

wireless living



Q1 2011 Investor Presentation

Svenn-Tore Larsen, CEO
Robert Giori, CFO

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Solid revenue growth in Q1 2011

New applications drive revenue in Q1 2011, offsetting slower growth in wireless PC peripherals category

- Revenues of MUSD 33.5 (MUSD 29.5)
- Order inflows of MUSD 34.0 (MUSD 67.2)
- Operating profit (EBIT) of MUSD 6.1 (MUSD 8.2)
- Cash flow from operations of MUSD - 11.5 (MUSD - 6.1)

Business Outlook: Strong competitive position in new growth markets for ultra-low power wireless solutions

- Short-term outlook (2011)
 - PC peripherals market continues to be primary revenue driver in 2011
- Long-term outlook (2012 -)
 - New connectivity hubs become key growth markets
 - Home media centers
 - Mobile devices
 - Sensor networks
 - *Bluetooth* low energy positioned to be key enabling technology in new markets

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FINANCIAL HIGHLIGHTS

Robert Giori, CFO

Q1 2011 Financial Highlights (MUSD)

MUSD

Financial objectives

Growth

	<u>Q1 2011</u>	<u>Q1 2010</u>	<u>Comments</u>
Revenue	33,5	29,5	14% annual growth
Order Inflow	34,0	67,2	Shorter order cycle reduces order intake

Profitability

Gross Margin %	46 %	55 %	Price pressure, not yet offset by cost reduction
Operating Profit (EBIT)	6,1	8,2	
EBIT Margin %	18 %	28 %	Driven by lower GM%
Net Profit after tax	4,6	5,1	

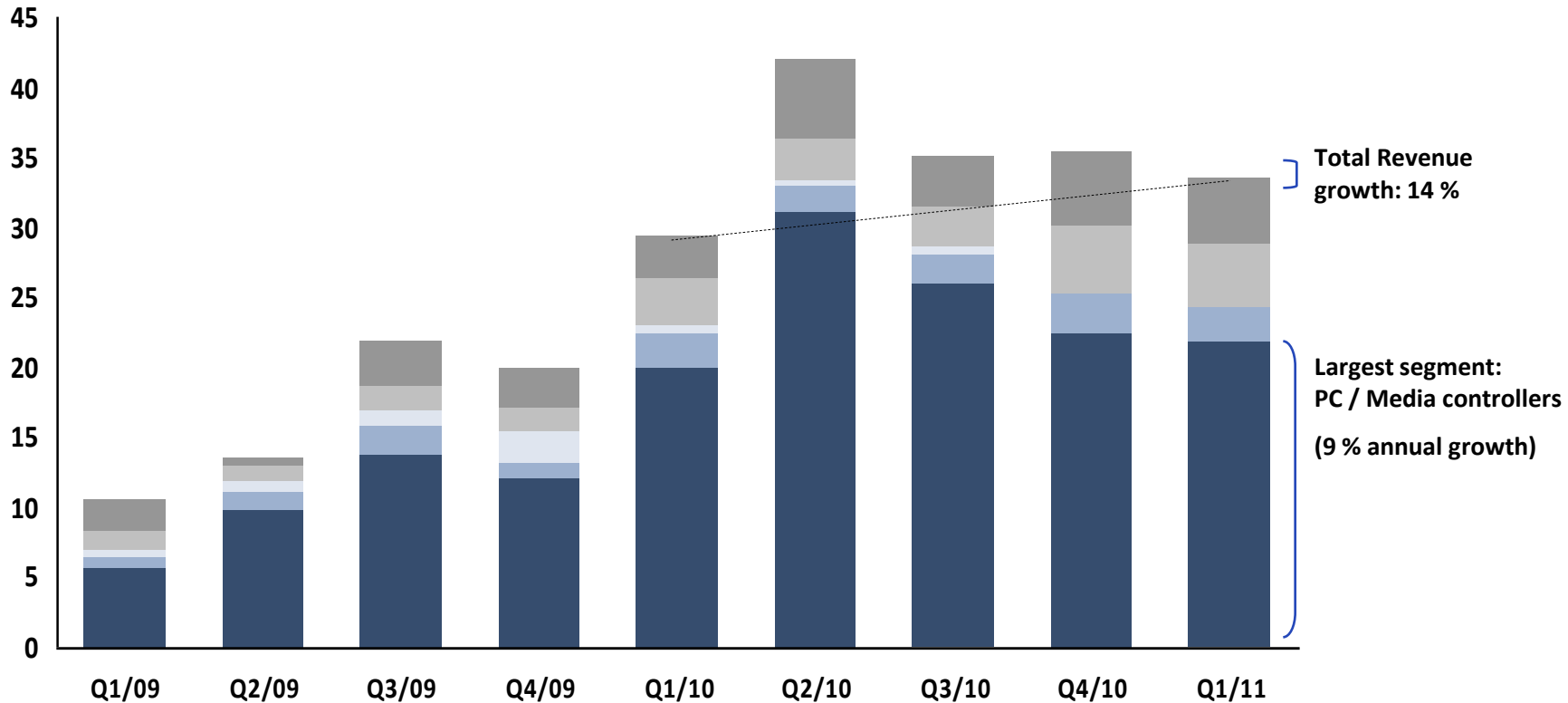
Cash Flow

Free Cash Flow	-12,1	-8,9	Higher net working capital balances
Cash Balance	19,6	21,7	
Accounts Receivable	30,3	24,0	Almost no invoices > 30 days past due
Inventory	27,9	9,8	Build inventory in advance of peak demand

Group Revenues

- Q1 2011 Revenue of MUSD 33.5 (14% annual growth)
 - Strong growth within new products in Other Applications and ASIC segments
 - Slower growth in PC / Media controller segment, driven by weaker PC market and resulting inventory correction in sales channels

Segment revenue by quarter 2009 – Q1 2011 (MUSD)



Growth driven by new product releases

PC / Media controllers

Wireless PC mouse / keyboard,
Media center remote control,
Game controller

Q1 Revenue: MUSD 21.8 (MUSD 19.9)

- *PC Peripherals:* Growing popularity of wireless PC peripheral devices, despite slower growth in PC market
- *Media remotes:* New market for remote controls for connected TV's based on mouse/keyboard designs
- *Game controller:* Designs for new interactive controllers currently under development



Sports / Health monitors

Heart monitors, foot pods, watches

Q1 Revenue: MUSD 2.4 (MUSD 2.5)

- Slower sales during quarter to large fitness customers

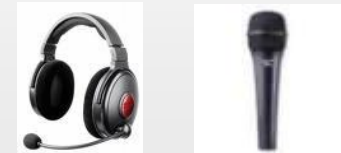


Audio devices

Wireless audio streaming,
microphones, gaming headsets

Q1 Revenue: MUSD 0.0 (MUSD 0.4)

- Decline in sales of components for wireless karaoke microphones



Other applications

RFID, Toys, etc.

Q1 Revenue: MUSD 4.6 (MUSD 3.6)

- Several new products drive growth, incl. RFID components



ASIC components / consulting

Wide sector span

Q1 Revenue: MUSD 4.6 (MUSD 3.0)

- Recent release of an end product with a Nordic ASIC design driving revenues

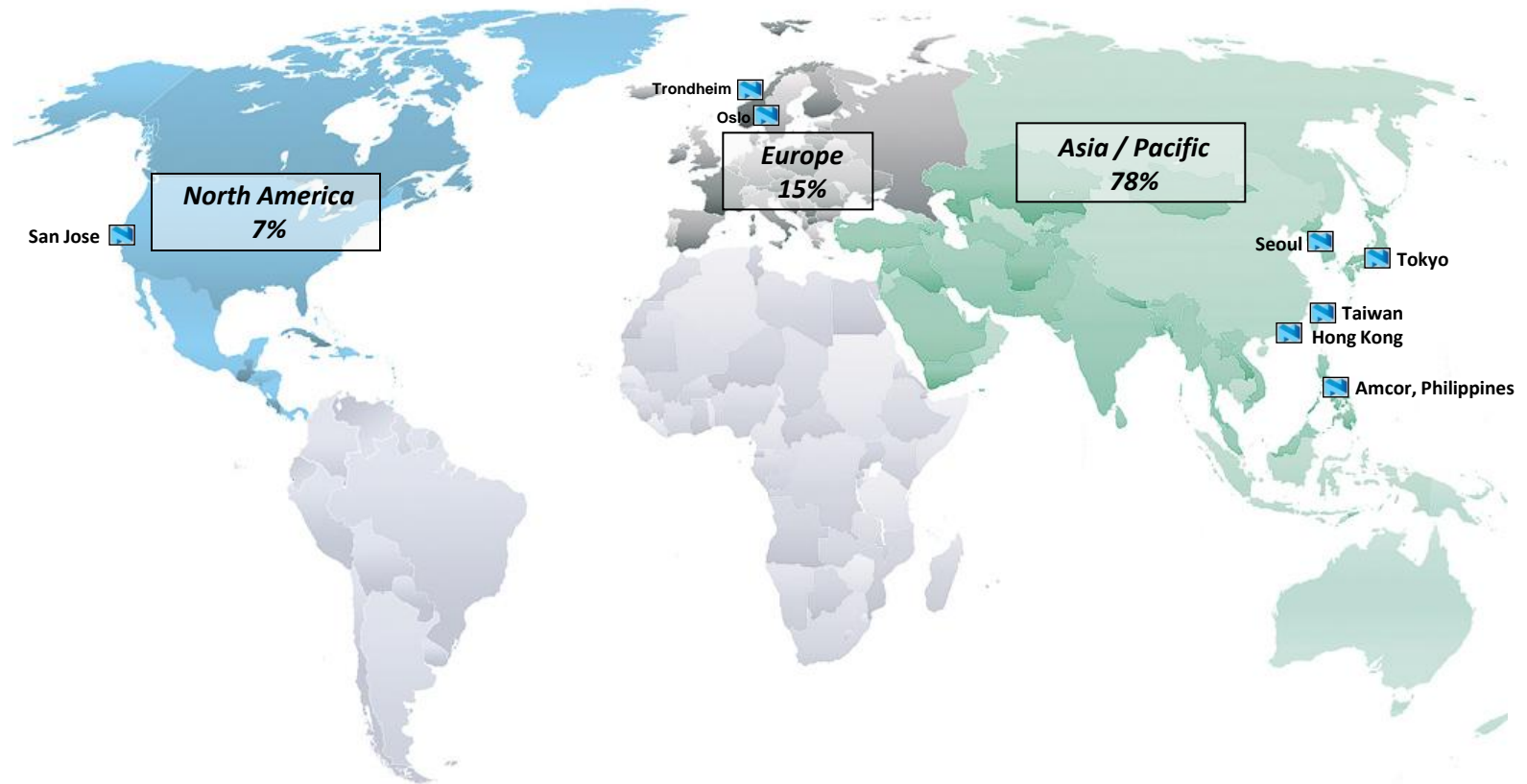


* Reflects Q1 2011 revenue (Q1 2010 in parenthesis)

Revenue mix

- 78% of revenues are to Asian distributors
 - Many component units are sold through distribution to Asian OEM's for manufacture and export of devices to North America / Europe

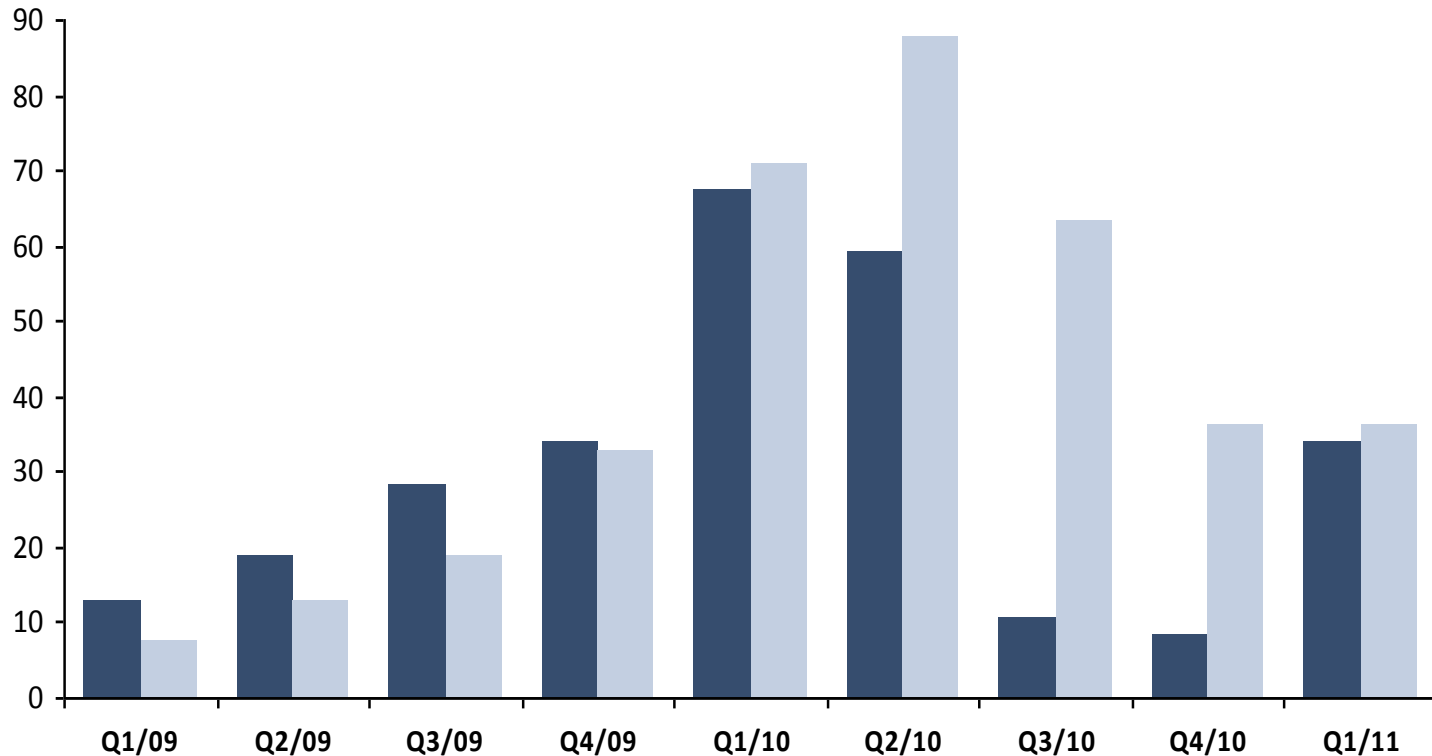
Revenue breakdown by region



Order inflow / order backlog

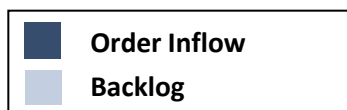
- Order inflow of MUSD 34
 - Order cycle continues to shorten
 - Order backlog of MUSD 37, primarily for delivery in Q2 2011

Order Inflow and Backlog 2009 – Q1 2011 (MUSD)



Order cycles increase in 1H 2010 due to supply shortages; results in abnormally high order inflow and backlog

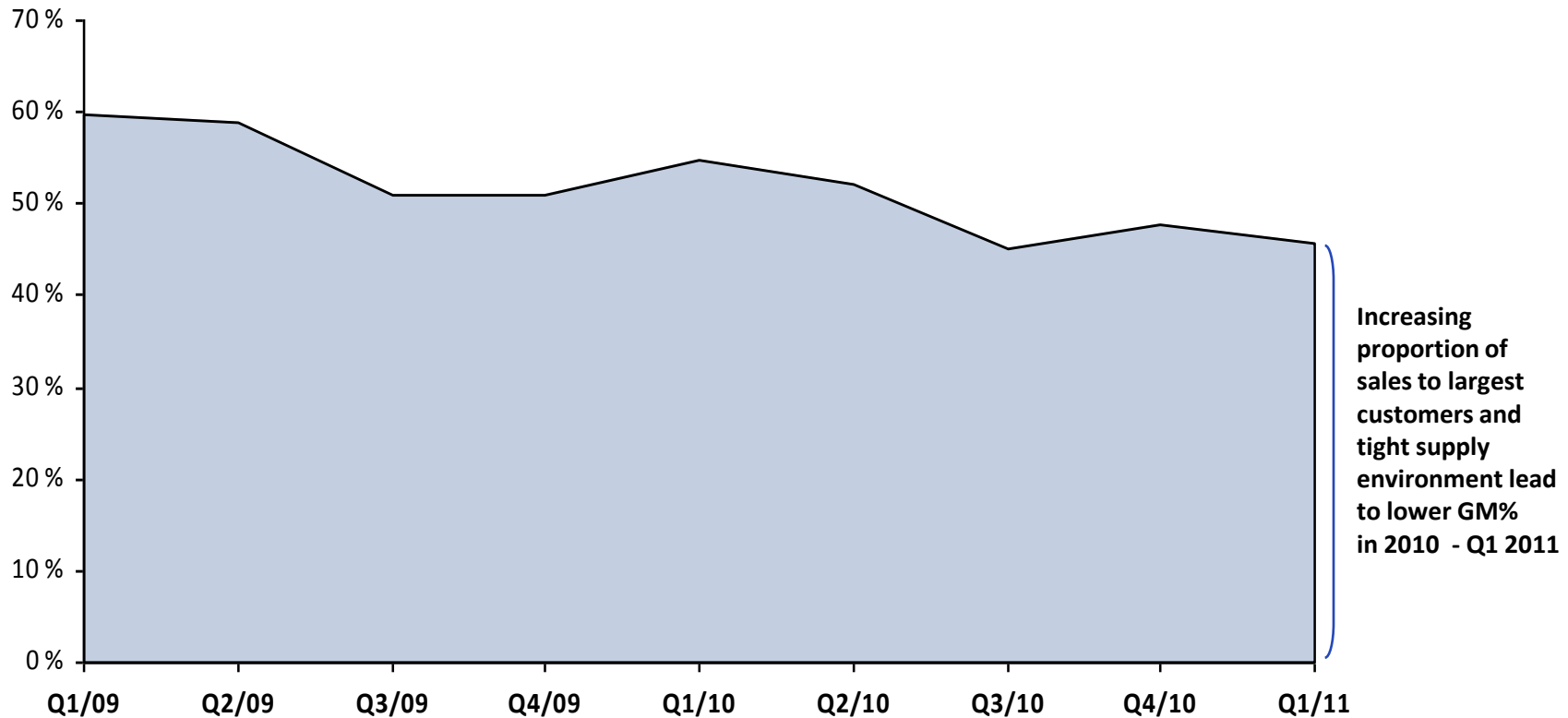
As supply shortages ease, order cycles normalize and backlog returns to historical average relative to sales



Gross Margin

- **Gross margin of 46 %**
 - Price pressures as business grows, with volume discounts to largest customers
 - Production costs have not fallen, due to tight supply environment in 2010
 - Several process improvements will reduce production costs during 2011

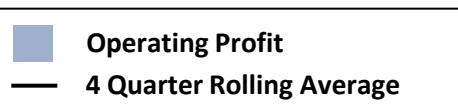
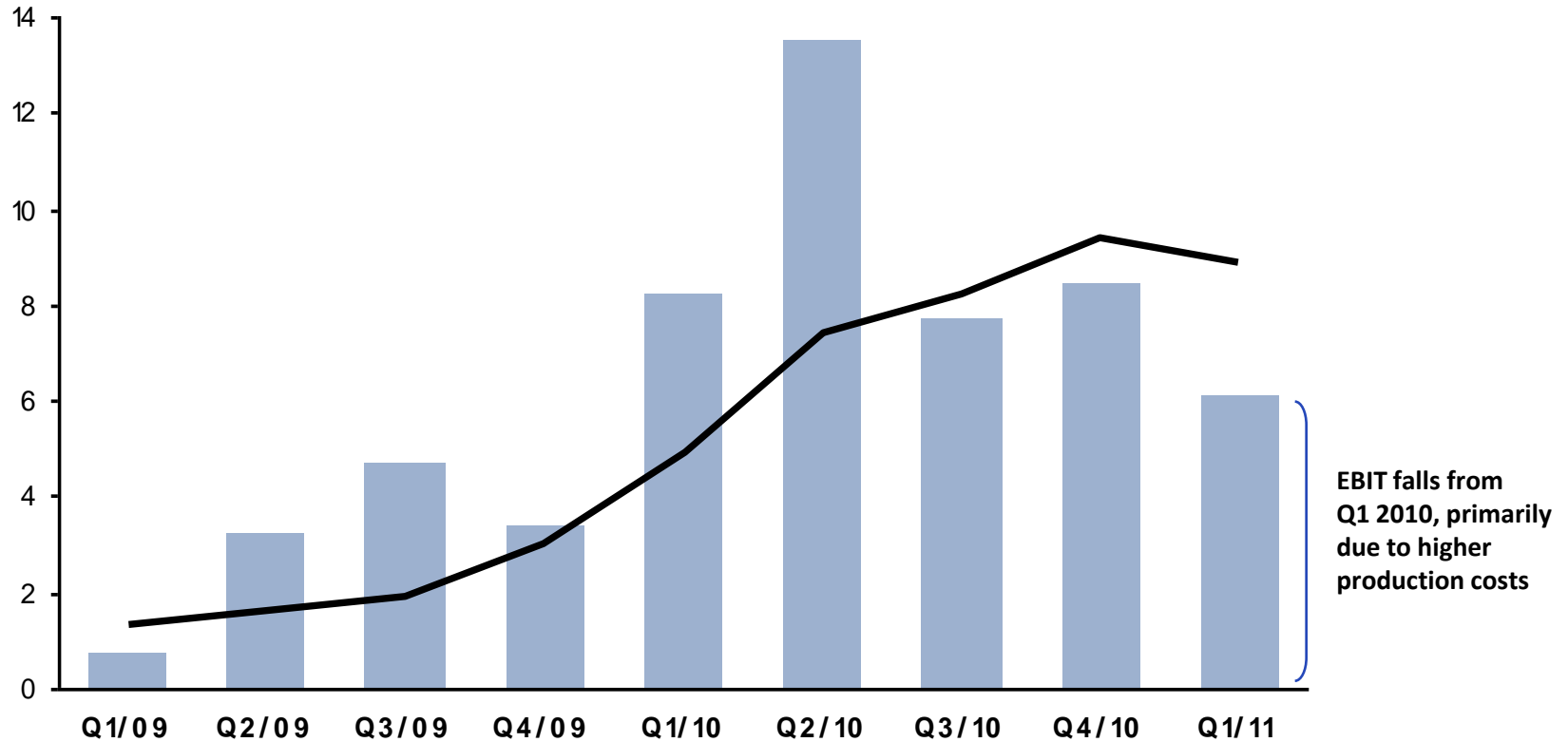
Gross Margin % of revenue 2009 – Q1 2011



Operating Profit

- Operating profit (EBIT) of MUS\$ 6.1 (18 % EBIT margin)
 - Slower revenue growth and reduction in GM% lead to reduction in EBIT
 - Operating expenses grow in line with revenue, despite negative impact of currency fluctuations

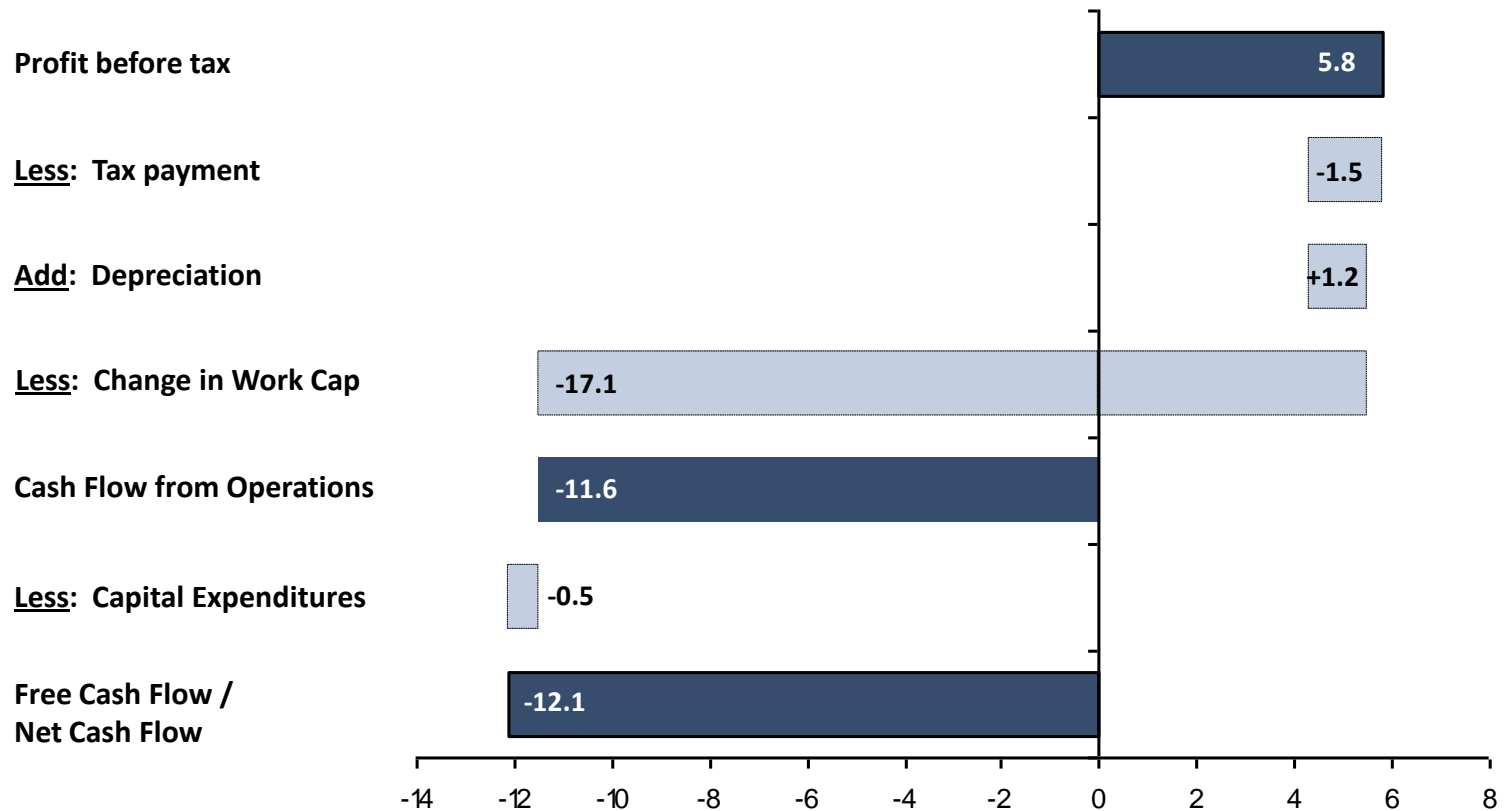
Operating Profit by quarter 2009 – Q1 2011 (MUS\$)



Cash Flow

- Free Cash Flow of MUSD -12.1 in Q1 2011
- Increase in net working capital has negative effect on cash flow. Nordic Semiconductor built inventory and reduced short-term debts during Q1 2011.

Cash Flow Breakdown Q1 2011 (MUSD)



Q1 2011 Financial summary

Revenue from new applications offsets slower growth in PC peripherals business

Revenue growth

- Group revenue of MUSD 33.5 (MUSD 29.5)
 - 14% growth rate
 - Driven by growth in Other Applications and ASIC business segments

Profitability

- Order inflow of MUSD 34 (MUSD 67)
 - Shortening order cycle limits order intake
- EBIT of MUSD 6.1 (MUSD 8.2)
 - Decline primarily a result of higher production costs
 - Several process improvements in place to reduce production costs during 2011

Cash Flow

- Free Cash Flow of MUSD – 12.1 (MUSD – 8.9)
 - Increased working capital requirements, as company built inventory in advance of peak seasonal demand
 - Almost no customer invoices > 30 days past due

Short-term outlook (2011)

Revenue

- **Estimated revenue of MUSD 160 – 170, with revenue driven primarily by PC peripherals business (Nordic's largest segment).**
 - Softening PC demand has resulted in surplus inventory of wireless mice and keyboards in distributor and sales channels.
 - An inventory correction is expected to have a short-term impact on sales growth in PC peripherals during the remainder of 1H 2011.
 - Sales growth is expected to recover during 2H 2011, with continued PC market growth (particularly in developing countries) and increased penetration of wireless peripherals among PC buyers

Gross Margin

- **Gross Margin within an estimated range of 45 – 50%, dependent on customer mix. Production costs to fall throughout year, with manufacturing process improvements.**
 - Older inventories (at 2010 costs) will be primarily sold through during 1H 2011
 - Newer inventories will have lower production costs, based on:
 - New pricing from manufacturing subcontractors
 - New packaging / probing processes resulting in lower manufacturing cost
 - Optimization of production yield

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BUSINESS OVERVIEW

Svenn-Tore Larsen, CEO

Market is just entering a long-term growth phase

Market for ultra-low power wireless solutions is growing from PC's to new applications

- **Short-term outlook (2011):** PC Peripherals market remains primary growth driver
 - Market still has long-term growth potential
 - 90%+ of new PCs ship with wired inputs (mice / keyboards)
 - Wireless input category is growing rapidly (estimated market growth of 35% in 2010 vs. 14% for PC market)
 - Leading vendors are starting to release “all-in-one” desktop PC's which are bundled with wireless mice/keyboards, which further supports growth in the category
 - Nordic has a dominant position in the PC peripherals market
- **Long-term outlook (2012 -):** New wireless applications drive long-term growth
 - Major growth opportunities in new connectivity hubs
 - Home media centers
 - Mobile devices
 - Other sensor networks
 - *Bluetooth* low energy positioned to be key enabling technology for new markets

Market growth shifting to new connectivity hubs

<u>Connectivity “hub”</u>	<u>2.4 GHz LP Mass adoption*</u>	<u>Examples</u>	<u>Annual Sales, “hub” devices</u>
PC	2008	Desktop, notebook PC, tablets	300M+
Home media center	2012+	TVs, Set-top boxes, home media players, game consoles	500M+
Mobile devices	2013+	Mobile handsets, MP3 players, other portables	1,500M+
Sensor network	2015+	Autos, homes, buildings, appliances, toll roads, transport systems, many others...	N/A

•Note: Home entertainment mass adoption refers to connected TV’s.
Mass adoption of 2.4 GHz LP technology in game consoles took place in 2005-6.

Bluetooth Low Energy will be key enabling technology

What is Bluetooth Low Energy?

- *Bluetooth* Low Energy is a new standard for low energy communication which can connect small, low cost battery devices (e.g., health sensors, remotes, watches) with *Bluetooth* devices (phones / PC's / TV's)
 - Compatibility with *Bluetooth* handsets and devices creates many new market opportunities for low energy wireless solutions
 - Nordic Semiconductor has taken a leading role in developing the standard within the Bluetooth SIG, and has launched a *Bluetooth* low energy chipset based on Nordic's market leading 2.4 GHz low power solutions



Technology leadership in Bluetooth low energy

nRF 8001: Nordic's first product in its μ Blue™ *Bluetooth* low energy product line

Competitive advantages

- **Lowest power consumption**

- Peak current as low as 12.5 mA
- Average current as low as 12 μ A for one second connection interval
- Significantly lower power consumption than nearest competitive solutions

- **Ease of adoption**

- Fully qualified *Bluetooth* low energy solution
- Simple serial interface for external microcontrollers of a designer's own choosing
- Provides flexibility and ease of design based on product requirements

- **Low cost BOM**

- Features a unique high precision 32 kHz on-chip RC oscillator for timing eliminating the need for costly external 32 kHz crystals



Capturing early design wins in Bluetooth low energy

First major branded *Bluetooth* low energy product uses Nordic's μ Blue™ technology

Casio G-SHOCK *Bluetooth* Low Energy watch



Key features

- **Mobile alerts**
 - Transfers incoming call, email and SMS alerts from phone to watch
 - Stop call alerts from watch.
- **Finder function**
 - Locate smartphone by transferring signal from watch to phone alarm
- **Auto time-correction**
 - Automatically updates watch with local time from smartphone
- **PLUS: 2-year battery life**
 - Same as ordinary watch

Bluetooth low energy – future market opportunities

Media center remotes



- RF remote controls will become a necessity for new generations of internet-connected televisions which offer online content
- Huge market opportunity for RF devices to replace infrared remote controls
- *Bluetooth* low energy offers highest performance among wireless standards, connectivity with WiFi/Bluetooth chips in media centers, and multisourcing

Sports / Health monitors



- Vendors of fitness monitors are transitioning from older 5 kHz wireless technology to Nordic's 2.4 GHz solutions.
- Rapid long-term growth expected in this category, as new products are released for remote health monitoring for the elderly or for those with chronic conditions
- Continua Health Alliance has selected *Bluetooth* low energy as wireless standard

Mobile peripherals

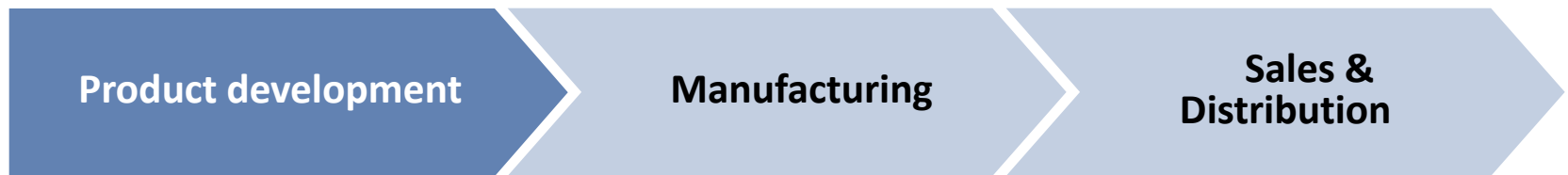


- *Bluetooth* low energy enables mobile handset to become a local hub for receiving sensor information, with many use cases linked to phone apps
- Security, autolock and tracking of personal items are early focus areas
- Longer-term applications include connectivity with local displays / advertising, and between a mobile phone and other devices (e.g., personal media player/watch)

A year of investment for Nordic Semiconductor

- In order to target new market opportunities in short-range wireless, the company plans to expand its staffing by approximately 25% in 2011
 - 22 new employees (net) have already been hired with start date during 2011

Key 2011 Activities



- Release of next-generation wireless platform and related new components
 - Reduced power consumption
 - Greater flexibility to electronics designers
- Reduce production costs
 - Manage subcontractor agreements
 - Process improvement
 - Yield optimization
- Build market position in new product categories
 - Develop relationships with key accounts and industrial partners
 - Software and reference designs for new products
 - Product marketing

Strong competitive position for new growth markets

Targeting new markets from a position of technology and market leadership

Technology leadership:

- **Best-in class 2.4 GHz technology for ultra-low power wireless**
 - Lowest power consumption, with high performance and low cost
 - New 2011 wireless platform will further strengthen technology leadership

- **Key participant in developing *Bluetooth low energy wireless standard***
 - Nordic's single-mode BLE chip is based on its market-leading 2.4 GHz wireless platform
 - Brings existing power consumption, performance and cost advantages to *Bluetooth low energy standard*

Market leadership:

- **Leading market position in ultra-low power wireless category**
 - Very high market share in PC peripheral and fitness categories
 - PC peripheral reference customers and designs are strong entry point to emerging connected TV market
 - Sports / fitness reference customers and designs are strong entry point to emerging medical market

- **Many years experience in ultra-low power wireless**
 - Strong relations with key accounts and understanding of market requirements