



## 2<sup>nd</sup> QUARTER AND FIRST HALF 2017 REPORT



- Record high second quarter revenue at MUSD 58.7, a 11.3% growth from Q2 2016
- Bluetooth continues strong momentum at MUSD 36.0, a 32.3% growth from Q2 2016
- EBITDA at MUSD 8.0 compared to MUSD 7.4 in Q2 2016. EBIT at MUSD 4.8 compared to MUSD 4.7 in Q2 2016
- Introduction of the lower cost nRF52810 provides Nordic with the industry's broadest Bluetooth 5 line-up
- First half year delivered well within revenue, Bluetooth growth and gross margin guidance

## Q2 2017 Financial Summary

Amounts in USD million (unaudited)	2nd quarter		Change
	2017	2016	
Revenue	58,7	52,7	11,3 %
Order Backlog	65,3	24,0	171,7 %
Gross Margin %	46,7 %	47,2 %	-1,2 %
EBITDA	8,0	7,4	7,1 %
Operating Profit (EBIT)	4,8	4,7	2,5 %
Operating Profit % (EBIT %)	8,1 %	8,8 %	-7,9 %
Net profit after tax	3,9	4,0	-4,2 %
Free Cash Flow (Net cash flow excluding financing)	-4,5	-15,5	na
Cash and cash equivalents	23,3	23,6	-1,1 %

### Revenue

Technology	Q2			01.01.-30.16		
	2017	2016	Change %	2017	2016	Change %
Amounts in USD thousand						
Proprietary wireless	20 714	23 695	-12,6 %	42 333	43 031	-1,6 %
Bluetooth	36 035	27 235	32,3 %	60 380	45 429	32,9 %
ASIC components	1 653	1 782	-7,2 %	2 976	4 136	-28,0 %
Consulting services	249	-	-	298	178	67,4 %
<b>Total</b>	<b>58 651</b>	<b>52 712</b>	<b>11,3 %</b>	<b>105 987</b>	<b>92 774</b>	<b>14,2 %</b>

Total revenue in Q2 2017 was MUS\$ 58.7, compared with MUS\$ 52.7 in Q2 2016. The growth is driven by strong Bluetooth low energy (Bluetooth) momentum offset by a decline in proprietary wireless technologies. The growth is at the higher end of our guidance as a result of stronger than anticipated proprietary sales. Compared to Q1 2017 revenues are up seasonally 23.9%.

Revenue from Bluetooth ended at MUS\$ 36.0 representing a growth of 32.3% from MUS\$ 27.2 in Q2 2016. In Q2 2017, Bluetooth represented 61.4% of revenue compared to 51.7% of revenue in Q2 2016. Compared to Q1 2017 Bluetooth revenue increased seasonally 48.0% from MUS\$ 24.3.

Revenue from proprietary wireless ended at MUS\$ 20.7 compared with MUS\$ 23.7 in Q2 2016, representing a decrease of 12.6%. We have guided for stable/declining proprietary revenue, and the decline in Q2 2017 comes as a result of strong revenues in Q2 2016.

In Q2 2017, gross profit was MUS\$ 27.4, or 46.7% of revenues, compared with MUS\$ 24.9, or 47.2% of revenues during Q2 2016. Gross margins are in the higher end of our Q2 2017 guidance. Positive contribution from cost reductions is offset by shift in customer and product mix. In addition, cost of goods sold in Q2 includes certain write-offs of old versions of the nRF51. Net impact of write-offs relating to phasing out of old products represents 0.8 p.p. on gross margins.

Total operating expenses including depreciation and amortization, was MUS\$ 22.6 in Q2 2017 compared with MUS\$ 20.2 in Q2 2016, representing an increase of 11.7%. This increase is explained by a higher number of employees and increased amortization due to previously capitalized projects that are taken into use.

Total cash operating expenses (excluding depreciation and amortization) before options and net capitalized R&D expenses increased 9.3% to MUS\$ 21.1 in Q2 2017, compared with MUS\$ 19.3 in Q2 2016. The growth is explained by increased R&D within Bluetooth and Sales and Marketing expenses.

The main driver for increased cash operating expenses is the headcount growth (13.7%) from 496 in Q2 2016 to 564 in Q2 2017. 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.

Total costs for the Cellular investment in Finland were MUS\$ 4.5 in Q2 2017 compared to 4.0 MUS\$ in Q2 2016. As the project 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 guided MUS\$ 5 per quarter range.

During Q2 2017, Nordic capitalized MUS\$ 2.0 compared with MUS\$ 1.6 in Q2 2016 related to internally developed products. The capitalization can be attributed to new versions of the Bluetooth platform nRF52 that has moved to the final development stages prior to commercialization during 2017. The Cellular project is currently entering a commercialization stage and project capitalization may increase going forward depending on when the project reaches certain pre-defined project phases.

The Company's operating profit (EBIT) increased slightly to MUS\$ 4.8 in Q2 2017, compared with MUS\$ 4.7 in Q2 2016.

Profit before tax was MUS\$ 4.7, compared with a profit before tax of MUS\$ 4.8 in Q2 2016. Income tax expense was MUS\$ 0.9. The base tax rate for the group is 24%. Net profit after tax was MUS\$ 3.9 in Q2 2017, compared with net profit of MUS\$ 4.0 in Q2 2016.

## First Half 2017 Financial Summary

	<u>01.01-30.06</u>		
Amounts in USD million (unaudited)	2017	2016	Change
Revenue	106,0	92,8	14,2 %
Gross Margin %	46,7 %	48,1 %	-2,8 %
EBITDA	11,0	9,5	15,8 %
Operating Profit (EBIT)	4,7	4,3	8,5 %
Operating Profit % (EBIT %)	4,4 %	4,7 %	-5,0 %
Net profit after tax	3,5	3,0	17,9 %
Free Cash Flow (Net cash flow excluding financing)	2,3	-5,9	
Cash and cash equivalents	23,3	23,6	

Total revenue in the first half 2017 was MUSD 106.0, compared with MUSD 92.8 in the first half of 2016, representing a 14.2% growth. This is on the higher end of the guiding presented during the Q4 2016 report. For the first half of 2017, Bluetooth sales was MUSD 60.4 representing a 32.9% growth compared to MUSD 45.4 in the first half of 2016.

Gross profit was MUSD 49.5 or 46.7% of revenue in the first half of 2017, compared with MUSD 44.6, or 48.1% of revenue during the first half year of 2016. The gross profit for first half of 2017 is primarily explained by higher costs related to lower yield on of the nRF52 products and mix between Bluetooth products and customers.

Total operating expenses including depreciation were MUSD 44.8 in the first half year of 2017, compared with MUSD 40.3 in the first half year of 2016. The higher spending is explained by increased number of employees, mainly within Bluetooth R&D and sales and marketing.

As a result of the revenue growth offset by lower gross margins and higher operating expenses, the company's Operating Profit (EBIT) increased to MUSD 4.7 in the first half of 2017, compared with MUSD 4.3 in the first half of 2016.

Net profit after tax was MUSD 3.5 in the first half of 2017, compared with MUSD 3.0 in the first half of 2016.

## Markets

Revenue Markets	Q2			01.01.-30.16		
Amounts in USD thousand	2017	2016	Change %	2017	2016	Change%
Consumer Electronics	23 612	26 255	-10,1 %	46 497	46 333	0,4 %
Wearables	8 691	12 110	-28,2 %	17 053	19 411	-12,1 %
Building/Retail	16 735	6 128	173,1 %	25 315	11 018	129,8 %
Healthcare	2 487	2 806	-11,4 %	4 649	5 377	-13,5 %
Others	5 224	3 631	43,9 %	9 199	6 321	45,5 %
<b>Wireless Components</b>	<b>56 749</b>	<b>50 930</b>	<b>11,4 %</b>	<b>102 713</b>	<b>88 460</b>	<b>16,1 %</b>
ASIC components	1 653	1 782	-7,2 %	2 976	4 136	-28,0 %
Consulting services	249	-	-	298	178	67,4 %
<b>Total</b>	<b>58 651</b>	<b>52 712</b>	<b>11,3 %</b>	<b>105 987</b>	<b>92 774</b>	<b>14,2 %</b>

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 19 000 development kits sold in 1H 2017 (unchanged from 1H 2016), a leading indicator for design wins to come. Of these kits, more than 2 000 were related to the Thingy:52, Nordic's newly introduced developer platform.

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

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

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.

Revenue within the Consumer Electronics market decreased by 10.1% from MUSD 26.3 to MUSD 23.6 in Q2 2017. The decrease is explained by very strong proprietary sales in Q2 2016 compared to the rest of 2016.

Compared to Q1 2017, revenue increased by seasonally by 3.2%.

Nordic continues to view PC Accessories as a key 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.

Gaming and toys will continue to be a strong driver of the Consumer Electronics market, with several new design wins received during the quarter. In addition, we are seeing strong traction within our reference design for smart remote controls. This includes remotes for Virtual Reality systems where Nordic announced another design win with the nRF52 during Q2.

### **Wearable Devices**

Compared with Q2 2016, Wearable Devices market revenue (i.e., portable electronics such as sports monitoring devices and smart watches) decreased by 28.2% from MUS\$ 12.1 to MUS\$ 8.7. Compared to last quarter, revenues increased by 3.9% from MUS\$ 8.4. The wearable market has shown lower numbers over the last quarters due to few new large designs into production during these quarters.

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

### **Building and Retail**

The Building and Retail market is showing strong revenue momentum and has during Q2 2017 become Nordic's second largest market after consumer electronics. This development is expected as a large part of design wins reported during the last quarters are products within the Building and Retail market. This both relates to a vast number of long tail products, and to potential large designs reported earlier.

Building and Retail market revenue were MUS\$ 16.7 in Q2 2017, an increase of 173.1% from MUS\$ 6.1 in Q2 2016. This increase is driven by higher sales to additional RFID solution customers, payment/tracking solutions for smart cities, industrial applications and various beacon related applications.

Compared to last quarter, revenue increased 95.0% from MUS\$ 8.6.

The Building and Retail market consists of connectivity solutions for home and industrial applications, as well as retail solutions.

It 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 evens out 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 an 11.4% revenue decrease during the quarter to MUS\$ 2.5 compared to MUS\$ 2.8 in Q2 2016. Compared to Q1 2017, revenues increased by 15.0% from MUS\$ 2.2. As reported in previous quarters, Nordic has several design wins within the Healthcare market.

However, volumes on these designs are not yet sufficient to offset lifecycle changes in current designs.

Healthcare represents an emerging market with a lot of potential for Nordic. In addition to an individual's own physical awareness, institutions such as 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. These and other applications are currently still in their infancy, particularly as they relate to IoT, remote healthcare and big data analytics. When these products are being commercialized, Nordic expects important growth within this market.

### **Others**

This category includes sales to module manufactures as well as distribution sales where no final customer is reported. Revenues from this vertical were in Q2 2017 MUSD 5.2, up 43.9% from MUSD 3.6 in Q2 2016. Compared to Q1 2017 revenue increased 31.4% from MUSD 4.0.

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 123 different modules from several top module manufactures, of which 44 are based on the nRF52.

## **Research and Development**

### **Bluetooth Low Energy**

During Q2 Nordic launched the nRF52810, which is the lower cost alternative in the nRF52 family. The nRF52810 is an optimized subset of the nRF52832 suitable as a Single chip System on Chip "SoC" for less complex applications or a network co-processor for more complex applications. The nRF52810 is currently sampling to customers and multiple design wins have already been secured. Production ramp up will be in 2H 2017.

Together with the release for the nRF52840 in late 2016 and the software development kit "SDK" for Thread that was released in Q1, Nordic has the industry's broadest Bluetooth 5 lineup.

During Q2 Nordic launched an IoT development kit for everyone, called the Thingy:52. Thingy:52 enables an app developer with no firmware coding expertise or high-level development tools to quickly design and demonstrate Internet of Things (IoT) devices, and associated mobile device and Internet apps. The app developer can quickly and easily configure the development kit's embedded application over the provided Bluetooth API from a mobile device.

The development kit is based on Nordic's nRF52832 Bluetooth low energy SoC which combines a 64MHz, 32-bit ARM® Cortex® M4F microprocessor with a 2.4GHz multiprotocol radio (supporting Bluetooth 5, ANT™ and proprietary 2.4GHz RF software). The nRF52832 SoC runs Nordic's S132 SoftDevice, an RF software 'stack' that can support up to 20 concurrent connections in a variety of Bluetooth low energy role combinations.

### **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. Complementing Nordic's 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 Semiconductor's 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.

Nordic continues to be on schedule with overall functional and performance testing on chipsets that was delivered during last quarter. At the same time, we have received strong interest and positive feedback from potential customers. For 2H 2017, we have also made arrangements to commence interoperability testing with infrastructure partners on base stations and to start certification testing with carrier partners on networks.

On the carrier side, LTE-M deployments are ahead of schedule. AT&T and Verizon have announced US nationwide coverage. Full suite of new rate plans and bundles with modules have also been released. This represents a significant milestone for the cellular IoT market. As the US is one of the largest markets, it drives awareness and interest in LTE-M, including more interest and demand for our upcoming nRF91 series solutions.

### **Balance Sheet and Cash Flow**

As of 30 June 2017, Nordic Semiconductor had total assets of MUSD 172.0, of which MUSD 125.4 were current assets. Non-Current assets were MUSD 46.6. During Q2 2017, net working capital increased by MUSD 6.6 mainly because of increased accounts receivable due to higher sales. Inventories are slightly down but still higher than in Q2 2016 due to high inventories of nRF52 wafers and finished good available for Q3 sales.

Total liabilities were MUSD 51.7, of which MUSD 31.5 were current liabilities, unchanged from previous quarter. Total Shareholders' equity was MUSD 120.3, which represents an equity ratio of 70.0%, up from 69.0% in Q1 2017.

Cash flow from operating activities was MUSD 0.4 in Q2 2017, compared with a cash out flow of MUSD 10.0 in Q2 2016. Strong focus on cash generating activities has resulted in a net working capital as a percent of revenues decrease from Q2 2016 to Q2 2017. The main contributor is a reduction in DSO.

Cash flow from investments was an outflow of MUSD 4.9, compared to MUSD 5.6 in Q2 2016. Capital expenditures were MUSD 2.9, driven by purchases of Lab equipment for the operations in Finland and equipment for new office building in Trondheim. Capitalized development expenses were MUSD 2.0, compared with MUSD 1.6 last year.

Nordic's strategy is to keep a tight cash management and to optimize our cash generating ability. Short-term working capital requirements may be financed by utilizing the Revolving Credit Facility (RCF). Under the RCF agreement, the company may borrow up to MUSD 40 at any time with a rate of LIBOR + margin. At June 30, 2017, the company had utilized MUSD 20 of the RCF. In addition, the Company has a EUR 10 million bank overdraft facility with its main bank. This overdraft is not utilized at the end of June.

Cash during Q2 2017 decreased with MUSD 4.6 to MUSD 23.3 by the end of June 2017 from MUSD 27.9 at the end of March 2017. Available cash at June 30, 2017 including credit facilities is MUSD 53.3.

## **Organization**

As of 30 June 2017, Nordic Semiconductor had 564 employees, compared to 496 employees at 30 June 2016. Of these, 430 employees work within Research and Development representing an increase of 47 employees compared to 30 June 2016.

In order to take advantage of accelerating growth opportunities, Nordic has also increased staff within Sales and Marketing where the number of employees has increased to 79 employees from 64 in Q2 2016. The main growth is within the global team of field applications engineers to support a growing number of customers.

## Business Outlook

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.

We expect Bluetooth to be the growth driver for 2017. The 2H 2017 outlook range provided is based on a 30% growth in Bluetooth for the lower end and 40% for the upper end.

The strong momentum during the first half of 2017 continues in the second half of 2017. In addition to an improved market, the increased order back-log contribute to a solid coverage for our guided range of MUSD 120 - 130 in 2H 2017.

We expect gross margins to be in the range of 46% - 48% for 2H 2017, in line with the previous half year but below our long-term target of 50%.

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Oslo, July 12, 2017  
Board of Directors

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Financial Calendar 2017

October 17<sup>th</sup>, 2017

3rd Quarter 2017

February 15<sup>th</sup>, 2018

4th Quarter 2017

## Condensed Financial Information for the Three Months Ended 30 June 2017 and first six months of 2017

### Consolidated income statement

Amounts in USD thousand (unaudited)	<u>Q2</u>		<u>01.01 - 30.06</u>		<u>Year</u>
	2017	2016	2017	2016	2016 (Audited)
<b>Total Revenue</b>	58 651	52 712	105 987	92 775	197 698
Cost of materials	(31 023)	(27 712)	(56 218)	(48 058)	(104 046)
Direct project costs	(244)	(101)	(265)	(130)	(608)
<b>Gross profit</b>	27 384	24 899	49 504	44 587	93 044
Payroll expenses	(13 005)	(11 410)	(26 422)	(23 955)	(49 185)
Other operating expenses	(6 401)	(6 042)	(12 096)	(11 142)	(22 677)
<b>EBITDA</b>	7 977	7 447	10 986	9 491	21 181
Depreciation	(3 211)	(2 795)	(6 292)	(5 166)	(11 473)
<b>Operating Profit (EBIT)</b>	4 766	4 651	4 694	4 325	9 708
Net interest	(8)	(10)	(136)	(37)	(39)
Net foreign exchange gains (losses)	(8)	137	(49)	(481)	(911)
<b>Profit before tax</b>	4 749	4 778	4 510	3 807	8 758
Income tax expense	(890)	(751)	(980)	(812)	(2 334)
<b>Net profit after tax</b>	3 859	4 028	3 530	2 995	6 424
<b>Earnings per share</b>					
Basic	0,024	0,025	0,022	0,018	0,040
Fully Diluted	0,024	0,025	0,022	0,018	0,039
<b>Weighted average number of shares (in '000)</b>					
Basic	161 795	162 440	161 795	163 081	162 465
Fully Diluted	161 795	162 839	161 795	164 385	162 994

### Consolidated statement of comprehensive income

Amounts in USD thousand (unaudited)	<u>Q2</u>		<u>01.01 - 30.06</u>		<u>Year</u>
	2017	2016	2017	2016	2016 Audited
Net profit after tax	3 859	4 029	3 530	2 996	6 424
Actuarial gain/loss recognized in equity	-	-	-	-	(21)
Difference with translation to USD	(44)	400	(79)	383	(109)
<b>Comprehensive income for the period</b>	<b>3 815</b>	<b>4 429</b>	<b>3 451</b>	<b>3 379</b>	<b>6 294</b>

**Consolidated statement of financial position**

Amounts in USD thousand (unaudited)	30.06.17	31.03.17	Audited 31.12.2016
Capitalized development expenses	16 559	15 593	14 395
Software and other intangible assets	14 590	14 251	12 054
Deferred tax assets	2 029	1 983	1 973
Property assets	1 230	1 235	1 317
Equipment	12 198	11 878	12 050
Other long-term assets	1	2	2
<b>Non-current assets</b>	<b>46 606</b>	<b>44 942</b>	<b>41 792</b>
Inventory	47 749	47 972	52 044
Accounts receivable	48 320	42 004	54 772
Other short term receivables	5 989	5 397	4 941
Cash and cash equivalents	23 324	27 878	21 135
<b>Current assets</b>	<b>125 381</b>	<b>123 251</b>	<b>132 892</b>
<b>TOTAL ASSETS</b>	<b>171 988</b>	<b>168 194</b>	<b>174 684</b>
<b>Shareholders' equity</b>	<b>120 255</b>	<b>116 131</b>	<b>116 270</b>
Pension liability	273	267	293
Long term Interest bearing liabilities	20 000	20 000	20 000
<b>Non-current liabilities</b>	<b>20 273</b>	<b>20 267</b>	<b>20 293</b>
Accounts payable	10 401	10 183	15 295
Income taxes payable	1 318	1 771	2 786
Public duties	2 114	1 875	2 260
Short-term loan facility	-	-	-
Other short-term liabilities	17 626	17 966	17 780
<b>Current liabilities</b>	<b>31 459</b>	<b>31 796</b>	<b>38 121</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>171 988</b>	<b>168 194</b>	<b>174 684</b>

**Consolidated statement of changes in equity**

Amounts in USD thousand (unaudited)	<u>Q2</u>		<u>01.01 - 30.06</u>		<u>Year</u>
	2017	2016	2017	2016	2016 Audited
<b>Equity at beginning of period</b>	<b>116 131</b>	<b>111 355</b>	<b>116 270</b>	<b>112 405</b>	<b>112 405</b>
Net profit for the period	3 859	4 029	3 530	2 996	6 424
Purchase of treasury shares	-	-	-	-	(2 673)
Sale of treasury shares on options exercise	-	-	-	(0)	(233)
Share-based compensation	309	-	534	-	476
Actuarial gain/loss recognized in equity	-	-	-	-	(21)
Difference with translation to USD	(44)	400	(79)	383	(109)
<b>Equity at end of period</b>	<b>120 255</b>	<b>115 784</b>	<b>120 255</b>	<b>115 784</b>	<b>116 270</b>

## Consolidated cash flow statement

Amounts in USD thousand (unaudited)	Q2		01.01 - 30.06		Audited
	2017	2016	2017	2016	2016
Profit before tax	4 749	4 822	4 510	3 565	8 758
Taxes paid for the period	(1 095)	(2 994)	(2 216)	(5 895)	(10 198)
Depreciation	3 211	2 751	6 292	5 085	11 473
Change in inventories, trade receivables and payables	(5 860)	(13 251)	5 868	3 864	(7 871)
Share-based compensation expense	309	(275)	534	(38)	599
Movement in pensions	6	(156)	(19)	(26)	(414)
Other operations related adjustments	(927)	(858)	(1 569)	(5 147)	(2 039)
<b>Net cash flows from operating activities</b>	<b>393</b>	<b>(9 962)</b>	<b>13 398</b>	<b>1 406</b>	<b>307</b>
Capital expenditures (including software)	(2 918)	(4 031)	(6 943)	(4 645)	(9 824)
Proceeds from sales of equipment	-	-	-	-	-
Capitalized development expenses	(1 970)	(1 556)	(4 173)	(2 640)	(5 304)
<b>Net cash flows from investing activities</b>	<b>(4 888)</b>	<b>(5 588)</b>	<b>(11 116)</b>	<b>(7 285)</b>	<b>(15 128)</b>
Changes in Treasury stock	-	-	-	(0)	(2 660)
Cash settlement of options contract	-	195	-	195	146
Interest bearing debt	-	-	-	-	10 000
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>195</b>	<b>-</b>	<b>195</b>	<b>7 486</b>
Effect of changes in currency rates	(60)	(25)	(94)	(36)	(457)
<b>Net change in cash and cash equivalents</b>	<b>(4 556)</b>	<b>(15 379)</b>	<b>2 188</b>	<b>(5 719)</b>	<b>(8 158)</b>
Cash and cash equivalents at start of period	27 879	38 953	21 135	29 293	29 293
<b>Cash and cash equivalents at end of period</b>	<b>23 323</b>	<b>23 573</b>	<b>23 323</b>	<b>23 573</b>	<b>21 135</b>

## **Notes to the Consolidated Interim Financial Statements**

### **Note 1: General**

The Board of Directors approved the condensed second quarter interim financial statements for the three months ended 30 June 2017 and six first months of 2017 for publication on July 12, 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 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 Q2 2017 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 2016.

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 2016. The group accounts for 2016 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 2017, 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 2017 and the major sources of uncertainty in the statements are similar to those found in the Financial Statements for 2016.

**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") to which its components communicate. These include: Consumer Electronics, Wearable Devices, Healthcare, Building and Retail, and Others.

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

**Note 6: Related Parties**

With reference to the Annual General Meeting on April 19, 2016 ("AGM"), Nordic Semiconductor has on February 22, 2017, granted 1,625,412 share options to employees and primary insiders.

On the AGM the Company was authorized to issue up to 1.7 million options in 2017, equivalent to approximately 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 exercisable over a three-year period and expire after five years. The options were granted at a strike price of NOK 35.77 (10% above volume weighted average share price the week following Q4 2016 results). If the company's share price exceeds a cap of NOK 107.31, 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 22 of Nordic Semiconductor's 2016 annual report.

**Note 9: Events after the balance sheet date**

No events have occurred since June 30, 2017 with any significant effect that will impact the evaluation of the submitted accounts.

## Board and Management confirmation

We confirm that, to the best of our knowledge, the enclosed condensed set of financial statements for the first half year of 2017, which has been prepared in accordance with IAS 34 Interim Financial Statements, gives a true and fair view of the Company's consolidated assets, liabilities, financial position and results of operations, and that the interim management report includes a fair review of the information required under the Norwegian Securities Trading Act section 5-6 fourth paragraph.

### The Board of Directors and Chief Executive Officer of Nordic Semiconductor ASA

Oslo, July 12, 2017

Terje Rogne  
Chairman

Anne Cecilie Fagerlie  
Board member

Craig Ochikubo  
Board member

Tore Valderhaug  
Board member

Svenn-Tore Larsen  
Chief Executive Officer

Beatriz Malo de Molina  
Board member

Birger Steen  
Board member

Inger Berg Ørstavik  
Board member

Joakim Ferm  
Employee Representative

Asbjørn Sæbø  
Employee Representative

Jon Helge Nistad  
Employee Representative

## 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.

### **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.