

IAR SYSTEMS GROUP AB
INTERIM REPORT JANUARY–MARCH 2019

Q1

Net sales SEK 99.8m (88.9)

Operating margin 29.5%

Investments in technology create possibilities for four product launches this year

PROFIT SUMMARY

	3 months Jan-Mar		Full-year
SEK m	2019	2018	2018
Net sales	99.8	88.9	385.2
Operating expenses	-70.4	-59.4	-269.6
Operating profit	29.4	29.5	115.6

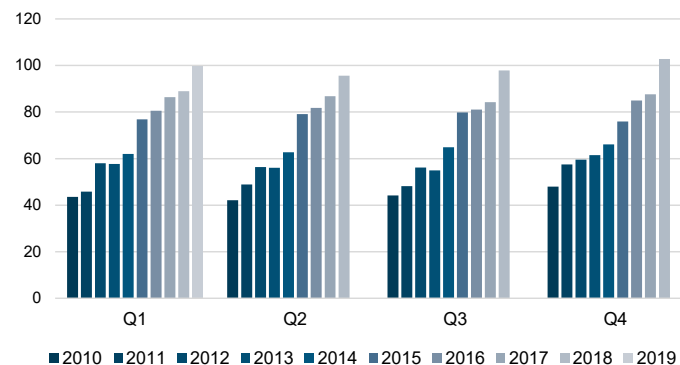
KEY RATIOS

	3 months Jan-Mar		Full-year
	2019	2018	2018
EBITDA margin, %	38.5	39.0	36.4
Operating margin, %	29.5	33.2	30.0
Net cash, SEK m	73.2	112.2	103.3
No. of employees at end of period	206	161	200

JANUARY-MARCH 2019

- › Net sales of SEK 99.8m (88.9)
- › Sales growth in local currency of 4%
- › EBITDA of SEK 38.4m (34.7), corresponding to an EBITDA margin of 38.5% (39.0)
- › Operating profit of SEK 29.4m (29.5), corresponding to an operating margin of 29.5% (33.2)
- › Profit before tax of SEK 29.2m (29.1)
- › Basic earnings per share of SEK 1.68 (1.81) and diluted earnings per share of SEK 1.68 (1.81)
- › Cash flow from operating activities of SEK 19.1m (19.1)
- › Net cash of SEK 73.2m (112.2) at the end of the period

CONTINUOUS GROWTH IN NET SALES



Increasing our lead through financial stability and investments

Embedded Trust and C-Trust for IAR Embedded Workbench are both ready for delivery, following a year focused on security solutions. Interest in our security products is strong and we believe that these products, in the long term, will have a positive effect on the company's development.

We continued to be successful in recruiting for Secure Thingz, both in Sweden and the UK. We have primarily recruited developers as well as employees for certain other support functions. The total number of employees is now over 200, with almost 50 new people added compared to last year. With close to 100 developers in the Group, we have made a significant investment in new technology and refining our existing products.

We will be carrying out four major product launches during the coming year, which is an unprecedented accomplishment in the company's 35-year history. Products within security solutions are high on our customers' wish lists.

Besides security, one of the year's major launches involves products to support the new RISC-V architecture, a development project that in many respects is similar to our earlier projects even if there are also a number of challenges in working with a new architecture. These challenges primarily relate to the expectations that our existing development tools have created for other architectures when it comes to being the best in terms of code speed and optimization.

Sales during the first quarter were also affected by certain major transactions. We have previously reported that we see a trend of major customers choosing to standardize their development based on our products, a trend we can see is now lasting longer than we first thought.

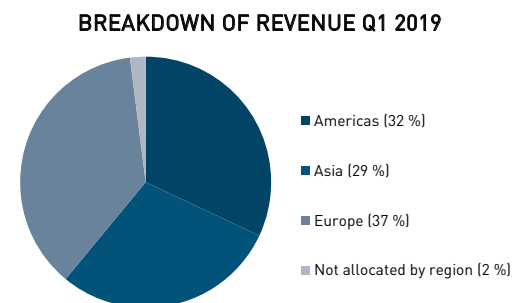
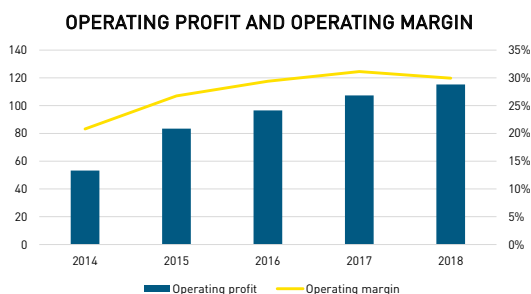
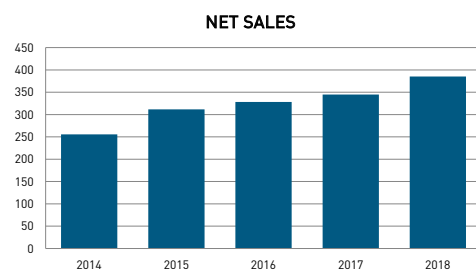
We are seeing a recovery in the US, and growth in Asia remains stable. Europe continues to report a positive trend, but is not growing compared to last year since a major transaction in the first quarter of last year is affecting the comparison.

Customers expect suppliers like us to deliver a certain level of stability in our technology, which in turn demonstrates that we have the financial security to adopt the long-term approach required by our major customers. This is also something that is reflected in the growth we are seeing in our functional safety products.

Although we are making substantial investments, we have maintained stable profitability, which is important both for us and for our customers and partners. We still see major opportunities in the markets we have chosen to prioritize.

Market

RISC-V has doubtless had the biggest impact on the traditional market for embedded systems. The implementation of RISC-V is still in an early stage, but the number of implementations is rapidly increasing. In China in particular, growing numbers of microchip suppliers are choosing RISC-V for their future product portfolios.



The trend in China has naturally affected most of Asia, but this has also created a trend of regional processor vendors who have found themselves in niche markets and, with RISC-V as their technology, are following China's ambitious lead.

The reason vendors are choosing RISC-V is primarily that, unlike Arm (the world's largest process architecture), there are no licensing fees or royalties. At the same time, processor vendors can compete through increased profitability and innovation by creating something of their own based on RISC-V rather than simply relying on Arm. At least one processor vendor chooses RISC-V every day, and this puts demands on a broad ecosystem of solutions. An ecosystem where our goal is to drive expansion.

Within security solutions, the fastest-growing trend is the motivation of government agencies to legislate rules for managing connected electronics and the information they contain.

The EU General Data Protection Regulation (GDPR), whose implementation impacted most people in Europe, is now being followed by a similar trend in electronics. This will essentially involve a framework of best practices connected to regulations concerning penalty payments for breaking a few basic technological implementation requirements. These may include, for example, that a password must be unique or that user information be erasable.

One year ago, fewer than five countries had changed their laws and regulations; today, that number is more than 20. The reason for this rapid growth is that several countries have followed each other due to the markets affected. In Europe, the EU has performed its first recall of a connected device for children, which proved easily capable of stealing information from the user. Overall, several processor vendors have reported declining growth as a result of the business climate, but there are obviously exceptions, for example in markets such as the automotive industry and IoT.

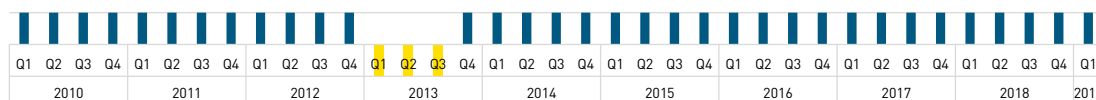
Historically, we have not been noticeably impacted by business cycles or seasonal variations, but we naturally keep a close eye on the markets and act as needed.

We are seeing a major change in the market and the emergence of new driving forces, such as government regulations, processor vendors building equipment for the future and customer demands for new, effective solutions and stable suppliers. Through new technology and new products, we are creating possibilities while also meeting our customers' needs in a market that is still going through a major shift that will last for several years.

Focusing on the Group itself, we have product launches scheduled for every quarter this year, a strong organization that is ready for the challenges and also a stable financial position.

NET SALES

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



OPERATING PROFIT

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



Financial information

SALES AND NET SALES

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

In a year-on-year comparison, total sales growth in local currency was 4%. This 4% sales growth for the period resulted in an increase in net sales of 12% after the accrual of prepaid maintenance and support agreements (-1%) and positive foreign exchange effects (9%). Refer to the table below.

Sales

During the first quarter, we saw a recovery in the US, and growth in Asia remained stable. Europe continues to report a positive trend, but is not growing compared to last year since a major transaction in the first quarter of last year is affecting the comparison. Sales during the first quarter were also affected by certain major transactions. We have previously reported that we see a trend of major customers choosing to standardize their development based on our products, a trend we can see is now lasting longer than we first thought.

Net sales

Net sales rose 12% during the period compared with the corresponding period in the preceding year. Net sales amounted to SEK 99.8m (88.9). Net sales for the period are distributed as follows: Development tools SEK 99.4m (88.9) and Security solutions SEK 0.4m (-). Royalty-based revenue of SEK 1.4m (1.3) from the agreement with Renesas Electronics Corporation was reported during the period. This royalty-based revenue pertained to the guaranteed minimum remuneration for the period.

In a year-on-year comparison, currency translation had a positive impact of SEK 7.8m on net sales for the period.

3 months Jan-Mar	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
Americas	5%	6%	15%	26%	32%
Europe	- 4%	0%	4%	0%	37%
Asia	15%	- 9%	10%	16%	29%
Not allocated	26%	-	-	26%	2%
Total	4%	- 1%	9%	12%	100%

EARNINGS

EBITDA for the period totaled SEK 38.4m (34.7), corresponding to an EBITDA margin of 38.5% (39.0) for the period. Operating profit for the period remained almost unchanged at SEK 29.4m (29.5). Operating expenses were reduced by SEK 19.8m (4.3) during the period through the capitalization of development costs for software and debug probes. The increase in capitalized expenses is due to developments in Secure Thingz. Of the internal expenses that were capitalized, SEK 16.0m (3.5) pertained to personnel costs.

In a year-on-year comparison, currency translation had a positive impact of SEK 4.3m on operating profit for the period.

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

INVESTMENTS AND FINANCING

Investments in property, plant and equipment for the period totaled SEK 0.7m (0.4).

Investments in intangible assets for the period amounted to SEK 20.5 (4.7). Most of these investments, SEK 19.8m (4.3), pertain to the capitalization of development costs for software and debug probes. Investments in intangible assets increased during the period due to the acquisition of Secure Thingz in April 2018.

The equity/assets ratio at March 31, 2019 was 75% (80).

CASH FLOW, CASH AND CASH EQUIVALENTS

Cash flow from operating activities for the period amounted to SEK 19.1m (19.1).

Cash flow from investing activities for the period totaled SEK -20.4m (-25.7). Most of these investments pertain to the capitalization of development costs for software and debug probes.

Cash flow from financing activities for the period totaled SEK -2.2m (-0.0).

As of March 31, 2019, the Group had net cash of SEK 73.2m (112.2). Net cash was affected negatively by the application of IFRS 16 after the end of 2018. See also Note 1 Accounting policies. Cash and cash equivalents at the end of the period totaled SEK 104.4m (114.5). In addition, the Group had unutilized bank overdraft facilities of SEK 225.0m (225.0). The Group's total available cash and cash equivalents thus amounted to SEK 329.4m (339.5).

EMPLOYEES

The number of employees in IAR Systems at the end of the period was 206 (161). The average number of employees during the period was 193 (152).

PARENT COMPANY

The activities of the Parent Company consist of Group management, finance and IR/PR functions. The Parent Company's net sales for the period amounted to SEK 3.0m (3.0). The Parent Company posted a loss after financial items of SEK -1.4m (-1.3). Net investments in property, plant and equipment amounted to SEK 0.0m (0.0). Cash and cash equivalents at March 31, 2019 totaled SEK 10.4m (1.2). The number of employees in the Parent Company at the end of the period was four (four).

2019 ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of IAR Systems Group will be held on April 24, 2019, at Spårvagnshallarna, Birger Jarlsgatan 57 A, in Stockholm. As of the end of March 2019, the annual report for IAR Systems Group is available on the company's website, www.iar.com, and at the company's offices at Kungsgatan 33 in Stockholm and Strandbodgatan 1 in Uppsala.

NOMINATING COMMITTEE

In accordance with the decision of the AGM in April 2018, the nominating committee has been appointed and consists of Jonas Eixman (Andra AP-fonden), Mats Larsson (Första AP-fonden) and Jonas Wikström (representing Stefan Skarin). Jonas Eixman was appointed Chairman of the nominating committee. The nominating committee's motions for the 2019 AGM are available on the company's website, www.iar.com.

PROPOSED DIVIDEND

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

SIGNIFICANT RISKS AND UNCERTAINTIES

The market for IAR Systems' software is evolving rapidly and forecasts about future developments are thus uncertain. IAR Systems Group's assessment is that no significant risks and uncertainties have changed or arisen aside from those described in the annual report for 2018 under "Administration report" on pages 46–47 and in Note 2 on pages 63–64. The acquisition of Secure Thingz is not expected to noticeably change the company's significant risks and uncertainties.

IAR Systems Group is continuously following developments in Brexit and does not currently believe it will entail any significant risks or uncertainties in the Group. In the UK, the Group primarily conducts development operations through the wholly owned subsidiary Secure Thingz.

FUTURE OUTLOOK

The Board's financial targets are for IAR Systems Group's sales to grow by 10–15%

annually in local currency and for the operating margin to exceed 25% over a business cycle.

FINANCIAL CALENDAR 2019

2019 Annual General Meeting, April 24, 2019

Interim report Jan–Jun 2019, August 21, 2019

Interim report Jan–Sep 2019, November 7, 2019

REVIEW

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

Income statement

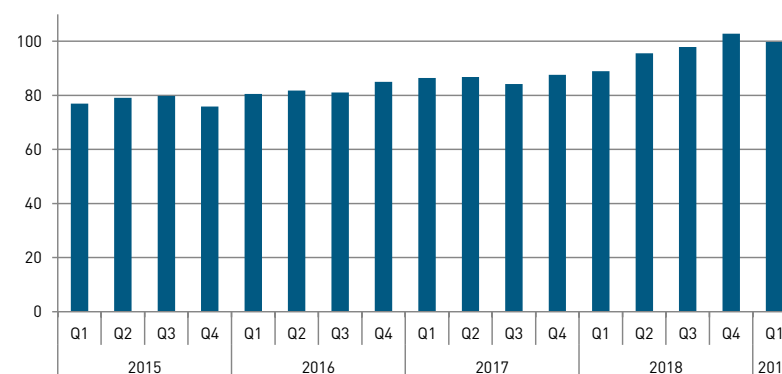
CONDENSED CONSOLIDATED INCOME STATEMENT

SEK m	Note	3 months Jan–Mar		Full-year
		2019	2018	2018
Net sales	1, 2	99.8	88.9	385.2
Goods for resale		-2.1	-2.8	-9.0
Other external expenses		-13.6	-12.3	-68.2
Personnel costs		-45.7	-39.1	-167.9
Depreciation of property, plant and equipment		-0.5	-0.5	-2.6
Depreciation of right-of-use assets		-2.2	-	-
Amortization of intangible assets		-6.3	-4.7	-21.9
Operating profit		29.4	29.5	115.6
Financial income		0.3	0.0	0.1
Financial expenses		-0.5	-0.4	-1.9
Profit before tax		29.2	29.1	113.8
Tax		-6.3	-6.3	-26.2
Profit for the period		22.9	22.8	87.6
Earnings per share for the period, basic, SEK		1.68	1.81	6.67
Earnings per share for the period, diluted, SEK		1.68	1.81	6.65

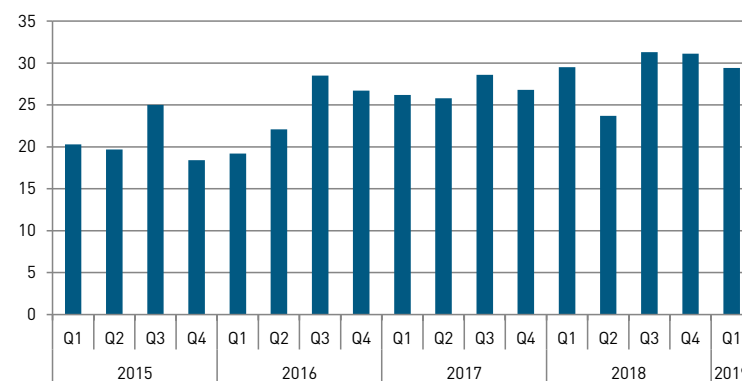
STATEMENT OF COMPREHENSIVE INCOME

SEK m	3 months Jan–Mar		Full-year
	2019	2018	2018
Profit for the period	22.9	22.8	87.6
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences	19.7	1.4	-6.7
Change in value of non-current securities	-	17.9	17.5
Total other comprehensive income	19.7	19.3	10.8
Comprehensive income for the period	42.6	42.1	98.4
Comprehensive income for the period attributable to owners of the Parent Company	42.6	42.1	98.4

NET SALES, SEK m



OPERATING PROFIT, SEK m



Balance sheet

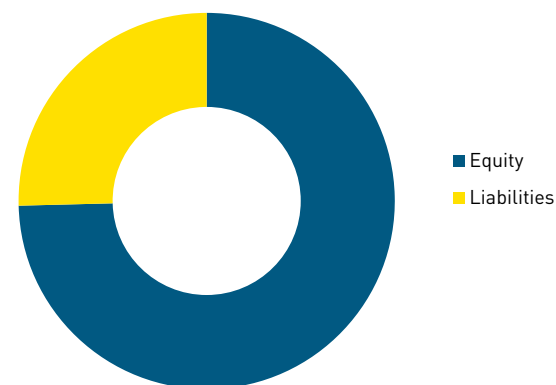
CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Mar 31, 2019	Mar 31, 2018	Dec 31, 2018
ASSETS				
Non-current assets				
Goodwill	3	354.5	113.5	339.3
Other intangible assets	4	164.3	81.6	144.8
Property, plant and equipment		6.3	5.9	8.9
Right-of-use assets		29.9	-	-
Financial assets		1.8	58.0	1.8
Deferred tax assets	5	15.1	2.8	13.3
Total non-current assets		571.9	261.8	508.1
Current assets				
Inventories		6.4	4.6	6.6
Other current assets		44.0	198.2	38.2
Trade receivables		69.7	54.1	63.2
Cash and cash equivalents		104.4	114.5	106.1
Total current assets		224.5	371.4	214.1
TOTAL ASSETS		796.4	633.2	722.2
EQUITY AND LIABILITIES				
Total equity		593.8	507.6	550.0
Non-current liabilities				
Lease liabilities		23.1	1.4	1.2
Other non-current liabilities		1.8	1.8	1.6
Deferred tax liabilities		33.8	13.9	29.6
Total non-current liabilities		58.7	17.1	32.4
Current liabilities				
Trade payables		9.4	7.7	7.3
Lease liabilities		8.1	0.9	1.6
Deferred income		82.3	65.3	79.0
Other current liabilities		44.1	34.6	51.9
Total current liabilities		143.9	108.5	139.8
TOTAL EQUITY AND LIABILITIES		796.4	633.2	722.2

CHANGES IN EQUITY, GROUP

	3 months Jan-Mar	Full- year	
SEK m	2019	2018	2018
Equity at beginning of period	550.0	290.4	290.4
New share issue, after deductions for transaction costs and tax	0.0	175.1	177.5
Share buybacks	-	-	-3.6
Warrants, after deductions for transaction costs and tax	-	-	3.6
Non-cash issue	-	-	39.7
Value of share-based remuneration	1.2	-	12.0
Dividend	-	-	-68.0
Comprehensive income for the period	42.6	42.1	98.4
Equity at end of period	593.8	507.6	550.0
Of which, attributable to owners of the Parent Company	593.8	507.6	550.0

EQUITY/ASSETS RATIO March 31, 2019



Cash flows

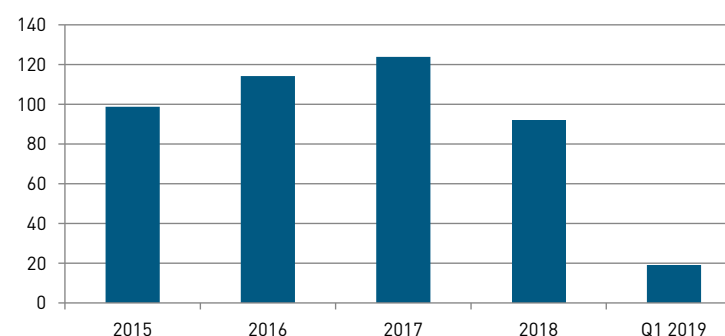
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 months Jan–Mar		Full-year
SEK m	2019	2018	2018
Incoming payments from customers	92.3	85.7	381.1
Outgoing payments to suppliers and employees	-68.1	-54.0	-250.0
Interest received	0.0	0.0	0.0
Interest paid	-0.5	-0.5	-1.7
Income taxes paid	-4.6	-12.1	-36.8
Cash flow from operating activities	19.1	19.1	92.6
Investments in property, plant and equipment	-0.7	-0.4	-4.3
Investments in intangible assets	-19.7	-4.7	-42.5
Investments in subsidiaries	-	-	-170.8
Sale of other investments	-	-	0.1
Investments in other investments	-	-20.6	-
Cash flow from investing activities	-20.4	-25.7	-217.5
New share issue, after deductions for transaction costs	-	-	176.0
Warrants, after deductions for transaction costs	0.0	-	3.6
Share buybacks	-	-	-3.6
Amortization of financial liabilities	-2.2	-0.0	-1.2
Borrowings	-	-	0.9
Dividend	-	-	-68.0
Cash flow from financing activities	-2.2	-0.0	107.7
Cash flow for the period	-3.5	-6.6	-17.2
Cash and cash equivalents at beginning of period	106.1	119.5	119.5
Exchange difference in cash and cash equivalents			
- attributable to cash and cash equivalents at beginning of	1.7	1.4	3.6
- attributable to cash flow for the period	0.1	0.2	0.1
Cash and cash equivalents at end of period	104.4	114.5	106.1

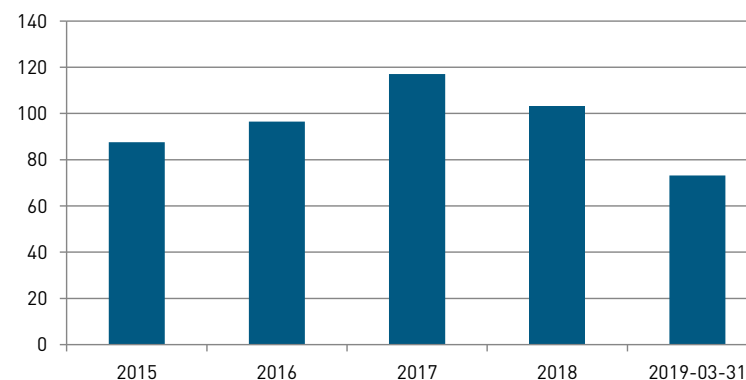
CASH AND CASH EQUIVALENTS, GROUP

SEK m	Mar 31, 2019	Mar 31, 2018	Dec 31, 2018
Cash and cash equivalents at end of period	104.4	114.5	106.1
Unutilized overdraft facilities	225.0	225.0	225.0
Total available cash and cash equivalents	329.4	339.5	331.1

CASH FLOW FROM OPERATING ACTIVITIES, SEK m



NET CASH, SEK m



Key ratios

GROUP

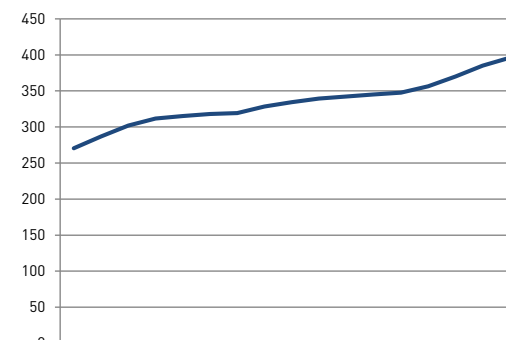
	3 months Jan–Mar		Full-year
	2019	2018	2018
Gross margin, %	97.9	96.9	97.7
EBITDA, %	38.5	39.0	36.4
Operating margin, %	29.5	33.2	30.0
Profit margin, %	29.3	32.7	29.5
Cash flow, %	19.1	21.5	24.0
Equity/assets ratio, %	74.6	80.2	76.2
Return on equity, %	4.0	5.7	20.8
Return on capital employed, %	5.0	7.4	27.4
Capital employed, SEK m	626.3	509.9	552.8
Net cash, SEK m	73.2	112.2	103.3
Net debt/equity ratio, multiple	-0.1	-0.2	-0.2
No. of employees at end of period	206	161	200
Average no. of employees	193	152	171
Sales per employee, SEK m	0.5	0.6	2.3

SHARE DATA

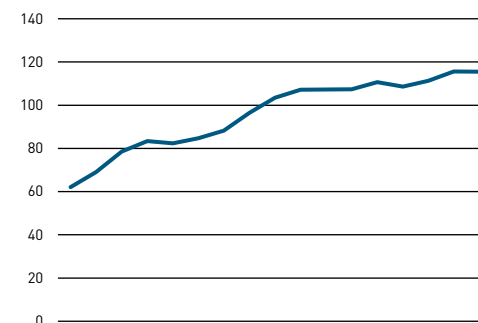
	3 months Jan–Mar		Full-year
	2019	2018	2018
Equity per share, SEK	43.58	37.76	40.38
No. of shares at end of period, million	13.62	12.63	13.62
Average no. of shares, million	13.62	12.63	13.13
Average no. of shares, diluted, million	13.66	12.63	13.13
Cash flow from operating activities per share, SEK	1.40	1.51	7.05
Earnings per share, SEK*	1.68	1.81	6.67
Earnings per share, diluted, SEK	1.68	1.81	6.65

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

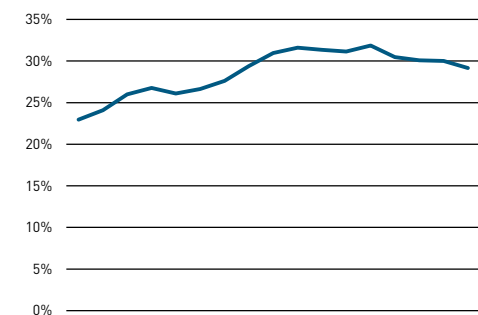
NET SALES ROLLING 12 MONTHS



OPERATING PROFIT ROLLING 12 MONTHS



OPERATING MARGIN ROLLING 12 MONTHS



Quarterly overview and multi-year overview

		Net sales, SEK m	EBITDA, SEK m	EBITDA margin, %	Operating profit, SEK m	Operating margin, %	Earnings per share, SEK*	Return on equity, %	Cash flow from operating activities per share, SEK	Equity per share, SEK	Share price, SEK	Market capitalization, SEK m
2019	Q1	99.8	38.4	38.5	29.4	29.5	1.68	4.0	1.40	43.58	260.00	3,542
2018	Q4	102.8	37.6	36.6	31.1	30.3	1.60	3.9	2.45	40.38	243.00	3,310
	Q3	97.9	37.8	38.6	31.3	32.0	1.97	5.0	1.09	40.88	258.50	3,518
	Q2	95.6	30.0	31.4	23.7	24.8	1.20	3.2	1.86	37.29	277.00	3,770
	Q1	88.9	34.7	39.0	29.5	33.2	1.81	5.7	1.51	32.76	230.00	2,905
2017	Q4	87.6	31.9	36.4	26.8	30.6	1.56	7.0	2.64	22.99	189.00	2,387
	Q3	84.2	33.8	40.1	28.6	34.0	1.61	7.7	2.52	21.56	180.50	2,280
	Q2	86.8	30.9	35.6	25.8	29.7	1.68	7.7	2.56	20.09	175.00	2,211
	Q1	86.4	30.6	35.4	26.2	30.3	1.49	6.5	2.10	23.58	200.00	2,526
2016	Q4	85.0	31.2	36.7	26.7	31.4	1.59	7.5	3.13	22.13	206.00	2,602
	Q3	81.1	32.9	40.6	28.5	35.1	1.73	8.8	2.54	20.44	190.00	2,400
	Q2	81.8	26.0	31.8	22.1	27.0	1.34	6.2	1.63	18.64	157.00	1,983
	Q1	80.5	23.1	28.7	19.2	23.9	1.20	5.1	1.74	24.20	172.50	2,179
2015	Q4	75.9	22.2	29.2	18.4	24.2	1.09	4.9	2.22	23.03	150.00	1,895
	Q3	79.8	28.9	36.2	25.0	31.3	1.49	7.0	1.63	21.96	103.25	1,304
	Q2	79.1	23.5	29.7	19.7	24.9	1.21	5.4	2.51	20.43	99.75	1,260
	Q1	76.9	23.7	30.8	20.3	26.4	1.23	5.2	1.45	24.36	104.00	1,314
2014	Q4	66.1	16.3	24.7	13.5	20.4	0.84	3.8	1.27	22.85	74.75	944
	Q3	64.9	18.4	28.4	15.6	24.0	1.06	5.0	1.89	21.83	68.25	862
	Q2	62.7	15.2	24.2	12.7	20.3	0.78	3.4	1.33	20.72	68.50	861
	Q1	62.0	13.7	22.1	11.4	18.4	0.68	2.8	1.12	24.68	57.57	780
2013	Q4	61.5	12.6	20.5	10.1	16.4	0.58	2.5	0.84	23.90	39.77	491
	Q3	54.9	17.9	32.6	15.4	28.1	0.96	4.3	1.56	22.77	38.93	453
	Q2	56.1	9.7	17.3	7.7	13.7	0.53	2.4	0.97	21.42	34.40	388
	Q1	57.7	10.4	18.0	8.1	14.0	0.53	2.3	0.17	22.87	36.07	407
2012	Q4	59.5	11.7	19.7	9.8	16.5	-0.48	-2.1	1.34	22.34	35.24	397
	Q3	56.2	12.0	21.4	10.1	18.0	0.75	3.3	0.68	22.84	37.82	426
	Q2	56.4	8.8	15.6	7.3	12.9	0.42	1.9	1.27	22.15	39.77	448
	Q1	58.0	9.3	16.0	8.0	13.8	0.48	2.2	0.12	22.22	32.37	355
2011	Q4	57.5	9.4	16.3	7.7	13.4	0.96	4.5	1.20	21.82	22.66	248
	Q3	48.2	8.3	17.2	7.1	14.7	0.67	3.3	1.07	20.92	20.25	222
	Q2	48.9	6.7	13.7	5.4	11.0	0.49	1.4	1.19	20.09	21.83	239
	Q1	45.8	5.0	10.9	3.8	8.3	0.33	0.6	-0.37	50.35	17.76	195
2010	Q4	48.0	3.5	7.3	2.2	4.6	0.19	-0.6	0.47	54.16	16.41	180
	Q3	44.2	5.5	12.4	4.4	10.0	0.39	1.4	0.23	55.50	12.58	138
	Q2	42.1	3.2	7.6	2.4	5.7	0.24	1.1	0.33	53.81	13.65	150
	Q1	43.6	3.9	8.9	2.9	6.7	0.26	1.6	0.22	54.42	13.89	152
2018		385.2	140.1	36.4	115.6	30.0	6.67	20.8	7.05	40.38	243.00	3,310
2017		345.0	127.2	36.9	107.4	31.1	6.33	28.1	9.81	22.99	189.00	2,387
2016		328.4	113.2	34.5	96.5	29.4	5.86	25.9	9.04	22.13	206.00	2,602
2015		311.7	98.3	31.5	83.4	26.8	5.02	21.9	7.81	23.03	150.00	1,895
2014		255.7	63.6	24.9	53.2	20.8	3.37	14.5	5.61	22.85	74.75	944
2013		230.2	50.6	22.0	41.3	17.9	2.59	10.9	3.53	23.90	39.77	491
2012		230.1	41.8	18.2	35.2	15.3	1.16	5.3	3.41	22.34	35.24	397
2011		200.4	29.4	14.7	24.0	12.0	-1.70	6.4	3.09	21.82	22.66	248
2010		177.9	16.1	9.1	11.9	6.7	1.88	3.5	1.25	54.16	16.41	180

* Definition in accordance with IFRS.

Parent Company

CONDENSED INCOME STATEMENT

	3 months Jan–Mar		Full-year
SEK m	2019	2018	2018
Net sales	3.0	3.0	12.2
Operating expenses	-4.4	-3.9	-21.9
Depreciation of property, plant and equipment	-0.0	-0.0	-0.0
Operating loss	-1.4	-0.9	-9.7
Result from financial investments	-0.0	-0.4	100.9
Profit/loss before tax	-1.4	-1.3	91.2
Tax	0.3	0.3	-20.1
Profit/loss for the period	-1.1	-1.0	71.1

STATEMENT OF COMPREHENSIVE INCOME

	3 months Jan–Mar		Full-year
SEK m	2019	2018	2018
Profit/loss for the period	-1.1	-1.0	71.1
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or			
Change in value of non-current securities	-	17.9	17.5
Total other comprehensive income	-	17.9	17.5
Comprehensive income for the period	-1.1	16.9	88.6

CONDENSED BALANCE SHEET

	Mar 31, 2019	Mar 31, 2018	Dec 31, 2018
SEK m			
ASSETS			
Subscribed capital unpaid	-	175.1	-
Non-current assets			
Property, plant and equipment	0.1	0.1	0.1
Shares in subsidiaries	476.3	189.4	476.2
Other financial assets	0.1	56.4	0.1
Deferred tax assets	0.3	0.3	1.5
Total non-current assets	476.8	246.2	477.9
Current assets			
Receivables from subsidiaries	48.4	22.6	42.0
Other current assets	8.9	8.8	2.2
Cash and cash equivalents	10.4	1.2	9.3
Total current assets	67.7	32.6	53.5
TOTAL ASSETS	544.5	453.9	531.4
EQUITY AND LIABILITIES			
Total equity	501.1	444.8	502.2
Current liabilities			
Trade payables	0.5	0.2	0.9
Liabilities to subsidiaries	21.0	-	-
Other current liabilities	21.9	8.9	28.3
Total current liabilities	43.4	9.1	29.2
TOTAL EQUITY AND LIABILITIES	544.5	453.9	531.4

Notes

1. ACCOUNTING POLICIES

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

The accounting standards applied for the Group and the Parent Company are the same as those applied in preparation of the most recent annual report in addition to what is described below regarding IFRS 16.

The Group applies the following new or amended IFRS from the IFRS Interpretations Committee as of January 1, 2019:

IFRS 16 Leases replaced IAS 17 Leases and applies from January 1, 2019. For the lessee, IFRS 16 essentially entails that all leases are to be recognized in the statement of financial position. Classification in operating or financial leases is no longer applicable. The underlying asset in the lease is recognized in the statement of financial position. IAR applies the modified retrospective intermediate method regarding recognition of leases previously recognized as operating leases. This method entails that lease liabilities are calculated as the present 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.

At the beginning of a contract, the Group assesses whether it constitutes or contains a lease. The Group recognizes a right-of-use and an equivalent lease liability for all leases in which the Group is the lessee. This does not apply, however, for short-term leases (defined as leases with a term of 12 months or less) or for leases where the underlying asset has a low value. For such leases, the Group recognizes lease payments as operating expenses on a straight-line basis over the term of the lease, if no other systematic method better reflects how the economic benefits associated with the underlying asset are consumed by the lessee.

Lease liabilities are initially measured at the present value of the lease payments that have yet to be made as of the commencement date, discounted by the interest rate implicit in the lease. If this interest rate cannot be easily established, the Group uses the incremental borrowing rate. The incremental borrowing rate is the interest rate that a lessee would need to pay for financing through loans over a similar term, and with a similar security, for a right-of-use asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments.

- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.
- Amounts expected to be payable under a residual value guarantee.
- The exercise price under a purchase option that the Group is reasonably certain to exercise.
- Penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The Group remeasures the lease liability (and makes a corresponding adjustment to the right-of-use asset) when:

- The term of the lease has changed, or the Group has changed its assessment of whether it will exercise a purchase option. The lease liability is remeasured by discounting the adjusted lease payments using an adjusted discount rate.
- Lease payments are changed based on changes in the index or rate, or changes to the amounts expected to be payable under a residual value guarantee. In such cases, the lease liability is remeasured by discounting the adjusted lease payments using the initial discount rate.
- The lease changes and the change is not recognized as a separate lease. In such cases, lease payments are remeasured by discounting the adjusted lease payments using an adjusted discount rate.

No remeasurements have been carried out according to the above during the reporting period.

On initial recognition, the right-of-use asset is recognized at the value of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The carrying amount of the right-of-use asset is subsequently reduced by the accumulated depreciation and any impairment.

Divested assets are depreciated over the term of the lease or the useful life of the underlying asset, whichever is shorter. If a lease entails that ownership of the underlying asset is transferred or the cost of the right-of-use asset reflects the Group's expectation that it will exercise a purchase option, depreciation is carried out over the useful life of the underlying asset. Depreciation begins on the commencement date of the lease.

The Group applies IAS 36 Impairment of Assets to determine whether the carrying amount of a right-of-use asset exceeds its recoverable amount.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and right-of-use asset. These lease payments are recognized as an expense in the period when the event or the terms that trigger these payments occur and are included in the line "Other external expenses" in consolidated profit or loss.

Right-of-use assets are presented on a separate line in the consolidated financial statements.

As a practical expedient, IFRS 16 permits a lessee to report each lease component and relevant non-lease component as a single component rather than separating non-lease components from lease components. The Group has not chosen to apply this exemption. The Group used the following practical expedients when initially applying IFRS 16 to leases previously classified as operating leases under IAS:

- A single discount rate is applied to leases with similar characteristics.
- Leases with a remaining term of less than 12 months as of January 1, 2019 are not recognized in the balance sheet if they are not likely to be extended.
- Initial direct costs are excluded when measuring the right-of-use asset on the date of initial application.
- Short-term leases (12 months or less) and leases where the underlying asset has a low value (USD 5,000 or less) are not recognized in the balance sheet but in the same manner as operating leases were previously recognized.
- Hindsight is used when determining the lease term if the contract contains options to extend or terminate the lease.

Effects on assets, liabilities and equity, January 1, 2019

SEK m	Ref	Recognized balance sheet items, January 1, 2019	Transition to IFRS 16	Restated balance sheet items, January 1, 2019
Assets				
Equipment	A	7.6	-2.8	4.8
Right-of-use assets	B,C	-	30.5	30.5
Total effect on assets			27.7	
Liabilities and equity				
Non-current lease liability	D	1.2	21.3	22.5
Current lease liability	D	1.6	7.7	9.3
Accrued expenses	C	23.1	-1.3	21.8
Total effect on liabilities and equity			27.7	

Ref:

A Pertains to finance leases recognized under the item "Equipment" in the most recent annual report.

B Restatement of leases in accordance with IFRS 16

C Pertains to the restatement of rent discounts previously allocated over the term of the lease

D Lease liability recognized under the item "Borrowings (Non-current/Current)" in the most recent annual report.

Reconciliation, operating lease disclosure (IAS 17) and recognized lease liability (IFRS 16)

Obligations for operating leases at December 31, 2018

SEK m	
Obligations for operating leases at December 31, 2018	39.6
Finance lease liabilities at December 31, 2018	2.8
Short-term leases (deducted as expensed)	-7.6
Low-value leases (deducted as expensed)	-
Effects of extension options	-
Discount effect	-1.7
Recognized lease liability in the opening balance on January 1,	30.5

The Group has applied a weighted average incremental borrowing rate of 1.75% when establishing the lease liability in the opening balance on January 1, 2019.

Other new or amended IFRS and interpretations from the IFRIC and amendments to RFR 2 effective as of January 1, 2019 have not had any material impact on the financial statements of the Group or the Parent Company. Disclosures in accordance with IAS 34 Interim Financial Reporting are included in both the notes and in other parts of the interim report. In consideration of the connection between accounting and taxation, IFRS 16 need not be applied in legal person. The Parent company has chosen to apply this exception.

2. NET SALES

Net sales are distributed as follows:

SEK m	3 months Jan-Mar		Full-year
	2019	2018	2018
Development tools	99.4	88.9	380.2
Security solutions	0.4	-	5.0
Net sales	99.8	88.9	385.2
Development tools			
SEK m	3 months Jan-Mar		Full-year
	2019	2018	2018
License-based revenue	59.7	56.8	242.9
Support and software updates	32.6	27.1	119.4
Royalty-based revenue	1.4	1.3	5.5
Other	5.7	3.7	12.4
Net sales	99.4	88.9	380.2
At a certain point in time			
Over time	65.4	60.5	255.3
Net sales	99.4	88.9	380.2

Notes, cont.

Americas	31.8	25.6	126.2
Asia	28.4	24.6	94.2
Europe	37.2	37.1	151.6
Not allocated by region	2.0	1.6	8.2
Net sales	99.4	88.9	380.2

Security solutions	3 months Jan–Mar		Full-year
SEK m	2019	2018	2018
License-based revenue	-	-	-
Support and software updates	-	-	-
Royalty-based revenue	-	-	-
Other	0.4	-	5.0
Net sales	0.4	-	5.0
At a certain point in time	0.4	-	5.0
Over time	-	-	-
Net sales	0.4	-	5.0
SEK m	2019	2018	2018
Americas	0.4	-	5.0
Asia	-	-	-
Europe	-	-	-
Not allocated by region	-	-	-
Net sales	0.4	-	5.0

As part of the agreement with Renesas Synergy, IAR Systems receives a guaranteed annual minimum remuneration. The royalty-based revenue recognized pertains to the guaranteed minimum remuneration for the period.

3. GOODWILL

Goodwill increased by SEK 15.2m during the period as a result of currency adjustments. Goodwill is tested annually or when a requirement for impairment is indicated. Goodwill is recognized at cost less accumulated impairment. The impairment test performed at year-end did not indicate any requirement for impairment. No indications of impairment arose during the period. Goodwill at March 31, 2019 amounted to SEK 354.5m (339.3).

4. OTHER INTANGIBLE ASSETS

During the period, other intangible assets increased by SEK 19.5m. Operating expenses were reduced by SEK 19.8m (4.3) during the period through the capitalization of development costs for software. Of the internal expenses that were capitalized, SEK 16.0m (3.5) pertained to personnel costs. Investments in intangible assets increased during the period due to the acquisition of Secure Thingz.

5. DEFERRED TAX ASSETS

The deferred tax asset attributable to loss carryforwards is recognized only to the extent that it is probable that the loss carryforwards can be utilized against future taxable profits. As of March 31, 2019, the Group had accumulated loss carryforwards outside Sweden of SEK 59m (45). The deferred tax asset is recognized in the balance sheet in an amount of SEK 15.1m (13.3), of which SEK 11.3m (8.5) pertains to loss carryforwards. All of the Group's loss carryforwards are recognized in the consolidated balance sheet.

6. PLEDGED ASSETS

SEK m	Mar 31, 2019	Mar 31, 2018	Dec 31, 2018
To secure pensions	1.8	1.8	1.8
To secure liabilities to credit institutions	3.0	2.3	2.8
Total pledged assets	4.8	4.1	4.6

Definitions

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

The tables below present performance measures that are not defined in accordance with IFRS, unless otherwise stated. The following section "Reconciliations" presents rec-

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

Definitions, cont.

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

* Definition in accordance with IFRS.

Reconciliations

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

SEK m	3 months Jan–Mar		Full-year
	2019	2018	2018
Net sales	99.8	88.9	385.2
Goods for resale	-2.1	-2.8	-9.0
Gross profit	97.7	86.1	376.2
Gross margin	97.9%	96.9%	97.7%

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

SEK m	3 months Jan–Mar		Full-year
	2019	2018	2018
Operating profit	29.4	29.5	115.6
Depreciation of property, plant and equipment	0.5	0.5	2.6
Depreciation of right-of-use assets	2.2	-	-
Amortization of intangible assets	6.3	4.7	21.9
EBITDA	38.4	34.7	140.1

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

SEK m	3 months Jan–Mar		Full-year
	2019	2018	2018
Net sales	99.8	88.9	385.2
EBITDA	38.4	34.7	140.1
EBITDA margin	38.5%	39.0%	36.4%

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

SEK m	3 months Jan–Mar		Full-year
	2019	2018	2018
Net sales	99.8	88.9	385.2
Operating profit	29.4	29.5	115.6
Operating margin	29.5%	33.2%	30.0%

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

SEK m	3 months Jan–Mar		Full-year
	2019	2018	2018
Net sales	99.8	88.9	385.2
Profit before tax	29.2	29.1	113.8
Profit margin	29.3%	32.7%	29.5%

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

SEK m	3 months Jan–Mar		Full-year
	2019	2018	2018
Net sales	99.8	88.9	385.2
Cash flow from operating activities	19.1	19.1	92.6
Cash flow	19.1%	21.5%	24.0%

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

SEK m	Mar 31, 2019	Mar 31, 2018	Dec 31, 2018
	2019	2018	2018
Equity	593.8	507.6	550.0
Total assets	796.4	633.2	722.2
Equity/assets ratio	74.6%	80.2%	76.2%

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

SEK m	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018	Dec 31, 2017
	2019	2018	2018	2017
Equity	593.8	550.0	507.6	290.4

SEK m	3 months Jan–Mar		Full-year
	2019	2018	2018
Average equity	571.9	399.0	553.2

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

SEK m	3 months Jan–Mar		Full-year
	2019	2018	2018
Profit after tax	22.9	22.8	87.6
Average equity	571.9	399.0	420.2
Return on equity	4.0%	5.7%	20.8%

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

SEK m	Mar 31, 2019	Mar 31, 2018	Dec 31, 2018
	2019	2018	2018
Interest-bearing liabilities	31.2	2.3	2.8
Cash and cash equivalents	-104.4	-114.5	-106.1
Net interest-bearing liabilities	-73.2	-112.2	-103.3
Net debt/equity ratio	-0.1	-0.2	-0.2

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

SEK m	3 months Jan–Mar		Full-year
	2019	2018	2018
Profit before tax	29.2	29.1	113.8
Financial expenses	0.5	0.4	1.9
Profit before tax plus financial expenses	29.7	29.5	115.7
Return on capital employed	5.0%	7.4%	27.4%

Reconciliations, cont.

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

SEK m	Mar 31, 2019	Mar 31, 2018	Dec 31, 2018
Cash and cash equivalents	104.4	114.5	106.1
Interest-bearing liabilities	-31.2	-2.3	-2.8
Net cash	73.2	112.2	103.3

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

SEK m	Dec 31, 2018	Dec 31, 2018	Mar 31, 2018	Dec 31, 2017
Total assets	796.4	722.2	633.2	410.1
Non-interest-bearing liabilities	-171.4	-169.4	-123.3	-117.2
Capital employed	625.0	552.8	509.9	292.9

SEK m	3 months 2019	Jan-Mar 2018	Full- year 2018
Average capital employed	588.9	401.4	422.8

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

SEK m	Mar 31, 2019	Mar 31, 2018	Dec 31, 2018
Equity	593.8	507.6	550.0
No. of shares at end of period, million	13.62	13.44	13.62
Equity per share	43.58	37.76	40.38

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

SEK m	3 months 2019	Jan-Mar 2018	Full- year 2018
Cash flow from operating activities	19.1	19.1	92.6
Average no. of shares, million	13.62	12.63	13.13
Cash flow from operating activities per share	1.40	1.51	7.05

The IAR Systems share

IAR Systems Group's class B share is quoted on the Mid Cap list of Nasdaq Stockholm. During the period, the share price varied from a low of SEK 236.50 (188.00) to a high of SEK 278.00 (230.00). The share price at March 31, 2019 was SEK 260.00 (230.00). IAR Systems Group's market capitalization on the same date was SEK 3,542m (2,387).

The number of shareholders in IAR Systems Group at March 31, 2019 was 7,331 (7,794). Of these shareholders, 421 (465) held more than 1,000 shares each. Foreign shareholders held approximately 32% (28) of the share capital and 30% (27) of the votes.

IAR Systems Group's share capital at March 31, 2019 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 100,000 are class A shares, 13,523,613 are class B shares and 344,720 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. Class C shares do not entitle the holder to dividends.

The aim of the company's treasury holding of class C shares is to ensure the delivery of shares to employees through the exercise of stock options according to the Group's incentive program and, in terms of cash flow, to ensure payment of future social security expenses attributable to this program. Prior to any delivery of shares according to the Group's employee ownership program, the company will convert the class C shares into class B shares. During the first quarter, 1,900 class C shares were converted into class B shares and delivered within the framework of the incentive program. A total of 14,968 class C shares have been converted into class B shares and delivered within the framework of the incentive program since the original buyback of 359,688 class C shares.

BREAKDOWN OF SHAREHOLDINGS

	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
1-100	5,161	70	1	1
101-1 000	1,749	24	5	4
1,001-10,000	335	5	7	7
10,001-	86	1	87	88
Total *	7,331	100	100	100

GEOGRAPHICAL DISTRIBUTION

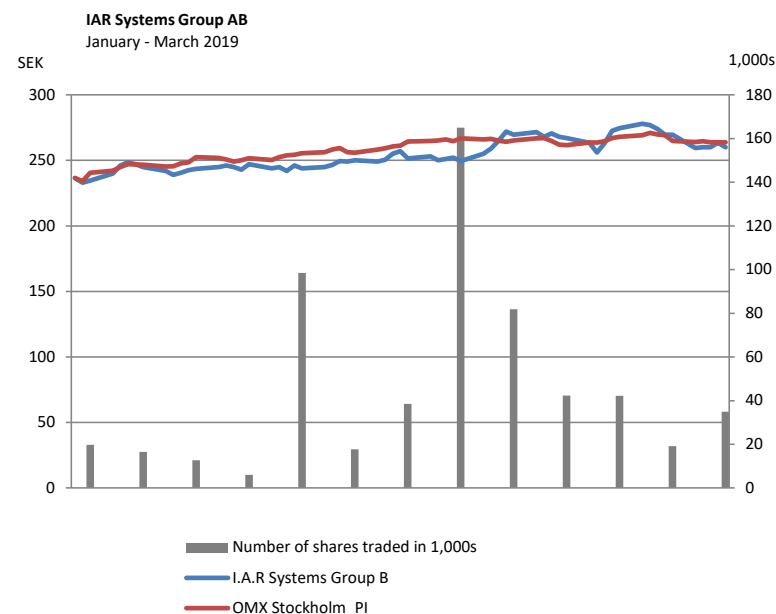
	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
Sweden	7,128	97	68	70
Europe excl. Sweden	165	2	27	26
Other countries	38	1	5	4
Total *	7,331	100	100	100

LARGEST SHAREHOLDERS (VOTES)

	No. of shares	Share of capital, %	Share of votes, %
SEB S.A.	1,483,962	11	10
Andra AP-fonden	1,295,415	9	9
Handelsbanken Fonder	1,279,536	9	9
Första AP-fonden	1 176,506	9	8
Danica Pension **	212,300	2	8
Other	8,175,894	60	56
Total *	13,623,613	100	100

* excluding 344,720 class C shares held in treasury

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



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.

THE SPREAD OF DIGITAL TECHNOLOGY AND IOT IS DRIVING MARKET GROWTH

The spread of digital technology is driving the market for embedded systems, largely as a result of IoT. Almost all industries have devices and products that could be developed further through improved communication and connectivity. The market has a number of underlying driving forces that all indicate that the recent decade of stable growth within the industry will continue. The following factors are likely to affect IAR Systems' growth:

1. Largely driven by IoT, embedded systems are growing in number and in complexity.
2. Continued high demand for reliable and advanced programming tools that provide a complete development platform and efficient time management from product to market launch.
3. New possibilities within the automotive industry as increasingly advanced vehicles reach the market.
4. Unexploited potential within security solutions for embedded systems. Secure Thingz operates as its own company, but takes advantage of IAR Systems' worldwide sales and support organization, and thereby its large and loyal customer base. To illustrate the market potential, ABI Research predicts that the security market for embedded

systems will grow quickly as the number of secure IoT products grows from today's 4% to close to 20% by 2022.

5. The processor architecture RISC-V will challenge the Arm architecture, and IAR Systems is positioning itself to be the leading software supplier in this area.

ENGAGED TEAM WHO KNOWS HOW TO TAKE ADVANTAGE OF GROWTH POTENTIAL

IAR Systems' global organization and its enduring passion for product development and technology attract skilled and talented people to the company in all countries where it operates. During 2018, IAR Systems expanded its management group, adding individuals with experience from senior roles at leading international technology companies, something that highlights our ability to leverage this growth potential without compromising the organization's well-known and service-oriented approach. Our employees' diverse cultural backgrounds unique perspectives and local knowledge are important contributing factors to IAR Systems' strong presence worldwide, and enable the company to meet customers in their own markets. By sharing knowledge and experience among highly qualified and motivated employees, IAR Systems creates the most competitive customer solutions.



IAR SYSTEMS GROUP AB (PUBL)

Corporate ID Number 556400-7200

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

www.iar.com

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

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