

I.A.R. SYSTEMS GROUP AB
INTERIM REPORT JANUARY–SEPTEMBER 2019

Q3

Net sales SEK 100.0m (97.9)

Operating margin 28.1%

Customers confirm the potential of new products

PROFIT SUMMARY

	9 months Jan-Sep		3 months Jul-Sep		Full-year
SEK m	2019	2018	2019	2018	2018
Net sales	298.8	282.4	100.0	97.9	385.2
Operating expenses	-217.5	-197.9	-71.9	-66.6	-269.6
Operating profit	81.3	84.5	28.1	31.3	115.6

KEY RATIOS

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
EBITDA margin, %	36.4	36.3	37.5	38.6	36.4
Operating margin, %	27.2	29.9	28.1	32.0	30.0
Net cash, SEK m	-11.7	88.6	-11.7	88.6	103.3
No. of employees at end of period	215	190	215	190	200

JANUARY-SEPTEMBER 2019

- › Net sales of SEK 298.8m (282.4)
- › Sales growth in local currency of 0%
- › EBITDA of SEK 108.8m (102.5), corresponding to an EBITDA margin of 36.4% (36.3)
- › Operating profit of SEK 81.3m (84.5), corresponding to an operating margin of 27.2% (29.9)
- › Profit before tax of SEK 79.8m (82.1)
- › Basic earnings per share of SEK 4.49 (5.02) and diluted earnings per share of SEK 4.48 (5.01)
- › Cash flow from operating activities of SEK 75.2m (59.2)
- › Net cash of SEK -11.7m (88.6) at the end of the period

JULY-SEPTEMBER 2019

- › Net sales of SEK 100.0m (97.9)
- › Sales growth in local currency of -10%
- › EBITDA of SEK 37.5m (37.8), corresponding to an EBITDA margin of 37.5% (38.6)
- › Operating profit of SEK 28.1m (31.3), corresponding to an operating margin of 28.1% (32.0)
- › Profit before tax of SEK 28.8m (31.0)
- › Basic earnings per share of SEK 1.58 (1.97) and diluted earnings per share of SEK 1.58 (1.96)
- › Cash flow from operating activities of SEK 27.3m (14.9)

Customers confirm the potential of new products

Sales during the third quarter continued to be affected by major transactions, though to a lesser extent than earlier in the year. However, the trend of major customers standardizing their development based on our products is lasting longer than we first thought. Our financial stability in combination with our stability in technology creates the confidence and long-term viability that our major customers demand. This demand also drives our growth in functional safety products. During the third quarter, we also launched a functional safety product with 8-bit architecture from the processor vendor ST, focused on the automotive industry. Despite substantial investments, we have maintained stable profitability, which is important both for us and for our customers and partners.

To meet the increased demand among our customers within security and for the new RISC-V processor architecture, we increased our focus on activities connected to product launches during the period. We launched a new version of IAR Embedded Workbench of RISC-V, where the latest news is that we have further optimized code speed. This results in better-performing code. The new version will also have expanded support for new RISC-V processors.

In addition to the launch, there is a lot happening with RISC-V, especially in Asia, where many products are in the prototype stage.

During the autumn, we also launched an expanded offering for IoT security. We created a comprehensive solution including software and services, which is now available for all customers internationally. The offering includes the secure development environment Embedded Trust, IAR Embedded Workbench for ARM with an updated version of the security tool C-Trust and the analysis tool C-STAT. It also includes a service offering with technical support, training and consulting services within security.

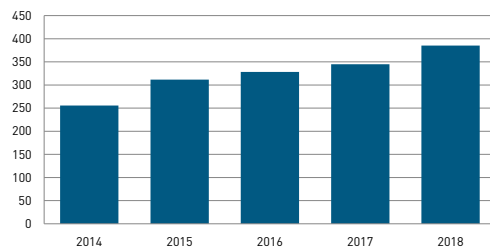
With our latest launch for expanded IoT security, we have also expanded our offering to include several processors already used in previously-existing solutions. Through increased cooperation with vendors, we are now embedding security in already-existing solutions for our customers. The growth of digital products entails security risks such as data theft, falsification, overproduction, IP theft, potentially life-threatening sabotage, etc. We minimize these risks through products both for implementing security from the beginning and for embedding security in existing solutions.

Market

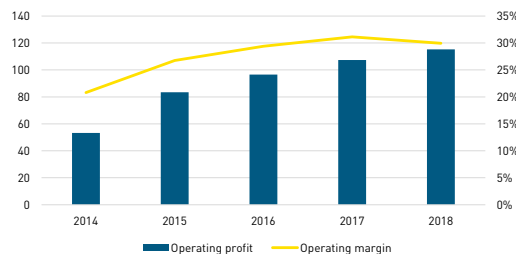
RISC-V has doubtless had the biggest positive impact on the traditional market for embedded systems. The implementation of RISC-V is still in an early stage, but is rapidly increasing. In China in particular, growing numbers of processor vendors are choosing RISC-V for their future product portfolios.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

There are two main reasons why processor vendors are choosing RISC-V. Firstly, RISC-V offers financial advantages, since processor vendors do not pay a licensing fee or royalties to Arm (the world's largest supplier of processor architectures) since it is not part of the RISC-V architecture in the same way. Secondly, processor vendors are not tied to Arm and Arm's ecosystem. Processor vendors can create their own ecosystem within RISC-V and in this way compete on the basis of innovation and increased customer focus. 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.

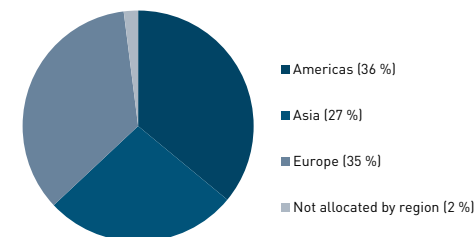
NET SALES



OPERATING PROFIT AND OPERATING MARGIN



BREAKDOWN OF REVENUE Q1-3 2019



The protracted consolidation of the market is affecting processor vendors. The ongoing trade war between the USA and China is creating major changes in the availability of components and a the state of competition which is further driving negative developments for processor manufacturers. 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. We still see major opportunities in the markets we have chosen to prioritize. A clear trend during the third quarter was that the number of customers from China and southeast Asia is growing as RISC-V is being implemented.

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 the electronics market. This will essentially involve a framework of best practices connected to penalty payments for breaking a few basic technological security aspects. One year ago, fewer than five countries had introduced laws and regulations concerning IT security. That list now includes more than 20 countries.

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. We have surpassed 200 employees and with close to 100 developers in the Group, we have made a significant investment in new technology and refining our existing products. 2019 has been an intense year, with some of the company's largest launches.

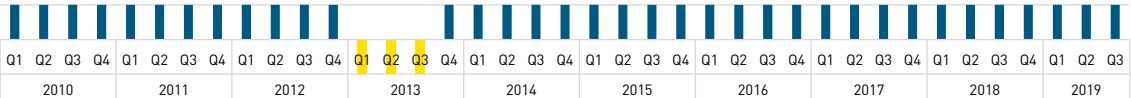
Historically, we have not been noticeably impacted by business cycles or seasonal variations, but we naturally keep a close eye on the markets and act as needed. We are seeing a major change in the market and the emergence of new driving forces, such as government regulations, processor vendors building 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.

With 24 quarters and soon ten consecutive years of growth, our goal remains the same: to be a long-term supplier to our customers, an attractive employer to our employees and a favorable investment for our shareholders.

We have been in business for over 36 years and are going through more changes than ever, both in the markets we operate in and as a business. Change takes time, but we are already seeing results and increased potential from our strategic customer cultivation, introduction of products and strengthened market position.

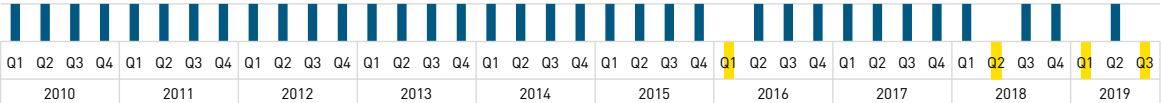
NET SALES

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



OPERATING PROFIT

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



Financial information

Sales

The trend of major customers choosing to standardize their development based on our products has continued. Traditionally, our business model is built on transaction-based sales, with a large number of transactions at relatively low amounts. In recent years, major transactions resulting from standardization have made our sales more volatile. 2018 was a successful year, with several major transactions in the Americas and Europe. During the latter part of the period we were not as successful in this regard, which mainly affected the comparison figure for the third quarter.

During the period, we launched new security products and IAR Embedded Workbench for RISC-V. Although these products are attracting considerable and growing interest, they have not resulted in a significant increase in sales in the short time since their launch.

Net sales

In a year-on-year comparison, net sales for the period increased 6% as a result of positive foreign exchange effects. Despite fewer major transactions during the latter part of the period, sales in local currency remained unchanged and the allocation of prepaid maintenance and support agreements in the year-earlier period had no impact on sales in local currency. Refer to the table below.

Net sales for the period amounted to SEK 298.8m [282.4] and were distributed as follows: SEK 297.4m [280.9] from development tools and SEK 1.4m [1.5] from security solutions. Royalty-based revenue of SEK 4.5m [4.0] 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 18.2m on net sales for the period.

	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
9 months Jan-Sep					
Americas	-3%	5%	10%	12%	36%
Europe	-6%	-4%	3%	-7%	35%
Asia	10%	0%	8%	18%	27%
Not allocated	-	-	-	-	2%
Total	0%	0%	6%	6%	100%

Growth in the third quarter of 2018 amounted to 16% and was partly attributable to the fact that more customers chose to standardize based on our products. Major transactions did not have a corresponding impact on sales in the third quarter, which declined 10% compared with the third quarter of the preceding year. Overall, however, net sales increased 2% during the quarter as a result of positive foreign exchange effects (+5%) and the allocation of prepaid maintenance and support agreements (+7%). Refer to the table below.

Net sales for the third quarter amounted to SEK 100.0m [97.6] and were distributed as follows: SEK 99.7m [96.9] from development tools and SEK 0.3m [1.0] from security solutions. Royalty-based revenue of SEK 1.6m [1.4] from the agreement with Renesas Electronics Corporation was reported during the third quarter. In a year-on-year comparison, currency translation had a positive impact of SEK 4.8m on net sales for the quarter.

Earnings

EBITDA for the period totaled SEK 108.8m [102.5], corresponding to an EBITDA margin of 36.4% [36.3] for the period. In a year-on-year comparison, IFRS 16 [Note 1] positively affected EBITDA by an amount essentially corresponding to the item "Depreciation of right-of-use assets" in the income statement. Operating profit for the period amounted to SEK 81.3m [84.5]. Operating expenses were reduced by SEK 58.9m [28.0] during the period through the capitalization of development costs for security products and software. The increase in capitalized expenses is due to developments in security products and the development of IAR Embedded Workbench for RISC-V. Of the internally generated costs that were capitalized, SEK 50.5m [23.9] pertained to personnel costs. In a year-on-year comparison, currency translation had a positive impact of SEK 10.7m on operating profit for the period.

EBITDA for the third quarter totaled SEK 37.5m [37.8], corresponding to an EBITDA margin of 37.5% [38.6] for the period. In a year-on-year comparison, IFRS 16 [Note 1] positively affected EBITDA by an amount essentially corresponding to the item "Depreciation of right-of-use assets" in the income statement. Operating profit for the third quarter amounted

	Sales growth in local cur- rency	Prepaid revenue	Foreign exchange effect	Growth in net sales	Share of net sales
3 months Jul-Sep					
Americas	-12%	3%	6%	-3%	34%
Europe	-21%	10%	2%	-9%	33%
Asia	6%	10%	7%	23%	30%
Not allocated	-	-	-	-	3%
Total	-10%	7%	5%	2%	100%

to SEK 28.1m [31.3]. Operating expenses were reduced by SEK 20.3m [10.4] during the quarter through the capitalization of development costs for security products and software. Of the internally generated costs that were capitalized, SEK 18.7m [8.7] pertained to personnel costs. In a year-on-year comparison, currency translation had a positive impact of SEK 2.9m on operating profit for the quarter. Financial expenses for the period mainly comprised credit expenses for the credit margin of SEK 225m.

Investments and financing

Investments in property, plant and equipment for the period totaled SEK 1.6m [3.4], of which SEK 0.7m [2.4] was attributable to the third quarter. Investments in intangible assets for the period amounted to SEK 60.7m [29.2]. Most of these investments, SEK 59.0m [28.0], pertained to the capitalization of development costs for security products and software. During the third quarter, investments in intangible assets amounted to SEK 20.9m [10.4], of which SEK 20.4m [10.4] pertained to the capitalization of development costs for security products and software.

The equity/assets ratio at September 30, 2019 was 72% [77].

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 75.2m [59.2], of which SEK 27.3m [14.9] pertained to the third quarter.

Cash flow from investing activities for the period totaled SEK -78.8m [-199.5], of which SEK -21.2m [-11.1] was attributable to the third quarter. Most of these investments pertained 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 -49.4m [109.5], of which SEK -6.6m [3.6] was attributable to the third quarter. Most of the cash flow from financing activities during the period comprised the net of the utilization of the bank overdraft facility, amortization of lease liabilities and payment of a dividend to shareholders.

As of September 30, 2019, the Group had net cash of SEK -11.7m [88.6]. 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 57.4m [91.5]. In addition, the Group had unutilized bank overdraft facilities of SEK 225.0m [200.2]. The Group's total available cash and cash equivalents thus amounted to SEK 257.6m [316.5].

EMPLOYEES

The number of employees in IAR Systems at the end of the period was 215 [190]. The average number of employees during the period was 199 [165].

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 9.1m [9.1]. The Parent Company posted a loss after financial items of SEK -3.7m [-9.4]. Net investments in property, plant and equipment amounted to SEK 0.1m [0.0]. Cash and cash equivalents at September 30, 2019 totaled SEK 0.7 [5.1]. 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

Year-end report 2019, February 11, 2020

Interim report Jan–Mar 2020, April 29, 2020

2020 Annual General Meeting, April 29, 2020

Interim report Jan–Jun 2020, August 26, 2020

Interim report Jan–Sep 2020, November 5, 2020

REVIEW REPORT

Introduction

We have reviewed the interim report for IAR Systems Group AB (publ) for the period from January 1, 2019 to September 30, 2019. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope and focus of the review

We conducted our review in accordance with the International Standard on Review Engagements Performed by the Independent Auditor of the Entity (ISRE 2410).

A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and a substantially more limited scope compared with the focus and scope of an audit conducted in accordance with the International Standards on Auditing and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant circumstances that might be identified in an audit. Therefore, the conclusion expressed on the basis of a review does not provide the same level of assurance as a conclusion expressed on the basis of an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report has not, in all material aspects, been compiled in accordance with IAS 34 Interim Reporting and the Swedish Annual Accounts Act, and for the Parent Company, in accordance with the Swedish Annual Accounts Act.

Stockholm, November 7, 2019

Deloitte AB

Andreas Frountzos

Income statement

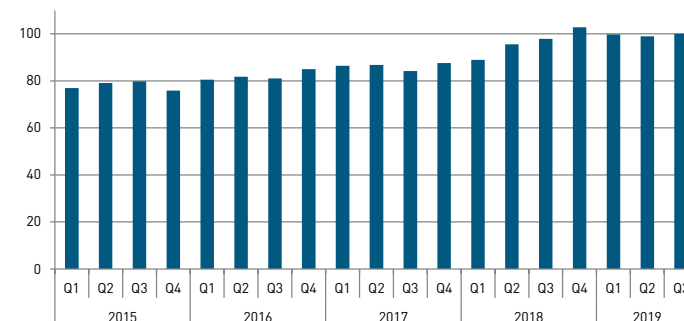
CONDENSED CONSOLIDATED INCOME STATEMENT

SEK m	Note	9 months Jan-Sep		3 months Jul-Sep		Full-year
		2019	2018	2019	2018	2018
Net sales	1, 2	298.8	282.4	100.0	97.9	385.2
Goods for resale		-7.1	-6.8	-2.5	-2.1	-9.0
Other external expenses		-42.8	-48.6	-14.1	-15.9	-68.2
Personnel costs		-140.1	-124.5	-45.9	-42.1	-167.9
Depreciation of property, plant and equipment		-2.2	-1.8	-0.7	-0.7	-2.6
Depreciation of right-of-use assets		-7.0	-	-2.5	-	-
Amortization of intangible assets		-18.3	-16.2	-6.2	-5.8	-21.9
Operating profit		81.3	84.5	28.1	31.3	115.6
Financial income		0.7	0.0	0.7	0.0	0.1
Financial expenses		-2.2	-2.4	-0.0	-0.3	-1.9
Profit before tax		79.8	82.1	28.8	31.0	113.8
Tax		-18.6	-16.3	-7.2	-4.2	-26.2
Profit for the period		61.2	65.8	21.6	26.8	87.6
Earnings per share for the period, basic, SEK		4.49	5.02	1.58	1.97	6.67
Earnings per share for the period, diluted, SEK		4.48	5.01	1.58	1.96	6.65

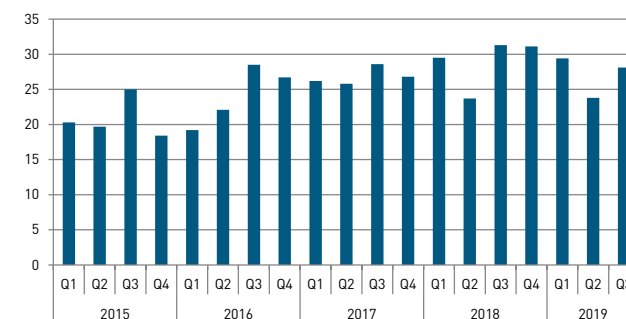
STATEMENT OF COMPREHENSIVE INCOME

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
Profit for the period	61.2	65.8	21.6	26.8	87.6
Other comprehensive income for the period					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences	26.3	22.1	9.7	16.7	-6.7
Change in value of non-current securities	-	17.5	-	-	17.5
Total other comprehensive income	26.3	39.6	9.7	16.7	10.8
Comprehensive income for the period	87.5	105.4	31.3	43.5	98.4
Comprehensive income for the period attributable to owners of the Parent Company	87.5	105.4	31.3	43.5	98.4

NET SALES, SEK m



OPERATING PROFIT, SEK m



Balance sheet

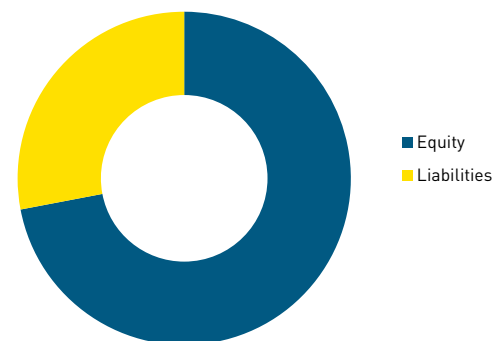
CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
ASSETS				
Non-current assets				
Goodwill	3	355.2	363.3	339.3
Other intangible assets	4	195.1	137.7	144.8
Property, plant and equipment		7.2	8.9	8.9
Right-of-use assets		42.6	-	-
Financial assets		2.5	1.7	1.8
Deferred tax assets	5	21.8	9.9	13.3
Total non-current assets		624.4	521.5	508.1
Current assets				
Inventories		6.9	5.2	6.6
Other current assets		47.0	46.8	38.2
Trade receivables		66.1	56.3	63.2
Cash and cash equivalents		57.4	91.5	106.1
Total current assets		177.4	199.8	214.1
TOTAL ASSETS		801.8	721.3	722.2
EQUITY AND LIABILITIES				
Total equity		574.0	556.3	550.0
Non-current liabilities				
Lease liabilities		32.3	1.5	1.2
Other non-current liabilities		1.0	1.5	1.6
Deferred tax liabilities		38.2	24.8	29.6
Total non-current liabilities		71.5	27.8	32.4
Current liabilities				
Trade payables		8.0	6.4	7.3
Liabilities to credit institutions		24.8	-	-
Lease liabilities		12.0	1.4	1.6
Deferred income		82.3	74.0	79.0
Other current liabilities		29.2	55.4	51.9
Total current liabilities		156.3	137.2	139.8
TOTAL EQUITY AND LIABILITIES		801.8	721.3	722.2

CHANGES IN EQUITY, GROUP

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full- year
	2019	2018	2019	2018	2018
Equity at beginning of period	550.0	290.4	540.2	507.4	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	0.2	3.5	-0.2	3.5	3.6
Non-cash issue	-	39.7	-	-	39.7
Value of share-based remuneration	4.4	10.2	2.7	1.9	12.0
Dividend	-68.1	-68.0	-	-	-68.0
Comprehensive income for the period	87.5	105.4	31.3	43.5	98.4
Equity at end of period	574.0	556.3	574.0	556.3	550.0
Of which, attributable to owners of the Parent Company	574.0	556.3	574.0	556.3	550.0

EQUITY/ASSETS RATIO September 30, 2019



Cash flows

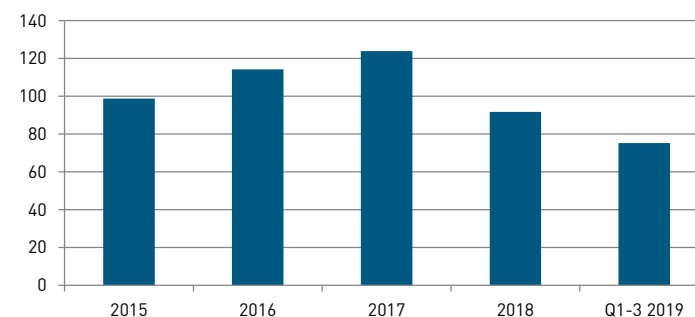
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	9 months Jan–Sep		3 months Jul–Sep		Full-year
SEK m	2019	2018	2019	2018	2018
Incoming payments from customers	294.0	272.9	105.4	103.6	381.1
Outgoing payments to suppliers and employees	-204.9	-186.8	-74.3	-81.2	-250.0
Interest received	0.0	0.0	0.0	0.0	0.0
Interest paid	-2.1	-1.3	-0.9	-0.4	-1.7
Income taxes paid	-11.8	-25.6	-2.9	-7.1	-36.8
Cash flow from operating activities	75.2	59.2	27.3	14.9	92.6
Investments in property, plant and equipment	-1.6	-3.4	-0.7	-2.4	-4.3
Investments in intangible assets	-58.6	-26.1	-20.5	-8.7	-42.5
Investments in subsidiaries	-18.6	-170.0	-	-	-170.8
Sale of other investments	-	-	-	-	0.1
Investments in other investments	-0.0	-0.0	-0.0	-0.0	-
Cash flow from investing activities	-78.8	-199.5	-21.2	-11.1	-217.5
New share issue, after deductions for transaction costs	-	175.1	-	-	176.0
Warrants, after deductions for transaction costs	0.2	3.5	-0.2	3.5	3.6
Share buybacks	-	-	-	-	-3.6
Amortization of financial liabilities	-11.9	-1.2	-6.4	-0.0	-1.2
Borrowings	30.4	0.1	-	0.1	0.9
Dividend	-68.1	-68.0	-	-	-68.0
Cash flow from financing activities	-49.4	109.5	-6.6	3.6	107.7
Cash flow for the period	-53.0	-30.8	-0.5	7.4	-17.2
Cash and cash equivalents at beginning of period	106.1	119.5	55.8	84.6	119.5
Exchange difference in cash and cash equivalents					
- attributable to cash and cash equivalents at beginning of period	4.7	2.8	2.7	-0.4	3.6
- attributable to cash flow for the period	-0.4	0.0	-0.6	-0.1	0.1
Cash and cash equivalents at end of period	57.4	91.5	57.4	91.5	106.1

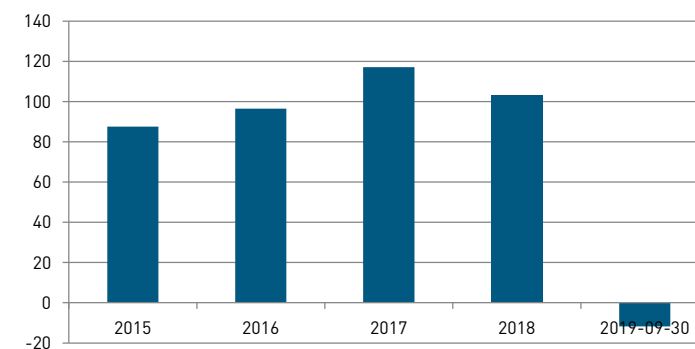
CASH AND CASH EQUIVALENTS, GROUP

SEK m	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
Cash and cash equivalents at end of period	57.4	91.5	106.1
Unutilized overdraft facilities	200.2	225.0	225.0
Total available cash and cash equivalents	257.6	316.5	331.1

CASH FLOW FROM OPERATING ACTIVITIES, SEK m



NET CASH, SEK m



Key ratios

GROUP

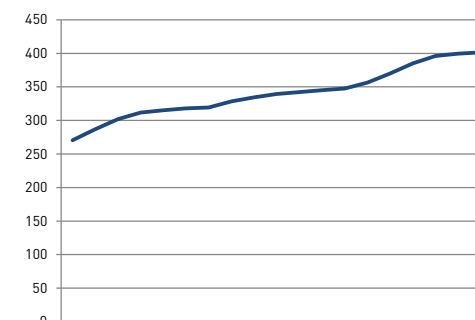
	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
Gross margin, %	97.6	97.6	97.5	97.9	97.7
EBITDA, %	36.4	36.3	37.5	38.6	36.4
Operating margin, %	27.2	29.9	28.1	32.0	30.0
Profit margin, %	26.7	29.1	28.8	31.7	29.5
Cash flow, %	25.2	21.0	27.3	15.2	24.0
Equity/assets ratio, %	71.6	77.1			76.2
Return on equity, %	10.9	15.5	3.9	5.0	20.8
Return on capital employed, %	14.1	19.8	4.6	5.9	27.4
Capital employed, SEK m	643.1	559.2			552.8
Net cash, SEK m	-11.7	88.6			103.3
Net debt/equity ratio, multiple	0.0	-0.2			-0.2
No. of employees at end of period	215	190			200
Average no. of employees	199	165	201	176	171
Sales per employee, SEK m	1.5	1.7	0.5	0.6	2.3

SHARE DATA

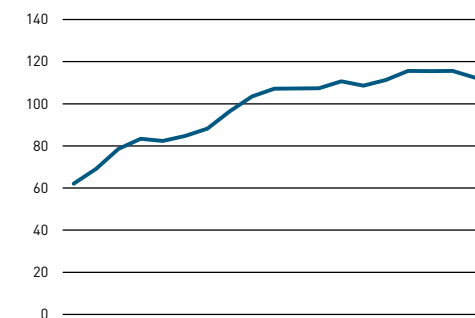
	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
Equity per share, SEK	42.11	40.88			40.38
No. of shares at end of period, million	13.63	13.61			13.62
Average no. of shares, million	13.62	13.12	13.63	13.61	13.13
Average no. of shares, diluted, million	13.67	13.15	13.67	13.65	13.13
Cash flow from operating activities per share, SEK	5.52	4.51	2.00	1.09	7.05
Earnings per share, SEK*	4.49	5.02	1.58	1.97	6.67
Earnings per share, diluted, SEK*	4.48	5.01	1.58	1.96	6.65

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

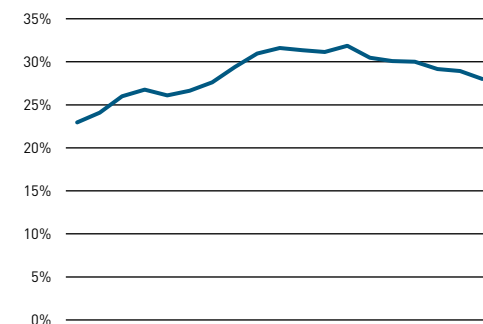
NET SALES ROLLING 12 MONTHS



OPERATING PROFIT ROLLING 12 MONTHS



OPERATING MARGIN ROLLING 12 MONTHS



Quarterly overview and multi-year overview

		Net sales, SEK m	EBITDA, SEK m	EBITDA margin, %	Operating profit, SEK m	Operating margin, %	Earnings per share, SEK*	Return on equity, %	Cash flow from operating activities per share, SEK	Equity per share, SEK	Share price, SEK	Market capitalization, SEK m
2019	Q3	100.0	37.5	37.5	28.1	28.1	1.58	3.9	2.00	42.11	234.50	3,196
	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

	9 months Jan-Sep		Full-year
SEK m	2019	2018	2018
Net sales	9.1	9.1	12.2
Operating expenses	-12.5	-16.2	-21.9
Depreciation of property, plant and equipment	-0.0	-0.0	-0.0
Operating loss	-3.4	-7.1	-9.7
Result from financial investments	-0.3	-2.3	100.9
Profit/loss before tax	-3.7	-9.4	91.2
Tax	0.8	2.1	-20.1
Profit/loss for the period	-2.9	-7.3	71.1

STATEMENT OF COMPREHENSIVE INCOME

	9 months Jan-Sep		Full-year
SEK m	2019	2018	2018
Profit/loss for the period	-2.9	-7.3	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	-2.9	10.2	88.6

CONDENSED BALANCE SHEET

	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
SEK m			
ASSETS			
Non-current assets			
Property, plant and equipment	0.2	0.1	0.1
Shares in subsidiaries	480.6	457.1	476.2
Other financial assets	0.1	0.1	0.1
Deferred tax assets	0.8	2.1	1.5
Total non-current assets	481.7	459.4	477.9
Current assets			
Receivables from subsidiaries	83.3	-	42.0
Other current assets	1.6	15.7	2.2
Cash and cash equivalents	0.7	5.1	9.3
Total current assets	85.6	20.8	53.5
TOTAL ASSETS	567.3	480.2	531.4
EQUITY AND LIABILITIES			
Total equity	435.9	404.4	502.3
Current liabilities			
Trade payables	0.3	0.5	0.9
Liabilities to credit institutions	24.8	-	-
Liabilities to subsidiaries	101.7	50.5	-
Other current liabilities	4.6	24.8	28.2
Total current liabilities	131.4	75.8	29.1
TOTAL EQUITY AND LIABILITIES	567.3	480.2	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.

At the beginning of 2019, the lease for the company's headquarters in Uppsala had a remaining term of less than 12 months. The premises were thus not reported as a right-of-use asset in the opening balance. There is still uncertainty regarding the terms for an extension or other potential solutions concerning the company's premises, which is why no right-of-use asset for the property has been reported in the balance sheet according to IFRS 16 during the current year.

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	

Description of adjustment A

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	40.9
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	31.8

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:

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
Development tools	297.4	280.9	97.7	96.9	380.2
Security solutions	1.4	1.5	0.3	1.0	5.0
Net sales	298.8	282.4	100.0	97.9	385.2

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
License-based revenue	176.7	180.2	58.3	61.6	242.9
Support and software updates	105.1	87.2	36.3	30.8	119.4
Royalty-based revenue	4.5	4.0	1.6	1.4	5.5
Other	11.1	9.5	3.5	3.1	12.4
Net sales	297.4	280.9	99.7	96.9	380.2

At a certain point in time	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
Over time	187.8	189.7	61.8	64.7	255.3
	109.6	91.2	37.9	32.2	124.9
Net sales	297.4	280.9	99.7	96.9	380.2

Notes, cont.

Americas	104.9	93.3	33.6	34.2	126.2
Asia	82.6	69.9	29.7	24.1	94.2
Europe	103.5	111.6	33.3	36.1	151.6
Not allocated by region	6.4	6.1	3.1	2.5	8.2
Net sales	297.4	280.9	99.7	96.9	380.2

Security solutions	9 months Jan–Sep		3 months Jul–Sep		Full-year
SEK m	2019	2018	2019	2018	2018
License-based revenue	0.2	-	-	-	-
Support and software updates	-	-	-	-	-
Royalty-based revenue	-	-	-	-	-
Other	1.2	1.5	0.3	1.0	5.0
Net sales	1.4	1.5	0.3	1.0	5.0

At a certain point in time	1.4	1.5	0.3	1.0	5.0
Over time	-	-	-	-	-
Net sales	1.4	1.5	0.3	1.0	5.0

SEK m	2019	2018	2019	2018	2018
Americas	1.4	1.5	0.3	1.0	5.0
Asia	-	-	-	-	-
Europe	-	-	-	-	-
Not allocated by region	-	-	-	-	-
Net sales	1.4	1.5	0.3	1.0	5.0

As part of the agreement with Renesas Synergy, IAR Systems receives a guaranteed annual minimum remuneration.

The royalty-based revenue recognized pertains to the guaranteed minimum remuneration for the period.

3. GOODWILL

Goodwill increased by SEK 15.9m 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 September 30, 2019 amounted to SEK 355.2m [339.3].

4. OTHER INTANGIBLE ASSETS

During the period, other intangible assets increased by SEK 50.3m. Operating expenses were reduced by SEK 58.9m [28.0] during the period through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 50.5m [23.9] 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 September 30, 2019, the Group had accumulated loss carryforwards outside Sweden of SEK 128m, of which SEK 93m (45) are reported in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 21.8m (13.3), of which SEK 17.9m (8.5) pertains to loss carryforwards.

6. PLEDGED ASSETS

SEK m	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
To secure pensions	1.8	1.8	1.8
To secure liabilities to credit institutions	3.5	3.0	2.8
Total pledged assets	5.3	4.8	4.6

In addition to the above pledged assets in the Group, the Parent Company IAR Systems Group AB has committed financial support as needed to the Group company Secure Thingz Ltd.

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 warrant program is recognized on a straight-line basis during the vesting period. The total cost of the warrant program is estimated at SEK 6.1m, of which SEK 0.6m 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. The following section "Reconciliations" presents reconciliations and accounts for the components included in the alternative performance measures used in the company's financial reporting.

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 78.6% of untaxed reserves. Average equity is calculated as equity at the beginning of the year plus equity at the end of the year divided by two.	Measures the company's net value.
Equity per share	Equity divided by the number of shares at the end of the period.	Measures the company's net value per share.
Sales growth in local currency	Net sales in local currency compared to sales in local currency corresponding period last year.	Measures the company's sales growth in local currency and allows the assessment of growth without the influence of foreign exchange effects.
Cash flow	Cash flow from operating activities as a percentage of net sales.	Measures the company's cash generation in relation to net sales.
Cash flow from operating activities per share	Cash flow from operating activities divided by the average number of shares during the period.	Measures the company's cash generation in relation to the number of shares in the company.
Net cash	Cash and cash equivalents less interest-bearing liabilities.	A measure of the ability to use available cash and cash equivalents to pay off all liabilities if they were due for payment on the date of the calculation and thereby a measure of the risk in relation to the company's capital structure.
Net interest-bearing liabilities	Interest-bearing liabilities less cash and cash equivalents.	A measure used to follow the liability trend and see the size of the need for refinancing. This measure is one component in calculating net cash and the net debt/equity ratio.

Definitions, cont.

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

* Definition in accordance with IFRS.

Reconciliations

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
SEK m					
Net sales	298.8	282.4	100.0	97.9	385.2
Goods for resale	-7.1	-6.8	-2.5	-2.1	-9.0
Gross profit	291.7	275.6	97.5	95.8	376.2
Gross margin	97.6%	97.6%	97.5%	97.9%	97.7%

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
SEK m					
Operating profit	81.3	84.5	28.1	31.3	115.6
Depreciation of property, plant and equipment	2.2	1.8	0.7	0.7	2.6
Depreciation of right-of-use assets	7.0	-	2.5	-	-
Amortization of intangible assets	18.3	16.2	6.2	5.8	21.9
EBITDA	108.8	102.5	37.5	37.8	140.1

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
SEK m					
Net sales	298.8	282.4	100.0	97.9	385.2
EBITDA	108.8	102.5	37.5	37.8	140.1
EBITDA margin	36.4%	36.3%	37.5%	38.6%	36.4%

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
SEK m					
Net sales	298.8	282.4	100.0	97.9	385.2
Operating profit	81.3	84.5	28.1	31.3	115.6
Operating margin	27.2%	29.9%	28.1%	32.0%	30.0%

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
SEK m					
Net sales	298.8	282.4	100.0	97.9	385.2
Profit before tax	79.8	82.1	28.8	31.0	113.8
Profit margin	26.7%	29.1%	28.8%	31.7%	29.5%

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
SEK m					
Net sales	298.8	282.4	100.0	97.9	385.2
Cash flow from operating activities	75.2	59.2	27.3	14.9	92.6
Cash flow	25.2%	21.0%	27.3%	15.2%	24.0%

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

	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
SEK m			
Equity	574.0	556.3	550.0
Total assets	801.8	721.3	722.2
Equity/assets ratio	71.6%	77.1%	76.2%

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

	Sep 30, 2019	Jun 30, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Dec 31, 2017
SEK m						
Equity	574.0	540.2	550.0	556.3	507.4	290.4

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
SEK m					
Average equity	562.0	423.4	557.1	531.8	420.2

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
SEK m					
Profit after tax	61.2	65.8	21.6	26.8	87.6
Average equity	562.0	423.4	557.1	531.8	420.2
Return on equity	10.9%	15.5%	3.9%	5.0%	20.8%

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

	Sep 30, 2019	Jun 30, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Dec 31, 2017
SEK m						
Interest-bearing liabilities	69.1	64.4	2.8	2.9	2.9	2.5
Cash and cash equivalents	-57.4	-55.8	-106.1	-91.5	-84.6	-119.5
Net interest-bearing liabilities	11.7	8.6	-103.3	-88.6	-81.7	-117.0
Net debt/equity ratio	0.0	0.0	-0.2	-0.2	-0.2	-0.4

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

	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
SEK m					
Profit before tax	79.8	82.1	28.8	31.0	113.8
Financial expenses	2.2	2.4	0.0	0.3	1.9
Profit before tax plus financial expenses	82.0	84.5	28.8	31.3	115.7
Return on capital employed	14.1%	19.8%	4.6%	5.9%	27.4%

Reconciliations, cont.

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

SEK m	Sep 30, 2019	Jun 30, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018
Cash and cash equivalents	57.4	55.8	106.1	91.5	84.6
Interest-bearing liabilities	-69.1	-64.4	-2.8	-2.9	-2.9
Net cash	-11.7	-8.6	103.3	88.6	81.7

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	Sep 30, 2019	Jun 30, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Dec 31, 2017
Total assets	801.8	770.8	722.2	721.3	685.8	410.1
Non-interest-bearing liabilities	-158.7	-166.2	-169.4	-162.1	-175.5	-117.2
Capital employed	643.1	604.6	522.8	559.2	510.3	292.9

SEK m	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
Average capital employed	583.0	426.1	623.9	534.8	422.8

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

SEK m	Sep 30, 2019	Jun 30, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Dec 31, 2017
Equity	574.0	540.2	550.0	556.3	507.4	290.4
No. of shares at end of period, million	13.63	13.63	13.62	13.61	13.61	12.63
Equity per share	42.11	39.63	40.38	40.88	37.29	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	9 months Jan-Sep		3 months Jul-Sep		Full-year
	2019	2018	2019	2018	2018
Cash flow from operating activities	75.2	59.2	27.3	14.9	92.6
Average no. of shares, million	13.62	13.12	13.63	13.61	13.13
Cash flow from operating activities per share	5.52	4.51	2.00	1.09	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 217.00 (188.00) to a high of SEK 296.50 (288.00). The share price at September 30, 2019 was SEK 234.50 (258.50). IAR Systems Group's market capitalization on the same date was SEK 3,196m (3,518).

The number of shareholders in IAR Systems Group at September 30, 2019 was 7,509 (7,486). Of these shareholders, 412 (445) held more than 1,000 shares each. Foreign shareholders held approximately 32% (32) of the share capital and 31% (30) of the votes.

IAR Systems Group's share capital at September 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 in own holdings. These 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 share-holders	No. of share-holders, %	Share of capital, %	Share of votes, %
1-100	5,310	71	1	1
101-1,000	1,787	23	5	4
1,001-10,000	326	5	7	7
10,001-	86	1	87	88
Total *	7,509	100	100	100

GEOGRAPHICAL DISTRIBUTION

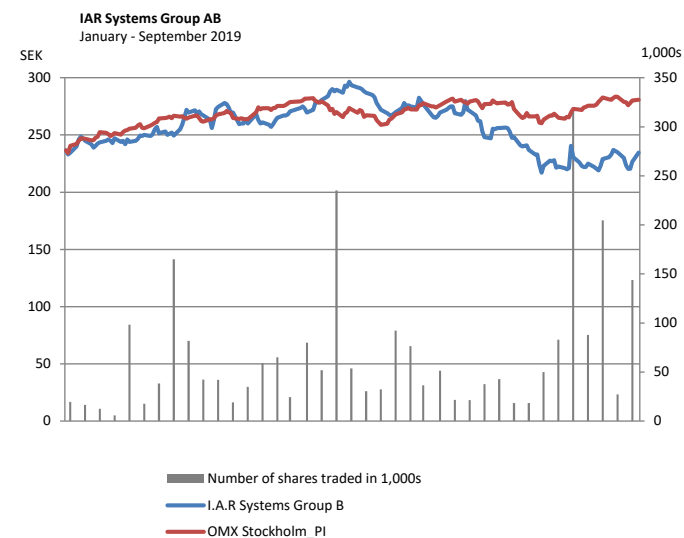
	No. of share-holders	No. of share-holders, %	Share of capital, %	Share of votes, %
Sweden	7,302	97	68	69
Europe excl. Sweden	167	2	26	25
Other countries	40	1	6	6
Total *	7,509	100	100	100

LARGEST SHAREHOLDERS (VOTES)

	No. of shares	Share of capital, %	Share of votes, %
Andra AP-fonden	1,295,415	9	9
Första AP-fonden	1,176,506	9	8
SEB S.A.	1,172,494	9	8
Danica Pension **	212,300	2	8
Handelsbanken Fonder	1,011,980	7	7
Other	8,759,067	64	60
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 a world-leading supplier of programming tools and services for embedded systems. These tools and services enable the development of digital products for over 46,000 corporate clients and 150,000 developers, supported by growing demand for digital technology, primarily within industrial automation, medical technology, telecommunication, consumer electronics and the automotive industry.

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

A PROFITABLE GROWTH COMPANY DRIVING CHANGE IN THE INDUSTRY

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

is the company's shared vision and collaboration with Secure Thingz, which began in 2018 and has significantly expanded the company's potential market from only product development to the provision of services, manufacturing and product management.

SUPERIOR TECHNOLOGY WITH NEW PATENTED ADDITIONS

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

1. IAR Systems offers a unique product range consisting of a complete tool chain for product developers.
2. IAR Systems is independent and thereby supports a variety of different processor architectures, which means that customers can choose the exact programming environment that fits their needs, regardless of processor and project. This way, customers do not need to lock themselves into a particular technical platform,


which provides a number of advantages, such as being able to reuse 70–80% of previously written code.

3. IAR Systems provides superior quality so that customers do not need to compromise on product performance, reliability and user-friendliness and so that the time from product to market launch is as efficient as possible.

4. Through the acquisition of Secure Thingz, IAR Systems has expanded its offering to include unique, patented technology that aims to fulfill the customer's need to protect its intellectual property. This can also be a crucial determining factor when it comes to maximizing the market potential for security for embedded systems.

THE SPREAD OF DIGITAL TECHNOLOGY AND IOT IS DRIVING MARKET GROWTH

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

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1. Largely driven by IoT, embedded systems are growing in number and in complexity.
 2. Continued high demand for reliable and advanced programming tools that provide a complete development platform and efficient time management from product to market launch.
 3. New possibilities within the automotive industry as increasingly advanced vehicles reach the market.
 4. Unexploited potential within security solutions for embedded systems. Secure Thingz operates as its own company, but takes advantage of IAR Systems' worldwide sales and support organization, and thereby its large and loyal customer base. To illustrate the market potential, ABI Research predicts that the security market for embedded systems will grow quickly as the number of secure IoT products grows from today's 4% to close to 20% by 2022.
 5. The processor architecture RISC-V will challenge the Arm architecture, and IAR Systems is positioning itself to be the leading software supplier in this area.

ENGAGED TEAM WHO KNOWS HOW TO TAKE ADVANTAGE OF GROWTH POTENTIAL

IAR Systems' global organization and its enduring passion for product development and technology attract skilled and talented people to the company in all countries where it operates. During 2018, IAR Systems expanded its management group, adding individuals with experience from senior roles at leading international technology companies, something that highlights our ability to leverage this growth potential without compromising the organization's well-known

and service-oriented approach.

Our employees' diverse cultural backgrounds, unique perspectives and local knowledge are important contributing factors to IAR Systems' strong presence worldwide, and enable the company to meet customers in their own markets. By sharing knowledge and experience among highly qualified and motivated employees, IAR Systems creates the most competitive customer solutions.



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