IAR SYSTEMS

The world's leading provider of software tools for embedded systems

ANNUAL REPORT 2011

CONTENTS

Annual General Meeting

The Annual General Meeting of IAR Systems Group AB (publ) will be held at 6:00 p.m. on Tuesday, 24 April 2012, at Strandbodgatan 1, Uppsala, Sweden.
Read more on page 21 and at www.iar.com/investors

Financial calendar

Interim report	Jan-March 2012	April 24, 2012
Semi-annual report	Jan-June 2012	July 24, 2012
Interim report	Jan-Sept 2012	October 24, 2012

IAR Systems® in 60 seconds

IAR Systems is the world's leading independent provider of software for programming of processors in embedded systems*. These systems control products in areas like industrial automation, medical devices, consumer electronics and the automotive industry.

** See glossary on page 69.*

Net sales	200.4m	(177.9)
Growth	12.6%	(5.5)
Operating profit	24.0m	(11.9)
Operating margin	12.0%	(6.7)
Net cash	34.5m	(12.8)

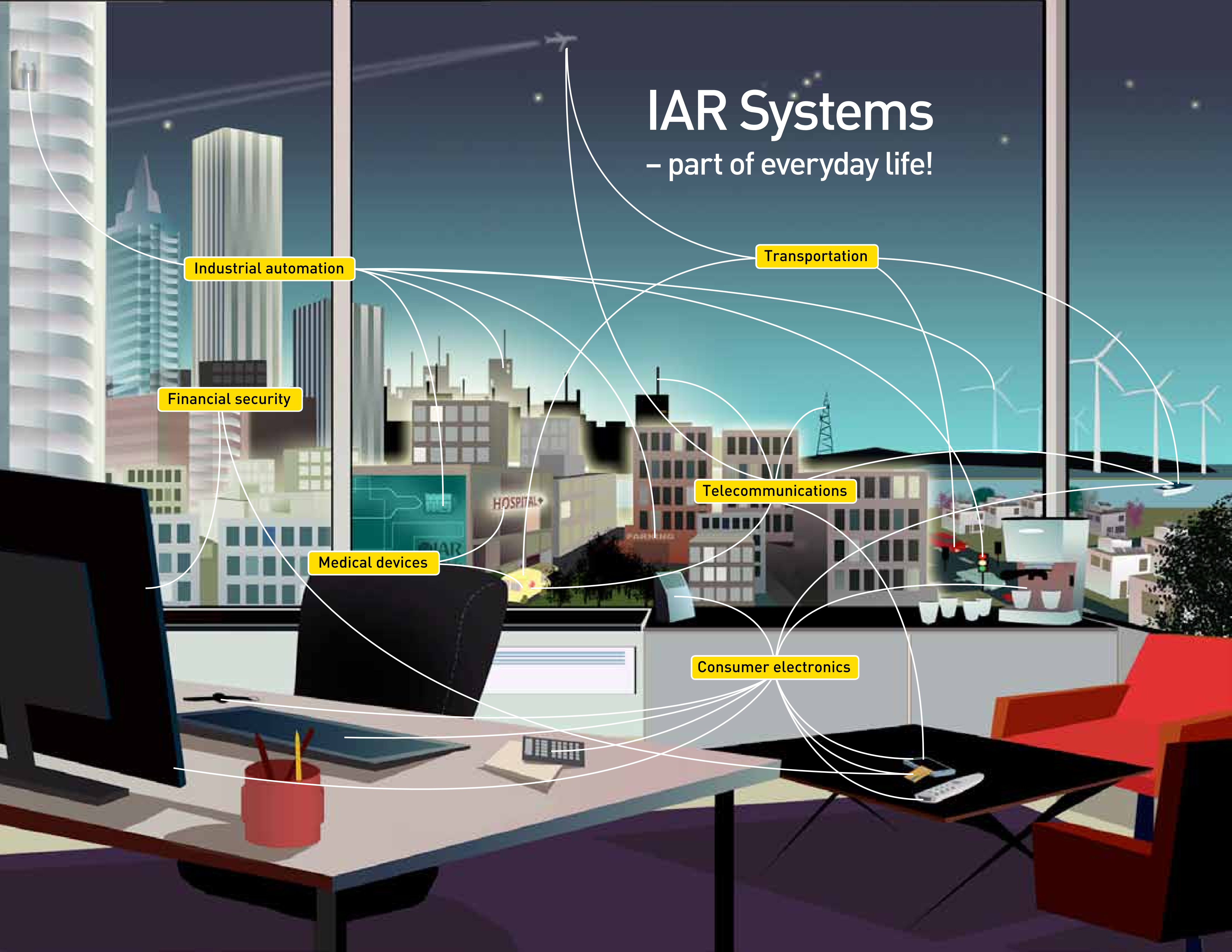
Americas + 25% growth

Europe + 17% growth

Asia + 34% growth

157 employees

of whom **22** in 2011


IAR Systems
– part of everyday life!
Transportation
Industrial automation
Financial security
Telecommunications
HOSPITAL
IAR
Medical devices
Consumer electronics

Highlights of 2011

A strong year for IAR Systems

The annual accounts for 2011 are the company's first as an independent listed company following the restructuring of the former corporate group Intoi.

- Net sales exceeded SEK 200m for the first time.
- Operating profit doubled.
- Enhanced and expanded offering and geographical expansion.
- Increased standardization on IAR Systems' software.

First quarter 2011

- Strong development in all key markets, above all in the Americas, which is the company's largest market with 40% of total sales.
- IAR Systems continues its focus on the most advanced systems based on 32-bit architecture (often ARM) and growth is driven mainly by license sales for 32-bit technology.
- IAR Systems' technology for analysis of power consumption, power debugging, is once again nominated for innovation awards.

Second quarter 2011

- Continued strong performance with the fastest growth in the Americas (27%) and Asia (36%). Growth in Europe also exceeds the company's financial target.
- Operating profit improved by 125%.
- The Group's restructuring is completed through the distribution of Deltaco to the shareholders, the sale of Northern and the Parent Company's change of name to IAR Systems Group AB.
- Several important product launches in the ARM segment.

Third quarter 2011

- Highest quarterly profit of all time and sustained growth in all markets.
- Signum is acquired with complementary technology for advanced embedded systems.
- The employees subscribe for 1,017,000 warrants on market-based terms under an incentive scheme.

Fourth quarter 2011

- Highest quarterly profit of all time and sustained growth in all markets.
- The Board intends to propose a dividend of SEK 1.00 per share for approval by the AGM in April 2012.

IAR Systems – investment case

IAR Systems is a leading software provider in a market characterized by expanding areas of use for digital electronic products. At the same time, there is a fast-growing need for more advanced technology, greater user-friendliness and energy-efficiency. IAR Systems has software that meets these demands.

Today's new digital electronic products and applications rely on systems that can control, calculate and communicate the necessary functions. These are known as embedded systems and are today found across all industries, such as the automotive industry, the manufacturing industry, home electronics, medical and health care, the defense industry, etc. IAR Systems has software that meets modern demands on embedded systems and makes it possible for the customers to develop digital electronic products of a high quality. With its leading technology, global reach, wide and loyal customer base and license-based business model, IAR Systems provides the conditions for growth and profitability. This makes IAR Systems an attractive investment alternative.

1. At the leading edge of technology

IAR Systems' software is a development tool for programming of processors in embedded systems, which are today found in many different applications. Rising demands on user-friendliness, functionality, communication and low power consumption are leading to increased use of embedded systems. IAR Systems' software is the technical leader and the company is often first on the market to offer new functionality and support for new processors. For example, IAR Systems was the first to launch a tool to analyze power consumption in embedded systems, known as power debugging.

Through its long history in the market, IAR Systems has created an ecosystem of partners that supplement and broaden the company's offering.

2. A changing market

The market for embedded systems is undergoing rapid changes in pace with:

> Growth in the number of digital electronic products.

- Growth in the number of embedded systems per digital electronic product.
- A rising level of complexity in the embedded systems.
- Growth in the use of ARM processors in embedded systems.
- Growth in energy-efficient solutions for digital electronic products.

IAR Systems strives to understand and respond to the market's needs as quickly as possible. As part of this strategy, IAR Systems has chosen to adapt its products for ARM's existing and future processors. Today ARM processors are found in 95% of all cell phones and ARM has licensed its technology for use in more than 25 billion processors worldwide.

3. Global reach

IAR Systems has international reach and more than 90% of its sales are attributable to markets outside the Nordic region. The corporate headquarters and product development are based in Uppsala, Sweden, and to a certain extent the USA. Sales are conducted from local offices in Sweden, the USA, Japan, France, China, Germany, Brazil, Korea and the UK. In addition, the company is represented in 25 other countries via distributors.

4. A wide and loyal customer base

IAR Systems' software is used by many of the world's largest corporations, but also by thousands of small and mid-sized companies. Since the start IAR Systems has sold more than 120,000 licenses, creating a customer base of 14,000 organizations. Our customers include well known companies like Philips, GE, Ericsson, Miele, Electrolux, BMW, etc. In recent years, many of these companies have chosen to standardize their development on software from IAR Systems.

5. Skilled employees

IAR Systems is a knowledge-intensive organization that has attracted expertise and talents from many countries. IAR Systems places high demands on ambition and innovation and is a dynamic workplace that contributes to personal well-being and professional development.

6. Close to the processor manufacturers

IAR Systems works closely with most of the world's makers of processors. This collaboration gives IAR Systems resources, knowledge and scope for sales. But above all, it ensures that IAR Systems' software supports more processors in more architectures than any other development tools for embedded systems on the market. For several years IAR Systems has provided support for a wide spectrum of ARM-based processors. With software tools from IAR Systems, the customers can work in the same environment for all processors in their current and future projects.

Vision

IAR Systems serves as a driver for digital development through the provision of world-class software for programming of embedded systems

Global presence helping us to grow

IAR Systems' first year as an independent listed company was characterized by a high level of activity, growth and profitability. We enhanced our offering and consolidated our position as the world's leading independent provider of software for programming of embedded systems.

2011 was, as planned, a highly eventful year! Summing up an eventful year is always a pleasant task, especially if it is the result of events that we ourselves planned and worked hard to achieve.

A NEW BUSINESS MODEL

We started the year by completing the restructuring we saw as necessary to create the focus demanded by our potential – a potential that has become even more tangible over time. When IAR Systems became part of Intoi in 2005, it was with an explicit ambition to shift from project-driven operations to a software-based business concept and model. In reality, there was no major change in the offering, since the project-driven business that had been in place for more than 20 years had resulted in a world-leading software product. The market was the same, the organization was the same and the only change was related to the customers. Although there were many customers who based their product development on our software, we were not focused on them. A comparison that clearly reflects the change of business model is that project-driven revenue decreased from 18% in 2006 to 7% in 2011 and license sales accounted for 82% of our total revenue in 2011.

Today we have an unwavering focus on the customers who use our software to program embedded systems in their products. An embedded system often functions as the brain of the customer's product, and we are naturally delighted that more and more customers are choosing to approach IAR Systems and commit to a long-term relationship with us. We have supplemented our offering to better suit our major customers, which meant that we signed three times as many customer agreements as in 2010.

2012 will be an even more memorable year

A FOCUS ON THE CUSTOMERS

One distinct trend that we saw during the year is that the customers have a need for stability, security and flexibility in their development environment. We identified this need at an early stage and launched a concept, a message and an offering that we called "Standardization without limitations". This has not only attracted widespread attention in the media and the industry but has also been a key driver behind our largest customer agreements. As we sum up the past year with our customers, 2011 was unique in several ways. Never before have so many customers made recurring investments in our products. This year, more than 90% of our customers were recurring in our sales statistics. And never before have so many potential customers visited our website or read our monthly newsletter. In the past year the number of unique visitors to the website grew from 65,000 per month to over 90,000 per month at the end of the year, and subscribers to our monthly newsletter increased from 94,000 to 132,000 at the end of the year. We captured this rising interest during the year by relaunching our website www.iar.com. Whether focusing on our customers, adapting our offering or updating our most important communication channel, the aim has been to invest in and highlight our potential. It is truly satisfying that this resulted in sales growth well in excess of our financial target.

ENHANCEMENT AND ACQUISITIONS

Our ambitions are high and have always been so, above all when it comes to our products. This year we launched many new functions and versions of our products and further enhanced some of our most important functions, primarily in our top-selling products. We have also invested offensively through our acquisition of Signum. Our strategy is to have a product portfolio that stands on its own merits and in-house capacity for further development and support. One area where we have noted rising demand is recent years is support for the more advanced embedded systems, and this is something we have delivered in our software. The most advanced systems also place more stringent demands on hardware support in the development environment, and this is where Signum fits into the picture. Signum not only gives us a product but also in-depth expertise in areas where there is an urgent need today, at the same time that it provides us with scope to further supplement our offering.

GROWTH IN ALL MARKETS
Not until the year is at end can we sum up our financial performance. The global economy has been a challenge for us, as for many others. But despite this, it is fantastic to look back on a year of growth in all markets, record earnings in several quarters and a stable balance sheet. It is both inspiring and educational to lead our sales offices around the world, all of which in different ways represent us and showcase our offering in their own markets. Our global presence is something that will benefit us and our customers both today and in the future, in pace with our growth.

OUR AMBITIONS FOR 2012
In conclusion, 2011 is a year to remember by virtue of the values we created through higher sales, improved earnings, an expanded product offering, growth in the number of employees and larger and more loyal customers than ever before. In 2011 we found a way to capitalize on our long history of independence, our expertise, our products and our global presence. In 2012 we will continue on our chosen path to create an even more memorable year for our shareholders, customers and employees.

Uppsala, March 6, 2012

Stefan Skarin
CEO, IAR Systems

Business mission, goals and strategies

BUSINESS MISSION

IAR Systems' business mission is to offer software for development of embedded system. An embedded system consists of a processor that is programmed to control or measure functions in digital electronic products. IAR Systems' offering consists of a portfolio of software products that together form a tool suite that is used by developers to create embedded systems.

LONG-TERM FINANCIAL GOALS

At the beginning of 2011 the Board established long-term financial goals for IAR Systems:

> For net sales to grow by 10–15% annually in local currency.

> For operating margin to exceed 20% over a business cycle.

STRATEGY

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

> To offer customer value through user-friendliness, reliability and efficiency.

> To develop technically leading software for embedded systems.

> To deepen the relationship with existing customers by successively widening the offering of products and services.

> To expand the customer base through increased local presence worldwide.

> To actively develop the ecosystem of partners and thereby defend the position as an independent provider of software for embedded systems.

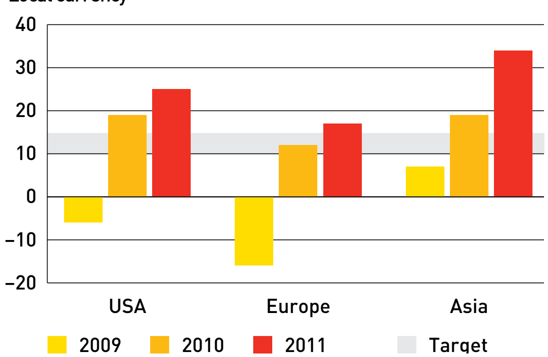
SALES STRATEGY

IAR Systems' sales strategy is founded on license-based sales in all geographical regions and to all industries. The company has global reach through its corporate headquarters in Uppsala, Sweden, and sales offices in Sweden, the USA, Japan, Brazil, France, China, Germany, the UK and South Korea. In addition, the company is represented in another 25 countries via distributors.

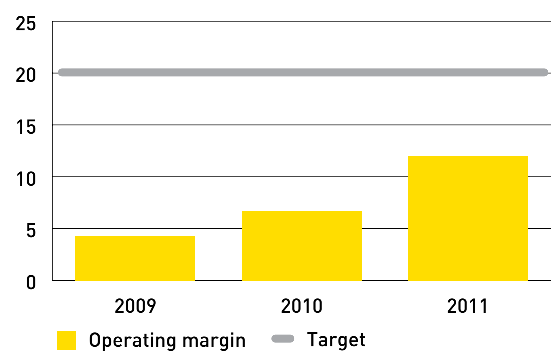
PRODUCT STRATEGY

IAR Systems' product strategy is to offer proprietary software for developers of embedded systems. IAR Systems operates in a fast-changing market. The company's strategy is to offer the customers technological independence in an environment that is evolving rapidly. For that reason, the company

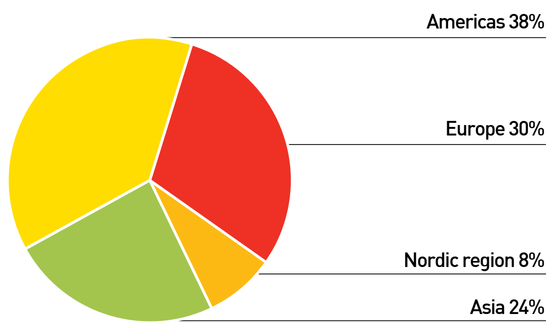
Sales growth
Local currency



Operating margin
%



Share of sales by market



continuously invests in innovation and development at its headquarters in Uppsala and at Signum in Los Angeles. IAR Systems owns the rights to all of its products and services.

Product development is focused mainly on enhancement of product attributes and functionality and adaptation to increasingly demanding processors and embedded systems.

IAR Systems' software is independent in relation to suppliers of processors for embedded systems, real time operating systems (RTOS) and hardware solutions.

Through its independent status, IAR Systems has succeeded in creating a unique offering

Ambition 2011	Outcome 2011	Ambition 2012
Launch new functionality to facilitate analysis of code.	Enhanced IAR Systems' innovative solution for low-energy programming.	Widen the offering of add-on products and services for the existing customer base.
Develop the offering for the more advanced processors.	Acquisition of Signum, which widened IAR Systems' hardware offering for more advanced processors.	Develop well integrated solutions for advanced processors.
Strengthen the relationship with IAR Systems' customer base.	Strengthened the regional sales and marketing organization and further developed IAR Systems' customer service and self-service.	Open an office in South Korea.

IAR Systems' offering

ADVANCED AND USER-FRIENDLY

IAR Systems' development tools are used to program processors in embedded systems. These control electronic products in areas such as industrial automation, medical devices, consumer electronics, telecommunications and the automotive industry.

The software is of an acknowledged high quality and is well established in the market. The product IAR Embedded Workbench is known for its ease of use, reliability and capacity to create fast, effective and energy-efficient code for embedded systems.

IAR Embedded Workbench®

IAR Embedded Workbench is a complete toolchain that incorporates multiple components in a single integrated development environment (IDE).

IAR Embedded Workbench contains:

- An editor for writing source code.
- C or C++ compiler that transforms source code into instructions for the processor.
- An assembler that links together smaller program segments into an executable program.
- A debugger to validate, test and optimize the programming.

The product also includes a 12-month free-of-charge Support and Update Agreement (SUA) that can be renewed by the customer at an annual cost equal to 20% of the product's price.

IAR Systems' software is reliable and user-friendly and contains programming functions such as configuration files, code examples and project templates that save time for the developer. The developer can reuse code in the tool, so that program code developed for one product can be reused in another. The tools function for many different processors and can be easily integrated with other development environments such as Eclipse, Subversion, etc.

IAR Systems' website contains documentation such as manuals and guides, but also software updates and evaluation kits. In addition, the website provides access to a customer portal with customized information: MyPages.

THE SAME SOFTWARE FOR ALL PROCESSORS

IAR Systems' software is available in a wide range of versions for 8-, 16- and 32-bit processors from all of the major processor vendors. No other development tool for embedded systems is compatible with so many different processors. With software tools from IAR Systems, the customers can work in the same environment for all processors in their current and future projects.

In 2011 IAR Systems released 22 new product versions for IAR Embedded Workbench with new features such as:

- First in the world to launch development tools for Renesas' new RL78 product family.
- Second generation of IAR Systems' award-winning low power debugging technology.
- Support for ARM's most advanced application processors, Cortex-A8 and Cortex-A9.
- Support for widely used open source solutions such as Eclipse and Subversion.

I-jet™ and JTAGjet™

IAR Systems' offering also includes complementary hardware components. The I-jet and JTAGjet debugging probes connect a processor to a PC host and are used by developers to analyze and debug code in embedded systems. This is a real-time tool for development of high-end applications and can be fully integrated with IAR Embedded Workbench. I-jet is IAR Systems' first own product to be launched as a result of the acquisition of Signum Systems.

IAR visualSTATE®

IAR visualSTATE is a complementary set of development tools that can be integrated with IAR Embedded Workbench. IAR visualSTATE facilitates the development process by creating a graphical overview of the application, with direct graphical feedback on various levels of detail.

SUPPORT BY SPECIALISTS FOR SPECIALISTS

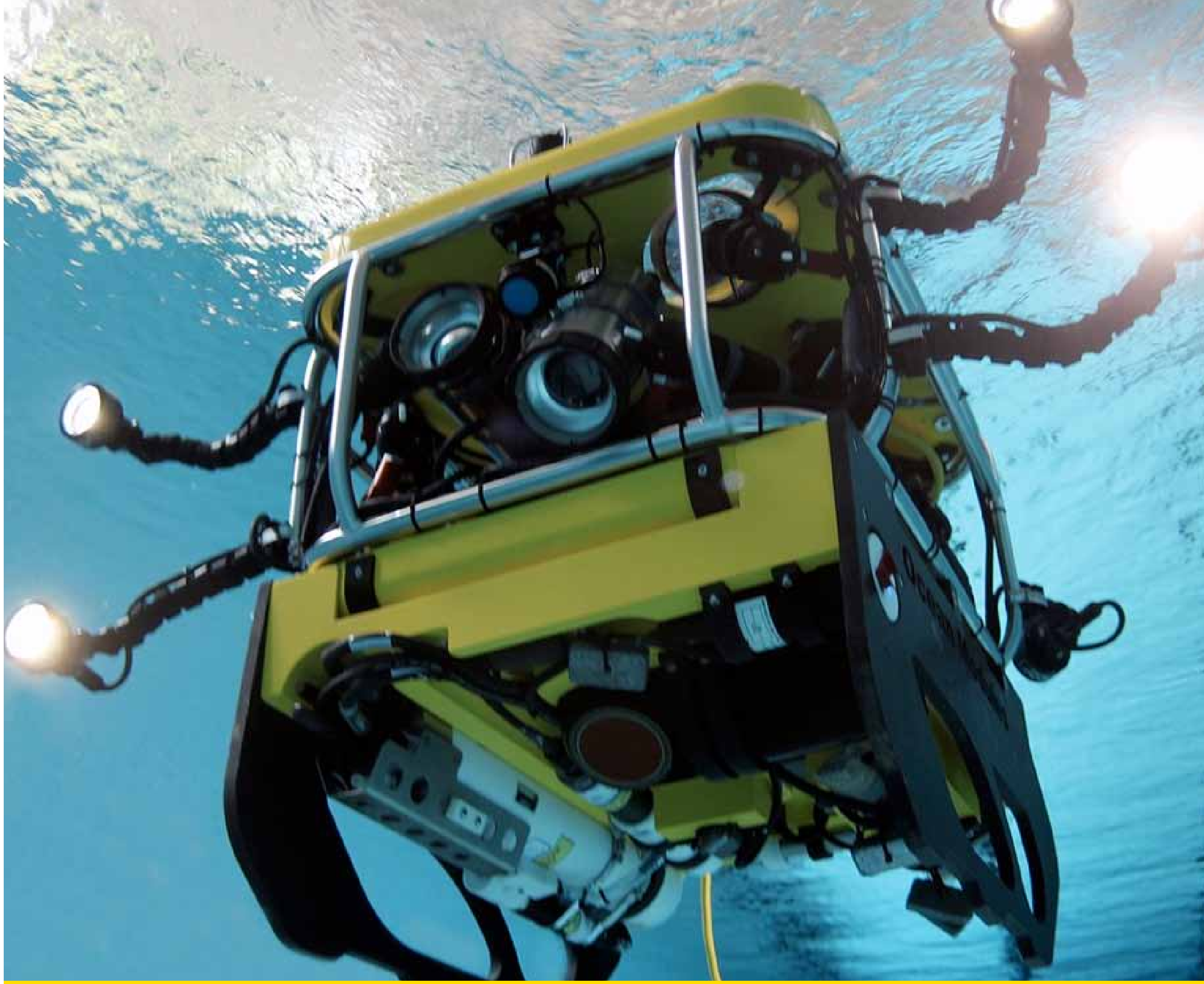
IAR Systems offers extensive customer service and technical support. To help developers get the most from their development tools, IAR Systems currently has more than 22,000 support agreements. The aim is to increase the customers' ability to quickly and easily launch new and better products. The company's technical support teams have specialized knowledge of the tools, and the experience gained in support activities is used in ongoing product development.

This far-reaching support for IAR Systems' products is a distinguishing feature of the company and a compelling reason why the customers return. The company's support specialists have in-depth technical expertise. A large share of the support technicians have been with the company for many years and have built up extensive experience of embedded systems and longstanding relationships with the company's customers.

22,000

support agreements worldwide

IAR Systems' customer service representatives are found across multiple time zones and speak several languages. The customers can sign Support and Update Agreements (SUA) for personal technical support via IAR Systems and the company's distributors and agents around the world. The company also offers customized support services.



Our staff members have had extensive industrial experience of IAR Systems as a reliable supplier of robust tools that you can depend on. Their quality tools and broad MCU support made it an easy decision to select IAR Embedded Workbench for development of the software parts of our system.

Claes Drougge
CEO of Ocean Modules

IAR Systems' world – with a focus on the developer

A close relationship with developers of embedded systems is vital for IAR Systems to maintain a position as a technical leader in its area.

A GLOBAL NETWORK OF DEVELOPERS
IAR Systems has a strong brand among the world's developers of embedded systems. Every month, there are more than 90,000 unique visits to the company's website (www.iar.com) and IAR Systems' monthly newsletter has over 130,000 subscribers.

The developers that use IAR Systems' products are a key source of knowledge and inspiration. Customers that use IAR Systems' tools invest in training and technical integration, and often remain customers for many years. Through the users, IAR Systems' gains important feedback about their experiences and preferences. This dialogue can also function as a portal to 14,000 organizations for extended commercial collaboration.

THE DEVELOPER'S NEEDS ARE CENTRAL
It is critical for IAR Systems to understand the developer's challenges and needs. Developers that use products from IAR Systems program processors for a wide range of applications in embedded systems. These embedded systems are found in everyday objects from smoke alarms and remote controls to advanced applications in areas like industrial automation, medical devices, consumer electronics, telecommunications and the automotive industry.

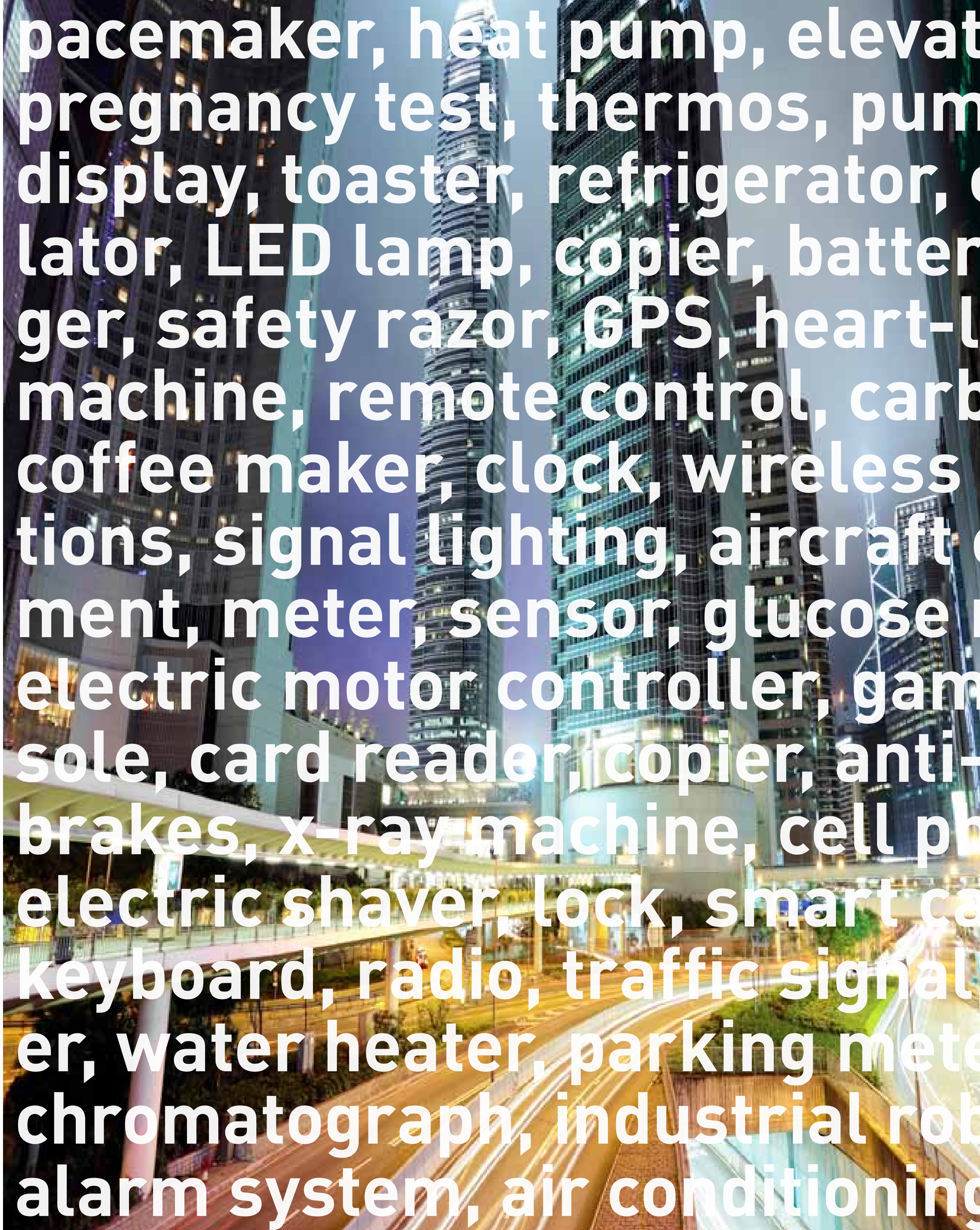
IAR Systems works from the developer's perspective – one development tool is all you need

The developer's challenges

- Demands on fast time to market for new digital electronic products.
- Large differences between processors and architectures.
- High complexity.
- Development work often relies on global cooperation in teams.
- Resource-efficient development.
- Effective and energy-efficient code, particularly for battery-powered products.
- The developer must be able to exploit experience from one project in the next, and reuse code from earlier projects in future ones.

The developer's needs

- User-friendly, reliable and versatile tools for quick and easy programming of processors for digital electronic products.
- Tools that make it possible to create fast, effective and reliable code.
- Expert global service and support.
- Possibility to optimize and debug code via a PC.
- Tools that allow standardized development.



Global trends driving development

IAR Systems' market is made up of all companies that develop digital electronic products, such as industrial automation, medical devices, consumer electronics and the automotive industry.

The market for embedded systems is driven by digitalization and is evolving rapidly in pace with:

- Growth in the number of different digital electronic products.
- Growth in the number of embedded systems per digital electronic product.
- Increased complexity in embedded systems.
- Growth in the use of processors from ARM® in embedded systems.
- Growth in energy-efficient solutions for digital electronic products.
- Increased need for simplified startup of new development projects for embedded systems.

Did you know...?

- By 2015 the number of manufactured processors is expected to reach 19 billion.
- Nearly all cell phones and PDAs today are based on processors with an ARM design.
- A processor has an area of roughly one square millimeter and is constructed in 70 layers.
- A modern car contains more than 100 processors that control everything from power windows to anti-lock brakes and engine control units, etc.
- An electric shaver contains 16,000 lines of code.
- An advanced processor can read 63,000,000 lines of code per second.

All in all, these trends are creating a market that is changing rapidly and in which many of the world's largest technology companies are competing for a forefront position. Huge sums are being invested to develop new processors and high-tech fabrication plants to meet continuously rising demand for increasingly faster, smaller and more intelligent processors.

MARKET FOR DEVELOPMENT TOOLS

All digital electronic products contain processors that are programmed for specific purposes. Digital electronic products need processors of varying complexity to perform their functions in an embedded system. In simple terms, these differences can be divided into 8-, 16- and 32-bit architectures, of which 32-bit are the most advanced. IAR Systems'

For several years we have been working successfully with IAR Systems. Their tools give us the flexibility and performance we need to realize even our most ambitious product developments.

Ralf Westerheide
Group Manager of Software Development at Miele & Cie

tool suite IAR Embedded Workbench supports all of these architectures. Today, the 32-bit segment accounts for the largest share of sales. This is due to the increasing level of complexity in digital electronic products, which in turn places higher demands on the processor technology.

ARM'S PROCESSOR DESIGN INCREASINGLY IMPORTANT

ARM Holdings is a UK-based company that develops standards for processors. The company has established a strong position among global processor manufacturers, which has radically changed the conditions in the market. According to ARM's business model, processor makers pay a license fee to ARM for use of their design. One major advance of ARM processors is their low power consumption, which makes them particularly suitable for laptop and handheld devices. Today ARM's design is found in around 95% of all cell phones and forecasts predict the greatest future growth in embedded systems in pace with more advanced applications.

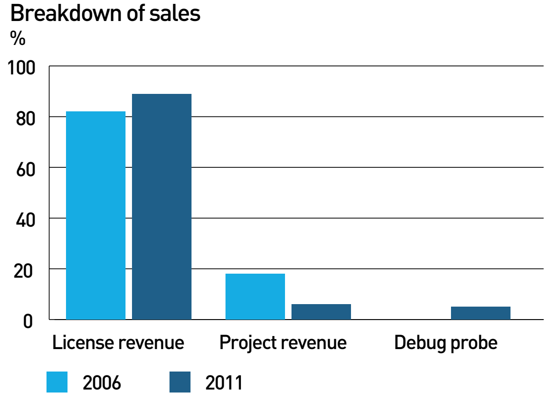
A large and steadily growing share of embedded systems development today is based on ARM processors. As a result of this, the users demand development tools that are built to function in an ARM environment.

PLAYERS – COMPETITORS

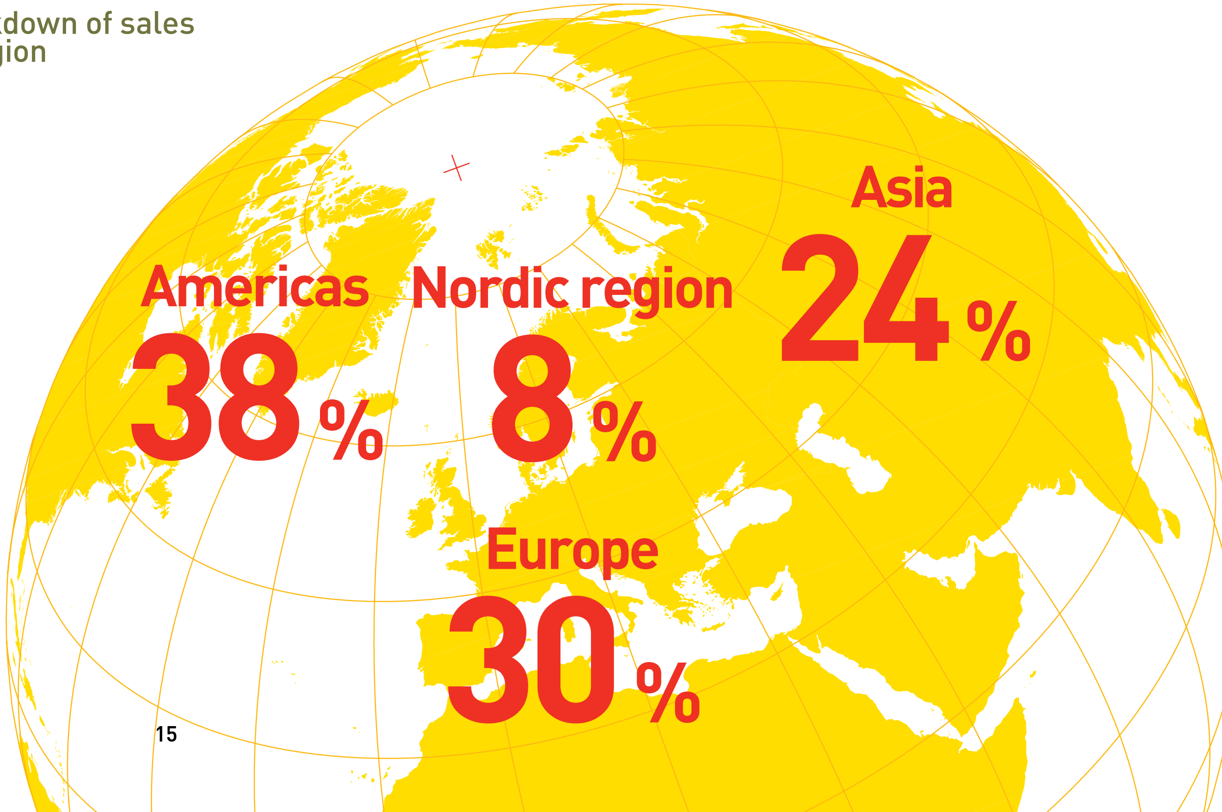
The market for processor manufacturing is dominated by a few of the world's largest technology companies. Tools for programming of code are offered by players of four different types:

- Processor makers that provide software for their own processors, such as Texas Instruments, Freescale, Atmel and Renesas. These offer software as part of the sale of their own processors.
- Software suppliers that build their products on freeware (GCC). These suppliers do not develop their own compiler but instead add functionality and service based on open source solutions.
- ARM through the development tools ARM RealView and Keil.
- A few independent software suppliers, such as US-based Green Hills.

Breakdown of sales



Breakdown of sales by region



ECOSYSTEM OF PARTNERS

In nature, an ecosystem is a complex system in which different species live and thrive in mutual interaction with each other. Ecosystem is also the metaphor used to describe IAR Systems' collaboration with its partners.

As one of a small number of independent providers of development tools for embedded systems, IAR Systems has secured a position at the hub of something that resembles an ecosystem of cooperating partners and suppliers of real-time operating systems (RTOS), middleware and processors.

This ecosystem has been formed over a period of nearly 30 years through knowledge sharing, technical integration and joint product development. This also explains why IAR Systems' software supports more processors in more architectures than any other tools on the market. Today the company's software can be used to program over 7,400 different processors.

IAR Systems' offering is independent from real time operating systems (RTOS) thanks to its Partner Program. Through the program, IAR Embedded Workbench integrates seamlessly with the leading RTOSs and middleware products and is independent in relation to the suppliers.

IAR SYSTEMS POSITION

IAR Systems is the leader in its niche as an independent provider of software for programming of embedded systems. The majority of customers are familiar with the product IAR Embedded Workbench, which has been on the market for close to 30 years. IAR Systems builds its brand mainly through the quality of its products and through continuous enhancement and development.

IAR Systems' assessment is that the company grew faster than the market during 2011. The strongest growth was noted for the more advanced applications and for products in the ARM segment.

- One key competitive advantage over the processor makers' own development tools is that IAR Systems' tools are compatible with processors from the majority of manufacturers.
- IAR Systems' service and support function distinguishes the company, mainly from suppliers of freeware. IAR Systems has an especially strong position in the automotive industry, medical devices, industrial automation and consumer electronics.
- IAR Systems' goal is to have a strong position in all industries.

One challenge for suppliers of development tools is to keep pace with ARM's rapid technological development. ARM's new standard, Cortex, has already been licensed to 231 leading processor manufacturers. In the next few years, production of Cortex-based embedded systems is expected to increase dramatically. In view of this, favorable growth opportunities are awaited for IAR Systems and the players that can deliver competitive development tools for Cortex.

A comparison between players in the market is shown in the table below.

Competitor analysis

	IAR Systems	GreenHills	Freeware	Processor maker	ARM
Independent supplier	●	●	◐		
Broad support for all key architectures	●	●	◐		
Support for all major processor vendors	●	●	●		
Good support and customer service	●	◐		◐	●
User-friendliness	●	◐	◐	◐	●
Documentation	●	●		◐	●
In-house software development	●	●		◐	●
Effective and small code size	●	●	◐	◐	●
Broad RTOS and middleware support	●			◐	●
Broad hardware support	●		●	◐	●

Employees

IAR Systems' competitiveness is dependent on the expertise of its employees. IAR Systems is a knowledge-intensive organization that has attracted expertise and talents from many countries. IAR Systems places high demands on ambition and innovation and is a dynamic workplace that contributes to personal well-being and professional development.

SKILLED EMPLOYEES

More than 90% of the employees hold a university degree. The software industry is evolving rapidly and the company offers a stimulating and educational environment with extensive on-the-job training and a structured transfer of knowledge between individuals and departments.

IAR Systems has a low employee turnover rate and, by industry standards, a good gender and age distribution.

IAR Systems has 157 employees, of whom more than 90 are based in Uppsala and the remainder in the Americas, Asia and the rest of Europe

PRODUCT DEVELOPMENT ORGANIZATION

IAR Systems' product development takes place mainly at the headquarters in Uppsala and the company's office in Camarillo, Los Angeles. A total of more than 60 people are active in technological development. These are organized in a technological development department and a product development department that work actively to meet market requirements.

SALES ORGANIZATION

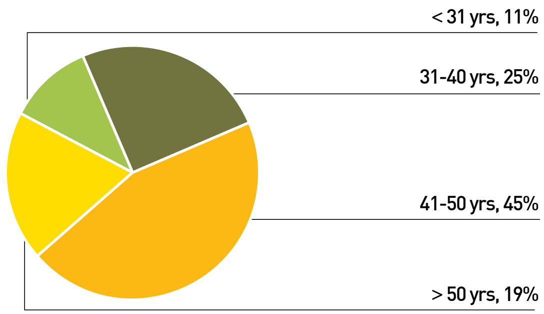
IAR Systems' sales organization is led from the corporate headquarters in Uppsala and has local staff at two offices in the USA, Japan, China, Germany, the UK, France, Brazil and South Korea. IAR Systems regularly holds training courses on the product offering for the company's sales representatives and distributors.

SUPPORT AND SERVICE ORGANIZATION

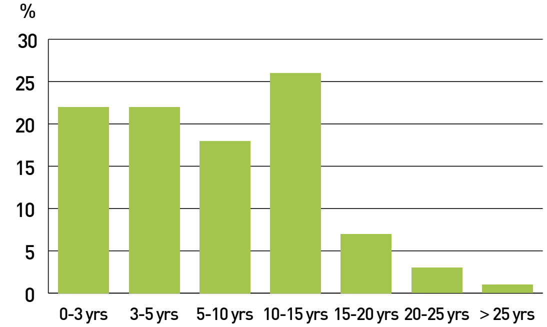
IAR Systems offers customer support in ten languages and across several different time zones. Through effective tools, well structured routines

Employees	2011	2010	2009
Gender distribution, %			
Men	73	77	78
Women	27	23	22
Geographical spread, %			
Sweden	62	73	70
Rest of Europe	5	4	6
Americas	21	14	14
Asia	12	9	10
Educational level, %			
University/technical institute	87	90	91
Higher post-secondary education	3	2	2
Secondary education	10	8	7
Compulsory schooling	-	-	-

Age distribution



Term of employment



IAR SYSTEMS HAS MORE THAN 14,000 CUSTOMERS ACROSS THE MAJORITY OF INDUSTRIES ABB, Abbott Diabetes Care, Agfa Gevaert Health Care, Autoliv Electronics, Black & Decker, Bosch, Daimler Chrysler AG, Danfoss Randall, Delphi Automotive Systems, Dräger, Ember, Emerson, Endress + Hauser, Ericsson Mobile Platforms, GE Sensing, Hewlett-Packard, Honeywell Inc., Invensys Appliance Controls, Johnson Controls, Inc., Kamstrup A / S, Kongsberg, Laerdal Medical, Landis + Gyr AG, Lear Corporation, Leica Geosystems, Lockheed Martin, Mettler-Toledo, Mitsubishi Electric Corp, Motorola, Inc., Northrop Grumman, Novo Nordisk A / S, Osram GmbH, Panasonic Communications, Philips Medical Systems, Roche Diagnostics, Rockwell Automation, SAGEM, Schneider Electric, Siemens, Smiths Medical, Sony-Ericsson,Visteon and Whirlpool Corp.

and knowledgeable staff, this department provides highly appreciated support to a global customer base.

PERFORMANCE DEVELOPMENT

IAR Systems' key competencies are found in technological development and relationships with the customers. The strengths in these areas are a valuable competitive advantage and the company works actively to retain and develop its expertise. Training and the exchange of experiences contribute to greater loyalty and the company's culture encourages sharing and development of knowledge between the employees.

Through our commitment to the company and its products, we find the best possible solutions for our customers

RECRUITMENT

Through acquisitions and recruitment, IAR Systems increased the number of employees by 22 during 2011. This reinforcement took place mainly in sales and development.

INCENTIVE SCHEME

IAR Systems aims to offer competitive salaries. In May 2011 a share-based incentive scheme was introduced to improve the conditions to recruit and retain competent personnel and raise the level of motivation among the employees.

The share

IAR Systems Group's class B share is quoted on the Small Cap list of NASDAQ OMX, under ticker symbol IAR B. The share price at December 31, 2011, was SEK 24.50 (17.74) and market capitalization on the same date was SEK 270m (196).

SHARE DATA

IAR Systems class B share is quoted on the Small Cap list of the NASDAQ OMX Nordic Exchange, under ticker symbol IAR B. A round lot consists of 1 (one) share. In 2011 the share price (last price paid) varied from a low of SEK 17.58 (12.40) to a high of SEK 24.50 (17.90). The share price at December 31, 2011, was SEK 24.50 (17.74) and IAR Systems' market capitalization on the same date was SEK 270m (196). In calculation of market capitalization and other share data, IAR Systems' holdings of treasury shares have not been included.

The number of shareholders in IAR Systems at December 31, 2011, was 9,293 (10,054), of whom 481 (586) held more than 1,000 shares each. Foreign shareholders held approximately 18% (25) of the share capital and 24% (31) of the votes.

IAR Systems' share capital at December 31, 2011, amounted to SEK 116,885,614, divided between 11,688,561 shares of which 100,000 are of class A and 11,588,561 are of class B. Of these, 634,600 class B shares are held in treasury by IAR Systems following buybacks in 2007 and 2008. This means that the number of class B shares on the market at December 31, 2011, was 10,953,961.

SHARE BUYBACKS

No share buybacks were carried out during the year. A total of 634,600 shares, for a combined value of SEK 30.1 million, have been repurchased since 2007 and 2008. These shares, which are now held in treasury by IAR Systems Group, are not included in the share data at December 31, 2011.

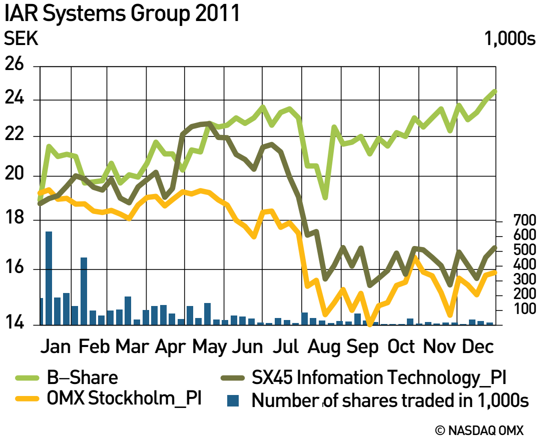
DIVIDEND

The Board intends to propose a dividend of SEK 1.00 (-)* per share for approval by the Annual General Meeting in April 2012.

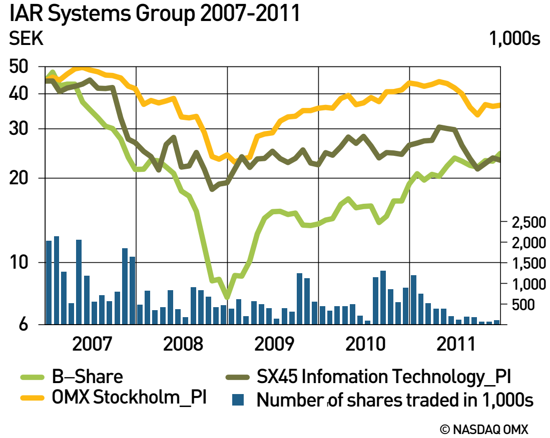
DIVIDEND POLICY

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 the

IAR Systems Group 2011



IAR Systems Group 2007-2011



Share data	2011	2010
Equity per share, SEK	21.82	54.16
Number of shares at end of year	11.05	11.05
Average number of shares	11.05	11.05
Cash flow from operating activities per share, SEK	3.15	1.25
Earnings per share calculated on profit from continuing operations, SEK	2.44	1.08
Earnings per share calculated on profit from operations distributed/sold, SEK	–4.14	0.80
Earnings per share calculated on total profit, SEK	–1.70	1.88
Dividend per share, SEK	-*	1.25
Number of shareholders	9,239	10,054
Last price paid on December 31 or similar, SEK (based on reinvested value)	24.50	17.74

* In April 2011 the shares in Deltaco were distributed to the shareholders and Deltaco was listed on First North.

anticipated future cash flow and the company's investment plans.

WARRANT SERIES T04B

The Annual General Meeting (AGM) in May resolved that the company would issue not more than 1,168,856 subscription warrants, each entitling the holder to subscribe for one class B share in IAR Systems Group AB. A total of 1,017,000 warrants were subscribed for on market-based terms in July 2011. Each warrant gives the holder the right to subscribe for one new class B share in IAR Systems Group AB for a price of SEK 34.30 during the period through June 2014.

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 all registered shares 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.

Largest shareholders at December 31, 2011 [1]

	No. of A shares	No. of B shares	Total no. of shares	% of capital	Total no. of votes	% of votes
UBS (Luxembourg) SA on behalf of Swedish resident		894,627	894,627	8.1	894,627	7.5
Catella Sweden Select		739,376	739,376	6.7	739,376	6.2
Ribbskottet AB		570,500	570,500	5.1	570,500	4.8
UBS (Luxembourg) SA		532,500	532,500	4.8	532,500	4.4
Länsförsäkringar Fondförvaltning AB		507,181	507,181	4.6	507,181	4.2
AOB Förvaltning AB		400,187	400,187	3.6	400,187	3.3
Pictet & Cie		396,025	396,025	3.6	396,025	3.3
Boda Invest AS	100,000	250,000	350,000	3.2	1,250,000	10.5
Tamt AB		350,000	350,000	3.2	350,000	2.9
Försäkringsaktiebolaget Avanza Pension		306,835	306,835	2.8	306,835	2.6
Ulti AB		283,000	283,000	2.6	283,000	2.4
Cecilia Jeansson		250,000	250,000	2.2	250,000	2.1
Kristoffer Jeansson		250,000	250,000	2.2	250,000	2.1
Nordnet Pensionsförsäkring AB		168,544	168,544	1.5	168,544	1.4
Marianne Rapp		152,000	152,000	1.4	152,000	1.3
Total 15 largest shareholders	**100,000**	**6,050,775**	**6,150,775**	**55.6**	**7,050,775**	**59.0**
Others		4,903,186	4,903,186	44.4	4,903,186	41.0
Total	**100,000**	**10,953,961**	**11,053,961**	**100.0**	**11,953,961**	**100.0**

[1] Shares held directly and through trustees. Added to this are 634,600 class B shares held in treasury by IAR Systems Group following buybacks.

Distribution of shareholdings at December 31, 2011 [1]

	No. of A shares	No. of B shares	Total no. of shares	% of capital	Total no. of votes	% of votes	No. of share-holders	% of share-holders
1-100	-	191,978	191,978	1.7	191,978	1.6	6,624	71.3
101-1,000	-	788,537	788,537	7.1	788,537	6.6	2,188	23.5
1,001-5,000	-	795,195	795,195	7.2	795,195	6.7	346	3.7
5,001-10,000	-	384,509	384,509	3.5	384,509	3.2	53	0.6
10,001-	100,000	8,793,742	8,893,742	80.5	9,793,742	81.9	82	0.9
Totalt	**100,000**	**10,953,961**	**11,053,961**	**100.0**	**11,953,961**	**100.0**	**9,293**	**100.0**

[1] Excluding the 634,600 class B shares held in treasury by IAR Systems Group following buybacks.

Annual General Meeting

The Annual General Meeting of IAR Systems Group AB (publ) will be held at 6:00 p.m. on Tuesday, April 24, 2012, at the company's office on Strandbodgatan 1 in Uppsala, Sweden. Bus transport from and to Stockholm will be available to the shareholders who so desire. Additional information about this will be provided in connection with the notice to attend the Annual General Meeting.

Starting at the end of March, IAR Systems Group's annual report will be available on IAR Systems' website and at the company's offices in Kista Science Tower in Kista and at Strandbodgatan 1 in Uppsala.

NOTIFICATION

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

> be recorded in the register of shareholders maintained by Euroclear Sweden AB not later than Wednesday, April 18, 2012.

> provide notification of their intention to participate in the AGM not later than Wednesday, April 18, 2012, in writing to IAR Systems Group AB (publ), Kista Science Tower, SE-164 51 Kista, Sweden, by telephone +46 8-410 920 00, by fax +46 8-410 920 01 or via the company's website www.iar.com/investors/

The notification should include:

> name, address, telephone number, personal or corporate identity number, registered shareholding and interest in bus transport from/to Stockholm.

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 18, 2012. When applicable, proof of authorization, such as forms of proxy 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.

DIVIDEND

The Board of Directors intends to propose a dividend of SEK 1.00 per share for the financial year 2011.

Financial calendar

Interim report	January – March 2012	April 24, 2012
Semi-annual report	January – June 2012	July 24, 2012
Interim report	January – September 2012	October 24, 2012

Financial overview

The annual accounts for 2011 are the first for IAR Systems as an independent listed company, following the restructuring of the former Intoi Group.

In the past few years the Group has undergone a comprehensive transformation from an IT conglomerate to a focused IT company with software for programming of processors in embedded systems. During the five years covered by the financial overview, the Group has gone from four operating units to one.

Nocom Drift was sold in 2008: Reported in the income statements and cash flows for 2007 and 2008, and in the balance sheet for 2007.

Deltaco was distributed to the shareholders in 2011 (see press release from December 2010): Reported in the income statements and cash flows for 2007 and 2008, and in the balance sheets for 2007, 2008 and 2009.

Northern was sold in 2011: Reported in the income statements and cash flows for 2007, 2008 and 2009, and in the balance sheets for 2007, 2008, 2009 and 2010.

IAR Systems is reported in continuing operations for all five years.

INCOME STATEMENTS

SEK M	2011	2010	2009	2008	2007
Net sales	200.4	177.9	251.3	579.3	693.8
Operating expenses	–171.0	–161.8	–241.6	–537.4	–643.0
Depreciation of property, plant and equipment	–1.7	–1.2	–1.9	–5.1	–5.9
Amortization of intangible assets	–3.7	–3.0	–4.4	–5.1	–4.4
Impairment losses on intangible assets	-	-	–18.7	-	-
Operating profit/loss	**24.0**	**11.9**	**–15.3**	**31.7**	**40.5**
Result from financial investments	0.1	0.0	–1.0	–2.2	0.9
Profit/loss before tax	**24.1**	**11.9**	**–16.3**	**29.5**	**41.4**
Income tax	2.9	0.0	0.0	2.1	17.9
Profit/loss after tax	**27.0**	**11.9**	**–16.3**	**31.6**	**59.3**
Profit/loss from operations distributed/soldt	–45.8	8.9	18.2	-	-
PROFIT/LOSS FOR THE YEAR	**–18.8**	**20.8**	**1.9**	**31.6**	**59.3**

BALANCE SHEETS

SEK M	2011	2010	2009	2008	2007
ASSETS					
Non-current assets					
Goodwill	110.7	132.1	288.7	304.5	313.7
Other intangible assets	28.2	26.7	30.3	32.9	36.2
Property, plant and equipment	5.8	5.9	54.3	83.0	36.8
Financial assets	79.6	80.7	107.3	115.1	111.6
Total non-current assets	**224.3**	**245.4**	**480.6**	**535.5**	**498.3**
Current assets					
Inventories	4.6	1.9	73.5	66.5	76.5
Other current assets	11.3	15.6	33.2	39.8	26.7
Trade receivables	32.2	33.8	90.5	83.4	76.1
Cash and cash equivalents	36.5	25.1	60.6	32.3	39.2
Total current assets	**84.6**	**76.4**	**257.8**	**222.0**	**218.5**
Assets in disposal groups held for distribution	-	422.4	-	-	-
TOTAL ASSETS	308.9	744.2	738.4	757.5	716.8
EQUITY AND LIABILITIES					
Total equity	**241.1**	**598.5**	**591.9**	**596.7**	**592.7**
Non-current liabilities					
Borrowings	1.5	2.0	27.4	41.2	12.5
Provisions	3.5	4.8	7.6	8.6	10.5
Total non-current liabilities	**5.0**	**6.8**	**35.0**	**49.8**	**23.0**
Current liabilities					
Trade payables	10.7	14.1	35.9	17.0	36.8
Borrowings	0.5	10.3	5.0	29.5	6.3
Provisions	-	-	-	1.0	3.8
Other current liabilities	51.6	46.8	70.6	63.5	54.2
Total current liabilities	**62.8**	**71.2**	**111.5**	**111.0**	**101.1**
Assets in disposal groups held for distribution	-	67.7	-	-	-
TOTAL EQUITY AND LIABILITIES	308.9	744.2	738.4	757.5	716.8

CASH FLOWS IN SUMMARY

SEK M	2011	2010	2009	2008	2007
Cash flow from operating activities	34.8	13.8	18.8	22.5	17.2
Cash flow from operating activities for operations distributed/sold	8.5	6.0	32.9	-	-
Total cash flow from operating activities	**43.3**	**19.8**	**51.7**	**22.5**	**17.2**
Cash flow from investing activities	–25.9	–12.6	–4.5	–52.9	–28.4
Cash flow from investing activities for operations distributed/sold	–0.9	–8.6	26.0	-	-
Total cash flow from investing activities	**–26.8**	**–21.2**	**21.5**	**–52.9**	**–28.4**
Cash flow from financing activities	7.7	–3.1	–5.9	23.5	–57.7
Cash flow from financing activities for operations distributed/sold	–39.7	–4.1	–39.0	-	-
Total cash flow from financing activities	**–32.0**	**–7.2**	**–44.9**	**23.5**	**–57.7**
Cash flow for the year	16.6	–1.9	8.4	–6.9	–68.9
The year's cash flow for operations distributed/sold	–32.1	–6.7	19.9	-	-
TOTAL CASH FLOW FOR THE YEAR	**–15.5**	**–8.6**	**28.3**	**–6.9**	**–68.9**

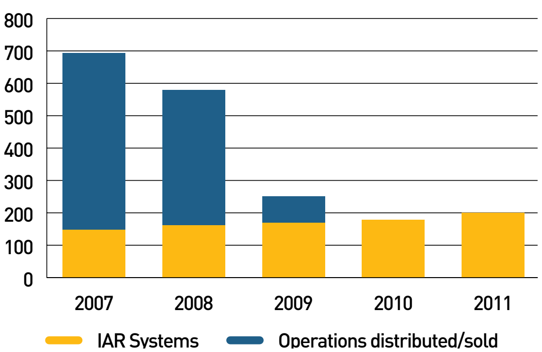
DATA PER SHARE

	2011	2010	2009	2008	2007
Equity per share, SEK	21.82	54.16	53.57	53.98	52.90
Number of shares at end of period, millions	11.05	11.05	11.05	11.05	11.21
Average number of shares, millions	11.05	11.05	11.05	11.08	11.60
Cash flow from operating activities per share, SEK	3.15	1.25	1.70	2.03	1.50
Earnings per share, continuing operations, SEK	2.44	1.08	–1.48	2.85	5.10
Earnings per share, operations distributed/sold, SEK	–4.14	0.80	1.65	-	-
Total earnings per share, SEK	–1.70	1.88	0.17	2.85	5.10
Dividend per share, SEK	-	1.25	0.60	2.00	3.00
Last price paid on Dec. 31 or similar, SEK	24.50	17.74	24.40	13.35	38.20

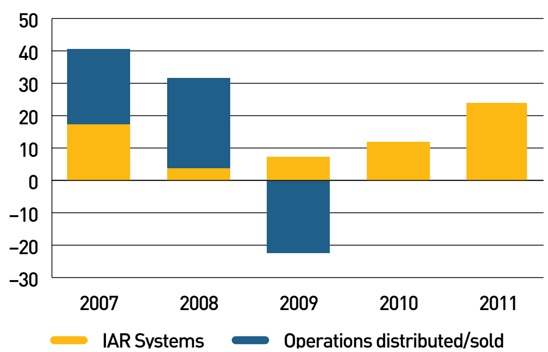
KEY RATIOS

	2011	2010	2009	2008	2007
Gross margin, %	14.7	9.1	3.9	7.2	7.3
Operating margin, %	12.0	6.7	–6.1	5.5	5.8
Profit margin, %	12.0	6.7	–6.5	5.1	6.0
Cash flow, %	17.4	7.8	7.5	3.9	2.5
Equity/assets ratio, %	78.1	80.4	80.2	78.8	82.7
Return on equity, %	6.4	3.5	0.3	5.3	10.0
Return on capital employed, %	5.8	3.5	1.0	5.2	7.0
Interest coverage ratio, times	31.9	98.5	1.5	9.4	38.0
Capital employed, SEK M	243.1	610.8	593.3	667.4	611.5
Net interest-bearing liabilities, SEK M	–34.5	–12.8	–27.4	38.4	–20.4
Net debt/equity ratio, times	–0.14	–0.02	–0.05	0.06	–0.03
Number of employees at end of period	157	135	173	242	219
Average number of employees	137	132	173	233	256
Net sales per employee, SEK M	1.5	1.3	1.5	2.5	2.7

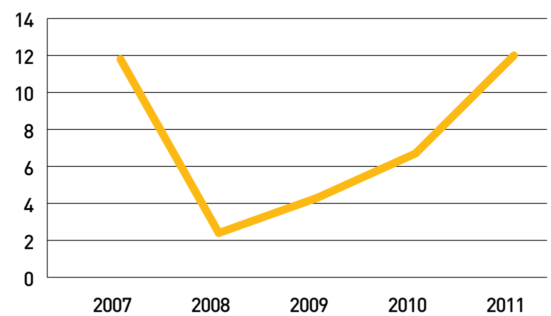
Net sales, proforma
SEK M



Operating profit, proforma
SEK M



Operating margin, proforma
%



In the graphs for the proforma accounts, operations distributed and sold are reported separately for the entire five-year period.

Risks and risk management

IAR Systems continuously addresses risks and risk management in order to identify and control these risks.

RISK MANAGEMENT

Strategic risks and market risks mainly affect demand and can be counteracted through flexibility in the total cost mass. IAR Systems' independent technical platforms and exposure to different markets and customers contribute to reducing the risk level.

Operational risks refer to the risk for inadequacies in processes, IT systems or the organization. By working continuously with the corporate culture and codes of conduct, these risks are minimized.

Financial risks such as changes in foreign exchange and interest rates are managed according to established routines.

The employees' knowledge about the products and their relationships with the customers are key competitive advantages

STRATEGIC RISKS

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

OPERATIONAL RISKS

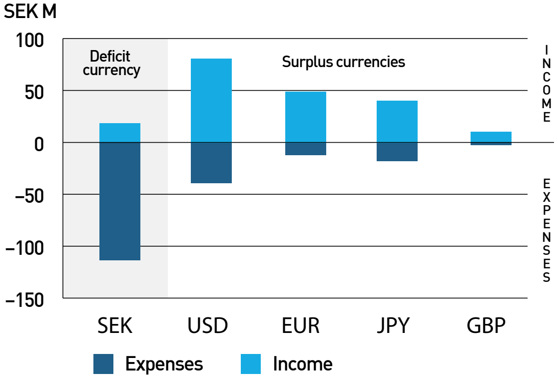
Customers

IAR Systems strives to build long-term relationships with its customers. The Group has a good spread across 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 may have a negative impact on the Group's operations and results.

Employees

The employees' knowledge about the products and their relationships with the customers are valuable

Breakdown of currencies
SEK M



Sensitivity analysis

Dec. 31, 2011	Change	Effect on profit
Cost of goods sold	+/– 5%	+/– SEK 1.0m
Payroll expenses	+/– 5%	+/– SEK 5.9m
Currency – EUR	+/– 5%	+/– SEK 1.9m
Currency – USD	+/– 5%	+/– SEK 2.1m
Variable interest	+/– 1 %-point	+/– SEK 0.0m

Currency sensitivity analysis

SEK 000s	
1% weakening of SEK against USD	+425
1% weakening of SEK against EUR	+374
1% weakening of SEK against JPY	+231
1% weakening of SEK against another currency	+82

competitive advantages. There is a risk that key personnel will leave the company, but expertise and loyalty are strengthened through training and knowledge sharing. IAR Systems has low employee turnover and a good working environment.

Technology

IAR Systems' in-house developed software is technologically advanced. However, it cannot be ruled out that the company may 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.

FINANCIAL RISKS

Through its operations, the company is exposed to various types of financial risk. Financial risks refer to the risk for fluctuations in the company's earnings and cash flow arising from exchange rate movements, interest rate levels, financing risk and credit risk.

Foreign exchange risk

Foreign exchange risk is defined as the risk for variations in the value of financial instruments due to changes in foreign exchange rates. The company's measures to manage transaction-related foreign exchange risk are established in the finance policy.

Foreign exchange risk arises in translation of trade receivables in foreign currency, mainly USD and EUR. The Group's sales in foreign currency, mainly USD and EUR, make up around 88 % of total sales. Of the cost of goods sold, which accounts for around 11% of the Group's cost mass, approximately 92% of purchases are denominated in foreign currency, also primarily in USD and EUR. The Group's translation exposure, i.e. the risk for changes in the subsidiaries' consolidated net assets arising from exchange rate fluctuations, is limited and no measures are currently taken to hedge translation exposure in foreign currency.

Financing and liquidity risk

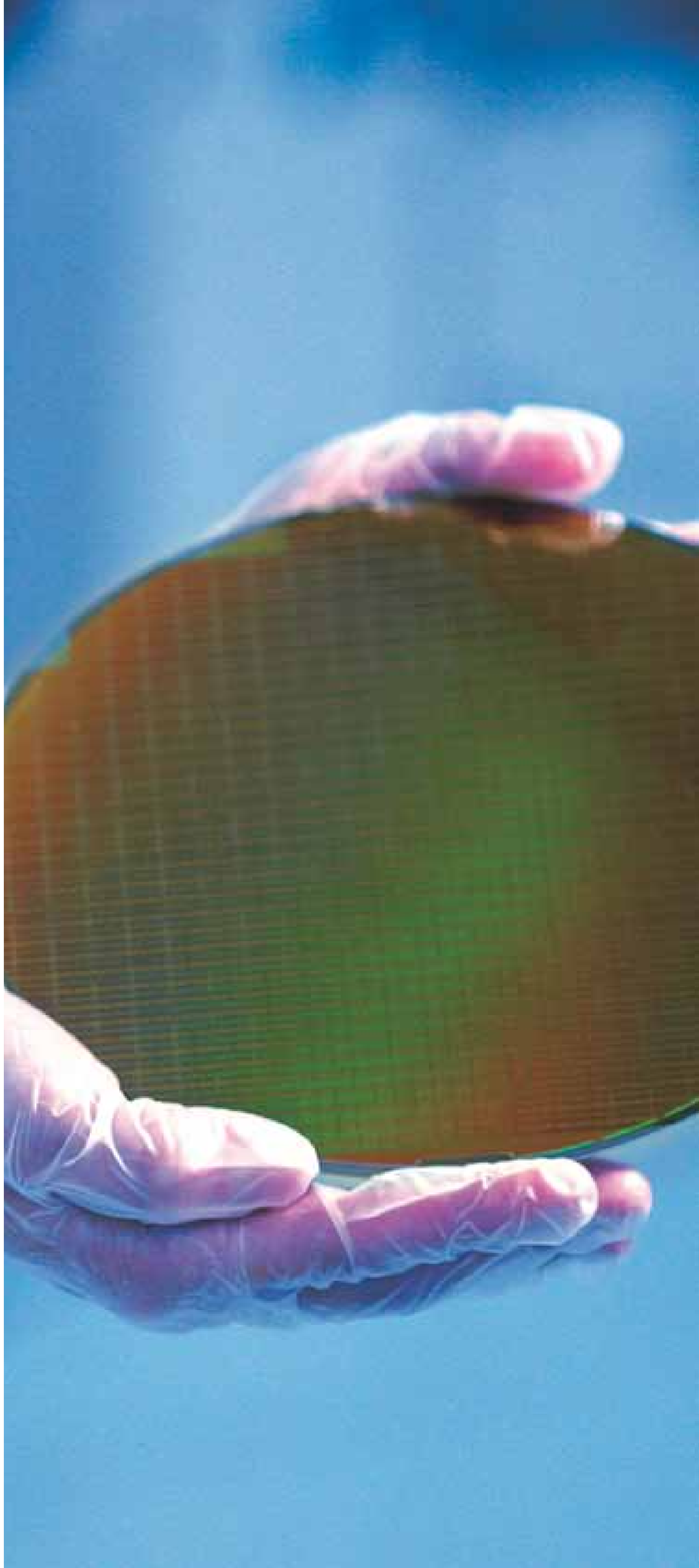
The Group's financial position is strong. The equity/assets ratio at December 31, 2011, was 78% (80). At year-end there were cash and cash equivalents of SEK 36.5m (25.1) and unutilized bank overdraft facilities of SEK 25.0m (40.4). Interest-bearing liabilities amounted to SEK 2.0m (12.3).

Credit risk

The Group's credit risk is mainly related to the customers' ability to pay. Customers undergo standard credit assessment according to established routines. Historically, credit losses have been low.

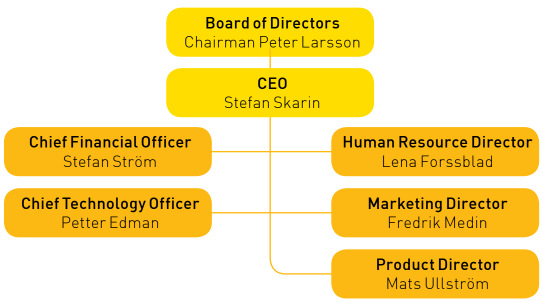
Interest rate risk

Interest rate risk is defined as the risk for variations in the value of financial instruments due to changes in market interest rates. The company's loans carry variable interest. At present, there are no investments in capital instruments.



Administration report

The Board of Directors and the CEO of IAR Systems Group AB hereby present the annual report for IAR Systems Group AB and the IAR Group for the financial year 2011. The company is domiciled in Stockholm, corporate identification number 556400-7200.



HIGHLIGHTS 2011

- Net sales for the year were up by 12.6% to SEK 200.4m (177.9).
- The year's operating profit from continuing operations rose by 102% to SEK 24.0m (11.9).
- Deltaco AB distributed to the shareholders.
- Northern Parklife AB sold to the company's management.
- Signum Systems Corp acquired.
- Incentive scheme for the employees.
- Growth in all regions.
- Enhancement of the offering.
- improved market position.

INTOI BECAME IAR SYSTEMS

The restructuring and focusing of IAR Systems was completed in connection with the Annual General Meeting in May 2011. The AGM approved the sale of Northern and as a final step, the Parent Company changed name to IAR Systems Group AB.

The company is now wholly focused on IAR Systems, which offers software for programming of processors in embedded systems.

IAR Systems' software is used to program embedded systems that control products in areas like industrial automation, medical devices, consumer electronics and the automotive industry. The company is at the leading edge of technology with development tools that support most of the world's processor manufacturers and therefore also embedded systems. The software is well established and is used by more than 120,000 developers in 14,000 companies across all industries worldwide.

IAR System is growing faster than the market and has good potential for continued growth. The business model is based on standardized software, which means that all customers essentially use the same product. This provides a high gross margin and creates a scalable business model with significant capacity to boost profitability.

The Parent Company acquired IAR Systems in 2005 and has been a driving force in its repositioning from a more consulting-oriented business to a pure software company. During these years the company has concentrated on the most advanced systems for 32-bit processors, which have grown from 35% to 58% of sales. We have increased the scalability of the business model by raising the share of licenses from 62% to 88% of sales. At the same time, the company has accelerated the rate of innovation and launched new, award-winning technology.

In order to facilitate the focus on IAR Systems, Deltaco was distributed to the shareholders and Northern was sold in April. Deltaco was acquired in 2005 and has since then increased its sales from SEK 220m to SEK 380m and its operating profit from SEK 20m to SEK 32m. Deltaco is now traded on First North.

Northern was sold to its own management. The company has shown declining sales and low profitability, but through the structure of the transaction we will benefit from future dividends and value growth. In addition to a small initial payment, the sale is subject to contingent consideration equal to 80% of future dividends and 80% of the value of a possible future sale (less the initial payment). The effect on profit (reported in profit from operations distributed/sold) was SEK -45m in the first quarter based on the initial purchase price, after which all future contingent consideration will have a positive impact on profit.

Through this restructuring, our shareholders have gained an ownership stake in two focused companies and potential for value growth in a third. The assessment is that this restructuring will increase the visibility of the companies and improve the opportunities for value creation.

ACQUISITION OF SIGNUM

IAR Systems acquired all of the shares in Signum Systems Corp in September 2011. Signum Systems Corp, which is based in Camarillo, California, was founded in 1979 and has a leading technical position in the market for emulators and debuggers. The company has 11 employees. The acquisition will create synergies in the combination of Signum's technology and IAR Systems' development tool IAR Embedded Workbench, which will give IAR Systems access to a new market for integrated software and hardware solutions for advanced processors.

The acquisition had a limited financial effect on IAR Systems in 2011 and is expected to make a positive contribution to both sales and profit starting in 2012.

The acquisition was financed by a combination of cash and shares in IAR Systems Group AB, with an initial payment and contingent consideration based on the attainment of goals during the period through October 1, 2015. No new shares in IAR Systems were issued in connection with this transaction, since the company used its own treasury shares acquired in earlier buybacks. IAR Systems completed the acquisition on October 3, 2011.

PROFIT AND CASH FLOW

Consolidated net sales amounted to SEK 200.4m, compared to SEK 177.9m for 2010, which is an increase of 13%. In local currency, sales were up by 26%.

Sales grew by 25% in the Americas, 17 % in Europe (excluding the Nordic region) and 34% in Asia.

The Americas accounted for 40% of sales, Europe (excluding the Nordic region) for 24%, Asia for 29% and the Nordic region for 7%.

The earnings trend during the year was positive and operating profit doubled to SEK 24.0m (11.9). Operating margin also improved and reached 12.0% for the year, compared to 6.7% in 2010.

Personnel costs are the Group's largest cost item and account for around 68% of total costs. Most of the Group's total costs, 59%, are attributable to operations in Sweden.

The year's cash flow from operating activities was SEK 34.8m (13.9).

BALANCE SHEET ITEMS AND FINANCIAL POSITION

Consolidated cash and cash equivalents at December 31, 2011, totaled SEK 36.5m, compared to SEK 25.1m at December 31, 2010. Added to this were unutilized bank overdraft facilities of SEK 25.0m (40.4). The Group's interest-bearing liabilities amounted to SEK 2.0m, compared to SEK 12.3m at December 31, 2010.

At December 31, 2011, the Group thus had net cash of SEK 34.5m (12.8), in addition to a holding of 634,600 treasury shares.

Consolidated goodwill at December 31, 2011, amounted to SEK 110.7m. This goodwill item is attributable to the acquisition of IAR Systems in 2005 and the year's acquisition of Signum Systems Corp. Goodwill is tested for impairment yearly and is measured at cost less accumulated impairment.

Other intangible assets in the form of trademarks, software and customer agreements amounted to SEK 28.2m (26.7).

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. At December 31, 2011, the Group had cumulative loss carryforwards of around SEK 280m. In the balance sheet, the current estimated value of these losses is SEK 73.8m (71.2). This item consists of the estimated value of capitalized loss carryforwards.

Equity at December 31, 2011, amounted to SEK 241.1m, compared to SEK 598.5m at December 31, 2010. The decrease in equity is due to the year's profit from continuing operations of SEK 27.0m, profit from operations distributed and sold of SEK –45.8m, the distribution of Deltaco to the shareholders for SEK –339.8m, the issue of warrants for SEK 0.6m and foreign exchange effects of SEK 0.6m.

The equity/assets ratio at December 31, 2011, was 78% (80). Pledged assets decreased during the year and totaled SEK 3.4m (4.1) at December 31, 2011. No changes took place in reported contingent liabilities.

INVESTMENTS

Investments in property, plant and equipment for the year are reported at SEK -2.8m (-2.8). The year's investments in intangible assets including the acquisition of Signum totaled SEK -22.9m (-9.8).

OPERATIONS DISTRIBUTED AND SOLD

The operations in Deltaco AB and Northern Parklife AB and related subsidiaries were distributed and sold during the year. Profit from these operations is reported under profit from operations distributed/sold and amounted to SEK –45.8m (8.9). The income statement and cash flow statement for 2010 have been restated.

MARKET AND CUSTOMERS

Growth is driven primarily by a growing market for ARM, but we are also seeing increased sales of our other development tools for the more advanced processors.

The acquisition of Signum has been well received by IAR Systems' customers. The use of more powerful processors and the growing complexity of the products is generating a strong interest in better tools for testing, debugging and code reading. By combining Signum's technology with the market-leading development tool IAR Embedded Workbench, we have opened up a new market for integrated software and hardware solutions for advanced processors.

Interest in standardizing on IAR Embedded Workbench remains strong. In 2011 IAR Systems signed a total of 57 enterprise agreements, compared to 25 for the full year 2010. Active efforts are being made to reach more developers and in August the company launched a new website that contributed to 8,400 downloads of evaluation products in September alone. In the past year the number of readers of IAR Systems' newsletter increased by 18 000 and it now has 132 000 monthly subscribers.

ECOSYSTEM

IAR Systems is the hub of a powerful ecosystem of partners that include all of the world's major processor manufacturers, such as ST, Texas Instruments, NXP, Renesas, Freescale, Toshiba, Fujitsu and Atmel, and suppliers of real time operating systems (RTOS) and middleware. This close collaboration gives IAR Systems extensive resources, knowledge and scope for sales. But above all, it ensures that IAR Systems' software supports more processors in more architectures than any other tools on the market. With software tools from IAR Systems, the customers can work in the same environment for all processors in their current and future projects.

EMPLOYEES

The company's competitiveness depends on the ability to recruit, retain, and develop qualified staff. The company's success is determined by how well the leadership resources are developed and inspire the commitment of the personnel. IAR Systems' corporate culture is characterized by openness, social responsibility and professionalism.

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

The Group's employees are typified by a high level of technical expertise and long industry experience. IAR Systems, which develops software, had a high proportion of employees with advanced academic degrees.

At IAR Systems, 90% of the employees have a higher post-secondary education and 10% have a secondary education. The average age of the Group's employees is 43 years. Like many other companies in the IT sector, the Group has an uneven gender balance, with 27% women and 73% men at the end of 2011.

In 2011 the number of employees in continuing operations was 137 (132).

SOCIAL RESPONSIBILITY

IAR Systems' policy for social responsibility is to conduct business in accordance with the applicable laws and regulations. Integrity, honesty, frankness and honorability are of the utmost importance in all business and community relations. The Group 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 analyzes its operations from a social responsibility perspective and creates guidelines for the company to conduct itself in a responsible and ethically sound manner. In order to do this, the subsidiaries must obtain information about, and comply with, the relevant laws, regulations and international conventions.

In addition, the Parent Company strives to continuously reduce the subsidiaries' environmental impact and improve their actions in the social area and with regard to human rights. The Group also encourages all suppliers to work with similar goals for social responsibility.

ENVIRONMENT

IAR Systems has a low environmental impact in production, since the company conducts no processing activities.

RISKS

Through its operations, the company is exposed to various types of financial risk. Financial risks refer to the risk for fluctuations in the company's earnings and cash flow arising from in exchange rate movements, interest rate levels, financing risk and credit risk.

Foreign exchange risk

Foreign exchange risk is defined as the risk for variations in the value of financial instruments due to changes in foreign exchange rates. The company's measures to manage transaction-related foreign exchange risk are established in the finance policy. The goal is to minimize the short-term earnings impact of foreign exchange movements and at the same time create long-term freedom of action.

Foreign exchange risk arises in translation of trade receivables in foreign currency, mainly USD and EUR. The Group's sales in foreign currency, mainly USD and EUR, make up around 88 % of total sales. Of the cost of goods sold, which accounts for around 11% of the Group's cost mass, approximately 92% of purchases are denominated in foreign currency, also primarily in USD and EUR. The Group's translation exposure, i.e. the risk for changes in the subsidiaries' consolidated net assets arising from exchange rate fluctuations, is limited and no measures are currently taken to hedge translation exposure in foreign currency.

Financing and liquidity risk

The Group's financial position is strong. In 2011 the shares in Deltaco AB were distributed to the shareholders. No share buybacks took place during the year. The equity/assets ratio at December 31, 2011, was 78% (80).

At year-end there were cash and cash equivalents of SEK 36.5m (25.1) and unutilized bank overdraft facilities of SEK 25.0m (40.4). Interest-bearing liabilities amounted to SEK 2.0m (12.3).

Credit risk

The Group's credit risk is mainly related to the customers' ability to pay. Customers undergo standard credit assessment according to established routines. Historically, credit losses have been low.

Interest rate risk

Interest rate risk is defined as the risk for variations in the value of financial instruments due to changes in market interest rates. The company's loans carry variable interest. At present, there are no investments in capital instruments.

GUIDELINES FOR REMUNERATION AND OTHER TERMS OF EMPLOYMENT OF SENIOR EXECUTIVES

The Board of Directors proposes to the 2012 AGM that the guidelines for remuneration to senior executives that were adopted by the 2010 AGM continue to apply.

The 2011 AGM approved the Board's proposed guidelines for remuneration to the company's senior executives according to the following. The Board's proposal corresponds to the previously applied guidelines for remuneration to the company's senior executives in all essential respects. The principles apply to employment contracts entered into after the decision of the AGM and in cases where changes are made in existing terms of employment after this date. Senior executives refer to the Chief Executive Officer and the Chief Financial Officer. The Board of Directors has appointed a remuneration committee for preparation of matters related to remuneration and other terms of employment for the Executive Management.

No changes are proposed for 2012.

Motive

IAR Systems strives for an remuneration system for the Chief Executive Officer, senior executives and other employees that is market-based and competitive. Remuneration to the Executive Management shall consist of fixed salary, variable salary, a long-term incentive scheme, pension and other customary benefits.

Fixed salary

Fixed salary shall be market-based and individually differentiated on the basis of the individual's role, performance, results and responsibilities. As a rule, fixed salary is adjusted once a year. That portion of salary consisting of health and fitness, company car and lunch benefits, etc., is assigned a value in SEK and comprises part of fixed salary.

No changes are proposed for 2012.

Variable salary

Variable salary shall be proportionate to the responsibilities and powers of the individual in question. Variable salary is based on the attainment of predetermined performance targets in the areas of profit, sales and "soft" individual goals. The amount of variable salary is based on the number of established targets that are met by the individual and on actual outcomes in relation to these targets. The maximum amount of variable salary may not exceed 50% of fixed salary for the Chief Executive Officer and Chief Financial Officer. The Board Chairman receives no variable salary. In addition, the Board shall be authorized to award variable salary on a discretionary basis to senior executives or subsidiary presidents in excess of that described above when deemed appropriate. Such remuneration may not exceed 50% of fixed salary.

No changes are proposed for 2012.

Warrant issue

On a yearly basis, the Board of Directors shall evaluate whether additional long-term share-based or share price-based incentive schemes should be proposed to the Annual General Meeting.

Pension

The Chief Executive Officer and Chief Financial Officer are covered by a pension plan corresponding to the cost of the ITP plan, but with a retirement age of 60 years that makes the premium higher than that for a retirement age of 65 years. Other employees are covered by a pension plan corresponding to the cost of the ITP plan.

No changes are proposed for 2012.

Other terms of employment

If employment is terminated by the company, the Chief Executive Officer and Chief Financial Officer are entitled to a 12-month notice period and termination benefits corresponding to a maximum of six monthly salaries. If employment is terminated by the Chief Executive Officer or Chief Financial Officer,

	2010				2011			
QUARTERLY OVERVIEW, CONTINUING OPERATIONS	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	43.6	42.1	44.2	48.0	45.8	48.9	48.2	57.5
Operating expenses	–40.7	–39.7	–39.8	–45.8	–42	–43.5	–41.1	–49.8
Operating profit	2.9	2.4	4.4	2.2	3.8	5.4	7.1	7.7
Operating margin, %	6.7	5.7	10.0	4.6	8.3	11.0	14.7	13.4
Return on equity, %	1.6	1.1	1.4	–0.6	0.6	1.4	3.3	4.5
Equity per share, SEK	54.42	53.81	55.50	54.16	50.35	20.09	20.92	21.82
Cash flow from operating activities per share, SEK	0.22	0.33	0.23	0.47	–0.49	1.23	1.20	1.21

the notice period is six months. Monthly salary is payable throughout the notice period.

Aside from the above, there are no agreements for additional termination benefits for senior executives.

No changes are proposed for 2012.

Consulting fees for members of the Board

In cases where Board members perform services in addition to customary Board duties, the Board of Directors can under special circumstances decide on additional remuneration in the form of consulting fees.

No such remuneration was paid in 2011.

In 2011 the Board Chairman invoiced board fees as consulting fees in a manner that was cost-neutral for the company.

Deviation from the guidelines

The Board of Directors shall have the right to deviate from the above guidelines in individual cases where the Board finds special reason to do so. In 2011 there were no deviations from the guidelines approved by the Annual General Meeting.

THE IAR SHARE

IAR Systems class B share is quoted on the Small Cap list of the NASDAQ OMX Nordic Exchange.

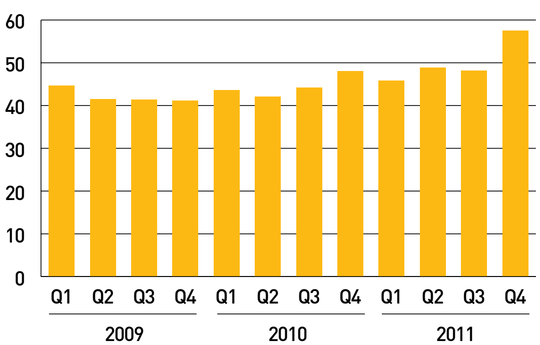
IAR Systems' share capital at December 31, 2011, amounted to SEK 116,885,614, divided between 11,688,561 shares of which 100,000 are of class A and 11,588,561 are of class B. Of these, 634,600 class B shares are held in treasury by IAR Systems following buybacks in 2007 and 2008. This means that the number of class B shares on the market at December 31, 2011, was 10,953,961.

Share price performance

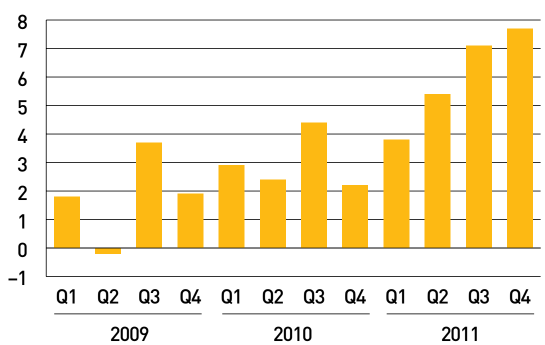
In 2011 the share price varied from a low of SEK 17.58 (12.40) to a high of SEK 24.50 (17.90). The share price at December 31, 2011, was SEK 24.50 (17.74) and IAR Systems' market capitalization on the same date was SEK 270m (196).

During the year, the subsidiary Deltaco AB was distributed to the shareholders. Deltaco AB is quoted on NASDAQ OMX First North since April 2011. The comparative information has been restated in view of the distribution.

Net sales, continuing operations
SEK M



Operating profit, continuing operations
SEK M



Ownership and control

The number of shareholders in IAR Systems at December 31, 2011, was 9,293 (10,054), of whom 481 (586) held more than 1,000 shares each. Foreign shareholders held approximately 18% (25) of the share capital and 24% (31) of the votes.

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 the anticipated future cash flow and the company's investment plans.

Dividend 2011

In April 2011 the operations in Deltaco were distributed to the shareholders. No additional dividend was paid to the shareholders in 2011. A dividend of SEK 1.25 per share was paid in 2010.

Dividend 2012

The Board intends to propose a dividend of SEK 1.00 (-) per share for approval by the AGM in April 2012.

Proposed appropriation of profits

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

Retained earnings	139,730,505.28
Profit for the year	–12,990,511.00
TOTAL	126,739,994.28

The Board of Directors and the Chief Executive Officer propose that these profits be appropriated as follows:

A dividend of SEK 1.00 per share	11,688,561.00
To be carried forward to new account	115,051,433.28
TOTAL	126,739,994.28

Consolidated income statement

SEK M	Note	2011	2010
Net sales	1,2,3	200.4	177.9
Goods for resale	4	–19.0	–21.2
Other external expenses	5	–31.8	–28.8
Personnel costs	6	–120.2	–111.8
Depreciation of property, plant and equipment	12	–1.7	–1.2
Amortization of intangible assets	11	–3.7	–3.0
Operating profit		**24.0**	**11.9**
Financial investments			
Financial income	7	0.9	0.0
Financial expenses	7	–0.8	0.0
Profit before tax		**24.1**	**11.9**
Income tax expense	8	2.9	0.0
Profit for the year from continuing operations		**27.0**	**11.9**
Profit for the year from operations distributed/sold	9	–45.8	8.9
PROFIT FOR THE YEAR		–18.8	20.8

SEK M	Note	2011	2010
Profit for the year attributable to:			
Owners of the Parent Company		–18.2	20.8
Earnings per share calculated on profit in continuing operations attributable to owners of the Parent Company during the year, SEK			
- basic	10	2.44	1.08
- diluted	10	2.44	1.08
Earnings per share calculated on profit from operations distributed/sold, SEK			
- basic	10	–4.14	0.80
- diluted	10	–4.14	0.80
Earnings per share calculated on comprehensive income attributable to owners of the Parent Company during the year, SEK			
- basic	10	–1.70	1.88
- diluted	10	–1.70	1.88

Consolidated statement of comprehensive income

SEK M	Note	2011	2010
Profit for the year		**–18,8**	**20,8**
Other comprehensive income:			
Foreign exchange gains/losses		0,6	–0,4
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		–18,2	20,4
Comprehensive income for the year attributable to owners of the Parent Company		–18,2	20,4

Consolidated balance sheet

SEK M	Note	Dec 31 2011	Dec 31 2010
ASSETS	1, 2, 3		
Non-current assets			
Intangible assets	11	138.9	158.8
Property, plant and equipment	12		
Buildings		-	-
Leasehold improvements		0.2	0.1
Equipment		5.6	5.8
Total property, plant and equipment		5.8	5.9
Financial assets			
Other non-current receivables	13,19	5.8	9.5
Deferred tax assets	8	73.8	71.2
Total financial assets		79.6	80.7
Total non-current assets		**224.3**	**245.4**
Current assets			
Inventories	14	4.6	1.9
Current receivables			
Trade receivables	15	32.2	33.8
Other current receivables	16	6.0	3.7
Prepaid expenses and accrued income	17	5.3	11.9
		48.1	51.3
Cash and cash equivalents	18	36.5	25.1
Total current assets		**84.6**	**76.4**
Assets in disposal groups held for distribution	9	-	**422.4**
TOTAL ASSETS		308.9	744.2

SEK M	Note	Dec 31 2011	Dec 31 2010
EQUITY AND LIABILITIES			
Equity	20		
Share capital		116.9	116.9
Other contributed capital		0.6	289.2
Reserves		0.3	−0.3
Retained earnings including profit for the year		123.3	192.7
Total equity		**241.1**	**598.5**
Non-current liabilities			
Borrowings	12,21	1.5	2.0
Deferred tax liabilities	8	3.5	4.8
Total non-current liabilities		**5.0**	**6.8**
Current liabilities			
Trade payables		10.7	14.1
Borrowings	12,21	0.5	10.3
Tax liabilities	8	1.8	2.1
Other liabilities	22	4.1	6.9
Accrued expenses and deferred income	23	45.7	37.8
Total current liabilities		**62.8**	**71.2**
Liabilities in disposal groups held for distribution	9	-	**67.7**
TOTAL EQUITY AND LIABILITIES		308.9	744.2

Consolidated statement of changes in equity

SEK M	Note	Share capital	Other contri-buted capital	Reserves	Retained earnings	Total equity
Balance at January 1, 2010	20	**116.9**	**289.2**	**0.1**	**185.7**	**591.9**
Profit for the year					20.8	20.8
Other comprehensive income						
Foreign exchange gains/losses				–0.4		–0.4
Total comprehensive income				**–0.4**	**20.8**	**20.4**
Transactions with owners						
Share buybacks					-	-
Dividends					–13.8	–13.8
Total transactions with owners					**–13.8**	**–13.8**
Opening balance, January 1, 2011		**116.9**	**289.2**	**–0.3**	**192.7**	**598.5**
Profit for the year					–18.8	–18.8
Other comprehensive income						
Foreign exchange gains/losses				0.6		0.6
Total comprehensive income				**0.6**	**–18.8**	**–18.2**
Transactions with owners						
Provisions to non-restricted reserves			–289.2		289.2	-
Issue of subscription warrants			0.6			0.6
Dividends					–339.8	–339.8
Total transactions with owners			**–288.6**	**-**	**–50.6**	**–339.2**
CLOSING BALANCE, DECEMBER 31, 2011		116.9	0.6	0.3	123.3	241.1

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:
The share capital at December 31, 2011, amounted to SEK 116,885,610, divided between 100,000 class A shares and 11,588,561 class B shares. All shares have a quota value of SEK 10 each.

Consolidated cash flow statement

SEK M	Note	2011	2010
Operating activities			
Incoming payments from customers		187.5	197.8
Outgoing payments to suppliers and employees		–153.6	–182.6
Cash flow from operating activities before interest and income taxes paid		**33.9**	**15.2**
Interest received		2.0	0.3
Interest paid		–0.8	0.0
Income taxes paid		–0.3	–1.7
Cash flow from operating activities for continuing operations		**34.8**	**13.8**
Cash flow from operating activities for operations distributed/sold		8.5	6.0
Cash flow from operating activities		**43.3**	**19.8**
Investing activities			
Investments in property, plant and equipment	12	–2.8	–2.8
Investments in intangible assets	11	–8.2	–9.8
Investments in subsidiaries	11	–14.7	-
Other investments		–0.2	-
Cash flow from investing activities for continuing operations		**–25.9**	**–12.6**
Cash flow from investing activities for operations distributed/sold		–0.9	–8.6
Cash flow from investing activities		**–26.8**	**–21.2**
Financing activities			
Issue of subscription warrants		0.6	-
Dividends to owners of the Parent Company		-	–13.8
Proceeds from new borrowings		7.1	10.7
Cash flow from financing activities for continuing operations		**7.7**	**–3.1**
Cash flow from financing activities for operations distributed/sold		–39.7	–4.1
Cash flow from financing activities		**–32.0**	**–7.2**
Cash flow for the year		–15.5	–8.6
Cash and cash equivalents at beginning of year		52.0	60.6
Cash and cash equivalents at end of year	18	**36.5**	**52.0**
Cash and cash equivalents at the end of year are broken down as follows			
Cash and cash equivalents at end of year		36.5	52.0
Cash and cash equivalents included in assets held for distribution/sale		-	32.0
TOTAL CASH AND CASH EQUIVALENTS FOR CONTINUING OPERATIONS		36.5	20.0

Parent Company income statement

SEK M	Note	2011	2010
Net sales	1,2,3	14.1	14.2
Other external expenses	5	–9.8	–12.9
Personnel costs	6	–10.6	–12.6
Depreciation of property, plant and equipment	12	–0.2	–0.2
Operating profit/loss		**–6.5**	**–11.5**
Result from financial investments			
Total financial income	7	139.4	2.5
Total financial expenses	7	–151.5	–1.8
Profit before tax		**–18.6**	**–10.8**
Income tax expense	8	5.6	7.5
PROFIT/LOSS FOR THE YEAR		–13.0	–3.3

Parent Company statement of comprehensive income

SEK M	Note	2011	2010
Profit/loss for the year		**–13.0**	**–3.3**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		–13.0	–3.3

Parent Company balance sheet

SEK M	Note	Dec 31 2011	Dec 31 2010
ASSETS	1, 2, 3		
Non-current assets			
Property, plant and equipment			
Equipment	12	0.2	0.4
Total property, plant and equipment		0.2	0.4
Financial assets			
Shares in group companies	26	189.4	414.3
Other non-current receivables	13	4.5	9.0
Deferred tax assets	8	73.2	67.5
Total financial assets		267.1	490.8
Total non-current assets		**267.3**	**491.2**
Current assets			
Current receivables			
Receivables from subsidiaries		0.3	6.0
Tax assets		0.4	0.4
Other current receivables	16	3.3	0.0
Prepaid expenses and accrued income	17	0.6	3.0
		4.6	9.4
Cash in hand and at bank	18	8.0	0.3
Total current assets		**12.6**	**9.7**
TOTAL ASSETS		279.9	500.9

SEK M	Note	Dec 31 2011	Dec 31 2010
EQUITY AND LIABILITIES			
Equity	20		
Restricted equity			
Share capital		116.9	116.9
Statutory reserve		-	270.2
		116.9	387.1
Non-restricted equity			
Share premium reserve		74.8	74.2
Retained earnings		64.9	25.2
Profit/loss for the year		–13.0	–3.3
		126.7	96.1
Total equity		**243.6**	**483.2**
Non-current liabilities			
Liabilities to subsidiaries		20.4	-
Other non-current liabilities	21	5.5	-
Total non-current liabilities		**25.9**	**-**
Current liabilities			
Trade payables		1.2	3.8
Borrowings	21	0.0	9.6
Other liabilities	22	5.8	0.2
Accrued expenses and deferred income	23	3.4	4.1
Total current liabilities		**10.4**	**17.7**
TOTAL EQUITY AND LIABILITIES		279.9	500.9
Pledged assets	25	8.3	1.4
Contingent liabilities		-	-

Parent Company statement of changes in equity

SEK M	Note	Share capital	Other contri-buted capital	Share premium reserve	Retained earnings	Total equity
Opening balance at January 1, 2010	20	**116.9**	**270.2**	**74.2**	**39.0**	**500.3**
Dividends paid					–13.8	–13.8
Total income and expenses recognized directly in equity		**-**	**-**	**-**	**–13.8**	**–13.8**
Profit for the year					–3.3	–3.3
Closing balance, December 31, 2010		**116.9**	**270.2**	**74.2**	**21.9**	**483.2**
Provisions to non-restricted reserves			–270.2		270.2	0.0
Issue of subscription warrants				0.6		0.6
Dividends paid					–227.2	–227.2
Total income and expenses recognized directly in equity		**-**	**–270.2**	**0.6**	**43.0**	**–226.6**
Profit for the year					–13.0	–13.0
CLOSING BALANCE, DECEMBER 31, 2011		116.9	-	74.8	51.9	243.6

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2011, amounted to SEK 116,885,610, divided between 100,000 class A shares and 11,588,561 class B shares. All shares have a quota value of SEK 10 each.

Parent Company cash flow statement

SEK M	Note	2011	2010
Operating activities			
Incoming payments from customers		13.8	13.9
Outgoing payments to suppliers and employees		–18.7	–17.9
Cash flow from operating activities before interest and income taxes paid		**–4.9**	**–4.0**
Interest received		0.2	0.3
Interest paid		–0.7	–0.4
Cash flow from operating activities		**–5.4**	**–4.1**
Investing activities			
Investments in subsidiaries		–16.0	-
Investments in property, plant and equipment	12	0.0	–0.1
Decrease in financial receivable		4.5	1.3
Cash flow from investing activities		**–11.5**	**1.2**
Financing activities			
Proceeds from new borrowings		-	9.6
Repayment of borrowings		–9.6	-
Dividends paid		-	–13.8
Increase in borrowings from subsidiaries		14.7	1.3
Group contributions		19.5	2.2
Cash flow from financing activities		**24.6**	**–2.0**
Cash flow for the year		**7.7**	**–4.9**
Cash and cash equivalents at beginning of year		0.3	5.2
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	8.0	0.3

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 to the company's head office is Kista Science Tower, SE-164 51 Kista, Sweden. IAR Systems Group AB is the Parent Company of a group that was founded in 1985 and listed on the stock exchange in 1999. Business is conducted in the subsidiary IAR Systems AB.

IAR Systems Group AB is quoted on NASDAQ OMX, ticker symbol IAR.

The consolidated financial statements were approved for publication by the Board of Directors on March 6, 2012.

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 one hundred thousandth. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires the manage¬ment to 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 assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

New or changed accounting standards

When the consolidated financial statements were prepared at December 31, 2011, a few new standards and interpretations had gone into effect compared to previous years and a number had been published but were not yet effective. Below is an assessment of the impact that the introduction if these standards and interpretations has had and may preliminarily have on IAR System Group's financial statements:

None of the IFRSs or IFRIC interpretations that are effective for financial periods beginning on or after January 1, 2011, have had any significant impact on the Group.

None of the IFRSs or IFRIC interpretations that are not yet effective are expected to have any significant impact on the Group and have not been applied in advance.

1.2 Scope of consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies in a manner generally accompanying ownership of more than 50% of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses whether a controlling interest exits in cases where it does not have a shareholding equal to more than 50% of the voting rights but nonetheless has the power to govern the financial and operating policies through de facto control. De facto control can arise under circumstances in which the Group's share of voting rights in relation to the size and dispersion of the other shareholders' voting rights enables the Group to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

Business combinations are reported according to the acquisition method of account¬ing. The consideration transferred for the acquisition of a subsidiary consists of the fair value of assets acquired and liabilities assumed by the Group from the previous owner of the acquiree 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 as¬sumed 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 (NCI's) in the acquiree either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred. In a business combination achieved in stages, any previ¬ously held equity interest in the acquiree 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 contingent consideration that is classified as a contingent asset or liability are recognized in accordance with IAS 39 either in profit or loss or in other comprehensive income. If contingent consideration is classified as an equity instrument, it is not re¬measured and settlement is accounted for within equity. Goodwill is initially measured as the amount by which the acquisition date fair value of consideration transferred and the fair value of non-controlling interests exceeds the fair value of identifiable assets acquired and liabilities assumed. If the amount of consideration transferred is lower than the fair value of the acquiree's net assets, the resulting gain is recognized directly in profit or loss. All intra-group balances and transactions arising from transactions between group companies are eliminated.

Gains or losses that arise on transactions between group companies and are recognized as assets are also eliminated. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies applied by the Group.

1.3 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.

1.4 Foreign currency translation

a) Functional and presentation currency

The items included in the financial statements of each of the group entities are measured using the currency of the primary economic environ¬ment where the entity operates (the functional currency). The consolidated financial statements are presented in Swedish kronor (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 revalued. Foreign exchange gains/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 position 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 foreign exchange gains and losses are recognized as a separate component of equity.

On consolidation, foreign exchange gains and losses resulting from the translation of the net investment in foreign operations are recognized in the statement of comprehensive income and accumulated as a separate component of equity. When a foreign operation is disposed of or sold, the cumulative amount of exchange gain/losses attributable to the operation is 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	1 USD	6.9234 (6.8025)	6.4969 (7.2049)
Finland, France, Germany	1 EUR	8.9447 (9.002)	9.0305 (9.5413)
UK	1 GBP	10.6768 (10.5475)	10.4115 (11.1256)
Japan	1 JPY	0.0892 (0.0834)	0.0817 (0.0822)
Denmark	1 DKK	- (1.2075)	- (1.2813)
Norway	1 NOK	- (1.1520)	- (1.1916)
China	1 CNY	1.0998 (1.0300)	1.0057 (1.0643)
South Korea	1 KRW	0.0060 (-)	0.0059 (-)

1.5 Property, plant and equipment

All items of property, plant and equipment (PPE) 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 written down 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 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 financial period in which they are incurred. Depreciation of PPE is calculated using the straight-line method to allocate the cost of the asset over its estimated useful life, as follows:

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

1.6 Intangible assets

a) Goodwill

Goodwill represents the excess of the fair value of consideration transferred in connection with an acquisition and the fair value of the Group's share of the acquired subsidiary's identifiable net assets on the acquisition date. Goodwill arising on the acquisition of subsidiaries is recognized in intangible assets. Goodwill is tested for impairment annually and is carried 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.

In testing for impairment, goodwill is allocated to cash-generating units. The smallest cash-generating unit used is IAR Systems.

Goodwill is allocated to the cash-generating unit or group of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

b) Trademarks

Trademarks are stated at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortization. Trademarks are amortized over their estimated useful lives of 5–15 years.

c) Computer software

Software is stated at historical cost. Software has a finite useful life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the software over its estimated useful life of 3-12 years.

IAR Systems conducts development activities. Development costs may be capitalized as intangible assets if, among other things, the Group can demonstrate the technical and financial feasibility of completing the asset and the value of the asset can be reliably measured.

Costs for development are expensed if, at the time of completion of the development work, it is not possible to assess with adequate certainty the profit generating ability of the future end-products. In cases where components are adapted for sale in the local market, for example Japan, the costs for this are capitalized as an asset that is amortized over a period of three years.

d) Customer contracts

Customer contracts are stated at historical cost. Customer contracts have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of customer contracts over their estimated useful life of five years.

1.7 Impairment

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization 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.

1.8 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.

1.9 Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. These are included in current assets, with the exception of items maturing more than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables consist of trade and other receivables, as well as cash and cash equivalents in the balance sheet.

Recognition and measurement of financial assets

The purchase or sale of a financial asset is recognized on the trade date, which is the date on which Group commits to purchase or sell the asset. Financial instruments are initially recognized at fair value plus transaction costs, which applies to all financial assets not measured at fair value through profit or loss.

Loans and receivables are initially measured at amortized cost with the application of the effective interest rate method.

At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired.

1.10 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected within one year or earlier (or in the normal operating cycle of the business if this is longer), they are classified as current assets. If not, they are classified as non-current assets.

Trade receivables are initially measured at fair value and subsequently at amortized cost with the application of the effective interest rate method, less provisions for impairment.

1.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

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, cancelled or otherwise extinguished.

1.13 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if this is longer). If not, they are classified as non-current liabilities.

1.14 Current and deferred income tax

The income 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. The 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 income 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 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 employee benefit expense 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 either terminate 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 Revenue recognition

Revenue is measured as the fair value of consideration received or receivable for the sale of goods and services net of VAT and discounts and after elimination of inter-company sales. 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 facilitate accurate recognition of revenue. Interest income is recognized using the effective interest rate method.

Net sales consist of revenue arising from the sale of development tools for embedded systems, contract work and maintenance contracts.

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.

Contract work is of two different types, new development contracts and maintenance contracts, both of which are carried out at a fixed price. Revenue from new development contracts is recognized in pace with the estimated fair value of that which has been delivered to the customer, which is primarily based on the stage of completion of the transaction. Revenue arising from maintenance contracts 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.

1.18 Foreign exchange gains and losses

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

1.19 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 property, plant and equipment. Leases of property, plant and equipment where the Group has substantially 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 finance charges 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 finance charges, is included in the balance sheet items non-current borrowings and current borrowings.

The interest element of the finance charge 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. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease period.

1.20 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 get ready for their intended use or sale. In view of this, borrowing costs are expensed in the period in which they are incurred.

1.21 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 demand deposits together with short-term, highly liquid 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

1.22 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 shall apply all EU-endorsed IFRSs and statements as far as possible within the framework of the Annual Accounts Act and with respect 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.

1.23 Group and shareholder contributions

The Parent Company recognizes group contributions in accordance with RFR 2, Accounting for Legal Entities, whereby group contributions received are recognized as financial income. Group contributions paid are recognized in accordance with the alternative rule in RFR 2 as an expense in the income statement. The comparative information has been restated with respect to this changed accounting policy for group contributions.

1.24 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.

1.25 Dividends

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

1.26 Shares in group companies
In the Parent Company's financial statements, shares in group companies are measured at cost less any impairment losses.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
Estimates and judgments are continually 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
The Group tests goodwill for impairment annually, in accordance with the accounting policy stated in 1.7 above. 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 11).

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

The growth rate used is based on past performance and the management's expectations for market development. For year 1, this corresponds to the budget and business plan established by the Board of Directors. For years 2 and 3, this corresponds to the 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 estimated growth rate for the market.

The estimated operating margin used in calculation of value in use is based on past performance and the management's expectations for market development. For year 1, this corresponds to the budget and business plan established by the Board of Directors. For years 2 and 3, this corresponds to the management's forecasts. Cash flows beyond the three-year period are extrapolated based on an estimated operating margin on a level with year 3.

The discount rate used, 11%, is stated before tax and is assessed to reflect specific risks relating to the operating segment.

b) Income taxes
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 has substantial accumulated loss carryforwards.

At December 31, 2011 the Group had cumulative loss carryforwards of approximately SEK 280m. All loss carryforwards are found in Sweden and can be used for an unlimited period.

A total deferred tax asset of SEK 73.8m is recognized in the consolidated balance sheet at December 31, 2011. The value of loss carryforwards is recognized as an asset to the extent that it is probable that the loss carryforwards can be utilized against future taxable profits. The assessed value is based on previous performance and the management's expectations for market development.

c) Revenue recognition
The Group reports revenue in accordance with IAS 18, Revenue, whereby revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the seller and these can be measured reliably. Revenue is measured according to the principles described in 1.17 above.

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. In certain cases, the Group requires a deposit from the customer. If the company deems a debt to be doubtful, a provision is made to cover the debt until it is possible to determine whether or not the Group will receive payment. Prepayments are recorded as current liabilities until they are earned. 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 facilitate accurate revenue recognition.

NOTE 2 FINANCIAL RISK MANAGEMENT

OPERATIONAL RISKS
Customers
IAR Systems strives to build long-term relationships with its customers. The Group has a good spread across 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 may have a negative impact on the Group's operations and results.

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

Technology
IAR Systems' in-house developed software is 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. The management closely monitors trends in the business cycle. The company's customers are found in a range of different areas, which reduces sensitivity to the business cycle.

Financial risk factors
Through its operations, the Group is exposed to various types of financial risk: market risk (including foreign exchange, interest rate risk and price 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 centrally according to policies that are adopted by the Board of Directors.

The management identifies, evaluates and hedges financial risks.

a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to different currencies, predominantly the US dollar and euro. 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 and EUR, make up around 88% of total sales. Of the cost of goods sold, which accounts around 11% of the Group's cost mass, approximately 92% of purchases are denominated in foreign currency, also primarily USD and EUR.

SEK M	Total	SEK	USD	EUR	Other currencies
Net sales	200.4	24.7	81.1	49.3	46.3
Cost of goods sold	19.0	1.7	7.0	7.5	2.8
Other expenses	157.4	101.5	31.6	4.4	19.9

(ii) Price risk

The Group is not assessed to be exposed to any price risk that could have a significant impact on the Group's profit or financial position.

(iii) Interest rate risk related to cash flows and fair value

Because the Group has a net cash surplus, interest rate risk is deemed minor.

b) Credit risk

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 committed 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 the management.

The utilization of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and the 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

The Group has sales to a large number of customers. Most of the Group' sales go 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 handling of doubtful debts. No specific customer or group of customers accounted for a significant share of trade receivables at year-end 2011. Historically, the Group's bad debt losses have not been significant in scope.

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, the management achieves flexibility in financing by maintaining agreements for lines of credit. In addition, the 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 analyses the maturity structure of the Group's financial liabilities grouped according to the period remaining to the contractual maturity. The amounts shown in the table are the contractual undiscounted cash flows.

At December 31, 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Finance leases	0.5	1.5	-	-
Bank overdraft facilities	-	-	-	-
Trade and other payables	21.2	-	-	-

At December 31, 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Finance leases	0.7	2.0	-	-
Bank overdraft facilities	9.6	-	-	-
Trade and other payables	28.7	-	-	-

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 income 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.

Sensitivity analysis At December 31, 2011	Change	Effect on profit
Cost of goods sold	+/– 5%	+/– SEK 1.0m
Payroll expenses	+/– 5%	+/– SEK 5.9m
Currency – EUR	+/– 5%	+/– SEK 1.9m
Currency – USD	+/– 5%	+/– SEK 2.1m
Variable interest	+/– 1%-point	+/– SEK 0.0m

At December 31, 2010	Change	Effect on profit
Cost of goods sold	+/– 5%	+/– SEK 1.0m
Payroll expenses	+/– 5%	+/– SEK 5.7m
Currency – EUR	+/– 5%	+/– SEK 1.0m
Currency – USD	+/– 5%	+/– SEK 1.6m
Variable interest	+/– 1%-point	+/– SEK 0.0m

CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital 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 for 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 Group's target is a net debt/equity ratio of between 0% and –10%.

The net debt/equity ratio at December 31, 2011 and 2010 was as follows:

	2011	2010
Total borrowings (Note 21)	2,0	12,3
Less cash and cash equivalents (Note 18)	–36,5	–25,1
Net debt	–34,5	–12,8
Shareholders' equity	241,1	598,5
Total equity	206,6	585,7
Net debt/equity ratio	–17 %	–2 %

The recognized values for trade receivables and trade payables, less any provisions for impairment, are assumed to correspond to their fair values since these items are of a current nature.

NOTE 3 SEGMENT REPORTING

Following the distribution of Deltaco and the sale of Northern Parklife, there is now only one operating segment that consists of the entire Group.

	Continuing operations IAR Systems		Reconciling item Group distributed operations		Reconciling item Group discontinued operations		Reconciling item Group other		Group	
January-December	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
External sales	200.4	177.9							200.4	177.9
Internal sales	-	0.0							-	0.0
Total income	**200.4**	**177.9**							**200.4**	**177.9**
Goods for resale	–19.0	–21.2							–19.0	–21.2
Personnel costs	–120.2	–111.8							–120.2	–111.8
Other external expenses	–31.8	–28.8							–31.8	–28.8
Depreciation property, plant and equipment	–1.7	–1.2							–1.7	–1.2
Amortization of intangible assets	–3.7	–3.0							–3.7	–3.0
Operating profit	**24.0**	**11.9**							**24.0**	**11.9**
Net financial items	0.1	0.0							0.1	0.0
Profit before tax	**24.1**	**11.9**							**24.1**	**11.9**
Income tax expense	2.9	0.0							2.9	0.0
Profit from continuing operations	**27.0**	**11.9**							**27.0**	**11.9**
Profit from operations distributed/sold	-	-	2.1	13.6	–2.9	4.7	-	-	–0.8	18.3
Gain/loss on distribution/sale	-	-	-	-	–45.0	-	-	-	–45.0	-
Profit/loss for the year	**27.0**	**11.9**	**2.1**	**13.6**	**–47.9**	**4.7**			**–18.8**	**30.2**
Other disclosures										
Total assets	308.9	288.5	-	422.4	-	62.0	-	–28.7	308.9	744.2
Total liabilities	67.8	60.4	-	67.7	-	32.8	-	–15.2	67.8	145.7
Investments in property, plant and equipment	2.8	2.8	-	-	-	-	-	-	2.8	2.8
Investments in intangible assets	22.9	9.8	-	-	-	-	-	-	22.9	9.8
Depreciation of property, plant and equipment	–1.7	–1.2	-	-	-	-	-	-	–1.7	–1.2
Amortization intangible assets	–3.7	–3.0	-	-	-	-	-	-	–3.7	–3.0

continued Note 3

GEOGRAPHICAL AREAS

SEK M	Sales 2011	Sales 2010	Assets 2011	Assets 2010	Investments 2011	Investments 2010
Americas						
USA	65.6	63.9	24.9	18.7	0.0	0.1
Other countries	10.4	6.6	-	-	-	-
	76.0	70.5	24.9	18.7	0.0	0.1
Asia						
Japan	33.0	27.7	8.1	6.6	0.7	0.0
Other countries	15.2	14.6	2	1.1	0.3	0.0
	48.2	42.3	10.1	7.7	1.0	0.0
EMEA						
UK	7.5	6.0	4.1	3.7	0.0	0.0
Germany	30.0	24.0	8.3	8.6	0.1	0.0
Other countries	22.8	24.2	-	-	-	-
	60.3	54.2	12.4	12.3	0.1	0.0
Nordic region						
Sweden	9.2	6.4	261.5	221.1	21.8	12.5
Other countries	6.7	4.5	-	-	-	-
	15.9	10.9	261.5	221.1	21.8	12.5
Total	200.4	177.9	308.9	259.8	22.9	12.6
Distributed operations				422.4		
Sold operations				62.0		
	200.4	177.9	308.9	744.2	22.9	12.6

NOTE 4 GOODS FOR RESALE

The item "goods for resale" within consolidated operating profit includes foreign exchange gains/losses of SEK –0.1m (–1.3) pertaining to operating receivables and liabilities.

Operating profit in the Parent Company includes foreign exchange gains/losses of SEK 0.0m (0.0).

NOTE 5 OTHER EXTERNAL EXPENSES

FEES TO AUDITORS

SEK M	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
PwC				
Audit of the financial statements	0.9	0.5	0.3	0.5
Audit-related services other than the audit	0.1	0.3	-	0.1
Tax advisory services	0.2	0.2	0.1	0.2
Other services	0.7	0.7	0.6	0.5
Total PwC	**1.9**	**1.7**	**1.0**	**1.3**
Others				
Audit of the financial statements	-	0.1	-	-
Audit-related services other than the audit	-	-	-	-
Tax advisory services	-	-	-	-
Others	-	-	-	-
Total others	**-**	**0.1**	**-**	**-**
Total fees to auditors	**1.9**	**1.8**	**1.0**	**1.3**

The audit of the financial statements refers to fees for the statutory audit, i.e. work that has been necessary in order to issue the audit report, as well as so-called audit advice provided in connection with the audit of the financial statements.

NOTE 6 PERSONNEL COSTS

AVERAGE NUMBER OF EMPLOYEES

The average number of employees in the Group's continuing operations during 2011 was 137 (132). The breakdown of the average number of employees by country and, in Sweden, by location, is shown in the table below.

The majority, 67%, are employed in Sweden (calculated on the average number of employees during the year).

AVERAGE NUMBER OF EMPLOYEES

	2011 No. of employees	2011 Of whom, men	2010 No. of employees	2010 Of whom men
Parent Company				
Stockholm	4	75 %	4	75 %
Subsidiaries in Sweden				
Uppsala	88	79 %	87	79 %
Stockholm	-	-	-	-
Subsidiaries outside Sweden				
UK	3	67 %	3	100 %
Germany	5	60 %	6	83 %
USA	21	67 %	19	68 %
South Korea	1	100 %	-	-
China	4	50 %	5	40 %
Japan	11	73 %	8	88 %
Total subsidiaries	**133**	**67 %**	**128**	**78 %**
Total Group	**137**	**73 %**	**132**	**77 %**

GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES IN THE GROUP

	2011 No. of employees	2011 Of whom, men	2010 No. of employees	2010 Of whom men
Group (incl. subsidiaries)				
Board members	5	80 %	5	80 %
CEO and other senior executives	2	100 %	2	100 %
Presidents in subsidiaries	-	-	2	100 %
Parent Company				
Board members	5	80 %	5	80 %
CEO and other senior executives	2	100 %	2	100 %

SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES

The Group's total payroll costs in continuing operations amounted to SEK 118.4m (114.0), of which social security expenses accounted for SEK 22.8m (22.4) and pensions for SEK 11.3m (10.7).

SEK M	2011 Salaries and other remuneration	2011 Social security expenses (of which pension costs)	2010 Salaries and other remuneration	2010 Social security expenses (of which pension costs)
Parent Company	7.2	3.7 (1.3)	7.4	4.5 (2.0)
Subsidiaries	78.4	29.1 (10.0)	74.0	28.1 (8.7)
Total Group	**85.6**	**32.8 (11.3)**	**81.4**	**32.6 (10.7)**

Of the Group's total pension costs, SEK 1.2m (2.0) is attributable to board members and presidents. Of the Parent Company's total pension costs, SEK 1.2m (2.0) is attributable to the Board and CEO.

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

SEK M	2011 Board, CEO and other senior executives	2011 Other employees	2010 Board, CEO and other senior executives	2010 Other employees
Parent Company	**6.2**	**1.0**	**7.0**	**0.4**
Subsidiaries in Sweden	**-**	**45.3**	**-**	**44.1**
Subsidiaries outside Sweden				
UK	-	1.3	-	1.2
Germany	-	4.5	-	5.1
South Korea	-	0.2	-	-
USA	-	18.1	-	16.2
China	-	1.3	-	1.3
Japan	-	7.7	-	6.1
Total subsidiaries	**-**	**78.4**	**-**	**74.0**
Total Group	**6.2**	**79.4**	**7.0**	**74.4**

REMUNERATION TO SENIOR EXECUTIVES

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

No board fees are paid to members who receive salary from companies in the IAR Group. In 2011 this rule applied to Stefan Skarin.

continued Note 6

BOARD OF DIRECTORS

The Annual General Meeting of IAR Systems Group AB approved board fees as follows:

Board Chairman	SEK 300,000
Other Board members who do not receive salary from companies in the IAR Group (3 people)	SEK 125,000 per member

In 2011, the Board Chairman invoiced board fees as consulting fees in a manner that is cost-neutral for the company.

PRINCIPLES

The principles for remuneration for the CEO and other senior executives are drawn up by the remuneration committee and presented to the Board, which puts forward proposals for such principles for approval by the AGM. The remuneration principles for 2011 were unchanged compared to those applied in 2010.

For 2011, the Group has applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM.

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

The amount of variable salary for the CEO and other senior executives is determined by the company's Board of Directors from time to time. Variable salary is based on actual outcomes in relation to individually set targets.

VARIABLE SALARY

For the CEO, variable salary for 2011 was based on the Group's net sales and operating profit. The bonus amount for 2011 was equal to 39% (33) of basic salary.

For other senior executives, variable salary for 2011 was based on the Group's net sales and operating profit. The bonus amount for 2011 for other senior was equal to 22% (28) of basic salary.

SHARE-BASED INCENTIVE SCHEMES

The AGM on May 3, 2011, resolved to approve a share-based incentive scheme. The offer to acquire subscription warrants at a market premium was directed to all employees in the Group. A total of 1,168,856 subscription warrants were issued, of which 1,017,000 were subscribed for in July 2011. Each warrant gives the holder the right to subscribe for one new class B share in IAR Systems Group AB for a price of SEK 34.30 during the period through June 2014.

The CEO and CFO subscribed for 250,000 and 60,000 warrants, respectively. The other 707,000 subscribed warrants were subscribed for by a total of 67 employees in a number of between 500 and 60,000 warrants each. The employees who chose to participate in the scheme thus subscribed for an average of just over 10,550 warrants each.

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 of the Group's pension plans are of the defined contribution type.

TERMINATION BENEFITS

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

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

OTHER DISCLOSURES

The CEO and CFO have received a new amount of fixed monthly remuneration since May 2011. For the CEO this remuneration amounts to SEK 225,000 (310,000). For the CFO this remuneration amounts to SEK 145,000 (234,000). The fixed monthly remuneration includes basic salary and pension costs. The distribution of the total amount between basic salary and pension costs is determined individually by the CEO and CFO.

REMUNERATION AND OTHER BENEFITS DURING THE YEAR

Remuneration to the Board, CEO and other senior executives in 2011:

	Basic salary/ board fees		Variable salary		Other benefits		Pension costs		Other remuneration		Total	
SEK M	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Board Chairman Peter Larsson (May 5, 2010 -)	0.3	0.2	-	-	-	-	-	-	-	-	0.3	0.2
Board member Karin Moberg (May 5, 2010 -)	0.1	0.1	-	-	-	-	-	-	-	-	0.1	0.1
Board member Jonas Mårtensson (May 5, 2010 -)	0.1	0.1	-	-	-	-	-	-	-	-	0.1	0.1
Board member Markus Gerdien (May 4, 2011 -)	0.1	-	-	-	-	-	-	-	-	-	0.1	-
Board Chairman Trygve Angell (-May 4, 2010)	-	0.1	-	-	-	-	-	-	-	-	-	0.1
Board member Björn Abild (-May 3, 2011)	0.0	0.1	-	-	-	-	-	-	-	-	0.1	0.1
Board member Lisbeth Gustafsson (-May 4, 2010)	-	0.0	-	-	-	-	-	-	-	-	-	0.0
CEO Stefan Skarin	2.6	3.1	1.0	1.0	0.1	0.1	0.6	1.0	-	-	4.3	5.2
CFO Stefan Ström	1.6	1.8	0.4	0.5	0.1	0.1	0.6	1.0	-	-	2.7	3.4
Total	**4.8**	**5.5**	**1.4**	**1.5**	**0.2**	**0.2**	**1.2**	**2.0**	**-**	**-**	**7.7**	**9.2**

NOTE 7 FINANCIAL INCOME AND EXPENSES

SEK M	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Interest income	0.9	0.2	0.2	0.3
Dividends from subsidiaries	-	-	119.7	-
Group contributions received	-	-	19.5	2.2
Total financial income	**0.9**	**0.2**	**139.4**	**2.5**
Interest expenses	–0.7	–0.1	–0.7	–0.3
Foreign exchange losses	–0.0	–0.0	–0.0	–1.5
Finance leases	–0.1	–0.1	-	-
Impairment loss on shares in subsidiaries	-	-	–119.7	-
Loss on the sale of shares in subsidiaries	-	-	–31.1	-
Total financial expenses	**–0.8**	**–0.2**	**–151.5**	**–1.8**
Net financial items	**0.1**	**0.0**	**–12.1**	**0.7**

NOTE 8 INCOME TAX EXPENSE

The following components are included in income tax expense.

SEK M	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Current tax on profit for the year	–1.0	–3.3	-	-
Deferred tax	3.9	3.3	5.6	7.5
Total tax on profit for the year	**2.9**	**0.0**	**5.6**	**7.5**

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

SEK M	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
The year deferred tax expense/income				
Deferred tax expenses pertaining to:				
temporary differences	–0.2	–0.2	-	-
group contributions	-	-	-	-
Deferred tax income pertaining to:				
group contributions	-	-	-	-
temporary differences	4.1	3.5	5.6	7.5
Total deferred tax in the income statement	**3.9**	**3.3**	**5.6**	**7.5**

SEK M	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Reconciliation between effect tax and tax based on the applicable tax rate				
Reported profit before tax	24.1	11.9	–18.6	–10.8
Tax according to the applicable tax rate	–6.3	–3.1	4.9	2.8
Tax effect of non-deductible expenses	–1.3	–1.4	–39.7	0.0
Tax effect of non-taxable income	0.0	0.0	31.5	0.0
Refund of paid tax after review of earlier tax assessment	-	-	-	-
Utilization of previously uncapitalized loss carryforwards	6.6	1.2	3.3	–2.8
Tax effect of group contributions paid and received	-	-	-	-
Tax on profit for the year according to the income statement	**–1.0**	**–3.3**	**0.0**	**0.0**

TAX RATE

The applicable tax rate, 26.3% (26.3), is the tax rate for income tax in the Group.

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 deferred tax assets. Temporary differences pertaining to software, trademarks and customer contracts have resulted in deferred tax liabilities and temporary differences pertaining to loss carryforwards have resulted in deferred tax assets.

SEK M	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
Opening deferred tax liabilities	–4.8	–7.6	-	-
Deferred tax liabilities attributable to acquired intangible assets	-	-	-	-
Deferred tax liabilities attributable to distributed intangible assets	1.1	2.7	-	-
The year's reversal of deferred tax liabilities	0.2	0.1	-	-
Total closing deferred tax liabilities	**–3.5**	**–4.8**	**-**	**-**
Opening deferred tax assets	**71.2**	**89.7**	**67.6**	**60.1**
Acquired deferred tax assets	-	-	-	-
Deferred tax assets attributable to distributed assets	-	–22.0	-	-
Deferred tax assets attributable to loss carryforwards	2.6	3.5	5.6	7.5
Total deferred tax assets	**73.8**	**71.2**	**73.2**	**67.6**
Total deferred tax assets, net	**70.3**	**66.4**	**73.2**	**67.6**

continued Note 8

At December 31, 2011, the Group had total unutilized loss carryforwards in continuing operations of SEK 280m (297). Based on these loss carryforwards, the Group has recognized a deferred tax asset of SEK 73.8m (71.2). Deferred tax assets are recognized only to the extent that it is probable that these loss carryforwards can be offset against future taxable profits. The assessment of the Group's future earnings performance is based on both reported profit in recent years and on an improved outlook for profitability. The recognized tax assets refer primarily to IAR Systems Group AB.

There is no expiry date for the above loss carryforwards.

NOTE 9 OPERATIONS FOR DISTRIBUTION AND SALE

In December 2010 the Board of Directors called an Extraordinary General Meeting (EGM) to resolve on a proposal to distribute the shares in Deltaco AB to the shareholders. The EGM was held in January 2011 and a decision was made to approve the distribution, which was then carried out in April 2011.

In the balance sheet at December 31, 2010, assets and liabilities attributable to Deltaco AB and its subsidiaries are recognized in the item "Assets and liabilities in disposal groups held for sale". Profit from Deltaco AB is recognized in the item "Profit from operations distributed/sold" for both 2010 and 2011.

In April, Northern Parklife AB with related subsidiaries was sold to its own management. In addition to a small initial payment, the sale is subject to contingent consideration equal to 80% of future dividends and 80% the value of a possible future sale (less the initial payment). The sale was approved by an EGM in May 2011.

Profit from Northern Parklife AB is recognized in the item "Profit from operations distributed/sold" for 2011.

Cash flow from Deltaco and Northern is recognized in the item "Cash flow from operations distributed/sold".

PROFIT FOR THE YEAR FROM OPERATIONS DISTRIBUTED AND SOLD

	Deltaco		Northern		Total	
SEK M	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Profit for the year from distributed operations	2.1	13.6	-	-	2.1	13.6
Profit for the year from sold operations	-	-	–2.9	–4.7	–2.9	–4.7
Gains/losses on the sale of subsidiaries	-	-	–45.0	-	–45.0	-
Profit from operations distributed/sold	**2.1**	**13.6**	**–47.9**	**–4.7**	**–45.8**	**8.9**

PROFIT/LOSS FOR OPERATIONS DISTRIBUTED AND SOLD

	Deltaco		Northern	
SEK M	**2011**	**2010**	**2011**	**2010**
Net sales	103.5	379.7	12.6	65.8
Operating expenses	–100.2	–359.3	–14.9	–68.0
Depreciation of property, plant and equipment	–0.6	–2.2	–0.1	–0.6
Amortization of intangible assets	–0.2	–1.1	–0.2	–1.2
Operating profit/loss	**2.5**	**17.1**	**–2.6**	**–4.0**
Net financial items	–0.4	–3.5	–0.3	–0.7
Profit/loss before tax	**2.1**	**13.6**	**–2.9**	**–4.7**
Income tax expense	0.0	0.0	0.0	0.0
Profit/loss for the year	**2.1**	**13.6**	**–2.9**	**–4.7**

HOLDINGS OF ASSETS FOR DISTRIBUTION AND RELATED LIABILITIES

Deltaco AB is recognized in assets held for sale and related liabilities in the balance sheet at December 31, 2010.

ASSETS, SEK M	DEC 31, 2011	DEC 31, 2010
Intangible assets	-	166.6
Property, plant and equipment	-	53.9
Financial assets	-	27.8
Total non-current assets	**-**	**248.3**
Inventories	-	94.2
Trade receivables	-	51.5
Other current assets	-	1.5
Cash and cash equivalents	-	26.9
Total current assets	**-**	**174.1**
Total assets held for distribution	**-**	**422.4**

LIABILITIES, SEK M	DEC 31, 2011	DEC 31, 2010
Borrowings, non-current	-	22.5
Provisions	-	2.7
Total non-current liabilities	**-**	**25.2**
Trade payables	-	22.6
Borrowings, current	-	4.2
Other current liabilities	-	15.7
Total current liabilities	**-**	**42.5**
Liabilities attributable to assets held for distribution	**-**	**67.7**

NET CASH FLOWS FROM OPERATIONS DISTRIBUTED/SOLD, SEK M	2011	2010
Cash flow from operating activities	8.5	6.0
Cash flow from investing activities	–0.9	–8.6
Cash flow from financing activities	–39.7	–4.1
Net cash flow	**–32.1**	**–6.7**

NOTE 10 EARNINGS PER SHARE (BASIC AND DILUTED)

SEK M	Group 2011	Group 2010
Continuing operations		
Reported profit before dilution, SEK M	27.0	11.9
Reported profit after dilution, SEK M	27.0	11.9
Basic earnings per share, SEK	2.44	1.08
Diluted earnings per share, SEK	2.44	1.08
Operations distributed/sold		
Reported profit before dilution, SEK M	–45.8	8.9
Reported profit after dilution, SEK M	–45.8	8.9
Basic earnings per share, SEK	–4.14	0.80
Diluted earnings per share, SEK	–4.14	0.80
Total		
Reported profit before dilution, SEK M	–18.8	20.8
Reported profit after dilution, SEK M	–18.8	20.8
Basic earnings per share, SEK	–1.70	1.88
Diluted earnings per share, SEK	–1.70	1.88
Number of shares		
Average number of shares before dilution, millions	11.05	11.05
Average number of shares after dilution, millions	11.05	11.05

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 a 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 is 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

	Goodwill		Trademarks		Customer contracts		Software incl. internally generated software development costs		Total	
Group, SEK M	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Opening cost	147.9	304.2	16.3	33.2	7.5	7.5	26.2	14.0	197.9	358.9
Purchases	13.3	-	-	-	-	-	8.3	12.2	21.6	12.2
Reclassification to assets held for sale	-	–156.3	-	–16.9	-	-	-	-	-	–173.2
Sales	–50.5	-	–4.6	-	–4.1	-	–4.9	-	–64.1	-
Closing accumulated cost	**110.7**	**147.9**	**11.7**	**16.3**	**3.4**	**7.5**	**29.6**	**26.2**	**155.4**	**197.9**
Opening amortization	-	-	–6.8	–11.2	–6.2	–5.7	–7.4	–4.6	–20.4	–21.5
Reclassification to assets held for sale	-	-	-	5.3	-	-	-	-	-	5.3
Sales	-	-	2.3	-	2.8	-	2.5	-	7.6	-
The year's amortization in continuing operations	-	-	–0.8	–0.9	-	–0.5	–2.9	–2.8	–3.7	–4.2
Closing accumulated amortization	**-**	**-**	**–5.3**	**–6.8**	**–3.4**	**–6.2**	**–7.8**	**–7.4**	**–16.5**	**–20.4**
Opening impairment	–15.8	–15.8	–1.7	–1.7	–1.2	–1.2	-	-	–18.7	–18.7
Sales	15.8	-	1.7	-	1.2	-	-	-	18.7	-
Closing accumulated impairment	**-**	**–15.8**	**-**	**–1.7**	**-**	**–1.2**	**-**	**-**	**-**	**–18.7**
Closing carrying amount	**110.7**	**132.1**	**6.4**	**7.8**	**0.0**	**0.1**	**21.8**	**18.8**	**138.9**	**158.8**

Parent Company, SEK M	Goodwill 2011	Goodwill 2010	Trademarks 2011	Trademarks 2010	Customer contracts 2011	Customer contracts 2010	Software incl. internally generated software development costs 2011	Software incl. internally generated software development costs 2010	Total 2011	Total 2010
Opening cost	0.4	0.4	-	-	-	-	-	-	0.4	0.4
Purchases	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-
Closing accumulated cost	**0.4**	**0.4**	**-**	**-**	**-**	**-**	**-**	**-**	**0.4**	**0.4**
Opening amortization	–0.4	–0.4	-	-	-	-	-	-	–0.4	–0.4
Sales	-	-	-	-	-	-	-	-	-	-
The year's amortization in continuing operations	-	-	-	-	-	-	-	-	-	-
Closing accumulated amortization	**–0.4**	**–0.4**	**-**	**-**	**-**	**-**	**-**	**-**	**–0.4**	**–0.4**
Closing carrying amount	**0.0**	**0.0**	**-**	**-**	**-**	**-**	**-**	**-**	**0.0**	**0.0**

In the Group, development costs are capitalized as intangible assets if, among other things, it is technically and financially feasible to complete the asset and the value of the asset can be measured reliably. Costs for development are expensed if, at the time of completion of the development work, it is not possible to assess with adequate certainty the profit generating ability of the future end-products. Internally generated software development costs that were capitalized during the year amounted to SEK 6.7m (8.7).

Goodwill, SEK M	2011	2010
IAR Systems	110.7	97.4
Northern Parklife	-	34.7
Total goodwill	**110.7**	**132.1**

IMPAIRMENT TESTING OF INTANGIBLE ASSETS

The value of the Group's goodwill has been estimated at the lowest level where cash flows can be separately identified, i.e. at the operating segment level. Value in use is calculated on the basis of projected future cash flows.

The growth rate used is based on past performance and the management's expectations for market development. The growth rate used is based on past performance and the management's expectations for market development. For year 1, this corresponds to the budget and business plan established by the Board of Directors. For years 2 and 3, this corresponds to the 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 estimated growth rate for the market.

The estimated operating margin used in calculation of value in use is based on past performance and the management's expectations for market development. For year 1, this corresponds to the budget and business plan established by the Board of Directors. For years 2 and 3, this corresponds to the management's forecasts. Cash flows beyond the three-year period are extrapolated based on an estimated operating margin on a level with year 3.

The discount rate used, 11 %, is stated before tax and is assessed to reflect specific risks relating to the operating segment.

Assumption	Growth rate	Operating margin	Discount rate (before tax)
Year 1 (Budget)	According to the Board's adopted budget	According to the Board's adopted budget	11% (11%)
Years 2-3 (forecast period)	According to the management's estimated forecast	According to the management's estimated forecast	11% (11%)
Terminal value	2% (1%)	On a level with year 3	11% (11%)

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. The management has therefore made the assessment that there was no indication of impairment of goodwill at the end of 2011.

NOTE 12 PROPERTY, PLANT AND EQUIPMENT

Group, SEK M	Buildings 2011	Buildings 2010	Leasehold improvements 2011	Leasehold improvements 2010	Equipment 2011	Equipment 2010	Total 2011	Total 2010
Opening cost	-	45.9	0.3	0.3	17.1	31.4	17.4	77.6
Purchases	-	-	0.2	-	2.8	1.4	3.0	1.4
Purchases through finance leases	-	-	-	-	0.3	1.6	0.3	1.6
Reclassification to assets held for sale	-	–45.9	-	-	-	–16.6	-	–62.5
Sales and disposals	-	-	-	-	–6.6	–0.7	–6.6	–0.7
Closing accumulated cost	**-**	**-**	**0.5**	**0.3**	**13.6**	**17.1**	**14.1**	**17.4**
Opening depreciation	-	–0.7	–0.2	–0.1	–11.3	–22.5	–11.5	–23.3
Reclassification to assets held for sale	-	0.7	-	-	-	12.2	-	12.9
Sales and disposals	-	-	-	-	4.9	0.7	4.9	0.7
The year's depreciation of finance leases	-	-	-	-	–0.4	–0.4	–0.4	–0.4
The year's depreciation in continuing operations	-	-	–0.1	–0.1	–1.2	–1.3	–1.3	–1.4
Closing accumulated depreciation	**-**	**-**	**–0.3**	**–0.2**	**–8.0**	**–11.3**	**–8.3**	**–11.5**
Closing carrying amount	**-**	**-**	**0.2**	**0.1**	**5.6**	**5.8**	**5.8**	**5.9**

Parent Company, SEK M	Buildings 2011	Buildings 2010	Leasehold improvements 2011	Leasehold improvements 2010	Equipment 2011	Equipment 2010	Total 2011	Total 2010
Opening cost	-	-	-	-	2.1	2.0	2.1	2.0
Purchases	-	-	-	-	-	0.1	-	0.1
Sales and disposals	-	-	-	-	–1.7	-	–1.7	-
Closing accumulated cost	**-**	**-**	**-**	**-**	**0.4**	**2.1**	**0.4**	**2.1**
Opening depreciation	-	-	-	-	–1.7	–1.5	–1.7	–1.5
Sales and disposals	-	-	-	-	1.7	-	1.7	-
The year's depreciation in continuing operations	-	-	-	-	–0.2	–0.2	–0.2	–0.2
Closing accumulated depreciation	**-**	**-**	**-**	**-**	**–0.2**	**–1.7**	**–0.2**	**–1.7**
Closing carrying amount	**-**	**-**	**-**	**-**	**0.2**	**0.4**	**0.2**	**0.4**

continued Note 12

OPERATING LEASES

During the year, lease payments under operating leases in the Group amounted to SEK 10.4m (11.9). 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	**2011**	**2010**	**2011**	**2010**
Due for payment within 1 year	10.3	10.0	0.1	0.6
Due for payment within 2 years	5.2	8.6	0.0	0.4
Due for payment within 3 years	4.3	4.0	0.0	0.0
Due for payment within 4 years	2.9	2.6	-	-
Due for payment in 5 years or later	3.0	2.5	-	-

FINANCE LEASES

The majority of finance leases refer to company cars. The accumulated cost of finance leases at December 31, 2011 was SEK 3.0m (3.8).

Accumulated amortization at year-end amounted to SEK 1.0m (1.1). These obligations are recognized in 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 0.5m (0.4) 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	2011	2010
Current portion (due within 1 year)	0.6	0.7
Non-current portion (due within 5 years)	1.4	2.0
Non-current portion (due later than 5 years)	-	-
Total	**2.0**	**2.7**

NOTE 13 OTHER NON-CURRENT RECEIVABLES

	Group		Parent Company	
SEK M	**2011**	**2010**	**2011**	**2010**
Receivable, contingent consideration from the sale of Nocom Security	-	9.0	-	9.0
Receivable, NorNor Holding AB	4.5	-	4.5	-
Other	1.3	0.5	-	-
	5.8	**9.5**	**4.5**	**9.0**

The total receivable from NorNor Holding AB amounts to SEK 5.6m, of which SEK 1.1m is current. The shares in Northern Parklife AB have been pledged as collateral for the receivable.

NOTE 14 INVENTORIES

	Group		Parent Company	
SEK M	**2011**	**2010**	**2011**	**2010**
Computer software	3.6	1.9	-	-
Other	1.0	-	-	-
Total inventories	**4.6**	**1.9**	**-**	**-**

Inventories are stated at historical cost.

NOTE 15 TRADE AND OTHER RECEIVABLES

	Group	
SEK M	**2011**	**2010**
Trade receivables	32.5	35.5
Provisions for doubtful debts	–0.3	–1.7
Trade receivables, net	32.2	33.8
Prepaid expenses and accrued income	5.3	11.9
Other receivables	6.0	3.7
	43.5	**49.4**

The fair values of trade receivables are assessed to approximate 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.

At December 31, 2011, trade receivables amounting to SEK 8.1m (12.6) were past due but not impaired. These apply a number of independent customers that have not had any previous payment difficulties. An age analysis of these trade receivables is shown below:

continued Note 15

AGE ANALYSIS OF PAST DUE TRADE RECEIVABLES

SEK M	Group 2011	Group 2010
Less than 3 months	6.6	9.1
3-6 months	1.2	2.0
More than 6 months	0.3	1.5
	8.1	**12.6**

THE RECOGNIZED AMOUNTS, BY CURRENCY, FOR THE GROUP'S TRADE AND OTHER RECEIVABLES ARE AS FOLLOWS

Currency	Group 2011	Group 2010
SEK	13.2	19.2
EUR	7.7	9.7
USD	16.9	14.9
Other currencies	5.7	5.6
	43.5	**49.4**

CHANGES IN PROVISIONS FOR DOUBTFUL DEBTS

SEK M	Group 2011	Group 2010
Provisions at January 1	1.7	0.5
The year's provisions for doubtful debts	0.5	1.4
Receivables written off during the year as uncollectable	–1.6	0.0
Reversed unutilized amount	–0.3	–0.2
Provisions at December 31	**0.3**	**1.7**

CREDIT QUALITY

SEK M	Group 2011	Group 2010
Group 1	2.4	3.1
Group 2	29.5	21.8
Group 3	0.3	8.9
Total	**32.2**	**33.8**

Group 1 - new customers in the past six months
Group 2 - existing customers (for more than 6 months), with no past late or defaulted payments
Group 3 - existing customers (for more than 6 months), with certain past late or defaulted payments

Provisions and reversal of provisions for doubtful debts are included in "other external expenses" in the income statement. Other categories within trade and other receivables do not include any impaired assets. The maximum exposure to credit risk on the balance sheet date was equal to fair value for each category of receivables mentioned above. The Group has not pledged any assets as collateral.

NOTE 16 OTHER CURRENT RECEIVABLES

	Group		Parent Company	
SEK M	2011	2010	2011	2010
Work in progress	1.2	0.3	-	-
Rent guarantee	0.2	0.3	-	-
Receivable from NorNor Holding AB	1.1	-	1.1	-
Receivable from Northern Parklife AB	2.0	-	2.0	-
Other	1.5	3.1	0.2	0.0
Total other current receivables	**6.0**	**3.7**	**3.3**	**0.0**

NOTE 17 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
SEK M	2011	2010	2011	2010
Accrued income	-	3.0	-	-
Prepaid rents	1.2	1.7	0.1	0.1
Prepaid insurance premiums	0.8	0.8	0.1	0.0
Other prepaid expenses	3.3	6.4	0.4	2.9
Total prepaid expenses and accrued income	**5.3**	**11.9**	**0.6**	**3.0**

NOTE 18 CASH AND CASH EQUIVALENTS

	Group		Parent Company	
SEK M	2011	2010	2011	2010
Cash in hand and at bank	36.5	25.1	8.0	0.3
Cash and cash equivalents at end of year	**36.5**	**25.1**	**8.0**	**0.3**
Blocked cash and cash equivalents	–6.9	-	–6.9	-
Unutilized committed credit facilities	25.0	40.4	25.0	40.4
Total disposable cash and cash equivalents	**54.6**	**65.5**	**26.1**	**40.7**

NOTE 19 FINANCIAL INSTRUMENTS

SEK M	Loans and receivables	Other liabilities	Total
December 31, 2011			
Non-current financial receivables			
Other financial receivables	5.8		5.8
Current financial receivables			
Trade and other receivables excl. prepaid expenses	38.2		38.2
Cash and cash equivalents			
Cash and cash equivalents	36.5		36.5
Total	**80.5**	**0.0**	**80.5**
Non-current liabilities			
Borrowings (excluding finance lease liabilities)		-	-
Finance lease liabilities		1.5	1.5
Current liabilities			
Borrowings (excluding finance lease liabilities)		-	-
Finance lease liabilities		0.5	0.5
Trade and other payables excl. non-financial liabilities		21.2	21.2
Total		**23.2**	**23.2**

SEK M	Loans and receivables	Other liabilities	Total
December 31, 2010			
Non-current financial receivables			
Other financial receivables	9.5		9.5
Current financial receivables			
Trade and other receivables excl. prepaid expenses	40.5		40.5
Cash and cash equivalents			
Cash and cash equivalents	25.1		25.1
Total	**75.1**	**0.0**	**75.1**
Non-current liabilities			
Borrowings (excluding finance lease liabilities)		-	-
Finance lease liabilities		2.0	2.0
Current liabilities			
Borrowings (excluding finance lease liabilities)		9.6	9.6
Finance lease liabilities		0.7	0.7
Trade and other payables excl. non-financial liabilities		28.7	28.7
Total		**41.0**	**41.0**

Cash and cash equivalents

Cash and cash equivalents, as defined by the Group, consist of cash and other highly liquid short-term investments. The table below shows key figures for cash and cash equivalents. The carrying amount of cash and cash equivalents approximates fair value.

	Group	
SEK M	2011	2010
Cash in hand and at bank	36.5	25.1
Short-term bank deposits	-	-
Cash and cash equivalents	**36.5**	**25.1**

Trade and other receivables

	Group	
SEK M	2011	2010
Trade receivables	32.2	33.8
Accrued income	-	3.0
Other current receivables	6.0	3.7
Trade and other receivables	**38.2**	**40.5**

Net borrowings

The Group's net borrowings at December 31, 2011, amounted to SEK –34.5m (–12.8). The table below shows how the Group calculates net borrowings and what they include.

	Group	
SEK M	2011	2010
Current borrowings	-	9.6
Current portion of non-current borrowings	-	-
Current portion of finance lease liabilities	0.5	0.7
Total current borrowings	0.5	10.3
Non-current borrowings	-	-
Non-current portion of finance lease liabilities	1.5	2.0
Total non-current borrowings	1.5	2.0
Total borrowings	**2.0**	**12.3**
Cash and cash equivalents	36.5	25.1
Net borrowings	**–34.5**	**–12.8**
Bank overdraft facility	**25.0**	**40.4**

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

continued Note 19

Interest-bearing liabilities
The Group's total interest-bearing liabilities at December 31, 2011, amounted to SEK 2.0m (12.3), of which SEK 1.5m (2.0) refers to non-current borrowings excluding those maturing in the next 12 months. Non-current borrowings maturing within 12 months amount to SEK 0.5m (10.3). The table below shows the carrying amounts of the Group's interest-bearing liabilities.

Borrowings			Group	
Type of loan	Interest rate	Currency	2011	2010
Other non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	1.5	2.0
Current portion of non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	0.5	0.7
Bank overdraft facilities	Variable	SEK	-	9.6
			2.0	**12.3**

NOTE 20 SHARE CAPITAL

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

Number of shares: Parent Company	A shares	B shares	Total number
Number at January 1, 2010	100,000	11,588,561	11,688,561
Treasury shares at January 1, 2010		–634,600	
Buybacks in 2010		-	
Number at December 31, 2010, excluding treasury shares	**100,000**	**10,953,961**	**11,053,961**
Number at January 1, 2011	100,000	11,588,561	11,688,561
Treasury shares at January 1, 2011		–634,600	
Buybacks in 2011		-	
Number at December 31, 2011, excluding treasury shares	100,000	10,953,961	11,053,961
Total number of shares at December 31, 2011	**100,000**	**11,588,561**	**11,688,561**

The share capital is divided among 11,688,561 shares, of which 100,000 are class A shares and 11,588,614 are class B shares. All shares have a quota value of SEK 10 and grant equal rights to the company's assets and profits. Class A shares grant entitlement to 10 votes and class B shares to one vote. At general shareholder meetings, each holder of voting stock is entitled to exercise the full number of votes held or represented by proxy without restriction.

NOTE 21 BORROWINGS

	Group		Parent Company	
SEK M	2011	2010	2011	2010
Non-current				
Bank loans	-	-	-	-
Finance leases	1.5	2.0	-	-
Total non-current borrowings	**1.5**	**2.0**	**-**	**-**
Current				
Bank overdraft facilities	-	9.6	-	9.6
Finance leases	0.5	0.7	-	-
Bank loans	-	-	-	-
Total current borrowings	**0.5**	**10.3**	**-**	**9.6**
Total borrowings	**2.0**	**12.3**	**-**	**9.6**

Maturity structure of non-current borrowings

	Group		Parent Company	
SEK M	2011	2010	2011	2010
Between 1 and 2 years	0.6	0.3	-	-
Between 2 and 5 years	0.9	1.7	-	-
Later than 5 years	0.0	0.0	-	-
Total non-current borrowings	**1.5**	**2.0**	**-**	**-**

At borrowings at December 31, 2011, refer to finance lease obligations and are denominated in SEK.

NOTE 22 OTHER LIABILITIES

	Group		Parent Company	
SEK M	2011	2010	2011	2010
VAT liabilities	1.0	2.8	-	-
Employee withholding taxes	2.4	3.1	0.2	0.2
Work in progress	0.6	0.0	-	-
Liabilities to employees	0.0	0.0	0.0	0.0
Liabilities, contingent consideration	-	-	5.5	-
Other	0.1	1.0	0.1	0.0
Total other current liabilities	**4.1**	**6.9**	**5.8**	**0.2**

NOTE 23 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
SEK M	2011	2010	2011	2010
Accrued salaries and social security expenses	9.2	10.9	3.0	3.7
Accrued trade payables	-	1.8	-	0.3
Deferred income	33.6	21.5	-	-
Other items	2.9	3.6	0.4	0.1
Total accrued expenses and deferred income	**45.7**	**37.8**	**3.4**	**4.1**

NOTE 24 REPORT ON THE YEAR'S BUSINESS COMBINATIONS

On October 3, 2011, the Group acquired all of the shares in the US-based company Signum Systems Corp. The acquisition has provided the opportunity to combine Signum's technology with IAR Systems' development tool IAR Embedded Workbench, thereby giving IAR Systems access to a new market for integrated software and hardware solutions for advanced processors.

The acquisition of Signum Systems Corp includes contingent consideration that is payable over a period of three years based on the attainment of predetermined delivery variables. The maximum amount of contingent consideration has been set at USD 1.6m, of which USD 1.0m will be paid in cash and the remaining USD 0.6m in the form of shares in IAR Systems Group AB. Among other things, the contingent consideration is conditional on the seller's continued participation in these operations. It has been deemed appropriate to report contingent consideration as a separate transaction in accordance with IAS 19, Employee Benefits, and IFRS 2, Share-based Payment.

Furthermore, the current assessment is that the seller's activities will consist primarily of development work, which qualifies as an asset in accordance with IAS 38, Intangible Assets, for which reason most of the contingent consideration will be capitalized as an intangible asset. For the financial year 2011, a total of SEK 2.2m has been capitalized as an intangible asset.

Transaction costs for the acquisition have been charged to profit for the year in an amount of SEK 0.6m and are recognized on the income statement line "operating expenses".

The goodwill arising in connection with the acquisition refers to the synergies that the acquisition is expected to generate. Through a combination of Signum's technology and IAR Systems' development tool IAR Embedded Workbench, IAR Systems can deliver integrated software and hardware solutions for advanced processors.

1. SUMMARY INFORMATION, SEK M

Cash consideration paid	16.1
Cash and cash equivalents in the company	–1.4
Cash flow from the transaction	**14.7**
Assets acquired excluding cash and cash equivalents	2.3
Liabilities assumed	–0.9
Net assets acquired	**1.4**
Goodwill	**13.3**

2. SIGNUM SYSTEMS CORPORATION

Date of acquisition:	October 3, 2011
Nature of acquisition:	Shares in the company
Acquired share of equity:	100%
Consideration transferred:	SEK 16.1m

3. PURCHASE PRICE ALLOCATION, SEK M

	Fair value of assets acquired and liabilities assumed
ASSETS	
Goodwill	13.3
Property, plant and equipment	0.1
Other current assets	2.2
Cash and cash equivalents	1.4
TOTAL ASSETS	**17.0**
LIABILITIES	
Current liabilities	0.9
TOTAL LIABILITIES	**0.9**

4. THE ACQUIRED UNIT'S IMPACT ON PROFIT FOR THE YEAR FROM THE DATE OF ACQUISITION

Income statement, SEK M	
Net sales	1.6
Operating expenses	–1.4
Depreciation of property, plant and equipment	–0.0
Amortization of intangible assets	-
Operating profit	**0.2**
Result from financial investments	–0.0
Profit before tax	**0.2**
Income tax expense	–0.3
Profit/loss from the acquired unit	**–0.1**

5. CONSOLIDATED PROFIT IF THE ACQUIRED UNIT HAD BEEN ACQUIRED AT JANUARY 1, 2011

Income statement, SEK M	Group 2011	Signum Jan 1, 2010	Adjusted Group 2011
Net sales	200.4	8.1	208.5
Operating expenses	–171.0	–7.8	–178.8
Depreciation of property, plant and equipment	–1.7	–0.0	–1.7
Amortization of intangible assets	–3.7	-	–3.7
Operating profit	24.0	0.3	24.3
Result from financial investments	0.1	–0.0	0.1
Profit before tax	24.1	0.3	24.4
Income tax expense	2.9	–0.0	2.9
Profit for the year from continuing operations	27.0	0.3	27.3

NOTE 25 PLEDGED ASSETS

SEK M	Group 2011	Group 2010	Parent Company 2011	Parent Company 2010
To secure own liabilities				
To secure pensions and similar obligations:				
Direct pension obligations	1.4	1.4	1.4	1.4
To secure liabilities to credit institutions:				
Floating charges	-	-	-	-
Property mortgages	-	-	-	-
Machinery held under finance leases	2.0	2.7	-	-
Total assets pledged to secure own liabilities	**3.4**	**4.1**	**1.4**	**1.4**
To secure other commitments				
Blocked cash and cash equivalents	6.9	-	6.9	-
Guarantees	-	-	-	-
Total pledged assets	**10.3**	**4.1**	**8.3**	**1.4**

NOTE 26 SHARES IN GROUP COMPANIES

SEK M	Parent Company 2011	Parent Company 2010
Opening cost	571.4	571.4
Acquired subsidiaries	27.1	-
Distributed subsidiaries	–379.9	-
Sold subsidiaries	–29.2	-
Closing accumulated cost	**189.4**	**571.4**
Opening impairment losses	–157.1	–157.1
Distributed subsidiaries	157.1	-
Closing accumulated impairment losses	**-**	**–157.1**
Closing carrying amount	**189.4**	**414.3**

continued Note 26

Parent Company holdings

SEK M	Corp. ID no.	Domicile	% of capital	% of votes	No. of shares	Carrying amount 2011	Carrying amount 2010
Direct holdings:							
IAR Systems AB	556230-7107	Uppsala	100.0%	100.0%	-	162.3	-
Signum Systems Corp	1473886	Camarillo. USA	100.0%	100.0%	-	27.1	-
Nocom Software AB	556579-0432	Uppsala	-	-	-	-	2.2
TurnIT AB	556116-4384	Stockholm	-	-	-	-	412.1
Indirect holdings through subsidiaries							
IAR Systems Software Inc	1830665	Foster City. USA	100.0%	100.0%	-	-	-
IAR Systems Ltd	2190612	Oxfordshire. UK	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 Shanghai Consulting Co. Ltd	31 000040051599	Shanghai. China	100.0%	100.0%	-	-	-
IAR Systems Korea Co Ltd	110111-4699679	Seoul. South Korea	100.0%	100.0%	-	-	-
IAR Systems France (SARL)	under registrering	Paris. France	100.0%	100.0%	-	-	-
Closing carrying amount						**189.4**	**414.3**

NOTE 27 RELATED PARTY TRANSACTIONS

Of the Parent Company's total expenses of SEK 9,8m (12,9)m, 0% (0) refers to purchases from other companies in the Group. Of the Parent Company's total sales revenue, 100% (100) refers to inter-company sales. Of the year's total purchasing costs and sales revenue in the subsidiaries, 0% (0) refers to purchases from the Parent Company and 0% (0) refers 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 international financial reporting standards IFRSs as adopted by the EU and give a true and fair view of the Group's financial position and results of op¬erations. 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 op¬erations. 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 put before the Annual General Meeting on April 24, 2012, for adoption.

Stockholm, March 6, 2012

Stefan Skarin
President and CEO
Board member

Peter Larsson
Board Chairman

Markus Gerdien
Board member

Karin Moberg
Board member

Jonas Mårtensson
Board member

Our audit report was submitted on March 6, 2012
Öhrlings PricewaterhouseCoopers AB

Lars Kylberg
Authorized Public Accountant
Auditor in Charge

Auditor's report

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

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of IAR Systems Group AB (publ) for the year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 26-60.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director 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.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

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 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and 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 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, 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 annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of IAR Systems Group AB (publ) for the year 2011.

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, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

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.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Opinions

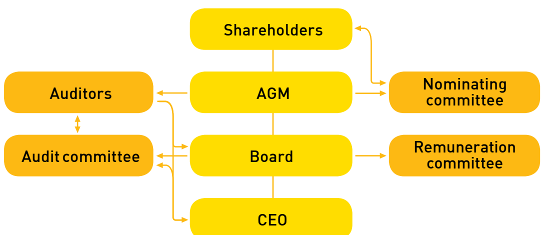
We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Uppsala 6:th March 2012
Öhrlings PricewaterhouseCoopers AB

Lars Kylberg
Authorized Public Accountant

Corporate governance report

IAR Systems Group is a Swedish public limited company domiciled in Stockholm, Sweden. In 2011 the Group conducted operations in Sweden, Norway, Denmark, Finland, Germany, the UK, France, the USA, Japan and China. The IAR share is quoted on the Small Cap list of NASDAQ OMX Stockholm.



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

SHAREHOLDERS

IAR Systems' shares have been quoted on NASDAQ OMX Stockholm since 1999. The share capital in IAR Systems consists of class A shares, which carry ten votes each, and class B shares, carrying one vote each. The total number of shares is 11,688,561, of which 100,000 are of class A. All classes of shares grant equal rights to the company's assets and profits.

The number of shareholders in IAR Systems at December 31, 2011, was 9,293 (10,054), of whom 481 (586) held more than 1,000 shares each. Foreign shareholders held approximately 18% (25) of the share capital and 24% (31) of the votes. For additional information about the shareholders and ownership structure, see page 21.

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 as specified in the notice to attend 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/investors/. On the date of the notice, an announcement stating that notice has been given shall be published in Svenska Dagbladet.

The Annual General Meeting (AGM) shall be held within six months from the end of the financial year. At the AGM the shareholders resolve among other things on election of Board members and, when appropriate, 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 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.

Extraordinary general meeting in January 2011

The extraordinary general meeting (EGM) resolved to reduce the statutory reserve in IAR Systems Group AB by SEK 270,200,041 for repayment to the shareholders through the distribution in kind of all shares in the subsidiary TurnIT AB (under name change Deltaco AB) and a transfer to non-restricted reserves to be used according to the decision of the general meeting. In April the Swedish Companies Registration Office granted permission to reduce the statutory reserve in accordance with this decision. The record date for distribution of the shares in Deltaco was April 14, 2011. The distribution of the shares in Deltaco is covered by the so-called Lex ASEA rule and is thereby is tax-exempt in Sweden. In the distribution, each share in IAR Systems Group AB (publ) gave the holder the right to one share in Deltaco.

2011 ANNUAL GENERAL MEETING

The AGM re-elected sitting Board members Peter Larsson, Karin Moberg, Jonas Mårtensson and Stefan Skarin and elected Markus Gerdien as a new Board member. The AGM appointed Peter Larsson as Board Chairman.

It was furthermore decided that board fees would be paid in an annual amount of SEK 300,000 to the Board Chairman and SEK 125,000 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 shall convene the company's three largest shareholders in terms of voting power, each of which shall then appoint a member to the nominating committee. In addition, the Board Chairman can be appointed as a member of the nominating committee.

It was resolved that no dividend would be paid.

The AGM resolved that the company would issue not more than 1,168,856 subscriptions warrants, each entitling the holder to subscribe for one new class B share in IAR Systems Group AB, with a subscription price equal to 150% of the average market price for IAR Systems Group's class B share during the period from June 7 to June 17, 2011.

The warrants may be subscribed for by the wholly owned subsidiary IAR Systems AB, with the right and obligation to offer the Group's employees the opportunity to acquire the warrants at a market premium. The AGM also approved the resale of warrants in accordance with the program.

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 all registered shares in the company on the date of the AGM in exchange for non-cash consideration. The motive for the authorization is to provide opportunities for acquisitions with payment in kind.

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.

Extraordinary general meeting in May 2011

An EGM was held in direct connection with the AGM on May 3, 2011. The EGM approved the sale of the shares in Northern Parklife AB.

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 below.

The average age of the Board members is 49 years and one of the five members is a woman. 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 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 shall 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 carry out its duties effectively. The Chairman represents the company in matters related to the shareholders.

The tasks of the Board are to formulate IAR Systems' 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' organization and operations.

Work of the Board in 2011

In 2011 the Board held nine meetings, of which six were scheduled and three were extra 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 have taken part in board meetings in a reporting capacity and the company's CFO has served as

Board of Directors

SEK thousand	Year elected	Dependent status	Remuneration committee	Audit committee
Peter Larsson, Chairman	2010	No	Chairman	Chairman
Markus Gerdien	2011	No	Member	Member
Karin Moberg	2010	No	Member	Member
Jonas Mårtensson	2010	No	Member	Member
Stefan Skarin	2002	Yes	-	-

secretary of the Board. At the board meetings, the Board has dealt with the fixed items on the agenda for each meeting, such as the business and market situation, financial reporting and monitoring, the financial position and investments.

Key issues at scheduled board meetings in 2011

10/2	IAR Systems' annual accounts for 2010
3/5	Interim report for Q1 2011
3/5	Statutory meeting
24/8	Interim report for Q2 2011 and potential acquisitions
25/10	Interim report for Q3 2011
7/12	Budget and business plan for 2012

The Board members' attendance at meetings is shown in a table on page 65.

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 salary from companies in IAR Systems. In 2011 this rule applied to Stefan Skarin.

BOARD COMMITTEES AND COMMITTEE WORK

In order to handle the Board members' independence there are two committees, 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 orally to the Board at the following board meetings. No additional remuneration is paid for work on the Board's committees.

AUDITORS

Responsibilities of the auditor

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 2008 AGM, at which time PricewaterhouseCoopers was re-elected as auditor to serve for the period until the end of the 2012 AGM. Auditor in Charge is Lars Kylberg (born in 1969), who has supervised the audit on behalf of PWC since 2008. In addition to IAR Systems, he has audit assignments for the Phadia group, among others.

On two occasions in 2011, the Auditor in Charge met with the Board to present the focus and scope of the audit and report his observations from the audit of the annual accounts, the review of the interim report at June 30 and the evaluation of internal control.

On one occasion in 2011, the Board met with the auditor without the presence of the CEO or other member of the company's management.

PWC issues an audit report regarding IAR Systems Group AB, IAR Systems AB and the Group. PWC also performs non-audit services for the companies in the IAR Group. These have included tax consultations, issues related to transfer pricing, assistance in financial due diligence procedures and implementation of incentive schemes.

For this work, PWC invoiced a total amount of SEK 0.9m in 2011.

The auditor is paid fees in accordance with the decision of the AGM. For information about fees to auditors in 2010 and 2011, see Note 5 on page 47.

CEO

The Board appoints the President of IAR Systems Group AB, who is also the CEO. The CEO is

Remuneration to the Board

SEK thousand	2011	2010
Peter Larsson, Chairman	300	200 [1]
Björn Abild	42 [3]	116
Markus Gerdien	83 [4]	-
Karin Moberg	125	83 [1]
Jonas Mårtensson	125	83 [1]
Stefan Skarin	-	-
Trygve Agnell, Chairman	-	50 [2]
Lisbeth Gustafsson	-	33 [2]
Total	675	565

[1] *For the period from May 5 to December 31, 2010*
[2] *For the period from January 1 to May 4, 2010*
[3] *For the period from January 1 to May 3, 2011*
[4] *For the period from May 4 to December 31, 2011*

Attendance at board meetings in 2011

	10/2	30/3	7/4	3/5	3/5 stat.	24/8	1/9	25/10	7/12	Total
Peter Larsson, Chairman	●	●	●	●	●	●	●	●	●	9/9
Björn Abild	●	●	○	●						3/4
Markus Gerdien					●	●	●	●	●	5/5
Karin Moberg	●	●	●	●	●	●	●	●	●	9/9
Jonas Mårtensson	●	●	●	●	●	●	●	●	●	9/9
Stefan Skarin	●	●	●	●	●	●	●	●	●	9/9

● Attended ○ Did not attend

On May 3, 2011, Björn Abild left his seat on the Board and Markus Gerdien was elected to the Board.

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, business 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 yearly.

Stefan Skarin has been President and CEO since February 2006.

REMUNERATION FOR THE CEO AND OTHER SENIOR EXECUTIVES

The principles for remuneration for the CEO and other senior executives are drawn up by the remuneration committee and presented to the Board, which puts forward proposals for such principles for approval by the AGM. The remuneration principles for 2011 were unchanged compared to those applied in 2010.

For 2011, the Group has applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM. Remuneration to the CEO and the CFO consists of basic salary, variable salary, other benefits and pension. The maximum of variable salary for the CEO and CFO corresponds to 50% of basic 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 CFO are entitled to full salary during a notice period of 12 months and termination benefits corresponding to six monthly salaries after the notice period.

Remuneration to the CEO and CFO in 2011

SEK thousand	Year	Fixed salary	Variable salary	Benefits	Pension costs	Total
Stefan Skarin, CEO	2011	2,593	1,000	144	603	4,340
	2010	3,072	1,000	115	1,006	5,193
Stefan Ström, CFO	2011	1,611	360	144	599	2,714
	2010	1,870	500	101	997	3,468

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.

This report has been prepared in accordance with the Swedish Code of Corporate Governance, section 10:5, and is thereby limited to internal control over the financial reporting.

Control environment

The basis for internal control at IAR Systems 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.

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 and operational risks.

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.

All subsidiaries in the 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. 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. Aside from careful auditing of the annual accounts, the auditor also reviews the interim report for the second quarter. All reports and press releases are posted on IAR Systems website in connection with publication.

NOMINATING COMMITTEE

The Code states that the nominating committee is a company body 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 shall serve the interests of all shareholders.

Nominating committee, 3 meetings

Ulf Strömsten, Catella, Chairman
Tedde Jeansson Jr.
Peter Larsson

The AGM on May 3, 2011, resolved to appoint a nominating committee according to the following principles. By September 30, 2010, 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 Board Chairman can be appointed as a member of the nominating committee. The composition of the nominating committee shall be made public not later than six months prior to the 2012 AGM. The nominating committee has evaluated the Board's performance, qualifications and composition. The nominating committee's proposals were announced in the notice to attend the AGM, on the company's website and at the 2011 AGM. The members have not received any fees or remuneration from IAR Systems for their work on the nominating committee.

All members have attended the nominating committee's three meetings.

Proposals to be put before the 2012 AGM for decision:

- 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 an auditor and fees to the company's auditor.
- The nominating committee ahead of the 2013 AGM.

REMUNERATION COMMITTEE

The remuneration and other terms of employment of senior executives should 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, 4 meetings

Peter Larsson, Chairman
Markus Gerdien
Karin Moberg
Jonas Mårtensson

IAR Systems' remuneration committee complies with the provisions in the Code, which state among other things that the members of the remuneration committee shall 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.

All members have attended the committee's four meetings.

Ahead of the 2012 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.

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, 2 meetings

Peter Larsson, Chairman
Markus Gerdien
Karin Moberg
Jonas Mårtensson

All members of the audit committee are independent in relation to the company, its management and the shareholders in accordance with the Code.

The committee is also 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.

In 2011, alongside recurring yearly matters related to quality assurance of the financial reporting, the committee had a special focus on the restructuring of the company that was carried out during the year.

All members have attended the committee's two meetings.

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

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

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2011 on pages 62-66 and that it has been prepared in accordance with the Annual Accounts Act. We have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory 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.In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Uppsala 6:th March 2012
Öhrlings PricewaterhouseCoopers AB

Lars Kylberg
Authorized Public Accountant

Board of Directors

Jonas Mårtensson

Ordinary Board member.
Born: 1963.
Board member since 2010.
Position: Partner and board member of Alted AB.
Education: M.SC, Stockholm School of Economics.
Other board assignments: Chairman of Ownpower Projects Europe AB and Transticket AB, member of the boards of Doro AB and PanVision AB.
Experience: 17 years of experience in corporate finance at SEB Enskilda, Maizels, Westerberg & Co and Nordea.
Shareholdings: 130,000 class B shares. Independent in relation to the company and its management. Independent in relation to the company's major shareholders.

Markus Gerdien

Ordinary Board member.
Born: 1960.
Board member since 2011.
Position: COO of ORC Group AB.
Education: Computer Science and Economics, Stockholm University.
Other board assignments: Chairman of Common Agenda Venture Management AB and deputy director of S & M Charter AB.
Experience: More than 20 years of experience in the software industry among others as CEO of Front Capital Systems AB, head of business area of Observer Group AB, division manager of Nasdaq OMX and member of the board of Orc Group AB.
Shareholdings: 5,000 class B shares. Independent in relation to the company and its management. Independent in relation to the company's major shareholders.

Peter Larsson

Board Chairman.
Born: 1964.
Board Chairman: since 2010.
Position: -
Education: B.Sc in Computer and System Science, Stockholm University.
Other board assignments: Chairman of EPiServer AB and Pricer AB, member of the boards of Q-Matic AB and Common Agenda Venture Management AB.
Experience: More than 20 years of experience in the software industry, among other things as CEO of EPiServer AB, Protect Data AB and Pointsec Mobile Technologies AB.
Shareholdings: 476,590 class B shares. Independent in relation to the company and its management. Independent in relation to the company's major shareholders.

Karin Moberg

Ordinary Board member.
Born: 1963.
Board member since 2010.
Position: Founder and CEO of FriendsOfAdam.
Education: M.SC.
Other board assignments: Member of the boards of the Seventh National Pension Fund, Caretech AB and Doro AB.
Experience: 14 years of experience in senior executive positions at TeliaSonera, among other things as President of Telia e-bolaget, Marketing Director and Acting Head of Group Communications. Karin also has previous experience as a management consultant and sales representative in Hong Kong.
Shareholdings: 0 shares.Independent in relation to the company and its management. Independent in relation to the company's major shareholders.

Stefan Skarin

Ordinary Board member.
Born: 1962.
Board member since 2002.
Position: President and CEO of IAR Systems Group AB and President of IAR Systems AB.
Education: IHM Business School and economics studies at Stockholm University.
Other board assignments: -
Experience: Sales Director at Adobe Nordic, CEO of Interleaf Nordic and several senior international positions at Oracle Corporation.
Shareholdings: 100,000 class A shares (via company), 250,000 class B shares (via company), 81,000 class B shares (via endowment insurance) and 200,000 TO4B (held directly). Dependent in relation to the company and its management. Dependent in relation to the company's major shareholders.

Executive Management

Auditor

Stefan Skarin

Position: President and CEO.
Born: 1962.
Employed since: 1999.
Education: IHM Business School and economics studies at Stockholm University.
Experience: Sales Director at Adobe Nordic, CEO of Interleaf Nordic and several senior international positions at Oracle Corporation.
Shareholdings: 100,000 class A shares (via company), 250,000 class B shares (via company), 81,000 class B shares (via endowment insurance) and 200,000 TO4B (held directly).
See Board of Directors on page 67.

Stefan Ström

Position: Chief Finance Officer (CFO).
Born: 1958.
Employed since: 1997.
Education: M.SC, Lund University.
Experience: President and CEO of IAR Systems Group AB from 2006 to February 2008.
Shareholdings: 10,355 class B shares (held directly), 100 class B shares (through family) and 60,000 TO4B warrants (held directly).

Lars Kylberg

Born: 1969.
Authorised Public Accountant.
Auditor for IAR Systems Group AB since 2004.
Öhrlings PricewaterhouseCoopers AB.

Glossary

APPLICATION • 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 Holdings plc is a multinational company that licenses a standard for processors. The headquarters are located in Cambridge, UK. ARM is one of the largest and fastest-growing companies in the industry and dominates the market for smart phones, but is also growing in other segments.

ARM CORTEX • ARM Cortex is a product family of low-energy, easy-to-use microprocessors that has been developed to enable partners to develop more functions at a lower cost, simplify reuse of program code and increase power efficiency.

COMPILER • A complier is a computer program (or set of programs) that transforms source code written in a programming language (similar to English) into instructions that the microprocessor can understand and execute.

DEBUG PROBE • 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 • Computer software that helps a programmer to locate problems and errors in the program that he/she has created by analyzing and showing what is happening "under the surface" when the program code is executed, often with the help of a debug probe.

DEVELOPMENT KIT • A development kit (also called a starter kit or evaluation kit) contains all of the equipment and software needed for a programmer to design, develop, integrate and test his or her products. IAR Systems offers fully integrated kits for development of embedded application software. Each kit contains an evaluation board and development tools (software) with example applications.

DEVELOPMENT TOOLS • The software tools used by programmers to create their own programs. The most important of these is an editor in which to write source code, a compiler to transform the source code into instructions that the processor can use, a linker that combines smaller program segments into an executable program, and a debugger that is used to locate problems in a program. IAR Embedded Workbench is a set of development tools.

DIGITALIZATION TREND • Growth in the number of digital products worldwide. More and more products are digital and contain computer processors in order to be mobile, remote-controlled, energy-efficient, upgradable, etc.

EMULATOR • Another name for debug probe.

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 electronic products such as cell phones, coffee machines, credit card readers, dishwashers, etc. IAR Systems' customers develop and market products that are driven by embedded systems. Embedded systems are being increasingly used products worldwide, in pace with the so-called digitalization trend.

IAR EMBEDDED WORKBENCH • IAR Embedded Workbench is a high-performance tool suite for development of software for small and mid-sized (8-, 16-, and 32-bit) microprocessors. IAR Systems collaborates with all world-leading processor makers to guarantee that our tools can be used for more processor architectures than any other development tool on the market.

INTEGRATED CIRCUIT (IC) • A small, typically rectangular silicon substrate onto which micrometer-sized transistors are mounted, sometimes in numbers of more than one million.

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.

POWER DEBUGGING • Power debugging is 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.

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

PROCESSOR MAKER • A processor maker or processor vendor produces integrated circuits (ICs). IAR Systems is the hub of a powerful ecosystem of partners that include suppliers of real-time operating systems (RTOS), so-called "middleware" and the world's leading processor makers.

RTOS • An operating system (OS) is a set of programs that manage a computer's hardware resources and provide common services for application software. The operating system is the most important type of software in a computer system. A real-time operating system (RTOS) is specialized at quickly and reliably handling input and output data from the computer system, which is important in embedded systems.

STANDARDIZATION • By standardizing on IAR Systems' tool chain, customers can significantly improve their efficiency and time-to-market for new products. In a single environment, they can move freely between 8-, 16-, 32-bit MCUs from all major vendors in all relevant architectures, including all ARM cores.

SUA • Software products from IAR Systems usually include a 12-month "Support and Update Agreement" (SUA) that gives the customer access to new product versions, product updates, technical support, etc.

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. The general rule is that the larger the architecture, the more powerful and expensive the processors.

Sources: IAR Systems, Wikipedia, IDG:s dicitionary.

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