

1st QUARTER 2016 REPORT



- Revenue at MUSD 40 in the quarter
- Close to 1 Million units of the nRF52 Series shipped
- Pilot production of three Tier 1 customer projects started in Q1
- Strong growth in Emerging Markets and an expected decline in Wearables
- Accelerating number of design wins with Tier 1 customers

Q1 2016 Financial Summary

Amounts in USD million (unaudited)	1st quarter 2015		Change
	2016	Restated*	
Revenue	40,1	40,0	0,1 %
Order inflow	38,0	53,3	-28,6 %
Gross Margin %	49,1 %	52,4 %	
Operating Profit (EBIT)	-0,3	4,4	-107,4 %
Operating Profit % (EBIT %)	-0,8 %	11,0 %	
Net profit after tax	-1,0	3,2	-132,4 %
Free Cash Flow (Net cash flow excluding financing)	9,7	-14,8	
Cash and cash equivalents	39,0	25,3	

*Certain amounts do not correspond to the 2015 quarterly reports and reflects past period adjustments, refer note 5.

Revenue

Technology	Q1					
	2016		2015		Year 2015	
Amounts in USD thousand						
Proprietary wireless	19 336	48,3 %	21 324	53,3 %	76 544	39,6 %
Bluetooth Smart	18 194	45,4 %	17 903	44,7 %	110 843	57,4 %
ASIC components	2 354	5,9 %	788	2,0 %	5 567	2,9 %
Consulting services	179	0,4 %	2	0,0 %	114	0,1 %
Total	40 063	100,0 %	40 017	100,0 %	193 068	100,0 %

Total revenue in Q1 2016 was MUSD 40.1, compared with MUSD 40.0 in Q1 2015. Compared to Q4 2015, revenues decreased by MUSD 6.4 or 13.9%. The decrease from Q4 2015 is mainly explained by seasonally weaker sales due to Chinese New Year. In Q1 2016 Nordic sold close to 1 million nRF52 System on Chip (SOC's). The nRF52's was mainly sold as volumes to support high-volume pilot production for several design wins. We expect to see these products in the market during Q2 as we are ramping up production.

Sales of Bluetooth Smart ended at MUSD 18.2, or 45.4% of revenue during Q1 2016, compared with MUSD 17.9, or 44.7% of revenue in Q1 2015. Nordic has historically shown strong quarterly growth rates year over year, however Q1 2016 was impacted by the loss of a large wearable project. In addition, several customers are holding back on new orders until full scale deliveries of nRF52 can be made.

Sales of Proprietary wireless ended at MUSD 19.3, or 48.3% of revenue during Q1 2016, compared with MUSD 21.3, or 53.3% of revenue in Q1 2015. This represents a decrease of 9.3%, showing that the downwards trend on proprietary sales observed through 2015 has been reduced.

ASIC sales ended at MUSD 2.5 compared to MUSD 0.8 in Q1 2015. The strong sales relate to a few projects within home automation.

Gross profit was MUSD 19.7, or 49.1% of revenues, compared with restated MUSD 21.0, or 52.4% of revenue during Q1 2015. Lower gross margin compared to Q1 2015 is explained by a product mix within proprietary in Q1 2015 and a change in product

and customer mix within Bluetooth Smart. In addition, gross margins of sold nRF52 products are temporarily low due to low yield in connection with the startup of volume production. Yields are expected to be normalized during 2H 2016.

Total operating expenses including depreciation were MUS\$ 20.0 in Q1 2016, compared with MUS\$ 16.5 in Q1 2015. Total cash operating expenses (excluding depreciation) before options, net capitalized R&D expenses and pension income were MUS\$ 18.5 in Q1 2016, compared with MUS\$ 15.7 in Q1 2015. The comparable number in Q4 2015 was MUS\$ 18.7. The increase from last year is driven by significantly higher number of employees, mainly related to the new operation in Finland.

The number of employees increased from 454 at the end of Q4 2015 to 477 at the end of Q1 2016, an increase of 5.0%. Compared to Q1 2015, number of employees has increased by 33.0% from 360 employees. This increase mainly relates to operations in Finland with 117 employees at the end of Q1 2016 compared to 79 at the end of Q1 2015. Total costs for the Finland operations were MUS\$ 3.5 in Q1 2016 compared to MUS\$ 2.2 in Q1 2015. As the Finland project develops, expenses will increase during 2016 as we add more employees and incur expenses related to tape outs of silicon wafers. Tape outs are the first pilot products that are delivered to Nordic and partners for further evaluation.

The remaining expense increase relates to larger headcount in both the Norwegian R&D organization and within sales and marketing in order to support the future growth of the company.

Nordic has during the first quarter capitalized MUS\$ 1.1 compared to MUS\$ 2.0 in Q1 2015 related to internally developed products. The capitalization can be attributed to the next generation Bluetooth Smart platform nRF52 that during Q1 2016 moved to the final development stages prior to commercial product launch. Capitalized expenses are expected to be maintained at approximately MUS\$ 1 per quarter in 2016.

The company's Operating Profit (EBIT) decreased to MUS\$ -0.3 in Q1 2016, compared with MUS\$ 4.4 in Q1 2015. This reduction is explained by lower gross margin, higher operating expenses and less capitalized expenses. Net financial items were a loss of approximately MUS\$ 0.6 in Q1 2016 and a gain of MUS\$ 1.1 in Q1 2015.

Profit before tax was MUS\$ -1.0, compared with MUS\$ 5.5 in Q1 2015. Income tax expense was MUS\$ 0.1, or 6.0% of pretax profit. The base tax rate for the group is 25%, but the actual rate will fluctuate based on the effect of net financial items, as these items are calculated differently in the parent company's financial reporting (calculated in USD) and its tax reporting (calculated in NOK).

Net profit after tax was MUS\$ -1.0 in Q1 2016, compared with MUS\$ 3.2 in Q1 2015. The company's basic earnings per share were USD -0.006 in Q1 2016, compared with USD 0.020 in Q1 2015.

Market

Revenue Markets		Q1			
Amounts in USD thousand		2016	2015	Year 2015	
Consumer Electronics	20 078	50,1 %	20 262	50,6 %	96 503
Wearables	7 301	18,2 %	15 360	38,4 %	63 279
Building/Retail	4 890	12,2 %	2 747	6,9 %	14 115
Healthcare	2 571	6,4 %	616	1,5 %	7 171
Others	2 690	6,7 %	242	0,6 %	6 319
Wireless Components	37 530	93,7 %	39 227	98,0 %	187 387
ASIC components	2 354	5,9 %	788	2,0 %	5 567
Consulting services	179	0,4 %	2	0,0 %	114
Total	40 063	100,0 %	40 017	100,0 %	193 068

Ultra low power and Bluetooth Smart wireless technology is changing how entire industries work and it is being embedded into quite literally everything: a trend that has been dubbed 'The Internet of Things' ('IoT' for short). Right in the middle of it all, sits Nordic Semiconductor- the global leader in ultra-low power (ULP) proprietary and Bluetooth Smart wireless solutions.

Almost single-handedly, Nordic Semiconductor pioneered the development of ultra-low power wireless during the early 2000's and has been a key contributor in the creation and evolution of the Bluetooth Smart wireless standard. These efforts have culminated into its latest nRF52 series, which redefines what is possible on a Bluetooth Smart System-on-Chip.

Consumer Electronics

Consumer Electronics consists of PC Accessories, Mobile Phone Accessories and Home Entertainment. This market segment has been dominated by PC Accessories. However, we are observing substantial growth for wireless solutions for appliances such as TV's / set-top box remotes, game controllers, toys and charging units. New product releases within Bluetooth Smart toys and home media devices have contributed to drive growth in this segment.

Compared to Q1 2015 overall this market was stable at MUS\$ 20.1, down from MUS\$ 20.3 in Q1 2015. The growth in Bluetooth Smart is driven by a large number of design wins within home entertainment and mobile phone accessories. Compared to last quarter, revenue decreased 7.2% from MUS\$ 21.6. The decrease is mainly explained by seasonally lower sales.

Consumer Electronics (CE) is traditionally the largest revenue market for Nordic Semiconductor, introducing a broad spectrum of products. In previous years this has primarily represented products in the PC accessories space, but now Nordic is seeing a rising demand of innovative Bluetooth Smart applications such as connected toys and interactive gaming accessories, including Virtual Reality (VR) which fall under the umbrella of CE.

Nordic continues to view the market for PC accessories as an important business segment. More importantly, Bluetooth Smart technology also creates new opportunities for Nordic to address the tablet accessory market. As tablets implement Bluetooth Smart Ready technology, these devices are now able to connect with ultra-low power Bluetooth Smart keyboards and other accessories. Bluetooth Smart offers much longer battery lifetime for tablet keyboards than traditional Bluetooth technology, and will enable tablets to be used more effectively for productivity applications in addition to casual use.

The tablet accessory market has just begun to convert from traditional Bluetooth technology to Bluetooth Smart technology and we have observed several successful product launches from our customers.

Wireless solutions are currently being implemented in a broad range of home electronic appliances to enable users to interact with these devices via a smartphone or other remote control units. Bluetooth Smart is an ideal wireless solution for many of these embedded applications.

The Alliance for Wireless Power consortium (A4WP), now rebranded as “Airfuel Alliance”, has developed a standard for a small charging appliance which can wirelessly recharge batteries on a broad range of electronic devices. This standard relies on Bluetooth Smart technology to wirelessly transfer critical information such as battery type and charge status from the electronic device to the charger. This enables the charger to manage the charge session between the charger and the device. Nordic Semiconductor is an active member of the Airfuel Alliance, along with mobile phone industry giants such as Samsung, LG and HTC.

Wearable devices

Revenue from Wearable device's market (i.e., portable electronics such as sports monitoring devices and smartwatches) was MUS\$ 7.3 down 52.5% compared to same quarter last year. Compared to last quarter, revenues decreased by 47.8% from MUS\$ 14.0. This market saw exceptionally strong sales in 2H 2014 and 1H 2015 with few new projects realized in 2H 2015 and Q1 2016. The wearable market has benefited from growing demand for wearable electronics featuring Bluetooth Smart technology. Although the loss a key high volume design, we see high design activity with the nRF 52 and expect revenue growth to be regained in this market.

Wearables signified the start of Nordic Semiconductor's Bluetooth Smart revolution. This area was the largest revenue market for our Bluetooth Smart product family. This materialized when we witnessed the global trend of monitoring personal exercise and enabling the end consumer to an easy way of tracking physical performance and historical improvement. All this was enabled via Bluetooth Smart technology. For the years to come Nordic is envisioning this revenue market to consist of many different types of wearable products which are targeting different purposes for the end customer in addition to the “classical” physical activity applications.

Building and Retail

The Building and Retail market consists of connectivity solutions for both home and industrial applications, as well as retail solutions. Currently this market segment is dominated by retail solutions for one RFID customer that has been delivering steady volumes during the last 12-18 months. Beacons and smart homes (connected appliance and door locks) are expected to drive growth in the next 12 months.

Sales to the Building and Retail Market were MUS\$ 4.9, compared with MUS\$ 2.7 in Q1 2015. Compared to last quarter, revenue increased 41.0% from MUS\$ 3.5. The growth is mainly driven by new sales to our large RF ID customer.

Building and Retail (BR) targets a massive end-market which spreads from smart locks, smart payment systems, alarm systems, smoke detectors, beacons, location tags and plenty more. For Nordic, BR is still a small market in terms of revenue, but the potential is large. There are several different standards on the market today fighting to be the winning protocol for such products, and Nordic is certain that Bluetooth Smart has proven itself to be the winner, and with the new specs of the Bluetooth 5.0 we are even more confident that Bluetooth Smart will be the primary adopted standard for a large variety of low power IoT devices.

BR includes wireless sensor networks and are sometimes referred to as “machine-to-machine” (or “M-to-M”) technologies, as they often collect and distribute information from objects rather than people. While this market is still in its earliest stages of development, the potential applications are so many that they are impossible to quantify. Bluetooth Smart provides a very attractive standard for building these wireless sensor networks, based on its compatibility with a huge existing installed base of smartphones and other devices. Focusing on this opportunity is part of Nordic’s overall IOT strategy to move from “My Things” to “Things around us”.

Healthcare

Healthcare is an emerging market for Nordic. Reported revenue relates to design wins, mainly within glucose monitoring and hearing aids. From being a small market in 2014, Healthcare reported a significant revenue increase during the quarter to MUS\$ 2.6 in Q1 2016 compared to MUS\$ 0.6 in Q1 2015. Compared to Q4 2015, revenues were stable. Healthcare does not show the seasonal decline as Nordic’s other markets. This emphasizes Nordic’s strategy of diversifying in both markets and customer types, thereby reducing seasonal dependency.

Healthcare represents an emerging market with a lot of potential for Nordic. This is due to the fact that in addition to an individual’s own physical awareness, there are several institutions in the world that are interested in being able to monitor basic physiological functions. Hospitals, General Practitioners, Employers and Insurance companies are a few examples of such institutions that will have direct benefits of such data. Nordic is seeing products such as continuous blood glucose monitors and hearing aid increasing in volume. These applications are still in their infancy, and Nordic are viewing healthcare as an emerging market with lots of potential.

The demand from health conscious consumers is expected to focus more on monitoring serious illnesses and conditions. Portable healthcare devices act as extensions of a smartphone; they gather data and transmit the information wirelessly, thus helping medical professionals to work more efficiently and extend care outside the Hospital/Clinic environment.

Others

Others consist of sales to module manufactures as well as distribution sales where no final customer is reported. Revenues in these markets were in Q1 2016 MUS\$ 2.7, up from MUS\$ 0.2 in Q1 2015.

Sale to module manufacturers is an important market for Nordic. Module manufactures develop compact ultra-low power Bluetooth Smart 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. Currently Nordic's SOC's are integrated into more than 70 different modules from several of the top module manufactures. Revenue from this market was MUS\$ approximately MUS\$ 1 in Q1 2016.

ASIC Components / Consulting

ASIC components and consulting revenue was MUS\$ 2.5, compared with MUS\$ 0.8 in the prior year. Nordic Semiconductor has made a strategic decision not to invest further in acquiring new customers within this market, and is currently only fulfilling demand from existing customers.

Balance Sheet and Cash Flow

As of 31 March 2016, Nordic Semiconductor had total assets of MUS\$ 155.4, of which MUS\$ 119.6 were current assets. Non-Current assets were at MUS\$ 35.8 compared to MUS\$ 32.0 in Q1 2015. Nordic Semiconductor is focusing on reducing working capital and has during Q1 2016 both reduced inventories and accounts receivables. At the same time, accounts payables have increased contributing to a net working capital improvement of MUS\$ 17.

Total liabilities were MUS\$ 44.1, of which MUS\$ 43.2 were current liabilities. Total liabilities are slightly reduced from MUS\$ 46.0 in Q4 2015 mainly as a result of reduced other short term liabilities and taxes, only partly offset by increased accounts payables. Total Shareholders' equity was MUS\$ 111.3, which represents an equity ratio of 71.6%, up from 70.9% at the end of the previous quarter.

Cash flow from operating activities was MUS\$ 11.7 in Q1 2016, compared with a cash out flow of MUS\$ 8.6 in Q1 2015. The improvement is mainly driven by reduced net working capital due to reduced inventory levels and reduced outstanding accounts receivables, which is part of the company's strategy to improve cash conversions ratios.

Cash flow from investments was an outflow of MUSD 2.0, compared with an outflow of MUSD 6.2 in Q1 2015. Capital expenditures were MUSD 0.9, mainly driven by software related to an upgrade of Nordic's ERP system and R&D investment. Capitalized development expenses were MUSD 1.1, compared with MUSD 2.0 last year, as the company shifted its R&D efforts to the final stages of the nRF52.

The company has a line of credit agreement with its primary bank where it may borrow up to MUSD 20 at any time with a rate of LIBOR + 1.15%. The credit facility has a 3-year term. MUSD 10 of this facility was utilized during Q1 2016.

Net change in cash during the period was a positive cash flow of MUSD 9.7 and during Q1 2016 the cash balance increased to MUSD 39.0 from MUSD 29.3 at the end of Q4 2015.

Organization

As of 31 March 2016, Nordic Semiconductor had 477 employees, compared to 454 employees at 31 December 2015. Of these, 371 employees work within Research and Development representing an increase of 15 employees compared to 31 December 2015.

In the Finland operations a total of 117 employees had started as of March 31, 2016, an increase of 3 employees since 31 December, 2015. The Finland team focuses on Long Range Low Power Wireless, however top wireless talent are also considered for other technologies. The team in Finland is expected to increase to a maximum 150 by the end of 2016.

Business Outlook

Bluetooth Smart has established itself as a core technology within the IoT market space, a market predicted to grow faster and longer than any other development within the field of technology. The Bluetooth Smart market, in terms of IC shipments, is expected to grow at a 44% CAGR from 2015-2019, reaching +1.2 Billion IC shipments in 2019. Nordic's aim is to secure a dominant share of this market.

A vast number of design wins over the last years have enabled Nordic to build a large client list. This has taken Nordic's business into an accelerating number of new customers in a variety of product categories. Recent design wins with tier 1 customers also confirms our ability to compete for the most prestigious design wins.

The Bluetooth Smart standard has continuously evolved and expanded its reach and potency and with the decision to ratify 5.0 later this year, the technology will further accelerate its competitiveness.

Nordic has proved its technology leadership with the introduction of nRF52 on top of its existing technology platform. Nordic shipped the first few products during Q4 2015 and ramped up further deliveries in Q1 2016 to about 1 million units. Customers are eagerly waiting for an aggressive growth in deliveries in Q2 and

onwards. At the same time, we expect to see strong improvement in the yield contributing positively to gross margin growth.

Bluetooth Smart will continue to be the main revenue driver for the next years but the company is starting to see strong complimentary growth prospects from Nordics operation in Finland where its industry leading technology architecture is being merged with a long range wireless technology by a team of engineers that has built some of the most successful cellular technologies in past professional careers.

The project in Finland is progressing according to plan, and the second RF test chip has been sent to production with feature complete LPWAN Radio on Board.

Oslo, April 18th, 2016
Board of Directors

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Financial Calendar 2016

Jul 13 th , 2016	2 nd Quarter 2016 Results
Oct 18 th , 2016	3 rd Quarter 2016 Results
Feb 10 th , 2017	4 th Quarter/Preliminary Annual 2016 Results

Condensed Financial Information for the Three Months Ended 31 March 2016

Consolidated income statement

	<u>Q1</u>		Year
Amounts in USD thousand (unaudited)	2016	2015 Restated*	2015
Total Revenue	40 063	40 017	193 068
Cost of materials	(20 346)	(19 042)	(97 391)
Direct project costs	(28)	(16)	(22)
Gross profit	19 689	20 960	95 655
Payroll expenses	(12 546)	(10 492)	(32 840)
Other operating expenses	(5 099)	(4 184)	(19 404)
EBITDA	2 044	6 284	43 411
Depreciation	(2 370)	(1 867)	(8 437)
Operating Profit (EBIT)	(326)	4 416	34 975
Net interest	(26)	16	(15)
Net foreign exchange gains (losses)	(617)	1 120	2 028
Profit before tax	(970)	5 552	36 988
Income tax expense	(61)	(2 370)	(12 797)
Net profit after tax	(1 031)	3 183	24 191
Earnings per share			
Basic	(0,006)	0,020	0,148
Fully Diluted	(0,006)	0,019	0,147

Weighted average number of shares (in '000)

Basic	162 440	162 801	163 081
Fully Diluted	162 839	164 730	164 986

*Certain amounts do not correspond to the 2015 quarterly reports and reflects past period adjustments, refer note 5.

Consolidated statement of comprehensive income

	<u>Q1</u>		Year
Amounts in USD thousand (unaudited)	2016	2015 Restated*	2015
Net profit after tax	(1 031)	3 183	24 191
Actuarial gain/loss recognized in equity	-	-	1 691
Difference with translation to USD	(55)	(40)	202
Comprehensive income for the period	(1 086)	3 143	26 083

*Certain amounts do not correspond to the 2015 quarterly reports and reflects past period adjustments, refer note 5.

Consolidated statement of financial position

Amounts in USD thousand (unaudited)	31.03.16	31.12.15	31.03.2015 Restated*
Capitalized development expenses	13 038	12 542	8 303
Software and other intangible assets	9 160	9 082	7 125
Deferred tax assets	1 331	1 250	5 363
Property assets	1 421	1 306	754
Equipment	10 888	11 748	10 475
Other long-term assets	12	12	6
Non-current assets	35 852	35 939	32 026
Inventory	40 403	41 100	37 656
Accounts receivable	35 762	48 938	40 258
Other short term receivables	4 440	3 177	5 199
Cash and cash equivalents	38 955	29 293	25 279
Current assets	119 560	122 508	108 392
TOTAL ASSETS	155 412	158 447	140 418
Shareholders' equity	111 320	112 405	94 881
	-	-	
Pension liability	838	707	10 181
Non-current liabilities	838	707	10 181
Accounts payable	9 631	6 389	13 406
Income taxes payable	7 601	9 931	6 758
Public duties	2 088	2 295	2 704
Short-term loan facility	10 000	10 000	-
Other short-term liabilities	13 936	16 720	12 488
Current liabilities	43 255	45 335	35 355
TOTAL EQUITY AND LIABILITIES	155 412	158 447	140 418

*Certain amounts do not correspond to the 2015 quarterly reports and reflects past period adjustments, refer note 5.

Consolidated statement of changes in equity

	<u>Q1</u>		Year
Amounts in USD thousand (unaudited)	2016	2015 Restated*	2015
Equity at beginning of period	112 405	85 122	85 122
Net profit for the period	(1 031)	3 183	24 191
Purchase of treasury shares	-	-	(4 562)
Sale of treasury shares on options exercise	(0)	6 064	6 064
Share-based compensation	-	551	(303)
Cash settlement of options contract	-	-	-
Actuarial gain/loss recognized in equity	-	-	1 691
Difference with translation to USD	(55)	(40)	202
Equity at end of period	111 320	94 881	112 405

*Certain amounts do not correspond to the 2015 quarterly reports and reflects past period adjustments, refer note 5.

Consolidated cash flow statement

Amounts in USD thousand (unaudited)	Q1		
	2016	2015	2015
Profit before tax	(970)	5 552	36 988
Profit before tax, discontinued operations	-	-	-
Taxes paid for the period	(2 901)	(1 891)	(6 146)
Depreciation	2 370	1 867	8 437
Change in inventories, trade receivables and payables	-	-	-
Share-based compensation expense	237	597	(175)
Movement in pensions	130	(1 274)	(4 944)
Other operations related adjustments	(4 288)	176	2 986
Net cash flows from operating activities	11 694	(8 611)	4 366
Capital expenditures (including software)	(937)	(4 191)	(11 817)
Proceeds from sales of equipment	-	-	-
Capitalized development expenses	(1 084)	(2 025)	(8 328)
Net cash flows from investing activities	(2 021)	(6 215)	(20 145)
Changes in Treasury stock	(0)	6 064	1 503
Cash settlement of options contract	-	(49)	(830)
Short-term loan facility	-	-	10 000
Other financing related adjustments	-	-	-
Net cash flows from financing activities	(0)	6 015	10 673
Effect of changes in currency rates	(10)	9	319
Net change in cash and cash equivalents	9 663	(8 802)	(4 788)
Net change in cash and cash equivalents from discontinued operations			
Cash and cash equivalents at start of period	29 293	34 080	34 080
Cash and cash equivalents at end of period	38 955	25 279	29 293

Notes to the Consolidated Interim Financial Statements

Note 1: General

The condensed first quarter interim financial statements for the three months ended 31 March 2016 were approved for publication by the Board of Directors on April 18, 2016.

Nordic Semiconductor ASA develops and sells integrated circuits and related solutions for short-range wireless communication. The company specializes in ultra-low power (ULP) components, based on its proprietary 2.4 GHz RF and Bluetooth Smart technology.

Nordic Semiconductor ASA is listed on the Oslo Stock Exchange and is a joint stock company registered in Norway. The Company's head office is located at Otto Nielsens vei 12, 7052 Trondheim.

Note 2: Confirmation of the financial framework

The Group accounts 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 2016 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 2015.

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.

Note 3: Important accounting principles

Major accounting principles are described in the Group Financial Statement for 2015. The group accounts for 2015 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, relevant interpretations of this, as well as additional Norwegian disclosure requirements described in the Norwegian GAAP and the Norwegian Securities Trading Act.

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations. IFRS 15 is effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Company is currently evaluating the impact of the new standard.

Note 4: Use of estimates

In the interim financial statements for 2016, 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 2016 and the major sources of uncertainty in the statements are similar to those found in the Financial Statements for 2015.

Note 5: Past period adjustment to inventory

On January 1, 2010 Nordic Semiconductor changed its group functional currency from NOK to USD. In connection with this change, several system changes were made in order to correctly reflect the USD functional currency amounts. Unfortunately, one wrong translation rule was used when the conversion was set up. This error was not identified until the volatility in the NOK/USD and the underlying physical inventory volume increased during 2015. As a consequence, inventory values and the corresponding gross profit have during the individual past quarters been slightly overstated, but with an accumulating impact on the inventory value. In January 2016, a detailed review has been performed on the system setup correcting the conversion rule. The error has been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

Amounts in USD thousand	Jan 1, 2014	2014				Dec 31, 2014	2015				Dec 31, 2015
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
Inventories (-reduced)	(1 000)	(1 300)	(1 800)	(2 600)	(3 400)	(3 400)	(4 300)	(5 100)	(6 000)		(6 000)
Equity (-reduced)	(1 000)	(1 300)	(1 800)	(2 600)	(3 400)	(3 400)	(4 300)	(5 100)	(6 000)		(6 000)
Cost of goods sold (+increase)		300	500	800	800	2 400	900	800	900		2 600
Gross Profit (-reduced GP)		(300)	(500)	(800)	(800)	(2 400)	(900)	(800)	(900)		(2 600)
Restated Gross Margin		50,4 %	47,1 %	49,2 %	50,6 %	49,3 %	52,4 %	47,9 %	48,5 %	50,1 %	49,5 %
Reported Gross Margin		51,4 %	48,3 %	50,8 %	52,4 %	50,7 %	54,6 %	49,5 %	50,2 %	50,1 %	50,9 %

As the Group's tax is mainly calculated in the NOK legal entity, and the underlying NOK tax reporting financial statements are unchanged, the Group's taxes payable are unchanged. However, the Groups effective tax rate has been slightly affected due to the restatement.

The change did not have any impact on the Group's operating, investing and financing cash flows.

Note 6: 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 revenue markets: Wireless components, ASIC components and consulting services. Within Wireless components, the Group reports its revenues based on the product category ("hub") with 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 Smart protocols. Detailed reporting by revenue market can be found on page 2 and page 4 in this document.

Note 7: Share options

On February 18, 2014, Nordic Semiconductor granted 5,843,712 share options to 176 employees. The options are exercisable after one year, and expire after three years. The options were granted at a strike price of NOK 38.43. If the company's share price exceeds a "cap" of NOK 150.00, the company may settle the option grant by compensating the employee the difference between the "cap" and the strike price. Of the share options granted in 2014, 3,771,503 all are vested and will expire in February 2017 if not exercised

According to the Black- Scholes option pricing model, the fair value of options granted in 2014 was NOK 6.153 per option. The Black-Scholes valuation of the option program was conducted by an independent advisory company. The options are expensed over the vesting period, in accordance with IFRS.

With reference to the Extraordinary General Meeting on December 8th 2015, Nordic Semiconductor has on the 26th February 2016 granted 1,590,000 share options to employees and primary insiders. On the EGM the Company was given the approval to issue up to 1% of the outstanding share capital in options to all employees.

According to the approval, the option scheme has a long term element as options are vested over a three-year period and expire after five years. The options were granted at a strike price of NOK 47,72 (10% above volume weighted average share price the week following Q4 2015 results). If the company's share price exceeds a cap of NOK 143.16, the company may settle the option grant by compensating the employee the difference between the cap and the strike price.

Note 8: Risk management

A description of risk factors can be found in Note 20 of Nordic Semiconductor's 2015 annual report.

Note 9: Events after the balance sheet date

No events have occurred since the end of the first quarter of 2016 with any significant effect that will impact the evaluation of the submitted accounts.