

## Invitation to Extraordinary General Meeting in IAR Systems Group AB (publ)

The shareholders of IAR Systems Group AB (publ) (the “Company” or “IAR Systems”) are hereby invited to attend the Extraordinary General Meeting of shareholders to be held on Friday, June 15, 2018 at 1:30 p.m. at Setterwalls Advokatbyrå, Sturegatan 10 in Stockholm.

### Notification, etc.

Shareholders who wish to participate in the Extraordinary General Meeting (“EGM”) must

- be recorded in the share register maintained by Euroclear Sweden AB not later than Friday, June 8, 2018; and
- provide notification of their intention to participate in the EGM not later than Thursday, April 19, 2018, in writing to IAR Systems Group AB (publ), Kungsgatan 33, SE-111 56 Stockholm, Sweden, by telephone at +46 709 100 734 or via the company’s website [www.iar.com/investors](http://www.iar.com/investors). The notification should include the shareholder’s name, address, telephone number, personal or corporate identity number and registered shareholding.

To be entitled to participate in the EGM, shareholders whose shares are registered in the name of a nominee must request that these shares be temporarily re-registered in their own name by Euroclear Sweden AB not later than June 8, 2018.

Shareholders who are represented by a proxy must present a dated, written proxy form. This proxy form may not be more than five years old on the date of the EGM. A proxy form is available on the company’s website at [www.iar.com/investors](http://www.iar.com/investors). Proxies representing a legal entity must present a certificate of registration or equivalent proof of authorization listing their name as an authorized signatory. Where applicable, proof of authorization – such as a proxy form or certificate of registration – is to be sent to the company at the above address prior to the EGM.

Shareholders who wish to be accompanied by one or two assistants must inform the company thereof by the same date and in the same manner applicable to shareholders.

### Proposed agenda

1. Election of the Chairman of the EGM.
2. Preparation and approval of the voting list.
3. Approval of the agenda.
4. Election of one or two persons to check and sign the minutes.
5. Decision as to whether the EGM has been duly convened.
6. Resolution on the adoption of a long-term incentive program for employees within
7. the IAR Systems group
8. Resolution on exchange of options held by employees in connection with the acquisition of Secure Thingz, Inc.
9. Resolution to amend the Articles of Association
10. Resolution to authorize the Board of Directors resolve on directed issue of class C shares
11. Resolution to authorize the Board of Directors to resolve on repurchase of class C shares
12. Resolution on transfer of class B shares in the Company
13. Close of the EGM

### Proposals for resolution

#### Resolution on the adoption of a long-term incentive program for employees within the IAR Systems group (item 6)

For the purpose of improving the opportunity for retaining and recruiting competent personnel to the Group and increasing the motivation amongst the employees, the Board of Directors proposes that the EGM resolves to introduce an incentive program (the “LTIP 2018”) for all employees of the IAR Systems group (the “Group”). LTIP 2018 includes existing and future employees in the Group. Board members who are not employed by the Group shall not be entitled to participate in LTIP 2018. The Board of Directors intends to present proposal for this kind of incentive programs at forthcoming Annual General Meetings of the Company.

## General

LTIP 2018 consists of two different types of options. One type of options is based on warrants to subscribe for new shares and are intended to be transferred to the Group's employees in Sweden (the "**Warrants**"). The other type of options is stock options and these options are intended for the employees of the Group residing outside Sweden (the "**Stock Options**").

To implement the LTIP 2018 in a cost-effective and flexible manner, the Board of Directors proposes that the obligations of the Company to deliver shares under the stock options are secured by a directed issue of class C shares which could then be re-classified or redeemed. The issue of class C shares requires amendments of the Articles of Association. The class C shares can be repurchased and re-classified into class B shares, which may then be delivered to the employees in connection with the exercise of the options. The resolution on the establishment of the LTIP 2018 in accordance with this item 6 is therefore conditional upon the General Meeting resolving in accordance with the proposals under items 8-11 below.

## Dilution effects

The Board of Directors proposes that the LTIP 2018 shall consist of a maximum of 600,000 Warrants and Stock Options entitling to subscription or purchase of the same number of class B shares in the Company, corresponding to approximately 4.2 percent of the share capital and 4.0 percent of the votes in the Company after dilution. The Company has currently no share-linked incentive programs for employees in the Group.

## Performance conditions

The final number of Warrants and Personal Options that each participant is eligible to exercise depends on the degree of fulfilment in respect of the performance conditions for the Group. Only if all performance conditions are fulfilled, the participant can exercise all of his or her options. Performance conditions are based on the average growth of the Group's net sales for the financial years 2018, 2019 and 2020. The target levels (minimum and maximum) for the performance conditions are described in the table below. The relative weighting of each of the performance conditions is one third. Within the target levels of the respective performance conditions, a linear calculation of the outcome shall be made. If the minimum level of performance is not achieved, no options can be exercised for the relevant performance condition. After each performance period, the Company will provide information to the shareholders to what extent the performance conditions have been fulfilled.

<b>Performance conditions</b>	<b>Minimum level</b>	<b>Maximum level</b>
Growth in net sale for 2018	5 percent	10 percent
Growth in net sale for 2019	5 percent	10 percent
Growth in net sale for 2020	5 percent	10 percent

## Specific terms and conditions for the Warrants

The number of Warrants may not exceed 315,000 options. The right to subscribe for Warrants shall accrue to the Company or its wholly owned subsidiaries, which shall subsequently transfer the Warrants to the Group's current and future employees residing in Sweden, as set out below:

<b>Category</b>	<b>Number of employees in Sweden</b>	<b>Guaranteed number of options per employee</b>	<b>Maximum number of options to be purchased per employee</b>
Senior Management	2	50,000	100,000
Key Management	1	20,000	40,000
Management and Key staff	5	10,000	20,000
Key staff	7	5,000	10,000
Key performers and future key staff	8	3,000	5,000
Personnel not included in any of the above categories	86	1,000	1,000

In respect of the Warrants, the employees will be offered to acquire a certain number of Warrants at a price corresponding to the market value of the Warrants (the option price), calculated in accordance with the Black & Scholes valuation formula. The valuation of the Warrants shall be confirmed by a reputable and independent

valuer. As further explained in the section "Expenses for LTIP 2018, subsidies and tax consequences" below, the Company intends to subsidize the option price with a bonus payment.

The Company shall reserve its right to repurchase the Warrants if a participant's employment within the Group is terminated, or if the participant wishes to transfer the Warrants to a third party. The Board of Directors shall be responsible for the implementation of the terms and conditions for such pre-emptive rights. Repurchase of Warrants shall, however, be made at the lower of (i) the market price of the Warrants at the time when the right to repurchase the Warrants is exercised and (ii) 60 percent of the option price initially paid by the employee for the Warrants.

Depending on fulfilment of the performance conditions for the Group as set out above, each Warrant entitles the holder to subscribe for one new class B series in IAR Systems between August 20, 2021 and September 17, 2021 at a price corresponding to 120 percent of the average volume weighted share price of the Company's share on Nasdaq Stockholm during the period from June 13, 2018 through June 19, 2018. The thus calculated exercise price shall be rounded to the nearest ten öre, with five öre rounded upwards.

#### *Specific terms and conditions for the Stock Options*

The number of Stock Options may not exceed 285,000 options. Stock Options can only be assigned to the Group's current and future employees outside of Sweden as follows:

<b>Category</b>	<b>Number of employees outside Sweden</b>	<b>Maximum number of Stock Options per employee</b>
Senior Management	1	50,000
Key Management	4	20,000
Management and Key staff	5	10,000
Key staff	3	5,000
Key performers and future key staff	12	3,000
Personnel not included in any of the above categories	54	1,000

The options shall be granted to the participants free of charge and may not be transferred or pledged. The options are vested by one third annually from the date of grant of the options, i.e. the participant must remain employed within the Group for three years in order for all options to vest.

Depending on the fulfillment of the performance conditions of the Group as described above, each Stock Option entitles the employee to acquire one class B share of IAR Systems during the period August 20, 2021 to September 17, 2021 at a price corresponding to 120 percent of the average volume-weighted share price for the Company's share on Nasdaq Stockholm for ten trading days immediately preceding the date of granting of the options. The calculated exercise price shall be rounded to the nearest full ten öre, with five öre being rounded upwards.

#### *Conversion due to split, aggregation, new issue etc.*

The exercise price and the number of shares that each Stock Option or Warrants entitle to purchase shall be recalculated in the event of a share split, reverse share split, preferential share issue, extraordinary dividend, etc. in accordance with Swedish market practice.

#### *Overall Terms*

Within the framework of the resolved terms and conditions and guidelines, the Board of Directors shall be responsible to prepare the more detailed terms and conditions of LTIP 2018.

The Board shall have the right to make adjustments in LTIP 2018 if significant changes occur within the Group or in its market, which means that the terms and conditions for exercising the Warrants or Stock Options are no longer appropriate. Furthermore, for special reasons, the Board of Directors may decide that options may be retained and utilized, as applicable, despite the termination of employment within the Group, for example due to illness.

### *Expenses for LTIP 2018, subsidies and tax consequences*

The company's external costs for the development of LTIP 2018 in the form of costs for advisor and administration of LTIP 2018, including option evaluations, are estimated to amount to approximately SEK 0.7 million.

The Stock Options are expected to result in tax at employment income rates for the participants and will be accounted for in accordance with IFRS 2, which stipulates that the Stock Options will be recorded as personnel expenses during the vesting period. The total cost for the Stock Options is estimated to amount to approximately SEK 5.4 million calculated in accordance with IFRS 2 based on the following assumptions: (i) the maximum number of Stock Options are granted to the employees of the Group outside Sweden, (ii) the volume weighted average share price of the Company's share traded on Nasdaq Stockholm for a period of 10 trading days prior to the allocation of the options amounts to SEK 280 and an annual increase in the share price of 7 percent during the term of the options, (iii) an estimated annual turnover of personnel of 10 percent and (iv) all performance conditions are fulfilled.

The Warrants are expected to qualify as transferable securities, which means that any profits are expected to result in tax at capital income rates for the participants and no social security contributions are to be paid by the Group in relation to the exercise of the Warrants. According to a preliminary valuation according to the Black & Scholes valuation formula based on a market value of the Company's class B share of SEK 280, the market value of the Warrants amounts to approximately SEK 19, assuming an exercise price of SEK 336 per share and the value of the options shall be reduced by 33 percent due to the performance conditions mentioned above. In order to stimulate participation in the incentive program based on Warrants, the Company is considering granting a subsidy to employees in Sweden who acquire Warrants at market price. The subsidy is expected to be effectuated as a bonus payment in connection with the acquisition of the Warrants. The amount of the bonus shall, before tax, correspond to the total option price that the participant will pay for the Warrants. The Company's cost of the Warrants, in the form of subsidy costs and social security contributions, is expected to amount to a maximum of SEK 7.9 million in total during the term of the Warrants.

The Company's external costs for the preparation of LTIP 2018 in the form of costs for advisor and administration of LTIP 2018, including valuation of the option, are estimated to amount to approximately SEK 0.7 million.

### *Preparation of the proposal*

LTIP 2018 has been prepared by the Board of Directors together with external advisors. LTIP 2018 has been reviewed by the Board of Directors at board meetings in May 2018.

### *The rationale for the proposal*

The rationale for the proposal for LTIP 2018 is to improve the conditions for retaining and recruiting competent personnel to the Group and increasing the motivation of the employees. Furthermore, more visible opportunities are established for long-term participation in the Group's operations and in reaching the Company's overall targets. The Board of Directors is of the opinion that the introduction of LTIP 2018 as described above benefits the Group and the Company's shareholders.

### *Majority requirements*

LTIP 2018 means that employees in the Group acquire Warrants or are granted Stock Options, which entitle the holder to subscribe or purchase class B shares in the Company. Such transfers is subject to Chapter 16 of the Swedish Companies Act, which means that a resolution to approve the LTIP 2018 is valid only if it is supported by at least nine tenths of both the votes cast and the shares represented at the EGM.

### **Resolution on exchange of options held by employees in connection with the acquisition of Secure Thingz, Inc. (item 7)**

On March 21, 2018, IAR Systems announced the acquisition of the remaining 80 percent of the shares in Secure Thingz, Inc. ("**Secure Thingz**"), a provider of advanced security solutions for embedded systems in the Internet of Things (IoT). The purchase price amounted to approximately SEK 230 million. In addition to payment of the cash consideration, a share issue of 164,584 call B shares in the Company was made and an agreement was reached on replacing an existing stock option program for the employees of Secure Thingz, which means that the option holders change their options in Secure Thingz against new options in IAR Systems and that the new options shall financially correspond to the value of the existing options. A prerequisite for the exchange of the option program in Secure Thingz is the approval of the exchange by the shareholders of IAR Systems. On the day of the acquisition

of Secure Thingz on April 11, 2018, the value of the existing options was estimated to amount to approximately SEK 18 million based on the share price and exchange rate at this time.

The purchase price for the shares in Secure Thingz amounted to USD 3.7076 per share. The existing options in Secure Thingz that are proposed to be exchanged for options in IAR Systems are held by a total of 17 employees in Secure Thingz. In total, 370,000 options with the exercise price amount to USD 0.40 per share and 215,000 options with the exercise price of USD 0.10 per share in Secure Thingz to be exchanged for stock options in IAR System with the corresponding terms applicable to the options in Secure Thingz regarding vesting schedules, terms, maturity etc.

The Board of Directors proposes that the Annual General Meeting resolves that IAR Systems shall allocate 47,238 stock options at a price of SEK 26.00 per share and 27,450 stock options with a share price of SEK 6.50 per share to employees who hold options in Secure Thingz. Each option entitles the holder to acquire a Class B share of the Company. The terms of employment, maturity and other terms of the new employee stock options shall correspond to the terms currently in force for the existing options in Secure Thingz.

In accordance with the above terms and guidelines, the Board shall be responsible for the further development of the terms of the new stock options in IAR Systems and the exchange of options in Secure Thingz.

To implement the LTIP 2018 in a cost-effective and flexible manner, the Board of Directors proposes that the obligations of the Company to deliver shares under the stock options are secured by a directed issue of class C shares which could then be re-classified or redeemed. The issue of class C shares requires amendments of the Articles of Association. The class C shares can be repurchased and re-classified into class B shares, which may then be delivered to the employees in connection with the exercise of the options. The resolution on the establishment of the LTIP 2018 in accordance with this item 7 is therefore conditional upon the General Meeting resolving in accordance with the proposals under items 8-11 below.

The exchange of options means that employees in the Secure Thingz are granted stock options, which entitle the holder to subscribe or purchase class B shares in the Company. Such transfers is subject to Chapter 16 of the Swedish Companies Act, which means that a resolution to approve the LTIP 2018 is valid only if it is supported by at least nine tenths of both the votes cast and the shares represented at the EGM.

#### **Resolution to amend the Articles of Association (item 8)**

The Board of Directors proposes that the EGM resolves to amend Article 5 of the Articles of Association, which means the introduction of a new share class, namely class C shares. The proposed amendment essentially means the following.

The class C shares shall not be eligible for dividends. At the dissolving of the Company, the class C shares entitle the holder the same rights to the Company's assets as applicable for other shares, but not higher than an amount corresponding to the share's quota value. Reduction of the share capital, but not below the minimum amount for the share capital, may be made at the request of owners of class C shares or following a resolution by the Board of Directors or the General Meeting to redeem the class C shares. The redemption amount per class C share shall be the share's quota value. A class C share held by the Company shall, by decision of the Board of Directors, be reclassified into class B shares.

For a valid decision, it is required that the resolution be supported by shareholders with at least two thirds of both the votes cast and the shares represented at the EGM

#### **Resolution to authorize the Board of Directors resolve on directed issue of class C shares (item 9)**

The Board of Directors proposes that the EGM authorizes the Board of Directors, on one or more occasions until the next Annual General Meeting, to resolve on a new issue of no more than 359,688 class C shares, each with a quota value of SEK 10. With the deviation from the shareholders' preferential rights, the new shares may be subscribed for by a bank or securities company at a subscription price corresponding to the quota value.

The purpose of the authorization and the reasons for the deviation from the shareholders' preferential rights when the authorization is utilized are to secure the delivery of shares to employees in connection with the exercise of Stock Options in accordance with LTIP 2018 (item 6 above) and the stock options referred to in item 7 above and to enable cash flow to secure future payment of social security contributions attributable to these incentive programs.

For a valid decision, it is required that the resolution be supported by shareholders with at least two thirds of both the votes cast and the shares represented at the EGM.

**Resolution to authorize the Board of Directors to resolve on repurchase of class C shares (item 10)**

The Board of Directors proposes that the EGM resolves to authorize the Board of Directors, in the period until the next Annual General Meeting, to resolve on repurchases of class C shares. Repurchases may only be made through an acquisition offer addressed to all holders of class C shares and shall comprise all outstanding class C shares. Acquisitions shall be made at a price corresponding to the quota value of the shares. Payment for acquired shares shall be made in cash.

The purpose of the repurchase is to ensure the delivery of shares to employees when exercise Personal Options in accordance with LTIP 2018 (item 6 above) and the options referred to in item 7 above, and to enable cash flow to secure payment of future social security contributions attributable to these incentive programs.

For a valid decision, it is required that the resolution be supported by shareholders with at least two thirds of both the votes cast and the shares represented at the EGM.

**Resolution on transfer of class B shares in the Company (item 11)**

The Board of Directors proposes that the EGM resolves to transfer its own class B shares as follows. A maximum of 359,688 class B shares in IAR Systems may be transferred to employees in connection with the exercise of Stock Options in accordance with LTIP 2018 or options as referred to under item 7 above. The terms of these transfers, the exercise price, the number of shares and the date of transfer shall comply with the terms and conditions of the Stock Options under LTIP 2018 or the stock options under item 7 above. The number of class B shares that may be transferred shall be recalculated in accordance with the usual principles as a result of a bonus issue, split, reverse split and / or other similar events.

For a valid decision, it is required that the resolution be supported by shareholders with at least nine tenths of both the votes cast and the shares represented at the EGM.

**Other**

The complete proposals of the Board of Directors pursuant to item 6-11 above, including related documents under the Swedish Companies Act (SFS 2005:551), and a proxy form will be available from the Company at Strandbodgatan 1, Uppsala and Kungsgatan 33, Stockholm, and on the company's website [www.iar.com/investors](http://www.iar.com/investors). Copies of the documents will be sent free of charge to shareholders who so request and who provide their mailing address, and will also be available at the EGM.

Pursuant to Chapter 7, Section 32 of the Swedish Companies Act (2005:551), shareholders have the right at the EGM to question the Board of Directors about circumstances that may affect the conditions of the agenda and conditions that may affect the company's financial situation.

As of May 17, 2018, the Company had a total of 13,608,645 shares, comprising 100,000 class A shares and 13,508,645 class B shares, equal to a total of 14,508,645 votes.

Stockholm, May 2018

IAR Systems Group AB (publ)  
Board of Directors