

IAR SYSTEMS GROUP AB  
INTERIM REPORT JANUARY-JUNE 2018

Q2

# Sales up 17% in second quarter

Net sales for the period of SEK 184m and EBITDA of SEK 65m  
Operating margin of 29% and cash flow of SEK 44m

## PROFIT SUMMARY

	6 months Jan-Jun		3 months Apr-Jun		FY
SEK m	2018	2017	2018	2017	2017
Net sales	184.5	173.2	95.6	86.8	345.0
Operating expenses	-131.3	-121.2	-71.9	-61.0	-237.6
Operating profit	53.2	52.0	23.7	25.8	107.4

## KEY RATIOS

	6 months Jan-Jun		3 months Apr-Jun		FY
	2018	2017	2018	2017	2017
EBITDA margin, %	35.1	35.5	31.4	35.6	36.9
Operating margin, %	28.8	30.0	24.8	29.7	31.1
Net cash, SEK m	81.7	61.7	81.7	61.7	117.0
No. of employees at end of period	180	158	180	158	163

## JANUARY-JUNE 2018

- › Net sales of SEK 184.5m (173.2)
- › Sales growth in local currency of 12%
- › EBITDA of SEK 64.7m (61.5), corresponding to an EBITDA margin of 35.1% (35.5)
- › Operating profit of SEK 53.2m (52.0), corresponding to an operating margin of 28.8% (30.0) Operating profit was charged with acquisition expenses of SEK 3.2m
- › Profit before tax of SEK 51.1m (51.1)
- › Basic earnings per share of SEK 2.97 (3.17) and diluted earnings per share of SEK 2.97 (3.17)
- › Earnings per share of SEK 2.98 (3.92) after current tax
- › Cash flow from operating activities of SEK 44.3m (58.8)
- › Net cash of SEK 81.7m (61.7) at the end of the period

## APRIL-JUNE 2018

- › Net sales of SEK 95.6m (86.8)
- › Sales growth in local currency of 17%
- › EBITDA of SEK 30.0m (30.9), corresponding to an EBITDA margin of 31.4% (35.6)
- › Operating profit of SEK 23.7m (25.8), corresponding to an operating margin of 24.8% (29.7) Operating profit was charged with acquisition expenses of SEK 3.2m
- › Profit before tax of SEK 22.0m (25.7)
- › Basic earnings per share of SEK 1.20 (1.68) and diluted earnings per share of SEK 1.20 (1.68)
- › Earnings per share of SEK 1.22 (1.98) after current tax
- › Cash flow from operating activities of SEK 25.2m (32.3)

## KEY EVENTS DURING THE PERIOD

- › A private placement was implemented of 812,000 new class B shares, generating a gain for the company of SEK 178.6m before issue expenses.
- › IAR Systems acquired Secure Thingz and conducted non-cash issue. See also Note 7 "Acquisition of Secure Thingz."
- › The Extraordinary General Meeting on June 16 voted to introduce a long-term incentive scheme for employees. The Meeting also voted in line with the Board's proposal concerning the exchange of warrants for employees in conjunction with the acquisition of Secure Thingz Inc.

# Sales growth, Secure Thingz and focus on security products

Europe continued its strong sales growth in the second quarter, which resulted in total sales growth of 17% for the quarter. The Americas and Asia also reported sales growth, with a continuing stable performance in Asia. As was the case earlier this year, the robust sales growth in Europe during the second quarter related to a number of strategic customers that have increased their use of our products. Several regions in Europe also reported significant sales growth. We saw rising demand from the automotive industry in all global regions.

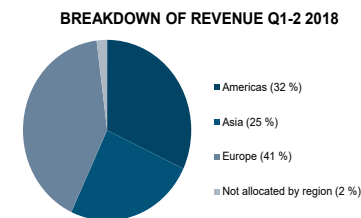
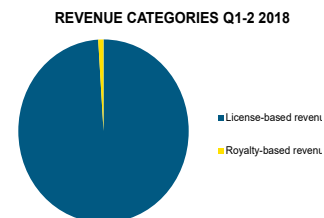
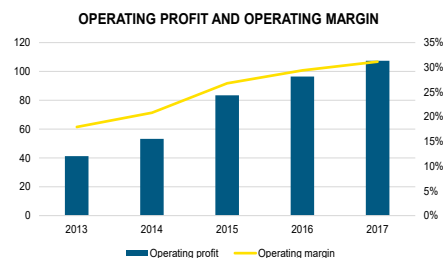
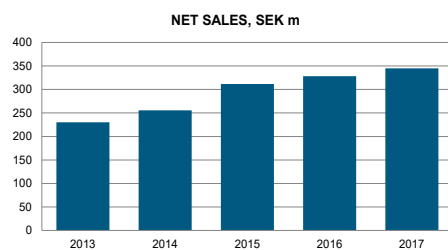
The second quarter has been marked by the integration of Secure Thingz, with a focus on clarifying the integration and packaging the product. Organizationally, integration efforts also focused on product development. Our ambition is to quickly, and to the fullest possible extent, leverage expertise and resources between the various organizations. The main reason for this is to speed up the planned product launches this autumn. Against this background, we have also intensified our efforts to recruit employees to the development organizations in both Uppsala and Cambridge.

The new security product area has been launched and will be represented with several products for both niched and broader markets by the end of the year. The revenue reported for the second quarter in Secure Thingz does not include these security products but is linked to revenue from processor suppliers who wish to ensure early support for our security technology.

Over the past few years, we have seen an increased need for security in our customers' development of digital products. It was for this reason we decided early last year to become a joint owner of Secure Thingz, a leading supplier of security solutions for embedded systems. At the moment, our customers are mainly looking for solutions to protect their software against theft and various forms of unauthorized access and to prevent overproduction of their finished products. Selling and marketing products that are actually cheap copies has unfortunately become an increasingly common problem and one that affects a large market, with electronics accounting for the majority of stolen designs and functions.

This not only results in a loss of sales for our customers, but also creates a challenge when it comes to protecting innovations and trademarks. The goal of our focus on security is to make it easy for our customers to create secure solutions to protect innovations, trademarks and sales revenue at an early stage of the development process.

For those of you who are interested in the market, the following is a brief summary of the trends we consider most important. Despite the slower momentum and the failure or delay of the NXP deal, we still see a consolidation trend among processor suppliers. The automotive industry is red-hot in many ways and current discussions concern vehicles launched in the market in 2023 and, more specifically, the proportion of artificial intelligence in the vehicles of the future. Security is also a clear trend and it is apparent that market suppliers agree on both the challenges and the potential.



I recently took part in Arm's annual partnership meeting, gaining both strategic insights and inspiration. One interesting challenge for Arm is the growing interest in the industry in the new RiscV processor architecture. Trends are exciting, interesting and inspiring when it comes to helping to understand the market in which we operate. However, it can be challenging to capture the many issues surrounding trends in a forum such as this and more information is available online for anyone who is interested and in the forums where we are active.

The year began strongly, with sales growth, acquisitions and the continued support of our owners through a new share issue.

We were also successful in recruitments in several countries, and for the first time we held user conferences which, this year, will be held in more than 11 countries and 17 cities under the IAR DevCon name.

We have Secure Thingz, which adds expertise, products and relationships. In the near future, our focus will be on utilizing our strengths, our strong market position and Secure Thingz and working together toward important future product launches.



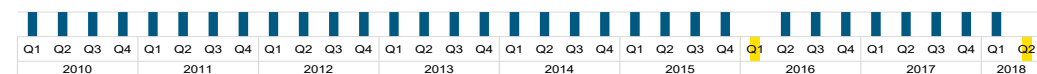
## NET SALES

(increase/decrease compared with corresponding quarter in the preceding year)



## OPERATING PROFIT

(increase/decrease compared with corresponding quarter in the preceding year)



# Financial information

## 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 12%. This 12% sales growth for the period resulted in an increase in net sales of 7% after the accrual of prepaid maintenance and support agreements (-5%) and negative foreign exchange effects (0%). Refer to the table below.

### Sales

Europe continued its strong sales growth in the second quarter, which resulted in total sales growth of 17% for the quarter. The Americas and Asia also reported sales growth, with a continuing stable performance in Asia. As was the case earlier this year, the robust sales growth in Europe during the second quarter related to a number of strategic customers that have increased their use of our products. Several regions in Europe also reported significant sales growth. We saw rising demand from the automotive industry in all global regions.

### Net sales

Net sales rose 7% during the period and 10% in the second quarter compared with the corresponding period in the preceding year. Net sales amounted to SEK 184.5m (173.2), of which SEK 95.6m (86.8) was attributable to the second quarter. Net sales for the period are distributed as follows: IAR Systems SEK 184.0m and Secure Thingz SEK 0.5m, of which SEK 95.1m in IAR Systems and SEK 0.5m in Secure Thingz was attributable to the second quarter. Royalty-based revenue of SEK 2.6m (4.3) from the agreement with Renesas Electronics Corporation was reported during the period, of which SEK 1.3m (1.4) during the second quarter.

	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
<b>6 months Jan-Jun</b>					
Americas	-7%	0%	-5%	- 12%	32%
Europe	36%	-11%	7%	32%	41%
Asia	16%	-5%	-2%	9%	25%
Not allocated	-39%	-	-	-39%	2%
<b>Total</b>	<b>12%</b>	<b>-5%</b>	<b>0%</b>	<b>7%</b>	<b>100%</b>

This royalty-based revenue pertained to the guaranteed minimum remuneration for the period. Revenue in the year-earlier period included revenue of a non-recurring nature.

In a year-on-year comparison, currency translation had a positive impact of SEK 0.0m on net sales for the period, of which SEK 1.8m pertained to the second quarter.

## EARNINGS

The company reported slightly weaker operating profit in the second quarter of the year compared with the corresponding quarter in the preceding year. During the second quarter, operating profit was charged with acquisition-related costs of SEK 3.2m and a negative contribution from the acquired Secure Thingz of SEK 4.0m. Excluding the acquisition, IAR Systems reported a strong improvement in operating profit in the second quarter.

EBITDA for the period totaled SEK 64.7m (61.5), corresponding to an EBITDA margin of 35.1% (35.5) for the period. EBITDA for the second quarter totaled SEK 30.0m (30.9), corresponding to an EBITDA margin of 31.4% (35.6) for the quarter.

Operating profit for the period increased 2% to SEK 53.2m (52.0). Operating profit for the second quarter amounted to SEK 23.7m (25.8).

Operating expenses were cut by SEK 17.6m (6.7) during the period through the capitalization of development costs for software and debug probes. The increase in capitalized expenses is due to developments in Secure Thingz. Of the internal capitalized expenses, SEK 15.2m (5.3) pertained to personnel costs.

In a year-on-year comparison, currency translation had a positive impact of SEK 1.8m on operating profit for the period, of which SEK 2.0m pertained to the second quarter.

Financial expenses for the period mainly comprised credit expenses for the increased credit margin of SEK 200m and currency adjustments for the amount withheld according to contract as part of the acquisition of Secure Thingz.

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

	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
<b>3 months Apr-Jun</b>					
Americas	3%	-7%	-2%	-6%	36%
Europe	40%	-15%	8%	33%	40%
Asia	12%	-4%	1%	9%	22%
Not allocated	-13%	-	-	-13%	2%
<b>Total</b>	<b>17%</b>	<b>-9%</b>	<b>2%</b>	<b>10%</b>	<b>100%</b>

## INVESTMENTS AND FINANCING

Investments in property, plant and equipment for the period totaled SEK 1.0m (1.1), of which SEK 0.6m (0.7) was attributable to the second quarter.

Investments in intangible assets for the period amounted to SEK 18.9m (8.8), of which SEK 14.2m (4.8) pertained to the second quarter. Most of these investments, SEK 17.6m (6.7), pertain to the capitalization of development costs for software and debug probes. Investments in intangible assets increased during the period due to the acquisition of Secure Thingz.

In addition, the company acquired Secure Thingz, which is described in Note 7 "Acquisition of Secure Thingz."

The equity/assets ratio at June 30, 2018 was 74% (67).

## CASH FLOW, CASH AND CASH EQUIVALENTS

Cash flow from operating activities for the period amounted to SEK 44.3m (58.8), of which SEK 25.2m (32.3) pertained to the second quarter. Cash flow for the period was charged with tax payments in the form of an extra tax payment of SEK 10m for the 2017 tax year as well as higher preliminary tax payments for the 2018 tax year. This was the result of the company's loss carryforwards in Sweden being fully utilized in the preceding year. In addition, cash flow was charged with transaction costs. Cash flow from investing activities for the period totaled SEK -188.4m (-28.5), of which SEK -162.7m (-23.3) pertained to the second quarter. During the period, the company completed the acquisition of Secure Thingz. See also Note 7 "Acquisition of Secure Thingz." In addition to this investment, the company mainly invested in intangible assets. Investments in intangible assets increased during the period due to the acquisition of Secure Thingz.

Cash flow from financing activities for the period totaled SEK -105.9m (-63.2), of which SEK -105.9m (-63.2) pertained to the second quarter. During the period, a new share issue generated a gain for the company of SEK 175.1m after transaction costs. Dividends totaling SEK 68.0m were paid to the company's shareholders.

As of June 30, 2018, the Group had net cash of SEK 81.7m (61.7). Cash and cash equivalents at the end of the period totaled SEK 84.6m (64.3). In addition, the Group had unutilized bank overdraft facilities of SEK 225.0m (25.0). The Group's total available cash and cash equivalents thus amounted to SEK 309.6m (89.3).

## EMPLOYEES

The number of employees in IAR Systems at the end of the period was 180 (158). The average number of employees during the period was 161 (154).

## PARENT COMPANY

The activities of the Parent Company consist of Group management, finance and IR/PR functions. The Parent Company's net sales for the period amounted to SEK 6.1m (6.1). The Parent Company posted a loss after financial items of SEK -5.2m (-2.8).

Net investments in property, plant and equipment amounted to SEK 0.0m (0.0).

Shares in subsidiaries increased by SEK 248.5m following the acquisition of Secure Thingz.

Cash and cash equivalents at June 30, 2018 totaled SEK 6.3m (6.0). The number of employees in the Parent Company at the end of the period was four (four).

## 2018 ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of IAR Systems Group was held on April 25, 2018. For information about the AGM and the resolutions passed, refer to the company's website: [www.iar.com](http://www.iar.com).

## SIGNIFICANT RISKS AND UNCERTAINTIES

The market for IAR Systems' software is evolving rapidly and forecasts about future developments are thus uncertain. IAR Systems Group's assessment is that no significant risks and uncertainties have changed or arisen aside from those described in the annual report for 2017 under "Administration report" on pages 44-45 and in Note 2 on pages 60-62. The acquisition of Secure Thingz is not expected to noticeably change the company's significant risks and uncertainties.

## FUTURE OUTLOOK

The Board's financial targets are for IAR Systems Group's sales to grow by 10-15% annually in local currency and for the operating margin to exceed 25% over a business cycle.

## FINANCIAL CALENDAR 2018

Interim report Jan-Sep 2018, November 9, 2018

## REVIEW

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

# Income statement

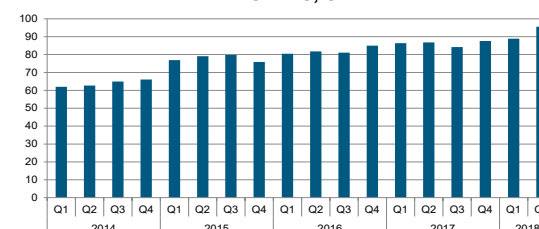
## CONDENSED CONSOLIDATED INCOME STATEMENT

		6 months Jan-Jun		3 months Apr-Jun		FY
SEK m	Note	2018	2017	2018	2017	2017
Net sales	1, 2	184.5	173.2	95.6	86.8	345.0
Goods for resale		-4.7	-4.0	-1.9	-1.6	-8.5
Other external expenses		-32.7	-25.1	-20.4	-12.8	-49.2
Personnel costs		-82.4	-82.6	-43.3	-41.5	-160.1
Depreciation of property, plant and equipment		-1.1	-1.2	-0.6	-0.6	-2.4
Amortization of intangible assets		-10.4	-8.3	-5.7	-4.5	-17.4
<b>Operating profit</b>		<b>53.2</b>	<b>52.0</b>	<b>23.7</b>	<b>25.8</b>	<b>107.4</b>
Financial income		0.0	0.0	0.0	0.0	0.0
Financial expenses		-2.1	-0.9	-1.7	-0.1	-1.7
<b>Profit before tax</b>		<b>51.1</b>	<b>51.1</b>	<b>22.0</b>	<b>25.7</b>	<b>105.7</b>
Tax		-12.1	-11.1	-5.8	-4.5	-25.7
<b>Profit for the period</b>		<b>39.0</b>	<b>40.0</b>	<b>16.2</b>	<b>21.2</b>	<b>80.0</b>
Earnings per share for the period, basic, SEK		2.97	3.17	1.20	1.68	6.33
Earnings per share for the period, diluted, SEK		2.97	3.17	1.20	1.68	6.33

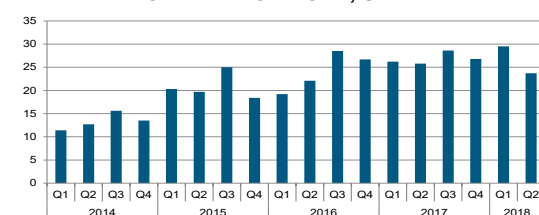
## STATEMENT OF COMPREHENSIVE INCOME

	6 months Jan-Jun		3 months Apr-Jun		FY
SEK m	2018	2017	2018	2017	2017
Profit for the period	39.0	40.0	16.2	21.2	80.0
<b>Other comprehensive income for the period</b>					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences	5.4	-2.5	4.0	-2.1	-3.0
Change in value of non-current securities	17.5	-	-0.4	-	-2.9
Total other comprehensive income	22.9	-2.5	3.6	-2.1	-5.9
<b>Comprehensive income for the period</b>	<b>61.9</b>	<b>37.5</b>	<b>19.8</b>	<b>19.1</b>	<b>74.1</b>
Comprehensive income for the period attributable to owners of the Parent Company	61.9	37.5	19.8	19.1	74.1

NET SALES, SEK m



OPERATING PROFIT, SEK m



# Balance sheet

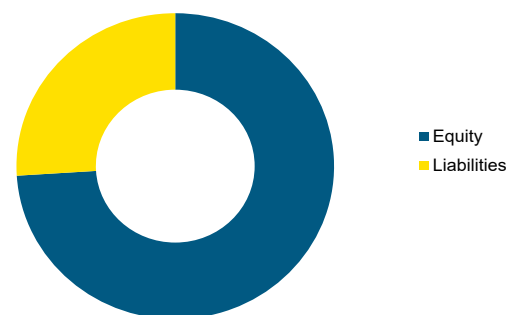
## CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Jun 30, 2018	Jun 30, 2017	Dec 31, 2017
<b>ASSETS</b>				
Non-current assets				
Goodwill	3	349.0	113.7	113.5
Other intangible assets	4	130.5	82.4	80.9
Property, plant and equipment		7.2	6.1	6.2
Financial assets		1.8	22.4	19.5
Deferred tax assets	5	8.5	6.8	2.7
Total non-current assets		497.0	231.4	222.8
Current assets				
Inventories		4.9	5.6	5.2
Other current assets		36.5	23.5	11.8
Trade receivables		62.8	56.1	50.8
Cash and cash equivalents		84.6	64.3	119.5
Total current assets		188.8	149.5	187.3
<b>TOTAL ASSETS</b>		<b>685.8</b>	<b>380.9</b>	<b>410.1</b>
<b>EQUITY AND LIABILITIES</b>				
Total equity		507.4	253.8	290.4
Non-current liabilities				
Interest-bearing liabilities		1.7	1.6	1.7
Other non-current liabilities		1.5	1.5	1.7
Deferred tax liabilities		24.8	15.2	14.0
Total non-current liabilities		28.0	18.3	17.4
Current liabilities				
Trade payables		7.9	5.5	5.7
Interest-bearing liabilities		1.2	1.0	0.8
Other current liabilities		141.3	102.3	95.8
Total current liabilities		150.4	108.8	102.3
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>685.8</b>	<b>380.9</b>	<b>410.1</b>

## CHANGES IN EQUITY, GROUP

	6 months Jan-Jun		3 months Apr-Jun		FY
SEK m	2018	2017	2018	2017	2017
Equity at beginning of period	290.4	279.5	507.6	297.9	279.5
New share issue, after deductions for transaction costs and tax	175.1	-	-	-	-
Non-cash issue	39.7	-	39.7	-	-
Value of share-based remuneration	8.3	-	8.3	-	-
Dividend	-68.0	-63.2	-68.0	-63.2	-63.2
Comprehensive income for the period	61.9	37.5	19.8	19.1	74.1
Equity at end of period	507.4	253.8	507.4	253.8	290.4
Of which, attributable to owners of the Parent Company	507.4	253.8	507.4	253.8	290.4

## EQUITY/ASSETS RATIO Q2 2018





# Cash flows

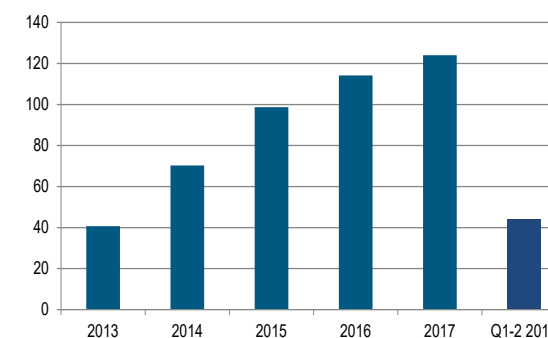
## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	6 months Jan-Jun		3 months Apr-Jun		FY
SEK m	2018	2017	2018	2017	2017
Incoming payments from customers	169.3	164.9	83.6	80.5	342.8
Outgoing payments to suppliers and employees	-105.6	-104.1	-51.6	-46.9	-214.6
Interest received	0.0	0.0	0.0	0.0	0.0
Interest paid	-0.9	-0.1	-0.4	-0.1	-0.9
Income taxes paid	-18.5	-1.9	-6.4	-1.2	-3.4
Cash flow from operating activities	44.3	58.8	25.2	32.3	123.9
Investments in property, plant and equipment	-1.0	-1.1	-0.6	-0.7	-2.5
Investments in intangible assets	-17.4	-8.8	-12.7	-4.8	-16.5
Investments in subsidiaries	-170.0	-17.8	-149.4	-17.8	-17.8
Investments in other investments	-	-0.8	-	-	-0.8
Cash flow from investing activities	-188.4	-28.5	-162.7	-23.3	-37.6
New share issue	175.1	-	175.1	-	-
Amortization of financial liabilities	-1.2	-0.0	-1.2	-0.0	-0.0
Dividend	-68.0	-63.2	-68.0	-63.2	-63.2
Cash flow from financing activities	105.9	-63.2	105.9	-63.2	-63.2
Cash flow for the period	-38.2	-32.9	-31.6	-54.2	23.1
Cash and cash equivalents at beginning of period	119.5	99.2	114.5	120.5	99.2
Exchange difference in cash and cash equivalents					
- attributable to cash and cash equivalents at beginning of period	3.2	-1.8	1.8	-1.8	-2.4
- attributable to cash flow for the period	0.1	-0.2	-0.1	-0.2	-0.4
Cash and cash equivalents at end of period	84.6	64.3	84.6	64.3	119.5

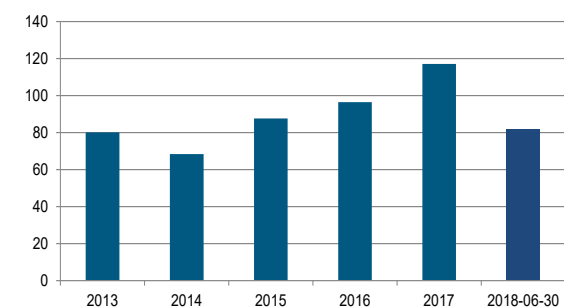
## CASH AND CASH EQUIVALENTS, GROUP

SEK m	Jun 30, 2018	Jun 30, 2017	Dec 31, 2017
Cash and cash equivalents at end of period	84.6	64.3	119.5
Unutilized overdraft facilities	225.0	25.0	225.0
Total available cash and cash equivalents	309.6	89.3	344.5

## CASH FLOW FROM OPERATING ACTIVITIES, SEK m



## NET CASH, SEK m



# Key ratios

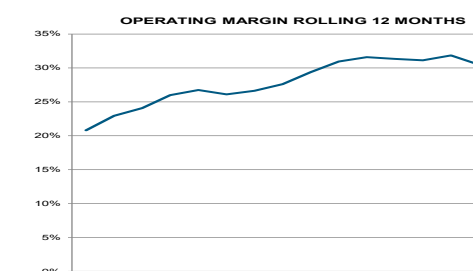
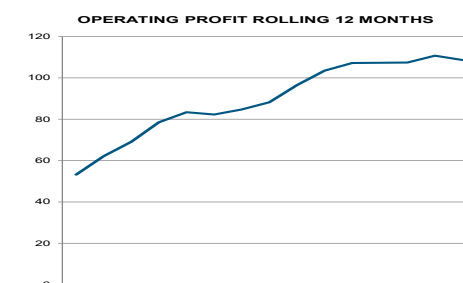
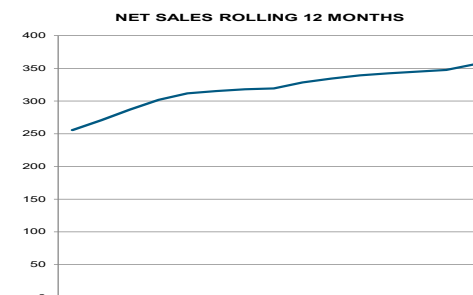
## GROUP

	6 months Jan-Jun		3 months Apr-Jun		FY
	2018	2017	2018	2017	2017
Gross margin, %	97.5	97.7	98.0	98.2	97.5
EBITDA, %	35.1	35.5	31.4	35.6	36.9
Operating margin, %	28.8	30.0	24.8	29.7	31.1
Profit margin, %	27.7	29.5	23.0	29.5	30.6
Cash flow, %	24.0	33.9	26.4	37.2	35.9
Equity/assets ratio, %	74.0	66.6			70.8
Return on equity, %	9.8	15.0	3.2	7.7	28.1
Return on capital employed, %	13.3	19.3	4.7	9.3	37.4
Capital employed, SEK m	510.3	256.4			292.9
Net cash, SEK m	81.7	61.7			117.0
Net debt/equity ratio, multiple	-0.2	-0.2			-0.4
No. of employees at end of period	180	158			163
Average no. of employees	161	154	169	152	153
Sales per employee, SEK m	1.1	1.1	0.6	0.6	2.2

## SHARE DATA

	6 months Jan-Jun		3 months Apr-Jun		FY
	2018	2017	2018	2017	2017
Equity per share, SEK	37.29	20.09			22.99
No. of shares at end of period, million	13.61	12.63			12.63
Average no. of shares, million	13.12	12.63	13.53	12.63	12.63
Average number of shares, diluted, million	13.12	12.63	13.53	12.63	12.63
Cash flow from operating activities per share, SEK	3.38	4.65	1.86	2.56	9.81
Earnings per share, basic, after current tax, SEK	2.98	3.92	1.22	1.98	7.32
Earnings per share, SEK*	2.97	3.17	1.20	1.68	6.33
Earnings per share, diluted, SEK	2.97	3.17	1.20	1.68	6.33

\*Definition in accordance with IFRS. Refer also to definitions on page 16.



## 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
2018	Q2	95.6	30.0	31.4	23.7	24.8	1.20	3.2	1.86	37.29	277.00	3,770
	Q1	88.9	34.7	39.0	29.5	33.2	1.81	5.7	1.51	32.76	230.00	2,905
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	5.61	22.85	74.75	944
2013		230.2	50.6	22.0	41.3	17.9	2.59	10.9	3.53	23.90	39.77	491
2012		230.1	41.8	18.2	35.2	15.3	1.16	5.3	3.41	22.34	35.24	397
2011		200.4	29.4	14.7	24.0	12.0	-1.70	6.4	3.09	21.82	22.66	248
2010		177.9	16.1	9.1	11.9	6.7	1.88	3.5	1.25	54.16	16.41	180

\* Definition in accordance with IFRS.

# Parent Company

## CONDENSED INCOME STATEMENT

	6 months Jan-Jun		FY
SEK m	2018	2017	2017
Net sales	6.1	6.1	12.2
Operating expenses	-9.3	-8.1	-16.9
Depreciation of property, plant and equipment	-0.0	-0.0	-0.1
Operating profit	-3.2	-2.0	-4.8
Result from financial investments	-2.0	-0.8	104.3
Profit before tax	-5.2	-2.8	99.5
Tax	1.1	0.6	-22.1
Profit for the period	-4.1	-2.2	77.4

## STATEMENT OF COMPREHENSIVE INCOME

	6 months Jan-Jun		FY
SEK m	2018	2017	2017
Profit for the period	-4.1	-2.2	77.4
<b>Other comprehensive income for the period</b>			
Items that may be reclassified subsequently to profit or loss:			
Change in value of non-current securities	17.5	-	-2.9
Total other comprehensive income	17.5	-	-2.9
Comprehensive income for the period	13.4	-2.2	74.5

## CONDENSED BALANCE SHEET

	Jun 30, 2018	Jun 30, 2017	Dec 31, 2017
SEK m			
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	0.1	0.2	0.1
Shares in subsidiaries	455.2	189.4	189.4
Other financial assets	0.1	21.5	17.9
Deferred tax assets	1.1	12.7	-
Total non-current assets	456.5	223.8	207.4
Current assets			
Receivables from subsidiaries	-	-	53.3
Other current assets	9.8	0.6	1.2
Cash and cash equivalents	6.3	6.0	5.0
Total current assets	16.1	6.6	59.5
<b>TOTAL ASSETS</b>	<b>472.6</b>	<b>230.4</b>	<b>266.9</b>
<b>EQUITY AND LIABILITIES</b>			
Total equity	402.6	175.5	252.6
Current liabilities			
Trade payables	0.5	0.5	0.7
Liabilities to subsidiaries	43.7	48.3	-
Other current liabilities	25.8	6.1	13.6
Total current liabilities	70.0	54.9	14.3
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>472.6</b>	<b>230.4</b>	<b>266.9</b>

# Notes

## 1. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) as adopted for application in the EU. In addition, the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups has been applied. This consolidated interim report has been prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and IAS 34 Interim Financial Reporting. The accounts of the Parent Company have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities.

The accounting standards applied for the Group and the Parent Company are the same as those applied in preparation of the most recent annual report with the additions specified below.

Business combinations are recognized in the Group according to the acquisition method of accounting as described in the most recent annual report. Businesses acquired during the current accounting period, which are described in Note 7, include share-based remuneration as a subcomponent of the purchase consideration. The share-based remuneration is recognized based on IFRS 2. IFRS 2 establishes criteria for when remuneration is considered share-based remuneration and also specifically when the recipient of such remuneration is considered to have received this in his or her capacity as an employee. IFRS 3 (B56) then explains how this remuneration must be calculated and recognized. Remuneration earned before the acquisition date is recognized as part of the purchase consideration and the share of the remuneration earned after the acquisition date is recognized as remuneration to personnel as it is earned.

The Group applies the following new or amended IFRS from the IFRS Interpretations Committee as of January 1, 2018:

IFRS 9 Financial Instruments, which has replaced IAS 39 Financial Instruments: IFRS 9 contains new principles for hedge accounting and the classification and measurement of financial assets. IAR has chosen to apply the method of restating the 2017 comparison year. IAR has also 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 classification of financial liabilities is unchanged compared with IAS 39, and IFRS 9 has not had any impact on the amounts recognized in previous reports in accordance with IAS 39.

The change in classification entails that financial assets are classified as an asset measured at fair value through profit or loss, as an asset measured at fair value through comprehensive income or as an asset measured at amortized cost. 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. Disclosures regarding the Group's previous measurement categories in accordance with IAS 39 and new measurement categories in accordance with IFRS 39 are presented in the table below.

Category	IAS 39 recognized at Dec 31, 2017		Restated due to IFRS 9	IFRS 9 restated at Jan 1, 2018	
	Available-for-sale assets	Loans and receivables		Other	Hold to collect
	Fair value through other comprehensive income	Amortized cost		Fair value through other comprehensive income	Amortized cost
<b>Measurement</b>					
<b>Assets</b>					
Other non-current receivables		1.7			1.7
Other non-current securities	17.5			17.5	
Trade receivables		50.8			50.8
Accrued income		11.8			11.8
Cash and cash equivalents		119.5			119.5
<b>Total</b>	<b>17.5</b>	<b>183.8</b>	<b>-</b>	<b>17.5</b>	<b>183.8</b>

The new model for calculating credit reserves for trade receivables, contractual assets and lease receivables is based on expected losses rather than losses that have occurred. IAR uses the simplified approach for trade receivables, meaning that the reserve will correspond to the expected loss for the entire useful life. The expected credit losses for these financial assets are calculated using a provision matrix based on previous events, current conditions and forecasts of future financial conditions and the time value of money, where applicable.

The Group's holding of equity instruments (NorNor Holding) is a strategic investment and has no contractual cash flow. IAR has chosen to measure its equity instruments at fair value through other comprehensive income since this best reflects the Group's strategy for the holding. IFRS 9 has not had any impact on the amounts recognized in accordance with IAS 39.

IFRS 15 Revenue from Contracts with Customers has replaced IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 introduces a model for revenue recognition (five-step model) that is based on the time at which the control of goods or services is transferred to the customer. Information about the new accounting policies related to IFRS 15 has been provided in the most recent annual report. The transition to IFRS 15 has not had any material impact on the consolidated income statement or balance sheet, but has resulted in expanded disclosures in the consolidated financial statements. Other new or revised IFRS, interpretations from the IFRS Interpretations Committee and amendments to RFR 2 effective as of January 1, 2018 have not had any material impact on the financial statements of the Group or the Parent Company.

New and changed standards and interpretations that are not yet effective:

IFRS 16 Leases will replace IAS 17 Leases and is to be applied as of January 1, 2019. For the

## Notes, cont.

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.

Information in accordance with IAS 34 Interim Financial Reporting is included in both the notes and in other parts of the interim report.

### 2. NET SALES

Net sales are distributed as follows:

	6 months Jan-Jun		3 months Apr-Jun		FY
SEK m	2018	2017	2018	2017	2017
IAR Systems	184.0	173.2	95.1	86.8	345.0
Secure Thingz	0.5	-	0.5	-	-
<b>Net sales</b>	<b>184.5</b>	<b>173.2</b>	<b>95.6</b>	<b>86.8</b>	<b>345.0</b>

IAR Systems	6 months Jan-Jun		3 months Apr-Jun		FY
SEK m	2018	2017	2018	2017	2017
License-based revenue	118.6	108.5	61.8	54.9	217.3
Support and software updates	56.4	54.0	29.3	27.5	108.6
Royalty-based revenue	2.6	4.3	1.3	1.4	6.8
Other	6.4	6.4	2.7	3.0	12.3
<b>Net sales</b>	<b>184.0</b>	<b>173.2</b>	<b>95.1</b>	<b>86.8</b>	<b>345.0</b>
At a certain point in time	125.0	114.9	64.5	57.9	229.6
Over time	59.0	58.3	30.6	28.9	115.4
<b>Net sales</b>	<b>184.0</b>	<b>173.2</b>	<b>95.1</b>	<b>86.8</b>	<b>345.0</b>
Americas	59.1	68.1	33.5	36.1	129.4
Asia	45.8	41.9	21.2	19.5	83.4
Europe	75.5	57.3	38.4	28.9	123.4
Not allocated by region	3.6	5.9	2.0	2.3	8.8
<b>Net sales</b>	<b>184.0</b>	<b>173.2</b>	<b>95.1</b>	<b>86.8</b>	<b>345.0</b>

Secure Thingz	6 months Jan-Jun		3 months Apr-Jun		FY
SEK m	2018	2017	2018	2017	2017
License-based revenue	-	-	-	-	-
Support and software updates	-	-	-	-	-
Royalty-based revenue	-	-	-	-	-
Other	0.5	-	0.5	-	-
<b>Net sales</b>	<b>0.5</b>	<b>-</b>	<b>0.5</b>	<b>-</b>	<b>-</b>
At a certain point in time	0.5	-	0.5	-	-
Over time	-	-	-	-	-
<b>Net sales</b>	<b>0.5</b>	<b>-</b>	<b>0.5</b>	<b>-</b>	<b>-</b>
Americas	0.5	-	0.5	-	-
Asia	-	-	-	-	-
Europe	-	-	-	-	-
Not allocated by region	-	-	-	-	-
<b>Net sales</b>	<b>0.5</b>	<b>-</b>	<b>0.5</b>	<b>-</b>	<b>-</b>

As part of the agreement with Renesas Synergy, IAR Systems receives a guaranteed annual minimum remuneration.

The royalty-based revenue recognized pertains to the guaranteed minimum remuneration for the period.

## Notes, cont.

### 3. GOODWILL

In the second quarter of 2018, goodwill increased by SEK 234.3m following the acquisition of Secure Thingz. See also Note 7 "Acquisition of Secure Thingz" below. Goodwill is tested annually or when a requirement for impairment is indicated. Goodwill is recognized at cost less accumulated impairment. The impairment test performed at year-end did not indicate any requirement for impairment. No indications for impairment arose during the period. Goodwill at June 30, 2018 amounted to SEK 349.0m (113.5).

### 4. OTHER INTANGIBLE ASSETS

In the second quarter of 2018, other intangible assets increased by SEK 37.5m following the acquisition of Secure Thingz. See also Note 7 "Acquisition of Secure Thingz" below. Operating expenses were reduced by SEK 17.6m (6.7) during the period through the capitalization of development costs for debug probes and analysis tools. Of the internal capitalized expenses, SEK 15.2m (5.3) pertained to personnel costs. Investments in intangible assets increased during the period due to the acquisition of Secure Thingz. The level of investment in intangible assets was also impacted by transactions of a non-recurring nature linked to the acquisition of Secure Thingz.

### 5. DEFERRED TAX ASSETS

The deferred tax asset attributable to loss carryforwards is recognized only to the extent that it is probable that the loss carryforwards can be utilized against future taxable profits. As of June 30, 2018, the Group had accumulated loss carryforwards of SEK 0m (0). The deferred tax asset is recognized in the balance sheet in an amount of SEK 8.5m (6.8), of which SEK 0.0m (0.0) pertains to loss carryforwards.

### 6. PLEDGED ASSETS

SEK m	Jun 30, 2018	Jun 30, 2017	Dec 31, 2017
To secure pensions	1.8	1.8	1.8
To secure liabilities to credit institutions	3.0	2.6	2.5
<b>Total pledged assets</b>	<b>4.8</b>	<b>4.4</b>	<b>4.3</b>

### 7. ACQUISITION OF SECURE THINGZ

On April 11, 2018, IAR Systems concluded the acquisition of Secure Thingz, which was announced on March 21, 2018. IAR Systems previously owned approximately 20% of the shares in Secure Thingz and the remaining 80% was acquired on April 11. Through the acquisition of Secure Thingz, IAR Systems is meeting customers' growing needs for products that can guarantee data security throughout the entire development and manufacturing process. The preliminary cost of the acquisition, preliminary fair values of net assets acquired and preliminary goodwill for the acquisition are presented in the tables below. The total cost of the acquisition and fair values has been determined provisionally, as they are based on preliminary appraisals and subject to confirmation of certain facts. Thus, the purchase price accounting is subject to adjustment.

### Purchase consideration

SEK m	
Cash and cash equivalents 80% (acquired April 11, 2018)	171.3
Cash and cash equivalents 20% (acquired Q2 2017 and Q1 2018)	38.4
Non-cash issue 164,584 class B shares	39.7
Amount withheld according to contract	16.5
Share-based purchase consideration	6.5
Revaluation of previously acquired participation	17.5
<b>Total purchase consideration</b>	<b>289.9</b>

The fair value of the 164,584 class B shares issued in the non-cash issue as part of the purchase consideration for Secure Thingz amounts to SEK 39.7m, which is based on the quoted share price on April 11, 2018 of SEK 241 per share. The new shares will be subscribed for by shareholders of Secure Thingz and issued against a contribution in kind, in the form of shares in Secure Thingz Inc.

The acquisition of Secure Thingz was a gradual process. 10% of the company was acquired in the second quarter of 2017, another 10% was acquired in the first quarter of 2018 and the remaining 80% in April 2018. In the interim report for January-March 2018, the value of the holding was stated as about 20% of the fair value of the shares in Secure Thingz, whereby the fair value corresponds to the measurement of the acquisition of 80% as of April 11, 2018. This meant a change in value of the holding and increased total earnings for the January-March 2018 period by SEK 17.9m. In calculating the purchase consideration above, this change in value was adjusted to SEK 17.5m.

The amount withheld according to the contract refers to the share of the purchase consideration that is to be paid 12 months after the acquisition. This amount is not subject to performance conditions on the part of the seller. However, the amount may be used by the purchaser against the seller for any unknown commitments in the acquired company at the time of purchase. No such commitments have currently been identified, and the amount is therefore recognized in full as part of the purchase consideration and short-term liability in the balance sheet. Payment of the withheld amount is expected to take place in April 2019.

Share-based purchase consideration refers to the part of remuneration for the acquisition that entails the exchange of an existing warrant program for employees in Secure Thingz. Warrant holders exchange their warrants in Secure Thingz for new warrants in IAR Systems. The economic value of the new warrants is to correspond to the value of the existing warrants. A total of 370,000 warrants in Secure Thingz with an exercise price of USD 0.40 per share and 215,000 warrants with an exercise price of USD 0.10 per share will be exchanged for personnel warrants in IAR System Group AB with the same conditions, which also includes conditions for vesting, exercise price, duration, etc. The exchange of the warrants was approved by the Extraordinary General Meeting held on June 15, 2018. The vesting of the warrants in the warrant program will continue until October 2022.

## Notes, cont.

Share-based purchase consideration is recognized as part of the purchase consideration for warrants considered vested before the acquisition date. The share of the warrant pertaining to vesting after the acquisition date is recognized as remuneration of personnel in pace with vesting of the warrants, either as a part of internally generated intangible assets in accordance with the Group's recognition of expenditures for development or as an expense in the period when they arise. The calculated economic value of the warrant program eligible for exchange is SEK 16.0m. The value allocated to the period prior to the acquisition, and which is thereby included in the purchase consideration, amounts to SEK 6.5m. The remainder of the calculated value of SEK 9.5m is allocated to the period after the acquisition and is recognized as above.

The assets and liabilities recognized due to the acquisition are as follows:

SEK m	Fair value
Cash and cash equivalents	21.9
Trade receivables	0.3
Equipment	0.7
Other receivables	0.9
Deferred tax assets	3.1
Intangible assets: Technology	37.5
Deferred tax liabilities	-7.9
Trade payables	-0.2
Other current liabilities	-0.7
Other current liabilities	-0.7
<b>Acquired identifiable assets</b>	<b>55.6</b>
Goodwill	234.3
<b>Acquired net assets</b>	<b>289.9</b>

Intangible assets: Technology, attributable to Secure Thingz and the development of technology for advanced embedded security solutions in the market for the manufacture of connected devices (IoT). The technology meets customer needs for security in embedded systems.

Goodwill arising from the acquisition of Secure Thingz is attributable to anticipated sales growth and future cash flows. The item also includes anticipated synergies, human capital of the work force as a whole, trademarks, existing products and customer relationships. The aforementioned areas included in the goodwill item cannot be recognized as separate intangible assets as they do not meet the criteria for separate recognition.

### Acquired assets

The fair value of acquired trade receivables totals SEK 0.3m, which is equal to the contractual gross amount.

### Revenue and earnings in acquired operations

The acquired operations contributed revenue of SEK 0.5m and a net loss of SEK -3.1m to the Group for the period April 12 to June 30, 2018. If the acquisition had been undertaken on January 1, 2018, consolidated proforma revenue and earnings on June 30, 2018 would have amounted to SEK 0.7m and SEK -6.8m, respectively. These figures were calculated by using the subsidiary's earnings while adjusting for differences in accounting policies between the Group and the subsidiary, and the additional amortization and depreciation that would have resulted from the adjustment of fair value for tangible and intangible fixed assets from January 1, 2017, together with attributable tax effects.

### Purchase consideration – cash outflow

SEK m	2018	2017
Cash consideration	181.9	17.8
Less acquired cash and cash equivalents	-21.9	-
<b>Net outflow of cash and cash equivalents</b>	<b>170.0</b>	<b>17.8</b>

### Acquisition-related costs

Acquisition-related costs of SEK 3.2m are included in other expenses in profit or loss and in operating activities in the cash flow statement. Acquisition-related costs directly attributable to the non-cash issue are included in the item other expenses on the grounds that they are not considered of material value individually and are therefore not recognized separately.



## Definitions

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

Key ratios	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
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..

## Definitions, cont.

Key ratios	Definition/Calculation	Use
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 key ratio is important in assessing the value of a share
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 key ratio 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 key ratio shows the proportion of assets financed with equity and can be used as an indication of the company's longterm 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	6 months Jan-Jun		3 months Apr-Jun		FY
	2018	2017	2018	2017	2017
Net sales	184.5	173.2	95.6	86.8	345.0
Goods for resale	-4.7	-4.0	-1.9	-1.6	-8.5
Gross profit	179.8	169.2	93.7	85.2	336.5
Gross margin	97.5%	97.7%	98.0%	98.2%	97.5%

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

SEK m	6 months Jan-Jun		3 months Apr-Jun		FY
	2018	2017	2018	2017	2017
Operating profit	53.2	52.0	23.7	25.8	107.4
Depreciation of property, plant and equipment	1.1	1.2	0.6	0.6	2.4
Amortization of intangible assets	10.4	8.3	5.7	4.5	17.4
EBITDA	64.7	61.5	30.0	30.9	127.2

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

SEK m	6 months Jan-Jun		3 months Apr-Jun		FY
	2018	2017	2018	2017	2017
Net sales	184.5	173.2	95.6	86.8	345.0
EBITDA	64.7	61.5	30.0	30.9	127.2
EBITDA margin	35.1%	35.5%	31.4%	35.6%	36.9%

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

SEK m	6 months Jan-Jun		3 months Apr-Jun		FY
	2018	2017	2018	2017	2017
Net sales	184.5	173.2	95.6	86.8	345.0
Operating profit	53.2	52.0	23.7	25.8	107.4
Operating margin	28.8%	30.0%	24.8%	29.7%	31.1%

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

SEK m	6 months Jan-Jun		3 months Apr-Jun		FY
	2018	2017	2018	2017	2017
Net sales	184.5	173.2	95.6	86.8	345.0
Profit before tax	51.1	51.1	22.0	25.7	105.7
Profit margin	27.7%	29.5%	23.0%	29.6%	30.6%

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

SEK m	6 months Jan-Jun		3 months Apr-Jun		FY
	2018	2017	2018	2017	2017
Net sales	184.5	173.2	95.6	86.8	345.0
Cash flow from operating activities	44.3	58.8	25.2	32.3	123.9
Cash flow	24.0%	33.9%	26.4%	37.2%	35.9%

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

SEK m	Jun 30, 2018	Jun 30, 2017	Dec 31, 2017
	2018	2017	2017
Equity	507.4	253.8	290.4
Total assets	685.8	380.9	410.1
Equity/assets ratio	74.0%	66.6%	70.8%

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

SEK m	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016
	2018	2018	2017	2017	2017	2016
Equity	507.4	507.6	290.4	253.8	297.9	279.5

SEK m	6 months Jan-Jun		3 months Apr-Jun		FY
	2018	2017	2018	2017	2017
Average equity	398.9	266.7	507.5	275.9	285.0

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

SEK m	6 months Jan-Jun		3 months Apr-Jun		FY
	2018	2017	2018	2017	2017
Profit after tax	39.0	40.0	16.2	21.2	80.0
Average equity	398.9	266.7	507.5	275.9	285.0
Return on equity	9.8%	15.0%	3.2%	7.7%	28.1%

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

SEK m	Jun 30, 2018	Mar 31, 2018	Jun 30, 2017	Mar 31, 2017	Dec 31, 2017
	2018	2018	2017	2017	2017
Interest-bearing liabilities	2.9	2.3	2.6	2.5	2.5
Cash and cash equivalents	-84.6	-114.5	-64.3	-120.5	-119.5
Net interest-bearing liabilities	-81.7	-112.2	-61.7	-118.0	-117.0
Net debt/equity ratio	-0.2	-0.2	-0.2	-0.4	-0.4

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

SEK m	6 months Jan-Jun		3 months Apr-Jun		FY
	2018	2017	2018	2017	2017
Profit before tax	51.1	51.1	22.0	25.7	105.7
Financial expenses	2.1	0.9	1.7	0.1	1.7
Profit before tax plus financial expenses	53.2	52.0	23.7	25.8	107.4
Return on capital employed	13.3%	19.3%	4.7%	9.3%	37.4%

## Reconciliations, cont.

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

SEK m	Jun 30, 2018	Jun 30, 2017	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Cash and cash equivalents	84.6	64.3	114.5	120.5	119.5
Interest-bearing liabilities	-2.9	-2.6	-2.3	-2.5	-2.5
<b>Net cash</b>	<b>81.7</b>	<b>61.7</b>	<b>112.2</b>	<b>118.0</b>	<b>117.0</b>

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

SEK m	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016
No. of shares, million	13.61	13.44	12.63	12.63	12.63	12.63

SEK m	6 months 2018	Jan-Jun 2017	3 months 2018	Apr-Jun 2017	FY 2017
Average no. of shares, million	13.12	12.63	13.53	12.63	12.63

**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 period plus capital employed at the end of the period divided by two.

SEK m	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016
Total assets	685.8	633.2	410.1	380.9	415.1	395.9
Non-interest-bearing liabilities	-175.5	-123.3	-117.2	-124.5	-114.7	-113.7
<b>Capital employed</b>	<b>510.3</b>	<b>509.9</b>	<b>292.9</b>	<b>256.4</b>	<b>300.4</b>	<b>282.2</b>

SEK m	6 months 2018	Jan-Jun 2017	3 months 2018	Apr-Jun 2017	FY 2017
Average capital employed	401.6	269.3	510.1	278.4	287.6

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

SEK m	Jun 30, 2018	Jun 30, 2017	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017
Equity	507.4	253.8	507.6	297.9	290.4
No. of shares at end of period, million	13.61	12.63	13.44	12.63	12.63
<b>Equity per share</b>	<b>37.29</b>	<b>20.09</b>	<b>37.76</b>	<b>23.58</b>	<b>22.99</b>

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

SEK m	6 months 2018	Jan-Jun 2017	3 months 2018	Apr-Jun 2017	FY 2017
Cash flow from operating activities	44.3	58.8	25.2	32.3	123.9
Average no. of shares, million	13.12	12.63	13.53	12.63	12.63
<b>Cash flow from operating activities per share</b>	<b>3.38</b>	<b>4.65</b>	<b>1.86</b>	<b>2.56</b>	<b>9.81</b>

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

SEK m	6 months 2018	Jan-Jun 2017	3 months 2018	Apr-Jun 2017	FY 2017
Tax	12.1	11.1	5.8	4.5	25.7
Deferred tax	-0.1	-9.5	-0.3	-3.8	-12.4
Current tax	12.0	1.6	5.5	0.7	13.3
Profit before tax	51.1	51.1	22.0	25.7	105.7
Current tax	-12.0	-1.6	-5.5	-0.7	-13.3
<b>Profit after current tax</b>	<b>39.1</b>	<b>49.5</b>	<b>16.5</b>	<b>25.0</b>	<b>92.4</b>
Average no. of shares, million	13.12	12.63	13.53	12.63	12.63
<b>Earnings per share after current tax</b>	<b>2.98</b>	<b>3.92</b>	<b>1.22</b>	<b>1.98</b>	<b>7.32</b>

# The IAR Systems share

IAR Systems Group's class B share is quoted on the Mid Cap list of Nasdaq Stockholm. During the period, the share price varied from a low of SEK 188.00 (175.00) to a high of SEK 288.00 (209.00). The share price at June 30, 2018 was SEK 277.00 (175.00). IAR Systems Group's market capitalization on the same date was SEK 3,770m (2,211).

The number of shareholders in IAR Systems Group at June 30, 2018 was 7,712 (8,430). Of these shareholders, 456 (508) held more than 1,000 shares each. Foreign shareholders held approximately 30% (23) of the share capital and 28% (21) of the votes.

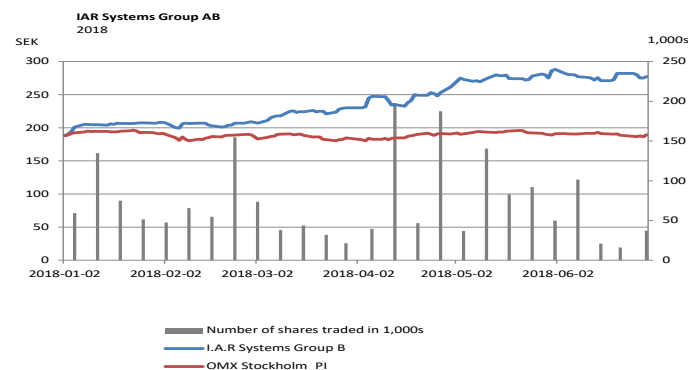
IAR Systems Group's share capital at June 30, 2018 amounted to SEK 136,086,454, divided between 13,608,645 shares, of which 100,000 are class A shares and 13,508,645 are class B shares. On March 28, the Board of Directors of IAR Systems Group AB resolved on a private placement of new shares in the company in accordance with the authorization granted by the 2017 AGM. The new share issue comprised 812,000 new class B shares and generated a gain for the company of SEK 178.6m before issue expenses.

With the support of the Annual General Meeting's authorization on April 26, 2017, the Board of Directors also issued 164,584 new class B shares. The new shares were subscribed for by shareholders of Secure Thingz and issued against a contribution in kind, in the form of shares in Secure Thingz Inc. The new share issue diluted the share capital by approximately 1.2% as a result of an increase in the number of shares outstanding to 13,608,845, comprising 100,000 class A shares and 13,508,845 class B shares.

The Extraordinary General Meeting on June 15 voted to introduce a long-term incentive scheme for employees. The program encompasses a total of up to 600,000 warrants, each entitling the holder to subscribe for or acquire one class B share in the company, corresponding to a total of up to about 4.2% of share capital and approximately 4.0% of votes in the company after dilution.

After the end of the period, a total of 497,500 warrants were allocated, distributed between 243,500 share warrants for employees in Sweden and 254,000 personnel warrants for employees outside Sweden. A premium of SEK 16.30 per warrant is paid for share warrants. The warrants, which carry the entitlement to subscribe for or acquire one class B share in the company during the period August 20 until September 17, 2021, have a subscription price of SEK 323.90 and an acquisition price of SEK 330.00.

The Meeting also voted in line with the Board's proposal concerning the exchange of warrants for employees in conjunction with the acquisition of Secure Thingz Inc.



## BREAKDOWN OF SHAREHOLDINGS

	No. of share- holders	No. of share- holders, %	Share of capital, %	Share of votes, %
1-100	5,381	70	1	1
101-1,000	1,875	24	5	5
1,001-10,000	366	5	8	7
10,001-	90	1	86	87
<b>Total</b>	<b>7,712</b>	<b>100</b>	<b>100</b>	<b>100</b>

## GEOGRAPHICAL DISTRIBUTION

	No. of share- holders	No. of share- holders, %	Share of capital, %	Share of votes, %
Sweden	7,471	97	70	72
Europe excl. Sweden	197	2	25	23
Other countries	44	1	5	5
<b>Total</b>	<b>7,712</b>	<b>100</b>	<b>100</b>	<b>100</b>

## LARGEST SHAREHOLDERS (VOTES)

	No. of shares	Share of capital, %	Share of votes, %
Andra AP-fonden	1,295,415	9	9
Första AP-fonden	1,176,506	9	8
SEB SA Client Assets Ucits.	1,139,218	8	8
Danica Pension*	213,300	2	8
Handelsbanken Fonder	1,070,870	8	7
Other	8,713,336	64	60
<b>Total</b>	<b>13,608,645</b>	<b>100</b>	<b>100</b>

\* of which, 100,000 class A shares.

# Investment case

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

## A PROFITABLE GROWTH COMPANY

IAR Systems is in a unique market position thanks to its leading technology. The company was founded more than 30 years ago, and since then has continually evolved and refined its products in order to meet customer demand. Our headquarters are located in Uppsala, Sweden, but due to the company's international reach, over 95% of sales are attributable to markets outside the Nordic region. Most product development takes place in Uppsala, but also to a certain extent in the USA. In addition, there are sales and support offices in Sweden, Germany, France, Japan, China, Korea and the USA. IAR Systems is represented in an additional 43 countries around the world through its distributors.

The company has a license-based sales model in which IAR Systems sells a license to a user who is then authorized to use IAR Embedded Workbench. The model is flexible and can be adapted depending on the number of users the customer needs. This model creates closer relationships with the customers at the same time that it generates a consistent revenue stream. In addition, the company focuses on markets which it deems to have significant potential, for example, the automotive industry and the Internet of Things. As part of IAR Systems' investment in the Internet of Things, the company has signed an exclusive royalty

agreement with Renesas for the Renesas Synergy-Platform, providing a comprehensive solution for medical electronics for Renesas Synergy Platform, innovative product development. The agreement with Renesas means that IAR Systems is complementing its current license-based business model with a royalty-based model. The new agreement with Renesas will provide revenue from royalties for each microprocessor used in the products the customer eventually manufactures. For a customer in the new model, IAR Systems will receive revenue throughout the entire period in which the customer's products are produced, which could last many years.

## SUPERIOR TECHNOLOGY

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

their function in the embedded system. This complete software helps facilitate, streamline and quality-assure customers' product development. IAR Embedded Workbench is available in a number of different versions in order to match different types of processors. It is continually updated with improved functionality and support for new processors in order to meet the needs of customers and the market.

IAR Embedded Workbench supports over 11,000 processors for embedded systems with 8- 16- and 32-bit architecture, which is a major reason why IAR Systems holds such a unique position in the market. This broad support creates far-reaching flexibility and benefits for customers, since they can maintain their development environment even when they intend to change processors for reasons such as a new project, and can also reuse 70-80% of previously developed code. This produces valuable savings in terms of both time and money. IAR Systems' product portfolio is continually being refined, and in recent years the company has expanded its portfolio by offering add-on products that facilitate customers' day-to-day work. Aside from driving lucrative additional sales, a broader product portfolio enables IAR Systems to further strengthen its competitiveness. IAR Systems is able to offer all customers who purchase software a comprehensive support contract that gives them access to technical support and continuous product updates. IAR Systems' support department is well-known and much appreciated for its extensive experience and impressive expertise which provide added value for customers.



### DEDICATED TEAM WITH AN EMPHASIS ON SERVICE

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

### INTERNET OF THINGS DRIVES GROWTH

The market is now facing continued growth driven by 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.





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