

I.A.R. SYSTEMS GROUP AB
YEAR-END REPORT 2020

Q4

Increased demand for security and Linux-based products

Net sales SEK 90.7m (106.8), EBITDA SEK 32.5m (37.0)

PROFIT SUMMARY

	Full-year		3 months Oct-Dec	
SEK m	2020	2019	2020	2019
Net sales	372.0	405.6	90.7	106.8
Operating expenses	-288.2	-297.2	-71.7	-79.7
Operating profit	83.8	108.4	19.0	27.1
Result from financial items	-7.0	-1.4	-4.5	0.1
Profit before tax	76.8	107.0	14.5	27.2
Tax	-17.4	-25.8	-2.5	-7.2
Profit for the period	59.4	81.2	12.0	20.0

KEY PERFORMANCE MEASURES

	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Gross margin, %	96.2	97.3	95.6	96.5
EBITDA margin, %	35.7	35.9	35.8	34.6
Operating margin, %	22.5	26.7	20.9	25.4
Cash flow, %	31.8	26.1	30.7	28.6
Net cash, SEK m	1.5	-18.4	1.5	-18.4
No. of employees at end of period	215	219	215	219

FULL-YEAR 2020

- › EBITDA of SEK 132.7m (145.8), corresponding to an EBITDA margin of 35.7% (35.9)
- › Operating profit of SEK 83.8m (108.4), corresponding to an operating margin of 22.5% (26.7)
- › Profit before tax of SEK 76.8m (107.0)
- › Basic earnings per share of SEK 4.35 (5.96) and diluted earnings per share of SEK 4.35 (5.95)
- › Cash flow from operating activities of SEK 118.4m (105.7)
- › Net cash of SEK 1.5m (-18.4) at the end of the year
- › The Board intends to not propose any dividend for approval by the AGM on April 27, 2021

OCTOBER-DECEMBER 2020

- › EBITDA of SEK 32.5m (37.0), corresponding to an EBITDA margin of 35.8% (34.6)
- › Operating profit of SEK 19.0m (27.1), corresponding to an operating margin of 20.9% (25.4)
- › Profit before tax of SEK 14.5m (27.2)
- › Basic earnings per share of SEK 0.88 (1.47) and diluted earnings per share of SEK 0.88 (1.46)
- › Cash flow from operating activities of SEK 27.8m (30.5)

KEY EVENTS

After the balance sheet date, the nominating committee announced a proposal that the Annual General Meeting on April 27, 2021 elect Nicolas Hassbjer as the new Board Chairman and Cecilia Wachtmeister as a new Board member. Current Chairman Maria Wasing has declined re-election.

Increased demand for security and Linux-based products

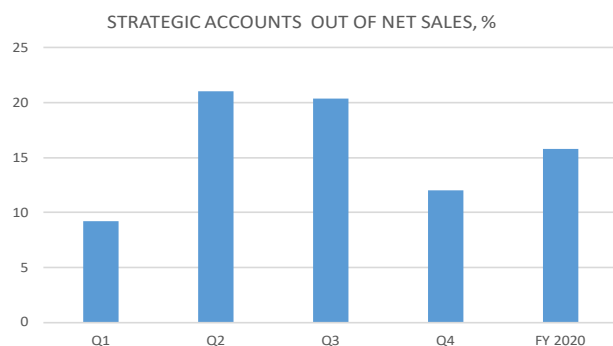
Significant strategic transactions continued during the fourth quarter, albeit at a smaller scale than in previous quarters in 2020. The company exceeded its target for strategic transactions for the year. The share of strategic customers in relation to sales increased to 16% in 2020.

Strategic customers investing during the pandemic

Strategic transactions, which usually involve major customers, follow a well-established process with customers whereby purchases are made in the quarter when the annual budget is planned and finalized. At the same time, each strategic transaction is unique to the particular customer, which leads to a more complex and protracted sales process, making it difficult to predict the timing and scope of the transaction. During the year, we noted a trend where our major customers were able to invest during the ongoing pandemic, unlike our smaller customers. However, smaller customers are not bound by the same strict processes as larger companies and, if there is room in the budget, are able to increase their license purchases in the last few months of the year.

Demand for security products and RISC-V on the rise

Sales of security products also increased in the fourth quarter, exceeding the figures for the preceding year. With sales conducted in all regions, sales of security products nearly tripled in 2020 compared with 2019. Although the share of security products is relatively small compared to development tools, demand and sales are both growing steadily.

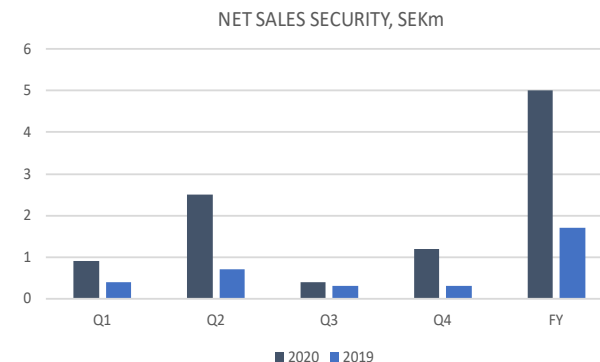


We are increasing sales of our new products for the RISC-V processor architecture. We had the highest sales of the year in the fourth quarter. While sales revenue in this product category was once again evenly distributed between regions in the fourth quarter, the greatest potential remains in Asia.

Regional needs look similar for both of our new product areas, which is also reflected in their outcomes. The main difference is that customers investing in RISC-V are still evaluating the new architecture. Customers who invest in our security products have a more fixed investment strategy and have already completed their evaluation.

Although the pandemic had a primarily negative effect on transaction-based business, we saw growth in the number of licenses sold during the fourth quarter. This was due in part to the renewal of maintenance licenses, which often expire at the end of the year, and in part to customers increasing their number of licenses due to a greater need for flexible licensing during the pandemic, as many people are working from home.

Our ambition has been to support our customers in their transition from working in the office to working from home during the pandemic by offering suitable types of licenses. We are seeing a trend of our customers also planning to work from home during the first half of 2021. Our customers' development projects are continuing, but the transition means that projects and purchasing decisions are taking longer.



The transaction-based business comprises a large number of smaller transactions that mainly include license renewals and additional licenses.

The majority of our customer base thus includes customers who have a smaller number of licenses, which provides both stability in the business model and a lower risk of bad debt loss. The pandemic did not affect our customers' ability to pay in 2020.

Increased demand for Linux-based development

Demand for Linux-based development continues to increase. Customers use our offering for Linux as an integrated solution for developing embedded systems – an integration that encompasses several functions, such as testing and quality assurance, where most products only are available for the Linux operating system. With development teams working in different locations, such as from home, we are seeing that our customers' need for this type of flexible solution for simplified work flows and quality assurance will continue to grow.

First customer to implement a solution for secure large-volume programming of processors

During the year, we had our first customer implement a solution for secure programming of processors in embedded systems. The customer relies on the strength of our offering (Inception Suite), which includes development and programming of secure embedded systems, to quickly implement a solution for volume programming.

The effects of the pandemic and the geopolitical situation in America

The effects of the pandemic during the year varied between regions and over time. The common denominator is the uncertainty created around customers' decision-making processes, product development and investment plans. This includes delayed decisions and projects on the part of customers and a diminished inclination to start new projects until the effects of the pandemic become clearer. China, on the other hand, has definitively increased its investments and product development as the pandemic has leveled off, resulting in powerful growth in the domestic automotive and personal electronics markets. This led to increased demand and a lack of components for a large number of processor suppliers and companies. Our planning was more short term in nature during the first part of the year, giving way to longer-term planning during the second and third waves of the pandemic as we await the roll-out of a vaccine.

America continues to be a turbulent market that, in addition to the pandemic, has been negatively affected by geopolitical circumstances.

We are seeing a clear positive effect of the fact that our license and business models support our customers in their internal license administration. We are also seeing increased demand for products that focus on increased efficiency rather than just the quality of the code. Despite the fact that a large portion of our product development took place remotely, we successfully launched the products we had planned to launch, which will be important for IAR Systems 4.0. We also revised our entire marketing model during the pandemic, which allowed us to increase our license sales despite the cancellation of trade fairs and personal meetings.

Clearer potential in certain market segments

We see clearer potential in some market segments. The security market has seen both stricter legislation and an increased understanding of regulatory security decisions by various authorities. We transitioned from recommendations to laws in several countries during the year and are seeing increased demand from our customers as they work to implement these laws or recommendations in the best

possible way. Even if this is not boosting our short-term sales growth, it is creating demand and strengthening our reputation as a knowledgeable company within the secure implementation of embedded systems.

Another clear driving force in security products is the ongoing global expansion of the 5G mobile network. While 5G may be considered important for consumers, its main impact will be on the expansion of smart networks, smart cities and the increased connection of "things." The large number of connected devices in smart cities that exchange information without human input increases the exposure to risks for users, individuals and companies. Our products, with protection for the code as well as the individual product, strengthen our belief that the need for security products will continue to increase.

Despite the continued uncertainty created by the pandemic during the first half of 2021 and the volatility of major transactions, we stand strong thanks to our business model, our large and loyal customer base and our leading technology. In short, we are proud to be a global company focused on product development that nevertheless reported positive growth in several areas. We are pleased that many of our customers today are optimistic that projects and processes will return to normal during the second half of 2021.

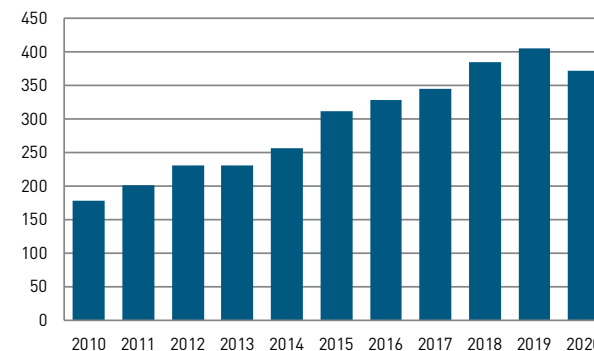
The positive spirit taking root in our customers and partners continues to inspire us to maintain the high ambitions that we have become synonymous with over the years. Having emerged from 2020 stronger and better prepared than we were at the beginning of the year, we will leverage the major opportunities we see in Asia, security products and our flagship IAR Embedded Workbench through our stability, potential and various market drivers.



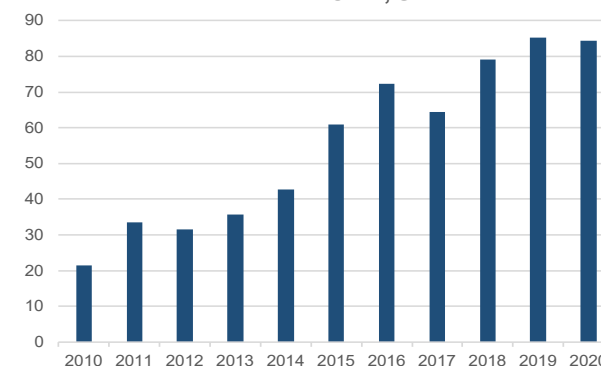
STEFAN SKARIN

President and CEO, I.A.R. Systems Group AB

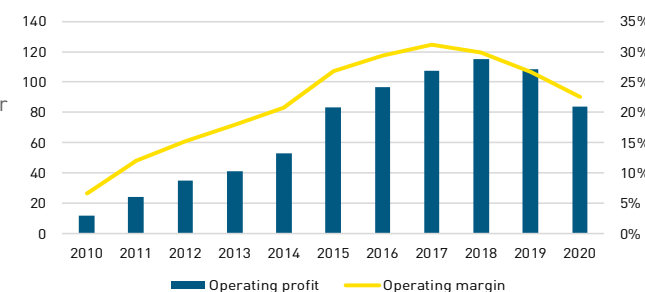
NET SALES



DEFERRED INCOME, SEK m



OPERATING PROFIT AND OPERATING MARGIN



Financial information

NET SALES

Q4 2020 Net sales

Net sales for the quarter decreased year-on-year and amounted to SEK 90.7m [106.8], distributed as follows: SEK 89.5m [106.5] from development tools and SEK 1.2m [0.3] from security solutions. During the fourth quarter, several strategic customers also chose to deepen their relationship with the company and signed longer agreements, which had a positive effect on net sales. In a year-on-year comparison, currency translation had a negative impact of SEK 4.6m on net sales for the quarter.

Net sales for full-year 2020

Net sales for the period amounted to SEK 372.0m [405.6] and were distributed as follows: SEK 367.0m [403.9] from development tools and SEK 5.0m [1.7] from security solutions. In a year-on-year comparison, currency translation had a negative impact of SEK 4.6m on net sales for the year.

Deferred income December 31, 2020

Deferred income in the form of accrued support agreements decreased during the year by SEK 0.9m and amounted to SEK 84.3m [85.2] at December 31, 2020. Of these accrued support agreements, 90% is expected to be recognized as income during 2021, which amounts to SEK 75.8m.

EARNINGS

Q4 2020 Earnings

Earnings in the fourth quarter of the year declined compared with the corresponding quarter in the preceding year. EBITDA for the quarter totaled SEK 32.5m [37.0], corresponding to an EBITDA margin of 35.8% [34.6]. Operating profit for the quarter amounted to SEK 19.0m [27.1]. Operating expenses were reduced by SEK 17.5m [23.0] during the quarter through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 13.5m [16.8] pertained to personnel costs.

In a year-on-year comparison, currency translation had a negative impact of SEK 6.6m on operating profit for the quarter.

Earnings for full-year 2020

EBITDA for the year totaled SEK 132.7m [145.8], corresponding to an EBITDA margin of 35.7% [35.9]. Operating profit for the year amounted to SEK 83.8m [108.4]. Gross margin for the year amounted to SEK 96.2m [97.3]. The decline in gross margin is connected to a major transaction in Asia during the first quarter of 2020 where third-party products were included as a component. Operating expenses were reduced by SEK 79.0m [81.9] during the year through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 65.2m [67.3] pertained to personnel costs.

In a year-on-year comparison, currency translation had a negative impact of SEK 6.6m on operating profit for the year.

INVESTMENTS AND FINANCING

During 2020, we focused on investments in our major product areas. Software investments for the year totaled SEK 79.0m [84.1], of which SEK 17.5m [23.4] was attributable to investments in the fourth quarter. A large portion of the investments were in foreign currencies, which entailed foreign exchange effects upon conversion to SEK.

Investments in property, plant and equipment for the year totaled SEK 3.2m [2.9], of which SEK 0.8m [1.3] was attributable to the fourth quarter.

The bank overdraft facility is recognized in the consolidated balance sheet as liabilities to credit institutions and amounted to SEK 17.5m [24.9] on December 31, 2020. During the year, SEK 7.4m was amortized. The bank overdraft facility is issued in SEK. The unutilized credit margin at December 31, 2020 amounted to SEK 207.5m [200.1].

Other interest-bearing liabilities in balance sheet pertain to current and non-current lease liabilities and amounted to SEK 48.8m [54.2] at December 31, 2020. Lease liabilities recognized in the balance sheet pertain to commitments for leases and the largest portion, SEK 45.8m [50.5], is connected to leases for our offices.

The equity/assets ratio at December 31, 2020 was 74% [72].

CASH FLOW AND LIQUIDITY

Cash flow from operating activities for the year amounted to SEK 118.4m (105.7), of which SEK 27.8m (30.5) pertained to the fourth quarter. Through its subsidiary in England, the Group exercised its right to tax relief related to research and development expenses. This supplied the Group with SEK 18.8m during the second quarter of 2020, which affected the cash flow but not the income statement for the year. See also Note 5. Covid-19 did not have any material impact on our customers' ability to pay, and thus we did not see negative effects from this on cash flow during the year.

Cash flow from investing activities for the year totaled SEK -81.4m (-102.2), of which SEK -18.2m (-23.4) was attributable to the fourth quarter. Most of these investments pertain to the capitalization of development costs for software.

Cash flow from financing activities for the year amounted to SEK -24.6m (-52.0), of which SEK -3.2m (-2.6) pertained to the fourth quarter. Cash flow from financing activities during the year comprised the net of the utilization of the bank overdraft facility and amortization of lease liabilities. In the preceding year, cash flow was charged with a dividend to shareholders of SEK 68.1m. Due to the ongoing COVID-19 pandemic, the Board decided in August not to propose any dividends for the 2019 financial year.

Cash and cash equivalents

Cash and cash equivalents at year-end totaled SEK 67.8m (60.7). In addition, the Group had unutilized bank overdraft facilities of SEK 207.5m (200.1). The Group's total available cash and cash equivalents thus amounted to SEK 275.3m (260.8). At the end of the year, the Company had healthy margins in terms of the contractual covenants that form the basis for the above credit limits.

As of December 31, 2020, the Group had net cash of SEK 1.5m (-18.4).

EMPLOYEES

The number of employees at IAR Systems at year-end was 215 (219). The average number of employees during the year was 208 (201).

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 13.0m (12.2). Profit after financial items amounted to SEK 55.7m (93.7).

Net investments in property, plant and equipment amounted to SEK 0.1m (0.0). Cash and cash equivalents at December 31, 2020 totaled SEK 0.6m (1.3). The number of employees in the Parent Company at the end of the period was four (three).

SIGNIFICANT RISKS AND UNCERTAINTIES

The market for IAR Systems' software is evolving rapidly and forecasts about future developments are thus uncertain. I.A.R. Systems Group's assessment is that no significant risks and uncertainties have changed or arisen aside from those described in the annual report for 2019 under "Administration report" on pages 44–45 and in Note 2 on pages 62–63 or described below.

The Covid-19 pandemic is still having major global health consequences and ultimately the measures being taken to reduce the spread of infection will have a significant impact on the global economy. The company is acting in accordance with decisions and recommendations from the government and authorities in each market as the Group continuously monitors and evaluates the effect on the Group's financial position to minimize the impact going forward. The assessment is still that customer development projects are continuing, but that the transition means that projects, purchasing and decisions are taking longer. The assessment also remains that IAR Systems is facing increased uncertainty regarding customers' future needs extending more than a few quarters in the future.

FUTURE OUTLOOK

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

REVIEW

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

FINANCIAL CALENDAR 2021

Publication of the 2020 Annual Report is scheduled for the week of March 22, 2021.

Interim report Jan–Mar 2021, April 27, 2021

2021 Annual General Meeting, April 27, 2021

Interim report Jan–Jun 2021, August 17, 2021

Interim report Jan–Sep 2021, October 27, 2021

This information is inside information that I.A.R. Systems Group AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, by the contact person set out below, on February 9, 2021, at 1:00 p.m. CET.

Contact person: Josefin Skarin, Investor Contact, I.A.R. Systems Group AB, Email: josefin.skarin@iar.com

Income statement

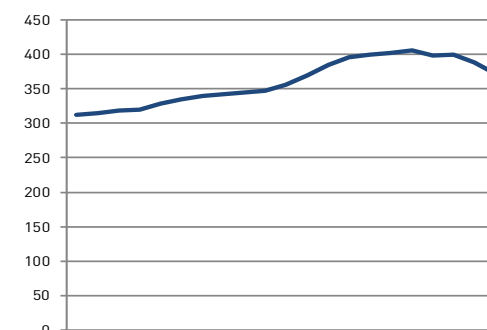
CONDENSED CONSOLIDATED INCOME STATEMENT

SEK m	Note	Full-year		3 months Oct-Dec	
		2020	2019	2020	2019
Net sales	1, 2	372.0	405.6	90.7	106.8
Goods for resale		-14.1	-10.8	-4.0	-3.7
Other external expenses		-37.7	-63.7	-7.2	-20.9
Personnel costs		-187.5	-185.3	-47.0	-45.2
Depreciation of property, plant and equipment		-3.1	-3.1	-0.8	-0.9
Depreciation of right-of-use assets		-17.2	-9.8	-4.6	-2.8
Amortization of intangible assets		-28.6	-24.5	-8.1	-6.2
Operating profit		83.8	108.4	19.0	27.1
Financial income		0.5	1.2	0.0	0.5
Financial expenses		-7.5	-2.6	-4.5	-0.4
Profit before tax		76.8	107.0	14.5	27.2
Tax		-17.4	-25.8	-2.5	-7.2
Profit for the period		59.4	81.2	12.0	20.0
Comprehensive income for the period attributable to owners of the Parent Company		59.4	81.2	12.0	20.0
Earnings per share for the period, basic, SEK		4.35	5.96	0.88	1.47
Earnings per share for the period, diluted, SEK		4.35	5.95	0.88	1.46

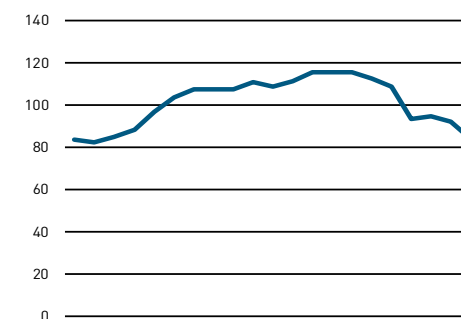
STATEMENT OF COMPREHENSIVE INCOME

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Profit for the period	59.4	81.2	12.0	20.0
Other comprehensive income for the period				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences	-41.4	24.7	-19.7	-1.6
Tax effect, items reported in comprehensive income	2.2		2.2	
Total other comprehensive income	-41.4	24.7	-19.7	-1.6
Comprehensive income for the period	20.2	105.9	-5.5	18.4
Comprehensive income for the period attributable to owners of the Parent Company	20.2	105.9	-5.5	18.4

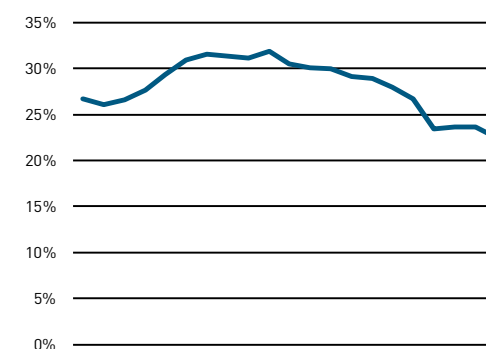
NET SALES ROLLING 12 MONTHS



OPERATING PROFIT ROLLING 12 MONTHS



OPERATING MARGIN ROLLING 12 MONTHS



Balance sheet

CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Note	Dec 31, 2020	Dec 31, 2019
ASSETS			
Non-current assets			
Goodwill	3	332.7	357.2
Other intangible assets	4	244.0	210.5
Property, plant and equipment		7.5	7.3
Right-of-use assets		46.9	56.3
Financial assets	7	2.9	2.4
Deferred tax assets	5	3.5	5.3
Total non-current assets		637.5	638.9
Current assets			
Inventories		5.7	6.6
Other current assets	7	63.8	52.1
Trade receivables	7	58.7	66.6
Cash and cash equivalents	7	67.8	60.7
Total current assets		196.0	186.0
TOTAL ASSETS		833.5	824.9
EQUITY AND LIABILITIES			
Total equity		613.4	592.0
Non-current liabilities			
Lease liabilities	7	31.7	41.1
Other non-current liabilities		1.1	1.1
Deferred tax liabilities		37.2	26.5
Total non-current liabilities		70.0	68.7
Current liabilities			
Trade payables	7	5.0	9.2
Liabilities to credit institutions	7	17.5	24.9
Lease liabilities	7	17.1	13.1
Deferred income		84.3	85.2
Other current liabilities	7	26.2	31.7
Total current liabilities		150.1	164.2
TOTAL EQUITY AND LIABILITIES		833.5	824.9

CHANGES IN EQUITY, GROUP

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Equity at beginning of period	592.0	550.0	619.2	574.0
Share buybacks	-	0.0	-	-
Warrants, after deductions for transaction costs and tax	0.1	0.4	-	0.2
Value of share-based remuneration	1.1	3.8	-0.3	-0.6
Dividend	-	-68.1	-	-
Comprehensive income for the period	20.2	105.9	-5.5	18.4
Equity at end of period	613.4	592.0	613.4	592.0
Of which, attributable to owners of the Parent Company	613.4	592.0	613.4	592.0

Cash flows

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Full-year		3 months Oct-Dec	
SEK m	2020	2019	2020	2019
Incoming payments from customers	378.4	401.2	82.2	107.2
Outgoing payments to suppliers and employees	-250.4	-277.7	-47.8	-72.8
Interest received	0.1	0.0	0.0	0.0
Interest paid	-1.8	-2.6	-0.4	-0.5
Tax relief received	18.8	-	-	-
Income taxes paid	-26.7	-15.2	-6.2	-3.4
Cash flow from operating activities	118.4	105.7	27.8	30.5
Investments in property, plant and equipment	-3.2	-2.5	-0.8	-0.9
Investments in intangible assets	-78.2	-81.1	-17.4	-22.5
Investments in subsidiaries	-	-18.6	-	-
Cash flow from investing activities	-81.4	-102.2	-18.2	-23.5
Warrants, after deductions for transaction costs	0.1	0.2	0.0	-
Amortization of financial liabilities	-30.2	-14.5	-3.3	-2.6
Borrowings	5.5	30.4	0.1	-
Dividend	-	-68.1	-	-
Cash flow from financing activities	-24.6	-52.0	-3.2	-2.6
Cash flow for the period	12.4	-48.5	6.4	4.5
Cash and cash equivalents at beginning of period	60.7	106.1	65.7	57.4
Exchange difference in cash and cash equivalents				
- attributable to cash and cash equivalents at beginning of period	-4.3	2.1	-3.4	-2.6
- attributable to cash flow for the period	-1.0	1.0	-0.9	1.4
Cash and cash equivalents at end of period	67.8	60.7	67.8	60.7

CASH AND CASH EQUIVALENTS, GROUP

SEK m	Dec 31, 2020	Dec 31, 2019
Cash and cash equivalents at end of period	67.8	60.7
Unutilized overdraft facilities	207.5	200.1
Total available cash and cash equivalents	275.3	260.8

Key performance measures

GROUP

	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Gross margin, %	96.2	97.3	95.6	96.5
EBITDA, %	35.7	35.9	35.8	34.6
Operating margin, %	22.5	26.7	20.9	25.4
Profit margin, %	20.6	26.4	16.0	25.5
Cash flow, %	31.8	26.1	30.7	28.6
Equity/assets ratio, %	73.6	71.8		
Return on equity, %	9.9	14.2	1.9	3.4
Return on capital employed, %	12.5	18.4	2.8	4.2
Capital employed, SEK m	679.7	671.1		
Net cash, SEK m	1.5	-18.4		
Net debt/equity ratio, multiple	-0.0	0.0		
No. of employees at end of period	215	219		
Average no. of employees	208	201	205	207
Sales per employee, SEK m	1.8	2.0	0.4	0.5

SHARE DATA

	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Equity per share, SEK	44.97	43.43		
No. of shares at end of period, million	13.64	13.63		
Average no. of shares, million	13.63	13.63	13.64	13.63
Average no. of shares, diluted, million	13.65	13.66	13.66	13.66
Cash flow from operating activities per share, SEK	8.69	7.75	2.04	2.24
Earnings per share, SEK*	4.35	5.96	0.88	1.47
Earnings per share, diluted, SEK*	4.35	5.95	0.88	1.46

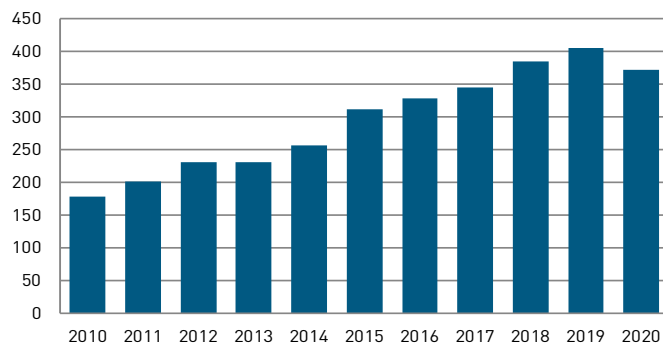
*Definition in accordance with IFRS. Refer also to definitions on page 16.

Multi-year overview

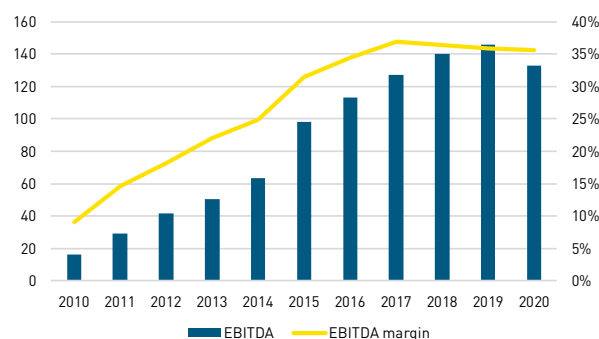
	Net sales, SEK m	EBITDA, SEK m	EBITDA margin, % profit	Operating profit, SEK m	Operating margin, %	Earnings per share, SEK*	Return on equity, %	Cash flow from operating activities per share, SEK	Equity per share, SEK	Share price, SEK	Market capitalization, SEK m
2020	372.0	132.7	35.7	83.8	22.5	4.35	9.9	8.69	44.97	139.80	1,906
2019	405.6	145.8	35.9	108.4	26.7	5.96	14.2	7.78	43.43	186.00	2,535
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.

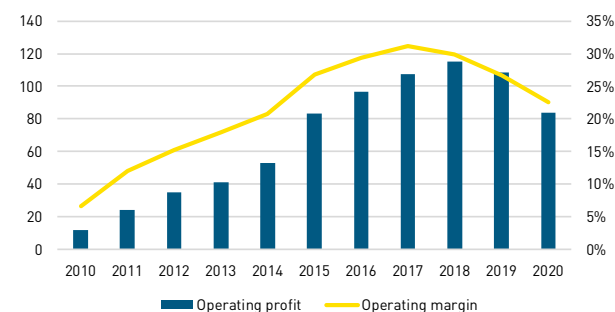
NET SALES



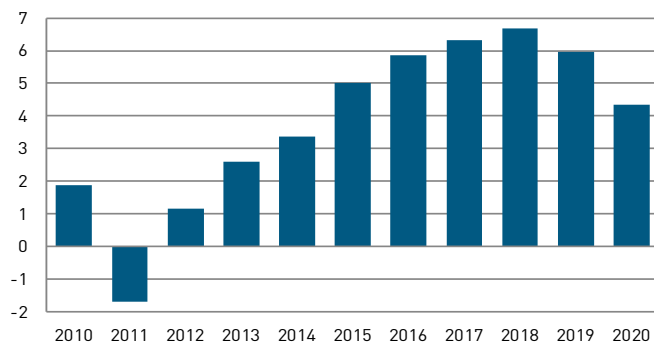
EBITDA AND EBITDA MARGIN



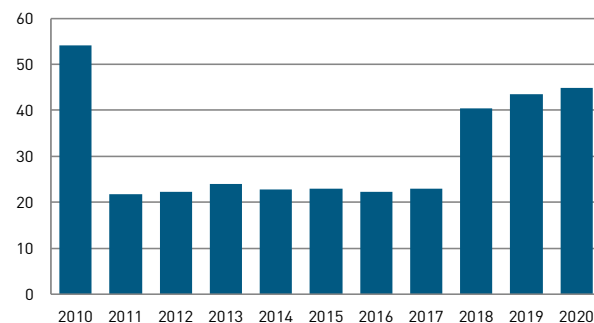
OPERATING PROFIT AND OPERATING MARGIN



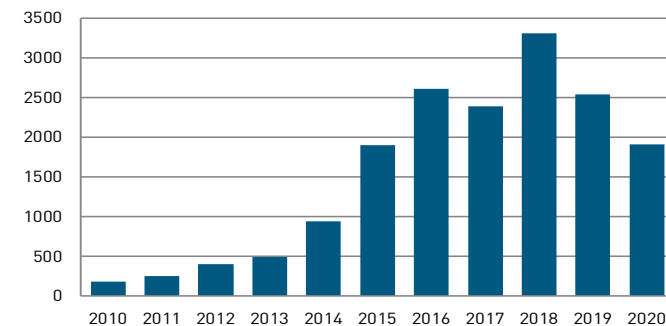
EARNINGS PER SHARE, SEK



EQUITY PER SHARE, SEK



MARKET CAPITALIZATION, SEK m



Quarterly 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
2020	Q4	90.7	32.5	35.8	19.0	20.9	0.88	1.9	2.04	44.97	139.80	1,906
	Q3	88.9	36.8	41.4	25.4	28.6	1.37	3.1	2.40	45.43	161.00	2,195
	Q2	100.1	36.8	36.8	25.0	25.0	1.29	2.9	3.15	44.10	114.80	1,565
	Q1	92.3	26.6	28.8	14.4	15.6	0.81	1.8	1.10	45.14	116.40	1,587
2019	Q4	106.8	37.0	34.6	27.1	25.4	1.47	3.4	2.27	43.43	186.00	2,535
	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

* Definition in accordance with IFRS.

Parent Company

CONDENSED INCOME STATEMENT

	Full-year	
SEK m	2020	2019
Net sales	13.0	12.2
Operating expenses	-19.1	-16.3
Depreciation of property, plant and equipment	-0.0	-0.0
Operating loss	-6.1	-4.1
Result from financial investments	61.8	97.8
Profit before tax	55.7	93.7
Tax	-11.9	-20.1
Profit for the period	43.8	73.6

STATEMENT OF COMPREHENSIVE INCOME

	Full-year	
SEK m	2020	2019
Profit for the period	43.8	73.6
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Change in value of non-current securities	-	-
Total other comprehensive income	-	-
Comprehensive income for the period	43.8	73.6

CONDENSED BALANCE SHEET

SEK m	Dec 31, 2020	Dec 31, 2019
ASSETS		
Non-current assets		
Property, plant and equipment	0.2	0.1
Shares in subsidiaries	481.2	480.1
Other financial assets	0.1	0.1
Deferred tax assets	0.0	0.0
Total non-current assets	481.5	480.3
Current assets		
Receivables from subsidiaries	116.6	84.8
Other current assets	8.9	1.8
Cash and cash equivalents	0.6	1.3
Total current assets	126.1	87.9
TOTAL ASSETS	607.6	568.2
EQUITY AND LIABILITIES		
Total equity	557.0	512.1
Current liabilities		
Trade payables	0.3	0.4
Liabilities to credit institutions	17.5	24.9
Liabilities to subsidiaries	27.0	26.1
Other current liabilities	5.8	4.7
Total current liabilities	50.6	56.1
TOTAL EQUITY AND LIABILITIES	607.6	568.2

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. New or revised standards and new interpretations from the International Accounting Standards Board (IASB) and the IFRS Interpretation Committee (IFRIC) and amendments to RFR 2 effective as of January 1, 2020 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.

2. NET SALES

Net sales are distributed as follows:

	Full-year		3 months Oct-Dec	
SEK m	2020	2019	2020	2019
Development tools	367.0	403.9	89.5	106.5
Security solutions	5.0	1.7	1.2	0.3
Net sales	372.0	405.6	90.7	106.8

	Full-year		3 months Oct-Dec	
SEK m	2020	2019	2020	2019
License-based revenue	212.4	236.3	52.0	59.4
Support and software updates	145.2	146.3	35.3	41.2
Royalty-based revenue	-	5.9	-	1.4
Other	14.4	17.1	3.4	4.8
Net sales	372.0	405.6	90.7	106.8

	2020	2019	2020	2019
At a certain point in time	226.8	253.4	55.4	64.2
Over time	145.2	152.2	35.3	42.6
Net sales	372.0	405.6	90.7	106.8

	Full-year		3 months Oct-Dec	
SEK m	2020	2019	2020	2019
Americas	132.0	141.2	32.3	34.9
Asia	101.9	111.3	26.0	28.7
Europe	135.5	144.5	31.7	41.0
Not allocated by region	2.6	8.6	0.7	2.2
Net sales	372.0	405.6	90.7	106.8

3. GOODWILL

Goodwill decreased SEK 24.5m during the year 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. Goodwill at December 31, 2020 amounted to SEK 332.7m (357.2).

4. OTHER INTANGIBLE ASSETS

During the year, other intangible assets increased SEK 33.5m and amounted to SEK 244.0m (210.5) on December 31, 2020. Operating expenses were reduced by SEK 79.0m (81.9) during the period through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 65.2m (67.3) pertained to personnel costs.

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 December 31, 2020, the Group had accumulated loss carryforwards outside Sweden of SEK 159m, of which SEK 91m (122) are reported in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 3.5m (5.3), and the deferred tax liability is recognized in an amount of SEK 37.2m (26.5), of which SEK 15.4m (19.9) pertains to loss carryforwards. The items deferred tax asset and deferred tax liability also include deferred tax assets or liabilities that will be recognized in a net amount since they are connected to the same tax subject.

Through its subsidiary in England, the Group exercised its right to tax relief related to research and development expenses. After the application was approved, the tax relief was received in the form of payments of loss carryforwards connected to research and development costs, in this case related to the 2018 and 2019 financial years. This supplied the Group with SEK 18.8m during the second quarter of 2020. Upon payment, the aggregate loss carryforwards were reduced by an equivalent amount. The payment affects the cash flow but not the income statement for the period.

Notes, cont.

6. PLEDGED ASSETS

SEK m	Dec 31, 2020	Dec 31, 2019
To secure pensions	9.1	8.8
To secure liabilities to credit institutions	2.9	3.7
Total pledged assets	12.0	12.5

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

7. INFORMATION ABOUT MEASUREMENT AT FAIR VALUE

For cash and cash equivalents, trade receivables and trade payables, the carrying amount is a good approximation of fair value since the maturity is short. For borrowings, the carrying amount is a good approximation of fair value since the interest rate is variable and the credit margin is relatively unchanged. No financial instruments measured at fair value in the Group were acquired/reclassified in the year.

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.

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Net sales	372.0	405.6	90.7	106.8
Goods for resale	-14.1	-10.8	-4.0	-3.7
Gross profit	357.9	394.8	86.7	103.1
Gross margin	96.2%	97.3%	95.6%	96.5%

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

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Operating profit	83.8	108.4	19.0	27.1
Depreciation of property, plant and equipment	3.1	3.1	0.8	0.9
Depreciation of right-of-use assets	17.2	9.8	4.6	2.8
Amortization of intangible assets	28.6	24.5	8.1	6.2
EBITDA	132.7	145.8	32.5	37.0

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

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Net sales	372.0	405.6	90.7	106.8
EBITDA	132.7	145.8	32.5	37.0
EBITDA margin	35.7%	35.9%	35.8%	34.6%

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

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Net sales	372.0	405.6	90.7	106.8
Operating profit	83.8	108.4	19.0	27.1
Operating margin	22.5%	26.7%	20.9%	25.4%

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

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Net sales	372.0	405.6	90.7	106.8
Profit before tax	76.8	107.0	14.5	27.2
Profit margin	20.6%	26.4%	16.0%	25.5%

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

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Net sales	372.0	405.6	90.7	106.8
Cash flow from operating activities	118.4	105.7	27.8	30.5
Cash flow	31.8%	26.1%	30.7%	28.6%

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

SEK m	Dec 31, 2020	Dec 31, 2019
	613.4	592.0
Equity	613.4	592.0
Total assets	833.5	824.9
Equity/assets ratio	73.6%	71.8%

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	Dec 31, 2020	Sep 30, 2020	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018
Equity	613.4	619.2	592.0	574.0	550.0

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Average equity	602.7	571.0	616.3	583.0

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

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Profit after tax	59.4	81.2	12.0	20.0
Average equity	602.7	571.0	616.3	583.0
Return on equity	9.9%	14.2%	1.9%	3.4%

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

SEK m	Sep 30, 2020	Sep 30, 2020	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018
	2020	2020	2019	2019	2018
Interest-bearing liabilities	66.3	66.1	79.1	69.1	2.8
Cash and cash equivalents	-67.8	-65.7	-60.7	-57.4	-106.1
Net interest-bearing liabilities	-1.5	0.4	18.4	11.7	-103.3
Net debt/equity ratio	-0.0	0.0	0.0	0.0	-0.2

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

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Profit before tax	76.8	107.0	14.5	27.2
Financial expenses	7.5	2.6	4.5	0.4
Profit before tax plus financial expenses	84.3	109.6	19.0	27.6
Return on capital employed	12.5%	18.4%	2.8%	4.2%

Reconciliations, cont.

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

SEK m	Dec 31, 2020	Sep 30, 2020	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018
Cash and cash equivalents	67.8	65.7	60.7	57.4	106.1
Interest-bearing liabilities	-66.3	-66.1	-79.1	-69.1	-2.8
Net cash	1.5	-0.4	-18.4	-11.7	103.3

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

SEK m	Dec 31, 2020	Sep 30, 2020	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018
Total assets	833.5	838.6	824.9	801.8	722.2
Non-interest-bearing liabilities	-153.8	-153.3	-153.8	-158.7	-169.4
Capital employed	679.7	685.3	671.1	643.1	522.8

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Average capital employed	675.4	597.0	681.4	657.1

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

SEK m	Dec 31, 2020	Sep 30, 2020	Dec 31, 2019	Sep 30, 2019	Dec 31, 2018
Equity	613.4	619.2	592.0	574.0	550.0
No. of shares at end of period, million	13.64	13.63	13.63	13.63	13.62
Equity per share	44.97	45.43	43.43	42.11	40.38

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

SEK m	Full-year		3 months Oct-Dec	
	2020	2019	2020	2019
Cash flow from operating activities	118.4	105.7	27.8	30.5
Average no. of shares, million	13.63	13.63	13.64	13.63
Cash flow from operating activities per share	8.69	7.75	2.04	2.24

The IAR Systems share

I.A.R. Systems Group's class B share is quoted on the Mid Cap list of Nasdaq Stockholm. During the year, the share price varied from a low of SEK 95.80 (168.80) to a high of SEK 193.40 (296.50). The share price at December 31, 2020 was SEK 139.80 (186.00). I.A.R. Systems Group's market capitalization on the same date was SEK 1,906m (2,535).

The number of shareholders in I.A.R. Systems Group at December 31, 2020 was 7,516 (7,500). Of these shareholders, 465 (430) held more than 1,000 shares each. Foreign shareholders held approximately 27% (32) of the share capital and 25% (30) of the votes.

I.A.R. Systems Group's share capital at December 31, 2020 amounted to SEK 139,683,334, divided between 13,968,334 shares, of which 100,000 are class A shares, 13,536,159 are class B shares, and 332,174 are class C shares. All of the class C shares are held in treasury. 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 year, 5,684 class C shares were converted into class B shares and delivered within the framework of the incentive program. A total of 27,514 class C shares have been converted into class B shares and delivered within the framework of the incentive program since the original buyback of 359,688 class C shares.

INCENTIVE PROGRAMS

In accordance with the decision of the 2018 and 2019 AGM, a long-term incentive program for IAR Systems Group employees has been introduced ("LTIP 2018" and "LTIP 2019," respectively). The programs encompass 1,132,500 warrants. A total of 915,500 warrants were acquired or allocated, of which 497,500 were under LTIP 2018 and 418,000 under LTIP 2019. The incentive programs consist of two different types of warrants: share warrants and stock options. The share warrants are intended for employees in Sweden and the stock options are intended for employees outside Sweden. The final number of warrants to which each participant is entitled is dependent on the degree to which the Group's performance conditions are fulfilled. The performance conditions are based on average annual growth of the Group's net sales for the 2018, 2019 and 2020 financial years for LTIP 2018 and the 2019, 2020 and 2021 financial years for LTIP 2019. Refer to the table.

LTIP 2018

A premium of SEK 16.30 per warrant was paid for share warrants. The warrants, which carry the entitlement to subscribe for or acquire one class B share in the company during the period August 20 until September 17, 2021, have a subscription price of SEK 323.90 and an acquisition price of SEK 330.00.

LTIP 2019

A premium of SEK 11.17 per warrant was paid for share warrants. The warrants, which carry the entitlement to subscribe for or acquire one class B share in the company during the period May 1 until May 31, 2022, have a subscription and an acquisition price of SEK 347.70.

Exchange allotment 2018

This pertains to the part of remuneration for the acquisition that entails the exchange of an existing stock option program for employees in Secure Thingz. Stock option holders exchange their stock options in Secure Thingz for new stock options in I.A.R. Systems Group AB. The economic value of the new stock options is to correspond to the value of the existing stock options. A total of 575,000 stock options in Secure Thingz have been exchanged for 73,413 stock options in I.A.R. Systems Group AB in accordance with the approval from the Extraordinary General Meeting held on June 15, 2018. Of the 73,413 stock options, 27,450 have an exercise price of SEK 6.50 and 45,963 have an exercise price of SEK 26.00. The vesting of the stock options in the stock option program will continue until October 2022 and the program extends until 2027. Vested stock options can be exercised on an ongoing basis until 2027 at the latest. A total of 27,514 stock options were exercised and 20,621 stock options were forfeited.

INCENTIVE PROGRAMS

			Qualifying year				Past due/ forfeited
	Total	Subscribed /Allotted	2018	2019	2020	2021	
LTIP2018							
Share warrants	315,000	243,500	80,813	4,850	0	n/a	157,837
Stock options	285,000	254,000	55,648	3,380	0	n/a	194,678
LTIP 2019							
Share warrants	151,500	63,000	n/a	1,160	0	19,355	42,485
Stock options	381,000	355,000	n/a	5,370	0	89,541	260,089
EXCHANGE ALLOTMENT 2018	Total	Sub- scribed/ Allocated	Exercised Dec 31, 2020	Forfeited Dec 31, 2020	Qualified Dec 31, 2020	Qualified after Dec 31, 2020	
Stock options	73,413	73,413	27,514	20,621	17,471	7,807	

2020 ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of I.A.R. Systems Group AB was held on April 29, 2020. For information about the AGM and the resolutions passed, refer to the company's website: www.iar.com.

NOMINATING COMMITTEE

In accordance with the resolution of the AGM in April 2020 the nominating committee has been appointed and consists of Jonas Eixmann (appointed by Andra AP-fonden), Ossian Ekdahl (appointed by Första AP-fonden) and Evert Carlsson (appointed by Swedbank Robur Fonder). Jonas Eixmann was appointed Chairman of the nominating committee.

PROPOSED DIVIDEND

The Board intends to not propose any dividend for approval by the AGM on April 27, 2021. The board motivates this suggestion with the fact that it will make it possible to accelerate the company's strategy for growth.

The Board aims to provide a healthy return to its shareholders, while ensuring that its investments in the operations can be made, as they have been thus far, with the goal of ensuring a strong capital structure, favorable liquidity and financial flexibility by maintaining a conservative level of indebtedness.

BREAKDOWN OF SHAREHOLDINGS

	No. of shareholders	No. of shareholders, %	Share of capital, %	Share of votes, %
1-100	5,075	68	1	1
101-1,000	1,976	26	5	5
1,001-10,000	380	5	8	8
10,001-	85	1	86	86
Total *	7,516	100	100	100

* excluding 333,874 class C shares held in treasury

GEOGRAPHICAL DISTRIBUTION

	No. of share- holders	No. of share holders, %	Share of capital, %	Share of votes, %
Sweden	7,288	97	73	75
Europe excl. Sweden	191	2	20	19
Other countries	37	1	7	6
Total *	7,516	100	100	100

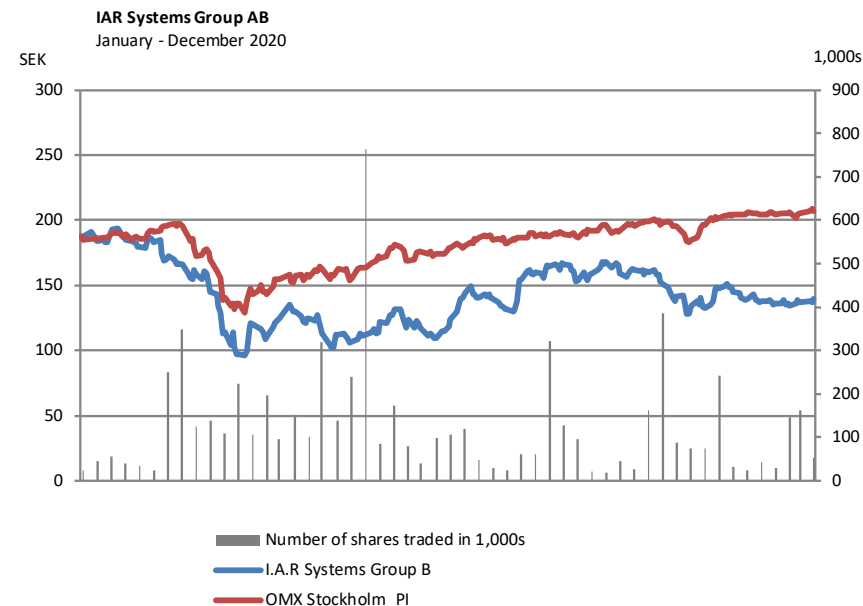
* excluding 332,174 class C shares held in treasury

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
Futur Pension**	252,005	2	8
Swedbank Robur Fonder	1,070,000	8	7
Tredje AP-fonden	728,930	5	5
Other	9,113,303	67	63
Total *	13,636,159	100	100

* excluding 332,174 class C shares held in treasury

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



Investment case

AR 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. Secure Thingz is a supplier of advanced security solutions with a focus on IoT. Together, the two companies deliver the solutions necessary to create essential security in a world of connected devices and products.

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 36 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 36 years, this core business has been a springboard to larger and growing markets. One such example 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 develop-

ment 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, both companies have together developed a 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. The following factors are likely to affect IAR Systems' growth:

1. Largely driven by IoT, embedded systems are growing in number and in complexity.
2. Continued high demand for reliable and advanced programming tools that provide a complete development platform and efficient time management from product to market launch.
3. New possibilities within the automotive industry as increasingly advanced vehicles reach the market.
4. New opportunities created by new players entering the market for embedded systems. One such player is Amazon Web Services (AWS), with whom IAR Systems has now entered into a collaboration.
5. 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.

6. 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. In 2019, IAR Systems released a new version of IAR Embedded Workbench for RISC-V supporting custom extensions and further optimizing code speed.

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.

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.





I.A.R. SYSTEMS GROUP AB (PUBL)

Corporate identification 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, Tel +46 708 65 10 68, stefan.strom@iar.com