NORDIC SEMICONDUCTOR

4th QUARTER 2016 REPORT & Preliminary 2016

- Revenue at 52.6 MUSD in Q4 and 197.7 MUSD in FY 2016, a 13.2% growth from Q4 2015 and a 2.4% growth from FY 2015
- Bluetooth revenues at 30.6 MUSD in Q4 and 107.2 MUSD in FY2016, a 6.7% growth from Q4 2015
- EBIT at 1.5 MUSD in Q4 2016
- Launched the most powerful SoC, the Bluetooth 5 compatible, nRF52840

Q4 2016 Financial Summary

Amounts in USD million (unaudited)	4th quarter 2016	4th quarter 2015	Change
Revenue	52,6	46,5	13,2 %
Order Backlog	28,6	21,6	32,4 %
Gross Margin %	46,2 %	50,1 %	
Adjusted Operating Profit (EBIT)	1,5	3,8	-60,3 %
Operating Profit % (EBIT %)	2,8 %	8,1 %	
Adjusted Net profit after tax	0,8	1,2	-31,0 %
Free Cash Flow (Net cash flow excluding financing)	-15,6	2,1	
Cash and cash equivalents	21,0	29,3	

Revenue

Technology	Q4			01.01.-31.12			Q3	
Amounts in USD thousand	2016	2015	Change %	2016	2015	Change %	2016	Q4 vs Q3
Proprietary wireless	19 521	15 534	25,7 %	82 358	76 544	7,6 %	19 806	-1,4 %
Bluetooth	30 629	28 711	6,7 %	107 165	110 843	-3,3 %	31 107	-1,5 %
ASIC components	1 511	2 151	-29,8 %	6 990	5 567	25,6 %	1 343	12,5 %
Consulting services	973	112	768,8 %	1 186	114	940,4 %	34	2761,8 %
Total	**52 634**	**46 508**	13,2 %	**197 699**	**193 068**	2,4 %	**52 290**	**0,7 %**

Total revenue in Q4 2016 was MUSD 52.6, compared with MUSD 46.5 in Q4 2015. The growth is driven by both Bluetooth low energy (Bluetooth) and proprietary wireless technologies. Although normally Q4 shows a seasonal decrease compared to Q3, the delays in product deliveries in Q3 2016 of MUSD 4 into Q4 2016, secured a small revenue growth for the quarter.

Revenue from Bluetooth ended at MUSD 30.6, or 58.2% of revenue in Q4 2016, compared with MUSD 28.7, or 61.7% of revenue in Q4 2015. Compared to Q3 2016 Bluetooth revenue decreased 1.5% from MUSD 31.1 due to seasonality. Year over year Bluetooth revenues increased 6.7%. Adjusted for the loss of one large wearable design, underlying Bluetooth revenue to end customers showed year over year growth of 48% in Q4 2016.

Nordic continued ramp-up of the nRF52 family in Q4 2016. As mentioned in the Q3 2016 report, the yield issue has been resolved but the depletion of inventory manufactured during Q3 has negatively impacted gross margins also during Q4 2016.

Revenue from proprietary wireless ended at MUSD 19.5 compared with MUSD 15.3 in Q4 2015, representing an increase of 25.7%. The growth came as a result of the above mentioned product delivery delays in Q3 2016 pushed into Q4 2016, and overall strong sales to the PC peripheral market.

During Q4 2016 Nordic had MUSD 1.0 in consulting revenue provided to ASIC customers. The comparable number in Q4 2015 was MUSD 0.1.

In Q4 2016, gross profit was MUSD 24.3, or 46.2% of revenues, compared with MUSD 23.3, or 50.1% of revenues during Q4 2015. Lower gross margin compared to Q4 2015 is explained by higher costs related to lower yield from the introduction of the nRF52 products.

Total operating expenses including depreciation and amortization, was MUSD 22.8 in Q4 2016 compared with MUSD 12.5 in Q4 2015. However, the Q4 2015 amount included a non-recurring positive income of MUSD 7.0 related to de-recognition of a pension liability. Adjusted for this income, expenses increased 16.7% from MUSD 19.5. This increase is explained by increase in number of employees, less capitalization, and increased amortization due to previously capitalized projects that are taken into use.

Total cash operating expenses (excluding depreciation and amortization) before options, net capitalized R&D expenses, and pension income increased 10.4% to MUSD 20.6 in Q4 2016, compared with MUSD 18.7 in Q4 2015. Of this increase, one third is related to growth in the Finland operations.

The main driver for increased cash operating expenses is the headcount growth (17.2%) from 454 in Q4 2015 to 532 in Q4 2016. In addition, other operating expenses related to R&D, software, IP and test manufacturing (tape-outs) have increased proportionally with the higher activity level. Tape-outs are the first pilot products that are delivered to Nordic and partners for further evaluation. Offsetting higher underlying operating expenses is a positive effect of the weakening of the Norwegian Krone against the USD.

Total costs for the Finland operations were MUSD 4.7 in Q4 2016 compared to 4.0 MUSD in Q4 2015. As the Finland operations enters into a market launch phase, we expect some additional expenses related to headcount increase and tape-out of silicon wafers, although still within the MUSD 5 per quarter range.

During Q4 2016 Nordic capitalized MUSD 1.2 compared with MUSD 1.5 in Q4 2015 related to internally developed products. The capitalization can be attributed to new versions of the Bluetooth platform nRF52 that moved to the final development stages prior to commercial launch during Q4 2016. Capitalized expenses are expected to be maintained at approximately MUSD 1.0 per quarter.

The Company's adjusted operating profit (EBIT, adjusted for 2015 pension income) decreased to MUSD 1.5 in Q4 2016, compared with MUSD 3.8 in Q4 2015. Higher revenues are offset by lower gross margin, higher expenses and lower capitalized expenses. Net financial items were a loss of MUSD 0.2 in Q4 2016 and a loss of MUSD 0.4 in Q4 2015.

Profit before tax was MUSD 1.3, compared with adjusted profit before tax of MUSD 3.3 in Q4 2015. Income tax expense was MUSD 0.5, or 38.9% of pretax profit. The base tax rate for the group is 25%, but the actual rate fluctuates based on the effect of net financial items, as these items are calculated differently between the parent company's financial reporting (calculated in USD) and its tax reporting (calculated in NOK).

Net profit after tax was MUSD 0.8 in Q4 2016, compared with adjusted net profit of MUSD 1.2 in Q4 2015.

The Company's basic earnings per share was USD 0.005 in Q4 2016, compared with USD 0.039 in Q4 2015.

2016 Preliminary Annual Results Financial Summary

Amounts in USD million (unaudited)	01.01-31.12 2016	2015	Change
Revenue	197,7	193,1	2,4 %
Gross Margin %	47,1 %	49,5 %	
Adjusted Operating Profit (EBIT)	9,7	28,0	-65,3 %
Operating Profit % (EBIT %)	4,9 %	14,5 %	
Adjusted net profit after tax	6,4	19,0	-66,2 %
Free Cash Flow (Net cash flow excluding financing)	-15,2	-15,8	
Cash and cash equivalents	21,0	29,3	

Total revenue in 2016 was MUSD 197.7, compared with MUSD 193.1 in 2015, representing a growth of 2.4%. Revenue from Bluetooth decreased by 3.3% in 2016 to MUSD 107.2 from MUSD 110.8 in 2015. Although Bluetooth showed a year over year decrease, underlying growth excluding the loss of one socket for a wearable customer and one large gaming project was strong.

Gross profit was MUSD 93.0, or 47.1% of revenue, compared with MUSD 95.7, or 49.5% of revenue during 2015. Gross margin decreased in 2016 as a result of yield issues in connection with the ramp-up of the nRF52 family product line.

Total operating expenses including depreciation and amortization were MUSD 83.3 in 2016, compared with MUSD 60.7 in 2015. However, adjusted for de-recognition of pension liabilities and higher capitalized development expenses, operating expenses excluding depreciation and amortization increased from MUSD 67.6 in 2015 to 76.9 in 2016. The higher spending is explained by higher R&D headcount and increased marketing/sales activities partly offset by a weaker NOK/USD currency rate. In 2016 Nordic capitalized MUSD 5.3 versus MUSD 8.3 in 2015.

The Company's operating profit (EBIT) decreased to MUSD 9.7 in 2016 from adjusted operating profit of MUSD 28.0 in 2015. The decrease is explained by lower gross margins and higher operating expenses. Net financial items were a loss of MUSD 1.0 in 2016 and a gain of MUSD 2.0 in 2015. The gain in 2015 can be explained by the weakening of the NOK and recalculation of assets and liabilities related to taxes and pensions, whilst in 2016 this effect was slightly negative.

Profit before tax was MUSD 8.8 in 2016, compared with adjusted profit before tax of MUSD 30.0 in 2015. Income tax expense was MUSD 2.3, or 26.6% of pretax profit. The base tax rate for the group is 25%, but the actual rate fluctuates 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 MUSD 6.4 in 2016, compared with adjusted net profit MUSD 19.0 in 2015. The company's basic earnings per share were USD 0.040 in 2016, compared with USD 0.148 in 2015.

Markets

Revenue Markets	Q4			01.01.-31.12			Q3	
Amounts in USD thousand	2016	2015	Change %	2016	2015	Change%	2016	Q4 vs Q3
Consumer Electronics	25 374	21 633	17,3 %	96 976	96 503	0,5 %	25 269	0,4 %
Wearables	10 223	13 981	-26,9 %	40 738	63 279	-35,6 %	11 104	-7,9 %
Building/Retail	8 366	3 474	140,8 %	26 921	14 115	90,7 %	7 537	11,0 %
Healthcare	2 757	2 575	7,1 %	11 620	7 171	62,0 %	3 486	-20,9 %
Others	3 430	2 582	32,8 %	13 268	6 319	110,0 %	3 517	-2,5 %
Wireless Components	**50 150**	**44 245**	13,3 %	**189 523**	**187 387**	1,1 %	**50 913**	**-1,5 %**
ASIC components	1 511	2 151	-29,8 %	6 990	5 567	25,6 %	1 343	12,5 %
Consulting services	973	112		1 186	114		34	-
Total	**52 634**	**46 508**	13,2 %	**197 699**	**193 068**	2,4 %	**52 290**	**0,7 %**

Nordic Semiconductor pursues a diversification strategy to be less dependent on both individual customers and industries. The future success of this strategy can best be witnessed by close to 18 000 development kits sold in 2H 2016, a leading indicator for design wins to come. Of these, a total of 9 000 related to the nRF52 family.

Although Nordic does not report on the number of design wins, Nordic continues to have around 40% market share of new products registered with the Bluetooth Organization (source: FCC, Bluetooth Organization, DnB Markets).

Strong execution on this 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.

We see that this diversification strategy continues the trend shift for our Bluetooth business. In Q4 2015, 76.6% of revenues came from the Consumer Electronics and Wearable markets and in Q4 2016 the same markets represented 67.6%. During the same period, sales outside of our 10 largest Bluetooth customers have increased from 53.0% in Q4 2015 to 60.0% in Q4 2016.

Consumer Electronics

The Consumer Electronics market consists of PC Accessories, Mobile Phone Accessories and Home Entertainment devices. This market segment has historically been dominated by PC Accessories. However, we are observing substantial growth in wireless solutions for appliances such as TVs / set-top box remotes, game controllers and toys.

Compared with Q4 2015, revenue attributed to the Consumer Electronics market increased by 17.3% from MUSD 21.6 to MUSD 25.4 in Q4 2016. This increase is partly explained by firm orders moved to Q4 2016 from Q3 2016 due to delays in product deliveries.

Compared to Q3 2016, revenue increased slightly. Normally Q4 is seasonally weaker than Q3, however the delays in Q3 2016 product deliveries impacted Q4 2016 revenues positively.

Nordic continues to view PC accessories as an important market. More importantly, Bluetooth technology creates additional 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 for both productivity applications in casual use.

Gaming and toys continues to be a strong driver of the Consumer Electronics market, with several new design wins received during the quarter. During Q4/2016 we continued receiving orders from the new and promising Virtual Reality industry (VR). Nordic has several of the key market players as customers.

Wearable devices

Revenue attributed to the Wearable market (i.e., portable electronics such as sports monitoring devices and smart watches) was MUSD 10.2 in the quarter, down 26.9% from the same quarter last year. Compared to last quarter, revenues decreased by 7.9% from MUSD 11.1. This market saw exceptionally strong sales in 2015. Additionally, in 2015 Nordic lost a socket with the largest customer within this market in 2015, significantly impacting Q4 and 2016 revenues for the market.

Nordic has proven its technology leadership with the introduction of the nRF52 family on top of its existing technology platform. Nordic released late in Q2 its Wafer Level Chip Scale Package (WL-CSP) variant of its nRF52832 Bluetooth® System-on-Chip (SoC). It 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. Despite the aforementioned loss of a key high volume design, we see high design activity around the nRF52 and expect a rebound in revenue growth during 2017.

Building and Retail

The Building and Retail market consists of connectivity solutions for home and industrial applications, as well as retail solutions. Until recently, growth in this market has been driven by RFID retail solutions provided by one customer. Beacons and smart homes solutions (connected appliances and door locks) has however, started to drive additional growth.

Revenue attributed to the Building and Retail market were MUSD 8.4 in Q4 2016, which is an increase of 140.8% from MUSD 3.5 in Q4 2015. This increase is driven by higher sales to additional RFID customers, industrial applications and various beacon related applications.

Compared to last quarter, revenue increased 11.0% from MUSD 7.5. The increase is mainly related to Smart City applications.

Building and Retail targets a massive end-market with solutions for smart locks, smart payment systems, alarm systems, smoke detectors, beacons, location tags and plenty more. Building and Retail is less seasonal and revenue in this market even outs the seasonal trends of other markets to which Nordic is exposed.

Healthcare

Healthcare is an emerging market for Nordic. Reported revenue relates to design wins within glucose monitoring and hearing aids. Healthcare reported a 7.1% revenue increase during the quarter to MUSD 2.8 compared to MUSD 2.6 in Q4 2015. Compared to Q3 2016, revenues decreased by 20.9% from MUSD 3.5. The decrease is explained by quarterly variations on one large project.

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, institutions such as hospitals, doctors, employers and insurance companies are also 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. These and other applications are currently still in their infancy, particularly as they relate to IoT, remote healthcare and big data analytics.

Others

This category includes sales to module manufactures as well as distribution sales where no final customer is reported. Other revenues were in Q4 2016 MUSD 3.4, up 32.8% from MUSD 2.6 in Q4 2015. Compared to Q3 2016 decreased 2.5% from MUSD 3.5.

Sale 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. Currently Nordic's SoC's are integrated into more than 120 different modules from several top module manufactures, of which 42 are based on the nRF52.

Research and Development

Bluetooth Low Energy

Towards the end of Q4 2016 Nordic launched its latest Nordic nRF52840 single-chip Bluetooth low energy System on Chip (SoC) that raised the bar for Nordic's high-end nRF52 series SoC lineup in terms of both performance and feature improvements. In doing so, this Bluetooth 5 ready SoC from redefined the scope for smart home, IoT, and wearables by delivering 4x range, 2x bandwidth, and enhanced security with an on-chip ARM CryptoCell cryptographic accelerator.

Nordic then announced that its nRF52840 and nRF52832 SoCs supporting software were all Bluetooth 5-ready within a week of Bluetooth 5 being officially launched by the Bluetooth SIG.

Low Power Cellular IOT (Internet of Things)

Nordic Semiconductor 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, so called Personal Area Network (PAN). However, a large part of the IoT space will be characterized by Wide Area Network (WAN) and Long Area Network (LAN) communication. Complementing Nordics leading offering and roadmap on short-range wireless, the expanded product roadmap 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.

Nordic Semiconductors roadmap for low power cellular IoT, includes highly integrated chipsets and advanced software for the upcoming 3GPP Release 13 LTE-M and NB-IoT 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 Q4 2016 Nordic successfully taped-out a fully integrated chipset. Nordic expects to sample the first nRF91 Series solutions to selected lead customers second half of 2017 with broad availability in 2H 2018. At the same time, we are developing engineering samples, software, kits and development tools. Based on this, we remain confident in our timing and ability to compete.

Nordic's development of long-range wireless technologies is located in Finland. A total of 132 employees are based in Finland as of December 31, 2016. The team in Finland is expected to grow to 150 by the end of 2017 mainly replacing headcount growth that would otherwise take place at other operations.

Balance Sheet and Cash Flow

As of 31 December 2016, Nordic Semiconductor had total assets of MUSD 174.7, of which MUSD 132.9 were current assets. Non-Current assets were MUSD 41.8. During Q4 2016 net working capital increased by MUSD 15.2 mainly as a result of increased inventories. The inventory increase is driven by a buildup of nRF52 as a result of purchase commitments on the wafers. Compared to Q4 2015, net working capital increased by MUSD 7.9, due to the same reasons as explained above.

Total liabilities were MUSD 58.4, of which MUSD 38.1 were current liabilities. Total liabilities increased from MUSD 46.0 in Q4 2015 mainly as a result of higher short term liabilities related to wafer purchases and increased utilization of the Revolving Credit Facility (RCF). Total Shareholders' equity was MUSD 116.3, which represents an equity ratio of 66.6%, down from 70.9% in Q4 2015.

Cash outflow from operating activities was MUSD 12.7 in Q4 2016, compared with a cash flow of MUSD 4.8 in Q4 2015. The reduced cash flows are explained by lower profits, higher taxes paid and buildup of working capital.

Cash flow from investments was an outflow of MUSD 2.9 which is slightly above Q4 2015. Capital expenditures were MUSD 1.7, driven by investment in software related to IP investments and an upgrade of Nordic's ERP system. Capitalized development expenses were MUSD 1.2, compared with MUSD 1.5 last year.

As a result of the increase in net working capital items, the Company has increased the utilization of the RCF by MUSD 10, to MUSD 20. Under the RCF agreement the company may borrow up to MUSD 40 at any time with a rate of LIBOR + margin.

During the quarter Nordic purchased treasury shares (685 819 shares) for a total of MUSD 2.7.

Net change in cash during Q4 was a cash outflow of MUSD 8.2 and the cash balance decreased to MUSD 21.0 by the end of 2016 from MUSD 29.3 at the end of Q3 2016.

Organization

As of 31 December 2016, Nordic Semiconductor had 532 employees, compared to 521 employees at 30 September 2016. Of these, 411 employees work within Research and Development representing an increase of 6 employees compared to 30 September 2016.

In order to take advantage of accelerating growth opportunities, Nordic has also increased staff within Sales and Marketing. The number of employees within Sales and Marketing has increased to 71 employees. The main growth is within the global team of field applications engineers to support a growing number of customers.

Business Outlook

Bluetooth has established itself as a core technology within the IoT market space. From a disappointing start of 2016 the company has gradually regained momentum and in Q4 2016 the company is back to year-on-year growth.

We see a strong momentum moving into 2017. A vast number of design wins over the last years have enabled Nordic to increase its customer list. In addition, a strong product line-up has made Nordic able to compete and win designs in a large variety of product categories and verticals. The backlog at the end of 2016 (+25% - o-y) is confirmation of this trend. Recent design wins with Tier 1 customers, where production has started, also confirms our ability to compete for the most prestigious design wins.

Based on this, we estimate a 1H 2017 revenue to be in the range MUSD 100-107.

We expect Bluetooth to be the growth driver for 2017. The 1H 2017 outlook range provided is based on a 30% growth in Bluetooth for the lower end and 40% for the upper end.

We expect gross margins to be in the range of 46% – 47% for H1 2017, in line with the previous half year but below our target of 50%.

Oslo, February 9th, 2017
Board of Directors

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 2017

April 24th, 2017	1st Quarter 2017
July 13th, 2017	2nd Quarter 2017
October 17th, 2017	3rd Quarter 2017
February 15th, 2018	4th Quarter 2017

2016 Annual Accounts will be submitted on March 16th, 2017
2017 Annual General Meeting will be held on April 24th, 2017

Condensed Financial Information for the Three Months Ended 31 December 2016 and Preliminary 2016 Full Year Results

Consolidated income statement

	Q4		01.01 - 31.12	
Amounts in USD thousand (unaudited)	2016	2015	2016	2015
Total Revenue	**52 634**	**46 508**	**197 698**	**193 068**
Cost of materials	(27 887)	(23 207)	(104 046)	(97 391)
Direct project costs	(454)	(2)	(608)	(22)
Gross profit	**24 293**	**23 299**	**93 044**	**95 655**
Payroll expenses	(13 072)	(4 271)	(49 185)	(32 840)
Other operating expenses	(6 467)	(6 050)	(22 677)	(19 404)
EBITDA	**4 754**	**12 977**	**21 181**	**43 411**
				-
Depreciation	(3 259)	(2 209)	(11 473)	(8 437)
Operating Profit (EBIT)	**1 496**	**10 768**	**9 708**	**34 975**
				-
Net interest	(45)	(30)	(39)	(15)
Net foreign exchange gains (losses)	(146)	(403)	(911)	2 028
Profit before tax	**1 305**	**10 335**	**8 758**	**36 988**
				-
Income tax expense	(508)	(3 999)	(2 334)	(12 797)
Net profit after tax	**797**	**6 336**	**6 424**	**24 191**
Earnings per share				
Basic	0,005	0,039	0,040	0,148
Fully Diluted	0,005	0,039	0,039	0,147
Weighted average number of shares (in '000)				
Basic	162 482	162 722	162 465	163 081
Fully Diluted	162 124	161 797	162 994	164 385

Consolidated statement of comprehensive income

	Q4		01.01 - 31.12	
Amounts in USD thousand (unaudited)	2016	2015	2016	2015
Net profit after tax	796	6 336	6 424	24 191
Actuarial gain/loss recognized in equity	(21)	1 691	(21)	1 691
Difference with translation to USD	(248)	90	(341)	202
Comprehensive income for the period	**527**	**8 117**	**6 062**	**26 083**

Consolidated statement of financial position

Amounts in USD thousand (unaudited)	31.12.16	30.09.16	31.12.15
Capitalized development expenses	14 395	14 197	12 542
Software and other intangible assets	12 054	12 231	9 082
Deferred tax assets	1 973	1 367	1 250
Property assets	1 317	1 229	1 306
Equipment	12 050	12 604	11 748
Other long-term assets	2	3	12
Non-current assets	41 792	41 631	35 939
Inventory	52 044	36 593	41 100
Accounts receivable	54 772	52 923	48 938
Other short term receivables	4 941	4 430	3 177
Cash and cash equivalents	21 135	29 272	29 293
Current assets	132 892	123 218	122 508
TOTAL ASSETS	174 684	164 848	158 447
Shareholders' equity	116 270	118 049	112 405
Pension liability	293	764	707
Other long-term liabilities	20 000	10 000	-
Non-current liabilities	20 293	10 764	707
Accounts payable	15 295	13 178	6 389
Income taxes payable	2 786	6 484	9 931
Public duties	2 260	1 623	2 295
Short-term loan facility	-	-	10 000
Other short-term liabilities	17 780	14 750	16 720
Current liabilities	38 121	36 036	45 335
TOTAL EQUITY AND LIABILITIES	174 684	164 848	158 447

Consolidated statement of changes in equity

	Q4		01.01 - 31.12	
Amounts in USD thousand (unaudited)	2016	2015	2016	2015
Equity at beginning of period	**118 049**	**106 520**	**112 405**	**85 122**
Net profit for the period	796	6 336	6 424	24 191
Purchase of treasury shares	(2 478)	(2 159)	(2 478)	(4 562)
Sale of treasury shares on options exercise	(195)	0	(195)	6 064
Share-based compensation	172	(73)	476	(303)
Cash settlement of options contract	195	-	-	-
Actuarial gain/loss recognized in equity	(21)	1 691	(21)	1 691
Difference with translation to USD	(248)	90	(341)	202
Equity at end of period	**116 270**	**112 405**	**116 270**	**112 405**

Consolidated cash flow statement

Amounts in USD thousand (unaudited)	Q4 2016	Q4 2015	01.01 - 31.12 2016	01.01 - 31.12 2015
Profit before tax	1 491	10 335	8 781	36 988
Taxes paid for the period	(4 303)	(2 515)	(10 198)	(6 146)
Depreciation	3 396	2 209	11 470	8 437
Change in inventories, trade receivables	-	-	-	-
and payables	(15 183)	(1 519)	(7 871)	(32 780)
Share-based compensation expense	138	(62)	203	(175)
Movement in pensions	(1 215)	(3 550)	(1 159)	(4 944)
Other operations related adjustments	2 982	(146)	(1 316)	2 986
Net cash flows from operating activities	**(12 695)**	**4 754**	**(90)**	**4 366**
			-	-
Capital expenditures (including software)	(1 655)	(1 420)	(9 824)	(11 817)
Proceeds from sales of equipment	-	-	-	-
Capitalized development expenses	(1 203)	(1 257)	(5 304)	(8 328)
Net cash flows from investing activities	**(2 858)**	**(2 677)**	**(15 128)**	**(20 145)**
			-	-
Changes in Treasury stock	(2 478)	(2 159)	(2 478)	1 503
Cash settlement of options contract	(195)	-	-	(830)
Interest bearing debt	10 000	0	10 000	10 000
Net cash flows from financing activities	**7 327**	**(2 158)**	**7 522**	**10 673**
			-	-
Effect of changes in currency rates	(11)	159	(561)	319
Net change in cash and cash equivalents	**(8 237)**	**77**	**(8 257)**	**(4 788)**
Net change in cash and cash equivalents from discontinued operations				
Cash and cash equivalents at start of period	29 272	29 215	29 293	34 080
Cash and cash equivalents at end of period	**21 035**	**29 293**	**21 035**	**29 293**

Notes to the Consolidated Interim Financial Statements

Note 1: General

The condensed fourth quarter interim financial statements for the three months ended 31 December 2016 and preliminary 2016 financials were approved for publication by the Board of Directors on February 9, 2017.

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 technology.

Nordic Semiconductor ASA is listed on the Oslo Stock Exchange and is a public limited liability 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 Q4 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: Significant accounting principles

Significant 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), relevant interpretations of this, as well as additional Norwegian disclosure requirements described in the Norwegian GAAP and the Norwegian Securities Trading Act.

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted; however, Nordic does not plan an early adoption. Nordic expects to apply IFRS 15 fully retrospectively.

Nordic has performed a preliminary assessment of the new standard's effects on a representative selection of existing revenue contracts and does not expect the impact of the new standard to be significant with respect to how and when revenue is recognized.

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: 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 protocols.

Note 6: Related Parties

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, 3,730,702 all are vested and will expire during 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 all employees. At 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.

According to the Black- Scholes option pricing model, the fair value of options granted in 2016 was NOK 11,00 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.

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 December 31, 2016 with any significant effect that will impact the evaluation of the submitted accounts.

Definitions

Alternative performance measures

Nordic's financial information is prepared in accordance with international financial reporting standards (IFRS). In addition, it is management's intent to provide alternative performance measures that are regularly reviewed by management to enhance the understanding of Nordic's performance, but not instead of, the financial statements prepared in accordance with IFRS. The alternative performance measures presented may be determined or calculated differently by other companies

Order Backlog
Total confirmed orders placed as of period end for deliveries in following periods. Adjusted for rebates and other revenue recognition estimates.

Gross Margin
Gross Profit divided by Total Revenue.

Free cash flow
Sum of net cash flow from operating expenses and net cash flow from investing activities.

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

EBITDA
Earnings before interest, tax, depreciation and amortization.

Underlying Bluetooth Growth
Underlying growth in 2016 represents revenue reported from the distribution channel (Point of sales) YoY adjusted for two socket losses in 2015.

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

Cash Operating expenses
Total payroll and other operating expenses adjusted for non-cash related items including option expenses, capitalization of development expenses and income related to de-recognition of pension liability.

Q4 2015 and 2015 Adjusted EBIT, Profit Before Tax and Net profit after tax
For the periods Q4 2015 and full year 2015 in order to get comparable figures, Nordic has adjusted for the non-recurring income of MUSD 7 (net profit adjusted by 26% tax effect) related to the de-recognition of a pension liability performed in Q4 2015.