

IAR SYSTEMS GROUP AB
YEAR-END REPORT 2018

Q4

Sales up 13% in fourth quarter

Net sales for the year of SEK 385m and EBITDA of SEK 140m
Operating margin of 30% and cash flow of SEK 93m

PROFIT SUMMARY

SEK m	Full-year		3 months Oct–	
	2018	2017	2018	2017
Net sales	385.2	345.0	102.8	87.6
Operating expenses	-269.6	-237.6	-71.7	-60.8
Operating profit	115.6	107.4	31.1	26.8

KEY RATIOS

	Full-year		3 months Oct–	
	2018	2017	2018	2017
EBITDA margin, %	36.4	36.9	36.6	36.4
Operating margin, %	30.0	31.1	30.3	30.6
Net cash, SEK m	103.3	117.0	103.3	117.0
No. of employees at end of period	200	163	200	163

FULL-YEAR 2018

- › Net sales of SEK 385.2m [345.0]
- › Sales growth in local currency of 11%
- › EBITDA of SEK 140.1m [127.2], corresponding to an EBITDA margin of 36.4% [36.9]
- › Operating profit of SEK 115.6m [107.4], corresponding to an operating margin of 30.0% [31.1]. Operating profit was charged with acquisition expenses of SEK 3.2m
- › Profit before tax of SEK 113.8m [105.7]
- › Basic earnings per share of SEK 6.67 [6.33] and diluted earnings per share of SEK 6.65 [6.33]
- › Earnings per share of SEK 7.25 [7.32] after current tax
- › Cash flow from operating activities of SEK 92.6m [123.9]
- › Net cash of SEK 103.3m [117.0] at the end of the period
- › The Board intends to propose an ordinary dividend of SEK 5.00 per share for approval by the Annual General Meeting on April 24, 2019

OCTOBER–DECEMBER 2018

- › Net sales of SEK 102.8m [87.6]
- › Sales growth in local currency of 13%
- › EBITDA of SEK 37.6m [31.9], corresponding to an EBITDA margin of 36.6% [36.4]
- › Operating profit of SEK 31.1m [26.8], corresponding to an operating margin of 30.3% [30.6]
- › Profit before tax of SEK 31.7m [26.4]
- › Basic earnings per share of SEK 1.60 [1.56] and diluted earnings per share of SEK 1.58 [1.56]
- › Earnings per share of SEK 2.21 [1.43] after current tax
- › Cash flow from operating activities of SEK 33.4m [33.3]

KEY EVENTS DURING THE YEAR

- › 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 a 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.

Looking back on a year of major transactions

One strength of our business model is that our business, and thus our sales, is built on a number of smaller transactions with multiple customers. Even if a customer is a large global company, they still invest in our products on a project-level basis, according to the requirements of the specific project or developer. This means that investments are made on a continuous basis throughout the year as the need arises. Over the past few years, we have focused on combining our transaction model with strategic business from major customers, both to boost our growth and to increase efficiency. We chose this path since a number of minor transactions were being consolidated into major transactions among customers holding several licenses.

We saw a continued recovery in the US in the fourth quarter, and on an annual basis, we have now recovered from the negative trend that marked the beginning of the year.

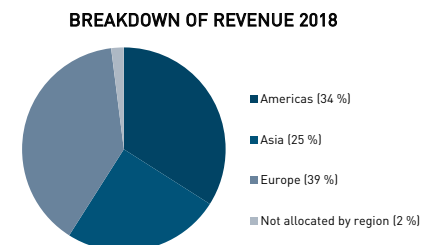
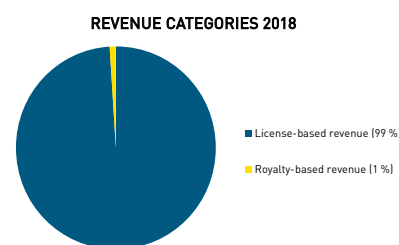
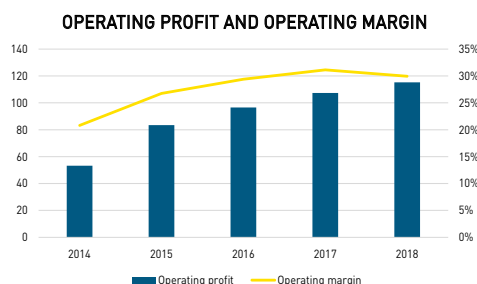
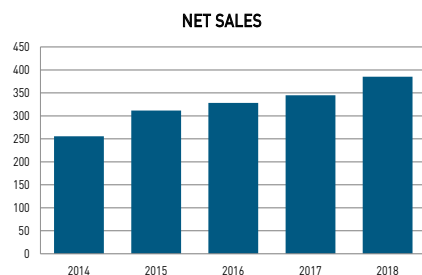
Asia remained stable, while Europe delivered the strongest performance in the fourth quarter and grew

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.

Along with Secure Thingz, our focus has been on integrating the company's product development, which is now complete. We are now working more as a single organization, with an immediate focus on upcoming product launches. 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. 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.

During the quarter, our work has been clearly focused on engaging with our customers and partners to communicate our philosophy regarding security. This philosophy is that security in digital products should be created right at the beginning of the life cycle, and that products and services should be delivered in an easy, seamless and scalable manner to create lasting digital security. This may sound overambitious, but our philosophy is driven by the belief that a breach in security is not just costly for our customers – it also affects their income and brand. A loss of innovation through loopholes used for malicious purposes is also a huge blow to our customers' pride, a pride that we have been a part of for the 35 years we have offered products alongside the digitalization taking place in society.



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 remains red hot when it comes to standing on its own two feet in the field of cutting-edge technology. Major resources are being invested in creating local suppliers for a global market.
- Interest in the RiscV trend continues to increase and many discussions are being conducted about future positions and offerings involving RiscV, whether as a smaller part of a project or as the main feature.
- Internet of Things/IT security has reached a wider audience as 5G approaches.

What a year we've had! Acquisitions, increased expertise, an expanded offering, record sales, record profits and major transactions every quarter. A year of successes, perhaps most of all because we created important opportunities for our customers, employees, owners and partners. We're ready for an exciting 2019!



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 11%. This 11% sales growth for the period resulted in an increase in net sales of 12% after the accrual of prepaid maintenance and support agreements (-3%) and positive foreign exchange effects (4%). Refer to the table below.

Sales

The fourth quarter was also characterized by major transactions, a trend that was common across every quarter of the year. One strength of our business model is that our business, and thus our sales, is built on a number of smaller transactions. Even if a customer is a large global company, they still invest in our products on a project-level basis, according to the requirements of the specific project or developer. This means that investments are made on a continuous basis throughout the year as the need arises. Over the past few years, we have focused on combining our transaction model with major strategic business, both to boost our growth and to increase efficiency. We chose this path since a number of minor transactions were being consolidated into major transactions. We saw a continued recovery in the US in the fourth quarter, and on an annual basis, we have now recovered from the negative trend that marked the beginning of the year. Asia remained stable, while Europe delivered the strongest performance in the fourth quarter and grew more than 20% for the full year.

Net sales

Net sales rose 12% during the year and 17% in the fourth quarter compared with the corresponding period in the preceding year. Net sales amounted to SEK 385.2m (345.0), of which SEK 102.8m (87.6) was attributable to the fourth quarter. Net sales for the

	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
Full-year 2018					
Americas	0%	0%	1%	1%	34%
Europe	23%	- 7%	7%	23%	39%
Asia	10%	- 1%	4%	13%	25%
Not allocated	-7%	-	-	- 7%	2%
Total	11%	- 3%	4%	12%	100%

period are distributed as follows: IAR Systems SEK 380.2m (345.0) and Secure Thingz SEK 5.0m (-), of which SEK 99.3m (87.6) in IAR Systems and SEK 3.5m (-) in Secure Thingz was attributable to the fourth quarter. Royalty-based revenue of SEK 5.5m (6.8) from the agreement with Renesas Electronics Corporation was reported during the year, of which SEK 1.5m (1.2) during the fourth quarter. This royalty-based revenue pertained to the guaranteed minimum remuneration for the year. 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 14.5m on net sales for the year, of which SEK 6.4m pertained to the fourth quarter.

EBITDA

for the year totaled SEK 140.1m (127.2), corresponding to an EBITDA margin of 36.4% (36.9) for the year. EBITDA for the fourth quarter totaled SEK 37.6m (31.9), corresponding to an EBITDA margin of 36.6% (36.4) for the quarter.

Operating profit for the year increased 8% to SEK 115.6m (107.4). Operating profit was charged with acquisition expenses of SEK 3.2m. Operating profit for the fourth quarter increased 16% to SEK 31.1m (26.8). During the fourth quarter, operating profit was impacted positively by contribution of SEK 0.7m from the acquired Secure Thingz.

Operating expenses were reduced by SEK 45.4m (13.1) during the year 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 38.1m (10.4) pertained to personnel costs.

In a year-on-year comparison, currency translation had a positive impact of SEK 11.7m on operating profit for the year, of which SEK 4.2m pertained to the fourth quarter.

	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
3 months Oct-Dec					
Americas	10%	- 3%	8%	15%	35%
Europe	19%	- 10%	7%	16%	39%
Asia	2%	9%	8%	19%	24%
Not allocated	110%	-	-	110%	2%
Total	13%	- 3%	7%	17%	100%

Financial expenses for the period mainly comprised credit expenses for the increased credit margin of SEK 225m and currency adjustments for the amount withheld according to contract as part of the acquisition of Secure Thingz.

All tax loss carryforwards in Sweden were utilized in 2017.

INVESTMENTS AND FINANCING

Investments in property, plant and equipment for the year totaled SEK 4.3m (2.5), of which SEK 0.9m (0.9) was attributable to the fourth quarter.

Investments in intangible assets for the year amounted to SEK 46.7m (16.5), of which SEK 17.5m (4.0) pertained to the fourth quarter. Most of these investments, SEK 45.4m (13.1), 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 December 31, 2018 was 76% (71).

CASH FLOW, CASH AND CASH EQUIVALENTS

Cash flow from operating activities for the year amounted to SEK 92.6m (123.9), of which SEK 33.4m (33.3) pertained to the fourth quarter. Cash flow for the year 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 year.

Cash flow from investing activities for the period totaled SEK -217.5m (-37.6), of which SEK -18.0m (-4.9) was attributable to the fourth quarter. During the year, 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 year amounted to SEK 107.7m (-63.2), of which SEK -1.7m (-0.0) pertained to the fourth quarter. During the period, a new share issue generated a gain for the company of SEK 176.0m after transaction costs and a warrant program for employees generated a gain for the company of SEK 3.6m. Dividends totaling SEK 68.0m were paid to the company's shareholders.

At December 31, 2018, the Group had net cash of SEK 103.3m (117.0). Cash and cash equivalents at year-end totaled SEK 106.1m (119.5). 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 331.1m (344.5).

EMPLOYEES

The number of employees in IAR Systems at year-end was 200 (163). The average number of employees during the year was 171 (153).

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 12.2m (12.2). Profit after financial items amounted to SEK 91.2m (99.5).

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

Shares in subsidiaries increased by SEK 286.8m following the acquisition of Secure Thingz.

Cash and cash equivalents at December 31, 2018 totaled SEK 9.3m (5.0). The number of employees in the Parent Company at year-end 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.

NOMINATING COMMITTEE

In accordance with the decision of the AGM in April 2018, the nominating committee has been appointed and consists of Jonas Eixman (Andra AP-fonden), Mats Larsson (Första AP-fonden) and Jonas Wikström (representing Stefan Skarin). Jonas Eixman was appointed Chairman of the nominating committee.

PROPOSED DIVIDEND

The Board intends to propose an ordinary dividend of SEK 5.00 for approval by the Annual General Meeting on April 24, 2019. The motion entails a total dividend of SEK 68.1m.

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 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

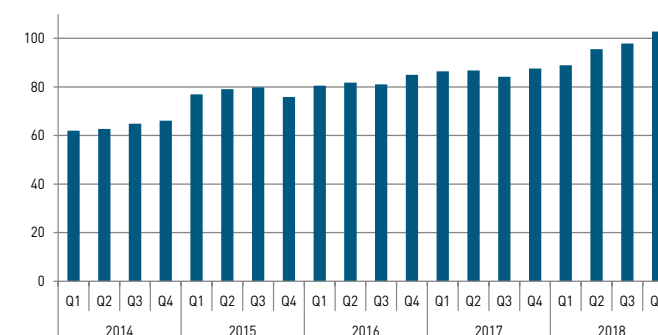
This report has not been reviewed by the company's auditor.

Income statement

CONDENSED CONSOLIDATED INCOME STATEMENT

SEK m	Note	Full-year		3 months Oct–Dec	
		2018	2017	2018	2017
Net sales	1, 2	385.2	345.0	102.8	87.6
Goods for resale		-9.0	-8.5	-2.2	-2.6
Other external expenses		-68.2	-49.2	-19.6	-11.6
Personnel costs		-167.9	-160.1	-43.4	-41.5
Depreciation of property, plant and equipment		-2.6	-2.4	-0.8	-0.6
Amortization of intangible assets		-21.9	-17.4	-5.7	-4.5
Operating profit		115.6	107.4	31.1	26.8
Financial income		0.1	0.0	0.1	0.0
Financial expenses		-1.9	-1.7	0.5	-0.4
Profit before tax		113.8	105.7	31.7	26.4
Tax		-26.2	-25.7	-9.9	-6.7
Profit for the period		87.6	80.0	21.8	19.7
Earnings per share for the period, basic, SEK		6.67	6.33	1.60	1.56
Earnings per share for the period, diluted, SEK		6.65	6.33	1.58	1.56

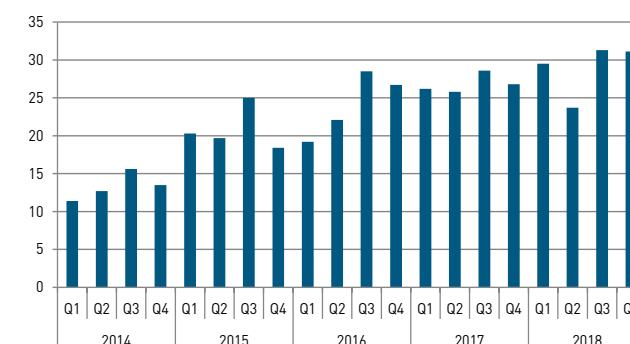
NET SALES, SEK m



STATEMENT OF COMPREHENSIVE INCOME

SEK m	Full-year		3 months Oct–Dec	
	2018	2017	2018	2017
Profit for the period	87.6	80.0	21.8	19.7
Other comprehensive income for the period				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences	-6.7	-3.0	-28.8	1.2
Change in value of non-current securities	17.5	-2.9	-	-2.9
Total other comprehensive income	10.8	-5.9	-28.8	-1.7
Comprehensive income for the period	98.4	74.1	-7.0	18.0
Comprehensive income for the period attributable to owners of the Parent Company	98.4	74.1	-7.0	18.0

OPERATING PROFIT, SEK m



Balance sheet

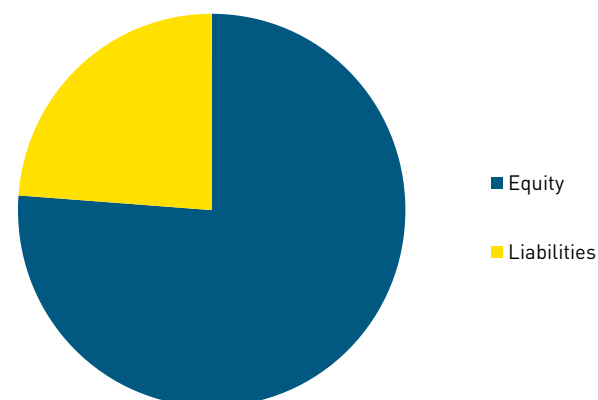
CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Dec 31, 2018	Dec 31, 2017
ASSETS			
Non-current assets			
Goodwill	3	339.3	113.5
Other intangible assets	4	144.8	80.9
Property, plant and equipment		8.9	6.2
Financial assets		1.8	19.5
Deferred tax assets	5	13.3	2.7
Total non-current assets		508.1	222.8
Current assets			
Inventories		6.6	5.2
Other current assets		38.2	11.8
Trade receivables		63.2	50.8
Cash and cash equivalents		106.1	119.5
Total current assets		214.1	187.3
TOTAL ASSETS		722.2	410.1
EQUITY AND LIABILITIES			
Total equity		550.0	290.4
Non-current liabilities			
Interest-bearing liabilities		1.2	1.7
Other non-current liabilities		1.6	1.7
Deferred tax liabilities		29.6	14.0
Total non-current liabilities		32.4	17.4
Current liabilities			
Trade payables		7.3	5.7
Interest-bearing liabilities		1.6	0.8
Deferred income		79.0	64.5
Other current liabilities		51.9	31.3
Total current liabilities		139.8	102.3
TOTAL EQUITY AND LIABILITIES		722.2	410.1

CHANGES IN EQUITY, GROUP

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Equity at beginning of period	290.4	279.5	556.3	272.4
New share issue, after deductions for transaction costs and tax	177.5	-	2.4	-
Share buybacks	-3.6		-3.6	
Share warrants, after deductions for transaction costs and tax	3.6	-	0.1	-
Non-cash issue	39.7	-	-	-
Value of share-based remuneration	12.0	-	1.8	-
Dividend	-68.0	-63.2	-	-
Comprehensive income for the period	98.4	74.1	-7.0	18.0
Equity at end of period	550.0	290.4	550.0	290.4
Of which, attributable to owners of the Parent Company	550.0	290.4	550.0	290.4

EQUITY/ASSETS RATIO 2018



Cash flows

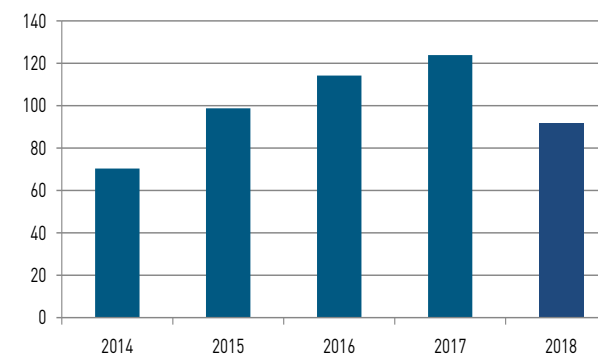
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Full-year		3 months Oct–Dec	
SEK m	2018	2017	2018	2017
Incoming payments from customers	381.1	342.8	108.2	85.5
Outgoing payments to suppliers and employees	-250.0	-214.6	-63.2	-51.9
Interest received	0.0	0.0	0.0	0.0
Interest paid	-1.7	-0.9	-0.4	0.2
Income taxes paid	-36.8	-3.4	-11.2	-0.5
Cash flow from operating activities	92.6	123.9	33.4	33.3
Investments in property, plant and equipment	-4.3	-2.5	-0.9	-0.9
Investments in intangible assets	-42.5	-16.5	-16.4	-4.0
Investments in subsidiaries	-170.8	-17.8	-0.8	-
Sale of other investments	0.1	-	0.1	-
Investments in other investments	-	-0.8	0.1	-
Cash flow from investing activities	-217.5	-37.6	-18.0	-4.9
New share issue, after deductions for transaction costs	176.0	-	0.9	-
Share warrants, after deductions for transaction costs	3.6	-	0.1	-
Share buybacks	-3.6	-	-3.6	-
Amortization of financial liabilities	-1.2	-0.0	-	-0.0
Borrowings	0.9	-	0.9	-
Dividend	-68.0	-63.2	-	-
Cash flow from financing activities	107.7	-63.2	-1.7	-0.0
Cash flow for the period	-17.2	23.1	13.7	28.4
Cash and cash equivalents at beginning of period	119.5	99.2	91.5	90.0
Exchange difference in cash and cash equivalents				
- attributable to cash and cash equivalents at beginning of	3.6	-2.4	0.8	0.9
- attributable to cash flow for the period	0.1	-0.4	0.1	0.2
Cash and cash equivalents at end of period	106.1	119.5	106.1	119.5

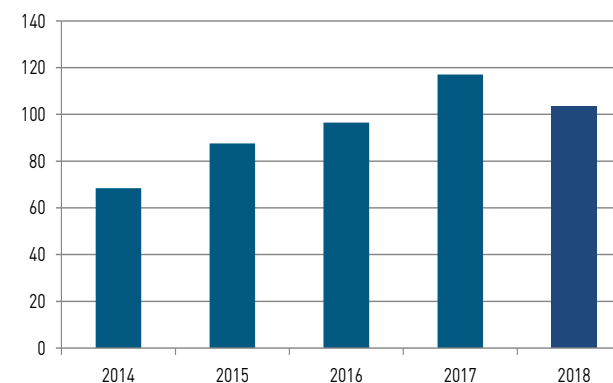
CASH AND CASH EQUIVALENTS, GROUP

SEK m	Dec 31, 2018	Dec 31, 2017
Cash and cash equivalents at end of period	106.1	119.5
Unutilized overdraft facilities	225.0	225.0
Total available cash and cash equivalents	331.1	344.5

CASH FLOW FROM OPERATING ACTIVITIES, SEK m



NET CASH, SEK m



Key ratios

GROUP

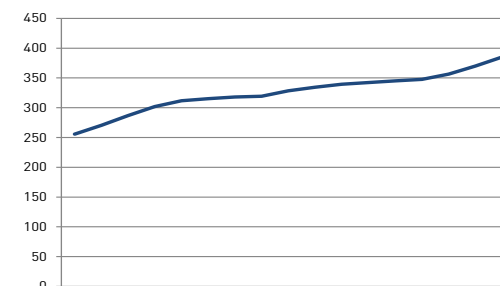
	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Gross margin, %	97.7	97.5	97.9	97.0
EBITDA, %	36.4	36.9	36.6	36.4
Operating margin, %	30.0	31.1	30.3	30.6
Profit margin, %	29.5	30.7	30.8	30.1
Cash flow, %	24.0	35.9	32.5	38.0
Equity/assets ratio, %	76.2	70.8		
Return on equity, %	20.8	28.1	3.9	7.0
Return on capital employed, %	27.4	37.4	5.6	9.5
Capital employed, SEK m	552.8	292.9		
Net cash, SEK m	103.3	117.0		
Net debt/equity ratio, multiple	-0.2	-0.4		
No. of employees at end of period	200	163		
Average no. of employees	171	153	188	153
Sales per employee, SEK m	2.3	2.2	0.5	0.6

SHARE DATA

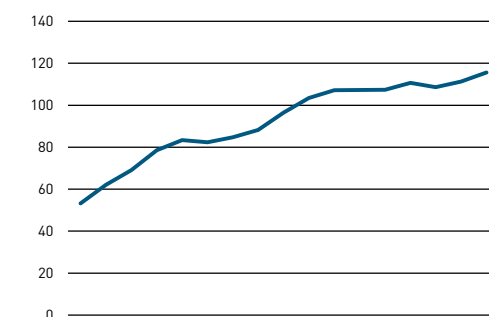
	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Equity per share, SEK	40.38	22.99		
No. of shares at end of period, million	13.62	12.63		
Average no. of shares, million	13.13	12.63	13.62	12.63
Average no. of shares, diluted, million	13.13	12.63	13.63	12.63
Cash flow from operating activities per share, SEK	7.05	9.81	2.45	2.64
Earnings per share, basic, after current tax, SEK	7.25	7.32	2.21	1.43
Earnings per share, SEK*	6.67	6.33	1.60	1.56
Earnings per share, diluted, SEK	6.65	6.33	1.58	1.56

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

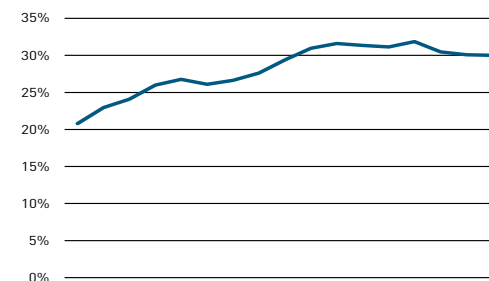
NET SALES ROLLING 12 MONTHS



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	Q4	102.8	37.6	36.6	31.1	30.3	1.60	3.9	2.45	40.38	243.00	3,310
	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
2018		385.2	140.1	36.4	115.6	30.0	6.67	20.8	7.05	40.38	243.00	3,310
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

	Full-year	
SEK m	2018	2017
Net sales	12.2	12.2
Operating expenses	-21.9	-16.9
Depreciation of property, plant and equipment	-0.0	-0.1
Operating loss	-9.7	-4.8
Result from financial investments	100.9	104.3
Profit before tax	91.2	99.5
Tax	-20.1	-22.1
Profit for the period	71.1	77.4

STATEMENT OF COMPREHENSIVE INCOME

	Full-year	
SEK m	2018	2017
Profit for the period	71.1	77.4
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or		
Change in value of non-current securities	17.5	-2.9
Total other comprehensive income	17.5	-2.9
Comprehensive income for the period	88.6	74.5

CONDENSED BALANCE SHEET

SEK m	Dec 31, 2018	Dec 31, 2017
ASSETS		
Non-current assets		
Property, plant and equipment	0.1	0.1
Shares in subsidiaries	476.2	189.4
Other financial assets	0.1	17.9
Deferred tax assets	1.5	-
Total non-current assets	477.9	207.4
Current assets		
Receivables from subsidiaries	42.0	53.3
Other current assets	2.2	1.2
Cash and cash equivalents	9.3	5.0
Total current assets	53.5	59.5
TOTAL ASSETS	531.4	266.9
EQUITY AND LIABILITIES		
Total equity	502.2	252.6
Current liabilities		
Trade payables	0.9	0.7
Liabilities to subsidiaries	-	-
Other current liabilities	28.3	13.6
Total current liabilities	29.2	14.3
TOTAL EQUITY AND LIABILITIES	531.4	266.9

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
Measurement	Fair value through other comprehensive income	Amortized cost		Fair value through other comprehensive income	Amortized cost
Assets					
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
Total	17.5	183.8	-	17.5	183.8

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. 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 has replaced 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 financial position. Operating and finance leases are no longer classified. The underlying asset in the lease is recognized in the statement of financial position.

In preparation for the initial application of IFRS 16, IAR has conducted an implementation project to identify differences between IFRS 16 and IAS 17, to obtain the necessary data for analyzing the effects of the differences and to establish procedures for the continued management after the implementation of IFRS 16. The most significant difference identified when IFRS 16 replaces IAS 17 on 1 January 2019 is that all leases are to be recognized in the statement of financial position. Consequently, operating and finance leases will no longer be

Notes, cont.

classified. The underlying asset in the lease is to be recognized in the statement of financial position. In subsequent periods, right-of-use assets are 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 are continuously recognized at amortized cost less transacted lease payments. Lease liabilities are remeasured when changes are made to, for example, the lease term, residual value 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 leases (12 months or shorter) and leases where the underlying asset has a low value do not need to be recognized in the balance sheet, which is an exception applied by IAR. The company has concluded, in its analysis of leases previously recognized as operating leases but now, under IFRS 16, recognized in the statement of financial position, that the transition almost exclusively concerns rental contracts for office premises. IAR will apply the modified retrospective intermediate method regarding recognition of leases previously recognized as operating leases. This method entails that lease liabilities are calculated as the current value of remaining lease payments discounted by the incremental borrowing rate in the beginning of the period in which the company first applies the standard, and that the comparative year is not adjusted. Leases previously classified and recognized as finance leases according to IAS 17 have not been restated in conjunction with the transition to IFRS 16. The right-of-use asset is recognized as the sum of lease liabilities adjusted for any prepaid or accrued lease payments. Lease liabilities and right-of-use assets will be recognized in the opening balance on 1 January 2019. The assessment is that IFR 16 will have a slight positive effect on operating profit and a minor effect on profit after financial items. The assessed effect regarding the opening balance on January 1, 2019 amounts to SEK 29.0m for the asset item Right-of-use assets, SEK 29.0m for the liability item Lease liability and no assessed effect on Equity.

2. NET SALES

Net sales are distributed as follows:

	Full-year		3 months Oct-Dec	
SEK m	2018	2017	2018	2017
IAR Systems	380.2	345.0	99.3	87.6
Secure Thingz	5.0	-	3.5	-
Net sales	385.2	345.0	102.8	87.6

IAR Systems	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
SEK m				
License-based revenue	242.9	217.3	62.7	55.7
Support and software updates	119.4	108.6	32.2	27.5
Royalty-based revenue	5.5	6.8	1.5	1.2
Other	12.4	12.3	2.9	3.2
Net sales	380.2	345.0	99.3	87.6
At a certain point in time	255.3	229.7	65.6	58.9
Over time	124.9	115.4	33.7	28.7
Net sales	380.2	345.0	99.3	87.6
Americas	126.2	129.4	32.9	30.7
Asia	94.2	83.4	24.3	21.3
Europe	151.6	123.4	40.0	34.6
Not allocated by region	8.2	8.8	2.1	1.0
Net sales	380.2	345.0	99.3	87.6

Secure Thingz	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
SEK m				
License-based revenue	-	-	-	-
Support and software updates	-	-	-	-
Royalty-based revenue	-	-	-	-
Other	5.0	-	3.5	-
Net sales	5.0	-	3.5	-
At a certain point in time	5.0	-	3.5	-
Over time	-	-	-	-
Net sales	5.0	-	3.5	-
Americas	5.0	-	3.5	-
Asia	-	-	-	-
Europe	-	-	-	-
Not allocated by region	-	-	-	-
Net sales	5.0	-	3.5	-

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 225.8m during the year, mainly as a result of 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. Goodwill at December 31, 2018 amounted to SEK 339.3m (113.5).

4. OTHER INTANGIBLE ASSETS

During the year, other intangible assets increased by SEK 35.5m as a result of the acquisition of Secure Thingz. See also Note 7 "Acquisition of Secure Thingz" below. Operating expenses were reduced by SEK 45.4m (13.1) during the year through the capitalization of development costs for debug probes and analysis tools. Of the internal expenses that were capitalized, SEK 38.1m (10.4) 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 December 31, 2018, the Group had accumulated loss carryforwards of SEK 45m (0). Deferred tax asset in the balance sheet amounted to SEK 13.3m (2.7), of which SEK 8.5m (0.0) pertained to loss carryforwards.

6. PLEDGED ASSETS

SEK m	Dec 31, 2018	Dec 31, 2017
To secure pensions	1.8	1.8
To secure liabilities to credit institutions	2.8	2.5
Total pledged assets	4.6	4.3

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
Total cost of acquisition	290.3

The fair value of the 164,584 class B shares issued in the non-cash issue as part of the acquisition cost 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 and increased comprehensive income 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 acquisition cost 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 acquisition cost 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 condi-

Notes, cont.

Share-based purchase consideration is recognized as part of the acquisition cost 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	21.1
Trade receivables	0.3
Equipment	0.7
Other receivables	0.9
Deferred tax assets	7.3
Intangible assets: Technology	36.9
Deferred tax liabilities	-6.4
Trade payables	-0.2
Other current liabilities	-3.8
Acquired identifiable assets	56.8
Goodwill on the acquisition date	233.5
Acquired net assets	290.3

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 5.0m and a net loss of SEK -5.6m to the Group for the period April 12 to December 31, 2018. If the acquisition had been undertaken on January 1, 2018, consolidated pro forma revenue and earnings on December 31, 2018 would have amounted to SEK 5.2m and SEK -9.3m, 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.

Acquisition cost – cash outflow

SEK m	2018	2017
Cash portion of the acquisition cost	191.9	17.8
Less acquired cash and cash equivalents	-21.1	-
Net outflow of cash and cash equivalents	170.8	17.8

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. WARRANT 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 warrants: share warrants and personnel warrants. The share warrants are intended for employees in Sweden and the personnel warrants 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 share 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 share warrants.

For personnel warrants, participants are allocated warrants at no cost, and they may not be pledged or transferred. The warrants are vested at a rate of one third per year from the date of allotment. Based on performance condition fulfillment, each 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 warrant allocation, which is fixed at SEK 330.00. A total of 254,000 personnel warrants were allocated to the participants.

LTIP 2018 is recognized in accordance with IFRS 2, which means that the cost of the warrant program is recognized on a straight-line basis during the vesting period. The total cost of the warrant program is estimated at SEK 10.1m, of which SEK 1.3m has been charged to profit for the year and SEK 0.5m to the fourth quarter.

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. The following section "Reconciliations" presents rec-

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.
Cash flow from operating activities per share	Cash flow from operating activities divided by the average number of shares during the period.	Measures the company's cash generation in relation to the number of shares in the company.
Net cash	Cash and cash equivalents less interest-bearing liabilities.	A measure of the ability to use available cash and cash equivalents to pay off all liabilities if they were due for payment on the date of the calculation and thereby a measure of the risk in relation to the company's capital structure.
Net interest-bearing liabilities	Interest-bearing liabilities less cash and cash equivalents.	A measure used to follow the liability trend and see the size of the need for refinancing. This measure is one component in calculating net cash and the net debt/equity ratio.

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 performance measure 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 performance measure is used both internally in governance and follow-up of operations and to compare with other companies.
Operating profit	Profit before tax less financial income plus financial expenses.	Used to calculate the operating margin.
Equity/assets ratio	Equity as a percentage of total assets.	This performance measure shows the proportion of assets financed with equity and can be used as an indication of the company's long-term solvency.
Capital employed	Total assets less non-interest-bearing liabilities. Average capital employed is calculated as capital employed at the beginning of the year plus capital employed at the end of the year divided by two.	The capital made available to the company by shareholders and lenders. This shows the net capital invested in operating activities with the addition of financial assets.
Profit margin	Profit before tax as a percentage of net sales.	Profit margin shows the earnings capacity of the business from operating activities regardless of the tax situation in relation to the company's net sales and can be used to in a comparison with other companies in the same industry.

* Definition in accordance with IFRS.

Reconciliations

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

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Net sales	385.2	345.0	102.8	87.6
Goods for resale	-9.0	-8.5	-2.2	-2.6
Gross profit	376.2	336.5	100.6	85.0
Gross margin	97.7%	97.5%	97.9%	97.0%

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

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Operating profit	115.6	107.4	31.1	26.8
Depreciation of property, plant and equipment	2.6	2.4	0.8	0.6
Amortization of intangible assets	21.9	17.4	5.7	4.5
EBITDA	140.1	127.2	37.6	31.9

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

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Net sales	385.2	345.0	102.8	87.6
EBITDA	140.1	127.2	37.6	31.9
EBITDA margin	36.4%	36.9%	36.6%	36.4%

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

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Net sales	385.2	345.0	102.8	87.6
Operating profit	115.6	107.4	31.1	26.8
Operating margin	30.0%	31.1%	30.3%	30.6%

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

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Net sales	385.2	345.0	102.8	87.6
Profit before tax	113.8	105.7	31.7	26.4
Profit margin	29.5%	30.6%	30.8%	30.1%

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

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Net sales	385.2	345.0	102.8	87.6
Cash flow from operating activities	92.6	123.9	33.4	33.3
Cash flow	24.0%	35.9%	32.5%	38.0%

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

SEK m	Dec 31, 2018	Dec 31, 2017
	2018	2017
Equity	550.0	290.4
Total assets	722.2	410.1
Equity/assets ratio	76.2%	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	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017	Sep 30, 2017	Dec 31, 2016
	2018	2018	2017	2017	2016
Equity	550.0	556.3	290.4	272.4	279.5

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Average equity	420.2	285.0	553.2	281.4

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

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Profit after tax	87.6	80.0	21.8	19.7
Average equity	420.2	285.0	553.2	281.4

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

SEK m	Dec 31, 2018	Dec 31, 2017
	2018	2017
Interest-bearing	2.8	2.5
Cash and cash equiv-	-106.1	-119.5
Net interest-bearing liabilities	-103.3	-117.0

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

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Profit before tax	113.8	105.7	31.7	26.4
Financial expenses	1.9	1.7	-0.5	0.4
Profit before tax plus financial expenses	115.7	107.4	31.2	26.8
Return on capital employed	27.4%	37.4%	5.6%	9.5 %

Reconciliations, cont.

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

SEK m	Dec 31, 2018	Dec 31, 2017
Cash and cash equivalents	106.1	119.5
Interest-bearing liabilities	-2.8	-2.5
Net cash	103.3	117.0

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	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017	Sep 30, 2017	Dec 31, 2016
No. of shares, million	13.62	13.61	12.63	12.63	12.63

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Average no. of shares, million	13.13	12.63	13.62	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	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017	Sep 30, 2017	Dec 31, 2016
Total assets	722.2	721.3	410.1	390.4	395.9
Non-interest-bearing liabilities	-169.4	-162.1	-117.2	-115.3	-113.7
Capital employed	552.8	559.2	292.9	275.1	282.2

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Average capital employed	422.8	287.6	556.0	284.0

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

SEK m	Dec 31, 2018	Dec 31, 2017
Equity	550.0	290.4
No. of shares at end of period, million	13.62	12.63

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

SEK m	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Cash flow from operating activities	92.6	123.9	33.4	33.3
Average no. of shares, million	13.13	12.63	13.62	12.63

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	Full-year		3 months Oct-Dec	
	2018	2017	2018	2017
Tax	26.2	25.7	9.9	6.7
Deferred tax	-7.5	-12.4	-8.4	1.7
Current tax	18.7	13.3	1.5	8.4
Profit before tax	113.8	105.7	31.7	26.4
Current tax	-18.7	-13.3	-1.5	-8.4
Profit after current tax	95.1	92.4	30.2	18.0
Average no. of shares, million	13.13	12.63	13.62	12.63

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 December 31, 2018 was SEK 243.00 (189.00). IAR Systems Group's market capitalization on the same date was SEK 3,310 (2,387).

The number of shareholders in IAR Systems Group at December 31, 2018 was 7,262 (8,062). Of these shareholders, 425 (484) held more than 1,000 shares each. Foreign shareholders held approximately 32% (25) of the share capital and 30% (23) of the votes.

IAR Systems Group's share capital at December 31, 2018 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 100,000 are class A shares, 13,521,713 are class B shares, and 346,620 are class C shares. All of the class C shares are held in treasury and are not included in the information submitted regarding the IAR Systems share.

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 year, a total of 447,500 warrants were allocated, distributed between 243,500 share warrants for employees in Sweden and 204,000 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.

With the support of the Extraordinary General Meeting on June 15, 2018, the Board resolved, on November 9, 2018, to issue no more than 359,688 new class C shares at a subscription price equivalent to SEK 10 per share, reflecting the share's quota value. In deviation from the shareholders' preemptive rights, the new shares are to be subscribed for by the bank or securities trader that the Company has retained to assist in the company's administration of the Group's employee ownership program.

With this resolution regarding the new share issue, the Board also resolved to repurchase all new class C shares for a price of SEK 10 per share. The aim of the new share issue and the repurchase of the class C shares is to ensure the delivery of shares to

The IAR Systems share, cont.

BREAKDOWN OF SHAREHOLDINGS

	No. of sharehold-	No. of sharehold-	Share of capital, %	Share of votes, %
1-100	5,090	70	1	1
101-1,000	1,747	24	5	4
1,001-10,000	339	5	7	7
10,001-	86	1	87	88
Total *	7,262	100	100	100

GEOGRAPHICAL DISTRIBUTION

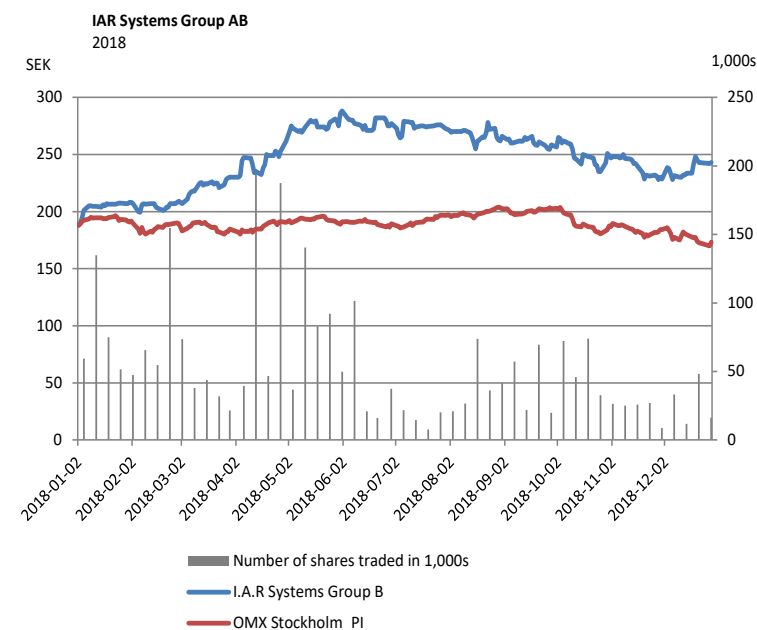
	No. of share-	No. of sharehold-	Share of capital, %	Share of votes, %
Sweden	7,063	97	68	70
Europe excl. Sweden	161	2	27	25
Other countries	38	1	5	5
Total *	7,262	100	100	100

LARGEST SHAREHOLDERS (VOTES)

	No. of shares	Share of capital, %	Share of votes, %
SEB S.A.	1,369,368	10	9
Andra AP-fonden	1,295,415	9	9
Första AP-fonden	1,176,506	9	8
Handelsbanken Fonder	1,143,536	8	8
Danica Pension **	212,300	2	8
Other	8,424,588	62	58
Total *	13,621,713	100	100

* excluding 346,620 class C shares held in treasury

** 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 in a range of industries, such as industrial automation, medical technology, 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 IoT, the company signed an exclusive royalty agreement

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

SUPERIOR TECHNOLOGY


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

and quality-assure customers' product development. IAR Embedded Workbench is available in a number of different versions to match different types of processors. It is continually updated with improved functionality and support for new processors in order to meet the needs of customers and the market. IAR Embedded Workbench supports over 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. When it comes to the Internet of Things, there is considerable demand for more secure solutions, particularly in the automotive and medical technology industries. That is precisely why we completed the acquisition of Secure Thingz in 2018 – to expand our product portfolio with a focus on security. 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.



IAR SYSTEMS GROUP AB (PUBL)

Corporate ID Number 556400-7200

Kungsgatan 33, SE-111 56 Stockholm Tel +46 8 410 920 00

www.iar.com

Stefan Skarin, CEO, stefan.skarin@iar.com

Stefan Ström, CFO, phone +46 708 65 10 68, stefan.strom@iar.com