IAR SYSTEMS

ANNUAL REPORT **2021**

Contents

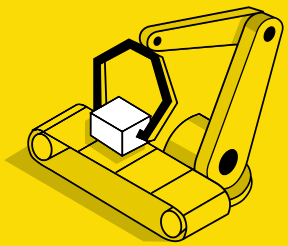
@iarsystems

iar-systems

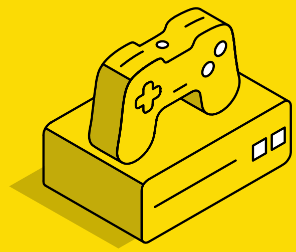
We enable the products of today and the innovations of tomorrow

IAR Systems is the world's leading provider of software for programming of processors in embedded systems. Secure Thingz is a supplier of advanced security solutions with a focus on IoT. Together, we provide the solutions required to create the necessary security and assured quality in the development of the digital products of today and the innovations of tomorrow.

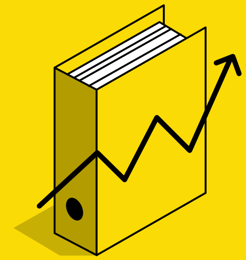
I.A.R. Systems Group AB has 214 employees in 15 offices on three continents. IAR Systems' headquarters are located in Uppsala, Sweden, and Secure Thingz' headquarters are located in Cambridge, England. We have sales and support offices all over the world.



Our products are used by many of the world's largest corporations as well as thousands of small and medium-sized companies in a range of industries, such as the automotive industry, industrial automation, medical technology and consumer electronics.

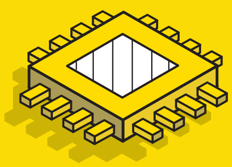


At least 30 times a day, you interact with a product that is programmed by one of our customers.

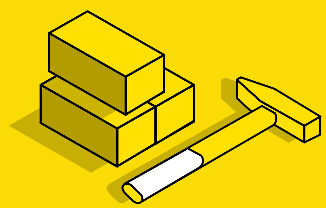


IAR Systems and Secure Thingz are owned by I.A.R. Systems Group AB, which is listed on the Mid Cap list of Nasdaq Stockholm under the ticker symbol IAR B.

Companies around the world have active support agreements to use around 15,000 licenses for our software.



Our software supports more than 14,000 different processors from more than 70 different processor vendors. This is more than any other supplier in the market.



IAR Systems was founded in 1983 by engineer Anders Rundgren and Secure Thingz was founded in 2016 by Haydn Povey.

Our technology experts help our customers in their local time zones in more than ten different languages in Sweden, Germany, the USA, Japan, China, Taiwan and Korea.

Our software is available in versions that are certified for functional safety under international standards such as IEC 61508 and ISO 26262.

Highlights of 2021

NEW PRODUCTS IN 2021

64-bit support in IAR Embedded Workbench for Arm

Expansion of the product portfolio for Linux with support for RL78 processors from Renesas

Partnership with NSITEXE to offer functional safety development for RISC-V

Expanded offering for RISC-V processors from Andes

New partnership with programming services vendor enables efficient mass production and delivery of secure IoT devices

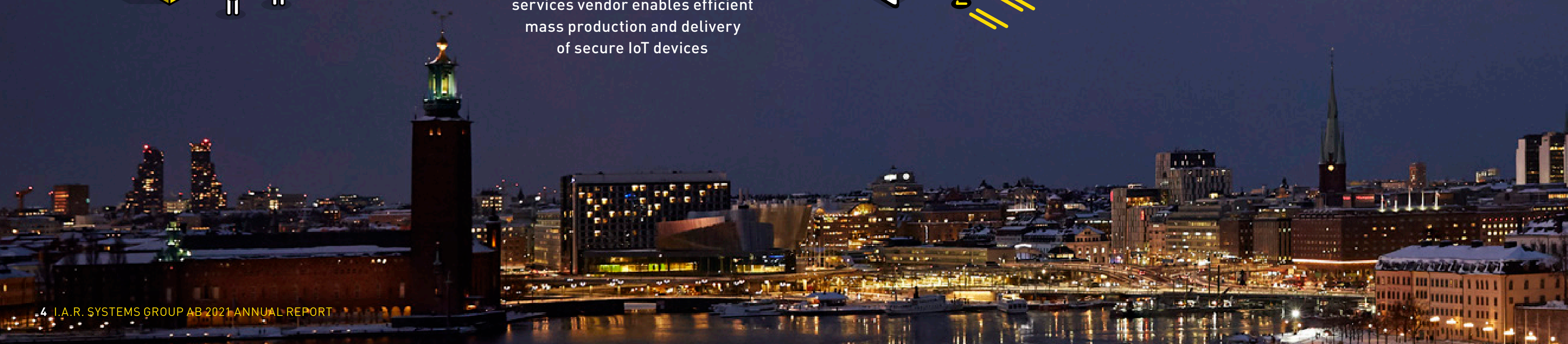
Launch of Compliance Suite package solution, which makes it easier to develop secure products

Expanded support for NXP processors in development solutions for Arm

IAR Embedded Workbench launches support for Raspberry Pi Pico

Updated products for efficient development and automated testing with support for Linux and Windows

Launch of security solution for Microsoft Azure IoT platforms



	Net sales	Operating profit	Cash flow from operating activities
Q1	SEK 88.9m (92.3)	SEK 17.0m (14.4)	SEK 22.0m (15.0)
Q2	SEK 87.4m (100.1)	SEK 12.6m (25.0)	SEK 27.6m (42.9)
Q3	SEK 87.9m (88.9)	SEK 20.9m (25.4)	SEK 41.4m (32.7)
Q4	SEK 91.6m (90.7)	SEK 15.2m* (19.0)	SEK 40.5m (27.8)
2021	**SEK 355.8m** (372.0)	**SEK 65.7m** (83.8)	**SEK 131.5m** (118.4)

* Adjusted for non-recurring items, refer to table on page 45.

Comments from the CEO

2021 was a year of change for IAR Systems in many ways. One change was that I became the new CEO in October. Since then, we've begun a new approach that entailed many decisions, where we analyzed what we do well today, what we can do better and what new actions we need to take. This analysis also showed us what we need to discontinue. In this analysis, we also identified a need for infrastructure investments to be able to bring about a more modern IAR Systems for 2022 and beyond.

A challenging time when we can draw on our strengths

As countries began to open their borders at the end of the year, we were confident that life would return to something closer to normal, but instead of a reopening, new restrictions and lockdowns were imposed in several regions. For our customers in several verticals, it has been a challenging time, both because of the pandemic that returned with a vengeance during the year, but also due to the continued global semiconductor shortage. Despite our broad processor support, we can't compensate for the supply chain disruptions experienced by many of our customers, particularly in the automotive industry.

We see that RISC-V is beginning to experience a commercial breakthrough outside China, primarily in Taiwan and the USA, and we will increase our sales for this architecture globally. We are also seeing increasing interest in RISC-V in EMEA, a region that was hard-hit by both the pandemic and the semiconductor shortage during the year. Our development departments adapted well to hybrid work and continued to deliver according to plan throughout this challenging time.

Investments in future-proof solutions and expertise

Sooner or later, every organization will reach a point when it's time to update older solutions to make them more modern and future-proof, or implement entirely new ones. The most important decision we made in this respect was to replace our current license management system with an entirely new cloud-based system that will be put into operation in 2022. The new system will open doors by offering a greater variety of licensing options to our customers, everything from the current perpetual model to the fully capable SaaS (Software as a Service) of tomorrow.

We've created a global management group that now comprises our regional managers for APAC, the US and EMEA as well as the CEO, CTO, CFO, VPs of Engineering for Embedded and Security and the head of a new organization, Customer Success. The new management group ensures that we gain a broad view of the industry in several areas such as technology, innovation and customer interaction.

The journey from product to platform

A brief glance back through history will show how software has evolved. In the beginning, software was a functional product, where you might have one program for orders, another for inventory, another for invoicing and so forth. It later evolved into a more integrated solution comprising orders/invoicing/inventory, and then into the integrated ERP (Enterprise Resource Planning) platform of today. This brief review shows us that the market for development solutions is lagging behind, and we need to take a new journey here as well, from product to solution to platform.

We envision creating an (e)DLCP, (embedded) Development Life Cycle Platform, that will provide our customers with the added value of a life cycle perspective on their code and solutions. In the same way, we envision creating an (e)SOAP, (embedded) Security Operations and Automation Platform, that will deliver added value with the vision that security must be simple. It will be what we call SMS: Security Made Simple. These platforms will be delivered in the future as downloads, services or a hybrid combination.

IAR Systems' response to Russia's invasion of Ukraine

On February 24, 2022, war broke out in Europe. It was a tragic and absurd act of aggression, and the subsequent humanitarian crisis has shocked all of us at IAR Systems. We will therefore do what we can to take responsibility. While we do not have much exposure to Russia or Ukraine, we have still taken a number of tangible actions. First, we stopped providing sales and technical support in Russia on the same day that Ukraine was attacked. We have also terminated our relationship with our distributor in Russia and informed our customers in Ukraine that they will receive pro bono support from us for as long as necessary. Finally, we coordinated an internal effort where donations from employees to the UNHCR will be matched by the company. As a company, IAR Systems is clear and unambiguous in its values, and we thereby stand with Ukraine.

Looking ahead

2021 was challenging in terms of earnings, but it was the year we began our journey of change and decided on the new approaches and new initiatives that are to not only ensure our current leading position in the market, but also to drive and expand the market with innovation throughout all of our functions, development, sales, marketing and customer relationships as well as delivering future-proof, modern and innovative solutions for new and existing customers around the world. It will be a fun and exciting journey!

Stockholm, March 23, 2022

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

Mission, targets and strategy

Our mission is to bring value to organizations that develop products for embedded systems. We supply solutions and services that make embedded systems development fast, efficient and reliable. In 2018, we acquired Secure Thingz so we could offer new ways for our customers to secure their innovations. This allowed us to further strengthen our long-standing relationships with our customers and their technology, and to enable our customers across the world to supply better products to the market more quickly while also protecting themselves against breaches and overproduction.

Long-term financial targets

The Board has established the following long-term targets for IAR Systems:

- For net sales to grow by 10-15% annually in local currency.
- For the operating margin to exceed 25% over a business cycle.

Strategic cornerstones

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

- To offer customer value through user-friendliness, reliability and quality.
- To develop technologically leading software for embedded systems.
- To deepen the relationship with existing customers by gradually expanding our range of products and services.
- To expand our customer base through an increased local presence worldwide.
- To actively establish close cooperation with the most important players in the market to create long-term customer value and a unique market position.

Sales strategy

Our sales strategy is founded on a license-based business model in all geographical regions and all industries. In addition, the company focuses on markets which it deems to have significant potential, for example, the automotive industry and IoT. The company has global reach through its corporate headquarters in Uppsala, Sweden, and sales and support offices in Sweden, France, Germany, Japan, China, Taiwan, India, Korea and the USA. The company is also represented in another 43 countries via distributors. Through the integration of the subsidiary Secure Thingz, we have expanded our offering to include new products and services as well as a new target group. Because security is a question of survival for many companies, responsibility for product security often rests with management or the head of security.

Product strategy

IAR Systems' product strategy is to offer proprietary software for embedded systems development and to offer its customers technological independence in a rapidly evolving environment. For this reason, the company continuously invests in innovation and development at its Uppsala headquarters and its development offices in Cambridge, England and Camarillo, USA. IAR Systems owns the rights to all of its products and services. Product development is focused mainly on enhancement of product features and functionality as well as adaptation to increasingly demanding processors and embedded systems. Our software is independent in relation to vendors of processors for embedded systems. Through the integration of Secure Thingz, we are expanding our area of expertise and adding products and services within security. The largest portion of this product segment is developed in Cambridge in the UK. Close cooperation takes place between all development centers to maximize experience exchange and share critical resources.


Rum
Saga

Investment case

IAR Systems is a world-leading supplier of programming software and services for embedded systems. These software and services enable the development of digital products, supported by growing demand for digital technology, primarily within industrial automation, medical technology, telecommunication, consumer electronics and the automotive industry. Secure Thingz, a supplier of advanced security solutions for embedded systems with a focus on IoT, has been part of IAR Systems Group since 2018. 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

IAR Systems was founded in 1983 and has continually evolved and refined its products in order to meet customer demand. Its headquarters are located in Uppsala Sweden, but the company has a global reach. The tailorable business model includes selling flexible user licenses for access to the IAR Embedded Workbench software, which enables close customer relationships, a high level of customer loyalty and consistent revenue streams. The collaboration with Secure Thingz, which began in 2018, has significantly expanded the company's potential market from exclusively 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:

- IAR Systems offers a unique product range consisting of a complete toolchain for product developers.
- 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.
- 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.
- Through the integration of Secure Thingz, both companies have together developed a unique, patented technology that aims to fulfil the customer's need to protect its intellectual property. This can also be a crucial determining factor when it comes to maximizing the market potential for security for embedded systems.

The spread of digital technology is driving market growth

The spread of digital technology is driving the market for embedded systems. 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:

- Continued growth in the number and complexity of embedded systems.
- Continued high demand for reliable and advanced programming software that provides a complete development platform and efficient time management from product to market launch.
- New opportunities created by new players entering the market for embedded systems.

- 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.
- The processor architecture RISC-V is challenging the Arm architecture, and IAR Systems is positioning itself to be the leading software supplier in this area. We remain active in RISC-V and in 2021 we launched a number of updates to our solutions that allow customers to take better advantage of the possibilities offered by the RISC-V architecture.
- New partnerships create potential. One example is our partnership with Microsoft where IAR Systems presents a development-to-deployment solution for Microsoft Azure's cloud solution.

A dedicated team that knows how to take advantage of growth potential

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.

Embedded systems – a changing industry

A growing number of electronic products in the world today have an embedded system controlled by one or more processors. These products may be simple or more advanced, they may be used directly by people or they may be part of a chain of sensors or industrial systems that we barely notice as long as they work as expected. Our customers are the companies that build these systems, and they operate in fields such as industrial automation, medical technology, telecommunication, consumer electronics and the automotive industry.

Important ecosystems

Electronic product manufacturers need solutions from us or one of our competitors to create their products. They also need other components in the form of hardware such as processors, memory, sensors, monitors, etc. as well as other software that helps them verify that all of the components are working properly. It is therefore extremely important for us to operate as part of an ecosystem of multiple suppliers and to ensure that our products work well with those from other suppliers. This is also the reason that we are particular about and talk a lot about our broad processor support, where we cooperate with all of the leading processor makers to ensure that our mutual customers can draw the most benefit from our products. At the same time, some of our partners are also our competitors since some of them, as a supplement to their basic offering, may offer solutions that are similar to some of the solutions we offer, although in somewhat simplified and less advanced versions. However, none of our partners are purely competitors insofar as their primary offering is the same as our primary offering.

More opportunities and higher demands

More and more of today's embedded systems are connected with cloud solutions or with each other in order to increase both their value and our clients' business opportunities. This also places higher demands on the quality of the software that drives systems, thereby increasing our customers' need to ensure the quality of their solutions. There are also outside parties with quality requirements for these systems, in terms of both performance and protection of user data. Legal requirements are increasing internationally and exerting pressure on our customers to change their approach to their products' security.

OUR PARTNERS

Thanks to our long-standing experience in embedded systems, we have built up an extensive network of companies around us. Our ecosystem of partners is made up of many different partnerships, all with the goal of delivering the best possible products to our customers.

Industry organizations for coding standards, certification, security compliance

Partnerships to ensure that what we deliver to our customers complies with relevant standards, thus safeguarding our customers' development.

Suppliers of processors and architectures

Long-standing partnerships and a continual exchange of knowledge about the latest technology to support mutual customers.

Services vendors

Partnerships to meet future challenges and secure opportunities for embedded systems.

Suppliers of integrated programs

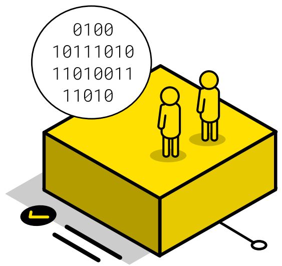
Partnerships on existing technology integrations that streamline customers' product development.

Current challenges in the embedded systems industry

GREATER FOCUS ON PRACTICAL SECURITY IMPLEMENTATION

With more connected devices, companies are facing an increasing number of challenges in many industries. One of the biggest challenges is the ability to deliver fully secure systems. This is also becoming increasingly relevant as more data is collected from both machines and humans, raising such questions as how to manage and store sensitive and functional data. The design of automatic update processes may also be an issue. Regulations and standards are also a rapidly growing trend in security. In Europe, for example, the General Data Protection Regulation (GDPR) was followed by similar guidelines for electronic and IT security. Generally speaking, these guidelines stipulate rules covering fundamental aspects of technical security, and the list of countries that have introduced IT security laws and regulations is growing steadily.

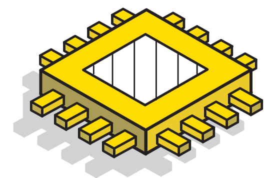
The need to improve the security of connected products is clear, but many companies are still wondering how to approach this task in practical terms. We are seeing more products and services in this sector coming from our partners, for example in the form of microprocessors with secure storage components.



MORE COMPANIES ARE IMPLEMENTING DEVOPS

DevOps is a combination of Development and Operations, and it refers to processes that integrate software development with IT operations in the form of automated workflows where, in basic terms, updates made by every developer are continually synchronized with a shared codebase. The need for automated workflows is now becoming standard, meaning it is something that more and more companies see as a given in their development process.

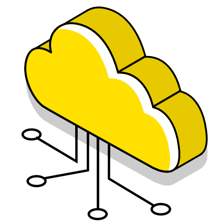
There are several driving forces, but the primary driver of this development is the need for efficiency and cooperation. The larger the team of developers, the larger the need to manage the codebase in an orderly fashion. Continuous integration and continuous delivery also bring advantages such as simplified testing processes.



FREE MOVEMENT BETWEEN PROCESSOR VENDORS

The global processor shortage is delaying many development projects around the world, while at the same time making it necessary for customers to be more flexible in their choice of processors. We are seeing a trend where many companies are changing their strategy and moving to a processor that is different from their original choice, simply to be able to continue their product development and remain competitive in their respective markets.

But with the prevailing uncertainty about who will be able to deliver and when, companies also have a growing need to choose flexible solutions and not lock themselves into a relationship with a particular vendor.



FLEXIBLE LICENSING

In the last year, companies all over the world have been forced to rethink how their work is performed purely in physical terms. Many have had to quickly find solutions to facilitate working from home, and the need to be able to work from places other than the office is going to persist. This is leading to a greater need for flexibility in the form of software licensing that may previously have been restricted to the workstation where it was installed. New opportunities for flexible installations and cloud solutions are emerging with this trend.

How we are meeting current industry challenges

Supporting customers in implementing security

IAR Systems and Secure Thingz share a vision of making security accessible in an easy and sustainable manner. We can now see that security is on the agenda for more and more companies, and that it has become a business-critical issue for our customers and their customers as well. To help customers get started and increase their understanding of security implementation, we offer several comprehensive solutions that include both software and services as well as training. In the latter part of the year, we began planning to escalate our marketing and sales initiatives for our security products.

Tools to facilitate automated workflows

During the year, we expanded and refined IAR Build Tools, which we launched in 2020. IAR Build Tools is a new package in which we offer build tools for automated workflows. These tools help companies make their development more scalable and flexible. This is becoming increasingly important as digital products become smarter and more complex and feature more functions than ever before.

Continued focus on early support for new processors

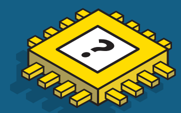
Thanks to a close collaboration with processor vendors worldwide, such as Renesas, STMicroelectronics, NXP, Microchip and Texas Instruments, we are in a position to add support at an early stage for new processors such as the latest processors based on Arm and RISC-V technologies. This allows us to support our customers in freely using a variety of different vendors' processors while still continuing to use our products in their development.

A flexible licensing model that meets customers' needs

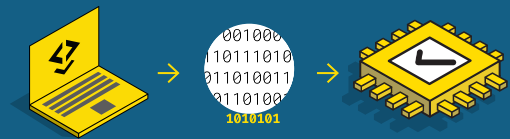
For many years, our licensing model has supported customers so that they can use our products both individually and in teams. We have seen more people working from home as a result of the pandemic, and they need new types of licenses. In addition, the flexibility of our licensing model is becoming more and more important as development teams are increasingly distributed all over the world. Customers have benefited greatly from our flexibility given the pandemic and this global change. We are also planning for new licensing models with solutions for cloud services, which will become increasingly important in the future.

IAR Embedded Workbench in the customer's product development

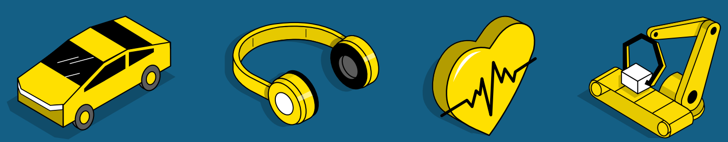
All digital products have an embedded system controlled by one or more processors.



Before a processor can be used in a product, it needs to be programmed with the correct instructions.



Product developers use IAR Embedded Workbench to program the processor and give it the correct instructions to control the finished product.



Once the processor has been programmed, it is ready for the finished product.

Superior technology that future-proofs customers' product development

IAR Systems has offered superior technology that future-proofs product development for thousands of companies around the world since 1983. Through the acquisition of Secure Thingz in 2018, I.A.R. Systems Group has broadened its expertise to include security solutions for embedded systems.

By delivering tried-and-tested, high-quality products, we are able to help companies that manufacture products based on embedded systems become competitive in their respective markets and future-proof their innovations. Our customers operate in many different industries, such as the automotive industry, industrial automation, medical technology, consumer electronics and IoT.

Complete software for programming processors in embedded systems

IAR Embedded Workbench is a complete software package for programming processors in embedded systems in an efficient and quality-assured manner. The software supports 8-, 16-, 32- and 64-bit processors from the majority of processor vendors, which ensures it has a unique position in the market.

In order to meet specific requirements in certain sectors, we offer certified versions of IAR Embedded Workbench for developing systems with functional safety requirements, which is common, for example, in the automotive and medical technology industries. The software is certified by the organization TÜV SÜD and approved in accordance with the requirements for support tools as defined in IEC 61508, the international standard for functional safety, and ISO 26262, which is used specifically within the automotive industry. Our tools are also approved in accordance with several industry-specific standards such as EN 50128, EN 50657, IEC 62304, ISO 25119, ISO 13849, IEC 62061, IEC 61511 and IEC 60730. Customers can use these thoroughly tested and documented tools to simplify and streamline the certification of their own products.

Add-on products that simplify development

What all add-on products for IAR Embedded Workbench have in common is that they facilitate the work of the developer and are a natural part of the workflow. The add-on products C-STAT and C-RUN are fully integrated

IAR Systems' and Secure Thingz' expertise covers many different customer needs

Together, we help customers secure their products for their entire lifecycle.

→

EXECUTIVE MANAGEMENT
Definition of security structure using policies and best practices.

→

SECURITY EXPERT
Implementing structure in hardware and software.

into IAR Embedded Workbench and enable the code to be quality-assured at an early stage. Instead of carrying out code analyses exclusively at the end of the development process, these analysis tools provide a complete code analysis naturally integrated into day-to-day work as well as full control over the code throughout the entire process.

Solutions for security in embedded systems

Using the products Embedded Trust and C-Trust, it will be easier and more efficient to implement security in embedded systems. These products enable companies to ensure that their intellectual property is protected against overproduction and piracy, that software updates can be managed in a secure manner and that end users of the company's products are protected against sabotage programs and data intrusion. With Embedded Trust, companies that have a security specialist, or someone with the necessary know-how, are able to set security guidelines, configurations and settings themselves, in accordance with the security policy of their company.

C-Trust is an extension of IAR Embedded Workbench that makes it possible for developers to easily prepare secure, encrypted code that automatically follows the prevailing general security guidelines. Secure Desktop Provisioner makes it easy for customers to securely program products by giving each device a unique identity.

Products that streamline automated application build and test processes

IAR Build Tools, which are built on the technology in IAR Embedded Workbench, support the implementation of automated application build and test processes in Linux-based server environments. In 2021, it became possible to use these tools across several different types of platforms including Windows-based environments. The purpose of these tools is to streamline build and test processes in software development, which makes it possible for organizations to optimize their resources in terms of the time that developers spend on their projects and how they can optimally manage and use licenses and servers. In addition, they help companies make their development more scalable and flexible, something which is becoming increasingly important as digital products become smarter and more complex and feature more functions than ever before.

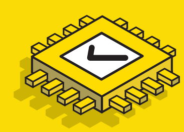
Comprehensive technical support and service

We offer our customers a committed sales, customer service and support team that is available to support them at every stage. We are able to offer all customers who purchase software a comprehensive support agreement that gives them access to technical support from IAR Systems' high-quality global support organization. The support agreement also guarantees continuous product maintenance in the form of direct access to new product updates.

We also provide the training program IAR Academy, which consists of a number of courses aiming to offer developers a deeper knowledge of programming while maximizing corporate clients' software investments.

DEVELOPMENT TEAM
Application development/testing.

PRODUCT MANAGEMENT
Secure distribution to manufacturing.



PRODUCTION FACILITIES
Secure manufacturing of programmed processors.

DEVELOPMENT TEAM
Secure software updates and control of products.

Support for 64-bit makes it possible for the customer to grow with us

In 2021, we launched support for 64-bit Arm processors in IAR Embedded Workbench for Arm. Anders Lundgren was a central figure in this major launch. Anders is the product manager for our Arm-focused products and has been at IAR Systems for many years.

Anders, how did your journey with IAR Systems begin?
I walked through the door of IAR Systems for the first time in December 1996. At that time, there were about 30 employees. 32-bit was a long way off – we had 8-bit and 16-bit. We were an international company early on, with offices in the USA, Germany and England. Even then, there was a feeling that we were going places. We were an important player in an industry that would supply a world that was hungry for technology with modern products that needed a bit of intelligence as well as usability from small control circuits which needed to be programmed.

> **"It was an important achievement and the result of many man-years."**
>
> **Anders Lundgren** on the launch of 64-bit support.

I've been around for a long time, but I am in no way the only veteran. Several of my colleagues have been here longer than I have. It's a combination of an attractive workplace, a unique collection of technology and skills in a relatively small city such as Uppsala, reliable, knowledgeable and pleasant coworkers, and of course the company itself which is like a polished diamond set at the heart of the entire global semiconductor industry.

What was your role in the launch of 64-bit support?
My role in 64-bit support was to manage the requirements, both initially and as the journey continued. This involved a lot of dialogue with project managers and developers as well as strategic decisions on which Arm cores and chip families we would concentrate on initially as well as which processor vendors.

We also constantly communicated with our partners around the world to ensure that their integrations and products were adapted to our new environment.

What is the most exciting thing about your job?
I've always found it fascinating that large semiconductor vendors, such as Infineon which has 47,000 employees and NXP which has 29,000, regard IAR Systems as an important element in their future plans. The semiconductor vendors court us, they share their future plans with us and they make sure to be seen with us. In recent years, our network of relationships has grown to include vendors of cloud services, IoT and AI/ML in our ecosystem, such as AWS and Microsoft.

Personally, I appreciate the opportunity to encounter all kinds of people and cultures around the world through our ecosystem, and to be treated with respect and admiration everywhere for what we do. Back at home, I keep my brain young and flexible by kicking ideas around with knowledgeable and professional colleagues in sales, marketing, support, development and products.

What stands out about our Arm development solutions in your view?
Performance in code generation! IAR Systems' solutions create code that is both compact and fast, which is a key factor for our customers. We have a deep and broad repertoire of productivity-enhancing properties for debugging and tracing that a lot of our customers appreciate. Naturally, security and certified quality are on our customers' list of requirements both when we have new products planned and when already existing products for code analysis and functional safety are in demand in the market.

What trends do you see in Arm-based technology?
Complexity, which is driven by security requirements, performance requirements, more memory and peripheral technology (USB, networks, graphics, etc.). In concrete terms, this means that essentially no customers are able to develop all of the software needed in a product today. They have to depend on different vendors. It's critical for us at IAR Systems to ensure that all of the code that is produced is written and tested with our solutions from the beginning.

64-bit is gaining ground in the higher embedded segments. Perhaps it's not actually needed, but there is a chain reaction when some companies begin adopting

the technology. Processor IP companies like Arm are concentrating most of their research and development on 64-bit, and it is becoming faster and more secure for that reason alone.

Embedded systems are also affected by general technology trends. 64-bit entered the desktop market nearly 20 years ago, and five years ago we got 64-bit cell phones. Now we're seeing the same thing happen on the embedded side. However, this shift is not universal since there is still a market for 8-bit, for simple functions in cheap toys for example.

You've been at the company for a long time and released a lot of products over the years. What was it like to launch 64-bit support?

It was an important achievement and the result of many man-years. It was also satisfying to be able to offer our customers support for all of the relevant cores in the Arm family, both 32- and 64-bit. With this launch, we're also sending a message that we're a supplier they can count on for the future. A customer that is looking for solutions today usually needs 32-bit, but the fact that we're able to demonstrate support for 64-bit makes it possible for the customer to grow with us.

With 64-bit, we also have more complex chips and specifications of requirements from customers, which brings new challenges for us. This also provides us with new opportunities to grow and reach new customers.

Anders Lundgren
Product Manager Arm, IAR Systems

What our customers are saying

Companies from all over the world use our software to develop new competitive products. Here is what some of them had to say.

"APEXBIO has used IAR Embedded Workbench since 2004 – from IAR Embedded Workbench for MSP430 all the way to the current IAR Embedded Workbench for Arm. IAR Embedded Workbench is a well-known build and development solution that meets all of APEXBIO's development needs."

ENGINEER AT APEXBIO

> **"More compact code also needs less memory, which reduces our total costs."**
> Engineer at Denso

"After we began using IAR Embedded Workbench for Arm, we realized how user-friendly the product is, which we really appreciate. We therefore decided to purchase IAR Embedded Workbench for Renesas SH as well."

ENGINEER AT FUTABA

"After a long and thorough evaluation, we chose IAR Systems' software for two reasons. First, IAR Systems has broad processor support, so we can get support from IAR Systems regardless of which processor we choose. This gives our team flexibility when it comes to planning and developing new products. Second, IAR Systems' products are extremely stable. Our products are of industrial quality and they go through strict controls where we need the most stable solutions to maintain quality, something that no other supplier can offer us."

ENGINEER AT ADVANTECH'S INDUSTRIAL INTERNET OF THINGS BUSINESS GROUP

"We're based in Nagoya, Japan, and not only did IAR Systems respond quickly, they even came to our company and held practical seminars for us. Thanks to these seminars and the support we received, we felt that we were in safe hands and could focus on our development."

ENGINEER AT NEWGIN

"This is my second year at CASIO, and before this project I'd never worked on development for embedded systems. Even without any formal training on how to use IAR Embedded Workbench, I could still do my job well for an entire year. I think it's very impressive that a beginner like me can successfully develop a product using this platform."

ENGINEER AT CASIO

"The key factors for us when we chose IAR Embedded Workbench were its certifications for performance and functional safety. We believe that a solution's performance affects the return on investment for our product. For example, there is a huge cost difference when we produce code 20% faster than before and compared with the solutions we used in the past. This gives us 20% more resources that we can devote to other things. More compact code also needs less memory, which reduces our total costs. By choosing IAR Systems, we can deliver lower costs for our end customers' products."

ENGINEER AT DENSO

> **"Our products are of industrial quality and they go through strict controls where we need the most stable solutions to maintain quality, something that no other supplier can offer us."**
>
> Engineer at Advantech's Industrial Internet of Things business group

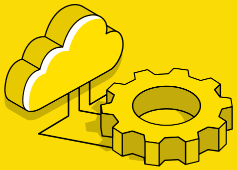
Employees who take advantage of growth potential

With our global organization, we can meet each customer in their market. We are a team of over 200 people with the capabilities to take advantage of growth potential, working in an exciting and changing market. We enable our customers to create the products of today and the innovations of tomorrow.

Working for IAR Systems means being at the forefront of technology. It means sharing knowledge and experience with highly qualified colleagues in order to create the most competitive customer solutions. One of our greatest advantages is our global organization, which allows us to meet with our customers across various markets. Our employees are spread out across 15 offices on three continents and communicate with each other in more than ten different languages. We help customers to be the experts in their work, and we are motivated by knowing that the results of our work are appreciated by leading companies the world over.

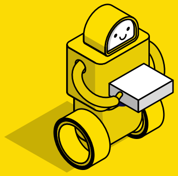
IAR Systems value offering

We aim to make it possible for our customers to create the best possible products with our tools.



SUPERIOR TECHNOLOGY
Our technology enables the best possible product development.

A DEDICATED TEAM
We help the customer to be an expert in their area.



FUTURE-PROOF PRODUCT DEVELOPMENT
We aim to be a supplier for future-proof product development.

Sustainability report 2021

IAR Systems is the world's leading provider of software for programming of processors in embedded systems. Secure Thingz is a supplier of advanced security solutions. Together, the companies provide the solutions required to create the necessary security and assured quality in the development of the digital products of today and the innovations of tomorrow. Their products are used by many of the world's largest corporations as well as thousands of small and medium-sized companies in a range of industries, such as the automotive industry, industrial automation, medical technology, consumer electronics and the Internet of Things (IoT). IAR Systems and Secure Thingz are owned by I.A.R. Systems Group AB, which is listed on the Mid Cap list of Nasdaq Stockholm under the ticker symbol IAR B.

I.A.R. Systems Group AB believes in social responsibility, environmental responsibility and ethical conduct, and expects its employees and business partners to do the same. I.A.R. Systems Group AB's are developed with long-term sustainability in mind, which also includes building sustainable relationships with our business partners. I.A.R. Systems Group AB also believes that the company and its business partners have an obligation to all stakeholders to meet high requirements in integrity and equitable trade. The sustainability agenda and coming focus areas for I.A.R. Systems Group AB are based on the company's own risk analysis and international agendas for sustainable development, such as the UN Sustainable Development Goals (SDGs). Read more about our risks and uncertainty factors in the Administration report on pages 46-50. In 2020, the Board adopted a Groupwide sustainability policy, which can be found on the company's website www.iar.com.

On January 1, 2022 the disclosure requirements in the EU Taxonomy Regulation (Taxonomy Regulation 2020/852 of the European Parliament and of the Council) went into effect. I.A.R. Systems Group AB is not directly affected by the new requirements since the Group has fewer than 500 employees. However, the company is following developments carefully as any company in an investment chain may be affected even if the company by itself is not directly affected by the new disclosure requirements.

The company's business model

Sales strategy

Our sales strategy is founded on a license-based business model in all geographical regions and all industries. In addition, the company focuses on markets which it deems to have significant potential, for example, the automotive industry and IoT. The company has global reach through its corporate headquarters in Uppsala, Sweden, and sales and support offices in Sweden, France, Japan, China, Korea, Taiwan, India, the UK, Germany and the USA. The company is also represented in another 41 countries via distributors. Through the integration of Secure Thingz in 2018, we expanded our offering to include new products and services as well as partly also a new target group. Because security is a question of survival for many companies, responsibility for product security often rests with management or the head of security.

Product strategy

IAR Systems' product strategy is to offer proprietary software for embedded systems development and to offer its customers technological independence in a rapidly evolving environment. For this reason, the company continuously invests in innovation and development at its Uppsala headquarters and its development office in Camarillo in the USA. IAR Systems owns the rights to all of its products and services. Product development is focused mainly on enhancement of product features and functionality as well as adaptation to increasingly demanding processors and embedded systems. Our software is independent in relation to vendors of processors for embedded systems. Through the acquisition of Secure Thingz, we are expanding our area of expertise and adding products within security. The largest portion of this product segment is developed in Cambridge in the UK. Close cooperation takes place between all development centers to maximize experience exchange and share critical resources.

Goal management model

Policy

At I.A.R. Systems Group AB, sustainability is part of our ongoing work and is based on our sustainability policy. Based on main areas determined by this policy, the Group's management group develops focus areas in preparation for its budget work and provides directives to each business unit, which are responsible for developing their own activities. These activities, which are to be carried out in the coming year, are then approved by the Group's management group and presented to the company's Board in connection with the budget meeting. The activities are then carried out in each business unit over the coming year and their results are presented annually in I.A.R. Systems Group AB's Sustainability Report. This way of working was implemented in autumn 2020 and will be the basis of our sustainability agenda for 2021 and onwards. I.A.R. Systems Group AB's Sustainability Report is available on the company's website, www.iar.com.

Focus areas 2021

I.A.R. Systems Group's sustainability agenda includes three main areas: Social sustainability, Environmental sustainability and Financial sustainability. Each main area for 2021 and its focus areas are presented below.

Focus areas and results of the 2021 policy
Social sustainability

Social sustainability includes customer responsibility, supplier responsibility, employee responsibility and corporate social responsibility (CSR).

Customer responsibility

I.A.R. Systems Group is dedicated to providing superior technology and services that make it possible for our customers to create the products of today and the innovations of tomorrow. We aim to make it possible for our customers to create the best possible products with our tools. We do this by offering:

- Superior technology – to enable the best possible product development
- A committed team – to help the customer be an expert
- Future-proof product development – to meet the needs of the future by developing together with the customer.

Supplier responsibility

I.A.R. Systems Group chooses professionally and ethically sustainable suppliers. To ensure this, we follow various guidelines including our Code of Conduct, which regulates areas such as business ethics, human rights and humane terms of employment, environmental sustainability, and health and safety.

Employee responsibility

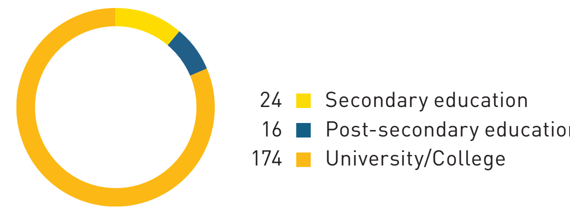
I.A.R. Systems Group's products/tools are the foundation of our operations. They form our culture and passion for technology. Just as I.A.R. Systems Group strives to make it possible for customers to create the best possible products with our tools, we also strive to make it possible for our employees to create the best possible products or to contribute to our operations in other ways. Our offering to employees includes:

- stimulating work assignments with high-level technical problem solving.
- working in a committed, global team with a strong focus on collaboration between offices, departments and countries.
- a warm, generous, enriching and down-to-earth culture that helps build a long-term sustainable workplace.
- a positive working environment that encourages good health, safety and professional development and that supports good physical and mental health.
- an employment contract that is competitive and a work climate based on respect for each other, and the pride we have in each employee's competence and contribution to the big picture.
- expectations that each employee take responsibility and help the team reach their goals and that each partnership's contribution to the whole will be more than just the sum of its parts. Corporate social responsibility (CSR) The company's social responsibility primarily focuses on projects where our technology and employees' knowledge can help develop environmentally.

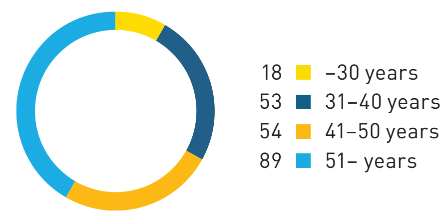
Corporate social responsibility (CSR)

The company's social responsibility primarily focuses on projects where our technology and employees' knowledge can help develop environmentally friendly technology. We do this, for example, through sponsorships. Many of the most successful innovations within renewable energy and sustainable technology over the last decades have been developed by small, entrepreneur-driven technology companies. For the past several years, the company has run the IAR Green Innovation Program, a sponsorship program that supports innovative development projects in the field of environmentally friendly, digital technology. The IAR Green Innovation Program sponsors

EDUCATION
(OFFICIALLY EMPLOYED AT END OF YEAR)



AGE DISTRIBUTION
(OFFICIALLY EMPLOYED AT END OF YEAR)



selected organizations, primarily student projects and start-up companies, providing them with the development tools they need to get started. This gives students, researchers and engineers easier access to development tools, thereby allowing more environmentally friendly products to be created.

Suppliers focus area

IAR's partnerships with suppliers are based on the Code of Conduct. This means that suppliers must respect the laws and regulations in the countries where they and IAR operate. IAR will not accept corruption such as bribes, and the supplier's employees may not engage in, or cause IAR to engage in, any form of corruption. These guidelines also require compliance with laws regarding human rights, child labor and forced labor. IAR also expects its suppliers to respect their employees' right to freedom of association, that their employment contracts, working hours and remuneration follow local laws and regulations, and that discrimination and harassment will not be tolerated and diversity encouraged. If IAR receives indications that a supplier is not following the Code of Conduct, the supplier will be contacted in order to reach a satisfactory solution. Otherwise the partnership will be terminated.

Employees focus area

The I.A.R. Systems Group is constantly developing to meet the needs of the future, which also includes developing our employees. This need is met primarily by placing a great deal of trust and responsibility in our employees and their existing skills to contribute to the company's development. We also offer skills development opportunities for existing employees through internal educational or external training. When additional resources or skills beyond what the Group already has are needed, new employees are recruited. IAR Systems products have been on the market for decades, and over all those years our employees' skills have grown and modernized in order to guarantee the quality of our products. The Group's goal is to provide its employees a sustainable and comfortable employment with opportunities for skills development and a balance between work and leisure time. All with the aim of giving the employees the opportunity to contribute to the Group's continued long-term development.

In 2021, the Board and company prioritized the introduction of a global employee survey. The initial large-scale phase was carried out in autumn 2021 and continued with short employee surveys every other week that provide management with ongoing status updates. The second phase also includes other investments and measures. The large-scale employee survey carried out in the autumn had a response rate of 79% (170 out of 214 participants), providing 1,257 comments, of which 678 were positive and 545 were negative. Overall, employees were most satisfied with the following three areas:

- Diversity, equality and inclusion
- Leadership
- Team spirit

The three areas where the employees think have the most room for improvement were:

- eNPS (Employee Net Promoter Score, a method that measures how willing employees are to recommend their workplace to others)
- Ambassadorship
- Innovation

Work is now continuing at Group management and regional level to ensure the company continues to do what is working well and to improve the areas where employees believe we have room to grow.

Learning

Learning is one of the company's most important keywords, and one that we worked with actively in 2021 through recurring activities like Lunch & Learns. Lunch & Learns are when employees gather for about an hour over lunch to share their expertise with colleagues through talks or workshops. Another form of knowledge sharing are internal wiki pages, where knowledge is collected from our employees so it can be accessible to others. New hires are given internal onboarding training that includes direct knowledge sharing as well as foundational knowledge about the Group's structure and functions. New employees are also invited to a Global Introduction at the headquarters in Uppsala to get to know the company better and to meet management and other departments as well as to network with colleagues and broaden their learning opportunities. Still during 2021, the Covid-19 pandemic forced us to cancel and postpone physical meetings, some of which we replaced with digital meetings and others we postponed to later dates.

Physical and social health

Ergonomics is a priority when we furnish offices, both existing and new. We provide, for example, ergonomic tools when and where they are needed for our employees' well-being. And there are good opportunities at IAR Systems for flexible work scheduling to best combine work with private life. The Covid-19 pandemic meant many changes still during 2021, with the company actively working both globally and locally to ensure that our employees could work safely and comfortably with the support needed to carry out their work.

Focus areas and results of the 2021 policy Environmental sustainability

Environmental sustainability includes our products' effect on the environment and I.A.R. Systems Group AB's internal work to be as resource-efficient as possible, always striving to improve. The goal of our products since the company was founded has been to streamline things, whether by minimizing the amount of code – and thereby the amount of memory – used in programmed processors or by optimizing energy consumption in the customer's product, leading to a reduced impact on the climate. Developing more and more digital deliveries to our customers also contributes to a reduced climate impact. One example of such a function is power debugging, a programming technology that makes it easier to see how the finished product's power consumption is directly related to the source code written by a programmer. This makes it possible to detect which program code is causing unexpectedly high power consumption. Internally we work with, and constantly strive to improve, our own operations' resource use. This means, for example, prioritizing sustainable alternatives when choosing suppliers, such as electricity suppliers, or the most environmentally sustainable transportation alternative whenever possible. Since the environmental aspect of our production is limited in scope, our resource use is primarily connected to our offices and travel.

Products

In 2021, we continued working to develop our offering in order to give our customers the opportunity to contribute to sustainable development. Our investments in existing and new products in 2021 contributed directly to improvements in customers' environmental sustainability in the form of streamlining code and optimizing resource use. Both of these aspects are important components that ensure that fewer resources are consumed to develop and use the customer's end product. An important part of the IAR Systems offering is its independence and its support for 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, which is an important part of customers' product development over time. In 2021, we also continued to invest in our security products that are included in our complete tool chain for product developers. Our offering was further developed through investments to meet customers' needs to protect their intellectual property and to secure their production chains. In the long run, this will help the customer secure payment for their development and their investments in new products.

Internal resource consumption

Our production of hardware products, which primarily includes probes for code analysis, is relatively smallscale and its resource consumption is thus limited, but an important part of global environmental sustainability involves ensuring that the components in our products follow regulations pertaining, for example, to conflict minerals and hazardous materials. In 2021, we continued our work in this focus area in order to reduce our internal resource consumption. For example, we chose the suppliers that offered the most sustainable option possible. This means that we continue to sign green electricity contracts for our offices' electricity whenever possible and that we encourage the choice of electric or hybrid vehicles for company cars, which had a noticeable impact in 2021. In a normal year, the company's resource use is primarily connected to our offices and travel. Still during 2021, the Covid-19 pandemic had a dramatic effect on travel, which is positive in terms of resource use. However, this means that comparisons with previous years are difficult since the reduction is primarily a result of restrictions due to the pandemic. In the future, digital meetings will not be able to replace every trip, but we are carefully following the transition that can be expected after the pandemic, with an increase in both digital meetings and digital conferences.

Focus areas and results of the 2021 policy
Financial sustainability

Financial sustainability is connected to our business model, our customer offering and our ability to provide the company and our owners with long-term stable cash flow. Together, this enables us to take a long-term approach. The license-based business model with annual renewals of support and update services means a secure offering for customers that simultaneously gives us a stable and predictable cash flow through recurring income.

Long-term profitability

Our business model is based in our license-based business with annual renewals of support and update services. For our customer base, this means a secure product offering over time, and for us it means a stable cash flow. This also allows the company to invest in developing existing and new products to ensure that customers' future needs are met and to ensure the company's future profitability and growth, thereby giving our owners stable long-term cash flows. The overall long-term goal established by the Board is for the operating margin to exceed 25% over a business cycle and for our dividend to shareholders to fall between 30-50% of profits every year.

The 2021 focus areas to ensure long-term profitability were:

- to take care of the existing customer base and expand it to include new customers, which during the Covid-19 pandemic entailed listening to customers' new needs and offering them solutions.
- to continue to invest in the development of existing and new products to ensure customers' future needs are met.
- to remain an attractive employer for existing and future employees to ensure that we have or can secure the necessary competence.

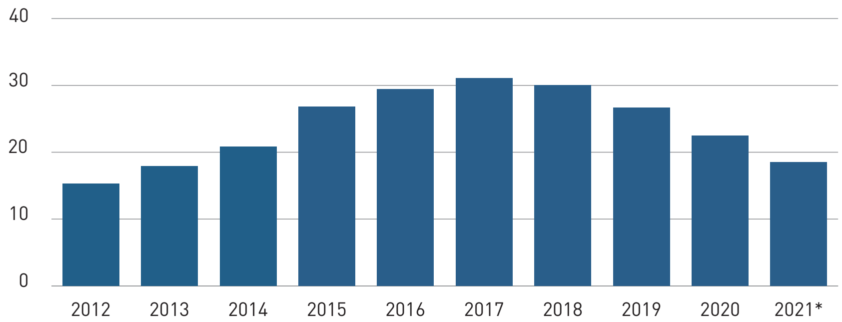
FOCUS AREAS 2021

SOCIAL SUSTAINABILITY	RESULT
CUSTOMER RESPONSIBILITY Being dedicated to providing superior technology and services that make it possible for our customers to create the products of today and the innovations of tomorrow.	The pandemic entailed challenges for our customers also during 2021. Also the chip shortage has been a factor. Through flexibility in our licensing model, we have helped our customers transition quickly to their new way of working and our strong global organization has allowed us to adapt to the shifting situations during the year.
EMPLOYEE RESPONSIBILITY A positive working environment that encourages good health, safety and development and that supports physical and mental health.	In 2021, IAR reintroduced a global employee survey where employees can send anonymous comments to the Board and company management that provide an objective overview of their situation as well as any areas where there is improvement potential.

ENVIRONMENTAL SUSTAINABILITY	RESULT
PRODUCTS Giving our customers the opportunity to contribute to sustainable development.	During the year 2021, continued investments in our security products have increased customers' ability to ensure a sustainable production chain in terms of protecting their IP as well as overproduction protection. Both important parts for customers' financial sustainability.
INTERNAL RESOURCE CONSUMPTION Reducing our internal resource consumption.	During the year, we continued to sign green electricity contracts for our offices' electricity whenever possible and company car agreements for electric or hybrid vehicles.

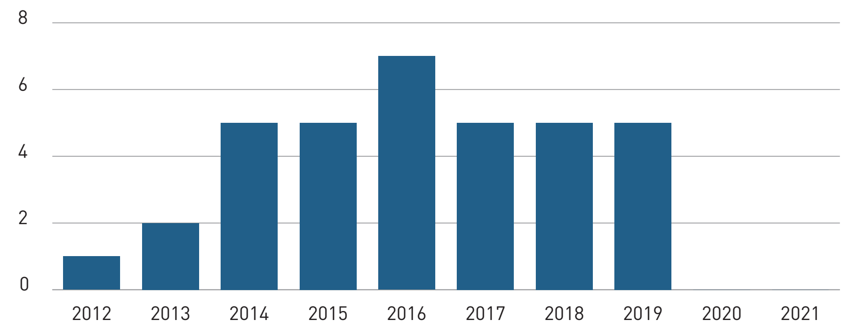
FINANCIAL SUSTAINABILITY	RESULT
LONG-TERM PROFITABILITY Continued investments in the development of existing and new products to ensure customers' future needs are met.	Several products were launched during the year, including a new product for 64-bit chips. The security offering is also being further development. To better reach the market for our security offering, we signed agreements during the year with several of the largest international companies providing secure coding used in the manufacturing of connected devices.

OPERATING MARGIN
%



* Adjusted for non-recurring items, refer to table on page 45.

DIVIDEND
SEK



Auditor´s Report on the Statutory Sustainability Report

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

Engagement and responsibility

It is the Board of Directors who is responsible for the statutory sustainability report for the year 2021 on pages 26-31 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor´s opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion

A statutory sustainability report has been prepared.

Stockholm March 23 2022
Deloitte AB

Signatures on Swedish original

Andreas Frountzos
Authorized Public Accountant

> **“It’s important for the team’s engineers to be able to write, test and debug enormous amounts of code, and IAR Embedded Workbench has an excellent environment for this.”**
>
> **Sanne Nielsen**, Project manager at Forze.

Sponsorship program for innovative technology

Many of the most successful innovations within renewable energy and sustainable technology over the last 20 years have been developed by small, entrepreneur-driven technology companies. IAR Systems started the IAR Green Innovation Program to support and promote this development. This gives researchers and engineers easier access to development solutions for embedded systems, allowing more environmentally friendly products to be created.

IAR Green Innovation is a project that IAR Systems launched nearly ten years ago, and it has supported numerous companies in their development of sustainable products for the future since then. The program sponsors selected organizations, providing them with up to SEK 150,000 in licenses for IAR Systems' products for the entire duration of the project.

Forze

Forze is a hydrogen racing team from the Delft University of Technology in the Netherlands. The team has been developing hydrogen racing cars since 2007, and they have been using IAR Embedded Workbench in combination with Arm processors for more than five years. Forze combines racing with innovative and sustainable technology, and by racing with water as their only emission, Forze is showing that sustainability is a challenge rather than a limitation.


CONVERSE

Financial reporting

The IAR Systems share

I.A.R. Systems Group's class B share is quoted on the Mid Cap list of Nasdaq Stockholm, under the ticker symbol IAR. The share price at December 31, 2021 was SEK 117.80 (139.80) and the market capitalization was SEK 1,608m (1,906).

Share data

I.A.R. Systems Group's class B share (IAR B) is quoted on the Mid Cap list of Nasdaq Stockholm, and a round lot consists of 1 (one) share. During the year, the share price (last price paid, reinvested value) varied from a low of SEK 100.00 (95.80) to a high of SEK 166.00 (193.40). The share price at December 31, 2021 was SEK 117.80 (139.80). I.A.R. Systems Group's market capitalization on the same date was SEK 1,608m (1,906).

The number of shareholders in I.A.R. Systems Group at December 31, 2021 was 7,271 (7,516). Of these shareholders, 472 (465) held more than 1,000 shares each. Foreign shareholders held approximately 27% (27) of the share capital and 27% (25) of the votes.

I.A.R. Systems Group's share capital at December 31, 2021 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 13,649,445 are class B shares and 318,888 are class C shares. All class C shares are held in treasury. These are not included in the information submitted regarding the IAR Systems share.

Dividend proposal

The Board of Directors intends to propose to the AGM on April 26, 2022 that all unappropriated earnings be carried forward.

Dividend policy

The Board of Directors intends to propose an annual dividend, or other similar transfer of value, corresponding to 30–50% of profit after tax. In addition, the Board may recommend a further transfer of capital to the shareholders, provided that the Board considers this action to be justified in view of anticipated future cash flow and the company's investment plans.

Authorizations

The Board of Directors was authorized, on one or several occasions during the period until the next AGM, to decide on the issue of class B shares in a number equal to not more than 10% of the existing share capital in the company on the date of the AGM in exchange for non-cash consideration. The motive for the authorization is to provide scope for acquisitions with payment through a non-cash issue. The Board of Directors was also authorized, on one or several occasions during the period until the next AGM, to decide on the repurchase of a maximum number of class B shares whereby the holding of treasury shares at no time exceeds 10% of all registered shares in the company. The shares are to be acquired on Nasdaq Stockholm at a price that is within the registered price interval at any given time. The motive for the authorization is to give the Board greater freedom of action in optimizing the company's capital structure. The Board of Directors was furthermore authorized to decide on the sale of the company's treasury shares in exchange for cash payment, disapplying the shareholder's preemptive rights, or as payment for the acquisition of a company or operation.

Incentive programs

In accordance with the decision of the 2018 and 2019 AGMs, a long-term incentive program for I.A.R. 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

LARGEST SHAREHOLDERS AT DECEMBER 31, 2021 [1]

	No. of class B shares	Total no. of shares	% of capital	Total no. of votes	% of votes
Andra AP-fonden	1,295,415	1,295,415	9.49%	1,295,415	9.49%
Första AP-fonden	1,176,506	1,176,506	8.62%	1,176,506	8.62%
Swedbank Robur Fonder	1,070,000	1,070,000	7.84%	1,070,000	7.84%
Tredje AP-fonden	728,930	728,930	5.34%	728,930	5.34%
The Northern Trust Company	710,000	710,000	5.20%	710,000	5.20%
Sijoitusrahasto Aktia Nordic Mic	631,500	631,500	4.63%	631,500	4.63%
Fjärde AP-fonden	591,620	591,620	4.34%	591,620	4.34%
Sijoitusrahasto Aktia Nordic Small	551,050	551,050	4.04%	551,050	4.04%
Ribbskottet Aktiebolag	542,881	542,881	3.98%	542,881	3.98%
Försäkringsaktiebolaget Avanza Pension	356,796	356,796	2.62%	356,796	2.62%
Säästöpankki Itämeri- Sijoitusr	312,028	312,028	2.29%	312,028	2.29%
Fondita Nordic Small Cap Invest	270,000	270,000	1.98%	270,000	1.98%
Säästöpankki Pienyhtiöt - Itämeri	258,010	258,010	1.89%	258,010	1.89%
Herenco Holding Aktiebolag	208,038	208,038	1.52%	208,038	1.52%
Stefan Engqvist	196,377	196,377	1.44%	196,377	1.44%
Total 15 largest shareholders	**8,899,151**	**8,899,151**	**65.23%**	**8,899,151**	**65.23%**
Other	4,744,123	4,744,123	34.77%	4,744,123	34.77%
Total	**13,643,274**	**13,643,274**	**100.00%**	**13,643,274**	**100.00%**

[1] *Shares held directly and through nominees, excluding 318,888 class C shares held in treasury.*

DISTRIBUTION OF SHAREHOLDINGS AT DECEMBER 31, 2021 [1]

	No. of class B shares	Total no. of shares	% of capital	Total no. of votes	% of votes	No. of shareholders	% of shareholders
1–500	529,543	529,543	3.88%	153,626	3.88%	6,404	88.08%
501–1 000	317,902	317,902	2.33%	710,881	2.33%	396	5.45%
1,001–10,000	1,101,141	1,101,141	8.07%	718,611	8.07%	387	5.32%
10,001–	11,700,859	11,700,859	85.72%	12,565,011	85.72%	84	1.16%
Total	**13,649,445**	**13,649,445**	**100.00%**	**14,536,159**	**100.00%**	**7,271**	**100.00%**

[1] *Shares held directly and through nominees, excluding 318,888 class C shares held in treasury.*

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 below.

LTIP 2018

A premium of SEK 16.30 per warrant was paid for share warrants. The warrants, which entitled the participants to subscribe for or acquire one class B share in the company during the period August 20 until September 17, 2021, had a subscription price of SEK 323.90 and an acquisition price of SEK 330.00. All warrants in the program have expired. No participants subscribed for or acquired shares during the aforementioned period.

LTIP 2019

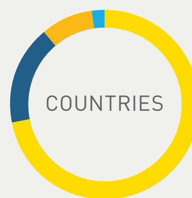
A premium of SEK 11.17 per warrant was paid for share warrants. The warrants, which carry the entitlement to subscribe for or acquire one class B share in the company during the period May 1 until May 31, 2022, have a subscription and an acquisition price of SEK 347.70. As the performance conditions for the 2021 financial year were not met, these share warrants expired.

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 35,693 stock options were exercised and 20,621 stock options were forfeited.

SHAREHOLDER DATA

Shareholder data is based on information from Euroclear Sweden AB on December 31, 2021 and pertains to the share of votes, unless otherwise stated.



- 72% Sweden
- 17% Other Nordic countries
- 9% Europe excl. Nordic region
- 2% USA
- 0% Rest of the world

- 6% Natural persons
- 94% Legal entities

SHARE DATA

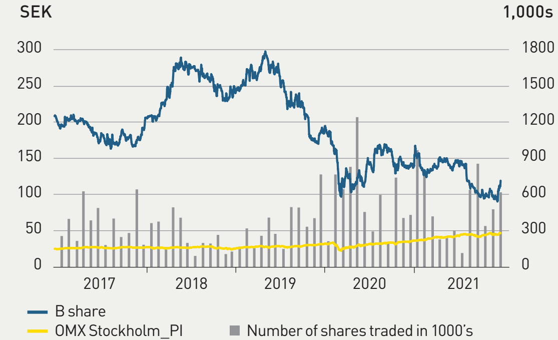
SHARE DATA	2021	2020
Equity per share, SEK	42.88	44.97
No. of shares at end of year, million	13.64	13.64
Average no. of shares, million	13.64	13.63
Cash flow from operating activities per share, SEK	9.65	8.69
Earnings per share, SEK[1]	-4.94	4.35
Dividend or equivalent per share, SEK	-	-
No. of shareholders	7,271	7,516
Last price paid on December 31 or similar, SEK	117.80	139.80

[1] *Definition in accordance with IFRS.*

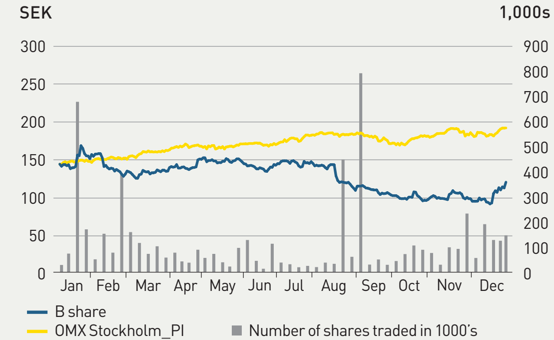
SHARE PRICE

The graphs below are based on the share price, meaning the last price paid (reinvested value), which has risen from SEK 23.49 on January 1, 2012 to SEK 117.80 on December 31, 2021.

I.A.R. SYSTEMS GROUP 2017–2021



I.A.R. SYSTEMS GROUP 2021



INCENTIVE PROGRAMS

LTIP		Total	Subscribed/ Allotted	Qualifying year 2018	2019	2020	2021	Past due/forfeited
LTIP 2018	Share warrants	315,000	243,500	80,813	4,850	0	n/a	243,500
	Stock options	285,000	254,000	55,648	3,380	0	n/a	254,000
LTIP 2019	Share warrants	151,500	63,000	n/a	1,160	0	0	61,840
	Stock options	381,000	355,000	n/a	5,370	0	0	349,630

Exchange allotment		Total	Subscribed/ Allotted	Exercised Dec 31, 2021	Forfeited Dec 31, 2021	Qualified Dec 31, 2021	Qualified after Dec 31, 2021
2018	Stock options	73,413	73,413	35,693	20,621	16,040	1,059

Financial overview

CONDENSED INCOME STATEMENT

SEK m	2021	2020	2019	2018	2017
Net sales	355.9	372.0	405.6	385.2	345.0
Other income	2.1	-	-	-	-
Operating expenses	-254.1	-239.3	-259.8	-245.1	-217.8
Depreciation of property, plant and equipment	-3.7	-3.1	-3.1	-2.6	-2.4
Depreciation of right-of-use assets	-16.7	-17.2	-9.8	-	-
Amortization of intangible assets	-33.8	-28.6	-24.5	-21.9	-17.4
Impairment of intangible assets	-118.2	-	-	-	-
Operating profit/loss	**-68.5**	**83.8**	**108.4**	**115.6**	**107.4**
Loss from financial items	-0.1	-7.0	-1.4	-1.8	-1.7
Profit/loss before tax	**-68.6**	**76.8**	**107.0**	**113.8**	**105.7**
Tax	1.2	-17.4	-25.8	-26.2	-25.7
PROFIT/LOSS FOR THE YEAR	-67.4	59.4	81.2	87.6	80.0

CONDENSED CASH FLOW STATEMENT

SEK m	2021	2020	2019	2018	2017
Cash flow from operating activities	131.6	118.4	105.7	92.6	123.9
Cash flow from investing activities	-74.1	-81.4	-102.2	-217.5	-37.6
Cash flow from financing activities	-15.1	-24.6	-52.0	107.7	-63.2
TOTAL CASH FLOW FOR THE YEAR	42.4	12.4	-48.5	-17.2	23.1

ALTERNATIVE PERFORMANCE MEASURES

Certain financial performance measures presented in the Annual Report were not defined in accordance with IFRS. The company believes that these performance measures provide valuable supplementary information to the company's investors and 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. For definitions and reconciliations, refer to pages 41–45.

PERFORMANCE MEASURES

PERFORMANCE MEASURES	2021	2020	2019	2018	2017
Alternative performance measures					
Gross margin, %	96.6	96.2	97.3	97.7	97.5
EBITDA margin, %	33.7*	35.7	35.9	36.4	36.9
Operating margin, %	18.5*	22.5	26.7	30.0	31.1
Profit margin, %	18.4*	20.6	26.4	29.5	30.6
Cash flow, %	37.0	31.8	26.1	24.0	35.9
Equity/assets ratio, %	72.0	73.6	71.8	76.2	70.8
Return on equity, %	-11.2	9.9	14.2	20.8	28.1
Return on capital employed, %	-10.1	12.5	19.2	27.4	37.4
Capital employed, SEK m	641.3	679.7	612.0	552.8	292.9
Net cash, SEK m	57.4	1.5	-18.4	103.3	117.0
Net debt/equity ratio, multiple	-0.10	-0.00	0.03	-0.19	-0.40
Other performance measures					
No. of employees at end of period	214	215	219	200	163
Sales per employee, SEK m	1.8	1.8	2.0	2.3	2.2
Average no. of employees	203	208	201	171	153

Adjusted for non-recurring items, refer to Reconciliations on page 45 .

DATA PER SHARE

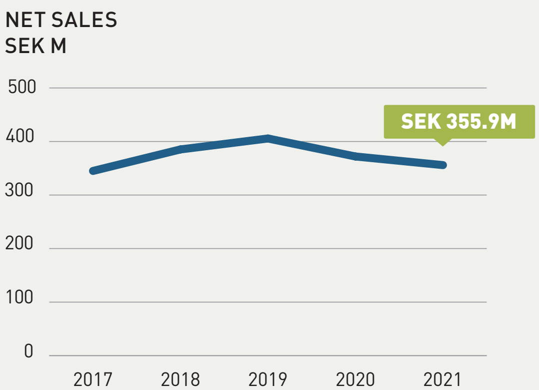
DATA PER SHARE	2021	2020	2019	2018	2017
Equity per share, SEK	42.88	44.97	43.43	40.38	22.99
No. of shares at end of period, million	13.64	13.64	13.63	13.62	12.63
Average no. of shares, million	13.64	13.63	13.63	13.13	12.63
Cash flow from operating activities per share, SEK	9.65	8.69	7.75	7.05	9.81
Earnings per share, SEK[1]	-4.94	4.35	5.96	6.67	6.33
Dividend per share, SEK	-	-	5.00	5.00	5.00
Last price paid on December 31 or similar, SEK	117.80	139.80	186.00	243.00	189.00

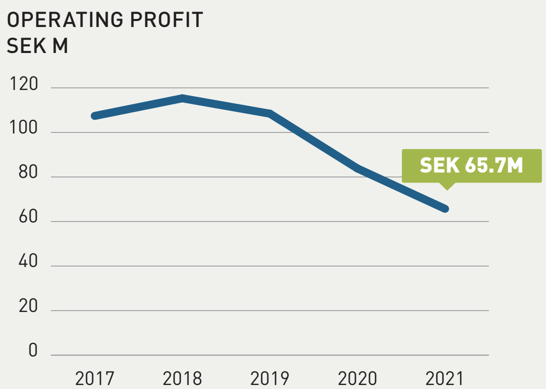
[1] *Definition in accordance with IFRS.*

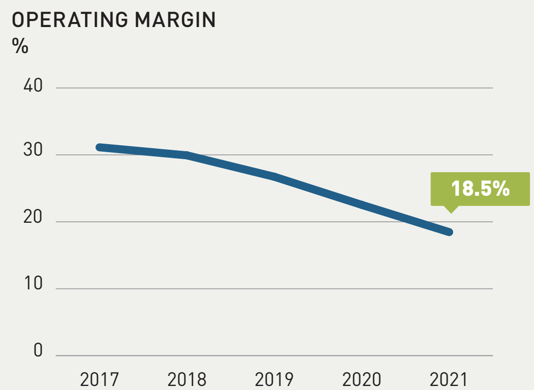
CONDENSED BALANCE SHEET

ASSETS, SEK m	2021	2020	2019	2018	2017
Non-current assets					
Goodwill	355.9	332.7	357.2	339.3	113.5
Other intangible assets	175.5	244.0	210.5	144.8	80.9
Property, plant and equipment	14.6	7.5	7.3	8.9	6.2
Right-of-use assets	35.6	46.9	56.3	-	-
Financial assets	5.5	6.4	7.7	15.1	22.2
Total non-current assets	**587.1**	**637.5**	**638.9**	**508.1**	**222.8**
Current assets					
Inventories	9.5	5.7	6.6	6.6	5.2
Other current assets	43.8	63.8	52.1	38.2	11.8
Trade receivables	58.9	58.7	66.6	63.2	50.8
Cash and cash equivalents	113.4	67.8	60.7	106.1	119.5
Total current assets	**225.7**	**196.0**	**186.0**	**214.1**	**187.3**
TOTAL ASSETS	812.8	833.5	824.9	722.2	410.1

EQUITY AND LIABILITIES, SEK m	2021	2020	2019	2018	2017
Total equity	**585.3**	**613.4**	**592.0**	**550.0**	**290.4**
Non-current liabilities					
Interest-bearing liabilities	19.5	31.7	41.1	1.2	1.7
Other non-current liabilities	1.1	1.1	1.1	1.6	1.7
Provisions	28.4	37.2	26.5	29.6	14.0
Total non-current liabilities	**49.0**	**70.0**	**68.7**	**32.4**	**17.4**
Current liabilities					
Trade payables	9.2	5.0	9.2	7.3	5.7
Interest-bearing liabilities	36.5	34.6	38.0	1.6	0.8
Other current liabilities	132.8	110.5	117.0	130.9	95.8
Total current liabilities	**178.5**	**150.1**	**164.2**	**139.8**	**102.3**
TOTAL EQUITY AND LIABILITIES	812.8	833.5	824.9	722.2	410.1







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
2021	Q4	91.6	29.2*	31.9*	15.2*	16.6*	-7.72	-16.7	2.97	42.88	117.80	1,608
	Q3	87.9	35.0	39.8	20.9	23.8	1.17	2.4	3.04	49.89	100.00	1,364
	Q2	87.4	25.9	29.6	12.6	14.4	0.68	1.4	2.02	48.39	140.20	1,913
	Q1	88.9	29.8	33.5	17.0	19.1	0.94	2.0	1.61	48.38	132.40	1,806
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	40.27	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
2021		355.9	119.9*	33.7*	65.7*	18.5*	-4.94	-11.2	9.65	42.88	117.80	1,608
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	40.27	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	5.63	22.85	74.75	944
2013		230.2	50.6	22.0	41.3	17.9	2.59	10.9	3.43	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

** Adjusted for non-recurring items, refer to Reconciliations on page 45 ** Definition in accordance with IFRS.*

DEFINITIONS

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 by the company.

Performance measure	Definition/Calculation	Use
Gross margin	Net sales less the cost of goods sold as a percentage of net sales.	Measures the company's profitability after cost of goods and is used to follow up cost-efficiency and the effect of changes to the product mix.
EBITDA	Earnings before interest, taxes, depreciation and amortization.	This measure basically shows the earnings-generating cash flow in operations. It provides an overview of the business's ability to generate, in absolute terms, resources for investments and payments to investors and is used as a comparison over time.
EBITDA margin	Earnings before interest, tax, depreciation and amortization (EBITDA) in relation to sales, expressed as a percentage.	Aims to show the profitability ratio for current operations.
Equity, Group	Recognized equity including 78.0% of untaxed reserves. Average equity is calculated as equity at the beginning of the year plus equity at the end of the year divided by two.	Measures the company's net value.
Equity per share	Equity divided by the number of shares at the end of the period.	Measures the company's net value per share.
Sales growth in local currency	Net sales in local currency compared to sales in local currency in the 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.
Net debt/equity ratio	Net interest-bearing liabilities divided by equity.	This measure reflects the relationship between the Group's two forms of financing. A measure to show the proportion of loan capital in relation to the capital invested by the owners and accordingly a measure of financial strength and also the gearing effect of loans. A higher net debt/equity ratio entails a higher financial risk and higher financial gearing.
Earnings per share*	Profit for the period after tax divided by the average number of shares during the period.	A measure of the company's profitability after tax per share. This performance measure is important in assessing the value of a share.

** Definition in accordance with IFRS.*

DEFINITIONS, CONT.

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

RECONCILIATIONS

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

SEK m	2021	2020	2019	2018	2017
Net sales	355.9	372.0	405.6	385.2	345.0
Goods for resale	-12.0	-14.1	-10.8	-9.0	-8.5
Gross profit	343.9	357.9	394.8	376.2	336.5
GROSS MARGIN	96.6%	96.2%	97.3%	97.7%	97.5%

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

SEK m	2021	2020	2019	2018	2017
Operating profit	65.7*	83.8	108.4	115.6	107.4
Depreciation of property, plant and equipment	3.7	3.1	3.1	2.6	2.4
Depreciation of right-of-use assets	16.7	17.2	9.8	-	-
Amortization of intangible assets	33.8	28.6	24.5	21.9	17.4
EBITDA	119.9*	132.7	145.8	140.1	127.2

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

SEK m	2021	2020	2019	2018	2017
Net sales	355.9	372.0	405.6	385.2	345.0
EBITDA	119.9*	132.7	145.8	140.1	127.2
EBITDA MARGIN	33.7%*	35.7%	35.9%	36.4%	36.9%

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

SEK m	2021	2020	2019	2018	2017
Net sales	355.9	372.0	405.6	385.2	345.0
Operating profit	65.7*	83.8	108.4	115.6	107.4
OPERATING MARGIN	18.5%*	22.5%	26.7%	30.0%	31.1%

**Adjusted for non-recurring items, refer to Reconciliations on page 45 .*

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

SEK m	2021	2020	2019	2018	2017
Net sales	355.9	372.0	405.6	385.2	345.0
Profit/loss before tax	65.6*	76.8	107.0	113.8	105.7
PROFIT MARGIN	18.4%*	20.6%	26.4%	29.5%	30.6%

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

SEK m	2021	2020	2019	2018	2017
Net sales	355.9	372.0	405.6	385.2	345.0
Cash flow from operating activities	131.6	118.4	105.7	92.6	123.9
CASH FLOW	37.0%	31.8%	26.1%	24.0%	35.9%

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

SEK m	2021	2020	2019	2018	2017
Equity	585.3	613.4	592.0	550.0	290.4
Total assets	812.8	833.5	824.9	722.2	410.1
EQUITY/ASSETS RATIO	72.0%	73.6%	71.8%	76.2%	70.8%

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

SEK m	2021	2020	2019	2018	2017	2016
Equity	585.3	613.4	592.0	550.0	290.4	279.5
SEK m	2021	2020	2019	2018	2017	2016
AVERAGE EQUITY	599.4	602.7	571.0	420.2	285.0	285.2

RECONCILIATIONS, CONT.

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

SEK m	2021	2020	2019	2018	2017
Profit/loss after tax	-67.4	59.4	81.2	87.6	80.0
Average equity	599.4	602.7	571.0	420.2	285.0
RETURN ON EQUITY	-11.2%	9.9%	14.2%	20.8%	28.1%

INTEREST-BEARING LIABILITIES are calculated as non-current interest-bearing liabilities plus current interest-bearing liabilities.

SEK m	2021	2020	2019	2018	2017	2016
Non-current interest-bearing liabilities	19.5	31.7	41.1	1.2	1.7	1.6
Current interest-bearing liabilities	36.5	34.6	38.0	1.6	0.8	1.1
INTEREST-BEARING LIABILITIES	56.0	66.3	79.1	2.8	2.5	2.7

NON-INTEREST-BEARING LIABILITIES are calculated as non-current liabilities plus current liabilities less interest-bearing liabilities.

SEK m	2021	2020	2019	2018	2017	2016
Non-current liabilities	49.0	70.0	68.7	32.4	17.4	17.8
Current liabilities	178.5	150.1	164.2	139.8	102.3	98.6
Interest-bearing liabilities	-56.0	-66.3	-79.1	-2.8	-2.5	-2.7
NON-INTEREST-BEARING LIABILITIES	171.5	153.8	153.8	169.4	117.2	113.7

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 year plus capital employed at the end of the year divided by two.

SEK m	2021	2020	2019	2018	2017	2016
Total assets	812.8	833.5	824.9	722.2	410.1	395.9
Non-interest-bearing liabilities	-171.5	-153.8	-153.8	-169.4	-117.2	-113.7
CAPITAL EMPLOYED	641.3	679.7	671.1	552.8	292.9	282.2

SEK m	2021	2020	2019	2018	2017
Average capital employed	660.5	675.4	612.0	422.8	287.6

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

SEK m	2021	2020	2019	2018	2017
Profit/loss before tax	-68.6	76.8	107.0	113.8	105.7
Financial expenses	1.6	7.5	2.6	1.9	1.7
Profit/loss before tax plus financial expenses	-67.0	84.3	109.6	115.7	107.4
RETURN ON CAPITAL EMPLOYED	-10.1%	12.5%	17.9%	27.4%	37.4%

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

SEK m	2021	2020	2019	2018	2017
Cash and cash equivalents	113.4	67.8	60.7	106.1	119.5
Interest-bearing liabilities	-56.0	-66.3	-79.1	-2.8	-2.5
NET CASH	57.4	1.5	-18.4	103.3	117.0

RECONCILIATIONS, CONT.

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

SEK m	2021	2020	2019	2018	2017
Interest-bearing liabilities	56.0	66.3	79.1	2.8	2.5
Cash and cash equivalents	-113.4	-67.8	-60.7	-106.1	-119.5
Net interest-bearing liabilities	-57.4	-1.5	18.4	-103.3	-117.0
NET DEBT/EQUITY RATIO	-0.1	-0.00	0.03	-0.19	-0.40

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

SEK m	2021	2020	2019	2018	2017
Equity	585.3	613.4	592.0	550.0	290.4
No. of shares at end of year, million	13.65	13.64	13.63	13.62	12.63
EQUITY PER SHARE	42.88	44.97	43.43	40.38	22.99

AVERAGE NUMBER OF SHARES is calculated as the number of shares at the beginning of the year plus the number of shares at the end of the year divided by two.

	2021	2020	2019	2018	2017
No. of shares, million	13.66	13.64	13.63	13.62	12.63
AVERAGE NO. OF SHARES, MILLION	13.64	13.63	13.63	13.13	12.63

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

SEK m	2021	2020	2019	2018	2017
Cash flow from operating activities	131.6	118.4	105.7	92.6	123.9
Average no. of shares, million	13.64	13.63	13.63	13.13	12.63
CASH FLOW FROM OPERATING ACTIVITIES PER SHARE	9.65	8.69	7.75	7.05	9.81

ADJUSTMENT OF PERFORMANCE MEASURES FOR NON-RECURRING ITEMS During the fourth quarter, earnings were charged with non-recurring items. To simplify the comparison with earlier periods, some performance measures are stated with these items excluded. Adjustments have been made for impairment of intangible assets of SEK 118.2m and costs of SEK 16.0m related to the dismissal of the CEO, which are non-recurring items.

The following table presents the effect of adjustments on the condensed income statement and operating profit for the full year.

SEK m	2021	Adjust-ment	2021 adjusted	2020
Net sales	355.9		355.9	372.0
Other income	2.1		2.1	-
Goods for resale	- 12.0		- 12.0	-14.1
Other external expenses	- 38.3		- 38.3	-37.7
Personnel costs	- 203.8	16.0	- 187.8	-187.5
Depreciation of property, plant and equipment	- 3.7		- 3.7	-3.1
Depreciation of right-of-use assets	- 16.7		- 16.7	-17.2
Amortization of intangible assets	-33.8		-33.8	-28.6
Impairment of intangible assets	- 118.2	118.2	-	-
OPERATING PROFIT	-68.5		65.7	83.8

Administration report

The Board of Directors and the CEO hereby present the annual report and consolidated financial statements for I.A.R. Systems Group AB for the 2021 financial year. The company is domiciled in Stockholm, corporate identification number 556400-7200.

Net sales

Net sales for the year amounted to SEK 355.9m (372.0) and were distributed as follows: SEK 355.2m (367.0) from development solutions and SEK 0.7m (5.0) from security solutions. In a year-on-year comparison, currency translation had a negative impact of SEK -20.5 on net sales for the year. In addition, the pandemic resulted in customer purchasing processes taking a longer time, which meant that sales were delayed.

The Americas accounted for 33% (36) of sales, Europe for 35% (36), Asia for 31% (27) and global revenue for 1% (1).

Earnings

EBITDA adjusted for non-recurring items amounted to SEK 119.9m* (132.7), corresponding to an EBITDA margin for the year of 33.7%* (35.7) Operating profit adjusted for non-recurring items totaled SEK 65.7m* (83.8).

Operating expenses for the full year included impairment of intangible assets of SEK 118.2m and costs of SEK 16.0m related to the dismissal of the CEO, costs that were excluded after adjustment for non-recurring items.

Operating expenses were reduced by SEK 64.4m (79.0) during the year through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 54.4m (65.2) pertained to personnel costs.

Personnel costs adjusted for non-recurring items are the Group's largest cost item and account for about 64% (65) of total costs. Of the Group's total costs, 58% (61) are attributable to operations in Sweden.

In a year-on-year comparison, currency translation had a negative impact of SEK 9.2m on operating profit for the year.

Financial expenses for the year mainly comprised exchange rate differences as well as interest expenses and credit expenses for utilized and unutilized bank overdraft facilities totaling SEK 225m.

Cash flow

Cash flow from operating activities for the year totaled SEK 131.6m (118.4). 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 11.8m during the third quarter of 2021, which affected the cash flow but not the income statement for the year. Our customers' ability to pay remained adequate during 2021, and we have not noted any negative effects on cash flow as a result of the pandemic.

Cash flow from investing activities for the year totaled SEK -74.1m (-81.4). Most of these investments pertain to the capitalization of development costs for software.

Cash flow from financing activities for the year totaled SEK -15.1m (-24.6). Cash flow from financing activities during the year comprised the net of the utilization of the bank overdraft facility and amortization of lease liabilities.

BOARD OF DIRECTORS
CHAIRMAN NICOLAS HASSBJER

PRESIDENT AND CEO
RICHARD LIND

CHIEF FINANCIAL OFFICER (CFO)
ANN ZETTERBERG

CHIEF TECHNOLOGY OFFICER (CTO)
ANDERS HOLMBERG

CHIEF STRATEGY OFFICER (CSO)
HAYDN POVEY

LEAD INTERACTION AND INTEGRATION OFFICER (LIIO)
KARIN LASSEGÅRD

Net sales for the year
SEK 355.9m
(372.0)

Operating profit for the year
SEK 65.7m*
(83.8)

Cash flow for the year from operating activities
SEK 131.6m
(118.4)

Net cash
SEK 57.4m
(1.5)

Proposed dividend
–
(-)
per share

* Adjusted for non-recurring items, refer to table on page 45.

Balance sheet items and financial position

Consolidated cash and cash equivalents at the end of the year amounted to SEK 113.4m, compared with SEK 67.8 at December 31, 2020. The Group also had unutilized bank overdraft facilities totaling SEK 207.0m (207.5).

The Group's interest-bearing liabilities amounted to SEK 56.0m, compared with SEK 66.3m at December 31, 2020. Interest-bearing liabilities include lease liabilities amounting to SEK 38.0m (48.8), which increased in accordance with the new IFRS 16 Leases. Interest-bearing liabilities also include borrowings totaling SEK 18.0m (17.5).

As of December 31, 2021, the Group had net cash of SEK 57.4m (1.5). Net cash was also impacted by IFRS 16 Leases; see above.

Consolidated goodwill at the end of the year amounted to SEK 355.9m (332.7). The impairment test performed at year end did not indicate any requirement for impairment. The increase of SEK 23.2m was attributable to currency remeasurement. Other intangible assets in the form of trademarks, software, internally generated software development costs and customer contracts totaled SEK 175.5m (244.0). Impairment of individual intangible development assets that are no longer relevant products, mainly within the area of security, reduced the item other intangible assets by SEK 118.2m.

As of December 31, 2021, the Group had accumulated loss carryforwards outside Sweden of SEK 217m, of which SEK 58m (91) are expected to be utilized in the foreseeable future, with loss carryforwards of SEK 11.0m (15.4) recognized in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 2.5m (3.5), and the deferred tax liability is recognized in an amount of SEK 28.4m (37.2). The item deferred tax asset also includes deferred tax liabilities that will be recognized in a net amount since they are connected to the same tax subject. The tax relief payment in the UK for 2021 connected to research and development costs is estimated at approximately SEK 11.0m (18.8). The payment reduced aggregate loss carryforwards by an equivalent amount. The payment affects cash flow but not the income statement for the period.

Equity at December 31, 2021 amounted to SEK 585.3m, compared with SEK 613.4m on December 31, 2020. This change in equity is presented in the specification on page 53. The equity/assets ratio at December 31, 2021 was 72% (74). Pledged assets increased during the year and totaled SEK 20.5m (12.0) at December 31, 2021.

Investments

Investments in property, plant and equipment for the year amounted to SEK 9.9m (3.2). Investments in intangible assets totaled SEK 64.4m (79.0). Investments in intangible assets pertained primarily to costs for in-house staff for the development of software. Of the year's investments, SEK 1.7m (1.3) was acquired separately and SEK 62.7m (77.7) comprises internally generated costs. Of the internally generated costs, SEK 54.4m (65.2) pertains to personnel costs.

Market and customers

I.A.R. Systems Group delivers high-quality products to companies that develop digital products. Its customers are located across the entire globe and in a number of different industries. 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 global pandemic has impacted all of our markets to varying degrees as our customers have shifted from working at the office to working from home. We have also seen increased demand for licenses suited to remote virtual development as well as products that improve the customer's development efficiency. During the second and third waves of the pandemic, we have seen a growing share of projects being postponed or canceled as the world waits for the effects of the pandemic to stabilize. This has mainly impacted resources in the form of availability and the scope of project staffing. In countries with a high vaccination rate, we saw a clear trend toward an increased willingness to invest.

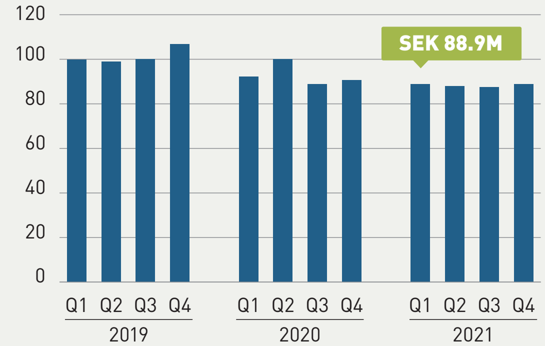
Employees

The company's competitiveness depends on its ability to recruit, retain, and develop qualified staff. The company's success is determined by how well its leadership resources are developed and the sense of dedication and empowerment among its employees. IAR Systems' corporate culture is characterized by openness, social responsibility and professionalism. Its global organization and its employees' enduring passion for product development and technology attract skilled and talented people to the company in all of the countries where it operates.

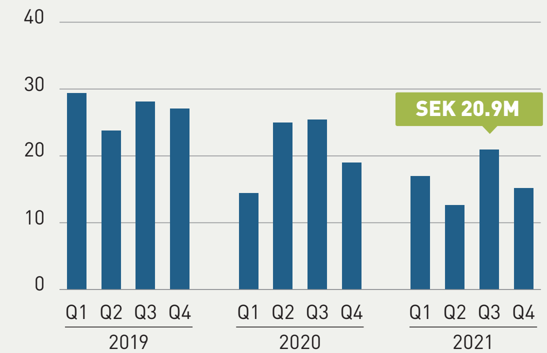
The company strives for a personnel policy and a work environment that inspire its employees to develop in their professional roles.

The Group's employees are typified by a high level of technical expertise and extensive industry experience. IAR Systems also has a high proportion of employees with advanced academic degrees. At IAR Systems, 89% (87) of employees have a post-secondary or higher education, and 11% (13) have a secondary education. The average age of the

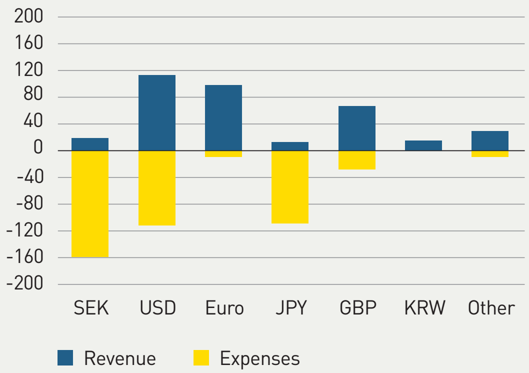
NET SALES
SEK M



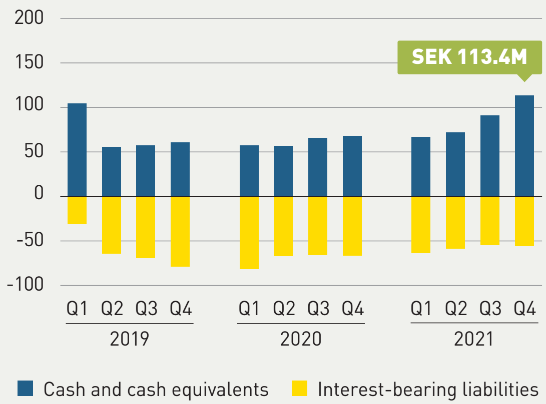
OPERATING PROFIT
SEK M



CURRENCY SPREAD
SEK M



NET CASH
SEK M



Group's employees is 47 (44). At year-end 2021, the gender distribution was 27% (26) women and 73% (74) men. The average number of employees in 2021 was 203 (208).

Risks and risk management

Like all business activities, IAR Systems' operations are associated with risks. Certain risks are within the company's control, while others are not. IAR Systems continuously identifies and manages the company's risks. The most significant risks and how we manage them are described below.

Three types of risks

In working with risks and risk management, we have divided the risks into three categories.

Market risks refers to external factors and events in the markets where IAR Systems is active that could impact our prospects of meeting our established targets. Market risks are events that we have limited opportunity to influence, but which we must be prepared for.

Operational risks refer primarily to internal factors and events that could impact our prospects for meeting our established goals and whose management is part of our day-to-day operating activities.

Financial risks refer to fluctuations in IAR Systems' profit and cash flow as a result of changes in exchange rates, interest rates, financing and credit risks.

Foreign exchange risk

When it comes to foreign exchange risk, the Group operates internationally and is exposed to foreign exchange risk arising from exposure to different currencies, predominantly the US dollar (USD), the euro (EUR), the British pound (GBP) and the Japanese yen (JPY). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the functional currency of the entity.

Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, deposits with banks and credit exposures to customers, including outstanding receivables and contractual transactions.

Liquidity risk

The Group manages liquidity risk by ensuring that it has adequate cash and cash equivalents and short-term investments with a liquid market while maintaining sufficient access to financing through committed credit facilities. Due to the dynamic nature of the Group's operations, management achieves flexibility in financing by maintaining agreements for withdrawable lines of credit.

For a more in-depth description of financial risks, see Note 2.

To a certain extent, IAR Systems can protect itself from risks through insurance. IAR Systems has Group-wide insurance coverage that is supplemented with local solutions where this is deemed necessary. The insurance is reviewed yearly in consultation with an external party. The insurance covers property, business interruption, crime against property, legal expenses, liability and Board/CEO liability, among other things.

Sensitivity analysis

The table below shows the effects on consolidated profit or loss after tax resulting from changes in a number of items in the income statement. Since the Group does not recognize any value changes in other comprehensive income pertaining to transaction and interest rate exposure, the corresponding effect occurs under equity.

Dec 31, 2021	Change	Effect on profit
Cost of goods sold	+/- 5%	+/- SEK 0.6m
Payroll expenses	+/- 5%	+/- SEK 9.4m
Currency – EUR	+/- 5%	+/- SEK 5.6m
Currency – USD	+/- 5%	+/- SEK 3.0m
Currency – GBP	+/- 5%	+/- SEK 0.8m
Currency – JPY	+/- 5%	+/- SEK 2.2m
Variable interest	+/- 1 percent-age point	+/- SEK 0.1m

The I.A.R. Systems Group's share

I.A.R. Systems Group's class B share is quoted on the Mid Cap list of Nasdaq Stockholm. I.A.R. Systems Group's share capital at December 31, 2021 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 13,649,445 are class B shares and 318,888 are class C shares. All class C shares are held in treasury with a quota value of SEK 10 per share and represent 2.3% of the share capital. Of the class C shares acquired in 2018, 8,179 shares, representing 0.2% of the share capital, were transferred for SEK 258,401.00 in 2021. The reason for the transfer of treasury shares in 2021 was to ensure the delivery of shares to employees upon the exercise of stock options under the Group's incentive program. A total of 35,693 class C shares have been converted into class B shares and delivered within the framework of the incentive program since the original buyback of 318,888 class C shares.

Probability: 1 Improbable, 2 Unlikely, 3 Possible, 4 Likely, 5 Probable

Impact: 1 Insignificant, 2 Minor, 3 Medium, 4 Large, 5 Very large

RISK AREA	DESCRIPTION	PROBABILITY	IMPACT	IAR SYSTEMS' RISK MANAGEMENT
MARKET RISKS				
Macroeconomic development	Customers' demand and willingness to invest are tied to their beliefs about future economic growth and the state of macroeconomic development in their own market. The Covid-19 pandemic had major global health consequences in 2020 and into 2021, and the measures being taken to reduce the spread of infection will ultimately have a significant impact on the global economy. Uncertainties regarding the semiconductor shortage in the wake of the pandemic, since there is a risk that our customers' lack of semiconductors could entail project delays.	4	3	IAR Systems manages these risks by selling the company's software in multiple industries around the world. IAR Systems works actively to adapt the company's software and organization to the prevailing demand situation. IAR Systems 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.
Products and technology	New fundamentally changed working methods, rapid technology shifts and changes in customer behavior create a risk of changed customer requirements that could affect IAR Systems' market position.	4	3	IAR Systems has well-established and strategic partnerships with all the principal processor makers, which means that the company's software supports more processors and architectures than any other product on the market. IAR Systems is the hub of an ecosystem of partners in processor manufacturing, real-time operating systems (RTOS) and add-on products. Following the acquisition of Secure Thingz, IAR Systems and Secure Thingz are now also able to offer possibilities for new security solutions for embedded systems.
Competitors	New and stronger competitors may lead to a risk of decreased demand for IAR Systems' software.	3	3	IAR Systems meets the risk of competition as an independent provider of development solutions for embedded systems by offering user-friendly, effective and fast software that supports the majority of architectures and processors. The company also offers support service.
OPERATIONAL RISKS				
Customer structure	Far-reaching dependency on individual industries could have a major impact on sales if an entire industry is experiencing difficulties.	2	2	IAR Systems strives to build long-term relationships with its customers. The Group is well diversified among customer categories, industries and geographical markets and no single customer accounts for a large share of the Group's total sales.
Income structure	A large share of one-time projects or maintenance agreements with short durations creates uncertainty if economic growth slows.	2	2	IAR Systems is endeavoring to increase the share of repeat customers. The share of repeat customers is already high and amounts to about 95%.
Supply of qualified personnel	IAR Systems' key competencies are found primarily in technological development and in its customer relationships.	3	3	IAR Systems works actively to retain and develop skills and competency in the company. Competency and loyalty are strengthened in the Group through training and knowledge sharing. IAR Systems has low employee turnover and distinct, shared core values.
FINANCIAL RISKS				
Foreign exchange risk	Foreign exchange risk refers to the risk of fluctuations in the company's transaction flows due to movements in foreign exchange rates.	5	4	IAR Systems operates internationally and is exposed to foreign exchange risk arising from exposure to different currencies, primarily the US dollar (USD), euro (EUR), British pound (GBP) and Japanese yen (JPY). The Group's sales in foreign currency account for about 95% of total sales. Most of the company's expenses are denominated in SEK. Measures to manage transaction-related foreign exchange risk are established in the Group's finance policy and include hedge accounting in specific cases. The objective is to minimize the short-term effect of the foreign exchange movement on profit while at the same time creating long-term freedom of action.
Liquidity risk	Liquidity risk refers to the risk that financing cannot be obtained, or can be obtained only at a significantly higher cost.	1	1	IAR Systems' liquidity risk is deemed to be relatively limited. At December 31, 2021, the Group had cash and cash equivalents of SEK 113.4m and unutilized bank overdraft facilities of SEK 207.0m. Interest-bearing liabilities on the same date amounted to SEK 56.0m, of which lease liabilities accounted for SEK 38.0m.
Credit risk	Credit risk refers to the risk that a party in a transaction with a financial instrument will be unable to meet its obligations. The main credit risk is that IAR Systems will not receive payment for trade receivables.	1	1	IAR Systems' credit risk is assessed to be relatively low. Trade receivables are distributed across a large number of counterparties in different industries, markets and customer types. The Group has established guidelines for ensuring that sales are made to customers with a suitable credit background. Historically, the cost of bad debt losses has been low. To limit risks, the company's credit policy contains guidelines and provisions for credit assessment of new customers, terms of payment and routines and processes for management of past due receivables.

Share price performance

During the year, the share price varied from a low of SEK 100.00 (95.80) to a high of SEK 166.00 (193.40). The share price at December 31, 2021 was SEK 117.80 (139.80). I.A.R. Systems Group's market capitalization on the same date was SEK 1,608m (1,906).

Ownership and control

The number of shareholders in I.A.R. Systems Group at December 31, 2021 was 7,271 (7,516). Of these shareholders, 472 (465) held more than 1,000 shares each. Foreign shareholders held approximately 27% (27) of the share capital and 27% (25) of the votes. For additional information about the I.A.R. Systems Group's share, see pages 36–37.

Guidelines for remuneration and other terms of employment for senior executives

The Board of Directors proposes to the 2022 AGM that the guidelines for remuneration to senior executives that were adopted by the 2021 AGM continue to apply.

The 2021 AGM approved the Board's proposed guidelines for remuneration to the company's senior executives as stated in Note 6 and in the corporate governance report. The guidelines state that the forms of remuneration to senior executives include fixed salary, variable remuneration that may amount to a maximum of 50% of fixed salary, pensions and other benefits. Fixed salary is to be market-based and individually differentiated on the basis of the individual's role, performance, results and responsibilities. Variable remuneration is to be based on the attainment of profit and sales targets, such as growth (net sales growth) and earnings before interest and taxes (EBIT), as well as qualitative individual targets linked to strategic and/or functional targets that are individually adapted based on responsibilities and function. These targets are to be designed to contribute to promoting I.A.R. Systems Group's business strategy and long-term interests, including its sustainability. The pension plan is to correspond to the cost for the ITP plan. However, the retirement age for the former CEO was 60, which means that the premium is higher than it would be if the retirement age was 65. In the event of dismissal by the company, the former CEO was entitled to full salary during a notice period of 12 months and termination benefits corresponding to a maximum of six monthly salaries. In the event of dismissal by the company, the current CEO is entitled to full salary during a notice period of six months. If employment is terminated by the current CEO, the notice period is six months. In the event of dismissal by the company, other senior executives are entitled to full salary during a notice period of three to six months. If employment is terminated by the senior executive, the notice period is three to six months. All senior executives are entitled to salary and other contractual benefits during the notice period.

The Board's proposal corresponds to the previously applied guidelines for remuneration to the company's senior executives. The principles apply to employment contracts entered into after the decision of the AGM and in cases where changes are made to existing terms of employment after this date. The group "Other senior executives" refers to the CFO in 2021, the Chief of Operations, the General Manager Embedded Security Solutions and the General Manager Embedded Development Tools. The Board of Directors has appointed a remuneration committee for the preparation of matters related to remuneration and other terms of employment for the company's management.

Deviation from the guidelines

The Board of Directors has the right to deviate from the above guidelines in individual cases where the Board finds special reason to do so.

Dividend policy

The Board of Directors intends to propose an annual dividend, or other similar transfer of value, corresponding to 30–50% of profit after tax. In addition, the Board may recommend a further transfer of capital to the shareholders, provided that the Board considers this action to be justified in view of anticipated future cash flow and the company's investment plans.

Proposed appropriation of profits

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

Share premium reserve	254,820,223.64
Retained earnings	162,995,366.13
Comprehensive income for the year	66,210,095.92
Total, SEK	484,025,685.69

The Board proposes that the profits be disposed of as follows:

To be carried forward to new account	484,025,685.59
Total, SEK	484,025,685.59

The Board of Directors intends to propose to the AGM on April 26, 2022 that no dividend be paid. The Board based this proposal on the fact that it will enable the company's growth strategy to be accelerated.

New sustainability taxonomy regulation 2022

On January 1, 2022 the disclosure requirements in the EU Taxonomy Regulation (Taxonomy Regulation 2020/852 of the European Parliament and of the Council) went into effect. I.A.R. Systems Group AB is not directly affected by the new requirements since the Group has fewer than 500 employees. However, the company is following developments carefully as any company in an investment chain may be affected even if the company by itself is not directly affected by the new disclosure requirements.

MULTI-YEAR OVERVIEW	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue, SEK m	200.4	230.1	230.2	255.7	311.7	328.4	345.0	385.2	405.6	372.0	355.9
Operating expenses, SEK m	-176.4	-194.9	-188.9	-202.5	-228.3	-231.9	-237.6	-269.6	-297.2	-288.2	-426.5
Operating profit, SEK m	24.0	35.2	41.3	53.2	83.4	96.5	107.4	115.6	108.4	83.8	65.7*
EBITDA margin, % **	14.7	18.2	22.0	24.9	31.5	34.5	36.9	36.4	35.9	35.7	33.7*
Operating margin, % **	12.0	15.3	17.9	20.8	26.8	29.4	31.1	30.0	26.7	22.5	18.5*
Return on equity, % **	6.4	5.3	10.9	14.5	21.9	25.9	28.1	20.8	14.2	9.9	-11.2
Equity per share, SEK **	21.82	22.34	23.90	22.85	23.03	22.13	22.99	40.38	43.43	44.97	42.88
Cash flow from operating activities per share, SEK **	3.09	3.41	3.43	5.63	7.81	9.04	9.81	7.05	7.78	8.69	9.65

** Adjusted for non-recurring items, refer to Reconciliations on page 45 ** This performance measure pertains to an alternative performance measure not defined by IFRS. For further information, refer to pages 41–45.*

Consolidated income statement

SEK m	Note	2021	2020
Net sales	1, 2, 3, 4	355.9	372.0
Other income		2.1	-
Goods for resale		-12.0	-14.1
Other external expenses	5	-38.3	-37.7
Personnel costs	6	-203.8	-187.5
Depreciation of property, plant and equipment	11	-3.7	-3.1
Depreciation of right-of-use assets	11	-16.7	-17.2
Amortization of intangible assets	10	-33.8	-28.6
Impairment of intangible assets	10	-118.2	-
Operating profit/loss		**-68.5**	**83.8**
Financial income	7	1.5	0.5
Financial expenses	7	-1.6	-7.5
Profit/loss before tax		**-68.6**	**76.8**
Income taxes	8	1.2	-17.4
PROFIT/LOSS FOR THE YEAR		**-67.4**	**59.4**

SEK m	Note	2021	2020
Profit for the year attributable to:			
Owners of the Parent Company		-67.4	59.4
Comprehensive income for the year attributable to:			
Owners of the Parent Company		-28.5	20.2
Earnings per share calculated on profit for the year attributable to owners of the Parent Company, SEK			
– basic	9	-4.94	4.35
– diluted	9	-4.94	4.35

Consolidated statement of comprehensive income

SEK m	2021	2020
Profit/loss for the year	-67.4	59.4
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Tax effect, items reported in comprehensive income	-2.3	2.2
Translation differences	41.2	-41.4
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-28.5**	**20.2**
Comprehensive income for the year attributable to owners of the Parent Company	-28.5	20.2

Consolidated balance sheet

SEK m	Note	Dec 31, 2021	Dec 31, 2020
ASSETS	1, 2		
Non-current assets			
Intangible assets	10		
Goodwill		355.9	332.7
Other intangible assets		175.5	244.0
Total intangible assets		**531.5**	**576.7**
Property, plant and equipment	11		
Leasehold improvements		2.0	1.3
Equipment		12.5	6.2
Right-of-use assets		35.6	46.9
Total property, plant and equipment		**50.1**	**54.4**
Financial assets			
Other non-current receivables	12, 17	3.0	2.9
Total financial assets		**3.0**	**2.9**
Deferred tax assets	8	2.5	3.5
Total non-current assets		**587.1**	**637.5**
Current assets			
Inventories		9.5	5.7
Current receivables			
Trade receivables	13, 17	58.9	58.7
Current tax assets	8, 14	0.8	6.7
Other current receivables	14, 17	2.9	4.4
Prepaid expenses and accrued income	15, 17	40.2	52.7
Total current receivables		**102.8**	**122.5**
Cash and cash equivalents	16, 17	113.4	67.8
Total current assets		**225.7**	**196.0**
TOTAL ASSETS		812.8	833.5

SEK m	Note	Dec 31, 2021	Dec 31, 2020
EQUITY AND LIABILITIES			
Equity	18, 19		
Share capital		139.7	139.7
Other contributed capital		228.0	227.8
Translation reserves		37.8	-1.0
Retained earnings including profit for the year		179.8	246.9
Total equity		**585.3**	**613.4**
Non-current liabilities			
Lease liabilities	17	19.5	31.7
Other non-current liabilities		1.1	1.1
Deferred tax liabilities	8	28.4	37.2
Total non-current liabilities		**49.0**	**70.0**
Current liabilities			
Trade payables	17	9.2	5.0
Liabilities to credit institutions	17	18.0	17.5
Lease liabilities	17	18.5	17.1
Current tax liabilities		1.8	-
Other liabilities	17	9.9	10.5
Deferred income		91.2	84.3
Accrued expenses	17	29.9	15.7
Total current liabilities		**178.5**	**150.1**
TOTAL EQUITY AND LIABILITIES		812.8	833.5

Consolidated statement of changes in equity

SEK m	Share capital	Other contributed capital	Translation reserves	Retained earnings	Total equity
Opening balance, January 1, 2020	**139.7**	**227.7**	**38.2**	**186.4**	**592.0**
Profit for the year				59.4	59.4
Other comprehensive income					
Translation differences			-39.2		-39.2
Total comprehensive income			**-39.2**	**59.4**	**20.2**
Transactions with owners					
Warrant payment		0.1			0.1
Value of share-based remuneration				1.1	1.1
Total transactions with owners		**0.1**		**1.1**	**1.1**
Opening balance, January 1, 2021	**139.7**	**227.8**	**-1.0**	**246.9**	**613.4**
Loss for the year				-67.4	-67.4
Other comprehensive income					
Translation differences			38.8		38.8
Total comprehensive income			**38.8**	**-67.4**	**-28.7**
Transactions with owners					
Warrant payment		0.2			0.2
Value of share-based remuneration				0.3	0.3
Total transactions with owners		**0.2**		**0.3**	**0.5**
CLOSING BALANCE, DECEMBER 31, 2021	139.7	228.0	37.8	179.8	585.3

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:
The share capital at December 31, 2021 amounted to SEK 139,683,334, divided between 13,649,445 class B shares and 318,888 class C shares. All shares have a quota value of SEK 10 each.

Consolidated cash flow statement

SEK m	Note	2021	2020
Operating activities			
Incoming payments from customers		359.4	378.4
Outgoing payments to suppliers and employees		-222.6	-250.4
Cash flow from operating activities before interest and income taxes paid		**136.8**	**128.0**
Interest received		0.0	0.1
Interest paid		-1.6	-1.8
Tax relief received		11.8	18.8
Income taxes paid		-15.4	-26.7
Cash flow from operating activities		**131.6**	**118.4**
Investing activities			
Investments in intangible assets	10	-64.2	-78.2
Investments in property, plant and equipment	11	-9.9	-3.2
Cash flow from investing activities		**-74.1**	**-81.4**
Financing activities			
Share warrants		0.2	0.1
Borrowings		0.9	5.5
Amortization of financial liabilities		-16.2	-30.2
Cash flow from financing activities		**-15.1**	**-24.6**
Cash flow for the year		42.4	12.4
Cash and cash equivalents at beginning of year		67.8	60.7
Exchange difference in cash and cash equivalents			
– attributable to cash and cash equivalents at beginning of year		2.7	-4.3
– attributable to cash flow for the year		0.5	-1.0
CASH AND CASH EQUIVALENTS AT END OF YEAR	16	113.4	67.8

Parent Company income statement

SEK m	Note	2021	2020
Net sales	1, 2	13.1	13.0
Other external expenses	5	-4.6	-3.6
Personnel costs	6	-32.9	-15.5
Depreciation of property, plant and equipment	11	-0.0	-0.0
Operating loss		**-24.4**	**-6.1**
Profit from financial items			
Total financial income	7	15.1	1.8
Total financial expenses	7	-0.7	-11.0
Loss before tax		**-10.0**	**-15.3**
Appropriations, Group contributions		94.0	71.0
Tax on profit for the year	8	-17.8	-11.9
PROFIT FOR THE YEAR		66.2	43.8

Parent Company statement of comprehensive income

SEK m	2021	2020
Profit for the year	66.2	43.8
Other comprehensive income	-	-
Items that may be reclassified subsequently to profit or loss	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	66.2	43.8

Parent Company balance sheet

SEK m	Note	Dec 31, 2021	Dec 31, 2020
ASSETS	1, 2		
Non-current assets			
Property, plant and equipment			
Equipment	11	0.2	0.2
Total property, plant and equipment		**0.2**	**0.2**
Financial assets			
Participations in Group companies	22	481.4	481.2
Other non-current receivables	12	0.1	0.1
Deferred tax assets	8	0.0	0.0
Total financial assets		**481.5**	**481.3**
Total non-current assets		**481.7**	**481.5**
Current assets			
Current receivables			
Receivables from subsidiaries		172.7	116.6
Current tax assets	8	-	5.2
Other current receivables	14	0.1	2.7
Prepaid expenses and accrued income	15	0.4	1.0
		173.2	**125.5**
Cash in hand and bank deposits	16	4.5	0.6
Total current assets		**177.7**	**126.1**
TOTAL ASSETS		659.4	607.6

SEK m	Note	Dec 31, 2021	Dec 31, 2020
EQUITY AND LIABILITIES			
Equity	18, 19		
Restricted equity			
Share capital		139.7	139.7
		139.7	**139.7**
Non-restricted equity			
Share premium reserve		254.8	254.6
Retained earnings		162.7	118.9
Comprehensive income for the year		66.5	43.8
		484.0	**417.3**
Total equity		**623.7**	**557.0**
Current liabilities			
Trade payables		0.5	0.3
Liabilities to credit institutions		18.0	17.5
Liabilities to subsidiaries		1.4	27.0
Current tax liabilities		0.6	-
Other liabilities		1.1	2.6
Accrued expenses	20	14.1	3.2
Total current liabilities		**35.7**	**50.6**
TOTAL EQUITY AND LIABILITIES		659.4	607.6

Parent Company statement of changes in equity

SEK m	Share capital	Share premium reserve	Retained earnings	Total equity
Opening balance, January 1, 2020	**139.7**	**254.5**	**117.9**	**512.1**
Warrant payment		0.1		0.1
Value of share-based remuneration			1.1	1.1
Total changes in equity not recognized in the income statement		**0.1**	**1.1**	**1.2**
Profit for the year			43.8	43.8
Other comprehensive income				
Total comprehensive income			**43.8**	**43.8**
Opening balance, January 1, 2021	**139.7**	**254.6**	**162.7**	**557.0**
Warrant payment		0.2		0.2
Value of share-based remuneration			0.3	0.3
Total changes in equity not recognized in the income statement		**0.2**	**0.3**	**0.5**
Profit for the year			66.2	66.2
Other comprehensive income				
Total comprehensive income			**66.5**	**66.7**
CLOSING BALANCE, DECEMBER 31, 2021	139.7	254.8	229.2	623.7

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2021 amounted to SEK 139,683,334, divided between 13,649,445 class B shares and 318,888 class C shares. All shares have a quota value of SEK 10 each. The share capital at December 31, 2020 amounted to SEK 139,683,334, divided between 100,000 class A shares, 13,536,159 class B shares and 332,174 class C shares. All shares have a quota value of SEK 10 each.

Parent Company cash flow statement

SEK m	Note	2021	2020
Operating activities			
Incoming payments from subsidiaries		13.1	13.9
Outgoing payments to suppliers and employees		-24.0	-17.9
Cash flow from operating activities before interest and income taxes paid		**-10.9**	**-4.0**
Interest received		2.4	1.8
Interest paid		-0.7	-0.6
Adjustments for exchange differences		12.7	-10.4
Income taxes paid		-12.6	-20.2
Cash flow from operating activities		**-9.1**	**-33.4**
Investing activities			
Investments in property, plant and equipment	22	-0.0	-0.1
Cash flow from investing activities		**-0.0**	**-0.1**
Financing activities			
Share warrants incoming payments		0.2	0.1
Change in borrowings to/from subsidiaries		-81.7	-30.9
Borrowings		0.5	-
Amortization of borrowings		-	-7.4
Group contributions		94.0	71.0
Cash flow from financing activities		**13.0**	**32.8**
Cash flow for the year		**3.9**	**-0.7**
Cash and cash equivalents at beginning of year		0.6	1.3
CASH AND CASH EQUIVALENTS AT END OF YEAR	16	4.5	0.6

Notes

Note 1. Summary of significant accounting policies

General

I.A.R. Systems Group AB (publ), corporate identification number 556400-7200, is a Swedish registered limited liability company domiciled in Stockholm, Sweden. The address of the company's head office is Kungsgatan 33, SE-111 56 Stockholm, Sweden. I.A.R. Systems Group AB is the Parent Company of a Group that was founded in 1985 and listed on the stock exchange in 1999.

I.A.R. Systems Group AB is quoted on the Mid Cap list of Nasdaq Stockholm under the ticker symbol IAR.

The consolidated financial statements were approved for publication by the Board of Directors on March 23, 2022.

Group

1.1 Basis of presentation

I.A.R. Systems Group AB's consolidated financial statements are presented in accordance with the Swedish Annual Accounts Act, RFR 1, Supplementary Accounting Rules for Groups, International Financial Reporting Standards (IFRS) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) that have been endorsed for application in the EU.

The functional currency of the Parent Company is Swedish kronor (SEK), which is also the presentation currency of the Parent Company and the Group. The financial statements are therefore presented in SEK. All amounts, unless otherwise stated, are rounded off to the nearest million. The consolidated financial statements have been prepared according to the cost method, except as stated below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires that management exercise its judgment in the process of applying the company's accounting policies. The estimates and assumptions are based on past experience and a number of other factors that are considered reasonable under the given circumstances. The results of these estimates and assumptions are then used to make judgments about the carrying value of assets and liabilities that cannot be readily determined from other sources. Actual outcomes may differ from these estimates and judgments. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant for the consolidated financial statements, are disclosed in Note 1 below.

New and amended standards and interpretations applicable for 2021

The Group applies the following new or amended IFRS from the IFRS Interpretations Committee as of January 1, 2021:

Standards	To be applied for financial years beginning:
Changes in IFRS 3, IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	On or after January 1, 2021

These new standards and interpretations have not had a material effect on the Group's financial reporting for the year and are not expected to have a material effect on the coming periods or future transactions.

New and changed standards and interpretations that are not yet effective

The new or amended standards and new interpretations that have been issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) but are effective for financial years starting on or after January 1, 2022 have not yet been applied by the Group.

The IASB has issued the following new and amended standards that are not yet effective:

Standards	To be applied for financial years beginning:
Changes in IFRS 3 Business Combinations	On or after January 1, 2022
Changes in IAS 16 Property, Plant and Equipment	On or after January 1, 2022
Changes in IAS 37 Provisions, Contingent Liabilities and Contingent Assets	On or after January 1, 2022
Changes in IFRS 1 First-time Adoption of International Financial Reporting Standards,	
IFRS 9 Financial Instruments, IFRS 16 Leases, IAS 41 Agriculture	On or after January 1, 2022
IFRS 17 Insurance Contracts	On or after January 1, 2023
Changes in IAS 1 Presentation of Financial Statements (classification of liabilities)	On or after January 1, 2023
Changes in IAS 1 Presentation of Financial Statements (disclosure of accounting policies)*	On or after January 1, 2023
Changes in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*	On or after January 1, 2023
Changes in IAS 12 Income Taxes*	On or after January 1, 2023

** Not yet approved within the EU.*

The above new and amended standards and statements from IFRIC are not expected to have any material impact when they are applied for the first time.

Revenue recognition

Revenue is measured based on the remuneration stated in the customer contract, excluding value-added tax (VAT). The Group recognizes revenue when control of a product or service is transferred to a customer. Remuneration normally falls due for payment when the right of ownership has been transferred. The Group's payment terms average from 30 to 60 days. The Group invoices customers for licenses upon delivery. The Group recognizes assets as trade receivables when the Group has an unconditional right to payment.

Payment for technical support and software updates is normally received in advance and the difference between payments received and reported revenue is recognized as a contract liability. The Group has no variable payments. The transaction price is determined in the contract with the customer. Payment terms may be extended in exceptional cases, but may never exceed 12 months, which is why no adjustment is made for effects of significant financing components.

Most of the Group's revenue pertains to licenses. In most cases, in conjunction with the sale of a license, a one-year agreement is signed for technical support and upgrades. Licenses, technical support and upgrades are deemed to be three separate performance obligations in accordance with IFRS 15 and must thus be reported separately.

Revenue from software license fees is recognized upon delivery, which is not considered to have occurred until the access code for the license or the DVD with the software has been made available to the customer. Revenue arising from upgrade agreements and support is accrued on a straight-line basis over the term of the contract. Revenue is recognized only to the extent of the expenses recognized that are likely to be recoverable from the customer.

CONT. NOTE 1

Licenses

Licenses for software are delivered to customers electronically. Licenses are assessed to comprise the "right to use licenses" in accordance with IFRS 15, since the customer can control the use of, and receives essentially all remaining benefits associated with, the license at the time the license is delivered. Revenue from sales of licenses is recognized when the customer can control the use of the license, which normally occurs when the license has been transferred to the customer electronically.

Technical support

When necessary, the Group provides customers with technical support during the contract period. Utilized technical support does not fluctuate significantly between months and customers pay the same amount regardless of how many times the service is utilized. The performance obligation for technical support is transferred to the customer "over time" and the customer's access to technical support is considered to be evenly distributed over the entire contract period, which entails that revenue is recognized on a straight-line basis over the contract period.

Software updates

The offering of software updates entails an assurance that all updates developed by IAR during the contract period will be provided as and when they become available. The number of updates cannot be stated in advance. The performance obligation for software updates is considered to be transferred to the customer "over time" and the customer's utilization of the updates is considered to be evenly distributed over the entire contract period, which entails that revenue is recognized on a straight-line basis over the contract period.

1.2 Consolidated financial statements

The consolidated financial statements include the Parent Company I.A.R. Systems Group AB and those companies over which the Parent Company has control (subsidiaries). Control exists when the Parent Company has power over the investee, is exposed to or has rights to variable returns from its involvement with the investee and has the ability to use that control over the investee to affects its returns. The composition of the Group is presented in Note 22.

The Parent Company reassesses whether control exists if facts and circumstances indicate that any of the above factors have changed.

Subsidiaries are consolidated from the date on which control is transferred to the Parent Company and are deconsolidated from the date on which control ceases. This means that income and expenses for a subsidiary that is acquired or sold during the current financial year are included in the consolidated income statement and statement of comprehensive income from the date on which the Parent Company gains control and until the date when control passes from the Parent Company.

Consolidated profit and components of other comprehensive income are attributable to owners of the Parent Company and to non-controlling interests even if this leads to a negative value for non-controlling interests.

The accounting policies of subsidiaries have been adjusted, when necessary, to ensure consistency with those policies applied by Group. All inter-company transactions, balances and unrealized gains and losses attributable to inter-company transactions have been eliminated on consolidation.

1.3 Business combinations

Business combinations are reported according to the acquisition method of accounting. The consideration transferred for the acquisition of a subsidiary consists of the fair value of the assets transferred and the liabilities assumed by the Group from the previous owner of the acquired company and the equity instruments issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from an agreement for contingent consideration. The identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values on the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interests in the acquired company either at fair value or at the holding's proportionate share of the carrying amount of the acquired company's identifiable net assets. Acquisition-related costs are expensed as incurred. In a business combination achieved in stages, any previously held equity interest in the acquired company is remeasured at fair value on the acquisition date. Any resulting gains or losses are recognized in profit or loss. Any contingent consideration payable by the Group is measured at fair value at the acquisition date. Subsequent changes in the fair value of a contingent consideration that is classified as a contingent asset or liability are recognized in accordance with the prevailing standard either in profit or loss or in other comprehensive income. If a contingent consideration is classified as an equity instrument, it is not remeasured and settlement is accounted for within equity. Goodwill is initially measured as the difference between the aggregate of the acquisition date fair value of the consideration transferred and the amount of any non-controlling interests, and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If the amount of consideration transferred is lower than the fair value of the acquired company's net assets, the resulting gain is recognized directly in profit or loss. All inter-company transactions, balance sheet items, income and expenses arising from transactions between Group companies are eliminated.

1.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the function responsible for allocating resources and assessing the performance of the operating segments. In the Group, this function has been identified as the CEO of the company.

The Group has one operating segment: IAR Systems.

1.5 Foreign currency translation

a) Functional and presentation currency

The items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment where the entity operates (the functional currency). The consolidated financial statements are presented in SEK, which is the functional and presentation currency of the Parent Company.

b) Transactions and balances

Foreign currency transactions are translated to the functional currency at the exchange rates prevailing on the transaction dates or the dates on which the items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities in foreign currencies at the closing day rate are recognized in the income statement.

c) Group companies

The results and financial positions of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency other than the presentation currency are translated into the Group's presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing day rate of exchange,
- income and expenses for each income statement are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the dates of the transactions, in which case income and expenses are translated at the rates on the dates of the transactions), and all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences resulting from the translation of the net investment in foreign operations are taken to equity and recognized as an item in comprehensive income.

CONT. NOTE 1

This also includes exchange differences in inter-company loans where the loan is a part of the Group's net investment in foreign operations. When a foreign operation is disposed of or sold, such foreign exchange gains and losses are recognized in the income statement as part of the capital gain or loss on the sale.

The following exchange rates have been used:

Country	Currency	Closing day rate	Average rate
USA	USD 1	9.0437	8.5815
France, Germany	EUR 1	10.2269	10.1449
UK	GBP 1	12.1790	11.8022
Japan	JPY 1	0.0785	0.0781
China	CNY 1	1.4186	1.3307
Taiwan	NTD 1	0.3205	0.3013
South Korea	KRW 1	0.0076	0.0075
India	INR 1	0.1216	0.1160

1.6 Property, plant and equipment

All items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. The residual values and useful lives of assets are reviewed at each balance sheet date and adjusted if appropriate. An asset's carrying amount is impaired immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. On disposal of the asset, any resulting gains are recognized in other income and losses are recognized in other operating expenses. Subsequent expenditure is included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred. Specific accounting policies regarding right-of-use assets are detailed below.

Property, plant and equipment are systematically depreciated over their estimated useful life. Straight-line depreciation periods are used and the following depreciation periods hereby apply:

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

Recognition of right-of-use assets

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. 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 item "Other external expenses" in consolidated profit or loss.

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 does not apply this exception. IAR Systems uses the following practical expedients permitted under IFRS 16:

- Lease payments on a lease that, at the commencement date, had a term of 12 months or less are recognized as a cost in the relevant period.
- 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.

1.7 Intangible assets

a) Goodwill

Goodwill is initially measured as the difference between the aggregate of the acquisition date fair value of the consideration transferred and the amount of any non-controlling interests, and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is tested for impairment annually, or more often in the event that there are indications of a decrease in value, to identify any impairment requirements, and is recognized at cost less accumulated impairment losses. The gain or loss arising on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to the lowest cash-generating units or groups of cash-generating units that can be expected to benefit from the business combination that has given rise to the goodwill item. Goodwill is tested for impairment at the lowest level in the Group at which goodwill is monitored for internal management purposes, which comprises the cash-generating unit IAR Systems.

b) Technology

Technology is recognized at cost in accordance with the relief-of-royalty method. This method is based on the assumption that the acquirer could have obtained similar rights through licensing rather than purchasing the asset in question. Technology has a finite useful life and is recognized at cost less accumulated amortization. Technology is amortized over its estimated useful life of 13 years.

c) Trademarks

Trademarks are recognized at cost. Trademarks have a finite useful life and are recognized at cost less accumulated amortization. Trademarks are amortized over their estimated useful lives of 15 years.

d) Software

Intangible assets with determinable useful lives that are acquired separately are recognized at cost less accumulated amortization and any accumulated impairment. Amortization takes place on a straight-line basis over the asset's estimated useful life, which is expected to be either five or six years. The estimated useful life and amortization method is tested at least once at the end of each financial year, and the impact of any changes to assessments is recognized prospectively.

e) Internally generated intangible assets – capitalized expenditure for the development of software and debug probes

Internally generated intangible assets that originate from the Group's development of software (primarily IAR Embedded Workbench and Embedded Trust) and debug probes are recognized only if the following conditions are met:

- it is technically feasible to complete the intangible asset and utilize it or sell it,
- the company aims to complete the intangible asset and utilize it or sell it,
- there are prerequisites in place to utilize or sell the intangible asset,
- the company can demonstrate that the intangible asset will generate probable, future economic benefits,
- there are adequate technical, financial and other resources available to complete the development and to utilize or sell the intangible asset, and
- the expenditure associated with the intangible asset during its development can be reliably calculated.

CONT. NOTE 1

If it is not possible to recognize an internally generated intangible asset, the costs for development are recognized as expenses in the period in which they occur. Following initial recognition, internally generated intangible assets are recognized at cost less accumulated amortization and any accumulated impairment.

The estimated useful life for internally generated assets is five to eight years depending on the type of product the capitalization concerns. IAR Systems operates in a rapidly changing market, since developments in processor manufacture/design and particularly in the area of usage (processors are being used in a growing number of products and more processors are being used in the products) is changing rapidly. IAR Systems' tools are created in order to program these processors – this market is not changing as rapidly and, although the company's products are being further developed, the basic platform remains intact. The estimated useful life and amortization method is tested at least once at the end of each financial year, and the impact of any changes to assessments is recognized prospectively.

1.8 Impairment losses

Assets that have an indefinite useful life are not subject to amortization/depreciation and are instead tested for impairment. Impairment testing is done annually and when indications of impairment requirements exist. Assets that are subject to amortization/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Previously recognized impairment losses on non-financial assets other than goodwill are reviewed for possible reversal of the impairment at each balance sheet date.

1.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated variable costs necessary to make a sale.

1.10 Financial assets and liabilities

Financial assets are classified either as an asset measured at fair value through profit or loss, as an asset measured at fair value through comprehensive income or as an asset measured at amortized cost. The measurement category to which a financial asset belongs depends partly on the company's business model (purpose for the holding of the financial asset) and partly on the financial asset's contractual cash flows. Financial liabilities are divided between liabilities at fair value through profit or loss and other liabilities.

Recognition and measurement of financial assets

Financial assets are measured according to three categories:

- Hold to collect – Assets that are held to collect contractual cash flows and that only comprise payments of the principal and interest on the outstanding principal. These are measured at amortized cost.
- Hold to collect and sell – Assets that are held to both collect contractual cash flows and sell investments and that only comprise payments of the principal and interest on the outstanding principal. These are measured at fair value through other comprehensive income.
- Other – Other financial assets and investments in equity instruments. These are measured at fair value through other comprehensive income.

Investments in equity instruments are measured at fair value. In cases where Group management has chosen to recognize changes in the fair value of equity instruments through other comprehensive income, the changes in fair value are not subsequently reclassified to profit or loss when the instrument has been derecognized from the balance sheet. Dividend from such investments are recognized in profit or loss as other income when the Group's right to receive payment has been established. All of the Group's financial assets are recognized at amortized cost.

The credit reserve for trade receivables and contract assets is based on expected losses. IAR Systems uses the simplified approach for trade receivables, meaning that the reserve will correspond to the expected loss for the entire useful life. The expected credit losses for these financial assets are calculated using a provision matrix based on previous events, current conditions and forecasts of future financial conditions and the time value of money, where applicable.

Recognition and measurement of financial liabilities

Financial liabilities are divided between liabilities at fair value through profit or loss and other liabilities. The basic principle for other liabilities is that they are measured at amortized cost or cost. All of the Group's financial assets are recognized at amortized cost.

1.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank deposits and are measured at amortized cost.

1.12 Lease liabilities

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.

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.

CONT. NOTE 1

- 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.

1.13 Borrowings

Borrowings are initially measured at fair value, net of transaction costs incurred.

Borrowings are subsequently measured at amortized cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer payment of the liability for at least 12 months after the balance sheet date. A financial liability is derecognized from the balance sheet when the obligation is discharged, canceled or otherwise extinguished.

1.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. Trade payables are initially measured at fair value and subsequently at amortized cost with the application of the effective interest rate method. Since the expected maturity of trade payables is short, these are recognized at their nominal amount.

1.15 Current and deferred tax

The tax expense for the period consists of current tax and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In such cases, the resulting tax effect is also recognized in other comprehensive income or equity, respectively.

The current income tax expense is calculated on the basis of the tax laws that have been enacted or substantively enacted at the balance sheet date in the countries where the Parent Company and its subsidiaries operate and generate taxable income. Management regularly evaluates positions taken in tax returns with respect to situations in which the applicable tax regulations are subject to interpretation and, when deemed appropriate, makes provisions on the basis of amounts that are expected to be paid to the tax authorities.

The reported income tax expense includes tax payable or receivable with respect to the year's profit or loss, adjustments in current tax from earlier periods and changes in deferred tax. All tax liabilities/receivables are measured at the nominal amount according to the tax rules and tax rates that have been enacted or substantively enacted at the balance sheet date. For items that are recognized in the income statement, the related tax effects are also recognized in the income statement.

Deferred tax is calculated according to the balance sheet method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts.

Temporary differences are not recognized for consolidated goodwill or shares in subsidiaries that are not expected to be taxed in the foreseeable future. Deferred tax assets relating to tax loss carryforwards or other future tax deductions are recognized only to the extent that it is probable that future taxable profit will be available against which the deduction can be utilized.

1.16 Provisions

Provisions for contingent consideration and legal claims are recognized when the Group has a present obligation (legal or constructive) that has arisen as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably.

1.17 Employee benefits

a) Pension obligations

The Group has defined contribution pension plans under which each company pays fixed contributions to a separate legal entity and has no legal or constructive obligation to pay further contributions. The contributions are recognized as personnel costs when they are due. Prepaid contributions are recognized as an asset to the extent that the Group may receive a cash refund or a reduction in future payments.

b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to terminate the employment of an employee or group of employees according to a detailed formal plan and is without realistic possibility of withdrawal, or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

c) Bonus plans

The Group recognizes a liability and an expense for bonuses when there is a legal obligation, in accordance with the company's bonus models, based on sales and/or profit.

d) Share-based remuneration

Share-based remuneration is recognized in accordance with IFRS 2, which means that the cost of the warrant program is recognized on a straight-line basis during the vesting period. Costs for share-based remuneration are recognized over the period during which the individual is employed. In certain cases, employment might begin before the allotment date, in which case the fair value of the equity instrument at the allotment date is estimated so that a cost can be recognized for the time between the date on which employment started and the allotment date. When the allotment date has been established, the previous estimate is remeasured so that the amount recognized is based on the fair value at the allotment date. For equity instruments that include performance conditions, costs are remeasured regularly during the vesting period in relation to the established level of fulfillment of the performance targets. The outcome of the performance targets can mean that the equity instrument is paid in part or in full. Social security expenses tied to share-based remuneration are remeasured regularly to estimate their fair value at the allotment date during the vesting period.

For the portion of equity instruments considered vested before the acquisition date, share-based remuneration connected to acquisitions is recognized as part of the purchase consideration. The portion of equity instruments pertaining to vesting after the acquisition date is recognized as remuneration of personnel in pace with the vesting of the equity instruments, either as a part of internally generated intangible assets in accordance with the Group's recognition of expenditures for development or as an expense in the period when they arise.

1.18 Foreign exchange gains and losses

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

1.19 Borrowing costs

The Group has no borrowing costs that are directly attributable to the purchase, construction or production of assets that take a substantial period of time to prepare for their intended use or sale. In view of this, borrowing costs are expensed in the period in which they are incurred.

CONT. NOTE 1

1.20 Cash flow statement

The cash flow statement is presented in accordance with the direct method. The reported cash flow includes only transactions that lead to cash receipts or payments. Cash and cash equivalents comprise cash on hand and bank deposits, together with short-term financial investments that are subject to an insignificant risk of changes in value, are traded on an open market in known amounts or have a remaining maturity of three months or less from the date of acquisition.

Parent Company

1.21 Accounting policies of the Parent Company

The annual financial statements of the Parent Company are presented in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. RFR 2 states that in the annual report for the legal entity, the Parent Company is to apply all EU-endorsed IFRS and statements as far as possible within the framework of the Annual Accounts Act and with consideration given to the connection between accounting and taxation. This recommendation defines the exceptions and additional disclosures compared to IFRS. The differences between the accounting policies applied by the Group and the Parent Company are described below. The following accounting policies for the Parent Company have been applied consistently for all periods presented in the Parent Company's financial statements.

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.

Amendments to accounting policies

The amendments to RFR 2 Accounting for Legal Entities that took effect and apply for the 2021 financial year are the same as those presented for the Group.

Amendments to RFR 2 that are not yet effective

The Parent Company has not yet begun to apply the amendments to RFR 2 Accounting for Legal Entities that took effect January 1, 2022 or later. Management's assessment is that these amendments will not have any material impact on the Parent Company's financial statements when they are applied for the first time.

1.22 Group contributions

The Parent Company recognizes contributions in accordance with the principal rule, which entails that Group contributions received as financial income and Group contributions paid to subsidiaries are recognized as an increase in participations in Group companies.

1.23 Leases

In the Parent Company, all leases are recognized according to the rules for operating leases regardless of whether they are operating or finance leases, which means that the lease expense is recognized on the straight-line basis over term of the lease.

1.24 Dividends

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

1.25 Participations in Group companies

In the Parent Company's financial statements, participations in subsidiaries are measured at cost less any impairment losses. Dividends received from subsidiaries are recognized only to the extent that these derive from profits arising after the acquisition date.

Critical accounting estimates and judgments

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that are associated with a significant risk for material adjustments to the carrying amounts of assets and liabilities within the next financial year are described below.

a) Impairment testing of goodwill and other intangible assets and identification of the number of cash-generating units

The Group tests goodwill for impairment annually, in accordance with the accounting policy stated in 1.7. The recoverable amounts of cash-generating units have been determined based on calculations of value in use. These calculations require the use of estimates (Note 10).

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

The growth rate used is based on past performance and management's expectations for market development. For year one, this corresponds to the budget and business plan established by the Board of Directors. For years two to five, this corresponds to management's forecasts. Cash flows beyond the five-year period are extrapolated based on a growth rate of 2%. This growth rate does not exceed the long-term growth rate for the market.

The estimated operating margin used in the calculation of value in use is based on past performance and management's expectations for market development. For year one, this corresponds to the budget and business plan established by the Board of Directors. For years two to five, this corresponds to management's forecasts. Cash flows beyond the five-year period are extrapolated based on an estimated operating margin on a level with year five. The discount rates used, 9.6% (10.4), are stated before tax and are deemed to reflect specific risks relating to the operating segments.

For other intangible assets, corresponding impairment testing is performed for assets that have not yet been utilized or if other indicators exist that may impact the value of the assets. The impairment test is based on an assessment of the asset's future cash flow. The discount rates used, 9.6% (10.4), are stated before tax and are deemed to reflect specific risks relating to the asset. No reasonable potential change to the key assumption would lead to impairment.

Identification of the number of cash-generating units is included in the material assessments. See the detailed description in Note 10 Intangible assets.

b) Measurement at fair value in connection with business combinations

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Under the guidance of the CFO, management determines appropriate the measurement methods and inputs for measurement at fair value. Material assessments are reported to the Board of Directors on an ongoing basis. In connection with the acquisition of Secure Thingz in the comparative year 2018, the acquired assets and liabilities were measured at fair value. Measurement of certain assumed assets involved significant assumptions and assessments on the part of management since no external market data was available. To assist management in determining such assumptions and assessments, external third-party experts in the area were engaged to ensure that a suitable measurement method had been used.

c) Income tax

The Group is subject to income taxation in several countries. Extensive judgment is required to determine the recognition of income taxes in the consolidated financial statements. There are many transactions and calculations for which the ultimate tax determination is uncertain at the date of the transactions and calculations.

As of December 31, 2021, the Group had accumulated loss carryforwards outside Sweden of SEK 217m, of which SEK 58m (91) are reported in the consolidated balance sheet. The deferred

CONT. NOTE 1

tax asset is recognized in the balance sheet in an amount of SEK 2.5m (3.5), of which SEK 11.0m (15.4) pertains to loss carryforwards. Loss carryforwards can be attributed to the Group's operations in the UK. 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 2020 financial year. This supplied the Group with SEK 11.8m (18.8) during the third quarter of 2021. 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. The estimated equivalent payment in 2022 is SEK 11.0m.

The item deferred tax assets also includes deferred tax liabilities that will be recognized in a net amount since they are connected to the same tax subject and are expected to be settled.

d) Revenue recognition

In certain cases, the Group's sales contracts include delivery of several different sub-components, so-called multiple elements. In these cases, the Group has allocated revenue based on the estimated fair values of the respective sub-components in order to achieve accounting that reflects the underlying economics of the transaction. In addition, the Group assesses the probability that the economic benefits will flow to the Group on the basis of several factors, such as a customer's payment history and credit rating. The credit reserve for trade receivables, contract assets and lease receivables is based on expected losses. The simplified approach for trade receivables is also used, meaning that the reserve will correspond to the expected loss for the entire useful life.

e) Exchange differences in inter-company loans

On consolidation, exchange differences resulting from the translation of the net investment in foreign operations are taken to equity and recognized as an item in comprehensive income. Exchange differences in inter-company loans where the loan is a part of the Group's net investment in foreign operations. According to management's assessment, settlement of the loan is not planned or likely to happen in the foreseeable future, which is a prerequisite for recognizing the exchange differences according to the above. This assessment includes the Parent Company's lending to development operations in the UK.

f) Assessment of useful lives for in-house developed software

Assessments and estimates are made by company management upon the launch of in-house developed software to determine the useful life for the intangible asset, which is the basis for its rate of amortization. The assessment includes reviewing the typical product life cycle and the technological and commercial obsolescence for asset and similar assets. Management also tests their assessment on an annual basis to ensure the length of the useful life.

Note 2. Financial risk management

Operational risks

In addition to the description of the Group's operational risks presented below, further descriptions of the Group's risks can be found in the administration report on page 49.

Customers

IAR Systems strives to build long-term relationships with its customers. The Group is well diversified among customer categories, industries and geographical markets and no single customer accounts for a large share of the Group's total sales. Despite this, the loss of one or more major customers could have a negative impact on the Group's business and results.

Employees

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

Technology

In the IT sector, it is of the utmost importance to offer products and services using advanced technology. IAR Systems' in-house developed software is assessed to be technologically advanced. However, it cannot be ruled out that the company could be negatively affected by future technology shifts.

Competitors

IAR Systems competes with both international and domestic companies. The company enhances its competitiveness by building knowledge, investing in technological development and strengthening its customer relationships.

Business cycle

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

Financial risk factors

The carrying amounts, less accumulated impairment, of trade receivables and trade payables are assumed to correspond to their fair values, since these items are of a short-term nature. Through its operations, the Group is exposed to various types of financial risk: foreign exchange risk, credit risk and liquidity risk. The Group's overall risk management policy is focused on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Group's financial performance. Risk management is handled according to policies that are adopted by the Board of Directors and joint risk management is applied for the Parent Company and all units in the Group.

Management identifies, evaluates and hedges financial risks.

a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to different currencies, primarily the US dollar (USD), euro (EUR), British pound (GBP) and Japanese yen (JPY). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the functional currency of the entity.

The Group's sales in foreign currency, mainly USD, EUR and JPY, account for approximately 95% (94) of total sales. Of the cost of goods sold, which accounts for about 3% (5) of the Group's cost base, approximately 63% (51) of purchases are denominated in foreign currency, primarily in USD, EUR, GBP and JPY.

Measures to manage transaction-related foreign exchange risk are established in the Group's finance policy. The objective is to minimize the short-term effect of the foreign exchange movement on profit while at the same time creating long-term freedom of action. No hedging of foreign currency cash flows was carried out during the financial year. The company's measures to manage foreign exchange risk, in accordance with the Group's internal pricing strategy, are to invoice each sales company monthly and thereafter exchange the received foreign currency for SEK. In addition to the transaction-related foreign exchange risk, the Group has surplus values related to the acquisition of operations outside Sweden (refer to Note 10, Signum Systems Corp,

CONT. NOTE 2

USD and Secure Thingz Inc, GBP), which are continuously remeasured at the closing day rate, which thus impacts the total assets in the accounts.

SEK m	Total	SEK	USD	EUR	GBP	JPY	Other currencies
Sales	355.9	19.3	113.4	98.5	12.9	67.2	44.6
Cost of goods sold	12.0	6.4	2.3	0.0	0.7	2.6	0.1
Other expenses	414.5	152.5	109.2	9.1	108.5	25.6	12.5

b) Credit risk

Credit risk is managed at the Group level. Credit risk arises from cash and cash equivalents, deposits with banks and credit exposures to customers, including outstanding receivables and contractual transactions. For banks, only independently rated parties with a minimum credit rating of "A" are accepted. Individual risk limits for customers are set based on internal credit assessments with external support in accordance with the limits set by management.

The utilization of credit limits is regularly monitored. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-payment by these counterparties in excess of the amount for which provisions have been made.

Credit risks in trade receivables and contract receivables

The Group conducts sales to a large number of customers. Most of the Group's sales are made to customers outside Sweden and the USA is a large and important market.

Sales are subject to normal delivery and payment conditions. The Group's credit granting policy contains rules to ensure that management of customer credits includes credit assessment, credit limits, decision-making levels and management of doubtful debts. No specific customer or group of customers accounted for a significant share of trade receivables at year-end. Historically, the Group's bad debt losses have not been significant in scope.

The Group applies the simplified approach for calculating expected credit losses. This approach entails that expected losses throughout the entire term of the receivable are used as the basis for trade receivables and contract assets. To calculate expected credit losses, trade receivables and contract assets have been grouped based on credit risk characteristics and the number of days of delay. Accordingly, the Group considers the loss levels for trade receivables to be a reasonable estimate of the loss levels for contract assets. Past losses are then adjusted taking into consideration any current and forward-looking information concerning macroeconomic factors. Based on this, the loss allowance for trade receivables on December 31, 2020 was determined as follows:

At December 31, 2021	Not past due	1–30 days past due	31–60 days past due	61–180 days past due	More than 180 days past due	Total
Expected loss level, %	0.3%	1.0%	2.5%	10.0%	65.0%	2.8%
Trade receivables, gross	44.8	9.2	2.8	2.0	1.8	60.6
Credit loss allowance	0.1	0.1	0.1	0.2	1.2	1.7

c) Liquidity risk

The Group manages liquidity risk by ensuring that it has adequate cash and cash equivalents and short-term investments with a liquid market while maintaining sufficient access to financing through committed credit facilities. Due to the dynamic nature of the Group's operations, management achieves flexibility in financing by maintaining agreements for withdrawable lines of credit. In addition, management closely monitors rolling forecasts of the Group's liquidity reserve, consisting of undrawn committed credit facilities and cash and cash equivalents, on the basis of anticipated cash flows.

The table below analyzes the maturity structure of the Group's financial liabilities grouped according to the period remaining in the contractual maturity. The amounts shown in the table are the contractual undiscounted cash flows.

At December 31, 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Leases	18.5	10.8	8.7	-
Bank overdraft facilities	18.0	-	-	-
Trade and other payables [1]	13.3	-	-	-

At December 31, 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Leases	17.1	24.7	7.0	-
Bank overdraft facilities	17.5	-	-	-
Trade and other payables [1]	15.5	-	-	-

[1] *The maturity analysis refers only to financial instruments, for which reason items such as accrued social security expenses are not included.*

Sensitivity analysis

The risks described here and in the administration report can result in either lower revenue or higher expenses for the Group. The table below shows the effects on consolidated profit or loss after tax resulting from changes in a number of items in the income statement.

Sensitivity analysis At December 31, 2021	Change	Effect on profit
Cost of goods sold	+/- 5%	+/- SEK 0.6m
Payroll expenses	+/- 5%	+/- SEK 9.4m
Currency – EUR	+/- 5%	+/- SEK 5.6m
Currency – USD	+/- 5%	+/- SEK 3.0m
Currency – GBP	+/- 5%	+/- SEK 0.8m
Currency – JPY	+/- 5%	+/- SEK 2.2m
Variable interest	+/- 1 percentage point	SEK +/- 0.1m

Sensitivity analysis At December 31, 2020	Change	Effect on profit
Cost of goods sold	+/- 5%	+/- SEK 0.7m
Payroll expenses	+/- 5%	+/- SEK 9.4m
Currency – EUR	+/- 5%	+/- SEK 4.8m
Currency – USD	+/- 5%	+/- SEK 3.4m
Currency – GBP	+/- 5%	+/- SEK 1.0m
Currency – JPY	+/- 5%	+/- SEK 2.1m
Variable interest	+/- 1 percentage point	+/- SEK 0.2m

Capital risk management

The Group's objectives when managing the capital structure are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure as a means of reducing the cost of capital.

In order to maintain or adjust the capital structure, the Group may change the amount of dividends paid to the shareholders, repay capital to shareholders, issue new shares or sell assets to reduce debt.

CONT. NOTE 2

Like other companies, the Group monitors capital on the basis of the net debt/equity ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including "Current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total equity is calculated as "Equity" as shown in the consolidated balance sheet plus net debt.

The net debt/equity ratio at December 31, 2021 and 2020 was as follows:

	2021	2020
Total borrowings (Note 17)	56.0	66.3
Less cash and cash equivalents (Note 17)	-113.4	-67.8
Net debt	-57.4	-1.5
Total equity	585.3	613.4
Total capital	527.9	611.9
Net debt/equity ratio	-10.9%	-0.3%

Note 3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the function responsible for allocating resources and assessing the performance of the operating segments. In the Group, this function has been identified as the CEO of the company. The Group has one operating segment: IAR Systems.

GEOGRAPHICAL AREAS

	Net sales		Non-current assets		Investments	
SEK m	2021	2020	2021	2020	2021	2020
Americas						
USA	109.2	117.9	30.9	29.8	7.9	11.8
Other countries	7.1	7.2	-	-	-	-
	116.3	**125.1**	**30.9**	**29.8**	**7.9**	**11.8**
Asia						
Japan	67.2	66.0	3.8	2.5	3.0	2.2
Other countries	56.0	51.7	2.7	3.5	0.0	0.0
	123.2	**117.7**	**6.5**	**6.0**	**3.0**	**2.2**
EMEA						
UK	12.9	12.3	322.4	348.2	35.9	37.7
Germany	35.1	38.1	2.7	3.4	0.0	0.0
Other countries	52.1	63.6	0.0	0.0	0.0	0.0
	100.1	**114.0**	**325.2**	**351.6**	**35.9**	**37.7**
Nordic region						
Sweden	6.4	7.0	219.0	243.7	32.3	42.3
Other countries	9.9	8.0	-	-	-	-
	16.3	**15.0**	**219.0**	**243.7**	**32.3**	**42.3**
Total	355.9	372.0	581.5	631.1	79.1	94.1

CONT. NOTE 3

No single customer accounted for 10% or more of the Group's net sales in 2021 and 2020. The geographical areas in the table above pertaining to net sales reflect the geographical regions to which the customer belongs.

Note 4. Revenue from contracts with customers and contract balance

Net sales are distributed as follows:

SEK m	2021	2020
Development solutions	355.2	367.0
Security products	0.7	5.0
Net sales	**355.9**	**372.0**

SEK m	2021	2020
License-based revenue	196.1	212.4
Support and software updates	141.7	145.2
Other	18.1	14.4
Net sales	**355.9**	**372.0**
At a certain point in time	214.2	226.8
Over time	141.7	145.2
Net sales	**355.9**	**372.0**
Americas	119.1	132.0
Asia	110.4	101.9
Europe	124.7	135.5
Not allocated by region	1.7	2.6
Net sales	**355.9**	**372.0**

The geographical areas in the table above pertaining to net sales reflect the geographical regions to which IAR sales organization belongs.

Contract balances are recognized as follows:

	Group		
SEK m	Dec 31, 2021	Dec 31, 2020	Jan 1, 2020
Contract assets			
Licenses	26.0	38.6	24.7
Contract liabilities			
Technical support and software updates	91.2	84.3	85.2

The Group's contract assets comprise multi-customer contracts in which the customer makes payments over the term of the contract. This applies to a small number of contracts. Payment is normally received before or when the right to the goods or services is transferred to the customer. Contract assets are reclassified to trade receivables in conjunction with invoicing.

CONT. NOTE 4

The Group's contract liabilities arise when customers pay for support and program update services in advance at the beginning of a contract period. Revenue arising from support and upgrade agreements is accrued on a straight-line basis over the term of the contract in pace with delivery of the services in accordance with the contract. Revenue recognized during the reporting period includes SEK 84.3m (85.2) of the contract liabilities since the beginning of the period. Most of the contract assets are expected to be earned in the next 12-month period. Refer to the table below.

Transaction price allocated to remaining performance obligations

Dec 31, 2021		Group		
SEK m	2022	2023	2024–2026	Total
Technical support and software updates	86.6	2.9	1.7	91.2

Dec 31, 2020		Group		
SEK m	2021	2022	2023–2025	Total
Technical support and software updates	75.8	4.4	4.1	84.3

Note 5. Other external expenses

FEES TO AUDITORS

	Group		Parent Company	
SEK m	2021	2020	2021	2020
Deloitte				
Audit of the financial statements	0.9	0.9	-	-
Audit-related services other than the audit of the financial statements	0.3	-	-	-
Tax consultancy	0.4	0.2	-	-
Other services	-	-	-	-
Total Deloitte	**1.6**	**1.1**	**-**	**-**
Other				
Audit of the financial statements	0.1	0.1	-	-
Tax consultancy	0.3	0.5	-	-
Other services	-	-	-	-
Total fees to auditors	**1.7**	**1.7**	**-**	**-**

The audit of the financial statements refers to fees for the statutory audit, meaning work that has been necessary in order to issue the auditor's report, as well as the review the third quarter and statutory reviews. This also includes the audit advice provided in connection with the audit of the financial statements.

Note 6. Personnel costs

Average number of employees

The average number of employees in the Group during 2021 was 203 (208). The breakdown of the average number of employees by country and, in Sweden, by location, is shown in the table below.

49% (50) are employed in Sweden (calculated on the average number of employees during the year).

AVERAGE NUMBER OF EMPLOYEES

	2021		2020	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Parent Company				
Stockholm	4	25%	4	50%
Subsidiaries in Sweden				
Uppsala	95	78%	101	77%
Subsidiaries outside Sweden				
Germany	2	50%	3	67%
France	2	50%	2	50%
UK	37	86%	37	86%
USA	35	63%	37	62%
South Korea	4	75%	4	50%
India	2	50%	-	-
China	5	80%	2	50%
Taiwan	2	100%	2	100%
Japan	15	53%	16	63%
Total subsidiaries	**199**	**74%**	**204**	**74%**
Total Group	**203**	**73%**	**208**	**74%**

GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES IN THE GROUP

	2021		2020	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Group (incl. subsidiaries)				
Board members	6	83%	5	80%
CEO and other senior executives	5	60%	5	80%
Presidents of subsidiaries	1	100%	1	100%
Parent Company				
Board members	6	83%	5	80%
CEO and other senior executives	3	33%	3	67%

CONT. NOTE 6

Salaries, other remuneration and social security expenses

The Group's total payroll costs amounted to SEK 248.0m (235.0), of which social security expenses accounted for SEK 42.3m (39.5) and pensions for SEK 27.7m (17.3). Of the Group's total payroll costs, SEK 54.4m (65.2) has been spent on assets and has been capitalized as internally generated development costs.

SEK m	2021 Salaries and other remuneration	2021 Social security expenses (of which pension costs)	2020 Salaries and other remuneration	2020 Social security expenses (of which pension costs)
Parent Company	12.7	20.2 (13.0)	8.5	6.1 (2.7)
Subsidiaries	165.3	49.8 (14.7)	169.7	50.7 (14.6)
Total Group	**178.0**	**70.0 (27.7)**	**178.2**	**56.8 (17.3)**

Of the Group's total pension costs, SEK 9.3m (0.5) is attributable to Board members and presidents. Of the Parent Company's total pension costs, SEK 9.3m (0.5) is attributable to Board members and the CEO. Of the Parent Company's salaries and other remuneration of SEK 12.5m (8.5) to Board members and the CEO, SEK 5.0m (0.0) pertains to payments and provisions for the CEO dismissed during the year for the period after his dismissal. Of the Parent Company's pension costs of SEK 13.0m (2.7) to Board members and the CEO, SEK 7.5m (0.0) pertains to payments and provisions for the CEO dismissed during the year for the period after his dismissal.

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

SEK m	2021 Board, CEO and other senior executives	2021 Other employees	2020 Board, CEO and other senior executives	2020 Other employees
Parent Company	13.1	12.6	10.7	0.5
Subsidiaries in Sweden	2.4	71.3	2.1	73.7
Subsidiaries outside Sweden	2.5	103.8	2.5	106.0
Total Group	**18.0**	**187.7**	**15.3**	**180.2**

Remuneration payments and provisions for the CEO dismissed during the year for the period after his dismissal are recognized in the Parent Company.

Remuneration to senior executives

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

No Board fees are paid to members who receive a salary from companies in the I.A.R. Group. In 2021, this included Richard Lind. The group "Other senior executives" pertains to the Chief Financial Officer (CFO), Chief Technology Officer (CTO), Chief Strategy Officer (CSO) and Lead Interaction and Integration Officer (LIIO).

Board of Directors

The AGM of I.A.R. Systems Group AB approved Board fees as follows:

Board Chairman	SEK 450,000
Other Board members who do not receive a salary from companies in the I.A.R. Group (4 people)	SEK 180,000 per member

Principles

The principles for remuneration to the CEO and other senior executives are prepared by the remuneration committee and presented to the Board, which puts forward proposals for such principles for approval by the AGM.

For 2021, the Group applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM.

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

The amount of variable salary for the CEO is periodically determined by the company's Board of Directors. The CEO approves the remuneration and terms and conditions of employment for other senior executives on the basis of the principles for remuneration of senior executives adopted at the AGM. Variable salary is based on actual outcomes in relation to individually set targets.

Variable remuneration

For the CEO, variable remuneration for 2021 was based on the Group's sales, operating profit and net cash. The bonus amount for 2021 was equal to 0% (0) of fixed salary. For the other senior executives, the bonus for 2021 was based on the Group's sales and operating profit. The bonus amount for other senior executives in 2021 was equal to 0% (0) of fixed salary.

Pension agreements

The CEO who took office during the year is covered by covered by pension insurance corresponding to 30% of fixed salary and to 25% for annual salary over 25 price base amounts, with a retirement age of 65. The CEO dismissed during the year was covered by pension insurance corresponding to the ITP plan, but with a contractual retirement age of 62 (60). All other senior executives are covered by pension insurance corresponding to the ITP plan. All of the Group's pension plans are defined contribution plans.

Termination benefits

In the event of dismissal by the company, the CEO is entitled to full salary during a notice period of six months. If employment is terminated by the CEO, the notice period is six months. In the event of dismissal by the company, other senior executives are entitled to full salary during a notice period of three to six months. If employment is terminated by the senior executive, the notice period is three to six months. All senior executives are entitled to salary and other contractual benefits during the notice period.

CONT. NOTE 6

Incentive programs

CHANGES IN THE NUMBER OF OUTSTANDING WARRANTS

	LTIP 2019		LTIP 2018		Exchange program	
SEK m	2021	2020	2021	2020	2021	2020
At beginning of year	115,426	270,200	144,985	294,200	25,278	39,987
Allotted	-	-	-	-	-	-
Exercised	-	-	-	-	- 8,179	- 5,684
Forfeited/past due	-108,896	-154,774	-144,985	-149,215	-	-9,025
At end of year	**6,530**	**115,426**	**-**	**144,985**	**17,099**	**25,278**

Information about warrant programs

LTIP 2019

In accordance with the decision of the AGM on April 24, 2019, a long-term incentive program for I.A.R. 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 entitle 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. Other assumptions include expected volatility of 22.5%, interest of -0.5%, and a dividend corresponding to SEK 5. 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. A total of 63,000 share warrants were acquired by the participants, of which 61,840 have been forfeited because the employees terminated their employment after the allotment and the performance condition was not fulfilled.

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 allotted to the participants, of which 349,630 have been forfeited because the employees terminated their employment after the allotment and the performance condition was not fulfilled.

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.

REMUNERATION AND OTHER BENEFITS DURING THE YEAR

Remuneration to the Board of Directors, CEO and other senior executives in 2021

	Fixed salary/ Board fees		Variable salary		Other benefits		Pension expenses		Share-based remuneration		Other remuneration		Total	
SEK m	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Board Chairman Nicolas Hassbjer	0.2	-											0.2	-
Board member Cecilia Wachtmeister	0.1	-											0.1	-
Board member Kent Sander	0.2	0.2											0.2	0.2
Board member Fred Wikström	0.2	0.2											0.2	0.2
Board member Michael Ingelög	0.2	0.2											0.2	0.2
CEO and Board member Richard Lind	0.8	0.2					0.0	-					0.8	0.2
Former Board Chairman Maria Wasing	0.2	0.4											0.2	0.4
Former CEO Stefan Skarin	7.6*	3.5**	-	-	0.3	0.2	8.7***	0.5	-	0.0	-	-	16.6	4.2
Other senior executives, 4 (4)	6.5	7.0	-	-	0.2	0.2	4.0	2.9	-	0.0	-	-	10.7	10.1
Total	**16.0**	**11.7**	**-**	**-**	**0.5**	**0.4**	**12.7**	**3.4**	**-**	**0.0**	**-**	**-**	**29.2**	**15.3**

** of which payment during the period and provision made in the financial statements after dismissal incl. termination benefits 5.0 (-).*

** of which vacation pay 0.3 (0.5).*

** of which pension premiums paid and provision made in the financial statements after dismissal 6.9 (-).*

CONT. NOTE 6

The total cost of the warrant program is estimated at SEK 3.2m, of which SEK 0.0m has been charged to profit for the period.

LTIP 2018

In accordance with the decision of the Extraordinary General Meeting on June 15, 2018, a long-term incentive program for I.A.R. Systems Group employees has been introduced ("LTIP 2018"). The program encompasses a total of 600,000 warrants, of which 497,500 were acquired or allocated under LTIP 2018. The warrants entitle the holder to subscribe for or acquire one class B share in the company according to the conditions below. In total, LTIP 2018 corresponds to about 4.2% of the share capital and approximately 4.0% of the votes in the company after dilution.

LTIP 2018 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 2018, 2019 and 2020 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, 2018	5%	10%
Growth in net sales, 2019	5%	10%
Growth in net sales, 2020	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 24.40. The participants have paid SEK 16.30, which is the calculated market price adjusted for performance conditions and service terms. Other assumptions applied include expected volatility of 25%, interest of -0.4%, a term of three years and a dividend corresponding to SEK 5. Based on performance condition fulfillment, each share warrant grants entitlement to subscribe for one new class B share during the period from August 20 to September 17, 2021 for a price corresponding to 120% of the volume-weighted average price paid for the company's share on Nasdaq Stockholm from June 13 to June 19, 2018, which is fixed at SEK 323.90. A total of 243,500 share warrants were acquired by the participants, of which 157,837 have been forfeited because the employees terminated their employment after the allotment and the performance condition was not fulfilled.

For stock options, participants are allocated stock options at no cost, which may not be pledged or transferred and are conditional on continued employment for three years. 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 August 20, 2021 to September 17, 2021 for a price corresponding to 120% of the volume-weighted average price paid for the company's share on Nasdaq Stockholm during the ten trading days immediately preceding the date of stock option allocation, which is fixed at SEK 330.00. A total of 254,000 stock options were allocated to the participants. All warrants in the program have expired. No participants subscribed for or acquired shares during the aforementioned period.

LTIP 2018 is recognized in accordance with IFRS 2, 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 7.2m, of which SEK 0.0m has been charged to profit for the period.

Exchange allotment 2018

This pertains to the part of remuneration for the acquisition that entails the exchange of an existing warrant program for employees in Secure Thingz. Stock option holders exchange their stock options in Secure Thingz for new stock options in IAR Systems. The economic value of the new warrants is to correspond to the value of the existing warrants. 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. 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 warrants in the warrant 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 8,179 (5,684) stock options were exercised in 2021.

Note 7. Financial income and expenses

	Group		Parent Company	
SEK m	2021	2020	2021	2020
Interest income	0.0	0.1	2.4	1.8
Exchange differences	1.5	0.4	12.7	-
Total financial income	**1.5**	**0.5**	**15.1**	**1.8**
Interest expenses	-0.7	-1.0	-0.7	-0.6
Exchange differences	-0.0	-5.7	-	-10.4
Interest expenses leases	-0.9	-0.8	-	-
Total financial expenses	**-1.6**	**-7.5**	**-0.7**	**-11.0**
Net financial items	**-0.1**	**-7.0**	**14.4**	**-9.2**

Note 8. Tax

The following components are included in the tax expense.

	Group		Parent Company	
SEK m	2021	2020	2021	2020
Current tax on profit for the year	-20.1	-14.5	-17.8	-11.9
Deferred tax	21.3	-2.9	-	-
Total tax on profit for the year	**1.2**	**-17.4**	**-17.8**	**-11.9**

CONT. NOTE 8

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

SEK m	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
The year's deferred tax expense/income				
intangible assets	16.6	-9.7	-	-
change in loss carryforwards	1.3	10.3	-	-
support and upgrade agreements	2.5	-2.7	-	-
untaxed reserves	-0.0	0.3	-	-
other temporary differences	0.9	-1.1	-	-
Total deferred tax in the income statement	**21.3**	**-2.9**	**-**	**-**

SEK m	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Reconciliation between effective tax and tax based on the applicable tax rate				
Reported profit/loss before tax	-67.4	76.8	84.0	55.7
Tax according to the applicable tax rate of 20.6%	13.9	-16.4	-17.3	-11.9
Difference in foreign tax rates	-2.0	-1.1	-	-
Tax effect of future tax rates	-0.1	0.2	-	-
Tax effect of uncapitalized loss carryforwards	-7.0	-	-	-
Tax effect of reversal of previously recognized loss carryforwards	-3.6	-	-	-
Tax effect of non-deductible expenses	-0.6	-0.1	-0.5	-0.0
Tax effect of non-taxable income	0.3	0.0	0.0	0.0
Total	**1.2**	**-17.4**	**-17.8**	**-11.9**
Prior year adjustments of current tax recognized in the current year	-	-	-	-
Tax on profit for the year according to the income statement	**1.2**	**-17.4**	**-17.8**	**-11.9**

The tax effect of items recognized in comprehensive income amounted to SEK -2.3m (2.2).

Tax rate

In computing deferred tax on temporary differences, local tax rates in the country in question were used. The majority of deferred tax derives from operations in the UK, where the tax rate is 19%, and operations in Sweden, where the tax rate is 20.6%.

Temporary differences

Temporary differences arise when the carrying amount of an asset or liability differs from its tax base. Temporary differences pertaining to the following items have resulted in deferred tax liabilities and deferred tax assets. Temporary differences pertaining to software, trademarks and customer contracts have resulted in deferred tax liabilities. Temporary differences pertaining to loss carryforwards have resulted in deferred tax assets. Loss carryforwards can be attributed to the Group's operations in the UK.

SEK m	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Deferred tax liabilities attributable to intangible assets	-36.5	-48.3	-	-
Deferred tax liabilities attributable to untaxed reserves	-0.4	-0.4	-	-
Deferred tax liabilities attributable to other temporary differences	-6.7	-6.6	-	-
Amounts offset against deferred tax assets under offset rules	15.1	18.1	-	-
Total deferred tax liabilities	**-28.4**	**-37.2**	**-**	**-**
Deferred tax assets attributable to loss carryforwards	11.0	15.4	-	-
Deferred tax assets attributable to support and upgrade agreements	1.3	2.5	-	-
Deferred tax assets attributable to other temporary differences	5.3	3.7		
Amounts offset against deferred tax liabilities under offset rules	-15.1	-18.1	-	-
Total deferred tax assets	**2.5**	**3.5**	**-**	**-**
Total deferred tax assets, net	**-25.9**	**-33.7**	**-**	**-**

As of December 31, 2021, the Group had accumulated loss carryforwards outside Sweden of SEK 217m, of which SEK 58m (91) are expected to be utilized in the foreseeable future, with loss carryforwards of SEK 15.4m (19.9) recognized in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 2.5m (3.5), and the deferred tax liability is recognized in an amount of SEK 28.4m (37.2). The item deferred tax asset also includes deferred tax liabilities that will be recognized in a net amount since they are connected to the same tax subject. The tax relief payment in the UK for 2022 connected to research and development costs is estimated at approximately SEK 11.0m (11.8). The payment reduced aggregate loss carryforwards by an equivalent amount.

Note 9. Earnings per share

	Group	
	2021	2020
Profit, SEK m	-67.4	59.4
Basic earnings per share, SEK	-4.94	4.35
Earnings per share, diluted, SEK	-4.94	4.35
No. of shares		
Average number of shares before dilution, million	13.64	13.63
Average no. of shares, diluted, million	13.66	13.65

Basic

Basic earnings per share are calculated by dividing profit attributable to owners of the Parent Company by the weighted average number of shares outstanding during the period.

Diluted

Profit for the year after tax is divided by the average number of shares outstanding during the year after dilution. The dilutive effect of warrants is determined based on the following assumptions: (1) all warrants with an exercise price that is lower than the market value per share at the end of the respective period are exercised and new shares issued, (2) the net proceeds generated by the exercise of warrants are equal to the number of warrants exercised multiplied by the value of the exercise price, (3) the net proceeds are used to repurchase shares at a price equal to the market price per share according to (1) above. The increase in the number of shares in the company is thus equal to the number of shares issued through the exercise of warrants less the number of shares repurchased with the net proceeds received.

Note 10. Intangible assets

	Goodwill		Trademarks		Technology		Software		Internally generated software development costs		Total	
GROUP, SEK M	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Opening cost	332.7	357.2	11.7	11.7	34.7	38.2	30.4	29.3	310.0	251.8	719.5	688.2
Investments	-	-	-	-	-	-	1.7	1.3	62.6	77.7	64.3	79.0
Translation differences	23.2	-24.5	-	-	3.3	-3.5	0.2	-0.2	21.9	-19.5	48.7	-47.7
Sales and disposals	-	-	-	-	-	-	-6.8	-	-	-	-6.8	-
Closing accumulated cost	**355.9**	**332.7**	**11.7**	**11.7**	**38.0**	**34.7**	**25.5**	**30.4**	**394.5**	**310.0**	**825.7**	**719.5**
Opening amortization	-	-	-11.7	-11.5	-7.4	-4.9	-25.0	-21.2	-98.7	-82.9	-142.8	-120.5
Sales and disposals	-	-	-	-	-	-	6.8	-	-	-	6.8	-
Translation differences	-	-	-	-	-0.4	0.3	0.1	0.1	-5.8	5.9	-6.1	6.2
Amortization for the year	-	-	-	-0.2	-2.9	-2.8	-3.3	-3.9	-27.6	-21.7	-33.8	-28.6
Closing accumulated amortization	**-**	**-**	**-11.7**	**-11.7**	**-10.7**	**-7.4**	**-21.4**	**-25.0**	**-132.1**	**-98.7**	**-175.9**	**-142.8**
Opening impairment	-	-	-	-	-	-	-	-	-	-	-	-
Impairment for the year	-	-	-	-	-18.2	-	-	-	-100.0	-	-118.2	-
Closing accumulated impairment	**-**	**-**	**-**	**-**	**-18.2**	**-**	**-**	**-**	**-100.0**	**-**	**-118.2**	**-**
Carrying amount	**355.9**	**332.7**	**0.0**	**0.0**	**9.1**	**27.3**	**4.1**	**5.4**	**162.3**	**211.3**	**531.5**	**576.7**

CONT. NOTE 10

Description

Goodwill	Attributable to the acquisition of I.A.R. Systems AB (2005), Signum Systems Corp (2011) and Secure Thingz Inc (2018).
Trademarks	Attributable to the acquisition of I.A.R. Systems AB (2005).
Technology	Attributable to the acquisition of Secure Thingz Inc (2018).
Software	Refers to externally acquired/company-specific systems, such as accounting systems, CRM systems and the company's website.
Internally generated software development costs	Refers to capitalized internal expenses for software development and debug probes.

Useful lives

Useful lives are determined based on various factors, such as asset class and the product's economic useful life. The assessment of the asset's useful life is tested annually.
The following useful lives are applied:

Trademarks	15 years
Technology	13 years
Software	5–6 years
Internally generated software development costs	5–10 years

Investments for the year

Of the year's investments of SEK 64.3m (79.0), SEK 1.7m (1.3) pertains to software and SEK 62.6m (77.7) pertains to internally generated software development costs. Of the internally generated costs, SEK 54.4m (65.2) pertains to personnel costs.

Impairment testing of intangible assets

Goodwill is tested for impairment at the lowest level in the Group at which goodwill is monitored for internal management purposes, which comprises one cash-generating unit: IAR Systems. For other intangible assets, corresponding impairment testing is performed for assets that have not yet been utilized or if other indicators exist that may impact the value of the assets.

For IAR Systems, the growth rate used is based on past performance and management's expectations for market development. For year one, this corresponds to the budget and business plan established by the Board of Directors. For years two to five, this corresponds to management's forecasts. Cash flows beyond the five-year period are extrapolated based on a growth rate of 2% (2). This growth rate does not exceed the long-term growth rate for the market.

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

The discount rates used, 9.6% (10.4) for IAR Systems, are stated before tax and are deemed to reflect specific risks relating to the assets.

Assumption	Growth rate	Operating margin	Discount rate (before tax)
Year 1 (budget)	Acc. to the Board's adopted budget	Acc. to the Board's adopted budget	9.6% (10.4%)
Years 2–5 (forecast period)	Acc. to management's estimated forecast	Acc. to management's estimated forecast	9.6% (10.4%)
Terminal value	2% (2%)	On par with year 4	9.6% (10.4%)

To support impairment testing of goodwill in the Group, the Group has carried out an overall analysis of the sensitivity of the variables used in the model.

The change in discount rate compared with the comparative year is due to several factors. Certain corrections have been made in connection with the merger of the cash-generating units (see below), including the addition of a small-company risk premium since part of the company's assets are attributable to new markets and products. The risk-free interest rate was also increased to reflect a normalized risk-free interest rate.

Merger of the cash-generating units

Goodwill was tested for impairment at the lowest level. The lowest level in the Group was previously (from 2018) the two cash-generating units: IAR Systems and Secure Thingz. The Secure Thingz cash-generating unit was established after the acquisition of Secure Thingz in April 2018. The acquisition basis for IAR Group was to expand its offering to include security, a focus area within the market for digital products that is expected to grow drastically in the coming years. The growth of the Group after the acquisition, especially in 2020, provided further information on which to base the decision as to what is considered the lowest level in the Group, with Secure Thingz' goodwill and other assets distributed to the cash-generating unit IAR Systems in the 2020 impairment test in accordance with IAS 36. The assessment from 2020 remains, and consolidated goodwill is recognized in the shared cash-generating unit IAR Systems. This is mainly due to the following factors:

Organization: The organization presented in April 2020 remained in 2021. The Group continues to have a Group-integrated sales and marketing organization. In addition, the Group continues to work in two development departments, Embedded Security Solutions and Embedded Development Tools, that work together, in accordance with the decisions made by Group management and the CEO, to develop products for the Group's joint sales and marketing organization.

*Technical dependence:*The technical dependence of security products described in 2020 remains and the common denominator in these products is that they, to a certain extent, have a technical dependence on IAR Embedded Workbench. Moreover, the products were developed together with IAR's Embedded Development Tools department to be a part of the IAR Embedded Workbench toolchain. In 2021, these launched security products were then tested for impairment, and upon their impairment in December 2021, the company announced that impairment had been carried out on products deemed no longer relevant, mainly within the area of security. In addition to a lack of successful sales, this impairment was attributable to a change in the company's future focus, with closer partnerships with programming companies expected to create further opportunities for revenue within the security offering. Accordingly, the security offering is being updated, with a fourth product – volume-based royalty operations from partner programming companies – expected to create better prospects for successful sales. Although the technical dependence of the volume-based royalty operations is not exactly on a par with the previously launched security products, the security technology base is the same for the various products. Moreover, the Embedded Workbench platform is still an option for developers in the process, even if IAR's sales focus going forward will be on another area of the chain.

Sales dependence: According to the company's assessment, there is still a sales dependence in the complex value change that includes both security products and the IAR Embedded Workbench toolchain. Moreover, the Group's joint sales organization will invest in new sales representatives in the area of security, who will be part of the same sales organization under the same management as the Group's current sales representatives.

Summary: According to IAS 36.6, a cash-generating unit is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or groups of assets. As described above regarding the organization, technological dependence and sales dependence of the Group's security offering, the assessment remains that this part of the Group cannot be considered largely independent of cash flows from other assets.

Note 11. Property, plant and equipment

GROUP, SEK M	Right-of-use assets 2021	Right-of-use assets 2020	Leasehold improvements 2021	Leasehold improvements 2020	Equipment 2021	Equipment 2020	Total 2021	Total 2020
Opening cost	73.6	67.0	2.8	3.0	26.0	24.8	102.4	94.8
Investments	4.9	12.0	1.3	0.0	8.6	3.1	14.8	15.1
Translation differences	1.9	-4.4	0.0	-0.2	0.7	-0.7	2.6	-5.3
Sales and disposals	-2.4	-0.9	-0.5	-	-2.3	-1.2	-5.2	-2.1
Closing accumulated cost	**78.0**	**73.6**	**3.6**	**2.8**	**33.0**	**26.0**	**114.6**	**102.4**
Opening depreciation	-26.8	-10.7	-1.5	-1.2	-19.8	-18.0	-48.1	-29.0
Sales and disposals	1.2	0.3	0.5	-	2.3	0.4	4.0	0.7
Translation differences	-0.0	0.8	-0.0	0.1	0.1	0.5	-0.3	1.4
Depreciation of leases for the year	-16.8	-17.2	-	-	-	-	-16.8	-17.2
Depreciation for the year	-	-	-0.6	-0.4	-3.1	-2.7	-3.7	-3.1
Closing accumulated depreciation	**-42.3**	**-26.8**	**-1.6**	**-1.5**	**-20.5**	**-19.8**	**-64.5**	**-48.1**
Carrying amount	**35.6**	**46.9**	**2.0**	**1.3**	**12.5**	**6.2**	**50.1**	**54.4**

PARENT COMPANY, SEK M	Equipment 2021	Equipment 2020	Total 2021	Total 2020
Opening cost	0.7	0.6	0.7	0.6
Investments	-	0.1	-	0.1
Sales and disposals	-	-	-	-
Closing accumulated cost	**0.7**	**0.7**	**0.7**	**0.7**
Opening depreciation	-0.5	-0.5	-0.5	-0.5
Sales and disposals	-	-	-	-
Depreciation for the year	-0.0	-0.0	-0.0	-0.0
Closing accumulated depreciation	**-0.5**	**-0.5**	**-0.5**	**-0.5**
Carrying amount	**0.2**	**0.2**	**0.2**	**0.2**

CONT. NOTE 11

The transition to the new accounting policy in accordance with IFRS 16 means that the previous classification of operating or finance leases is no longer applicable.

Leases Parent Company

The Parent Company classifies all leases, whether operating or finance leases, as operating leases. The aggregate amount of future minimum lease payments at the balance sheet date under non-cancellable operating leases grouped by period to maturity was as follows:

	Parent Company	
SEK m	2021	2020
Due for payment within 1 year	0.3	0.5
Due for payment within 2 years	0.9	0.1
Due for payment within 3 years	0.3	0.1
Due for payment within 4 years	-	-
Due for payment in 5 years or later	-	-

Leases Group

The Group primarily leases premises and passenger cars. These leases are normally signed for fixed periods of three to five years. The average lease term is three years. Short-term leases are mostly for office equipment. Low-value leases comprise IT equipment and office equipment. Leases for premises are negotiated locally and separately for each lease and contain a large number of different contractual terms and conditions. The Group has no purchase options and does not guarantee residual values.

The leases do not include any special terms and conditions, covenants or restrictions that would entail that the leases would be terminated, but the leased assets may not be sold or pledged or used as collateral for loans. The Group undertakes to insure leased cars. As regards leases for premises, the Group must keep these premises in good condition and restore them to an acceptable condition at the end of the lease. The Group must also perform and pay for necessary maintenance in accordance with the rental agreement. Options to extend the lease are included in a number of the Group's leases for premises to increase flexibility for the operations.

When the length of the lease is determined, management considers all available information that creates an economic incentive to exercise an extension option, or to not exercise an option to terminate the lease. The option to extend a lease is only included in the length of a lease if it is reasonable to assume that the lease will be extended (or not terminated). On December 31, 2021, there were both extension periods included in the lease term and extension options that were not deemed reasonably certain to be exercised and were not included in the lease liability.

Lease payments are largely fixed payments. A number of leases have future lease payments that are based on a consumer price index or variable interest rate and that are not included in the lease liability as long as neither the consumer price index nor the variable interest rate have changed. Expenses for property tax and insurance are not deemed to be a component since they do not transfer either a service or a good to the company and thus are not included in the lease liability.

The accumulated cost of leases at December 31, 2021 was SEK 78.0m (73.6).

Accumulated depreciation at year-end amounted to SEK 42.3m (26.8). These obligations are recognized under "Right-of-use assets" in the balance sheet. The present value of future payment obligations under finance leases is recognized in Lease liabilities, divided between current and non-current liabilities, as follows:

GROUP, SEK M	2021	2020
Current portion (due within 1 year)	18.5	17.1
Non-current portion (due within 5 years)	19.5	31.7
Non-current portion (due later than 5 years)	-	-
Total	**38.0**	**48.8**

Amounts recognized in profit or loss regarding earnings effects of leases:

GROUP, SEK M	2021	2020
Depreciation of right-of-use assets	-16.8	-17.2
Interest expenses for lease liabilities	-0.9	-0.8
Expenses attributable to short-term leases and low-value leases	-0.9	-0.6
Total	**-18.6**	**-18.6**

Note 12. Other non-current receivables

	Group		Parent Company	
SEK m	2021	2020	2021	2020
Deposits	2.7	2.6	0.1	0.1
Other	0.3	0.3	-	-
	3.0	**2.9**	**0.1**	**0.1**

Note 13. Trade and other receivables

	Group	
SEK m	2021	2020
Trade receivables	60.6	60.0
Reserve for expected credit losses	-1.7	-1.3
Trade receivables, net	58.9	58.7
Prepaid expenses and accrued income	40.1	52.7
Other receivables	3.7	11.1
	102.7	**122.5**

The fair values of trade receivables are deemed to correspond with their carrying amounts. The estimated fair value has not been discounted, since the assessment is that this would not have any significant effect on fair value. An age analysis of these trade receivables is shown in the table on the next page:

CONT. NOTE 13

AGE ANALYSIS OF PAST DUE TRADE RECEIVABLES

	Group	
SEK m	2021	2020
Less than 3 months	13.5	12.0
3–6 months	0.5	0.8
More than 6 months	1.8	0.4
	15.8	13.2

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

	Group	
Currency	2021	2020
SEK	14.4	20.1
EUR	31.9	39.6
USD	37.2	39.8
Other currencies	19.1	23.0
	102.7	122.5

CHANGES IN PROVISIONS FOR DOUBTFUL DEBTS

	Group	
SEK m	2021	2020
Provisions at January 1	1.3	1.0
The year's provisions for doubtful debts	0.6	1.1
Receivables written off during the year as uncollectable	-0.2	-0.7
Reversed unutilized amount	-0.0	-0.1
Provisions at December 31	**1.7**	**1.3**

Credit quality

The credit quality of trade receivables is deemed good, based on historical credit losses, and the risks are limited in view of the large size of the customer base. No individual customer accounted for more than 5% of total trade receivables at December 31, 2021.

Note 14. Other current receivables

	Group		Parent Company	
SEK m	2021	2020	2021	2020
Tax assets	0.8	6.7	-	5.2
Other	2.9	4.4	0.1	2.7
Total other current receivables	**3.7**	**11.1**	**0.1**	**7.9**

Note 15. Prepaid expenses and accrued income

	Group		Parent Company	
SEK m	2021	2020	2021	2020
Accrued income	26.0	38.6	-	-
Prepaid rents	4.2	3.9	0.0	0.1
Prepaid insurance premiums	1.9	1.7	0.1	0.1
Other prepaid expenses	8.0	8.5	0.3	0.8
Total prepaid expenses and accrued income	**40.1**	**52.7**	**0.4**	**1.0**

Note 16. Cash and cash equivalents

	Group		Parent Company	
SEK m	2021	2020	2021	2020
Cash in hand and bank deposits	113.4	67.8	4.5	0.6
Cash and cash equivalents at end of year	**113.4**	**67.8**	**4.5**	**0.6**
Unutilized committed credit facilities	207.0	207.5	207.0	207.5
Total cash and cash equivalents and unutilized credit facilities	**320.4**	**275.3**	**211.5**	**208.1**

Note 17. Financial instruments

SEK m, December 31, 2021	2021	2020
Financial assets measured at amortized cost		
Other non-current receivables	3.0	2.9
Inventories	9.5	5.7
Trade receivables	58.9	58.7
Prepaid expenses	14.2	14.1
Accrued income	26.0	38.6
Other financial assets measured at amortized cost	5.4	12.8
Cash and cash equivalents	113.4	67.8
Financial assets measured at fair value through profit or loss		
Derivative instruments	-	-
Financial assets measured at fair value through other comprehensive income		
Other non-current securities	-	-
Total	230.3	200.6
Financial liabilities measured at amortized cost		
Lease liabilities	38.0	48.8
Liabilities to credit institutions	18.0	17.5
Trade payables	9.2	5.0
Other liabilities excluding non-financial liabilities	30.8	17.9
Total	96.0	89.2

Cash and cash equivalents

Cash and cash equivalents, as defined by the Group, consist of cash in hand and bank deposits. The table below shows performance measures for cash and cash equivalents. The carrying amount of cash and cash equivalents corresponds approximately to fair value.

	Group	
SEK m	2021	2020
Cash in hand and bank deposits	113.4	67.8
Cash and cash equivalents	113.4	67.8

Cash flow attributable to liabilities related to financing activities

	Group	
SEK m	2021	2020
Borrowings, bank loans	0.9	5.5
Amortization of bank loans	-	-13.0
Amortization of lease liabilities	-16.2	-17.2
Total	-15.3	-24.7

Net debt

The Group's net debt at December 31, 2021 amounted to SEK -57.4m (-1.5). The table below shows how the Group calculates net debt and what it includes.

	Group	
SEK m	2021	2020
Current borrowings	18.0	17.5
Current portion of non-current borrowings	-	-
Current portion of lease liabilities	18.5	17.1
Total current borrowings	36.5	34.6
Non-current borrowings	-	-
Non-current portion of lease liabilities	19.5	31.7
Total non-current borrowings	19.5	31.7
Total borrowings	**56.0**	**66.3**
Cash and cash equivalents	113.4	67.8
Net debt	**-57.4**	**-1.5**
Bank overdraft facility	**207.0**	**207.5**

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

Interest-bearing liabilities

The Group's total interest-bearing liabilities at December 31, 2021 amounted to SEK 56.0m (66.3), of which SEK 19.5m (31.7) pertains to non-current borrowings excluding those maturing in the next 12 months. Non-current borrowings maturing within 12 months amount to SEK 36.5m (34.6). The table below shows the carrying amounts of the Group's interest-bearing liabilities.

BORROWINGS			Group	
Type of loan	Interest rate	Currency	2021	2020
Other non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Lease liabilities	Variable	SEK	19.5	31.7
Current portion of non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Lease liabilities	Variable	SEK	18.5	17.1
Bank overdraft facilities	Variable	SEK	18.0	17.5
			56.0	**66.3**

CONT. NOTE 17.

Information about measurement at fair value

For cash and cash equivalents, trade receivables, trade payables and borrowings, 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. Financial assets are measured at fair value and are shown in the table below. Fair value is primarily based on own assumptions according to Level 3.

No financial instruments measured at fair value in the Group were acquired/reclassified in 2021.

Fair value in accordance with the three levels above:

Level 1: Quoted prices in an active market place.
Level 2: Pricing model mainly based on observable market data for the asset.
Level 3: Pricing model mainly based on own assumptions.

Note 18. Share capital

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

Number of shares: Parent Company	**Class A shares**	**Class B shares**	**Class C shares**	**Total number**
Number at January 1, 2020	100,000	13,530,475	337,858	13,968,333
Conversion of class C shares to class B shares December 2020		5,684	-5,684	0
Total number of shares at December 31, 2020	100,000	13,536,159	332,174	13,968,333
Number at January 1, 2021	100,000	13,536,159	332,174	13,968,333
Conversion of class A shares to class B shares December 2021	-100,000	100,000	-	0
Conversion of class C shares to class B shares December 2021		13,286	-13,286	0
Total number of shares at December 31, 2021	-	13,649,445	318,888	13,968,333

Share capital is divided between 13,968,333 shares, of which 13,649,445 are class B shares and 318,888 are class C shares. All shares have a quota value of SEK 10. Class B shares grant equal rights to the company's assets and profits. Class C shares are all held in treasury and do not grant entitlement to dividends. Class B and C shares grant entitlement to one vote. At general shareholder meetings, each holder of voting shares is entitled to exercise the full number of votes held or represented by proxy without restriction.

Note 19. Proposed appropriation of profits

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

Share premium reserve	254,820,223.64
Retained earnings	162,995,366.13
Comprehensive income for the year	66,210,095.92
Total, SEK	**484,025,685.69**

The Board proposes that the profits be disposed of as follows:

To be carried forward to new account	484,025,685.69
Total, SEK	**484 025 6825.69**

Note 20. Accrued expenses

	Group		Parent Company	
SEK m	**2021**	**2020**	**2021**	**2020**
Accrued salaries and social security expenses	20.1	14.2	7.1	3.1
Other items	9.8	1.5	7.0	0.1
Total accrued expenses	**29.9**	**15.7**	**14.1**	**3.2**

Note 21. Pledged assets

	Group		Parent Company	
SEK m	**2021**	**2020**	**2021**	**2020**
To secure own liabilities				
To secure pensions and similar obligations:				
Direct pension obligations	17.7	9.1	17.1	8.5
To secure liabilities to credit institutions:				
Machinery held under				
- finance leases	2.7	2.9	1.5	-
Total assets pledged to secure own liabilities	**20.5**	**12.0**	**18.6**	**8.5**
To secure other commitments				
Guarantees	-	-	-	-
Total pledged assets	**20.5**	**12.0**	**18.6**	**8.5**

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.

Note 22. Participations in Group companies

SEK m	Parent Company 2021	Parent Company 2020
Opening cost	481.2	480.1
Acquisitions	0.0	0.0
Shareholder contributions (vesting warrants)	0.3	1.1
Closing accumulated cost	**481.4**	**481.2**
Opening impairment	-	-
Closing accumulated impairment	-	-
Closing carrying amount	**481.4**	**481.2**

Subsidiaries

I.A.R. Systems Group conducts operations in a number of different geographical markets, which means that the Group has subsidiaries in many parts of the world. The Parent Company has control over a subsidiary when it is exposed to or has the right to variable returns from its involvement in the subsidiary and has the ability to use that control over the subsidiary to influence its returns. All subsidiaries are directly or indirectly wholly owned by the Parent Company I.A.R. Systems Group AB (publ).

Group composition

Information about the Group's geographic operations at the end of the financial year is provided below:

Primary activity	Geographic operations	Dec 31, 2021	Dec 31, 2020
Product development offices	Europe	2	2
Product development offices	Americas	1	1
Sales office	Europe	3	3
Sales office	Americas	3	3
Sales office	Asia	6	5

PARENT COMPANY HOLDINGS

SEK m	Corp. ID no.	Domicile	% of capital	% of votes	No. of shares	Carrying amount 2021	Carrying amount 2020
Direct holdings:							
I.A.R. Systems AB	556230-7107	Uppsala, Sweden	100.0%	100.0%	22,846,224	163.7	163.7
Signum Systems Corp	1473886	Camarillo, USA	100.0%	100.0%	100,000	27.2	27.2
Secure Thingz Inc	813002824	Foster City, USA	100.0%	100.0%	8,640,112	290.5	290.3
IAR Systems India Private Ltd.	U72900DL2020FTC365795	Bangalore, India	0.1%	0.1%	1	0.0	0.0
YinvestMIR AB	559154-7699	Uppsala, Sweden	100.0%	100.0%	50,000	0.0	0.0
Indirect holdings through subsidiaries:							
IAR Systems Software Inc	1830665	Foster City, USA	100.0%	100.0%	-	-	-
I.A.R. Systems Ltd	83464820	Taipei, Taiwan	100.0%	100.0%	-	-	-
IAR Systems GmbH	HRB 175145	Munich, Germany	100.0%	100.0%	-	-	-
IAR Systems KK	0111-01-034174	Tokyo, Japan	100.0%	100.0%	-	-	-
IAR Software Development (Shanghai) Co., Ltd.	01000002202003230005	Shanghai, China	100.0%	100.0%	-	-	-
IAR Systems Korea Co	110111-4699679	Seoul, South Korea	100.0%	100.0%	-	-	-
IAR Systems India Private Ltd.	U72900DL2020FTC365795	Bangalore, India	99.9%	99.9%	-	-	-
IAR Systems France Sarl	539 357 327 R.C.S. Nanterre	Boulogne-Billancourt, France	100.0%	100.0%	-	-	-
I.A.R. Systems Uppsala AB	556456-7690	Uppsala, Sweden	100.0%	100.0%	-	-	-
Secure Thingz Ltd	09193626	Cambridge, England	100.0%	100.0%	-	-	-
Closing carrying amount						**481.4**	**481.2**

Note 23. Related party transactions

Of the Parent Company's total expenses of SEK 4.6m (3.6), 0% (0) pertains to purchases from other companies in the Group. Of the Parent Company's total sales revenue, 100% (99) pertains to inter-company sales. Of the year's total purchasing costs and sales revenue in the subsidiaries, 0% (0) pertains to purchases from the Parent Company and 0% (0) to sales to the Parent Company.

At December 31, 2021, the Parent Company had receivables from subsidiaries of SEK 172.7m (116.6) and liabilities to subsidiaries of SEK 1.4m (27.0).

Transactions with other related parties

No transactions with related parties have taken place other than those stated in Note 6.

The Board of Directors and the CEO hereby give their assurance that the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and give a true and fair view of the Group's financial position and results of operations. The annual report has been prepared in accordance with generally accepted accounting principles in Sweden and gives a true and fair view of the Parent Company's financial position and results of operations. The administration report for the Group and the Parent Company provides a true and fair view of the business activities, financial position and results of operations of the Group and the Parent Company and describes the significant risks and uncertainties to which the Parent Company and the Group companies are exposed.

The annual report will be presented to the Annual General Meeting for adoption on April 26, 2022.

Stockholm, March 23, 2022

Signatures on Swedish original

Richard Lind
President and CEO
Board member

Nicolas Hassbjer
Board Chairman

Kent Sander Board member	Fred Wikström Board member	Cecilia Wachtmeister Board member	Michael Ingelög Board member

Our auditor's report was submitted on March 23, 2022
Deloitte AB

Andreas Frountzos
Authorized Public Accountant
Auditor in Charge

Auditor's report

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of IAR Systems Group AB (publ) (publ) for the financial year 2021-01-01 - 2021-12-31. The annual accounts and consolidated accounts of the company are included on pages 46-81 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2021 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's Board of Directors in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Revenue recognition

Consolidated net sales amounts to SEK 355.9 (372.0) million and derives from sales of both products and services. We have classified this as a key audit matter since revenue is significant and consist of a large number of smaller transactions where product and services in some cases is bundled into one customer offering. Promises of goods or services to customers that´s meets the criteria of being distinct is accounted for as a performance obligation separate from other promised goods or services. Revenue is recognized when control of the underlying goods or services for that particular performance obligation is transferred to the customer. Identifying distinct promises (performance obligations) requires management to make significant judgements and estimates that may have a significant impact on the Group´s net sales and earnings.

For further information, please refer to the Group's accounting policies and description of significant estimates and assumptions in note 1 and distribution of accounted revenue in note 4.

Our audit procedures included but were not limited to:

- evaluation of the appropriateness of Group´s revenue recognition principles and compliance with the same for each significant revenue stream;
- gaining an understanding of significant transactions flows and review of key internal controls mitigating the risk of significant financial statements misstatements;
- detailed testing for a sample of revenue transactions including identification of performance obligations and testing of cut off based on transfer of control of performance obligations;
- conducting data analytics review to ensure completeness and accurate cut-off of revenues;
- detailed testing for a sample of revenue transactions with respect of existence and completeness of revenue by comparing reported revenue with customer payments and review of revenue accruals at year end; and
- evaluation of disclosures for applied principles and recognized revenues.

Recognition and valuation of capitalized software development cost

Consolidated capitalized software development cost amounts to SEK 162.3 (211.3) million and includes internally generated development costs. Development costs are capitalized when the criteria's, described in the Group's accounting policies in note 1 are met.

The capitalization and subsequent measurement of internally generated software are based on the management's assessment of the future economic benefits. There is a risk that the development costs do not qualify for capitalization which could have a significant impact on the Group's earnings and financial position.

For further information, please refer to the Group's accounting policies and description of significant estimates and assumptions in note 1 and distribution of accounted intangible assets, description of impairment and identification of the cash generated units in note 10.

Our audit procedures included but were not limited to:

- evaluation of the appropriateness of Group´s principles for capitalization of internally generated software development costs;
- gaining an understanding of the company's process for capitalization, amortization and impairment of capitalized software development costs and review of key internal controls mitigating the risk of significant financial statement misstatements;
- detailed testing for a sample of capitalized software development costs and evaluation of management's assessment that capitalized development costs meets the criteria for capitalization;
- evaluation of the Group´s judgements, estimates and calculations in correlation with the impairment; and
- evaluation of disclosures for applied principles and recognized development cost

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-45. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of IAR Systems Group AB (publ) (publ) for the financial year 2021-01-01 - 2021-12-31 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The auditor's examination of the Esef report

Opinion

In addition to our audit of the annual accounts and consolidated accounts, we have also examined that the Board of Directors and the Managing Director have prepared the annual accounts and consolidated accounts in a format that enables uniform electronic reporting (the Esef report) pursuant to Chapter 16, Section 4 a of the Swedish Securities Market Act (2007:528) for IAR Systems Group AB (publ) for the financial year 2021.

Our examination and our opinion relate only to the statutory requirements.

In our opinion, the Esef report 3ee1c81976d0928958a46d 765454b24dd432249 ad781dc42a5a4061d2f0cc450 has been prepared in a format that, in all material respects, enables uniform electronic reporting.

Basis for opinion

We have performed the examination in accordance with FAR's recommendation RevR 18 Examination of the Esef report. Our responsibility under this recommendation is described in more detail in the Auditors' responsibility section. We are independent of IAR Systems Group AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the Esef report in accordance with the Chapter 16, Section 4 a of the Swedish Securities Market Act (2007:528), and for such internal control that the Board of Directors and the Managing Director determine is necessary to prepare the Esef report without material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to obtain reasonable assurance whether the Esef report is in all material respects prepared in a format that meets the requirements of Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), based on the procedures performed.

RevR 18 requires us to plan and execute procedures to achieve reasonable assurance that the Esef report is prepared in a format that meets these requirements.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement carried out according to RevR 18 and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Esef report.

The audit firm applies ISQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with professional ethical requirements, professional standards and legal and regulatory requirements.

The examination involves obtaining evidence, through various procedures, that the Esef report has been prepared in a format that enables uniform electronic reporting of the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the report, whether due to fraud or error. In carrying out this risk assessment, and in order to design audit procedures that are appropriate in the circumstances, the auditor considers those elements of internal control that are relevant to the preparation of the Esef report by the Board of Directors and the Managing Director, but not for the purpose of expressing an opinion on the effectiveness of those internal controls. The examination also includes an evaluation of the appropriateness and reasonableness of assumptions made by the Board of Directors and the Managing Director.

The procedures mainly include a technical validation of the Esef report, i.e., if the file containing the Esef report meets the technical specification set out in the Commission's Delegated Regulation (EU) 2019/815 and a reconciliation of the Esef report with the audited annual accounts and consolidated accounts.

Furthermore, the procedures also include an assessment of whether the Esef report has been marked with iXBRL which enables a fair and complete machine-readable version of the consolidated statement of financial performance, financial position, changes in equity and cash flow.

Deloitte AB, was appointed auditor of IAR Systems Group AB (publ) by the general meeting of the shareholders on the 2021-04-27 and has been the company's auditor since 2012-04-24.

Stockholm March 23, 2022

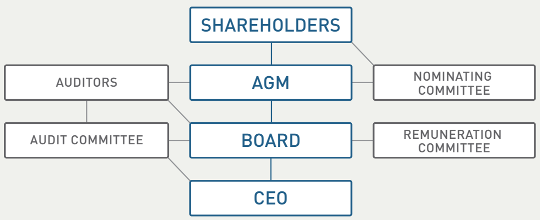
Deloitte AB

Signatures on Swedish original

Andreas Frountzos
Authorized Public Accountant

Corporate governance report

I.A.R. Systems Group is a Swedish public limited company domiciled in Stockholm, Sweden. In 2021, the Group conducted operations in Sweden, the UK, Germany, France, the USA, Japan, Korea, China, Taiwan and India. The IAR Systems share is quoted on the Mid Cap list of Nasdaq Stockholm.



The corporate governance report for 2021 has been reviewed by I.A.R. Systems Group's auditors, in accordance with the provisions of the Swedish Annual Accounts Act.

Corporate governance in the Parent Company and the Group is regulated by such documents as the Articles of Association, the Swedish Companies Act and Nasdaq Stockholm's Rules for Issuers, which for I.A.R. Systems Group include application of the Swedish Code of Corporate Governance ("the Code") since July 1, 2008.

I.A.R. Systems Group's Articles of Association can be found at www.iar.com under the heading "Investors". I.A.R. Systems Group complies with the rules in the Swedish Companies Act regarding the appointment and dismissal of board members and regarding amendments to the Articles of Association. I.A.R. Systems Group has not acted in violation of any of Nasdaq Stockholm's Rules for Issuers or generally accepted practices in the stock market.

Shareholders

I.A.R. Systems Group's shares have been quoted on Nasdaq Stockholm since 1999. The share capital in I.A.R. Systems Group consists of class B and C shares, which carry one vote each. In total, there are 13,968,333 shares, divided between 13,968,333 class B shares and 318,888 class C shares. Class B shares grant equal rights to the company's assets and profits. Class C shares do not grant entitlement to dividends. All of the class C shares are in own holdings.

The number of shareholders in I.A.R. Systems Group at December 31, 2020 was 7,271 (7,516). Of these shareholders, 472 (465) held more than 1,000 shares each. Foreign shareholders held approximately 27% (27) of the share capital and 27% (25) of the votes. For additional information about the shareholders and ownership structure, see pages 36–37.

General meeting of shareholders

The general meeting of shareholders is the highest decision-making body through which the shareholders exercise their influence over the company. Shareholders who wish to participate in the general meeting, personally or through a proxy, must be recorded in the share register five weekdays prior to the general meeting and must notify the company in the manner specified in the convening of the meeting.

Notice of a general meeting is given through an announcement in the official gazette Post- och Inrikes Tidningar and on the company's website (www.iar.com). On the date of the notice, an announcement stating that notice has been given is to be published in Svenska Dagbladet.

The Annual General Meeting (AGM) is to be held within six months from the end of the financial year. At the AGM, the shareholders resolve on the election of Board members and, when appropriate, the election of auditors, the principles for appointment of the nominating committee and discharge from liability for the Board of Directors and the CEO for the past year. The AGM also resolves on the adoption of the financial statements, appropriation of profits, fees for the Board of Directors and auditors and principles for remuneration for the CEO and other senior executives.

2021 Annual General Meeting

The AGM elected new Board members Nicolas Hassbjer and Cecilia Wachtmeister and re-elected sitting Board members Kent Sander, Michael Ingelög, Richard Lind and Fred Wikström. The AGM appointed Nicolas Hassbjer as Board Chairman.

It was furthermore decided that Board fees would be paid in an annual amount of SEK 450,000 to the Board Chairman and SEK 180,000 to each of the other Board members. No fees are paid to the Board members who are employed in the company.

The AGM resolved to appoint a nominating committee according to the following. The Board Chairman is to convene the company's three largest shareholders in terms of voting power, each of which is then to appoint a member to the nominating committee. In addition, the Chairman of the Board may be appointed to the nominating committee.

The AGM resolved in accordance with the Board's proposal to carry forward the profits from the 2020 financial year.

The Board of Directors was authorized, on one or several occasions during the period until the next AGM, to decide on the issue of class B shares in a number equal to not more than 10% of the existing share capital in the company on the date of the AGM in exchange for non-cash consideration. The motive for the authorization is to provide scope for acquisitions with payment through a non-cash issue.

The Board of Directors was furthermore authorized to decide on the repurchase of a maximum number of class B shares whereby the holding of treasury shares at no time exceeds 10% of all registered shares in the company. The motive for the authorization is to give the Board greater freedom of action in optimizing the company's capital structure. The AGM also authorized the Board to decide on the sale of the company's own shares as consideration for the acquisition of companies or operations.

Board of Directors

The Board of Directors consists of six members elected by the AGM and no deputies. The members elected by the AGM are appointed to serve for the period until the next AGM in accordance with the Code. There is no rule stipulating the maximum period of time for which a member can serve on the Board. The Board members and their dependency status in relation to the company's shareholders, etc., are shown in the table on page 86.

The average age of the Board members is 56 years and one of the five members is a woman. The nominating committee considers all of the Board members except one to be independent in relation to the company, its management and the company's major shareholders. I.A.R. Systems Group meets the requirements in the Code regarding the Board of Directors' independence in relation to the company, its management and the company's major shareholders.

Work and responsibilities of the Board

According to the Swedish Companies Act, the Board is also responsible for ensuring that the Group's organization is suitably structured so that the company's accounting, cash management and other financial circumstances can be controlled satisfactorily. The work of the Board is regulated by the Swedish Companies Act, the Articles of Association, the Code and the rules of procedure that are adopted yearly by the Board. The rules of procedure describe the division of responsibilities between the Board of Directors, the Board Chairman and the CEO, And also contain provisions to secure the Board's need for continuous information and financial reporting, as well as instructions for the CEO.

Among other things, the rules of procedure state that the Board Chairman and CEO are to work closely to monitor the Group's development and to plan and lead Board meetings. The Chairman is responsible for ensuring that the Board carries out an annual self-assessment of its performance and evaluates its own work routines, and that the Board is continuously provided with the information needed to perform its duties effectively. The Chairman represents the company in matters related to the shareholders. The Board regularly evaluates the CEO's work. The Board is to address the matter at least once per year without the presence of the CEO or management.

The tasks of the Board are to formulate I.A.R. Systems Group's overall goals and strategies, to prepare budgets and business plans, to discuss and approve the annual accounts and interim reports, and to establish key policies and regulatory systems. The Board monitors the Group's financial performance, ensures the quality of the financial reporting and internal control, and regularly follows up and evaluates the business activities based on the Board's established targets and guidelines. The Board also decides on major investments and changes in I.A.R. Systems Group's organization and operations.

Work of the Board in 2021

In 2021, the Board held 14 meetings, of which six were scheduled and eight were extraordinary meetings. Each of the regular meetings followed an approved agenda, and both the proposed agendas and underlying documentation were sent to the Board members prior to each meeting. The CEO and certain other senior executives in the company took part in Board meetings in a reporting capacity and the company's CFO served as secretary of the Board. At the Board meetings, the Board dealt with the fixed items on the agenda for each meeting, such as the business and market situation, financial reporting and monitoring, the company's financial position and investments. The Board members' attendance at meetings is shown in the table on page 87.

Remuneration to the Board

The Chairman and other members of the Board of Directors are paid fees in accordance with the decision of the AGM. No additional remuneration is paid for work on the Board's committees. No Board fees are paid to members who receive a salary from companies in IAR Systems. In 2021, this rule applied to Richard Lind.

Board committees and committee work

In order to address the Board members' independence, two committees have been established: the remuneration committee and the audit committee, whose members are appointed by the Board. The main task of these committees is to prepare proposals for decision by the Board.

BOARD 2021

BOARD 2021	Elected	Dependent	Remuneration committee	Audit committee
Nicolas Hassbjer, Chairman	2021	No	Chairman	Chairman
Cecilia Wachmeister	2021	No	Member	Member
Kent Sander	2017	No	Member	Member
Michael Ingelög	2019	No	Member	Member
Fred Wikström	2019	No	Member	Member
Richard Lind	2019	Yes	-	-

REMUNERATION TO THE CEO AND OTHER SENIOR EXECUTIVES 2021

SEK thousand	Year	Fixed salary	Variable remuneration	Benefits	Pension costs	Share-based remuneration	Total
Richard Lind, CEO	2021	638	-	-	45	-	684
	2020	-	-	-	-	-	-
Stefan Skarin, former CEO	2021	8,250*	-	327	8,685**	-	17,262
	2020	3,489***	-	174	467	5	4,135
Other senior executives	2021	6,539	-	209	4,038	-	10,786
	2020	6,956	-	187	2,904	8	10,048

** of which provision for remuneration during termination and termination benefits in connection with dismissal 4,860 (-)*

*** of which provision for pension costs in connection with dismissal 6,913 (-)*

** of which vacation pay 249 (448).*

REMUNERATION TO THE BOARD

SEK thousand	2021	2020
Nicolas Hassbjer, Chairman	250	-
Kent Sander	180	180
Michael Ingelög	180	180
Richard Lind	173	180
Fred Wikström	180	180
Cecilia Wachtmeister	90	-
Maria Wasing	200	400

The committees do not constitute any delegation of the legal responsibilities of the Board and its members. The issues dealt with at the committee meetings are reported verbally to the Board at the following Board meetings. No additional remuneration is paid for work on the Board's committees. See also pages 88–89 for a description of the nominating committee and other Board committees.

Auditors

The independent auditor is appointed by the AGM and its task is to examine the company's financial reporting and the administration of the company by the Board of Directors and the CEO. The auditor was appointed by the 2021 AGM, at which time Deloitte was elected as auditor to serve for the period until the end of the 2022 AGM. Auditor in Charge is Andreas Frountzos (born in 1981). In addition to I.A.R. Systems Group, he has audit assignments for AdCity Media AB, Edgeware AB, Hittapunktse AB and TV4 AB, among others.

On two occasions during the year, the Auditor in Charge met with the Board to present the focus and scope of the audit, report his observations from the review of the interim report at September 30, his evaluation of internal control and the audit of the annual accounts for the 2021 financial year. On one occasion during the year, the Board met with the auditor without the presence of the CEO or other members of the company's management.

Deloitte issues an auditor's report regarding I.A.R. Systems Group AB, I.A.R. Systems AB and the Group. Deloitte also performs non-audit services for the companies in the I.A.R. Group. These have mainly consisted of tax consultations in direct connection with the audit. For this work, Deloitte invoiced a total amount of SEK 0.4m (0.2) in 2021. The auditor is paid fees in accordance with the decision of the AGM. For information about fees to auditors in 2021 and 2020, see Note 5 on page 68.

CEO

The Board appoints the President of I.A.R. Systems Group AB, who is also the CEO. The CEO is responsible for day-to-day management of operations in the Parent Company and the Group.

The CEO supervises operations according to the instructions adopted by the Board. He is responsible for ensuring that the Board members are supplied with the necessary information and decision data ahead of Board meetings, presents reports and submits well-founded proposals for decision. The CEO provides the members of the Board monthly with the information needed to monitor the financial position, activities and development of the Parent Company and the Group and keeps the Board Chairman continuously informed about operations.

The CEO takes the necessary measures to ensure that the company's financial accounting and reporting are carried out in compliance with law and that financial management is handled in a satisfactory manner. A more detailed description of the division of responsibilities between the Board and the CEO is provided in written instructions to the CEO, which are updated annually.

During the year, Stefan Skarin was dismissed as President and CEO and Richard Lind assumed the position of CEO.

Remuneration to the CEO and other senior executives

The principles for remuneration to the CEO and other senior executives are prepared by the remuneration committee and presented to the Board, which puts forward proposals for such

ATTENDANCE AT BOARD MEETINGS IN 2021

	Feb 9	Mar 15	Apr 27	Apr 27	Apr 27 Stat.	May 31	Aug 17	Sep 14	Sep 30	Oct 5	Oct 18	Oct 27	Nov 25	Dec 9	Total
Nicolas Hassbjer, Chairman	-	-	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10/10
Cecilia Wachtmeister	-	-	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10/10
Michael Ingelög	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14/14
Kent Sander	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14/14
Fred Wikström	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14/14
Richard Lind	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	14/14
Maria Wasing	✓	✓	✓	✓	-	-	-	-	-	-	-	-	-	-	4/4

BOARD'S FINANCIAL CALENDAR

Quarter	Month	Activity
Q1	February	Meeting regarding year-end report and the financial results for the full-year
	March	Approval of the annual report
Q2	April	Q1 report meeting Statutory meeting
Q3	August	Q2 report meeting
	September	Strategy meeting
Q4	October	Q3 report meeting
	December	Meeting regarding business plan and financial plan

principles for approval by the AGM. The group Other senior executives refers to CFO and Product Manager. For 2021, the Group applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM. Remuneration to the CEO and other senior executives consists of fixed salary, variable salary, pension and other customary benefits. The maximum variable salary for the CEO and other senior executives corresponds to 50% of fixed salary. Pension benefits and other benefits are paid as part of the total remuneration package.

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

Gender equality and diversity policy

Differences between people may include gender, ethnic origin, age, disability, religion and sexual orientation, but also experience, qualifications, living circumstances and values. In combination, this creates a dynamic diversity, which contributes new perspectives and ideas.

This collective diversity comprises IAR Systems' expertise, which is a strategic asset in the Group's business and operational development. IAR Systems views gender equality and diversity as both self-evident and a strength, and therefore strives for diversity in its staffing profile and in recruitment.

Our gender equality policy aims to discourage the selection of individuals as members of different groups based solely/primarily on gender, and to ensure that groups are not made up solely of one gender.

Positions are filled based on the stipulated applicant profile. When applicants have equivalent qualifications, IAR Systems is to ensure that the company's working groups have a good structure and that IAR Systems uses the time and expertise of its employees in a manner that promotes the development of both the business and the individual.

When choosing suitable applicants for vacant positions, the company must also work to achieve the broadest possible mix of ages and ethnic backgrounds.

The objective is to achieve as even a distribution as possible of all duties at the workplace, and for the company to discourage gender marking of various tasks and positions.

During the year, the values and goals encompassed by this policy played a distinct and active role in the company's daily activities.

Internal control

The Swedish Companies Act and the Swedish Code of Corporate Governance state that the Board of Directors is responsible for ensuring that the company has satisfactory internal control, for staying informed about the company's internal control system and for evaluating the effectiveness of this system.

Control environment

The basis for internal control in I.A.R. Systems Group is the control environment, which includes the organizational structure, decision-making paths, powers and responsibilities. The control environment is documented and communicated in the form of normative documents such as internal policies, guidelines and instructions. These include the division of responsibilities between the Board of Directors and the CEO and instructions for signatory powers, accounting and reporting.

Risk assessment

The Board of Directors has ultimate responsibility for the company's risk management. Controlled risk-taking is achieved through a well-defined organization and decision-making procedures that include a high level of risk awareness among the employees and the application of uniform definitions and principles within an established framework. The primary risk areas are the account closing process in connection with financial reporting, operational risks and legal risk.

Control activities over the financial reporting

The Group's business processes include financial controls that regulate approval and reporting of business transactions. The account closing and reporting process contains controls for aspects such as accounting, valuation and disclosure requirements and regarding the application of significant accounting policies and estimates both in the individual subsidiaries and at the Group level.

Certain subsidiaries in I.A.R. Systems Group have their own financial directors that take part in planning and evaluation of financial results in their units. Regular analysis of financial reporting in the respective units covers significant items such as assets, liabilities, revenue, expenses and cash flow. For the subsidiaries that do not have their own financial directors, a more in-depth analysis is carried out at the Group level. Together with the analysis performed at the Group level, this important aspect of internal control contributes to ensuring that the financial reports contain no material misstatements.

The quality of the external financial reports is safeguarded through a number of procedures and routines. All reports and press releases are posted on I.A.R. Systems Group's website in connection with publication.

Remuneration committee

The remuneration and other terms of employment for senior executives are to be designed to secure the company's access to executives with the requisite qualifications, at a cost that is adapted to company's circumstances and so as to ensure that they have the intended effects on the company's operations.

Remuneration committee, one meeting

Nicolas Hassbjer, *Chairman*
Michael Ingelög, Cecilia Wachtmeister, Kent Sander and Fred Wikström.

I.A.R. Systems Group's remuneration committee complies with the provisions in the Code, which state, among other things, that the members of the remuneration committee are to be independent in relation to the company and its management. All members of the remuneration committee are independent in relation to the company, its management and the company's major shareholders. The remuneration committee is appointed by the Board. The committee has addressed matters of principle regarding variable salary for senior executives and general matters related to guidelines and policies for senior executives. The committee has also dealt with the salary and other terms of employment for the CEO.

Ahead of the 2022 AGM, the committee will prepare proposed principles for remuneration and other terms of employment for senior executives which the Board will then present for approval by the AGM in accordance with the Swedish Companies Act and the Code. All members attended the committee's meeting.

Audit committee

The audit committee comprises all Board members, and monitors and evaluates the external audit process, and is also responsible for supporting the work of the Board in ensuring the quality of the company's financial reporting, maintaining continuous contact with the company's auditor and studying and assessing reports from the independent auditor.

Audit committee

Nicolas Hassbjer, *Chairman*
Michael Ingelög, Cecilia Wachtmeister, Kent Sander and Fred Wikström.

The committee is responsible, among other tasks, for assessing the auditors' independent status in relation to the company, including the scope of the auditors' non audit-related services for the company.

Nominating committee

The Code states that the nominating committee is a body of the AGM whose only task is to prepare and put forward proposals for resolution by the AGM regarding election and remuneration and, when appropriate, procedural matters for the upcoming nominating committee. Regardless of how they have been appointed, the members of the nominating committee are to serve the interests of all shareholders.

Nominating committee, 3 meetings (up to and including March 17, 2022)

Jonas Eixmann, Andra AP-fonden, *Chairman*
Ossian Ekdahl, Första AP-fonden and
Markus Lindqvist, Aktia
Jan Dworsky, Swedbank Robur Fonder

The AGM on April 27, 2021 resolved to appoint a nominating committee according to the following principles. By September 30, 2021, at the latest, the Board Chairman shall convene the four largest shareholders in the company in terms of voting power, each of which shall then appoint a member to the nominating committee. In addition, the Chairman of the Board may be appointed to the nominating committee. The composition of the nominating committee is to be made public not later than six months prior to the 2022 AGM. In the event of material changes to the ownership structure, the composition of the nominating committee may be changed in accordance with the above policies.

The nominating committee has interviewed all the Board members and evaluated the Board's performance, qualifications and composition. In its evaluation of the Board, the nominating committee has placed particular emphasis on the requirement for diversity and breadth on the Board and the requirement to strive for an even gender distribution. Shareholders were welcome to submit proposals and viewpoints to the nominating committee. The nominating committee's proposals have been announced in the notice to attend the AGM, on the company's website and at the 2022 AGM.

The members have not received any fees or remuneration from I.A.R. Systems Group for their work on the nominating committee. All members attended the committee's three meetings.

Proposals to be submitted to the 2022 AGM for resolution:

- Chairman of the AGM
- The number of Board members and amount of Board fees, divided between the Chairman and other Board members
- Election of Board members and the Board Chairman
- Election of auditor and fees to the company's auditor
- The nominating committee ahead of the 2023 AGM

The auditor's examination of the corporate governance statement

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

Engagement and responsibility

The Board of Directors is responsible for that the corporate governance statement for the financial year 2021-01-01 – 2012-12-31 on pages 85-89 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standards RevR 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm March 23 2022

Deloitte AB

Signatures on Swedish original

Andreas Frountzos
Authorized Public Accountant

Board of Directors

NICOLAS HASSBJER
BOARD CHAIRMAN

Born in: 1967.
Board member: Since 2021.
Education: Honorary doctorate in information technology.
Employment and other board assignments: Nicolas currently serves as Chairman of Yaskawa Robotics Nordic, Sigicom and Tequity, and Deputy Chairman of the Chalmers University of Technology Foundation. He is also a Board member of Sensative, Consafe Logistics and Lumen Radio.
Work experience: Nicolas is the founder of HMS Networks (CEO from 1988 to 2009 and Deputy Chairman until 2013) and has extensive experience in international sales, the Internet of Things and embedded systems.

Shareholding: 127,605 class B shares (February 28, 2022).
Independent in relation to the company and management.
Independent in relation to the company's major shareholders.

FRED WIKSTRÖM
BOARD MEMBER

Born in: 1970.
Board member: Since 2019.
Education: LL.M. from Stockholm University.
Employment and other board assignments: Fred is a Managing Partner and founder of Southwik, which specializes in corporate finance and M&A advisory services.
Work experience: Fred has over 15 years' experience of starting, developing and operating companies. As a founder of POC, he was involved in building the company from a concept into an internationally successful company in its niche.

Shareholding: 35,400 class B shares (including related parties' holdings) (February 28, 2022).
Independent in relation to the company and management.
Independent in relation to the company's major shareholders.

RICHARD LIND
BOARD MEMBER

Born in: 1964.
Board member: Since 2019.
Education: IHM and several internal training programs at Microsoft. Microsoft/Wharton internal MBA program.
Employment and other board assignments: Richard is Chairman of Flowmotion AB and has a number of advisory assignments for such companies as Innovation Strategy Forum, Intphiz AB and DePalma Workwear.
Work experience: Richard has extensive experience of the technology sector after serving in various senior positions, both internationally and in Sweden, at companies such as Microsoft for the past 18 years, most recently as CTO with responsibility for the Internet of Things.

Shareholding: 8,500 class B shares (February 28, 2022).

MICHAEL INGELÖG
BOARD MEMBER

Born in: 1971.
Board member: Since 2019.
Education: BSc in business administration from Uppsala University.
Employment and other board assignments: Michael is CEO and founder of MiMain, Chairman and co-founder of Stabelo, Chairman of Basware OY and a Board member of several smaller companies.
Work experience: Michael has had a long career in the finance sector in various senior positions, both in Sweden at Svenska Handelsbanken and UBS and for 12 years in London at Deutsche Bank and Credit Suisse. Michael also has extensive experience of corporate development as both an investor and an advisor.

Shareholding: 2,000 class B shares (February 28, 2022).
Independent in relation to the company and management.
Independent in relation to the company's major shareholders.

KENT SANDER
BOARD MEMBER

Born in: 1953.
Board member: Since 2017.
Education: BSc in business administration from Stockholm University.
Employment and other board assignments: Kent is Board Chairman of Tobii, Serneke Group and OnePhone Holding, and a Board member of BT OnePhone Ltd, Expander Business Consulting, Incell International, Gamingzone Entertainment and Triboron.
Work experience: Kent has over 30 years' experience from leading positions in international telecom and high-tech IT companies. He has served as CEO of TruePosition and had a long career at Ericsson, including a role as Executive VP Sales in the USA.

Shareholding: No holdings (February 28, 2022).
Independent in relation to the company and management.
Independent in relation to the company's major shareholders.

CECILIA WACHTMEISTER
BOARD MEMBER

Born in: 1966.
Board member: since 2021.
Education: MSc in industrial engineering from the Institute of Technology at Linköping University.
Employment and other board assignments: Executive Vice President, Business & Group Functions at KAMBI Plc. Cecilia is also a Board member of HMS Networks AB and Smart Eye AB.
Work experience: Cecilia has spent several years in various senior positions at Ericsson AB, both in Sweden and abroad.

Shareholding: 2,000 class B shares (February 28, 2022).
Independent in relation to the company and management.

Group Management

RICHARD LIND
CEO
IAR SYSTEMS

Born in: 1964.
Education: IHM and several internal training programs at Microsoft. Microsoft/Wharton internal MBA program.
Work experience: Richard has extensive experience of the technology sector after serving in various senior positions, both internationally and in Sweden, at companies such as Microsoft for the past 18 years, most recently as CTO with responsibility for the Internet of Things.

Shareholding: 8,500 class B shares (February 28, 2022).

KARIN LASSEGÅRD
LEAD INTERACTION AND INTEGRATION OFFICER (LIIO), I.A.R. SYSTEMS GROUP AB

Born in: 1982.
Education: Secondary and post-secondary education in tourism.
Work experience: Over eight years' work experience in the hotel industry, assistant in medical technology and IT infrastructure.

Shareholding: No holdings (February 28, 2022).
Warrant holding: 15,000 share warrants (February 28, 2022).

HAYDN POVEY
CEO, SECURE THINGZ
CHIEF STRATEGY OFFICER (CSO), IAR SYSTEMS

Born in: 1970.
Education: MSc in electrical engineering, University of Kent.
Work experience: Haydn Povey, well-known security expert and Board member of the IoT Security Foundation, has held senior positions at global technology companies for more than 20 years, including over ten years at Arm. In his most recent role at Arm, he led the company's security strategy in the mobile and IoT domains, which entailed participating in discussions concerning security standards at the government level in the USA as well as the UK. Haydn also helped lead the development and market introduction of the Arm Cortex-M processor family, which now dominates the embedded systems and IoT markets.

Shareholding: 135,417 class B shares (February 28, 2022).
Warrant holding: 1,000 stock options (February 28, 2022).

ANDERS HOLMBERG
CHIEF TECHNOLOGY OFFICER (CTO),
IAR SYSTEMS

Born in: 1967.
Education: BSc in mathematics and computer science from Uppsala University.
Work experience: Anders Holmberg has worked at IAR Systems for 17 years. He has a background in numerical analysis and started his career working on parallel computers and supercomputers during the early 1990s. Since then, he has worked as a university lecturer, technical consultant, C/C++ developer and development manager. Over the past ten years, Anders has focused on advanced solutions for developing embedded systems.

Shareholding: No holdings (February 28, 2022).
Warrant holding: 1,000 share warrants (February 28, 2022).

ANN ZETTERBERG
CHIEF FINANCIAL OFFICER (CFO),
I.A.R. SYSTEMS GROUP

Born in: 1967.
Education: Ann has a BSc in business administration from Stockholm University.
Work experience: Ann has more than 20 years of experience as a CFO, including several roles at tech startups and in the nonprofit sector as the CFO for the Swedish Hunters Association. She has also worked for half a decade as the CFO of Accent Equity Partners. Her most recent role was as CFO of the First Light listed technology firm Brighter. Her board experience is primarily in the mining industry, as a Board member of Endomines and Chairman of the Board of Copperstone Resources.

Shareholding: 1,076 class B shares (February 28, 2022).
Warrant holding: No holdings (February 28, 2022).

ANDREAS FROUNTZOS
AUDITOR,
DELOITTE AB

Born in 1981. Authorized Public Accountant. Auditor for I.A.R. Systems Group AB since 2019.

Industry-specific glossary

8-, 16-, 32-bit
Processor architectures vary in complexity and size. 8-, 16- and 32-bit define the amount of code and data the processor can address.

Application
An application is another word for a program developed by the user of IAR Systems' solutions, to be run on a processor in an embedded system.

Architecture
A microprocessor architecture is a specific combination of integrated circuit design and instructions that control how the processor works.

Arm
Arm is a multinational company that licenses a standard for processors and sells this to processor makers worldwide. IAR Systems is the software provider that supports the most ARM-based processors in the market for embedded systems.

C-RUN
C-RUN is an add-on product for IAR Embedded Workbench that analyzes the code when it is executed in a developer's application. By using C-RUN, developers can identify errors and bugs at an early stage of the development process.

C-STAT
C-STAT is an add-on product for IAR Embedded Workbench that executes a static code analysis. Using C-STAT, developers can verify the quality of the code at an early stage and ensure compliance with rules and coding standards.

C-Trust
C-Trust is an add-on product for IAR Embedded Workbench that makes it possible for developers to automatically use secure and encrypted code.

Debug probe
A debug probe is an electronic tool that measures how a processor works when the program code is executed and can therefore be used to locate problems and errors in a program that a developer has created.

Debugger
A debugger is software that helps programmers to locate problems and errors in a program by analyzing and showing what is happening "under the surface" when the program code is executed, often with the help of a debug probe.

Embedded Trust
Embedded Trust is software that makes adapting, and thus implementing, security in embedded systems easy and efficient, based on an organization's specific needs. Embedded Trust is tightly integrated with IAR Embedded Workbench.

Functional safety
Functional safety focuses on protecting people and physical property from damage. It is crucial that embedded systems used, for example, in the automotive industry, medical technology and industrial automation, meet the industry requirements and standards for functional safety.

IAR Embedded Workbench
IAR Embedded Workbench is a software package and a complete set of development solutions that is used to program processors in embedded systems. The most important of these include a compiler, a debugger, an editor in which source code can be written, and a linker that combines smaller program segments into an executable program.

Embedded system
An embedded (computer) system consists of one or more microprocessors with related circuits and the software that is run in the system. Embedded systems control the functions in digital products such as industrial robots, reversing cameras, credit card readers, dishwashers, etc.

Integrated circuit (IC)
An integrated circuit is a small, typically rectangular silicon substrate onto which micrometer-sized transistors are mounted, sometimes in numbers of more than one million.

Industrial Internet of Things
The Industrial Internet of Things (IIoT) is a subcategory of IoT. It refers to IoT used in an industrial environment. Some examples are smarter factories, increased digitization and the use of artificial intelligence (AI).

Internet of Things
The Internet of Things (IoT) is a collective term for the trend of equipping objects, such as machinery, vehicles and household appliances, with sensors and processors so that they can perceive and communicate with the world around them.

Compiler
A compiler is a computer program (or set of programs) that transforms source code written in a programming language into instructions that the microprocessor can understand and execute.

Source code
Also referred to as program text, program code or sometimes simply program or code, source code comprises instructions, data and comments in a specific programming language. Programmers use source code to write, correct and make changes.

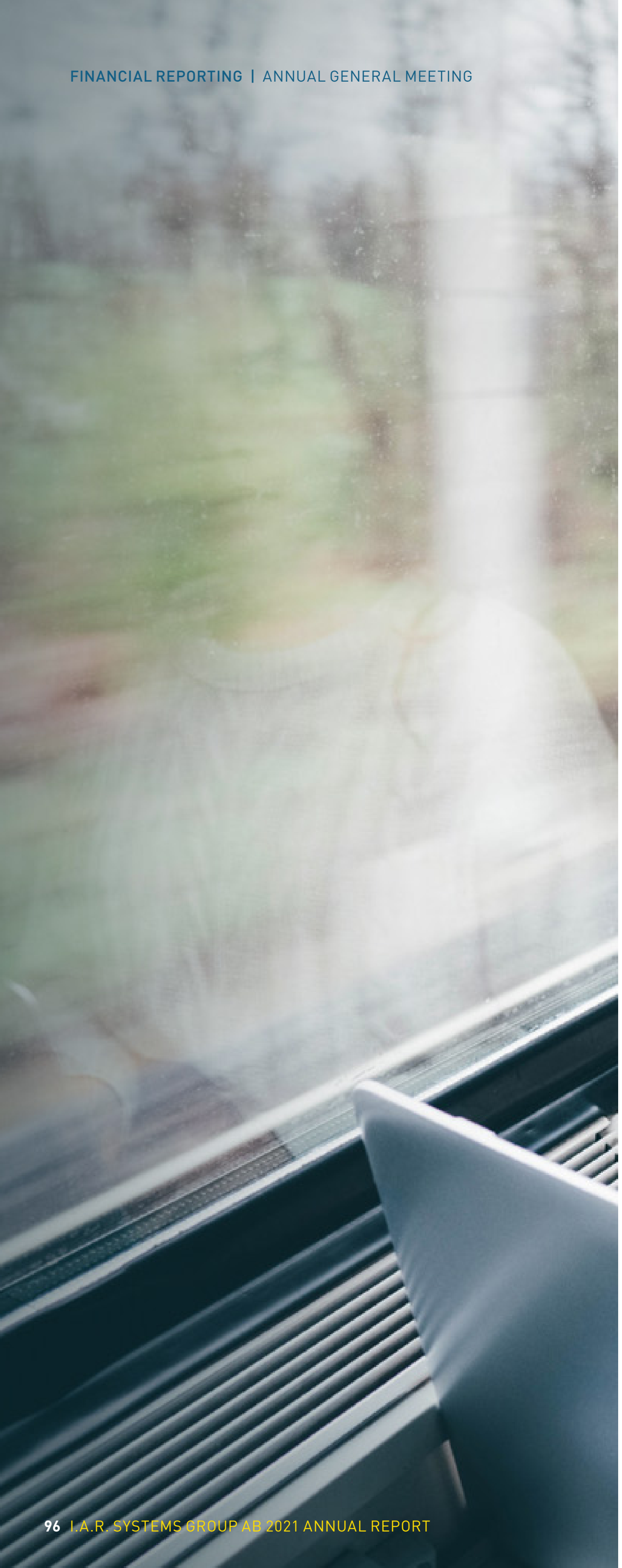
Microprocessor
A microprocessor consists of a single integrated circuit (or at most a few integrated circuits). The circuit incorporates the functions of a computer's central processing unit (CPU) with storage of code and data.

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

RISC-V
RISC-V is a processor architecture similar to the Arm architecture in structure, but created with open source code.

Security
There is an important distinction between safety, meaning protection against damage, and security, meaning protection against risks. Security involves ensuring that something does not occur, while safety is about minimizing the damage if something does occur. The term safety is used, in particular, when referring to protection against damage to people and property. Security is often used in connection with data security and mainly refers to protection against unauthorized access, data theft, unauthorized changes or sabotage, for example, by hackers.

Sources: *IAR Systems, Wikipedia, IDG's dictionary.*



2022 Annual General Meeting

The Annual General Meeting (AGM) of I.A.R. Systems Group AB (publ), corporate identification number 556400-7200, will be held on Tuesday, April 26, 2022. Due to the ongoing pandemic, the Board decided that the AGM will be held without physical attendance by the shareholders, proxies or outside parties. Voting rights can only be exercised via post ahead of the meeting.

From the end of March, I.A.R. Systems Group's annual report will be available on IAR Systems' website (www.iar.com/investors) and at the company's offices at Kungsgatan 33 in Stockholm and Strandbodgatan 1 in Uppsala, Sweden.

Notification

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

- be recorded in the share register maintained by Euroclear Sweden AB no later than Thursday, April 14, 2022, and
- cast their postal vote no later than April 25, 2022. Submitting a postal vote also constitutes registration for the meeting.

More information about postal voting will be included in the notice to attend the AGM.

To be entitled to participate in the AGM, shareholders whose shares are registered in the name of a nominee must request that these shares be temporarily re-registered in their own name in the share register maintained by Euroclear Sweden AB no later than April 14, 2022. This is known as "voting rights registration" and is carried out through the nominee according to their procedures at a time predetermined by the nominee. Voting rights registration requested by the shareholder that has been completed by the nominee no later than April 20, 2022, will be recognized in the share register.

FINANCIAL CALENDAR

INTERIM REPORT JAN–MAR 2022 APRIL 26, 2022
2022 ANNUAL GENERAL MEETING APRIL 26, 2022
INTERIM REPORT JAN–JUN 2022 AUGUST 17, 2022
INTERIM REPORT JAN–SEP 2022 OCTOBER 27, 2022

Production: IAR Systems and Frosting Kommunikationsbyrå | **Photos:** Johan Olsson and Adobe Stock | **Printing:** Ågrenshuset Produktion, Bjästa, Sweden

I.A.R. Systems Group AB
Kungsgatan 33, SE-111 56 Stockholm, Sweden
www.iar.com