

IAR SYSTEMS GROUP AB
INTERIM REPORT JANUARY–JUNE 2019

Q2

Net sales SEK 99.0m (95.6)

Operating margin 24.0%

Security products and RISC-V generate sales during the quarter

PROFIT SUMMARY

	6 months Jan–Jun		3 months Apr–Jun		Full-year
SEK m	2019	2018	2019	2018	2018
Net sales	198.8	184.5	99.0	95.6	385.2
Operating expenses	-145.6	-131.3	-75.2	-71.9	-269.6
Operating profit	53.2	53.2	23.8	23.7	115.6

KEY RATIOS

	6 months Jan–Jun		3 months Apr–Jun		Full-year
	2019	2018	2019	2018	2018
EBITDA margin, %	35.9	35.1	33.2	31.4	36.4
Operating margin, %	26.8	28.8	24.0	24.8	30.0
Net cash, SEK m	-8.7	81.7	-8.7	81.7	103.3
No. of employees at end of period	215	180	215	180	200

JANUARY–JUNE 2019

- › Net sales of SEK 198.8m (184.5)
- › Sales growth in local currency of 4%
- › EBITDA of SEK 71.3m (64.7), corresponding to an EBITDA margin of 35.9% (35.1)
- › Operating profit of SEK 53.2m (53.2), corresponding to an operating margin of 26.8% (28.8)
- › Profit before tax of SEK 51.0m (51.1)
- › Basic earnings per share of SEK 2.91 (2.97) and diluted earnings per share of SEK 2.90 (2.97)
- › Cash flow from operating activities of SEK 47.6m (44.3)
- › Net cash of SEK -8.6m (81.7) at the end of the period

APRIL–JUNE 2019

- › Net sales of SEK 99.0m (95.6)
- › Sales growth in local currency of 4%
- › EBITDA of SEK 32.9m (30.0), corresponding to an EBITDA margin of 33.2% (31.4)
- › Operating profit of SEK 23.8m (23.7), corresponding to an operating margin of 24.0% (24.8)
- › Profit before tax of SEK 21.8m (22.0)
- › Basic earnings per share of SEK 1.23 (1.20) and diluted earnings per share of SEK 1.22 (1.20)
- › Cash flow from operating activities of SEK 28.5m (25.2)

Security products and RISC-V generate sales during the quarter

The first half of the year was an intensive period, with several major product launches and associated activities. The new products were well received by our customers, who chose to invest shortly after the launch. Our focus on new products has posed a challenge in terms of balancing our resources between our new and existing product segments, which has made sales more volatile in the short term.

We have mainly noted demand among our customers for products in security solutions, but interest in the new RISC-V process architecture is also rapidly growing. This interest is clear both in the number of new processor vendors and also among customers now that the products have been launched.

Following the launch of Embedded Workbench for RISC-V, our customers and partners confirmed our ambitious target to become the leader in code optimization, which in turn is increasing demand. The degree of development flexibility we offer our customers by reusing code, irrespective of processor architecture, has proven to be even more important considering the major interest surrounding RISC-V.

Our product portfolio makes us unique, with our broad processor support and as the only commercial vendor of development tools for RISC-V architecture. To our customers, our commercial role ensures continuous updates of the product, product support and customer support when it comes to using the products. In addition, we have our history and long-term stability, which are perhaps particularly important for a new architecture such as RISC-V and for customers about to begin using a new architecture.

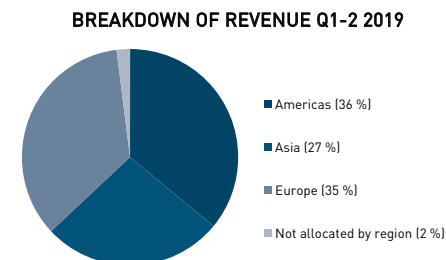
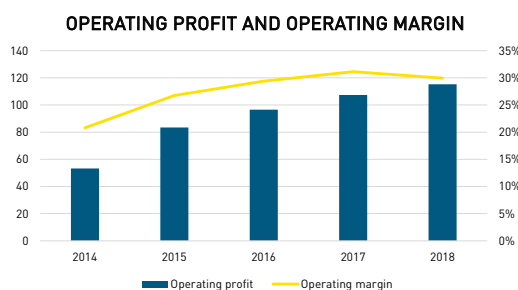
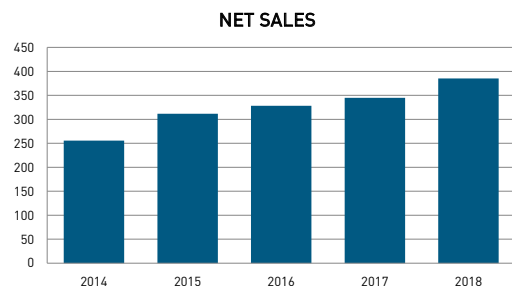
Sales during the period were also affected by certain major transactions. We have previously reported that we see a trend of major customers choosing to standardize their development based on our products, a trend we can see is now lasting longer than we first thought. It is primarily our customers' demands on us as a supplier to deliver a certain level of stability in our technology and financing that provide the long-term security required by major customers. This is also something that is reflected in the growth we are seeing in our functional safety products. Although we are making substantial investments, we have maintained stable profitability, which is important both for us and for our customers and partners. We still see major opportunities in the markets we have chosen to prioritize.

Market

RISC-V has doubtless had the biggest impact on the traditional market for embedded systems.

The implementation of RISC-V is still in an early stage, but the number of implementations is rapidly increasing. In China in particular, growing numbers of processor vendors are choosing RISC-V for their future product portfolios. The trend in China has naturally affected most of Asia, but this has also created a market for regional processor vendors who have found themselves in niche markets and, with RISC-V as their technology and following China's lead, have now increased their ambitions. The reason vendors are choosing RISC-V is primarily that, unlike Arm (the world's largest process architecture), there are no licensing fees or royalties.

At the same time, processor vendors can compete through increased profitability and innovation by creating their own ecosystem based on RISC-V rather than simply relying on Arm. More than one new processor vendor chooses RISC-V every day, and this is creating opportunities for a broad ecosystem of solutions. An ecosystem where our goal is to drive expansion.



Within security solutions, the fastest-growing trend is the motivation of government agencies to legislate rules for managing connected electronics and the information they contain. The EU General Data Protection Regulation (GDPR), whose implementation impacted most people in Europe, is now being followed by a similar trend in electronics. This will essentially involve a framework of best practices connected to penalty payments for breaking a few basic technological security aspects. These may include, for example, that a password must be unique or that user information be erasable.

One year ago, fewer than five countries had introduced laws and regulations concerning IT security. That list now includes more than 20 countries. The reason for this rapid growth is that several countries have followed each other due to the markets affected. In Europe, the EU has performed its first recall of a connected device for children, where a security flaw made it easy to steal information about the user.

Overall, several processor vendors have reported declining growth as a result of the business climate, but there are obviously exceptions, for example in markets such as the automotive industry and IoT. Historically, we have not been noticeably impacted by business cycles or seasonal variations, but we naturally keep a close eye on the markets and act as needed.

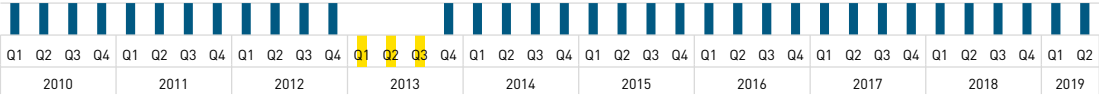
We are seeing a major change in the market and the emergence of new driving forces, such as government regulations, processor vendors building equipment for the future and customer demands for new, effective solutions and long-term suppliers. Through new technology and new products, we are creating possibilities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

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

An intensive first half of the year, with some of the company's largest launches to date, will lead to a second half focusing on activities highlighting the potential offered by these new products. With 23 quarters of growth, the target remains to be a long-term supplier to our customers, an attractive employer to our employees and a favorable investment for our shareholders.

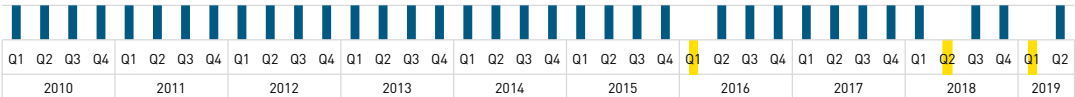
NET SALES

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



OPERATING PROFIT

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



Financial information

Sales

The first half of the year was an intensive period, with several major product launches and associated activities. Our new security products and IAR Embedded Workbench for RISC-V were positively received by our customers. Despite their relatively recent launch, customers have chosen to invest in these solutions. Our focus on our new security products and IAR Embedded Workbench for RISC-V has posed a challenge in terms of balancing our resources between our new and existing products, which has made sales more volatile in the short term. The trend of major customers choosing to standardize their development based on our products has continued and the second quarter was again impacted by a number of major transactions.

Net sales

In a year-on-year comparison, total sales growth in local currency was 4%. This 4% sales growth for the period resulted in an increase in net sales of 8% after the accrual of prepaid maintenance and support agreements (-3%) and positive foreign exchange effects (7%). Refer to the table below.

Net sales for the period amounted to SEK 198.8m [184.5] and were distributed as follows: SEK 197.7m [184.0] from development tools and SEK 1.1m [0.5] from security solutions. Royalty-based revenue of SEK 2.9m [2.6] from the agreement with Renesas Electronics Corporation was reported during the period. This royalty-based revenue pertained to the guaranteed minimum remuneration for the period. In a year-on-year comparison, currency translation had a positive impact of SEK 13.4m on net sales for the period.

Net sales for the second quarter amounted to SEK 99.0m [95.6] and were distributed as follows: SEK 98.3m [95.1] from development tools and SEK 0.7m [0.5] from security solutions. Royalty-based revenue of SEK 1.5m [1.3] from the agreement with Renesas Electronics Corporation was reported during the period. In a year-on-year comparison, currency translation had a positive impact of SEK 5.6m on net sales for the quarter.

	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
6 months Jan–Jun					
Americas	2%	7%	12%	21%	36%
Europe	1%	-11%	4%	-6%	35%
Asia	12%	-6%	9%	15%	27%
Not allocated	-	-	-	-	2%
Total	4%	-3%	7%	8%	100%

Earnings

EBITDA for the period totaled SEK 71.3m [64.7], corresponding to an EBITDA margin of 35.9% [35.1] for the period. Operating profit for the period amounted to SEK 53.2m [53.2]. Operating expenses were reduced by SEK 38.6m [17.6] during the period through the capitalization of development costs for software and debug probes. The increase in capitalized expenses is due to developments in security products and the development of IAR Embedded Workbench for RISC-V. Of the internal expenses that were capitalized, SEK 31.8m [15.2] pertained to personnel costs. In a year-on-year comparison, currency translation had a positive impact of SEK 7.8m on operating profit for the period.

EBITDA for the second quarter totaled SEK 32.9m [30.0], corresponding to an EBITDA margin of 33.2% [31.4] for the period. Operating profit for the second quarter amounted to SEK 23.8m [23.7]. Operating expenses were reduced by SEK 18.8m [13.3] during the quarter through the capitalization of development costs for security products and software. Of the internal expenses that were capitalized, SEK 15.8m [11.7] pertained to personnel costs. In a year-on-year comparison, currency translation had a positive impact of SEK 3.6m on operating profit for the quarter.

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

INVESTMENTS AND FINANCING

Investments in property, plant and equipment for the period totaled SEK 0.9m [1.0], of which SEK 0.2m [0.6] was attributable to the second quarter. Investments in intangible assets for the period amounted to SEK 39.8m [18.9]. Most of these investments, SEK 38.6m [17.6], pertain to the capitalization of development costs for security products and software. During the second quarter, investments in intangible assets amounted to SEK 19.3m [18.9], of which SEK 18.8m [14.2] pertain to the capitalization of development costs for security products and software.

The equity/assets ratio at June 30, 2019 was 70% [74].

	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
3 months Apr–Jun					
Americas	-1%	7%	10%	16%	40%
Europe	6%	-21%	2%	-13%	34%
Asia	10%	-1%	6%	15%	25%
Not allocated	-	-	-	-	1%
Total	4%	-6%	6%	4%	100%

During the second quarter, the bank overdraft facility was utilized, which is recognized in the consolidated balance sheet as liabilities to credit institutions. The bank overdraft facility is issued in SEK.

CASH FLOW, CASH AND CASH EQUIVALENTS

Cash flow from operating activities for the period amounted to SEK 47.9m (44.3), of which SEK 28.8m (25.2) pertained to the second quarter.

Cash flow from investing activities for the period totaled SEK -57.6m (-188.4), of which SEK -37.2m (-162.7) pertained to the second quarter. Most of these investments pertain to the capitalization of development costs for security products and IAR Embedded Workbench for RISC-V.

Cash flow from financing activities for the period amounted to SEK -42.8m (105.9), of which SEK -40.6m (105.9) was attributable to the second quarter. Most of the cash flow from financing activities during the period comprises the net of the utilization of the bank overdraft facility, amortization of lease liabilities and payment of a dividend to shareholders.

As of June 30, 2019, the Group had net cash of SEK -8.6m (81.7). Net cash was affected negatively by the application of IFRS 16 after the end of 2018. See also Note 1 Accounting policies. Cash and cash equivalents at the end of the period totaled SEK 55.8m (84.6). In addition, the Group had unutilized bank overdraft facilities of SEK 194.6m (225.0). The Group's total available cash and cash equivalents thus amounted to SEK 251.1m (309.6).

EMPLOYEES

The number of employees in IAR Systems at the end of the period was 215 (180). The average number of employees during the period was 197 (161).

PARENT COMPANY

The activities of the Parent Company consist of Group management, finance and IR/PR functions. The Parent Company's net sales for the period amounted to SEK 6.1m (6.1). The Parent Company posted a loss after financial items of SEK -4.6m (-5.2). Net investments in property, plant and equipment amounted to SEK 0.1m (0.0). Cash and cash equivalents at June 30, 2019 totaled SEK 5.2m (6.3). The number of employees in the Parent Company at the end of the period was four (four).

2019 ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of IAR Systems Group was held on April 24, 2019. For information about the AGM and the resolutions passed, refer to the company's website: www.iar.com.

SIGNIFICANT RISKS AND UNCERTAINTIES

The market for IAR Systems' software is evolving rapidly and forecasts about future developments are thus uncertain. IAR Systems Group's assessment is that no significant risks and uncertainties have changed or arisen aside from those described in the annual report for 2018 under "Administration report" on pages 46–47 and in Note 2 on pages 63–64.

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

FUTURE OUTLOOK

The Board's financial targets are for IAR Systems Group's sales to grow by 10–15% annually in local currency and for the operating margin to exceed 25% over a business cycle.

FINANCIAL CALENDAR 2019

Interim report Jan–Sep 2019, November 7, 2019

REVIEW

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

Income statement

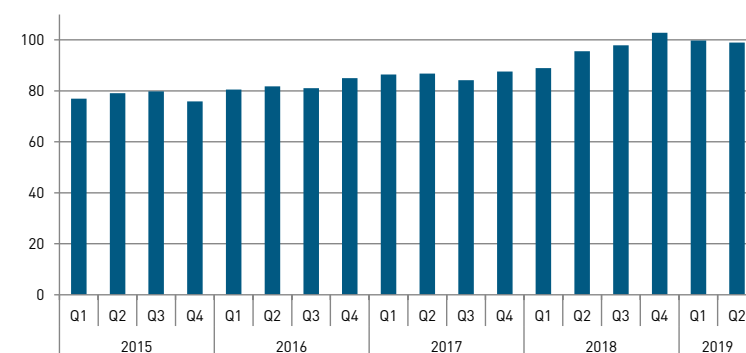
CONDENSED CONSOLIDATED INCOME STATEMENT

SEK m	Note	6 months Jan–Jun		3 months Apr–Jun		Full-year
		2019	2018	2019	2018	2018
Net sales	1, 2	198.8	184.5	99.0	95.6	385.2
Goods for resale		-4.6	-4.7	-2.5	-1.9	-9.0
Other external expenses		-28.7	-32.7	-15.1	-20.4	-68.2
Personnel costs		-94.2	-82.4	-48.5	-43.3	-167.9
Depreciation of property, plant and equipment		-1.5	-1.1	-1.0	-0.6	-2.6
Depreciation of right-of-use assets		-4.5	–	-2.3	–	–
Amortization of intangible assets		-12.1	-10.4	-5.8	-5.7	-21.9
Operating profit		53.2	53.2	23.8	23.7	115.6
Financial income		0.0	0.0	0.0	0.0	0.1
Financial expenses		-2.2	-2.1	-2.0	-1.7	-1.9
Profit before tax		51.0	51.1	21.8	22.0	113.8
Tax		-11.4	-12.1	-5.1	-5.8	-26.2
Profit for the period		39.6	39.0	16.7	16.2	87.6
Earnings per share for the period, basic, SEK		2.91	2.97	1.23	1.20	6.67
Earnings per share for the period, diluted, SEK		2.90	2.97	1.22	1.20	6.65

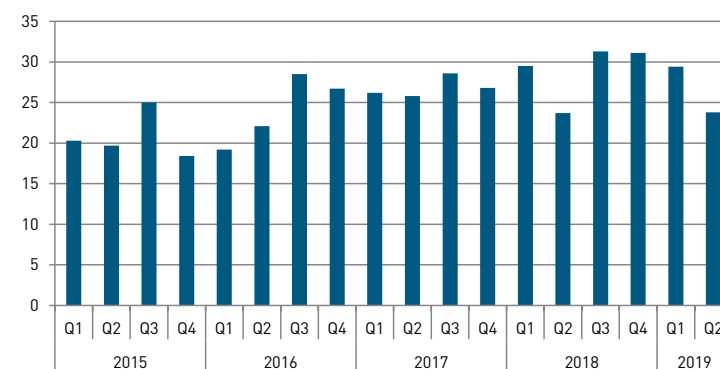
STATEMENT OF COMPREHENSIVE INCOME

SEK m	6 months Jan–Jun		3 months Apr–Jun		Full-year
	2019	2018	2019	2018	2018
Profit for the period	39.6	39.0	16.7	16.2	87.6
Other comprehensive income for the period					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences	16.6	5.4	-3.1	4.0	-6.7
Change in value of non-current securities	–	17.5	–	-0.4	17.5
Total other comprehensive income	16.6	22.9	-3.1	3.6	10.8
Comprehensive income for the period	56.2	61.9	13.6	19.8	98.4
Comprehensive income for the period attributable to owners of the Parent Company	56.2	61.9	13.6	19.8	98.4

NET SALES, SEK m



OPERATING PROFIT, SEK m



Balance sheet

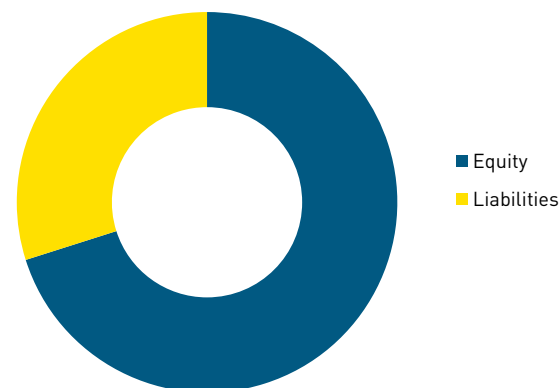
CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Jun 30, 2019	Jun 30, 2018	Dec 31, 2018
ASSETS				
Non-current assets				
Goodwill	3	348.0	349.0	339.3
Other intangible assets	4	176.1	130.5	144.8
Property, plant and equipment		6.7	7.2	8.9
Right-of-use assets		33.3	–	–
Financial assets		2.4	1.8	1.8
Deferred tax assets	5	18.2	8.5	13.3
Total non-current assets		584.7	497.0	508.1
Current assets				
Inventories		6.6	4.9	6.6
Other current assets		51.6	36.5	38.2
Trade receivables		72.1	62.8	63.2
Cash and cash equivalents		55.8	84.6	106.1
Total current assets		186.1	188.8	214.1
TOTAL ASSETS		770.8	685.8	722.2
EQUITY AND LIABILITIES				
Total equity		540.2	507.4	550.0
Non-current liabilities				
Lease liabilities		25.4	1.7	1.2
Other non-current liabilities		1.8	1.5	1.6
Deferred tax liabilities		33.7	24.8	29.6
Total non-current liabilities		60.9	28.0	32.4
Current liabilities				
Trade payables		7.4	7.9	7.3
Liabilities to credit institutions		29.7	–	–
Lease liabilities		9.3	1.2	1.6
Deferred income		86.8	74.7	79.0
Other current liabilities		36.5	66.6	51.9
Total current liabilities		169.7	150.4	139.8
TOTAL EQUITY AND LIABILITIES		770.8	685.8	722.2

CHANGES IN EQUITY, GROUP

	6 months Jan–Jun		3 months Apr–Jun		Full- year
SEK m	2019	2018	2019	2018	2018
Equity at beginning of period	550.0	290.4	593.8	507.6	290.4
New share issue, after deductions for transaction costs and tax	–	175.1	–	–	177.5
Share buybacks	–	–	–	–	-3.6
Warrants, after deductions for transaction costs and tax	0.4	–	0.4	–	3.6
Non-cash issue		39.7		39.7	39.7
Value of share-based remuneration	1.7	8.3	0.5	8.3	12.0
Dividend	-68.1	-68.0	-68.1	-68.0	-68.0
Comprehensive income for the period	56.2	61.9	13.6	19.8	98.4
Equity at end of period	540.2	507.4	540.2	507.4	550.0
Of which, attributable to owners of the Parent Company	540.2	507.4	540.2	507.4	550.0

EQUITY/ASSETS RATIO June 30, 2019



Cash flows

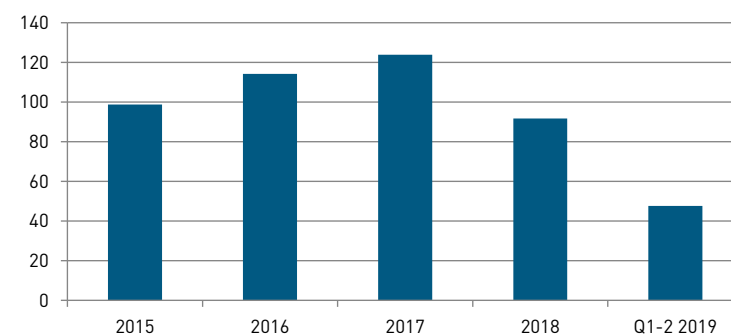
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	6 months Jan–Jun		3 months Apr–Jun		Full-year
SEK m	2019	2018	2019	2018	2018
Incoming payments from customers	188.6	169.3	96.3	83.6	381.1
Outgoing payments to suppliers and employees	-130.6	-105.6	-62.5	-51.6	-250.0
Interest received	0.0	0.0	0.0	0.0	0.0
Interest paid	-1.2	-0.9	-0.7	-0.4	-1.7
Income taxes paid	-8.9	-18.5	-4.3	-6.4	-36.8
Cash flow from operating activities	47.9	44.3	28.8	25.2	92.6
Investments in property, plant and equipment	-0.9	-1.0	-0.2	-0.6	-4.3
Investments in intangible assets	-38.1	-17.4	-18.4	-12.7	-42.5
Investments in subsidiaries	-18.6	-170.0	-18.6	-149.4	-170.8
Sale of other investments	–	–	–	–	0.1
Investments in other investments	–	–	–	–	–
Cash flow from investing activities	-57.6	-188.4	-37.2	-162.7	-217.5
New share issue, after deductions for transaction costs	0.0	175.1	0.0	175.1	176.0
Warrants, after deductions for transaction costs	0.4	–	0.4	–	3.6
Share buybacks	–	–	–	–	-3.6
Amortization of financial liabilities	-5.6	-1.2	-3.4	-1.2	-1.2
Borrowings	30.4	–	30.4	–	0.9
Dividend	-68.1	-68.0	-68.1	-68.0	-68.0
Cash flow from financing activities	-42.8	105.9	-40.6	105.9	107.7
Cash flow for the period	-52.4	-38.2	-49.0	-31.6	-17.2
Cash and cash equivalents at beginning of period	106.1	119.5	104.4	114.5	119.5
Exchange difference in cash and cash equivalents					
– attributable to cash and cash equivalents at beginning of period	2.0	3.2	0.3	1.8	3.6
– attributable to cash flow for the period	0.1	0.1	0	-0.1	0.1
Cash and cash equivalents at end of period	55.8	84.6	55.8	84.6	106.1

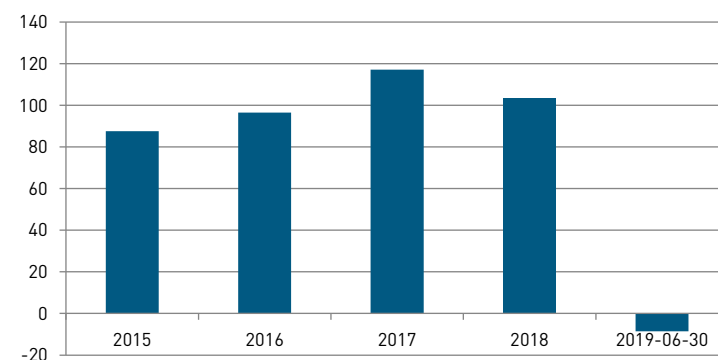
CASH AND CASH EQUIVALENTS, GROUP

SEK m	Jun 30, 2019	Jun 30, 2018	Dec 31, 2018
Cash and cash equivalents at end of period	55.8	84.6	106.1
Unutilized overdraft facilities	195.3	225.0	225.0
Total available cash and cash equivalents	251.1	309.6	331.1

CASH FLOW FROM OPERATING ACTIVITIES, SEK m



NET CASH, SEK m



Key ratios

GROUP

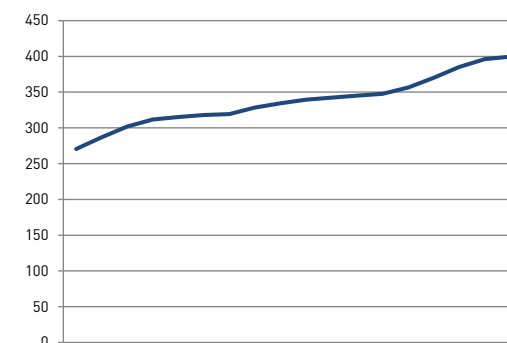
	6 months Jan–Jun		3 months Apr–Jun		Full-year
	2019	2018	2019	2018	2018
Gross margin, %	97.7	97.5	97.5	98.0	97.7
EBITDA, %	35.9	35.1	33.2	31.4	36.4
Operating margin, %	26.8	28.8	24.0	24.8	30.0
Profit margin, %	25.7	27.7	22.0	23.0	29.5
Cash flow, %	24.1	24.0	29.1	26.4	24.0
Equity/assets ratio, %	70.1	74.0			76.2
Return on equity, %	7.3	9.8	2.9	3.2	20.8
Return on capital employed, %	9.4	13.3	3.9	4.7	27.4
Capital employed, SEK m	604.6	510.3			552.8
Net cash, SEK m	-8.6	81.7			103.3
Net debt/equity ratio, multiple	0.0	-0.2			-0.2
No. of employees at end of period	215	180			200
Average no. of employees	197	161	202	169	171
Sales per employee, SEK m	1.0	1.1	0.5	0.6	2.3

SHARE DATA

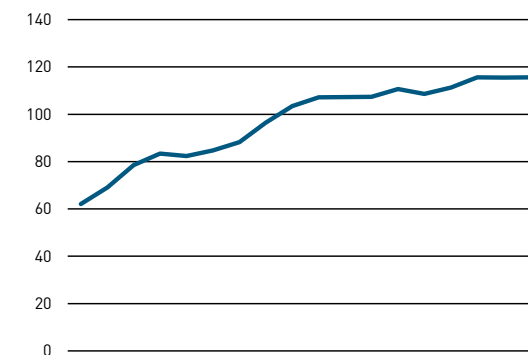
	6 months Jan–Jun		3 months Apr–Jun		Full-year
	2019	2018	2019	2018	2018
Equity per share, SEK	39.63	37.29			40.38
No. of shares at end of period, million	13.63	13.61			13.62
Average no. of shares, million	13.62	13.12	13.63	13.53	13.13
Average no. of shares, diluted, million	13.65	13.12	13.65	13.53	13.13
Cash flow from operating activities per share, SEK	3.52	3.38	2.11	1.86	7.05
Earnings per share, SEK*	2.91	2.97	1.23	1.20	6.67
Earnings per share, diluted, SEK	2.90	2.97	1.22	1.20	6.65

*Definition in accordance with IFRS. Refer also to definitions on page 17..

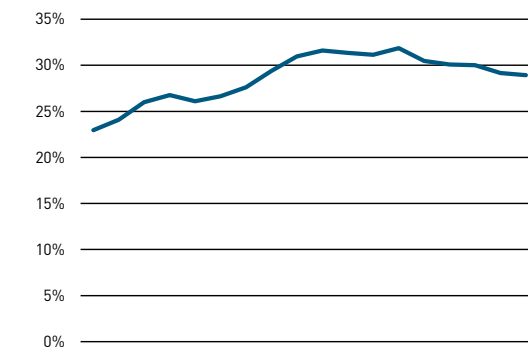
NET SALES ROLLING 12 MONTHS



OPERATING PROFIT ROLLING 12 MONTHS



OPERATING MARGIN ROLLING 12 MONTHS



Quarterly overview and multi-year overview

		Net sales, SEK m	EBITDA, SEK m	EBITDA margin, %	Operating profit, SEK m	Operating margin, %	Earnings per share, SEK*	Return on equity, %	Cash flow from operating activities per share, SEK	Equity per share, SEK	Share price, SEK	Market capitalization, SEK m
2019	Q2	99.0	32.9	33.2	23.8	24.0	1.23	2.9	2.11	39.63	269.50	3,673
	Q1	99.8	38.4	38.5	29.4	29.5	1.68	4.0	1.40	43.58	260.00	3,542
2018	Q4	102.8	37.6	36.6	31.1	30.3	1.60	3.9	2.45	40.38	243.00	3,310
	Q3	97.9	37.8	38.6	31.3	32.0	1.97	5.0	1.09	40.88	258.50	3,518
	Q2	95.6	30.0	31.4	23.7	24.8	1.20	3.2	1.86	37.29	277.00	3,770
	Q1	88.9	34.7	39.0	29.5	33.2	1.81	5.7	1.51	32.76	230.00	2,905
2017	Q4	87.6	31.9	36.4	26.8	30.6	1.56	7.0	2.64	22.99	189.00	2,387
	Q3	84.2	33.8	40.1	28.6	34.0	1.61	7.7	2.52	21.56	180.50	2,280
	Q2	86.8	30.9	35.6	25.8	29.7	1.68	7.7	2.56	20.09	175.00	2,211
	Q1	86.4	30.6	35.4	26.2	30.3	1.49	6.5	2.10	23.58	200.00	2,526
2016	Q4	85.0	31.2	36.7	26.7	31.4	1.59	7.5	3.13	22.13	206.00	2,602
	Q3	81.1	32.9	40.6	28.5	35.1	1.73	8.8	2.54	20.44	190.00	2,400
	Q2	81.8	26.0	31.8	22.1	27.0	1.34	6.2	1.63	18.64	157.00	1,983
	Q1	80.5	23.1	28.7	19.2	23.9	1.20	5.1	1.74	24.20	172.50	2,179
2015	Q4	75.9	22.2	29.2	18.4	24.2	1.09	4.9	2.22	23.03	150.00	1,895
	Q3	79.8	28.9	36.2	25.0	31.3	1.49	7.0	1.63	21.96	103.25	1,304
	Q2	79.1	23.5	29.7	19.7	24.9	1.21	5.4	2.51	20.43	99.75	1,260
	Q1	76.9	23.7	30.8	20.3	26.4	1.23	5.2	1.45	24.36	104.00	1,314
2014	Q4	66.1	16.3	24.7	13.5	20.4	0.84	3.8	1.27	22.85	74.75	944
	Q3	64.9	18.4	28.4	15.6	24.0	1.06	5.0	1.89	21.83	68.25	862
	Q2	62.7	15.2	24.2	12.7	20.3	0.78	3.4	1.33	20.72	68.50	861
	Q1	62.0	13.7	22.1	11.4	18.4	0.68	2.8	1.12	24.68	57.57	780
2013	Q4	61.5	12.6	20.5	10.1	16.4	0.58	2.5	0.84	23.90	39.77	491
	Q3	54.9	17.9	32.6	15.4	28.1	0.96	4.3	1.56	22.77	38.93	453
	Q2	56.1	9.7	17.3	7.7	13.7	0.53	2.4	0.97	21.42	34.40	388
	Q1	57.7	10.4	18.0	8.1	14.0	0.53	2.3	0.17	22.87	36.07	407
2012	Q4	59.5	11.7	19.7	9.8	16.5	-0.48	-2.1	1.34	22.34	35.24	397
	Q3	56.2	12.0	21.4	10.1	18.0	0.75	3.3	0.68	22.84	37.82	426
	Q2	56.4	8.8	15.6	7.3	12.9	0.42	1.9	1.27	22.15	39.77	448
	Q1	58.0	9.3	16.0	8.0	13.8	0.48	2.2	0.12	22.22	32.37	355
2011	Q4	57.5	9.4	16.3	7.7	13.4	0.96	4.5	1.20	21.82	22.66	248
	Q3	48.2	8.3	17.2	7.1	14.7	0.67	3.3	1.07	20.92	20.25	222
	Q2	48.9	6.7	13.7	5.4	11.0	0.49	1.4	1.19	20.09	21.83	239
	Q1	45.8	5.0	10.9	3.8	8.3	0.33	0.6	-0.37	50.35	17.76	195
2010	Q4	48.0	3.5	7.3	2.2	4.6	0.19	-0.6	0.47	54.16	16.41	180
	Q3	44.2	5.5	12.4	4.4	10.0	0.39	1.4	0.23	55.50	12.58	138
	Q2	42.1	3.2	7.6	2.4	5.7	0.24	1.1	0.33	53.81	13.65	150
	Q1	43.6	3.9	8.9	2.9	6.7	0.26	1.6	0.22	54.42	13.89	152
2018		385.2	140.1	36.4	115.6	30.0	6.67	20.8	7.05	40.38	243.00	3,310
2017		345.0	127.2	36.9	107.4	31.1	6.33	28.1	9.81	22.99	189.00	2,387
2016		328.4	113.2	34.5	96.5	29.4	5.86	25.9	9.04	22.13	206.00	2,602
2015		311.7	98.3	31.5	83.4	26.8	5.02	21.9	7.81	23.03	150.00	1,895
2014		255.7	63.6	24.9	53.2	20.8	3.37	14.5	5.61	22.85	74.75	944
2013		230.2	50.6	22.0	41.3	17.9	2.59	10.9	3.53	23.90	39.77	491
2012		230.1	41.8	18.2	35.2	15.3	1.16	5.3	3.41	22.34	35.24	397
2011		200.4	29.4	14.7	24.0	12.0	-1.70	6.4	3.09	21.82	22.66	248
2010		177.9	16.1	9.1	11.9	6.7	1.88	3.5	1.25	54.16	16.41	180

* Definition in accordance with IFRS.

Parent Company

CONDENSED INCOME STATEMENT

	6 months Jan-Jun		Full-year
SEK m	2019	2018	2018
Net sales	6.1	6.1	12.2
Operating expenses	-9.0	-9.3	-21.9
Depreciation of property, plant and equipment	-0.0	-0.0	-0.0
Operating loss	-2.9	-3.2	-9.7
Result from financial investments	-0.7	-2.0	100.9
Profit/loss before tax	-4.6	-5.2	91.2
Tax	1.0	1.1	-20.1
Profit/loss for the period	-3.6	-4.1	71.1

STATEMENT OF COMPREHENSIVE INCOME

	6 months Jan-Jun		Full-year
SEK m	2019	2018	2018
Profit/loss for the period	-3.6	-4.1	71.1
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Change in value of non-current securities	-	17.5	17.5
Total other comprehensive income	-	17.5	17.5
Comprehensive income for the period	-3.6	13.4	88.6

CONDENSED BALANCE SHEET

	Jun 30, 2019	Jun 30, 2018	Dec 31, 2018
SEK m			
ASSETS			
Non-current assets			
Property, plant and equipment	0.2	0.1	0.1
Shares in subsidiaries	476.2	455.2	476.2
Other financial assets	0.1	0.1	0.1
Deferred tax assets	1.0	1.1	1.5
Total non-current assets	477.5	456.5	477.9
Current assets			
Receivables from subsidiaries	46.9	-	42.0
Other current assets	14.3	9.8	2.2
Cash and cash equivalents	5.2	6.3	9.3
Total current assets	66.4	16.1	53.5
TOTAL ASSETS	543.9	472.6	531.4
EQUITY AND LIABILITIES			
Total equity	431.1	402.6	502.3
Current liabilities			
Trade payables	0.3	0.5	0.9
Liabilities to credit institutions	29.7	-	-
Liabilities to subsidiaries	74.9	43.7	-
Other current liabilities	7.9	25.8	28.2
Total current liabilities	112.8	70.0	29.1
TOTAL EQUITY AND LIABILITIES	543.9	472.6	531.4

Notes

1. ACCOUNTING POLICIES

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

The accounting standards applied for the Group and the Parent Company are the same as those applied in preparation of the most recent annual report, with the exception of the information presented below pertaining to IFRS 16.

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

IFRS 16 Leases replaced IAS 17 Leases and applies from January 1, 2019. For the lessee, IFRS 16 essentially entails that all leases are to be recognized in the statement of financial position. Classification in operating or finance leases is no longer applicable. The underlying asset in the lease is recognized in the statement of financial position. IAR applies the modified retrospective intermediate method regarding recognition of leases previously recognized as operating leases. This method entails that lease liabilities are calculated as the present value of remaining lease payments discounted by the incremental borrowing rate in the beginning of the period in which the company first applies the standard, and that the comparative year is not adjusted.

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

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

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

- Fixed payments, including in-substance fixed payments.

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

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

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

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

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

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

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

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

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

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

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

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

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

Ref:

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

B Restatement of leases in accordance with IFRS 16

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

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

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

Obligations for operating leases at December 31, 2018

SEK m	
Obligations for operating leases at December 31, 2018	39.6
Finance lease liabilities at December 31, 2018	2.8
Short-term leases (deducted as expensed)	-7.6
Low-value leases (deducted as expensed)	–
Effects of extension options	–
Discount effect	-1.7

Recognized lease liability in the opening balance on January 1, 2019

30.5

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

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

2. NET SALES

Net sales are distributed as follows:

	6 months Jan–Jun		3 months Apr–Jun		Full-year
SEK m	2019	2018	2019	2018	2018
Development tools	197.7	184.0	98.3	95.1	380.2
Security solutions	1.1	0.5	0.7	0.5	5.0
Net sales	198.8	184.5	99.0	95.6	385.2
Development tools					
SEK m	2019	2018	2019	2018	2018
License-based revenue	118.4	118.6	58.7	61.8	242.9
Support and software updates	68.8	56.4	36.2	29.3	119.4
Royalty-based revenue	2.9	2.6	1.5	1.3	5.5
Other	7.6	6.4	1.9	2.7	12.4
Net sales	197.7	184.0	98.3	95.1	380.2
At a certain point in time	126.0	125.0	60.6	64.5	255.3
Over time	71.7	59.0	37.7	30.6	124.9
Net sales	197.7	184.0	98.3	95.1	380.2

Notes, cont.

Americas	71.3	59.1	39.4	33.5	126.2
Asia	52.9	45.8	24.5	21.2	94.2
Europe	70.2	75.5	33.0	38.4	151.6
Not allocated by region	3.3	3.6	1.4	2.0	8.2
Net sales	197.7	184.0	98.3	95.1	380.2

Security solutions	6 months Jan–Jun		3 months Apr–Jun		Full-year
SEK m	2019	2018	2019	2018	2018
License-based revenue	0.2	–	0.2	–	–
Support and software updates	–	–	–	–	–
Royalty-based revenue	–	–	–	–	–
Other	0.9	0.5	0.5	0.5	5.0
Net sales	1.1	0.5	0.7	0.5	5.0

At a certain point in time	1.1	0.5	0.7	0.5	5.0
Over time	–	–	–	–	–
Net sales	1.1	0.5	0.7	0.5	5.0

SEK m	2019	2018	2019	2018	2018
Americas	1.1	0.5	0.7	0.5	5.0
Asia	–	–	–	–	–
Europe	–	–	–	–	–
Not allocated by region	–	–	–	–	–
Net sales	1.1	0.5	0.7	0.5	5.0

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

3. GOODWILL

Goodwill increased by SEK 8.7m during the period as a result of currency translation. Goodwill is tested annually or when a requirement for impairment is indicated. Goodwill is recognized at cost less accumulated impairment. The impairment test performed at year-end did not indicate any requirement for impairment. No indications of impairment arose during the period. Goodwill at June 30, 2019 amounted to SEK 348.0m (339.3).

4. OTHER INTANGIBLE ASSETS

During the period, other intangible assets increased by SEK 31.3m. Operating expenses were reduced by SEK 38.6m (17.6) during the period through the capitalization of development costs

for software. Of the internal expenses that were capitalized, SEK 31.8m (15.2) pertained to personnel costs. Investments in intangible assets increased during the period due to the acquisition of Secure Thingz and the development of IAR Embedded Workbench for RISC-V.

5. DEFERRED TAX ASSETS

The deferred tax asset attributable to loss carryforwards is recognized only to the extent that it is probable that the loss carryforwards can be utilized against future taxable profits. As of June 30, 2019, the Group had accumulated loss carryforwards outside Sweden of SEK 76m (45). The deferred tax asset is recognized in the balance sheet in an amount of SEK 18.2m (13.3), of which SEK 14.4m (8.5) pertains to loss carryforwards. All loss carryforwards are recognized in the consolidated balance sheet.

6. PLEDGED ASSETS

SEK m	Jun 30, 2019	Jun 30, 2018	Dec 31, 2018
To secure pensions	1.8	1.8	1.8
To secure liabilities to credit institutions	3.0	3.0	2.8
Total pledged assets	4.8	4.8	4.6

7. WARRANT PROGRAMS

In accordance with the decision of the AGM on April 24, 2019, a long-term incentive program for IAR Systems Group employees has been introduced ("LTIP 2019"). The program encompasses a total of 532,500 warrants, of which 418,000 were acquired or allocated under LTIP 2019. The warrants grant entitlement to the holder to subscribe for or acquire one class B share in the company according to the conditions below. In total, LTIP 2019 corresponds to about 3.6% of the share capital and approximately 3.4% of the votes in the company after dilution.

LTIP 2019 consists of two different types of warrants: share warrants and stock options. The share warrants are intended for employees in Sweden and the stock options are intended for employees outside Sweden. The final number of warrants to which each participant is entitled is dependent on the degree to which the Group's performance conditions are fulfilled. The performance conditions are based on average annual growth of the Group's net sales for the 2019, 2020 and 2021 financial years. The performance condition targets are presented in the table below and the relative weight of each performance condition is one third.

Performance conditions	Minimum level	Maximum level
Growth in net sales, 2019	5%	10%
Growth in net sales, 2020	5%	10%
Growth in net sales, 2021	5%	10%

For share warrants, participants are invited to acquire a certain number of warrants. The market price of the warrants, according to the pricing model from Black & Scholes, is calculated as SEK 16.67. The participants have paid SEK 11.17, which is the calculated market price adjusted for performance conditions. Based on performance condition fulfillment, each share warrant grants entitlement to subscribe for one new class B share during the period from May 1 to May 31, 2022 for a price corresponding to 120% of the volume-weighted average price paid for the company's share on Nasdaq Stockholm from May 3 to May 13, 2019, which is fixed at SEK 347.70. The participants acquired a total of 63,000 share warrants.

For stock options, participants are allocated stock options at no cost, which may not be pledged or transferred. The stock options are vested at a rate of one third per year from the date of allotment. Based on performance condition fulfillment, each stock option grants entitlement to acquire one new class B share during the period from May 1 to May 31, 2022 for a price corresponding to 120% of the volume-weighted average price paid for the company's share on Nasdaq Stockholm from May 3 to May 13, 2019, which is fixed at SEK 347.70. A total of 355,000 stock options were allocated to the participants.

LTIP 2019 is recognized in accordance with IFRS 2 Share-based Payment, which means that the cost of the incentive program is recognized on a straight-line basis during the vesting period. The total cost of the incentive program is estimated at SEK 6.1m, of which SEK 0.2m has been charged to profit for the period.

Information about the Group's other current incentive programs is available in the latest annual report.

Definitions

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

Ongoing share issue

On March 28, the board of directors of IAR Systems Group AB resolved to carry out a directed share issue based on the authorization granted by IAR Systems' Annual General Meeting of 2017. The new issue amounts to 812,000 class B shares and the company receives proceeds amounting to approximately SEK 178.6 million before transaction costs. The share issue was resolved but not completed at the end of the month. In the report, the proceeds with transaction costs deducted are declared as a current asset and under equities. When calculating equity per share, also the 812,000 shares under registration have been considered. For other key figures in the report, these have not been considered.

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

Definitions, cont.

Key ratios	Definition/Calculation	Use
Net debt/equity ratio	Net interest-bearing liabilities divided by equity	This measure reflects the relationship between the Group's two forms of financing. A measure to show the proportion of loan capital in relation to the capital invested by the owners and accordingly a measure of financial strength and also the gearing effect of loans. A higher net debt/equity ratio entails a higher financial risk and higher financial gearing
Earnings per share*	Profit for the period after tax divided by the average number of shares during the period.	A measure of the company's profitability after tax per share. This key ratio is important in assessing the value of a share
Earnings per share after current tax	Profit for the period after current tax divided by the average number of shares during the period.	The company has substantial loss carryforwards which have been gradually utilized in recent years. This measure shows the company's profitability after tax taking into consideration loss carryforwards utilized during the period.
Return on equity	Profit after tax as a percentage of average equity	Return on equity shows the total accounting returns on capital invested by the owners and reflects the effects of both the profitability of operations and financial gearing. This measure is mainly used to analyze the profitability of owners over time
Return on capital employed	Profit before tax plus financial expenses as a percentage of average capital employed	Return on capital employed shows how well operations use the capital tied up in the business. This measure is mainly used to study the Group's profitability over time
Interest-bearing liabilities	Borrowings in banks or the equivalent	This measure is one component in calculating net cash and the net debt/equity ratio
Operating margin	Operating profit as a percentage of net sales.	This measure reflects the operating profitability of the business. It is useful for following up profitability and efficiency in operations before taking into account capital tied up. This key ratio is used both internally in governance and follow-up of operations and to compare with other companies
Operating profit	Profit before tax less financial income plus financial expenses	Used to calculate the operating margin.
Equity/assets ratio	Equity as a percentage of total assets.	This key ratio shows the proportion of assets financed with equity and can be used as an indication of the company's longterm solvency

* Definition accordance with IFRS

Reconciliations

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

SEK m	6 months Jan–Jun		3 months Apr–Jun		Full-year
	2019	2018	2019	2018	2018
Net sales	198.8	184.5	99.0	95.6	385.2
Goods for resale	-4.6	-4.7	-2.5	-1.9	-9.0
Gross profit	194.2	179.8	96.5	93.7	376.2
Gross margin	97.7%	97.5%	97.5%	98.0%	97.7%

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

SEK m	6 months Jan–Jun		3 months Apr–Jun		Full-year
	2019	2018	2019	2018	2018
Net sales	198.8	184.5	99.0	95.6	385.2
Profit before tax	51.0	51.1	21.8	22.0	113.8
Profit margin	25.7%	27.7%	22.0%	23.0%	29.5%

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

SEK m	6 months Jan–Jun		3 months Apr–Jun		Full-year
	2019	2018	2019	2018	2018
Profit after tax	39.6	39.0	16.7	16.2	87.6
Average equity	545.1	398.9	567.6	507.5	420.2
Return on equity	7.3%	9.8%	2.9%	3.2%	20.8%

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

SEK m	6 months Jan–Jun		3 months Apr–Jun		Full-year
	2019	2018	2019	2018	2018
Operating profit	53.2	53.2	23.8	23.7	115.6
Depreciation of property, plant and equipment	1.5	1.1	1.0	0.6	2.6
Depreciation of right-of-use assets	4.5	–	2.3	–	–
Amortization of intangible assets	12.1	10.4	5.8	5.7	21.9
EBITDA	71.3	64.7	32.9	30.0	140.1

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

SEK m	6 months Jan–Jun		3 months Apr–Jun		Full-year
	2019	2018	2019	2018	2018
Net sales	198.8	184.5	99.0	95.6	385.2
Cash flow from operating activities	47.9	44.3	28.8	25.2	92.6
Cash flow	24.1%	24.0%	29.1%	26.4%	24.0%

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

SEK m	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Mar 31, 2018	Dec 31, 2018
	2019	2019	2018	2018	2018
Interest-bearing liabilities	64.4	31.2	2.9	2.3	2.8
Cash and cash equivalents	-55.8	-104.4	-84.6	-114.5	-106.1
Net interest-bearing liabilities	8.6	-73.2	-81.7	-112.2	-103.3
Net debt/equity ratio	0.0	-0.1	-0.2	-0.2	-0.2

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

SEK m	6 months Jan–Jun		3 months Apr–Jun		Full-year
	2019	2018	2019	2018	2018
Net sales	198.8	184.5	99.0	95.6	385.2
EBITDA	71.3	64.7	32.9	30.0	140.1
EBITDA margin	35.9%	35.1%	33.2%	31.4%	36.4%

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

SEK m	Jun 30, 2019	Jun 30, 2018	Dec 31, 2018
	2019	2018	2018
Equity	540.2	507.4	550.0
Total assets	770.8	685.8	722.2
Equity/assets ratio	70.1%	74.0%	76.2%

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

SEK m	6 months Jan–Jun		3 months Apr–Jun		Full-year
	2019	2018	2019	2018	2018
Profit before tax	51.0	51.1	21.8	22.0	113.8
Financial expenses	2.2	2.1	2.0	1.7	1.9
Profit before tax plus financial expenses	53.2	53.2	23.8	23.7	115.7
Return on capital employed	9.4%	13.3%	3.9%	4.7%	27.4%

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

SEK m	6 months Jan–Jun		3 months Apr–Jun		Full-year
	2019	2018	2019	2018	2018
Net sales	198.8	184.5	99.0	95.6	385.2
Operating profit	53.2	53.2	23.8	23.7	115.6
Operating margin	26.8%	28.8%	24.0%	24.8%	30.0%

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

SEK m	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017
	2019	2019	2018	2018	2018	2017
Equity	540.2	595.1	550.0	507.4	507.6	290.4
Average equity	545.1	398.9	567.6	507.5	553.2	

Reconciliations, cont.

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

SEK m	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018	Mar 31, 2018	Dec 31, 2018
Cash and cash equivalents	55.8	104.4	84.6	114.5	106.1
Interest-bearing liabilities	-64.4	-31.2	-2.9	-2.3	-2.8
Net cash	-8.6	73.2	81.7	112.2	103.3

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

SEK m	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017
Total assets	770.8	797.7	722.2	685.8	633.2	410.1
Non-interest-bearing liabilities	-166.2	-171.4	-169.4	-175.5	-123.3	-117.2
Capital employed	604.6	626.3	522.8	510.3	509.9	292.9

SEK m	6 months Jan-Jun 2019	2018	3 months Apr-Jun 2019	2018	Full-year 2018
Average capital employed	563.7	401.6	615.4	510.1	422.8

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

SEK m	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017
Equity	540.2	595.1	550.0	507.4	507.6	290.4
No. of shares at end of period, million	13.63	13.62	13.62	13.61	13.44	12.63
Equity per share	39.63	43.68	40.38	37.29	37.76	22.99

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

SEK m	6 months Jan-Jun 2019	2018	3 months Apr-Jun 2019	2018	Full-year 2018
Cash flow from operating activities	47.9	44.3	28.8	25.2	92.6
Average no. of shares, million	13.62	13.12	13.63	13.53	13.13
Cash flow from operating activities per share	3.52	3.38	2.11	1.86	7.05

The IAR Systems share

IAR Systems Group's class B share is quoted on the Mid Cap list of Nasdaq Stockholm. During the period, the share price varied from a low of SEK 233.00 [188.00] to a high of SEK 296.50 [288.00]. The share price at June 30, 2019 was SEK 269.50 [277.00]. IAR Systems Group's market capitalization on the same date was SEK 3,673m [3,770].

The number of shareholders in IAR Systems Group at June 30, 2019 was 7,495 [7,712]. Of these shareholders, 423 [456] held more than 1,000 shares each. Foreign shareholders held approximately 34% [30] of the share capital and 31% [28] of the votes.

IAR Systems Group's share capital at June 30, 2019 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 100,000 are class A shares, 13,527,762 are class B shares and 340,571 are class C shares. All of the class C shares are held in treasury and are not included in the information submitted regarding the IAR Systems share. Class C shares do not entitle the holder to dividends.

The aim of the company's treasury holding of class C shares is to ensure the delivery of shares to employees through the exercise of stock options according to the Group's incentive program and, in terms of cash flow, to ensure payment of future social security expenses attributable to this program. Prior to any delivery of shares according to the Group's employee ownership program, the company will convert the class C shares into class B shares. During the period, 6,049 class C shares were converted into class B shares and delivered within the framework of the incentive program. A total of 19,117 class C shares have been converted into class B shares and delivered within the framework of the incentive program since the original buy-back of 359,688 class C shares.

BREAKDOWN OF SHAREHOLDINGS

	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
1-100	5,312	71	1	1
101-1,000	1,760	23	5	4
1,001-10,000	336	5	7	7
10,001-	87	1	87	88
Total *	7,495	100	100	100

GEOGRAPHICAL DISTRIBUTION

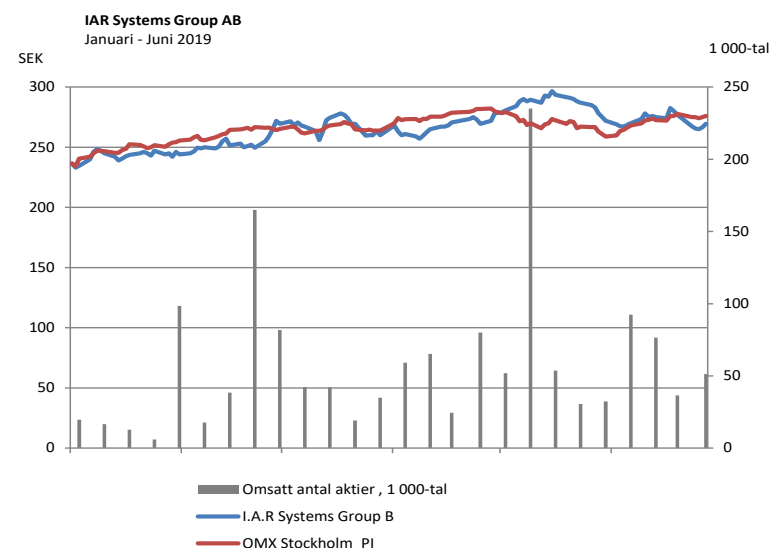
	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
Sweden	7,297	97	67	69
Europe excl. Sweden	159	2	27	26
Other countries	39	1	6	5
Total *	7,495	100	100	100

LARGEST SHAREHOLDERS (VOTES)

	No. of shares	Share of capital, %	Share of votes, %
SEB S.A.	1,474,968	11	10
Andra AP-fonden	1,295,415	9	9
Handelsbanken Fonder	1,226,980	9	9
Första AP-fonden	1,176,506	9	8
Danica Pension **	212,300	2	7
Other	8,241,593	60	57
Total *	13,627,762	100	100

* excluding 340,571 class C shares held in treasury

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



Investment case

IAR Systems is the world's leading provider of software for programming of processors in embedded systems. The software is used by many of the world's largest corporations as well as thousands of small and medium-sized companies, mainly within industrial automation, medical technology, telecommunication, consumer electronics and the automotive industry. The superior technology and service offered by IAR Systems enables customers to create the products of today and the innovations of tomorrow.

A PROFITABLE GROWTH COMPANY

IAR Systems is in a unique market position thanks to its leading technology. The company was founded more than 30 years ago, and since then has continually evolved and refined its products in order to meet customer demand. Our headquarters are located in Uppsala, Sweden, but due to the company's international reach, over 95% of sales are attributable to markets outside the Nordic region. Most product development takes place in Uppsala, but also to a certain extent in the USA. In addition, there are sales and support offices in Sweden, Germany, France, Japan, China, Korea and the USA. IAR Systems is represented in an additional 43 countries around the world through its distributors.

The company has a license-based sales model in which IAR Systems sells a license to a user who is then authorized to use IAR Embedded Workbench. The model is flexible and can be adapted depending on the number of users the customer needs. This model creates closer relationships with the customers at the same time that it generates a consistent revenue stream. In addition, the company focuses on markets which it deems to have significant potential, for example, the automotive industry and the Internet of Things. As part of IAR Systems' investment in the Internet of Things, the company has signed an exclusive royalty

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

SUPERIOR TECHNOLOGY

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

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

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

DEDICATED TEAM WITH AN EMPHASIS ON SERVICE

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

INTERNET OF THINGS DRIVES GROWTH

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





IAR SYSTEMS GROUP AB (PUBL)

Corporate ID Number 556400-7200

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

www.iar.com

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

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

www.iar.com