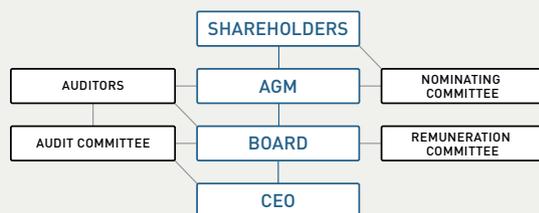


CORPORATE GOVERNANCE REPORT

IAR Systems Group is a Swedish public limited company domiciled in Stockholm, Sweden. In 2016, the Group conducted operations in Sweden, Germany, France, the USA, Japan, South Korea and China. The IAR Systems share is quoted on the Mid Cap list of Nasdaq Stockholm.



The corporate governance report for 2016 has been reviewed by IAR 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.

IAR Systems Group's Articles of Association can be found at www.iar.com under the heading "Investors". IAR 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. IAR 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

IAR Systems Group's shares have been quoted on Nasdaq Stockholm since 1999. The share capital in IAR Systems Group consists of class A shares, which carry ten votes each, and class B shares, which carry one vote each. The total number of shares is 12,632,061, of which 100,000 are of class A. All classes of shares grant equal rights to the company's assets and profits.

The number of shareholders in IAR Systems Group at December 31, 2016 was 8,645 (8,946). Of these shareholders, 518 (562) held more than 1,000 shares each. Foreign shareholders held approximately 13% (16) of the share capital and

12% (15) of the votes. For additional information about the shareholders and ownership structure, see pages 26-27.

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 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.

2016 ANNUAL GENERAL MEETING

The AGM re-elected sitting Board members Markus Gerdien, Peter Larsson, Jonas Mårtensson, Stefan Skarin and Maria Wasing. The AGM appointed Markus Gerdien as Board Chairman.

It was furthermore decided that Board fees would be paid in an annual amount of SEK 375,000 to the Board Chairman and SEK 165,000 to each of the other Board members. No fees are paid to the Board members who are employed in the company.

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

The AGM resolved in accordance with the Board's proposal to pay a dividend of SEK 7.00 per share for 2015.

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 below.

The average age of the Board members is 52 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. IAR Systems Group meets the requirements in the Code regarding the Board of Directors' independence in relation to the company, its management and the company's major shareholders.

Work and responsibilities of the Board

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

to secure the Board's need for continuous information and financial reporting, as well as instructions for the CEO.

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

The tasks of the Board are to formulate IAR 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 IAR Systems Group's organization and operations.

Work of the Board in 2016

In 2016, the Board held seven meetings, of which six were scheduled and one was an extraordinary meeting. 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 below.

BOARD 2016

	Elected	Dependent	Remuneration committee	Audit committee
Markus Gardien, Chairman	2011	No	Chairman	Chairman
Peter Larsson	2010	No	Member	Member
Maria Wasing	2015	No	Member	Member
Jonas Mårtensson	2010	No	Member	Member
Stefan Skarin	2002	Yes	-	-

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 Group. In 2016, 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 page 71 for a description of the nominating committee and other Board committees.

AUDITORS

The independent auditor is appointed by the AGM and its task is to examine the company's financial reporting and the administration of the company by the Board of Directors and the CEO. The auditor was appointed by the 2016 AGM, at which time Deloitte was elected as auditor to serve for the period until the end of the 2017 AGM. Auditor in Charge is Erik Olin (born in 1973). In addition to IAR Systems Group, he has audit assignments for CLX Communications, Micro Systemation, NetEnt, Microsoft Sweden and TeliaSonera Sweden, among others.

On two occasions in 2016, 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 2016 financial year. On

one occasion in 2016, the Board met with the auditor without the presence of the CEO or other members of the company's management.

Deloitte issues an audit report regarding IAR Systems Group AB, IAR Systems AB and the Group. Deloitte also performs non-audit services for the companies in the IAR Group. These have mainly consisted of tax consultations in direct connection with the audit. For this work, Deloitte invoiced a total amount of SEK 0.1m (0.2) in 2016. The auditor is paid fees in accordance with the decision of the AGM. For information about fees to auditors in 2015 and 2016, see Note 5 on page 53.

CEO

The Board appoints the President of IAR 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 BOARD

SEK thousand	2016	2015
Markus Gardien, Chairman	358	317
Peter Larsson	160	142
Maria Wasing	160	100
Jonas Mårtensson	160	142
Stefan Skarin	-	-
Karin Moberg	-	42

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. In accordance with the resolution passed by the AGM, the group of other senior executives was reduced in 2016, from the previous six members to comprise the CFO and COO. For 2016, the Group applied the principles for remuneration and other terms of employment for senior executives that were approved by the AGM. Remuneration to the CEO and other senior executives consists of fixed salary, variable salary, pension and other customary benefits. The maximum variable salary for the CEO and other senior executives corresponds to 50% of fixed salary. Pension benefits and other benefits are paid as part of the total remuneration package.

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

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 IAR 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

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 IAR 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 IAR Systems Group's website in connection with publication.

REMUNERATION TO THE CEO AND OTHER SENIOR EXECUTIVES 2016

SEK thousand	Year	Fixed salary	Variable salary	Benefits	Pension costs	Total
Stefan Skarin, CEO	2016	2,763	787	152	325	4,027
	2015	2,763	1,335	153	311	4,562
Other senior executives	2016	3,050	709	190	697	4,646
	2015	3,175	1,155	172	703	5,205

ATTENDANCE AT BOARD MEETINGS IN 2016

	Feb 9	Mar 17	Apr 27	Apr 27 Stat.	Aug 17	Oct 20	Dec 7	Total
Markus Gerdien, Chairman	✓	✓	✓	✓	✓	✓	✓	7/7
Peter Larsson	✓	✓	✓	✓	✓	✓	✓	7/7
Maria Wasing	✓	✓	✓	✓	✓	✓	✓	7/7
Jonas Mårtensson	✓	✓	✓	✓	✓	✓	✓	7/7
Stefan Skarin	✓	✓	✓	✓	✓	✓	✓	7/7

✓ Attended – Did not attend

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
	August	Q2 report meeting
Q4	October	Q3 report meeting
	December	Meeting regarding business plan and financial plan

REMUNERATION COMMITTEE

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

REMUNERATION COMMITTEE, TWO MEETINGS

Markus Gerdien, *Chairman*

Peter Larsson, Maria Wasing, Jonas Mårtensson

IAR 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 2017 AGM, the committee will prepare proposed principles for remuneration and other terms of employment for senior executives which the Board will then present for approval by the AGM in accordance with the Swedish Companies Act and the Code. All members attended the committee's two meetings.

AUDIT COMMITTEE

The tasks of the audit committee are to assist the Board in monitoring and evaluating the external audit process, to support the work of the Board in ensuring the quality of the company's financial reporting, to maintain continuous contact with the company's auditor and to study and assess reports from the independent auditor.

AUDIT COMMITTEE, TWO MEETINGS

Markus Gerdien, *Chairman*

Peter Larsson, Maria Wasing, Jonas Mårtensson

All members of the audit committee are independent in relation to the company, its management and the shareholders in accordance with the Code.

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

All members attended the committee's two meetings.

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, EIGHT MEETINGS

(UP TO AND INCLUDING FEBRUARY 15, 2017)

Malin Björkmo, Handelsbanken Fonder, *Chairman*

Håkan Berg, Robur, Jonas Eixman, Second Swedish National Pension Fund and Martin Nilsson, Catella Fondförvaltning

The AGM on April 27, 2016 resolved to appoint a nominating committee according to the following principles. By September 30, 2016, 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 2017 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 2017 AGM.

The members have not received any fees or remuneration from IAR Systems Group for their work on the nominating committee. All of the Board members were present at the

eight meetings, with the exception of Martin Nilsson, who has been part of the nominating committee since January 2017. Martin Nilsson has participated in three meetings.

Proposals to be submitted to the 2017 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 2018 AGM

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

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

ENGAGEMENT AND RESPONSIBILITY

It is the board of directors who is responsible for the corporate governance statement for the financial year 2016-01-01 - 2016-12-31 on pages 68-71 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 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.

OPINIONS

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

Stockholm, March 7, 2017

Deloitte AB

Erik Olin, *Authorized Public Accountant*