: 500 class B shares.

Independent in relation to the company and management.

Independent in relation to the company's major shareholders.

STEFAN SKARIN BOARD MEMBER

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' 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, born in 1962, studied at IHM Business School and economics studies at Stockholm University.

Shareholding: Via endowment insurance.

Dependent in relation to the company and management.

Dependent in relation to the company's major shareholders.

JONAS MÅRTENSSON BOARD MEMBER

Jonas, born in 1963, has been a Board member since 2010. He is an employee at Alted AB since 2006, where he is also a part-owner and Board member. Jonas holds an MBA from the Stockholm School of Economics. He is Chairman of Alcadon Group AB and Ownpower Projects Europe AB and a Board member of Doro AB, DistIT AB and JNM Invest AB. 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.

Shareholding: 10,000 class B shares.

Independent in relation to the company and management.

Independent in relation to the company's major shareholders.



KENT SANDER
BOARD MEMBER

LISA KAATI
BOARD MEMBER

MARIA WASING
BOARD CHAIRMAN

STEFAN SKARIN
BOARD MEMBER

JONAS MÅRTENSSON
BOARD MEMBER

Group Management

MATS ULLSTRÖM COO/PRODUCT 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, born in 1963, holds an MSc in Computer Science from Uppsala University.

Shareholding: 2,000 class B shares.

CARL JOHAN TOLL IT MANAGER

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

Shareholding: 2,000 class B shares as of January 31, 2017.

ANDERS HOLMBERG DIRECTOR OF CORPORATE DEVELOPMENT

Anders Holmberg has worked at IAR Systems for 17 years. He has a background in numerical analysis and started his career working on parallel computers and super computers during the early 1990s. Since then, he has worked as a university lecturer, technical consultant, C/C++ developer and development manager. Over the past ten years, Anders has focused on advanced tools for developing embedded systems. Anders, born in 1967, holds a BSc in mathematics and computing science from Uppsala University.

Shareholding: No holdings.

SUSANNE DAHLÉN DIRECTOR OF ENGINEERING

Susanne has worked for IAR Systems since 1995 in various roles, including support engineer, technical writer/information architect and documentation manager. Susanne, born in 1965, studied computer science and languages at Uppsala University.

Shareholding: No holdings.

STEFAN SKARIN PRESIDENT AND CEO

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' 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, born in 1962, studied at IHM Business School and economics studies at Stockholm University.

Shareholding: Via endowment insurance.

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, born in 1958, holds an MBA from Lund University.

Shareholding: Via endowment insurance, and 300 class B shares (wife).



PETTER EDMAN CTO

Petter has worked for IAR Systems for more than 20 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 jointly owned by Ericsson and Swedish Telecom. Petter, born in 1964, holds an MSc in Engineering Physics, with a focus on computer technology, from the Uppsala University.

Shareholding: 10,000 class B shares.

ERIK OLIN AUDITOR

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



MATS ULLSTRÖM
COO/PRODUCT DIRECTOR

CARL JOHAN TOLL
IT MANAGER

ANDERS HOLMBERG
DIRECTOR OF CORPORATE
DEVELOPMENT

SUSANNE DAHLÉN
DIRECTOR OF ENGINEERING

STEFAN SKARIN
PRESIDENT AND CEO

STEFAN STRÖM
CHIEF FINANCIAL OFFICER

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

Arm

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

Amazon Web Services

Amazon Web Services (AWS) is a subsidiary of Amazon and offers solutions for cloud platforms.

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

Functional safety

Functional safety focuses on protecting people and physical property from damage. It is crucial that embedded systems used, for example, in the automotive industry, medical technology and industrial automation, meet the industry requirements and standards for functional security.

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 Visual State

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

Embedded system

An embedded (computer) system consists of one or more microprocessors with related circuits and the software that is run in the system. Embedded systems control the functions in digital products such as industrial robots, reversing cameras, credit card readers, dishwashers, etc.

Integrated circuit

An integrated circuit (IC) 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.

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.

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.

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 longstanding partnership with IAR Systems. IAR Systems is the tool supplier that supports the most Renesas processors in the market for embedded systems.

Secure Thingz

Founded in 2016, Secure Thingz specializes in advanced security solutions for embedded systems in the Internet of Things.

Security

There is an important distinction between safety, protection against damage, and security, protection against risks. Security involves ensuring that something does not occur, while safety is about minimizing the damage if something does occur. The term safety is used, in particular, when referring to protection against damage to people and property. Security is often used in connection with data security and mainly refers to protection against unauthorized access, data theft, unauthorized changes or sabotage, for example, by hackers.

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

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