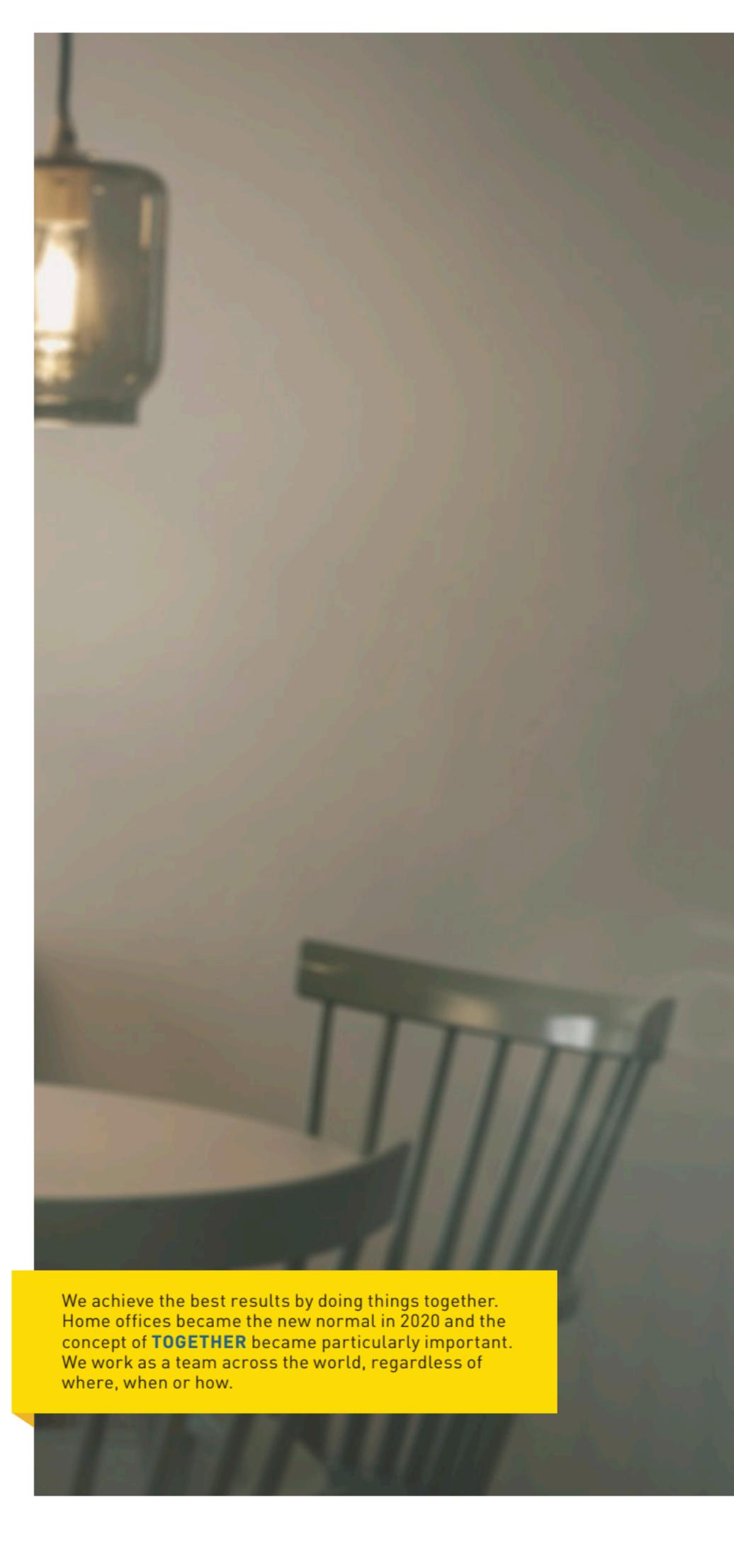


ANNUAL REPORT 2020
TOGETHER

A photograph of a dimly lit interior space. In the upper left, a glowing pendant lamp with a glass enclosure hangs from the ceiling. Below it, a wooden chair with a spindle back is visible, partially obscured by a white table. The background is a plain, light-colored wall. The overall mood is warm and intimate.

We achieve the best results by doing things together. Home offices became the new normal in 2020 and the concept of **TOGETHER** became particularly important. We work as a team across the world, regardless of where, when or how.

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iar-systems



RAIO
SYSTEMS

RAIO
SYSTEMS



Investment case

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

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Products and offering

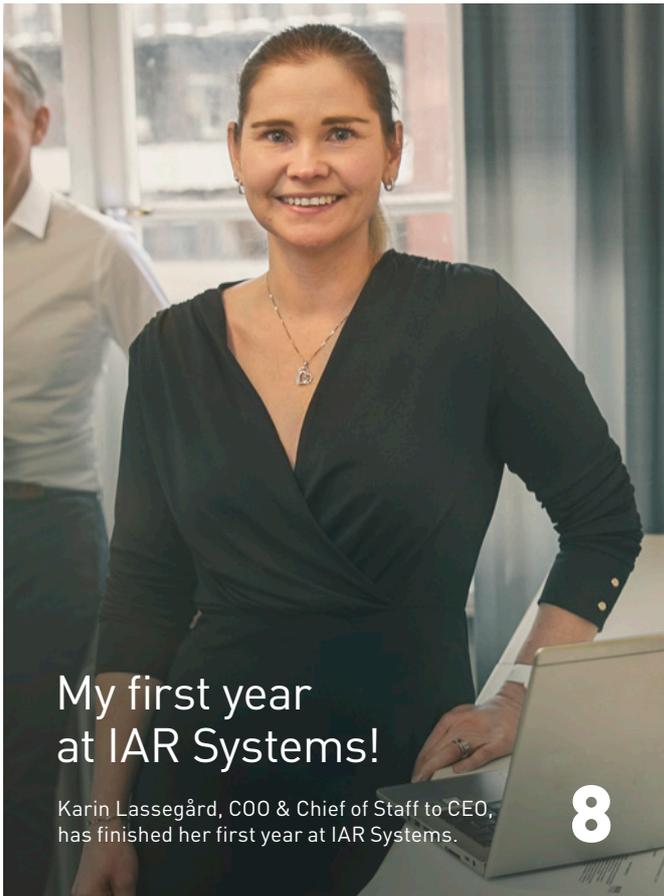
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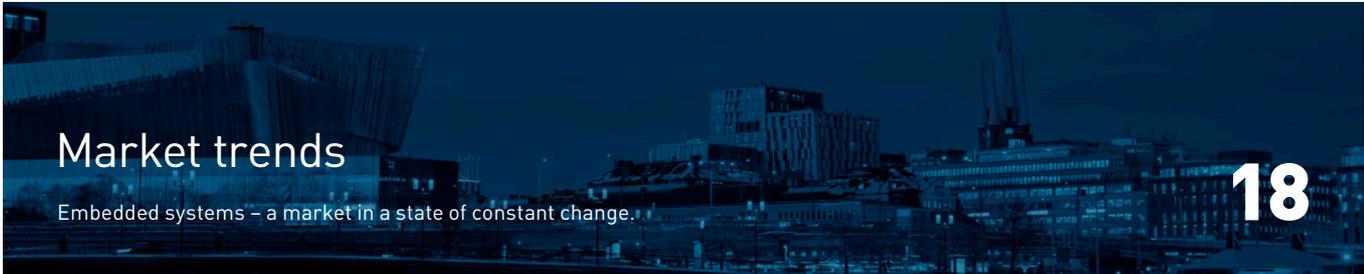
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Global partnership

Together for our customers and for our own success.

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

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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.



I.A.R. Systems Group AB has 215 employees in 14 offices on three continents. Our headquarters are located in Uppsala, Sweden and we have sales and support offices all over the world.



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

>30

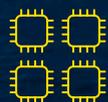
At least 30 times a day, you use a product that is programmed by one of our customers.



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



More than 150,000 developers the world over use our software to develop embedded systems.



Our software supports more than 13,000 different processors from more than 70 different processor vendors. This is more than any other supplier in the market.



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



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



Our software is available in versions that are certified for functional safety under international standards such as IEC 61508 and ISO 26262, which helps our customers certify their products.

Highlights of 2020

	Net sales	Operating profit	Cash flow from operating activities
Q1	SEK 92.3m <small>(99.8)</small>	SEK 14.4m <small>(29.4)</small>	SEK 15.0m <small>(19.1)</small>
Q2	SEK 100.1m <small>(99.0)</small>	SEK 25.0m <small>(23.8)</small>	SEK 42.9m <small>(28.8)</small>
Q3	SEK 88.9m <small>(100.0)</small>	SEK 25.4m <small>(28.1)</small>	SEK 32.7m <small>(27.3)</small>
Q4	SEK 90.7m <small>(106.8)</small>	SEK 19.0m <small>(27.1)</small>	SEK 27.8m <small>(30.5)</small>
2020	SEK 372.0m <small>(405.6)</small>	SEK 83.8m <small>(108.4)</small>	SEK 118.4m <small>(105.7)</small>



GREATER FOCUS ON RISC-V

- › Updates to development tools with more comprehensive functionality, such as debugging and trace.
- › Presented an offering that will be certified for safety-critical development.
- › New collaborations, for example with the processor supplier GigaDevice.



NEW PRODUCT: TOOLS FOR LINUX

- › Driven by a significant need from customers.
- › The new product supports the implementation of automated application build and test processes in Linux-based server environments.
- › Several versions were launched during the year.



NEW OFFICES IN TAIWAN AND INDIA

- › We now have more opportunities to meet customers' specific regional needs.



CONTINUED INTENSE FOCUS ON SECURITY

- › Launch of Secure Desktop Provisioner, a product that enables secure programming.
- › Expanded processor support in security products, including for Renesas, NXP and ST processors.
- › Comprehensive support for the CERT C code standard in the code analysis tool C-STAT.



FLEXIBILITY MORE IMPORTANT THAN EVER FOR OUR CUSTOMERS

- › The flexibility of our license model helps customers quickly adapt their way of working.
- › Our strong global organization has allowed us to adapt to the shifting situations during the year.

Building the world together

Code is obviously our foundation and where we always start, but it is primarily the value of doing things together that drives us forward.

It's incredibly inspiring to be the CEO of a global company, watching technology trends develop or comparing customers' various behaviors across regions. What started as a small event in China at the beginning of the year then became a pandemic, which obviously made the year a challenging one. Watching the pandemic travel between regions led to uncertainty but also taught us how we can support our customers by staying one step ahead. Toward the rest of the year, we understood that the pandemic that was currently affecting Asia would eventually impact Europe and America. Changing tracks and planning our operations based on our customers working from home – under different circumstances depending on timing and region – was challenging, to say the least. Despite this, we delivered all of the products we had hoped to in 2020 – and more! Our new product with support for the Linux operating system was something that came late in our planning. But as the effects of the pandemic continued, it was also something that we saw a need for among our customers to enhance their efficiency and quality while working remotely.

During the year, we learned even more about how we partner with our customers and we also got to know many of our customers better. This was part of our ambition to support them in the transition from working in the office to working from home. We are used to meeting our customers at our many global trade shows, and trade shows are also our primary marketing tool, but at the same time we cut back on expenses for trade fairs and travel in 2020.

While I want to describe the most difficult aspects of the year, there is just so much else to write about. Our new products in security and RISC-V performed well. Even if it was at a low level, it was gratifying to see stable growth during the year in these new product areas. These product areas are similar to each other in that the need for them, in geographic terms, is similar with all regions represented in the outcome. The main difference is probably that customers investing in RISC-V are in an evaluation phase for the new architecture. Customers who have invested in our security products have a more fixed investment strategy and have already completed their evaluation. During the year, we launched new product versions in these product areas, with support for new processors, increased functionality and improved performance.

Our plan for 2020 was to make it the year in which we refined our existing offering and increased our focus on the potential that we created in new markets. Asia was the geographic market that would give us the leverage for a higher rate of growth. We re-established or expanded our presence in China, Taiwan and India during the year. We are now prepared to further leverage the growing demand in the region, which took a bit of a blow during the pandemic.

"Proud" is a word that we use often. I'm proud of so much from 2020! We are all proud of the products our customers develop using our tools, and of the fact that many major, global companies have expanded their investments in our offering. Not just the number of licenses but also the fact that customers are choosing

to standardize their development on our products in the long term. This is a major achievement for all the functions in the company from product development to sales and customer support. I wish that I could describe more of what our customers do with our products, but suffice to say that you encounter several of these customers in your everyday life.

We often end up explaining our advanced technology by describing everyday consumer products that use our software, but "everyday" is far from a fair description of our offering. This year, it has become even clearer that we play an active part in a great number of infrastructure environments. In the IT sector, it has become even clearer that our products are suited for the kind of infrastructure that is used for developing all digital products. If we take a wider view, we can also look at the expansion of the 5G network. While 5G may be considered most important for consumers, its main impact will actually be on the expansion of smart networks, smart cities and the increased connection of "things." Secure communication is central to our market, which is significant within things/connected things. The large number of connected devices in smart cities that exchange information without human input increases the exposure to risks for users, individuals and companies. That is where you'll find our security offering. We have always been part of the product's DNA through code, but with our security offering we are now also involved in the phase when the product's code is securely programmed into the processor and installed to ensure its full functionality. We have customers who in 2020 showed that our products also belong in a larger part of a product's lifecycle.

We started the year with comments from 2019, where we described how code is our heart and soul. Even if code is where we started, we left 2020 with a much more important role. This is evident in many dimensions, from our products, customers and geographic markets to broader functionality and

infrastructure. Today, we do more than just control a processor. When countries and governments decide how digital products are to be used to protect consumers and companies, we are part of the process. For me, it all starts and ends with a sense of pride. As an entrepreneur, I am fueled by a sense of pride in what we do and who we are. This year, I am particularly proud of everything we accomplished despite the turbulence around the world, that our customers are on our side and that our agenda has expanded to include more opportunities than ever before.

When I summarized 2019 by noting that code is the soul of the IAR Systems software company, I had no idea what 2020 would be like. But regardless of what happens tomorrow or how the world changes, we don't only have code in our DNA – we have each other, and together we are not only the technology company IAR Systems but also a company involved in building and changing the world.

For someone like me, who is used to meeting many customers and employees in person all over the world, it was a transition to work from home, but being able to meet customers and employees in the same situation has strengthened our relationships despite the distance. Not only that, but to be able to do this with people and passions that are close to my heart has inspired me to want to get the year off to a fantastic start – for us, our customers and our shareholders.

Stockholm, March 15, 2021



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



My first year at IAR Systems!

Karin Lassegård, COO & Chief of Staff to CEO, has finished her first year at IAR Systems.

Karin, how was your first year at IAR Systems?

My first year has included a lot of laughs, many new experiences and, most of all, has led to a lot of growth. Not everybody gets the opportunity I've had to start as an assistant and, together with Stefan, develop my strengths and grow into a role with more responsibility. At the same time, I've been able to continue working as an assistant and keep one foot in the world of service, my comfort zone. In my first year, I visited most of our offices around the world and got to know my new colleagues. It's a lot easier to email someone you've already met! We have so many engaged employees at our offices around the world and I learn more and more every day.

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

Many of my colleagues have worked at IAR Systems for more than 20 years. Their knowledge and their pride in our products needs to be maintained. In ten years, we'll still be proud of our products and our history, but with a touch of innovation. I like to mix traditional and new solutions and getting the chance to hear about how we can change and improve together! From a global perspective, I think that in ten years we'll really have taken off in Asia and that I'll – hopefully – be able to help open some more offices. My support division, Operations, and the local stars I have in place will still be experts in their areas and will be driven by providing service for their colleagues. In ten years, I think I'll also be thriving – I'll be able to present the company's history and say with pride that I've "only" been part of the journey for the past ten years. It has been an exciting

year with developments in RISC-V and our security products. I also look forward to customer meetings in the future, with success stories of how they secured their products against threats like stolen code or piracy that vouch for the quality of our products.

In one year, you've already been part of several product launches. Which one do you think has been the most exciting?

I'm inquisitive and have many patient colleagues who take the time to explain the technology to me. I've just scratched the surface but I'm learning so much! If I had to choose one launch, I'd choose the Linux product BX. Primarily because it's exciting to show each other and the market how agile and tight we are in our organization. We saw increased demand for a Linux-based solution for our customers and demonstrated the strength of our organization by getting a product to market quickly. Being able to be part of everything from development to the release process, marketing and sales and how everyone uses their expertise and launches a product that's well received by customers – inspiring!

You're the kind of person who spreads a lot of energy to others, but what energizes and motivates you?

My biggest motivator is that I get to take care of things! I'm a big "doer" and I get a lot of energy from surrounding myself with people who get things done. I'm an extroverted person but I really get the most energy from letting other people be in the spotlight. Being part of a team and being the person who comes with

proposals for the way forward and using my common sense – that's when I'm happy! Customer service is close to my heart. It runs throughout my daily work and gives me energy.

In my role as COO and Chief of Staff to CEO, I need my employees' expertise in each area so that together we can provide services and remain competitive, and I learn new things all the time. The exchange of people's knowledge and experiences is inspiring.

In my private life, I get energy from being active with my three sons and finding things to do together with them. I'm also stubborn and enjoy challenges! Signing up to complete the skiing, cycling and running legs of Vasaloppet in the same year takes a good bit of tenacity. In the meantime, I find it energizing to be active, and I think if someone is going to have the stamina to handle their job, they need to take care of their body, too.

What is the most exciting and the most challenging thing about working at IAR Systems?

I think the most exciting thing is to see that even though there aren't that many employees in the company, we can still be a leader in the global market. You'd think that we have more employees than we actually do! This means that you can have a close, personal relationship with many colleagues around the world. It's also incredibly exciting to support Stefan and the organization in my role as COO and Chief of Staff to CEO. Being the person who keeps everything running smoothly and being part of different streamlining processes – that's really exciting! And doing it as part of a team!

The biggest challenge recently has been to get all of our employees onboard and to spread information during a pandemic. Since we haven't been able to travel, it would have been easy to let our daily agenda focus on issues affecting the Uppsala office. I enjoy personal contact with my colleagues, so obviously it's been a challenge to transition to more digital meetings.



STEFAN and **KARIN** in a creative meeting at their shared office on Kungsgatan in Stockholm.

TEAM KARIN AND STEFAN

"Karin and I are matched in ambition, energy and an indomitable drive to solve everything for everyone's best interests. When working with Karin, there's always a plan! We face many challenges, large and small, and the days are often filled with meetings. Karin has taught me to let go and to set clearer requirements for the organization in order to streamline processes. In 2020, her role as COO and Chief of Staff to CEO – which initially focused on helping to organize my time – grew to include greater operational responsibility since processes are such a huge part of Karin's ambition and strength. The most important thing is that Karin and I really stand together in looking out for everyone's best interests in everything we do, sometimes to the point that we don't devote as much attention to making time for ourselves. Regardless of whether or not we make time for ourselves, we always have fun and are inspired by laughing together!"

STEFAN SKARIN

PRESIDENT AND CEO, I.A.R. SYSTEMS GROUP AB

Mission, targets and strategy

Our mission is to bring value to organizations that develop products for embedded systems. We supply 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, Germany, Japan, China, Taiwan, India, Korea 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 and services within security. The largest portion of this product segment is developed in Cambridge in the UK. Close cooperation takes place between all development centers to maximize experience exchange and share critical resources.



PLAN 2020

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



OUTCOME 2020

Product launches of both new and improved RISC-V and security products as well as the first in the world with new RISC-V partnerships. Sales records in both RISC-V and security are additional proof of our targets in these product areas.



AMBITION 2021

Maintain focus on RISC-V and security as our new product areas and supplement them with an expansion of the development tools area for increased integration and efficiency with Linux-based environments.

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

Our expansion into Asia coincided with the global pandemic but despite this, we caught up on recruitment so as to realize the market's potential in 2021.

Realize the potential we have identified in the Asian market through the potential we have created by establishing offices in Taiwan and India as well as our expansion in China in 2020.

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

We added more information in our interim reports about license sales, product information and customer analysis. We are off to a good start for an increased flow of information but still need to clarify our ambition and potential with expanded information.

Continue to 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 37 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

95%

IAR EMBEDDED WORKBENCH HAS A HIGH LEVEL OF CUSTOMER LOYALTY, WITH ABOUT 95% REPEAT CUSTOMERS.

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 37 years, this core business has been a springboard to larger and growing markets. One such example is the company's shared vision and

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

Superior technology with new patented additions

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

- › IAR Systems offers a unique product range consisting of a complete tool chain for product developers.
- › IAR Systems is independent and thereby supports a variety of different processor architectures, which means that customers can choose the exact

programming environment that fits their needs, regardless of processor and project. This way, customers do not need to lock themselves into a particular technical platform, which provides a number of advantages, such as being able to reuse 70–80% of previously written code.

- › IAR Systems provides superior quality so that customers do not need to compromise on product performance, reliability and user-friendliness and so that the time from product to market launch is as efficient as possible.
- › Through the acquisition of Secure Thingz, both companies have together developed a unique, patented technology and specialist security expertise that fulfill the customer's need to protect its products and intellectual property.

46,000

**IAR SYSTEMS' SOFTWARE TOOLS AND SERVICES
ENABLE THE DEVELOPMENT OF DIGITAL PRODUCTS
FOR OVER 46,000 CORPORATE CLIENTS.**

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:

- › Largely driven by IoT, embedded systems are growing in number and in complexity.
- › Continued high demand for reliable and advanced programming tools that provide a complete development platform and efficient time management from product to market launch.
- › New possibilities within the automotive industry as increasingly advanced vehicles reach the market.
- › New opportunities created by new players entering the market for embedded systems.
- › Unexploited potential within security solutions for embedded systems. Secure Thingz operates as its own company, but takes advantage of IAR Systems' worldwide sales and support organization, and thereby its large and loyal customer base. 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.

- › The processor architecture RISC-V is challenging the Arm architecture, and IAR Systems is positioning itself to be the leading software supplier in this area. We remain active in RISC-V and launched a number of updates in our tools in 2020 that allow customers to take better advantage of the possibilities offered by the RISC-V processor architecture.

Committed team who knows how to take advantage of growth potential

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

Superior technology that future-proofs customers' product development

Since early 1983, IAR Systems has offered superior technology that future-proofs customers' product development. Through the acquisition of Secure Thingz, we have broadened our expertise to include security solutions for embedded systems. 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.

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

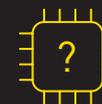
What all add-on products for IAR Embedded Workbench have in common is that they facilitate the work of the developer and are a natural part of the work flow. The add-on products C-STAT and C-RUN are fully integrated into IAR Embedded Workbench and enable the code to be quality-assured at an early stage. 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



IAR EMBEDDED WORKBENCH IN THE CUSTOMERS' PRODUCT DEVELOPMENT

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



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



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



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

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



C-Trust is an extension of IAR Embedded Workbench that makes it possible for developers to easily prepare secure, encrypted code that automatically follows the prevailing general security guidelines. Developers are able to simply import the security guidelines established by the company. By automatically including security settings and the correct encryption in the code from the beginning, developers can focus on continuing their typical work flow. 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.

We support customers throughout the entire process with the comprehensive solution Security from Inception Suite, which includes both software and security services. The software included supports

some of the most commonly used processors in the market and several different processors with embedded security. The offering includes the development environment IAR Embedded Workbench for Arm, the security tools Embedded Trust and C-Trust, the analysis tool C-STAT and a service offering including technical support, training and consulting services within security. In 2020, we expanded this offering to include the product Secure Desktop Provisioner, which makes it easy to securely program products by giving each device a unique identity. 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.

Products that streamline automated application build and test processes

An important part of developing embedded systems is compiling code, when the written code is translated to instructions that a processor can understand and carry out. Many companies choose to compile their code in a server environment, often based on Linux. IAR Systems' build tools for Linux, which launched in 2020, support the implementation of automated application build and test processes in Linux-based server environments. These tool streamline these processes, which makes it possible for organizations to optimize their resources in terms of the time that developers spend on their projects and how they can optimally manage and use licenses and servers. In addition, they help companies make their development more scalable and flexible, something which is

IAR SYSTEMS' AND SECURE THINGZ' EXPERTISE COVERS MANY DIFFERENT CUSTOMER NEEDS

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



EXECUTIVE MANAGEMENT

Definition of security structure using policies and best practices



SECURITY EXPERT

Implementing structure in hardware and software



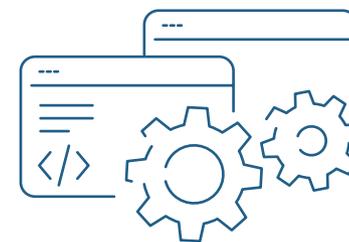
becoming increasingly important as digital products become smarter and more complex and feature more functions than ever before.

Comprehensive technical support and service

We offer our customers a committed sales, 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 agreement 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 agreement 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. IAR Academy includes scheduled courses, customer-specific courses and on-demand courses through a customer portal where customers schedule the course themselves.



NEW PRODUCT IN 2020
BUILD TOOLS FOR LINUX THAT STREAMLINE THE
CUSTOMER’S WORK PROCESSES.



DEVELOPMENT TEAM

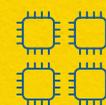
Application development

Testing of applications



PRODUCT MANAGEMENT

Secure distribution to manufacturing



PRODUCTION FACILITIES

Secure manufacturing of programmed processors



DEVELOPMENT TEAM

Secure software updates and control of products

Embedded systems – a market in a state of constant change

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 code 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. In 2020, we also launched our build tools for Linux-based environments to simplify development for our customers who work in server environments, which often use the Linux operating system.

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. The network of companies centered on RISC-V continues to grow.

FOR IAR SYSTEMS AND SECURE THINGZ, this means changes in their partner networks. For many years, we have had a broad market position and partnerships with many types of players in the market, which gives our customers considerable flexibility in choosing appropriate solutions for their needs. Thanks to this and our high-quality technology, we can deliver what the market and customers demand and therefore have a strong viability. We aim to remain an active part of the market and different technology networks. In 2020, we launched a number of updates in our tools that allow customers to take better advantage of the possibilities offered by the RISC-V processor architecture.

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 a complete development tool that simplifies and streamlines the development process and results in shorter lead times. The key is to have access to solutions where it is possible to use the same tools for several projects and thereby reuse code, and to have products that streamline the work flow itself throughout the entire project.

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. Our add-on products and expanded tool support, such as support for Linux, also help to streamline the work flow.

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.

DATA SECURITY AND MORE SECURITY REGULATIONS

With more connected devices, companies are facing an increasing number of challenges in many industries. One of the biggest challenges is the ability to deliver fully secure systems. This 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. Regulations and standards are also a quickly growing trend in security. In Europe, for example, the General Data Protection Regulation (GDPR) was followed by similar guidelines for electronic and IT security. Generally speaking, these guidelines stipulate rules covering fundamental aspects of technical security, and the list of countries that have introduced IT security laws and regulations is growing steadily.

IAR SYSTEMS AND SECURE THINGZ have the collective expertise to make it possible to provide the growing market with a portfolio of products and services focusing on security, and to help customers comply with the growing number of security regulations and thereby protect their intellectual property.

INNOVATION AND MORE EMBEDDED SYSTEMS

Innovation is the primary driving force for digital development in all markets. An increasing number of connected, smart products is leading to a constantly growing number of systems controlled by one or more processors in an embedded system. This is happening in different ways in every market. Implementing new technology like artificial intelligence (AI), machine learning (ML) and other cloud solutions makes it possible to release more products that are built on embedded systems, to make them smarter and to add services for the data processed by the systems. Smart products in consumer electronics represent a steadily growing market, but even more traditional markets like industry and medical technology are using innovative technology and digitization to a greater degree.

FOR IAR SYSTEMS, this is a positive development since it is resulting in new, exciting projects from customers. It is also creating added value for our products, which are known for producing quality code, making them a safe choice for many when developing smart and stable products. 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 new technology is being used and developed.

GLOBAL PARTNERSHIP



Together for our customers and for our own success

We are not a large global company, but we are large enough to help thousands of companies worldwide to develop quality products. Our success is built on the success of our customers. Together is a keyword that we often talk about in the company. We achieve the best results by doing things together. This is something that became even more important in 2020.





WHAT DOES
TOGETHER MEAN
TO YOU AND HOW
DOES IT IMPACT
YOUR DAY?



“ We are incredibly strong **together**, and we have really shown that this year. We have been able to handle the extra challenges we faced during the year because everyone has done their best and helped each other. The open and direct communication we have both within and between departments and offices means I can feel confident that we always work together with a focus on positive customer experiences. And we have fun as well!

TORA FRIDHOLM
CHIEF MARKETING OFFICER, UPPSALA



“ I guide my team to learn from each other. I think this is incredibly important when it comes to improving efficiency and the organization.

KIYOFUMI UEMURA
APAC DIRECTOR, OCH GLOBAL AUTOMOTIVE DIRECTOR, TOKYO



“ **Together** and **teamwork** are a feeling. A feeling of comradery, loyalty and pride. For me, it's what gets our team to work together regardless of where we are or what challenges arise. It's a feeling that helps everyone take advantage of our ambition. It's not only about reaching targets together as a team, but about why we reached them and how, and what kind of lasting impression we made on the result and each other. It's a part of the DNA of our leadership approach here at IAR Systems. We are all unique and there is a sense of pride in taking advantage of that, and the fact that we can accomplish anything together. And in having fun along the way! It can be a virtual fika where we talk about customer matters or taking the time to send a video to our colleagues in another country.

DANNIELLE IVERSEN
COUNTRY MANAGER, AMERICAS, SAN FRANCISCO



“ There are so many different moving parts at IAR Systems that support our customers. Everything from licensing and shipping to support – and so many other things. We have to work closely **together** to be sure that the customer is well taken care of in a timely and professional manner. Each one of these functions is carried out by a different team of experts at IAR Systems. We have built up so much trust in each other that when we pass the baton to another team, we know that they will run with it as quickly and as professionally as our customers expect from us, which they appreciate. It really fosters a feeling of trust and teamwork!

SHAWN PRESTRIDGE
US FAE TEAM LEADER / LEAD FAE ENGINEER, DALLAS



“ I’ve always told my team that it’s not a competition between them and that our team goal is to solve the customer’s issue as quickly as possible. At its foundation, it’s about helping each other achieve this goal. When we have a customer challenge that we don’t know how to solve, we reach out to others in the team and we try to solve it together. This year has been even more challenging, but that hasn’t stopped the team from working together. Digital meetings have been very useful for this. To sum up, **working together** is really important because it not only helps us do our job better but also helps us grow as individuals. It creates a healthy working atmosphere where we’re constantly learning from each other. It also helps foster solidarity at a personal level between team members.

PANKAJA HARISH
US TECHNICAL SUPPORT TEAM LEADER, BOSTON



“ At IAR Systems, we really live up to the old cliché **“Teamwork makes the dream work.”** I have the good fortune of working with a lot of departments and the fact that everyone is on a first-name basis is unique and creates a sense of security. This year, despite everything that happened in the world, I feel like that ease of communication in our organization is what’s keeping us together. For us, it’s essential to work together right from the start. All parts of the organization are linked together and everyone knows it, which means that everyone has the same goals, that the entire organization, each department, each function works to its full potential.

LOTTE RÖNQUIST
MANAGEMENT ASSISTANT, UPPSALA



“ For me, **together** is about cooperation and contact. The more we cooperate, the more we can learn and grow together. Every day, I come into contact with many of our customers to get to know them and their challenges. We find the right solution for them together to ensure a positive, long-term partnership going forward.

NIKLAS ERIKSSON
ACCOUNT MANAGER NORTHERN & CENTRAL EUROPE, UPPSALA



“ For me, **together** primarily means being a team. Even if someone is a member of a specific sales team, a field application engineer, part of the marketing team, etc., we all belong to a single team where everyone has the same goal and works together to accomplish it.

RYAN SHENG
FAE (FIELD APPLICATION ENGINEER), SHANGHAI

Strong and growing customer base in Asia

We are tremendously proud that our products help companies around the world to develop different kinds of digital products. Our customers include many of the world's largest corporations as well as thousands of small and medium-sized companies in a range of industries. Asia is a constantly growing market for us, not only in countries where we already have a strong presence such as Japan and Korea. We are also seeing increased demand in Taiwan and China.

IAR Embedded Workbench has shortened the development time for APEXBIO Technology

As a pioneer in biosensor technology, APEXBIO was established in the Hsinchu Science-based Industrial Park in Taiwan in December 1997. Their main products are sold over 80 countries worldwide, solidifying their

position as a leading provider of biosensor-based blood glucose monitoring systems for home care, medical device for chronic disease patients to maintain and control their health or for professional use in hospitals and laboratories.

APEXBIO has been using IAR Embedded Workbench since 2004.

“*Having the same interface to develop different MCU saves developer a lot of effort. We also chose to upgrade to a functional safety version because all medical devices developed by APEXBIO comply with IEC62304 regulations and we needed tools matching these requirements too.*”

APEXBIO ENGINEER



You can find more customer cases at iar.com/customers

Partnerships during 2020

We have had a large, strong network of partners around the world for many years now, and we work constantly to manage and refine our collaborations to be able to offer our customers the best solutions for their needs.

IAR Systems and GigaDevice collaborate to bring powerful RISC-V solutions to the market

GigaDevice is a leading fabless company founded in Silicon Valley in 2005. The company produces a wide range of SPI NOR Flash, SPI NAND Flash, and MCUs for use in embedded systems, consumer electronics and mobile communications applications, with more than one billion units shipped every year. In 2019, GigaDevice launched the world's first RISC-V-based general-purpose MCU products.

In June 2020, we announced our partnership with GigaDevice, making it possible for our customers to deliver powerful, user-friendly and complete solutions based on RISC-V and Arm.

“Our customers are used to integrated and ready-made solutions, but the RISC-V ecosystem is still young and there are not many easy-to-use, ready-made boards available in the market. We listen to our customers and create new partnerships where needed to meet their demands. Through the collaboration with GigaDevice, we can change and develop the market for embedded systems and take a big step forward for RISC-V.”

STEFAN SKARIN
PRESIDENT AND CEO, IAR SYSTEMS

“We are pleased to join forces with IAR Systems to launch a powerful development platform that will accelerate the growth of the RISC-V ecosystem. Together, we will offer powerful solutions for GigaDevice's GD32VF103 processor series that will enable our customers to meet the demanding requirements of today's interconnected applications, especially in areas such as industrial control, consumer electronics, IoT, edge computing and artificial intelligence.”

ERIC JIN
PRODUCT MARKETING DIRECTOR, GIGADEVICE

In December 2020, we announced that we were extending our support to GigaDevice's Arm-based processors, which ensures high-quality applications in many different markets.

Qt and IAR Systems – Many joint customers

The Qt Company is a leading provider of tools for creating graphical user interfaces. The partnership will enable our joint customers to more easily create fluid graphical UI applications with high performance and ensured code quality.

“We are working together and leveraging our unique skill sets for the benefit of our existing as well as new joint customers. Through this partnership, we can help companies to boost their productivity and focus on innovation.”

ANDERS HOLMBERG
GENERAL MANAGER EMBEDDED DEVELOPMENT TOOLS,
IAR SYSTEMS

“Among our customers, we are seeing growing requests for streamlined application development. With the introduction of Qt for MCUs, customers can now use Qt for almost any software project they're working on, and by also offering an integration with IAR Embedded Workbench, we make it even easier to develop connected devices across a wide and diverse range of industries.”

PETTERI HOLLÄNDER
SVP PRODUCT MANAGEMENT, THE QT COMPANY

A dedicated team with a passion for technology

With our global organization, we can meet each customer in their market. We are a committed team with a passion for technology and together, we enable our customers to create the products of today and the innovations of tomorrow. We are large enough to have many interesting projects going at once, but also small enough to know the first name of all of our colleagues. We also work in an exciting market that is constantly changing.

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 14

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. 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.

IAR SYSTEMS VALUE OFFERING

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



SUPERIOR TECHNOLOGY

Our technology enables the best possible product development.



A DEDICATED TEAM

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



FUTURE-PROOF PRODUCT DEVELOPMENT

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

THOMAS, from the development department, in his home office.



Sustainability report 2020

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

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

The company's business model

Sales strategy

Our sales strategy is founded on a license-based business model in all geographical regions and

all industries. In addition, the company focuses on markets which it deems to have significant potential, for example, the automotive industry and IoT. The company has global reach through its corporate headquarters in Uppsala, Sweden, and sales and support offices in Sweden, France, Japan, China, Korea, Taiwan, India, the UK, Germany and the USA. The company is also represented in another 41 countries via distributors. Through the 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.

Goal management model

Policy

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

Focus areas 2020

I.A.R. Systems Group's sustainability agenda includes three main areas: *Social sustainability*, *Environmental sustainability* and *Financial sustainability*. Each main area for 2020 and its focus areas are presented below.

Focus areas and results of the 2020 policy Social sustainability

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

Customer responsibility

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

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

Supplier responsibility

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

Employee responsibility

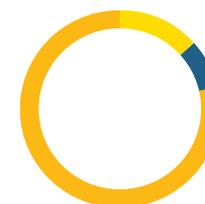
I.A.R. Systems Group's products/tools are the foundation of our operations. They form our culture and passion for technology. Just as I.A.R. Systems Group strives to make it possible for customers to create the best possible products with our tools, we also strive to make it possible for our employees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

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

Corporate social responsibility (CSR)

The company's social responsibility primarily focuses on projects where our technology and employees' knowledge can help develop environmentally

EDUCATION (OFFICIALLY EMPLOYED AT END OF YEAR)



- 29 ■ Secondary education
- 17 ■ Post-secondary education
- 169 ■ University/College

AGE DISTRIBUTION (OFFICIALLY EMPLOYED AT END OF YEAR)



- 20 ■ -30 years
- 53 ■ 31-40 years
- 56 ■ 41-50 years
- 86 ■ 51+ years

friendly technology. We do this, for example, through sponsorships. Many of the most successful innovations within renewable energy and sustainable technology over the last decades have been developed by small, entrepreneur-driven technology companies.

For the past several years, the company has run the IAR Green Innovation Program, a sponsorship program that supports innovative development projects in the field of environmentally friendly, digital technology. The IAR Green Innovation Program sponsors selected

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

Suppliers focus area

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

Employees focus area

The I.A.R. Systems Group is constantly developing to meet the needs of the future, which also includes developing our employees. This need is met primarily by placing a great deal of trust and responsibility in our employees and their existing skills to contribute to the company's development. We also offer skills development opportunities for existing employees through internal educational or external training.

When additional resources or skills beyond what the Group already has are needed, new employees are recruited. In 2020, 23 new employees were welcomed to the Group. IAR Systems products have been on the market for decades, and over all those years our employees' skills have grown and modernized in order to guarantee the quality of our products. The Group's goal is to provide its employees a sustainable and comfortable employment with opportunities for skills development and a balance between work and leisure time. All with the aim of giving the employees the opportunity to contribute to the Group's continued long-term development.

Learning

Learning is one of the company's most important keywords, and one that we worked with actively in 2020 through recurring activities like Lunch & Learns. Lunch & Learns are when employees gather for about an hour over lunch to share their expertise with colleagues through talks or workshops. Another form of knowledge sharing are internal wiki pages, where knowledge is collected from our employees so it can be accessible to others. New hires are given internal onboarding training that includes direct knowledge sharing as well as foundational knowledge about the Group's structure and functions. New employees are also invited to a Global Introduction at the headquarters in Uppsala to get to know the company better and to meet management and other departments as well as to network with colleagues and broaden their learning opportunities. In 2020, the Covid-19 pandemic forced us to cancel and postpone physical meetings, some of which we replaced with digital meetings and others we postponed to later dates.

Physical and social health

Ergonomics is a priority when we furnish offices, both existing and new. We provide, for example, ergonomic tools when and where they are needed for our employees' well-being. And there are good opportunities at IAR Systems for flexible work scheduling to best combine work with private life. The Covid-19 pandemic meant many changes during 2020, with the company actively working both globally and locally to ensure that our employees could work safely and comfortably with the support needed to carry out their work.

Focus areas and results of the 2020 policy Environmental sustainability

Environmental sustainability includes our products' effect on the environment and I.A.R. Systems Group AB's internal work to be as resource-efficient as possible, always striving to improve. The goal of our products since the company was founded has been to streamline things, whether by minimizing the amount of code – and thereby the amount of memory – used in programmed processors or by optimizing energy consumption in the customer's product, leading to a reduced impact on the climate. Developing more and more digital deliveries to our customers also contributes to a reduced climate impact.

One example of such a function is power debugging, a programming technology that makes it easier to see how the finished product's power consumption is directly related to the source code written by a programmer. This makes it possible to detect which program code is causing unexpectedly high power consumption.

Internally we work with, and constantly strive to improve, our own operations' resource use. This

means, for example, prioritizing sustainable alternatives when choosing suppliers, such as electricity suppliers, or the most environmentally sustainable transportation alternative whenever possible. Since the environmental aspect of our production is limited in scope, our resource use is primarily connected to our offices and travel.

Products

In 2020, we continued working to develop our offering in order to give our customers the opportunity to contribute to sustainable development. Our investments in existing and new products in 2020 contributed directly to improvements in customers' environmental sustainability in the form of streamlining code and optimizing resource use. Both of these aspects are important components that ensure that fewer resources are consumed to develop and use the customer's end product. An important part of the IAR Systems offering is its independence and its support for a variety of different processor architectures, which means that customers can choose the exact programming environment that fits their needs, regardless of processor and project. This way, customers do not need to lock themselves into a particular technical platform, which provides a number of advantages, such as being able to reuse 70–80% of previously written code, which is an important part of customers' product development over time.

In 2020, we also continued to invest in our security products that are included in our complete tool chain for product developers. Our offering was further developed through investments to meet customers' needs to protect their intellectual property and to secure their production chains. In the long run, this will help the customer secure payment for their development and their investments in new products.

In 2020, the Covid-19 pandemic meant that our customers had new needs for flexibility in the use of our products, for example due to many developers working from home. In these cases, we have been able to offer customers solutions so that the development of their products could continue without interruptions or delays.

Internal resource consumption

Our production of hardware products, which primarily includes probes for code analysis, is relatively small-scale and its resource consumption is thus limited, but an important part of global environmental sustainability involves ensuring that the components in our products follow regulations pertaining, for example, to conflict minerals and hazardous materials.

In 2020, we continued our work in this focus area in order to reduce our internal resource consumption. For example, we chose the suppliers that offered the most sustainable option possible. This means that we continue to sign green electricity contracts for our offices' electricity whenever possible and that we encourage the choice of electric or hybrid vehicles for company cars, which had a noticeable impact in 2020.

In a normal year, the company's resource use is primarily connected to our offices and travel. In 2020, the Covid-19 pandemic had a dramatic effect on travel, which is positive in terms of resource use. However, this means that comparisons with previous years are difficult since the reduction is primarily a result of restrictions due to the pandemic. In the future, digital meetings will not be able to replace every trip, but we are carefully following the transition that can be expected after the pandemic, with an increase in both digital meetings and digital conferences.

Focus areas and results of the 2020 policy Financial sustainability

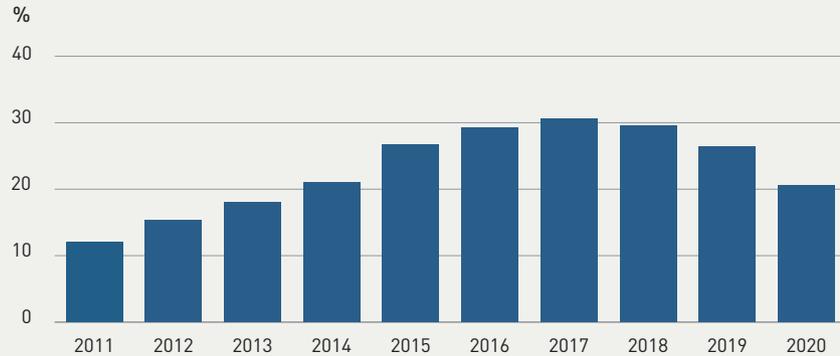
Financial sustainability is connected to our business model, our customer offering and our ability to provide the company and our owners with long-term stable cash flow. Together, this enables us to take a long-term approach. The license-based business model with annual renewals of support and update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

Long-term profitability

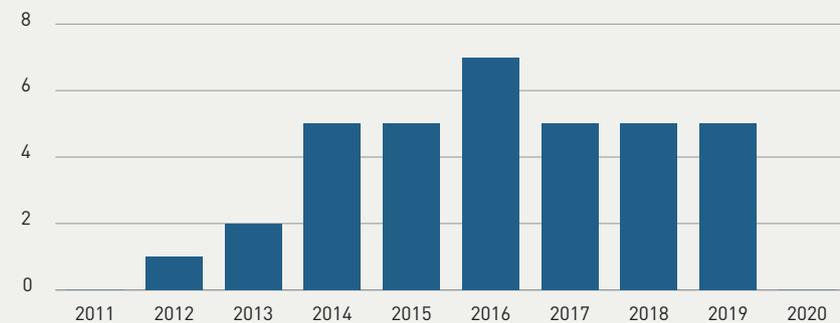
Our business model is based in our license-based business with annual renewals of support and update services. For our customer base, this means a secure product offering over time, and for us it means a stable cash flow. This also allows the company to invest in developing existing and new products to ensure that customers' future needs are met and to ensure the company's future profitability and growth, thereby giving our owners stable long-term cash flows. The overall long-term goal established by the Board is for the operating margin to exceed 25% over a business cycle and for our dividend to shareholders to fall between 30–50% of profits every year. The 2020 focus areas to ensure long-term profitability were:

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

OPERATING MARGIN



DIVIDEND SEK



FOCUS AREAS 2020

SOCIAL SUSTAINABILITY

CUSTOMER RESPONSIBILITY

Being dedicated to providing superior technology and services that make it possible for our customers to create the products of today and the innovations of tomorrow.

EMPLOYEE RESPONSIBILITY

A positive working environment that encourages good health, safety and development and that supports physical and mental health.

ENVIRONMENTAL SUSTAINABILITY

PRODUCTS

Giving our customers the opportunity to contribute to sustainable development.

INTERNAL RESOURCE CONSUMPTION

Reducing our internal resource consumption.

FINANCIAL SUSTAINABILITY

LONG-TERM PROFITABILITY

Taking care of the existing customer base and expanding it to include new customers.

LONG-TERM PROFITABILITY

Continued investments in the development of existing and new products to ensure customers' future needs are met.

RESULT

The pandemic entailed challenges for our customers during 2020. Through flexibility in our licensing model, we have helped our customers transition quickly to their new way of working and our strong global organization has allowed us to adapt to the shifting situations during the year.

The Covid-19 pandemic has meant many changes during the year, with the company actively working both globally and locally to ensure that our employees could work safely and comfortably with the support needed to carry out their work, regardless of whether at the office or at home.

RESULT

In 2020, investments in our security products, which are included in our complete tool chain for product developers, allowed us to expand our security offering to include the Secure Desktop Provisioner product.

During the year, we continued to sign green electricity contracts for our offices' electricity whenever possible and company car agreements for electric or hybrid vehicles.

RESULT

During the year, IAR Systems opened new sales offices in Taiwan and India to be closer to customers. Globally, IAR Systems maintained a high level of customer loyalty in 2020 and approximately 95% of our existing customers are repeat customers.

During the year, several products were launched, including a new product for Linux and an expansion to the security offering, Secure Desktop Provisioner.

Auditor's Report on the Statutory Sustainability Report

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

Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the year 2020 on 28–33 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

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

Opinion

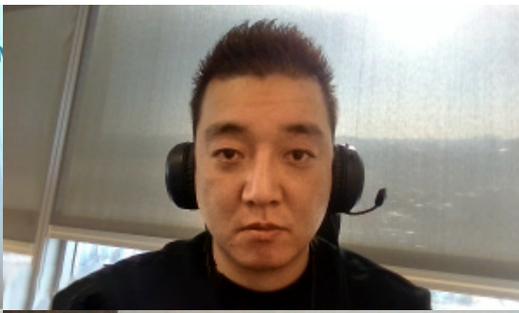
A statutory sustainability report has been prepared.

Stockholm, March 15, 2021

Deloitte AB



Andreas Frountzos, *Authorized Public Accountant*



松本 善行
Yoshi Matsumoto

IARシステムズ株式会社
セールスマーケティングマネージャー
東京都、大阪府、福岡県、神奈川県、埼玉県、千葉県、東京都



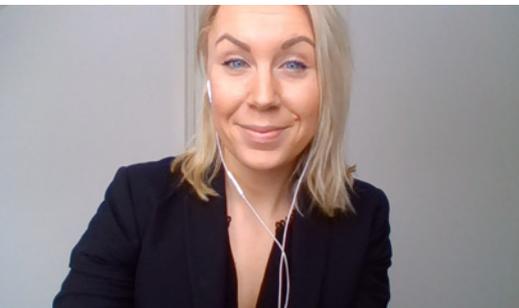


山田 優
Yu Yamada

IARシステムズ株式会社
ストラテジックセールス
機能安全部長

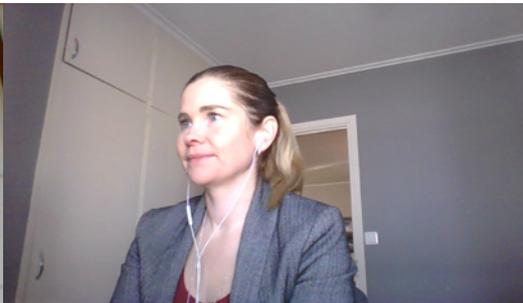






Financial reporting

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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, 2020 was SEK 139.80 (186.00) and the market capitalization was SEK 1,906m (2,535).

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 95.80 (168.80) to a high of SEK 193.40 (296.50). The share price at December 31, 2020 was SEK 139.80 (186.00). I.A.R. Systems Group's market capitalization on the same date was SEK 1,906m (2,535).

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

I.A.R. Systems Group's share capital at December 31, 2020 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 100,000 are class A shares, 13,536,159 are class B shares and 332,174 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 27, 2021 that all unappropriated earnings be carried forward.

Dividend policy

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

Authorizations

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

The Board of Directors was also authorized, on one or several occasions during the period until the next AGM, to decide on the repurchase of a maximum number of class B shares whereby the holding of treasury shares at no time exceeds 10% of all registered shares in the company. The shares are to be acquired on Nasdaq Stockholm at a price that is within the registered price interval at any given time. The motive for the authorization is to give the Board greater freedom of action in optimizing the company's capital structure. The Board of Directors was furthermore authorized to decide on the sale of the company's treasury shares in exchange for cash payment, disapplying the shareholder's preemptive rights, or as payment for the acquisition of a company or operation.

Incentive programs

In accordance with the decision of the 2018 and 2019 AGMs, a long-term incentive program for IAR Systems Group employees has been introduced ("LTIP 2018" and "LTIP 2019," respectively). The programs encompass 1,132,500 warrants. A total of 915,500 warrants were acquired or allocated, of which 497,500 were under LTIP 2018 and 418,000 under LTIP 2019. The incentive programs consist of two different types of warrants: share warrants and stock options. The share warrants are intended for employees in Sweden and the stock options are intended for employees outside Sweden. The final number of warrants to which each participant is entitled is dependent on the degree to

LARGEST SHAREHOLDERS AT DECEMBER 31, 2020¹

	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	8.91%
Första AP-fonden		1,176,506	1,176,506	8.63%	1,176,506	8.09%
Swedbank Robur Fonder		1,070,000	1,070,000	7.85%	1,070,000	7.36%
Tredje AP-fonden		728,930	728,930	5.35%	728,930	5.01%
Ribbskottet AB		600,000	600,000	4.40%	600,000	4.13%
Sijotusrahasto Aktia Nordic Mic		541,500	541,500	3.97%	541,500	3.73%
Goldman Sachs & Co		515,543	515,543	3.78%	515,543	3.55%
Sijotusrahasto Aktia Nordic Small		461,050	461,050	3.38%	461,050	3.17%
Försäkringsaktiebolaget Avanza Pension		358,609	358,609	2.63%	358,609	2.47%
State Street Bank & Trust Com., Boston		297,522	297,522	2.18%	297,522	2.05%
JPM Chase NA		258,000	258,000	1.89%	258,000	1.77%
Futur Pension	100,000	152,005	252,005	1.85%	1,152,005	7.93%
Enter Fonder		242,290	242,290	1.78%	242,290	1.67%
Fondita Nordic Small Cap Investment		240,000	240,000	1.76%	240,000	1.65%
Stefan Engqvist		212,873	212,873	1.56%	212,873	1.46%
Total 15 largest shareholders	100,000	8,150,243	8,250,243	60.50%	9,150,243	62.95%
Other		5,385,916	5,385,916	39.50%	5,385,916	37.05%
Total	100,000	13,536,159	13,636,159	100.00%	14,536,159	100.00%

¹ Shares held directly and through nominees, excluding 332,174 class C shares held in treasury.

DISTRIBUTION OF SHAREHOLDINGS AT DECEMBER 31, 2020¹

	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		153,626	153,626	1.13%	153,626	1.06%	5,075	67.52%
101–1,000		710,881	710,881	5.21%	710,881	4.89%	1,976	26.29%
1,001–5,000		718,611	718,611	5.27%	718,611	4.94%	329	4.38%
5,001–10,000		388,030	388,030	2.85%	388,030	2.67%	51	0.68%
10,001–	100,000	11,565,011	11,665,011	85.54%	12,565,011	86.44%	85	1.13%
Total	100,000	13,536,159	13,636,159	100.00%	14,536,159	100.00%	7,516	100.00%

¹ Shares held directly and through nominees, excluding 332,174 class C shares held in treasury.

which the Group's performance conditions are fulfilled. The performance conditions are based on average annual growth of the Group's net sales for the 2018, 2019 and 2020 financial years for LTIP 2018 and the 2019, 2020 and 2021 financial years for LTIP 2019. Refer to the table below.

LTIP 2018

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

LTIP 2019

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

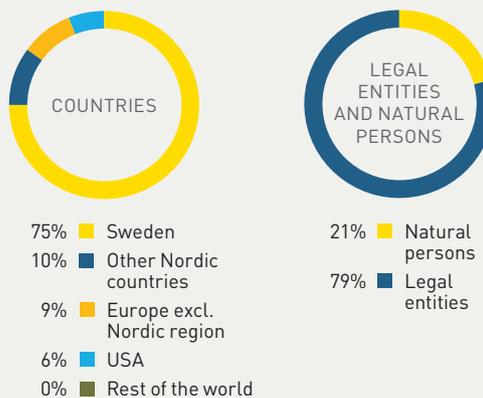
Exchange allotment 2018

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

INCENTIVE PROGRAMS		Total	Subscribed/ Allocated	Qualifying year			Past due/forfeited
				2018	2019	2020	
LTIP 2018	Share warrants	315,000	243,500	80,813	4,850	0	n/a
	Stock options	285,000	254,000	55,648	3,380	0	n/a
LTIP 2019	Share warrants	151,500	63,000	n/a	1,160	0	19,355
	Stock options	381,000	355,000	n/a	5,370	0	89,541
Exchange allotment		Total	Subscribed/ Allocated	Exercised Dec 31, 2020	Forfeited Dec 31, 2020	Qualified Dec 31, 2020	Qualified after Dec 31, 2020
2018	Stock options	73,413	73,413	27,514	20,621	17,471	7,807

SHAREHOLDER DATA

Shareholder data is based on information from Euroclear Sweden AB on December 31, 2020 and pertains to the share of votes, unless otherwise stated.



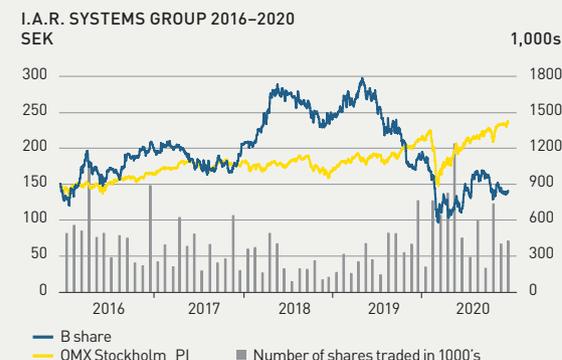
SHARE DATA

	2020	2019
Equity per share, SEK	44.97	43.43
No. of shares at end of year, million	13.64	13.63
Average no. of shares, million	13.63	13.63
Cash flow from operating activities per share, SEK	8.69	7.78
Earnings per share, SEK ¹	4.35	5.96
Dividend or equivalent per share, SEK	-	5.00
No. of shareholders	7,516	7,500
Last price paid on December 31 or similar, SEK	139.80	186.00

¹ Definition in accordance with IFRS.

SHARE PRICE

The graphs below are based on the share price, meaning the last price paid (reinvested value), which has risen from SEK 16.45 on January 1, 2011 to SEK 139.80 on December 31, 2020.



Financial overview

CONDENSED INCOME STATEMENT

SEK m	2020	2019	2018	2017	2016
Net sales	372.0	405.6	385.2	345.0	328.4
Operating expenses	-239.3	-259.8	-245.1	-217.8	-215.2
Depreciation of property, plant and equipment	-3.1	-3.1	-2.6	-2.4	-2.5
Depreciation of right-of-use assets	-17.2	-9.8	-	-	-
Amortization of intangible assets	-28.6	-24.5	-21.9	-17.4	-14.2
Operating profit	83.8	108.4	115.6	107.4	96.5
Loss from financial items	-7.0	-1.4	-1.8	-1.7	-0.4
Profit before tax	76.8	107.0	113.8	105.7	96.1
Tax	-17.4	-25.8	-26.2	-25.7	-22.1
PROFIT FOR THE YEAR	59.4	81.2	87.6	80.0	74.0

ALTERNATIVE PERFORMANCE MEASURES

Certain financial performance measures presented in the Annual Report were not defined in accordance with IFRS. The company believes that these performance measures provide valuable supplementary information to the company's investors and management, since they facilitate evaluations of the company's earnings trend and financial position. These financial performance measures are not always comparable with the measures used by

PERFORMANCE MEASURES

	2020	2019	2018	2017	2016
Alternative performance measures					
Gross margin, %	96.2	97.3	97.7	97.5	96.3
EBITDA margin, %	35.7	35.9	36.4	36.9	34.5
Operating margin, %	22.5	26.7	30.0	31.1	29.4
Profit margin, %	20.6	26.4	29.5	30.6	29.3
Cash flow, %	31.8	26.1	24.0	35.9	34.8
Equity/assets ratio, %	73.6	71.8	76.2	70.8	70.6
Return on equity, %	9.9	14.2	20.8	28.1	25.9
Return on capital employed, %	12.5	19.2	27.4	37.4	33.6
Capital employed, SEK m	679.7	612.0	552.8	292.9	282.2
Net cash, SEK m	1.5	-18.4	103.3	117.0	96.5
Net debt/equity ratio, multiple	-0.00	0.03	-0.19	-0.40	-0.35
Other performance measures					
No. of employees at end of period	215	219	200	163	165
Sales per employee, SEK m	1.8	2.0	2.3	2.2	2.1
Average no. of employees	208	201	171	153	159

CONDENSED CASH FLOW STATEMENT

SEK m	2020	2019	2018	2017	2016
Cash flow from operating activities	118.4	105.7	92.6	123.9	114.2
Cash flow from investing activities	-81.4	-102.2	-217.5	-37.6	-18.9
Cash flow from financing activities	-24.6	-52.0	107.7	-63.2	-88.4
TOTAL CASH FLOW FOR THE YEAR	12.4	-48.5	-17.2	23.1	6.9

other companies since not all companies calculate financial performance measures in the same way. Accordingly, these financial performance measures must not be regarded as a replacement for the measures defined in accordance with IFRS. The tables below present performance measures that are not defined in accordance with IFRS, unless otherwise stated. For definitions and reconciliations, refer to pages 41–45.

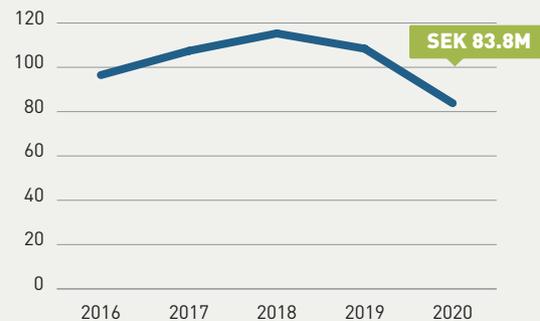
DATA PER SHARE

	2020	2019	2018	2017	2016
Equity per share, SEK	44.97	43.43	40.38	22.99	22.13
No. of shares at end of period, million	13.64	13.63	13.62	12.63	12.63
Average no. of shares, million	13.63	13.63	13.13	12.63	12.63
Cash flow from operating activities per share, SEK	8.69	7.75	7.05	9.81	9.04
Earnings per share, SEK ¹	4.35	5.96	6.67	6.33	5.86
Dividend per share, SEK	-	5.00	5.00	5.00	7.00
Last price paid on December 31 or similar, SEK	139.80	186.00	243.00	189.00	206.00

¹ Definition in accordance with IFRS.

CONDENSED BALANCE SHEET

ASSETS, SEK m	2020	2019	2018	2017	2016	EQUITY AND LIABILITIES, SEK m	2020	2019	2018	2017	2016
Non-current assets						Total equity	613.4	592.0	550.0	290.4	279.5
Goodwill	332.7	357.2	339.3	113.5	114.9	Non-current liabilities					
Other intangible assets	244.0	210.5	144.8	80.9	82.1	Interest-bearing liabilities	31.7	41.1	1.2	1.7	1.6
Property, plant and equipment	7.5	7.3	8.9	6.2	6.2	Other non-current liabilities	1.1	1.1	1.6	1.7	1.4
Right-of-use assets	46.9	56.3	-	-	-	Provisions	37.2	26.5	29.6	14.0	14.8
Financial assets	6.4	7.7	15.1	22.2	20.7	Total non-current liabilities	70.0	68.7	32.4	17.4	17.8
Total non-current assets	637.5	638.9	508.1	222.8	223.9	Current liabilities					
Current assets						Trade payables	5.0	9.2	7.3	5.7	5.3
Inventories	5.7	6.6	6.6	5.2	5.6	Interest-bearing liabilities	34.6	38.0	1.6	0.8	1.1
Other current assets	63.8	52.1	38.2	11.8	18.9	Other current liabilities	110.5	117.0	130.9	95.8	92.2
Trade receivables	58.7	66.6	63.2	50.8	48.3	Total current liabilities	150.1	164.2	139.8	102.3	98.6
Cash and cash equivalents	67.8	60.7	106.1	119.5	99.2	TOTAL EQUITY AND LIABILITIES	833.5	824.9	722.2	410.1	395.9
Total current assets	196.0	186.0	214.1	187.3	172.0						
TOTAL ASSETS	833.5	824.9	722.2	410.1	395.9						

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
2020	90.7	32.5	35.8	19.0	20.9	0.88	1.9	2.04	44.97	139.80	1,906
Q3	88.9	36.8	41.4	25.4	28.6	1.37	3.1	2.40	45.43	161.00	2,195
Q2	100.1	36.8	36.8	25.0	25.0	1.29	2.9	3.15	44.10	114.80	1,565
Q1	92.3	26.6	28.8	14.4	15.6	0.81	1.8	1.10	45.14	116.40	1,587
2019	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	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	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	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	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	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	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	59.5	11.7	19.7	9.8	16.5	-0.48	-2.1	1.34	22.34	35.24	397
Q3	56.2	12.0	21.4	10.1	18.0	0.75	3.3	0.68	22.84	37.82	426
Q2	56.4	8.8	15.6	7.3	12.9	0.42	1.9	1.27	22.15	39.77	448
Q1	58.0	9.3	16.0	8.0	13.8	0.48	2.2	0.12	22.22	32.37	355
2011	57.5	9.4	16.3	7.7	13.4	0.96	4.5	1.20	21.82	22.66	248
Q3	48.2	8.3	17.2	7.1	14.7	0.67	3.3	1.07	20.92	20.25	222
Q2	48.9	6.7	13.7	5.4	11.0	0.49	1.4	1.19	20.09	21.83	239
Q1	45.8	5.0	10.9	3.8	8.3	0.33	0.6	-0.37	50.35	17.76	195
2020	372.0	132.7	35.7	83.8	22.5	4.35	9.9	8.69	44.97	139.80	1,906
2019	405.6	145.8	35.9	108.4	26.7	5.96	14.2	7.78	43.43	186.00	2,535
2018	385.2	140.1	36.4	115.6	30.0	6.67	20.8	7.05	40.27	243.00	3,310
2017	345.0	127.2	36.9	107.4	31.1	6.33	28.1	9.81	22.99	189.00	2,387
2016	328.4	113.2	34.5	96.5	29.4	5.86	25.9	9.04	22.13	206.00	2,602
2015	311.7	98.3	31.5	83.4	26.8	5.02	21.9	7.81	23.03	150.00	1,895
2014	255.7	63.6	24.9	53.2	20.8	3.37	14.5	5.63	22.85	74.75	944
2013	230.2	50.6	22.0	41.3	17.9	2.59	10.9	3.43	23.90	39.77	491
2012	230.1	41.8	18.2	35.2	15.3	1.16	5.3	3.41	22.34	35.24	397
2011	200.4	29.4	14.7	24.0	12.0	-1.70	6.4	3.09	21.82	22.66	248

* Definition in accordance with IFRS.

DEFINITIONS

The tables below present performance measures that are not defined in accordance with IFRS, unless otherwise stated. The following section RECONCILIATIONS presents reconciliations and accounts for the components included in the alternative performance measures used by the company.

Performance measure	Definition/Calculation	Use
Gross margin	Net sales less the cost of goods sold as a percentage of net sales.	Measures the company's profitability after cost of goods and is used to follow up cost-efficiency and the effect of changes to the product mix.
EBITDA	Earnings before interest, taxes, depreciation and amortization.	This measure basically shows the earnings-generating cash flow in operations. It provides an overview of the business's ability to generate, in absolute terms, resources for investments and payments to investors and is used as a comparison over time.
EBITDA margin	Earnings before interest, tax, depreciation and amortization (EBITDA) in relation to sales, expressed as a percentage.	Aims to show the profitability ratio for current operations.
Equity, Group	Recognized equity including 78.0% of untaxed reserves. Average equity is calculated as equity at the beginning of the year plus equity at the end of the year divided by two.	Measures the company's net value.
Equity per share	Equity divided by the number of shares at the end of the period.	Measures the company's net value per share.
Sales growth in local currency	Net sales in local currency compared to sales in local currency in the corresponding period last year.	Measures the company's sales growth in local currency and allows the assessment of growth without the influence of foreign exchange effects.
Cash flow	Cash flow from operating activities as a percentage of net sales.	Measures the company's cash generation in relation to net sales.
Cash flow from operating activities per share	Cash flow from operating activities divided by the average number of shares during the period.	Measures the company's cash generation in relation to the number of shares in the company.
Net cash	Cash and cash equivalents less interest-bearing liabilities.	A measure of the ability to use available cash and cash equivalents to pay off all liabilities if they were due for payment on the date of the calculation and thereby a measure of the risk in relation to the company's capital structure.
Net interest-bearing liabilities	Interest-bearing liabilities less cash and cash equivalents.	A measure used to follow the liability trend and see the size of the need for refinancing. This measure is one component in calculating net cash and the net debt/equity ratio.
Net debt/equity ratio	Net interest-bearing liabilities divided by equity.	This measure reflects the relationship between the Group's two forms of financing. A measure to show the proportion of loan capital in relation to the capital invested by the owners and accordingly a measure of financial strength and also the gearing effect of loans. A higher net debt/equity ratio entails a higher financial risk and higher financial gearing.
Earnings per share*	Profit for the period after tax divided by the average number of shares during the period.	A measure of the company's profitability after tax per share. This performance measure is important in assessing the value of a share.

* Definition in accordance with IFRS.

DEFINITIONS, CONT.

Performance measure	Definition/Calculation	Use
Return on equity	Profit after tax as a percentage of average equity.	Return on equity shows the total accounting returns on capital invested by the owners and reflects the effects of both the profitability of operations and financial gearing. This measure is mainly used to analyze the profitability of owners over time.
Return on capital employed	Profit before tax plus financial expenses as a percentage of average capital employed.	Return on capital employed shows how well operations use the capital tied up in the business. This measure is mainly used to study the Group's profitability over time.
Interest-bearing liabilities	Borrowings in banks or the equivalent.	This measure is one component in calculating net cash and the net debt/equity ratio.
Operating margin	Operating profit as a percentage of net sales.	This measure reflects the operating profitability of the business. It is useful for following up profitability and efficiency in operations before taking into account capital tied up. This performance measure is used both internally in governance and follow-up of operations and to compare with other companies.
Operating profit	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	2020	2019	2018	2017	2016
Net sales	372.0	405.6	385.2	345.0	328.4
Goods for resale	-14.1	-10.8	-9.0	-8.5	-12.2
Gross profit	357.9	394.8	376.2	336.5	316.2
GROSS MARGIN	96.2%	97.3%	97.7%	97.5%	96.3%

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

SEK m	2020	2019	2018	2017	2016
Operating profit	83.8	108.4	115.6	107.4	96.5
Depreciation of property, plant and equipment	3.1	3.1	2.6	2.4	2.5
Depreciation of right-of-use assets	17.2	9.8	-	-	-
Amortization of intangible assets	28.6	24.5	21.9	17.4	14.2
EBITDA	132.7	145.8	140.1	127.2	113.2

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

SEK m	2020	2019	2018	2017	2016
Net sales	372.0	405.6	385.2	345.0	328.4
EBITDA	132.7	145.8	140.1	127.2	113.2
EBITDA MARGIN	35.7%	35.9%	36.4%	36.9%	34.5%

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

SEK m	2020	2019	2018	2017	2016
Net sales	372.0	405.6	385.2	345.0	328.4
Operating profit	83.8	108.4	115.6	107.4	96.5
OPERATING MARGIN	22.5%	26.7%	30.0%	31.1%	29.4%

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

SEK m	2020	2019	2018	2017	2016
Net sales	372.0	405.6	385.2	345.0	328.4
Profit before tax	76.8	107.0	113.8	105.7	96.1
PROFIT MARGIN	20.6%	26.4%	29.5%	30.6%	29.3%

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

SEK m	2020	2019	2018	2017	2016
Net sales	372.0	405.6	385.2	345.0	328.4
Cash flow from operating activities	118.4	105.7	92.6	123.9	114.2
CASH FLOW	31.8%	26.1%	24.0%	35.9%	34.8%

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

SEK m	2020	2019	2018	2017	2016
Equity	613.4	592.0	550.0	290.4	279.5
Total assets	833.5	824.9	722.2	410.1	395.9
EQUITY/ASSETS RATIO	73.6%	71.8%	76.2%	70.8%	70.6%

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	2020	2019	2018	2017	2016	2015
Equity	613.4	592.0	550.0	290.4	279.5	290.9
SEK m	2020	2019	2018	2017	2016	
AVERAGE EQUITY	602.7	571.0	420.2	285.0	285.2	

RECONCILIATIONS, CONT.

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

SEK m	2020	2019	2018	2017	2016
Profit after tax	59.4	81.2	87.6	80.0	74.0
Average equity	602.7	571.0	420.2	285.0	285.2
RETURN ON EQUITY	9.9%	14.2%	20.8%	28.1%	25.9%

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

SEK m	2020	2019	2018	2017	2016	2015
Non-current interest-bearing liabilities	31.7	41.1	1.2	1.7	1.6	0.6
Current interest-bearing liabilities	34.6	38.0	1.6	0.8	1.1	1.2
INTEREST-BEARING LIABILITIES	66.3	79.1	2.8	2.5	2.7	1.8

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

SEK m	2020	2019	2018	2017	2016	2015
Non-current liabilities	70.0	68.7	32.4	17.4	17.8	18.2
Current liabilities	150.1	164.2	139.8	102.3	98.6	89.6
Interest-bearing liabilities	-66.3	-79.1	-2.8	-2.5	-2.7	-1.8
NON-INTEREST-BEARING LIABILITIES	153.8	153.8	169.4	117.2	113.7	106.0

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	2020	2019	2018	2017	2016	2015
Total assets	833.5	824.9	722.2	410.1	395.9	398.7
Non-interest-bearing liabilities	-153.8	-153.8	-169.4	-117.2	-113.7	-106.0
CAPITAL EMPLOYED	679.7	671.1	552.8	292.9	282.2	292.7
SEK m	2020	2019	2018	2017	2016	
Average capital employed	675.4	612.0	422.8	287.6	287.5	

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

SEK m	2020	2019	2018	2017	2016
Profit before tax	76.8	107.0	113.8	105.7	96.1
Financial expenses	7.5	2.6	1.9	1.7	0.4
Profit before tax plus financial expenses	84.3	109.6	115.7	107.4	96.5
RETURN ON CAPITAL EMPLOYED	12.5%	17.9%	27.4%	37.4%	33.6%

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

SEK m	2020	2019	2018	2017	2016
Cash and cash equivalents	67.8	60.7	106.1	119.5	99.2
Interest-bearing liabilities	-66.3	-79.1	-2.8	-2.5	-2.7
NET CASH	1.5	-18.4	103.3	117.0	96.5

RECONCILIATIONS, CONT.

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

SEK m	2020	2019	2018	2017	2016
Interest-bearing liabilities	66.3	79.1	2.8	2.5	2.7
Cash and cash equivalents	-67.8	-60.7	-106.1	-119.5	-99.2
Net interest-bearing liabilities	-1.5	18.4	-103.3	-117.0	-96.5
NET DEBT/EQUITY RATIO	-0.00	0.03	-0.19	-0.40	-0.35

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

SEK m	2020	2019	2018	2017	2016
Cash flow from operating activities	118.4	105.7	92.6	123.9	114.2
Average no. of shares, million	13.63	13.63	13.13	12.63	12.63
CASH FLOW FROM OPERATING ACTIVITIES PER SHARE	8.69	7.75	7.05	9.81	9.04

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

SEK m	2020	2019	2018	2017	2016
Equity	613.4	592.0	550.0	290.4	279.5
No. of shares at end of year, million	13.64	13.63	13.62	12.63	12.63
EQUITY PER SHARE	44.97	43.43	40.38	22.99	22.13

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.

	2020	2019	2018	2017	2016	2015
No. of shares, million	13.64	13.63	13.62	12.63	12.63	12.63
AVERAGE NO. OF SHARES, MILLION	13.63	13.63	13.13	12.63	12.63	

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 2020 financial year. The company is domiciled in Stockholm, corporate identification number 556400-7200.

Net sales

Net sales for the year amounted to SEK 372.0m (405.6) and were distributed as follows: SEK 367.0m (403.9) from development tools and SEK 5.0m (1.7) from security solutions. In a year-on-year comparison, currency translation had a negative impact of SEK 4.6m on net sales for the year. In addition, the pandemic resulted in customer purchasing processes taking a longer time, which meant that sales were delayed.

The Americas accounted for 36% (35) of sales, Europe for 36% (36), Asia for 27% (27) and global revenue for 1% (2).

Earnings

EBITDA for the year totaled SEK 132.7m (145.8), corresponding to an EBITDA margin of 35.7% (35.9) for the year. Operating profit for the year decreased to SEK 83.8m (108.4).

Operating expenses were reduced by SEK 79.0m (84.0) during the year through the capitalization of development costs for software. Of the internally generated costs that were capitalized, SEK 65.2m (67.3) pertained to personnel costs.

Personnel costs are the Group's largest cost item and account for about 65% (71) of total costs. Of the Group's total costs, 61% (56) are attributable to operations in Sweden.

In a year-on-year comparison, currency translation had a

negative impact of SEK 6.6m on operating profit for the year. In addition, the pandemic resulted in reduced travel and canceled market activities, which had a positive effect on operating profit.

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

Cash flow

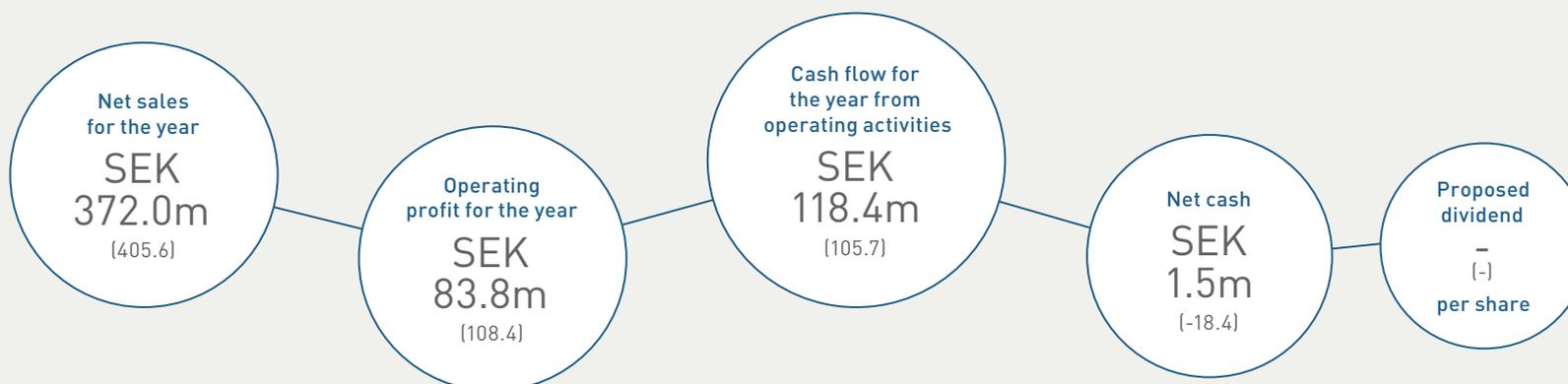
Cash flow from operating activities for the year totaled SEK 118.4m (105.7). Through its subsidiary in England, the Group exercised its right to tax relief related to research and development expenses. This supplied the Group with SEK 18.8m during the second quarter of 2020, which affected the cash flow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

Cash flow from investing activities for the year totaled SEK -81.4m (-102.2). Most of these investments pertain to the capitalization of development costs for software.

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



* Göran Hübnette, acting Chief Financial Officer from March 1, 2021.



Balance sheet items and financial position

Consolidated cash and cash equivalents at the end of the year amounted to SEK 67.8m, compared with SEK 60.7 at December 31, 2019. The Group also had unutilized bank overdraft facilities totaling SEK 207.5m (200.1).

The Group's interest-bearing liabilities amounted to SEK 66.3m, compared with SEK 79.1m at December 31, 2019. Interest-bearing liabilities include lease liabilities amounting to SEK 48.8m (54.2), which increased in accordance with the new IFRS 16 Leases. Interest-bearing liabilities also include borrowings totaling SEK 17.5m (24.9).

As of December 31, 2020, the Group had net cash of SEK 1.5m (-18.4). Net cash was also impacted by IFRS 16 Leases; see above.

Consolidated goodwill at the end of the year amounted to SEK 332.7m (357.2). The impairment test performed at year end did not indicate any requirement for impairment. The decrease of SEK 24.5m was attributable to currency remeasurement. Other intangible assets in the form of trademarks, software, internally generated software development costs and customer contracts totaled SEK 244.0m (210.5).

As of December 31, 2020, the Group had accumulated loss carryforwards outside Sweden of SEK 159m, of which SEK 91m (122) are expected to be utilized in the foreseeable future, with loss carryforwards of SEK 15.4m (19.9) recognized in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 3.5m (5.3), and the deferred tax liability is recognized in an amount of SEK 37.2m (26.5). The item deferred tax asset also includes deferred tax liabilities that will be recognized in a net amount since they are connected to the same tax subject. The tax relief payment in England for 2021 connected to research and development costs is estimated at approximately SEK 11.0m (18.8). The payment reduced aggregate loss carryforwards by an equivalent amount. The payment affects cash flow but not the income statement for the period.

Equity at December 31, 2020 amounted to SEK 613.4m, compared with SEK 592.0m on December 31, 2019. This change in equity is presented in the specification on page 53. The equity/assets ratio at December 31, 2020 was 74% (72). Pledged assets decreased during the year and totaled SEK 12.0m (12.5) at December 31, 2020.

Investments

Investments in property, plant and equipment for the year amounted to SEK 3.2m (2.5). Investments in intangible assets totaled SEK 79.0m (84.0). Investments in intangible

assets pertained primarily to costs for in-house staff for the development of software. Of the year's investments, SEK 1.3m (2.1) was acquired separately and SEK 77.7m (82.0) comprises internally generated costs. Of the internally generated costs, SEK 65.2m (67.3) pertains to personnel costs.

Market and customers

I.A.R. Systems Group delivers high-quality products to companies that develop digital products. Its customers are located across the entire globe and in a number of different industries. The spread of digital technology is driving the market for embedded systems, largely as a result of IoT. Almost all industries have devices and products that could be developed further through improved communication and connectivity.

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

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.

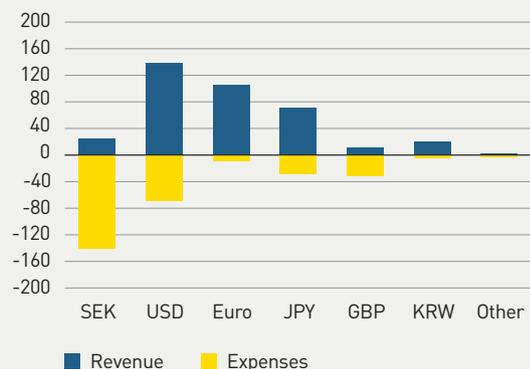
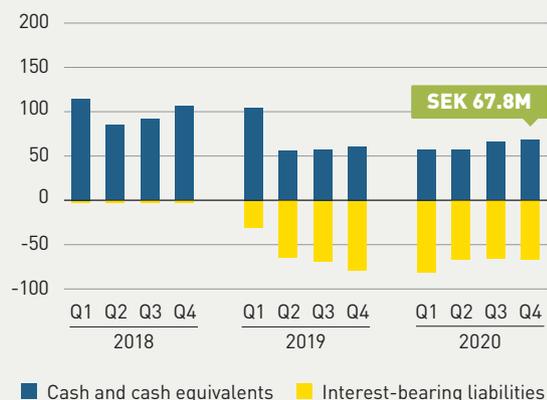
The Group's employees are typified by a high level of technical expertise and extensive industry experience.

NET SALES SEK M



OPERATING PROFIT SEK M



**CURRENCY SPREAD
SEK M**

**NET CASH
SEK M**


IAR Systems also has a high proportion of employees with advanced academic degrees. At IAR Systems, 87% (86) of employees have a post-secondary or higher education, and 13% (14) have a secondary education. The average age of the Group's employees is 44 (45). At year-end 2020, the gender distribution was 26% (25) women and 74% (75) men. The average number of employees in 2020 was 208 (201).

Risks and risk management

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

Three types of risks

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

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

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

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

Foreign exchange risk

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

Credit risk

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

Liquidity risk

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

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

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

Sensitivity analysis

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

Dec 31, 2020	Change	Effect on profit
Cost of goods sold	+/- 5%	SEK +/- 0.7m
Payroll expenses	+/- 5%	SEK +/- 9.4m
Currency – EUR	+/- 5%	SEK +/- 6.3m
Currency – USD	+/- 5%	SEK +/- 3.2m
Currency – GBP	+/- 5%	SEK +/- 1.0m
Currency – JPY	+/- 5%	SEK +/- 2.3m
Variable interest	+/- 1 percentage point	+/- SEK 0.2m

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, 2020 amounted to SEK 139,683,334, divided between 13,968,333 shares, of which 100,000 are class A shares, 13,536,159 are class B shares and 332,174 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, 5,684 shares, representing 0.1% of the share capital, were transferred in 2020 for SEK 95,290.00. The reason for the transfer of treasury shares in 2020 was to ensure the

1 Improbable 2 Unlikely 3 Possible 4 Likely 5 Probable

1 Insignificant 2 Minor 3 Medium 4 Large 5 Very large

RISK AREA		DESCRIPTION		PROBABILITY		IMPACT		IAR SYSTEMS' RISK MANAGEMENT	
MARKET RISKS									
Macroeconomic development	Customers' demand and willingness to invest are tied to their beliefs about future economic growth and the state of macroeconomic development in their own market. The Covid-19 pandemic has had major global health consequences in 2020 and continuing into 2021, and ultimately the measures being taken to reduce the spread of infection will have a significant impact on the global economy.	4	3	IAR Systems manages these risks by selling the company's software in multiple industries around the world. IAR Systems works actively to adapt the company's software and organization to the prevailing demand situation. IAR Systems is acting in accordance with decisions and recommendations from the government and authorities in each market as the Group continuously monitors and evaluates the effect on the Group's financial position to minimize the impact going forward. The assessment is still that customer development projects are continuing, but that the transition means that projects, purchasing and decisions are taking longer. The assessment also remains that IAR Systems is facing increased uncertainty regarding customers' future needs extending more than a few quarters in the future.					
Products and technology	New fundamentally changed working methods, rapid technology shifts and changes in customer behavior create a risk of changed customer requirements that could affect IAR Systems' market position.	4	3	IAR Systems has well-established and strategic partnerships with all the principal processor makers, which means that the company's software supports more processors and architectures than any other product on the market. IAR Systems is the hub of an ecosystem of partners in processor manufacturing, real-time operating systems (RTOS) and add-on products. Following the acquisition of Secure Thingz, IAR Systems and Secure Thingz are now also able to offer possibilities for new security solutions for embedded systems.					
Competitors	New and stronger competitors may lead to a risk of decreased demand for IAR Systems' software.	3	3	IAR Systems meets the risk of competition as an independent provider of development 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.					
OPERATIONAL RISKS									
Customer structure	Far-reaching dependency on individual industries could have a major impact on sales if an entire industry is experiencing difficulties.	2	2	IAR Systems strives to build long-term relationships with its customers. The Group is well diversified among customer categories, industries and geographical markets and no single customer accounts for a large share of the Group's total sales.					
Income structure	A large share of one-time projects or maintenance agreements with short durations creates uncertainty if economic growth slows.	2	2	IAR Systems is endeavoring to increase the share of repeat customers. The share of repeat customers is already high and amounts to about 95%.					
Supply of qualified personnel	IAR Systems' key competencies are found primarily in technological development and in its customer relationships.	3	3	IAR Systems works actively to retain and develop skills and competency in the company. Competency and loyalty are strengthened in the Group through training and knowledge sharing. IAR Systems has low employee turnover and distinct, shared core values.					
FINANCIAL RISKS									
Foreign exchange risk	Foreign exchange risk refers to the risk of fluctuations in the company's transaction flows due to movements in foreign exchange rates.	5	4	IAR Systems operates internationally and is exposed to foreign exchange risk arising from exposure to different currencies, primarily the US dollar (USD), euro (EUR), British pound (GBP) and Japanese yen (JPY). The Group's sales in foreign currency account for about 95% of total sales. Most of the company's expenses are denominated in SEK. Measures to manage transaction-related foreign exchange risk are established in the Group's finance policy and include hedge accounting in specific cases. The objective is to minimize the short-term effect of the foreign exchange movement on profit while at the same time creating long-term freedom of action.					
Liquidity risk	Liquidity risk refers to the risk that financing cannot be obtained, or can be obtained only at a significantly higher cost.	1	1	IAR Systems' liquidity risk is deemed to be relatively limited. At December 31, 2020, the Group had cash and cash equivalents of SEK 67.8m and unutilized bank overdraft facilities of SEK 207.5m. Interest-bearing liabilities on the same date amounted to SEK 66.3m, of which lease liabilities accounted for SEK 48.8m.					
Credit risk	Credit risk refers to the risk that a party in a transaction with a financial instrument will be unable to meet its obligations. The main credit risk is that IAR Systems will not receive payment for trade receivables.	1	1	IAR Systems' credit risk is assessed to be relatively low. Trade receivables are distributed across a large number of counterparties in different industries, markets and customer types. The Group has established guidelines for ensuring that sales are made to customers with a suitable credit background. Historically, the cost of bad debt losses has been low. To limit risks, the company's credit policy contains guidelines and provisions for credit assessment of new customers, terms of payment and routines and processes for management of past due receivables.					

delivery of shares to employees upon the exercise of stock options under the Group's incentive program. A total of 27,514 class C shares have been converted into class B shares and delivered within the framework of the incentive program since the original buyback of 359,688 class C shares.

Share price performance

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

Ownership and control

The number of shareholders in I.A.R. Systems Group at December 31, 2020 was 7,516 (7,500). Of these shareholders, 465 (430) held more than 1,000 shares each. Foreign shareholders held approximately 27% (32) of the share capital and 25% (30) of the votes. For additional information about the I.A.R. Systems Group's share, see pages 36–37.

Guidelines for remuneration and other terms of employment for senior executives

The Board of Directors proposes to the 2021 AGM that the guidelines for remuneration to senior executives that were adopted by the 2020 AGM continue to apply.

The 2020 AGM approved the Board's proposed guidelines for remuneration to the company's senior executives as stated in Note 6 and in the corporate governance report. The guidelines state that the forms of remuneration to senior executives include fixed salary, variable remuneration that may amount to a maximum of 50% of fixed salary, pensions and other benefits. Fixed salary is to be market-based and individually differentiated on the basis of the individual's role, performance, results and responsibilities. Variable remuneration is to be based on the attainment of profit and sales targets, such as growth (net

sales growth) and earnings before interest and taxes (EBIT), as well as qualitative individual targets linked to strategic and/or functional targets that are individually adapted based on responsibilities and function. These targets are to be designed to contribute to promoting I.A.R. Systems Group's business strategy and long-term interests, including its sustainability. The pension plan is to correspond to the cost for the ITP plan. However, the retirement age for the CEO is 60, which means that the premium is higher than it would be if the retirement age was 65. In the event of dismissal by the company, the 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 other senior executives, the notice period is six months.

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 Chief of Operations, the General Manager Embedded Security Solutions and the General Manager Embedded Development Tools.

The Board of Directors has appointed a remuneration committee for the preparation of matters related to remuneration and other terms of employment for the company's management. For 2021, it is proposed that the retirement age for the CEO be changed to 62.

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. At the initiative of the CEO, no variable remuneration has been paid to the CEO or other senior executives for 2020. In addition, the retirement age for the CEO was adjusted to 62 (60).

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	254,480,824.64
Retained earnings	118,952,161.59
Comprehensive income for the year	43,784,803.54
Total, SEK	417,217,789.77

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

To be carried forward to new account	417,217,789.77
Total, SEK	417,217,789.77

The Board of Directors intends to propose to the AGM on April 27, 2021 that no dividend be paid. The Board based this proposal on the fact that it will enable the company's growth strategy to be accelerated.

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 proposal 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

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

* This performance measure pertains to an alternative performance measure not defined by IFRS. For further information, refer to pages 41–45.

Consolidated income statement

SEK m	Note	2020	2019	SEK m	Note	2020	2019
Net sales	1, 2, 3, 4	372.0	405.6	<i>Profit for the year attributable to:</i>			
Goods for resale		-14.1	-10.8	Owners of the Parent Company		59.4	81.2
Other external expenses	5	-37.7	-63.7	<i>Comprehensive income for the year attributable to:</i>			
Personnel costs	6	-187.5	-185.3	Owners of the Parent Company		20.2	105.9
Depreciation of property, plant and equipment	11	-3.1	-3.1				
Depreciation of right-of-use assets	11	-17.2	-9.8	<i>Earnings per share calculated on profit for the</i>			
Amortization of intangible assets	10	-28.6	-24.5	<i>year attributable to owners of the Parent Company, SEK</i>			
Operating profit		83.8	108.4	- basic	9	4.35	5.96
				- diluted	9	4.35	5.95
Financial income	7	0.5	1.2				
Financial expenses	7	-7.5	-2.6				
Profit before tax		76.8	107.0				
Income taxes	8	-17.4	-25.8				
PROFIT FOR THE YEAR		59.4	81.2				

Consolidated statement of comprehensive income

SEK m	2020	2019
Profit for the year	59.4	81.2
Other comprehensive income:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Tax effect, items reported in comprehensive income	2.2	-
Translation differences	-41.4	24.7
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	20.2	105.9
Comprehensive income for the year attributable to owners of the Parent Company	20.2	105.9

Consolidated balance sheet

SEK m	Note	Dec 31, 2020	Dec 31, 2019
ASSETS	1, 2		
Non-current assets			
Intangible assets	10		
Goodwill		332.7	357.2
Other intangible assets		244.0	210.5
Total intangible assets		576.7	567.7
Property, plant and equipment	11		
Leasehold improvements		1.3	0.5
Equipment		6.2	6.8
Right-of-use assets		46.9	56.3
Total property, plant and equipment		54.4	63.6
Financial assets			
Other non-current receivables	12, 17	2.9	2.4
Total financial assets		2.9	2.4
Deferred tax assets	8	3.5	13.3
Total non-current assets		637.5	638.9
Current assets			
Inventories		5.7	6.6
Current receivables			
Trade receivables	13, 17	58.7	66.6
Current tax assets	8, 14	6.7	1.5
Other current receivables	14, 17	4.4	3.1
Prepaid expenses and accrued income	15, 17	52.7	47.5
		128.2	125.3
Cash and cash equivalents	16, 17	67.8	60.7
Total current assets		196.0	186.0
TOTAL ASSETS		833.5	824.9

SEK m	Note	Dec 31, 2020	Dec 31, 2019
EQUITY AND LIABILITIES			
Equity	18, 19		
Share capital		139.7	139.7
Other contributed capital		227.8	227.7
Translation reserves		-1.0	38.2
Retained earnings including profit for the year		246.9	186.4
Total equity		613.4	592.0
Non-current liabilities			
Lease liabilities	17	31.7	41.1
Other non-current liabilities		1.1	1.1
Deferred tax liabilities	8	37.2	26.5
Total non-current liabilities		70.0	68.7
Current liabilities			
Trade payables	17	5.0	9.2
Liabilities to credit institutions	17	17.5	24.9
Lease liabilities	17	17.1	13.1
Other liabilities	17	10.5	14.1
Deferred income		84.3	85.2
Accrued expenses	20	15.7	17.7
Total current liabilities		150.1	164.2
TOTAL EQUITY AND LIABILITIES		833.5	824.9

Consolidated statement of changes in equity

SEK m	Share capital	Other contributed capital	Translation reserves	Retained earnings	Total equity
Opening balance, January 1, 2019	139.7	227.3	13.5	169.5	550.0
Profit for the year				81.2	81.2
Other comprehensive income					
Translation differences			24.7		24.7
Total comprehensive income			24.7	81.2	105.9
Transactions with owners					
Warrant payment		0.4			0.4
Value of share-based remuneration				3.8	3.8
Dividend				-68.1	-68.1
Total transactions with owners		0.4		-64.3	-63.9
Opening balance, January 1, 2020	139.7	227.7	38.2	186.4	592.0
Profit for the year				59.4	59.4
Other comprehensive income					
Translation differences			-39.2		-39.2
Total comprehensive income			-39.2	59.4	20.2
Transactions with owners					
Warrant payment		0.1			0.1
Value of share-based remuneration				1.1	1.1
Dividend				-	-
Total transactions with owners		0.1		1.1	1.1
CLOSING BALANCE, DECEMBER 31, 2020	139.7	227.8	-1.0	246.9	613.4

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

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

Consolidated cash flow statement

SEK m	Note	2020	2019
Operating activities			
Incoming payments from customers		378.4	401.2
Outgoing payments to suppliers and employees		-250.4	-277.7
Cash flow from operating activities before interest and income taxes paid		128.0	123.5
Interest received		0.1	0.0
Interest paid		-1.8	-2.6
Tax relief received		18.8	-
Income taxes paid		-26.7	-15.2
Cash flow from operating activities		118.4	105.7
Investing activities			
Investments in intangible assets	10	-78.2	-81.1
Investments in property, plant and equipment	11	-3.2	-2.5
Investments in subsidiaries		-	-18.6
Cash flow from investing activities		-81.4	-102.2
Financing activities			
Dividends to Parent Company shareholders		-	-68.1
Share warrants		0.1	0.2
Borrowings		5.5	30.4
Amortization of financial liabilities		-30.2	-14.5
Cash flow from financing activities		-24.6	-52.0
Cash flow for the year		12.4	-48.5
Cash and cash equivalents at beginning of year		60.7	106.1
Exchange difference in cash and cash equivalents			
– attributable to cash and cash equivalents at beginning of year		-4.3	2.1
– attributable to cash flow for the year		-1.0	1.0
CASH AND CASH EQUIVALENTS AT END OF YEAR	16	67.8	60.7

Parent Company income statement

SEK m	Note	2020	2019
Net sales	1,2	13.0	12.2
Other external expenses	5	-3.6	-4.1
Personnel costs	6	-15.5	-12.2
Depreciation of property, plant and equipment	11	-0.0	-0.0
Operating loss		-6.1	-4.1
Result from financial items			
Total financial income	7	1.8	2.5
Total financial expenses	7	-11.0	-1.7
Profit before tax		-15.3	-3.3
Appropriations, Group contributions		71.0	97,0
Tax on profit for the year	8	-11.9	-20.1
PROFIT FOR THE YEAR		43.8	73.6

Parent Company statement of comprehensive income

SEK m	2020	2019
Profit for the year	43.8	73.6
Other comprehensive income	-	-
Items that may be reclassified subsequently to profit or loss	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	43.8	73.6

Parent Company balance sheet

SEK m	Note	Dec 31, 2020	Dec 31, 2019
ASSETS			
Non-current assets			
Property, plant and equipment			
Equipment	11	0.2	0.1
Total property, plant and equipment		0.2	0.1
Financial assets			
Participations in Group companies	22	481.2	480.1
Other non-current receivables	12	0.1	0.1
Deferred tax assets	8	0.0	0.0
Total financial assets		481.3	480.2
Total non-current assets		481.5	480.3
Current assets			
Current receivables			
Receivables from subsidiaries		116.6	84.8
Current tax assets	8	5.2	0.2
Other current receivables	14	2.7	0.0
Prepaid expenses and accrued income	15	1.0	1.6
		125.5	86.6
Cash in hand and bank deposits	16	0.6	1.3
Total current assets		126.1	87.9
TOTAL ASSETS		607.6	568.2

SEK m	Note	Dec 31, 2020	Dec 31, 2019
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital		139.7	139.7
		139.7	139.7
<i>Non-restricted equity</i>			
Share premium reserve		254.6	254.5
Retained earnings		118.9	44.3
Comprehensive income for the year		43.8	73.6
		417.3	372.4
Total equity		557.0	512.1
Current liabilities			
Trade payables		0.3	0.4
Liabilities to credit institutions		17.5	24.9
Liabilities to subsidiaries		27.0	26.1
Current tax liabilities		-	-
Other liabilities		2.6	1.5
Accrued expenses	20	3.2	3.2
Total current liabilities		50.6	56.1
TOTAL EQUITY AND LIABILITIES		607.6	568.2

Parent Company statement of changes in equity

SEK m	Share capital	Share premium reserve	Retained earnings	Total equity
Opening balance, January 1, 2019	139.7	254.1	108.5	502.3
Warrant payment		0.4		0.4
Value of share-based remuneration			3.9	3.9
Dividend			-68.1	-68.1
Total changes in equity not recognized in the income statement		0.4	-64.2	-63.8
Profit for the year			73.6	73.6
Other comprehensive income				
Total comprehensive income			73.6	73.6
Opening balance, January 1, 2020	139.7	254.5	117.9	512.1
Warrant payment		0.1		0.1
Value of share-based remuneration			1.1	1.1
Dividend			-	-
Total changes in equity not recognized in the income statement		0.1	1.1	1.2
Profit for the year			43.8	43.8
Other comprehensive income				
Total comprehensive income			43.8	43.8
CLOSING BALANCE, DECEMBER 31, 2020	139.7	254.6	162.7	557.0

COMMENTS ON THE STATEMENT OF CHANGES IN EQUITY:

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

Parent Company cash flow statement

SEK m	Note	2020	2019
Operating activities			
Incoming payments from subsidiaries		13.9	13.5
Outgoing payments to suppliers and employees		-17.9	-20.4
Cash flow from operating activities before interest and income taxes paid		-4.0	-6.9
Interest received		1.8	1.2
Interest paid		-0.6	-1.2
Adjustments for exchange differences		-10.4	1.4
Income taxes paid		-20.2	-21.1
Cash flow from operating activities		-33.4	-26.6
Investing activities			
Investments in property, plant and equipment		-0.1	-0.0
Acquisition of subsidiaries	22	0.0	-18.6
Cash flow from investing activities		-0.1	-18.6
Financing activities			
Dividends paid		-	-68.1
Share warrants incoming payments		0.1	0.2
Share buybacks		-	-0.0
Change in borrowings to/from subsidiaries		-30.9	-16.7
Borrowings		-	30.4
Amortization of borrowings		-7.4	-5.5
Group contributions		71.0	97.0
Cash flow from financing activities		32.8	37.3
Cash flow for the year		-0.7	-8.0
Cash and cash equivalents at beginning of year		1.3	9.3
CASH AND CASH EQUIVALENTS AT END OF YEAR	16	0.6	1.3

Notes

Note 1. Summary of significant accounting policies

General

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

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

The consolidated financial statements were approved for publication by the Board of Directors on March 15, 2021.

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 2020

The Group applies the following new or amended IFRS from the IFRS Interpretations Committee as of January 1, 2020:

Standards	To be applied for financial years beginning:
Changes in references to conceptual framework in IFRS	On or after Jan 1, 2020
Changes in IFRS 3 Business Combinations: Definition of a Business*	On or after Jan 1, 2020
Changes in IAS 1 and IAS 8: Definition of Material*	On or after Jan 1, 2020
Changes in IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform*	On or after Jan 1, 2020
IFRS 16 Leases: Covid-19-Related Rent Concessions	On or after Jan 1, 2020

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

New and changed standards and interpretations that are not yet effective

The new or amended standards and new interpretations that have been issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) but are effective for financial years starting on or after January 1, 2021 have not yet been applied by the Group.

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

Standards	To be applied for financial years beginning:
Changes in IFRS 3, IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	On or after January 1, 2021
Changes in IAS 1*	January 1, 2023

* Not yet approved within the EU.

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

Revenue recognition

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

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

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

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

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.

CONT. NOTE 1

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:

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

CONT. NOTE 1

The following exchange rates have been used:

Country	Currency	Closing day rate	Average rate
USA	USD 1	8.1886 (9.3171)	9.2037 (9.4604)
France, Germany	EUR 1	10.0375 (10.4336)	10.4867 (10.5892)
UK	GBP 1	11.0873 (12.2145)	11.7981 (12.0658)
Japan	JPY 1	0.0792 (0.0853)	0.0862 (0.0868)
China	CNY 1	1.2537 (1.3333)	1.3329 (1.3691)
Taiwan	NTD 1	0.2833 (-)	0.3038 (-)
South Korea	KRW 1	0.0075 (0.0081)	0.0078 (0.0082)

1.6 Property, plant and equipment

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

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

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

Recognition of right-of-use assets

On initial recognition, the right-of-use asset is recognized at the value of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The carrying amount of the right-of-use asset is subsequently reduced by the accumulated depreciation and any impairment. Depreciation begins on the commencement date of the lease. The Group applies IAS 36 Impairment of Assets to determine whether the carrying amount of a right-of-use asset exceeds its recoverable amount. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and right-of-use asset. These lease payments are recognized as an expense in the period when the event or the terms that trigger these payments occur and are included in the item "Other external expenses" in consolidated profit or loss.

As a practical expedient, IFRS 16 permits a lessee to report each lease component and relevant non-lease component as a single component rather than separating non-lease components from lease components. The Group does not apply this exception. IAR Systems uses the following practical expedients permitted under IFRS 16:

- › Lease payments on a lease that, at the commencement date, had a term of 12 months or less are recognized as a cost in the relevant period.
- › Short-term leases (12 months or less) and leases where the underlying asset has a low value (USD 5,000 or less) are not recognized in the balance sheet but in the same manner as operating leases were previously recognized.

1.7 Intangible assets

a) Goodwill

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

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

b) Technology

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

CONT. NOTE 1

recognition, internally generated intangible assets are recognized at cost less accumulated amortization and any accumulated impairment.

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

1.8 Impairment losses

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

1.9 Inventories

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

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

1.10 Financial assets and liabilities

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

Recognition and measurement of financial assets

Financial assets are measured according to three categories:

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

Investments in equity instruments are measured at fair value. In cases where Group management has chosen to recognize changes in the fair value of equity instruments through

other comprehensive income, the changes in fair value are not subsequently reclassified to profit or loss when the instrument has been derecognized from the balance sheet. Dividend from such investments are recognized in profit or loss as other income when the Group's right to receive payment has been established. All of the Group's financial assets are recognized at amortized cost. The credit reserve for trade receivables and contract assets is based on expected losses. IAR Systems uses the simplified approach for trade receivables, meaning that the reserve will correspond to the expected loss for the entire useful life. The expected credit losses for these financial assets are calculated using a provision matrix based on previous events, current conditions and forecasts of future financial conditions and the time value of money, where applicable.

Recognition and measurement of financial liabilities

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

1.11 Cash and cash equivalents

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

1.12 Lease liabilities

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

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

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

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

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

- › The term of the lease has changed, or the Group has changed its assessment of whether it will exercise a purchase option. The lease liability is remeasured by discounting the adjusted lease payments using an adjusted discount rate.
- › 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.

CONT. NOTE 1

- › The lease changes and the change is not recognized as a separate lease. In such cases, lease payments are remeasured by discounting the adjusted lease payments using an adjusted discount rate.

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

1.13 Borrowings

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

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

1.14 Trade payables

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

1.15 Current and deferred tax

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

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

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

Deferred tax is calculated according to the balance sheet method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts. Temporary differences are not recognized for consolidated goodwill or shares in subsidiaries that are not expected to be taxed in the foreseeable future. Deferred tax assets relating to tax loss carryforwards or other future tax deductions are recognized only to the extent that it is probable that future taxable profit will be available against which the deduction can be utilized.

1.16 Provisions

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

1.17 Employee benefits

a) Pension obligations

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

b) Termination benefits

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

c) Bonus plans

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

d) Share-based remuneration

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

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

1.18 Foreign exchange gains and losses

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

1.19 Borrowing costs

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

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1.20 Cash flow statement

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

Parent Company**1.21 Accounting policies of the Parent Company**

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

With consideration given to the connection between accounting and taxation, IFRS 16 does not need to be applied in legal entities. The Parent Company has chosen to apply this exemption.

Amendments to accounting policies

The amendments to RFR 2 Accounting for Legal Entities that took effect and apply for the 2020 financial year are the same as those presented for the Group.

Amendments to RFR 2 that are not yet effective

The Parent Company has not yet begun to apply the amendments to RFR 2 Accounting for Legal Entities that took effect January 1, 2021 or later. Management's assessment is that these amendments will not have any material impact on the Parent Company's financial statements when they are applied for the first time.

1.22 Group contributions

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

1.23 Leases

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

1.24 Dividends

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

1.25 Participations in Group companies

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

Critical accounting estimates and judgments

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

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

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

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

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

The estimated operating margin used in the calculation of value in use is based on past performance and management's expectations for market development. For year one, this corresponds to the budget and business plan established by the Board of Directors. For years two to five, this corresponds to management's forecasts. Cash flows beyond the five-year period are extrapolated based on an estimated operating margin on a level with year five. The discount rates used, 10.4% (6.2), 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, 10.4% (6.2), are stated before tax and are deemed to reflect specific risks relating to the asset. No reasonable potential change to the key assumption would lead to impairment.

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

b) Measurement at fair value in connection with business combinations

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

c) Income tax

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

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As of December 31, 2020, the Group had accumulated loss carryforwards outside Sweden of SEK 159m, of which SEK 91m (122) are reported in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 3.5m (5.3), of which SEK 15.4m (19.9) pertains to loss carryforwards. Loss carryforwards can be attributed to the Group's operations in the UK. Through its subsidiary in England, the Group exercised its right to tax relief related to research and development expenses. After the application was approved, the tax relief was received in the form of payments of loss carryforwards connected to research and development costs, in this case related to the 2018 and 2019 financial years. This supplied the Group with SEK 18.8m during the second quarter of 2020. Upon payment, the aggregate loss carryforwards were reduced by an equivalent amount. The payment affects the cash flow but not the income statement for the period. The estimated equivalent payment in 2021 is SEK 11.0m.

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

d) Revenue recognition

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.

e) Exchange differences in inter-company loans

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

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

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

Note 2. Financial risk management

Operational risks

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

Customers

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

Employees

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

Technology

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

Competitors

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

Business cycle

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

Financial risk factors

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

Management identifies, evaluates and hedges financial risks.

a) Foreign exchange risk

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

CONT. NOTE 2

The Group's sales in foreign currency, mainly USD, EUR and JPY, account for approximately 94% (92) of total sales. Of the cost of goods sold, which accounts for about 5% (4) of the Group's cost base, approximately 51% (51) of purchases are denominated in foreign currency, primarily in USD, EUR, GBP and JPY.

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

SEK m	Total	SEK	USD	EUR	GBP	JPY	Other currencies
Sales	372.0	24.1	137.8	105.6	11.7	70.5	22.3
Cost of goods sold	14.1	2.5	5.2	2.0	1.1	3.2	0.0
Other expenses	274.1	138.7	63.7	7.2	31.2	25.6	7.7

b) Credit risk

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

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

Credit risks in trade receivables and contract receivables

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

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

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

Based on this, the loss allowance for trade receivables on December 31, 2020 was determined as follows:

At December 31, 2020	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, %	1.0%	1.5%	2%	22.0%	100%	2.2%
Trade receivables, gross	46.8	8.5	2.8	1.6	0.4	60.0
Credit loss allowance	0.4	0.1	0.1	0.3	0.4	1.3

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, 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	-	-	-	-
Leases	17.1	24.7	7.0	-
Bank overdraft facilities	17.5	-	-	-
Trade and other payables ¹	15.5	-	-	-
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 ¹	23.4	-	-	-

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

Sensitivity analysis

The risks described here and in the administration report can result in either lower revenue or higher expenses for the Group. The table below shows the effects on consolidated profit or loss after tax resulting from changes in a number of items in the income statement. Since the Group does not recognize any value changes in other comprehensive income, the corresponding effect occurs under equity.

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

CONT. NOTE 2

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 – GBP	+/- 5%	+/- SEK 1.0m
Currency – JPY	+/- 5%	+/- SEK 2.4m
Variable interest	+/- 1 percentage point	-/+ SEK 0.2m

Capital risk management

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

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

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, 2020 and 2019 was as follows:

	2020	2019
Total borrowings (Note 17)	66.3	79.1
Less cash and cash equivalents (Note 17)	-67.8	-60.7
Net debt	-1.5	18.4
Total equity	613.4	592.0
Total capital	611.9	610.4
Net debt/equity ratio	-0.3%	3.0%

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	
	2020	2019	2020	2019	2020	2019
Americas						
USA	117.9	122.2	29.8	23.2	11.8	19.9
Other countries	7.2	12.7	-	-	-	-
	125.1	134.9	29.8	23.2	11.8	19.9
Asia						
Japan	66.0	71.8	2.5	1.5	2.2	0.0
Other countries	51.7	56.6	3.5	4.4	0.0	3.4
	117.7	128.5	6.0	5.9	2.2	3.4
EMEA						
UK	12.3	15.6	348.2	353.9	37.7	46.6
Germany	38.1	47.9	3.4	4.3	0.0	4.4
Other countries	63.6	63.2	0.0	0.0	0.0	0.0
	114.0	126.7	351.6	358.3	37.7	51.0
Nordic region						
Sweden	7.0	6.0	243.7	243.9	42.3	49.3
Other countries	8.0	9.2	-	-	-	-
	15.0	15.2	243.7	243.9	42.3	49.3
Total	372.0	405.6	631.1	631.2	94.1	123.6

No single customer accounted for 10% or more of the Group's net sales in 2020 and 2019. The geographical areas in the table above pertaining to net sales reflect the geographical regions to which the customer belongs.

Note 4. Revenue from Contracts with Customers and contract balance

Net sales are distributed as follows:

SEK m	2020	2019
Development tools	367.0	403.9
Security products	5.0	1.7
Net sales	372.0	405.6
SEK m	2020	2019
License-based revenue	212.4	236.3
Support and software updates	145.2	146.3
Royalty-based revenue	-	5.9
Other	14.4	17.1
Net sales	372.0	405.6
At a certain point in time	226.8	253.4
Over time	145.2	152.2
Net sales	372.0	405.6
Americas	132.0	141.2
Asia	101.9	111.3
Europe	135.5	144.5
Not allocated by region	2.6	8.6
Net sales	372.0	405.6

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

Contract balances are recognized as follows:

SEK m	Group		
	Dec 31, 2020	Dec 31, 2019	Jan 1, 2019
Contract assets			
Licenses	38.6	24.7	21.7
Contract liabilities			
Technical support and software updates	84.3	85.2	79.0

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 85.2m (79.0) 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			Total
	2021	2022	2023–2025	
Technical support and software updates	75.8	4.4	4.1	84.3

Dec 31, 2019

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

Note 5. Other external expenses

FEES TO AUDITORS

SEK m	Group		Parent Company	
	2020	2019	2020	2019
Deloitte				
Audit of the financial statements	0.9	0.7	-	-
Audit-related services other than the audit of the financial statements	-	-	-	-
Tax consultancy	0.2	0.3	-	-
Other services	-	0.2	-	0.2
Total Deloitte	1.1	1.2	-	0.2
Audit of the financial statements	0.1	0.2	-	0.0
Tax consultancy	0.5	0.1	-	0.0
Other services	-	-	-	-
Total fees to auditors	1.7	1.5	-	0.2

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

Note 6. Personnel costs

Average number of employees

The average number of employees in the Group during 2020 was 208 (201). The breakdown of the average number of employees by country and, in Sweden, by location, is shown in the table below.

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

AVERAGE NUMBER OF EMPLOYEES

	2020		2019	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Parent Company				
Stockholm	4	50%	4	75%
Subsidiaries in Sweden				
Uppsala	101	77%	96	79%
Subsidiaries outside Sweden				
Germany	3	67%	4	75%
France	2	50%	2	50%
UK	37	86%	36	89%
USA	37	62%	37	65%
South Korea	4	50%	4	75%
China	2	50%	3	67%
Taiwan	2	100%	-	-
Japan	16	63%	15	67%
Total subsidiaries	204	74%	197	77%
Total Group	208	74%	201	77%

GENDER DISTRIBUTION AMONG SENIOR EXECUTIVES IN THE GROUP

	2020		2019	
	No. of employees	Of whom, men	No. of employees	Of whom, men
Group (incl. subsidiaries)				
Board members	5	80%	5	80%
CEO and other senior executives	5	80%	5	100%
Presidents of subsidiaries	1	100%	1	100%
Parent Company				
Board members	5	80%	5	80%
CEO and other senior executives	3	67%	2	100%

Salaries, other remuneration and social security expenses

The Group's total payroll costs amounted to SEK 235.0m (229.2), of which social security expenses accounted for SEK 39.5m (41.2) and pensions for SEK 17.3m (14.1). Of the Group's total payroll costs, SEK 65.2m (67.3) has been spent on assets and has been capitalized as internally generated development costs.

SEK m	2020		2019	
	Salaries and other remuneration	Social security expenses (of which pension costs)	Salaries and other remuneration	Social security expenses (of which pension costs)
Parent Company	8.5	6.1 (2.7)	8.2	3.9 (1.0)
Subsidiaries	169.7	50.7 (14.6)	165.7	51.4 (13.1)
Total Group	178.2	56.8 (17.3)	173.9	55.3 (14.1)

Of the Group's total pension costs, SEK 0.5m (0.3) is attributable to Board members and presidents. Of the Parent Company's total pension costs, SEK 0.5m (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	2020		2019	
	Board, CEO and other senior executives	Other employees	Board, CEO and other senior executives	Other employees
Parent Company	10.7	0.5	7.8	1.4
Subsidiaries in Sweden	2.1	73.7	3.0	70.5
Subsidiaries outside Sweden	2.5	106.0	2.5	101.7
Total Group	15.3	180.2	14.4	173.6

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. "Other senior executives" refers to the CFO, Chief of Operations, General Manager Embedded Development Tools and General Manager Embedded Security Solutions.

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 2020, the Group applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM.

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

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

Variable remuneration

For the CEO, variable remuneration for 2020 was based on the Group's sales, operating profit and net cash. The bonus amount for 2020 was equal to 0% (0) of basic salary. For the other senior executives, the bonus for 2020 was based on the Group's sales and operating profit. The bonus amount for other senior executives in 2020 was equal to 0% (0) of basic salary.

Pension agreements

The CEO is covered by pension insurance corresponding to the ITP plan, but with a contractual retirement age of 62 (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 another senior executive, the notice period is six months.

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

REMUNERATION AND OTHER BENEFITS DURING THE YEAR

Remuneration to the Board of Directors, CEO and other senior executives in 2020

SEK m	Fixed salary/ Board fees		Variable salary		Other benefits		Pension expenses		Share-based remuneration		Other remuneration		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Board Chairman Maria Wasing	0.4	0.4											0.4	0.4
Board member Kent Sander	0.2	0.2											0.2	0.2
Board member Fred Wikström	0.2	0.1											0.2	0.1
Board member Michael Ingelög	0.2	0.1											0.2	0.1
Board member Richard Lind	0.2	0.1											0.2	0.1
Board member Lisa Kaati	-	0.1											-	0.1
Board member Helena Nordman-Knutson	-	0.1											-	0.1
CEO Stefan Skarin	3.5 *	3.7*	-	-	0.2	0.2	0.5	0.3	0.0	0.1	-	-	4.2	4.3
Other senior executives, 4 (4)	7.0	6.7	-	-	0.2	0.2	2.9	1.2	0.0	0.1	-	-	10.1	8.2
Total	11.7	11.5	-	-	0.4	0.4	3.4	1.5	0.0	0.2	-	-	15.3	13.6

* of which vacation pay 0.3 (0.5).

Incentive programs**CHANGES IN THE NUMBER OF OUTSTANDING WARRANTS**

SEK m	LTIP 2019		LTIP 2018		Exchange program	
	2020	2019	2020	2019	2020	2019
At beginning of year	270,200	-	294,200	447,500	39,987	60,348
Allotted	-	418,000	-	-	-	-
Exercised	-	-	-	-	- 5,684	-8,762
Forfeited/past due	-154,774	-147,800	-149,215	-153,300	-9,025	-11,599
At end of year	115,426	270,200	144,985	294,200	25,278	39,987

Information about warrant programs**LTIP 2019**

In accordance with the decision of the AGM on April 24, 2019, a long-term incentive program for I.A.R. Systems Group employees has been introduced ("LTIP 2019"). The program encompasses a total of 532,500 warrants, of which 418,000 were acquired or allocated under LTIP 2019. The warrants entitle the holder to subscribe for or acquire one class B share in the company according to the conditions below. In total, LTIP 2019 corresponds to about 3.6% of the share capital and approximately 3.4% of the votes in the company after dilution.

LTIP 2019 consists of two different types of warrants: share warrants and stock options. The share warrants are intended for employees in Sweden and the stock options are intended for employees outside Sweden. The final number of warrants to which each participant is entitled is dependent on the degree to which the Group's performance conditions are fulfilled. The performance conditions are based on average annual growth of the Group's net sales for the 2019, 2020 and 2021 financial years. The performance condition targets are presented in the table below and the relative weight of each performance condition is one third.

CONT. NOTE 6

Performance conditions	Minimum level	Maximum level
Growth in net sales, 2019	5%	10%
Growth in net sales, 2020	5%	10%
Growth in net sales, 2021	5%	10%

For share warrants, participants are invited to acquire a certain number of warrants. The market price of the warrants, according to the pricing model from Black & Scholes, is calculated as SEK 16.67. The participants have paid SEK 11.17, which is the calculated market price adjusted for performance conditions. Other assumptions include expected volatility of 22.5%, interest of -0.5%, and a dividend corresponding to SEK 5. Based on performance condition fulfillment, each share warrant grants entitlement to subscribe for one new class B share during the period from May 1 to May 31, 2022 for a price corresponding to 120% of the volume-weighted average price paid for the company's share on Nasdaq Stockholm from May 3 to May 13, 2019, which is fixed at SEK 347.70. A total of 63,000 share warrants were acquired by the participants, of which 42,485 have been forfeited because the employees terminated their employment after the allotment and the performance condition was not fulfilled.

For stock options, participants are allocated stock options at no cost, which may not be pledged or transferred. The stock options are vested at a rate of one third per year from the date of allotment. Based on performance condition fulfillment, each stock option grants entitlement to acquire one new class B share during the period from May 1 to May 31, 2022 for a price corresponding to 120% of the volume-weighted average price paid for the company's share on Nasdaq Stockholm from May 3 to May 13, 2019, which is fixed at SEK 347.70. A total of 355,000 stock options were allotted to the participants, of which 260,089 have been forfeited because the employees terminated their employment after the allotment and the performance condition was not fulfilled.

LTIP 2019 is recognized in accordance with IFRS 2 Share-based Payment, which means that the cost of the warrant program is recognized on a straight-line basis during the vesting period. The total cost of the warrant program is estimated at SEK 3.2m, of which SEK 0.5m has been charged to profit for the period.

LTIP 2018

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

LTIP 2018 consists of two different types of warrants: share warrants and stock options. The share warrants are intended for employees in Sweden and the stock options are intended for employees outside Sweden. The final number of warrants to which each participant is entitled is dependent on the degree to which the Group's performance conditions are fulfilled. The performance conditions are based on average annual growth of the Group's net sales for the 2018, 2019 and 2020 financial years. The performance condition targets are presented in the table below and the relative weight of each performance condition is one third.

Performance conditions	Minimum level	Maximum level
Growth in net sales, 2018	5%	10%
Growth in net sales, 2019	5%	10%
Growth in net sales, 2020	5%	10%

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

For stock options, participants are allocated stock options at no cost, which may not be pledged or transferred and are conditional on continued employment for three years. The stock options are vested at a rate of one third per year from the date of allotment. Based on performance condition fulfillment, each stock option grants entitlement to acquire one new class B share during the period from August 20, 2021 to September 17, 2021 for a price corresponding to 120% of the volume-weighted average price paid for the company's share on Nasdaq Stockholm during the ten trading days immediately preceding the date of stock option allocation, which is fixed at SEK 330.00. A total of 254,000 stock options were allotted to the participants, of which 194,678 have been forfeited because the employees terminated their employment after the allotment and the performance condition was not fulfilled.

LTIP 2018 is recognized in accordance with IFRS 2, which means that the cost of the warrant program is recognized on a straight-line basis during the vesting period. The total cost of the warrant program is estimated at SEK 7.2m, of which SEK 1.8m 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 5,684 (8,762) stock options were exercised in 2020.

Note 7. Financial income and expenses

SEK m	Group		Parent Company	
	2020	2019	2020	2019
Interest income	0.1	0.0	1.8	1.2
Exchange differences	0.4	1.2	-	1.4
Total financial income	0.5	1.2	1.8	2.5
Interest expenses	-1.0	-1.9	-0.6	-1.7
Exchange differences	-5.7	-	-10.4	-
Finance leases	-0.8	-0.7	-	-
Total financial expenses	-7.5	-2.6	-11.0	-1.7
Net financial items	-7.0	-1.4	-9.2	0.8

Note 8. Tax

The following components are included in the tax expense.

SEK m	Group		Parent Company	
	2020	2019	2020	2019
Current tax on profit for the year	-14.5	-24.6	-11.9	-20.1
Deferred tax	-2.9	-1.2	-	-
Total tax on profit for the year	-17.4	-25.8	-11.9	-20.1

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

SEK m	Group		Parent Company	
	2020	2019	2020	2019
The year's deferred tax expense/income				
intangible assets	-9.7	-13.9	-	-
change in loss carryforwards	10.3	14.3	-	-
support and upgrade agreements	-2.7	-0.5	-	-
untaxed reserves	0.3	0.4	-	-
other temporary differences	-1.1	-1.5	-	-
Total deferred tax in the income statement	-2.9	-1.2	-	-

SEK m	Group		Parent Company	
	2020	2019	2020	2019
Reconciliation between effective tax and tax based on the applicable tax rate				
Reported profit before tax	76.8	107.0	55.7	93.7
Tax according to the applicable tax rate of 21.4%	-16.4	-22.9	-11.9	-20.1
Difference in foreign tax rates	-1.1	-	-	-
Tax effect of future tax rates	0.2	-0.7	-	-
Tax effect of non-deductible expenses	-0.1	-0.2	-0.0	-0.0
Tax effect of non-taxable income	0.0	0.0	0.0	0.0
Total	-17.4	-25.8	-11.9	-20.1
Prior year adjustments of current tax recognized in the current year	-	-	-	-
Tax on profit for the year according to the income statement	-17.4	-25.8	-11.9	-20.1

The tax effect of items recognized in comprehensive income amounted to SEK 2.2m (0.0).

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%. Sweden has decided to lower its tax rate to 20.6% 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.

SEK m	Group		Parent Company	
	2020	2019	2020	2019
Deferred tax liabilities attributable to intangible assets	-48.3	-40.3	-	-
Deferred tax liabilities attributable to untaxed reserves	-0.4	-0.7	-	-
Deferred tax liabilities attributable to other temporary differences	-6.6	-4.3	-	-
Amounts offset against deferred tax assets under offset rules	18.1	18.8	-	-
Total deferred tax liabilities	-37.2	-26.5	-	-
Deferred tax assets attributable to loss carryforwards	15.4	19.9	-	-
Deferred tax assets attributable to support and upgrade agreements	2.5	1.8	-	-
Deferred tax assets attributable to other temporary differences	3.7	2.5	-	-
Amounts offset against deferred tax liabilities under offset rules	-18.1	-18.8	-	-
Total deferred tax assets	3.5	5.3	-	-
Total deferred tax assets, net	-33.7	-21.2	-	-

As of December 31, 2020, the Group had accumulated loss carryforwards outside Sweden of SEK 159m, of which SEK 91m (122) are expected to be utilized in the foreseeable future, with loss carryforwards of SEK 15.4m (19.9) recognized in the consolidated balance sheet. The deferred tax asset is recognized in the balance sheet in an amount of SEK 3.5m (5.3), and the deferred tax liability is recognized in an amount of SEK 37.2m (26.5). The item deferred tax asset also includes deferred tax liabilities that will be recognized in a net amount since they are connected to the same tax subject. The tax relief payment in England for 2021 connected to research and development costs is estimated at approximately SEK 11.0m (18.8). The payment reduced aggregate loss carryforwards by an equivalent amount.

Note 9. Earnings per share

	Group	
	2020	2019
Profit, SEK m	59.4	81.2
Basic earnings per share, SEK	4.35	5.96
Earnings per share, diluted, SEK	4.35	5.95
No. of shares		
Average number of shares before dilution, million	13.63	13.63
Average no. of shares, diluted, million	13.65	13.66

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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Opening cost	357.2	339.3	11.7	11.7	38.2	35.3	29.3	27.1	251.8	165.0	688.2	578.4
Investments	-	-	-	-	-	-	1.3	2.1	77.7	81.9	79.0	84.0
Translation differences	-24.5	17.9	-	-	-3.5	2.9	-0.2	0.1	-19.5	4.9	-47.7	25.8
Sales and disposals	-	-	-	-	-	-	-	-	-	-	-	-
Closing accumulated cost	332.7	357.2	11.7	11.7	34.7	38.2	30.4	29.3	310.0	251.8	719.7	688.2
Opening amortization	-	-	-11.5	-10.7	-4.9	-1.8	-21.2	-17.1	-82.9	-64.7	-120.5	-94.3
Sales and disposals	-	-	-	-	-	-	-	-	-	-	-	-
Translation differences	-	-	-	-	0.3	-0.2	0.1	-	5.9	-1.5	6.2	-1.7
Amortization for the year	-	-	-0.2	-0.8	-2.8	-2.9	-3.9	-4.1	-21.7	-16.7	-28.6	-24.5
Closing accumulated depreciation	-	-	-11.7	-11.5	-7.4	-4.9	-25.0	-21.2	-98.7	-82.9	-143.0	-120.5
Opening impairment	-	-	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-	-
Closing accumulated impairment	-	-	-	-	-	-	-	-	-	-	-	-
Carrying amount	332.7	357.2	0.0	0.2	27.3	33.3	5.4	8.1	211.3	168.9	576.7	567.7

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 79.0m (84.0), SEK 1.3m (2.1) pertains to software and SEK 77.7m (81.9) pertains to internally generated software development costs. Of the internally generated costs, SEK 65.2m (67.3) pertains to personnel costs.

Impairment testing of intangible assets

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

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

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

The discount rates used, 10.4% (6.2) for IAR Systems, are stated before tax and are deemed to reflect specific risks relating to the assets.

Assumption	Growth rate	Operating margin	Discount rate (before tax)
Year 1 (budget)	Acc. to the Board's adopted budget	Acc. to the Board's adopted budget	10.4% (6.2%)
Years 2–5 (forecast period)	Acc. to management's estimated forecast	Acc. to management's estimated forecast	10.4% (6.2%)
Terminal value	2% (2%)	On par with year 4	10.4% (6.2%)

CONT. NOTE 10.

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

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

Merger of the cash-generating units

Goodwill was tested for impairment at the lowest level. Since 2018, the lowest levels in the Group have been the two cash-generating units: IAR Systems and Secure Thingz. The Secure Thingz cash-generating unit was established after the acquisition of Secure Thingz in April 2018. The acquisition basis for IAR Group was to expand its offering to include security, a focus area within the market for digital products that is expected to grow drastically in the coming years. The growth of the Group after the acquisition, especially in 2020, provided further information on which to base the decision as to what is considered the lowest level in the Group.

Organization: In April 2020, a new internal organization was presented, with the sales organization from Secure Thingz now fully dissolved and integrated into IAR Group's sales and marketing organization. The new organization clarified that the Group has two development departments, Embedded Security Solutions and Embedded Development Tools, that work together, in accordance with the decisions made by Group management and the CEO, to develop products for the Group's joint sales and marketing organization.

Technical dependence: The IAR Group's security offering currently consists of three products: Embedded Trust, C-Trust and Secure Desktop Provisioner. The common

denominator in all of these products is their technical dependence on IAR Embedded Workbench. Moreover, the products were all developed together with IAR's Embedded Development Tools department to be a part of the IAR Embedded Workbench toolchain.

Sales dependence: Sales of the three products listed above are 100% dependent on IAR Embedded Workbench, since they are technologically dependent on the software and are always sold in combination with IAR Embedded Workbench. One example is IAR's Inception Suite offering, which is a combination of the products Embedded Trust, C-Trust, Secure Desktop Provisioner, IAR Embedded Workbench, C-STAT and I-jet. Today, essentially all security sales are made to existing IAR customers who are already familiar with IAR Embedded Workbench and by the same IAR sales representative who sells "classic" IAR products as an extension or an integrated part of IAR Embedded Workbench.

Summary: According to IAS 36.6, a cash-generating unit is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or groups of assets. As described above regarding the organization, technological dependence and sales dependence of IAR Group's security offering, the assessment is that this part of the Group cannot be considered largely independent of cash flows from other assets, because the link to, and technical dependence on, IAR Embedded Workbench very clearly permeates the offering. Taking all of this into consideration, the conclusion is that the previous cash-generating unit Secure Thingz will be combined with the cash-generating unit IAR Systems since security sales can no longer be considered independent of the cash flows from other assets. The combination of these two cash-generating units will be called IAR Systems. As a result of this, goodwill and other assets from Secure Thingz have been distributed to the cash-generating unit IAR Systems when the impairment test in accordance with IAS 36 was carried out.

Note 11. Property, plant and equipment

	Right-of-use assets		Leasehold improvements		Equipment		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
GROUP, SEK m								
Opening cost	67.0	30.5	3.0	1.9	24.8	23.0	94.8	55.4
Investments	12.0	36.1	0.0	0.8	3.1	2.7	15.1	39.6
Translation differences	-4.4	1.6	-0.2	0.2	-0.7	0.9	-5.3	2.7
Sales and disposals	-0.9	-1.2	-	-	-1.2	-1.7	-2.1	-2.9
Closing accumulated cost	73.6	67.0	2.8	3.0	26.0	24.8	102.4	94.8
Opening amortization	-10.7	-0.9	-1.2	-0.6	-18.0	-17.3	-29.0	-18.8
Sales and disposals	0.3	-	-	-	0.4	1.6	0.7	1.6
Translation differences	0.8	-	0.1	-0.2	0.5	-0.2	1.4	-0.4
Depreciation of leases for the year	-17.2	-9.8	-	-	-	-	-17.2	-9.8
Amortization for the year	-	-	-0.4	-0.4	-2.7	-2.1	-3.1	-2.5
Closing accumulated depreciation	-26.8	-10.7	-1.5	-1.2	-19.8	-18.0	-48.1	-29.0
Carrying amount	46.9	56.3	1.3	1.8	6.2	6.8	54.4	64.9

CONT. NOTE 11

PARENT COMPANY, SEK m	2020	2019	2020	2019	2020	2019
Opening cost	-	-	0.6	0.6	0.6	0.6
Investments	-	-	0.1	0.0	0.1	0.0
Sales and disposals	-	-	-	-	-	-
Closing accumulated cost	-	-	0.7	0.6	0.7	0.6
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
Closing accumulated depreciation	-	-	-0.5	-0.5	-0.5	-0.5
Carrying amount	-	-	0.2	0.1	0.2	0.1

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

Leases Parent Company

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

SEK m	Parent Company	
	2020	2019
Due for payment within 1 year	0.5	0.3
Due for payment within 2 years	0.1	0.3
Due for payment within 3 years	0.1	0.3
Due for payment within 4 years	-	-
Due for payment in 5 years or later	-	-

Leases Group

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

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

When the length of the lease is determined, management considers all available information that creates an economic incentive to exercise an extension option, or to not exercise an option to terminate the lease. The option to extend a lease is only included in

the length of a lease if it is reasonable to assume that the lease will be extended (or not terminated). On December 31, 2020, 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, 2020 was SEK 73.6m (67.0).

Accumulated depreciation at year-end amounted to SEK 26.8m (10.7). 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	2020	2019
Current portion (due within 1 year)	17.1	13.1
Non-current portion (due within 5 years)	31.7	41.1
Non-current portion (due later than 5 years)	-	-
Total	48.8	54.2

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

GROUP, SEK m	2020	2019
Depreciation of right-of-use assets	-17.2	-9.8
Interest expenses for lease liabilities	-0.8	-0.7
Expenses attributable to short-term leases and low-value leases	-0.6	-7.1
Total	-18.6	-17.6

Note 12. Other non-current receivables

SEK m	Group		Parent Company	
	2020	2019	2020	2019
Deposits	2.6	2.0	0.1	0.1
Other	0.3	0.4	-	-
	2.9	2.4	0.1	0.1

Note 13. Trade and other receivables

SEK m	Group	
	2020	2019
Trade receivables	60.0	67.6
Reserve for expected credit losses	-1.3	-1.0
Trade receivables, net	58.7	66.6
Prepaid expenses and accrued income	52.7	47.5
Other receivables	11.1	4.6
	122.5	118.7

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 below:

AGE ANALYSIS OF PAST DUE TRADE RECEIVABLES

SEK m	Group	
	2020	2019
Less than 3 months	12.0	17.2
3–6 months	0.8	1.4
More than 6 months	0.4	1.1
	13.2	19.7

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

Currency	Group	
	2020	2019
SEK	20.1	16.9
EUR	39.6	35.1
USD	39.8	44.4
Other currencies	23.0	22.3
	122.5	118.7

CHANGES IN PROVISIONS FOR DOUBTFUL DEBTS

SEK m	Group	
	2020	2019
Provisions at January 1	1.0	0.7
The year's provisions for doubtful debts	1.1	1.1
Receivables written off during the year as uncollectable	-0.7	-0.7
Reversed unutilized amount	-0.1	-0.1
Provisions at December 31	1.3	1.0

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, 2020.

Note 14. Other current receivables

SEK m	Group		Parent Company	
	2020	2019	2020	2019
Tax assets	6.7	1.5	5.2	0.2
Other	4.4	3.1	2.7	0.0
Total other current receivables	11.1	4.6	7.9	0.2

Note 15. Prepaid expenses and accrued income

SEK m	Group		Parent Company	
	2020	2019	2020	2019
Accrued income	38.6	31.9	-	-
Prepaid rents	3.9	2.2	0.1	0.1
Prepaid insurance premiums	1.7	1.5	0.1	0.1
Other prepaid expenses	8.5	11.9	0.8	1.4
Total prepaid expenses and accrued income	52.7	47.5	1.0	1.6

Note 16. Cash and cash equivalents

SEK m	Group		Parent Company	
	2020	2019	2020	2019
Cash in hand and bank deposits	67.8	60.7	0.6	1.3
Cash and cash equivalents at end of year	67.8	60.7	0.6	1.3
Unutilized committed credit facilities	207.5	200.1	207.5	200.1
Total available cash and cash equivalents	275.3	260.8	208.1	201.4

Note 17. Financial instruments

SEK m, December 31, 2020	2020	2019
Financial assets measured at amortized cost		
Other non-current receivables	2.9	2.4
Inventories	5.7	6.6
Trade receivables	58.7	66.6
Prepaid expenses	14.1	15.6
Accrued income	38.6	31.9
Other financial assets measured at amortized cost	12.8	15.5
Cash and cash equivalents	67.8	60.7
Financial assets measured at fair value through profit or loss		
Derivative instruments	-	-
Financial assets measured at fair value through other comprehensive income		
Other non-current securities	-	-
Total	200.6	199.3
Financial liabilities measured at amortized cost		
Lease liabilities	48.8	54.2
Liabilities to credit institutions	17.5	24.9
Trade payables	5.0	9.2
Other liabilities excluding non-financial liabilities	17.9	14.2
Total	89.2	102.5

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	2020	2019
Cash in hand and bank deposits	67.8	60.7
Cash and cash equivalents	67.8	60.7

Cash flow attributable to liabilities related to financing activities

	Group	
SEK m	2020	2019
Borrowings, bank loans	5.5	30.4
Amortization of bank loans	-13.0	-
Amortization of lease liabilities	-17.2	-14.5
Total	-24.7	-15.9

Net debt

The Group's net debt at December 31, 2020 amounted to SEK -1.5m (18.4). The table below shows how the Group calculates net debt and what it includes.

	Group	
SEK m	2020	2019
Current borrowings	17.5	24.9
Current portion of non-current borrowings	-	-
Current portion of lease liabilities	17.1	13.1
Total current borrowings	34.6	38.0
Non-current borrowings	-	-
Non-current portion of lease liabilities	31.7	41.1
Total non-current borrowings	31.7	41.1
Total borrowings	66.3	79.1
Cash and cash equivalents	67.8	60.7
Net debt	-1.5	18.4
Bank overdraft facility	207.5	200.1

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, 2020 amounted to SEK 66.3m (79.1), of which SEK 31.7m (41.1) pertains to non-current borrowings excluding those maturing in the next 12 months. Non-current borrowings maturing within 12 months amount to SEK 34.6m (38.0). The table below shows the carrying amounts of the Group's interest-bearing liabilities.

			Group	
Type of loan	Interest rate	Currency	2020	2019
Other non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Lease liabilities	Variable	SEK	31.7	41.1
Current portion of non-current liabilities				
Non-current bank loans in Sweden	Variable	SEK	-	-
Lease liabilities	Variable	SEK	17.1	13.1
Bank overdraft facilities	Variable	SEK	17.5	24.9
			66.3	79.1

CONT. NOTE 17.

Information about measurement at fair value

For cash and cash equivalents, trade receivables, trade payables and borrowings, the carrying amount is a good approximation of fair value since the maturity is short. For borrowings, the carrying amount is a good approximation of fair value since the interest rate is variable and the credit margin is relatively unchanged. Financial assets are measured at fair value and are shown in the table below. Fair value is primarily based on own assumptions according to Level 3.

No financial instruments measured at fair value in the Group were acquired/reclassified in 2020.

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, 2019	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
Total number of shares at December 31, 2019	100,000	13,530,475	337,858	13,968,333
Number at January 1, 2020	100,000	13,530,475	337,858	13,968,333
Conversion of class C shares to Class B shares December 2020		5,684	-5,684	0
Total number of shares at December 31, 2020	100,000	13,536,159	332,174	13,968,333

Share capital is divided between 13,968,333 shares, of which 100,000 are class A shares, 13,536,159 are class B shares, and 332,174 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 are all held in treasury and 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	254,480,824.64
Retained earnings	118,952,161.59
Comprehensive income for the year	43,784,803.54
Total, SEK	417,217,789.77

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

To be carried forward to new account	417,217,789.77
Total, SEK	417,217,789.77

Note 20. Accrued expenses

SEK m	Group		Parent Company	
	2020	2019	2020	2019
Accrued salaries and social security expenses	14.2	16.2	3.1	3.1
Other items	1.5	1.5	0.1	0.1
Total accrued expenses	15.7	17.7	3.2	3.2

Note 21. Pledged assets

SEK m	Group		Parent Company	
	2020	2019	2020	2019
To secure own liabilities				
To secure pensions and similar obligations:				
Direct pension obligations	9.1	8.8	8.5	8.3
To secure liabilities to credit institutions:				
Machinery held under - finance leases	2.9	3.7	-	-
Total assets pledged to secure own liabilities	12.0	12.5	8.5	8.3
To secure other commitments				
Guarantees	-	-	-	-
Total pledged assets	12.0	12.5	8.5	8.3

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	
	2020	2019
Opening cost	480.1	476.2
Acquisitions	0.0	0.1
Shareholder contributions (vesting warrants)	1.1	3.8
Closing accumulated cost	481.2	480.1
Opening impairment	-	-
Closing accumulated impairment	-	-
Closing carrying amount	481.2	480.1

PARENT COMPANY HOLDINGS

SEK m	Corp. ID no.	Domicile	% of capital	% of votes	No. of shares	Carrying amount 2020	Carrying amount 2019
Direct holdings:							
I.A.R. Systems AB	556230-7107	Uppsala, Sweden	100.0%	100.0%	22,846,224	163.7	163.6
Signum Systems Corp	1473886	Camarillo, USA	100.0%	100.0%	100,000	27.2	27.2
Secure Thingz Inc	813002824	Foster City, USA	100.0%	100.0%	8,640,112	290.3	289.3
IAR Systems India Private Ltd.	U72900DL2020FTC365795	Bangalore, India	0.1%	0.1%	1	0.0	-
YinvestMIR AB	559154-7699	Uppsala, Sweden	100.0%	100.0%	50,000	0.0	0.0
Indirect holdings through subsidiaries:							
IAR Systems Software Inc	1830665	Foster City, USA	100.0%	100.0%	-	-	-
I.A.R. Systems Ltd	83464820	Taipei, Taiwan	100.0%	100.0%	-	-	-
IAR Systems GmbH	HRB 175145	Munich, Germany	100.0%	100.0%	-	-	-
IAR Systems KK	0111-01-034174	Tokyo, Japan	100.0%	100.0%	-	-	-
IAR Software Development (Shanghai) Co., Ltd.	01000002202003230005	Shanghai, China	100.0%	100.0%	-	-	-
IAR Systems Korea Co	110111-4699679	Seoul, South Korea	100.0%	100.0%	-	-	-
IAR Systems India Private Ltd.	U72900DL2020FTC365795	Bangalore, India	99.9%	99.9%	-	-	-
IAR Systems France Sarl	539 357 327 R.C.S. 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%	-	-	-
Closing carrying amount						481.2	480.1

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, 2020	Dec 31, 2019
Product development offices	Europe	2	2
Product development offices	Americas	1	1
Sales office	Europe	3	2
Sales office	Americas	3	3
Sales office	Asia	5	4

Note 23. Related party transactions

Of the Parent Company's total expenses of SEK 3.6m (4.1), 0% (0) pertains to purchases from other companies in the Group. Of the Parent Company's total sales revenue, 99% (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 27, 2021.

Stockholm, March 15, 2021



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 15, 2021
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 2020-01-01 - 2020-12-31. The annual accounts and consolidated accounts of the company are included on pages 46-81 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2020 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 2020 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 372.0 (405.6) 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 211.3 (168.9) 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.

Identifying cash-generating units when testing goodwill for impairment

On an annual basis management tests the carrying value of cash-generating units, to which goodwill has been allocated to, for impairment. Consolidated goodwill amounts, at the end of 2020, to SEK 332,7 (357,2) million and originates from the acquisition of IAR Systems AB, Signum Systems Corp

and Secure Thingz Inc. Group management has assessed that the group consist of a single cash-generating unit, IAR Systems, which differs from their assessment prior year when they identified IAR Systems and Secure Thingz as two different cash-generating units. This means that group management prepares an impairment test where the recoverable amount of the group is estimated and compared to the carrying value of consolidated net assets.

A cash-generating unit is a unit that has the ability to generate cash inflows that are largely independent of the cash inflows from other units. Factors such as how group management monitors the entity's operations or how group management makes decisions about continuing or disposing of the entity's assets and operations is considered. Group management consider that Secure Thingz does not have the ability to generate cash inflows that are largely independence from cash inflows from other units in the group. We have identified this as an key audit matter as another assessment may have a material impact on the Group's earnings and financial position.

For further information, please refer to the Group's accounting policies and description of significant estimates and assumptions in note 1 and not 10 Intangible assets for a more detailed description of group managements assessment of number of cash-generating units.

Our audit procedures included but were not limited to:

- › challenge significant assumptions and positions in group management's assessment of the number of cash-generating units; and
- › evaluation of disclosures of number of cash-generating units and assumptions made by group management.

Other information than the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for other information. The other information includes the Remuneration Report, and the pages 1-45 in this document but does not include the annual accounts and the consolidated accounts or our Auditors Report.

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 2020-01-01 - 2020-12-31 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

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

Deloitte AB, was appointed auditor of I.A.R. Systems Group AB by the general meeting of the shareholders on the 2020-04-29 and has been the company's auditor since 2012-04-24.

Stockholm, March 15, 2021

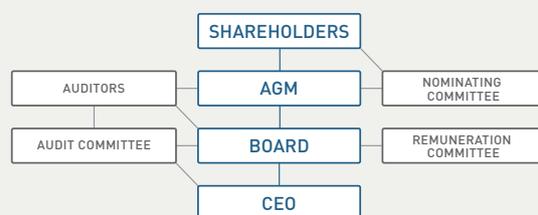
Deloitte AB



Andreas Frountzos
Authorized Public Accountant

Corporate governance report

I.A.R. Systems Group is a Swedish public limited company domiciled in Stockholm, Sweden. In 2020, the Group conducted operations in Sweden, the UK, Germany, France, the USA, Japan, Korea, China, Taiwan and India. The IAR Systems share is quoted on the Mid Cap list of Nasdaq Stockholm.



The corporate governance report for 2020 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 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, 13,536,159 class B shares and 332,174 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, 2020 was 7,516 (7,500). Of these shareholders, 465 (430) held more than 1,000 shares each. Foreign shareholders held approximately 27% (32) of the share capital and 25% (30) of the votes. For additional information about the shareholders and ownership structure, see pages 36–37.

General meeting of shareholders

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

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

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

2020 Annual General Meeting

The AGM re-elected sitting Board members Maria Wasing, Kent Sander, Michael Ingelög, Richard Lind and Fred Wikström. 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 carry forward the profits from the 2019 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 86.

The average age of the Board members is 54 years and one of the five members is a woman. The nominating committee considers all of the Board members except one to be independent in relation to the company, its management and the company's major shareholders. I.A.R. Systems Group meets the requirements in the Code regarding the Board of Directors' independence in relation to the company, its management and the company's major shareholders.

Work and responsibilities of the Board

According to the Swedish Companies Act, the Board is also responsible for ensuring that the Group's organization is suitably structured so that the company's accounting, cash management and other financial circumstances can be controlled satisfactorily. The work of the Board is regulated

by the Swedish Companies Act, the Articles of Association, the Code and the rules of procedure that are adopted yearly by the Board. The rules of procedure describe the division of responsibilities between the Board of Directors, the Board Chairman and the CEO, and also contain provisions to secure the Board's need for continuous information and financial reporting, as well as instructions for the CEO.

Among other things, the rules of procedure state that the Board Chairman and CEO are to work closely to monitor the Group's development and to plan and lead Board meetings. The Chairman is responsible for ensuring that the Board carries out an annual self-assessment of its performance and evaluates its own work routines, and that the Board is continuously provided with the information needed to perform its duties effectively. The Chairman represents the company in matters related to the shareholders. The Board regularly evaluates the CEO's work.

The 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 2020

In 2020, the Board held 13 meetings, of which six were scheduled and seven were extraordinary meetings. Each of the regular meetings followed an approved agenda, and both the proposed agendas and underlying documentation were sent to the Board members prior to each meeting. The CEO and certain other senior executives in the company took part in Board meetings in a reporting capacity and the company's CFO served as secretary of the Board. At the Board meetings, the Board dealt with the fixed items on the agenda for each meeting, such as the business and market situation, financial reporting and monitoring, the company's financial position and investments. The Board members' attendance at meetings is shown in the table on page 87.

Remuneration to the Board

The Chairman and other members of the Board of Directors are paid fees in accordance with the decision of the AGM. No additional remuneration is paid for work on the Board's committees. No Board fees are paid to members who receive a salary from companies in IAR Systems. In 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 dealt with at the committee meetings are reported verbally to the Board at the following Board meetings. No additional remuneration is paid for work on the Board's committees. See also pages 88-89 for a description of the nominating committee and other Board committees.

BOARD 2020

	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 2020

SEK thousand	Year	Fixed salary	Variable remuneration	Benefits	Pension costs	Share-based remuneration	Total
Stefan Skarin, CEO	2020	3,489*	-	174	467	5	4,135
	2019	3,688*	-	202	312	60	3,814
Other senior executives	2020	6,956	-	187	2,904	8	10,048
	2019	6,671	-	189	1,209	144	8,213

* of which vacation pay 249 (448).

REMUNERATION TO THE BOARD

SEK thousand	2020	2019
Maria Wasing, Chairman	400	388
Kent Sander	180	173
Michael Ingelög	180	90
Richard Lind	180	90
Fred Wikström	180	90
Lisa Kaati	-	83
Helena Nordman-Knutson	-	83

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 2020 AGM, at which time Deloitte was elected as auditor to serve for the period until the end of the 2021 AGM. Auditor in Charge is Andreas Frountzos (born in 1981). In addition to I.A.R. Systems Group, he has audit assignments for AdCity Media AB, Edgeware AB, Hittapunktse AB and TV4 AB, among others.

On two occasions during the year, the Auditor in Charge met with the Board to present the focus and scope of the audit, report his observations from the review of the interim report at September 30, his evaluation of internal control and the audit of the annual accounts for the 2020 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 0.2m (0.5) in 2020. The auditor is paid fees in accordance with the decision of the AGM. For information about fees to auditors in 2020 and 2019, see Note 5 on page 68.

CEO

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

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

Parent Company and the Group and keeps the Board Chairman continuously informed about operations.

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

Stefan Skarin has been President and CEO since February 2008.

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 2020, the Group applied the principles for remuneration and other terms of employment for senior

ATTENDANCE AT BOARD MEETINGS IN 2020

	Feb 11	Mar 18	Mar 24	Mar 29	Apr 29	Apr 29 Stat.	Jun 1	Aug 19	Sep 16	Sep 28	Nov 5	Nov 26	Dec 9	Total
Maria Wasing, Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13
Michael Ingelög	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13
Kent Sander	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13
Richard Lind	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13
Fred Wikström	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13/13

BOARD'S FINANCIAL CALENDAR

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

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, FOUR 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 2021 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 have attended the committee's four 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, among other tasks, for assessing the auditors' independent status in relation to the company, including the scope of the auditors' non audit-related services for the company.

Nominating committee

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

Nominating committee, five meetings

(up to and including March 15, 2021)
Jonas Eixmann, Andra AP-fonden, *Chairman*
Ossian Ekdahl, Första AP-fonden and
Evert Carlsson, Swedbank Robur Fonder

The AGM on April 29, 2020 resolved to appoint a nominating committee according to the following principles. By September 30, 2020, 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

2021 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 2021 AGM.

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

Proposals to be submitted to the 2021 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 2022 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 85–89 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 15, 2021

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: 35,400 class B shares (including related parties' holdings) (February 28, 2021).

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 28, 2021).

Independent in relation to the company and management.

Independent in relation to the company's major shareholders.



RICHARD LIND
BOARD MEMBER

Born in: 1964.

Board member: Since 2019.

Education: IHM and several internal training programs at Microsoft. Microsoft/Wharton internal MBA program.

Employment and other board assignments: Richard is Chairman of Flowmotion AB and has a number of advisory assignments for such companies as Innovation Strategy Forum, Intphiz AB and DePalma Workwear.

Work experience: Richard has extensive experience of the technology sector after serving in various senior positions, both internationally and in Sweden, at companies such as Microsoft for the past 18 years, most recently as CTO with responsibility for the Internet of Things.

Shareholding: 1,000 class B shares (February 28, 2021).

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, 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: 2,000 class B shares (February 28, 2021). Independent in relation to the company and management. Independent in relation to the company's major shareholders.



KENT SANDER
BOARD MEMBER

Born in: 1953.

Board member: Since 2017.

Education: BSc in business administration from Stockholm University.

Employment and other board assignments: Kent is Board Chairman of Tobii, Serneke Group and OnePhone Holding, and a Board member of BT OnePhone Ltd, Expander Business Consulting, Incell International, Gamingzone Entertainment and Triboron.

Work experience: Kent has over 30 years' experience from leading positions in international telecom and high-tech IT companies. He has served as CEO of TruePosition and had a long career at Ericsson, including a role as Executive VP Sales in the USA.

Shareholding: No holdings (February 28, 2021). Independent in relation to the company and management. Independent in relation to the company's major shareholders.

Group Management

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: 17,666 share warrants (February 28, 2021).

KARIN LASSEGÅRD

COO AND CHIEF OF STAFF TO CEO,
I.A.R. SYSTEMS GROUP AB

Born in: 1982.

Education: Secondary and post-secondary education in tourism.

Work experience: Karin has over eight years' work experience in the hotel industry, assistant in medical technology and IT infrastructure.

Shareholding: No holdings (February 28, 2021).

Warrant holding: 5,300 share warrants (February 28, 2021).

HAYDN POVEY

CEO OF SECURE THINGZ / GENERAL MANAGER EMBEDDED
SECURITY SOLUTIONS, IAR SYSTEMS

Born in: 1970.

Education: MSc in electrical engineering, University of Kent.

Work experience: Haydn, 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: 136,656 class B shares.

Warrant holding: 7,420 stock options (February 28, 2021).

ANDERS HOLMBERG

GENERAL MANAGER EMBEDDED DEVELOPMENT TOOLS,
IAR SYSTEMS

Born in: 1967.

Education: BSc in mathematics and computer science from Uppsala University.

Work experience: Anders 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: No holdings (February 28, 2021).

Warrant holding: 18,020 share warrants (February 28, 2021).

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: 3,533 share warrants (February 28, 2021).

GÖRAN HÜBINETTE

ACTING CHIEF FINANCIAL OFFICER (FROM MARCH 1, 2021),
I.A.R. SYSTEMS GROUP AB

Born in: 1977

Education: Master's degree in business studies from Uppsala University.

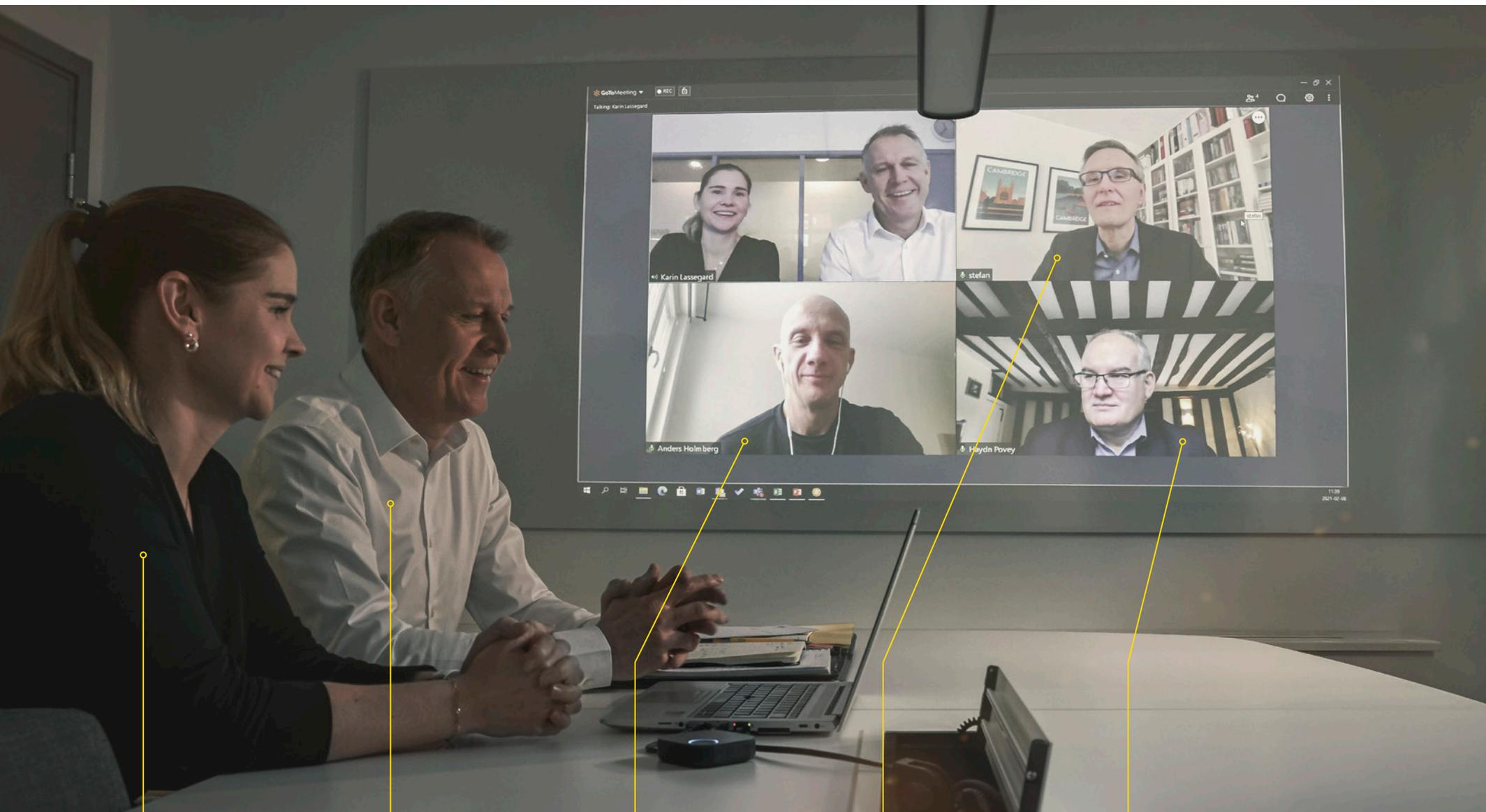
Work experience: Has been employed since 2018 at IAR Systems as Global Accounting Manager and Business Controller. Prior to this, he spent ten years as an auditor at KPMG and EY, several years as an authorized public account and afterwards in control functions at both JM and NCC, as well as Chief Accountant at inkClub.

Shareholding: No holdings (February 28, 2021).

Warrant holding: 3,887 share warrants (February 28, 2021).

ANDREAS FRONTZOS AUDITOR

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



KARIN LASSEGÅRD
COO AND CHIEF OF STAFF TO CEO,
I.A.R. SYSTEMS GROUP AB

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

ANDERS HOLMBERG
GENERAL MANAGER EMBEDDED
DEVELOPMENT TOOLS,
IAR SYSTEMS

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

HAYDN POVEY
CEO OF SECURE THINGZ / GENERAL
MANAGER EMBEDDED SECURITY
SOLUTIONS, IAR SYSTEMS

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

Functional safety

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

IAR Embedded Workbench

IAR Embedded Workbench is a software 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.

Embedded system

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

Integrated circuit (IC)

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

Internet of Things

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

Compiler

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

Source code

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

Microprocessor

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

Processor

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

RISC-V

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

Security

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

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

2021 Annual General Meeting

The Annual General Meeting (AGM) of I.A.R. Systems Group AB (publ), corporate identification number 556400-7200, will be held on Tuesday, April 27, 2021. Due to the ongoing pandemic, the Board decided that the AGM will be held without physical attendance by the shareholders, proxies or outside parties. Voting rights can only be exercised via post ahead of the meeting.

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

Notification

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

- › be recorded in the share register maintained by Euroclear Sweden AB no later than Tuesday, April 19, 2021, and
- › cast their postal vote no later than April 26, 2021. Submitting a postal vote also constitutes registration for the meeting.

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

To be entitled to participate in the AGM, shareholders whose shares are registered in the name of a nominee must request that these shares be temporarily re-registered in their own name in the share register maintained by Euroclear Sweden AB no later than April 19, 2021. This is known as "voting rights registration" and is carried out through the nominee according to their procedures at a time predetermined by the nominee. Voting rights registration requested by the shareholder that has been completed by the nominee no later than April 21, 2021, will be recognized in the share register.

FINANCIAL CALENDAR

INTERIM REPORT JAN-MAR 2021 APRIL 27, 2021

2021 ANNUAL GENERAL MEETING APRIL 27, 2021

INTERIM REPORT JAN-JUN 2021 AUGUST 17, 2021

INTERIM REPORT JAN-SEP 2021 OCTOBER 27, 2021



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