

Documents for the AGM
I.A.R. Systems Group AB (publ)

Wednesday, April 24, 2019



Agenda

for the Annual General Meeting (AGM) of shareholders in IAR Systems Group AB (publ) at 6:00 p.m. on Wednesday, April 24, 2019, at Spårvagnshallarna, Birger Jarlsgatan 57 A, Stockholm, Sweden.

Proposed agenda

1. Opening of the AGM.
2. Election of the Chairman of the AGM.
3. Preparation and approval of the voting list.
4. Approval of the agenda.
5. Election of one or two persons to check and sign the minutes.
6. Decision as to whether the AGM has been duly convened.
7. Address by the CEO.
8. Presentation of the annual accounts, the audit report, the consolidated financial statements and the consolidated audit report.
9. Resolutions regarding:
 - a. adoption of the income statements and balance sheets of the Parent Company and the Group,
 - b. appropriation of the company's profits according to the adopted balance sheet, and
 - c. discharge from liability for the members of the Board of Directors and the CEO.
10. Resolution regarding the number of Board members and deputies.
11. Resolution regarding fees to be paid to the Board of Directors and auditors.
12. Election of Board members and the Board Chairman.
13. Election of auditors.
14. Resolution regarding the appointment of the nominating committee.
15. Resolution regarding principles for remuneration of senior executives.
16. Resolution regarding the authorization for the Board to decide on the issue of new shares.
17. Resolutions regarding the authorization for the Board to decide on the repurchase and sale of treasury shares.
18. Resolution on the adoption of a long-term incentive program.
19. Resolution on the authorization for the Board to decide on a private placement of new class C shares.
20. Resolution on the authorization for the Board to decide on the repurchase of class C shares.
21. Transfer of class B shares in the company
22. Other business to be addressed by the AGM according to the Swedish Companies Act (2005:551) or the Articles of Association.
23. Adjournment of the AGM.

Proposals for resolution to be put before the AGM of IAR Systems Group AB (publ) on April 24, 2019.

Election of the Chairman of the AGM (item 2)

The nominating committee – comprising Jonas Eixmann (Chairman of the nominating committee), appointed by Andra AP-fonden, Mats Larsson, appointed by Första AP-fonden, and Jonas Wikström, appointed by Stefan Skarin – proposes that Board Chairman Maria Wasing be elected as Chairman of the AGM.

Resolution on the appropriation of the company's profits according to the adopted balance sheet (item 9 b)

The Board of Directors proposes that the earnings at the disposal of the AGM according to the company's adopted balance sheet, amounting to SEK 362,629,984, be appropriated so that the shareholders receive a dividend of SEK 5.00 per share, or a total of SEK 68,118,065, for the 2018 financial year. The proposed record date is Friday, April 26, 2019. Provided that this record date is approved, dividends are expected to be disbursed on Thursday, May 2, 2019.

Resolution on the number of Board members and deputies (item 10)

The nominating committee proposes that the Board consist of five members and no deputies.

Resolution on fees to be paid to the Board of Directors and auditors (item 11)

The nominating committee proposes that Board fees be paid in an amount of SEK 1,120,000, of which SEK 400,000 to the Board Chairman and SEK 180,000 to each of the non-executive Board members. It is proposed that fees to the auditors be paid according to approved invoices.

Election of Board members and the Board Chairman (item 12)

The nominating committee proposes that Maria Wasing and Kent Sander be re-elected as Board members, and that Michael Ingelög, Richard Lind and Fred Wikström be elected as new Board members. Lisa Kaati, Helena Nordman-Knutson and Stefan Skarin have declined re-election. Stefan Skarin declined re-election in order to clarify his role as CEO of the company. The nominating committee proposes that Maria Wasing be re-elected as Board Chairman.

Election of auditors (item 13)

The nominating committee proposes the re-election of Deloitte AB as the company's auditor for a period of one year, with Erik Olin as Auditor in Charge. The nominating committee's proposal has been approved by the Board's audit committee.

Resolution on the appointment of the nominating committee (item 14)

The nominating committee proposes that the AGM resolve to appoint a nominating committee in accordance with the following principles. Not later than September 30, 2019, the Board of Directors is to convene a meeting of the three largest shareholders or known shareholder groups in the company in terms of voting power, which in turn are entitled to appoint at least three members to the nominating committee, one from each of the largest shareholders or shareholder groups in terms of voting power. If any of the three largest shareholders or known shareholder groups waives the right to appoint a member to the nominating committee, the next-largest shareholder or known shareholder group is to be given the opportunity to appoint a member to the nominating committee. In addition, the Chairman of the Board may be appointed to the nominating committee. The CEO and other members of executive management may not serve as a member of the nominating committee. The Chairman of the Board is responsible for convening the initial meeting of the nominating committee. A shareholder representative is to be appointed Chairman of the nominating committee. The nominating committee is to serve for a term ending when a new nominating committee has been appointed. The composition of the nominating committee is to be announced publicly not later than six months before the 2020 AGM.

The nominating committee is to be appointed based on known shareholdings in the company at August 31, 2019. If significant changes in the ownership structure occur after the nominating committee has been appointed, the composition of the nominating committee may also be changed in accordance with the principles set forth above. Changes in the nominating committee are to be publicized immediately.

The nominating committee is responsible for preparing and submitting proposals to the AGM for resolution regarding: the election of the Chairman of the Board and other Board members; Board fees allocated between the Chairman and other Board members; remuneration, if applicable, for service on Board committees; election of the auditor and fees to the auditor; principles for the appointment of the nominating committee; and the election of the Chairman of the AGM.

The members of the nominating committee are not to be paid a fee for their services. Upon approval by the Chairman of the Board, the nominating committee is entitled to charge the company for costs, such as for recruitment consultants or other costs necessary for the nominating committee to perform its duties.

Resolution on principles for remuneration of senior executives (item 15)

The Board of Directors proposes that the AGM resolve that the guidelines for remuneration to senior executives that were adopted by the 2018 AGM are to continue to apply. Senior executives refers to the CEO and other members of Group management, currently a total of five people including the CEO. The remuneration principles also apply to Board members to the extent that they receive remuneration outside the scope of their Board assignment.

Authorization for the Board to decide on the issue of new shares (item 16)

The Board of Directors proposes that the AGM authorize the Board, on one or several occasions during the period until the next AGM, either applying or disapplying the shareholders' preemptive rights, to decide on the issue of new shares and/or convertibles entailing the issue of, or conversion to, a maximum total of 1,397,000 class B shares, corresponding to a dilution effect of approximately 10.0% of the share capital and about 9.4% of the number of votes based on the current number of shares in the company.

The motive for the authorization and any disapplication of the shareholders' preemptive rights is to enable issues to be conducted in a timely manner in order to finance acquisitions or investments in new or existing operations. In the event that the shareholders' preemptive rights are disappplied, issues of new shares and issues of convertibles supported by this authorization are to be conducted at market price in accordance with the market conditions prevailing on the date on which the shares and/or convertibles are issued. Payment for subscribed shares and/or convertibles is to be made in cash, through non-cash consideration or in the form offsetting.

For the AGM's resolution to be valid, the resolution must be supported by shareholders representing at least two-thirds of both the number of votes cast and the number of shares represented at the AGM.

Authorization for the Board to decide on the repurchase and transfer of treasury shares (item 17)

The Board of Directors proposes that the AGM authorize the Board, on one or several occasions during the period until the next AGM, to decide on the purchase 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, defined as the interval between the highest bid price and the lowest ask price. The motive for the authorization is to give the Board greater freedom of action in optimizing the company's capital structure.

It is furthermore proposed that the Board be authorized, on one or several occasions during the period until the next AGM, to decide on the transfer of, at most, all class B treasury shares held by the company at any given time (i) on Nasdaq Stockholm or (ii) in a manner other than a transfer on a regulated market, whereby the Board shall be able to decide on the transfer of shares for payment in cash disapplying the shareholders' preemptive rights or as consideration for the acquisition of companies or operations. The transfer of shares on a regulated market may take place only at a price that is within the registered price interval at any given time. The transfer of shares in a manner other than through a transfer on a regulated market disapplying the shareholders' preemptive rights, or as consideration for the acquisition of companies or operations, may take place only at a price corresponding to the prevailing market value at the time of each issue. The motive for the authorization is to give the Board greater freedom of action and scope to continuously adapt the company's capital structure as well as the opportunity to finance future acquisitions. The motive for authorizing the Board, in connection with the transfer of shares in a manner other than through a transfer on a regulated market, to decide on the transfer of shares disapplying the shareholders' preemptive rights is that the company can thereby dispose of the shares in a more timely manner in the event that the liquidity of the company's share on the regulated market is limited on the date of transfer.

For the AGM's resolutions to be valid, the resolutions must be supported by shareholders representing at least two-thirds of both the number of votes cast and the number of shares represented at the AGM.

Resolution on the adoption of a long-term incentive program (item 18)

For the purpose of improving the opportunity for retaining and recruiting competent personnel to the IAR Systems group (the “**Group**”) and increasing the motivation amongst the employees, the Board of Directors proposes that the AGM resolves to introduce an incentive program (the “**LTIP 2019**”) for all employees of the Group. LTIP 2019 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 2019.

LTIP 2019 is based on similar principles as LTIP 2018. The Board of Directors do not intend to present a new proposal for an incentive program at next year’s AGM.

General

LTIP 2019 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 of Sweden (the “**Stock Options**”).

To implement the LTIP 2019 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 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 2019 in accordance with this item 18 is therefore conditional upon the AGM resolving in accordance with the proposals under items 19-21 below.

Dilution effects

The Board of Directors proposes that the LTIP 2019 shall consist of a maximum of 532,500 Warrants and Stock Options entitling to subscription or purchase of the same number of class B shares in the Company, corresponding to approximately 3.6 percent of the share capital and 3.4 percent of the votes in the Company after dilution. The Company has one previous share-linked incentive program for employees in the Group (LTIP 2018). Jointly, LTIP 2018 and LTIP 2019 will have a dilutive effect of approximately 7.0 percent of the share capital and 6.6 percent of the votes in the Company after dilution.

Performance conditions

The final number of Warrants and Stock 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 2019, 2020 and 2021. 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.

Performance conditions	Minimum level	Maximum level
Growth in net sale for 2019	5 percent	10 percent
Growth in net sale for 2020	5 percent	10 percent
Growth in net sale for 2021	5 percent	10 percent

Specific terms and conditions for the Warrants

The number of Warrants may not exceed 151,500 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:

Category	Current number of employees in Sweden	Guaranteed number of Warrants per participant	Maximum number of Warrants to be purchased per participant
Senior Management	-	30,000	30,000
Key Management	1	15,000	15,000
Management and key staff	1	7,500	7,500
Key staff	2	5,000	5,000
Key performers and future key staff	8	2,500	2,500
Personnel not included in any of the above categories	94	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 2019, 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) the price initially paid by the employee for the Warrants. It shall be possible to transfer repurchased Warrants to a person who has been hired to replace a previous participant's position, or a similar position, provided that such person is not an existing participant in LTIP 2019.

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 May 1, 2022 and May 31, 2022 at a price corresponding to the highest of (i) 120 percent of the average volume weighted share price of the Company's share on Nasdaq Stockholm during the period from May 3, 2019 through May 13, 2019 and (ii) SEK 330. 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 381,000 options. Stock Options can only be assigned to the Group's current and future employees outside of Sweden as follows:

Category	Current number of employees outside Sweden	Maximum number of Stock Options per participant
Senior Management	3	30,000
Key Management	4	15,000
Management and key staff	9	7,500
Key staff	8	5,000
Key performers and future key staff	17	2,500
Personnel not included in any of the above categories	61	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. If options are forfeited in connection with a participant's termination of employment, the Company has the right to grant a corresponding number of options to a person who has been hired to replace the previous participant's position, or a similar position, provided that such person is not an existing participant in LTIP 2019.

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 between May 1, 2022 and May 31, 2022 at a price corresponding to the highest of (i) 120 percent of the average volume weighted share price of the Company's share on Nasdaq Stockholm during the period from May 3, 2019 through May 13, 2019 and (ii) SEK 330. The thus calculated exercise price shall be rounded to the nearest ten öre with five öre 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 2019.

The Board shall have the right to make adjustments in LTIP 2019 if significant changes occur within the Group's structure 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 2019, subsidies and tax consequences

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 6.61 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 270 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 4 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 270, the market value of the Warrants amounts to approximately SEK 13.50, assuming a subscription price of SEK 330 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 intends to grant 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 3.5 million in total during the term of the Warrants.

The Company's external costs for the preparation of LTIP 2019 in the form of costs for advisor and administration of LTIP 2019, including valuation of the option, are estimated to amount to approximately SEK 0.5 million.

Preparation of the proposal

LTIP 2019 has been prepared by the Board of Directors together with external advisors. LTIP 2019 has been reviewed by the Board of Directors at board meetings in March 2019.

The rationale for the proposal

The rationale for the proposal for LTIP 2019 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 2019 as described above benefits the Group and the Company's shareholders.

Majority requirements

LTIP 2019 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 are subject to Chapter 16 of the Swedish Companies Act, which means that a resolution to approve the LTIP 2019 is valid only if it is supported by at least nine-tenths of both the votes cast and the shares represented at the AGM.

Resolution on the authorization for the Board to decide on a private placement of new class C shares (item 19)

The Board of Directors proposes that the AGM authorize the Board, on one or several occasions during the period until the next AGM, to decide on the issue of a maximum of 381,000 new class C shares, with a quota value of SEK 10 each. The new shares may be subscribed for, disapplying the shareholders' preemptive rights, by a bank or securities company at a subscription price corresponding to their quota value.

The aim of the new share issue and the reason for disapplying the shareholders' preemptive rights in carrying out the issue is to ensure the delivery of shares to employees through the exercise of Stock Options according to LTIP 2019 (item 18 above) and, in terms of cash flow, to ensure payment of future social security expenses attributable to this incentive program.

For the AGM's resolution to be valid, the resolution must be supported by shareholders representing at least two-thirds of both the number of votes cast and the number of shares represented at the AGM.

Resolution on the authorization for the Board to decide on the repurchase of class C shares (item 20)

The Board of Directors proposes that the AGM resolve to authorize the Board, for the period until the next AGM, to decide on the repurchase of class C shares. Repurchases may only be carried out through an acquisition offer to all holders of class C shares and are to include all outstanding class C shares. Acquisitions are to be carried out at a price corresponding to the quota value of the shares. Payment for acquired shares is to be made in cash.

The aim of the repurchase is to ensure the delivery of shares to employees through the exercise of Stock Options according to LTIP 2019 (item 18 above) and, in terms of cash flow, to ensure payment of future social security expenses attributable to this incentive program.

For the AGM's resolution to be valid, the resolution must be supported by shareholders representing at least two-thirds of both the number of votes cast and the number of shares represented at the AGM.

Transfer of class B shares in the company (item 21)

The Board of Directors proposes that the AGM resolve on the transfer of class B shares in accordance with the following. A maximum of 381,000 class B shares in IAR Systems may be transferred to employees in connection with the exercise of Stock Options under LTIP 2019. The transfer terms, exercise price, number of shares and transfer date are to follow the terms of the Stock Options under LTIP 2019. The number of class B shares that may be transferred is to be recalculated in accordance with accepted principles as a result of any bonus issues, share splits, reverse share splits and/or other similar events.

For the AGM's resolution to be valid, the resolution must be supported by shareholders representing at least nine-tenths of both the number of votes cast and the number of shares represented at the AGM.

Other

The annual report, the auditor's opinion on the application of the guidelines for remuneration of senior executives, the complete proposals of the Board and the nominating committee as set out above, including related documents under the Swedish Companies Act (2005:551), and a proxy form will be available from the company at Strandbodgatan 1, Uppsala, or Kungsgatan 33, Stockholm, and on the company's website 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 AGM.

Pursuant to Chapter 7, Section 32 of the Swedish Companies Act (2005:551), shareholders have the right at the AGM 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 March 26, 2019, the company had a total of 13,968,333 shares, comprising 100,000 class A shares, 13,523,613 class B shares and 344,720 class C shares, corresponding to a total of 14,868,333 votes. The company currently holds 344,720 class C shares.

Stockholm, March 2019

I.A.R. Systems Group AB (publ)
Board of Directors

Statement by the Board of Directors pursuant to Chapter 18, Section 4 and Chapter 19, Section 22 of the Swedish Companies Act in respect of the proposals regarding dividends and authorization for the Board to decide on the repurchase of shares

Nature, scope and risks of the business

The nature and scope of the business are set out in the Articles of Association and the filed annual report for the 2018 financial year. The Board of Directors' assessment is that the business conducted by the Group is not associated with any risks beyond those that exist in the industry or those that are applicable to business activities in general.

Consolidation requirements, liquidity and financial position

The financial position of the company and the Group at December 31, 2018 is described in the most recent annual report. The annual report also states which accounting policies have been applied in the valuation of assets, provisions and liabilities.

The Board of Directors has proposed to the AGM that the company pay a dividend of SEK 5 per share for the 2018 financial year. Non-restricted equity in the Parent Company and the Group at the end of the 2018 financial year was SEK 362.3 million and retained earnings in the Group on the same date amounted to SEK 410.3 million. The proposed dividend will reduce non-restricted equity in the Parent Company and retained earnings in the Group by SEK 68.1 million.

Among other information provided, the annual report states that the Group's equity/assets ratio is 76%. The proposed dividend and authorization for the repurchase of treasury shares will not jeopardize the fulfillment of the investments that are deemed necessary.

According to the Board's assessment, the company has a comparatively high level of equity in relation to the scope of the company's business and the risks associated therewith. Furthermore, the Board of Directors finds that the company has available cash and cash equivalents of approximately SEK 331 million. The company is assessed to have substantial non-restricted equity.

Justifiability of the repurchase proposal

In light of the above, the Board of Directors' assessment is that the proposed dividend and any purchases of shares in the company are 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 financial position in general of the company and the Group.

Stockholm, March 2019

I.A.R. Systems Group AB (publ)

Board of Directors