

# Q3

## Report 2018



**NORDIC**<sup>®</sup>  
SEMICONDUCTOR

# Content

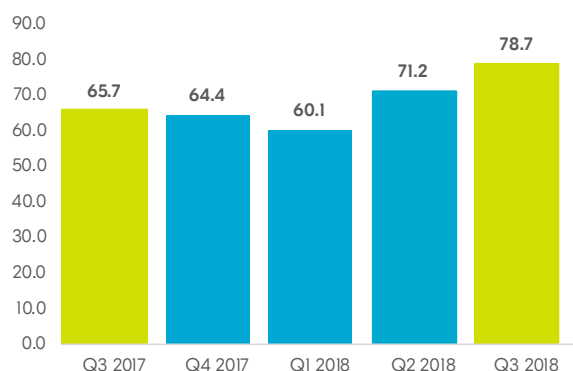
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# HIGHLIGHTS

- Strong revenue of MUSD 78.7 in Q3 2018, up 19.9% year-over-year
- Gross margin at 50.2%, above our communicated target of 50% in at least one of the quarters in 2018
- Bluetooth revenue of MUSD 54.3 in Q3 2018, up 19.0% year-over-year. Growth below our long term target due to fluctuations in one larger volume application in China within the Building and Retail market
- Solid revenue from proprietary in the quarter of MUSD 22.8, up 35.5% year-over-year. Growth driven by stronger sales and a prolonged life expectancy of some designs
- Strong growth in EBITDA. EBITDA at MUSD 14.3 (MUSD 8.4 in Q3 2017) up 71.0% year-over-year, 5.5p.p increase in EBITDA margin year-over-year. Growth driven by revenue, strong gross margin and continued cost discipline
- Adjusted EBITDA at MUSD 18.2 or 23.1% margin
- Entering market with our four year cellular IoT Investment

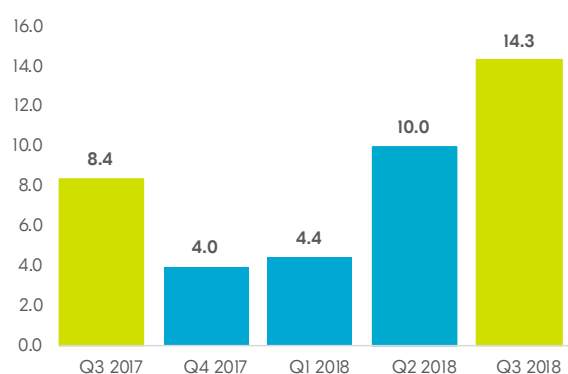
## Revenue

USD Millions

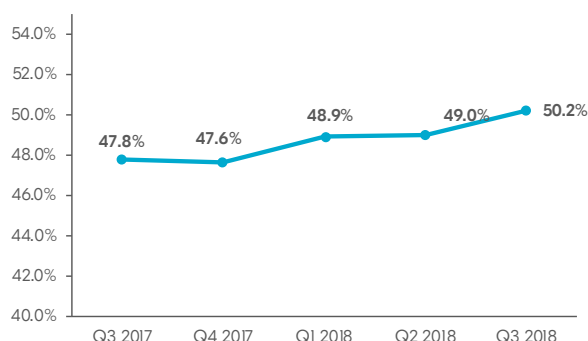


## EBITDA

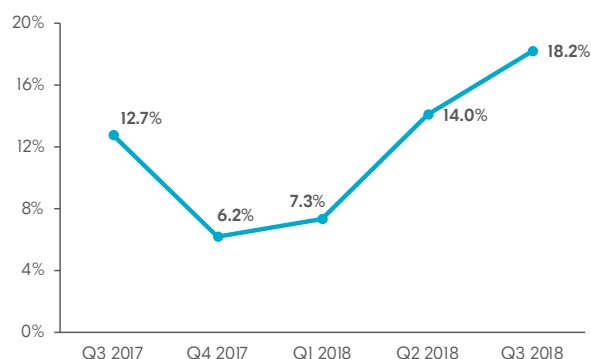
USD Millions



## Gross Margin



## EBITDA Margin



# KEY FIGURES

## Q3 2018 financial summary

Amount in USD million	Q3			01.01-30.09		
	2018	2017	Change	2018	2017	Change
Revenue	78.7	65.7	19.9 %	210.0	171.6	22.4 %
Gross profit	39.6	31.4	26.1 %	103.8	80.9	28.4 %
Gross Margin %	50.2 %	47.8 %	2.4 p.p.	49.4 %	47.1 %	2.3 p.p.
EBITDA	14.3	8.4	71.0 %	28.7	19.3	48.3 %
EBITDA %	18.2 %	12.7 %	5.5 p.p.	13.7 %	11.3 %	2.4 p.p.
Operating Profit (EBIT)	9.9	4.9	101.3 %	16.4	9.6	70.8 %
Operating Profit % (EBIT)	12.6 %	7.5 %	5.1 p.p.	7.8 %	5.6 %	2.2 p.p.
Net profit after tax	7.2	3.6	100.4 %	11.5	7.1	61.5 %
Free Cash Flow (Net cash flow excluding financing)	-12.2	2.8	na	-20.4	5.0	na
Cash and cash equivalents	95.0	26.1	264.4 %	95.0	26.1	264.4 %
Order Backlog	77.0	65.4	17.9 %			
LTM opex excluding depreciation/ LTM revenue	37.1%	36.1%	1.0 p.p.			
Net working capital / LTM revenue	32.1 %	33.1 %	-1.0 p.p.			
Equity ratio	84.1 %	68.5 %	15.6 p.p.			
Number of employees	663	588	12.8 %			

## Revenue by technology

Amount in USD thousand	Q3			01.01-30.09		
	2018	2017	Change	2018	2017	Change
Proprietary wireless	22 814	16 838	35.5 %	59 723	59 171	0.9 %
Bluetooth	54 335	45 672	19.0 %	145 025	106 052	36.7 %
ASIC Components	1 564	2 985	-47.6 %	5 205	5 961	-12.7 %
Consulting services	11	155	-92.9 %	54	453	-88.1 %
<b>Total</b>	<b>78 725</b>	<b>65 650</b>	<b>19.9 %</b>	<b>210 008</b>	<b>171 637</b>	<b>22.4 %</b>

# FINANCIAL REVIEW

## Income statement

**Nordic Semiconductor (Nordic or the Group) total revenue was MUS\$ 78.7 in Q3 2018, compared to MUS\$ 65.7 in Q3 2017. Overall year-over-year growth was 19.9%. Year-over-year growth for Bluetooth was 19.0% and year-over-year growth for proprietary was 35.5%.**

Revenue from Bluetooth ended at MUS\$ 54.3, representing a growth of 19.0% from MUS\$ 45.7 in Q3 2017. Bluetooth revenue constitutes 69.0% of total revenue in the quarter, which is at the same level as Q3 2017. Revenue growth from Bluetooth has had a normalized run rate of 30 - 40% for the last 2 years, with variations depending on our customers' success rates for their designs. In Q3 2018 Bluetooth growth was somewhat lower due to an application within Building and Retail in China that was particularly successful in 2017 but currently only runs at modest volumes. Despite lower BLE growth in the quarter, the overall growth for the Group is solid. This revenue growth is a result of continuously securing new design wins and diversifying the customer base. During the last quarter, we have seen a strong pull for the higher end nRF52 products, increasing the average selling prices of the BLE products. Compared to Q2 2018, Bluetooth revenue increased by 3.8% from MUS\$ 52.3.

Revenue from proprietary ended at MUS\$ 22.8 compared with MUS\$ 16.8 in Q3 2017, representing an increase of 35.5%. The strong proprietary revenue can be attributed to prolonged lifecycle for several key products and new design wins. Year to date proprietary has been slightly up compared to last year and better than the expectations of a high single digit decline.

Order backlog has been strong throughout the first three quarters in 2018 and this trend also continues into the fourth quarter. Backlog ended at MUS\$ 77.0, compared to MUS\$ 65.4 in Q3 2017 and MUS\$ 80.1 at the end of Q2 2018.

Nordic has communicated a long-term target gross margin of 50%. As a result of high yield on established products, a solid operational performance and cost improvement on wafers, we achieved, for the first time since the introduction of nRF52, the 50% gross margin target. In Q3 2018, gross profit was MUS\$ 39.6, or 50.2% of revenue, compared with MUS\$ 31.4, or 47.8% of revenue during Q3 2017. The strong gross profit improvement is the result of a 19.9% revenue growth and margin expansion of 2.4 percentage points. Continued yield improvements on the nRF52 Series, lower wafer prices and less scrapping during the quarter contributed to the improved gross margin. A favorable customer and product mix has also contributed to the gross margin improvement. Compared to Q2 2018, gross margin has increased 1.2 percentage points.

Total operating expenses, including depreciation and amortization, increased 12.1% to MUS\$ 29.6 from MUS\$ 26.4 in Q3 2017. Compared to Q2 2018, total operating expenses including depreciation and amortization have increased 1.5% from MUS\$ 29.2. Last twelve months operational expenses excluding depreciation in relation to last twelve months revenue is up 1.0 percentage points to 37.1 % in Q3 2018 from 36.1% in Q3 2017.

During Q3 2018, Nordic has capitalized a total of MUS\$ 3.1, of which MUS\$ 2.3 relates to payroll expenses. The corresponding total capitalization amount in Q3 2017 is MUS\$ 1.9 and MUS\$ 3.6 in Q2 2018. Of the total capitalization, MUS\$ 2.3 of the capitalized expenses for Q3 2018 are related to the cellular IoT investment. Nordic started capitalizing on this project when lead customer sampling started in Q1 2018. The remaining relates to new versions of the short-range offering.

Expenses related to equity compensation was MUS\$ 0.3 in Q3 2018, compared to MUS\$ 0.3 in Q3 2017 and MUS\$ 0.2 in Q2 2018.

Adjusted for capitalization and equity-based compensation, total cash operating expenses increased 19.1% to MUS\$ 28.1 in Q3 2018 from MUS\$ 23.6 in Q3 2017. This is explained by a 12.8% increase in the number of employees, from 588 at the end of Q3 2017 to 663 at the end of Q3 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 Series product line and the cellular IoT products.

Total cash operating expenses for the cellular investment were MUS\$ 6.1 in Q3 2018, compared to MUS\$ 5.0 in Q3 2017. The expenses are down 10.3% from MUS\$ 6.8 in Q2 2018.

Depreciation and amortization were MUS\$ 4.4 in Q3 2018, compared to MUS\$ 3.4 in Q3 2017. Included is MUS\$ 1.0 in amortization of internally developed R&D, unchanged from Q3 2017.

Earnings before interest, tax, depreciation and amortization (EBITDA) were MUS\$ 14.3 in Q3 2018 compared to MUS\$ 8.4 in Q3 2017. The 71.0% improvement is as a result of higher revenues and improved gross margin only partly offset by higher operating expenses.

Net profit was MUS\$ 7.2 in Q3 2018, up from MUS\$ 3.6 in Q3 2017. Income tax expense was MUS\$ 2.7 in Q3 2018. The base tax rate for the group is 23%.

## Markets

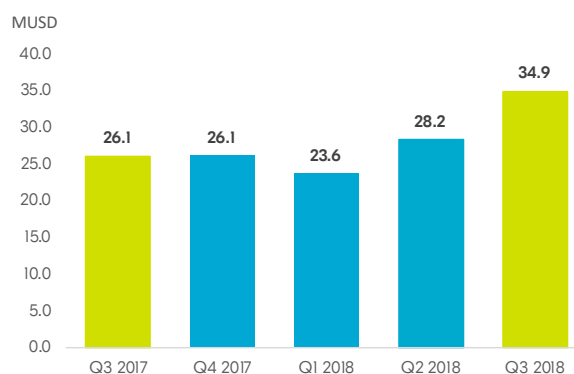
Amount in USD thousand	Q3			01.01-30.09		
	2018	2017	Change	2018	2017	Change
Consumer Electronics	34 908	26 058	34.0 %	86 786	72 555	19.6 %
Wearables	12 404	10 639	16.6 %	34 478	27 693	24.5 %
Building/Retail	12 707	15 709	-19.1 %	38 680	41 024	-5.7 %
Healthcare	7 061	4 619	52.9 %	17 103	9 268	84.5 %
Others	10 069	5 485	83.6 %	27 702	14 684	88.7 %
<b>Wireless components</b>	<b>77 150</b>	<b>62 510</b>	<b>23.4 %</b>	<b>204 749</b>	<b>165 223</b>	<b>23.9 %</b>
ASIC components	1 564	2 985	-47.6 %	5 205	5 961	-12.7 %
Consulting services	11	155	-92.9 %	54	453	-88.1 %
<b>Total</b>	<b>78 725</b>	<b>65 650</b>	<b>19.9 %</b>	<b>210 008</b>	<b>171 637</b>	<b>22.4 %</b>

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 end product markets. These include: Consumer Electronics, Wearables, 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 company continues to have a strong market share of new products certified with the Bluetooth SIG (source: FCC, Bluetooth SIG, DNB Markets). Based on the available analysis this market share was 34% in Q3 2018, compared to 48% in Q3 2017. Fluctuations in this ratio is to be expected as certain periods carries more or less designs attractive to Nordic's more advanced chipsets.

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

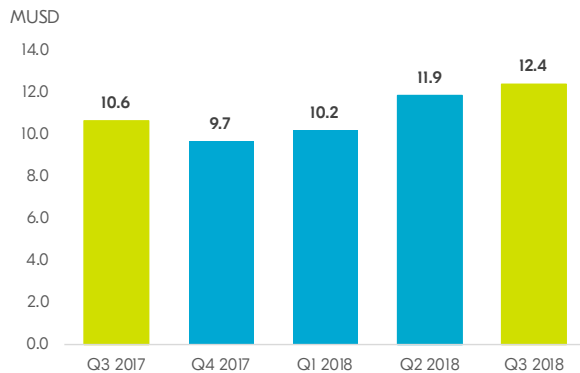
The Consumer Electronics market consists of PC Accessories, Mobile Phone Accessories and Home Entertainment devices.

Revenue within the Consumer Electronics market increased by 34.0% from MUSD 26.1 to MUSD 34.9 in Q3 2018 compared with corresponding period last year. Revenue increased 23.6% from MUSD 28.2 in Q2 2018. The growth in Q3 2018 is driven by the strong proprietary revenue as our proprietary solutions mainly are utilized within consumer electronics.

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



## Wearables



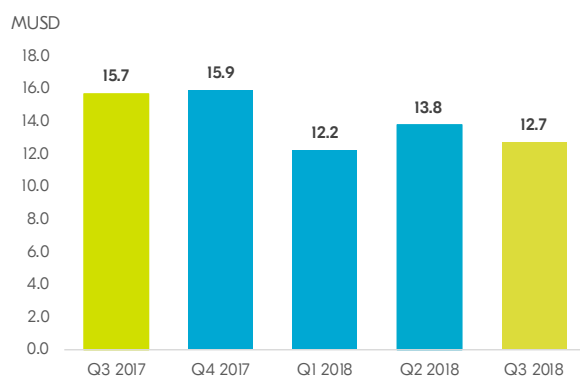
Revenue - Wearables

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

Revenue within the Wearables market increased by 16.6% from MUSD 10.6 to MUSD 12.4 in Q3 2018 compared with corresponding period last year. Revenue increased 4.5% from MUSD 11.9 in Q2 2018. With the nRF52 Series Nordic has seen increased design win traction within this market.

Nordic has proven its technology leadership with the introduction of the nRF52 Series 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. With the introduction of the nRF52840, Nordic further strengthens its product offering for high end wearables.

## Building and Retail



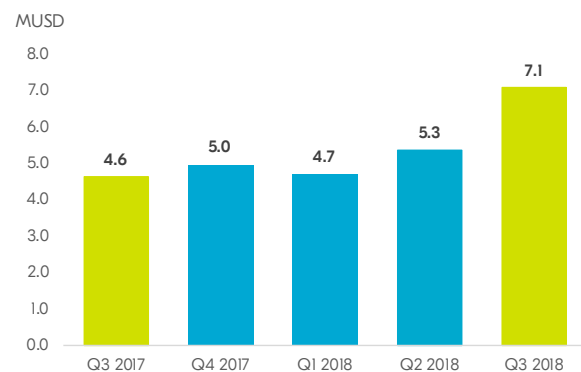
Revenue - Building/Retail

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 decreased by 19.1% from MUSD 15.7 to MUSD 12.7 in Q3 2018 compared with corresponding period last year. Revenue decreased 7.6% from MUSD 13.8 in Q2 2018, where last year was very positively impacted by one application with three customers in China. With disappointing revenues from this design in 2018, Building and Retail shows a decline.

Home Automation, as part of Building and Retail, is seen as one of the next key growth drivers for Bluetooth. Nordic has seen strong traction in design wins within for example lighting, 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 private homes. The nRF52 Series is the main contributor to the growth from last year. To further strengthen the product offering within Building and Retail, Nordic has introduced a protocol stack for Zigbee, the third important short-range protocol for smart homes.

## Healthcare



Revenue - Healthcare

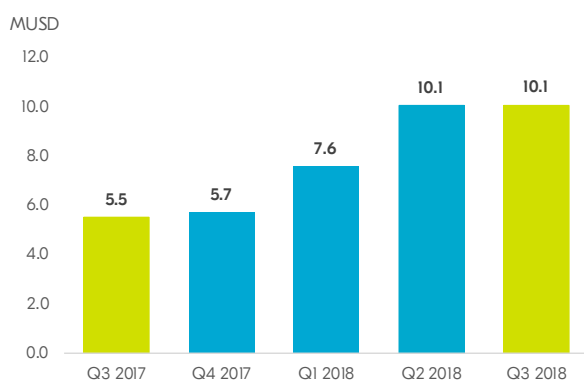
The Healthcare market consists of all products that are certified to be used within medical care. End products range from hearing aids, glucose monitoring and drug delivery systems.

Revenue within the Healthcare market increased by 52.9% from MUSD 4.6 to MUSD 7.1 in Q3 2018 compared with corresponding period last year. Revenue increased 32.0% from MUSD 5.3 in Q2 2018. The strong growth comes as a result of new product releases that have been introduced during 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 are still in their infancy, particularly as they relate to IoT, remote healthcare and big data analytics. These products are now being commercialized and 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 83.6% from MUSD 5.5 to MUSD 10.1 in Q3 2018 compared with corresponding period last year. Revenue was flat compared to last quarter. 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. Furthermore, this activity allows Nordic to scale sales activity faster and expand customer reach.

### Financial Position

As of 30 September 2018, the Group had total assets of MUSD 280.4, of which MUSD 222.5 were current assets. Non-Current assets were MUSD 57.9. Capitalized development expenses increased net MUSD 8.3, from MUSD 17.4 in Q3 2017 to MUSD 25.7 in Q3 2018.

Compared with Q3 2017, net working capital has increased by MUSD 13.8 to MUSD 88.0 (MUSD 74.2 in Q3 2017). However, net working capital in percentage of LTM has decrease 1.0 percentage point to 32.1% (33.1% in Q3 2017). Accounts receivable was MUSD 20.1 higher at the end of Q3 2018 compared to the end of Q3 2017. This is a result of receivables paid shortly after the quarter end due to holidays in Asia. Total liabilities were

MUSD 44.5, down from MUSD 57.5 in Q3 2017. MUSD 44.3 were current liabilities, compared to MUSD 37.2 at the end of Q3 2017. Of the current liabilities, MUSD 9.9 comes from accrual for ship and debit related to sale to distributors, compared to MUSD 9.8 in Q3 2017.

Total Shareholders' equity was MUSD 235.8 at the end of Q3 2018, up from MUSD 125.0 at year end 2017. The Group had an equity ratio of 84.1% 30 September 2018, up from 67.5% and 68.5% 31 December 2017 and 30 September 2017, respectively.

### Cash Flow

Cash outflow from operating activities was MUSD 4.0 in Q3 2018, compared with a cash inflow of MUSD 6.0 in Q3 2017. Normally Q3 is neutral/cash negative because of a build up of working capital due to seasonally strong sales in Q3. This seasonality is reflected in sales for Q3 2018. The working capital build up was mainly caused by late customer payments because of holidays in Asia.

Cash flow from investments was an outflow of MUSD 8.2, compared to MUSD 3.3 in Q3 2017. Capital expenditures were MUSD 5.1, driven by purchases of system hardware, lab equipment and test equipment. In addition the company has purchased IP related to our products for MUSD 1.0. Capitalized development expenses were MUSD 3.1, compared with MUSD 1.9 in corresponding quarter last year.

Under current RCF agreements, Nordic may borrow a total of MUSD 65 at any time with a rate of LIBOR + margin. At September 30, 2018, the Group had not utilized the RCF.

Cash during Q3 2018 decreased with MUSD 12.0 to MUSD 95.0 by the end of September 2018 from MUSD 107.0 at the end of June 2018. Net cash outflow for the year, excluding financing activities is MUSD 20.4. Available cash at September 30, 2018 including credit facilities was MUSD 160.0 compared to MUSD 183.7 at June 30, 2018. The cash is mainly kept in the Group's functional currency USD in order to avoid currency fluctuations.



# BUSINESS OVERVIEW

Nordic Semiconductor has been a long standing pioneer in the semiconductor space for IoT. It all started with market leadership in the PC accessory segment with a proprietary 2.4GHz technology. By 2010 the company had outcompeted major semiconductor companies through innovative technology that proved to be much easier and more reliable for customers to make use of. Winning the largest and most demanding customers in the space allowed Nordic quickly to become the dominant force with a 70-80% market share.

As early as in 2008 Nordic took a leadership role to bring this proprietary short range low energy communication solution into a standard that the entire industry could adhere to. This later became known as Bluetooth Smart supported by Bluetooth Sig. Nordic has grown its market share within this technology and a total of 40 - 50% of all new designs have in the last year been with Nordic technology. The portfolio of standardized short range low energy communication technology has been further complemented with Thread and Zigbee, both released in 2018.

The Group continues to see the benefits of its focus over the last years 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.

Nordic has continued the broadening of its product portfolio that was reported earlier in 2018. The ramp up of the nRF52840 has continued, and during Q3 2018 we have delivered significant volumes to several key customers using this product, mainly by utilizing the Thread support that is available on the nRF52840. This product is mainly utilized within the smart home market. Nordic's product road map includes several variations of the nRF52 Series that is especially designed for this growth market.

Nordic engaged in an aggressive investment program in 2014 to develop a new line of cellular IoT low energy solutions. Four years later we are finally getting ready to take this to the market. By the end of third quarter we have sampled more than 120 customers, the first design wins have been secured and orders are in place for initial deliveries in Q4. It is with great anticipation that we now bring this solution into our broad-based go to market business model. After our initial market release of some of the features and functionalities in January 2018, we have seen a massive take up of interest. Nordic's top priority during 2018 has been to secure design wins under the expanded lead customer sampling program as well as securing the volume ramp with those customers. During Q3 2018 Nordic has secured several design wins and announced LTE design win with StalkIT AS.

Ahead of the market launch of nRF91 we are pleased to see that revenue growth from our short-range portfolio is able to continue to finance this development and at the same time grow profitability.

As of 30 September 2018, Nordic Semiconductor had 663 employees, compared to 629 and 588 employees at the end of Q2 2018 and Q3 2017, respectively. A total of 503 employees worked within Research and Development at the end of Q3 2018, representing an increase of 53 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 99 employees as of 30 September 2018 from 83 at the end of September 2017. The growth within sales and marketing comes by expanding the team into new regions.

# BUSINESS OUTLOOK

Nordic's backlog is continuing to be strong, and we exit Q3 2018 with a backlog of MUS\$ 77.0, up 17.9% year on year. The backlog has a healthy distribution over Q4 2018 and Q1 2019 and it indicates a favorable product and customer mix for gross margin in Q4 2018.

The one application within the Building and Retail market in H2 2018 causes anticipation of revenue to be in the lower range of our previously announced MUS\$ 150 to 160 guidance, representing a full year 2018 growth of close to 20%. We expect that year-over-year Bluetooth growth will increase in Q4 2018 compared to Q3 2018. However, due to the application in the Building and Retail market, we expect the growth to continue to be below our long-term target in H2 2018 and base our guidance for H2 2018 Bluetooth growth of 20-25%

Continuous pull for higher ASP products is expected to drive gross margin of around 50% for H2 2018.

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

Oslo, 16 October 2018



**Terje Rogne**  
Chairman



**Tore Valderhaug**  
Deputy Chairman



**Craig Ochikubo**  
Board member



**Inger Berg Ørstavik**  
Board member



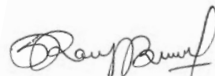
**Anne Marit Panengstuen**  
Board member



**Birger Steen**  
Board member



**Asbjørn Sæbø**  
Board member, employee



**Susheel Raj Nuguru**  
Board member, employee



**Jon Helge Nistad**  
Board member, employee



**Sverre-Tore Larsen**  
Chief Executive Officer

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**Financial Calendar 2018:**

- February 13th, 2019 - 4th Quarter 2018

# CONDENSED FINANCIAL INFORMATION

## Income statement

Amount in USD 1000	Note	Q3 2018	Q3 2017	01.01-30.09 2018	01.01-30.09 2017	Full year 2017
<b>Total Revenue</b>		78 725	65 650	210 008	171 637	236 003
Cost of materials		-39 170	-33 723	-106 172	-89 941	-123 645
Direct project costs		-	-558	-1	-824	-872
<b>Gross profit</b>		39 555	31 369	103 835	80 872	111 487
Payroll expenses		-16 340	-15 502	-50 217	-41 924	-60 517
Other operating expenses		-8 924	-7 508	-24 928	-19 604	-27 657
<b>EBITDA</b>		14 290	8 359	28 689	19 345	23 313
Depreciation	5	-4 383	-3 437	-12 266	-9 728	-12 863
<b>Operating profit</b>		9 907	4 922	16 423	9 616	10 450
Net interest		32	-40	-23	-175	-348
Net foreign exchange gains (losses)		-41	-630	-296	-678	-322
<b>Profit before tax</b>		9 898	4 253	16 104	8 763	9 780
Income tax expense		-2 713	-667	-4 615	-1 647	-3 017
<b>Net profit after tax</b>		7 186	3 586	11 489	7 116	6 763
<b>Earnings per share</b>						
Ordinary earnings per share (USD)		0.040	0.022	0.067	0.044	0.042
Fully diluted earnings per share (USD)		0.040	0.022	0.066	0.044	0.042
<b>Weighted average number of shares</b>						
Basic		178 096	161 796	171 289	161 795	161 796
Fully Diluted		178 633	161 983	173 338	161 795	161 926
<b>Net profit after tax</b>		7 186	3 586	11 489	7 116	6 763
<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</b>						
Actuarial gains (losses) on defined benefit plans (before tax)			-			-25
Income tax effect			-			6
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</b>						
Currency translation differences		-76	106	-271	134	134
<b>Total Comprehensive Income</b>		7 110	3 692	11 218	7 250	6 878

## Consolidated statement of financial position

Amount in USD 1000	Note	30.09.18	30.09.17	31.12.17
<b>ASSETS</b>				
<b>Non-current assets</b>				
Capitalized development expenses	5/6	25 707	17 406	18 925
Software and other intangible assets	5/6	15 330	14 728	15 509
Deferred tax assets		1 515	2 134	1 516
Fixed assets	6	15 317	12 763	12 258
Other long term assets		-	1	-
<b>Total non-current assets</b>		<b>57 869</b>	<b>47 032</b>	<b>48 209</b>
<b>Current assets</b>				
Inventory		44 211	47 411	43 789
Accounts receivable		76 651	56 578	48 582
Other short-term receivables		6 640	5 392	7 844
Cash and cash equivalents		95 002	26 073	36 695
<b>Total current assets</b>		<b>222 504</b>	<b>135 454</b>	<b>136 910</b>
<b>TOTAL ASSETS</b>		<b>280 372</b>	<b>182 486</b>	<b>185 119</b>

**EQUITY**

Share capital		303	283	283
Treasury shares		-2	-2	-2
Share Premium		113 355	14 436	14 436
Other equity		122 187	110 316	110 237
<b>Total equity</b>		<b>235 843</b>	<b>125 033</b>	<b>124 953</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Pension liability		274	280	293
Other long-term loan facility	7	-	20 000	20 000
<b>Total non-current liabilities</b>		<b>274</b>	<b>20 280</b>	<b>20 293</b>
<b>Current liabilities</b>				
Accounts payable		15 275	14 514	13 075
Income taxes payable		4 784	2 000	3 069
Public duties		1 975	1 805	2 774
Other short-term debt		22 222	18 854	20 955
<b>Total current liabilities</b>		<b>44 255</b>	<b>37 173</b>	<b>39 873</b>
<b>Total liabilities</b>		<b>44 529</b>	<b>57 453</b>	<b>60 166</b>
<b>TOTAL EQUITY AND LIABILITY</b>		<b>280 372</b>	<b>182 486</b>	<b>185 119</b>

## 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
<b>Equity as of 01.01.18</b>	<b>283</b>	<b>-2</b>	<b>14 436</b>	<b>2 094</b>	<b>134</b>	<b>108 008</b>	<b>124 953</b>
Net profit for 01.01.18-30.09.18	-	-	-	-	-	11 489	11 489
Purchase of treasury shares	-	-1	-	-	-	-40	-41
Sale of treasury shares (option exercise)	-	1	-	-	-	-	1
Issue of share capital	20	-	98 919				98 939
Share based compensation	-	-	-	774	-	-	774
Other comprehensive income	-	-	-	-	-271	-	-271
<b>Equity as of 30.09.18</b>	<b>303</b>	<b>-2</b>	<b>113 355</b>	<b>2 868</b>	<b>-138</b>	<b>119 457</b>	<b>235 843</b>
<b>Equity as of 01.01.17</b>	<b>283</b>	<b>-2</b>	<b>14 436</b>	<b>968</b>	<b>-</b>	<b>101 264</b>	<b>116 949</b>
Net profit for 01.01.17-30.09.17	-	-	-	-	-	7 116	7 116
Share based compensation	-	-	-	834	-	-	834
Other comprehensive income	-	-	-	-	134	-	134
<b>Equity as of 30.09.17</b>	<b>283</b>	<b>-2</b>	<b>14 436</b>	<b>1 802</b>	<b>134</b>	<b>108 380</b>	<b>125 033</b>

## Statement of cash flows

Amount in USD 1000	Note	Q3 2018	Q3 2017	01.01-30.09 2018	01.01-30.09 2017	Full year 2017
<b>Cash flows from operating activities</b>						
Profit before tax		9 898	4 253	16 104	8 763	9 780
Taxes paid for the period		-	-	-1 992	-2 216	-1 600
Depreciation		4 383	3 437	12 266	9 728	12 863
Change in inventories, trade receivables and payables		-20 447	-3 852	-26 264	2 016	12 152
Share-based compensation		242	307	861	841	1 129
Movement in pensions		-34	6	-19	-13	-19
Other operations related adjustments		1 971	1 874	717	305	743
<b>Net cash flows from operating activities</b>		<b>-3 985</b>	<b>6 026</b>	<b>1 673</b>	<b>19 424</b>	<b>35 049</b>
<b>Cash flows used in investing activities</b>						
Capital expenditures (including software)	6	-5 117	-1 396	-12 083	-8 338	-10 832
Capitalized development expenses	6	-3 054	-1 864	-9 967	-6 037	-8 572
<b>Net cash flows used in investing activities</b>		<b>-8 171</b>	<b>-3 259</b>	<b>-22 050</b>	<b>-14 375</b>	<b>-19 404</b>
<b>Cash flows from financing activities</b>						
Changes in treasury shares		-	-		-	-
Capital increase		-	-	98 939	-	-
Repayment of interest bearing debt		-	-	-20 000	-	-
Cash settlement of options contract and issue of share capital		-	-	-32	-	-
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>-</b>	<b>78 907</b>	<b>-</b>	<b>-</b>
Effects of exchange rate changes on cash and cash equivalents		149	-16	-224	-110	-86
<b>Net change in cash and cash equivalents</b>		<b>-12 007</b>	<b>2 750</b>	<b>58 307</b>	<b>4 939</b>	<b>15 560</b>
Cash and cash equivalents beginning of period		107 009	23 323	36 695	21 135	21 135
<b>Cash and cash equivalents at end of period</b>		<b>95 002</b>	<b>26 074</b>	<b>95 002</b>	<b>26 074</b>	<b>36 695</b>

# NOTES

## Note 1: General

The Board of Directors approved the condensed third quarter interim financial statements for the three months ended 30 September 2018 for publication on October 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 2.4GHz 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 Q3 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.

Based on a preliminary assessment of all current lease contracts, it is estimated that as of January 1, 2019 fixed assets will be increased by approximately MUSD 20 with the offsetting increase of long term liabilities. Based on June 30, 2018 balance sheet, this change would have reduced the Equity ratio from 84.5% to 78.7%. All other equal, we expect that the implementation of IFRS 16 will improve EBITDA by approximately MUSD 4 for 2019, but no significant changes to the net profit due to increased depreciation and interest expense.



**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, Wearables, Healthcare, Building and Retail, and Others.

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

**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.

**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.

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	Q3 2018	Q3 2017	01.01-30.09 2018	01.01-30.09 2017	Full year 2017
Capitalized development expenses (payroll expenses)	2 270	1 087	7 323	4 343	5 526
Capitalized acquired development expenses	784	777	2 644	1 694	3 045
Capital expenditures (including software)	5 117	1 396	12 083	8 339	10 832
Currency adjustments	-7	499	-121	435	337
<b>Total</b>	<b>8 164</b>	<b>3 759</b>	<b>21 929</b>	<b>14 811</b>	<b>19 740</b>
<b>Depreciation, amortizations and impairments</b>					
Capitalized development expenses	1 018	1 017	3 185	3 026	4 042
Software and other intangible assets	1 607	510	3 659	1 532	2 088
Fixed Assets	1 757	1 910	5 421	5 170	6 734
<b>Total</b>	<b>4 383</b>	<b>3 437</b>	<b>12 265</b>	<b>9 728</b>	<b>12 863</b>

**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 of MUSD 40 expires in September 2019, while the other MUSD 25 expires in November 2022. As of September 30, 2018, the Group had not drawn on any credit facilities. The security for the credit lines are 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 was not utilized at the end of September 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.

	01.01-30.09 2018	01.01-30.09 2017	Full year 2017
<b>Outstanding options beginning of period</b>	<b>3 127 663</b>	<b>5 287 714</b>	<b>5 287 714</b>
Options granted	1 447 400	1 625 412	1 625 412
Options forfeited	97 060	40 759	54 761
Options exercised	283 710	-	-
Options expired	-	3 730 702	3 730 702
<b>Outstanding options end of period</b>	<b>4 194 293</b>	<b>3 141 665</b>	<b>3 127 663</b>
Of which exercisable	1 265 338	511 338	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 September 30, 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.

	Q3 2018	Q3 2017	01.01-30.09 2018	01.01-30.09 2017
Gross profit	39.6	31.4	103.8	80.9
Total revenue	78.7	65.7	210.0	171.6
<b>Gross Margin</b>	<b>50.2 %</b>	<b>47.8 %</b>	<b>49.4 %</b>	<b>47.1 %</b>

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.

	Q3 2018	Q3 2017	01.01-30.09 2018	01.01-30.09 2017
Operating profit	9.9	4.9	16.4	9.6
Depreciation	4.4	3.4	12.3	9.7
<b>EBITDA</b>	<b>14.3</b>	<b>8.4</b>	<b>28.7</b>	<b>19.3</b>

- **EBITDA Margin.** EBITDA divided by Total Revenue.

	Q3 2018	Q3 2017	01.01-30.09 2018	01.01-30.09 2017
EBITDA	14.3	8.4	28.7	19.3
Total revenue	78.7	65.7	210.0	171.6
<b>EBITDA Margin</b>	<b>18.2 %</b>	<b>12.7 %</b>	<b>13.7 %</b>	<b>11.3 %</b>

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

	Q3 2018	Q3 2017	01.01-30.09 2018	01.01-30.09 2017
Payroll expenses	16.3	15.5	50.2	41.9
Other Opex	8.9	7.5	24.9	19.6
Depreciation	4.4	3.4	12.3	9.7
<b>Total Operating Expenses</b>	<b>29.6</b>	<b>26.4</b>	<b>87.4</b>	<b>71.3</b>

- **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.

	Q3 2018	Q3 2017	01.01-30.09 2018	01.01-30.09 2017
Total operating expenses	29.6	26.4	87.4	71.3
Depreciation	-4.4	-3.4	-12.3	-9.7
Option expense	-0.3	-0.3	-0.9	-0.8
Capitalized expenses	3.1	1.9	10.0	6.0
Receivable write off	-	-1.0	-	-1.0
<b>Cash Operating Expenses</b>	<b>28.1</b>	<b>23.6</b>	<b>84.3</b>	<b>65.8</b>

- **Order Backlog.** Customer orders placed by the end of the quarter for delivery in next and following quarters.
- **Adjusted EBITDA margin.** EBITDA excluding cellular IoT expenses, divided by Total Revenue.

	Q3 2018	Q3 2017	01.01-30.09 2018	01.01-30.09 2017
EBITDA	14.3	8.4	28.7	19.3
Cellular IoT expenses (reported in the P&L)	3.9	5.0	12.0	14.0
<b>Adjusted EBITDA</b>	<b>18.2</b>	<b>13.4</b>	<b>40.7</b>	<b>33.4</b>
Total revenue	78.7	65.7	210.0	171.6
<b>Adjusted EBITDA margin</b>	<b>23.1%</b>	<b>20.3%</b>	<b>19.4%</b>	<b>19.5%</b>