Q1 Report 2018

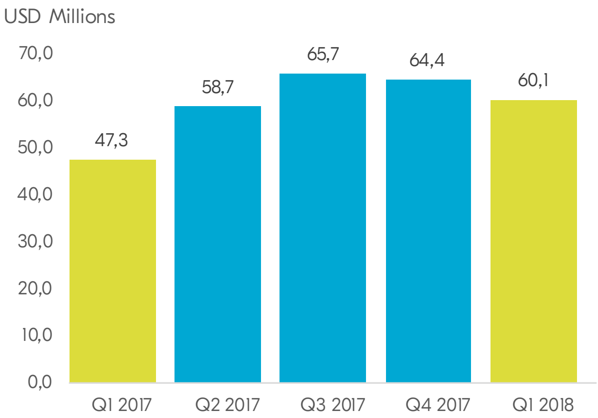
NORDIC SEMICONDUCTOR

Content

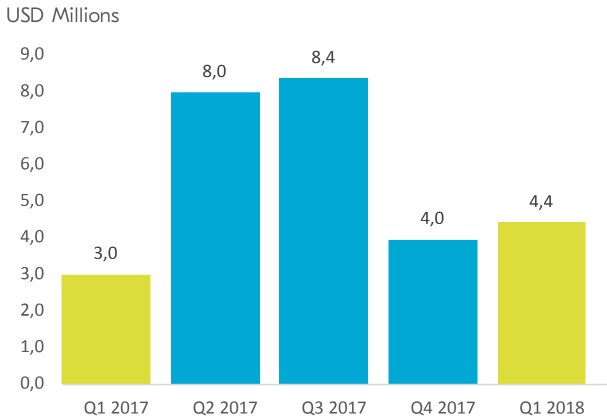
HIGHLIGHTS

- Bluetooth year-on-year growth of 57.6%. Bluetooth revenue totaled MUSD 38.4 in Q1 2018, an increase of MUSD 14.0 from MUSD 24.3 in Q1 2017.
- Continued gross margin improvements. Gross margin of 48.9% in the quarter. Increase of 2.2 percentage points from 46.7% in Q1 2017.
- EBITDA year-on-year growth of 46.6 %. EBITDA of MUSD 4.4 in Q1 2018, an increase of MUSD 1.4 from MUSD 3.0 in Q1 2017. EBITDA affected positively by increased revenue and gross margin.
- During Q1 the nRF91 Cellular IoT product was released. Nordic has seen strong traction and is currently working closely with ten key customers.

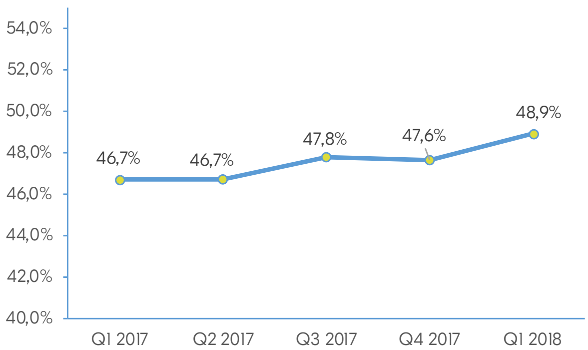
Revenue



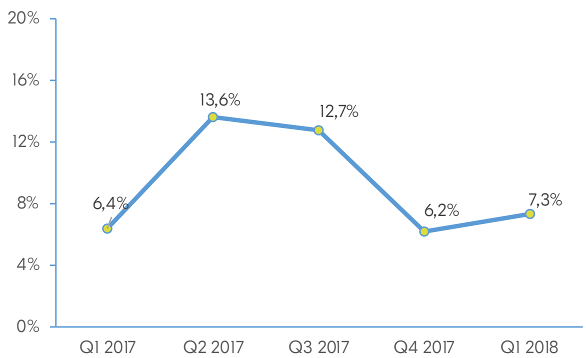
EBITDA



Gross Margin



EBITDA Margin



KEY FIGURES

Q1 2018 Financial Summary

Amount in USD million	Q1 2018	Q1 2017	Change
Revenue	60.1	47.3	27.0%
Gross profit	29.4	22.1	32.9%
Gross Margin %	48.9%	46.7%	2.2 p.p.
EBITDA	4.4	3.0	46.6%
EBITDA %	7.3%	6.4%	1.0 p.p
Operating Profit (EBIT)	0.8	-0.1	-
Operating Profit % (EBIT)	1.4%	-0.2%	1.5 p.p.
Net profit after tax	0.0	-0.3	na
Free Cash Flow (Net cash flow excluding financing)	-4.4	6.8	na
Cash and cash equivalents	32.2	27.9	15.5%
Order Backlog	81.0	45.9	76.5%
Working capital in relation to annualized revenue	26.5%	32.2%	-5.8 p.p.
Equity ratio	66.3%	69.5%	-3.2 p.p.
Number of employees	615	549	12.0%

Revenue by technology

Amount in USD thousand	Q1 2018	Q1 2017	Y-o-Y %	Q4 2017	Q-o-Q %
Proprietary wireless	19 949	21 619	-7.7 %	18 257	9.3 %
Bluetooth	38 366	24 345	57.6 %	44 074	-13.0 %
ASIC Components	1 789	1 323	35.2 %	1 955	-8.5 %
Consulting services	21	49	-57.1 %	80	-73.8 %
Total	**60 125**	**47 336**	**27.0%**	**64 366**	**-6.6%**

FINANCIAL REVIEW

Income statement

Nordic Semiconductor (Nordic or the Group) total revenue was MUSD 60.1 in Q1 2018, compared to MUSD 47.3 in Q1 2017. The growth driver is Bluetooth with 57.6% year-on-year growth, while Proprietary is down 7.7%. ASIC revenue increased by 35.2 % year-on-year.

Revenue from Bluetooth ended at MUSD 38.4, representing a growth of 57.6% from MUSD 24.4 in Q1 2017. Bluetooth revenue constitutes 63.8% of total revenue in the quarter. The corresponding percentage for Q1 2017 was 51.4%. The revenue growth came as a result of the strong design win momentum reported during 2017, and especially within building and retail and modules markets. Revenue growth is evenly distributed between the more mature product portfolio and high traction on newly released products. Compared to Q4 2017, Q1 2018 Bluetooth revenue decreased seasonally by 13.0% from MUSD 44.1.

Revenue from proprietary wireless ended at MUSD 19.9 compared with MUSD 21.6 in Q1 2017, representing a decrease of 7.7%. Sales of Proprietary are impacted by change in product mix and an ongoing, but slow transition to Bluetooth Low Energy. Proprietary revenue increased 9.3% in Q1 2018, compared to Q4 2017.

Backlog ended at MUSD 81.0, up from MUSD 45.9 in Q1 2017.

In Q1 2018, gross profit was MUSD 29.4, or 48.9% of revenue, compared with MUSD 22.1, or 46.7% of revenue during Q1 2017. The strong improvement is the result of a 27.0% revenue increase and margin expansion of 2.2 percentage points. Continued yield improvements on the nRF52, lower wafer prices and less scrapping during the quarter contributed to the margin expansion. A shift in customer and product mix has also contributed to the gross margin improvements. Compared to Q4 2017, gross margins have increased 1.3 percentage points, explained by a positive effect of a product mix change.

Total operating expenses, including depreciation and amortization, increased 28.7% to MUSD 28.6 from MUSD 22.2 in Q1 2017. Compared to Q4 2017, total operating expenses including depreciation and amortization have decreased 4.1% from MUSD 29.8.

During Q1 2018, Nordic has capitalized a total of MUSD 3.3, of which MUSD 2.2 relates to payroll expenses. The corresponding total capitalization amount in Q1 2017 is MUSD 2.2 and in Q4 2017 MUSD 2.5. The increased capitalization compared to previous periods is explained by more products in the commercialization phase, as well as external purchases of developed IC design. Also included in the capitalized amount for Q1 2018 is a total of MUSD 1.5 related to the cellular IOT investment, compared to zero in previous periods.

Expenses related to equity compensation was MUSD 0.4 in Q1 2018, compared to MUSD 0.2 in Q1 2017 and MUSD 0.3 in Q4 2017.

Adjusted for capitalization and equity-based compensation, total cash operating expenses increased 32.1% to MUSD 27.9 in Q1 2018 from MUSD 21.1 in Q1 2017. This is explained by a 12.0% increase in the number of employees, from 549 at the end of Q1 2017 to 615 at the end of Q1 2018. The main increase is within sales and customer related projects. The cost level is also impacted by continued high expenses related to commercialization of new products, including the high-end nRF52 product line and the Cellular IOT products. Compared to last quarter, cash operating expenses decreased by 3.6% from MUSD 28.9. The reduction is explained by lower performance-based compensation in Q1 2018 compared to the last quarter of 2017 and that 14 new employees are hired as of March 31, 2018 compared to December 31, 2018.

Total cash operating expenses for the cellular investment were MUSD 6.2 in Q1 2018, compared to MUSD 4.5 in Q1 2017. As the project has entered into a market launch phase, there have been additional expenses related to headcount increases and tape-out of silicon wafers.

Depreciation and amortization were MUSD 3.6 in Q1 2018, compared to MUSD 3.1 in Q1 2017. Included is MUSD 1.0 in amortization of internally developed R&D, compared to MUSD 1.0 in Q1 2017. Although capitalization has increased during the last quarters, amortization is unchanged due to completion of the amortization period for the nRF51 product line.

Earnings before interest, tax, depreciation and amortization (EBITDA) were MUSD 4.4 in Q1 2018 compared to MUSD 3.0 in Q1 2017. The improvement comes as a result of higher revenues and improved gross margins only partly offset by higher operating expenses.

Net profit was MUSD 0.0 in Q1 2018, up from MUSD -0.3 in corresponding quarter last year. Income tax expense was MUSD 0.1. The base tax rate for the group is 23%.

Markets

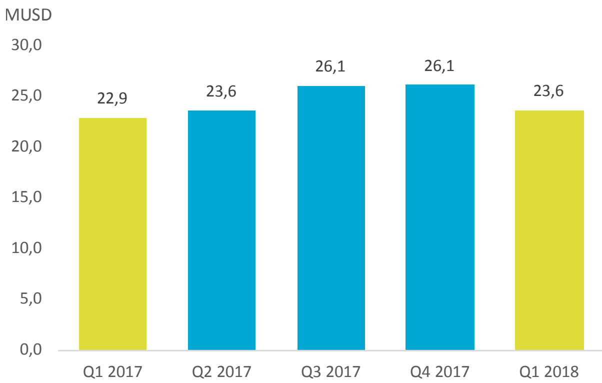
Amount in USD thousand	Q1 2018	Q1 2017	Y-o-Y %	Q4 2017	Q-o-Q %
Consumer Electronics	23 628	22 885	3.2 %	26 136	-9.6 %
Wearables	10 203	8 362	22.0 %	9 663	5.6 %
Building/Retail	12 219	8 580	42.4 %	15 888	-23.1 %
Healthcare	4 693	2 162	117.1 %	4 963	-5.4 %
Others	7 572	3 975	90.5 %	5 681	33.3 %
Wireless components	**58 315**	**45 964**	**26.9%**	**62 331**	**-6.4 %**
ASIC components	1 789	1 323	35.2 %	1 323	35.2 %
Consulting services	21	49	-57.1 %	49	-57.1 %
Total	**60 125**	**47 336**	**27.0 %**	**63 703**	**-5.6 %**

The Group classifies its revenues into the following technologies: Wireless components, ASIC components and Consulting services. Within Wireless components, the Group reports its revenues based on the markets to which its components communicate. These include: Consumer Electronics, Wearable Devices, Healthcare, Building and Retail, and Others. Historically, Consumer Electronics and Wearables have been the main markets, and growth drivers. However, Nordic continues to pursue a diversification strategy to be less dependent on both individual customers and industries. The effect of this strategy can be illustrated by a shift in wireless revenue from non-consumers of 32% in Q1 2017 to 42% in Q1 2018.

Although Nordic does not report on the number of design wins, the company continues to have a strong market share of new products certified with the Bluetooth Organization (source: FCC, Bluetooth Organization, DNB Markets). In Q1 2018 this market share was 38%.

Strong execution on the diversification strategy is enabled by an industry leading cost/feature product offering. The above is combined with a design friendly support ecosystem and sales & marketing activities that cater to both the long tail and to targeted customers and verticals.

Consumer Electronics



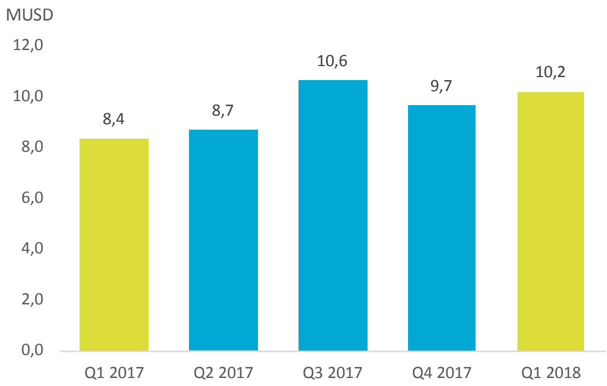
Revenue - Consumer Electronics

The Consumer Electronics market consists of PC Accessories, Mobile Phone Accessories and Home Entertainment devices. This market has historically been dominated by PC Accessories.

Revenue within the Consumer Electronics market increased by 3.2% from MUSD 22.9 to MUSD 23.6 in Q1 2018 compared with corresponding period last year. Revenue is down seasonally 9.6% from MUSD 26.1 in Q4 2017. During Q1 2018 Nordic has seen revenue from a larger diversified customer base within consumer electronics, including toys, virtual reality controllers and smart remotes.

Nordic continues to view PC Accessories as a key part of consumer electronics. Bluetooth technology has created opportunities for Nordic to address the tablet accessory market. As tablets implement Bluetooth Ready technology, these devices are now able to connect with ultra-low power Bluetooth keyboards and other accessories. Bluetooth Low Energy offers much longer battery lifetime for tablet keyboards compared to traditional Bluetooth technology, and will enable tablets to be used more effectively.

Wearable Devices



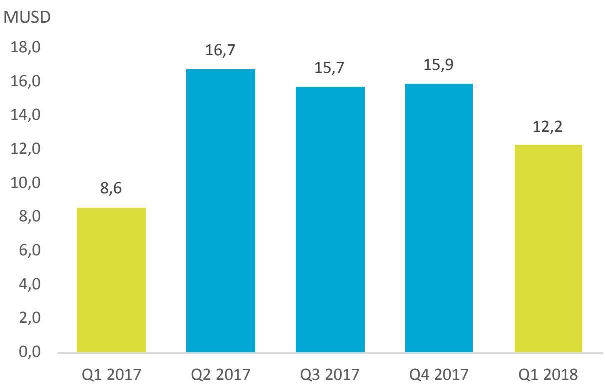
Revenue - Wearables

The Wearable market consists of activity trackers, sport and fitness bands and smart clothing.

Revenue within the Wearable Devices market increased by 22.0% from MUSD 8.4 to MUSD 10.2 in Q1 2018 compared with corresponding period lastyear. Revenue increased 5.6% from MUSD 9.7 in Q4 2017. With the nRF52 Nordic has seen increased design win traction within this market, materializing in strong revenue growth in Q1 2018 compared to last year and no seasonal reduction compared to last quarter.

Nordic has proven its technology leadership with the introduction of the nRF52 family on top of its existing technology platform. The Wafer Level Chip Scale Package (WL-CSP) variant of its nRF52832 Bluetooth® System-on-Chip (SoC) occupies a quarter of the footprint area of the standard-packaged Nordic nRF52832 and targets next-generation, high-performance wearables and space-constrained IoT applications.

Building and Retail



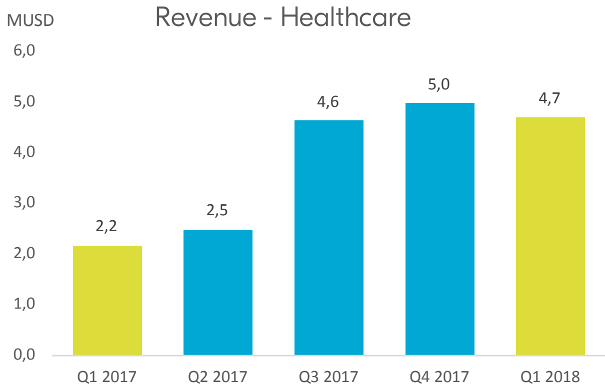
Revenue - Building/Retail

Building and Retail consists of a broad variety of products used within home automation (smart homes), industrial applications and retail solutions.

Revenue within the Building and Retail market increased by 42.4% from MUSD 8.6 to MUSD 12.2 in Q1 2018 compared with corresponding period last year. However, revenue decreased 23.1% from MUSD 15.9 in Q4 2017. The reduction compared to last quarter comes as a result of a few customer designs waiting for next production release.

Home Automation, as part of Building and Retail, is seen as the next key growth driver for Bluetooth. Nordic has seen strong traction in design wins within for example lightning, alarm systems, smoke detectors, temperature controls and smart locks. With the introduction of the nRF52840 multiprotocol SoC, Nordic now has a Thread certified solution that enables simultaneous Thread and Bluetooth 5 connectivity for the first time. This will significantly improve the deployment of connected items in your home. The nRF52-series is the main contributor to the growth from last year.

Healthcare



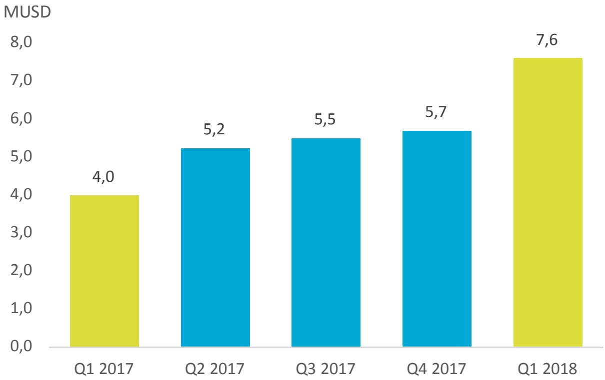
Revenue - Healthcare

The Healthcare market consists of all products that are certified to be used within the medical care. End products range from hearing aid, glucose monitoring and drug delivery systems. Healthcare is an emerging market for Nordic.

Revenue within the Healthcare market increased by 117.1% from MUSD 2.2 to MUSD 4.7 in Q1 2018 compared with corresponding period last year. Revenue decreased 5.4% from MUSD 5.0 in Q4 2017. The strong growth from last year comes as a result of new product releases as that have been introduced in Q4 2017 and during in Q1 2018.

In addition to an individual's own physical awareness, hospitals, doctors, employers and insurance companies are interested in the ability to monitor basic physiological functions. For example, continuous blood glucose monitors and hearing aids are increasing in volume orders for Nordic. A majority of the products within the Healthcare market is still in their infancy, particularly as they relate to IoT, remote healthcare and big data analytics. To the extent that these products are being commercialized, Nordic expects continued growth within this market.

Others



Revenue - Others

The Others market consists of sales to module manufacturers as well as distribution sales, where no final customer is reported.

Revenue within the Others market increased by 90.5% from MUSD 4.0 to MUSD 7.6 in Q1 2018 compared with corresponding period last year. Revenue increased 33.3% from MUSD 5.7 in Q4 2017. The strong growth from last year comes as a result of continuous new module designs and sales efforts from Nordics module partners.

Sales to module manufacturers is an important market for Nordic. Module manufactures develop compact ultra-low power Bluetooth modules for space-constrained applications employing coin cell batteries. The modules reduce development time by providing a complete wireless solution and are tailored for OEMs who wish to develop their own application software.

Financial Position

As of 31 March 2018, the Group had total assets of MUSD 189.3, of which MUSD 139.3 were current assets. Non-Current assets were MUSD 50.0. Capitalized development expenses increased net MUSD 2.2 compared to last quarter to MUSD 21.2 in Q1 2018. In comparison to Q1 2017, there is an increase of MUSD 5.6 in net capitalized development expenses from MUSD 15.6.

During Q1 2018, net working capital increased by MUSD 2.5 to MUSD 65.9 (MUSD 63.4 in Q4 2017) or 26.5% (26.9% in Q4 2017) of LTM revenue. The increase in net working capital is explained by higher inventory and accounts receivable slightly offset by higher accounts payable. Compared to last quarter, accounts receivable has increased more than revenue thereby increasing days sales outstanding (DSO). This increase is due to proportionally more sales towards the end of Q1 2018 because of Chinese New Year in February.

Total liabilities were MUSD 63.8, of which MUSD 43.5 were current liabilities. Current liabilities increased MUSD 3.6 compared to last quarter. Of the current liabilities, MUSD 8.8 relates to the accrual for ship and debit related to sale to distributors, compared to MUSD 9.8 in Q1 2017.

Total Shareholders' equity was MUSD 125.4, which represents an equity ratio of 66.3%, down from 67.5% in Q4 2017.

Cash Flow

Cash flow from operating activities was MUSD 0.8 in Q1 2018, compared with a cash flow of MUSD 13.0 in Q1 2017. Strong focus on cash generating activities has resulted in a net working capital as a percent of revenues decrease from Q1 2017 to Q1 2018. Due to ramp up of inventory for expected sales increase, net working capital has seen an increase.

Cash flow from investments was an outflow of MUSD 5.1, compared to MUSD 6.2 in Q1 2017. Capital expenditures were MUSD 1.9, driven by purchases of system hardware, lab equipment and test equipment. Capitalized development expenses were MUSD 3.3, compared with MUSD 2.2 in corresponding quarter last year.

Nordics strategy is to keep a tight cash management and optimize its cash generating ability. Short-term working capital requirements may be financed by utilizing the Revolving Credit Facility (RCF). Under current RCF agreements, Nordic may borrow a total of MUSD 65 at any time with a rate of LIBOR + margin. At March 31, 2018, the Group had utilized MUSD 20 of the RCF. In addition, the Group has a MEUR 10 bank overdraft facility with its main bank. This overdraft is not utilized at the end of the quarter.

Cash during Q1 2018 decreased with MUSD 4.5 to MUSD 32.2 by the end of March 2018 from MUSD 36.7 at the end of December 2017. Available cash at March 31, 2018 including credit facilities is MUSD 89.6 compared to MUSD 94.0 at December 31, 2017.

BUSINESS OVERVIEW

As of 31 March 2018, Nordic Semiconductor had 615 employees, compared to 601 employees at year-end 2017. At the end of the quarter 465 employees worked within Research and Development representing an increase of 48 employees compared to corresponding period in 2017.

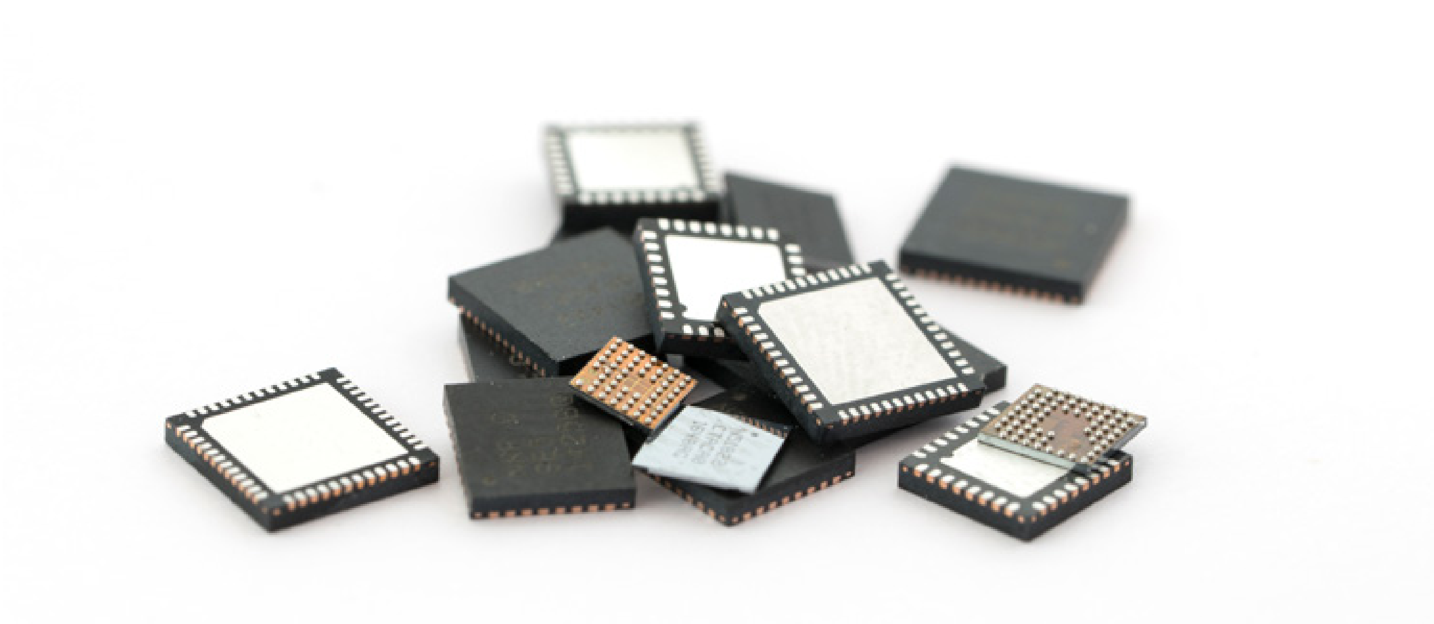
In order to take advantage of accelerating growth opportunities, Nordic has also increased staff within Sales and Marketing to 91 employees at 31 March 2018 from 77 at the end of March 2017. The growth within sales and marketing comes by expanding the team into new regions.

In the past, Nordics business has been affected by its customers' consumer product cycles. The Group is now seeing the benefits of its focus on widening and diversifying its customer mix, decreasing its dependence on consumer product cycles. These additional customers — comprising professional, industrial, and B2B markets such as Medical, Enterprise Automation, and Building & Retail — tend to be more stable and have significantly longer product cycles than traditional consumer electronics. Exposure to a broader and more diversified set of customers and industries is expected to diminish revenue volatility for Nordic.

During Q1 2018 Nordic has seen a broadening of its short-range product offering. This includes production ramp of the high end nRF52840 and production release of Thread support for the same product. Given the strong traction on Smart home within our short-range technologies, Nordic has also released an alfa version of a software stack for Zigbee on the nRF52840. Zigbee is another leading technology within smart home in addition to Thread and Bluetooth.

Nordic has demonstrated its ability to become the market leader within Bluetooth Low Energy technology. Bluetooth Low Energy is the preferred communication technology for short-range, low power communication. The expanded product road map for long-range wireless is a part of the company's strategy to target new high growth markets with its wireless connectivity and embedded processing technology.

The Group's road map for low power cellular IoT, includes integrated chip-sets and advanced software for the upcoming 3GPP Release 13 LTE-M and NBIoT technologies. Highly optimized for power and size, the upcoming nRF91 Series is designed specifically to address the needs of emerging low power cellular IoT applications. During Q1 2018, Nordic launched the nRf91 and is seeing strong demand for products within a vast number of markets and customer segments. Nordic has currently sampled more than ten customers.



BUSINESS OUTLOOK

Nordic is exiting Q1 2018 with a record high backlog of MUSD 81.0, up 76.2% year on year and up 50.9% quarter on quarter. The backlog stretches well into Q4 2018.

While gross margin for Q1 2018 ended up in the higher end of the guidance range due to favorable customer and product mix, the backlog indicates slightly less favorable product and customer mix for Q2 2018 compared to Q1 2018.

The backlog provides solid coverage for the H1 2018 guidance presented in the Q4 quarterly report. We maintain the H1 2018 guidance range of MUSD 123 to 133 revenue, 40 to 50% Bluetooth growth and 47 to 49% gross margin.

Entering Q2 2018, Nordic continues its effort on investments to fuel future growth and scaling of supply chain to meet customer demand and requirements.

Oslo, 16 April 2018

Terje Rogne
Chairman

Anne-Cecilie Fagerlie
Board member

Craig Ochikubo
Board member

Beatriz Malo de Molina
Board member

Tore Valderhaug
Board member

Birger Steen
Board member

Inger Berg Ørstavik
Board member

Joakim Ferm
Board member, employee

Jon Helge Nistad
Board member, employee

Asbjørn Sæbø
Board member, employee

Svenn-Tore Larsen
Cheif Executive Officer

For further information, please contact:

- Svenn-Tore Larsen, CEO, +47 982 85 476
- Pål Elstad, CFO, +47 991 66 293
- Thomas Embla Bonnerud,
  Director of Strategy and IR, +47 951 00 257

Financial Calendar 2018:

- July 13th, 2018 - 2nd Quarter 2018
- October 17th, 2018 - 3rd Quarter 2018
- February 13th, 2019 - 4th Quarter 2018

CONDENSED FINANCIAL INFORMATION

Income statement

Amount in USD 1000	Note	Q1 2018	Q1 2017	Full year 2017
Total Revenue		**60 125**	**47 336**	**236 003**
Cost of materials		-30 739	-25 195	-123 645
Direct project costs		-	-21	-872
Gross profit		**29 387**	**22 120**	**111 487**
Payroll expenses		-17 703	-13 416	-60 517
Other operating expenses		-7 271	-5 695	-27 657
EBITDA		4 412	3 009	23 313
Depreciation	5	-3 586	-3 081	-12 863
Operating profit		**826**	**-72**	**10 450**
Net interest		-40	-127	-348
Net foreign exchange gains (losses)		-689	-40	-322
Profit before tax		**97**	**-239**	
Income tax expense		-117	-90	-3 017
Net profit after tax		**-19**	**-329**	**6 763**
Earnings per share				
Ordinary earnings per share (USD)		0.00	0.00	0.04
Fully diluted earnings per share (USD)		0.00	0.00	0.04
Weighted average number of shares				
Basic		161 794	161 795	161 796
Fully Diluted		162 279	161 795	161 929

Amount in USD 1000	Q1 2018	Q1 2017	Full year 2017
Net profit after tax	**-19**	**-329**	**6 763**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains (losses) on defined benefit plans (before tax)	-	-	-25
Income tax effect	-	-	6
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Currency translation differences	198	-35	134
Total Comprehensive Income	**179**	**-364**	**6 878**

Consolidated statement of financial position

Amount in USD 1000	Note	31.03.18	31.12.17	31.03.17
ASSETS				
Non-current assets				
Capitalized development expenses	5/6	21 187	18 925	15 593
Software and other intangible assets	5/6	15 394	15 509	14 251
Deferred tax assets		1 596	1 516	1 983
Fixed assets	6	11 818	12 258	1 235
Other long term assets		-	-	2
Total non-current assets		**49 995**	**48 209**	**44 942**
Current assets				
Inventory		46 043	43 789	47 972
Accounts receivable		53 940	48 582	42 004
Other short-term receivables		7 106	7 844	5 397
Cash and cash equivalents		32 193	36 695	27 878
Total current assets		**139 282**	**136 910**	**123 251**
TOTAL ASSETS		**189 278**	**185 119**	**168 194**

EQUITY				
Share capital		283	283	283
Treasury shares		-2	-2	-2
Share Premium		14 436	14 436	14 436
Other equity		110 729	110 237	102 146
TOTAL EQUITY		**125 446**	**124 953**	**116 863**
LIABILITIES				
Non-current liabilities				
Pension liability		323	293	267
Other long-term loan facility	7	20 000	20 000	20 000
Total non-current liabilities		**20 323**	**20 293**	
Current liabilities				
Accounts payable		17 017	13 075	10 183
Income taxes payable		2 284	3 069	1 771
Public duties		3 384	2 774	1 875
Other short-term debt		20 824	20 955	17 234
Total current liabilities		**43 509**	**39 873**	**31 063**
TOTAL LIABILITIES		**63 831**	**60 166**	**51 331**
TOTAL EQUITY AND LIABILITY		**189 278**	**185 119**	**168 194**

Consolidated statement of changes in equity

Amount in USD 1000	Share capital	Treasury shares	Share premium	Other paid in capital	Currency translation reserve	Retained earnings	Total equity
Equity as of 01.01.18	**283**	**-2**	**14 253**	**2 094**	**134**	**108 008**	**124 953**
Net profit for the period	-	-	-	-	-	-19	-19
Purchase of treasury shares	-	-1	-	-	-	-40	-41
Sale of treasury shares, option exercise	-	1	-	-	-	-	1
Share based compensation	-	-	-	354	-	-	354
Other comprehensive income	-	-	-	-	198	-	198
Equity as of 31.03.18	**283**	**-2**	**14 436**	**2 448**	**332**	**107 949**	**125 446**

Equity as of 01.01.17	**283**	**-2**	**14 436**	**968**	**-**	**101 264**	**116 949**
Net profit for the period	-	-	-	-	-	-329	-329
Share based compensation	-	-	-	278	-	-	278
Other comprehensive income	-	-	-	-	-35	-	-35
Equity as of 31.03.17	**283**	**-2**	**14 436**	**1 246**	**-35**	**100 935**	**116 863**

Statement of cash flows

Amount in USD 1000	Note	Q1 2018	Q1 2017	Full year 2017
Cash flows from operating activities				
Profit before tax		97	-239	9 780
Taxes paid for the period		-956	-1 121	-1 600
Depreciation		**3 586**	**3 081**	**12 863**
Change in inventories, trade receivables and payables		**-3 697**	**11 728**	**12 152**
Share-based compensation		469	225	1 129
Movement in pensions		30	-25	-19
Other operations related adjustments		**1 233**	**-642**	**743**
Net cash flows from operating activities		**762**	**13 005**	**35 049**
Cash flows used in investing activities				
Capital expenditures (including software)	6	-1 867	-4 025	-10 832
Capitalized development expenses	**6**	**-3 278**	**-2 203**	**-8 572**
Net cash flows used in investing activities		**-5 145**	**-6 228**	**-19 404**
Cash flows from financing activities				
Changes in treasury shares		-	-	-
Cash settlement of options contract and issue of share capital		32	-	-
Net cash flows from financing activities		**32**	**-**	**-**
Effects of exchange rate changes on cash and cash equivalents		**-87**	**-34**	**-86**
Net change in cash and cash equivalents		**- 4 502**	**6 744**	**15 560**
Cash and cash equivalents as of 1.1.		**36 695**	**21 135**	**21 135**
Cash and cash equivalents as of 31.12.		**32 193**	**27 878**	**36 695**

NOTES

Note 1: General

The Board of Directors approved the condensed first quarter interim financial statements for the three months ended 31 March 2018 for publication on April 16, 2018.

Nordic develops and sells integrated circuits and related solutions for short-range wireless communication. The Group specializes in ultra-low power (ULP) components, based on its proprietary 2.4 GHz RF and Bluetooth technology. Nordic is also developing its long-range low-power cellular chip-set, providing customers with a broad portfolio of low-power connectivity solutions across the spectrum of distances from near-field to long-range.

Nordic Semiconductor ASA is listed on the Oslo Stock Exchange under the ticker NOD, and is a public limited liability company registered in Norway. The parent company's head office is located at Otto Nielsens vei 12, 7052 Trondheim.

Note 2: Confirmation of the financial framework

The Group financial statements for Nordic Semiconductor ASA and its wholly owned subsidiaries, together called "The Group" have been prepared in accordance with IAS 34 Interim Financial Statements. The interim financial statements for Q1 2018 do not include all the information required for the full year financial statements and shall be read in conjunction with the Group Annual Accounts for 2017.

The financial statements are presented in thousand USD, unless otherwise stated. As a result of rounding adjustments, the figures in one or more rows or columns included in the financial statements may not add up to the total of that row or column.

In the interim financial statements for 2018, judgments, estimates and assumptions have been applied that may affect the use of accounting principles, book values of assets and liabilities, revenues and expenses. Actual values may differ from these estimates. The major assumptions applied in the interim financial statements for 2018 and the major sources of uncertainty in the statements are similar to those found in the Financial Statements for 2017.

IFRS 15 and IFRS 9 was implemented 1.1.2018 without any changes to the opening balance. For further information see note 2 in the 2017 annual report.

Note 3: Significant accounting principles

Significant accounting principles are described in the Group Financial Statement for 2017. The group accounts for 2017 were prepared in accordance with International Financial Reporting Standards (IFRS), relevant interpretations of this, as well as additional Norwegian disclosure requirements described in the Norwegian GAAP and the Norwegian Securities Trading Act.

New standards, amendments to standards, and interpretations have been published, but are not effective at December 31, 2018 and have not been applied in preparing these condensed financial statements. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16, issued in January 2016, establishes a balance sheet lease accounting model that will increase transparency and comparability beginning in 2019.

The group is in the process of assessing the impact of the standard. Significant changes are expected to be made in the statement of financial position and cash flows as a result of removing the distinction between operating and finance leases.

The main leases that will be recognized in the balance sheet are the different office leases. The group intends to apply the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. Nordic Semiconductor will give an estimate of the effects on the Group's financial statements in the second half of 2018.

Note 4: Segment information

In accordance with IFRS 8, the Group has only one business segment, which is the design and sale of integrated circuits and related solutions.

The Group classifies its revenues into the following technologies: Wireless components, ASIC components and consulting services. Within Wireless components, the Group reports its revenues based on the markets to which its components communicate. These include: Consumer Electronics, Wearable Devices, Healthcare, Building and Retail, and Others.

The Group also reports its Wireless component revenue by technology, including proprietary wireless and Bluetooth protocols.

Note 5: Intangible assets

The Group recognizes intangible assets in the balance sheet if it is likely that the expected future economic benefits attributable to the asset will accrue to the Group and the assets acquisition cost can be measured reliably.

Costs associated with development are capitalized if the following criteria are met in full:

- The product or the process is clearly defined and the cost elements can be identified and measured reliably;
- The technical feasibility is demonstrated;
- The product or the process will be sold or used in the business;
- The asset will generate future financial benefits.
- Sufficient technical, financial and other resources for project completion are in place.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Note 6: Capitalization, depreciation and amortization

Specification of capital expenditures, balance sheet	**Q1 2018**	**Q1 2017**	**Full year 2017**
Capitalized development expenses (payroll expenses)	2 182	1 604	5 526
Capitalized acquired development expenses	1 096	599	3 045
Capital expenditures (including software)	1 867	4 025	10 832
Currency adjustments	148	-6	327
Total	**5 293**	**6 222**	**19 740**
Depreciation, amortizations and impairments			
Capitalized development expenses	1 016	1 005	4 042
Software and other intangible assets	693	489	2 088
Fixed Assets	1 877	1 587	6 734
Total	3 586	3 081	**12 863**

Note 7: Net interest-bearing debt

The Group has long-term revolving credit facilities, which enables it to borrow up to MUSD 40 and MUSD 25 at any time with an interest rate equal to LIBOR + margin. The line of credit agreement of MUSD 40 expires in September 2019, while the other MUSD 25 expires in November 2022. As of March 31, 2018, the company has drawn MUSD 20 on the MUSD 40 line of credit. The security is provided by inventory, receivables and operating equipment.

The following financial covenants are included:
Equity ratio shall not be lower than 40 %.

In addition to the two RCFs, the Group has a MEUR 10 bank overdraft facility with its main bank. This overdraft is not utilized at the end of March 2018.

Note 8: Stock options

Nordic has a stock option program for employees and management. Please see the annual report for 2017 for information about the program and particularly note 23 for the 2018 grant.

	Q1 2018	Q1 2017	Full year 2017
Outstanding options 1.1	**3 127 663**	**5 287 714**	**5 287 714**
Options granted	1 447 400	1 625 412	1 625 1412
Options forfeited	3 500	17 832	54 761
Options exercised	58 610	-	-
Options expired	-	3 730 702	3 730 702
Outstanding options end of period	**4 512 953**	**3 127 663**	**3 127 663**
Of which exercisable	1 488 282	514 833	506 671

Note 9: Financial risk

Nordic is exposed to several risks, including currency risk, interest rate risk, liquidity risk and credit risk. For a detailed description of these risks and how the Group manages these risks, please see the annual report for 2017.

Note 10: Events after the balance sheet date

No events have occurred since March 31, 2018 with any significant effect that will impact the evaluation of the submitted accounts

ALTERNATIVE PERFORMANCE MEASURES

The financial information is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. Additionally, it is management's intent to provide alternative performance measures (APM) that are regularly reviewed by management to enhance the understanding of the Group's performance.

The Group has identified the following APMs used in reporting (amount in USD million):

- Gross Margin. Gross Profit divided by Total Revenue. Gross margin is presented as it is the main financial KPI to measure the Group's operational performance.

	Q1 2018	Q1 2017
Gross profit	29.4	22.1
Total revenue	60.1	47.3
Gross Margin	**48.9%**	**46.7%**

EBIT and EBITDA terms are presented as they are commonly used by investors and financial analysts.

- EBIT. Earnings before interest and tax. Equivalent to Operating profit in IFRS 1.

- EBITDA. Earnings before interest, taxes, depreciation and amortization.

	Q1 2018	Q1 2017
Operating profit	0.8	-0.1
Depreciation	3.6	3.1
EBITDA	**4.4**	**3.0**

- EBITDA Margin. EBITDA divided by Total Revenue.

	Q1 2018	Q1 2017
EBITDA	4.4	3.0
Total revenue	60.1	47.3
EBITDA Margin	**7.3%**	**6.4%**

- Total Operating Expenses. Sum of payroll expenses, other operating expenses, depreciation and amortization.

	Q1 2018	Q1 2017
Payroll expenses	17.7	13.4
Other Opex	7.3	5.7
Depreciation	3.6	3.1
Total Operating Expenses	**28.6**	**22.2**

- Cash Operating Expenses. Total payroll and other operating expenses adjusted for non-cash related items including option expenses, receivable write-off and capitalization of development expenses. Cash operating expenses intends to show operating expenses, excluding items with no cash effect and items affecting comparability.

	Q1 2018	Q1 2017
Total operating expenses	28.6	22.2
Depreciation	-3.6	-3.1
Option expense	-0.4	-0.2
Capitalized expenses	3.3	2.2
Cash Operating Expenses	27.9	21.1

- Order Backlog. Customer orders placed by the end of the quarter for delivery in next and following quarters.