

Annual General Meeting

The Annual General Meeting of IAR Systems Group AB (publ), corporate identification number 556400-7200, will be held at 6:00 p.m. on Wednesday, April 24, 2019, at Spårvagnshallarna, Birger Jarlsgatan 57 A in Stockholm.

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

Notification

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

- > be recorded in the share register maintained by Euroclear Sweden AB not later than Tuesday, April 16, 2019.
- > provide notification of their intention to participate in the AGM not later than Thursday, April 18, 2019, in writing to IAR Systems Group AB (publ), Kungsgatan 33, SE-111 56 Stockholm, Sweden, or via the company's website www.iar.com/investors.

The notification should include:

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

To be entitled to participate in the AGM, shareholders whose shares are registered in the name of a nominee should request that the shares be temporarily re-registered in their own name in good time prior to April 16, 2019. When applicable, proof of authorization, such as proxy forms and certificates of registration, should be sent to the company prior to the AGM. Shareholders who wish to be accompanied by one or two assistants must inform the company by the same date and in the same manner applicable to shareholders.



FINANCIAL CALENDAR 2019

Year-end report 2018
Interim report January-March
Annual General Meeting
Interim report January-June
Interim report January-September

February 13 April 24 April 24 August 21

November 7







IAR DevCon Our own global developer conference.

Financial reporting

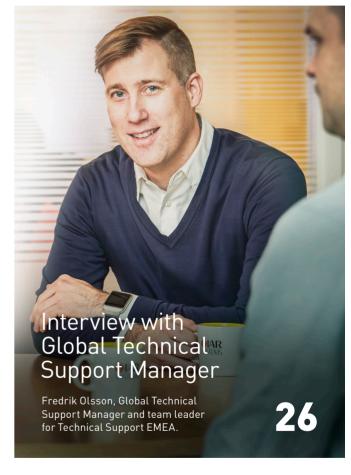
Financial information and financial statements for 2018.

32

Products and offering

Superior technology that future-proofs customers' product development.

14





We enable the products of today and the innovations of tomorrow

IAR Systems is the world's leading provider of software for programming of processors in embedded systems. Since 1983, IAR Systems' solutions have ensured quality, reliability and efficiency in the development of more than one million embedded applications.

HIGHLIGHTS OF 2018

Acquisition of Secure Thingz



Our products are 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 the automotive industry, industrial automation, medical technology, consumer electronics and the Internet of Things (IoT).

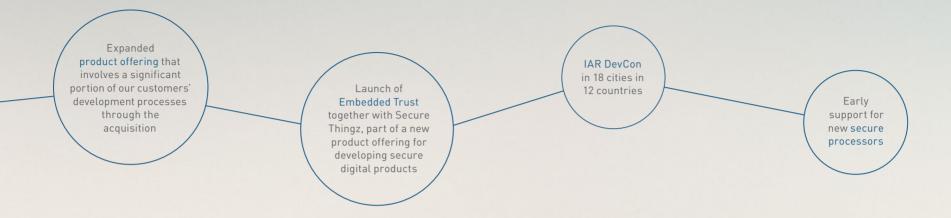
>30

At least 30 times a day, you use a product programmed by one of IAR Systems' customers.

IAR Systems Group AB is listed on the Mid Cap list of Nasdaq Stockholm. 200

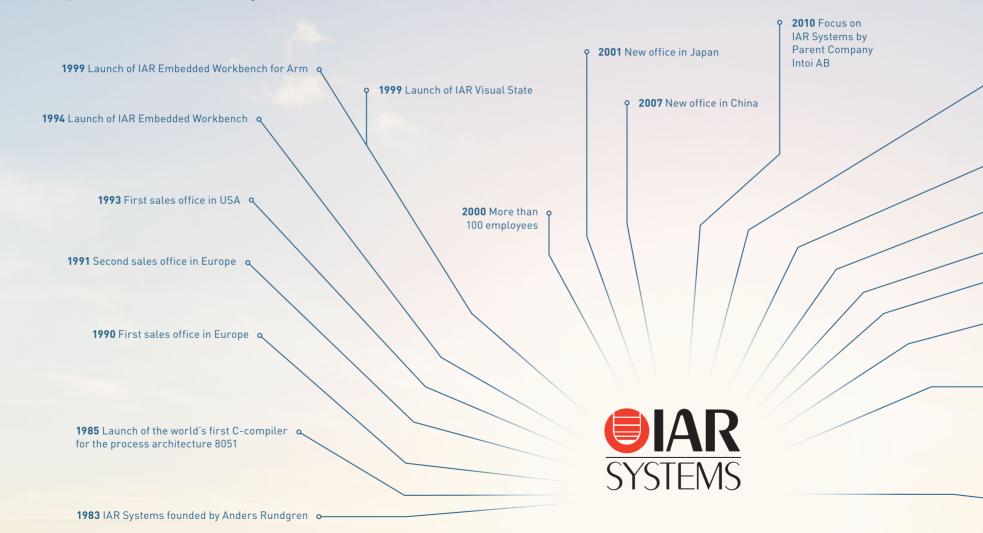
We have 200 employees in 11 offices on three continents.

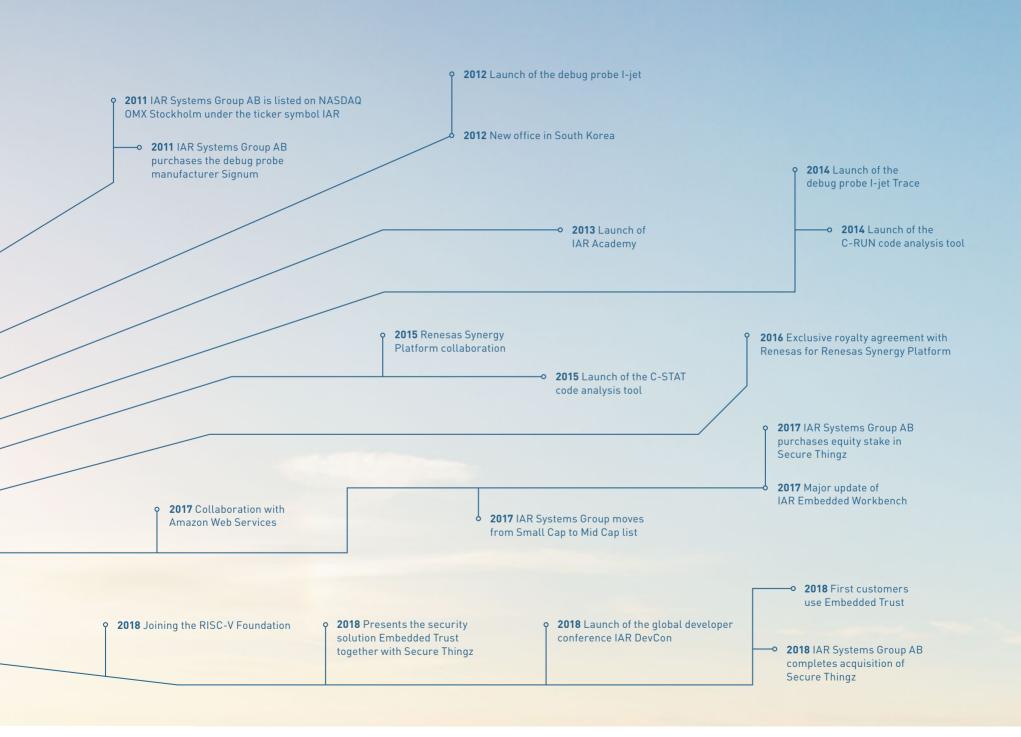
Our headquarters are located in Uppsala, Sweden and we have sales and support offices all over the world.



	Net sales	Operating profit	Cash flow from operating activities
Q1	SEK 88.9m (86.4)	SEK 29.5m (26.2)	SEK 19.1m (26.5)
Q2	SEK 95.6m (86.8)	SEK 23.7m (25.8)	SEK 25.2m (32.3)
Q3	SEK 97.9m (84.2)	SEK 31.3m (28.6)	SEK 14.9m (31.8)
Q4	SEK 102.8m (87.6)	SEK 31.1m (26.8)	SEK 33.4m (33.3)
2018	SEK 385.2m (345.0)	SEK 115.6m (107.4)	SEK 92.6m (123.9)

Building the future based on 35 years of experience and success





Together with our customers from digitization to protected innovation

In 2018, we strengthened our vision, a vision that has set the tone in how we present ourselves to our customers and that summarizes the journey we are taking together with them towards a secure and sustainable future. The year was characterized by messages that reflect our journey together with our customers over the last 35 years.

In terms of both technology and the organization, 2018 was dominated by the acquisition of Secure Thingz. We started the year with the launch of security products and quickly realized, when we saw the demand that followed, that security is truly an area worth investing in. Even though Embedded Trust was only in its infancy, demand for the product exceeded even our most optimistic expectations. Customers clearly needed a way to protect their product development and prevent theft and illegal copying, and for us it was an opportunity to capture an exciting new market. Acquiring Secure Thingz was the obvious way forward, and the fact that it was financed with support from our owners is both reassuring and inspiring. Together, we saw opportunities to invest in the security market.

We began the integration of Secure Thingz more or less immediately after the acquisition was finalized in the second quarter, with a focus on integrating product development in order to complete the projects we had planned and announced faster and more efficiently. We realized that we needed to expand our product

offering to meet our customers' different needs, and Embedded Trust was supplemented with C-Trust for IAR Embedded Workbench. We have invested in offering products that are secure in their structure and use, which requires several special tests and quality assurance procedures. While this prolongs the product development process, it is also important to let it take the time needed.

At the end of the year, we chose to launch our security products under shared packaging. This offers a possibility for our customers to train themselves as they implement security in their own product development. Our meetings with customers throughout the year have helped us understand that even if the importance of security is obvious, insight and knowledge vary considerably. For us, it is important that our customers understand to what end and how they should implement security, and a great deal more information and training will be necessary to achieve this. There will be reason to return to the topic of security, but for now I'll just say that we see a great deal of potential in our security offering! Our financial

performance followed the same trend of steady growth that we have seen in recent years, although our growth was higher this year than in previous years. This stability is attributable to our business model and our loyal customer base. Overall, two factors were particularly noteworthy this year. First and foremost, more customers than ever chose to standardize based on our products during the year. This resulted in one major order every quarter, which contributed to our positive performance, and helped us to grow compared with earlier years. When it comes to the distribution of these major orders as well as general performance, Europe was particularly dominant.

The second factor underlying our financial success was a specific product segment: functional safety. Our functional safety offering is unique not only because it encompasses several processor families, but also because it is combined with analysis tools. Analysis tools have proven to be a first step for many of our customers in meeting the quality and security challenges that arise when developing their products. Structuring their product development, which is



Mission, targets and strategy

Our mission is to bring value to organizations that develop products for embedded systems. We supply the tools and services that make embedded systems development fast, efficient and reliable. In 2018, we acquired the remaining shares in Secure Thingz so we could offer new ways for our customers to secure their innovations. This allowed us to further strengthen our long-standing relationships with our customers and their technology, and to enable our customers across the world to supply better products to the market more quickly while also protecting themselves against breaches and overproduction.

Long-term financial targets

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

- For net sales to grow by 10–15% annually in local currency.
- For the operating margin to exceed 25% over a business cycle.
- > Payout ratio 30-50%

Strategic cornerstones

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

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

Sales strategy

Our sales strategy is founded on a license-based business model in all geographical regions and all industries. In addition, the company focuses on markets which it deems to have significant potential, for example, the automotive industry and IoT. During 2016, IAR Systems expanded its sales strategy by adding a royalty-based business model through a five-year agreement signed with Renesas Electronics Corporation for the Renesas Synergy Platform.

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

Through the acquisition of Secure Thingz in 2018, we have expanded our offering to include new products and services as well as a new target group. Because security is a question of survival for many companies, responsibility for product security often rests with management or the head of security.

Product strategy

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

Through the acquisition of Secure Thingz, we are expanding our area of expertise and adding products within security. The largest portion of this product segment is developed in Cambridge in the UK. Close cooperation takes place between all development centers to maximize experience exchange and share critical resources.



Investment case

IAR Systems is a world-leading supplier of programming tools and services for embedded systems. These tools and services enable the development of digital products for over 46,000 corporate clients and 150,000 developers, supported by growing demand for digital technology, primarily within industrial automation, medical technology, telecommunication, consumer electronics and the automotive industry.

After securing important strategic partnerships and collaborations, IAR Systems is nearing its next development phase - driving change in the industry and establishing a presence in a significantly larger market to become the first choice in software partners for industry leaders positioning their embedded systems for IoT.

A profitable growth company

Thanks to its leading technology, IAR Systems' software commands a unique market position with a global market share of approximately 50%. The company was founded more than 35 years ago and has continually evolved and refined its products in order to meet customer demand. IAR Systems is headquartered in Uppsala. Sweden, but due to the company's international reach, over 95% of sales are attributable to markets outside the Nordic region. The tailorable business model includes selling flexible user licenses for access to the IAR Embedded Workbench software, which enables close customer relations, a high level of customer loyalty - 95% of customers return - and even revenue streams.

For over 35 years, this core business has been a springboard to larger and growing markets. One such example is the company's exclusive royalty-based agreement with the world-leading processor vendor Renesas Electronics. Another is the company's shared vision and collaboration with Secure Thingz, which began in 2018 and has significantly expanded the company's potential market from only product development to the provision of services, manufacturing and product management.

Superior technology with new patented additions

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. The most important competitive advantages are the following:

- 1. IAR Systems offers a unique product range consisting of a complete tool chain for product developers.
- 2. IAR Systems is independent and thereby supports a variety of different processor architectures, which means that customers can choose the exact programming environment that fits their needs, regardless of processor and project. This way, customers do not need to lock themselves into a particular technical platform, which provides a number of advantages, such as being able to reuse 70-80% of previously written code.
- 3. IAR Systems provides superior quality so that customers do not need to compromise on product performance, reliability and user-friendliness and so that the time from product to market launch is as efficient as possible.
- 4. Through the acquisition of Secure Thingz, IAR Systems has expanded its offering to include unique, patented technology that aims to fulfil the customer's need to protect its intellectual property. This can also be a crucial determining factor when it comes to maximizing the market potential for security for embedded systems.





Strong financial performance

- Annual sales growth of 11.5% over the latest decade
- > Gross margin of 98% in 2018 (88 in 2010)
- > EBIT margin of 30% in 2018 (7 in 2010)
- > Capital-light business model

Financial targets

- ➤ Organic growth of 10-15% per year
- Operating margin >25% over a business cycle
- > Payout ratio 30-50%

The best partner for IoT platforms

- Renesas Synergy
- Amazon Web Services
- > RISC-V
- > Express Logic

Ready for the next growth phase: IAR Systems 3.0

Complete offering

- Strong technology with more than 35-year history
- > Complete C/C++ tool chain
- Growing product portfolio with new technologies

Loyal customers

Large and loyal customer base (over 46,000 customers)

License sales 98%

Royalty sales 2%

Favorable market position

Approximately 50% global market share. Distribution net sales:

Americas 35%

Europe 40%

Asia 25

Well-timed investment in security

- Security for IoT devices is at a turning point
- Annual growth of the market until 2022 is estimated at 38%
- Less than 4% of IoT devices are secure

Stable finances



Superior technology

Scalable business model

Superior technology that future-proofs customers' product development

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

Our products facilitate, streamline and quality-assure the development of embedded systems. We collaborate with a number of partners across different areas to consistently provide customers with a complete solution. We always focus on and listen to customers' needs in order to update our offering in a way that satisfies their requirements and needs.

Complete software for programming processors in embedded systems

All digital products have an embedded system controlled by one or more processors. Development tools are required to help developers program these processors so that they work correctly and fulfil their function. IAR Embedded Workbench is a complete software for programming processors in embedded systems in an efficient and quality-assured manner.

Add-on products that simplify development

In addition to IAR Embedded Workbench, we offer several complementary products that further facilitate developers' work. The add-on products C-STAT and C-RUN are fully integrated into IAR Embedded Workbench and enable the code to be quality-assured

at an early stage. Instead of carrying out code analyses exclusively at the end of the development process, these analysis tools provide a complete code analysis naturally integrated into day-to-day work as well as full control over the code throughout the entire process.

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

Solutions for security in embedded systems

Following the acquisition of Secure Thingz, IAR Systems and Secure Thingz can offer possibilities for new security solutions. The companies share a vision of making security and safety accessible in an easy and sustainable manner. During the year, the company launched the product Embedded Trust, which will make it easier and more efficient to

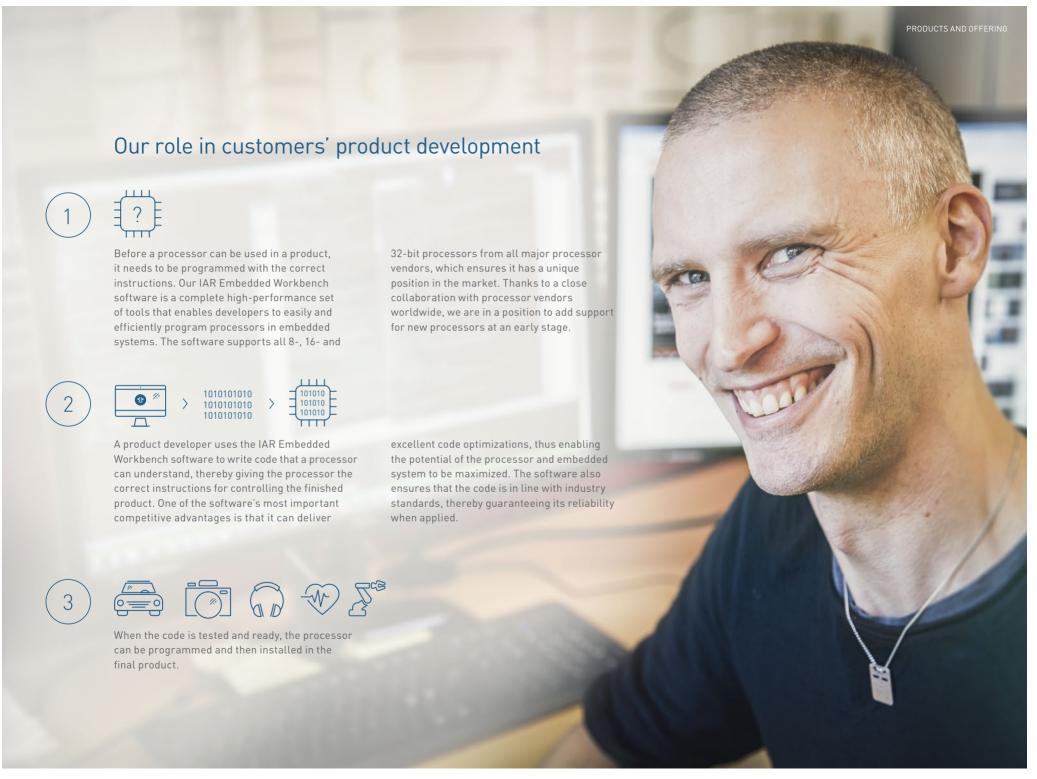
implement security in embedded systems. Embedded Trust is available in several versions to meet control and functionality needs in different roles – all tightly integrated with IAR Embedded Workbench.

Secure Thingz also offers solutions for ensuring security all the way through to processor programming and manufacturing as well as secure updates to products during their entire useful life.

Comprehensive technical support and service

We offer our customers a committed sales, service and support team on hand to support them at every stage. The team is available for discussion and coaching to ensure that we deliver a suitable solution for each customer's needs.

We are able to offer all customers who purchase software a comprehensive support contract that gives them access to technical support from IAR Systems' high-quality global support organization. With their extensive industry experience, the support engineers are greatly appreciated by customers. The support contract also guarantees continuous product maintenance in the form of direct access to new product updates. We also supply the training program IAR Academy, which consists of a number of courses aiming to offer developers a deeper knowledge of programming while maximizing corporate clients' software investments.



Intense focus on security during 2018

As connected devices and IoT products become increasingly commonplace, awareness of and the challenges associated with security are increasing and growing broader. Security has been on the agenda in the embedded systems industry for several years, but the issue received extra attention in 2018.

There are news stories about security breaches every day. Many systems have security flaws that leave them open to attacks and theft of intellectual property, piracy and overproduction as well as theft of sensitive data and potentially life-threatening sabotage. Despite the high levels of protection required by regulations and new security standards, better technology is needed to find a satisfactory solution for security issues.

Today, less than 4% of all new IoT devices have some form of embedded security. According to a 2018 report from ABI Research, this number will grow to over 20% by 2022. The fact that so few devices have embedded security is hampering the progress of IoT and represents a major hurdle for companies to be able to enjoy the advantages of IoT and connected devices.

At IAR Systems, we are used to carefully following industry trends and challenges. We always listen to our customers so that we can consistently meet their needs within our areas of expertise. In recent years, we have seen an increased need for security expertise and new

and innovative products that can help our customers implement security in an easier way.

IAR Systems has been offering solutions to guarantee functional safety in embedded systems for a number of years, focusing on protecting people and physical property from damage. Through the acquisition of Secure Thingz, the company's offering has been expanded to include data and IT security. The acquisition has given the companies strong combined expertise that will make new products and services possible. Secure Thingz is a wholly owned subsidiary and its CEO Haydn Povey is a driving force within the security industry through his role as a Board member of the IoT Security Foundation, a non-profit organization with the goal of ensuring the security of IoT. In this role, Haydn Povey advocates for best practices, standards and security policies at the state level in several countries and large multinational companies all over the world.

During the year, we investigated the security needs of our customers, who we met at trade fairs all over the world.



- 94% Yes, it's an important part of our ability to progress.
- 3% Security is important, but there are other factors that are more important.
- 3% I don't know, or haven't really thought about it.

We have followed our customers throughout their journey towards security

Traditional development within embedded systems

> Complete software

Secured code quality

> Code analysis and testing

Functional safety

Certified products

Protecting intellectual property and data

> Chain of safety and security



Acquisitions for a more secure and sustainable future for smart products

According to a report from Machina Research ("IoT Global Forecast & Analysis 2015–2025"), there will be 27 billion IoT connections by 2025. This powerfully growing market is facing a major challenge, but also numerous opportunities for new business models, products and service offerings.

In 2018, we acquired Secure Thingz, with whom we share a vision of making IoT easier to implement and of scalable and long-term sustainable security. We are convinced that together, we can deliver the solutions necessary to create essential security in a world of connected devices and products.

Shared vision

The visions shared by IAR Systems and Secure Thingz is not only about implementing technology, but also about the possibilities created for companies the world over. Security can shift from a cost to a value. Together, we want to make security and safety "business as usual" for our customers. We also want to make the best possible security available to everyone, enabling them to provide a secure product, from development to manufacturing and updating throughout the product's entire useful life. By maintaining security from the beginning and throughout the product's entire useful life, there is potential for new service offerings and new services for companies that develop digital products.

New products in the portfolio

During 2018, IAR Systems and Secure Thingz co-developed the product Embedded Trust. Embedded Trust makes secure development possible, and makes security a part of the development process through tight integration with the IAR Embedded Workbench software. With this solution, companies can ensure that their intellectual property is protected against overproduction and piracy, that software updates can be managed in a secure manner and that end users of the company's products are protected against sabotage programs and data intrusion.

Secure Thingz also offers advanced solutions for a secure product chain all the way through to manufacturing and updating. The solutions are scalable to support different kinds of secure elements and processors. The secure programming solutions offered by Secure Thingz make it possible for processor programming suppliers all over the world to meet their customers' needs for secure manufacturing.



- > Suppliers of advanced security solutions with a focus on IoT
- > Headquarters and development in Cambridge, UK
- > Founded in 2014 in Cambridge by experts within security, processors and embedded systems
- > Several patents pending
- > Offers security solutions for the Renesas Synergy Platform development platform

How Secure Thingz' solutions complement IAR Systems' offering



Together with Secure Thingz and its partner network, we can help the customer throughout the product's entire useful life.

Embedded systems– a market in a state of constant change

Digital development and an increasing number of smart products is leading to a constantly growing number of systems controlled by one or more processors in an embedded system. IAR Systems delivers high-quality products to companies that develop digital products all over the world and within a variety of industries. As digital technology and even more smart products continue to spread. the market for embedded systems is in a state of constant change. There are a number of market trends that are particularly noteworthy:

Consolidation and evolution of partner network

One clear trend in recent years is the consolidation of the market through both major and minor acquisitions. Several large processor vendors and other types of suppliers are merging in order to strengthen their positions by expanding and deepening their product portfolios. New players are even turning up in the market, such as RISC-V, which resembles Arm in its processor architecture but is built on open source code and has a growing network of companies contributing to the technology.

For IAR Systems, this means changes in its partner network. We have a strong competitive edge thanks to our broad market position, high-quality technology and close collaboration with selected partners that help us meet the demands of the market and our customers.

Increasing complexity of embedded systems

Embedded systems may require processors of varying complexity. In simple terms, these differences can be divided into 8-, 16- and 32-bit processors, of which 32-bit are the most advanced. As the processors become increasingly powerful, this is creating new conditions for more advanced systems. One trend arising from this greater complexity is the need for more tools for testing, debugging and analysis.

For IAR Systems, this means that we have been investing for several years in facilitating version control and debugging for developers – for example, via the add-on products C-STAT and C-RUN, which provide full control over the code throughout the entire development process.

Requirements for more energy-efficient solutions

The need for energy-efficient and low-power solutions is being driven by the fact that processors are now used for more purposes than before and that many products are now battery-powered. The need to find energy-efficient solutions has generated strong demand for low-energy processors and tools that support development of these solutions.

For IAR Systems, this creates added value for our products, which are known for producing compact and efficient code, making them a safe choice for many when developing energy-efficient products.



Requirements for streamlined product development

The increasingly rapid pace of development in the market is also placing higher demands on product developers to get their products out quickly. This is fueling demand for solutions that enable code from earlier projects to be reused, since this both and results in shorter lead times.

For IAR Systems, this means that we number of processors of all tools on

Implementing new technology

New trends like virtual reality (VR), artificial intelligence (AI) and machine learning (ML) are affecting technology within every field. Implementing this technology within embedded systems add services for the data processed by the systems.

For IAR Systems, this development

Security and reliability

With a growing number of connected devices, the company faces an increasing number of challenges in a range of industries. One of the biggest challenges is the ability to deliver fully relevant as more data is collected from

For IAR Systems, the acquisition of

Need for functional safety and code quality

Today, more and more safety features ical technology areas are controlled by

For IAR Systems, this means that







Our own global developer conference IAR DevCon In 2018, we held our very first developer conferences around the world. All in all, we visited 12 countries and 18 cities. IAR DevCon is a free developer conference that The inspiration for IAR DevCon came from Korea. focuses on how developers can get the most out of where we have conducted successful development an embedded system. The conferences featured a conferences over the years. Our customers asked number of lectures on trends and our latest product whether we could offer something similar in other news as well as general developments in the world of countries. Taking the conference to the global level embedded systems, with a particular focus on security, has been on our agenda for several years, and in IoT, industrial automation, medical technology and the 2018 it became possible. automotive industry. IAR Systems' local teams also presented walk-throughs and product demonstrations to show the possibilities offered by our products, all so that customers can maximize their investments. "I use IAR Systems' tools and came here today to learn new things about the tools. I picked up a number of tricks that will be really useful in my job." "In the product demonstration I saw, I learned how to use the product, something that will definitely be useful in the future." "Good event, lots of interesting topics. I'm glad to be here." "I'm new in my sector, so this day has been really valuable for me." "We need to learn about all of the functions and which tools are the most useful for us in our STEFAN SKARIN kicked off IAR DevCon in Tokyo talking development. I learned a lot from this conference." about where IAR Systems is today and where we are heading.



Sustainable technology and workplaces – now and in the future

As a company with more than 35 years of technology experience, we are incredibly proud to be able to drive the development of new technology forward, together with our customers and partners. We always try to stay one step ahead so that our customers can develop even better products that are more energy efficient, smarter, more secure and more sustainable.

The customer in focus

Through our technology, we help customers create new products that make a better, more sustainable world possible. Within several areas, such as IoT, health, industry and the automotive market, technology development is focused on streamlining processes and energy use.

When it comes to the products and software we develop and sell, there is ample functionality to create the most efficient code possible or the least amount of code possible, so that it uses as little memory as possible in the programmed processor. Over the last few years, we have also developed an innovative functionality for keeping track of power consumption and seeing exactly which part of the code uses the most energy. This allows customers to optimize their products for power and energy consumption.

The software that we develop and sell is largely supplied to customers digitally rather than physically, thereby reducing our impact on the environment.

Responsible workplace

IAR Systems' policy is for all employees to have a safe and healthy work environment. We work continuously within the organization to reduce our impact on the environment when it comes to energy use and recycling. To maintain and improve the work environment, we strive to keep noise levels at an acceptable level and to adapt our workplaces to meet each person's individual needs.

Health and social interaction are of the utmost importance for our continued success. We feel it is important to have a healthy balance between work and private life. We also offer a continuous knowledge exchange at the workplace through annual internal conferences that aim to strengthen our sense of community and develop our skills.

When it comes to career development, we offer numerous opportunities. Working for us means being in the front lines of technology. By sharing knowledge and experience between highly qualified and motivated employees, we can create the most competitive customer solutions with the satisfaction of knowing that the results of our work are appreciated by leading companies the world over.

Sponsor program to support environmentally friendly technology

Many of the most successful innovations within renewable energy and sustainable technology over the last decades have been developed by small, entrepreneur-driven technology companies. Since 2013, we have offered a sponsorship program – the IAR Green Innovation Program – to promote innovative development projects focusing on environmentally friendly digital technology.

The IAR Green Innovation Program sponsors selected organizations, primarily student projects and start-up companies, providing them with the tools they need to get started. This gives students, researchers and engineers easier access to development tools, thereby allowing more environmentally friendly products to be created.

Make the World a Better Place Design Challenge

Digital products improve the quality of life for people all over the world, and behind these smart products are the developers who program them. We want to see more development of sustainable products that improve the world, which is why in 2018 we participated in and sponsored the "Make the World a Better Place Design Challenge" together with processor vendor Renesas Electronics and industry journal Embedded Computing Design.

This global competition resulted in new ideas for products to help make the world a better and more sustainable place. Among a number of other criteria, the submissions had to use the IAR Embedded Workbench software. We received many interesting

submissions, and the finalists included product ideas for tools for energy-efficient buildings, a self-driving harvesting robot powered by solar energy, smart weather stations, drone weather probes and smart locks.



The projects that met the highest number of criteria and were the most interesting, according to the jury – which included IAR Systems Development Manager Susanne Dahlén – were:



Skin cancer detector

A skin cancer detector that uses AI and machine learning to find early-stage skin cancer, improving the chances of survival.



Real-time monitoring of water quality

Monitoring water quality in real time using machine learning. The system is designed to minimize the use of contaminated water by utilizing AI to detect dangerous microbes and bacteria.



Environmental narrator for the blind

An environmental narrator for the blind that describes the surrounding physical environment for the visually impaired to help them avoid potentially dangerous objects (hot burners on a stove, for example) or stumbling risks.

Consistent focus on the customer's situation

Everyday technical support is incredibly important for our customers. Our support team is known for being a high-quality, global organization whose many years of industry experience is greatly appreciated by our customers. Since 2018, Fredrik Olsson has managed our global support organization. In this role, he leads a team of 20 employees distributed across seven offices all over the world. He is also the team leader for technical support in EMEA.

Fredrik Olsson, tell us a bit about yourself.

I'm a dad, Global Technical Support Manager and team leader for technical support in EMEA. In all, I've worked in the embedded systems industry for 18 years and for 14 of those years I've both developed embedded systems and picked up experience in leading development work. This experience means that I'm well aware of what it's like to be in our customers' situation and what it's like to reach out to another company for help in different situations.

What does your team look like?

Our support team has years of extensive experience in support work. Our ambition is to always provide world-class technical support! We have members in our group who have very different backgrounds and experiences, which is without a doubt a strength for us. My team possesses so much knowledge, and I try to channel it in order to drive our technical support forward by constantly improving, step by step.

What do you do in your role at IAR Systems?

I currently have two roles: I'm Global Technical Support Manager and team leader for technical support in EMEA. This means that I make sure that technical support delivers the right quality on a global level. In both of my roles, there is major focus on communication.

What happens during a typical workday?

I drop my children off at pre-school and then I drive to work. I have the first of many cups of coffee and check my email. If something needs to be handled right away, I address that first. There are usually lots of Post-It notes on my desk so I can see what needs to be done. I like the physicality of handling my Post-It tasks.

I also usually start the day by checking in on the team, seeing how things are going and making sure everything is okay. When I come across a problem, there's usually a process in place for handling it.

This means that we're robust and self-organized.

I always try to make sure that I don't become a potential bottleneck, and instead find a procedure that helps the team manage assignments robustly and efficiently.

What's the most fun thing about your job?

I really think it's fun to have such variation in my work assignments! I have several larger assignments that require determination and long-term cooperation between different departments in the company to make progress or meet the target. These long-term assignments and goals are mixed with many smaller assignments that arise as part of our daily operations. It's energizing to feel like I've been part of something and improved it. IAR Systems is a fantastic company and it feels like we are impacting the future, which is really exciting!



IAR Embedded Workbench chosen by Mitsubishi Heavy Industries for firefighting robot project

For over 130 years, Mitsubishi Heavy Industries (MHI) Group's innovative and integrated solutions have demonstrated their commitment to creating a positive social impact around the globe. The company is headquartered in Tokyo, Japan, and have offices and divisions all over the world.

MHI have applied IAR Systems' development tools in a project manufacturing an automatic firefighting robot for inspecting and working in environments where it is difficult for firefighters to approach, such as in nuclear power stations. This project is part of a national project in Japan, a result of the experiences of the great earthquake in east Japan on March 11, 2011.

MHI comments:

One of our missions was to develop an automatic robot which was able to work in dangerous areas, such as fires in industrial complex. Therefore, we have created an automatic firefighting robot that enables a cooperation between human and robot. The project contains of two types of robots, a water canon robot and fire hose extension robot. For the software development work of the platform truck part controllers, we have used IAR Embedded Workbench for Arm and I-jet.

Accelerated the project schedule with complete and easy-to-use tools

For software development teams in general, and of course also for MHI, unexpected troubles caused by the MCU or the developments tools can have a major influence on the project time schedule, which is why this was something they wanted to avoid. When introducing IAR Embedded Workbench for Arm without any trouble, the team got a very good experience. Furthermore there was almost no need for technical support due to the ease of use in the tools' design.

MHI comment:

Thanks to IAR Embedded Workbench, we were successful in completing the software drivers and RTOS porting work into the new target board of the fire robot. One of our application engineer said that it was the shortest start up time ever in a project. In fact, our development team have struggled very much

with trouble shooting unknown issues in previously used development tools. This time, the development tools contributed to accelerating the software porting schedule as our engineers were able to focus on the debugging work for the application software rather than spending time with tool issues.

Now aim to be mechatronics professionals

MHI's outlook for future growth is through expanding the system of the firefighting robots into the other robot applications. They aim to be professionals in mechatronics, which is a branch of engineering that combines the engineering of both electrical and mechanical systems and enables innovation and multidisciplinary knowledge sharing.

MHI comments:

In this future work, we also expect to continue using IAR Systems ease-to-use and reliable toolchain.





A workplace with a passion for technology

We are a dedicated team that offers superior technology and service that enables customers to create the products of today and the innovations of tomorrow.

IAR Systems Group has 200 employees, with the majority working at the company's headquarters in Uppsala. In addition to the Uppsala office, we are distributed across ten offices on three continents. Our global organization enables us to meet customers in their own market and produce solutions that are adapted to their needs.

Around a third of our employees work on product and technology development. The rest are distributed among sales, support, marketing, field application engineers, IT and administration. Over 87% of the company's employees hold a degree from a university or technical institute.

Broad expertise and unique perspectives

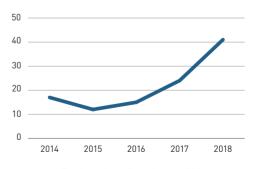
Our global organization and its enduring passion for product development and technology attract skilled and talented people to the company in all of the countries in which we operate. Our employees' diverse cultural backgrounds, unique perspectives and local knowledge are important contributing factors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

Global organization

We are a company that operates all over the world, and our employees are therefore used to thinking from a global perspective. By filming our monthly meetings in Uppsala ("Global Updates") and sending them to our offices around the world, we can keep everyone updated on what is happening in the company. In 2018, a global incentive program was started to strengthen the company's appeal in the labor market and attract even more expertise to the work force.

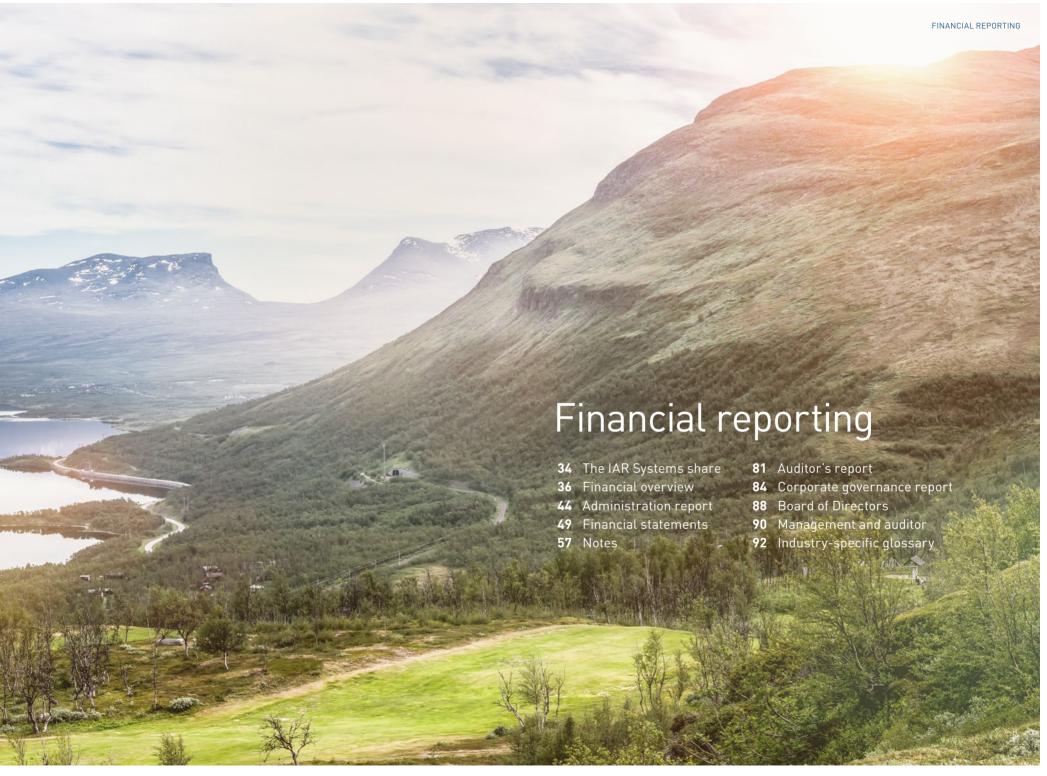


NUMBER OF NEW RECRUITS PER YEAR



Total number of employees: 200





The IAR Systems share

IAR Systems Group's class B share is quoted on the Mid Cap list of Nasdag Stockholm, under the ticker symbol IAR. The share price at December 31, 2018 was SEK 243.00 (189.00) and market capitalization was SEK 3,310m (2,387).

SHARE DATA

IAR Systems Group's class B share (IAR B) is guoted on the Mid Cap list of Nasdag Stockholm, and a round lot consists of 1 (one) share. In 2018, the share price (last price paid, reinvested value) 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.

Dividend proposal

The Board of Directors intends to propose to the AGM on April 24, 2019 a dividend of SEK 5.00 (5.00) per share.

Dividend policy

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

Authorizations

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

several occasions during the period until the next AGM, to decide on the repurchase of a maximum number of class B shares whereby the holding of treasury shares at no time exceeds 10% of all registered shares in the company. The shares are to be acquired on Nasdag Stockholm at a price that is within the registered price interval at any given time. The motive for the authorization is to give the Board greater freedom of action in optimizing the company's capital structure. The Board of Directors was furthermore authorized to decide on the sale of the company's treasury shares in exchange for cash payment, disapplying the shareholder's preemptive rights, or as payment for the acquisition of a company or operation.

New share issues

In 2018, with the support of the Annual General Meeting's authorization on April 26, 2017, the Board conducted a cash issue of 812,000 new class B shares, which had a dilutive effect of approximately 6.0% and generated a gain for the company of SEK 178.6m before issue expenses, as well as an issue of 164.584 new class B shares through a contribution in kind (shares in Secure Thingz), which had a dilutive effect of about 1.2%. Both share issues took place in conjunction with the acquisition of Secure Things and prior to the Annual General Meeting on April 25, 2018. At an Extraordinary General Meeting on June 15, 2018, the Board of Directors was authorized to decide on an issue

LARGEST SHAREHOLDERS AT DECEMBER 31, 2018 1

	No. of class A shares	No. of class B shares	Total no. of shares	% of capital	Total no. of votes	% of votes
Skandinaviska Enskilda Banken S.A.		1,369,368	1,369,368	10.05%	1,369,368	9.43%
Andra AP-fonden		1,295,415	1,295,415	9.51%	1,295,415	8.92%
Första AP-fonden		1,176,506	1,176,506	8.64%	1,176,506	8.10%
Handelsbanken Fonder		1,143,536	1,143,536	8.39%	1,143,536	7.87%
Ribbskottet AB		830,594	830,594	6.10%	830,594	5.72%
Catella Fondförvaltning		679,225	679,225	4.99%	679,225	4.68%
Tredje AP-fonden		599,680	599,680	4.40%	599,680	4.13%
Försäkringsaktiebolaget Avanza Pension		383,950	383,950	2.82%	383,950	2.64%
State Street Bank & Trust Com., Boston		364,083	364,083	2.67%	364,083	2.51%
SEB Investment Management		236,662	236,662	1.74%	236,662	1.63%
Länsförsäkringar Fondförvaltning AB		233,803	233,803	1.72%	233,803	1.61%
Fondita Nordic Small Cap		228,000	228,000	1.67%	228,000	1.57%
Stefan Engqvist		216,000	216,000	1.59%	216,000	1.49%
Danica Pension	100,000	112,300	212,300	1.56%	1,112,300	7.66%
JPM Chase NA		194,300	194,300	1.43%	194,300	1.34%
Total 15 largest shareholders	100,000	9,063,422	9,163,422	67.27%	10,063,422	69.30%
Other		4,458,291	4,458,291	32.73%	4,458,291	30.70%
Total	100,000	13,521,713	13,621,713	100.00%	14,521,713	100.00%

Shares held directly and through nominees, excluding 346,620 class C shares held in treasury.

DISTRIBUTION OF SHAREHOLDINGS AT DECEMBER 31, 2018 1

	No. of class A shares	No. of class B shares	Total no. of shares	% of capital	Total no. of votes	% of votes	No. of share- holders	% of share- holders
1–100		149,691	149,691	1.10%	149,691	1.03%	5,090	70.09%
101-1,000		628,376	628,376	4.61%	628,376	4.33%	1,747	24.06%
1,001-5,000		615,922	615,922	4.52%	615,922	4.24%	286	3.94%
5,001-10,000		396,383	396,383	2.91%	396,383	2.73%	53	0.73%
10,001-	100,000	11,731,341	11,831,341	86.86%	12,731,341	87.67%	86	1.18%
Total	100,000	13,521,713	13,621,713	100.00%	14,521,713	100.00%	7,262	100.00%

¹ Shares held directly and through nominees, excluding 346,620 class C shares held in treasury.

of a maximum of 359,688 class C shares, which was carried out in December 2018 to ensure the delivery of shares under the company's incentive program.

Incentive program

The Extraordinary General Meeting on June 15 voted to introduce a long-term incentive program 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 497,500 warrants were allocated, distributed between 243,500 warrants for employees in Sweden and 254,000 stock options 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 stock options for employees in conjunction with the acquisition of Secure Thingz. Stock options holders exchange their stock options in Secure Thingz for new stock options in IAR Systems. A total of 575,000 stock options in Secure Thingz have been exchanged for 73,413 stock options in IAR Systems Group AB in accordance with the approval from the Extraordinary General Meeting. Of the 73,413 stock options, 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 stock options in the stock options program will continue until October 2022 and the program extends until 2027. Vested stock options can be exercised on an ongoing basis until 2027 at the latest.

SHARE DATA	2018	2017
Equity per share, SEK	40.38	22.99
No. of shares at end of year, million	13.62	12.63
Average no. of shares, million	13.13	12.63
Cash flow from operating activities per share, SEK	7.05	9.81
Earnings per share, SEK ¹ Dividend or equivalent per share,	6.67	6.33
SEK	5.00	5.00
No. of shareholders	7,262	8,062
Last price paid on December 31 or similar, SEK	243.00	189.00

¹ Definition in accordance with IFRS

SHAREHOLDER DATA

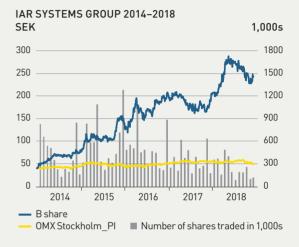
Shareholder data is based on information from Euroclear Sweden AB at December 31, 2018 and pertains to the share of votes, unless otherwise stated.

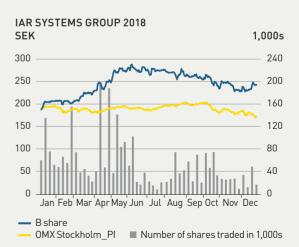




SHARE PRICE

The graphs are based on the share price, last price paid (reinvested value), which has risen from SEK 43.00 at January 1, 2014, to SEK 243.00 at December 31, 2018.





Financial overview

CONDENSED INCOME STATEMENT

SEK m	2018	2017	2016	2015	2014
Net sales	385.2	345.0	328.4	311.7	255.7
Operating expenses	-245.1	-217.8	-215.2	-213.4	-192.1
Depreciation of property, plant and equipment	-2.6	-2.4	-2.5	-2.5	-2.3
Amortization of intangible assets	-21.9	-17.4	-14.2	-12.4	-8.1
Operating profit	115.6	107.4	96.5	83.4	53.2
Result from financial investments	-1.8	-1.7	-0.4	-0.1	0.4
Profit before tax	113.8	105.7	96.1	83.3	53.6
Tax	-26.2	-25.7	-22.1	-19.9	-11.4
PROFIT FOR THE YEAR	87.6	80.0	74.0	63.4	42.2

CONDENSED CASH FLOW STATEMENT

SEK m	2018	2017	2016	2015	2014
Cash flow from operating activities	92.6	123.9	114.2	98.7	70.3
Cash flow from investing activities	-217.5	-37.6	-18.9	-17.7	-31.7
Cash flow from financing activities	107.7	-63.2	-88.4	-63.6	-53.2
TOTAL CASH FLOW FOR THE YEAR	-17.2	23.1	6.9	17.4	-14.6

PERFORMANCE MEASURES

Certain financial performance measures presented in the Annual Report were not defined in accordance with IFRS. The company believes that these performance measures provide valuable supplementary information to the company's investors and management, since they facilitate evaluations of the company's earnings trend and financial position. These financial performance measures are not always comparable with the measures used by other

companies since not all companies calculate financial performance measures in the same way. Accordingly, these financial performance measures must not be regarded as a replacement for the measures defined in accordance with IFRS. The tables below present performance measures that are not defined in accordance with IFRS, unless otherwise stated. For definitions and reconciliations, refer to page 39–43.

PERFORMANCE MEASURES	2018	2017	2016	2015	2014
Alternative performance measures					
Gross margin, %	97.7	97.5	96.3	96.7	95.0
EBITDA margin, %	36.4	36.9	34.5	31.5	24.9
Operating margin, %	30.0	31.1	29.4	26.8	20.8
Profit margin, %	29.5	30.6	29.3	26.7	21.0
Cash flow, %	24.0	35.9	34.8	31.7	27.5
Equity/assets ratio, %	76.2	70.8	70.6	73.0	75.8
Return on equity, %	20.8	28.1	25.9	21.9	14.5
Return on capital employed, %	27.4	37.4	33.6	28.6	18.3
Capital employed, SEK m	552.8	292.9	282.2	292.7	290.9
Net cash, SEK m	103.3	117.0	96.5	87.6	68.4
Net debt/equity ratio, multiple	-0.19	-0.40	-0.35	-0.30	-0.24
Other performance measures					
No. of employees at end of period	200	163	165	164	169
Sales per employee, SEK m	2.3	2.2	2.1	2.0	1.6
Average no. of employees	171	153	159	157	159

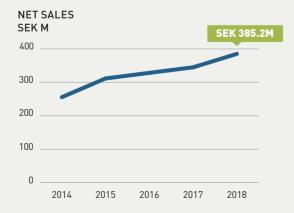
DATA PER SHARE	2018	2017	2016	2015	2014
Equity per share, SEK	40.38	22.99	22.13	23.03	22.85
No. of shares at end of period, million	13.62	12.63	12.63	12.63	12.63
Average no. of shares, million	13.13	12.63	12.63	12.63	12.49
Cash flow from operating activities					
per share, SEK	7.05	9.81	9.04	7.81	5.63
Earnings per share, SEK ¹	6.67	6.33	5.86	5.02	3.37
Dividend per share, SEK	5.00	5.00	7.00	5.00	5.00
Last price paid on December 31					
or similar, SEK	243.00	189.00	206.00	150.00	74.75

¹ Definition in accordance with IFRS.

CONDENSED BALANCE SHEET

ASSETS, SEK m	2018	2017	2016	2015	2014
Non-current assets					
Goodwill	339.3	113.5	114.9	113.5	112.4
Other intangible assets	144.8	80.9	82.1	78.8	73.5
Property, plant and equipment	8.9	6.2	6.2	6.5	8.0
Financial assets	15.1	22.2	20.7	41.8	57.4
Total non-current assets	508.1	222.8	223.9	240.6	251.3
Current assets					
Inventories	6.6	5.2	5.6	5.1	3.7
Other current assets	38.2	11.8	18.9	20.1	15.9
Trade receivables	63.2	50.8	48.3	43.5	39.1
Cash and cash equivalents	106.1	119.5	99.2	89.4	70.7
Total current assets	214.1	187.3	172.0	158.1	129.4
TOTAL ASSETS	722.2	410.1	395.9	398.7	380.7

EQUITY AND LIABILITIES, SEK m	2018	2017	2016	2015	2014
Total equity	550.0	290.4	279.5	290.9	288.6
Non-current liabilities					
Interest-bearing liabilities	1.2	1.7	1.6	0.6	1.5
Other non-current liabilities	1.6	1.7	1.4	1.1	1.1
Provisions	29.6	14.0	14.8	16.5	14.6
Total non-current liabilities	32.4	17.4	17.8	18.2	17.2
Current liabilities					
Trade payables	7.3	5.7	5.3	4.8	5.2
Interest-bearing liabilities	1.6	0.8	1.1	1.2	0.8
Other current liabilities	130.9	95.8	92.2	83.6	68.9
Total current liabilities	139.8	102.3	98.6	89.6	74.9
TOTAL EQUITY AND LIABILITIES	722.2	410.1	395.9	398.7	380.7







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	40.27	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
2018		385.2	140.1	36.4	115.6	30.0	6.67	20.8	7.05	40.27	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	5.63	22.85	74.75	944
2013		230.2	50.6	22.0	41.3	17.9	2.59	10.9	3.43	23.90	39.77	491
2012		230.1	41.8	18.2	35.2	15.3	1.16	5.3	3.41	22.34	35.24	397
2011		200.4	29.4	14.7	24.0	12.0	-1.70	6.4	3.09	21.82	22.66	248

^{*} Definition in accordance with IFRS.

DEFINITIONS

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

Performance measure	Definition/Calculation	Use
Gross margin	Net sales less the cost of goods sold as a percentage of net sales.	Measures the company's profitability after cost of goods and is used to follow up cost-efficiency and the effect of changes to the product mix.
EBITDA	Earnings before interest, taxes, depreciation and amortization.	This measure basically shows the earnings-generating cash flow in operations. It provides an overview of the business's ability to generate, in absolute terms, resources for investments and payments to investors and is used as a comparison over time.
EBITDA margin	Earnings before interest, tax, depreciation and amortization (EBITDA) in relation to sales, expressed as a percentage.	Aims to show the profitability ratio for current operations.
Equity, Group	Recognized equity including 78.0% of untaxed reserves. Average equity is calculated as equity at the beginning of the year plus equity at the end of the year divided by two.	Measures the company's net value.
Equity per share	Equity divided by the number of shares at the end of the period.	Measures the company's net value per share.
Sales growth in local currency	Net sales in local currency compared to sales in local currency corresponding period last year.	Measures the company's sales growth in local currency and allows the assessment of growth without the influence of foreign exchange effects.
Cash flow	Cash flow from operating activities as a percentage of net sales.	Measures the company's cash generation in relation to net sales.
Cash flow from operating activities per share	Cash flow from operating activities divided by the average number of shares during the period.	Measures the company's cash generation in relation to the number of shares in the company.
Net cash	Cash and cash equivalents less interest-bearing liabilities.	A measure of the ability to use available cash and cash equivalents to pay off all liabilities if they were due for payment on the date of the calculation and thereby a measure of the risk in relation to the company's capital structure.
Net interest-bearing liabilities	Interest-bearing liabilities less cash and cash equivalents.	A measure used to follow the liability trend and see the size of the need for refinancing. This measure is one component in calculating net cash and the net debt/equity ratio.
Net debt/equity ratio	Net interest-bearing liabilities divided by equity.	This measure reflects the relationship between the Group's two forms of financing. A measure to show the proportion of loan capital in relation to the capital invested by the owners and accordingly a measure of financial strength and also the gearing effect of loans. A higher net debt/equity ratio entails a higher financial risk and higher financial gearing.
Earnings per share*	Profit for the period after tax divided by the average number of shares during the period.	A measure of the company's profitability after tax per share. This performance measure is important in assessing the value of a share.
* 0 (: ::: : : : : ::: ::: ::: ::: ::: ::		

^{*} Definition in accordance with IFRS.

DEFINITIONS, CONT.

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

RECONCILIATIONS

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

SEK m	2018	2017	2016	2015	2014
Net sales	385.2	345.0	328.4	311.7	255.7
Goods for resale	-9.0	-8.5	-12.2	-10.3	-12.9
Gross profit	376.2	336.5	316.2	301.4	242.8
GROSS MARGIN	97.7%	97.5%	96.3%	96.7%	95.0%

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

SEK m	2018	2017	2016	2015	2014
Operating profit	115.6	107.4	96.5	83.4	53.2
Depreciation of property,					
plant and equipment	2.6	2.4	2.5	2.5	2.3
Amortization of intangible assets	21.9	17.4	14.2	12.4	8.1
EBITDA	140.1	127.2	113.2	98.3	63.6

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

SEK m	2018	2017	2016	2015	2014
Net sales	385.2		328.4		
EBITDA	140.1	127.2	113.2	98.3	63.6
EBITDA MARGIN	36.4%	36.9%	34.5%	31.5%	24.9%

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

SEK m	2018	2017	2016	2015	2014
Net sales	385.2	345.0	328.4	311.7	255.7
Operating profit	115.6	107.4	96.5	83.4	53.2
OPERATING MARGIN	30.0%	31.1%	29.4%	26.8%	20.8%

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

SEK m	2018	2017	2016	2015	2014
Net sales	385.2	345.0	328.4	311.7	255.7
Profit before tax	113.8	105.7	96.1	83.3	53.6
PROFIT MARGIN	29.5%	30.6%	29.3%	26.7%	21.0%

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

SEK m	2018	2017	2016	2015	2014
Net sales	385.2	345.0	328.4	311.7	255.7
Cash flow from operating activities	92.6	123.9	114.2	98.7	70.3
CASH FLOW	24.0%	35.9%	34.8%	31.7%	27.5%

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

SEK m	2018	2017	2016	2015	2014
Equity	550.0	290.4	279.5	290.9	288.6
Total assets	722.2	410.1	395.9	398.7	380.7
EQUITY/ASSETS RATIO	76.2%	70.8%	70.6%	73.0%	75.8%

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

SEK m	2018	2017	2016	2015	2014	2013
Equity	550.0	290.4	279.5	290.9	288.6	295.0
051/						
SEK m	2018	2017	2016	2015	2014	

RECONCILIATIONS, CONT.

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

SEK m	2018	2017	2016	2015	2014
Profit after tax	87.6	80.0	74.0	63.4	42.2
Average equity	420.2	285.0	285.2	289.8	291.8
RETURN ON EQUITY	20.8%	28.1%	25.9%	21.9%	14.5%

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

SEK m	2018	2017	2016	2015	2014	2013
Non-current interest-bearing liabilities	1.2	1.7	1.6	0.6	1.5	1.1
Current interest-bearing liabilities	1.6	0.8	1.1	1.2	0.8	1.3
INTEREST-BEARING LIABILITIES	2.8	2.5	2.7	1.8	2.3	2.4

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

SEK m	2018	2017	2016	2015	2014	2013
Non-current liabilities	32.4	17.4	17.8	18.2	17.2	15.1
Current liabilities	139.8	102.3	98.6	89.6	74.9	59.4
Interest-bearing liabilities	-2.8	-2.5	-2.7	-1.8	-2.3	-2.4
NON-INTEREST-BEARING LIABILITIES	169.4	117.2	113.7	106.0	89.8	72.1

CAPITAL EMPLOYED is calculated as total assets less non-interest-bearing liabilities. Average capital employed is calculated as capital employed at the beginning of the year plus capital employed at the end of the year divided by two.

SEK m	2018	2017	2016	2015	2014	2013
Total assets	722.2	410.1	395.9	398.7	380.7	369.5
Non-interest-bearing liabilities	-169.4	-117.2	-113.7	-106.0	-89.8	-72.1
CAPITAL EMPLOYED	552.8	292.9	282.2	292.7	290.9	297.4
SEK m	2018	2017	2016	2015	2014	
Average capital employed	422.8	287.6	287.5	291.8	294.1	

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

SEK m	2018	2017	2016	2015	2014
Profit before tax	113.8	105.7	96.1	83.3	53.6
Financial expenses	1.9	1.7	0.4	0.2	0.2
Profit before tax plus financial expenses	115.7	107.4	96.5	83.5	53.8
RETURN ON CAPITAL EMPLOYED	27.4%	37.4%	33.6%	28.6%	18.3%

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

SEK m	2018	2017	2016	2015	2014
Cash and cash equivalents	106.1	119.5	99.2	89.4	70.7
Interest-bearing liabilities	-2.8	-2.5	-2.7	-1.8	-2.3
NET CASH	103.3	117.0	96.5	87.6	68.4

RECONCILIATIONS, CONT.

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

SEK m	2018	2017	2016	2015	2014
Interest-bearing liabilities	2.8	2.5	2.7	1.8	2.3
Cash and cash equivalents	-106.1	-119.5	-99.2	-89.4	-70.7
Net interest-bearing liabilities	-103.3	-117.0	-96.5	-87.6	-68.4
NET DEBT/EQUITY RATIO	-0.19	-0.40	-0.35	-0.30	-0.24

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

SEK m	2018	2017	2016	2015	2014
Cash flow from operating activities Average no. of shares, million	92.6 13.13		114.2 12.63		70.3 12.49
CASH FLOW FROM OPERATING ACTIVITIES PER SHARE	7.05	9.81	9.04	7.81	5.63

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

SEK m	2018	2017	2016	2015	2014
Equity No. of shares at end of year, million	550.0 13.62	290.4 12.63			
EQUITY PER SHARE	40.38	22.99	22.13	23.03	22.85

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

SEK m	2018	2017	2016	2015	2014
Tax	26.2	25.7	22.1	19.9	11.4
Deferred tax	-7.5	-12.4	-19.2	-16.5	-9.9
Current tax	18.7	13.3	2.9	3.4	1.5
Profit before tax	113.8	105.7	96.1	83.3	53.6
Current tax	-18.7	-13.3	-2.9	-3.4	-1.5
Profit after current tax	95.1	92.4	93.2	79.9	52.1
Average no. of shares, million	13.13	12.63	12.63	12.63	12.49
EARNINGS PER SHARE AFTER CURRENT TAX	7.25	7.32	7.38	6.33	4.17

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

	2018	2017	2016	2015	2014	2013
No. of shares, million	13.62	12.63	12.63	12.63	12.63	12.34
AVERAGE NO. OF SHARES, MILLION	13.13	12.63	12.63	12.63	12.49	

Administration report

The Board of Directors and the CEO hereby present the annual report and consolidated financial statements for IAR Systems Group AB for the 2018 financial year. The company is domiciled in Stockholm, corporate identification number 556400-7200.

Sales and net sales

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

In a year-on-year comparison, total sales growth in local currency was 11%. This 11% sales growth for the year 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%).

Sales

In 2018, we noted growing interest from, and sales to, major strategic customers that have chosen to standardize their development based on our products. These major strategic customers have chosen us as their supplier largely due to our product quality, global support service and stable financial position. This reassures customers and reaffirms their choice of us as a supplier. This trend is particularly evident in Europe, but also in Asia, and is a result of the

focus we initiated in 2017, when we began combining our traditional transaction model with large-scale strategic transactions. This has resulted in increased growth, but also in greater efficiency for both IAR Systems and our major global customers, which are now able to consolidate their business – unlike in the past when customers invested in our products on a project basis. This focus was also introduced in the Americas, but came in later in the process compared with Europe.

During 2018, we also saw continued rising demand from the automotive industry in all global regions.

Net sales

Net sales for the year rose 12% compared with the corresponding period in the preceding year and amounted to SEK 385.2m (345.0).

Royalty-based revenue of SEK 5.5m (6.8) from the agreement with Renesas Electronics Corporation was recognized during the year. The guaranteed share of remuneration was slightly lower in 2018 than in the preceding year due to a non-recurring item in 2017.

In a year-on-year comparison, currency translation had a positive impact of SEK 14.5m on net sales for the year.

The Americas accounted for 35% (38) of sales, Europe for 39% (36), Asia for 24% (24) and global revenue for 2% (2).

BOARD OF DIRECTORSCHAIRMAN MARIA WASING

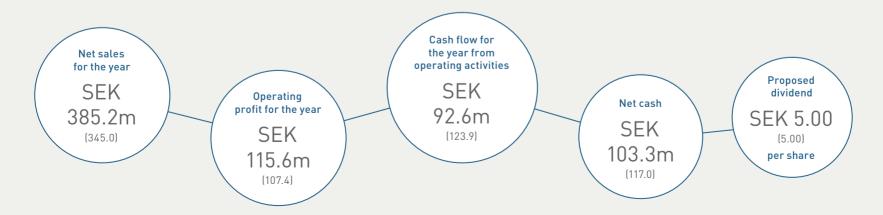
PRESIDENT AND CEO STEFAN SKARIN

CHIEF FINANCIAL OFFICER
STEFAN STRÖM

CEO SECURE THINGZ
HAYDN POVEY

CHIEF STRATEGY OFFICER
ANDERS HOLMBERG

IT MANAGER AND
CHIEF OPERATING OFFICER
CARL JOHAN TOLL



Earnings

The company continued to deliver earnings improvements during 2018.

EBITDA for the year totaled SEK 140.1m (127.2), corresponding to an EBITDA margin of 36.4% (36.9) for the year. Operating profit for the year increased 8% to SEK 115.6m (107.4).

Operating expenses were reduced by SEK 45.4m [13.1] during the year through the capitalization of development costs for software and debug probes. Of the internally generated costs that were capitalized, SEK 38.1m [10.4] pertained to personnel costs.

Personnel costs are the Group's largest cost item and account for about 62% [67] of total costs. Of the Group's total costs, 58% [58] are attributable to operations in Sweden.

In a year-on-year comparison, currency translation had a positive impact of SEK 11.7m on operating profit for the year.

Financial expenses for the year mainly comprised credit expenses for unutilized bank overdraft facilities of SEK 225m. The holding in NorNor Holding AB was divested during the fourth quarter of 2018, generating a gain of SEK 0.1m.

Cash flow

Cash flow from operating activities for the year totaled SEK 92.6m (123.9). 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 related to the acquisition of Secure Thingz and SEK 5.2m in the form of payments connected to the long-term incentive program launched during the year.

Cash flow from investing activities for the year totaled SEK -217.5m (-37.6). During the year, the company completed the acquisition of Secure Thingz. See also Note 25 "Business combinations". 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). During the period, two new share issues 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 after transaction costs. Dividends totaling SEK 68.0m were paid to the company's shareholders.

Balance sheet items and financial position

Consolidated cash and cash equivalents at the end of the year amounted to SEK 106.1m, compared with SEK 119.5m at December 31, 2017. The Group also had unutilized bank overdraft facilities totaling SEK 225.0m (225.0).

The Group's interest-bearing liabilities amounted to SEK 2.8m, compared with SEK 2.5m at December 31, 2017.

At December 31, 2018, the Group had net cash of SEK 103.3m (117.0).

Consolidated goodwill at the end of the year amounted to SEK 339.3m (113.5). The impairment test performed at year-end did not indicate any requirement for impairment. Most of the increase of SEK 225.8m was attributable to the acquisition of Secure Thingz. Other intangible assets in the form of trademarks, software, internally generated software development costs and customer agreements totaled SEK 144.8m (80.9).

As of December 31, 2018, the Group had accumulated loss carryforwards of SEK 45m (0). The 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.

Equity at December 31, 2018 amounted to SEK 550.0m, compared with SEK 290.4m on December 31, 2017. This change in equity is presented in the specification on page 51. The equity/assets ratio at December 31, 2018 was 76% [71]. Pledged assets increased during the year and totaled SEK 4.6m [4.3] at December 31, 2018.

Investments

Investments in property, plant and equipment for the year amounted to SEK 4.3m [2.5]. Investments in intangible assets totaled SEK 46.7m [16.5]. Investments in intangible assets pertained primarily to costs for in-house staff for the development of debug probes and analysis tools. Of the year's investments, SEK 1.3m [3.4] was acquired separately and SEK 45.4m [13.1] comprises internally generated costs. Of the internally generated costs, SEK 38.1m [10.4] pertains to personnel costs.

In addition, the company acquired Secure Thingz. The effects of this acquisition on the financial statements is described in Note 25 "Business combinations".

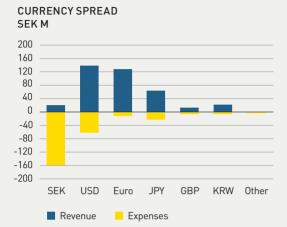
Market and customers

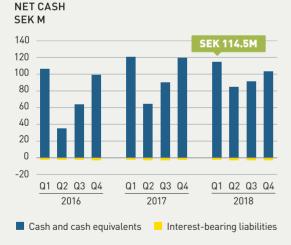
IAR Systems delivers high-quality products to companies that develop digital products. Its customers are located across the entire globe and in a number of different industries. The ongoing spread of digital technology is leading to steady growth in the number of companies working on embedded systems.



OPERATING PROFIT SEK M







Thanks to its products and service, IAR Systems is able to offer a complete solution for these companies and their developers. The company's cutting-edge technology combined with its long history and committed team of employees provides a unique position in the market. Following the completion of the acquisition of Secure Thingz in 2018, IAR Systems and Secure Thingz are now also able to offer possibilities for new security solutions. In 2018, the company launched the product Embedded Trust, which will make it easier and more efficient to implement security in embedded systems. As digital technology continues to spread, the market for embedded systems remains in a state of constant change. Noteworthy market trends continue to be the consolidation of suppliers, an intense focus on security, increasing customer requirements in terms of efficiency and the growing complexity of embedded systems and IoT.

Employees

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

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

The Group's employees are typified by a high level of technical expertise and extensive industry experience. IAR Systems also has a high proportion of employees with advanced academic degrees. Within the Group, 87% (96) of the employees have a higher post-secondary education and 13% (4) have a secondary education. The average age of the Group's employees is 45 (46). At year-end 2018, the gender distribution was 16% (28) women and 84% (72) men. The average number of employees in 2018 was 171 (153).

Sustainability and corporate social responsibility

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

manner that safeguards the company's good name and reputation.

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

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

Risks and risk management

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

Three types of risks

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

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

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

Financial risks refer to fluctuations in IAR Systems' profit and cash flow as a result of changes in exchange rates,

interest rates, financing and credit risks. For a more in-depth description of financial risks, see Note 2.

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

Sensitivity analysis

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

Dec 31, 2018	Change	Effect on profit
Cost of goods sold	+/- 5%	-/+ SEK 0.4m
Payroll expenses	+/- 5%	-/+ SEK 6.9m
Currency – EUR	+/- 5%	+/- SEK 4.5m
Currency – USD	+/- 5%	+/- SEK 3.0m
Currency – JPY	+/- 5%	+/- SEK 1.6m
Variable interest	+/- 1 percentage	+/- SEK 0.0m
	point	

Guidelines for remuneration and other terms of employment for senior executives

The Board of Directors proposes to the 2019 AGM that the guidelines for remuneration to senior executives that were adopted by the 2018 AGM continue to apply.

The 2018 AGM approved the Board's proposed guidelines for remuneration to the company's senior executives as stated in Note 7 and in the corporate governance report. The Board's proposal corresponds to the previously applied guidelines for remuneration to the company's senior executives. The principles apply to employment contracts entered into after the decision of the AGM and in cases where changes are made to existing terms of employment after this date. The group Other senior executives refers to CFO and COO.

The Board of Directors has appointed a remuneration committee for the preparation of matters related to remuneration and other terms of employment for the company's management. No changes are proposed for 2019.

1 Improbable	2 Unlikely 3 Possible 4 Likely 5 Proba	ble		Insignificant 2 Small 3 Medium 4 Large 5 Very large
	PROBABIL	ITY	II.	MPACT
RISK AREA	DESCRIPTION	*	₩	IAR SYSTEMS' RISK MANAGEMENT
MARKET RISKS	;			
Macroeco- nomic devel- opment	Customers' demand and willingness to invest are tied to their beliefs about future economic growth and the state of macroeconomic development in their own market.	4	2	IAR Systems manages these risks by selling the company's software in multiple industries around the world. IAR Systems works actively to adapt the company's software and organization to the prevailing demand situation.
Products and technology	New fundamentally changed working methods, rapid technology shifts and changes in customer behavior create a risk of changed customer requirements that could affect IAR Systems' market position.	4	3	IAR Systems has well-established and strategic partnerships with all the principal processor makers, which means that the company's software supports more processors and architectures than any other product on the market. IAR Systems is the hub of an ecosystem of partners in processor manufacturing, real-time operating systems (RTOS) and add-on products. Following the acquisition of Secure Thingz, IAR Systems and Secure Thingz are now also able to offer possibilities for new security solutions for embedded systems.
Competitors	New and stronger competitors may lead to a risk of decreased demand for IAR Systems' software.	3	3	IAR Systems meets the risk of competition as an independent provider of development tools for embedded systems by offering user-friendly, effective and fast software that supports the majority of architectures and processors. The company also offers support service.
OPERATIONAL	RISKS			
Customer structure	Far-reaching dependency on individual industries could have a major impact on sales if an entire industry is experiencing difficulties.	2	2	IAR Systems strives to build long-term relationships with its customers. The Group is well diversified among customer categories, industries and geographical markets and no single customer accounts for a large share of the Group's total sales.
Income structure	A large share of one-time projects or maintenance agreements with short durations creates uncertainty if economic growth slows.	2	2	IAR Systems is endeavoring to increase the share of repeat customers. The share of repeat customers is already high and amounts to about 95%.
Supply of qualified personnel	IAR Systems' key competencies are found primarily in technological development and in its customer relationships.	3	3	IAR Systems works actively to retain and develop skills and competency in the company. Competency and loyalty are strengthened in the Group through training and knowledge sharing. IAR Systems has low employee turnover and distinct, shared core values.
FINANCIAL RIS	KS			
Foreign exchange risk	Foreign exchange risk refers to the risk of fluctuations in the company's transaction flows due to movements in foreign exchange rates.	5	4	IAR Systems operates internationally and is exposed to foreign exchange risk arising from exposure to different currencies, primarily the US dollar (USD), euro (EUR) and Japanese yen (JPY). The Group's sales in foreign currency account for about 95% of total sales. Most of the company's expenses are denominated in SEK. Measures to manage transaction-related foreign exchange risk are established in the Group's finance policy. The objective is to minimize the short-term effect of the foreign exchange movement on profit while at the same time creating long-term freedom of action.
Liquidity risk	Liquidity risk refers to the risk that financing cannot be obtained, or can be obtained only at a significantly higher cost.	1	1	IAR Systems' liquidity risk is deemed to be relatively limited. At December 31, 2018, the Group had cash and cash equivalents of SEK 106.1m and unutilized bank overdraft facilities of SEK 225.0m. Interest-bearing liabilities on the same date amounted to SEK 2.8m.
Credit risk	Credit risk refers to the risk that a party in a transaction with a financial instrument will be unable to meet its obligations. The main credit risk is that IAR Systems will not receive payment for trade receivables.	1	1	IAR Systems' credit risk is assessed to be relatively low. Trade receivables are distributed across a large number of counterparties in different industries, markets and customer types. The Group has established guidelines for ensuring that sales are made to customers with a suitable credit background. Historically, the cost of bad debt losses has been low. To limit risks, the company's credit policy contains guidelines and provisions for credit assessment of new customers, terms of payment and routines and processes for management of past due receivables.

Deviation from the guidelines

The Board of Directors has the right to deviate from the above guidelines in individual cases where the Board finds special reason to do so. In 2018, there were no deviations from the guidelines approved by the AGM.

The IAR Systems share

IAR Systems Group's class B share is guoted on the Mid Cap list of Nasdag Stockholm, 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 class C shares are held in treasury with a guota value of SEK 10 per shares, represent 2.5% of the share capital and were acquired for SEK 3.466.200.11. In 2018. 359,688 class C shares with a quota value of SEK 10 per shares, representing 2.6% of the share capital, were acquired for SEK 3.596.880.12. Of the class C shares acquired in 2018. 13,068 shares, representing 0.1% of the share capital, were transferred for SEK 84,942.00. The reason for the acquisition and transfer of treasury shares in 2018 was to ensure the delivery of shares to employees upon the exercise of stock options under the Group's incentive program.

Share price performance

During the year, 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 was SEK 243.00 (189.00). IAR Systems Group's market capitalization on the same date was SEK 3.310m (2.387).

Ownership and control

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. For additional information about the IAR Systems share, see pages 34-35.

Dividend policy

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

Proposed appropriation of profits

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

Share premium reserve	254,121,976.64
Retained earnings	19,861,533.87
Comprehensive income for the year	88,646,473.52
Total, SEK	362,629,984.03

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

Dividend of SEK 5.00 per share	68,108,565.00
To be carried forward to new account	294,521,419.03
Total, SEK	362.629.984.03

In light of the information presented in these annual accounts and consolidated accounts, and other information that has come to the attention of the Board of Directors, the Board of Directors' overall assessment of the financial position of the Parent Company and the Group is that this dividend is justifiable in respect of the requirements imposed by the nature, scope and risks of the business with respect to the size of equity in the company and the Group and the consolidation requirements, liquidity and general financial position of the company and the Group.

MULTI-YEAR OVERVIEW	2011	2012	2013	2014	2015	2016	2017	2018
Revenue, SEK m	200.4	230.1	230.2	255.7	311.7	328.4	345.0	385.2
Operating expenses, SEK m	-176.4	-194.9	-188.9	-202.5	-228.3	-231.9	-237.6	-269.6
Operating profit, SEK m	24.0	35.2	41.3	53.2	83.4	96.5	107.4	115.6
EBITDA margin, % *	14.7	18.2	22.0	24.9	31.5	34.5	36.9	36.4
Operating margin, % *	12.0	15.3	17.9	20.8	26.8	29.4	31.1	30.0
Return on equity, %	6.4	5.3	10.9	14.5	21.9	25.9	28.1	20.8
Equity per share, SEK *	21.82	22.34	23.90	22.85	23.03	22.13	22.99	40.38
Cash flow from operating activities per share, SEK *	3.09	3.41	3.43	5.63	7.81	9.04	9.81	7.05

^{*} This performance measure pertains to an alternative performance measure not defined by IFRS. For further information, refer to page 39–43.

Consolidated income statement

SEK m	Note	2018	2017
		225.0	0.45.0
Net sales	1, 2, 3, 4	385.2	345.0
Goods for resale	5	-9.0	-8.5
Other external expenses	6	-68.2	-49.2
Personnel costs	7	-167.9	-160.1
Depreciation of property, plant and equipment	12	-2.6	-2.4
Amortization of intangible assets	11	-21.9	-17.4
Operating profit		115.6	107.4
Financial income	8	0.1	0.0
Financial expenses	8	-1.9	-1.7
Profit before tax		113.8	105.7
Income taxes	9	-26.2	-25.7
PROFIT FOR THE YEAR		87.6	80.0

SEK m	Note	2018	2017
Profit for the year attributable to:			
Owners of the Parent Company		87.6	80.0
Comprehensive income for the year attributable to:			
Owners of the Parent Company		98.4	74.1
Earnings per share calculated on profit for the year attributable to owners of the Parent Company, SEK			
– basic	10	6.67	6.33
– diluted	10	6.65	6.33

Consolidated statement of comprehensive income

SEK m	2018	2017
Profit for the year	87.6	80.0
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Change in value of non-current securities	17.5	-2.9
Exchange differences	-6.7	-3.0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	98.4	74.1
Comprehensive income for the year attributable		
to owners of the Parent Company	98.4	74.1

Consolidated balance sheet

SEK m	Note	Dec 31, 2018	Dec 31, 2017
ASSETS	1, 2, 3, 4		
Non-current assets			
Intangible assets	11		
Goodwill		339.3	113.5
Other intangible assets		144.8	80.9
Total intangible assets		484.1	194.4
Property, plant and equipment	12		
Leasehold improvements		1.3	0.1
Equipment		7.6	6.1
Total property, plant and equipment		8.9	6.2
Financial assets			
Other non-current receivables	13, 19	1.8	1.7
Other non-current securities	14, 19	_	17.8
Total financial assets		1.8	19.5
Deferred tax assets	9	13.3	2.7
Total non-current assets		508.1	222.8
Current assets			
Inventories		6.6	5.2
Current receivables			
Trade receivables	15, 19	63.2	50.8
Other current receivables	16, 19	2.1	1.0
Prepaid expenses and accrued income	17, 19	36.1	10.8
		108.0	67.8
Cash and cash equivalents	18, 19	106.1	119.5
Total current assets		214.1	187.3
TOTAL ASSETS		722.2	410.1

SEK m	Note	Dec 31, 2018	Dec 31 2017
EQUITY AND LIABILITIES			
Equity	20, 21		
Share capital		139.7	126.3
Other contributed capital		227.3	23.4
Reserves		13.5	2.7
Retained earnings including profit for the year		169.5	138.0
Total equity		550.0	290.4
Non-current liabilities			
Borrowings	12, 19	1.2	1.7
Other non-current liabilities		1.6	1.7
Deferred tax liabilities	9	29.6	14.0
Total non-current liabilities		32.4	17.4
Current liabilities			
Trade payables	19	7.3	5.7
Borrowings	12, 19	1.6	0.0
Current tax liabilities	9	0.3	10.0
Other liabilities	19	28.5	6.4
Deferred income		79.0	64.5
Accrued expenses	22	23.1	14.9
Total current liabilities		139.8	102.3
TOTAL EQUITY AND LIABILITIES		722.2	410.1

Consolidated statement of changes in equity

		Other contributed		Retained	Total
SEK m	Share capital	capital	Reserves	earnings	equity
Opening balance, January 1, 2017	126.3	23.4	8.6	121.2	279.5
Profit for the year				80.0	80.0
Other comprehensive income					
Change in value of non-current securities			-2.9		-2.9
Translation differences			-3.0		-3.0
Total comprehensive income			-5.9	80.0	74.1
Transactions with owners					
Dividend				-63.2	-63.2
Total transactions with owners				-63.2	-63.2
Opening balance, January 1, 2018	126.3	23.4	2.7	138.0	290.4
Profit for the year				87.6	87.6
Other comprehensive income					
Change in value of non-current securities			17.5		17.5
Translation differences			-6.7		-6.7
Total comprehensive income			10.8	87.6	98.4
Transactions with owners					
New share issues, after deductions for transaction costs and tax	11.7	165.4			177.1
Warrant payment		4.1			4.1
Share buybacks		-3.6			-3.6
Non-cash issue	1.7	38.0			39.7
Value of share-based remuneration				11.9	11.9
Dividend				-68.0	-68.0
Total transactions with owners	13.4	203.9	-	-56.1	161.2
CLOSING BALANCE, DECEMBER 31, 2018	139.7	227.3	13.5	169.5	550.0

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2018 amounted to SEK 139,683,334, divided between 100,000 class A shares, 13,521,713 class B shares and 346,620 class C shares. All shares have a quota value of SEK 10 each.

Consolidated cash flow statement

SEK m	Note	2018	2017
Operating activities			
Incoming payments from customers		381.1	342.8
Outgoing payments to suppliers and employees		-250.0	-214.6
Cash flow from operating activities before interest and income taxes paid		131.1	128.2
Interest received		0.0	0.0
Interest paid		-1.7	-0.9
Income taxes paid		-36.8	-3.4
Cash flow from operating activities		92.6	123.9
Investing activities			
Investments in intangible assets	11	-42.5	-16.5
Investments in property, plant and equipment	12	-4.3	-2.5
Investments in subsidiaries		-170.8	-17.8
Sale of other investments		0.1	-
Investments in other investments		-	-0.8
Cash flow from investing activities		-217.5	-37.6
Financing activities			
Dividends to Parent Company shareholders		-68.0	-63.2
New share issues		175.5	-
Share warrants		4.1	_
Share buybacks		-3.6	-
Amortization of financial liabilities		-0.3	-0.0
Cash flow from financing activities		107.7	-63.2
Cash flow for the year		-17.2	23.1
Cash and cash equivalents at beginning of year		119.5	99.2
Exchange difference in cash and cash equivalents			
- attributable to cash and cash equivalents at beginning of year		3.6	-2.4
- attributable to cash flow for the year		0.1	-0.4
CASH AND CASH EQUIVALENTS AT END OF YEAR	18	106.1	119.5

Parent Company income statement

SEK m	Note	2018	2017
Net sales	1, 2	12.2	12.2
Other external expenses	6	-7.1	-4.2
Personnel costs	7	-14.8	-12.7
Depreciation of property, plant and equipment	12	-0.0	-0.1
Operating loss		-9.7	-4.8
Result from financial investments			
Total financial income	8	104.1	105.7
Total financial expenses	8	-3.2	-1.4
Profit before tax		91.2	99.5
Tax on profit for the year	9	-20.1	-22.1
PROFIT FOR THE YEAR		71.1	77.4

Parent Company statement of comprehensive income

SEK m	2018	2017
Profit for the year	71.1	77.4
Other comprehensive income:	71.1	77.4
Items that may be reclassified subsequently to profit or loss		
Change in value of non-current securities	17.5	-2.9
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	88.6	74.5

Parent Company balance sheet

SEK m	Note	Dec 31, 2018	Dec 31, 2017
ASSETS	1, 2		
Non-current assets			
Property, plant and equipment			
Equipment	12	0.1	0.1
Total property, plant and equipment		0.1	0.1
Financial assets			
Participations in Group companies	24	476.2	189.4
Other non-current securities	14	_	17.8
Other non-current receivables	13	0.1	0.1
Deferred tax assets	9	1.5	-
Total financial assets		477.8	207.3
Total non-current assets		477.9	207.4
Current assets			
Current receivables			
Receivables from subsidiaries		42.0	53.3
Other current receivables	16	0.0	0.1
Prepaid expenses and accrued income	17	2.2	1.1
		44.2	54.5
Cash in hand and bank deposits	18	9.3	5.0
Total current assets		53.5	59.5
		55.5	07.0
TOTAL ASSETS		531.4	266.9

SEK m	Note	Dec 31, 2018	Dec 31, 2017
EQUITY AND LIABILITIES			
Equity	20, 21		
Restricted equity			
Share capital		139.7	126.3
		139.7	126.3
Non-restricted equity			
Share premium reserve		254.1	50.2
Retained earnings		19.9	1.6
Comprehensive income for the year		88.6	74.5
		362.6	126.3
Total equity		502.3	252.6
Current liabilities			
Trade payables		0.9	0.7
Tax liabilities		0.1	8.6
Other liabilities		19.3	0.5
Accrued expenses	22	8.8	4.5
Total current liabilities		29.1	14.3
TOTAL EQUITY AND LIABILITIES		531.4	266.9
TOTAL EQUIT I AND LIABILITIES		331.4	200.7

Parent Company statement of changes in equity

SEK m	S Share capital	hare premium reserve	Retained earnings	Total equity
Opening balance, January 1, 2017	126.3	50.3	64.7	241.3
Reallocation		-0.1	0.1	_
Dividend			-63.2	-63.2
Total changes in equity not recognized in the income statement		-0.1	-63.1	-63.2
Profit for the year			77.4	77.4
Other comprehensive income				
Change in value of non-current securities			-2.9	-2.9
Total comprehensive income			74.5	74.5
Opening balance, January 1, 2018	126.3	50.2	76.1	252.6
New share issue, after deductions for transaction costs and tax	11.7	165.4		177.1
Share buybacks		-3.6		-3.6
Warrant payment		4.1		4.1
Non-cash issue	1.7	38.0		39.7
Value of share-based remuneration			11.8	11.8
Dividend			-68.0	-68.0
Total changes in equity not recognized in the income statement	13.4	203.9	-56.2	161.1
Profit for the year			71.1	71.1
Other comprehensive income				
Change in value of non-current securities			17.5	17.5
Total comprehensive income			88.6	88.6
CLOSING BALANCE, DECEMBER 31, 2018	139.7	254.1	108.5	502.3

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2018 amounted to SEK 139,683,334, divided between 100,000 class A shares, 13,521,713 class B shares and 346,620 class C shares. All shares have a quota value of SEK 10 each. [The share capital at December 31, 2017 amounted to SEK 126,320,614, divided between 100,000 class A shares and 12,532,061 class B shares. All shares had a quota value of SEK 10 each.]

Parent Company cash flow statement

SEK m	Note	2018	2017
Operating activities			
Incoming payments from subsidiaries		13.3	12.2
Outgoing payments to suppliers and employees		-20.4	-19.3
Cash flow from operating activities before interest and income taxes paid		-7.1	-7.1
Interest received		0.0	0.0
Interest paid		0.0	-0.6
Income taxes paid		-28.7	_
Cash flow from operating activities		-35.8	-0.6
Investing activities			
Investments in property, plant and equipment		-0.0	-0.0
Sale of other financial investments		0.1	-
Acquisition of subsidiaries 24	4, 25	-183.5	-
Investment in other non-current securities	14	_	-18.6
Cash flow from investing activities		-183.4	-18.6
Financing activities			
Dividends paid		-68.0	-63.2
New share issue		175.5	-
Share warrants incoming payments		4.1	-
Share buybacks		-3.5	-
Repayment of borrowings from subsidiaries		11.4	-
Loans to subsidiaries		-	-14.7
Group contributions		104.0	105.7
Cash flow from financing activities		223.5	27.8
Cash flow for the year		4.3	1.5
Cash and cash equivalents at beginning of year		5.0	3.5
CASH AND CASH EQUIVALENTS AT END OF YEAR	18	9.3	5.0

Notes

Note 1. Summary of significant accounting policies

General

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

IAR Systems Group AB is quoted on the Mid Cap list of Nasdaq Stockholm under the ticker symbol IAR.

The consolidated financial statements were approved for publication by the Board of Directors on March $7,\,2019.$

Group

1.1 Basis of presentation

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

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

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

New and amended standards and interpretations applicable for 2018

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, impairment and the classification and measurement of financial assets. In accordance with IFRS 9, financial assets are to be classified based on the company's business model for managing financial assets as well as the characteristics of the contractual cash flows for the financial assets. Financial assets are to be classified and measured according to one of the following three categories: amortized cost; fair value through other comprehensive income; or fair value through profit or loss.

IAR has chosen to apply the method of restating the 2017 comparison year. IAR Systems

has also changed its classification of financial assets and implemented 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. 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.

	l,	AS 39 recognized at Dec 31, 2017	Restated due to IFRS 9		RS 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
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, contract 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 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. 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

The new or amended standards and new interpretations that have been issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) but are effective for financial years starting on or after January 1, 2019 have not yet been applied by the Group. The IASB has issued the following new and amended standards that are not yet effective:

Standards	financial years beginning:
IFRS 16 Leases	On or after January 1, 2019

To be applied for

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 classified. The underlying asset in the lease is 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. Shortterm 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.

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

Revenue recognition

Revenue is measured based on the remuneration stated in the customer contract, excluding value-added tax (VAT). The Group recognizes revenue when control of a product or service is transferred to a customer. Remuneration normally falls due for payment when the right of ownership has been transferred.

Payment terms may be extended in exceptional cases, but may never exceed 12 months, which is why no adjustment is made for effects of significant financing components.

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

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

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

Licenses

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

Technical support

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

Software updates

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

1.2 Consolidated financial statements

The consolidated financial statements include the Parent Company IAR Systems Group AB and those companies over which the Parent Company has control (subsidiaries). Control exists when the Parent Company has power over the investee, is exposed to or has rights to variable returns from its involvement with the investee and has the ability to use that control over the investee to affects its returns. The composition of the Group is presented in Note 24.

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

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

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

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

1.3 Business combinations

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

Businesses acquired during the current accounting period, which are described in Note 25, include share-based remuneration as a subcomponent of the purchase consideration. 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.

1.4 Segment reporting

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

1.5 Foreign currency translation

a) Functional and presentation currency

The Group has one operating segment: IAR Systems.

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

b) Transactions and balances

Foreign currency transactions are translated to the functional currency at the exchange rates prevailing on the transaction dates or the dates on which the items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities in foreign currencies at the closing day rate are recognized in the income statement.

c) Group companies

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

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

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

The following exchange rates have been used:

Country	Currency	Closing day rate	Average rate
USA	USD 1	8.9710 (8.2322)	8.6921 (8.5380)
France, Germany	EUR 1	10.2753 (9.8497)	10.2567 (9.6326)
UK	GBP 1	11.3482 (11.1045)	11.5928 (10.9896)
Japan	JPY 1	0.0812 (0.0731)	0.0787 (0.0761)
China	CNY 1	1.3068 (1.2642)	1.3135 (1.2631)
South Korea	KRW 1	0.0084 (0.0077)	0.0079 (0.0076)

1.6 Property, plant and equipment

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

Property, plant and equipment are systematically depreciated over their estimated useful life. Straight-line depreciation periods are used and the following depreciation periods hereby apply:

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

1.7 Intangible assets

al Goodwill

Goodwill is initially measured as the difference between the aggregate of the acquisition date fair value of the consideration transferred and the amount of any non-controlling interests, and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is tested for impairment annually, or more often in the event that

there are indications of a decrease in value, to identify any impairment requirements, and is recognized at cost less accumulated impairment losses. The gain or loss arising on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to the lowest cash-generating units or groups of cash-generating units that can be expected to benefit from the business combination that has given rise to the goodwill item. Goodwill is tested for impairment at the lowest level in the Group at which goodwill is monitored for internal management purposes, which comprises the cash-generating units IAR Systems and Secure Thingz.

b) Technology

Technology is recognized at cost in accordance with the relief-of-royalty method. This method is based on the assumption that the acquirer could have obtained similar rights through licensing rather than purchasing the asset in question. Technology has a finite useful life and is recognized at cost less accumulated amortization. Technology is amortized over its estimated useful lives of 13 years.

c) Trademarks

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

dl Software

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

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

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

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

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

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

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

1.8 Impairment losses

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

1.9 Inventories

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

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

1.10 Financial assets and liabilities

Financial assets are classified either 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. Financial liabilities are divided between liabilities at fair value through profit or loss and other liabilities.

Recognition and measurement of financial assets

Financial assets are measured according to three categories:

- Hold to collect Assets that are held to collect contractual cash flows and that only comprise payments of the principal and interest on the outstanding principal. These are measured at amortized cost.
- Hold to collect and sell Assets that are held to both collect contractual cash flows and sell investments and that only comprise payments of the principal and interest on the outstanding principal. These are measured at fair value through other comprehensive income.
- > Other Other financial assets and investments in equity instruments. These are measured at fair value through other comprehensive income.

Investments in equity instruments are measured at fair value. In cases where Group management has chosen to recognize changes in the fair value of equity instruments through other comprehensive income, the changes in fair value are not subsequently reclassified to profit or loss when the instrument has been derecognized from the balance sheet. Dividend from such investments are recognized in profit or loss as other income when the Group's right to receive payment has been established.

The credit reserve for trade receivables, contract assets and lease receivables is based on expected losses. IAR Systems 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.

Recognition and measurement of financial liabilities

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

1.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank deposits and are measured at amortized cost.

1.12 Borrowings

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

Borrowings are subsequently measured at amortized cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer payment of the liability for at least 12 months after the balance sheet date. A financial liability is derecognized from the balance sheet when the obligation is discharged, canceled or otherwise extinguished.

1.13 Trade payables

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

1.14 Current and deferred tax

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

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

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

Deferred tax is calculated according to the balance sheet method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts. Temporary differences are not recognized for consolidated goodwill or shares in subsidiaries that are not expected to be taxed in the foreseeable future. Deferred tax assets relating to tax

loss carryforwards or other future tax deductions are recognized only to the extent that it is probable that future taxable profit will be available against which the deduction can be utilized.

1.15 Provisions

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

1.16 Employee benefits

a) Pension obligations

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

b) Termination benefits

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

c) Bonus plans

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

1.17 Foreign exchange gains and losses

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

1.18 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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

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

The interest portion of the financial expenses is recognized in the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance

of the liability for each period. Non-current assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease period.

1.19 Borrowing costs

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

1.20 Cash flow statement

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

Parent Company

1.21 Accounting policies of the Parent Company

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

Amendments to accounting policies

The amendments to RFR 2 Accounting for Legal Entities that took effect and apply for the 2018 financial year are the same as those presented for the Group with respect to IFRS 9 and IFRS 15. The new accounting standards have not had any material impact on the financial statements of the Parent Company in 2018.

Amendments to RFR 2 that are not yet effective

The Parent Company has not yet begun to apply the amendments to RFR 2 Accounting for Legal Entities that took effect January 1, 2019 or later. Management's assessment is that these amendments will not have any material impact on the Parent Company's financial statements when they are applied for the first time.

1.22 Group contributions

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

1.23 Finance leases

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

1.24 Dividends

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

1.25 Participations in Group companies

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

Critical accounting estimates and judgments

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

a) Impairment testing of goodwill and other intangible assets

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

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

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

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

The discount rate used, 10.0% [9.2], is stated before tax and is deemed to reflect specific risks relating to the operating segment.

For other intangible assets, corresponding impairment testing is performed for assets that have not yet been utilized or if other indicators exist that may impact the value of the assets. The impairment test is based on an assessment of the asset's future cash flow. The discount rate used, 10.0% (9.2), is stated before tax and is deemed to reflect specific risks relating to the asset.

b) Measurement at fair value in connection with business combinations

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Under the guidance of the CFO, management determines appropriate the measurement methods and inputs for measurement at fair value. Material assessments are reported to the Board of Directors on an ongoing basis. In connection with the acquisition of Secure Thingz in 2018, the acquired assets and liabilities were measured at fair value. Measurement of certain assumed assets involves significant assumptions and assessments

on the part of management since no external market data is available. To assistant management in determining such assumptions and assessments, external third-party experts in the area have been engaged to ensure that a suitable measurement method has been used.

c) Income tax

The Group is subject to income taxation in several countries. Extensive judgment is required to determine the provision for income taxes in the consolidated financial statements. There are many transactions and calculations for which the ultimate tax determination is uncertain at the date of the transactions and calculations. The Group previously had substantial loss carryforwards, which have now been fully utilized.

On the balance sheet date, loss carryforwards amounted to approximately SEK 45m (0) outside Sweden and SEK 0m (0) in Sweden. A deferred tax asset of SEK 13.3m is recognized in the consolidated balance sheet at December 31, 2018, of which SEK 8.5m pertains to a deferred tax asset based on loss carryforwards. At the preceding year-end, a deferred tax asset of SEK 0 was recognized.

d) Revenue recognition

The company assesses the probability that the economic benefits will flow to the Group on the basis of several factors, such as a customer's payment history and credit rating. The credit reserve for trade receivables, contract assets and lease receivables is based on expected losses. The simplified approach for trade receivables is also used, meaning that the reserve will correspond to the expected loss for the entire useful life. In certain cases, the Group's sales contracts include delivery of several different sub-components, so-called multiple elements. In these cases, the Group has allocated revenue based on the estimated fair values of the respective sub-components in order to achieve accounting that reflects the underlying economics of the transaction.

Note 2. Financial risk management

Operational risks

Customers

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

Employees

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

Technology

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

Competitors

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

Business cycle

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

Financial risk factors

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

Management identifies, evaluates and hedges financial risks.

a) Foreign exchange risk

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

The Group's sales in foreign currency, mainly USD, EUR and JPY, account for approximately 95% (95) of total sales. Of the cost of goods sold, which accounts for about 3% (4) of the Group's cost mass, approximately 81% (81) of purchases are denominated in foreign currency, also primarily in USD, EUR and JPY.

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

Total	SEK	USD	EUR	JPY	currencies
385.2	20.5	138.7	127.9	63.6	34.5
9.0	1.7	2.8	2.7	1.6	0.2
260.6	150.8	58.4	9.3	21.0	21.1
	385.2 9.0	385.2 20.5 9.0 1.7	385.2 20.5 138.7 9.0 1.7 2.8	385.2 20.5 138.7 127.9 9.0 1.7 2.8 2.7	385.2 20.5 138.7 127.9 63.6 9.0 1.7 2.8 2.7 1.6

b) Credit risk

S

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

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

Credit risks in trade receivables and contract receivables

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

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

The Group applies the simplified approach for calculating expected credit losses. This approach entails that expected losses throughout the entire term of the receivable are used as the basis for trade receivables and contract assets. To calculate expected credit losses, trade receivables and contract assets have been grouped based on credit risk characteristics and the number of days of delay. Accordingly, the Group considers the loss levels for trade receivables to be a reasonable estimate of the loss levels for contract assets. Past losses are then adjusted taking into consideration any current and forward-looking information concerning macroeconomic factors. Based on this, the loss allowance for trade receivables on 31 December 2018 was determined as follows:

		1–30	31-60	61–180	More than	
	Not	days	days	days	180 days	
At December 31, 2018	past due	Total				
Expected loss level, %	0.1%	0.2%	5.0%	12.2%	90.0%	1.1%
Trade receivables, gross	49.2	8.9	3.9	1.5	0.4	63.9
Credit loss allowance	0.0	0.0	0.0	0.3	0.4	0.7

c) Liquidity risk

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

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

At December 31, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	_	_	_	_
Finance leases	1.6	8.0	0.4	-
Bank overdraft facilities	-	_	-	-
Trade and other payables ¹	25.1	_	_	_

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

At December 31, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	_	_	-	_
Finance leases	0.8	1.2	0.5	_
Bank overdraft facilities	-	-	-	-
Trade and other payables 1	5.8	-	-	-

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

Sensitivity analysis

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

Sensitivity analysis At December 31, 2018	Change	Effect on profit
		· · · · · · · · · · · · · · · · · · ·
Cost of goods sold	+/- 5%	-/+ SEK 0.4m
Payroll expenses	+/- 5%	-/+ SEK 6.9m
Currency – EUR	+/- 5%	+/- SEK 4.5m
Currency – USD	+/- 5%	+/- SEK 3.0m
Currency – JPY	+/- 5%	+/- SEK 1.6m
Variable interest	+/- 1 percentage point	+/- SEK 0.0m
Sensitivity analysis		
At December 31, 2017	Change	Effect on profit
Cost of goods sold	+/- 5%	-/+ SEK 0.3m
Payroll expenses	+/- 5%	-/+ SEK 6.4m
Currency – EUR	+/- 5%	+/- SEK 3.5m
Currency – USD	+/- 5%	+/- SEK 3.0m
Currency – JPY	+/- 5%	+/- SEK 1.4m
Variable interest	+/- 1 percentage point	+/- SEK 0.0m

Capital risk management

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

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

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

The net debt/equity ratio at December 31, 2018 and 2017 was as follows:

	2018	2017
Total borrowings (Note 19)	2.8	2.5
Less cash and cash equivalents (Note 19)	-106.1	-119.5
Net debt	-103.3	-117.0
Total equity	548.5	290.4
Total capital	445.2	173.4
Net debt/equity ratio	-23%	-67%

Note 3. Segment reporting

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

GEOGRAPHICAL AREAS

			Non-d	urrent		
	Net	sales	assets		Investments	
SEK m	2018	2017	2018	2017	2018	2017
Americas		_		_		
USA	119.0	117.5	2.3	1.4	1.1	0.5
Other countries	10.2	9.3	-	-	-	-
	129.2	126.8	2.3	1.4	1.1	0.5
Asia						
Japan	64.1	58.5	0.1	0.0	0.1	0.0
Other countries	51.1	38.4	0.1	0.1	0.1	0.0
	115.2	96.9	0.2	0.1	0.2	0.0
EMEA						
UK	13.4	13.6	285.2	0.0	285.2	0.0
Germany	53.4	36.8	0.0	0.0	0.0	0.0
Other countries	58.8	55.9	0.0	0.0	0.0	0.0
	125.6	106.3	285.3	0.0	285.2	0.0
Nordic region						
Sweden	6.6	6.3	205.2	199.1	15.3	18.5
Other countries	8.6	8.7	-	-	-	-
	15.2	15.0	205.2	199.1	15.3	18.5
Total	385.2	345.0	493.0	200.6	301.9	19.0

No single customer accounted for 10% or more of the Group's net sales in 2018 and 2017. The geographical areas in the table above pertaining to net sales reflect the geographical region to which the customer belongs.

Note 4. Revenue from Contracts with Customers and contract balance

Net sales are distributed as follows:

SEK m	2018	2017
IAR Systems	380.2	345.0
Secure Thingz	5.0	-
Net sales	385.2	345.0
IAR SYSTEMS, SEK m	2018	2017
License-based revenue	242.9	217.3
Support and software updates	119.4	
Royalty-based revenue	5.5	
Other	12.4	12.3
Net sales	380.2	345.0
At a certain point in time	255.3	229.7
Over time	124.9	115.4
Net sales	380.2	345.0
Americas	126.2	129.4
Asia	94.2	83.4
Europe	151.6	123.4
Not allocated by region	8.2	8.8
Net sales	380.2	345.0
SECURE THINGZ, SEK m	2018	2017
License-based revenue	_	_
Support and software updates	_	-
Royalty-based revenue	_	-
Other	5.0	-
Net sales	5.0	-
At a certain point in time	5.0	_
Over time	_	-
Net sales	5.0	-
Americas	5.0	. –
Asia	-	-
Europe	-	-
Not allocated by region	_	-
Net sales	5.0	-

The geographical areas in the table above pertaining to net sales reflect the geographical regions to which IAR's sales organization belongs.

Contract balances are recognized as follows:

	Group			
SEK m	Dec 31, 2018	Dec 31, 2017	Jan 1, 2017	
Contract assets Licenses	21.7	1.8	10.4	
Contract liabilities Technical support and software updates	79.0	64.5	72.3	

The Group's contract assets comprise multi-customer contracts in which the customer makes payments over the term of the contract. This applies to a small number of contracts. Payment is normally received before or when the right to the goods or services is transferred to the customer. Contract assets are reclassified to trade receivables in conjunction with invoicing.

The Group's contract liabilities arise when customers pay for support and program update services in advance at the beginning of a contract period. Revenue arising from support and upgrade agreements is accrued on a straight-line basis over the term of the contract in pace with delivery of the services in accordance with the contract. Revenue recognized during the reporting period includes SEK 64.5m [64.4] of the contract assets since the beginning of the period.

Transaction price allocated to remaining performance obligations

	Group							
SEK m	2019	2020	2021-2023	Total				
Technical support and software updates	75.1	2.6	1.4	79.0				

Exemption rules have been applied in the transition to IFRS 15 and not information is therefore provided for comparative years.

Note 5 Goods for resale

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

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

Note 6. Other external expenses

FEES TO AUDITORS

	(Group	Parent Company				
SEK m	2018	2017	2018	2017			
Deloitte Audit of the financial statements	0.7	0.6	0.0	0.0			
Audit-related services other than the audit of the financial statements	_	_	_	_			
Tax consultancy	0.2	0.1	_	-			
Other services	-	-	-	_			
Total Deloitte	0.9	0.7	0.0	0.0			
Total fees to auditors	0.9	0.7	0.0	0.0			

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

Note 7. Personnel costs

Average number of employees

The average number of employees in the Group during 2018 was 171 (153). The breakdown of the average number of employees by country and, in Sweden, by location, is shown in the table below.

The majority, 55% (58%), are employed in Sweden (calculated on the average number of employees during the year).

AVERAGE NUMBER OF EMPLOYEES

	2	2018	20	017
	No. of employees	Of whom, men	No. of employees	Of whom, men
Parent Company Stockholm	4	75%	4	75%
Subsidiaries in Sweden Uppsala	90	80%	85	78%
Subsidiaries outside Sweden				
Germany	3	67%	5	40%
France	2	50%	2	50%
UK	23	85%	-	-
USA	27	55%	36	64%
South Korea	5	80%	5	80%
China	2	50%	2	50%
Japan	15	73%	14	71%
Total subsidiaries	167	75%	149	72%
Total Group	171	75%	153	72%

GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES IN THE GROUP

	2	2018	2017		
	No. of	Of whom,	No. of	Of whom,	
	employees	men	employees	men	
Group (incl. subsidiaries)					
Board members	5	40%	5	60%	
CEO and other senior executives	3	100%	3	100%	
Presidents of subsidiaries	1	100%	-	-	
Parent Company					
Board members	5	40%	5	60%	
CEO and other senior executives	2	100%	2	100%	

Salaries, other remuneration and social security expenses

The Group's total payroll costs amounted to SEK 189.8m (163.1), of which social security expenses accounted for SEK 33.4m (29.9) and pensions for SEK 13.0m (10.8). Of the Group's total payroll costs, SEK 38.1m (8.0) has been spent on assets and have been capitalized as internally generated development costs.

	20	118	20	017
SEK m	Salaries and other remuneration	Social security expenses (of which pension costs)	Salaries and other remuneration	Social security expenses (of which pension costs)
Parent Company Subsidiaries	12.6 130.8	4.5 (1.0) 41.9 (12.0)	9.2 113.2	3.9 (1.0) 36.8 (9.8)
Total Group	143.4	46.4 (13.0)	122.4	40.7 (10.8)

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

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

	20	18	20		
SEK m	Board, CEO and other senior executives	Other employees	Board, CEO and other senior executives	Other employees	
Parent Company	11.3	1.3	8.1	1.1	
Subsidiaries in Sweden	1.9	58.7	1.8	52.9	
Subsidiaries outside Sweden	2.4	67.8	-	58.5	
Total Group	15.6	127.8	9.9	112.5	

Remuneration to senior executives

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

No Board fees are paid to members who receive a salary from companies in the IAR Group. In 2018, this rule applied to Stefan Skarin. The group Other senior executives refers to the CFO and COO.

Board of Directors

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

Board Chairman SEK 375,000

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

Principles

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

For 2018, the Group applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM.

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

The amount of variable salary for the CEO is periodically determined by the company's Board of Directors. The CEO approves the remuneration and terms and conditions of employment for other senior executives on the basis of the principles for remuneration of senior executives adopted at the AGM. Variable salary is based on actual outcomes in relation to individually set targets.

Variable remuneration

For the CEO, variable salary for 2018 was based on the Group's sales and operating profit. The bonus amount for 2018 was equal to 49% [32] of basic salary. For the other senior executives, the bonus for 2018 was based on the Group's sales and operating profit. The bonus amount for other senior executives in 2018 was equal to 44% [28] of basic salary.

Pension agreements

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

Termination benefits

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

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

Incentive program

In accordance with the decision of the Extraordinary General Meeting on June 15, 2018, a long-term incentive program for IAR Systems Group employees has been introduced, which also includes the CEO and other senior executives.

REMUNERATION AND OTHER BENEFITS DURING THE YEAR

Remuneration to the Board of Directors, CEO and other senior executives in 2018

	Fixed sa Board			iable lary	Oth bene		Pens exper			-based eration	Oth remune		Tot	al
SEK m	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Board Chairman Maria Wasing ¹	0.3	0.3	_	-	-	_	-	_	-	-	-	-	0.3	0.3
Board member Lisa Kaati ²	0.2	0.1	-	-	-	-	-	-	-	-	-	-	0.2	0.1
Board member Kent Sander ²	0.2	0.1	-	-	-	-	-	-	-	-	-	-	0.2	0.1
Board member Helena Nordman-Knutson ³	0.1	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Board member Jonas Mårtensson ⁴	0.1	0.2	-	-	-	-	-	-	-	-	-	-	0.1	0.2
Board Chairman Markus Gerdien ⁵	-	0.1	-	-	-	-	-	-	-	-	-	-	-	0.1
Board member Peter Larsson ⁶	-	0.1	-	-	-	-	-	-	-	-	-	-	-	0.1
CEO Stefan Skarin	3.2	3.6	1.6	1.1	0.2	0.2	0.3	0.3	0.1	-	-	-	5.5	5.2
Other senior executives (2)	3.3	3.3	1.4	1.0	0.2	0.2	0.7	0.8	0.1	-	-	-	5.7	5.3
Total	8.5	7.8	3.0	2.1	0.4	0.4	1.4	1.1	0.2	-	-	-	12.1	11.4

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

Incentive programs

CHANGES IN THE NUMBER OF OUTSTANDING WARRANTS

	Lī	TIP 2018	Exchange program			
SEK m	2018	2017	2018	2017		
At beginning of year	-	_	-	-		
Allotted	497,500	-	73,413	-		
Exercised	-	-	-13,068	-		
Forfeited/past due	-50,000	-	-	-		
At end of year	447,500	-	60,348	_		

Information about incentive programs

In accordance with the decision of the Extraordinary General Meeting on June 15, 2018, a long-term incentive program 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, LITP 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 stock options. The share 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.

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 and service terms. Other assumptions applied include expected volatility of 25%, interest of -0.4%, a term of three years and a dividend corresponding to SEK 5. 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 stock options, participants are allocated stock options at no cost, which may not be pledged or transferred and are conditional on continued employment for three years. The stock options are vested at a rate of one third per year from the date of allotment. Based on performance condition fulfillment, each stock option grants entitlement to acquire one new class B share during the period from August 20, 2021 to September 17, 2021 for a price

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

³ Member since the Annual General Meeting on April 25, 2018

⁴ Member until the Annual General Meeting on April 25, 2018

⁵ Chairman until the Annual General Meeting on April 26, 2017

⁶ Member until the Annual General Meeting on April 26, 2017

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 stock options were allotted to the participants, of which 50,000 have been forfeited because the employees terminated their employment after the allotment.

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

Exchange allotment 2018

This pertains to the part of remuneration for the acquisition that entails the exchange of an existing stock option program for employees in Secure Thingz. Stock option holders exchange their stock options in Secure Thingz for new stock options in IAR Systems. The economic value of the new stock options is to correspond to the value of the existing stock options. A total of 575,000 stock options in Secure Thingz have been exchanged for 73,413 stock options in IAR Systems Group AB in accordance with the approval from the Extraordinary General Meeting held on June 15. Of the 73,413 stock options, 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 stock options in the stock options program will continue until October 2022 and the program extends until 2027. Vested stock options can be exercised on an ongoing basis until 2027 at the latest. A total of 13,068 stock options were exercised in 2018.

Note 8. Financial income and expenses

	Group		Parent Co	ompany
SEK m	2018	2017	2018	2017
Interest income	0.0	0.0	0.0	0.0
Exchange differences	-	0.0	-	-
Divestment of shares in NorNor Holding AB	0.1	-	0.1	-
Group contributions received	-	-	104.0	105.7
Total financial income	0.1	0.0	104.1	105.7
Interest expenses	-1.5	-0.8	-1.5	-0.6
Exchange differences	-0.2	-0.0	-1.7	-
Impairment losses for shares in NorNor Holding AB	-	-0.8	-	-0.8
Finance leases	-0.2	-0.1	-	_
Total financial expenses	-1.9	-1.7	-3.2	-1.4
Net financial items	-1.8	-1.7	100.9	104.3

Note 9. Tax

The following components are included in the tax expense.

	Group		Parent Company		
SEK m	2018	2017	2018	2017	
Current tax on profit for the year	-18.7	-13.3	-20.1	-8.8	
Deferred tax	-7.5	-12.4	-	-13.3	
Total tax on profit for the year	-26.2	-25.7	-20.1	-22.1	

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

	Gro	oup	Parent Company		
SEK m	2018	2017	2018	2017	
The year's deferred tax expense/income					
intangible assets	-6.8	0.2	-	-	
change in loss carryforwards	2.3	-13.9	-	-13.3	
support and upgrade agreements	0.0	0.1	-	-	
untaxed reserves	-0.1	-0.9	-	-	
other temporary differences	-2.9	2.1	-	-	
Total deferred tax in the income statement	-7.5	-12.5	-	-13.3	

	Group		Parent Company	
SEK m	2018	2017	2018	2017
Reconciliation between effective tax and tax based on the applicable tax rate				
Reported profit before tax	113.8	105.7	91.2	99.5
Tax according to the applicable tax rate	-26.1	-25.0	-20.1	-21.9
Tax effect of non-deductible expenses	-0.1	-0.7	-0.0	-0.2
Tax effect of non-taxable income	0.0	0.0	0.0	0.0
Total	-26.2	-25.7	-20.1	-22.1
Prior year adjustments of current				
tax recognized in the current year	-	-	-	-
Tax on profit for the year according				
to the income statement	-26.2	-25.7	-20.1	-22.1

Tax rate

In computing deferred tax on temporary differences, local tax rates in the country in question have been used. The majority of deferred tax derives from operations in the UK, which the tax rate is 19%, and operations in Sweden, where the tax rate is 22%. A remeasurement has also been carried out to reflect the planned tax rate reductions in each country. The UK has decided to lower its income tax to 17% as of April 1, 2020, and Sweden has decided to lower its tax rate to 21.4% for companies with financial years starting on or after January 1, 2019 and to 20.6% for companies with financial years starting on or after January 1, 2021.

Temporary differences

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

	Group		Parent Company	
SEK m	2018	2017	2018	2017
Deferred tax liabilities attributable to intangible assets	-24.8	-12.8	-	_
Deferred tax liabilities attributable to untaxed reserves Deferred tax liabilities attributable to	-1.1	-1.0	-	-
other temporary differences	-3.7	-0.2	-	-
Total deferred tax liabilities	-29.6	-14.0	-	_
Deferred tax assets attributable to loss carryforwards Deferred tax assets attributable to	8.5	-	-	-
items recognized directly in equity Deferred tax assets attributable to	1.5	-	1.5	-
support and upgrade agreements Deferred tax assets attributable	1.7	1.7	-	-
to other temporary differences	1.6	1.0	-	_
Total deferred tax assets	13.3	2.7	1.5	-
Total deferred tax assets, net	-16.3	-11.3	1.5	-

As of the balance sheet date, the Group had accumulated loss carryforwards of SEK 45m (0) outside Sweden. Based on these loss carryforwards, the Group has recognized a deferred tax asset of SEK 8.5m (0.0).

Note 10. Earnings per share

	Group	
	2018	2017
Profit, SEK m	87.6	80.0
Basic earnings per share, SEK	6.67	6.33
Earnings per share, diluted, SEK	6.65	6.33
Number of shares		
Average number of shares before dilution, million	13.13	12.63
Average number of shares, diluted, million	13.13	12.63

Basic

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

Diluted

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

Note 11. Intangible assets

									software de	•	t	
	Goo	dwill	Trade	marks	Techr	nology	Soft	ware	cos	its	То	tal
GROUP, SEK m	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Opening cost	113.5	114.9	11.7	11.7	-	-	27.5	24.6	113.6	100.5	266.3	251.7
Investments	233.6	-	-	-	36.7	-	1.4	3.4	45.5	13.1	317.2	16.5
Translation differences	-7.8	-1.4	-	-	-1.4	-	0.1	-0.3	5.9	-	-3.2	-1.7
Sales and disposals	-	-	-	-	-	-	-1.9	-0.2	-	-	-1.9	-0.2
Closing accumulated cost	339.3	113.5	11.7	11.7	35.3	-	27.1	27.5	165.0	113.6	578.4	266.3
Opening amortization	-	-	-9.9	-9.2	-	-	-15.1	-12.0	-46.9	-33.5	-71.9	-54.7
Sales and disposals	-	-	-	-	-	-	1.9	0.2	-	-	1.9	0.2
Translation differences	-	-	-	-	-	-	0.0	0.0	-2.4	-	-2.4	0.0
Amortization for the year	-		-0.8	-0.7	-1.8		-3.9	-3.3	-15.4	-13.4	-21.9	-17.4
Closing accumulated amortization	-	-	-10.7	-9.9	-1.8	-	-17.1	-15.1	-64.7	-46.9	-94.3	-71.9
Opening impairment	-	-	-	-	-	-	-	_	-	-	-	_
Sales	_		_		-		-		-		_	
Closing accumulated impairment	-	-	-	-	-	-	-	-	-	-	_	-
Carrying amount	339.3	113.5	1.0	1.8	33.5	-	10.0	12.4	100.3	66.7	484.1	194.4

Description

Goodwill Attributable to the acquisition of IAR Systems AB (2005),

Signum Systems Corp (2011) and Secure Thingz Inc (2018).

Trademarks Attributable to the acquisition of IAR Systems AB (2005).
Technology Attributable to the acquisition of Secure Thingz Inc (2018).

Software Refers to externally acquired/company-specific systems, such as

accounting systems, CRM systems and the company's website. Refers to capitalized internal expenses for software development

Internally generated Refers to capitalize software development and debug probes.

costs

Useful lives

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

Trademarks 15 years
Technology 13 years
Software 5-6 years
Internally generated 5-10 years

software development

costs

Investments for the year

Of the year's investments of SEK 317.2m (16.5), SEK 233.6m pertains to goodwill, SEK 36.7m to technology, SEK 1.4m (3.4) to software and SEK 45.5m (13.1) to internally generated software development costs. Of the internally generated costs, SEK 38.1m (10.4) pertains to personnel costs.

Internally generated

Impairment testing of intangible assets

Goodwill is tested for impairment at the lowest level in the Group at which goodwill is monitored for internal management purposes, which comprises two cash-generating units: IAR Systems and Secure Thingz. For other intangible assets, corresponding impairment testing is performed for assets that have not yet been utilized or if other indicators exist that may impact the value of the assets.

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

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

The discount rate used, 10.0% [9.2], is stated before tax and is deemed to reflect specific risks relating to the assets.

CONT. NOTE 11.

Assumption	Growth rate	Operating margin	Discount rate (before tax)
Year 1 (budget)	Acc. to the Board's adopted budget	Acc. to the Board's adopted budget	10.0% (9.2)
Years 2–3 (forecast period)	Acc. to management's estimated forecast	Acc. to management's estimated forecast	10.0% (9.2)
Terminal value	2% (2)	On par with year 3	10.0% (9.2)

To support impairment testing of goodwill in the Group, the Group has carried out an overall analysis of the sensitivity of the variables used in the model. An adverse change in each of the key assumptions included in the business plan, a decrease in annual sales growth and operating margins beyond the forecast period or an increase in the discount rate, of which each is reasonably possible, shows that there is nonetheless a good margin between the recoverable value and carrying amount. Management has therefore made the assessment that there was no indication of impairment of goodwill at the end of 2018. Impairment testing for other intangible assets is based on estimated future cash flows. At December 31, ongoing investments in internally generated software development costs amounted to SEK 51.2m [12.0]. The discount rate used, 10.0%, is stated before tax and is deemed to reflect specific risks relating to the asset.

Note 12. Property, plant and equipment

	Leas improv	ehold ements	Equipr	nent	Tot	al
GROUP, SEK m	2018	2017	2018	2017	2018	2017
Opening cost	0.6	0.6	23.5	21.7	24.1	22.3
Investments	1.3	0.0	3.5	2.5	4.8	2.5
Investments through finance leases	-	-	0.4	_	0.4	-
Translation differences	-	-	0.4	-0.4	0.4	-0.4
Sales and disposals	-		-2.0	-0.3	-2.0	-0.3
Closing accumulated cost	1.9	0.6	25.8	23.5	27.7	24.1
Opening depreciation	-0.5	-0.5	-17.4	-15.6	-17.9	-16.1
Sales and disposals	-	-	2.0	0.3	2.0	0.3
Translation differences	-	-	-0.3	0.2	-0.3	0.2
Depreciation of finance leases for the year	-	-	-0.4	-0.6	-0.4	-0.6
Depreciation for the year	-0.1	-0.0	-2.1	-1.8	-2.2	-1.8
Closing accumulated depreciation	-0.6	-0.5	-18.2	-17.4	-18.8	-17.9
Carrying amount	1.3	0.1	7.6	6.1	8.9	6.2
PARENT COMPANY, SEK m	2018	2017	2018	2017	2018	2017
Opening cost	-	-	0.6	0.6	0.6	0.6
Investments	-	-	-	-	-	-
Sales and disposals	-	-	-	-	-	-
Closing accumulated cost	-	-	0.6	0.6	0.6	0.6
Opening depreciation	-	-	-0.5	-0.4	-0.5	-0.4
Sales and disposals	-	-	-	-	-	-
Depreciation for the year	_		-0.0	-0.1	-0.0	-0.1
Closing accumulated depreciation	-	-	-0.5	-0.5	-0.5	-0.5
Carrying amount	-	-	0.1	0.1	0.1	0.1

Operating leases

During the year, lease payments under operating leases in the Group amounted to SEK 16.7m [14.8]. The majority of operating leases consist of leases for premises. The Parent Company classifies all leases, whether operating or finance leases, as operating leases. The aggregate amount of future minimum lease payments at the balance sheet date under non-cancellable operating leases grouped by period to maturity was as follows:

	Group		Parent Company		
SEK m	2018	2017	2018	2017	
Due for payment within 1 year	16.0	14.8	0.3	0.3	
Due for payment within 2 years	7.4	9.7	0.3	0.3	
Due for payment within 3 years	5.3	4.0	0.2	0.3	
Due for payment within 4 years	4.4	2.8	-	0.2	
Due for payment in 5 years or later	6.5	7.6	-	-	

Finance leases

The majority of finance leases refer to company cars. The accumulated cost of finance leases at December 31, 2018 was SEK 3.7m (3.5).

Accumulated depreciation at year-end amounted to SEK 0.9m (1.0). These obligations are recognized under "Equipment" in the balance sheet.

Lease payments for company cars are affected by interest rate levels, and are thus variable. Total lease charges of SEK 0.7m (0.7) were paid during the year.

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

GROUP, SEK m	2018	2017
Current portion (due within 1 year)	1.6	0.8
Non-current portion (due within 5 years)	1.2	1.7
Non-current portion (due later than 5 years)	-	_
Total	2.8	2.5

Note 13. Other non-current receivables

	Gr	oup	Parent Company	
SEK m	2018	2017	2018	2017
Deposits	1.3	1.4	0.1	0.1
Other	0.5	0.3	-	_
	1.8	1.7	0.1	0.1

Note 14. Other non-current securities

			Group		ompany
SEK m	% of capital	2018	2017	2018	2017
Shareholding in					
Secure Thingz Inc	- (10%)	-	17.8	-	17.8
NorNor Holding AB	- (10%)	-	0.0	-	0.0
		-	17.8	-	17.8

The holding in Secure Thingz Inc has been reclassified since the company became a wholly owned subsidiary during 2018. The holding in NorNor Holding AB was divested in 2018.

Note 15. Trade and other receivables

		oup
SEK m	2018	2017
Trade receivables	63.9	51.3
Reserve for expected credit losses	-0.7	-0.5
Trade receivables, net	63.2	50.8
Prepaid expenses and accrued income	36.1	10.8
Other receivables	2.1	1.0
	101.4	62.6

The fair values of trade receivables are deemed to correspond with their carrying amounts. The estimated fair value has not been discounted, since the assessment is that this would not have any significant effect on fair value. An age analysis of these trade receivables is shown in the table on the next page:

AGE ANALYSIS OF PAST DUE TRADE RECEIVABLES		oup
SEK m	2018	2017
Less than 3 months	13.6	10.8
3-6 months	0.9	0.4
More than 6 months	0.4	0.6
	14.9	11.8

THE CARRYING AMOUNTS, BY CURRENCY, FOR THE GROUP'S TRADE AND OTHER RECEIVABLES ARE AS FOLLOWS Group 2018 2017 Currency SEK 13.7 10.2 EUR 37.3 20.1 USD 32.8 20.2 Other currencies 17.6 12.1 101.4 62.6

CHANGES IN PROVISIONS FOR DOUBTFUL DEBTS		oup
SEK m	2018	2017
Provisions at January 1	0.5	0.2
The year's provisions for doubtful debts	0.5	0.5
Receivables written off during the year as uncollectable	-0.1	-0.2
Reversed unutilized amount	-0.2	0.0
Provisions at December 31	0.7	0.5

Credit quality

The credit quality of trade receivables is deemed good, based on historical credit losses, and the risks are limited in view of the large size of the customer base. No individual customer accounted for more than 5% of total trade receivables at December 31, 2018.

Note 16. Other current receivables

	Group		Parent Company		
SEK m	2018	2017	2018	2017	
Rent guarantees	0.1	0.1	-	-	
Other	2.0	0.9	0.0	0.1	
Total other current receivables	2.1	1.0	0.0	0.1	

Note 17. Prepaid expenses and accrued income

	Group Pa		Parent Company		
SEK m	2018	2017	2018	2017	
Accrued income	21.6	2.0	-	-	
Prepaid rents	1.8	1.7	0.1	0.1	
Prepaid insurance premiums	1.3	1.2	0.1	0.1	
Other prepaid expenses	11.1	5.9	2.0	0.9	
Total prepaid expenses and accrued income					
	36.1	10.8	2.2	1.1	

Note 18. Cash and cash equivalents

	Group		Parent Company	
SEK m	2018	2017	2018	2017
Cash in hand and bank deposits	106.1	119.5	9.3	5.0
Cash and cash equivalents at end of year	106.1	119.5	9.3	5.0
Unutilized committed credit facilities	225.0	225.0	200.0	200.0
Total available cash and cash equivalents	231.1	344.5	200.9	205.0

Note 19. Financial instruments

SEK m, December 31, 2018	2018	2017
Financial assets measured at amortized cost		
Other non-current receivables	1.8	1.7
Trade receivables	63.2	50.8
Other financial assets measured at amortized cost	38.1	11.8
Cash and cash equivalents	106.1	119.5
Financial assets measured at fair value through profit or loss		
Derivative instruments	-	0.0
Financial assets measured at fair value through other comprehensive income		
Other non-current securities	-	17.8
Total	209.2	201.6
Financial liabilities measured at amortized cost		
Borrowings related to finance leases	2.8	2.5
Trade payables	7.3	5.8
Other liabilities excluding non-financial liabilities	17.8	-
Total	27.9	8.3

Cash and cash equivalents

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

		oup
SEK m	2018	2017
Cash in hand and bank deposits	106.1	119.5
Cash and cash equivalents	106.1	119.5

Net cash

The Group's net cash at December 31, 2018 amounted to SEK 103.3m (117.05). The table below shows how the Group calculates net cash and what it includes.

	Gro	oup
SEK m	2018	2017
Current borrowings	_	_
Current portion of non-current borrowings	-	-
Current portion of finance lease liabilities	1.6	0.8
Total current borrowings	1.6	0.8
Non-current borrowings	-	-
Non-current portion of finance lease liabilities	1.2	1.7
Total non-current borrowings	1.2	1.7
Total borrowings	2.8	2.5
Cash and cash equivalents	106.1	119.5
Net cash	103.3	117.0
Bank overdraft facility	225.0	225.0

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

Interest-bearing liabilities

The Group's total interest-bearing liabilities at December 31, 2018 amounted to SEK 2.8m (2.5), of which SEK 1.2m (1.7) pertains to non-current borrowings excluding those maturing in the next 12 months. Non-current borrowings maturing within 12 months amount to SEK 1.6m (0.8). The table below shows the carrying amounts of the Group's interest-bearing liabilities.

BORROWINGS			Gr	oup
Type of loan	Interest rate	Currency	2018	2017
Other non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	1.2	1.7
Current portion of non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	_
Finance lease liabilities	Variable	SEK	1.6	0.8
Bank overdraft facilities	Variable	SEK	-	-
			2.8	2.5

Information about measurement at fair value

For cash and cash equivalents, trade receivables, trade payables and borrowings, the carrying amount is a good approximation of fair value since the maturity is short. For borrowings, the carrying amount is a good approximation of fair value since the interest rate is variable and the credit margin is relatively unchanged. Financial assets are measured at fair value and are shown in the table below. Fair value is primarily based on own assumptions according to Level 3.

As of December 31, 2017, the holding in NorNor Holding AB was valued at SEK 0. The holding was divested during the fourth quarter of 2018, generating a gain of SEK 0.1m.

During the second quarter of 2017, IAR invested SEK 17.8m in Secure Thingz. The holding in Secure Thingz corresponded to just over 10% of the total number of shares in the company. In 2018 (see Note 25), IAR acquired the remainder of Secure Thingz and its holding in the company was thus reclassified and consolidated as a wholly owned subsidiary. Following this reclassification, there are no financial instruments measured at fair value in the Group.

Group and Parent Company			Derivative
SEK m	Total	Shares	instruments
Financial instruments measured at fair			
value at end of year	17.8	17.8	0.0
Acquisitions during the year	-	-	-
Reclassification during the year	-17.8	-17.8	-
Unrealized change in value, recognized in			
other comprehensive income	-	-	-
Financial instruments measured at fair			
value at end of year	0.0	0.0	0.0

Fair value in accordance with the three levels above:

Level 1: Quoted prices in an active market place.

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

Level 3: Pricing model mainly based on own assumptions.

Note 20. Share capital

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

Number of shares: Parent Company	Class A shares	Class B shares	Class C shares	Total number
Number at January 1, 2017 Total number of shares at	100,000	12,532,061	_	12,632,061
December 31, 2017	100,000	12,532,061	-	12,632,061
Number at January 1, 2018	100,000	12,532,061	-	12,632,061
New share issue March 2018		812,000		812,000
Non-cash issue April 2018		164,584	-	164,584
New share issue November 2018			359,688	359,688
Conversion of class C shares to Class B shares December 2018 Total number of shares at		13,068	-13,068	0
December 31, 2018	100,000	13,521,713	346,620	13,968,333

Share capital at is 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 shares have a quota value of SEK 10. Class A and B shares grant equal rights to the company's assets and profits. Class C shares do not grant entitlement to dividends. Class A shares grant entitlement to ten votes and class B and C shares to one vote. At general shareholder meetings, each holder of voting shares is entitled to exercise the full number of votes held or represented by proxy without restriction.

Note 21. Proposed appropriation of profits

Share premium reserve

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

Total, SEK	362,629,984.03
To be carried forward to new account	294,521,419.03
Dividend of SEK 5.00 per share	68,108,565.00
The Board proposes that the profits be disposed of as follows:	
Total, SEK	362,629,984.03
Comprehensive income for the year	88,646,473.52
Retained earnings	19,861,533.87
Share premium reserve	204,121,770.04

254 121 976 64

Note 22. Accrued expenses

	Group		Parent Company	
SEK m	2018	2017	2018	2017
Accrued salaries and social security expenses	17.2	12.3	5.4	3.8
Other items	5.9	2.6	3.4	0.7
Total accrued expenses and deferred income		_		
	23.1	14.9	8.8	4.5

Note 23. Pledged assets

	Group		Parent Company	
SEK m	2018	2017	2018	2017
To secure own liabilities				
To secure pensions and similar obligations:				
Direct pension obligations	1.8	1.8	1.4	1.4
To secure liabilities to credit institutions:				
Machinery held under				
- finance leases	2.8	2.5	-	_
Total assets pledged to secure own liabilities	4.6	4.3	1.4	1.4
To secure other commitments				
Guarantees	_	-	-	-
Total pledged assets	4.6	4.3	1.4	1.4

Note 24. Participations in Group companies

	Parent Company		
SEK m	2018	2017	
Opening cost	189.4	189.4	
Acquisitions	281.9	-	
Shareholder contributions (vesting warrants)	4.9	-	
Closing accumulated cost	476.2	189.4	
Opening impairment	-		
Closing accumulated impairment	-	_	
Closing carrying amount	476.2	189.4	

Subsidiaries

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

Group composition

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

Primary activity	Geographic operations	Dec 31, 2018	Dec 31, 2017
Product development	Europe	2	1
Product development	Americas	1	1
Sales office	Europe	2	2
Sales office	Americas	1	1
Sales office	Asia	3	3

PARENT COMPANY HOLDINGS

					Number of	Carrying	Carrying
SEK m	Corp. ID no.	Domicile	% of capital	% of votes	shares	amount 2018	amount 2017
Direct holdings:							
IAR Systems AB	556230-7107	Uppsala, Sweden	100.0%	100.0%	22,846,224	162.7	162.3
Signum Systems Corp	1473886	Camarillo, USA	100.0%	100.0%	100,000	27.1	27.1
Secure Thingz Inc	813002824	Foster City, USA	100.0%	100.0%	8,640,112	286.4	-
Indirect holdings through subsidiaries:							
IAR Systems Software Inc	1830665	Foster City, USA	100.0%	100.0%	_	-	_
IAR Systems Ltd	2190612	Oxford, England	100.0%	100.0%	-	-	-
IAR Systems GmbH	HRB 175145	Munich, Germany	100.0%	100.0%	-	-	-
IAR Systems KK	0111-01-034174	Tokyo, Japan	100.0%	100.0%	-	-	-
IAR Software Technology Consulting (SH) Co. Ltd	660701822	Shanghai, China	100.0%	100.0%	-	-	-
IAR Systems Korea Co	110111-4699679	Seoul, South Korea	100.0%	100.0%	-	-	-
IAR Systems Sarl	539 357 327 R.C.S. Paris	Paris, France	100.0%	100.0%	-	-	-
IAR Systems Uppsala AB	556456-7690	Uppsala, Sweden	100.0%	100.0%	-	-	-
Secure Thingz Ltd	09193626	Cambridge, England	100.0%	100.0%	-	-	-
Closing carrying amount						476.2	189.4

Note 25. Business combinations

Acquisition of Secure Thingz

On April 11, 2018, IAR Systems concluded the acquisition of Secure Thingz. At the beginning of the financial year, IAR Systems owned approximately 10% of the shares in Secure Thingz. IAR Systems acquired an additional 10% in the first quarter of 2018 and the remaining 80% on April 11, 2018. 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 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. SEK m

Total cost of acquisition	290.3
Revaluation of previously acquired participation	17.5
Share-based purchase consideration	6.9
Amount withheld according to contract	16.5
Non-cash issue 164,584 class B shares	39.7
Cash and cash equivalents 20% (acquired Q2 2017 and Q1 2018)	38.4
Cash and cash equivalents 80% (acquired April 11, 2018)	171.3

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 stock option program for employees in Secure Thingz. Stock option

holders exchange their stock options in Secure Thingz for new stock options in IAR Systems. The economic value of the new stock options is to correspond to the value of the existing stock options. A total of 575,000 stock options in Secure Thingz have been exchanged for 73,413 stock options in IAR Systems Group AB in accordance with the approval from the Extraordinary General Meeting held on June 15. Of the 73,413 stock options, 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 stock options in the stock option program will continue until October 2022.

Share-based purchase consideration is recognized as part of the purchase consideration for stock options considered vested before the acquisition date. The share of the stock option pertaining to vesting after the acquisition date is recognized as remuneration of personnel in pace with vesting of the stock options, 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 stock option 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 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 and the amount expected to be received.

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.

PURCHASE CONSIDERATION - CASH OUTFLOW, SEK m	2018	2017
Cash consideration	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.

Note 26. Related party transactions

Of the Parent Company's total expenses of SEK 7.1m (4.2), 0% (0) pertains to purchases from other companies in the Group. Of the Parent Company's total sales revenue, 100% (100) pertains to inter-company sales. Of the year's total purchasing costs and sales revenue in the subsidiaries, 0% (0) pertains to purchases from the Parent Company and 0% (0) to sales to the Parent Company.

Transactions with other related parties

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

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

The annual report will be presented to the Annual General Meeting for adoption on April 24, 2019.

Stockholm, March 7, 2019

Stefan Skarin President and CEO Board member

Maria Wasing Board Chairman

Kent Sander Board member Helena Nordman-Knutson Board member Lisa Kaati Board member

Our auditor's report was submitted on March 7, 2019 Deloitte AB

Erik Olin

Authorized Public Accountant Auditor in Charge

Auditor's report

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of IAR Systems Group AB (publ) for the financial year 2018-01-01 – 2018-12-31. The annual accounts and consolidated accounts of the company are included on pages 44-80 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred

to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Kev Audit Matters

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

Revenue recognition

Consolidated net sales amounts to SEK 385.2 (345.0) million and derives from sales of both products and services. We have classified this as a key audit matter since revenue is significant and consist of a large number of smaller transactions where product and services in some cases is bundled into one customer offering. Promises of goods or services to customers that's meets the criteria of being distinct is accounted for as a performance obligation separate from other promised goods or services. Revenue is recognized when control of the underlying goods or services for that particular performance obligation is transferred to the customer. Identifying distinct promises (performance obligations) requires management to make significant judgements and estimates that may have a significant impact on the Group's net sales and earnings.

For further information, please refer to the Group's accounting policies and description of significant estimates and assumptions in note 1.

Our audit procedures included but were not limited to:

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

Recognition and valuation of capitalized software development cost

Consolidated capitalized software development cost amounts to SEK 100.3 (66.7) million and includes internally generated development costs. Development costs are capitalized when the criteria's, described in the Group's accounting policies in note 1 are met.

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

For further information, please refer to the Group's accounting policies and description of significant estimates and assumptions in note 1.

Our audit procedures included but were not limited to:

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

Business combinations

In 2018 IAR Systems Group AB acquired all outstanding shares and potential shares in Secure Thingz Inc. The consideration transferred amounts to SEK 290.3 million. Valuation of consideration transferred, acquired assets and liabilities assumed at fair value in accordance to IFRS is complex and requires management to make significant judgements and estimates.

For further information, please refer to the Group's accounting policies in note 1 and disclosures of business combination in note 25.

Our audit procedures included, but were not limited to:

- with support of our valuation specialist, reviewing and challenging management's assessment of fair value of consideration transferred, acquired assets and liabilities assumed:
- review of net assets recognized in the acquired entity at the date of the acquisition; and
- assessing whether disclosures in the annual report meet the requirements under IFRS.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–43 and 84–93. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern

basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

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

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

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

- and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- > Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

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

From the matters communicated with the Board of Directors, I (we) determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. I (We) describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of IAR Systems Group AB (publ) for the financial year 2018-01-01 – 2018-12-31 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment

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

Auditor's responsibility

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will

always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

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

Deloitte AB, was appointed auditor of IAR Systems Group AB by the general meeting of the shareholders on the 2018-04-25 and has been the company's auditor since 2012-04-24.

Stockholm, March 7, 2019

Deloitte AB

Erik Olin Authorized Public Accountant

Corporate governance report

IAR Systems Group is a Swedish public limited company domiciled in Stockholm, Sweden. In 2018, the Group conducted operations in Sweden, the UK, Germany, France, the USA, Japan, Korea and China. The IAR Systems share is quoted on the Mid Cap list of Nasdaq Stockholm.

The corporate governance report for 2018 has been reviewed by IAR Systems Group's auditors, in accordance



with the provisions of the Swedish Annual Accounts Act.

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

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

Shareholders

IAR Systems Group's shares have been quoted on Nasdaq Stockholm since 1999. The share capital in IAR Systems Group consists of class A shares, which carry ten votes each, and class B shares, which carry one vote each. In total, there are 13,968,333 shares, divided between 100,000 class A shares, 13,521,713 class B shares and 346,620 class C shares. Class A and class B shares grant equal rights to the company's assets and profits. Class C shares do not grant entitlement to dividends. All of the class C shares are in own holdings.

The number of shareholders in IAR Systems Group at December 31, 2018 was 7,262 [8,062]. Of these shareholders,

425 (454) held more than 1,000 shares each. Foreign shareholders held approximately 32% (25) of the share capital and 30% (23) of the votes. For additional information about the shareholders and ownership structure, see pages 34–35.

General meeting of shareholders

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

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

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

2018 Annual General Meeting

The AGM re-elected sitting Board members Maria Wasing, Lisa Kaati, Kent Sander and Stefan Skarin. Helena Nordman-Knutson was elected as a new Board member. The AGM appointed Maria Wasing as Board Chairman.

It was furthermore decided that Board fees would be paid in an annual amount of SEK 375,000 to the Board Chairman and SEK 165,000 to each of the other Board members.

No fees are paid to the Board members who are employed in the company.

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

The AGM resolved in accordance with the Board's proposal to pay a dividend of SEK 5.00 per share for the 2017 financial year.

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

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

Board of Directors

The Board of Directors consists of five members elected by the AGM and no deputies. The members elected by the AGM are appointed to serve for the period until the next AGM in accordance with the Code. There is no rule stipulating the maximum period of time for which a member can serve on the Board. The Board members and their dependency status in relation to the company's shareholders, etc., are shown in the table on page 85.

The average age of the Board members is 54 years and three of the five members are women. The nominating committee considers all of the Board members except one to be independent in relation to the company, its management and the company's major shareholders. IAR Systems Group meets the requirements in the Code regarding the Board of Directors' independence in relation to the company, its management and the company's major shareholders.

Work and responsibilities of the Board

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

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

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

Work of the Board in 2018

In 2018, the Board held 15 meetings, of which six were scheduled and nine were extraordinary meetings. Each of the regular meetings followed an approved agenda, and both the proposed agendas and underlying documentation were sent to the Board members prior to each meeting. The CEO and certain other senior executives in the company took part in Board meetings in a reporting capacity and the company's CFO served as secretary of the Board. At the Board meetings, the Board dealt with the fixed items on the agenda for each meeting, such as the business and market situation, financial reporting and monitoring, the company's financial position and investments. The Board members' attendance at meetings is shown in the table on page 86.

Remuneration to the Board

The Chairman and other members of the Board of Directors are paid fees in accordance with the decision of the AGM. No additional remuneration is paid for work on the Board's committees. No Board fees are paid to members who receive a salary from companies in IAR Systems Group. In 2018, this rule applied to Stefan Skarin.

Board committees and committee work

In order to address the Board members' independence, two committees have been established: the remuneration committee and the audit committee, whose members are appointed by the Board. The main task of these committees is to prepare proposals for decision by the Board. The committees do not constitute any delegation of the legal responsibilities of the Board and its members. The issues dealt with at the committee meetings are reported verbally to the Board at the following Board meetings. No additional remuneration is paid for work on the Board's committees. See also page 87 for a description of the nominating committee and other Board committees.

Auditors

The independent auditor is appointed by the AGM and its task is to examine the company's financial reporting and the administration of the company by the Board of Directors and the CEO. The auditor was appointed by the 2018 AGM, at which time Deloitte was elected as auditor to serve for the period until the end of the 2019 AGM. Auditor in Charge is Erik Olin (born in 1973). In addition to IAR Systems Group, he has audit assignments for CLX Communications, Micro Systemation, NetEnt, Microsoft Sweden and Telia Company Sweden, among others.

On two occasions during the year, the Auditor in Charge met with the Board to present the focus and scope of the audit, report his observations from the review of the interim report at September 30, his evaluation of internal control and the audit of the annual accounts for the 2018 financial year. On one occasion during the year, the Board met with the auditor without the presence of the CEO or other members of the company's management.

Deloitte issues an auditor's report regarding IAR Systems Group AB, IAR Systems AB and the Group. Deloitte also performs non-audit services for the companies in the IAR Group. These have mainly consisted of tax consultations in direct connection with the audit. For this work, Deloitte invoiced a total amount of SEK 0.2m (0.1) in 2018. The auditor is paid fees in accordance with the decision of the AGM. For information about fees to auditors in 2017 and 2018, see Note 6 on page 66.

Remuneration **BOARD 2018** Elected Dependent committee Audit committee Maria Wasing, Chairman 2015 Νo Chairman Chairman Lisa Kaati 2017 Nο Member Member Kent Sander 2017 Nο Member Member Helena Nordman-Knutson 2018 No Member Member Stefan Skarin 2002 Yes Member

CFO

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

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

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

Stefan Skarin has been President and CEO since February 2008.

Remuneration to the CEO and other senior executives

The principles for remuneration to the CEO and other senior executives are prepared by the remuneration committee and presented to the Board, which puts forward proposals for such principles for approval by the AGM. The group Other senior executives refers to CFO and Product Manager. For

REMUNERATION TO THE BOARD

SEK thousand	2018	2017
Maria Wasing, Chairman ¹	375	305
Lisa Kaati²	165	110
Kent Sander ²	165	110
Helena Nordman-Knutson³	110	-
Jonas Mårtensson ⁴	55	165
Stefan Skarin	-	-
Markus Gerdien, Chairman⁵	_	125
Peter Larsson ⁶	-	55

- ¹ Member until the Annual General Meeting on April 26, 2017, thereafter Chairman
- ² Member since the Annual General Meeting on April 26, 2017
- ³ Member since the Annual General Meeting on April 25, 2018
- ⁴ Member since the Annual General Meeting on April 25, 2018
- ⁵ Chairman until the Annual General Meeting on April 26, 2017
- ⁶ Member until the Annual General Meeting on April 26, 2017

2018, the Group applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM. Remuneration to the CEO and other senior executives consists of fixed salary, variable salary, pension and other customary benefits. The maximum variable salary for the CEO and other senior executives corresponds to 50% of fixed salary. Pension benefits and other benefits are paid as part of the total remuneration package.

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

Gender equality and diversity policy

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

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

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

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

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

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

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

Internal control

The Swedish Companies Act and the Swedish Code of Corporate Governance state that the Board of Directors is responsible for ensuring that the company has satisfactory internal control. for staying informed about the company's internal control system and for evaluating the effectiveness of this system.

Control environment

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

REMUNERATION TO THE CEO AND OTHER SENIOR EXECUTIVES 2018

SEK thousand	Year	Fixed salary	Variable salary	Benefits	Pension costs	Share-based remuneration	Total
Stefan Skarin, CEO	2018	3,240	1,598	163	312	138	5,451
	2017	3,602	1,140	151	310	-	5,203
Other senior executives	2018	3,297	1,437	188	741	50	5,713
	2017	3.309	1.016	207	736	_	5 268

ATTENDANCE AT BOARD MEETINGS IN 2018

	Feb	Mar	Mar	Mar	Apr	Apr	Apr 25	May	Jul	Aug	Sep	Nov	Nov	Dec	Dec	
	5	8	20	28	11	25	Stat.	15	5	15	5	9	9	12	12	Total
Maria Wasing, Chairman ¹	~	~	√	~	~	~	~	✓	~	~	~	~	✓	✓	✓	15/15
Lisa Kaati²	✓	~	~	~	✓	~	~	~	✓	15/15						
Kent Sander ²	✓	~	~	~	~	~	~	~	✓	✓	✓	✓	✓	✓	~	15/15
Helena Nordman-Knutson³							~	~	✓	✓		✓	✓	✓	~	8/9
Stefan Skarin	✓	✓	~	~	✓	~	~	~	✓	✓	✓	✓	✓	✓	~	15/15
Jonas Mårtensson ⁴	✓	✓	~	~	✓	~										6/6

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

Risk assessment

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

Control activities

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

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

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

BOARD'S FINANCIAL CALENDAR

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

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

³ Chairman since the Annual General Meeting on April 25, 2018

⁴ Member until the Annual General Meeting on April 25, 2018

Remuneration committee

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

Remuneration committee, two meetings

Maria Wasing, *Chairman*Helena Nordman-Knutson. Lisa Kaati. Kent Sander

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

Ahead of the 2019 AGM, the committee will prepare proposed principles for remuneration and other terms of employment for senior executives which the Board will then present for approval by the AGM in accordance with the Swedish Companies Act and the Code. All members attended the committee's two meetings.

Audit committee

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

Audit committee, two meetings

Maria Wasing, *Chairman* Helena Nordman-Knutson, Lisa Kaati, Kent Sander, Stefan Skarin

The committee is responsible for assessing the auditors' independent status in relation to the company, including the scope of the auditors' non audit-related services for the company. All members attended the committee's two meetings.

Nominating committee

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

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

Nominating committee, three meetings

(up to and including February 28, 2019) Jonas Eixmann, Andra AP-fonden, *Chairman* Mats Larsson, Första AP-fonden, and Jonas Wikström, appointed by Stefan Skarin.

The AGM on April 25, 2018 resolved to appoint a nominating committee according to the following principles. By September 30, 2018, at the latest, the Board Chairman shall convene the three largest shareholders in the company in terms of voting power, each of which shall then appoint a member to the nominating committee. In addition, the Chairman of the Board may be appointed to the nominating committee. The composition of the nominating committee is to be made public not later than six months prior to the 2019 AGM. In the event of material changes to the ownership structure, the composition of the nominating committee may be changed in accordance with the above policies.

The nominating committee has interviewed all the Board members and evaluated the Board's performance, qualifications and composition. In its evaluation of the Board, the nominating committee has placed particular emphasis on the requirement for diversity and breadth on the Board and the requirement to strive for an even gender distribution. Shareholders were welcome to submit proposals and viewpoints to the nominating committee. The nominating committee's proposals have been announced in the notice to attend the AGM, on the company's website and at the 2019 AGM.

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

Proposals to be submitted to the 2019 AGM for resolution:

- > Chairman of the AGM
- The number of Board members and amount of Board fees, divided between the Chairman and other Board members
- > Election of Board members and the Board Chairman
- > Election of auditor and fees to the company's auditor
- > The nominating committee ahead of the 2020 AGM

The Auditor's examination of the corporate governance statement

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

The Board of Directors is responsible for that the corporate governance statement on pages 84–87 has been prepared in accordance with the Annual Accounts Act.

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

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

Stockholm, March 7, 2019

Deloitte AB

Erik Olin, Authorized Public Accountant

Board of Directors

Kent Sander Board member

Born in: 1953.

Education: BSc in economics and business administration from Stockholm University.

Work experience: Over 35 years' experience from leading positions in international telecom and high-tech IT companies. Has spent over 20 years in the USA, where he served as Executive VP Sales at Ericsson and CEO of TruePosition Inc. Back in Sweden, he has held positions such as Senior Partner in Brainheart Capital, Board Chairman of Transmode (2009–2013) and Advisory Board Representative at Samsung Electronics, Ltd. in Seoul, South Korea.

Employment and other board assignments: Board Chairman of Tobii AB, Triboron International AB, OnePhone Holding AB and Serneke Group AB. Board member of Edgeware AB, BT OnePhone, Ltd. and Incell International AB.

Elected to the Board in: 2017

Shareholding: -

Maria Wasing Board Chairman

Born in: 1970.

Education: BA in marketing and organizational theory from the University of Arkansas at Little Rock.

Work experience: More than 20 years' experience of software companies and the online industry, having held several senior positions in marketing, communication, sales and partner strategy at companies such as EpiServer and Industri-Matematik.

Employment and other board assignments: EVP/C00 at Axiell, Board member of FrontIT AB and LimeTechnologies.

Elected to the Board in: 2015. Shareholding: 500 class B shares.

Stefan Skarin Board member

Born in: 1962.

Education: IHM Business School and economics studies at Stockholm University.

Work experience: Stefan has been CEO of IAR Systems since April 2009. Stefan has been a Board member of IAR Systems Group AB (formerly Intoi AB) since 2002 and CEO since February 2008 (as well as CEO between 2001 and 2006). As CEO of Intoi, Stefan was a driving force behind Intoi's acquisition of IAR Systems in 2005 and Intoi's focus on IAR Systems in 2011. Stefan has over 30 years' experience in the IT and software industry, including as Sales Director at Adobe Nordic, CEO of Interleaf Norden and several senior international positions at Oracle Corporation.

Employment and other board assignments: CEO of IAR Systems.

Elected to the Board in: 2002.

Shareholding: Via endowment insurance. **Warrant holding:** 50,000 share warrants.

Lisa Kaati Board member

Born in: 1975.

Education: PhD in computer science from Uppsala University and an Executive MBA from Stockholm University.

Work experience: Lisa defended her thesis in theoretical computer science at Uppsala University in 2008 and now works at the Swedish Defense Research Agency (FOI) where she leads a research team. Lisa has written more than 50 scientific articles and is currently working on a government project studying digital environments. Lisa is also a member of the Swedish Broadcasting Commission and several reference groups for different research projects. Lisa has

previously worked as a contributing program manager for IoT Sweden looking at how IoT can be used for innovative social development.

Employment and other board assignments: Researcher at the Swedish Defense Research Agency (FOI) in the field of security informatics.

Elected to the Board in: 2017.

Shareholding: 100 class B shares.

Helena Nordman-Knutson Board member

Born in: 1964.

Education: MSc in political science and economics
Work experience: Manager Business Intelligence at Ericsson,
Financial Analyst at SEB Enskilda, Orkla Securities, Öhman
Fondkommission, Pareto Securities, and Executive Director,
Capital Market at Hallvarsson & Halvarsson.

Employment and other board assignments: Executive Director, Capital Market at Hallvarsson & Halvarsson, Alimak Group, Exel Composites (FIN) and Lexington Company. Elected to the Board in: 2018.

Shareholding: -



Group Management

Anders Holmberg

Chief Strategy Officer at IAR Systems

Born in: 1967.

 $\textbf{Education:} \ \mathsf{BSc} \ \mathsf{in} \ \mathsf{mathematics} \ \mathsf{and} \ \mathsf{computer} \ \mathsf{science}$

from Uppsala University.

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

Shareholding: -

Warrant holding: 50,000 share warrants.

Haydn Povey

CEO of Secure Thingz

Born in: 1970.

 $\textbf{Education:} \ \mathsf{MSc} \ \mathsf{in} \ \mathsf{electrical} \ \mathsf{engineering} \ \mathsf{from} \ \mathsf{the}$

University of Kent.

Work experience: Haydn Povey, well-known security expert and Board member of the IoT Security Foundation, has held senior positions at global technical companies for more than 20 years, including over ten years at Arm. In his most recent role at Arm, he led the company's security strategy in the mobile and IoT domains, which entailed participating in

discussions concerning security standards at the government level in the USA as well as the UK. Haydn also helped lead the development and market introduction of the Arm Cortex-M processor family, which now dominates the embedded systems and IoT markets.

Shareholding: 135,417 class B shares. **Warrant holding:** 20,000 stock options.

Stefan Skarin

CEO IAR Systems Group and IAR Systems

Born in: 1962.

Education: IHM Business School and economics studies at Stockholm University.

Work experience: Stefan has been CEO of IAR Systems since April 2009. Stefan has been a Board member of IAR Systems Group AB (formerly Intoi AB) since 2002 and CEO since February 2008 (as well as CEO between 2001 and 2006). As CEO of Intoi, Stefan was a driving force behind Intoi's acquisition of IAR Systems in 2005 and Intoi's focus on IAR Systems in 2011. Stefan has over 30 years' experience in the IT and software industry, including as Sales Director at Adobe Nordic, CEO of Interleaf Norden and several senior international positions at Oracle Corporation.

Shareholding: Via endowment insurance. **Warrant holding:** 50,000 share warrants.

Carl Johan Toll

IT Manager and COO at IAR Systems Group

Born in: 1962.

Education: Mathematics and computer engineering at Uppsala University.

Work experience: IT Manager at SDR Svensk Direktreklam

and various roles at Nocom for 15 years. **Shareholding:** 2,000 class B shares. **Warrant holding:** 3,000 share warrants.

Stefan Ström

Chief Financial Officer of IAR Systems Group

Born in: 1958.

Education: MBA from Lund University.

Work experience: Stefan has served as Chief Operating Officer (COO), CEO (2006–2008) and CFO of IAR Systems Group AB since 1997 (formerly Intoi AB). Stefan was a driving force behind the acquisition of IAR Systems in 2005 and Intoi's focus on IAR Systems in 2011.

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

Warrant holding: 10,000 share warrants.

Erik Olin Auditor

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



Industry-specific glossary

8-, 16-, 32-bit

Processor architectures vary in complexity and size. 8-, 16- and 32-bit define the amount of code and data the processor can address.

Application

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

Architecture

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

Arm

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

C-RUN

C-RUN is an add-on product for IAR Embedded Workbench that analyzes the code when it is executed in a developer's application. By using C-RUN, developers can identify errors and bugs at an early stage of the development process.

C-STAT

C-STAT is an add-on product for IAR Embedded Workbench that executes a static code analysis. Using C-STAT, developers can verify the quality of the code at an early stage and ensure compliance with rules and coding standards.

Debug probe

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

Debugger

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

Embedded Trust

Embedded Trust is software that makes implementing security in embedded systems easy and efficient.
Embedded Trust is tightly integrated with IAR
Embedded Workbench.

Functional safety

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

IAR Embedded Workbench

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

IAR Visual State

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

Embedded system

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

Integrated circuit

An integrated circuit is a small, typically rectangular silicon substrate onto which micrometer-sized transistors are mounted, sometimes in numbers of more than one million.

Internet of Things

The Internet of Things (IoT) is a collective term for the trend of equipping objects, such as machinery, vehicles and household appliances, with sensors and processors so that they can perceive and communicate with the world around them.

Compiler

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

Source code

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

Microprocessor

A microprocessor consists of a single integrated circuit (or at most a few integrated circuits). The circuit incorporates the functions of a computer's central processing unit (CPU) with storage of code and data.

Processor

When the word is used in connection with IAR Systems' products, processor is an abbreviation of microprocessor.

Renesas

Renesas is one of the world's largest processor vendors, with a wide product portfolio and a longstanding partnership with IAR Systems. IAR Systems is the tool supplier in the embedded systems market that supports the most Renesas processors.

RISC-V

RISC-V is a processor architecture similar to the Arm architecture in structure, but created with open source code.

Security

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

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



IAR Systems Group AB Kungsgatan 33, SE-111 56 Stockholm, Sweden www.iar.com