IAR SYSTEMS Q3 2014

Growth of 18%, operating margin of 24% and cash flow of SEK 24m

Profit summary	January-September		July-September		Full year
SEK M	2014	2013	2014	2013	2013
Net sales	189.6	168.7	64.9	54.9	230.2
Other operating income	-	6.0	-	6.0	6.0
Operating expenses	-149.9	-143.5	-49.3	-45.5	-194.9
Operating profit	39.7	31.2	15.6	15.4	41.3

Key ratios	January-September		July-September		Full year
	2014	2013	2014	2013	2013
Growth, %	12.4	-1.1	18.2	-2.3	0.0
EBITDA margin, %	24.9	22.5	28.4	32.6	22.0
Operating margin, %	20.9	18.5	24.0	28.1	17.9
Net cash, SEK M	57.2	54.7	57.2	54.7	80.1
No. of employees at end of period	170	168	170	168	168

January-September 2014

- Net sales of SEK 189.6m (168.7)
- EBITDA of SEK 47.3m (38.0)
- Operating profit of SEK 39.7m (31.2)
  The comparative figure for the prior year was positively affected by SEK 4.0m from an insurance claim.
- Profit before tax of SEK 40.1m (31.1)
- Cash flow from operating activities of SEK 54.4m (30.7)
- Net cash at the end of the quarter was SEK 57.2m (54.7)
- EBITDA margin of 24.9% (22.5)
  EBITDA margin excluding effect of insurance claim in the prior year was 20.2%
- Operating margin of 20.9% (18.5)
  Operating margin excluding effect of insurance claim in the prior year was 16.1%
- Earnings per share after current tax of SEK 3.12 (2.45)
- Earnings per share of SEK 2.53 (2.02)

July-September 2014

- Net sales of SEK 64.9m (54.9)
- EBITDA of SEK 18.4m (17.9)
- Operating profit of SEK 15.6m (15.4)
  The comparative figure for the prior year was positively affected by SEK 4.0m from an insurance claim.
- Profit before tax of SEK 15.6m (15.2)
- Cash flow from operating activities of SEK 23.9m (17.8)
- EBITDA margin of 28.4% (32.6)
  EBITDA margin excluding effect of insurance claim in the prior year was 25.3%
- Operating margin of 24.0% (28.1)
- Operating margin excluding effect of insurance claim in the prior year was 20.8%
- Earnings per share after current tax of SEK 1.26 (1.25)
- Earnings per share of SEK 1.06 (0.96)

Key events during the period

- Launch of C-RUN for ARM as an add-on product
- The new issue of 287,500 class B shares through the exercise of subscription warrants provided the company with proceeds SEK 9.8m
- Instead of dividends, SEK 62.7m has been transferred to the shareholders through a redemption procedure in the second quarter of the year

CEO's comments

The third quarter confirms that IAR Systems has the ability to deliver both growth and good profitability.

New sales record

Net sales in the third quarter of 2014 rose by 18.2% compared to the same period of last year. All regions set new sales records in local currency.

Another milestone is that IAR Systems has now reached annual sales of over SEK 250,000,000, measured over the past four quarters.

Asia reported growth for the fifth consecutive quarter and Europe for the 23rd consecutive quarter, compared to the same quarter of last year. In the Americas, growth has risen thanks to greater efficiency in our working methods.

In order to increase the clarity of our reporting, the table below presents growth by region and product group, as well as foreign exchange effects. Later in the report this is also described from a market and product perspective.

Powerful offering

During the period we launched C-RUN, the first add-on product that is integrated with Embedded Workbench. The product has been well received by both customers and partners, and C-RUN has further enhanced IAR Systems' product portfolio. The fourth quarter will be devoted to several major trade shows, increased sales activities mainly in the USA and Asia and refinement of the company's offering in the Internet of Things.

Continued high profitability

Operating profit for the third quarter was on par with the third quarter of 2013, at SEK 15.6m (15.4). This is a favorable result considering that the year-earlier figure was positively affected by an insurance claim of SEK 4.0m. The underlying improvement in earnings is explained by higher sales and a focus on sales of proprietary products with better margins. Operating profit for the period from January to September was SEK 39.7m (31.2), equal to an operating margin of 20.9% (18.5) for the period.

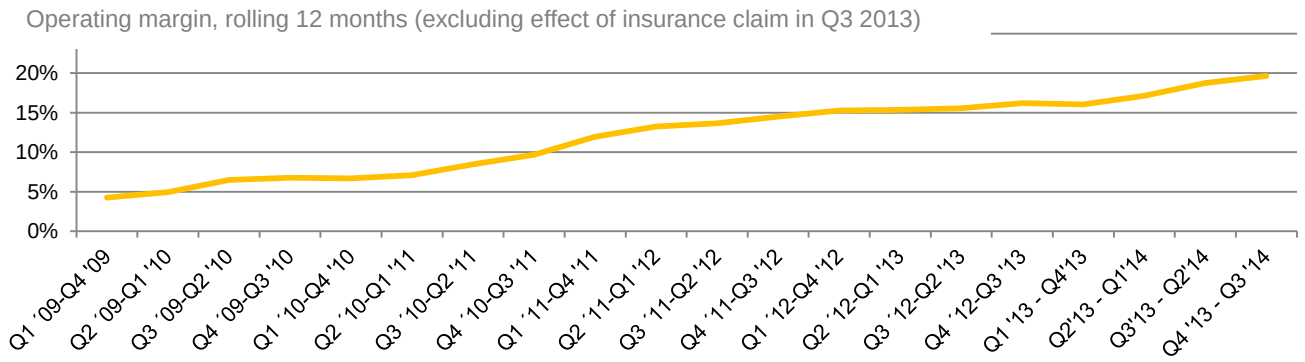
The strong trend we can see in IAR Systems' income statement is also reflected in our cash flow, which improved from an already high level. Cash flow from operating activities so far this year is SEK 54.4m (30.7), of which SEK 23.9m (17.8) refers to the third quarter.

Last spring the company transferred SEK 62.7m to the shareholders through a redemption procedure, equal to SEK 5.00 per share. But due to our strong cash flow, we had built up net cash of SEK 57.2m at September 30.

IAR Systems has a world-leading position in a global niche that is critical for development of smart products that are better, more effective and more energy-efficient. This, together with our solid financial development, gives us reason to look to the future with confidence.

Stefan Skarin
CEO of IAR Systems Group AB

	Growth Proprietary Products	Growth 3rd-party Products	Foreign exchange effects	Total growth	**SEK M**
Americas	12%	-3%	3%	12%	**71.2**
Asia	18%	-0%	-1%	17%	**46.2**
Europe	16%	-0%	6%	22%	**70.3**
Not allocated by region	-76%	-0%	0%	-76%	**1.9**
Total	**10%**	**-1%**	**3%**	**12%**	**189.6**



Customers and market

Growth exceeded all our financial targets through stable sales development in all regions during the third quarter. IAR Systems once again set new sales records, primarily in the ARM product area. Sales of C-RUN for ARM are rising successively and are expected to grow in pace with customer upgrades to the latest version of the ARM product.

Demand remains strong in all markets. As predicted, the trend in the Americas is positive following the organizational changes carried out in the second quarter. In terms of sales, the past two quarters have been two of the best ever in the Americas region. We have increased our sales of proprietary products in all regions. Growth for proprietary products during the period was 18% in Asia, 16% in Europe and 12% in the Americas. A decrease in the share of sales for third-party products during the period had a negative impact on growth primarily in the Americas. Overall, growth in local currency was 18% in Asia, 16% in Europe and 9% in the Americas.

The market for ARM has continued to expand with increased migration of customer products from 8/16-bit to 32-bit architectures. The most powerful demand is being seen for the lower end ARM processor series.

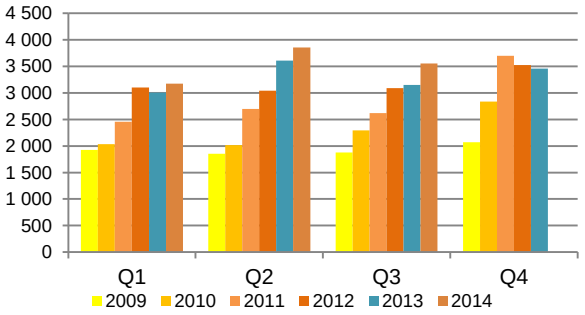
The growing complexity of the customers' products is also raising the importance of a well-functioning ecosystem of partners surrounding our products. This is an area where we have previously chosen to also act as a reseller on demand. By focusing the sales organization on proprietary products with a higher gross margin than third-party products, we have increased our profitability.

Some of the growth we have reported in recent years can be tied to a concept known as the "Internet of Things". The Internet of Things is about utilizing existing products better and for new purposes by connecting them to the Internet. The goal is to increase the information flow from devices that can be used to position, change, measure, etc. IAR Systems is ideally equipped to help our customers apply the Internet of Things in their products. We currently have 46,000 companies who are already using IAR Embedded Workbench to program their products.

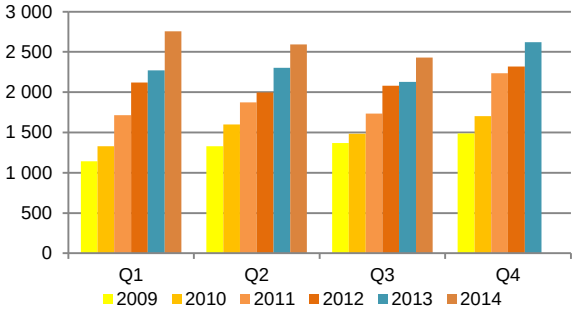
Now these products will also be programmed to communicate with the Internet, which will boost demand for our tools.

IAR SYSTEMS' DEVELOPMENT BY REGION

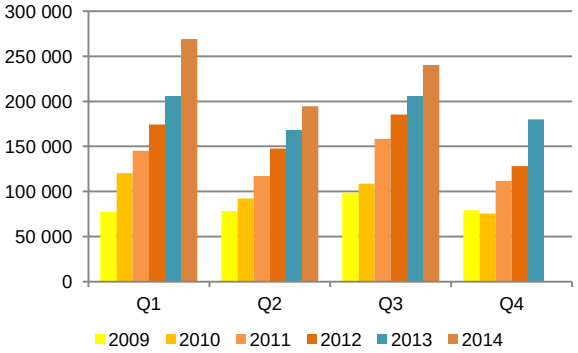
Net sales in the Americas (USD th)



Net sales in Europe (EUR th)



Net sales in Asia (JPY th)



Products and technology

The third quarter was also marked by C-RUN for ARM, our ever first add-on product, and ongoing enhancement of the ARM product, which has led to a unique world-leading position in ARM's new Cortex M7 processor. Cortex M7 has been launched by ARM as the world's fastest processor, provided that the customer uses IAR Embedded Workbench in its product development.

Products launched in the third quarter were primarily related to ARM and the continued focus on C-RUN. C-RUN is an in-house developed add-on product that is a result of recent years' close collaboration with a large number of customers to understand their needs and requirements for add-on products.

C-RUN is fully integrated with IAR Embedded Workbench, which is vital in order to capitalize on both use and sales of products for the development toolsuite IAR Embedded Workbench, IAR Systems' flagship product. In addition, C-RUN offers functionality and performance that are adapted for users of IAR Systems' products. This gives C-RUN a unique market position, since there is no competing tool that knows our products better.

C-RUN will be available for the majority of the most widely demanded products, which means that we can continue to position our offering as independent when it comes to the choice of different processors. The financial effects of C-RUN will be most visible towards the end of the year, since the majority of customer will continue to utilize a one-month evaluation period and have the option of upgrading to the latest version of the ARM product.

In the third quarter we launched a new version of IAR Embedded Workbench that supports processors from ARM. This version of IAR Embedded Workbench has been primarily updated with optimizations to support ARM's new Cortex M7 processor core. ARM has positioned Cortex M7 for a market that demands high performance, such as the automotive industry, communication-intensive solutions and the Internet of Things. IAR Systems, which has historically launched support for new processors from ARM, has also set a new world record in code speed – a record that ARM has chosen to use in its marketing of the new processor.

In 2013 IAR Systems launched a certified version of IAR Embedded Workbench for ARM and Renesas RX processors. The certification took place through TÜV SÜD, a leading international body for testing and certification of industrial products. The certification means that the product meets the requirements for ISO 26262 and IEC 61508, which are highly important in the market for embedded systems. In the second quarter we saw higher demand for the certified versions of our products. Demand for other products has also increased with respect to the certification, since our customers see our certification as proof of the quality of the product, documentation and development process.

Sales of third-party products have declined as a result of a strategic decision to focus on proprietary products with a higher gross margin. Third-party products consist primarily of evaluation kits, real time operating systems (RTOS), and the earlier portfolio of debug probes.

We carry out many product launches in the course of a year and to increase the amount of information about all product launches, we present an annual overview on the following page. For those who are interested in additional and, in particular, more technical information, visit our website, www.iar.com.

Product launches in the past 12 months

Q3 2014

September 24 IAR Systems releases new version of leading development tool for ARM

Q4 2013

October 30, 2013
IAR Systems releases new version of leading development tools for ARM

November 7, 2013
IAR Systems launches starter kits for the new high-performance ARM Cortex-M4 series from STMicroelectronics

November 12, 2013
IAR Embedded Workbench supports Renesas' new high-performance RXv2 core

November 19, 2013
IAR Systems updates is leading development tools for 8051-based microprocessors

November 21, 2013
IAR Systems improves performance of development tools for Texas Instruments' ultra-low-power MSP430 microcontrollers

November 26, 2013
IAR Systems and Renesas Electronics Europe offer certified tools for safety-critical development

December 4, 2013
IAR Systems launches complete starter kit for evaluation of Renesas' low-power RX111 microprocessors

December 19, 2013
IAR Systems updates its popular development tools for Atmel AVR 8-bit microcontrollers

Q1 2014

January 30, 2014
IAR Systems boosts ease of use for embedded development of Renesas Super-H-based applications

February 25, 2014
IAR Systems unveils C-RUN, an extension product for runtime analysis of developed code

February 25, 2014
IAR Systems adds functionality for multicore applications to world-leading development tools for ARM

February 26, 2014
IAR Embedded Workbench strengthens development of new low-power ARM CortexM0+ core from STMicroelectronics

February 26, 2014
IAR Systems enhances functionality for Renesas for RX MCUs

March 31, 2014
IAR Systems improves user-friendliness for Freescale HCS12

Q2 2014

April 10, 2014
IAR Embedded Workbench is a featured IDE for Freescale Kinetis microcontrollers

April 16, 2014
IAR Systems releases new version of development tools for Renesas RL78 processors

April 25, 2014
IAR Systems adds stack usage analysis for Renesas RX processors

May 19, 2014
IAR Systems delivers C-RUN for ARM processors

June 17, 2014
IAR Systems enhances Renesas' ARM R-IN32M3 development platform

June 24, 2014
IAR Systems provides support for Texas Instruments' new EnergyTrace technology

Financial information

JANUARY–SEPTEMBER 2014

SALES AND PROFIT

Net sales for the period rose by 12% compared to the same period of last year and amounted to SEK 189.6m (168.7), of which SEK 64.9m (54.9) for the third quarter. In a year-on-year comparison, foreign exchange effects had a positive impact on sales for the period of SEK 5.0m, of which SEK 3.6 for the third quarter.
EBITDA for the period was SEK 47.3m (38.0), which is equal to an EBITDA margin of 24.9% (22.5).
Operating profit for the period improved by 27% and amounted to SEK 39.7m (31.2), of which SEK 15.6m (15.4) for the third quarter.
Operating expenses in the third quarter increased compared with the same quarter last year, as a combination of foreign currency effect, lower investment cost for own staff expenses for the development of debug probes and the cost of participation in a trade show charged the third quarter of this year, but the fourth quarter of the last year.
Operating profit for the prior year was positively affected by SEK 4.0m from an insurance claim in the third quarter.
In a year-on-year comparison, foreign exchange effects had a positive impact on operating profit for the period of SEK 3.7m, of which SEK 2.3m for the third quarter.

INVESTMENTS AND FINANCING

Investments in property, plant and equipment for the quarter are reported at SEK 2.4m (1.8), of which SEK 1.1m (0.5) for the third quarter.
Investments in intangible assets for the period totaled SEK 23.6m (13.3), of which SEK 5.9m (4.2) for the third quarter. These investments relate to, among other things, own staff expenses for the development of debug probes. In the third quarter, the investments also include acquired IP rights amounting to SEK 2.2m and systems SEK 0.7m. In total, this investment in IP rights amounts to SEK 8.8m for the period. The investments are in line with the company's plans.
The equity/assets ratio at September 30, 2014, was 77% (79).

CASH FLOW, CASH AND CASH EQUIVALENTS

Cash flow from operating activities for the period was SEK 54.4m (30.7), of which SEK 23.9m (17.8) for the third quarter. The improved cash flow is an effect of the company's earnings growth and the fact that the previous year closed with high sales at the end of December, which has affected cash flow in 2014.

Cash flow from investing activities for the period was SEK -26.2m (-14.7), of which SEK -7.0m (-4.9) for the third quarter. In the third quarter, the investments include acquired IP rights amounting to SEK 2.2m. In total, this investment amounts to SEK 8.8m for the period.

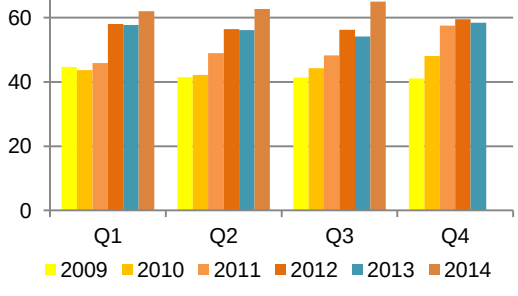
Cash flow from financing activities for the period was SEK -53.1m (-9.5), of which SEK -0.0m (12.2) for the third quarter. During the period, 287,500 subscription warrants were exercised to subscribe for new class B shares. The issue of these new shares has provided the company with proceeds of SEK 9.8m.
Instead of dividends, the company has carried out a mandatory redemption program in which SEK 62.7m was transferred to the shareholders through a 2-for-1 share split combined with a redemption procedure.

On September 30, 2014, the Group had net cash of SEK 57.2m (54.7). Cash and cash equivalents on the same date amounted to SEK 59.5m (57.4), of which SEK 0.7m (2.6) consisted of blocked funds for the acquisition of Signum.
In addition, there were unutilized bank overdraft facilities of SEK 25.0m (25.0). The Group's total available cash and cash equivalents thus amounted to SEK 83.8m (79.8).

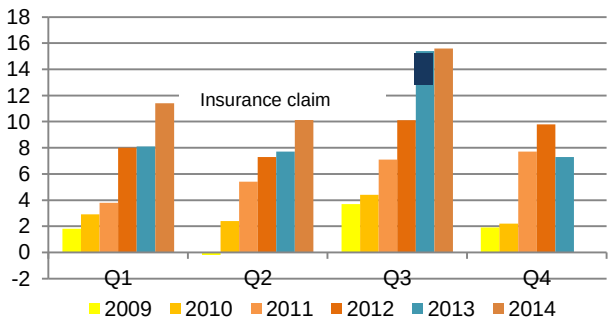
EMPLOYEES

The number of employees in IAR Systems at the end of the quarter was 170 (168). The average number of employees during the period was 160 (159).

Net sales (SEK M)



Operating profit (SEK M)



PARENT COMPANY

The activities of the Parent Company consist of group management, finance and IR/PR functions.
The Parent Company's net sales for the period are reported at SEK 9.4m (9.1). Profit after financial items was SEK -0.3m (10.6). Net investments in property, plant and equipment totaled SEK 0.0 (0.3).
At September 30, 2014, the Parent Company had cash and cash equivalents of SEK 6.8 (28.4), of which SEK 0.7m (2.6) consisted of blocked funds for the acquisition of Signum. The Parent Company's total available cash and cash equivalents thus amounted to SEK 6.1m (25.8).
The number of employees in the Parent Company at the end of the quarter was 4 (5).

ACCOUNTING POLICIES

The consolidated financial statements are presented in compliance with International Financial Reporting Standards (IFRS) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) as endorsed for application in the EU. In addition, the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups, has been applied. This consolidated interim report has been prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and IAS 34, Interim Financial Reporting. The accounts of the Parent Company are presented in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities. Unless otherwise stated below, the accounting standards applied for the Group and the Parent Company are the same as those applied in preparation of the most recent annual report.
The new or revised IFRS standards, interpretations from the IFRS Interpretations Committee and amendments to RFR 2 that are effective as of January 1, 2014, have not had any material impact on the financial statements of the Group or the Parent Company.

GOODWILL

Goodwill is tested for impairment yearly and is measured at cost less accumulated impairment. Goodwill at September 30, 2014, amounted to SEK 111.3m.

DEFERRED TAX ASSET

The deferred tax asset attributable to loss carryforwards is recognized only to the extent that it is probable that the loss carryforwards can be utilized against future taxable profits. At September 30, 2014, the Group had cumulative loss carryforwards of around SEK 219m, all of which are attributable to Sweden. In the balance sheet, these losses are recognized at SEK 53.5m (59.6), of which SEK 48.1m (56.7) refers to loss carryforwards.

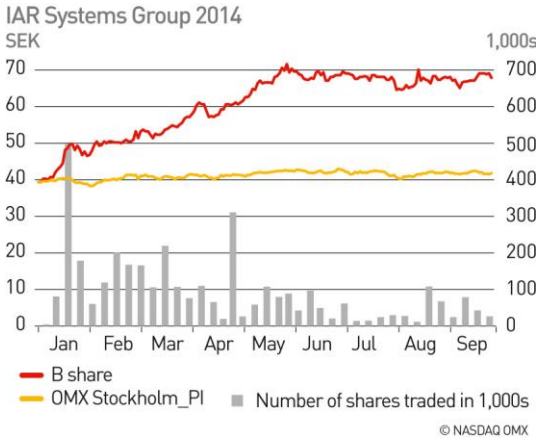
THE IAR SYSTEMS GROUP SHARE

IAR Systems Group's class B share is quoted on the Small Cap list of the NASDAQ OMX Nordic Exchange Stockholm. During the quarter the share price varied from a low of SEK 39.77 (35.60) to a high of SEK 75.00 (42.80). The share price at September 30, 2014, was SEK 68.25 (42.10).
IAR Systems Group's market capitalization on the same date was SEK 862m (494).

The number of shareholders in IAR Systems Group at September 30, 2014, was 8,187 (8,083). Of these, 461 (408) held more than 1,000 shares each. Foreign shareholders held approximately 23% (19) of the share capital and 21% (18) of the votes.
During the year, the warrant series TO4B 2011/2014 has been exercised to subscribe for 287,500 new class B shares. The issue of new shares has provided the company with proceeds of SEK 9.8m.
The warrant program expired on June 18, 2014.

IAR Systems Group's share capital at September 30, 2014, amounted to SEK 126,320,614, divided between 12,632,061 shares of which 100,000 are of class A and 12,532,061 are of class B.

SHARE PRICE PERFORMANCE JANUARY – SEPTEMBER 2014



WARRANT SERIES TO4B

The Annual General Meeting in May 2011 resolved that the company would issue not more than 1,168,856 subscription warrants, each entitling the holder to subscribe for one class B share in IAR Systems Group AB. A total of 1,017,000 warrants were subscribed for on market-based terms in July 2011. Of these, 943,500 warrants were exercised to subscribe for class B shares. In the first half of 2014 the holders exercised 287,500 warrants. Each warrant gave the holder the right to subscribe for one new class B share in IAR Systems Group AB for a price of SEK 34.30 during the period through June 18, 2014.

2014 ANNUAL GENERAL MEETING

The Annual General Meeting of IAR Systems Group was held on April 24, 2014. For information about the Annual General Meeting and the resolutions passed there, visit the company's website www.iar.com.

NOMINATING COMMITTEE

In accordance with the decision of the AGM in April 2014, the nominating committee has been appointed and consists of Ulf Strömsten (Catella), Peter Larsson and Tedde Jeansson. Ulf Strömsten was elected chairman of the nominating committee.
In his role as major shareholder and CEO, Stefan Skarin has been co-opted to take part in meetings of the nominating committee.

SIGNIFICANT RISKS AND UNCERTAINTIES

The market for IAR Systems' software is evolving rapidly and forecasts about future development are therefore associated with uncertainty. IAR Systems Group's assessment is that no significant risks and uncertainties have changed or arisen aside from those described in the annual report for 2013 under "Administration report" on page 23 and in Note 2 on pages 45-47. No material changes have taken place since that time.

FUTURE OUTLOOK

The Board's long-term financial targets are for IAR Systems Group's net sales to grow by 10-15% annually in local currency and for the operating margin to exceed 20% over a business cycle.

Stockholm, Tuesday, October 21, 2014

Stefan Skarin
CEO of IAR Systems Group AB

FINANCIAL CALENDAR 2015

Year-end report 2014, February 19, 2015
Interim report Jan – Mar 2015, April 29, 2015
Annual General Meeting 2015, April 29, 2015
Interim report Jan – June 2015, August 20, 2015
Interim report Jan – Sept 2015, October 22, 2015

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Stefan Skarin, President and CEO, tel +46 708 651005
Stefan Ström, CFO, tel +46 708 651068

REVIEW REPORT

Introduction

We have reviewed the interim report for IAR Systems Group AB (publ) for the period from January 1 to September 30, 2014. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Standard on Review Engagements SÖG 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by FAR. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA (International Standards on Auditing) and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion based on an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not, in all material aspects, prepared in accordance with IAS 34 and the Swedish Annual Accounts Act for the Group and in accordance with the Swedish Annual Accounts Act for the Parent Company.

Stockholm, October 21, 2014
Deloitte AB

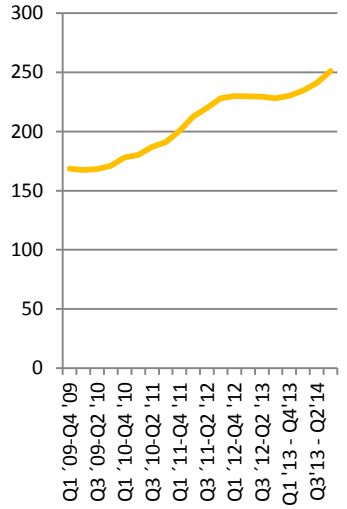
Erik Olin
Authorized Public Accountant

Income statements

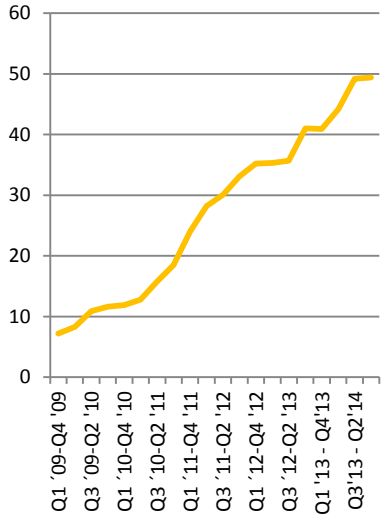
INCOME STATEMENTS, GROUP	9 mths Jan-Sep		3 mths Jul-Sep		Full year
SEK M	2014	2013	2014	2013	2013
Net sales	189.6	168.7	64.9	54.9	230.2
Other operating income	-	6.0	-	6.0	6.0
Goods for resale	-9.9	-11.0	-3.9	-4.3	-14.5
Other external expenses	-30.5	-31.0	-10.3	-10.1	-41.3
Personnel costs	-101.9	-94.7	-32.3	-28.6	-129.8
Depreciation of property, plant and equipment	-1.7	-1.6	-0.7	-0.4	-2.2
Amortization of intangible assets	-5.9	-5.2	-2.1	-2.1	-7.1
Operating profit	39.7	31.2	15.6	15.4	41.3
Financial income	0.5	0.1	0.0	0.0	0.3
Financial expenses	-0.1	-0.2	-0.0	-0.2	-0.2
Profit before tax	40.1	31.1	15.6	15.2	41.4
Income tax	-8.5	-8.1	-2.2	-4.2	-11.5
Profit for the period	31.6	23.0	13.4	11.0	29.9
Earnings per share for the period, basic, SEK	2.53	2.02	1.06	0.96	2.59

STATEMENTS OF COMPREHENSIVE INCOME	9 mths Jan-Sep		3 mths Jul-Sep		Full year
SEK M	2014	2013	2014	2013	2013
Profit for the period	31.6	23.0	13.4	11.0	29.9
Other comprehensive income for the period					
Items that will be reclassified subsequently to profit or loss					
Foreign exchange gains/losses	2.4	-0.3	1.9	-0.3	-0.5
Total other comprehensive income	2.4	-0.3	1.9	-0.3	-0.5
Comprehensive income for the period	34.0	22.7	15.3	10.7	29.4
Comprehensive income for the period attributable to owners of the Parent Company	34.0	22.7	15.3	10.7	29.4

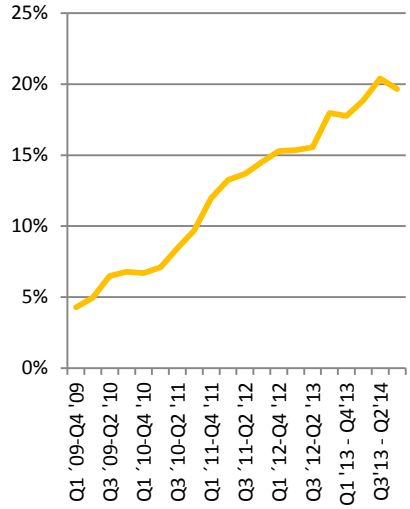
Net sales rolling 12 months



Operating profit rolling 12 months



Operating margin rolling 12 months



Balance sheets

BALANCE SHEETS, GROUP

SEK M	Sep 30, 2014	Sep 30, 2013	Dec 31, 2013
ASSETS			
Non-current assets			
Goodwill	111.3	110.7	110.7
Other intangible assets	71.4	49.7	53.7
Property, plant and equipment	6.8	6.5	6.1
Financial assets	6.0	5.4	5.3
Deferred tax asset	53.5	59.6	59.2
Total non-current assets	249.0	231.9	235.0
Current assets			
Inventories	3.6	4.1	3.3
Other current assets	12.4	12.7	14.6
Trade receivables	35.1	32.4	34.1
Blocked funds	0.7	2.6	0.7
Cash and cash equivalents	58.8	54.8	81.8
Total current assets	110.6	106.6	134.5
TOTAL ASSETS	359.6	338.5	369.5
EQUITY AND LIABILITIES			
Total equity	275.7	267.0	295.0
Non-current liabilities			
Interest-bearing liabilities	1.8	1.3	1.1
Deferred tax liabilities	14.3	10.8	13.3
Total non-current liabilities	16.1	12.1	14.4
Current liabilities			
Trade payables	4.4	6.3	5.7
Interest-bearing liabilities	0.5	1.4	1.3
Other current liabilities	62.9	51.7	53.1
Total current liabilities	67.8	59.4	60.1
TOTAL EQUITY AND LIABILITIES	359.6	338.5	369.5
Pledged assets	4.8	7.1	4.9
Contingent liabilities	-	-	-

Changes in equity

GROUP	9 mths Jan-Sep		3 mths Jul-Sep		Full year
SEK M	2014	2013	2014	2013	2013
Equity at beginning of period	295.0	253.8	260.6	244.0	253.8
Dividends	-	-22.8	-	-	-22.8
Redemption procedure	-63.1	-	-0.2	-	-
New share issue	9.8	1.0	-	-	22.3
Sale of shares	-	12.3	-	12.3	12.3
Comprehensive income for the period	34.0	22.7	15.3	10.7	29.4
Equity at end of period	275.7	267.0	275.7	267.0	295.0
of which, attributable to owners of the Parent Company	275.7	267.0	275.7	267.0	295.0

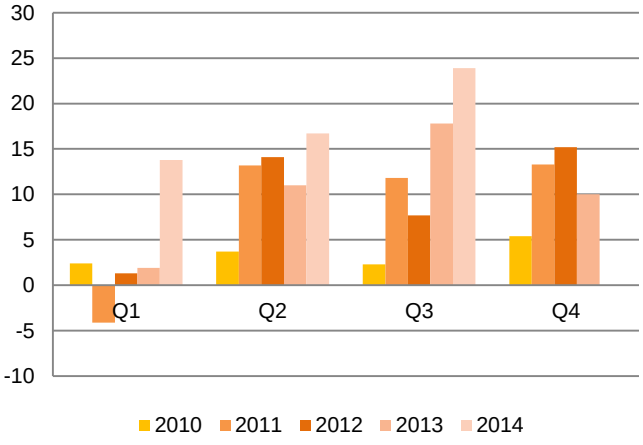
Cash flows

GROUP	9 mths Jan-Sep		3 mths Jul-Sep		Full year
SEK M	2014	2013	2014	2013	2013
Incoming payments from customers	188.6	173.1	67.9	63.5	234.6
Outgoing payments to suppliers and employees	-133.4	-136.3	-44.5	-43.1	-187.4
Interest received	0.4	0.1	0.0	0.0	0.3
Interest paid	-0.1	-0.1	0.0	-0.0	-0.2
Income tax paid	-1.1	-6.1	0.5	-2.6	-6.6
Cash flow from operating activities	54.4	30.7	23.9	17.8	40.7
Investments in property, plant and equipment	-2.5	-1.4	-1.2	-0.3	-1.9
Investments in intangible assets	-23.6	-13.3	-5.8	-4.2	-19.2
Other investments	-0.1	0.0	-0.0	-0.4	2.0
Cash flow from investing activities	-26.2	-14.7	-7.0	-4.9	-19.1
New share issue	9.8	1.0	-	-	22.3
Sale of shares	-	12.3	-	12.3	12.3
New borrowings	-0.0	-0.0	-0.0	-0.1	-0.0
Amortization of financial liabilities	-63.1	-	-0.2	-	-
Redemption procedure	-	-22.8	-	-	-22.8
Dividends to owners of the Parent Company	-53.3	-9.5	-0.2	12.2	11.8
Cash flow for the period	-25.1	6.5	16.7	25.1	33.4
Cash and cash equivalents at beginning of period	81.8	49.0	41.1	30.1	49.0
Exchange difference in cash and cash equivalents					
- attributable to cash and cash equivalents at beginning of period	1.5	-0.7	0.5	-0.6	-0.5
- attributable to cash flow for the period	0.6	0.0	0.5	0.2	-0.1
Cash and cash equivalents at end of period	58.8	54.8	58.8	54.8	81.8

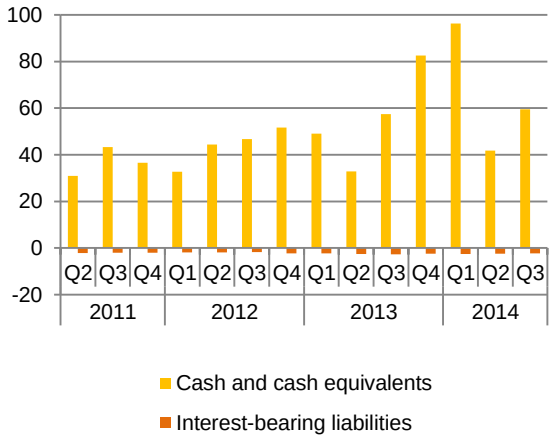
CASH AND CASH EQUIVALENTS, GROUP

SEK M	Sep 30, 2014	Sep 30, 2013	Dec 31, 2013
Cash and cash equivalents at end of period	58.8	54.8	81.8
Unutilized overdraft facilities	25.0	25.0	25.0
Total available cash and cash equivalents	83.8	79.8	106.8

Cash flow from operating activities, SEK M



Net cash Q2 2011 – Q3 2014



Key ratios

GROUP	9 mths Jan-Sep		3 mths Jul-Sep		Full year
	2014	2013	2014	2013	2013
Gross margin, %	94.8	93.5	94.0	92.2	93.7
EBITDA, %	24.9	22.5	28.4	32.6	22.0
Operating margin, %	20.9	18.5	24.0	28.1	17.9
Profit margin, %	21.1	18.4	24.0	27.7	18.0
Cash flow, %	28.7	18.2	36.8	32.4	17.7
Equity/assets ratio, %	76.7	78.9			79.8
Return on equity, %	11.1	8.8	5.0	4.3	10.9
Return on capital employed, %	14.0	11.9	5.8	5.9	15.0
Capital employed, SEK M	278.0	269.7			297.4
Net cash, SEK M	57.2	54.7			80.1
Net debt/equity ratio, times	-0.21	-0.20			-0.27
Number of employees at end of period	170	168			168
Average number of employees	160	159	158	160	160
Net sales per employee, SEK M	1.2	1.1	0.4	0.3	1.4

SHARE DATA	9 mths Jan-Sep		3 mths Jul-Sep		Full year
	2014	2013	2014	2013	2013
Equity per share, SEK	21.83	22.77			23.90
Number of shares at end of period, millions	12.63	11.72			12.34
Average number of shares, millions	12.51	11.40	12.63	11.45	11.53
Cash flow from operating activities per share, SEK	4.35	2.69	1.89	1.56	3.53
Earnings per share, basic, after current tax, SEK	3.12	2.45	1.26	1.25	3.20
Earnings per share, basic, SEK	2.53	2.02	1.06	0.96	2.59

QUARTERLY OVERVIEW

		Net sales, SEK M	Operating profit, SEK M	Operating margin, %	Return on equity, %	Equity per share, SEK	Cash flow from operating activities per share, SEK
2014	Q3	64.9	15.6	24.0	5.0	21.83	1.89
	Q2	62.7	12.7	20.3	3.4	20.72	1.33
	Q1	62.0	11.4	18.4	2.8	24.68	1.12
2013	Q4	61.5	10.1	16.4	2.5	23.90	0.84
	Q3	54.9	15.4	28.1	4.3	22.77	1.56
	Q2	56.1	7.7	13.7	2.4	21.42	0.97
	Q1	57.7	8.1	14.0	2.3	22.87	0.17
2012	Q4	59.5	9.8	16.5	-2.1	22.34	1.34
	Q3	56.2	10.1	18.0	3.3	22.84	0.68
	Q2	56.4	7.3	12.9	1.9	22.15	1.27
	Q1	58.0	8.0	13.8	2.2	22.22	0.12
2011	Q4	57.5	7.7	13.4	4.5	21.82	1.20
	Q3	48.2	7.1	14.7	3.3	20.92	1.07
	Q2	48.9	5.4	11.0	1.4	20.09	1.19
	Q1	45.8	3.8	8.3	0.6	50.35	-0.37
2010	Q4	48.0	2.2	4.6	-0.6	54.16	0.47
	Q3	44.2	4.4	10.0	1.4	55.50	0.23
	Q2	42.1	2.4	5.7	1.1	53.81	0.33
	Q1	43.6	2.9	6.7	1.6	54.42	0.22

Parent Company

Income statements

PARENT COMPANY	9 mths Jan-Sep		Full year
SEK M	2014	2013	2013
Net sales	9.4	9.1	12.5
Other operating income	-	6.0	6.0
Operating expenses	-9.8	-9.9	-14.8
Depreciation of property, plant and equipment	-0.1	-0.1	-0.1
Operating profit/loss	-0.5	5.1	3.6
Result from financial investments	0.2	5.5	15.6
Profit/loss before tax	-0.3	10.6	19.2
Income tax	0.1	-1.2	-3.1
Profit/loss for the period	-0.2	9.4	16.1

Statement of comprehensive income

PARENT COMPANY	9 mths Jan-Sep		Full year
SEK M	2014	2013	2013
Profit for the period	-0.2	9.4	16.1
Total other comprehensive income	-	-	-
Comprehensive income for the period	-0.2	9.4	16.1

Balance sheets

PARENT COMPANY SEK M	Sep 30, 2014	Sep 30, 2013	Dec 31, 2013
ASSETS			
Non-current assets			
Property, plant and equipment	0.3	0.4	0.4
Shares in subsidiaries	189.4	189.4	189.4
Other financial assets	4.5	4.0	4.0
Deferred tax asset	55.0	56.8	54.9
Total non-current assets	249.2	250.6	248.7
Current assets			
Receivables from subsidiaries	-	0.0	10.0
Other current assets	0.8	1.7	1.7
Blocked funds	0.7	2.6	0.7
Cash and cash equivalents	6.1	25.8	44.7
Total current assets	7.6	30.1	57.1
TOTAL ASSETS	256.8	280.7	305.8
EQUITY AND LIABILITIES			
Total equity	245.9	271.5	299.4
Non-current liabilities			
Provisions	-	1.9	-
Total non-current liabilities	-	1.9	-
Current liabilities			
Trade payables	0.5	0.3	0.6
Current liabilities to subsidiaries	6.8	1.3	-
Other current liabilities	3.6	5.7	5.8
Total current liabilities	10.9	7.3	6.4
TOTAL EQUITY AND LIABILITIES	256.8	280.7	305.8

About IAR Systems

BUSINESS MODEL AND PRODUCTS

IAR Systems' products consist of software which is used to program embedded systems that control products in areas such as industrial automation, medical devices, consumer electronics and the automotive industry. We are at the cutting edge of technology with development tools that support most of the world's processor manufacturers and therefore also embedded systems.

IAR Systems is growing faster than the market and has potential for continued growth. The business model is based on standardized software, which means that all customers essentially use the same product. In addition, we have increased the scalability of the business model by raising the share of licenses from 62% to 88% of net sales. This provides a high gross margin and creates a scalable business model with significant capacity to boost profitability.

IAR Systems' development tools are available in a wide range of versions for 8-, 16- and 32-bit processors. The company's focus on the most advanced systems based on 32-bit architecture has been highly successful. In recent years, growth has been driven mainly by the 32-bit segment.

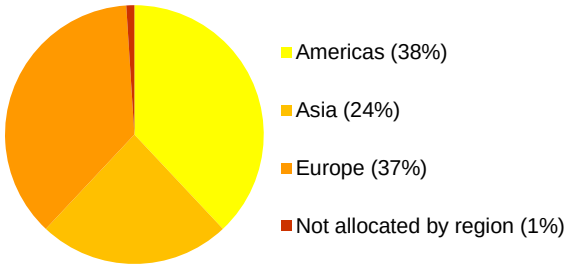
Our market position is strongest in the most advanced systems for 32-bit architecture (often ARM-based), which now account for 62% of net sales.

CUSTOMERS AND SALES

IAR Systems' software is used by many of the world's largest corporations, but also by thousands of small and mid-sized companies that develop digital products. The more than 46,000 companies are found across all industries and all regions of the world.

IAR Systems combines a good inflow of new customers with very loyal customer relationships. A full 95% of all sales go to recurring customers. IAR Systems works actively to sell more licenses to each customer, where the goal is for the customers to standardize on IAR Systems' tool chain.

Breakdown of revenue



ECOSYSTEM

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

ARM

ARM Holdings plc is a multinational company based in Cambridge, UK, that has developed a standard for microprocessor chips. ARM is one of the largest and fastest-growing companies in the industry and dominates the market for processors for smartphones.

For many years IAR Systems has been committed to providing reliable and powerful development tools for a wide spectrum of ARM processors. IAR Systems is one of the leading suppliers of development tools for processors based on ARM technology.

Investment case for IAR Systems

IAR Systems is the world's leading provider of software tools for development of embedded systems applications. IAR Systems has a unique market position based on its leading technology, global reach and a wide and loyal customer base. As of 2014, IAR Systems has been active for over 30 years.

A CHANGING MARKET

The market for embedded systems is undergoing rapid changes in pace with the following primary drivers:

> Growth in the number of digital electronic products and the number of embedded systems per digital electronic product. This is increasing the need for more developers of embedded systems, which is expanding the market for IAR Systems. There are several areas that are showing this clear trend and one of the most recent is "The Internet of Things".

> A rising level of complexity in the embedded systems. For IAR Systems, this means that userfriendly products are growing in value among both existing and potential customers.

> Consolidation of the market in terms of both technology and suppliers, which means that IAR Systems, with its strong market position, has an excellent ability to survive. IAR Systems is strengthening its market position among the customers seeking security in a stable and global supplier.

> Growth in energy-efficient solutions for digital electronic products, which underlines the importance of IAR Systems continuing to deliver innovative solutions for energy-efficient programming of microprocessors.

GLOBAL REACH

IAR Systems has international reach and more than 95% of its sales are attributable to markets outside the Nordic region. The corporate headquarters and product development are based in Uppsala, Sweden, and to a certain extent the USA. Sales and support are conducted from local offices in Sweden, Brazil, France, Japan, China, South Korea, the UK, Germany and the USA. In addition, the company is represented in 30 other countries via distributors.

A WIDE AND LOYAL CUSTOMER BASE

IAR Systems' software is used by many of the world's largest corporations, but also by thousands of small and mid-sized companies. Since the start IAR Systems has sold more than 150 000 licenses, which has led to a customer base of 46,000 organizations.

ECOSYSTEM OF PARTNERS

Thanks to its long presence in the market, IAR Systems has created an ecosystem of partners that complement and broaden the company's offering. IAR Systems is unique with its independent range of products that support virtually all of the market's processors for embedded systems. The choice of processor is often the first choice a customer makes in development of new digital products. By using IAR Systems products, the customer has no need to evaluate the tool in connection with evaluation of the processor. This is a major advantage for the customer.

SKILLED EMPLOYEES

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

Definitions

Current tax	The tax payable or refundable for the current year as well as adjustments to current tax of prior periods.
EBITDA	Earnings Before Interest, Taxes, Depreciations and Amortisations.
EBITDA margin	Earnings Before Interest, Taxes, Depreciations and Amortisations (EBITDA) as a pecentage of Net Sales.
Gross margin	Operating profit before amortization/depreciation as a percentage of net sales.
Equity	Reported equity including 73.7% of untaxed reserves.
Equity per share	Equity divided by the number of shares at the end of the period.
Cash flow	Cash flow from operating activities as a percentage of net sales.
Net cash	Interest-bearing assets less interest-bearing liabilities.
Net debt/equity ratio	Net interest-bearing liabilities divided by equity.
Earnings per share, basic	Profit for the period after tax divided by the average number of shares during the period.
Earnings per share, diluted	Diluted 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 including outstanding options/warrants.
Return on equity	Profit after financial items less full tax as a percentage of average equity.
Return on capital employed	Profit after financial items plus financial expenses as a percentage of average capital employed.
Operating margin	Operating profit as a percentage of net sales.
Equity/assets ratio	Equity as a percentage of total assets.
Capital employed	Total assets less non interest-bearing liabilities.
Profit margin	Profit after financial items as a percentage of net sales.

Industry-specific glossary

Application	Another word for a program developed by the user of IAR Systems' tools, to be run on a processor in an embedded system.
Architecture	A microprocessor architecture is a specific combination of integrated circuit design and instructions that control how the processor works.
ARM	ARM Holdings plc is a multinational company that licenses a standard for processors. The headquarters are located in Cambridge, UK. ARM is one of the largest and fastest-growing companies in the industry and dominates the market for smart phones, but is also growing in other segments.
ARM Cortex	ARM Cortex is a product family of low-energy, easy-to-use microprocessors that has been developed to enable partners to develop more functions at a lower cost, simplify reuse of program code and increase power efficiency.
Chip vendor	A chip maker or chip vendor produces integrated circuits (ICs). IAR Systems is the hub of a powerful ecosystem of partners that include suppliers of real-time operating systems (RTOS), so-called "middleware" and the world's leading chip makers.
Debug probe	An electronic tool that measures how a processor works when the program code is executed and can therefore be used to locate problems and errors in a program that a developer has created.
Debugger	Computer software that helps a programmer to locate problems and errors in the program that he/she has created by analyzing and showing what is happening "under the surface" when the program code is executed, often with the help of a debug probe.
Digitalization trend	Growth in the number of digital products worldwide. More and more products are digital and contain computer chips in order to be mobile, remote-controlled, energy-efficient, upgradable, etc.
Emulator	Another name for debug probe.
IAR Embedded Workbench	IAR Embedded Workbench is a high-performance tool suite for development of software for small and mid-sized (8-, 16-, and 32-bit) microprocessors. IAR Systems collaborates with all world-leading chip makers to guarantee that our tools can be used for more processor architectures than any other development tool on the market.
Embedded system	An embedded (computer) system consists of one or more microprocessors with related circuits and the software that is run in the system. Embedded systems control the functions in electronic products such as cell phones, coffee machines, credit card readers, dishwashers, etc. IAR Systems' customers develop and market products that are driven by embedded systems. Embedded systems are being increasingly used products worldwide, in pace with the so-called digitalization trend.
Integrated circuit (IC)	A small, typically rectangular silicon substrate onto which micrometer-sized transistors are mounted, sometimes in numbers of more than one million.
Compiler	A complier is a computer program (or set of programs) that transforms source code written in a programming language (similar to English) into instructions that the microprocessor can understand and execute.
Microprocessor	A microprocessor consists of a single integrated circuit (or at most a few integrated circuits). The circuit incorporates the functions of a computer's central processing unit (CPU) with storage of code and data.
Power debugging	Power debugging is a programming technology that makes it easier to see how the finished product's power consumption is directly related to the source code written by a programmer. This makes it possible to detect which program code is causing unexpectedly high power consumption.
Processor	When the word is used in connection with IAR Systems' products, processor is an abbreviation of *microprocessor.*
RTOS	An operating system (OS) is a set of programs that manage a computer's hardware resources and provide common services for application software. The operating system is the most important type of software in a computer system. A real-time operating system (RTOS) is specialized at quickly and reliably handling input and output data from the computer system, which is important in embedded systems.
Standardization	By standardizing on IAR Systems' tool chain, customers can significantly improve their efficiency and time-to-market for new products. In a single environment, they can move freely between 8-, 16-, 32-bit MCUs from all major vendors in all relevant architectures, including all ARM cores.
SUA	Software products from IAR Systems usually include a 12-month "Support and Update Agreement" (SUA) that gives the customer access to new product versions, product updates, technical support, etc.
Development kit	A development kit (also called a starter kit or evaluation kit) contains all of the equipment and software needed for a programmer to design, develop, integrate and test his or her products. IAR Systems offers fully integrated kits for development of embedded application software. Each kit contains an evaluation board and development tools (software) with example applications.
Development tools	The software tools used by programmers to create their own programs. The most important of these is an editor in which to write source code, a compiler to transform the source code into instructions that the processor can use, a linker that combines smaller program segments into an executable program, and a debugger that is used to locate problems in a program. IAR Embedded Workbench is a set of development tools.