

**IAR SYSTEMS GROUP AB**  
Interim report January–September 2018

**Q3**

# Growth in 20 consecutive quarters

Net sales for the period of SEK 282m and EBITDA of SEK 102m  
Operating margin of 30% and cash flow of SEK 59m

## PROFIT SUMMARY

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
Net sales	282.4	257.4	97.9	84.2	345.0
Operating expenses	-197.9	-176.8	-66.6	-55.6	-237.6
Operating profit	84.5	80.6	31.3	28.6	107.4

## KEY RATIOS

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2018	2017	2018	2017	2017
EBITDA margin, %	36.3	37.0	38.6	40.1	36.9
Operating margin, %	29.9	31.3	32.0	34.0	31.1
Net cash, SEK m	88.6	87.3	88.6	87.3	117.0
No. of employees at end of period	190	163	190	163	163

### JANUARY-SEPTEMBER 2018

- › Net sales of SEK 282.4m (257.4)
- › Sales growth in local currency of 10%
- › EBITDA of SEK 102.5m (95.3), corresponding to an EBITDA margin of 36.3% (37.0)
- › Operating profit of SEK 84.5m (80.6), corresponding to an operating margin of 29.9% (31.3) Operating profit was charged with acquisition expenses of SEK 3.2m
- › Profit before tax of SEK 82.1m (79.3)
- › Basic earnings per share of SEK 5.02 (4.77) and diluted earnings per share of SEK 5.01 (4.77)
- › Cash flow from operating activities of SEK 59.2m (90.6)
- › Net cash of SEK 88.6m (87.3) at the end of the period

### JULY-SEPTEMBER 2018

- › Net sales of SEK 97.9m (84.2)
- › Sales growth in local currency of 7%
- › EBITDA of SEK 37.8m (33.8), corresponding to an EBITDA margin of 38.6% (40.1)
- › Operating profit of SEK 31.3m (28.6), corresponding to an operating margin of 32.0% (34.0)
- › Profit before tax of SEK 31.0m (28.2)
- › Basic earnings per share of SEK 1.97 (1.61) and diluted earnings per share of SEK 1.96 (1.61)
- › Cash flow from operating activities of SEK 14.9m (31.8)

### 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 175.1m after issue expenses.
- › IAR Systems acquired Secure Thingz and conducted a non-cash issue. See also Note 7 "Acquisition of Secure Thingz."
- › The Extraordinary General Meeting on June 15 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.

# Major transactions, market position and financial stability safeguard investments in significant new opportunities

Our growth continues to be driven by our major customers, with European customers once again accounting for our largest transactions in the third quarter. The increased interest among our customers in using our products to standardize their development is the result of the market consolidation in recent years, which has led to uncertainty among our customers when choosing suppliers. By choosing us, customers are also choosing our product quality, our global support service and our stable financial position. This reassures customers and reaffirms their choice of us as a long-term supplier.

We are seeing a recovery in the US, despite the recent macroeconomic decisions that isolated the US creating uncertainty among some of our customers regarding the development of products outside the US. Asia remains stable, and the performance in the third quarter was once again equally strong in all parts of Asia.

For those of you who share my nerdiness, I have promised to quickly clarify the global trends that we

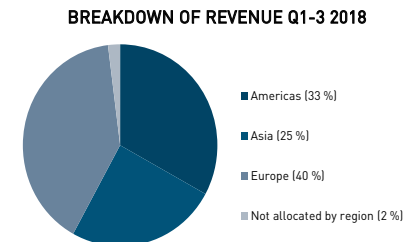
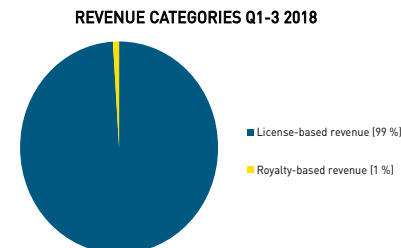
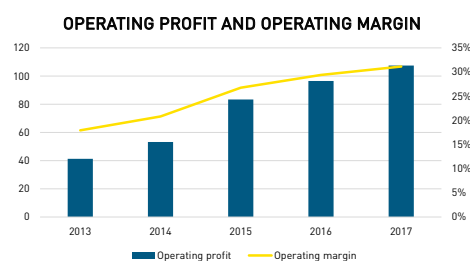
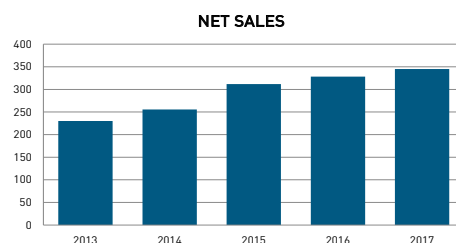
think are most important right now:

- China is performing well on many technical fronts, and we are seeing a rapid increase in collaboration with Chinese suppliers due to the strained relations between China and the US.
- The trending re-establishment of Risc-V architecture is being strengthened by the emergence of several new players, who in turn are increasing the need for development tools.
- Several countries are intensifying their efforts regarding guidelines on handling security for connected products.

Over the past few years, we have seen an increased need for security in our customers' digital product development. It was also 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. Together with Secure Thingz, our focus has been on integrating the company's product development, which is now complete. We are now working as a single organization focused on coming product launches.

The most significant demand among our customers is currently 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 affecting a large market, with electronics accounting for the majority of stolen designs and functions.

Since our acquisition of Secure Thingz, we have visited with our customers and learned more about their security needs. We want to ensure that, by listening to our customers' security challenges, we can solve different types of security problems in our upcoming product offerings. We read or hear about products that are vulnerable to unauthorized access or information or rights theft on a daily basis. We know and understand that security is difficult for our customers and that most products today are lacking. This is because it is difficult to maintain security in an increasingly complex product development process that also needs to move quickly. It is also difficult to assess how much time this will take, which solutions can be used and how many resources need to be invested to minimize the security risks.



We can see that awareness among our customers is increasing and that they are interested in enhancing their competence in the area. Including security in their ongoing product development is difficult and complicated, and security must be a consideration from the start of the product development process.

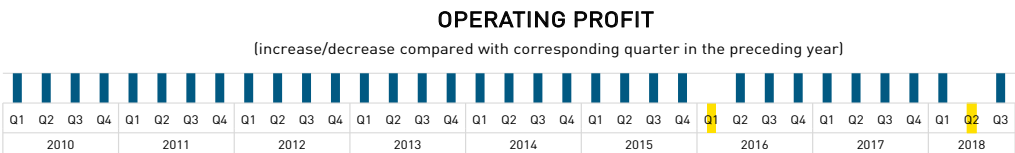
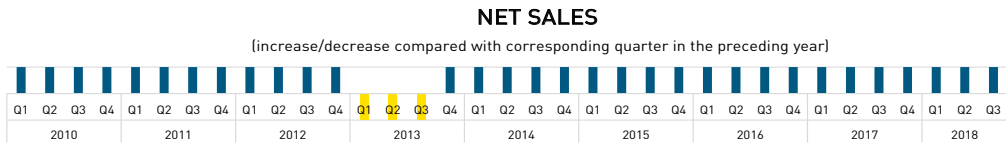
It is difficult to assess the market for embedded systems since it consists of many different types of offerings, suppliers and free tools whose reach is difficult to predict. When it comes to security, it is somewhat easier when the starting point is instead calculated based on the need of existing connected products: in other words, the products that are most vulnerable. One of the latest reports from Bain indicates that consumers are prepared to pay 22% more for secure products and purchase 70% more products of this nature, while the report also notes that only 4% of all connected products currently have a functioning security solution.

In the near future, we will continue to communicate the vision that we have defined together with Secure Thingz, which can be summarized in the following strategic cornerstones:

- Security should be easy to implement early on in the product development process, be scalable and follow the product throughout its life cycle.
- The fact that our customers want to protect their products with security solutions should be considered an asset and not a cost.
- Our security solutions should include every stage, from development to pre-programmed products.

To us, our vision is not simply about how we see the future and how we can position ourselves in the security market, but also how we want to use our shared potential to ensure that the products of the future are both secure and sustainable.

We believe that by making security solutions accessible to everyone, we can change the entire market. To accomplish this, we are using the position we have now and leading a change across an entire industry that will benefit both our customers and the future. I am having more fun than ever and I look forward to the new relationships, collaborations and possibilities that the near future has in store.

# 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 10%. This 10% sales growth for the period resulted in an increase in net sales of 10% after the accrual of prepaid maintenance and support agreements (-3%) and positive foreign exchange effects (3%). Refer to the table below.

### Sales

Our growth continues to be driven by our major customers, with European customers once again accounting for our largest transactions in the third quarter. The increased interest among our customers using our products to standardize their development is the result of the market consolidation in recent years, which has led to uncertainty among our customers when choosing suppliers. By choosing us, customers are also choosing our product quality, our global support service and our stable financial position. This reassures customers and reaffirms their choice of us as a long-term supplier. We are seeing a recovery in the US, despite the recent macroeconomic decisions that isolated the US creating uncertainty among some of our customers regarding the development of products outside the US. Asia remains stable, and the performance in the third quarter was once again equally strong in all parts of Asia.

### Net sales

Net sales rose 10% during the period and 16% in the third quarter compared with the corresponding period in the preceding year. Net sales amounted to SEK 282.4m (257.4), of which SEK 97.9m (84.2) was attributable to the third quarter. Net sales for the period are distributed as follows: IAR Systems SEK 280.9m (257.4) and Secure Thingz SEK 1.5m (-),

	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
<b>9 months Jan-Sep</b>					
Americas	-3%	1%	- 0%	- 3%	33%
Europe	26%	- 8%	8%	26%	40%
Asia	13%	- 4%	2%	11%	25%
Not allocated	-22%	-	-	- 22%	2%
<b>Total</b>	<b>10%</b>	<b>- 3%</b>	<b>3%</b>	<b>10%</b>	<b>100%</b>

of which SEK 96.9m (84.2) in IAR Systems and SEK 1.0m (-) in Secure Thingz was attributable to the third quarter. Royalty-based revenue of SEK 4.0m (5.6) from the agreement with Renesas Electronics Corporation was reported during the period, of which SEK 1.4m (1.3) pertained to the third quarter.

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 8.1m on net sales for the period, of which SEK 8.1m pertained to the third quarter.

## EARNINGS

The company reported slightly better operating profit in the third quarter of the year compared with the corresponding quarter in the preceding year. During the third quarter, operating profit was charged with a negative contribution of SEK 5.2m from the acquired Secure Thingz. Excluding the acquisition, IAR Systems reported a strong improvement in operating profit in the third quarter.

EBITDA for the period totaled SEK 102.5m (95.3), corresponding to an EBITDA margin of 36.3% (37.0) for the period. EBITDA for the third quarter totaled SEK 37.8m (33.8), corresponding to an EBITDA margin of 38.6% (40.1) for the quarter.

Operating profit for the period increased 5% to SEK 84.5m (80.6). Operating profit for the third quarter amounted to SEK 31.3m (28.6).

Operating expenses were reduced by SEK 28.0m (9.6) 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 expenses that were capitalized, SEK 23.9m (7.6) pertained to personnel costs.

In a year-on-year comparison, currency translation had a positive impact of SEK 7.5m on operating profit for the period, of which SEK 5.7m pertained to the third quarter.

	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
<b>3 months Jul-Sep</b>					
Americas	7%	2%	10%	19%	36%
Europe	6%	- 1%	10%	15%	37%
Asia	7%	- 3%	10%	14%	25%
Not allocated	31%	-	-	31%	2%
<b>Total</b>	<b>7%</b>	<b>- 0%</b>	<b>9%</b>	<b>16%</b>	<b>100%</b>

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.

### INVESTMENTS AND FINANCING

Investments in property, plant and equipment for the period totaled SEK 3.4m [1.6], of which SEK 2.4m [0.5] was attributable to the third quarter.

Investments in intangible assets for the period amounted to SEK 29.2m [12.5], of which SEK 8.7m [3.7] pertained to the third quarter. Most of these investments, SEK 28.0m [9.6], 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 September 30, 2018, was 77% [70].

### CASH FLOW, CASH AND CASH EQUIVALENTS

Cash flow from operating activities for the period amounted to SEK 59.2m [90.6], of which SEK 14.9m [31.8] pertained to the third 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. Additionally, cash flow was charged with transaction costs of SEK 5.2m in the form of payments connected to the long-term incentive scheme that was launched during the quarter. See also Note 8 on pages 17–18.

Cash flow from investing activities for the period totaled SEK -199.5m [-32.7], of which SEK -11.1m [-4.2] was attributable to the third 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 109.5m [-63.2], of which SEK 3.6m [-0.0] was attributable to the third quarter. During the period, a new share issue generated a gain for the company of SEK 175.1m after transaction costs and a warrant program for employees generated a gain for the company of SEK 3.5m. Dividends totaling SEK 68.0m were paid to the company's shareholders.

As of September 30, 2018, the Group had net cash of SEK 88.6m [87.3]. Cash and cash equivalents at the end of the period totaled SEK 91.5m [90.0]. In addition, the

Group had unutilized bank overdraft facilities of SEK 225.0m [225.0]. The Group's total available cash and cash equivalents thus amounted to SEK 316.5m [315.0].

### EMPLOYEES

The number of employees in IAR Systems at the end of the period was 190 [163]. The average number of employees during the period was 165 [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 9.1m [9.1]. The Parent Company posted a loss after financial items of SEK -9.4m [-3.6].

Net investments in property, plant and equipment amounted to SEK 0.0m [0.0].

Shares in subsidiaries increased by SEK 268.4m following the acquisition of Secure Thingz.

Cash and cash equivalents at September 30, 2018 totaled SEK 5.1 [5.3]. 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

Year-end report 2018, February 13, 2019  
Interim report Jan–Mar 2019, April 24, 2019  
2019 Annual General Meeting, April 24, 2019  
Interim report Jan–Jun 2019, August 21, 2019  
Interim report Jan–Sep 2019, November 7, 2019

## REVIEW REPORT

### Introduction

We have reviewed the interim report for IAR Systems Group AB (publ) for the period from January 1, 2018 to September 30, 2018. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope and focus of the review

We conducted our review in accordance with the International Standard on Review Engagements Performed by the Independent Auditor of the Entity (ISRE 2410). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and a substantially more limited scope compared with the focus and scope of an audit conducted in accordance with the International Standards on Auditing and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant circumstances that might be identified in an audit. Therefore, the conclusion expressed on the basis of a review does not provide the same level of assurance as a conclusion expressed on the basis of an audit.

### Conclusion

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

Stockholm, November 9, 2018

Deloitte AB

Erik Olin

# Income statement

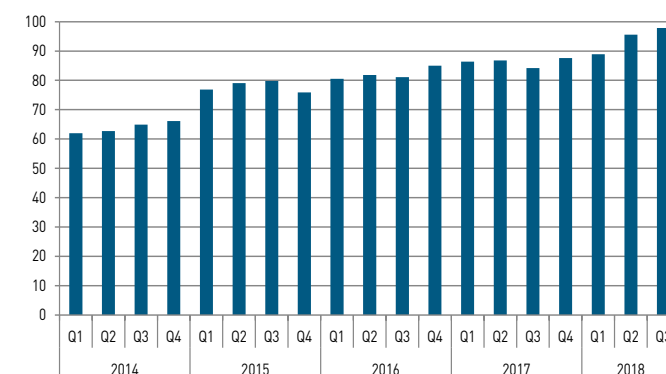
## CONDENSED CONSOLIDATED INCOME STATEMENT

		9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	Note	2018	2017	2018	2017	2017
Net sales	1, 2	282.4	257.4	97.9	84.2	345.0
Goods for resale		-6.8	-5.9	-2.1	-1.9	-8.5
Other external expenses		-48.6	-37.6	-15.9	-12.5	-49.2
Personnel costs		-124.5	-118.6	-42.1	-36.0	-160.1
Depreciation of property, plant and equipment		-1.8	-1.8	-0.7	-0.6	-2.4
Amortization of intangible assets		-16.2	-12.9	-5.8	-4.6	-17.4
<b>Operating profit</b>		<b>84.5</b>	<b>80.6</b>	<b>31.3</b>	<b>28.6</b>	<b>107.4</b>
Financial income		0.0	0.0	0.0	0.0	0.0
Financial expenses		-2.4	-1.3	-0.3	-0.4	-1.7
<b>Profit before tax</b>		<b>82.1</b>	<b>79.3</b>	<b>31.0</b>	<b>28.2</b>	<b>105.7</b>
Tax		-16.3	-19.0	-4.2	-7.9	-25.7
<b>Profit for the period</b>		<b>65.8</b>	<b>60.3</b>	<b>26.8</b>	<b>20.3</b>	<b>80.0</b>
Earnings per share for the period, basic, SEK		5.02	4.77	1.97	1.61	6.33
Earnings per share for the period, diluted, SEK		5.01	4.77	1.96	1.61	6.33

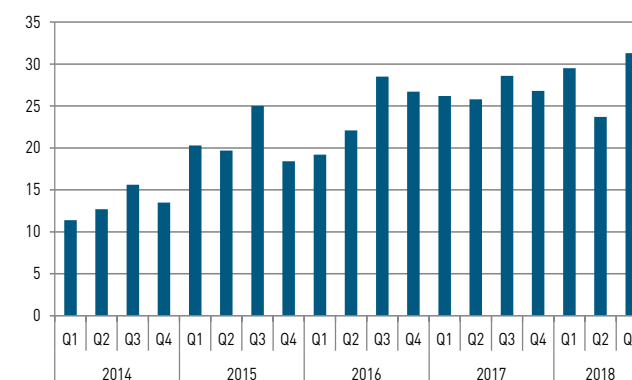
## STATEMENT OF COMPREHENSIVE INCOME

		9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m		2018	2017	2018	2017	2017
Profit for the period		65.8	60.3	26.8	20.3	80.0
<b>Other comprehensive income for the period</b>						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences		22.1	-4.2	16.7	-1.7	-3.0
Change in value of non-current securities		17.5	-	-	-	-2.9
Total other comprehensive income		38.6	-4.2	16.7	-1.7	-5.9
<b>Comprehensive income for the period</b>		<b>105.4</b>	<b>56.1</b>	<b>43.5</b>	<b>18.6</b>	<b>74.1</b>
Comprehensive income for the period attributable to owners of the Parent Company		105.4	56.1	43.5	18.6	74.1

NET SALES, SEK m



OPERATING PROFIT, SEK m





# Balance sheet

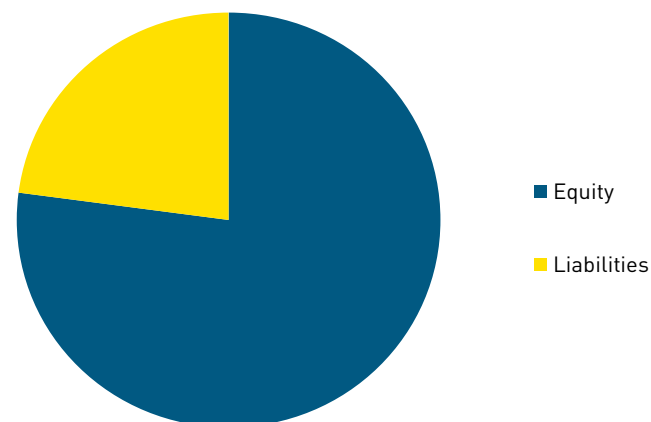
## CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
<b>ASSETS</b>				
Non-current assets				
Goodwill	3	363.3	113.0	113.5
Other intangible assets	4	137.7	81.5	80.9
Property, plant and equipment		8.9	6.1	6.2
Financial assets		1.7	22.4	19.5
Deferred tax assets	5	9.9	1.9	2.7
Total non-current assets		521.5	224.9	222.8
Current assets				
Inventories		5.2	5.5	5.2
Other current assets		46.8	21.2	11.8
Trade receivables		56.3	48.8	50.8
Cash and cash equivalents		91.5	90.0	119.5
Total current assets		199.8	165.5	187.3
<b>TOTAL ASSETS</b>		<b>721.3</b>	<b>390.4</b>	<b>410.1</b>
<b>EQUITY AND LIABILITIES</b>				
Total equity		556.3	272.4	290.4
Non-current liabilities				
Interest-bearing liabilities		1.5	1.8	1.7
Other non-current liabilities		1.5	1.5	1.7
Deferred tax liabilities		24.8	14.9	14.0
Total non-current liabilities		27.8	18.2	17.4
Current liabilities				
Trade payables		6.4	4.3	5.7
Interest-bearing liabilities		1.4	0.9	0.8
Other current liabilities		129.4	94.6	95.8
Total current liabilities		137.2	99.8	102.3
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>721.3</b>	<b>390.4</b>	<b>410.1</b>

## CHANGES IN EQUITY, GROUP

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
Equity at beginning of period	290.4	279.5	507.4	253.8	279.5
New share issue, after deductions for transaction costs and tax	175.1	-	-	-	-
New share issue, after deductions for transaction costs and tax	3.5	-	3.5	-	-
Non-cash issue	39.7	-	-	-	-
Value of share-based remuneration	10.2	-	1.9	-	-
Dividend	-68.0	-63.2	-	-	-63.2
Comprehensive income for the period	105.4	56.1	43.5	18.6	74.1
Equity at end of period	556.3	272.4	556.3	272.4	290.4
Of which, attributable to owners of the Parent Company	556.3	272.4	556.3	272.4	290.4

EQUITY/ASSETS RATIO Sept 30, 2018



# Cash flows

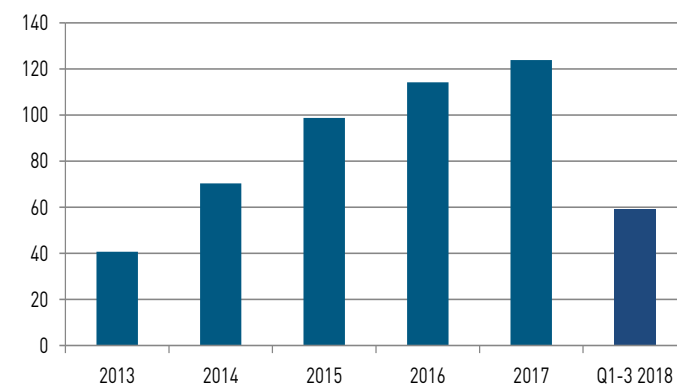
## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
Incoming payments from customers	272.9	257.3	103.6	92.4	342.8
Outgoing payments to suppliers and employees	-186.8	-162.7	-81.2	-58.6	-214.6
Interest received	0.0	0.0	0.0	0.0	0.0
Interest paid	-1.3	-1.1	-0.4	-1.0	-0.9
Income taxes paid	-25.6	-2.9	-7.1	-1.0	-3.4
Cash flow from operating activities	59.2	90.6	14.9	31.8	123.9
Investments in property, plant and equipment	-3.4	-1.6	-2.4	-0.5	-2.5
Investments in intangible assets	-26.1	-12.5	-8.7	-3.7	-16.5
Investments in subsidiaries	-170.0	-17.8	-	-	-17.8
Investments in other investments	-0.0	-0.8	-0.0	-	-0.8
Cash flow from investing activities	-199.5	-32.7	-11.1	-4.2	-37.6
New share issue	175.1	-	-	-	-
Share warrants	3.5	-	3.5	-	-
Increase in financial liabilities	0.1	-	0.1	-	-
Amortization of financial liabilities	-1.2	-0.0	-0.0	-0.0	-0.0
Dividend	-68.0	-63.2	-	-	-63.2
Cash flow from financing activities	109.5	-63.2	3.6	-0.0	-63.2
Cash flow for the period	-30.8	-5.3	7.4	27.6	23.1
Cash and cash equivalents at beginning of period	119.5	99.2	84.6	64.3	99.2
Exchange difference in cash and cash equivalents					
- attributable to cash and cash equivalents at beginning of period	2.8	-3.3	-0.4	-1.5	-2.4
- attributable to cash flow for the period	0.0	-0.6	-0.1	-0.4	-0.4
Cash and cash equivalents at end of period	91.5	90.0	91.5	90.0	119.5

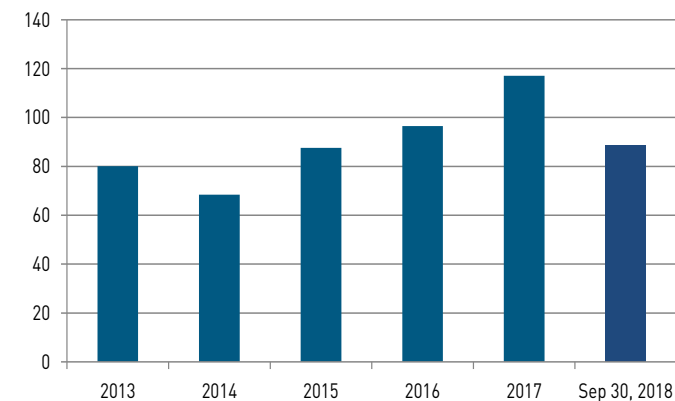
## CASH AND CASH EQUIVALENTS, GROUP

SEK m	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
Cash and cash equivalents at end of period	91.5	90.0	119.5
Unutilized overdraft facilities	225.0	225.0	225.0
Total available cash and cash equivalents	316.5	315.0	344.5

## CASH FLOW FROM OPERATING ACTIVITIES, SEK m



## NET CASH, SEK m



# Key ratios

## GROUP

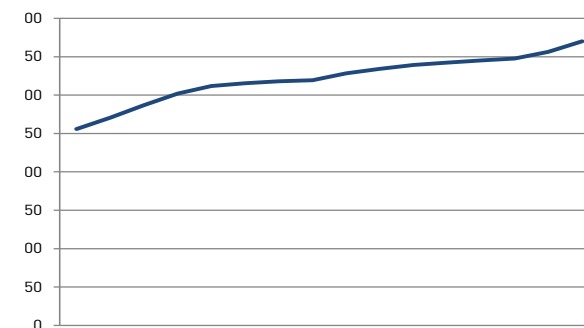
	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2018	2017	2018	2017	2017
Gross margin, %	97.6	97.7	97.9	97.7	97.5
EBITDA, %	36.3	37.0	38.6	40.1	36.9
Operating margin, %	29.9	31.3	32.0	34.0	31.1
Profit margin, %	29.1	30.8	31.7	33.5	30.6
Cash flow, %	21.0	35.2	15.2	37.8	35.9
Equity/assets ratio, %	77.1	69.8			70.8
Return on equity, %	15.5	21.9	5.0	7.7	28.1
Return on capital employed, %	19.8	28.9	5.9	10.8	37.4
Capital employed, SEK m	559.2	275.1			292.9
Net cash, SEK m	88.6	87.3			117.0
Net debt/equity ratio, multiple	-0.2	-0.3			-0.4
No. of employees at end of period	190	163			163
Average no. of employees	165	154	176	153	153
Sales per employee, SEK m	1.7	1.7	0.6	0.6	2.2

## SHARE DATA

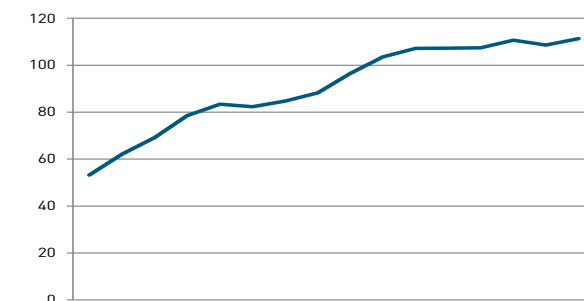
	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2018	2017	2018	2017	2017
Equity per share, SEK	40.88	21.56			22.99
No. of shares at end of period, million	13.61	12.63			12.63
Average no. of shares, million	13.12	12.63	13.61	12.63	12.63
Average number of shares, diluted, million	13.15	12.63	13.65	12.63	12.63
Cash flow from operating activities per share, SEK	4.51	7.17	1.09	2.52	9.81
Earnings per share, basic, after current tax, SEK	4.95	5.89	1.90	1.97	7.32
Earnings per share, SEK*	5.02	4.77	1.97	1.61	6.33
Earnings per share, diluted, SEK	5.01	4.77	1.96	1.61	6.33

\*Definition in accordance with IFRS. Refer also to definitions on page 18.

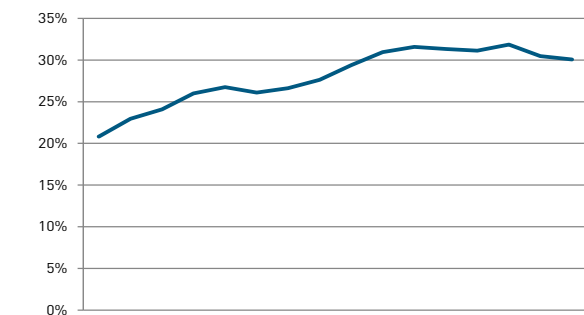
## NET SALES ROLLING 12 MONTHS



## OPERATING PROFIT ROLLING 12 MONTHS



## OPERATING MARGIN ROLLING 12 MONTHS



## 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	Q3	97.9	37.8	38.6	31.3	32.0	1.97	5.0	1.09	40.88	258.50	3,518
	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

	9 months Jan-Sep		Full-year
SEK m	2018	2017	2017
Net sales	9.1	9.1	12.2
Operating expenses	-16.2	-10.9	-16.9
Depreciation of property, plant and equipment	-0.0	-0.1	-0.1
Operating loss	-7.1	-1.9	-4.8
Result from financial investments	-2.3	-1.7	104.3
Profit/loss before tax	-9.4	-3.6	99.5
Tax	2.1	0.8	-22.1
Profit/loss for the period	-7.3	-2.8	77.4

## STATEMENT OF COMPREHENSIVE INCOME

	9 months Jan-Sep		Full-year
SEK m	2018	2017	2017
Profit/loss for the period	-7.3	-2.8	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	10.2	-2.8	74.5

## CONDENSED BALANCE SHEET

	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
SEK m			
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	0.1	0.1	0.1
Shares in subsidiaries	457.1	189.4	189.4
Other financial assets	0.1	20.8	17.9
Deferred tax assets	2.1	14.1	-
Total non-current assets	459.4	224.4	207.4
Current assets			
Receivables from subsidiaries	-	-	53.3
Other current assets	15.7	0.7	1.2
Cash and cash equivalents	5.1	5.3	5.0
Total current assets	20.8	6.0	59.5
<b>TOTAL ASSETS</b>	<b>480.2</b>	<b>230.4</b>	<b>266.9</b>
<b>EQUITY AND LIABILITIES</b>			
Total equity	404.4	175.3	252.6
Current liabilities			
Trade payables	0.5	0.3	0.7
Liabilities to subsidiaries	50.5	52.3	-
Other current liabilities	24.8	2.5	13.6
Total current liabilities	75.8	55.1	14.3
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>480.2</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 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.

	IAS 39 recognized at Dec 31, 2017		Restated due to IFRS 9	IFRS 9 restated at Jan 1, 2018	
Category	Available-for-sale assets	Loans and receivables		Other	Hold to collect
Measurement	Fair value through other comprehensive income	Amortized cost		Fair value through other comprehensive income	Amortized cost
<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 lessee, IFRS 16 essentially entails that all leases are to be recognized in the statement of

## Notes, cont.

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 begun but not concluded the analysis of the effects of IFRS 16 on the Group's financial statements. The analysis entails an evaluation of the different alternatives that IFRS 16 offers. The quantification of the effects of the forthcoming implementation had not been completed as of the current reporting date and will be presented in connection with the report for fourth quarter of 2018.

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:

	9 months Jan-Sep		3 months Jul-Sep		Full- year
SEK m	2018	2017	2018	2017	2017
IAR Systems	280.9	257.4	96.9	84.2	345.0
Secure Thingz	1.5	-	1.0	-	-
<b>Net sales</b>	<b>282.4</b>	<b>257.4</b>	<b>97.9</b>	<b>84.2</b>	<b>345.0</b>

IAR Systems	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
License-based revenue	180.2	161.6	61.6	53.1	217.3
Support and software updates	87.2	81.1	30.8	27.1	108.6
Royalty-based revenue	4.0	5.6	1.4	1.3	6.8
Other	9.5	9.1	3.1	2.7	12.3
<b>Net sales</b>	<b>280.9</b>	<b>257.4</b>	<b>96.9</b>	<b>84.2</b>	<b>345.0</b>
At a certain point in time	189.7	170.7	64.7	55.8	229.6
Over time	91.2	86.7	32.2	28.4	115.4
<b>Net sales</b>	<b>280.9</b>	<b>257.4</b>	<b>96.9</b>	<b>84.2</b>	<b>345.0</b>
Americas	93.3	98.7	34.2	30.6	129.4
Asia	69.9	62.1	24.1	20.2	83.4
Europe	111.6	88.8	36.1	31.5	123.4
Not allocated by region	6.1	7.8	2.5	1.9	8.8
<b>Net sales</b>	<b>280.9</b>	<b>257.4</b>	<b>96.9</b>	<b>84.2</b>	<b>345.0</b>

Secure Thingz	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
License-based revenue	-	-	-	-	-
Support and software updates	-	-	-	-	-
Royalty-based revenue	-	-	-	-	-
Other	1.5	-	1.0	-	-
<b>Net sales</b>	<b>1.5</b>	<b>-</b>	<b>1.0</b>	<b>-</b>	<b>-</b>
At a certain point in time	1.5	-	1.0	-	-
Over time	-	-	-	-	-
<b>Net sales</b>	<b>1.5</b>	<b>-</b>	<b>1.0</b>	<b>-</b>	<b>-</b>
Americas	1.5	-	1.0	-	-
Asia	-	-	-	-	-
Europe	-	-	-	-	-
Not allocated by region	-	-	-	-	-
<b>Net sales</b>	<b>1.5</b>	<b>-</b>	<b>1.0</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

Goodwill increased by SEK 248.9m during the period as a result of the acquisition of Secure Thingz. Goodwill includes an exchange difference of SEK 15.7m since the date of acquisition. 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. No indications for impairment arose during the period. Goodwill at September 30, 2018 amounted to SEK 363.3m [113.5].

### 4. OTHER INTANGIBLE ASSETS

During the period, other intangible assets increased by SEK 40.6m as a result of the acquisition of Secure Thingz. The value of other intangible assets includes an exchange difference of SEK 2.5m since the date of acquisition. See also Note 7 "Acquisition of Secure Thingz" below. Operating expenses were reduced by SEK 28.0m [9.6] during the period through the capitalization of development costs for debug probes and analysis tools. Of the internal expenses that were capitalized, SEK 23.9m [7.6] 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 September 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 10.4m [6.8], of which SEK 0.0m [0.0] pertains to loss carryforwards.

### 6. PLEDGED ASSETS

SEK m	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
To secure pensions	1.8	1.8	1.8
To secure liabilities to credit institutions	3.0	2.8	2.5
<b>Total pledged assets</b>	<b>4.8</b>	<b>4.6</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 and preliminary goodwill for the acquisition are presented in the tables below.

The total cost of acquisition and fair values have 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.

#### Cost of acquisition

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	6.9
Revaluation of previously acquired participation	17.5
<b>Total cost of acquisition</b>	<b>290.3</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 entailed a change in the value of the holding of 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 575,000 personnel warrants in Secure Thingz have been exchanged for 73,413 personnel warrants in IAR Systems Group AB in accordance with the approval from the Extraordinary General Meeting held on June 15. Of the 73,413 personnel warrants, 27,450 have an exercise price of SEK 6.50 and 45,963 have an exercise price of SEK 26.00. 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 17.2m. The value allocated to the period prior to the acquisition, and which is thereby included in the purchase consideration, amounts to SEK 6.9m. The remainder of the calculated value of SEK 10.3m 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	38.1
Deferred tax liabilities	-7.0
Trade payables	-0.2
Other current liabilities	-0.7
<b>Acquired identifiable assets</b>	<b>57.1</b>
Goodwill	233.2
<b>Acquired net assets</b>	<b>290.3</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 and human capital of the work force as a whole. 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. The remaining goodwill is not expected to be tax deductible.

### 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 1.5m and a net loss of SEK -7.4m to the Group for the period April 12 to September 30, 2018. If the acquisition had been undertaken on January 1, 2018, consolidated pro forma revenue and earnings on September 30, 2018 would have amounted to SEK 1.7m and SEK -11.1m, 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 assets from January 1, 2017, together with attributable tax effects.

### Purchase consideration – cash outflow

SEK m	2018	2017
Cash consideration	191.9	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.

## 8. OPTION PROGRAMS

In accordance with the decision of the Extraordinary General Meeting on June 15, 2018, a long-term incentive scheme for IAR Systems Group employees has been introduced ("LTIP 2018"). The program encompasses a total of 600,000 warrants, of which 497,500 were acquired or allocated under LTIP 2018. The warrants grant entitlement to the holder to subscribe for or acquire one class B share in the company according to the conditions below. In total, LTIP 2018 corresponds to about 4.2% of share capital and approximately 4.0% of votes in the company after dilution.

LTIP 2018 consists of two different types of options, warrants and stock options. The warrants are intended for employees in Sweden and the stock options are intended for employees outside Sweden. The final number of warrants to which each participant is entitled is dependent on the degree to which the Group's performance conditions are fulfilled. The performance conditions are based on average annual growth of the Group's net sales for the 2018, 2019 and 2020 financial years. The performance condition targets are presented in the table below and the relative weight of each performance condition is one third.

## Notes, cont.

Performance conditions	Minimum level	Maximum level
Growth in net sales, 2018	5%	10%
Growth in net sales, 2019	5%	10%
Growth in net sales, 2020	5%	10%

For warrants, participants are invited to acquire a certain number of warrants. The market price of the warrants, according to the pricing model from Black & Scholes, is calculated as SEK 24.40. The participants have paid SEK 16.30, which is the calculated market price adjusted for performance conditions. Based on performance condition fulfillment, each share warrant grants entitlement to subscribe for one new class B share during the period from August 20 to September 17, 2021 for a price corresponding to 120% of the volume-weighted average price paid for the company's share on Nasdaq Stockholm from June 13 to June 19, 2018, which is fixed at SEK 323.90. The participants acquired a total of 243,500 warrants.

For stock options, participants are allocated stock options at no cost, and they may not be pledged or transferred. Stock options are vested at a rate of one third per year from the date of allotment. Based on performance condition fulfillment, each share personnel warrant grants entitlement to acquire one new class B share during the period from August 20 to September 17, 2021 for a price corresponding to 120% of the volume-weighted average price paid for the company's share on Nasdaq Stockholm during the ten trading days immediately preceding the date of stock option allocation, which is fixed at SEK 330.00. A total of 254,000 personnel stock options were allocated to the participants.

LTIP 2018 is recognized in accordance with IFRS 2, which means that the cost of the option program is recognized on a straight-line basis during the vesting period. The total cost of the option program is estimated at SEK 10.8m, of which SEK 0.8m has been charged to profit for the period.

## 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..
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

## Definitions cont.

Key ratios	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 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 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.

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
Net sales	282.4	257.4	97.9	84.2	345.0
Goods for resale	-6.8	-5.9	-2.1	-1.9	-8.5
Gross profit	275.6	251.5	95.8	82.3	336.5
Gross margin	97.6%	97.7%	97.9%	97.7%	97.5%

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
Operating profit	84.5	80.6	31.3	28.6	107.4
Depreciation of property, plant and equipment	1.8	1.8	0.7	0.6	2.4
Amortization of intangible assets	16.2	12.9	5.8	4.6	17.4
EBITDA	102.5	95.3	37.8	33.8	127.2

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
Net sales	282.4	257.4	97.9	84.2	345.0
EBITDA	102.5	95.3	37.8	33.8	127.2
EBITDA margin	36.3%	37.0%	38.6%	40.1%	36.9%

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
Net sales	282.4	257.4	97.9	84.2	345.0
Operating profit	84.5	80.6	31.3	28.6	107.4
Operating margin	29.9%	31.3%	32.0%	34.0%	31.1%

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
Net sales	282.4	257.4	97.9	84.2	345.0
Profit before tax	82.1	79.3	31.0	28.2	105.7
Profit margin	29.1%	30.8%	31.7%	33.5%	30.6%

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
Net sales	282.4	257.4	97.9	84.2	345.0
Cash flow from operating activities	59.2	90.6	14.9	31.8	123.9
Cash flow	21.0%	35.2%	15.2%	37.8%	35.9%

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

	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
SEK m			
Equity	556.3	272.4	290.4
Total assets	721.3	390.4	410.1
Equity/assets ratio	77.1%	69.8%	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.

	Sep 30, 2018	Jun 30, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Dec 31, 2016
SEK m						
Equity	556.3	507.4	290.4	272.4	253.8	279.5

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
Average equity	423.4	275.9	531.8	263.1	285.0

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
Profit after tax	65.8	60.3	26.8	20.3	80.0
Average equity	423.4	275.9	531.8	263.1	285.0
Return on equity	15.5%	21.9%	5.0%	7.7%	28.1%

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

	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
SEK m			
Interest-bearing liabilities	2.9	2.7	2.5
Cash and cash equivalents	-91.5	-90.0	-119.5
Net interest-bearing liabilities	-88.6	-87.3	-117.0
Net debt/equity ratio	-0.2	-0.3	-0.4

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2018	2017	2018	2017	2017
Profit before tax	82.1	79.3	31.0	28.2	105.7
Financial expenses	2.4	1.3	0.3	0.4	1.7
Profit before tax plus financial expenses	84.5	80.6	31.3	28.6	107.4
Return on capital employed	19.8%	28.9%	5.9%	10.8%	37.4%

## Reconciliations, cont.

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

SEK m	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
Cash and cash equivalents	91.5	90.0	119.5
Interest-bearing liabilities	-2.9	-2.7	-2.5
<b>Net cash</b>	<b>88.6</b>	<b>87.3</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	Sep 30, 2018	Jun 30, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Dec 31, 2016
No. of shares, million	13.61	13.61	12.63	12.63	12.63	12.63

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2018	2017	2018	2017	2017
Average no. of shares, million	13.12	12.63	13.61	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	Sep 30, 2018	Jun 30, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Dec 31, 2016
Total assets	721.3	685.8	410.1	390.4	380.9	395.9
Non-interest-bearing liabilities	-162.1	-175.5	-117.2	-115.3	-124.5	-113.7
<b>Capital employed</b>	<b>559.2</b>	<b>510.3</b>	<b>292.9</b>	<b>275.1</b>	<b>256.4</b>	<b>282.2</b>

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2018	2017	2018	2017	2017
Average capital employed	426.1	278.7	534.8	265.8	287.6

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

SEK m	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
Equity	556.3	272.4	290.4
No. of shares at end of period, million	13.61	12.63	12.63
<b>Equity per share</b>	<b>40.88</b>	<b>21.56</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	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2018	2017	2018	2017	2017
Cash flow from operating activities	59.2	90.6	14.9	31.8	123.9
Average no. of shares, million	13.12	12.63	13.61	12.63	12.63
<b>Cash flow from operating activities per share</b>	<b>4.51</b>	<b>7.17</b>	<b>1.09</b>	<b>2.52</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	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2018	2017	2018	2017	2017
Tax	16.3	19.0	4.2	7.9	25.7
Deferred tax	0.9	-14.1	1.0	-4.6	-12.4
Current tax	17.2	4.9	5.2	3.3	13.3
Profit before tax	82.1	79.3	31.0	28.2	105.7
Current tax	-17.2	-4.9	-5.2	-3.3	-13.3
<b>Profit after current tax</b>	<b>64.9</b>	<b>74.4</b>	<b>25.8</b>	<b>24.9</b>	<b>92.4</b>
Average no. of shares, million	13.12	12.63	13.61	12.63	12.63
<b>Earnings per share after current tax</b>	<b>4.95</b>	<b>5.89</b>	<b>1.90</b>	<b>1.97</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 (162.00) to a high of SEK 288.00 (209.00). The share price at September 30, 2018 was SEK 258.50 (180.50). IAR Systems Group's market capitalization on the same date was SEK 3,518m (2,280).

The number of shareholders in IAR Systems Group at September 30, 2018 was 7,486 (8,306). Of these shareholders, 445 (505) held more than 1,000 shares each. Foreign shareholders held approximately 32% (23) of the share capital and 30% (22) of the votes.

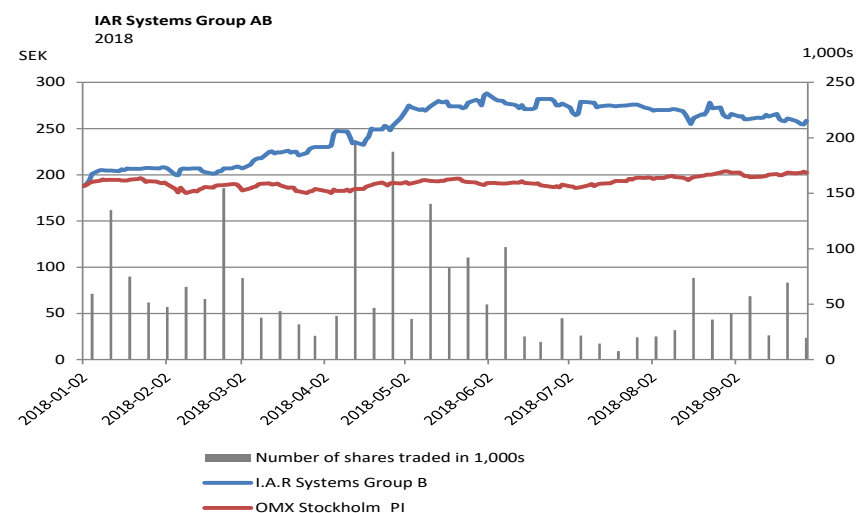
IAR Systems Group's share capital at September 30, 2018 amounted to SEK 136,086,454, divided between 13,608,645 shares, of which 100,000 are class A shares and 13,508,645 are class B shares. On March 28, the Board of Directors of IAR Systems Group AB resolved on a private placement of new shares in the 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 shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
1-100	5,246	70	1	1
101-1,000	1,795	24	5	4
1,001-10,000	360	5	8	8
10,001-	85	1	86	87
<b>Total</b>	<b>7,486</b>	<b>100</b>	<b>100</b>	<b>100</b>

## GEOGRAPHICAL DISTRIBUTION

	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
Sweden	7,273	97	68	70
Europe excl. Sweden	174	2	27	25
Other countries	39	1	5	5
<b>Total</b>	<b>7,486</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
SEB SA Clients Assets Ucits.	1,233,878	9	8
Första AP-fonden	1,176,506	9	8
Danica Pension*	212,300	2	8
Handelsbanken Fonder	989,603	7	7
Other	8,700,943	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 and innovative product development. The agreement with Renesas means that IAR Systems is complementing its current license-based business model with a royalty-based model. The new agreement with Renesas will provide revenue from royalties for each microprocessor used in the products the customer eventually manufactures. For a customer in the new model, IAR Systems will receive revenue throughout the entire period in which the customer's products are produced, which could last many years.

## SUPERIOR TECHNOLOGY

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

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

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



### DEDICATED TEAM WITH AN EMPHASIS ON SERVICE

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

### INTERNET OF THINGS DRIVES GROWTH

The market is now facing continued growth driven by the Internet of Things as more and more people realize the potential contained in this area. Connected products and services have grown enormously in recently years, and it is estimated that there will be more than 50 billion connected products by 2020. Almost all industries have devices and products that could be developed further through improved communication and connectivity. There are therefore many opportunities linked to the Internet of Things in almost every area, from the automotive industry, health and medical care, and logistics to smart cities and industrial automation. IAR Systems helps to make the Internet of Things possible, enabling innovation in this field by linking products with technologies, and has already demonstrated the strength of its business model. Thanks to its technology and strong market position, IAR Systems is well equipped to meet customers' needs for stable and complete solutions for efficient product development linked to the Internet of Things. The cooperation with Renesas for the Renesas Synergy Platform is part of IAR Systems' investment in the Internet of Things





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