

## Command Line Find Company Utility v2.0.1.9

Parameter:	Description:
<industry>	Business area
<position>	Position in the market
<interest>	Main curiosity
<geekiness>	State of knowledge
<superpower>	Characteristics of an employee
<possibilities>	Options for the future

```
C:\FindCompany.exe "industry=embedded systems"  
"position=unique" "interest=code" "geekiness=deep"  
"superpower=dedication" "possibilities=unlimited"
```

```
Loading...
```

```
Found ***I.A.R. Systems Group AB***
```

```
C:\>_
```

```
<superpower>  
<possibilities> Options for the futu
```

```
C:\FindCompany.exe "industry=embedded s  
"position=unique" "interest=code" "geeki  
"superpower=dedication" "possibilities=
```

```
Loading...
```

```
Found ***I.A.R. Systems Group AB***
```

```
C:\>_
```



## Investment case

The world's leading supplier of software tools and services for embedded systems.

10



## Products and offering

Superior technology that future-proofs customers' product development.

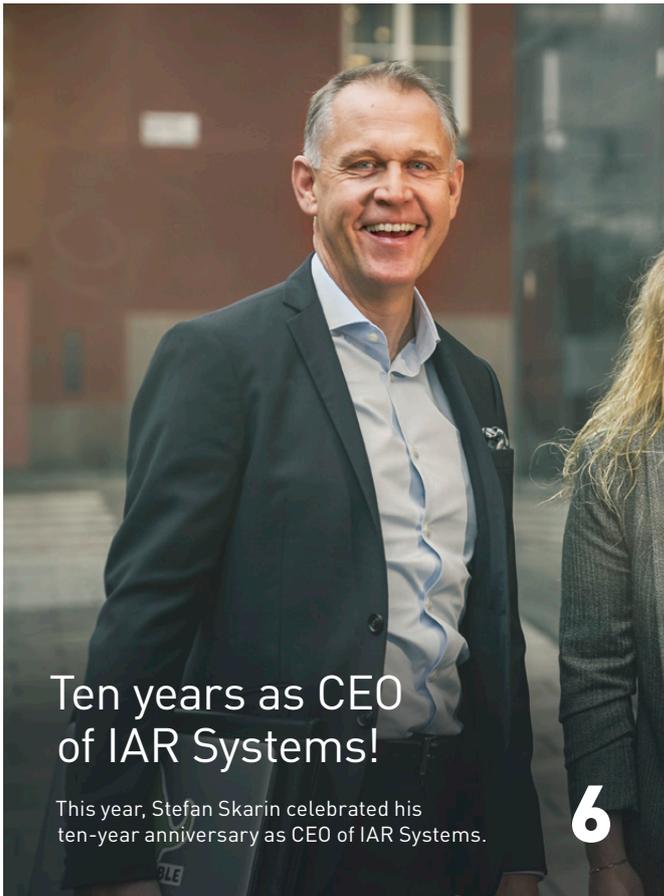
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## Employees

A committed team with a passion for technology.

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## Ten years as CEO of IAR Systems!

This year, Stefan Skarin celebrated his ten-year anniversary as CEO of IAR Systems.

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## IAR DevCon

Our own global developer conference.

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## Financial reporting

Financial information and financial statements for 2019.

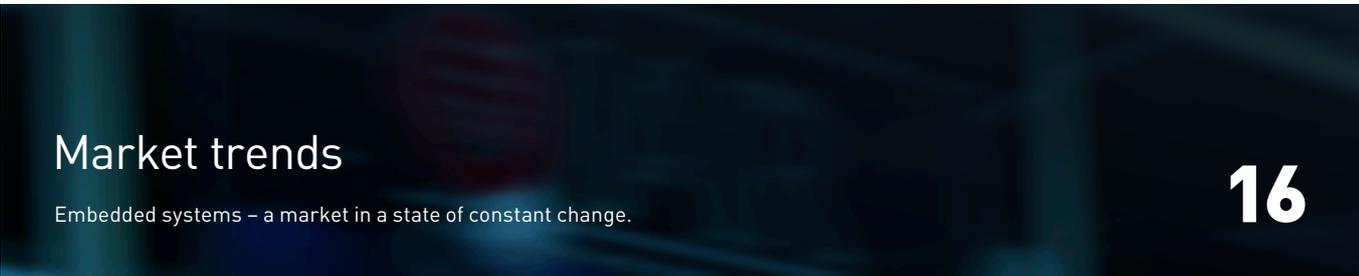
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Meet one of the core developers of RISC-V.

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# 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.



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, consumer electronics and the Internet of Things (IoT).

>30

At least 30 times a day, you use a product programmed by one of IAR Systems' 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.

223

I.A.R. Systems Group AB has 223 employees in 11 offices on three continents.

Our headquarters are located in Uppsala, Sweden and we have sales and support offices all over the world.

I.A.R. Systems Group AB establishes an investment fund with the business incubator **YMIR** and allocates resources to help innovative start-up companies within IoT and security solutions.

IAR Systems and Secure Thingz break new ground together for security within IoT with the launch of **EMBEDDED TRUST** and **C-TRUST**.

IAR Systems takes **RISC-V** to the next level by launching professional development tools with leading performance and code quality.

IAR Systems launches tools certified for functional safety for **STMICROELECTRONICS'** 8-bit processors.

IAR Systems presents an expanded offering for **IOT SECURITY**, helping customers to develop secure products from the ground up.

**IAR EMBEDDED WORKBENCH** is integrated with **AMAZON WEB SERVICES (AWS)** for the development from cloud to device.

	Net sales	Operating profit	Cash flow from operating activities
Q1	SEK 99.8m <sup>(88.9)</sup>	SEK 29.4m <sup>(29.5)</sup>	SEK 19.1m <sup>(19.1)</sup>
Q2	SEK 99.0m <sup>(95.6)</sup>	SEK 23.8m <sup>(23.7)</sup>	SEK 28.8m <sup>(25.2)</sup>
Q3	SEK 100.0m <sup>(97.7)</sup>	SEK 28.1m <sup>(31.3)</sup>	SEK 27.3m <sup>(14.9)</sup>
Q4	SEK 106.8m <sup>(102.8)</sup>	SEK 27.1m <sup>(31.1)</sup>	SEK 30.5m <sup>(33.4)</sup>
<b>2019</b>	<b>SEK 405.6m</b> <sup>(385.2)</sup>	<b>SEK 108.4m</b> <sup>(115.6)</sup>	<b>SEK 105.7m</b> <sup>(92.6)</sup>

# With the code as a base, we are now taking the next step towards the future

When IAR Systems was formed 36 years ago, our products were ready and waiting for digitization. Since then, digitization has changed everything from customer products to our day-to-day lives. Upon reflection, the change has been fast, but it has also taken time as a result of the adjustments that have been required.

IAR Systems has also changed during this time, and many events have taken place since the company was founded by engineer Anders Rundgren. Today, we are a company with a broad technological scope, a depth of competence and a global presence that has allowed us to obtain a market position that few have attained. Throughout all that has happened, our focus has remained on supplying our customers with the best possible products. 2019 was a year with a sharp focus on our new products.

I have had the privilege of being a part of this evolution for almost a third of the period since IAR Systems was founded. Along with the changes in the market and to the products, there have also been changes to IAR Systems. For our shareholders, this has perhaps been most evident by our continuous growth, every year for the past ten years. This is a financial development that not many have had the opportunity to be a part of, never mind the opportunity to reflect on. I have had the benefit of learning a great deal from all that I have experienced during these ten years. Perhaps one of the most crucial things that I have learned is that, for a company to change, it needs to be given time.

We began the year with our largest ever focus on products for connected security, an offering that

came about as a direct result of our customers' need to protect their products. We have had a relationship with most of our 50,000 customers for 20 years, and together we have followed the digitization of their products. What may have started as a simple function is now often about how that function communicates with other products, something that is frequently done to increase the efficiency of or benefit more from the functions of digital products.

With the onset of the digital evolution, our customers have been left at risk when the software that the processor needs in order to function is exposed to threats such as theft or duplication. Such a threat could be costly to our customers and even negatively impact the brand if a stolen or duplicated product were to be used by other parties or not for its intended purpose. This threat provides us with an opportunity insofar as we are the only company with the ability to deliver a solution that implements security from the get-go. A solution that begins where we started, with code.

In 2019, we launched more products than we have launched in the past five years, with two products as well as a number of services within security. This is a significant change for us, since it is not just limited to new products, but also new technology,

a new target group, and a change in market position for the company.

The market also changed more noticeably in 2019 than in the past, with the new RISC-V processor architecture quickly being recognized as having major potential for the future. Like Arm, RISC-V has revolutionized how processors for embedded systems will be developed. If I were to try to explain this change in a clear way to someone interested in technology, I would say that the technology of RISC-V is in demand primarily because of its flexibility. This demand for flexibility is perhaps a reaction to Arm's attempts to impose a change from a leading market position – a change that their customers were not prepared for or interested in. RISC-V is a new, mainly open architecture, providing many players with the possibility to impact its development. This interest is naturally fueled by financial considerations, but also by the opportunity to create new technology with its origins in collective development. RISC-V, which was another product area that we launched during the year, is a highly attractive market from a security standpoint since it opens up many new opportunities, both in terms of technology and with respect to new geographical markets. However, the changes to our security offering represented an even more significant development than that of RISC-V, as this is the market that IAR Systems has operated in from the beginning, and one that focuses on the same target group as RISC-V.

Our organization has grown substantially as a result of our focus on technology, and we have mainly recruited in the field of product development and, as a result, within certain support functions. With this comes a few growing pains, making our processes for maintaining and assuring product quality pivotal.

Change was an important aspect of 2019, and this can be turbulent for a well-established company. Our customers continue to demonstrate that the changes we have implemented have been positive by choosing to increase the number of product users and confirming that they wish to continue to use our services in the future.

We have signed more strategic contracts with customers who are choosing to standardize based on our products over several years. We continued to grow throughout 2019, adding four more quarters to our long history of growth and bringing our total over the past ten years to 25 consecutive quarters of continuous growth.

Looking forward also means continuing to change. Building companies takes time. 2020 will be about focusing on an increased presence among our customers. Not only will we have more employees focused on reaching out to our customers, we will also come closer to them through geographical expansion and take a more modern approach to our customer relationships.

It is inspiring and extremely motivating to have the opportunity to use my passion to take us to the next stage of our development. A passion and a belief that ten years ago created the ambition to focus on IAR Systems. I now find myself reflecting on our development and success over the past ten years and preparing for the next stage of our journey – a stage that will reflect the soul of the software company IAR Systems. A soul based on code. With our perseverance, ambition and energy, we are now looking to the future together – a future in which we will follow, create and lead the digital evolution. Together with our customers, colleagues, partners and owners.

Stockholm, March 18, 2020

**STEFAN SKARIN** President and CEO,  
I.A.R. Systems Group AB



# Ten years as CEO of IAR Systems!

This year, Stefan Skarin celebrated his ten-year anniversary as CEO of IAR Systems.

## ***Stefan, how has the market changed and developed in the past ten years?***

Ten years ago, there were not as many customers who developed connected products.

As Arm became more dominant, consolidation has increased which has resulted in changes, perhaps most notably to the ecosystem around Arm. Technology has become more complex, which has also significantly changed the requirements of the customers.

## ***If you look ten years into the future, what do you see?***

It is an exciting challenge to try to look that far into the future, but it is also hard to predict. If I start by taking a look outside the company, I think that much more of the information and functions of the products that our customers develop will involve a flow of information without a human "touch". I also think that we are more dependent on technology in our everyday lives than ever before, but there is still plenty of room there for further automation. If I look more internally, I think we will become a somewhat larger organization and have a bigger offering of services connected to our products. I also think that a greater portion of our business will be conducted under the slogan "self-service". In other words, I think that our customers will increasingly want to, and be able to, administer the usage of our products independently.

## ***What do you think has been the most significant product launch?***

That is a tough question to answer as there have been quite a few. It's easiest to think of the most recent launch or perhaps look at what has been the most important on paper or the launch that has had the largest outcome. Our first acquisition was Signum, which resulted in our debug probe in I-jet, which has been important and had a very positive outcome. Our first add-on with the analysis tool C-RUN was also a lot of fun and an important start. Last but not least, looking at the product launches that have touched the market in the last few years, I would point to the various products for functional safety.

## ***What has been the greatest challenge?***

The greatest challenge for me personally has been handling the various roles I have had within the company. Unfortunately, my role as a strategist often takes a back seat to my role as sales director. This role periodically takes up a lot of time, with many presentations and discussions. Having said that, it is the combination of my roles that I find both challenging and inspiring.

## ***Being the CEO of IAR Systems is your job, but also something that consumes your attention 24 hours a day. What is your motivation?***

My motivation comes from a passion for continuing to learn, develop and grow. Along with this comes an automatic desire to work a lot. A major motivation for me is having fun, and I really have a lot of fun with my colleagues, customers, partners and various assignments. When I'm not working, I enjoy spending time with my family, fly fishing in the great outdoors, or getting my hands muddy with the help of a tractor. My family is my greatest motivation, and spending time with them provides me with the energy I need to perform my best at work.

## ***You often say that you have the best job in the world. What is it that makes it so fulfilling?***

There are a lot of different elements to that, many of which are connected to the pride I feel for our products, employees and customers. My colleagues develop fantastic products that our customers use to program products that we use every day. It is also extremely inspiring to be able to travel and meet customers. It is wonderfully fun to be the CEO of a Swedish software company with a long history and large market share like IAR Systems.



**STEFAN SKARIN** and **KARIN LASSEGÅRD**  
on their way to a presentation in Stockholm.

## TEAM STEFAN AND KARIN

*"I became intrigued by the advertised position as assistant to the CEO because the ad was personal, and the application was to be sent directly to Stefan. After 36 days on the job, much of which was spent traveling, we reflected that the two of us had spent 34 days together. Stefan presented himself with an open mind and gave me the space needed to translate my previous experience into his everyday work, even though this came with some resistance given that he is used to being in control. In my current, now expanded role, I am Stefan's Chief of Staff, meaning that I act as a support for the entire organization and have my own processes, allowing Stefan to instead focus on being the passionate entrepreneur that he is.*

*We begin our days by running through a list of points that Stefan has thought of in the last 24 hours; this synchronizes us and gives us a structure for the day ahead. If we are in Uppsala or Stockholm, our days are typically filled with meetings, but the global organization allows us to travel and provide energy to our customers and employees in the field. It is during these trips that Stefan's creative side comes out in meetings with customers, and I am inspired by his passion. It's this creativity and spontaneity that can sometimes give me gray hairs when thinking about how we are going to turn this into something tangible in the end."*

**KARIN LASSEGÅRD**

CHIEF OF STAFF TO CEO / EXECUTIVE OPERATIONS

# Mission, targets and strategy

Our mission is to bring value to organizations that develop products for embedded systems. We supply the tools 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.
- › Payout ratio 30-50%.

## 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, Japan, China, Korea, Germany and the USA. The company is also represented in another 43 countries via distributors. Through the acquisition of Secure Thingz in 2018, 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 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.



**PLAN 2019**



**OUTCOME 2019**



**AMBITION 2020**

Launch a number of new products and services that cater to developers and the new target group comprising security experts for embedded systems.



Launched Embedded Trust, C-Trust, Security from Inception Suite, tools for RISC-V and functional safety for STM8 for existing customers and new target groups.



Strengthen the company's position within the new markets for RISC-V and security, with a focus on the ecosystem and a refined offering.

Expand our collaboration with strategic partners within the embedded systems market and clarify the company's role in the partner ecosystem, thereby developing a more central role close to the customer.



Increased collaboration with a number of processor vendors, primarily STMicroelectronics. Developed several new collaborations with suppliers within the new architecture RISC-V.



Strengthen the company's position in the Asian, and especially the Chinese, market by setting up new offices to be closer to the customer.

Strive to make the company an even more attractive workplace for our employees, and actively work to increase the opportunities for recruiting new staff.



Recruited 39 new employees during the year within most of the company's functions. Established a global HR function for our Uppsala headquarters.



Work actively to clarify the company's ambitions, position and outcomes.

# Investment case

IAR Systems is a world-leading supplier of programming tools and services for embedded systems. These tools and services enable the development of digital products for over 46,000 corporate clients and 150,000 developers, supported by growing demand for digital technology, primarily within industrial automation, medical technology, telecommunication, consumer electronics and the automotive industry. Secure Thingz is a supplier of advanced security solutions with a focus on IoT. Together, the two companies deliver the solutions necessary to create essential security in a world of connected devices and products.

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

## **A profitable growth company driving change in the industry**

Thanks to its leading technology, IAR Systems' software commands a unique market position with a global market share of approximately 50%. The company was founded 36 years ago and has continually evolved and refined its products in order to meet customer demand. IAR Systems is

headquartered in Uppsala, Sweden, but due to the company's international reach, over 95% of sales are attributable to markets outside the Nordic region. The tailorable business model includes selling flexible user licenses for access to the IAR Embedded Workbench software, which enables close customer relations, a high level of customer loyalty – 95% of customers return – and even revenue streams. For 36 years, this core business has been a springboard to larger and growing markets. One such example is the company's shared vision and collaboration with Secure Thingz, which began in 2018 and has significantly expanded the company's potential market from only product development to the provision of services, manufacturing and product management.





**KYOTA YOKOO**  
FAE (FIELD APPLICATION ENGINEER)

**FREDRIK OLSSON**  
GLOBAL TECHNICAL SUPPORT MANAGER &  
TEAM LEADER FOR TECHNICAL SUPPORT IN EMEA

**RAFAEL TAUBINGER**  
GLOBAL FAE (FIELD APPLICATION ENGINEER) MANAGER

### Superior technology with new patented additions

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

1. IAR Systems offers a unique product range consisting of a complete tool chain for product developers.
2. IAR Systems is independent and thereby supports a variety of different processor architectures, which means that customers can choose the exact programming environment that fits their needs, regardless of processor and project. This way, customers do not need to lock themselves into a particular technical platform, which provides a number of advantages, such as being able to reuse 70–80% of previously written code.
3. IAR Systems provides superior quality so that customers do not need to compromise on product performance, reliability and user-friendliness and so that the time from product to market launch is as efficient as possible.
4. Through the acquisition of Secure Thingz, both companies have together developed a unique, patented technology that aims to fulfill the customer's need to protect its intellectual property. This can also be a crucial determining factor when it comes to maximizing the market potential for security for embedded systems.

### The spread of digital technology and IoT is driving market growth

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

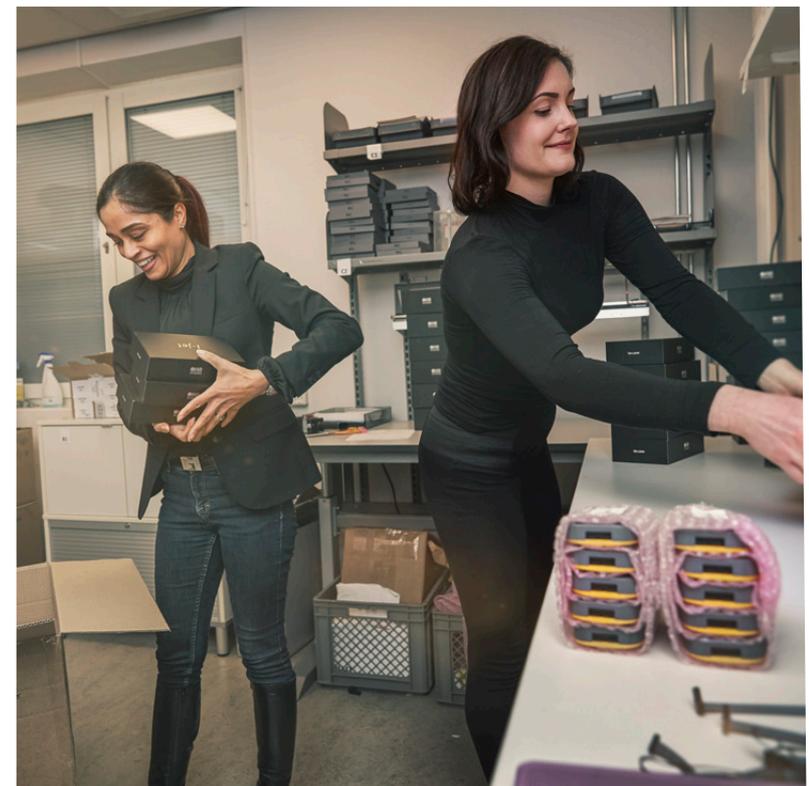
1. Largely driven by IoT, embedded systems are growing in number and in complexity.
2. Continued high demand for reliable and advanced programming tools that provide a complete development platform and efficient time management from product to market launch.
3. New possibilities within the automotive industry as increasingly advanced vehicles reach the market.
4. New opportunities created by new players entering the market for embedded systems. One such player is Amazon Web Services (AWS), with whom IAR Systems has now entered into a collaboration.
5. Unexploited potential within security solutions for embedded systems. Secure Thingz operates as its own company, but takes advantage of IAR Systems' worldwide sales and support organization, and thereby its large and loyal customer base. To illustrate the market potential, ABI Research predicts that the security market for embedded systems will grow quickly as the number of secure IoT products grows from today's 4% to close to 20% by 2022.
6. The processor architecture RISC-V will challenge the Arm architecture, and IAR Systems is positioning itself to be the leading software supplier in this area. In 2019, IAR Systems released a new version of IAR Embedded Workbench for RISC-V supporting custom extensions and further optimizing code speed.

### Engaged team who knows how to take advantage of growth potential

IAR Systems' global organization and its enduring passion for product development and technology attract skilled and talented people to the company in all countries where it operates.

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





# Superior technology that future-proofs customers' product development

Since early 1983, IAR Systems has offered superior technology that future-proofs customers' product development. By delivering tried-and-tested, high-quality products, we are able to help companies in a range of industries across the globe to become competitive in their respective markets. Thanks to the acquisition of Secure Thingz, we have also widened our expertise and are able to offer new innovative security solutions.

Our products facilitate, streamline and quality-assure the development of embedded systems. We collaborate with a number of partners in many different areas to consistently provide customers with a complete solution. We always focus on and listen to customers' needs in order to update our offering in a way that satisfies their requirements and needs.

## Complete software for programming processors in embedded systems

All digital products have an embedded system controlled by one or more processors. Development tools are required to help developers program these processors so that they work correctly and fulfill their function. IAR Embedded Workbench is a complete software for programming processors in embedded systems in an efficient and quality-assured manner. The software supports 8-, 16- and 32-bit processors from the majority of processor vendors, which ensures it has a unique position in the market. Thanks to a close collaboration with processor vendors worldwide, we are also in a position to add support for new processors at an early stage.

IAR Embedded Workbench is available in over 20 different versions in order to match different types of processors. It is continually updated with improved functionality and support for new processors. In order

to meet specific requirements in certain sectors, there are also versions of the software that are certified 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. IEC 61508 and other standards that originate from it are used within all relevant industries with requirements on reliability and security, such as the processing industry, the oil and gas industry, nuclear power plants, mechanical engineering and railway control systems. The tools are also approved in accordance with the European railway standards EN 50128 and EN 50657 as well as the international standard for medical device software and software life cycle processes IEC 62304. 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 work flow.

The add-on products C-STAT and C-RUN are fully integrated 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.

We also offer debug probes that provide developers with advanced debugging capabilities. The probes are used to create simpler and more flexible work flows. In addition to this, we also offer IAR Visual State, a product that is used to develop state and event-driven embedded systems and, together with the IAR Embedded Workbench, permits streamlined design of applications with a complex structure – in the automotive industry, for instance.

## Solutions for security in embedded systems

Together, IAR Systems and Secure Thingz offer possibilities for new security solutions. The companies share a vision of making security and safety accessible in an easy and sustainable manner. Using the products Embedded Trust and C-Trust, it will be easier and more efficient to implement security in embedded systems. The security tool C-Trust operates as an extension of IAR Embedded Workbench and provides application security in the developer's usual work flow. Simply by ticking a box in the development tool, the code is made secure and encrypted, protecting the software in the developed product against unauthorized access.

In the second half of 2019, we launched Security from Inception Suite, a comprehensive solution

## IAR SYSTEMS AND SECURE THINGZ' EXPERTISE COVER MANY DIFFERENT CUSTOMER NEEDS



Together, we help the customer to secure their products for their entire useful life.

for security encompassing software and services. The offering includes the secure development environment Embedded Trust, IAR Embedded Workbench for Arm with an updated version of C-Trust and the analysis tool C-STAT as well as a service offering including technical support, training and consulting services within security. The offering also includes support for a number of processors that are already frequently used by our customers, allowing security to be integrated into existing applications.

Secure Thingz also offers advanced solutions for a secure product chain all the way through to manufacturing and updating. The solutions

are scalable to support different kinds of secure elements and processors. The secure programming solutions offered by Secure Thingz make it possible for processor programming suppliers all over the world to meet their customers' needs for secure manufacturing.

### Comprehensive technical support and service

We offer our customers a committed sales, service and support team on hand to support them at every stage. The team is available for discussion and coaching to ensure that we deliver a suitable solution for each customer's needs.

We are able to offer all customers who purchase software a comprehensive support contract that gives them access to technical support from IAR Systems' high-quality global support organization. With their extensive industry experience, the support engineers are greatly appreciated by customers. The support contract also guarantees continuous product maintenance in the form of direct access to new product updates.

We also supply 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.

# Embedded systems – a market in a state of constant change

Digital development and an increasing number of smart products is leading to a constantly growing number of systems controlled by one or more processors in an embedded system. We deliver high-quality products to companies that develop digital products all over the world and within a variety of industries.

As digital technology and even more smart products continue to spread, the market for embedded systems is in a state of constant change.

There are a number of market trends that are particularly noteworthy:

## Requirements for more energy-efficient solutions

The need for energy-efficient and low-power solutions is being driven by the fact that processors are now used for more purposes than before and that many products are now battery-powered. The need to find energy-efficient solutions has generated strong demand for low-energy processors and tools that support development of these solutions.

**For IAR Systems**, this creates added value for our products, which are known for producing compact and efficient code, making them a safe choice for many when developing energy-efficient products.

## Requirements for streamlined product development

The increasingly rapid pace of development in the market is also placing higher demands on product developers to get their products out quickly. This is fueling demand for solutions that enable code from earlier projects to be reused, since this both streamlines the development process and results in shorter lead times.

**For IAR Systems**, this means that the company always needs to make sure that its development tools support the greatest number of processors of all the tool suppliers in the market. Development projects get off the ground quickly since developers do not need to learn new tools for each new project.

## Increasing complexity of embedded systems

Embedded systems may require processors of varying complexity. In simple terms, these differences can be divided into 8-, 16- and 32-bit processors, of which 32-bit are the most advanced. As the processors become increasingly powerful, this is creating new conditions for more advanced systems. One trend arising from this greater complexity is the need for more tools for testing, debugging and analysis.

**For IAR Systems**, this means that we have been investing for several years in facilitating version control and debugging for developers – for example, via the add-on products C-STAT and C-RUN, which provide full control over the code throughout the entire development process.

### Security, data security and reliability

With a growing number of 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 also becomes 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. Stable technical solutions combined with awareness is the key to solving these challenges. There is significant potential in the market when it comes to security, particularly within IoT, the automotive industry and medical technology.

**The combination of IAR Systems and Secure Thingz** makes it possible to meet the growing market with a portfolio focusing on security, and with a particular focus on how our customers can protect their intellectual property.

### Implementing new technology

Trends like artificial intelligence (AI), machine learning (ML) and cloud solutions are affecting technology within every field. Implementing this technology within embedded systems makes it possible to release more new products, make them smarter and add services for the data processed by the systems.

**For IAR Systems**, this is a positive development since it is resulting in new, exciting projects from customers and new possibilities to expand the network of partners within each area. Since the start, IAR Systems has always followed the market and listened to both customers and the industry in general to stay up to date on how this new technology is developing. An example of a new player in the sector making use of this technological development is the cloud service provider Amazon Web Services (AWS), with whom IAR Systems has now entered into a collaboration. During the year, we launched a version of our development tools that is compatible with AWS.

### Consolidation and evolution of partner network

One clear trend in recent years is the consolidation of the market through both major and minor acquisitions. Several large processor vendors and other types of suppliers are merging in order to strengthen their positions by expanding and deepening their product portfolios. New players are even turning up in the market, such as the open source processor architecture RISC-V, which is having a particularly profound influence. A growing network of companies are centering on RISC-V.

**For IAR Systems and Secure Thingz**, this means changes in their partner networks. Despite these developments in terms of technology and suppliers, we have a strong viability thanks to our broad market position, high-quality technology and close collaboration with selected partners that help us meet the demands of the market and our customers. We aim to remain an active part of the market, and in regard to RISC-V, we have taken a giant leap forwards by launching the first commercial tools for the processor architecture.

### Need for functional safety and code quality

Today, more and more safety features in the industrial, automotive and medical technology areas are controlled by processors. This development is principally taking place in the automotive industry, where vehicles are becoming more advanced as motorists and consumers look for more safety features and an enhanced driving experience. With embedded systems now becoming safety-critical, the need for control and certification of these systems is being heightened. Many of our customers in a range of different industries are therefore placing ever greater demands on functional safety, code quality and streamlined work flows. As a result, it is also becoming increasingly important that development tools comply with applicable industry standards, such as MISRA C.

**For IAR Systems**, this means that we have developed versions of our IAR Embedded Workbench that are certified for safety-critical development by the certification organization TÜV SÜD. Customers can use these thoroughly tested and documented tools to simplify and streamline the certification of their own products.

# In focus: The processor architecture RISC-V

In 2019, the focus in the market for embedded systems centered on the processor architecture RISC-V. The architecture is at an early stage of implementation, but we have seen a significant increase in processor vendors selecting RISC-V for their future product portfolio. This trend is particularly evident in China, but has also had an effect further afield in Asia.

RISC-V, pronounced “risk five”, is an open source processor architecture and is designed to be flexible and simple to expand. The members of the RISC-V Foundation are collectively driving the development of the architecture’s specifications and ecosystem. IAR Systems became a part of the organization in 2018.

### **The first commercial tools for RISC-V**

In 2019, IAR Systems launched the market’s first commercial tools for RISC-V. The tools are a version of IAR Embedded Workbench, which has a clear focus on code optimization. The tools also include code analysis and comprehensive debugging functionality.

One of the greatest benefits of using RISC-V is the flexibility that the architecture allows. This allows original equipment manufacturers (OEMs) to design processors with the exact definition that is required for the product or application being developed. IAR Embedded Workbench has the necessary functionality to allow these companies to fully take advantage of this capacity when developing applications based on self-designed cores. Customers that have started to use our tools have reported considerable improvements in their performance in comparison to other tools for RISC-V.

We want to be an active part in the evolution of RISC-V, and we have already established a number of exciting partnerships in the ecosystem in conjunction with the launch of our tools for RISC-V:

*"We are glad to see early support for our AndesCore processors in IAR Embedded Workbench. IAR Systems always delivers high-performance development tools as well as comprehensive debugging capabilities that will enable our customers to reduce time to market and create highly competitive embedded applications. We are really excited about this launch."*

**DR. CHARLIE SU**

CTO AND EXECUTIVE VP, ANDES TECHNOLOGY CORPORATION

*"We are so excited to see IAR Systems offering a strong commercial tools alternative for RISC-V. There are a rapidly growing number of RISC-V based commercial products, and we are sure there will be a strong positive response in the market to IAR Systems' leading code optimization technology as well as professional technical support. As a Platinum member of the RISC-V Foundation, we will continue to promote RISC-V evolution and cooperation in various technical directions such as ISA optimization, code density optimization, and security. Besides, we have also developed a series of CPU cores based on RISC-V, and we will expand cooperation with IAR Systems on the tools."*

**CHUNQIANG LI**

SENIOR STAFF ENGINEER AND VP, C-SKY/ALIBABA

*"As a member of our Mi-V ecosystem for implementing FPGA-based RISC-V designs, IAR Systems has a strong track record of delivering excellent performance and comprehensive services with their tools. We are pleased to see them adding RISC-V coverage to their portfolio, and we will continue to work together to ensure optimized development for our joint customers."*

**TIM MORIN**

DIRECTOR OF PRODUCT MARKETING FOR THE FPGA BUSINESS UNIT AT MICROCHIP'S MICROSEMI SUBSIDIARY

*"I'm thrilled to see IAR Embedded Workbench for RISC-V join the robust tools available in the RISC-V ecosystem. High quality, commercially supported tools for SiFive devices are key to enabling the innovators who need customizable processors with dense, high-performance code to maximize their efforts."*

**YUNSUP LEE**

DESIGNER OF THE RISC-V ISA AND CHIEF TECHNOLOGY OFFICER AT SIFIVE

*"The addition of IAR Embedded Workbench to the RISC-V ecosystem will further push the RISC-V adoption across the embedded industry. IAR Systems provides development tools for users all over the world, and I'm excited to witness the company's compiler technology, static code analysis and extensive debug functionality brought to the RISC-V community."*

**CALISTA REDMOND**

CEO, RISC-V FOUNDATION



**ANDERS LINDGREN** in his office at IAR Systems in Uppsala.

# Development on the highest technological plane

In 2019, a team of developers at IAR Systems worked intensively with IAR Embedded Workbench for RISC-V, the first brand new IAR Embedded Workbench tool in several years. Anders Lindgren was one of the head developers on the project.

Anders Lindgren has been employed at IAR Systems for over 20 years, providing him with extensive experience and profound knowledge of our products, particularly how the compiler, a crucial component, operates. The compiler is the component in the development chain that translates the code written by users to instructions that a microprocessor can understand and run. IAR Systems' compiler technology is highly thought of when it comes to creating code that is compact and efficient, allowing the application that the customer is developing to save memory and maintain a low level of power consumption.

Before the RISC-V project got under way, Anders was primarily focused on IAR Embedded Workbench for MSP430, a popular product that has been a part of IAR Systems' product portfolio for a long time. In the last year, however, his entire focus has been on RISC-V.

## **Hi, Anders. What is your role at IAR Systems?**

I am a developer and I work with the compiler. The compiler is the component that translates the programs that the user writes in C and C++ into the assembly language, that a microprocessor can then use.

## **What role do you have in the project related to our products for RISC-V?**

I currently have two roles in that project. Firstly, I am chiefly responsible for developing the compiler, and secondly, I am the technology supervisor for the project. As technology supervisor, I must maintain a holistic approach to the project. I am involved in decisions

that affect the direction of the project, and the ways in which we are to tackle technological challenges. I also assist the project manager with technological domain knowledge.

## **What does the RISC-V project mean for you?**

The project regarding IAR Embedded Workbench for RISC-V is on the cutting edge of technology. It was also carried out in record time. Both of these aspects have required all of my previous experience and all of my technological know-how.

## **What aspect of this project has been most stimulating?**

The most stimulating aspect of RISC-V is that it has open-source specification, allowing any developer in the world to produce processors based on RISC-V. For IAR Systems, this means that we need to establish support for a wide variety of processors, both now and in the future.

## **Is there anything else you would like to add concerning IAR Embedded Workbench for RISC-V?**

I think that RISC-V is a processor for the future, and that more companies will be launching RISC-V processors in 2020 and 2021. I wouldn't be surprised if there was a host of RISC-V processors found in computers, telephones and vehicles in the years to come.

# In focus: Security

The security market is growing with incredible speed. According to a study by Grand View Research, the global market for IoT security will be worth USD 9.88 billion in 2025. As the market grows, so will the challenges arising due to the increased security risks that IoT can present, such as IP theft, data theft, counterfeiting, overproduction and different kinds of potentially life-threatening sabotage.

In order to minimize these risks, companies must increase their competence to make sure that security is a vital component right from the start of the development of any new product.

IAR Systems has been offering solutions to guarantee functional safety in embedded systems for a number of years, focusing on protecting people and physical property from damage. Through the acquisition of Secure Thingz, the company's offering has been expanded to include data and IT security. The acquisition has given the companies strong combined expertise that will make new products and services possible.

## Vision for a more secure world

Secure Thingz and IAR Systems share a vision of making IoT easier to implement and of scalable and long-term sustainable security. We are convinced that together, we can deliver the solutions necessary to create essential security in a world of connected devices and products. Our shared vision is not only about implementing technology, but also about the possibilities created for companies the world over. Security can shift from a cost to a value. Together, we want to make security and safety a natural part of our customers' daily operations. We also want to make the best possible security available to everyone, enabling them to provide a secure product, from development to manufacturing and updating throughout the product's entire useful life. By maintaining security from the beginning and throughout the product's entire useful life, there is potential for new service

offerings and new services for companies that develop digital products.

## New legislation and more comprehensive rules for increased security

As the need for security increases, many global authorities are calling for the implementation of new legislation and rules concerning the handling of connected electronics and the information they contain. The electronics market is following the same trend as GDPR in Europe, with a number of best practices related to general technological security aspects. One year ago, fewer than five countries had introduced laws and regulations concerning IT security. During 2019, the list of countries increased to more than 20.

## Primary focus on protecting intellectual property (IP)

Having asked our customers what they perceive as most crucial when it comes to security, their responses frequently focus on the protection of IP in relation to both hardware and software. As embedded systems have become more complex, IP has also become a more important part of business and branding. To respond to this need, we launched the products Embedded Trust and C-Trust on a broad front during the year. 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.

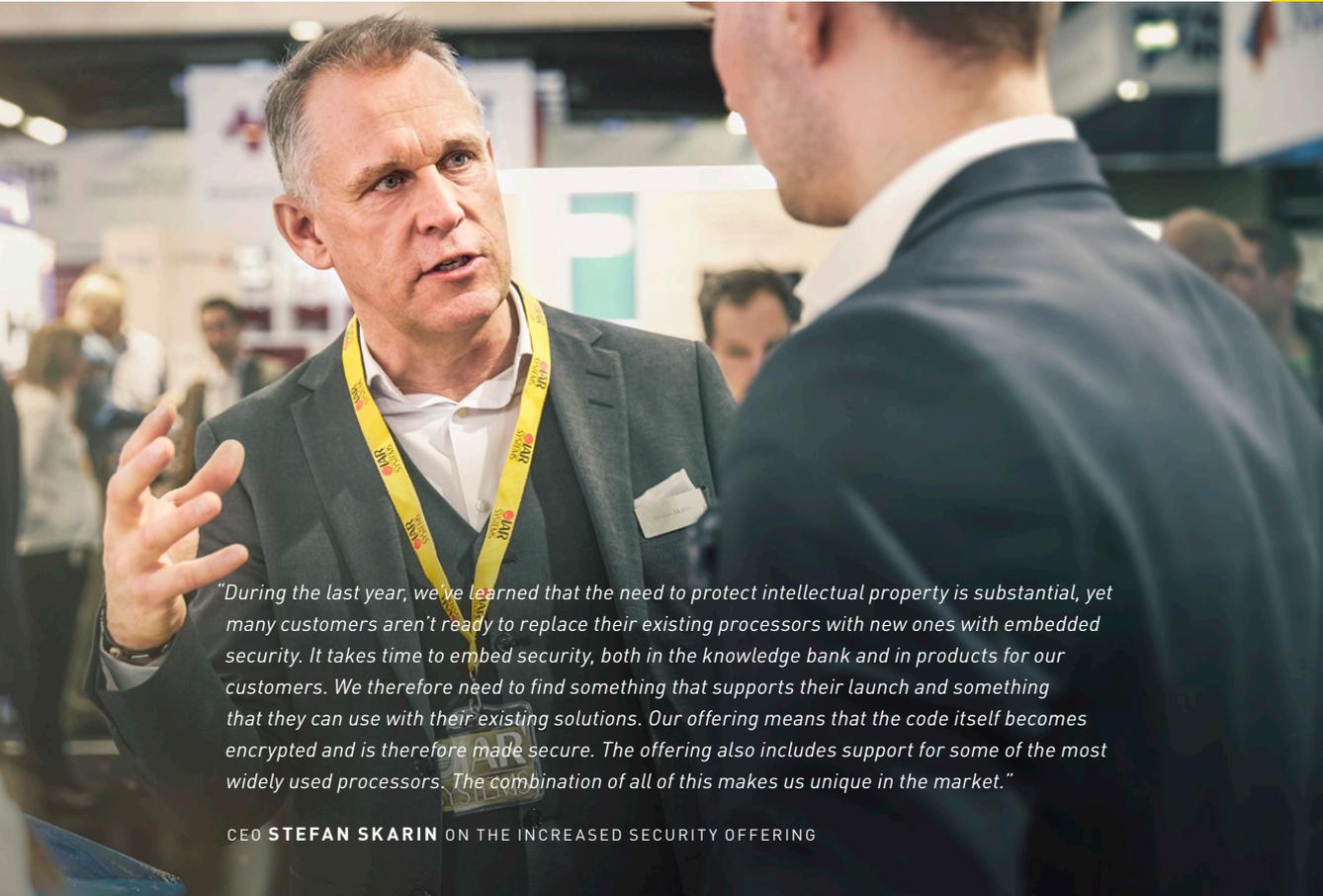
C-Trust is an extension of IAR Embedded Workbench that makes it possible for application developers to prepare secure, encrypted code that automatically follows the prevailing general security guidelines. A development team is able to simply import the security guidelines established by the company, without being able to change them. By automatically including security settings and the correct encryption in the code, developers can focus on continuing to develop and test applications with new functionality. When the development and testing is complete, the code is exported and programmed into the processor in an automatically encrypted form. This procedure also makes updating the application's code at a later time simple and secure.

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. Embedded Trust is entirely integrated with IAR Embedded Workbench and C-Trust.

## Increased security offering in 2019

In the second half of 2019, we launched a comprehensive solution encompassing both software and security services. The software included supports some of the most used processors in the market. The services included range from courses focusing on security in IAR Academy to consultancy services provided by security experts for the companies who are in need of such services. Through this offering, we provide our customers with an opportunity to develop and expand the competence that they require in order to implement security in their operations at an early stage. Our comprehensive solution is available at different levels depending on the needs of the customer.





*"During the last year, we've learned that the need to protect intellectual property is substantial, yet many customers aren't ready to replace their existing processors with new ones with embedded security. It takes time to embed security, both in the knowledge bank and in products for our customers. We therefore need to find something that supports their launch and something that they can use with their existing solutions. Our offering means that the code itself becomes encrypted and is therefore made secure. The offering also includes support for some of the most widely used processors. The combination of all of this makes us unique in the market."*

CEO **STEFAN SKARIN** ON THE INCREASED SECURITY OFFERING

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### YMIR INVEST – LAUNCHED IN 2019

An investment fund that allocates resources to help innovative start-up companies within IoT and security solutions. With the help of Ymir, the Group will support companies with new innovative ideas and major growth potential. [ymirinvest.com](http://ymirinvest.com)

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## WE HAVE FOLLOWED OUR CUSTOMERS ON THEIR JOURNEY AS THEY NAVIGATED COMPANY TRANSFORMATIONS, CHALLENGES AND NEW REQUIREMENTS.

The process has now resulted in various ways in which they can secure their property:



### Traditional development of embedded systems, with a need to release new products quickly and effortlessly

We offer complete software that helps the customer to develop more efficiently.



### Increased complexity comes with a need for secured code quality

We offer new opportunities for code analysis and testing in our complete software package.



### Need for functional safety

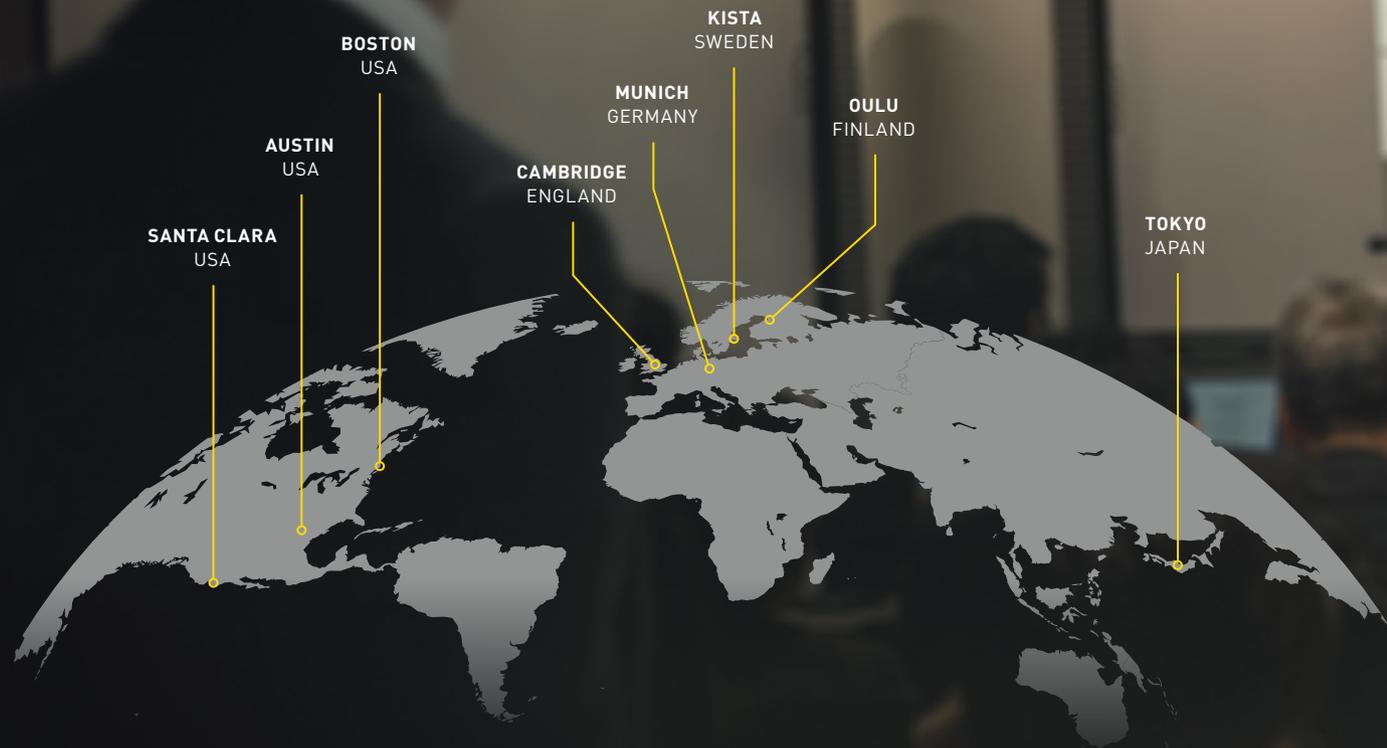
We offer certified products that simplify paperwork and development for our customers.



### The need to protect intellectual property and data

Our security offering assists the customer in creating a chain of safety and security throughout the product's entire useful life.

## IAR DEVCON 2019:



# IAR DevCon developer conference

IAR DevCon is a free developer conference that focuses on how developers can get the most out of an embedded system. The conferences featured a number of lectures on trends and our latest product news as well as general developments in the world of embedded systems, with a particular focus on security, IoT, industrial automation, medical technology and the automotive industry. IAR Systems' local teams also

presented walk-throughs and product demonstrations to show the possibilities offered by our products, all so that customers can maximize their investments.

In 2019, we chose to hold a full-day event consisting of an introductory morning of seminars in various fields followed by an afternoon of practical exercises in which customers had the opportunity to try things out for themselves.

手戻りが発生しやすい  
ドキュメントがメンテナンスできない



**AYUMI IWANO** Field Application Engineer (FAE) at IAR Systems. Lecturing at IAR DevCon in Tokyo.

## IAR Academy training program

IAR Academy is a training program aimed at both new and experienced users of IAR Systems' development tools. IAR Academy offers a number of courses at both basic and advanced levels. All of the courses combine expert-led lectures and practical exercises. Tailored courses can also be arranged on request and can either take place at the customer's site or at external premises. The syllabus for each tailored course is devised in close collaboration with the customer.

In 2019, 33 IAR Academy courses were held:



- 4 ■ Munich, Germany
- 2 ■ Uppsala, Sweden
- 2 ■ Foster City, USA
- 2 ■ Marlborough, USA
- 2 ■ Cambridge, England
- 1 ■ Plano, USA
- 20 ■ Specially tailored courses at the customer's site

# The development of new technology creates opportunities for a sustainable future

We are proud to be able to drive the development of new technology forward, together with our customers and partners. We always try to stay one step ahead so that our customers can develop even better products that are more energy efficient, smarter, more secure and more sustainable.

## **New products make a more sustainable planet possible**

Through our technology, we help customers create new products that make a better, more sustainable world possible. Within several areas, such as IoT, health, industry and the automotive market, technology development is focused on streamlining processes and energy use. When it comes to the products and software we develop and sell, there is ample functionality to create the most efficient code possible or the least amount of code possible, so that it uses as little memory as possible in the programmed processor. Over the last few years, we have also developed an innovative functionality for keeping track of power consumption and seeing exactly which part of the code uses the most energy. This allows customers to optimize their products for energy consumption. The software that we develop and sell is largely supplied to customers digitally rather than physically, thereby reducing our impact on the environment.

## **Sponsorship program to support environmentally friendly technology**

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. Since 2013, we have offered a sponsorship program – the IAR Green Innovation Program – to promote innovative development projects focusing on environmentally friendly digital technology. The IAR Green Innovation Program sponsors selected organizations, primarily student projects and start-up companies, providing them with the 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.



**TOGETHER** with our customers,  
we contribute to a more sustainable world.

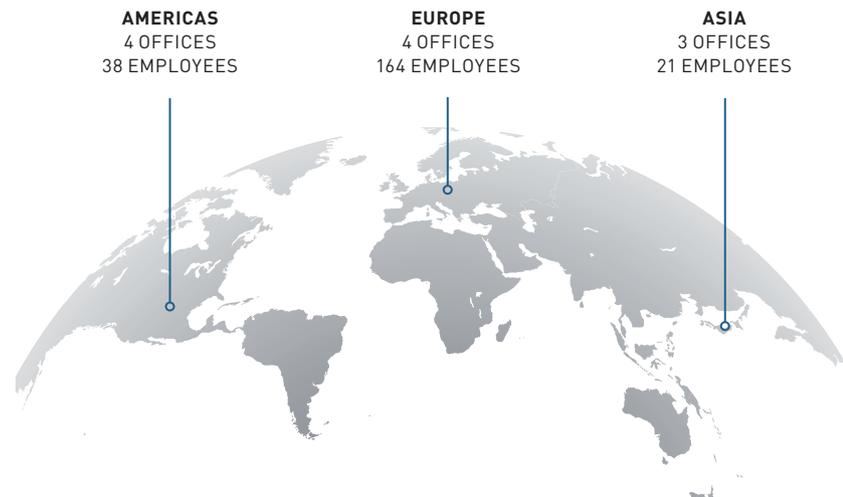
# A committed team with a passion for technology

We are a dedicated team with a passion for technology who are working toward the same goal: to provide our customers with first-class technology and service. Together, we enable our customers to create the products of today and the innovations of tomorrow.

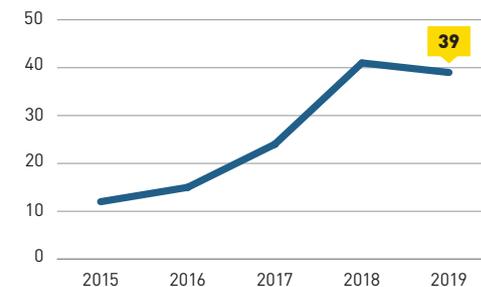
At IAR Systems, we believe that collaboration is greater than the sum of its parts. The quality created by collaborating across offices, departments and countries is reflected in our interactions with our customers, with people who wish to work here, with our shareholders and with our investors. One 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

11 offices on three continents and communicate with each other in more than ten different languages. At the same time, internal communication can be challenging when crossing many different time zones and cultures. It is therefore vital to be attentive when developing HR processes and tools. The key lies in finding a balance where we are able to reap the benefits from our cultural differences but still give our employees the feeling that we are a united IAR Systems.

Working for IAR Systems means being on the front lines of technology – whether it be in sales or as a developer, a technical support engineer, a market researcher or a field applications engineer. It means sharing knowledge and experience with highly qualified and motivated colleagues in order to create the most competitive customer solutions. It also means finding a healthy balance between work and free time, and receiving the satisfaction of knowing that the results of your work are appreciated by leading companies the world over.



NUMBER OF RECRUITMENTS PER YEAR



Total no. of employees: 223

**JAAN REIO, THOMAS TÖRNBLOM** and **ROBERT MÅRTENSSON** work in IAR Systems' development department. Here, they are examining the details of a circuit board that they frequently use to evaluate various software functions.



## IAR SYSTEMS VALUE OFFERING

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



### SUPERIOR TECHNOLOGY

Allowing for the best possible product development



### A DEDICATED TEAM

Helping the customer to be an expert



### FUTURE-PROOF PRODUCT DEVELOPMENT

We aim to be a supplier for future-proof product development

## DEAR SHAREHOLDERS,

IAR Systems is an extraordinary company with a unique offering, cutting-edge technological expertise and global operations, with its heart in Uppsala, Sweden. Having operated in a market that has been stable in terms of its impact on IAR Systems' strategic position, a rapid global change is now occurring. I am proud that IAR Systems is well positioned to reap the rewards from the growth opportunity that has presented itself, having broadened its operations and invested in developing its offering, both via acquisitions and through proprietary technology. For two years, we have increased our investments in the company and strengthened our expertise in order to be equipped with an offering that matches our customers' requirements in terms of security, IoT and embedded technology now that the market is in transition.

IAR Systems has a long tradition of working closely with its customers, an invaluable quality when the market is in transition and we, as a company, want to be a driving force in this development. Our extensive and loyal customer base provides us with a foundation for our operations that we can now develop further. Looking forward, there will be no lack of challenges, but my belief in IAR Systems' ability to create long-term value is just as strong today as it was when I first became a member of the Board. The rest of the Board share my enthusiasm for the company and its opportunities, and are completely committed to working alongside management to ensure that IAR Systems maintains its leading role.

Our strategy, business model, allocation of resources and development issues have dominated the Board's agenda, and we have a long-term strategic plan in place that we established in collaboration with Group management. The plan was further developed during the strategy conference held in the autumn, where discussions focused on how IAR Systems will build on its leading position as an independent supplier for development platforms in embedded technology while remaining prepared for future growth based on its security offering. During the

course of the year, we carried out focused investments in products and technology in order to equip IAR Systems for the future. The company continuously develops and adapts its business models and go-to-market strategies in order to continue to deliver growth quarter after quarter. The plan also covers how resources are to be used to achieve the greatest leverage and reach IAR Systems' long-term growth ambitions. The company's corporate governance takes place through continuous interactions between the Board and management.

The Board collaborated extensively with Group management during the year to ensure that the necessary organic resources are available in order to implement the strategy – in other words, to determine where its assets will yield the greatest return and how changes are to be implemented. In light of these investments and the fact that IAR Systems now has a much more comprehensive development operation in place and higher total assets, it was also important for the Board to review and ensure that the company's structure for management, sustainability, regulatory compliance and risk management remained satisfactory during the year. Together with the rest of the Board, I appreciate the great commitment that both our management and our colleagues have shown, and I look forward to continuing to provide the company with the best possible circumstances for creating value for our customers and owners.



*Maria Wasing*

**MARIA WASING**  
BOARD CHAIRMAN  
I.A.R. SYSTEMS GROUP AB





## Financial reporting

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## 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, 2019 was SEK 186.00 (243.00) and the market capitalization was SEK 2,535m (3,310).**

### 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 168.80 (188.00) to a high of SEK 296.50 (288.00). The share price at December 31, 2019 was SEK 186.00 (243.00). I.A.R. Systems Group's market capitalization on the same date was SEK 2,535 (3,310).

The number of shareholders in I.A.R. Systems Group at December 31, 2019 was 7,500 (7,262). Of these shareholders, 430 (425) held more than 1,000 shares each. Foreign shareholders held approximately 32% (32) of the share capital and 30% (30) of the votes.

I.A.R. Systems Group's share capital at December 31, 2019 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 100,000 are class A shares, 13,530,475 are class B shares and 337,858 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 29, 2020 that a dividend of SEK 3.00 (5.00) per share be paid.

### 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.

The Board of Directors was also authorized, on one or several occasions during the period until the next AGM, to decide on the issue of 381,000 class C shares in order to ensure the delivery of shares under incentive programs.

### LARGEST SHAREHOLDERS AT DECEMBER 31, 2019<sup>1</sup>

	No. of class A shares	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	9.50%	1,295,415	8.92%
Skandinaviska Enskilda Banken S.A.		1,196,258	1,196,258	8.78%	1,196,258	8.23%
Första AP-fonden		1,176,506	1,176,506	8.63%	1,176,506	8.10%
Ribbskottet AB		829,623	829,623	6.09%	829,623	5.71%
Swedbank Robur Fonder		713,719	713,719	5.24%	713,719	4.91%
Tredje AP-fonden		687,080	687,080	5.04%	687,080	4.73%
Handelsbanken Fonder		655,047	655,047	4.81%	655,047	4.51%
Försäkringsaktiebolaget Avanza Pension		497,918	497,918	3.65%	497,918	3.43%
Länsförsäkringar Fondförvaltning AB		333,105	333,105	2.44%	333,105	2.29%
State Street Bank & Trust Com., Boston		314,950	314,950	2.31%	314,950	2.17%
Clients Fonder		282,289	282,289	2.07%	282,289	1.94%
JPM Chase NA		266,000	266,000	1.95%	266,000	1.83%
Goldman Sachs & Co		230,788	230,788	1.69%	230,788	1.59%
Stefan Engqvist		217,600	217,600	1.60%	217,600	1.50%
Danica Pension	100,000	114,300	214,300	1.57%	1,114,300	7.67%
<b>Total 15 largest shareholders</b>	<b>100,000</b>	<b>8,810,598</b>	<b>8,910,598</b>	<b>65.37%</b>	<b>9,810,598</b>	<b>67.52%</b>
Other		4,719,877	4,719,877	34.63%	4,719,877	32.48%
<b>Total</b>	<b>100,000</b>	<b>13,530,475</b>	<b>13,630,475</b>	<b>100.00%</b>	<b>14,530,475</b>	<b>100.00%</b>

<sup>1</sup> Shares held directly and through nominees, excluding 337,858 class C shares held in treasury.

### DISTRIBUTION OF SHAREHOLDINGS AT DECEMBER 31, 2019<sup>1</sup>

	No. of class A shares	No. of class B shares	Total no. of shares	% of capital	Total no. of votes	% of votes	No. of share- holders	% of share- holders
1–100		154,346	154,346	1.13%	154,346	1.06%	5,219	69.59%
101–1,000		670,638	670,638	4.92%	670,638	4.62%	1,851	24.68%
1,001–5,000		646,505	646,505	4.74%	646,505	4.45%	301	4.01%
5,001–10,000		335,400	335,400	2.46%	335,400	2.31%	43	0.57%
10,001–	100,000	11,723,586	11,823,586	86.74%	12,723,586	87.56%	86	1.15%
<b>Total</b>	<b>100,000</b>	<b>13,530,475</b>	<b>13,630,475</b>	<b>100.00%</b>	<b>14,530,475</b>	<b>100.00%</b>	<b>7,500</b>	<b>100.00%</b>

<sup>1</sup> Shares held directly and through nominees, excluding 337,858 class C shares held in treasury.

## Incentive programs

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.

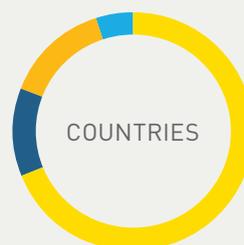
## SHARE DATA

	2019	2018
Equity per share, SEK	43.43	40.38
No. of shares at end of year, million	13.63	13.62
Average no. of shares, million	13.63	13.13
Cash flow from operating activities per share, SEK	7.78	7.05
Earnings per share, SEK <sup>1</sup>	7.75	6.67
Dividend or equivalent per share, SEK	5.00	5.00
No. of shareholders	7,500	7,262
Last price paid on December 31 or similar, SEK	186.00	243.00

<sup>1</sup> Definition in accordance with IFRS.

## SHAREHOLDER DATA

Shareholder data is based on information from Euroclear Sweden AB on December 31, 2019 and pertains to the share of votes, unless otherwise stated.



69%	Sweden
12%	Other Nordic countries
14%	Europe excl. Nordic region
5%	USA
0%	Rest of the world



21%	Natural persons
79%	Legal entities

## SHARE PRICE

The graphs below are based on the share price, meaning the last price paid (reinvested value), which has risen from SEK 75.00 on January 1, 2015 to SEK 186.00 on December 31, 2019.

### I.A.R. SYSTEMS GROUP 2015–2019



### I.A.R. SYSTEMS GROUP 2019



# Financial overview

## CONDENSED INCOME STATEMENT

SEK m	2019	2018	2017	2016	2015
Net sales	405.6	385.2	345.0	328.4	311.7
Operating expenses	-297.2	-245.1	-217.8	-215.2	-213.4
Depreciation of property, plant and equipment	-3.1	-2.6	-2.4	-2.5	-2.5
Depreciation of right-of-use assets	-9.8	-	-	-	-
Amortization of intangible assets	-24.5	-21.9	-17.4	-14.2	-12.4
<b>Operating profit</b>	<b>108.4</b>	<b>115.6</b>	<b>107.4</b>	<b>96.5</b>	<b>83.4</b>
Result from financial investments	-1.4	-1.8	-1.7	-0.4	-0.1
<b>Profit before tax</b>	<b>107.0</b>	<b>113.8</b>	<b>105.7</b>	<b>96.1</b>	<b>83.3</b>
Tax	-25.8	-26.2	-25.7	-22.1	-19.9
<b>PROFIT FOR THE YEAR</b>	<b>81.2</b>	<b>87.6</b>	<b>80.0</b>	<b>74.0</b>	<b>63.4</b>

## 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

### PERFORMANCE MEASURES

	2019	2018	2017	2016	2015
<b>Alternative performance measures</b>					
Gross margin, %	97.3	97.7	97.5	96.3	96.7
EBITDA margin, %	35.9	36.4	36.9	34.5	31.5
Operating margin, %	26.7	30.0	31.1	29.4	26.8
Profit margin, %	26.4	29.5	30.6	29.3	26.7
Cash flow, %	26.1	24.0	35.9	34.8	31.7
Equity/assets ratio, %	71.8	76.2	70.8	70.6	73.0
Return on equity, %	14.2	20.8	28.1	25.9	21.9
Return on capital employed, %	19.2	27.4	37.4	33.6	28.6
Capital employed, SEK m	612.0	552.8	292.9	282.2	292.7
Net cash, SEK m	-18.4	103.3	117.0	96.5	87.6
Net debt/equity ratio, multiple	0.03	-0.19	-0.40	-0.35	-0.30
<b>Other performance measures</b>					
No. of employees at end of period	223	200	163	165	164
Sales per employee, SEK m	2.0	2.3	2.2	2.1	2.0
Average no. of employees	201	171	153	159	157

## CONDENSED CASH FLOW STATEMENT

SEK m	2019	2018	2017	2016	2015
Cash flow from operating activities	105.7	92.6	123.9	114.2	98.7
Cash flow from investing activities	-102.2	-217.5	-37.6	-18.9	-17.7
Cash flow from financing activities	-52.0	107.7	-63.2	-88.4	-63.6
<b>TOTAL CASH FLOW FOR THE YEAR</b>	<b>-48.5</b>	<b>-17.2</b>	<b>23.1</b>	<b>6.9</b>	<b>17.4</b>

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 37–41.

### DATA PER SHARE

	2019	2018	2017	2016	2015
Equity per share, SEK	43.43	40.38	22.99	22.13	23.03
No. of shares at end of period, million	13.63	13.62	12.63	12.63	12.63
Average no. of shares, million	13.63	13.13	12.63	12.63	12.63
Cash flow from operating activities per share, SEK	7.75	7.05	9.81	9.04	7.81
Earnings per share, SEK <sup>1</sup>	5.96	6.67	6.33	5.86	5.02
Dividend per share, SEK	5.00	5.00	5.00	7.00	5.00
Last price paid on December 31 or similar, SEK	186.0	243.00	189.00	206.00	150.00

<sup>1</sup> Definition in accordance with IFRS.

## CONDENSED BALANCE SHEET

ASSETS, SEK m	2019	2018	2017	2016	2015	EQUITY AND LIABILITIES, SEK m	2019	2018	2017	2016	2015
<b>Non-current assets</b>						<b>Total equity</b>	<b>592.0</b>	<b>550.0</b>	<b>290.4</b>	<b>279.5</b>	<b>290.9</b>
Goodwill	357.2	339.3	113.5	114.9	113.5	<b>Non-current liabilities</b>					
Other intangible assets	210.5	144.8	80.9	82.1	78.8	Interest-bearing liabilities	41.1	1.2	1.7	1.6	0.6
Property, plant and equipment	7.3	8.9	6.2	6.2	6.5	Other non-current liabilities	1.1	1.6	1.7	1.4	1.1
Right-of-use assets	56.3	–	–	–	–	Provisions	26.5	29.6	14.0	14.8	16.5
Financial assets	7.7	15.1	22.2	20.7	41.8	<b>Total non-current liabilities</b>	<b>68.7</b>	<b>32.4</b>	<b>17.4</b>	<b>17.8</b>	<b>18.2</b>
<b>Total non-current assets</b>	<b>638.9</b>	<b>508.1</b>	<b>222.8</b>	<b>223.9</b>	<b>240.6</b>	<b>Current liabilities</b>					
<b>Current assets</b>						Trade payables	9.2	7.3	5.7	5.3	4.8
Inventories	6.6	6.6	5.2	5.6	5.1	Interest-bearing liabilities	38.0	1.6	0.8	1.1	1.2
Other current assets	52.1	38.2	11.8	18.9	20.1	Other current liabilities	117.0	130.9	95.8	92.2	83.6
Trade receivables	66.6	63.2	50.8	48.3	43.5	<b>Total current liabilities</b>	<b>164.2</b>	<b>139.8</b>	<b>102.3</b>	<b>98.6</b>	<b>89.6</b>
Cash and cash equivalents	60.7	106.1	119.5	99.2	89.4	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>824.9</b>	<b>722.2</b>	<b>410.1</b>	<b>395.9</b>	<b>398.7</b>
<b>Total current assets</b>	<b>186.0</b>	<b>214.1</b>	<b>187.3</b>	<b>172.0</b>	<b>158.1</b>						
<b>TOTAL ASSETS</b>	<b>824.9</b>	<b>722.2</b>	<b>410.1</b>	<b>395.9</b>	<b>398.7</b>						

NET SALES  
SEK MOPERATING PROFIT  
SEK MOPERATING MARGIN  
%

## QUARTERLY OVERVIEW AND MULTI-YEAR OVERVIEW

		Net sales, SEK m	EBITDA, SEK m	EBITDA margin, %	Operating profit, SEK m	Operating margin, %	Earnings per share, SEK*	Return on equity, %	Cash flow from operating activities per share, SEK	Equity per share, SEK	Share price, SEK	Market capitalization, SEK m
2019	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
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

\* 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 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	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	2019	2018	2017	2016	2015
Net sales	405.6	385.2	345.0	328.4	311.7
Goods for resale	-10.8	-9.0	-8.5	-12.2	-10.3
Gross profit	394.8	376.2	336.5	316.2	301.4
<b>GROSS MARGIN</b>	<b>97.3%</b>	<b>97.7%</b>	<b>97.5%</b>	<b>96.3%</b>	<b>96.7%</b>

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

SEK m	2019	2018	2017	2016	2015
Operating profit	108.4	115.6	107.4	96.5	83.4
Depreciation of property, plant and equipment	3.1	2.6	2.4	2.5	2.5
Depreciation of right-of-use assets	9.8	-	-	-	-
Amortization of intangible assets	24.5	21.9	17.4	14.2	12.4
<b>EBITDA</b>	<b>145.8</b>	<b>140.1</b>	<b>127.2</b>	<b>113.2</b>	<b>98.3</b>

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

SEK m	2019	2018	2017	2016	2015
Net sales	405.6	385.2	345.0	328.4	311.7
EBITDA	145.8	140.1	127.2	113.2	98.3
<b>EBITDA MARGIN</b>	<b>35.9%</b>	<b>36.4%</b>	<b>36.9%</b>	<b>34.5%</b>	<b>31.5%</b>

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

SEK m	2019	2018	2017	2016	2015
Net sales	405.6	385.2	345.0	328.4	311.7
Operating profit	108.4	115.6	107.4	96.5	83.4
<b>OPERATING MARGIN</b>	<b>26.7%</b>	<b>30.0%</b>	<b>31.1%</b>	<b>29.4%</b>	<b>26.8%</b>

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

SEK m	2019	2018	2017	2016	2015
Net sales	405.6	385.2	345.0	328.4	311.7
Profit before tax	107.0	113.8	105.7	96.1	83.3
<b>PROFIT MARGIN</b>	<b>26.4%</b>	<b>29.5%</b>	<b>30.6%</b>	<b>29.3%</b>	<b>26.7%</b>

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

SEK m	2019	2018	2017	2016	2015
Net sales	405.6	385.2	345.0	328.4	311.7
Cash flow from operating activities	105.7	92.6	123.9	114.2	98.7
<b>CASH FLOW</b>	<b>26.1%</b>	<b>24.0%</b>	<b>35.9%</b>	<b>34.8%</b>	<b>31.7%</b>

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

SEK m	2019	2018	2017	2016	2015
Equity	592.0	550.0	290.4	279.5	290.9
Total assets	824.9	722.2	410.1	395.9	398.7
<b>EQUITY/ASSETS RATIO</b>	<b>71.8%</b>	<b>76.2%</b>	<b>70.8%</b>	<b>70.6%</b>	<b>73.0%</b>

**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	2019	2018	2017	2016	2015	2014
Equity	592.0	550.0	290.4	279.5	290.9	288.6
<b>AVERAGE EQUITY</b>	<b>571.0</b>	<b>420.2</b>	<b>285.0</b>	<b>285.2</b>	<b>289.8</b>	

**RECONCILIATIONS, CONT.**

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

SEK m	2019	2018	2017	2016	2015
Profit after tax	81.2	87.6	80.0	74.0	63.4
Average equity	571.0	420.2	285.0	285.2	289.8
<b>RETURN ON EQUITY</b>	<b>14.2%</b>	<b>20.8%</b>	<b>28.1%</b>	<b>25.9%</b>	<b>21.9%</b>

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

SEK m	2019	2018	2017	2016	2015	2014
Non-current interest-bearing liabilities	41.1	1.2	1.7	1.6	0.6	1.5
Current interest-bearing liabilities	38.0	1.6	0.8	1.1	1.2	0.8
<b>INTEREST-BEARING LIABILITIES</b>	<b>79.1</b>	<b>2.8</b>	<b>2.5</b>	<b>2.7</b>	<b>1.8</b>	<b>2.3</b>

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

SEK m	2019	2018	2017	2016	2015	2014
Non-current liabilities	68.7	32.4	17.4	17.8	18.2	17.2
Current liabilities	164.2	139.8	102.3	98.6	89.6	74.9
Interest-bearing liabilities	-79.1	-2.8	-2.5	-2.7	-1.8	-2.3
<b>NON-INTEREST-BEARING LIABILITIES</b>	<b>153.8</b>	<b>169.4</b>	<b>117.2</b>	<b>113.7</b>	<b>106.0</b>	<b>89.8</b>

**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	2019	2018	2017	2016	2015	2014
Total assets	824.9	722.2	410.1	395.9	398.7	380.7
Non-interest-bearing liabilities	-153.8	-169.4	-117.2	-113.7	-106.0	-89.8
<b>CAPITAL EMPLOYED</b>	<b>671.1</b>	<b>552.8</b>	<b>292.9</b>	<b>282.2</b>	<b>292.7</b>	<b>290.9</b>
SEK m	2019	2018	2017	2016	2015	
Average capital employed	612.0	422.8	287.6	287.5	291.8	

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

SEK m	2019	2018	2017	2016	2015
Profit before tax	107.0	113.8	105.7	96.1	83.3
Financial expenses	2.6	1.9	1.7	0.4	0.2
Profit before tax plus financial expenses	109.6	115.7	107.4	96.5	83.5
<b>RETURN ON CAPITAL EMPLOYED</b>	<b>19.2%</b>	<b>27.4%</b>	<b>37.4%</b>	<b>33.6%</b>	<b>28.6%</b>

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

SEK m	2019	2018	2017	2016	2015
Cash and cash equivalents	60.7	106.1	119.5	99.2	89.4
Interest-bearing liabilities	-79.1	-2.8	-2.5	-2.7	-1.8
<b>NET CASH</b>	<b>-18.4</b>	<b>103.3</b>	<b>117.0</b>	<b>96.5</b>	<b>87.6</b>

**RECONCILIATIONS, CONT.**

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

SEK m	2019	2018	2017	2016	2015
Interest-bearing liabilities	79.1	2.8	2.5	2.7	1.8
Cash and cash equivalents	-60.7	-106.1	-119.5	-99.2	-89.4
Net interest-bearing liabilities	18.4	-103.3	-117.0	-96.5	-87.6
<b>NET DEBT/EQUITY RATIO</b>	<b>0.03</b>	<b>-0.19</b>	<b>-0.40</b>	<b>-0.35</b>	<b>-0.30</b>

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

SEK m	2019	2018	2017	2016	2015
Cash flow from operating activities	105.7	92.6	123.9	114.2	98.7
Average no. of shares, million	13.63	13.13	12.63	12.63	12.63
<b>CASH FLOW FROM OPERATING ACTIVITIES PER SHARE</b>	<b>7.75</b>	<b>7.05</b>	<b>9.81</b>	<b>9.04</b>	<b>7.81</b>

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

SEK m	2019	2018	2017	2016	2015
Equity	592.0	550.0	290.4	279.5	290.9
No. of shares at end of year, million	13.63	13.62	12.63	12.63	12.63
<b>EQUITY PER SHARE</b>	<b>43.43</b>	<b>40.38</b>	<b>22.99</b>	<b>22.13</b>	<b>23.03</b>

**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.

	2019	2018	2017	2016	2015	2014
No. of shares, million	13.63	13.62	12.63	12.63	12.63	12.63
<b>AVERAGE NO. OF SHARES, MILLION</b>	<b>13.63</b>	<b>13.13</b>	<b>12.63</b>	<b>12.63</b>	<b>12.63</b>	

# 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 2019 financial year. The company is domiciled in Stockholm, corporate identification number 556400-7200.**

## Sales and net sales

The company reported growth in terms of both sales and net sales. The difference between these growth figures is that some sales (maintenance and support agreements) are allocated over the term of the contract.

In a year-on-year comparison, total sales growth in local currency was 1%. This 1% sales growth for the year resulted in an increase in net sales of 5% after the allocation of prepaid maintenance and support agreements (-3%) and positive foreign exchange effects (+6%).

## Sales

The trend of customers choosing to standardize their development based on our products continued in 2019. Traditionally, our business model is built on transaction-based sales, with a large number of transactions at relatively low order values. In recent years, major transactions resulting from standardization have made our sales more volatile, which makes comparisons between quarters complicated.

We had five product launches during the year. Although these products are attracting considerable and growing interest, they have not resulted in a significant increase in sales in the short time since their launch.

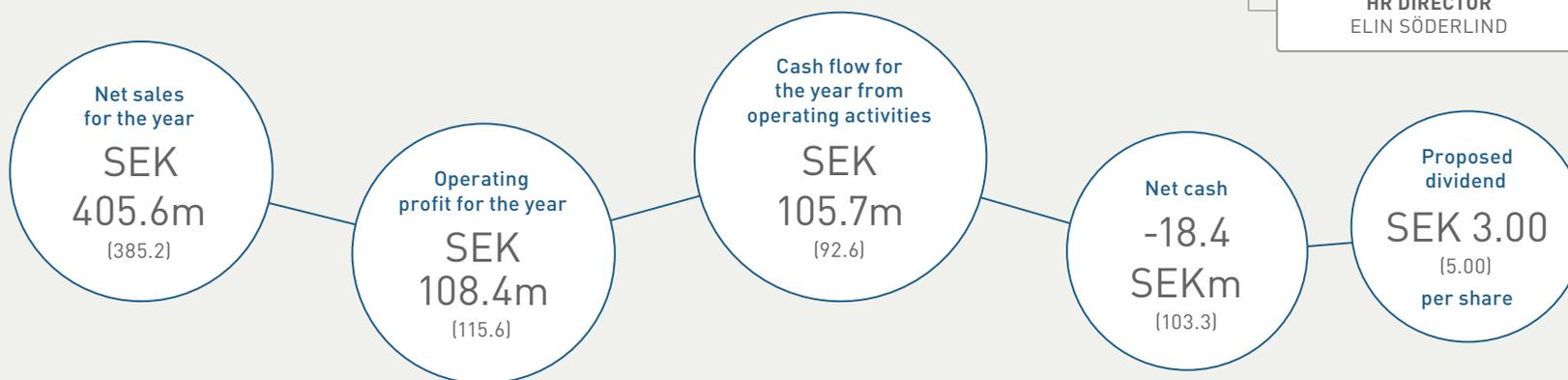
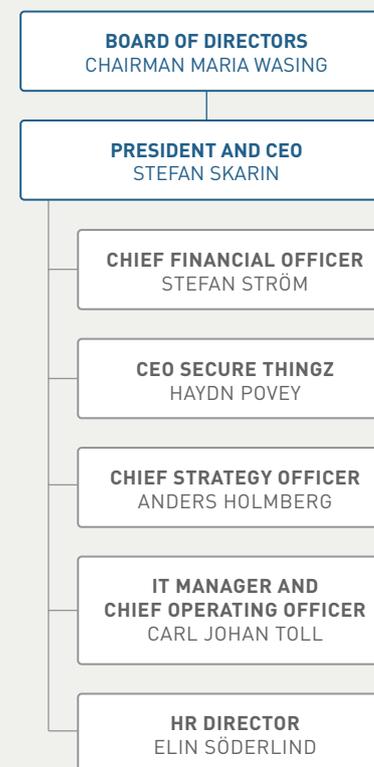
## Net sales

This 1% sales growth for the year resulted in an increase in net sales of 5% after the allocation of prepaid maintenance and support agreements (-2%) and positive foreign exchange effects (6%).

Net sales for the year amounted to SEK 405.6m (385.2) and were distributed as follows: SEK 403.9m (380.2) from development tools and SEK 1.7m (5.0) from security solutions. Currency translation had a positive impact of SEK 23.5m on net sales for the year, compared with the preceding year.

Royalty-based revenue of SEK 5.9m (5.5) from the agreement with Renesas Electronics Corporation was reported during the year. This royalty-based revenue pertained to the guaranteed minimum remuneration for the period. In addition to royalty-based revenue, the agreement with Renesas was renegotiated during the fourth quarter and had a positive effect of SEK 7.3m on net sales.

The Americas accounted for 35% (35) of sales, Europe for 36% (39), Asia for 27% (24) and global revenue for 2% (2).



## Earnings

EBITDA for the year totaled SEK 145.8m (140.1), corresponding to an EBITDA margin of 35.9% (36.4) for the period. Compared with the preceding year, IFRS 16 (Note 1) positively affected EBITDA by an amount essentially corresponding to the item "Depreciation of right-of-use assets" in the income statement.

Operating profit for the year decreased 6% to SEK 108.4m (115.6).

Operating expenses were reduced by SEK 81.9m (45.4) during the year through the capitalization of development costs for software and debug probes. Of the internally generated costs that were capitalized, SEK 67.3m (38.1) pertained to personnel costs.

Personnel costs are the Group's largest cost item and account for about 71% (62) of total costs. Of the Group's total costs, 56% (58) are attributable to operations in Sweden.

In a year-on-year comparison, currency translation had a positive impact of SEK 13.7m on operating profit for the year.

Financial expenses for the year mainly comprised interest expenses and credit expenses for utilized and unutilized bank overdraft facilities of SEK 225m.

## Cash flow

Cash flow from operating activities for the year totaled SEK 105.7m (92.6). The comparative year was burdened by an extra tax payment for the 2017 tax year and transaction costs related to the acquisition of Secure Thingz. There are no equivalent items in this year's cash flow.

Cash flow from investing activities for the year totaled SEK -102.2m (-217.5). The company's investing activities during the year mainly comprised investments in intangible assets totaling SEK 81.1m and payment of a withheld portion of the purchase consideration for the acquisition of Secure Thingz. The company completed the acquisition of Secure Thingz in the comparative year. See also Note 23 "Business combinations".

Cash flow from financing activities for the year amounted to SEK -52.0m (107.7). Dividends totaling SEK 68.1m were paid to the company's shareholders. The Group's utilization of overdraft facilities amounted to SEK 24.9m net. In addition, the Group also repaid a lease liability in an amount of SEK 9.0m, which was recognized in cash flow from financing activities in accordance with the new IFRS 16 Leases. During the comparative year, two new share issues generated SEK 176.0m for the company after transaction costs.

## Balance sheet items and financial position

Consolidated cash and cash equivalents at the end of the year amounted to SEK 60.7m, compared with SEK 106.1m at December 31, 2018. The Group also had unutilized bank overdraft facilities totaling SEK 200.1m (225.0).

The Group's interest-bearing liabilities amounted to SEK 79.1m, compared with SEK 2.8m at December 31, 2018. Interest-bearing liabilities include lease liabilities amounting to SEK 54.2m, which increased in accordance with the new IFRS 16 Leases. Interest-bearing liabilities also include utilized bank overdraft facilities totaling SEK 24.9m.

At December 31, 2019, the Group had net cash of SEK -18.4 (103.3). Net cash was also impacted by the new IFRS16 Leases; see above.

Consolidated goodwill at the end of the year amounted to SEK 357.2m (339.3). The impairment test performed at year-end did not indicate any impairment requirement.

The increase of SEK 17.9m was attributable to currency remeasurement. Other intangible assets in the form of trademarks, software, internally generated software development costs and customer contracts totaled SEK 210.5m (144.8).

As of December 31, 2019, the Group had accumulated loss carryforwards of SEK 122m (45). The deferred tax asset in the balance sheet amounted to SEK 5.3m (13.3), of which SEK 19.9m (8.5) pertained to loss carryforwards. 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.

Equity at December 31, 2019 amounted to SEK 592.0m, compared with SEK 550.0m on December 31, 2018. This change in equity is presented in the specification on page 49. The equity/assets ratio at December 31, 2019 was 72% (76). Pledged assets increased during the year and totaled SEK 5.5m (4.6) at December 31, 2019.

## Investments

Investments in property, plant and equipment for the year amounted to SEK 2.5m (4.3). Investments in intangible assets totaled SEK 84.0m (317.2). Investments in intangible assets pertained primarily to costs for in-house staff for the development of debug probes and analysis tools. Of the year's investments, SEK 2.1m (1.3) was acquired separately and SEK 81.9m (45.4) comprises internally generated costs. Of the internally generated costs, SEK 67.3m (38.1) pertains to personnel costs.

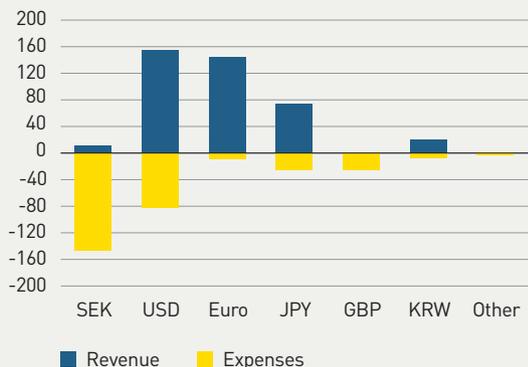
## NET SALES SEK M



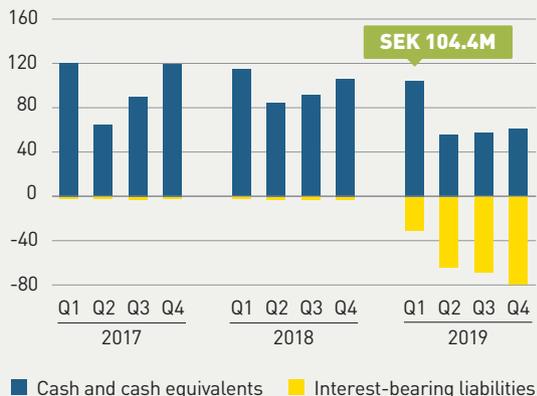
## OPERATING PROFIT SEK M



**CURRENCY SPREAD  
SEK M**



**NET CASH  
SEK M**



**Market and customers**

IAR Systems 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 ongoing spread of digital technology is leading to steady growth in the number of companies working on embedded systems. Thanks to its products and service, IAR Systems is able to offer a complete solution for these companies and their developers. The company's cutting-edge technology combined with its long history and committed team of employees provides a unique position in the market. Following the acquisition of Secure Thingz in the preceding year, IAR Systems and Secure Thingz now offer possibilities for new security solutions, such as Embedded Trust, which makes it easier and more efficient to implement security in embedded systems. Noteworthy market trends continue to be the consolidation of suppliers, an intense focus on security, increasing customer requirements in terms of efficiency and the growing complexity of embedded systems and IoT.

**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. Within the Group, 86% (87) of employees have a post-secondary or higher education, and 14% (13) have a secondary education. The average age of the Group's employees is 45 (45). At year-end 2019, the gender distribution was 25% (16) women and 75% (84) men. The average number of employees in 2019 was 201 (171).

**Sustainability and corporate social responsibility**

IAR Systems' policy for corporate social responsibility is to conduct business in accordance with the applicable laws and regulations. Integrity, honesty, frankness and honor are of the utmost importance in all business and community

relations. The Group encourages and expects all of its employees to be honest in their dealings with customers, suppliers and competitors and to perform their duties in a manner that safeguards the company's good name and reputation.

IAR Systems has a low environmental impact from production, since the company conducts no processing activities and enables environmentally friendly and sustainable technology by offering powerful tools with smart functions that facilitate an optimized power consumption and useful life. 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. For the past six 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 selected organizations, primarily student projects and start-up companies, providing them with the 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.

All employees have the right to a safe and healthy work environment free from threats and discrimination. IAR Systems endeavors to be an equal opportunity employer and to offer a workplace, working conditions and employment terms characterized by equality.

**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. 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, 2019	Change	Effect on profit
Cost of goods sold	+/- 5%	-/+ SEK 0.5m
Payroll expenses	+/- 5%	-/+ SEK 9.3m
Currency – EUR	+/- 5%	+/- SEK 5.3m
Currency – USD	+/- 5%	+/- SEK 2.8m
Currency – JPY	+/- 5%	+/- SEK 2.4m
Variable interest	+/- 1 percentage point	+/- SEK 0.2m

### Guidelines for remuneration and other terms of employment for senior executives

The Board of Directors proposes to the 2020 AGM that the guidelines for remuneration to senior executives that were adopted by the 2019 AGM continue to apply.

The 2019 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 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, the COO, the CEO of Secure Thingz and the Chief Strategy Officer.

The Board of Directors has appointed a remuneration committee for the preparation of matters related to

		PROBABILITY					IMPACT																															
		1	2	3	4	5			1	2	3	4	5																									
		Improbable					Unlikely					Possible					Likely					Probable							Insignificant		Small		Medium		Large		Very large	
RISK AREA	DESCRIPTION											IAR SYSTEMS' RISK MANAGEMENT																										
<b>MARKET RISKS</b>																																						
<b>Macro-economic development</b>	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.				4							2			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.																							
<b>Products and technology</b>	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.																							
<b>Competitors</b>	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 tools 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.																							
<b>OPERATIONAL RISKS</b>																																						
<b>Customer structure</b>	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.																							
<b>Income structure</b>	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%.																							
<b>Supply of qualified personnel</b>	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.																							
<b>FINANCIAL RISKS</b>																																						
<b>Foreign exchange risk</b>	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) 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. 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.																						
<b>Liquidity risk</b>	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, 2019, the Group had cash and cash equivalents of SEK 106.1m and unutilized bank overdraft facilities of SEK 200.1m. Interest-bearing liabilities on the same date amounted to SEK 79.1m, of which lease liabilities accounted for SEK 54.2m.																						
<b>Credit risk</b>	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.																						

remuneration and other terms of employment for the company's management. No changes are proposed for 2020.

#### 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. For 2019, no variable remuneration has been paid to the CEO or other senior executives.

#### 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, 2019 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 100,000 are class A shares, 13,530,475 are class B shares and 337,858 are class C shares. All class C shares are held in treasury with a quota value of SEK 10 per share and represent 2.4% of the share capital. Of the class C shares acquired in 2018, 8,762 shares, representing 0.1% of the share capital, were transferred for SEK 174,089.00 in 2019. The reason for the transfer of treasury shares in 2019 was to ensure the delivery of shares to employees upon the exercise of stock options under the Group's incentive program. A total of 21,830 class C shares have been converted into class B shares and delivered within the framework of the incentive program since the original buyback of 359,688 class C shares.

#### Share price performance

During the year, the share price varied from a low of SEK 168.80 (188.00) to a high of SEK 296.50 (288.00). The share price at December 31 was SEK 186.00 (243.00). I.A.R. Systems Group's market capitalization on the same date was SEK 2,535m (3,310).

#### Ownership and control

The number of shareholders in I.A.R. Systems Group at December 31, 2019 was 7,500 (7,262). Of these shareholders, 430 (425) held more than 1,000 shares each. Foreign shareholders held approximately 32% (32) of the share capital and 30% (30) of the votes. For additional information about the IAR Systems share, see pages 32–33.

#### 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	254,491,435.64
Retained earnings	44,242,942.39
Comprehensive income for the year	73,644,992.20
Total, SEK	372,379,370.23

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

Dividend of SEK 3.00 per share	40,891,425.00
To be carried forward to new account	331,487,945.23
Total, SEK	372,379,370.23

The Board intends to propose a total dividend of SEK 3.00 (5.00) per share for approval by the AGM on April 29, 2020. The Board's proposal for the dividend corresponds to 50% of the Group's profit after tax. The Board based its proposal on the fact that the historically positive effects of tax loss carryforwards on cash flow have decreased. The company also increased its investments in new product areas in 2019 to boost its rate of growth. The Board expects the Group to generate a positive cash flow in 2020, despite the increased level of investment continuing throughout 2020.

In light of the information presented in these annual accounts and consolidated accounts, and other information that has come to the attention of the Board of Directors, the Board of Directors' overall assessment of the financial position of the Parent Company and the Group is that this dividend is justifiable in respect of the requirements imposed by the nature, scope and risks of the business with respect to the size of equity in the company and the Group and the consolidation requirements, liquidity and general financial position of the company and the Group.

#### MULTI-YEAR OVERVIEW

	2012	2013	2014	2015	2016	2017	2018	2019
Revenue, SEK m	230.1	230.2	255.7	311.7	328.4	345.0	385.2	405.6
Operating expenses, SEK m	-194.9	-188.9	-202.5	-228.3	-231.9	-237.6	-269.6	-297.2
Operating profit, SEK m	35.2	41.3	53.2	83.4	96.5	107.4	115.6	108.4
EBITDA margin, % *	18.2	22.0	24.9	31.5	34.5	36.9	36.4	35.9
Operating margin, % *	15.3	17.9	20.8	26.8	29.4	31.1	30.0	26.7
Return on equity, %	5.3	10.9	14.5	21.9	25.9	28.1	20.8	14.2
Equity per share, SEK *	22.34	23.90	22.85	23.03	22.13	22.99	40.38	43.43
Cash flow from operating activities per share, SEK *	3.41	3.43	5.63	7.81	9.04	9.81	7.05	7.75

\* This performance measure pertains to an alternative performance measure not defined by IFRS. For further information, refer to page 37–41.

## Consolidated income statement

SEK m	Note	2019	2018	SEK m	Note	2019	2018
Net sales	1, 2, 3, 4	405.6	385.2	<i>Profit for the year attributable to:</i>			
Goods for resale		-10.8	-9.0	Owners of the Parent Company		81.2	87.6
Other external expenses	5	-63.7	-68.2	<i>Comprehensive income for the year attributable to:</i>			
Personnel costs	6	-185.3	-167.9	Owners of the Parent Company		105.9	98.4
Depreciation of property, plant and equipment	11	-3.1	-2.6	<i>Earnings per share calculated on profit for the</i>			
Depreciation of right-of-use assets	11	-9.8	-	<i>year attributable to owners of the Parent Company, SEK</i>			
Amortization of intangible assets	10	-24.5	-21.9	- basic	9	5.96	6.67
<b>Operating profit</b>		<b>108.4</b>	<b>115.6</b>	- diluted	9	5.95	6.65
Financial income	7	1.2	0.1				
Financial expenses	7	-2.6	-1.9				
<b>Profit before tax</b>		<b>107.0</b>	<b>113.8</b>				
Income taxes	8	-25.8	-26.2				
<b>PROFIT FOR THE YEAR</b>		<b>81.2</b>	<b>87.6</b>				

## Consolidated statement of comprehensive income

SEK m	2019	2018
<b>Profit for the year</b>	<b>81.2</b>	<b>87.6</b>
<b>Other comprehensive income:</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Change in value of non-current securities	-	17.5
Translation differences	24.7	-6.7
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>105.9</b>	<b>98.4</b>
Comprehensive income for the year attributable to owners of the Parent Company	105.9	98.4

## Consolidated balance sheet

SEK m	Note	Dec 31, 2019	Dec 31, 2018
<b>ASSETS</b>	1, 2, 3, 4		
<b>Non-current assets</b>			
<b>Intangible assets</b>	10		
Goodwill		357.2	339.3
Other intangible assets		210.5	144.8
<b>Total intangible assets</b>		<b>567.7</b>	<b>484.1</b>
<b>Property, plant and equipment</b>	11		
Leasehold improvements		0.5	1.3
Equipment		6.8	7.6
Right-of-use assets		56.3	–
<b>Total property, plant and equipment</b>		<b>63.6</b>	<b>8.9</b>
<b>Financial assets</b>			
Other non-current receivables	12, 17	2.4	1.8
<b>Total financial assets</b>		<b>2.4</b>	<b>1.8</b>
Deferred tax assets	8	5.3	13.3
<b>Total non-current assets</b>		<b>638.9</b>	<b>508.1</b>
<b>Current assets</b>			
Inventories		6.6	6.6
<b>Current receivables</b>			
Trade receivables	13, 17	66.6	63.2
Other current receivables	14, 17	4.6	2.1
Prepaid expenses and accrued income	15, 17	47.5	36.1
		<b>125.3</b>	<b>108.0</b>
Cash and cash equivalents	16, 17	60.7	106.1
<b>Total current assets</b>		<b>186.0</b>	<b>214.1</b>
<b>TOTAL ASSETS</b>		<b>824.9</b>	<b>722.2</b>

SEK m	Note	Dec 31, 2019	Dec 31, 2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	18, 19		
Share capital		139.7	139.7
Other contributed capital		227.7	227.3
Reserves		38.2	13.5
Retained earnings including profit for the year		186.4	169.5
<b>Total equity</b>		<b>592.0</b>	<b>550.0</b>
<b>Non-current liabilities</b>			
Lease liabilities	17	41.1	1.2
Other non-current liabilities		1.1	1.6
Deferred tax liabilities	8	26.5	29.6
<b>Total non-current liabilities</b>		<b>68.7</b>	<b>32.4</b>
<b>Current liabilities</b>			
Trade payables	17	9.2	7.3
Liabilities to credit institutions	17	24.9	–
Lease liabilities	17	13.1	1.6
Current tax liabilities	8	–	0.3
Other liabilities	17	14.1	28.5
Deferred income		85.2	79.0
Accrued expenses	20	17.7	23.1
<b>Total current liabilities</b>		<b>164.2</b>	<b>139.8</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>824.9</b>	<b>722.2</b>

## Consolidated statement of changes in equity

SEK m	Share capital	Other contributed capital	Reserves	Retained earnings	Total equity
<b>Opening balance, January 1, 2018</b>	126.3	23.4	2.7	138.0	290.4
Profit for the year				87.6	87.6
<b>Other comprehensive income</b>					
Change in value of non-current securities			17.5		17.5
Translation differences			-6.7		-6.7
<b>Total comprehensive income</b>			10.8	87.6	98.4
<b>Transactions with owners</b>					
New share issues, after deductions for transaction costs and tax	11.7	165.4			177.1
Warrant payment		4.1			4.1
Share buybacks		-3.6			-3.6
Non-cash issue	1.7	38.0			39.7
Value of share-based remuneration				11.9	11.9
Dividend				-68.0	-68.0
<b>Total transactions with owners</b>	13.4	203.9	-	-56.1	161.2
<b>Opening balance, January 1, 2019</b>	139.7	227.3	13.5	169.5	550.0
Profit for the year				81.2	81.2
<b>Other comprehensive income</b>					
Translation differences			24.7		24.7
<b>Total comprehensive income</b>			24.7	81.2	105.9
<b>Transactions with owners</b>					
Warrant payment		0.4			0.4
Value of share-based remuneration				3.8	3.8
Dividend				-68.1	-68.1
<b>Total transactions with owners</b>		0.4		-64.3	-63.9
<b>CLOSING BALANCE, DECEMBER 31, 2019</b>	139.7	227.7	38.2	186.4	592.0

### COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2019 amounted to SEK 139,683,334, divided between 100,000 class A shares, 13,530,475 class B shares and 337,858 class C shares. All shares have a quota value of SEK 10 each.

## Consolidated cash flow statement

SEK m	Note	2019	2018
<b>Operating activities</b>			
Incoming payments from customers		401.2	381.1
Outgoing payments to suppliers and employees		-277.7	-250.0
<b>Cash flow from operating activities before interest and income taxes paid</b>		<b>123.5</b>	<b>131.1</b>
Interest received		0.0	0.0
Interest paid		-2.6	-1.7
Income taxes paid		-15.2	-36.8
<b>Cash flow from operating activities</b>		<b>105.7</b>	<b>92.6</b>
<b>Investing activities</b>			
Investments in intangible assets	10	-81.1	-42.5
Investments in property, plant and equipment	11	-2.5	-4.3
Investments in subsidiaries		-18.6	-170.8
Sale of other investments		-	0.1
Investments in other investments		-	-
<b>Cash flow from investing activities</b>		<b>-102.2</b>	<b>-217.5</b>
<b>Financing activities</b>			
Dividends to Parent Company shareholders		-68.1	-68.0
New share issues		-	176.0
Share warrants		0.2	3.6
Share buybacks		-	-3.6
Borrowings		30.4	0.9
Amortization of financial liabilities		-14.5	-1.2
<b>Cash flow from financing activities</b>		<b>-52.0</b>	<b>107.7</b>
<b>Cash flow for the year</b>			
Cash and cash equivalents at beginning of year		106.1	119.5
Exchange difference in cash and cash equivalents			
– attributable to cash and cash equivalents at beginning of year		2.1	3.6
– attributable to cash flow for the year		1.0	0.1
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	16	<b>60.7</b>	<b>106.1</b>

## Parent Company income statement

SEK m	Note	2019	2018
Net sales	1, 2	12.2	12.2
Other external expenses	5	-4.1	-7.1
Personnel costs	6	-12.2	-14.8
Depreciation of property, plant and equipment	11	-0.0	-0.0
<b>Operating loss</b>		<b>-4.1</b>	<b>-9.7</b>
<b>Result from financial investments</b>			
Total financial income	7	2.5	0.1
Total financial expenses	7	-1.7	-3.2
<b>Profit before tax</b>		<b>-3.3</b>	<b>-12.8</b>
Appropriations, Group contributions		97.0	104.0
Tax on profit for the year	8	-20.1	-20.1
<b>PROFIT FOR THE YEAR</b>		<b>73.6</b>	<b>71.1</b>

## Parent Company statement of comprehensive income

SEK m	2019	2018
<b>Profit for the year</b>	<b>73.6</b>	<b>71.1</b>
<b>Other comprehensive income:</b>		
<b>Items that may be reclassified subsequently to profit or loss</b>		
Change in value of non-current securities	-	17.5
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>73.6</b>	<b>88.6</b>

## Parent Company balance sheet

SEK m	Note	Dec 31, 2019	Dec 31, 2018
<b>ASSETS</b>	1, 2		
<b>Non-current assets</b>			
<b>Property, plant and equipment</b>			
Equipment	11	0.1	0.1
<b>Total property, plant and equipment</b>		<b>0.1</b>	<b>0.1</b>
<b>Financial assets</b>			
Participations in Group companies	22	480.1	476.2
Other non-current receivables	12	0.1	0.1
Deferred tax assets	8	0.0	1.5
<b>Total financial assets</b>		<b>480.2</b>	<b>477.8</b>
<b>Total non-current assets</b>		<b>480.3</b>	<b>477.9</b>
<b>Current assets</b>			
<b>Current receivables</b>			
Receivables from subsidiaries		84.8	42.0
Other current receivables	14	0.2	0.0
Prepaid expenses and accrued income	15	1.6	2.2
		<b>86.6</b>	<b>44.2</b>
Cash in hand and bank deposits	16	1.3	9.3
<b>Total current assets</b>		<b>87.9</b>	<b>53.5</b>
<b>TOTAL ASSETS</b>		<b>568.2</b>	<b>531.4</b>

SEK m	Note	Dec 31, 2019	Dec 31, 2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	18, 19		
<i>Restricted equity</i>			
Share capital		139.7	139.7
		<b>139.7</b>	<b>139.7</b>
<i>Non-restricted equity</i>			
Share premium reserve		254.5	254.1
Retained earnings		44.3	19.9
Comprehensive income for the year		73.6	88.6
		<b>372.4</b>	<b>362.6</b>
<b>Total equity</b>		<b>512.1</b>	<b>502.3</b>
<b>Current liabilities</b>			
Trade payables		0.4	0.9
Liabilities to credit institutions		24.9	-
Liabilities to subsidiaries		26.1	
Tax liabilities		-	0.1
Other liabilities		1.5	19.3
Accrued expenses	20	3.2	8.8
<b>Total current liabilities</b>		<b>56.1</b>	<b>29.1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>568.2</b>	<b>531.4</b>

## Parent Company statement of changes in equity

SEK m	Share capital	Share premium reserve	Retained earnings	Total equity
<b>Opening balance, January 1, 2018</b>	<b>126.3</b>	<b>50.2</b>	<b>76.1</b>	<b>252.6</b>
New share issue, after deductions for transaction costs and tax	11.7	165.4		177.1
Share buybacks		-3.6		-3.6
Warrant payment		4.1		4.1
Non-cash issue	1.7	38.0		39.7
Value of share-based remuneration			11.8	11.8
Dividend			-68.0	-68.0
<b>Total changes in equity not recognized in the income statement</b>	<b>13.4</b>	<b>203.9</b>	<b>-56.2</b>	<b>161.1</b>
Profit for the year			71.1	71.1
<b>Other comprehensive income</b>				
Change in value of non-current securities			17.5	17.5
<b>Total comprehensive income</b>			<b>32.4</b>	<b>88.6</b>
<b>Opening balance, January 1, 2019</b>	<b>139.7</b>	<b>254.1</b>	<b>108.5</b>	<b>502.3</b>
Warrant payment		0.4		0.4
Value of share-based remuneration			3.9	3.9
Dividend			-68.1	-68.1
<b>Total changes in equity not recognized in the income statement</b>		<b>0.4</b>	<b>-64.2</b>	<b>-63.8</b>
Profit for the year			73.6	73.6
<b>Other comprehensive income</b>				
Change in value of non-current securities			-	-
<b>Total comprehensive income</b>			<b>73.6</b>	<b>73.6</b>
<b>CLOSING BALANCE, DECEMBER 31, 2019</b>	<b>139.7</b>	<b>254.5</b>	<b>117.9</b>	<b>512.1</b>

### COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

The share capital at December 31, 2019 amounted to SEK 139,683,334, divided between 100,000 class A shares, 13,530,475 class B shares and 337,858 class C shares. All shares have a quota value of SEK 10 each. (The share capital at December 31, 2018 amounted to SEK 139,683,334, divided between 100,000 class A shares, 13,521,713 class B shares and 346,620 class C shares. All shares had a quota value of SEK 10 each.)

## Parent Company cash flow statement

SEK m	Note	2019	2018
<b>Operating activities</b>			
Incoming payments from subsidiaries		13.5	13.3
Outgoing payments to suppliers and employees		-19.0	-20.4
<b>Cash flow from operating activities before interest and income taxes paid</b>		<b>-5.5</b>	<b>-7.1</b>
Interest received		1.2	0.0
Interest paid		-1.2	0.0
Income taxes paid		-21.1	-28.7
<b>Cash flow from operating activities</b>		<b>-26.6</b>	<b>-35.8</b>
<b>Investing activities</b>			
Investments in property, plant and equipment		-0.0	-0.0
Sale of other financial investments		-	0.1
Acquisition of subsidiaries	22,23	-18.6	-183.5
<b>Cash flow from investing activities</b>		<b>-18.6</b>	<b>-183.4</b>
<b>Financing activities</b>			
Dividends paid		-68.1	-68.0
New share issue		-	175.5
Share warrants incoming payments		0.2	4.1
Share buybacks		-0.0	-3.5
Change in borrowings to/from subsidiaries		-16.7	11.4
Borrowings		30.4	-
Amortization of borrowings		-5.5	-
Group contributions		97.0	104.0
<b>Cash flow from financing activities</b>		<b>37.3</b>	<b>223.5</b>
<b>Cash flow for the year</b>		<b>-8.0</b>	<b>4.3</b>
Cash and cash equivalents at beginning of year		9.3	5.0
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	16	<b>1.3</b>	<b>9.3</b>

# 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 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 11, 2020.

### 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 2019***

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

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

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

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

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

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

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

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

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

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

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

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

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and right-of-use asset. These lease payments are

## CONT. NOTE 1

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.

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

As a practical expedient, IFRS 16 permits a lessee to report each lease component and relevant non-lease component as a single component rather than separating non-lease components from lease components. The Group has not chosen to apply this exemption. The I.A.R. Group used the following practical expedients permitted under IFRS 16 when applying the standard for the first time:

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

At the beginning of 2019, the lease for the company's headquarters in Uppsala had a remaining term of less than 12 months. The premises were thus not reported as a right-of-use asset in the opening balance. At the end of 2019, an agreement was reached regarding an extension, which is why the right-of-use asset for the property has been reported in the balance sheet according to IFRS 16.

## EFFECTS ON ASSETS, LIABILITIES AND EQUITY, JANUARY 1, 2019

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

**Description of adjustment A**

Ref:

- A Pertains to finance leases recognized under the item "Equipment" in the most recent annual report.
- B Restatement of leases in accordance with IFRS 16.
- C Pertains to the restatement of rent discounts previously allocated over the term of the lease.
- D Lease liability recognized under the item "Borrowings (Non-current/Current)" in the most recent annual report.

**Reconciliation, operating lease disclosure (IAS 17) and recognized lease liability (IFRS 16)****OBLIGATIONS FOR OPERATING LEASES AT DECEMBER 31, 2018, SEK m**

Obligations for operating leases at December 31, 2018	38.3
Finance lease liabilities at December 31, 2018	2.8
Short-term leases (deducted as expensed)	-7.6
Low-value leases (deducted as expensed)	-
Effects of extension options	-
Discount effect	-1.7
<b>Recognized lease liability in the opening balance on January 1, 2019</b>	<b>31.8</b>

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

Other new or amended IFRS and interpretations from the IFRIC and amendments to RFR 2 effective as of January 1, 2019 have not had any material impact on the financial statements of the Group or the Parent Company. 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.

**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, 2020 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 references to conceptual framework in IFRS	On or after January 1, 2020
Changes in IFRS 3 Business Combinations: Definition of a Business*	On or after January 1, 2020
Changes in IAS 1 and IAS 8: Definition of Material*	On or after January 1, 2020
Changes in IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform*	On or after January 1, 2020
IFRS 17 Insurance Contracts*	On or after January 1, 2020

\* 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. 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.

## CONT. NOTE 1

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 CD 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.

**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 affect 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:

## CONT. NOTE 1

- › 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. 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	9.3171 (8.9710)	9.4604 (8.6921)
France, Germany	EUR 1	10.4336 (10.2753)	10.5892 (10.2567)
UK	GBP 1	12.2145 (11.3482)	12.0658 (11.5928)
Japan	JPY 1	0.0853 (0.0812)	0.0868 (0.0787)
China	CNY 1	1.3333 (1.3068)	1.3691 (1.3135)
South Korea	KRW 1	0.0081 (0.0084)	0.0082 (0.0079)

### 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.

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

### 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 units IAR Systems and Secure Thingz.

#### 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 lives 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.

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 six to ten 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.

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**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.

The credit reserve for trade receivables, contract assets and lease receivables 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.

**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 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.

**1.13 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.

**1.14 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.

## CONT. NOTE 1

**1.15 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.

**1.16 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.

**1.17 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.

**1.18 Leases**

This item refers to IAS 17 and applies only to the comparative year. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain items of property, plant and equipment. Leases of non-current assets where the Group bears essentially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between amortization of the liability and financial expenses to produce a constant periodic rate of interest on the remaining balance of the liability. The corresponding obligation to pay future leasing charges, net of financial expenses, is included in the balance sheet items "Non-current borrowings" and "Current borrowings".

The interest portion of the financial expenses is recognized in the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Non-current assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease period.

**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.

**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.

**Amendments to accounting policies**

The amendments to RFR 2 Accounting for Legal Entities that took effect and apply for the 2019 financial year are the same as those presented for the Group with respect to IFRS 16. 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 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, 2020 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 Finance 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.

## CONT. NOTE 1

**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**

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 and three, this corresponds to management's forecasts. Cash flows beyond the three-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 and three, this corresponds to management's forecasts. Cash flows beyond the three-year period are extrapolated based on an estimated operating margin on a level with year three. The discount rates used, 6.2% (10.0) and 6.3% (10.0), 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, 6.2% (10.0) and 6.3% (10.0), are stated before tax and are deemed to reflect specific risks relating to the asset.

**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 provision for 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, 2019, the Group had accumulated loss carryforwards outside Sweden of SEK 220m, of which SEK 122m (45) are reported in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 5.3m (13.3), of which SEK 19.9m (8.5) pertains to loss carryforwards. Loss carryforwards can be attributed to the Group's operations in the UK. 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.

**d) Revenue recognition**

The company 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. 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.

## 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 pages 44–45.

#### 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, predominantly the US dollar (USD), the euro (EUR) 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.

The Group's sales in foreign currency, mainly USD, EUR and JPY, account for approximately 92% (95) of total sales. Of the cost of goods sold, which accounts for about 4% (3) of the Group's cost mass, approximately 51% (81) of purchases are denominated in foreign currency, also primarily in USD, EUR 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, USD and Secure Thingz Inc, GBP), which are continuously remeasured at the closing day rate, and which thus impacts the total assets in the accounts.

SEK m	Total	SEK	USD	EUR	JPY	Other currencies
Sales	405.6	14.8	147.9	148.0	74.0	20.9
Cost of goods sold	10.8	4.4	3.7	0.4	1.4	0.9
Other expenses	286.4	144.1	81.7	9.8	24.0	27.1

#### 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, 2019 was determined as follows:

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At December 31, 2019	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, %	0.0%	0.2%	0.2%	2%	80.0%	1.5%
Trade receivables, gross	47.8	11.3	2.9	4.4	1.1	67.6
Credit loss allowance	0.0	0.0	0.0	0.1	0.9	1.0

**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, 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	–	–	–	–
Finance leases	16.5	28.4	8.0	–
Bank overdraft facilities	24.9	–	–	–
Trade and other payables <sup>1</sup>	14.2	–	–	–

At December 31, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	–	–	–	–
Finance leases	1.6	0.8	0.4	–
Bank overdraft facilities	–	–	–	–
Trade and other payables <sup>1</sup>	25.1	–	–	–

<sup>1</sup> 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. Since the Group does not recognize any value changes in other comprehensive income, the corresponding effect occurs under equity.

Sensitivity analysis At December 31, 2019	Change	Effect on profit
Cost of goods sold	+/- 5%	-/+ SEK 0.5m
Payroll expenses	+/- 5%	-/+ SEK 9.3m
Currency – EUR	+/- 5%	+/- SEK 5.3m
Currency – USD	+/- 5%	+/- SEK 2.8m
Currency – JPY	+/- 5%	+/- SEK 2.4m
Variable interest	+/- 1 percentage point	+/- SEK 0.2m

Sensitivity analysis At December 31, 2018	Change	Effect on profit
Cost of goods sold	+/- 5%	-/+ SEK 0.4m
Payroll expenses	+/- 5%	-/+ SEK 6.9m
Currency – EUR	+/- 5%	+/- SEK 4.5m
Currency – USD	+/- 5%	+/- SEK 3.0m
Currency – JPY	+/- 5%	+/- SEK 1.6m
Variable interest	+/- 1 percentage point	+/- SEK 0.0m

**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.

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, 2019 and 2018 was as follows:

	2019	2018
Total borrowings (Note 17)	79.1	2.8
Less cash and cash equivalents (Note 17)	-60.7	-106.1
Net debt	18.4	-103.3
Total equity	592.0	548.5
Total capital	610.4	445.2
Net debt/equity ratio	3%	-23%

## 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

SEK m	Net sales		Non-current assets		Investments	
	2019	2018	2019	2018	2019	2018
<b>Americas</b>						
USA	122.2	119.0	23.2	2.3	19.9	1.1
Other countries	12.7	10.2	-	-	-	-
	<b>134.9</b>	<b>129.2</b>	<b>23.2</b>	<b>2.3</b>	<b>19.9</b>	<b>1.1</b>
<b>Asia</b>						
Japan	71.8	64.1	1.5	0.1	0.0	0.1
Other countries	56.6	51.1	4.4	0.1	3.4	0.1
	<b>128.5</b>	<b>115.2</b>	<b>5.9</b>	<b>0.2</b>	<b>3.4</b>	<b>0.2</b>
<b>EMEA</b>						
UK	15.6	13.4	353.9	285.2	46.6	285.2
Germany	47.9	53.4	4.3	0.0	4.4	0.0
Other countries	63.2	58.8	0.0	0.0	0.0	0.0
	<b>126.7</b>	<b>125.6</b>	<b>358.3</b>	<b>285.3</b>	<b>51.0</b>	<b>285.2</b>
<b>Nordic region</b>						
Sweden	6.0	6.6	243.9	205.2	49.3	15.3
Other countries	9.2	8.6	0	-	-	-
	<b>15.2</b>	<b>15.2</b>	<b>243.9</b>	<b>205.2</b>	<b>49.3</b>	<b>15.3</b>
<b>Total</b>	<b>405.6</b>	<b>385.2</b>	<b>631.2</b>	<b>493.0</b>	<b>123.6</b>	<b>301.9</b>

No single customer accounted for 10% or more of the Group's net sales in 2019 and 2018. The geographical areas in the table above pertaining to net sales reflect the geographical region to which the customer belongs.

## Note 4. Revenue from Contracts with Customers and contract balance

Net sales are distributed as follows:

SEK m	2019	2018
Development tools	403.9	380.2
Security products	1.7	5.0
<b>Net sales</b>	<b>405.6</b>	<b>385.2</b>
<b>DEVELOPMENT TOOLS, SEK m</b>	<b>2019</b>	<b>2018</b>
License-based revenue	236.0	242.9
Support and software updates	146.3	119.4
Royalty-based revenue	5.9	5.5
Other	15.7	12.4
<b>Net sales</b>	<b>403.9</b>	<b>380.2</b>
At a certain point in time	251.7	255.3
Over time	152.2	124.9
<b>Net sales</b>	<b>403.9</b>	<b>380.2</b>
Americas	139.5	126.2
Asia	111.3	94.2
Europe	144.5	151.6
Not allocated by region	8.6	8.2
<b>Net sales</b>	<b>403.9</b>	<b>380.2</b>
<b>SECURITY PRODUCTS, SEK m</b>	<b>2019</b>	<b>2018</b>
License-based revenue	0.3	-
Support and software updates	-	-
Royalty-based revenue	-	-
Other	1.4	5.0
<b>Net sales</b>	<b>1.7</b>	<b>5.0</b>
At a certain point in time	1.7	5.0
Over time	-	-
<b>Net sales</b>	<b>1.7</b>	<b>5.0</b>
Americas	1.7	5.0
Asia	-	-
Europe	-	-
Not allocated by region	-	-
<b>Net sales</b>	<b>1.7</b>	<b>5.0</b>

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

## CONT. NOTE 4

Contract balances are recognized as follows:

SEK m	Group		
	Dec 31, 2019	Dec 31, 2018	Jan 1, 2018
<b>Contract assets</b>			
Licenses	24.7	21.7	1.8
<b>Contract liabilities</b>			
Technical support and software updates	85.2	79.0	64.5

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.

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 79.0m (64.5) 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.

SEK m	Group			
	2020	2021	2022–2024	Total
Technical support and software updates	82.1	1.6	1.5	85.2

SEK m	Group			
	2019	2020	2021–2023	Total
Technical support and software updates	75.1	2.6	1.4	79.0

## Note 5. Other external expenses

### FEES TO AUDITORS

SEK m	Group		Parent Company	
	2019	2018	2019	2018
<b>Deloitte</b>				
Audit of the financial statements	0.7	0.7	–	0.0
Audit-related services other than the audit of the financial statements	–	–	–	–
Tax consultancy	0.3	0.2	–	–
Other services	0.2	–	0.2	–
<b>Total Deloitte</b>	<b>1.2</b>	<b>0.9</b>	<b>0.2</b>	<b>0.0</b>
<b>Other</b>				
Audit of the financial statements	0.2	–	–	0.0
Tax consultancy	0.1	–	–	0.0
Other services	0.0	–	–	–
<b>Total fees to auditors</b>	<b>1.5</b>	<b>0.9</b>	<b>0.2</b>	<b>0.0</b>

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 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 2019 was 201 (171). The breakdown of the average number of employees by country and, in Sweden, by location, is shown in the table below. 50% (55%) are employed in Sweden (calculated on the average number of employees during the year).

#### AVERAGE NUMBER OF EMPLOYEES

	2019		2018	
	No. of employees	Of whom, men	No. of employees	Of whom, men
<b>Parent Company</b>				
Stockholm	4	75%	4	75%
<b>Subsidiaries in Sweden</b>				
Uppsala	96	79%	90	80%
<b>Subsidiaries outside Sweden</b>				
Germany	4	75%	3	67%
France	2	50%	2	50%
UK	36	89%	23	85%
USA	37	65%	27	55%
South Korea	4	75%	5	80%
China	3	67%	2	50%
Japan	15	67%	15	73%
<b>Total subsidiaries</b>	<b>197</b>	<b>77%</b>	<b>167</b>	<b>75%</b>
<b>Total Group</b>	<b>201</b>	<b>77%</b>	<b>171</b>	<b>75%</b>

#### GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES IN THE GROUP

	2019		2018	
	No. of employees	Of whom, men	No. of employees	Of whom, men
<b>Group (incl. subsidiaries)</b>				
Board members	5	80%	5	40%
CEO and other senior executives	5	100%	3	100%
Presidents of subsidiaries	1	100%	1	100%
<b>Parent Company</b>				
Board members	5	80%	5	40%
CEO and other senior executives	2	100%	2	100%

### Salaries, other remuneration and social security expenses

The Group's total payroll costs amounted to SEK 215.0m (189.8), of which social security expenses accounted for SEK 27.0m (33.4) and pensions for SEK 14.1m (13.0). Of the Group's total payroll costs, SEK 67.3m (38.1) has been spent on assets and has been capitalized as internally generated development costs.

SEK m	2019		2018	
	Salaries and other remuneration	Social security expenses (of which pension costs)	Salaries and other remuneration	Social security expenses (of which pension costs)
Parent Company	8.2	3.6 (1.0)	12.6	4.5 (1.0)
Subsidiaries	165.7	37.5 (13.1)	130.8	41.9 (12.0)
<b>Total Group</b>	<b>173.9</b>	<b>41.1 (14.1)</b>	<b>143.4</b>	<b>46.4 (13.0)</b>

Of the Group's total pension costs, SEK 0.3m (0.3) is attributable to Board members and presidents. Of the Parent Company's total pension costs, SEK 0.3m (0.3) is attributable to Board members and the CEO.

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

SEK m	2019		2018	
	Board, CEO and other senior executives	Other employees	Board, CEO and other senior executives	Other employees
Parent Company	7.8	1.4	11.3	1.3
Subsidiaries in Sweden	3.0	70.5	1.9	58.7
Subsidiaries outside Sweden	2.5	88.7	2.4	67.8
<b>Total Group</b>	<b>14.4</b>	<b>160.6</b>	<b>15.6</b>	<b>127.8</b>

### 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 2019, this rule applied to Stefan Skarin until the AGM in April 2019. The group Other senior executives refers to the CFO, the COO, the CEO of Secure Thingz and the Chief Strategy Officer.

#### Board of Directors

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

Board Chairman	SEK 400,000
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.

## CONT. NOTE 6

For 2019, 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 salary for 2019 was based on the Group's sales and operating profit. The bonus amount for 2019 was equal to 0% (49) of basic salary. For the other senior executives, the bonus for 2019 was based on the Group's sales and operating profit. The bonus amount for other senior executives in 2019 was equal to 0% (44) of basic salary.

### Pension agreements

The CEO and CFO are covered by pension insurance corresponding to the ITP plan, but with a contractual retirement age of 60 years. 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 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. If employment is terminated by the CEO or CFO, the notice

period is six months. All senior executives are entitled to salary and other contractual benefits during the notice period.

### Incentive programs

In accordance with the decision of the AGM on April 24, 2019, an additional long-term incentive program for I.A.R. Systems Group employees has been introduced, which was also offered to the CEO and other senior executives.

### CHANGES IN THE NUMBER OF OUTSTANDING WARRANTS

SEK m	LTIP 2019		LTIP 2018		Exchange program	
	2019	2018	2019	2018	2019	2018
At beginning of year	-	-	447,500	-	60,348	-
Allotted	418,000	-	-	497,500	-	73,413
Exercised	-	-	-	-	-8,762	-13,068
Forfeited/past due	-147,800	-	-153,300	-50,000	-11,599	-
At end of year	270,200	-	294,200	447,500	39,987	60,348

### 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.

### REMUNERATION AND OTHER BENEFITS DURING THE YEAR

Remuneration to the Board of Directors, CEO and other senior executives in 2019

SEK m	Fixed salary/ Board fees		Variable salary		Other benefits		Pension expenses		Share-based remuneration		Other remuneration		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Board Chairman Maria Wasing	0.4	0.3	-	-	-	-	-	-	-	-	-	-	0.4	0.3
Board member Kent Sander	0.2	0.2	-	-	-	-	-	-	-	-	-	-	0.2	0.2
Board member Fred Wikström	0.1	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Board member Michael Ingelög	0.1	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Board member Richard Lind	0.1	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Board member Lisa Kaati	0.1	0.2	-	-	-	-	-	-	-	-	-	-	0.1	0.2
Board member Helena Nordman-Knutson	0.1	0.1	-	-	-	-	-	-	-	-	-	-	0.1	0.1
CEO Stefan Skarin	3.2	3.2	0	1.6	0.2	0.2	0.3	0.3	0.1	0.1	-	-	3.8	5.5
Other senior executives, 4 (2)	6.7	3.3	0	1.4	0.2	0.2	1.2	0.7	0.1	0.1	-	-	8.2	5.7
<b>Total</b>	<b>11.0</b>	<b>8.5</b>	<b>0</b>	<b>3.0</b>	<b>0.4</b>	<b>0.4</b>	<b>1.5</b>	<b>1.0</b>	<b>0.2</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	<b>13.1</b>	<b>12.0</b>

## CONT. NOTE 6

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. The participants acquired a total of 63,000 share warrants.

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

LTIP 2019 is recognized in accordance with IFRS 2 Share-based Payment, which means that the cost of the warrant program is recognized on a straight-line basis during the vesting period. The total cost of the warrant program is estimated at SEK 6.1m, of which SEK 0.6m has been charged to profit for the period.

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

**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. The participants acquired a total of 243,500 share warrants.

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 allotted to the participants, of which 50,000 have been forfeited because the employees terminated their employment after the allotment.

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 10.8m, of which SEK 0.8m 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 warrants can be exercised on an ongoing basis until 2027 at the latest. A total of 8,762 [13,068] stock options were exercised in 2019.

## Note 7. Financial income and expenses

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Interest income	0.0	0.0	1.2	0.0
Exchange differences	1.2	-	1.4	-
Divestment of shares in NorNor Holding AB	-	0.1	-	0.1
<b>Total financial income</b>	<b>1.2</b>	<b>0.1</b>	<b>2.5</b>	<b>0.1</b>
Interest expenses	-2.6	-1.5	-1.7	-1.5
Exchange differences	-	-0.2	-	-1.7
Finance leases	-	-0.2	-	-
<b>Total financial expenses</b>	<b>-2.6</b>	<b>-1.9</b>	<b>-1.7</b>	<b>-3.2</b>
<b>Net financial items</b>	<b>-1.4</b>	<b>-1.8</b>	<b>0.8</b>	<b>-3.1</b>

## Note 8. Tax

The following components are included in the tax expense.

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Current tax on profit for the year	-24.6	-18.7	-20.1	-20.1
Deferred tax	-1.2	-7.5	-	-
<b>Total tax on profit for the year</b>	<b>-25.8</b>	<b>-26.2</b>	<b>-20.1</b>	<b>-20.1</b>

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

SEK m	Group		Parent Company	
	2019	2018	2019	2018
<b>The year's deferred tax expense/income</b>				
intangible assets	-13.9	-6.8	-	-
change in loss carryforwards	14.3	2.3	-	-
support and upgrade agreements	-0.5	0.0	-	-
untaxed reserves	0.4	-0.1	-	-
other temporary differences	-1.5	-2.9	-	-
<b>Total deferred tax in the income statement</b>	<b>-1.2</b>	<b>-7.5</b>	<b>-</b>	<b>-</b>

SEK m	Group		Parent Company	
	2019	2018	2019	2018
<b>Reconciliation between effective tax and tax based on the applicable tax rate</b>				
Reported profit before tax	107.0	113.8	93.7	91.2
Tax according to the applicable tax rate	-22.9	-26.1	-20.1	-20.1
Difference in foreign tax rates	-2.0	-	-	-
Tax effect of future tax rates	-0.7	-	-	-
Tax effect of non-deductible expenses	-0.2	-0.1	-0.0	-0.0
Tax effect of non-taxable income	0.0	0.0	0.0	0.0
<b>Total</b>	<b>-25.8</b>	<b>-26.2</b>	<b>-20.1</b>	<b>-20.1</b>
Prior year adjustments of current tax recognized in the current year	-	-	-	-
<b>Tax on profit for the year according to the income statement</b>	<b>-25.8</b>	<b>-26.2</b>	<b>-20.1</b>	<b>-20.1</b>

### 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 21.4%. A remeasurement has also been carried out to reflect the planned tax rate reductions in each country. The UK has decided to lower its income tax to 17% as of April 1, 2020, and Sweden has decided to lower its tax rate to 20.6% for companies for financial years starting on or after January 1, 2021.

### 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.

## CONT. NOTE 8

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Deferred tax liabilities attributable to intangible assets	-40.3	-24.8	-	-
Deferred tax liabilities attributable to untaxed reserves	-0.7	-1.1	-	-
Deferred tax liabilities attributable to other temporary differences	-4.3	-3.7	-	-
Amounts offset against deferred tax assets under offset rules	18.8	-	-	-
<b>Total deferred tax liabilities</b>	<b>-26.5</b>	<b>-29.6</b>	<b>-</b>	<b>-</b>
Deferred tax assets attributable to loss carryforwards	19.9	8.5	-	-
Deferred tax assets attributable to support and upgrade agreements	1.8	1.7	-	-
Deferred tax assets attributable to other temporary differences	4.8	3.1	-	1.5
Amounts offset against deferred tax liabilities under offset rules	-18.8	-	-	-
<b>Total deferred tax assets</b>	<b>5.3</b>	<b>13.3</b>	<b>-</b>	<b>1.5</b>
<b>Total deferred tax assets, net</b>	<b>-21.2</b>	<b>-16.3</b>	<b>-</b>	<b>1.5</b>

As of December 31, 2019, the Group had accumulated loss carryforwards outside Sweden of SEK 220m, of which SEK 122m (45) are reported in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 5.3m (13.3), of which SEK 19.9m (8.5) pertains to loss carryforwards. Amounts offset in the table above comprise items that are recognized in a net amount since they are connected to the same tax subject.

## Note 9. Earnings per share

	Group	
	2019	2018
Profit, SEK m	81.2	87.6
Basic earnings per share, SEK	5.96	6.67
Earnings per share, diluted, SEK	5.95	6.65
<b>No. of shares</b>		
Average number of shares before dilution, million	13.63	13.13
Average no. of shares, diluted, million	13.66	13.13

**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

GROUP, SEK m	Goodwill		Trademarks		Technology		Software		Internally generated software development costs		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Opening cost	339.3	113.5	11.7	11.7	35.3	-	27.1	27.5	165.0	113.6	578.4	266.3
Investments	-	233.6	-	-	-	36.7	2.1	1.4	81.9	45.5	84.0	317.2
Translation differences	17.9	-7.8	-	-	2.9	-1.4	0.1	0.1	4.9	5.9	25.8	-3.2
Sales and disposals	-	-	-	-	-	-	-	-1.9	-	-	-	-1.9
<b>Closing accumulated cost</b>	<b>357.2</b>	<b>339.3</b>	<b>11.7</b>	<b>11.7</b>	<b>38.2</b>	<b>35.3</b>	<b>29.3</b>	<b>27.1</b>	<b>251.8</b>	<b>165.0</b>	<b>688.2</b>	<b>578.4</b>
Opening amortization	-	-	-10.7	-9.9	-1.8	-	-17.1	-15.1	-64.7	-46.9	-94.3	-71.9
Sales and disposals	-	-	-	-	-	-	-	1.9	-	-	-	1.9
Translation differences	-	-	-	-	-0.2	-	-	0.0	-1.5	-2.4	-1.7	-2.4
Amortization for the year	-	-	-0.8	-0.8	-2.9	-1.8	-4.1	-3.9	-16.7	-15.4	-24.5	-21.9
<b>Closing accumulated depreciation</b>	<b>-</b>	<b>-</b>	<b>-11.5</b>	<b>-10.7</b>	<b>-4.9</b>	<b>-1.8</b>	<b>-21.2</b>	<b>-17.1</b>	<b>-82.9</b>	<b>-64.7</b>	<b>-120.5</b>	<b>-94.3</b>
Opening impairment	-	-	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-	-
<b>Closing accumulated impairment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Carrying amount</b>	<b>357.2</b>	<b>339.3</b>	<b>0.2</b>	<b>1.0</b>	<b>33.3</b>	<b>33.5</b>	<b>8.1</b>	<b>10.0</b>	<b>168.9</b>	<b>100.3</b>	<b>567.7</b>	<b>484.1</b>

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 84.0m [317.2], SEK 2.1m [1.4] pertains to software and SEK 81.9m [45.5] pertains to internally generated software development costs. Of the internally generated costs, SEK 67.3m [38.1] 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 two cash-generating units: IAR Systems and Secure Thingz. 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 both IAR Systems and Secure Thingz, 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 and three, this corresponds to management's forecasts. Cash flows beyond the three-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 and three, this corresponds to management's forecasts. Cash flows beyond the three-year period are extrapolated based on an estimated operating margin on a level with year three.

The discount rates used, 6.2% (10.0) for IAR Systems and 6.3% (10.0) for Secure Thingz, 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	6.2–6.3% (10.0%)
Years 2–3 (forecast period)	Acc. to management's estimated forecast	Acc. to management's estimated forecast	6.2–6.3% (10.0%)
Terminal value	2% (2%)	On par with year 3	6.2–6.3% (10.0%)

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. The weighted capital structure was updated due in part to an updated assessment of the market valuation of the capital structure, which primarily relates to Secure Thingz where investments are partly financed through borrowing, and in part to IFRS 16 accounting, which entails increased assets in right-of-use assets and increased interest-bearing liabilities attributable to financing through lease liabilities. The company's Beta value and also the risk-free rate have also reduced.

**Sensitivity analysis**

For the cash-generating unit IAR Systems, an adverse change in each of the key assumptions included in the business plan, a decrease in annual sales growth and operating margins beyond the forecast period or an increase in the discount rate, each of which is reasonably possible, shows that there is nonetheless a good margin between the recoverable amount and carrying amount. Management has therefore made the assessment that there was no impairment requirement for goodwill at the end of 2019 or for the other internally generated software development costs connected to the cash-generating unit. The discount rate used, 6.2%, is stated before tax and is deemed to reflect specific risks relating to the asset.

The recoverable amount for the cash-generating unit Secure Thingz was relatively close to the carrying amount. Accordingly, an adverse change in each of the key assumptions included in the business plan, a decrease in annual sales growth and operating margins beyond the forecast period or an increase in the discount rate could lead to the recoverable amount being lower than the carrying amount of assets in the cash-generating unit, making it sensitive to reasonable changes in assumptions.

If the annual sales growth after year three used to calculate the recoverable amount of Secure Thingz had been 5% lower than management's assessment at December 31, 2019, which would also have affected the terminal value, the recoverable amount would fall below the carrying amount by approximately SEK 111m, resulting in an impairment requirement in an equivalent amount. Management deemed a 5% change in sales growth to be possible and reasonable since the security products that are sold in the cash-generating unit comprise new patented technology in a relatively new market for the Group where management has identified uncertainties regarding the timing of the products' reception. The possible change in management's assessment of sales growth is restated after year three since years one through three represent the establishment phase and sales are forecast to stabilize after year three.

If the discount rate used to calculate the recoverable amount of the cash-generating unit Secure Thingz had been 0.5% higher than management's assessment at December 31, 2019 (6.8% instead of 6.3%), the recoverable amount would fall below the carrying amount by SEK 24m, resulting in an impairment requirement in an equivalent amount.

The recoverable amount for this cash-generating unit would be equal to the carrying amount if the key assumptions were to change according to the following.

Assumption	From	To
Discount rate before tax (%)	6.3%	6.5%
Long-term growth rate (%)	2%	0%

## Note 11. Property, plant and equipment

GROUP, SEK m	Right-of-use assets		Leasehold improvements		Equipment		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Opening cost	30.5	-	1.9	0.6	23.0	23.5	55.4	24.1
Investments	36.1	-	0.8	1.3	2.7	3.5	39.6	4.8
Investments through finance leases	-	-	-	-	-	0.4	-	0.4
Translation differences	1.6	-	0.2	-	0.9	0.4	2.7	0.4
Sales and disposals	-1.2	-	-	-	-1.7	-2.0	-2.9	-2.0
<b>Closing accumulated cost</b>	<b>67.0</b>	<b>-</b>	<b>3.0</b>	<b>1.9</b>	<b>24.8</b>	<b>25.8</b>	<b>94.8</b>	<b>27.7</b>
Opening amortization	-0.9	-	-0.6	-0.5	-17.3	-17.4	-18.8	-17.9
Sales and disposals	-	-	-	-	1.6	2.0	1.6	2.0
Translation differences	-	-	-0.2	-	-0.2	-0.3	-0.4	-0.3
Depreciation of leases for the year	-9.8	-	-	-	-	-0.4	-9.8	-0.4
Amortization for the year	-	-	-0.4	-0.1	-2.1	-2.1	-2.5	-2.2
<b>Closing accumulated depreciation</b>	<b>-10.7</b>	<b>-</b>	<b>-1.2</b>	<b>-0.6</b>	<b>-18.0</b>	<b>-18.2</b>	<b>-29.0</b>	<b>-18.8</b>
<b>Carrying amount</b>	<b>56.3</b>	<b>-</b>	<b>1.8</b>	<b>1.3</b>	<b>6.8</b>	<b>7.6</b>	<b>64.9</b>	<b>8.9</b>
<b>PARENT COMPANY, SEK m</b>			<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Opening cost			-	-	0.6	0.6	0.6	0.6
Investments			-	-	0.0	-	0.0	-
Sales and disposals			-	-	-	-	-	-
<b>Closing accumulated cost</b>			<b>-</b>	<b>-</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>
Opening amortization			-	-	-0.5	-0.5	-0.5	-0.5
Sales and disposals			-	-	-	-	-	-
Amortization for the year			-	-	-0.0	-0.0	-0.0	-0.0
<b>Closing accumulated depreciation</b>			<b>-</b>	<b>-</b>	<b>-0.5</b>	<b>-0.5</b>	<b>-0.5</b>	<b>-0.5</b>
<b>Carrying amount</b>			<b>-</b>	<b>-</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

## 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. Previous disclosures are presented below, along with additional disclosures to illustrate the change, since the comparative year has not been adapted to IFRS 16 (see Note 11).

**Leases (previously “Operating leases”)**

During the year, lease payments under operating leases in the Group amounted to SEK 0.0m (16.7). 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:

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Due for payment within 1 year	-	16.0	0.3	0.3
Due for payment within 2 years	-	7.4	0.3	0.3
Due for payment within 3 years	-	5.3	0.3	0.2
Due for payment within 4 years	-	4.4	-	-
Due for payment in 5 years or later	-	6.5	-	-

**Leases (previously “Finance leases”)**

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, 2019, 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, 2019 was SEK 67.0m (3.7).

Accumulated depreciation at year-end amounted to SEK 10.7m (0.9). 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	2019	2018
Current portion (due within 1 year)	13.1	1.6
Non-current portion (due within 5 years)	41.1	1.2
Non-current portion (due later than 5 years)	-	-
<b>Total</b>	<b>54.2</b>	<b>2.8</b>

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

GROUP, SEK m	2019
Depreciation of right-of-use assets	-9.8
Interest expenses for lease liabilities	-0.7
Expenses attributable to short-term leases and low-value leases	-7.1
<b>Total</b>	<b>-17.6</b>

**Note 12. Other non-current receivables**

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Deposits	2.0	1.3	0.1	0.1
Other	0.4	0.5	-	-
	<b>2.4</b>	<b>1.8</b>	<b>0.1</b>	<b>0.1</b>

**Note 13. Trade and other receivables**

SEK m	Group	
	2019	2018
Trade receivables	67.6	63.9
Reserve for expected credit losses	-1.0	-0.7
Trade receivables, net	66.6	63.2
Prepaid expenses and accrued income	47.5	36.1
Other receivables	4.6	2.1
	<b>118.7</b>	<b>101.4</b>

## CONT. NOTE 13

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:

AGE ANALYSIS OF PAST DUE TRADE RECEIVABLES	Group	
	2019	2018
SEK m		
Less than 3 months	17.2	13.6
3–6 months	1.4	0.9
More than 6 months	1.1	0.4
	<b>19.7</b>	<b>14.9</b>

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

Currency	Group	
	2019	2018
SEK	16.9	13.7
EUR	35.1	37.3
USD	44.4	32.8
Other currencies	22.3	17.6
	<b>118.7</b>	<b>101.4</b>

## CHANGES IN PROVISIONS FOR DOUBTFUL DEBTS

SEK m	Group	
	2019	2018
Provisions at January 1	0.7	0.5
The year's provisions for doubtful debts	1.1	0.5
Receivables written off during the year as uncollectable	-0.7	-0.1
Reversed unutilized amount	-0.1	-0.2
<b>Provisions at December 31</b>	<b>1.0</b>	<b>0.7</b>

**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, 2019.

## Note 14. Other current receivables

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Rent guarantees	0.0	0.1	-	-
Other	4.6	2.0	0.2	0.0
<b>Total other current receivables</b>	<b>4.6</b>	<b>2.1</b>	<b>0.2</b>	<b>0.0</b>

## Note 15. Prepaid expenses and accrued income

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Accrued income	31.9	21.6	-	-
Prepaid rents	2.2	1.8	0.1	0.1
Prepaid insurance premiums	1.5	1.3	0.1	0.1
Other prepaid expenses	11.9	11.1	1.4	2.0
<b>Total prepaid expenses and accrued income</b>	<b>47.5</b>	<b>36.1</b>	<b>1.6</b>	<b>2.2</b>

## Note 16. Cash and cash equivalents

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Cash in hand and bank deposits	60.7	106.1	1.3	9.3
<b>Cash and cash equivalents at end of year</b>	<b>60.7</b>	<b>106.1</b>	<b>1.3</b>	<b>9.3</b>
Unutilized committed credit facilities	200.1	225.0	200.1	200.0
<b>Total available cash and cash equivalents</b>	<b>260.8</b>	<b>331.1</b>	<b>201.4</b>	<b>209.3</b>

## Note 17. Financial instruments

SEK m, December 31, 2019	2019	2018
<b>Financial assets measured at amortized cost</b>		
Other non-current receivables	2.4	1.8
Trade receivables	66.6	63.2
Other financial assets measured at amortized cost	69.6	38.1
Cash and cash equivalents	60.7	106.1
<b>Financial assets measured at fair value through profit or loss</b>		
Derivative instruments	-	-
<b>Financial assets measured at fair value through other comprehensive income</b>		
Other non-current securities	-	-
<b>Total</b>	<b>199.3</b>	<b>209.2</b>
<b>Financial liabilities measured at amortized cost</b>		
Lease liabilities	54.2	2.8
Liabilities to credit institutions	24.9	-
Trade payables	9.2	7.3
Other liabilities excluding non-financial liabilities	14.2	17.8
<b>Total</b>	<b>102.5</b>	<b>27.9</b>

### 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	2019	2018
Cash in hand and bank deposits	60.7	106.1
<b>Cash and cash equivalents</b>	<b>60.7</b>	<b>106.1</b>

### Net debt

The Group's net debt at December 31, 2019 amounted to SEK -18.4m (103.3). The table below shows how the Group calculates net debt and what it includes.

	Group	
SEK m	2019	2018
Current borrowings	24.9	-
Current portion of non-current borrowings	-	-
Current portion of finance lease liabilities	13.1	1.6
<b>Total current borrowings</b>	<b>38.0</b>	<b>1.6</b>
Non-current borrowings	-	-
Non-current portion of finance lease liabilities	41.1	1.2
<b>Total non-current borrowings</b>	<b>41.1</b>	<b>1.2</b>
<b>Total borrowings</b>	<b>79.1</b>	<b>2.8</b>
Cash and cash equivalents	60.7	106.1
<b>Net debt</b>	<b>-18.4</b>	<b>103.3</b>
<b>Bank overdraft facility</b>	<b>200.1</b>	<b>225.0</b>

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, 2019 amounted to SEK 79.1m (2.8), of which SEK 41.1m (1.2) pertains to non-current borrowings excluding those maturing in the next 12 months. Non-current borrowings maturing within 12 months amount to SEK 38.0m (1.6). The table below shows the carrying amounts of the Group's interest-bearing liabilities.

BORROWINGS			Group	
Type of loan	Interest rate	Currency	2019	2018
<b>Other non-current liabilities</b>				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	41.1	1.2
<b>Current portion of non-current liabilities</b>				
Non-current bank loans in Sweden	Variable	SEK	-	-
Finance lease liabilities	Variable	SEK	13.1	1.6
Bank overdraft facilities	Variable	SEK	24.9	-
			<b>79.1</b>	<b>2.8</b>

### 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 2019.

CONT. NOTE 17.

Group and Parent Company SEK m	Total	Shares	Derivative instruments
Financial instruments measured at fair value at end of year	0.0	0.0	0.0
Acquisitions during the year	-	-	-
Reclassification during the year	-	-	-
Unrealized change in value, recognized in other comprehensive income	-	-	-
<b>Financial instruments measured at fair value at end of year</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**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, 2018	100,000	12,532,061	-	12,632,061
New share issue March 2018		812,000		812,000
Non-cash issue April 2018		164,584		164,584
New share issue November 2018			359,688	359,688
Conversion of class C shares to Class B shares December 2018		13,068	-13,068	0
<b>Total number of shares at December 31, 2018</b>	<b>100,000</b>	<b>13,521,713</b>	<b>346,620</b>	<b>13,968,333</b>
Number at January 1, 2018	100,000	13,521,713	346,620	13,968,333
Conversion of class C shares to Class B shares December 2019		8,762	-8,762	0
<b>Total number of shares at December 31, 2019</b>	<b>100,000</b>	<b>13,530,475</b>	<b>337,858</b>	<b>13,968,333</b>

Share capital is divided between 13,968,333 shares, of which 100,000 are class A shares, 13,530,475 are class B shares, and 337,858 are class C shares. All shares have a quota value of SEK 10. Class A and B shares grant equal rights to the company's assets and profits. Class C shares do not grant entitlement to dividends. Class A shares grant entitlement to ten votes and class B and C shares 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	254,491,435.64
Retained earnings	44,242,942.39
Comprehensive income for the year	73,644,992.20
<b>Total, SEK</b>	<b>372,379,370.23</b>

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

Dividend of SEK 3.00 per share	40,891,425.00
To be carried forward to new account	331,487,945.23
<b>Total, SEK</b>	<b>372,379,370.23</b>

## Note 20. Accrued expenses

SEK m	Group		Parent Company	
	2019	2018	2019	2018
Accrued salaries and social security expenses	16.2	17.2	3.1	5.4
Other items	1.5	5.9	0.1	3.4
<b>Total accrued expenses and deferred income</b>	<b>17.7</b>	<b>23.1</b>	<b>3.2</b>	<b>8.8</b>

## Note 21. Pledged assets

SEK m	Group		Parent Company	
	2019	2018	2019	2018
<b>To secure own liabilities</b>				
To secure pensions and similar obligations:				
Direct pension obligations	1.8	1.8	1.4	1.4
To secure liabilities to credit institutions:				
Machinery held under - finance leases	3.7	2.8	-	-
<b>Total assets pledged to secure own liabilities</b>	<b>5.5</b>	<b>4.6</b>	<b>1.4</b>	<b>1.4</b>
<b>To secure other commitments</b>				
Guarantees	-	-	-	-
<b>Total pledged assets</b>	<b>5.5</b>	<b>4.6</b>	<b>1.4</b>	<b>1.4</b>

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	
	2019	2018
Opening cost	476.2	189.4
Acquisitions	0.1	281.9
Shareholder contributions (vesting warrants)	3.8	4.9
<b>Closing accumulated cost</b>	<b>480.1</b>	<b>476.2</b>
Opening impairment	-	-
<b>Closing accumulated impairment</b>	<b>-</b>	<b>-</b>
<b>Closing carrying amount</b>	<b>480.1</b>	<b>476.2</b>

### 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, 2019	Dec 31, 2018
Product development offices	Europe	2	2
Product development offices	Americas	1	1
Sales office	Europe	2	2
Sales office	Americas	1	1
Sales office	Asia	4	3

### PARENT COMPANY HOLDINGS

SEK m	Corp. ID no.	Domicile	% of capital	% of votes	No. of shares	Carrying amount 2019	Carrying amount 2018
<b>Direct holdings:</b>							
I.A.R. Systems AB	556230-7107	Uppsala, Sweden	100.0%	100.0%	22,846,224	163.6	162.7
Signum Systems Corp	1473886	Camarillo, USA	100.0%	100.0%	100,000	27.2	27.1
Secure Thingz Inc	813002824	Foster City, USA	100.0%	100.0%	8,640,112	289.3	286.4
YinvestMIR AB	559154-7699	Uppsala, Sweden	100.0%	100.0%	50,000	50	-
<b>Indirect holdings through subsidiaries:</b>							
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 Technology Consulting (SH) Co. Ltd	660701822	Shanghai, China	100.0%	100.0%	-	-	-
IAR Systems Korea Co	110111-4699679	Seoul, South Korea	100.0%	100.0%	-	-	-
IAR Systems France Sarl	539 357 327 R.C.S. Paris	Paris, 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%	-	-	-
<b>Closing carrying amount</b>						<b>480.1</b>	<b>476.2</b>

## Note 23. Business combinations

### Acquisition of Secure Thingz

On April 11, 2018, IAR Systems concluded the acquisition of Secure Thingz. At the beginning of the 2018 financial year, IAR Systems owned approximately 10% of the shares in Secure Thingz. IAR Systems acquired an additional 10% in the first quarter of 2018 and the remaining 80% on April 11, 2018.

The total cost of acquisition and fair values have been determined provisionally, as they are based on preliminary appraisals and subject to confirmation of certain facts. Thus, the purchase price accounting is subject to adjustment.

#### COST, SEK m

Cash and cash equivalents 80% (acquired April 11, 2018)	171.3
Cash and cash equivalents 20% (acquired Q2 2017 and Q1 2018)	38.4
Non-cash issue 164,584 class B shares	39.7
Amount withheld according to contract	16.5
Share-based purchase consideration	6.9
Revaluation of previously acquired participation	17.5
<b>Total cost of acquisition</b>	<b>290.3</b>

The fair value of the 164,584 class B shares issued in the non-cash issue as part of the purchase consideration for Secure Thingz amounts to SEK 39.7m, which is based on the quoted share price on April 11, 2018 of SEK 241 per share. The new shares were subscribed for by shareholders of Secure Thingz and issued against a contribution in kind, in the form of shares in Secure Thingz Inc. The acquisition of Secure Thingz was a gradual process. 10% of the company was acquired in the second quarter of 2017, another 10% was acquired in the first quarter of 2018 and the remaining 80% in April 2018. In the interim report for January-March 2018, the value of the holding was stated as about 20% of the fair value of the shares in Secure Thingz, whereby the fair value corresponds to the measurement of the acquisition of 80% as of April 11, 2018. This entailed a change in the value of the holding of SEK 17.5m. The amount withheld according to the contract referred to the share of the purchase consideration that is to be paid 12 months after the acquisition, which took place in April 2019. This amount was not subject to performance conditions on the part of the seller. Share-based purchase consideration refers 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, 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 warrant program will continue until October 2022.

Share-based purchase consideration is recognized as part of the purchase consideration for warrants considered vested before the acquisition date. The share of the warrants pertaining to vesting after the acquisition date is recognized as remuneration of personnel

in pace with vesting of the warrants, 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. The calculated economic value of the warrant program eligible for exchange is SEK 17.2m. The value allocated to the period prior to the acquisition, and which is thereby included in the purchase consideration, amounts to SEK 6.9m. The remainder of the calculated value of SEK 10.3m is allocated to the period after the acquisition and is recognized as above.

The assets and liabilities recognized due to the acquisition were as follows:

SEK m	Fair value
Cash and cash equivalents	21.1
Trade receivables	0.3
Equipment	0.7
Other receivables	0.9
Deferred tax assets	7.3
Intangible assets: Technology	36.9
Deferred tax liabilities	-6.4
Trade payables	-0.2
Other current liabilities	-3.8
Acquired identifiable assets	56.8
Goodwill on the acquisition date	233.5
<b>Acquired net assets</b>	<b>290.3</b>

Intangible assets: Technology, attributable to Secure Thingz and the development of technology for advanced embedded security solutions in the market for the manufacture of connected devices (IoT). The technology meets customer needs for security in embedded systems. Goodwill arising from the acquisition of Secure Thingz is attributable to anticipated sales growth and future cash flows. The item also includes anticipated synergies and human capital of the work force as a whole. The aforementioned areas included in the goodwill item cannot be recognized as separate intangible assets as they do not meet the criteria for separate recognition. The remaining goodwill is not expected to be tax deductible.

#### Acquired assets

The fair value of acquired trade receivables totaled SEK 0.3m, which is equal to the contractual gross amount and the amount expected to be received.

#### Revenue and earnings in acquired operations

The acquired operations contributed revenue of SEK 5.0m in 2018 and a net loss of SEK -5.6m to the Group for the period April 12 to December 31, 2018. If the acquisition had been undertaken on January 1, 2018, consolidated pro forma revenue and earnings on December 31, 2018 would have amounted to SEK 5.2m and SEK -9.3m, respectively. These figures were calculated by using the subsidiary's earnings while adjusting for differences in accounting policies between the Group and the subsidiary, and the additional amortization and depreciation that would have resulted from the adjustment of fair value for tangible and intangible assets from January 1, 2017, together with attributable tax effects.

CONT. NOTE 23.

<b>PURCHASE CONSIDERATION – CASH OUTFLOW, SEK m</b>	<b>2019</b>	<b>2018</b>
Cash consideration	18.6	191.9
Less acquired cash and cash equivalents	-	-21.1
<b>Net outflow of cash and cash equivalents</b>	<b>18.6</b>	<b>170.8</b>

**Acquisition-related costs**

Acquisition-related costs amounted to SEK 0.0m (3.2) in 2019, and are included in other expenses in profit or loss and in operating activities in the cash flow statement. Acquisition-related costs directly attributable to the non-cash issue are included in the item other expenses on the grounds that they are not considered of material value individually and are therefore not recognized separately.

## Note 24. Related party transactions

Of the Parent Company's total expenses of SEK 4.1m (7.1), 0% (0) pertains to purchases from other companies in the Group. Of the Parent Company's total sales revenue, 100% (100) 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.

**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 29, 2020.

Stockholm, March 18, 2020



Stefan Skarin  
President and CEO  
Board member



Maria Wasing  
Board Chairman



Kent Sander  
Board member



Fred Wikström  
Board member



Richard Lind  
Board member



Michael Ingelög  
Board member

Our auditor's report was submitted on March 18, 2020  
Deloitte AB



Andreas Frountzos  
Authorized Public Accountant  
Auditor in Charge

# Auditor's report

To the general meeting of the shareholders of I.A.R. 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 I.A.R. Systems Group AB (publ) for the financial year 2019-01-01 – 2019-12-31. The annual accounts and consolidated accounts of the company are included on pages 42-80 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 2019 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 2019 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 405.6 (385.2) 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.

- 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;
  - › 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 100.3 (66.7) 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.

- 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; and
  - › evaluation of disclosures for applied principles and recognized development cost.

### Valuation of goodwill from the acquisition of Secure Thingz

In 2018, I.A.R. Systems Group AB acquired the control in Secure Thingz Inc. At the time of acquisition, goodwill from the acquisition was valued at SEK 233.5 million. At the end of 2019, the carrying value of the cash-generating unit (CGU) Secure Thingz constitutes a significant portion of Group's net assets. On an annual basis management tests the carrying value of CGUs, to which goodwill has been allocated to, for impairment. The impairment assessment of Secure Thingz requires management assessment of future

sale growth, profit margins, investment levels, discount rates and terminal growth rate. Changes in assumptions made may have a significant impact on the Group's earnings and financial position.

For further information on the management's assumptions and assessments, see the section on description of significant estimates and assumptions in note 1 and the section on impairment testing of intangible assets in note 11.

Our audit procedures included but were not limited to:

- › challenging key assumptions in management's valuation models including assumptions of sale growth, profit margins, investment levels, discount rates and terminal growth rate;
- › testing of the mathematical accuracy of the cash flow models and challenged and agreed the key assumptions to the management approved business plans; and
- › evaluating the adequacy of disclosures related to those assumptions and CGU's to which the outcome of the impairment tests are most sensitive.

#### **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 1–41. 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, related safeguards.
- 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 I.A.R. Systems Group AB (publ) for the financial year 2019-01-01 – 2019-12-31 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 the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Deloitte AB, was appointed auditor of I.A.R. Systems Group AB by the general meeting of the shareholders on the 2019-04-24 and has been the company's auditor since 2012-06-21.

Stockholm, March 18, 2020

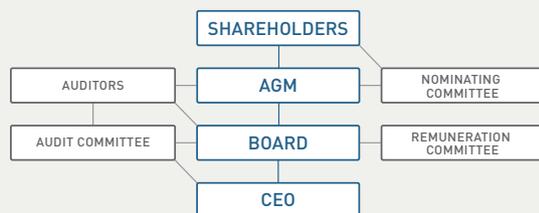
Deloitte AB



Andreas Frountzos  
Authorized Public Accountant

# Corporate governance report

**I.A.R. Systems Group is a Swedish public limited company domiciled in Stockholm, Sweden. In 2019, the Group conducted operations in Sweden, the UK, Germany, France, the USA, Japan, Korea and China. The IAR Systems share is quoted on the Mid Cap list of Nasdaq Stockholm.**



The corporate governance report for 2019 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 IAR Systems 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](http://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 A shares, which carry ten votes each, and class B shares, which carry one vote each. In total, there are 13,968,333 shares, divided between 100,000 class A shares, 13,521,713 class B shares and 346,620 class C shares. Class A and 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, 2019 was 7,500 (7,262). Of these shareholders, 430 (425) held more than 1,000 shares each. Foreign shareholders held approximately 32% (32) of the share capital and 30% (30) of the votes. For additional information about the shareholders and ownership structure, see pages 32–33.

## 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](http://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.

## 2019 Annual General Meeting

The AGM re-elected sitting Board members Maria Wasing and Kent Sander. Michael Ingelög, Richard Lind and Fred Wikström were elected as new Board members. The AGM appointed Maria Wasing as Board Chairman.

It was furthermore decided that Board fees would be paid in an annual amount of SEK 400,000 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 pay a dividend of SEK 5.00 per share for the 2018 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 five 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 85.

The average age of the Board members is 53 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 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 2019

In 2019, the Board held 12 meetings, of which six were scheduled and six 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 86.

#### 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 I.A.R. Systems Group. In 2019, this rule applied to Stefan Skarin.

#### 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. The committees do not constitute any delegation of the legal responsibilities of the Board and its members. The issues

BOARD 2019	Elected	Dependent	Remuneration committee	Audit committee
Maria Wasing, Chairman	2015	No	Chairman	Chairman
Kent Sander	2017	No	Member	Member
Michael Ingelög	2019	No	Member	Member
Richard Lind	2019	No	Member	Member
Fred Wikström	2019	No	Member	Member

#### REMUNERATION TO THE CEO AND OTHER SENIOR EXECUTIVES 2019

SEK thousand	Year	Fixed salary	Variable remuneration	Benefits	Pension costs	Share-based remuneration	Total
Stefan Skarin, CEO	2019	3,240	-	202	312	60	3,814
	2018	3,240	1,598	163	312	138	5,451
Other senior executives	2019	6,671	-	189	1,209	144	8,213
	2018	3,297	1,437	188	741	50	5,713

#### REMUNERATION TO THE BOARD

SEK thousand	2019	2018
Maria Wasing, Chairman	388	375
Lisa Kaati <sup>1</sup>	-	165
Kent Sander	173	165
Helena Nordman-Knutson <sup>1</sup>	-	110
Stefan Skarin <sup>1</sup>	-	-
Michael Ingelög <sup>2</sup>	90	-
Richard Lind <sup>2</sup>	90	-
Fred Wikström <sup>2</sup>	90	-

<sup>1</sup> Member until the Annual General Meeting on April 24, 2019.

<sup>2</sup> Member since the Annual General Meeting on April 24, 2019.

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 page 88 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 2019 AGM, at which time Deloitte was elected as auditor to serve for the period until the end of the 2020 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 NEP Sweden 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 2019 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 0.7m (0.2) in 2019. The auditor is paid fees in accordance with the decision of the AGM. For information about fees to auditors in 2019 and 2018, see Note 5 on page 65.

### 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.

Stefan Skarin has been President and CEO since February 2008.

## ATTENDANCE AT BOARD MEETINGS IN 2019

	Feb 13	Mar 7	Mar 15	Apr 24	Apr 24 Stat.	Jun 3	Aug 21	Sep 10	Sep 25	Nov 7	Dec 12	Dec 23	Total
Maria Wasing, Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12/12
Michael Ingelög <sup>2</sup>					✓	✓	✓	✓	✓	✓	✓	✓	8/8
Lisa Kaati <sup>1</sup>	✓	✓	✓	✓									4/4
Helena Nordman-Knutson <sup>1</sup>	✓	✓	✓										3/4
Kent Sander	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12/12
Richard Lind <sup>2</sup>					✓	✓	✓	✓	✓	✓	✓	✓	8/8
Fred Wikström <sup>2</sup>					✓	✓	✓	✓	✓	✓	✓	✓	8/8
Stefan Skarin <sup>3</sup>	✓	✓	✓	✓									11/11

<sup>1</sup> Member until the Annual General Meeting on April 24, 2019.

<sup>2</sup> Member since the Annual General Meeting on April 24, 2019.

<sup>3</sup> Member since the Annual General Meeting on April 24, 2019, thereafter present at Board meetings in capacity as CEO.

## 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 September	Q2 report meeting Strategy meeting
Q4	November	Q3 report meeting
	December	Meeting regarding business plan and financial plan

### 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 principles for approval by the AGM. The group Other senior executives refers to CFO and Product Manager. For 2019, 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, two meetings

Maria Wasing, *Chairman*

Michael Ingelög, Richard Lind, 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 2020 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 two meetings.

## 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

Maria Wasing, *Chairman*

Michael Ingelög, Richard Lind, Kent Sander and Fred Wikström.

The committee is responsible 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, four meetings

(up to and including March 16, 2020)

Jonas Eixmann, Andra AP-fonden, *Chairman*

Malin Björkmo, Handelsbanken Fonder, and Jonas Wikström, appointed by Stefan Skarin.

The AGM on April 24, 2019 resolved to appoint a nominating committee according to the following principles. By September 30, 2019, at the latest, the Board Chairman shall convene the three 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 2020 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 2020 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 have attended the nominating committee's three meetings.

**Proposals to be submitted to the 2020 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 2021 AGM

## The Auditor's examination of the corporate governance statement

**To the general meeting of the shareholders of I.A.R. Systems Group AB (publ) corporate identity number 556400-7200.**

The Board of Directors is responsible for that the corporate governance statement on pages 84–88 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 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.

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 18, 2020

Deloitte AB



Andreas Frountzos, *Authorized Public Accountant*

# Board of Directors

## 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:** 118,159 class B shares (including related parties' holdings) (February 29, 2020).  
Independent in relation to the company and management.  
Independent in relation to the company's major shareholders.

## 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 Zodiac Seven Ltd, Deputy Chairman of Basware OY and a Board member of Cellcomb and Fundcurve.

**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:** No holdings (February 29, 2020).  
Independent in relation to the company and management.  
Independent in relation to the company's major shareholders.

## Maria Wasing Board Chairman

**Born in:** 1970.

**Board member:** Since 2015 and Chairman since 2017.

**Education:** BA in marketing and organizational theory from the University of Arkansas at Little Rock.

**Employment and other board assignments:** EVP/COO at Axiell, Board member of FrontIT AB.

**Work experience:** More than 20 years' experience of software companies and the online industry, having held several senior positions in marketing, communication, sales and partner strategy at companies such as EpiServer and Industri-Matematik.

**Shareholding:** 500 class B shares (February 29, 2020).  
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, Edgeware, 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 29, 2020).  
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, DePalma Workwear and PerformanceSK8.

**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:** 1,000 class B shares (February 29, 2020).  
Independent in relation to the company and management.  
Independent in relation to the company's major shareholders.



**FRED WIKSTRÖM**  
BOARD MEMBER

**MICHAEL INGELÖG**  
BOARD MEMBER

**MARIA WASING**  
BOARD CHAIRMAN

**KENT SANDER**  
BOARD MEMBER

**RICHARD LIND**  
BOARD MEMBER

# Group Management

## Elin Söderlind HR Director IAR Systems

**Born in:** 1981

**Education:** MSc in sociology, specializing in work, organization and human resource management, Uppsala University

**Work experience:** Elin has experience of working in a wide range of areas in HR, at both the operative and strategic level. She has worked in various HR roles with several major employers such as Uppsala Municipality, PostNord and Region Uppsala. Her various assignments and roles have provided her with the opportunity to specialize in certain areas, but also to work extensively across the many areas of HR.

**Shareholding:** -

**Warrant holding:** -  
(February 29, 2020)

## Stefan Ström Chief Financial Officer of I.A.R. Systems Group AB

**Born in:** 1958.

**Education:** MBA from Lund University.

**Work experience:** Stefan has served as Chief Operating Officer (COO), CEO (2006–2008) and CFO of I.A.R. Systems Group AB since 1997 (formerly Intoi AB). Stefan was a driving force behind the acquisition of IAR Systems in 2005 and Intoi's focus on IAR Systems in 2011.

**Shareholding:** Via endowment insurance, and 300 class B shares (wife).

**Warrant holding:** 10,000 share warrants.  
(February 29, 2020)

## Anders Holmberg Chief Strategy Officer at 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 super computers 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 tools for developing embedded systems.

**Shareholding:** -

**Warrant holding:** 51,000 share warrants.  
(February 29, 2020)

## Stefan Skarin CEO of IAR Systems and I.A.R. Systems Group AB

**Born in:** 1962.

**Education:** IHM Business School and economics studies at Stockholm University.

**Work experience:** Stefan has been CEO of IAR Systems since April 2009. Stefan has been a Board member of I.A.R. Systems Group AB (formerly Intoi AB) since 2002 and CEO since February 2008 (as well as CEO between 2001 and 2006). As CEO of Intoi, Stefan was a driving force behind Intoi's acquisition of IAR Systems in 2005 and Intoi's focus on IAR Systems in 2011. Stefan has over 30 years' experience in the IT and software industry, including as Sales Director at Adobe Nordic, CEO of Interleaf Norden and several senior international positions at Oracle Corporation.

**Shareholding:** Via endowment insurance.

**Warrant holding:** 50,000 share warrants.  
(February 29, 2020)

## Haydn Povey CEO of Secure Thingz

**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 technical 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.

**Warrant holding:** 21,000 stock options.  
(February 29, 2020)

## Carl Johan Toll IT Manager and COO at I.A.R. Systems Group AB

**Born in:** 1962.

**Education:** Mathematics and computer engineering at Uppsala University.

**Work experience:** IT Manager at SDR Svensk Direktreklam and various roles at Nocom for 15 years.

**Shareholding:** 2,000 class B shares.

**Warrant holding:** 4,000 share warrants.  
(February 29, 2020)

## Andreas Frountzos Auditor

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



**ELIN SÖDERLIND**  
HR DIRECTOR IAR SYSTEMS

**STEFAN STRÖM**  
CHIEF FINANCIAL OFFICER  
I.A.R. SYSTEMS GROUP AB

**ANDERS HOLMBERG**  
CHIEF STRATEGY  
OFFICER IAR SYSTEMS

**STEFAN SKARIN**  
CEO OF IAR SYSTEMS AND  
I.A.R. SYSTEMS GROUP AB

**HAYDN POVEY**  
CEO SECURE THINGZ

**CARL JOHAN TOLL**  
IT MANAGER AND COO  
I.A.R. SYSTEMS GROUP AB

# 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' 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 is a multinational company that licenses a standard for processors and sells this to processor makers worldwide. IAR Systems is the tool supplier 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 a 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 implementing security in embedded systems easy and efficient. 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 and a complete set of development tools 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.

## IAR Visual State

IAR Visual State is a software for programming embedded systems based on state machines and enables efficient design of complex applications.

## 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**

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.

### **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.

### **Renesas**

Renesas is one of the world's largest processor vendors, with a wide product portfolio and a longstanding partnership with IAR Systems. IAR Systems is the tool supplier in the embedded systems market that supports the most Renesas processors.

### **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.*

# 2020 Annual General Meeting

The Annual General Meeting of I.A.R. Systems Group AB (publ), corporate identification number 556400-7200, will be held at 6:00 p.m. on Wednesday, April 29, 2020, at Spårvagnshallarna, Birger Jarlsgatan 57 A in Stockholm.

From the end of March, I.A.R. Systems Group's annual report will be available on IAR Systems' website ([www.iar.com/investors](http://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 not later than Tuesday, April 22, 2020, and
- › provide notification of their intention to participate in the AGM not later than Thursday, April 24, 2020, in writing to I.A.R. Systems Group AB (publ), Kungsgatan 33, SE-111 56 Stockholm, Sweden, or via the company's website [www.iar.com/investors](http://www.iar.com/investors).

The notification should include:

- › name, address, telephone number, personal or corporate identification number and registered shareholding.

To be entitled to participate in the AGM, shareholders whose shares are registered in the name of a nominee should request that the shares be temporarily re-registered in their own name in good time prior to April 22, 2020. When applicable, proof of authorization, such as proxy forms and certificates of registration, should be sent to the company prior to the AGM. Shareholders who wish to be accompanied by one or two assistants must inform the company by the same date and in the same manner applicable to shareholders.

## FINANCIAL CALENDAR

**INTERIM REPORT JAN-MAR 2020** APRIL 29, 2020

**2020 ANNUAL GENERAL MEETING** APRIL 29, 2020

**INTERIM REPORT JAN-JUN 2020** AUGUST 26, 2020

**INTERIM REPORT JAN-SEP 2020**, NOVEMBER 5, 2020

**JAMES LEE**, Field Application Engineer (FAE) at our office in Seoul, South Korea.





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[www.iar.com](http://www.iar.com)