

# Annual Report

## 2017



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

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More than 600 employees are working for Nordic

# #1 PROVIDER OF LOW POWER WIRELESS

Nordic Semiconductor (Nordic or the Group) is a leading provider of IC solutions for wireless connectivity and IoT. It is a market leader in short range wireless with over 40% market share in Bluetooth Low Energy and is ready to take the next big step into cellular IoT. Headquartered in Norway, Nordic is a tech success story with operations and presence across the globe.

A key enabler technology of the Internet of Things (or 'IoT' for short) is Bluetooth® Low Energy (Bluetooth LE): The fastest growing wireless technology of all time and on-trend to break all previous adoption rate records. Bluetooth LE leverages the ubiquity, computing power, and ease-of-use of modern smartphones and apps, and the on-going growth of the Internet generally.

Nordic Semiconductor pioneered the development of ultra-low power wireless (a category defined by the ability to operate from small batteries for years, and includes Bluetooth LE) during the early 2000s. Nordic has been a key contributor in the creation and evolution of Bluetooth LE as a wireless standard within every version of Bluetooth, since Bluetooth v4.0 and all the way up to the latest Bluetooth 5. These efforts culminated in Nordic's latest nRF52 Series that redefine what's possible on a Bluetooth LE single chip.

But the IoT will require more than just Bluetooth Low Energy to operate. To enable reliable, any 'thing' anywhere global wireless connectivity to the cloud and connected services, the IoT will require a range of other complimentary wireless technologies.

At short to medium range distances these required technologies include Wi-Fi and other wireless technologies. Nordic has included support for these technologies, including amongst others IEEE 802.15.4 (used by such wireless technologies as ZigBee and Thread) in its latest System-on-Chip (SoC).

At long-range, the IoT will need to leverage the ubiquity and geographical reach of the world's cellular (3G, 4G, 4G LTE, 5G) networks. Just as cellular networks provided the IT infrastructure that made billions of modern smartphones and apps technologically and commercially feasible for end users, it will now do the same for the IoT to form what is being called 'cellular IoT'.

During 2017, Nordic Semiconductor continued the development of a low power LTE technology for cellular IoT. This development leverages Nordic Semiconductor's more than 10 years of leadership in ultra-low power wireless that includes Bluetooth LE. Towards the end of 2017, Nordic demonstrated a chip and System-in-Package module that are able to connect to cellular base stations and ready to be sampled to key customers.



# LETTER FROM THE CEO

2017 saw significant improvements for Nordic Semiconductor compared to 2016. During 2017, we have seen an opportunity for the Group that is much larger than we had previously anticipated.



Sverre-Tore Larsen, Chief Executive Officer

To ensure that Nordic is well positioned to address the significant opportunities before us, we have continued to invest in both short range and long range technologies during the year. We are confident that the Nordic technology platform, and our human and intellectual capital, will be ready to meet the growth and revenue opportunities that are developing in our markets.

In the short to mid-term, Bluetooth LE will remain the growth driver for the Group's revenue. Nordic is continuously expanding its product offering to capture new opportunities: both customer-specific and new markets. Our portfolio includes the industry's broadest range of Bluetooth 5 chips to cater for the widest range of product and service applications.

We continue to focus on meeting our customers' needs for technology excellence and collaboration to design complex solutions for our existing customers, because this is what we in Nordic pride ourselves on. My confidence in making this statement is supported by the

fact that 2017 was another record year for Nordic design wins in Bluetooth, according to Bluetooth LE and FCC certification data from DNB Markets. The investments Nordic made in 2016 are the main contributors to the enviable position we have achieved in Bluetooth LE. Nordic has continued to invest in 2017 in order to retain and gain further presence in this space for the years to come.

The underlying strategic technological product platform Nordic built for its nRF51 and nRF52 Series Bluetooth LE chips is now being leveraged by our forthcoming nRF91 Series of cellular IoT solutions. By building on the same platform, we have achieved significant cost savings, and accelerated time-to-market. We intend to continue these efficiencies in future product development strategies.

Another trend Nordic has recognized and is keen to encourage is our widening customer base. In the past, our business has been meaningfully affected by our customers' consumer product cycles. We are now seeing the



benefits of our focus on widening and diversifying our customer mix, decreasing our dependence on consumer product cycles. These additional customers — comprising professional, industrial, and B2B markets such as Medical, Enterprise Automation, and Building & Retail — tend to be more stable and have significantly longer product cycles than traditional consumer electronics. Exposure to a broader and more diversified set of customers and industries is expected to diminish revenue volatility for Nordic.



Device security is increasingly becoming one of the main concerns surrounding the IoT.

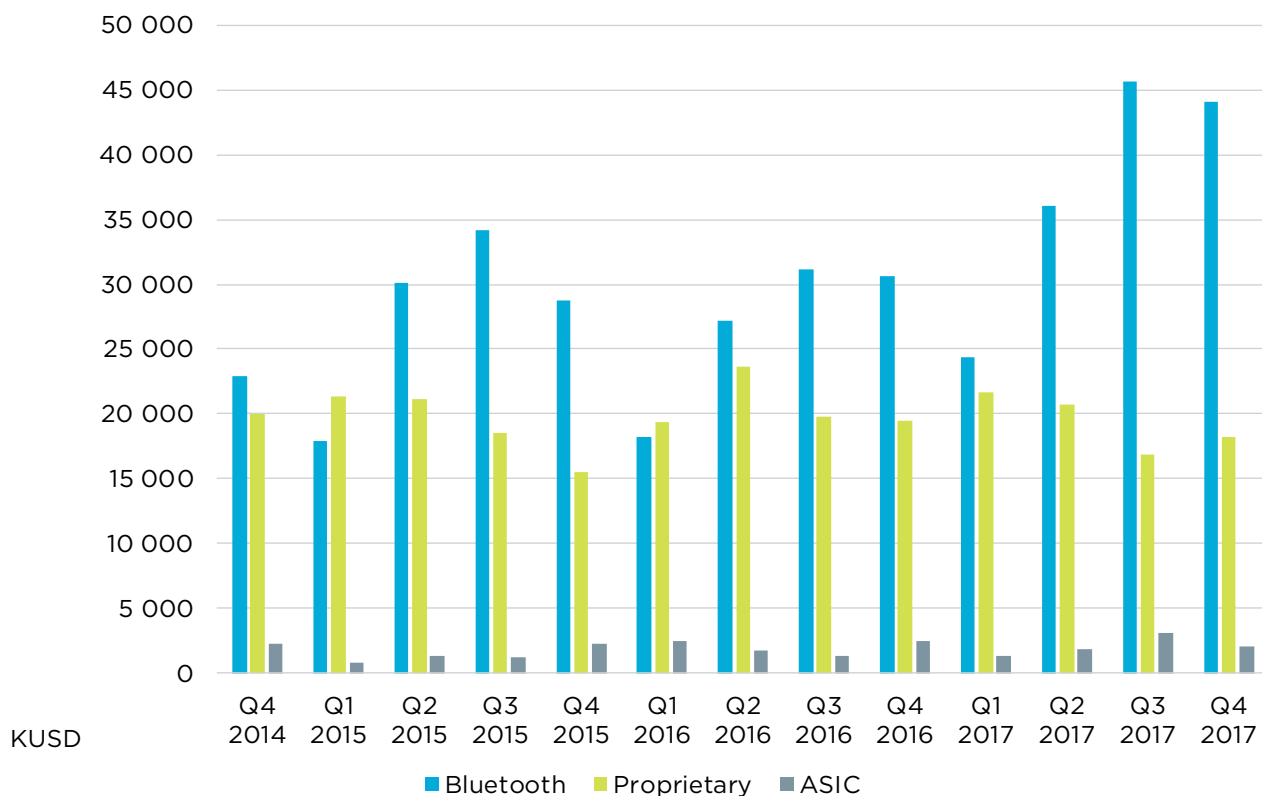
In terms of our focus across industries and technologies, Nordic has focused on device security and protection. Device security is increasingly becoming one of the main concerns surrounding the IoT. All of Nordic's solutions in both Bluetooth and cellular IoT, are underpinned by market-leading security features that allow customers to address most of the security concerns posed by the IoT. Ultimately, IoT device security is the responsibility of

each IoT device manufacturer, but Nordic's solutions provide manufacturers with the root-level ability to protect and secure their devices in a way that we feel is difficult for our competition to match.

We recognize that beyond technological and commercial excellence, Nordic's success is due in large part to the development of a thriving and motivated team. This is reflected in low staff turnover and the long-standing commitment of our senior managers, many of whom have been promoted from within Nordic's ranks. The Group also benefits from the diversity of our employees, who represent 39 nationalities. We believe that our human capital is unparalleled in its skill and its commitment to our corporate goals.

Nordic continues to play an important role in the development and commercialization of technologies that revolutionize entire industries and sectors. The capabilities of our team, and the relationships with our customers, existing and new, give me confidence that we are excellently positioned to address the significant growth opportunities that are still before us.

## Revenue



# REPORT FROM THE BOARD OF DIRECTORS

2017 was a year of record Bluetooth sales growth and continued customer diversification for Nordic Semiconductor Group. 40% growth in Bluetooth related revenues was a result of investments made during 2016 into Nordic's product offering in this area. Nordic is now investing further to strengthen its position within the fast growing Bluetooth Low Energy segment, as well as ramping up for the market opportunities presented by longer-range wireless and cellular IoT.

## Operations in 2017

Net profit after tax for Nordic Semiconductor Group was MUS\$ 6.8 in 2017, an increase of 5.3% from 2016. Revenue increased 19.4% to MUS\$ 236.0 in 2017 from MUS\$ 197.7 in 2016. Gross margins improved 0.1 percentage points to 47.2% in 2017 from 47.1% in 2016. Yield issues in the end of 2016 and beginning of 2017 have been resolved and Nordic is closing in on the 50% target for gross margin.

Nordic has been investing for future growth by increasing number of employees, both within R&D and sales. New offices have been established in both Asia and Europe in addition to scaling up operations to meet customer requirements. The result of these investments is that EBITDA margins decreased to 10% in 2017 from 11% in 2016. Continued investment both in existing Bluetooth technologies as well as wireless and cellular platform development resulted in an EBITDA of MUS\$ 23.3 in 2017, a 10.1% increase from MUS\$ 21.2 in 2016. For a definition of Alternative Performance Measures (APM), including EBITDA, see page 61.

For example, during 2017, Nordic expanded the nRF52 Series and launched the nRF52840 multiprotocol System-on-Chip (SoC), which is the most advanced chip yet. Nordic has a Thread certified solution that enables simultaneous Thread and Bluetooth 5 connectivity for the first time on this chip. Nordic also launched the nRF52810 SoC offering advanced features such as Bluetooth 5 and an Arm® Cortex®-M4 CPU at a price point that is compelling for even the lowest-cost Bluetooth LE applications.

Nordic announced in December 2017 that it had begun lead customer sampling of its nRF91 Series LTE-M/NB-IoT low-power cellular IoT solution. As part of the lead customer-sampling program, Nordic has achieved its first approval for operation in live networks of cellular

operators. We consider this to be a testament to the continued innovation capability and technological leadership of the Nordic team.

## Strategy and long term target

Nordic's vision is to be a world-leading supplier of low-power connectivity. This includes both short-range and long-range capabilities, which we believe makes Nordic unique in the industry. The Group has significantly strengthened its sales and marketing effort throughout 2017, both within key accounts and the technical teams supporting existing and new customers. In close cooperation with distribution partners, these investments form a strong foundation for future revenue growth. It is expected that Nordic's operational leverage will also increase over time, positively affecting EBITDA margins.

Nordic's continued efforts to increase customer and segment diversification had good results in 2017. This strategy will continue in 2018. For the Bluetooth LE technology, the objective is continued strengthening of Nordic's position through customer diversification and an expanding product offering.

Another important objective for 2018 is to build a position in low power cellular IoT, leveraging the existing customer base and market reach. Securing the first design wins in 2018 and ramping up production with lead customers are critical milestones in meeting this objective.

## Group Overview

Nordic Semiconductor is a "fabless" semiconductor group, which designs, sells and delivers integrated circuits and related intellectual property for use in short and also long-range wireless applications. The Group specializes in ultra-low power wireless solutions, based on its proprietary 2.4GHz RF and Bluetooth Low Energy technologies. Nordic Semiconductor is a pioneer in ultra-low power wireless technology, and with more



than 300 million units sold last year, the Group can claim a strong position in this sector. Nordic is also developing its long-range low-power cellular chipset, providing customers with a broad portfolio of low-power connectivity solutions across the spectrum of distances from near-field to long-range.

Nordic Semiconductor's components are manufactured by world-class subcontractors and sold through electronics distributors to manufacturers of branded electronics across a wide range of markets. These markets include Consumer Electronics, Wearables, Building and Retail, Healthcare, and Other Applications.

The Group is headquartered in Trondheim, Norway, and has offices in Norway, USA, China, Korea, Japan, Taiwan, Poland, Finland and the Philippines.

### Review of the annual accounts

In accordance with the provisions of the Norwegian Accounting Act, the Board of Directors confirms that the accounts have been prepared on a going concern basis and that the going concern assumption applies. Pursuant to Section 3-9 of the Norwegian Accounting Act, Nordic prepares consolidated annual accounts in accordance with IFRS, International Financial Reporting Standards, approved by the EU. The statutory accounts of Nordic Semiconductor ASA have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS), relevant interpretations, and the Norwegian Accounting Act. A summary of internal controls related to the accounting process can be found in the Corporate Governance section of this annual report.

### Revenue

Amounts in USD thousand	2017	2016	Change %
Proprietary wireless	77.428	82.358	-6,0%
Bluetooth	150.126	107.165	40,1%
ASIC Components	7.916	6.990	13,2%
Consulting services	533	1.185	-55,4%
<b>Total</b>	<b>236.003</b>	<b>197.698</b>	<b>19,4%</b>

Total revenue increased 19.4% to MUSD 236.0 in 2017 from MUSD 197.7 in 2016. The increase is mainly attributable to a 40.1% Bluetooth LE sales increase to MUSD 150.1 from MUSD 107.2 in 2016. Bluetooth revenue represented 63.6 % of Nordic's total revenue in 2017 compared to 54.2% in 2016. Nordic had a large number of design wins in the end of 2016 and 2017, which positively affected revenue in 2017. There has been a significant growth especially within the Building and Retail market. Revenue from this market has increased by 111.4 % or MUSD 30 to MUSD 56.9 in 2017. The growth is a result of a successful diversification strategy that Nordic started in 2016.

Revenue from proprietary products declined 6.0% to MUSD 77.4 in 2017 from MUSD 82.4 in 2016. Sales of Proprietary are impacted by change in product mix and a transition to Bluetooth Low Energy.

Sales of ASIC products showed strength during 2017 with a 13.2% growth to MUSD 7.9. No new designs are being developed within ASICs and the revenue each year will therefore depend on demand from existing customers and applications.

### Gross Profit

Amounts in USD thousand	2017	2016
Gross Profit	111.487	93.044
Gross Margin	47.2%	47.1%

Gross profit was MUSD 111.5, or 47.2% of revenue, compared with MUSD 93.0, or 47.1% of revenue in 2016. Gross margins in 2H 2016 and 1H 2017 were negatively affected by yield issues in connection with the rampup of the nRF52 Series product line. Gross margin improvements in the second half of 2017 were the result of improving yields on the nRF52 Series and fewer proprietary sales, offset by a shift in customer and product mix.

### Operating expenses

Amounts in USD thousand	2017	2016
Payroll expenses	60.517	49.185
Other operating expenses	27.657	22.677
Depreciation	12.863	11.473
<b>Total operating expenses</b>	<b>101.037</b>	<b>83.336</b>

Total operating expenses totaled MUSD 101.0, an increase of 21.2% from MUSD 83.3 in 2016. This increase comprises an increase in the number of employees, higher activity related to release of new products and scaling operations to future growth expectations.

Total cash operating expenses (excluding depreciation and amortization) before options, write-down of receivables and net capitalized R&D expenses were MUSD 94.6 in 2017, compared with MUSD 75.8 in 2016. This represents an increase of 24.9% in absolute terms, and an increase of 1% as a percent of revenue, to 40% in 2017 compared to 39% in 2016.

The main driver for the increased cash operating expenses is the headcount growth from 533 at the end of 2016 to 601 at the end of 2017, representing a 12.8% growth in headcount. The headcount growth comes as a result of more resources devoted to both short-range and long-range R&D. The number of total employees within R&D has increased from 409 in December 2016 to 457 in December 2017. Nordic has also strengthened the sales and supply chain organization to be able to handle an increase in volumes that is expected by management. Other operating expenses related to R&D, software, IP

and test manufacturing have increased with the higher activity level due to the product launch phase Nordic currently is in. As a result of the strong 2017 revenue, cash operating expenses also includes performance based bonuses to employees and management.

Development of new wireless components is essential to the Group's continued competitiveness in a rapidly evolving market. At the end of 2017, R&D personnel represented 76% of the Group's employees (77% in 2016). During 2017, total R&D spending including capitalized items amounted to 26.8% of revenues compared with 23.5% in 2016. Nordic has in 2017 capitalized MUS\$ 8.6 compared to MUS\$ 5.3 in 2016 related to R&D projects that are in the commercialization phase of the development. The number of employees related to the cellular investment increased to 154 in 2017 from 132 in 2016, and operating expenses from these activities increased to MUS\$ 20.0 in 2017 from MUS\$ 16.2 in 2016.

The commitments which Nordic has made through investments are intended to secure market shares within Bluetooth LE and secure a leading position within the emerging low power cellular IoT market.

#### **Taxes**

The tax expense for the Group for the financial year 2017 was MUS\$ 3.0, representing 30.9 % of profit before tax. The Group's effective tax rate was up 4.2 percentage points from 2016. This is mainly impacted by reversal of previously recognized tax benefit related to the expired 2014 option program.

#### **Cash flow and balance sheet**

The Group has had a positive net cash flow from operating activities in 2017 of MUS\$ 35.0 (MUS\$ 0.3 in 2016). The positive contribution comes from the profit, lower inventory levels as well as reduced accounts receivable from improved cash collection. Cash flow from operations have been used to finance the investing activities of MUS\$ 19.4 (MUS\$ 15.1 in 2016). Cash at the end of the year was MUS\$ 36.7.

Nordic has successfully managed to decrease inventory levels by MUS\$ 8.3 to MUS\$ 43.8 at year-end 2017 from MUS\$ 52.0 year-end 2016. Accounts receivable have also been reduced in 2017 to MUS\$ 48.6 at year-end 2017 from MUS\$ 54.8 at year-end 2016. The Group has focus on cash management and cash generation, and carefully monitors working capital levels and changes thereto. Total assets increased by MUS\$ 10.4 to MUS\$ 185.1 at year-end 2017.

#### **Financial Risk**

Demand for Nordic Semiconductor's products is tied to the larger semiconductor and electronics markets and is sensitive to fluctuations in global economic conditions. Long term, the market is expected to grow significantly as wireless solutions are embedded into a growing

range of new products. Shorter term, global market conditions may however have certain negative or cyclical impacts on the industry and corresponding growth. As demand increases, new competitors are likely to enter the market and/or different trends may increase volatility of both revenues and earnings for Nordic.

Nordic Semiconductor's success depends on its ability to anticipate customer needs and address these with competitive technical solutions and outstanding customer support. Furthermore, the Group's outsourcing of manufacturing and direct distribution requires close collaboration with third-party subcontractors and distributors.

Nordic has a MUS\$ 40 Revolving Credit Facility ("RCF") agreement that expires in 2019, of which MUS\$ 20 has been utilized. The group entered into a 5-year MUS\$ 25 RCF in December 2017. In total, Nordic may borrow up to MUS\$ 65 at any time with a rate of LIBOR + margin. In addition, the Group has a MEUR 10 overdraft facility to be used to finance short term working capital requirements. Available cash on December 31, 2017 including credit facilities is close to MUS\$ 94 compared to MUS\$ 52, 31 December 2016. The Group has a healthy equity ratio of 67.5 % at year-end 2017 compared to 67.0% year-end 2016. Financial covenant on the RCFs are limited to a required Equity ratio above 40%. As the Group holds little interest-bearing debt, the exposure to risk associated with interest rate fluctuations is limited.

The Group is exposed to foreign exchange risk in its ordinary business, which can impact profit margins. Nordic's operating expenses are primarily in Norwegian kroner and Euro and its sales and direct production costs are nearly entirely in US dollars. The Group does not use financial instruments to hedge this risk.

Finally, the Group is exposed to credit risk, although this has historically not resulted in significant losses. Nordic Semiconductor sells its components to leading international distributors of electronics components, primarily based in Asia. The Group's receivables are not credit insured, but credit monitoring routines are in place for setting up credit lines, providing security (payment guarantees) and demanding advance payments when required. Nordic Semiconductor reported a loss of MUS\$ 1 related to a bankrupt distributor during 2017.

#### **Personnel and Organization**

At the end of 2017, Nordic Semiconductor had 601 employees compared to 533 in 2016, of whom 270 (225) were employed outside of Norway. A well-functioning cooperation between management and the employee representatives contributes to open lines of communication and addressing any challenges at an early stage.

There were 77 (68) female employees at the end of 2017, corresponding to 13% (13%) of total number of employees.



The Group had 328 full-time employees in Norway, including 48 female employees. There were 269 full-time employees in Finland, China, Hong Kong, South Korea, Japan, the Philippines, Taiwan, Switzerland, Poland, UK, the Netherlands and the US, including 29 females. The average salary for female employees was 82% (79%) of the average salary for male employees excluding executive management. Gender differences in salary levels are driven by both the location and function of the employees, with a larger proportion of female employees in administrative functions and based in the Philippines, where the average salary level is below the average Group level. A comparison of the R&D functions in Norway shows an average salary for females at 95% of the average salary for males, this is mainly due to differences in seniority.

Gender equality is a fundamental principle for the Group, and efforts are being made to ensure that there is no gender imbalance when recruiting for positions within Nordic Semiconductor. Nordic's experience is that there are fewer female applicants to open engineering positions than there are male applicants, which may be a result of the proportion of female to male engineering students in Norway and other primary recruiting markets for Nordic. Nordic participates in the ADA project, initiated by Norwegian University of Science and Technology. The project aims to recruit, motivate and educate females within the IT industry in Norway.

Executive management consists of seven men, and in the Board of Directors there are three female shareholder-elected members. Absence due to illness was 2.2% in 2017, compared with 2.4% in 2016. No occupational illnesses or injuries were reported in 2017.

### Environmental Statement

Nordic Semiconductor does not own or operate manufacturing facilities. Manufacturing is outsourced to leading third-party providers which comply with the ISO 14001 environmental standards, among other certifications and qualifications. Consequently, there is limited pollution associated with the Group's operations. Nordic Semiconductor seeks to limit resource consumption, prevent unnecessary environmental pollution and manage waste in an environment-friendly and resource-efficient manner. The Group has established routines to monitor these conditions under its ISO9001, ISO14001 and OHSAS18001 certified management system.

Nordic Semiconductor complies with all current applicable laws and regulations, and all products comply fully with the REACH and RoHS hazardous substance directives. This enables the Group to market itself as a "green" supplier, which also is an advantage towards major customers who have their own stringent environmental standards.

### Corporate Social Responsibility

Nordic Semiconductor's guidelines and practice for Corporate Governance are in accordance with the Norwegian Code of Practice for Corporate Governance, dated 30 October 2014 as required for all listed companies on the Oslo Stock Exchange. Furthermore, the guidelines meet the disclosure requirements of the Norwegian Accounting Act and Securities Trading Act.

The guidelines are included separately in the annual report.

### Allocation of Net Profit

Nordic Semiconductor aims to distribute an annual dividend to shareholders. However, in order to pursue required investments in the Group's longer-term growth strategy in a highly cyclical business environment, the Board recommends that Nordic preserve a high proportion of equity and liquidity.

The net profit of the parent company of the Group totaled MUS\$ 4.7 in 2017 and Board of Directors proposes that the net profit to be transferred to other equity.

In accordance with the Group's dividend policy and taking into consideration the cash position and funding requirements to pursue Nordic Semiconductor's growth strategy in the coming years, the Board is not proposing any dividend distribution for 2017 at its Annual General Meeting in April.

### Outlook

Bluetooth Low Energy is established as a core technology within the IoT space, a market that is expected to grow significantly and become nearly ubiquitous in its application. The Bluetooth LE market, in terms of Integrated Circuit (IC) shipments and according to IHS Research, is expected to grow at 30-40% CAGR from 2017 to 2020.

Nordic reported a strong 19.4% overall revenue growth rate for 2017, driven by a 40.1% growth in Bluetooth. Based on a solid backlog and pipeline of new designs going into production, management estimates continued strong growth in Bluetooth Low Energy sales for the coming periods.

Nordic's proprietary business will continue to contribute significantly to Nordic's financial results, although it is expected that more designs will be transferred to the Group's Bluetooth LE solutions over time.

Nordic has proven its technology leadership with the introduction of the nRF52 Series on top of its existing technology platform. The Group expects to maintain its enviable market position in Bluetooth Low

Energy into the future, including its higher value state-of-the-art nRF52 Series SoCs as well as variations at different price points. Nordic Semiconductor will continue to target the most cost-optimized, high-volume applications.

Bluetooth Low Energy is expected to continue to be the main revenue driver for the next years. In terms of emerging technological development, the Group expects to see growth from its investments in low power cellular technology, where Nordic's technology architecture is being integrated with wireless technology.

Nordic sampled the first lead customers late 2017 to encouraging results and will continue to engage in lead-customer sampling during 1H 2018 and general sampling later in 2018.

Nordic Semiconductor continues to be an important player in a rapidly evolving and complex industry. We have every confidence that the significant capabilities and sound financial position of the Group will enable it to address the opportunities as well as the challenges that it will inevitably face in the coming years.

Oslo, 16 March 2018



**Terje Rogne**  
Chairman



**Anne-Cecilie Fagerlie**  
Board member



**Craig Ochikubo**  
Board member



**Beatriz Malo de Molina**  
Board member



**Tore Valderhaug**  
Board member



**Birger Steen**  
Board member



**Inger Berg Ørstavik**  
Board member



**Joakim Fern**  
Board member, employee



**Jon Helge Nistad**  
Board member, employee



**Asbjørn Sæbø**  
Board member, employee



**Sverre-Tore Larsen**  
Chief Executive Officer



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# Financial Statements

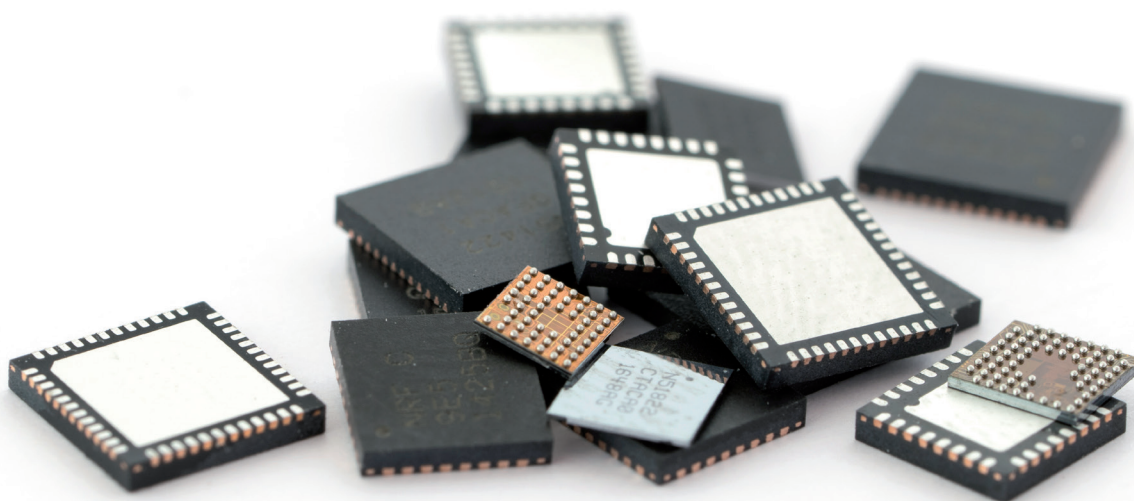
## Income statement (as of 31 December)

GROUP			PARENT		
2017	2016	Amount in USD 1000	Note	2017	2016
<b>236 003</b>	<b>197 698</b>	<b>Total Revenue</b>	<b>3</b>	<b>236 809</b>	<b>197 944</b>
-123 645	-104 046	Cost of materials	4	-123 645	-104 046
-872	-608	Direct project costs		-872	-608
<b>111 487</b>	<b>93 044</b>	<b>Gross profit</b>		<b>112 293</b>	<b>93 290</b>
-60 517	-49 185	Payroll expenses	9/10/12/18	-38 788	-32 458
-27 657	-22 677	Other operating expenses	5/21	-55 147	-42 208
-12 863	-11 473	Depreciation	11/12	-10 571	-9 946
<b>10 450</b>	<b>9 708</b>	<b>Operating profit</b>		<b>7 787</b>	<b>8 677</b>
275	257	Financial income	6/22	274	257
-622	-295	Financial expenses	6/22	-622	-295
-322	-911	Net foreign exchange gains (losses)	6/22	-352	-911
<b>9 780</b>	<b>8 758</b>	<b>Profit before tax</b>		<b>7 087</b>	<b>7 727</b>
-3 017	-2 334	Income tax expense	7	-2 393	-2 015
<b>6 763</b>	<b>6 424</b>	<b>Net profit after tax</b>		<b>4 693</b>	<b>5 713</b>
6 763	6 424	<b>Attributable to</b> Equity holders of the parent			
		<b>Earnings per share</b>			
0,04	0,04	Ordinary earnings per share (USD)	8	0,04	0,04
0,04	0,04	Fully diluted earnings per share (USD)	8	0,04	0,04
<b>2017</b>	<b>2016</b>	<b>Statement of comprehensive income</b>		<b>2017</b>	<b>2016</b>
<b>6 763</b>	<b>6 424</b>	<b>Net profit after tax</b>		<b>4 693</b>	<b>5 713</b>
		<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</b>			
-25	-28	Actuarial gains (losses) on defined benefit plans (before tax)		-25	-28
6	7	Income tax effect	7	6	7
		<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</b>			
134	56	Currency translation differences			
<b>6 878</b>	<b>26 083</b>	<b>Total Comprehensive Income</b>		<b>4 674</b>	<b>24 843</b>

## Statement of financial position (as of 31 December)

GROUP				PARENT	
2017	2016	Amount in USD 1000	Note	2017	2016
<b>ASSETS</b>					
<b>Non-current assets</b>					
18 925	14 395	Capitalized development expenses	12	18 925	14 395
15 509	12 054	Software and other intangible assets	12	15 300	12 060
1 516	1 973	Deferred tax assets	7	1 341	1 946
12 258	13 367	Fixed assets	11/22	7 999	10 048
		Shares in subsidiaries	1/13	15	10
0	2	Other long term assets		0	2
<b>48 209</b>	<b>41 792</b>	<b>Total non-current assets</b>		<b>43 580</b>	<b>38 462</b>
<b>Current assets</b>					
43 789	52 044	Inventory	4	43 789	52 044
48 582	54 772	Accounts receivable	14/22	48 582	54 772
7 844	4 941	Other short-term receivables	15	16 576	10 681
36 695	21 135	Cash and cash equivalents	16/22	35 020	20 432
<b>136 910</b>	<b>132 892</b>	<b>Total current assets</b>		<b>143 967</b>	<b>137 929</b>
<b>185 119</b>	<b>174 684</b>	<b>TOTAL ASSETS</b>		<b>187 548</b>	<b>176 391</b>
<b>EQUITY</b>					
283	283	Share capital	17	283	283
-2	-2	Treasury shares	17	-2	-2
14 436	14 436	Share Premium	17	14 436	14 436
110 306	102 232	Other equity		105 541	99 958
<b>124 953</b>	<b>116 949</b>	<b>TOTAL EQUITY</b>		<b>120 258</b>	<b>114 676</b>
<b>LIABILITIES</b>					
<b>Non-current assets</b>					
293	293	Pension liability	18	293	293
20 000	20 000	Other long-term loan facility	22	20 000	20 000
<b>20 293</b>	<b>20 293</b>	<b>Total non-current liabilities</b>		<b>20 293</b>	<b>20 293</b>
<b>Current liabilities</b>					
13 075	15 295	Accounts payable	20/22	12 337	14 887
3 069	2 786	Income taxes payable	7	2 508	2 609
2 774	2 260	Public duties	20	2 388	1 990
20 955	17 100	Other short-term debt	15/20	29 765	21 937
<b>39 873</b>	<b>37 442</b>	<b>Total current liabilities</b>		<b>46 997</b>	<b>41 423</b>
<b>60 166</b>	<b>57 734</b>	<b>TOTAL LIABILITIES</b>		<b>67 290</b>	<b>61 715</b>
<b>185 119</b>	<b>174 684</b>	<b>TOTAL EQUITY AND LIABILITY</b>		<b>187 548</b>	<b>176 391</b>





Oslo, 16 March 2018

Terje Rogne  
Chairman

Anne-Cecilie Fagerlie  
Board member

Craig Ochikubo  
Board member

Beatriz Malo de Molina  
Board member

Tore Valderhaug  
Board member

Birger Steen  
Board member

Inger Berg Ørstavik  
Board member

Joakim Fern  
Board member, employee

Jon Helge Nistad  
Board member, employee

Asbjørn Sæbø  
Board member, employee

Sverre-Tore Larsen  
Chief Executive Officer

## Nordic Semiconductor Group

## Consolidated statement of changes in equity

for the year ended 31 December

Amount in USD 1000	Share capital	Treasury shares	Share premium	Other paid in capital	Currency translation reserve	Retained earnings	Total equity
<b>Equity as of 01.01.16</b>	<b>283</b>	<b>(1)</b>	<b>14 253</b>	<b>406</b>		<b>97 465</b>	<b>112 406</b>
Net profit for the period						6 424	6 424
Purchase of treasury shares		(1)				(2 660)	(2 661)
Sale of treasury shares, option exercise				(37)			(37)
Share based compensation				599			599
Issue of share capital			183				183
Other comprehensive income						35	35
<b>Equity as of 31.12.16</b>	<b>283</b>	<b>(2)</b>	<b>14 436</b>	<b>968</b>	<b>-</b>	<b>101 264</b>	<b>116 949</b>
Net profit for the period						6 763	6 763
Share based compensation				1 126			1 126
Other comprehensive income					134	(19)	115
<b>Equity as of 31.12.17</b>	<b>283</b>	<b>(2)</b>	<b>14 436</b>	<b>2 094</b>	<b>134</b>	<b>108 008</b>	<b>124 953</b>

## Nordic Semiconductor Parent

## Statement of changes in equity

for the year ended 31 December

Amount in USD 1000	Share capital	Treasury shares	Share premium	Other paid in capital	Retained earnings	Total equity
<b>Equity as of 01.01.16</b>	<b>283</b>	<b>(1)</b>	<b>14 253</b>	<b>(807)</b>	<b>97 257</b>	<b>110 986</b>
Net profit for the period					5 713	5 713
Purchase of treasury shares		(1)			(2 660)	(2 661)
Sale of treasury shares, option exercise				(37)		(37)
Share based compensation				478		478
Issue of share capital			183			183
Other comprehensive income					14	14
<b>Equity as of 31.12.16</b>	<b>283</b>	<b>(2)</b>	<b>14 436</b>	<b>(366)</b>	<b>100 324</b>	<b>114 676</b>
Net profit for the period					4 693	4 693
Share based compensation				907		907
Other comprehensive income					(19)	(19)
<b>Equity as of 31.12.17</b>	<b>283</b>	<b>(2)</b>	<b>14 436</b>	<b>541</b>	<b>104 999</b>	<b>120 258</b>

## Statement of cash flows

for the year ended 31 December

GROUP				PARENT	
2017	2016	Amount in USD 1000	Note	2017	2016
<b>Cash flows from operating activities</b>					
9 780	8 758	Profit before tax		7 087	7 727
-1 600	-10 198	Taxes paid for the period	7	-1 382	-10 198
12 863	11 473	Depreciation	11/12	10 571	9 944
12 152	-7 871	Change in inventories, trade receivables and payables	4/14/20/22	11 895	-8 280
1 126	599	Share-based compensation		907	478
-19	-414	Movement in pensions		-19	-414
743	-2 039	Other operations related adjustments		1 819	-2 657
<b>35 049</b>	<b>307</b>	<b>Net cash flows from operating activities</b>		<b>30 880</b>	<b>-3 400</b>
<b>Cash flows used in investing activities</b>					
-10 832	-9 824	Capital expenditures (including software)	11/12	-7 720	-6 392
-8 572	-5 304	Capitalized development expenses	12	-8 572	-5 304
<b>-19 404</b>	<b>-15 128</b>	<b>Net cash flows used in investing activities</b>		<b>-16 292</b>	<b>-11 696</b>
<b>Cash flows from financing activities</b>					
0	-2 660	Purchase of treasury shares	17	0	-2 660
0	146	Cash settlement of options contract and issue of share capital		0	146
0	10 000	Interest bearing debt		0	10 000
<b>0</b>	<b>7 486</b>	<b>Net cash flows from financing activities</b>		<b>0</b>	<b>7 486</b>
-86	-457	Effects of exchange rate changes on cash and cash equivalents		0	659
<b>15 560</b>	<b>-8 158</b>	<b>Net change in cash and cash equivalents</b>		<b>14 588</b>	<b>-7 317</b>
21 135	29 293	Cash and cash equivalents as of 1.1.		20 432	27 749
<b>36 695</b>	<b>21 135</b>	<b>Cash and cash equivalents as of 31.12.</b>	<b>16/22</b>	<b>35 020</b>	<b>20 432</b>
1 452	1 183	Restricted cash included in the cash and cash equivalents as of 31.12.	16	1 452	1 183



**Note 1: General**

Nordic Semiconductor ASA is a public limited company whose shares are listed on the Oslo Stock Exchange. The Group's head office is located at Otto Nielsens vei 12, 7052 Trondheim, Norway. The Group includes the parent company Nordic Semiconductor ASA and four wholly-owned subsidiaries, Nordic Semiconductor Inc., Nordic Semiconductor Poland Sp. z o.o, Nordic Semiconductor Finland OY and Nordic Semiconductor Japan KK.

Nordic Semiconductor develops and sells integrated circuits and related solutions for short-range, wireless communication. The Group specializes in ultra-low power (ULP) components, based on its proprietary 2.4GHz RF and Bluetooth Low Energy. In addition Nordic Semiconductor develops long range cellular technology.

The financial accounts were approved for publication by the Board of Directors on March 16, 2018, and will be presented for approval at the Annual General Meeting on April 17, 2018.

**Note 2: Accounting Principles****2.1 Basis for preparation**

The financial accounts for Nordic Semiconductor ASA "the Parent Company" and its wholly-owned and controlled subsidiaries, together called "the Group", have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS), relevant interpretations, and the Norwegian Accounting Act.

As the Parent company has USD as its functional currency, the financial accounts are presented in USD, rounded off to the nearest thousand, if nothing else is noted. As a result of rounding differences, it is possible that amounts and percentages do not add up to the total.

Gross profit is revenue less cost of materials and direct project costs. Cost of materials include direct and indirect cost of production. Nordic Semiconductor uses gross profit for internal reporting and has therefore chosen to include it in the external financial reporting as well.

**Basis of consolidation**

Subsidiaries are entities controlled by the Parent Company. The Parent Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date control is obtained until the date that control ceases.

All subsidiaries are owned 100 percent and there are no non-controlling interests. Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated.

**2.2 Significant accounting judgements, estimates and assumptions**

The consolidated financial statements have been prepared on a historical cost basis.

The preparation of financial statement in accordance with IFRS requires that management use judgement, estimates and assumptions that influence the amount reported in the financial statements and notes. Management bases its estimates and judgement on previous experience and on various other factors deemed to be reasonable and sensible given the specific circumstances. The main areas of uncertainty for assessments and estimates on the balance sheet date, which represent a risk of creating significant changes to the value of assets and liabilities, are discussed below.

Estimates are continually reassessed based on changes in the underlying assumptions. Changes in accounting estimates are recognized in the period in which such changes occur. If such changes also apply to future periods, the effect is distributed between current and future periods.

**Revenue recognition**

Revenue recognition principles are described in note 2.11.

Nordic Semiconductor predominantly sells to electronic distributors under a distribution agreement. The distributors will hold a given level of Nordic Semiconductors inventory that is subsequently shipped to an end customer. Nordic Semiconductor uses a "sell in" model in connection with revenue recognition to distribution customers. Under a "sell in" model, management needs to make judgements and estimates the amount that can affect the reported amounts of revenues and expenses. The main judgments are described below.

When a distributor sells components to specified customer accounts, the distributor will receive an additional discount after the sale is made, commonly known as a "Ship and Debit" discount. An estimate for this discount is provided in the accounts, reducing the revenue and increasing current liabilities. The Ship and Debit provision is primarily determined by assessing historical discounts to each distributor, the distributors' inventory level as of 31 December 2017 and expected sales mix.

If the distributor's pricing to specific end customer accounts changes according to a previous agreement with Nordic Semiconductor, the distributor will receive a price protection credit based on the difference between the old and new price. The credit only applies to inventory that is yet to be sold by the distributor. If a price reduction has been confirmed, a provision for price protection credit will be made in the financial statement.

In certain cases, distributors have the right to exchange inventory with Nordic Semiconductor with the same value in other products. Stock rotation provisions are made for this if necessary.

### Development cost

Development costs are capitalized in accordance with the principles in Note 2.9. In order to determine the amount to be capitalized, it is necessary for management to make assumptions regarding expected future cash flow, and the expected period of benefits. Capitalized development costs are subject to amortization on a straight-line basis over the period of expected future benefits, normally 3-5 years. Uncertainty exists with respect to the estimated period of expected future benefit, as this depends on the future technological development in the market. During 2017, MUS\$ 8.6 was capitalized, mainly related to new versions of the nRF52. The carrying amount of capitalized development costs as of December 31, 2017 and 2016 was MUS\$ 19.0 and MUS\$ 14.4 respectively.

### 2.3 Changes in accounting principles

Certain new standards, amendment to standards, and annual improvements to standards and interpretations are effective for annual periods beginning January 1, 2017, and have been applied in preparing these consolidated financial statements. None of these have a significant effect on the consolidated financial statements of the Group.

### 2.4 Foreign currency

The Group presents its financial statements in USD. Transactions in currencies other than USD, are converted into USD at the exchange rate at the date of the transaction. Any exchange gains or losses arising as a result of changes in the exchange rate between the time of the transaction and the time of payment are recognized in the income statement.

### 2.5 Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

### 2.6 Accounts receivable

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less impairment. An impairment is recognized when there is objective evidence that the Group will not be able to collect all amounts. Balances are written off when collection efforts have been exhausted and the probability of recovery is unlikely.

### 2.7 Inventory

Inventory is valued at the lower of cost and net realizable value after deduction for obsolescence. Net realizable value is estimated as the selling price less cost of completion and the cost necessary to make the sale. Costs are determined by using the FIFO method. Work in progress includes variable cost and non-variable cost which can be allocated to items based on normal capacity. Obsolete inventory is written down completely.

### 2.8 Non-current assets

Non-current assets are valued at the lower of cost net of accumulated depreciation and net realizable value. When an asset is sold or discontinued, the gain or loss from the transaction is recognized in the income statement.

Cost of non-current assets includes fees/taxes and direct costs associated with commissioning the non-current asset for use. Repair and maintenance costs are expensed when incurred. If repair and maintenance increase the value of the non-current asset, the cost will be added to the asset on the balance sheet.

Depreciation is calculated on a straight-line basis over the following periods of time:

Office and lab equipment	3-5 years
Computer equipment	3-4 years
Installations in buildings	5 years

The assets' residual value, useful lives and methods of depreciation are reviewed on an ongoing basis and adjusted prospectively, if necessary.

#### Financial leases

The Group does not have any significant financial leases.

#### Operational leases

Leases where the most significant risk rests with the lessor are classified as operational leases. Lease payments are classified as operating costs and are expensed over the contract period.

### 2.9 Research and development

Research costs are expensed as incurred. Costs associated with development are capitalized if the following criteria are met in full:

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

Costs expensed in prior accounting periods will not be capitalized.

Depreciation begins when the product is transferred from development to production. Uncertainty exists with respect to the expected period of benefits, as this depends on the future technological development in the market.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may

be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

## 2.10 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that economic benefits will be required to settle the obligation and a reliable estimate can be made. Provisions are reviewed each balance sheet date and the level reflects the best estimate of the obligation. When the time value is insignificant, the amount of the provision will be equal to the estimated expenditure required to settle the obligation. When the time effect is significant, the amount of the provision will be equal to the present value of future estimated expenditures to settle the obligation.

## 2.11 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue from sales of components is recognized at the time of delivery to the distributor. The time of delivery is usually the time when the goods are transferred to the transport carrier. Certain provisions have been made for credits to distributors based on the estimates described in note 2.2.

Revenue from services is recognized as the services are rendered/delivered. The service consists of working hours, and invoicing of other costs, such as work done by subcontractors. Interest earned is recognized as it is generated.

## 2.12 Employee benefits

### Defined benefit pension plans

The Group had a defined benefit pension plan for its employees who were hired before December 31, 2007. The group has also established a similar plan for employees in the Philippines. This plan is still open. Pension plan assets are valued at fair value.

The defined benefit scheme in Norway was converted to a defined contribution scheme. In connection with the transfer, the employees received a "Paid up benefit" for all earned benefits in the defined benefit plan. As there exist certain obligations related to retirees and employees on sick leave, an actuarial calculation is performed and a liability for these employees is included as of December 31, 2017.

### Defined contribution pension plans

Employees hired after January 1, 2008 have a defined contribution pension plan described in Note 18.

### Share based payments

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 19. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (other paid in capital), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). See Note 19

## 2.13 Government grants

Grants received are tax refunds and are classified as operating grants. Operating grants are accounted for at the same time as the costs they are intended to cover. Tax refunds are accounted for as a cost reduction. See Note 5 and 9.

## 2.14 Income taxes

Income tax expenses consist of taxes due and changes to the deferred tax. Deferred tax and tax assets are calculated based on all differences between the financial accounts and the value for tax purposes of assets and liabilities.

Deferred tax assets are recognized to the extent that it is probable that the individual company will have sufficient taxable income in later periods to utilize the tax asset.

Deferred tax liabilities are accounted for at the nominal value and classified as long-term obligations in the balance sheet.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity. The Parent Company pays its tax obligation in NOK and the fluctuations between the NOK and the USD impact the financial items. The Group's legal entities that do not have their tax base in USD are exposed to changes in the USD/tax base currency rates. Effects within the current year are classified as tax expense.

## 2.15 Segments

The Group has only one operating segment. The group does not report or monitor profitability on a lower level, but breaks down its revenue into the following end product markets: Consumer Electronics, Wearables, Healthcare, Building and Retail, Others, ASIC components and Consulting Services. The Group also breaks down its revenues in the geographical areas in which its distributors are located. See Note 3.

## 2.16 Events after the balance sheet date

Information available after the balance sheet date and applicable to conditions existing at the balance sheet date is included in the preparation of the financial statements. Events after the balance sheet date that do not affect the Group's financial position as of the balance sheet date, but that will affect the Group's financial position in the future, are disclosed if they are significant. See Note 23.

## 2.17 Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. Cash and cash equivalents include cash, bank deposits and other short-term liquid investments.

## 2.18 Equity Treasury shares

When treasury shares are purchased, the purchase price, including directly attributable costs are recognized as changes in equity. Treasury shares are presented as a reduction of equity. Gains or losses on transactions in treasury shares are not recognized in the income statement.

## 2.19 Approved standards and interpretations not yet in effect

New standards, amendments to standards, and interpretations have been published, but are not effective at December 31, 2017 and have not been applied in preparing these financial statements. The Group intends to adopt these standards, if applicable, when they become effective.

### IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity.

#### (a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows

representing solely payments of principal and interest. The Group analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

#### (b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has determined that, due to long term relationships with all current customers and no indications of change in these relationships, the loss allowance will still be zero after implementing IFRS 9.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, 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. Nordic Semiconductor will adopt the standard using the modified retrospective approach.

#### (a) Sale of goods

For contracts with customers in which the sale of chips is expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Group's revenue and profit or loss. There will be no impact on the equity on the date of implementation.

The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

In preparing to adopt IFRS 15, the Group is considering the following:

#### (i) Variable consideration

Some contracts with customers provide a right of return or rebates. Currently, the Group recognizes revenue from the sale of goods measured at fair value, which includes a provision of allowances for trade discounts. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception and updated thereafter. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group expects that application of the constraint will result in the same treatment as under the current IFRS.



**Rights of return**

The contract with a customer provides no right to return the good, it can only be exchanged into a similar good of the same value. Under the current accounting policy there are no provision for rights of return and we do not expect that any adjustments will be done when adopting IFRS 15.

**Ship & debit**

The Group provides retrospective rebates to its customers on products purchased by the customer which are resold to certain customer accounts. Under its existing accounting policy, the Group estimates the expected rebates using the expected value and includes them in Other short term liabilities. These amounts may subsequently be repaid in cash to the customer or are offset against amounts payable by customer. Under IFRS 15, retrospective rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Group considered the expected value method to be the best method to predict the amount of variable consideration for the contract. The Group applied the requirements in IFRS 15 on constraining estimates of variable consideration and concluded that no revenue reduction is needed in 2017. The provision that has been included in Other short term liabilities will be presented under IFRS 15 under Contract liabilities.

**(b) Presentation and disclosure requirements**

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgments made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation.

**IFRS 16 Leases**

IFRS 16, issued in January 2016, establishes a balance sheet lease accounting model that will increase transparency and comparability beginning in 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees — leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

**Note 3: Revenues**

All figures in USD 1000

The Group has only one segment which is the semiconductor business. The Group classifies its revenues based on the end product markets in which its products are used.

**Revenue classified by end product markets:**

The Group focuses on the sale of standard components for wireless communication. These wireless components are broken into the following end product areas: Consumer Electronics, Wearables, Building and Retail, Healthcare and Others. In 2017, wireless components accounted for 96.4% of sales versus 95.9% in 2016. In addition to standard components, the Group sells customer-specific ASIC components (Application Specific Integrated Circuits) and related Consulting Services.

GROUP			PARENT	
2017	2016		2017	2016
		<b>Revenue</b>		
98 691	96 976	Consumer Electronics	98 691	96 976
37 355	40 738	Wearables	37 355	40 738
56 912	26 921	Building/Retail	56 912	26 921
14 231	11 620	Healthcare	14 231	11 620
20 365	13 268	Others	20 365	13 267
<b>227 554</b>	<b>189 523</b>	<b>Wireless components</b>	<b>227 554</b>	<b>189 523</b>
7 916	6 990	ASIC components	7 916	6 990
533	1 185	Consulting services	533	1 185
0	0	Management fee	806	246
<b>236 003</b>	<b>197 698</b>	<b>Total revenues</b>	<b>236 809</b>	<b>197 944</b>

**Revenue classified by customers' location:**

The Group also classifies its revenues on a geographical basis according to its customers' location.

GROUP			PARENT	
2017	2016		2017	2016
21 072	19 671	Europe	21 714	19 834
22 824	19 869	Americas	22 978	19 951
192 107	158 159	Asia/Pacific	192 117	158 160
<b>236 003</b>	<b>197 698</b>	<b>Total revenues</b>	<b>236 809</b>	<b>197 944</b>

The Group sells its components to distributors, which then sell components onward to electronics manufacturers which build end products and sell them to customers across the world. Three distributors represented more than 10% of the Group's total revenues in 2017 (in total 47%). These three distributors represented 21%, 16% and 10% of the Group's total revenues respectively. In comparison, 3 distributors represented more than 10% of the Group's total revenues in 2016 (in total 50%), with 26%, 13% and 11% of revenues respectively. These distributors are based in Asia.

**Note 4: Cost of materials / inventory**

All figures in USD 1000

GROUP			PARENT	
2017	2016		2017	2016
131 900	114 990	Cost of goods, gross	131 900	114 990
-8 255	-10 944	Changes in inventory	- 8 255	-10 944
<b>123 645</b>	<b>104 046</b>	<b>Cost of goods, net</b>	<b>123 645</b>	<b>104 046</b>
21 932	27 931	Raw material	21 932	27 931
9 381	10 138	Work in Progress	9 381	10 138
12 476	13 976	Finished Goods	12 476	13 976
<b>43 789</b>	<b>52 044</b>	<b>Total inventory (net)</b>	<b>43 789</b>	<b>52 044</b>
1 239	1 006	Amount written down	1 239	1 006

As Nordic Semiconductor is a fabless manufacturer, all inventories, including raw materials and finished goods, are located at sub-contractors.

**Note 5: Other operating expenses**

All figures in USD 1000

GROUP			PARENT	
2017	2016		2017	2016
6 987	6 367	Service and maintenance	6 794	6 207
6 109	4 047	Other consultancy fees	4 495	3 117
4 512	3 585	Office rental expenses	3 570	2 734
1 140	926	Office equipment	975	797
4 080	2 744	Material and components	3 815	2 530
-27	-2	Tax grant	-27	-2
-3 046	-936	Capitalized development expenses	-3 046	-936
3 107	2 263	Travel and meeting expenses	2 317	1 657
4 795	3 683	Other operating expenses	4 535	3 494
0	0	Other operating expenses intercompany	31 719	22 610
<b>27 657</b>	<b>22 677</b>	<b>Total other operating expenses</b>	<b>55 147</b>	<b>42 208</b>

**Auditor remuneration, excl of VAT**

Fees to the auditor are included in consultancy fees above.

GROUP			PARENT	
2017	2016		2017	2016
75	96	Statutory audit services	60	80
27	13	Tax advisory services	23	10
25	60	Other audit related services	21	60
<b>127</b>	<b>169</b>	<b>Total</b>	<b>104</b>	<b>150</b>

**Note 6: Net financial items**

All figures in USD 1000

GROUP			PARENT	
2017	2016		2017	2016
244	118	Interest income	243	118
31	139	Other financial income	31	139
<b>275</b>	<b>257</b>	<b>Financial income</b>	<b>274</b>	<b>257</b>
622	295	Financial Expense	622	295
322	911	Foreign exchange loss (net)	352	911
<b>944</b>	<b>1 206</b>	<b>Financial expenses</b>	<b>974</b>	<b>1 206</b>

**Note 7: Tax**

All figures in USD 1000

GROUP			PARENT	
2017	2016	Tax expense consists of	2017	2016
-2 451	-3 023	Tax payable	-1 684	-2 677
-567	689	Change in deferred tax / tax benefit	-709	662
<b>-3 017</b>	<b>-2 334</b>	<b>Tax expense</b>	<b>-2 393</b>	<b>-2 015</b>

GROUP			PARENT	
2017	2016	Reconciliation of nominal and actual tax expense	2017	2016
9 825	8 759	Profit before tax	7 113	7 727
<b>-2 358</b>	<b>-2 190</b>	<b>Tax at nominal rate 24 % (25% 2016)</b>	<b>-1 707</b>	<b>-1 932</b>
51	0	Tax effect of different tax rates in other countries	0	0
-557	89	Tax effect permanent differences	-515	89
18	0	Excess tax provision previous year	18	0
-59	-83	Effect of change in tax rate	-59	-83
-112	-150	Currency effect from translation to USD	-131	-89
<b>-3 017</b>	<b>-2 334</b>	<b>Tax expense</b>	<b>-2 393</b>	<b>-2 015</b>



**GROUP**

Temporary differences:	Balance Sheet		Income Statement		Other Comp. income	
	2017	2016	2017	2016	2017	2016
<b>Deferred tax benefit</b>						
Inventory	236	90	146	-158	0	0
Fixed Assets	957	1 219	-262	803	0	0
Options (share based payments)	323	730	-407	-30	0	0
Pension obligation	67	70	-3	-28	0	0
Accruals	23	0	23	0	6	7
<b>Deferred tax benefit - gross</b>	<b>1 607</b>	<b>2 110</b>	<b>-503</b>	<b>587</b>	<b>6</b>	<b>7</b>
Deferred tax obligation	0	0	0	0	0	0
Intangible assets	0	0	0	0	0	0
Gain and loss account	91	115	-25	-41	0	0
Accounts receivable	0	0	0	0	0	0
<b>Deferred tax obligation - gross</b>	<b>91</b>	<b>115</b>	<b>-25</b>	<b>-41</b>	<b>0</b>	<b>0</b>
Currency effect of translation to USD	0	-22	-88	61	0	0
Net deferred tax benefit (obligation)	1 516	1 973	0	0	0	0
Deferred tax expense	0	0	-567	689	6	7

**PARENT**

Temporary differences:	Balance Sheet		Income Statement		Other Comp. income	
	2017	2016	2017	2016	2017	2016
<b>Deferred tax benefit</b>						
Inventory	236	90	146	-158	0	0
Fixed Assets	782	1 219	-437	803	0	0
Options (share based payments)	323	730	-407	-30	0	0
Pension obligation	67	70	-9	-28	6	7
Accruals	23	0	23	0	0	0
<b>Deferred tax benefit - gross</b>	<b>1 432</b>	<b>2 110</b>	<b>-685</b>	<b>587</b>	<b>6</b>	<b>7</b>
Deferred tax obligation	0	0	0	0	0	0
Intangible assets	0	0	0	0	0	0
Gain and loss account	91	115	-25	-41	0	0
Accounts receivable	0	0	0	0	0	0
<b>Deferred tax obligation - gross</b>	<b>91</b>	<b>115</b>	<b>-25</b>	<b>-41</b>	<b>0</b>	<b>0</b>
Currency effect of translation to USD	0	-49	-49	34	0	0
Net deferred tax benefit (obligation)	1 341	1 946	0	0	0	0
Deferred tax expense	0	0	-709	662	6	7

GROUP			PARENT	
2017	2016	Reconciliation of net deferred tax benefit:	2017	2016
1 973	1 250	Opening balance as of 1.1	1 946	1 250
-567	689	Tax expense/income recognized in profit and loss	-709	662
6	7	Tax expense/income recognized in other comprehensive income	6	7
104	27	Currency effect from translation to USD	98	27
<b>1 516</b>	<b>1 973</b>	<b>Net deferred tax benefit 31.12</b>	<b>1 341</b>	<b>1 946</b>

GROUP			PARENT	
2017	2016	Net deferred tax recognized in OCI as of 31.12:	2017	2016
6	7	Net gain/(loss) on actuarial gains and losses	6	7
<b>6</b>	<b>7</b>	<b>Total tax other comprehensive income</b>	<b>6</b>	<b>7</b>

### Note 8: Shares outstanding

	2017	2016
<b>Basis for calculation of basic earnings per share</b>		
Earnings for the year (USD '000)	6 763	6 424
Weighted average number of outstanding shares ('000)	161 796	162 385
<b>Earnings per share (USD)</b>	<b>0,04</b>	<b>0.04</b>
<b>Basis for calculation of fully diluted earnings per share</b>		
Earnings for the year (USD '000)	6 763	6 424
Weighted average number of outstanding shares ('000)	161 926	163 317
<b>Earnings per share (USD)</b>	<b>0,04</b>	<b>0.04</b>

### The number of shares was as follows:

Date		Number of shares issued	Shares outstanding
2017-01-01	Balance at beginning of period	163 481 600	161 795 781
2017-12-31	Balance at end of period	163 481 600	161 795 781

## Note 9: Payroll expenses

All figures in USD 1000

GROUP		Combined expenses for salary and other compensation are distributed as follows:	PARENT	
2017	2016		2017	2016
47 068	38 284	Salary and vacation pay	30 408	26 134
9 928	7 985	Other compensation	7 350	5 452
4 932	3 822	Payroll tax	4 759	3 709
0	-31	Defined benefit pension	-	-31
-521	-382	Tax grant	-521	-382
4 636	3 874	Defined contribution pension	2 317	1 942
-5 526	-4 367	Capitalized development expenses (hourly costs)	-5 526	-4 367
<b>60 517</b>	<b>49 185</b>	<b>Total</b>	<b>38 788</b>	<b>32 458</b>
566	497	Weighted average number of full time employees	371	338

GROUP		Company's employees as of December 31, are distributed as follows:	PARENT	
2017	2016		2017	2016
331	308	Norway	331	308
26	19	China	26	19
4	3	South Korea	4	3
24	21	USA	1	1
11	10	Taiwan	11	10
3	3	Japan	0	3
15	15	Philippines	15	15
1	1	Switzerland	1	1
30	20	Poland	0	0
154	132	Finland	0	0
1	0	UK	1	0
1	0	The Netherlands	1	0
<b>601</b>	<b>532</b>	<b>Total</b>	<b>391</b>	<b>360</b>

**Note 10: Compensation to Group management and Board of Directors**

All figures in USD 1000

<b>Total compensation expensed for Board members</b>	<b>2017</b>	<b>2016</b>
Terje Rogne, Chairman of the Board	60	58
Anne-Cecilie Fagerlie, Board member	40	38
Tore Valderhaug, Board Member	44	39
Birger Steen, Board Member	39	0
Beatriz Malo de Molina, Board Member	37	24
Craig Ochikubo, Board Member	56	55
Inger Berg Ørstavik, Board Member	22	0
Arnhild Schia, Board member	0	11
Lasse Olsen, employee representative (Board remuneration only)	2	7
Jon Helge Nistad, employee representative (Board remuneration only)	5	0
Asbjørn Sæbø, employee representative (Board remuneration only)	7	5
Anne Strand, former employee representative (Board remuneration only)	0	2
Joakim Ferm, employee representative (Board remuneration only)	7	7
<b>Total</b>	<b>320</b>	<b>246</b>

**Total compensation expensed during the year for the CEO and other executives:**

<b>2017</b>	<b>Salary</b>	<b>Bonus</b>	<b>Options*</b>	<b>Other compensation</b>	<b>Pension expenses</b>	<b>Total</b>
Svenn-Tore Larsen, CEO	374	99	144	2	16	<b>635</b>
Pål Elstad, CFO	214	60	96	1	16	<b>388</b>
Svein-Egil Nielsen, CTO	201	60	96	1	16	<b>375</b>
Geir Langeland, Sales & Marketing Director	208	60	96	1	16	<b>381</b>
Ebbe Rømcke, Quality Director	149	30	48	1	16	<b>244</b>
Ole Fredrik Morken, Supply Chain Director	310	60	96	1	16	<b>484</b>
Thomas Embla Bonnerud, Director of Strategy and IR	163	60	49	1	16	<b>290</b>
<b>Total</b>	<b>1 619</b>	<b>432</b>	<b>625</b>	<b>10</b>	<b>111</b>	<b>2 797</b>

<b>2016</b>	<b>Salary</b>	<b>Bonus</b>	<b>Options*</b>	<b>Other compensation</b>	<b>Pension expenses</b>	<b>Total</b>
Svenn-Tore Larsen, CEO	351	9	76	5	16	<b>457</b>
Pål Elstad, CFO	204	9	51	1	15	<b>280</b>
Svein-Egil Nielsen, CTO	190	9	51	1	16	<b>267</b>
Geir Langeland, Sales & Marketing Director	197	9	51	1	15	<b>273</b>
Ebbe Rømcke, Quality Director	141	9	25	1	15	<b>192</b>
Ole Fredrik Morken, Supply Chain Director	245	9	51	1	15	<b>321</b>
Thomas Embla Bonnerud, Director of Strategy and IR	133	4	9	1	14	<b>162</b>
<b>Total</b>	<b>1 461</b>	<b>58</b>	<b>313</b>	<b>13</b>	<b>107</b>	<b>1 951</b>

\*Salary expenses are in NOK. Exchange rate for 2016 was 8,40 and for 2017 it was 8,27

\*Option cost is the expense of fair value of options based on Black Scholes calculation.



## Executive Compensation Declaration 2018

The Board has appointed a remuneration committee under management of a board member.

The remuneration committee monitors decisions regarding remuneration and other terms for the executive management. The CEO's total compensation, and any adjustments, is first reviewed by the remuneration committee and then approved by the Board. The Board considers CEO compensation each year. The compensation of the other members of the executive management, including adjustments of these, are agreed between the CEO and the respective manager.

The Board proposes the following Declaration of the Principles for Compensation of the CEO and other members of the Executive Management according to the Norwegian Public Limited Liability Companies Act § 6-16a:

The main principle in the Company's policy for remuneration and compensation is that the members of the executive management team shall be offered competitive terms, so as to achieve the desired competence and incentives in the Company's executive management team.

The Company has established an annual performance bonus program for the executive management team, in which the manager must remain within his position (not resigned) until the start of the following year in order to be eligible. The bonuses may be awarded as a direct cash payment or as equity in the Company. Performance-based compensation will be subject to an absolute limit and fulfilment of performance criteria, both decided by the Board at its discretion.

On the extraordinary general meeting on 8 December 2015 the meeting approved a 4 year stock option program for all employees with an annual maximum dilutive effect of 1% of the total of issued shares. The Company is operating in an increasingly competitive international technology market. In this market, equity based compensation is widely used to attract and retain key talent. In addition, the number of employees has increased 32% from 2015 when the option program was initiated. Therefore, in the last year of the 2016 program, the Board proposes to allocate up to up to 2.7 million shares, equivalent to approximately 1.7% of the total number of issued shares. The Board also proposes, at its discretion, to replace stock options with other equity based compensations, as long as the total dilutive effect does not exceed 1.7% of the total number of issued shares.

The Company offers pensions plans to all employees, managers included. In addition, the Company provides managers with other limited benefits in kind such as a company telephone.

The Company's Chief Executive Officer has agreed to a 6-month mutual resignation period, except that the resignation period increases to 12 months in the event that the Company is acquired or merged with another company.

The guidelines for determination of salary and other compensation for leading employees as outlined for the Annual General Meeting in 2017 have been complied with for in 2017.

Additional detailed information regarding compensation for the executive management team is provided in Note 10 to the consolidated Group accounts for 2017.

## The Group has granted executives and employee Board members the following options according to the terms:

	Options granted 2017*	Options granted 2016*
Svenn-Tore Larsen, CEO	65 575 stock options	65 575 stock options
Pål Elstad, CFO	43 804 stock options	43 804 stock options
Geir Langeland, Sales Director	43 804 stock options	43 804 stock options
Svein-Egil Nielsen, CTO	43 804 stock options	43 804 stock options
Ebbe Rømcke, Quality Director	21 771 stock options	21 771 stock options
Ole Fredrik Morken, Supply Chain Director	43 804 stock options	43 804 stock options
Thomas Embla Bonnerud, Director of Strategy and IR	43 804 stock options	8 000 stock options
Lasse Haugnes Olsen, Employee Board member	3 501 stock options	3 500 stock options
Jon Helge Nistad, employee Board Member	3 501 stock options	3 500 stock options
Joakim Ferm, Employee Board member	5 952 stock options	3 500 stock options
Asbjørn Sæbø, Employee Board member	0 stock options	5 600 stock options

\*No options were exercised in 2017.

**Note II: Fixed assets**

All figures in USD 1000

**GROUP**

2017	Office and lab equipment	Computer equipment and machinery	Fixture and fittings	Property	Total
<b>Acquisition cost</b>					
Opening balance	6 638	29 358	2 075	333	38 403
Additions	3 756	1 688	182		5 626
<b>Acquisition cost as of 31.12</b>	<b>10 394</b>	<b>31 046</b>	<b>2 257</b>	<b>333</b>	<b>44 030</b>
<b>Accumulated depreciation</b>					
Opening balance	3 944	20 002	1 091		25 037
Depreciation expenses	1 945	4 433	356		6 734
<b>Accumulated depreciation as of 31.12</b>	<b>5 889</b>	<b>24 435</b>	<b>1 447</b>		<b>31 771</b>
<b>Net carrying value as of 31.12</b>	<b>4 505</b>	<b>6 612</b>	<b>809</b>	<b>333</b>	<b>12 259</b>

**PARENT**

2017	Office and lab equipment	Computer equipment and machinery	Fixture and fittings	Property	Total
<b>Acquisition cost</b>					
Opening balance	5 422	27 312	1 899	333	34 966
Additions	1 176	1 084	144		2 404
<b>Acquisition cost as of 31.12</b>	<b>6 598</b>	<b>28 396</b>	<b>2 043</b>	<b>333</b>	<b>37 370</b>
<b>Accumulated depreciation</b>					
Opening balance	3 919	19 913	1 086		24 918
Depreciation expenses	829	3 312	312		4 453
<b>Accumulated depreciation as of 31.12</b>	<b>4 748</b>	<b>23 225</b>	<b>1 398</b>		<b>29 371</b>
<b>Net carrying value as of 31.12</b>	<b>1 850</b>	<b>5 171</b>	<b>645</b>	<b>333</b>	<b>7 999</b>

**Fixed assets abroad:**

The Group has testers located in the Philippines and Taiwan with net carrying value of MUSD 2.7 as of 31.12.2017.

**GROUP**

2016	Office and lab equipment	Computer equipment and machinery	Fixture and fittings	Property	Total
<b>Acquisition cost</b>					
Opening balance	5 048	26 840	1 731	333	33 951
Additions	1 591	2 518	345		4 453
<b>Acquisition cost as of 31.12</b>	<b>6 638</b>	<b>29 358</b>	<b>2 075</b>	<b>333</b>	<b>38 404</b>
<b>Accumulated depreciation</b>					
Opening balance	3 274	16 866	758		20 898
Depreciation expenses	670	3 136	333		4 140
<b>Accumulated depreciation as of 31.12</b>	<b>3 944</b>	<b>20 002</b>	<b>1 091</b>		<b>25 037</b>
<b>Net carrying value as of 31.12</b>	<b>2 694</b>	<b>9 355</b>	<b>984</b>	<b>333</b>	<b>13 367</b>

**PARENT**

2016	Office and lab equipment	Computer equipment and machinery	Fixture and fittings	Property	Total
<b>Acquisition cost</b>					
Opening balance	4 743	24 066	1 731	333	30 872
Additions	680	3 246	168		4 094
<b>Acquisition cost as of 31.12</b>	<b>5 422</b>	<b>27 312</b>	<b>1 899</b>	<b>333</b>	<b>34 966</b>
<b>Accumulated depreciation</b>					
Opening balance	3 203	16 810	758		20 770
Depreciation expenses	716	3 103	328		4 147
<b>Accumulated depreciation as of 31.12</b>	<b>3 919</b>	<b>19 913</b>	<b>1 086</b>		<b>24 918</b>
<b>Net carrying value as of 31.12</b>	<b>1 504</b>	<b>7 399</b>	<b>813</b>	<b>333</b>	<b>10 049</b>

**GROUP AND PARENT**

Estimated useful life	3 – 5 years	3 - 4 years	5 years	Not
Depreciation method	Straight-line	Straight-line	Straight-line	depreciated

Total depreciation expenses consist of depreciation of fixed assets and depreciation of intangible assets (note 12).

**Non-depreciable real property assets:**

The Parent company has an apartment in Trondheim for use by employees in the Oslo office while in Trondheim. The apartment is assessed at acquisition cost. The residual value is expected to be at least equal to the book value.

**Scrapped capital assets**

All capital assets that are ready to be scrapped have been fully depreciated and have no residual book value.

**Capital assets temporarily out of operation**

The Group has no capital assets that are temporary out of operation.

**Leased equipment**

The Group leases meeting room equipment, coffee machines and printers.

**Write-offs**

There are no indicators that assets need to be written off.

**Change in depreciation periods**

There has been no basis for changing depreciation periods on fixed assets.

**Note 12: Intangible assets**

All figures in USD 1000.

**GROUP**

<b>2017</b>	<b>Purchased Software</b>	<b>Capitalized Development costs</b>	<b>Total</b>
<b>Acquisition cost</b>			
Opening balance	21 754	33 139	54 893
Additions	5 542	8 572	14 114
<b>Accumulated cost as of 31.12</b>	<b>27 296</b>	<b>41 711</b>	<b>69 007</b>
<b>Accumulated depreciation</b>			
Opening balance	9 699	18 744	28 443
Depreciation expenses	2 088	4 042	6 129
<b>Total accumulated depreciation as of 31.12</b>	<b>11 787</b>	<b>22 786</b>	<b>34 572</b>
<b>Net carrying amount</b>	<b>15 509</b>	<b>18 925</b>	<b>34 434</b>

**PARENT**

<b>2017</b>	<b>Purchased Software</b>	<b>Capitalized Development costs</b>	<b>Total</b>
<b>Acquisition cost</b>			
Opening balance	21 760	33 139	54 899
Additions	5 315	8 572	13 887
<b>Accumulated cost as of 31.12</b>	<b>27 075</b>	<b>41 711</b>	<b>68 786</b>
<b>Accumulated depreciation</b>			
Opening balance	9 699	18 744	28 443
Depreciation expenses	2 076	4 042	6 118
<b>Total accumulated depreciation as of 31.12</b>	<b>11 775</b>	<b>22 786</b>	<b>34 561</b>
<b>Net carrying amount</b>	<b>15 300</b>	<b>18 925</b>	<b>34 225</b>

<b>GROUP</b>	<b>Non-capitalized R&amp;D expenses:</b>	<b>PARENT</b>
38 596	Personnel expenses	21 442
15 100	Other operating expenses	11 169
<b>53 696</b>	<b>Total cost recognized in income statement</b>	<b>32 610</b>
<b>62 268</b>	<b>Total cost for R&amp;D (incl. capitalized development cost)</b>	<b>41 182</b>



## GROUP

2016	Purchased Software	Capitalized Development costs	Total
<b>Acquisition cost</b>			
Opening balance	16 436	27 835	44 271
Additions	5 318	5 304	10 622
<b>Accumulated cost as of 31.12</b>	<b>21 754</b>	<b>33 139</b>	<b>54 893</b>
<b>Accumulated depreciation</b>			
Opening balance	7 354	15 294	22 647
Depreciation expenses	2 345	3 451	5 796
<b>Total accumulated depreciation as of 31.12</b>	<b>9 699</b>	<b>18 744</b>	<b>28 444</b>
<b>Net carrying amount</b>	<b>12 054</b>	<b>14 394</b>	<b>26 449</b>

## PARENT

2016	Purchased Software	Capitalized Development costs	Total
<b>Acquisition cost</b>			
Opening balance	16 441	27 835	44 277
Additions	5 318	5 304	10 622
<b>Accumulated cost as of 31.12</b>	<b>21 760</b>	<b>33 139</b>	<b>54 899</b>
<b>Accumulated depreciation</b>			
Opening balance	7 354	15 294	22 647
Depreciation expenses	2 345	3 451	5 796
<b>Total accumulated depreciation as of 31.12</b>	<b>9 699</b>	<b>18 744</b>	<b>28 444</b>
<b>Net carrying amount</b>	<b>12 060</b>	<b>14 394</b>	<b>26 455</b>

GROUP	Non-capitalized R&D expenses:	PARENT
23 843	Personnel expenses	19 206
18 395	Other operating expenses	14 110
<b>42 238</b>	<b>Total cost recognized in income statement</b>	<b>33 316</b>
<b>47 542</b>	<b>Total cost for R&amp;D (incl. capitalized development cost)</b>	<b>38 634</b>

Total depreciation expenses consist of depreciation of intangible assets and depreciation of fixed assets (note 11).

Economic lifetime	10 years	1 - 5 years
Depreciation plan	Straight-line	Straight-line

Expensed research and development activities relate to new technologies and new services and products.

**Note 13: Subsidiaries**

All figures in USD 1000

The following subsidiaries have been included in the financial statements

<b>Subsidiaries consolidated in the group accounts company</b>	<b>Established Year</b>	<b>Location</b>	<b>Share Ownership</b>	<b>Voting Rights</b>
Nordic Semiconductor Inc	2006	USA	100%	100%
Nordic Semiconductor Poland S.p z o.o.	2013	Poland	100%	100%
Nordic Semiconductor Finland OY	2014	Finland	100%	100%
Nordic Semiconductor Japan KK	2017	Japan	100%	100%

<b>Subsidiaries as of 31 December 2017</b>	<b>Ownership</b>	<b>Share of votes</b>	<b>Net profit 2017</b>	<b>Equity 31. Dec 2017</b>
Nordic Semiconductor Inc, USA	100%	100%	163	1 081
Nordic Semiconductor Poland S.p Z o.o.	100%	100%	66	232
Nordic Semiconductor Finland OY	100%	100%	1 720	3 409
Nordic Semiconductor Japan KK	100%	100%	9	13

All intellectual property (IP) is owned by Nordic Semiconductor ASA. All subsidiaries operate as contract research and development centers and invoice Nordic Semiconductor ASA according to the Group's transfer pricing policy.

Nordic Semiconductor Inc is mainly a sales company, but in 2016 a small R&D department was also started. All sales conducted is on behalf of the parent company.

Nordic Semiconductor Poland Sp. z.o.o. is an extension of the software development team in the parent company.

Nordic Semiconductor Finland OY is a development company. This R&D team works closely alongside the rest of the R&D teams in the Group.

Nordic Semiconductor Japan KK is a sales company. All sales conducted is on behalf of the parent company.

**Note 14: Accounts Receivable**

All figures in USD 1000

<b>GROUP</b>			<b>PARENT</b>	
<b>2017</b>	<b>2016</b>		<b>2017</b>	<b>2016</b>
48 582	54 772	Gross receivables	48 582	54 772
0	0	Provision for doubtful accounts	0	0
<b>48 582</b>	<b>54 772</b>	<b>Accounts Receivable, net</b>	<b>48 582</b>	<b>54 772</b>

**Note 15: Intercompany balances**

All figures in USD 1000

<b>PARENT</b>			
<b>Receivables</b>		<b>2017</b>	<b>2016</b>
Loan to group Companies		3 150	6 094
Trade receivables towards group companies		7 081	16
<b>Total</b>		<b>10 231</b>	<b>6 110</b>
<b>Payables</b>		<b>2017</b>	<b>2016</b>
Trade creditors towards group companies		12 048	6 695
<b>Total</b>		<b>12 048</b>	<b>6 695</b>

**Note 16: Cash and cash equivalents**

All figures in USD 1000

GROUP		Cash and cash equivalents as of the balance sheet date were as follows:	PARENT	
2017	2016		2017	2016
35 243	19 952	Cash holdings	33 568	19 249
1 452	1 183	Tax deduction account (restricted funds)	1 452	1 183
<b>36 695</b>	<b>21 135</b>	<b>Cash and cash equivalents in statement of financial position</b>	<b>35 020</b>	<b>20 432</b>

**Note 17: Share capital and shareholder information****Share capital**

The share capital in Nordic Semiconductor as of December 31, 2017 consists of one share class with a total of 163,481,600 shares with a face value of NOK 0.01, with a total share capital of NOK 1,634,816. Each share grants the same rights in the company, and in the event of any increase in capital, existing shareholders have pre-emptive rights for any new shares. There has been no changes to the number of shares, share capital and share premium during 2017:

GROUP	Number of shares		Share capital (USD 1000)		Treasury shares (USD 1000)		Share premium (USD 1000)	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Ordinary shares, issued and paid</b>								
Holdings as of 1.1	163 481 600	163 440 600	283	283	-2	-1	14 436	14 253
Issue of share capital		41 000						183
Purchase of treasury shares						-1		
<b>Holdings as of 31.12</b>	<b>163 481 600</b>	<b>163 481 600</b>	<b>283</b>	<b>283</b>	<b>-2</b>	<b>-2</b>	<b>14 436</b>	<b>14 436</b>

## Dividend

No dividend was paid during 2017.

## Authority to issue shares

The Board of the Parent company, based on a resolution from the annual general meeting on April 24, 2017, has the authority to increase the Parent company's share capital by issuing up to 16,300,000 shares with a par value of NOK 163,000. The shareholders' pre-emptive right may be waived according to the Norwegian Private Limited Companies Act §10-4. This authority is valid until the annual general meeting in 2018, and by June 30, 2018 the latest. The resolution covers both cash and non-cash contributions and the issue of shares in connection with a merger.

## Treasury shares

The Parent company owned 1,685,819 treasury shares on December 31, 2017. At January 1, 2017, the Parent company owned 1,685,819 treasury shares. Based on a resolution of the annual general meeting of April 24, 2017, the Board has authority to purchase the Parent company's own shares with a limit of a face value of NOK 163,000 through one or more transactions. This authority is limited to 9.97% of the Parent company's share capital, and the price per share that the Nordic may pay for shares shall not be lower than the face value and not higher than NOK 200. This authority applies until the regular general meeting in 2018, and by June 30, 2018 the latest.

## Stock Option Grant

On February 18, 2014, the Board approved a grant of 5,843,712 share options to employees. The options expired after three years. The options were granted at a strike price of NOK 38.43. On February 18, 2017 3,730,702 remaining options expired.

With reference to the Extraordinary General Meeting ("EGM"), on December 8 2015, Nordic Semiconductor granted on February 26, 2016, 1,590,000 share options to employees and primary insiders. On the EGM in 2015 the Parent 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 exercisable over a three-year period and expire after five years. The options in 2016 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 Parent company's share price exceeds a cap of NOK 143.16, Nordic may settle the option grant by compensating the employee the difference between the cap and the strike price. None of the options were exercised in 2017. As of December 31, 2017 there are 1,520,013 options remaining from the 2016 grant.

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

On the AGM the Parent 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. The option scheme is the same as in 2016. The options are exercisable over a three-year period and expire after five years. They 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 Parent company's share price exceeds a cap of NOK 107.31, Nordic may settle the option grant by compensating the employee the difference between the cap and the strike price. As of December 31, 2017 there are 1,607,650 options remaining from the 2017 grant.



## Shareholder overview

The largest shareholders in Nordic Semiconductor ASA were as follows as of December 31, 2017:

Shareholder	Shares	Percentage
FOLKETRYGDFONDET	19 864 847	12,15 %
ACCELERATOR LTD	16 482 950	10,08 %
VERDIPAPIRFONDET DNB NORGE (IV)	7 886 294	4,82 %
KLP AKSJENORGE	5 046 666	3,09 %
ALDEN AS	4 430 602	2,71 %
PASSESTA AS	3 860 000	2,36 %
KOMMUNAL LANDSPENSJONSKASSE	3 438 036	2,10 %
CITIBANK, N.A.	3 000 000	1,84 %
DANSKE INVEST NORSKE INSTIT. II.	2 857 900	1,75 %
VERDIPAPIRFONDET DNB NORGE SELEKT	2 692 908	1,65 %
VERDIPAPIRFONDET PARETO INVESTMENT	2 580 000	1,58 %
DNB NOR MARKETS, AKSJEHAND/ANALYSE	2 560 246	1,57 %
MP PENSJON PK	2 517 434	1,54 %
FOUGNER INVEST AS	2 350 000	1,44 %
SONGA TRADING INC	2 200 000	1,35 %
SKØIEN AS	2 005 000	1,23 %
SONGA AS	2 000 000	1,22 %
TTC INVEST AS	2 000 000	1,22 %
STATOIL PENSJON	1 919 370	1,17 %
JPMORGAN CHASE BANK, N.A., LONDON	1 874 206	1,15 %
<b>Total for the 20 largest shareholders</b>	<b>91 566 459</b>	<b>56,01 %</b>
Other shareholders	71 915 141	43,99 %
<b>Total shares outstanding</b>	<b>163 481 600</b>	<b>100 %</b>

Shares held by the Board of directors and Executive management were as follows as of December 31, 2017.

Name	Shares
<b>Board of directors</b>	
Terje Rogne	1 080 000
Anne-Cecilie Fagerlie	0
Craig Ochikubo	13 500
Beatriz Malo de Molina	0
Tore Valderhaug	5 769
Joakim Ferm	0
Asbjørn Sæbø	10 000
Birger Steen	2 460
Inger Berg Ørstavik	0
Jon Helge Nistad	0
<b>Executive Management</b>	
Svenn-Tore Larsen*	1 890 400
Pål Elstad	3 846
Geir Langeland	177 700
Svein-Egil Nielsen	15 000
Ebbe Rømcke	68 900
Ole Fredrik Morken	160 000
Thomas Embla Bonnerud	7 420
<b>Total</b>	<b>3 429 995</b>

\*Svenn-Tore Larsen holds shares personally and through a limited liability company

**Note 18: Pensions and other long-term employee benefits**

The pension liability for the group consists of liabilities in Norway and The Philippines.

Nordic has set up a pension plan for the Philippine office as of January 2014. The retirement plan is unfunded and of the defined benefit type which provides a retirement benefit calculated based on number of years of credited service. At the end of 2017 the pension liability was USD 26 000.

For the Company in Finland pensions are financed by employer and employee contributions. The Norwegian company in the Group is required to have mandatory employment pension for employees in Norway, according to the Mandatory Employment Pension Act.

The Board of Nordic Semiconductor ASA decided in December 2015 to change the pension plan for all employees currently on a defined benefit plan effective January 1, 2016. Up until December 31, 2015 Nordic Semiconductor ASA (Norwegian employees) had both a defined benefit plan and a defined contribution plan. The defined benefit plan was closed for new members effective January 1, 2008 and from this point a new defined contribution plan was established. The two different types of pensions are described below:

<b>Defined Pension Plan:</b>	<b>2017</b>	<b>2016</b>
Current service cost	0	0
Interest expense	33	34
Expected return on plan assets	-27	-28
Administration fee	4	1
<b>Total pension expense excl. social security tax</b>	<b>10</b>	<b>7</b>
Social security tax	1	1
<b>Total pension expense incl. social security tax</b>	<b>11</b>	<b>8</b>

<b>Net pension obligation for the year was calculated as follows:</b>	<b>2017</b>	<b>2016</b>
Pension obligations	1 135	1 014
Plan assets	901	828
<b>Estimated net pension obligations</b>	<b>234</b>	<b>186</b>
Social security tax	33	23
<b>Total actual net obligation incl. social security tax</b>	<b>267</b>	<b>209</b>

<b>Total pension liability for the Group</b>	<b>2017</b>	<b>2016</b>
Employees in Norway	267	209
Employees in Philippines	26	84
<b>Total</b>	<b>293</b>	<b>293</b>

**Defined contribution pension plan:**

All employees in Norway have a defined contribution pension plan from 01.01.2016. The main benefit is a contribution of 7% of salary up to 7.1 basis points (G) and 18% of salary between 7.1 and 12 basis points. Along with this the company has a disability pension of approximately 66% of salary including estimated social security based on 40 years of full employment. In 2017, the cost of the defined contribution pension was USD 2 317 000, and the plan had 335 members. The contribution is expensed when accrued.

<b>GROUP</b>	<b>Total pension cost</b>	<b>PARENT</b>
11	Defined Benefit plan	11
4 636	Defined Contribution plan	2 317

**Note 19: Stock options**

On February 18, 2014, Nordic Semiconductor granted 5,843,712 share options to 177 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. The options expired in February 2017.

On February 26, 2016, Nordic Semiconductor granted 1,590,000 share options to 320 employees. 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 Parent company's share price exceeds a cap of NOK 143.16, Nordic may settle the option grant by compensating the employee the difference between the cap and the strike price.

On February 22, 2017, Nordic Semiconductor granted 1,625,412 share options to 307 employees. 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 Parent company's share price exceeds a cap of NOK 107.31, the Nordic may settle the option grant by compensating the employee the difference between the cap and the strike price.

A summary of share option transactions during 2017 and 2016 is below:

	2017	2016
<b>Outstanding options 1.1</b>	<b>5.287.714</b>	<b>3 844 970</b>
Options granted	1.625.412	1 579 712
Options forfeited	54.761	57 501
Options exercised	0	79 467
Options expired	3.730.702	0
<b>Outstanding options 31.12</b>	<b>3.127.663</b>	<b>5 287 714</b>
Of which exercisable	506.671	3 730 702

The fair value of the options is set on the grant date and expensed over the vesting period. USD 1.129.576 was expensed during 2017 and USD 605.028 in 2016.

The fair value of options granted in 2017 was NOK 8.40 per option. The value has been estimated using the Black & Scholes model, subject to the following assumptions:

### Share price on the grant date

The share price is set to the value weighted average price of shares traded on the grant date, which was USD NOK 32.52 on the date of grant in 2017.

### Strike price

The strike price is the share price on the grant date +10%.

### Cap price

The cap price on the options granted is NOK 107.31. At this price, Nordic may settle the option grant by compensating the employee the difference between the cap and the strike price. When calculating the value of the stock option, the value of the cap is calculated through the Black Scholes model, and deducted from the uncapped value of the option to the employee.

### Volatility

It is assumed that historic volatility is an indication of future volatility. The expected volatility is therefore stipulated to be the same as the historic volatility, which equaled 39.40% on the date of grant in 2017.

### Average option term

The options are expected to have an average term of 4 years (between the minimum vesting period of one year and the maximum exercise period of five years).

### Dividend

Nordic does not forecast a dividend payout in the Black-Scholes model.

The risk-free interest rate is set equal to the relevant interest rate on government bonds on the date of grant in 2017, i.e. 1.07%.

**Note 20: Current liabilities**

All figures in USD 1000

GROUP			PARENT	
2017	2016		2017	2016
13 075	15 295	Accounts payable	12 337	14 887
3 069	2 786	Taxes payable	2 508	2 609
2 774	2 260	Social security tax and payroll tax	2 388	1 990
5 160	4 169	Holiday pay	3 538	3 035
8 102	9 125	Provision of Ship and Debit	8 102	9 125
7 693	3 806	Accrued expenses	18 124	9 777
<b>39 873</b>	<b>37 442</b>	<b>Total Current liabilities</b>	<b>46 997</b>	<b>41 423</b>

**Note 21: Leases**

All figures in USD 1000.

**Operating leases:**

The Group has several operating leases for machinery and office space. The lease expense consists of minimum lease only.

GROUP			PARENT	
2017	2016		2017	2016
3 536	2 591	Office lease	2 709	1 880
80	42	Lease of machinery	71	19
<b>3 616</b>	<b>2 633</b>	<b>Total lease expense</b>	<b>2 780</b>	<b>1 899</b>

As of December 31, 2017, the Group leased offices in Trondheim, Oslo, Dahle, Oulu, Turku, Espoo, Krakow, Portland, Hong Kong, Shenzhen, Beijing, Shanghai, Seoul, Tokyo, Manila and Taiwan. The lease amounts are fixed except for the Norwegian leases that are regulated annually based on Norway's consumer price index.

**Future minimum payments for non-cancellable leases are as follows:**

GROUP		PARENT
3 406	Within 1 year	2 927
10 471	1 to 5 years	10 251
10 993	After 5 years	10 993
<b>24 870</b>	<b>Total non-cancellable leases</b>	<b>24 170</b>

**Note 22: Financial instruments**

All figures in USD 1000.

**Capital structure**

Nordic Semiconductor's strategy relating to its capital structure is to maintain sufficient cash and cash equivalents to meet the Group's requirements for ongoing operations and for new investments. Management believes that it is especially important to retain a strong credit rating and significant liquidity as the Group competes in a global market against larger companies.



Nordic Semiconductor manages its capital structure and makes revisions in light of changes in the overall economy and its operating assumptions. In order to maintain or amend the capital structure, Nordic may purchase its own shares on the market, pay dividends to shareholders, pay back capital to shareholders or issue new shares. No changes were made in procedures or processes in the course of 2017.

Nordic Semiconductor targets to have an equity ratio above 50% at all times, measured as total equity divided by total assets.

GROUP			PARENT	
2017	2016		2017	2016
124 953	116 949	Total equity	120 258	114 676
185 119	174 684	Total assets	187 548	176 391
<b>67%</b>	<b>67%</b>	<b>Equity share</b>	<b>64%</b>	<b>65%</b>

The Group has long-term revolving credit facilities ("RCF"), which enables it to borrow up to MUSD 40 and MUSD 25 at any time with an interest rate equal to LIBOR + margin. The line of credit agreement of MUSD 40 expires in September 2019, while the other MUSD 25 expires in November 2022. As of December 31, 2017, Nordic has drawn MUSD 20 on the MUSD 40 line of credit. The security is provided by inventory, receivables and operating equipment with book values as follows; inventories MUSD 44, accounts receivable MUSD 49 and operating equipment MUSD 16.

The following financial covenants are included for the revolving credit facilities:

-Equity ratio shall not be lower than 40 %.

In addition to the two RCFs, the Group has a MEUR 10 bank overdraft facility with its main bank. This overdraft is not utilized at the end of December. The remainder of the Group's financing is made through short-term, non-interest bearing debt. This financing typically consists of debt to suppliers, the public sector, employees and others.

Nordic has entered into a Tenancy Guarantee with Danske Bank as unconditional guarantor for 40MNOK.

The warranty is given to secure payments of upto 24 months of rent for the office in Trondheim.

## Classification of financial assets and liabilities 2017:

GROUP	Amortized cost Receivables and loans	Other financial obligations	Total
Cash and cash equivalents	36 695	0	36 695
Receivables and other short-term receivables	56 426	0	56 426
<b>Total financial assets</b>	<b>93 121</b>	<b>0</b>	<b>93 121</b>
Accounts payable and other short-term debt	0	39 873	39 873
Other long term liabilities	20 000	0	20 000
<b>Total financial liabilities</b>	<b>20 000</b>	<b>39 873</b>	<b>59 873</b>

PARENT	Amortized cost Receivables and loans	Other financial obligations	Total
Cash and cash equivalents	35 020	0	35 020
Receivables and other short-term receivables	65 158	0	65 158
<b>Total financial assets</b>	<b>100 178</b>	<b>0</b>	<b>100 178</b>
Accounts payable and other short-term debt	0	46 997	46 997
Other long term liabilities	20 000	0	20 000
<b>Total financial liabilities</b>	<b>20 000</b>	<b>46 997</b>	<b>66 997</b>

## Classification of financial assets and liabilities 2016:

GROUP	Amortized cost Receivables and loans	Other financial obligations	Total
Cash and cash equivalents	21 135	0	21 135
Receivables and other short-term receivables	59 713	0	59 713
Long-term receivables	2	0	2
<b>Total financial assets</b>	<b>80 850</b>	<b>0</b>	<b>80 850</b>
Accounts payable and other short-term debt	0	38 121	38 121
Other long term liabilities	20 000	0	0
<b>Total financial liabilities</b>	<b>20 000</b>	<b>38 121</b>	<b>68 121</b>

PARENT	Amortized cost Receivables and loans	Other financial obligations	Total
Cash and cash equivalents	20 432	0	20 432
Receivables and other short-term receivables	65 453	0	65 453
Long-term receivables	2	0	2
<b>Total financial assets</b>	<b>85 887</b>	<b>0</b>	<b>85 887</b>
Accounts payable and other short-term debt	0	41 423	41 423
Other long term liabilities	20 000	0	20 000
<b>Total financial liabilities</b>	<b>20 000</b>	<b>41 423</b>	<b>61 423</b>

Cash equivalents at fair value are assets held as short-term deposits in interest-bearing funds invested within high-quality issuers, with floating earnings and no set maturity date (Valuation category 1, prices in active markets for identical assets or liabilities).

### Financial risk

As Nordic Semiconductor manages an international operation, the Group is subject to financial risk, primarily credit risk and foreign currency risk. Procedures for control

of financial risk have been adopted by the Board and are carried out by its finance department.

### (i) Credit risk

The Group's sale of components takes place through its distribution partners within defined geographic regions. The Group therefore depends on a relatively small number of customers. In order to manage credit risk, Nordic has established guidelines to ensure that each customer's outstanding receivables do not exceed established credit limits.

### Age distribution of customer receivables was:

GROUP			PARENT	
2017	2016	Gross total	2017	2016
45 510	50 162	Not due	45 510	50 162
2 388	3 632	Past due 0-30 days	2 388	3 632
329	258	Past due 31-120 days	329	258
356	720	Over 120 days	356	720
<b>48 582</b>	<b>54 772</b>	<b>Total</b>	<b>48 582</b>	<b>54 772</b>

Based on its experience, it is not deemed necessary for the Group to make a provision for accounts receivable. (94% of receivables are within terms). The book value of financial assets represents the maximum credit exposure. The maximum exposure to credit risk on the balance sheet date was:

GROUP			PARENT	
2017	2016		2017	2016
56 426	59 714	Accounts receivable and other short-term receivables	65 158	65 453
36 695	21 135	Cash and cash equivalents	35 020	20 432
<b>93 121</b>	<b>80 849</b>	<b>Total</b>	<b>89 947</b>	<b>85 885</b>

**(ii) Liquidity risk**

Overall, the Group seeks to minimize risk when investing its cash balance. Investments can only be made in securities which have been approved by the Board.

Nordic has no externally imposed capital requirements or agreements, and has no contracts or legal requirements which are not being upheld. Nordic has the following due dates with regard to contracts for financial obligations as of December 31, 2017:

GROUP	Entered amount	Contractual cash flow	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	5-10 years
Supplier and other short-term debt	39 873	39 873	31 645	4 723	3 505			
Other contractual obligations	0	24 870	925	925	1 557	3 049	7 421	10 993
Loan facility	20 000	20 000				20 000		

PARENT	Entered amount	Contractual cash flow	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	5-10 years
Supplier and other short-term debt	46 997	46 997	40 952	3 101	2 944			
Other contractual obligations	0	24 170	732	732	1 463	2 927	7 324	10 993
Loan facility	20 000	20 000				20 000		

\*Other contractual obligations is mainly office facility rent in Oslo and Trondheim

**(iii) Interest rate risk**

The Group's liquidity requirements and risk assessment determine its investment strategy and interest rate exposure. The Group's policy is to maintain a short term investment horizon for its surplus cash. The investment portfolio should not have an average duration longer than six (6) months.

The Group has long-term revolving credit facilities, which allows it to borrow up to a total of MUSD 65 at an interest rate of LIBOR + margin. The line of credit agreement of MUSD 40 expires in September 2019, while the other MUSD 25 expires in November 2022.

If interest rates increase 1 basis point, the negative effect on profit before tax given current utilization of the RCF is MUSD 0.2 per year

**(iv) Foreign currency risk**

The Group is subject to foreign currency risk as it has its development and commercial activities in different countries. Nearly all revenues and cost of goods are in USD, while approximately 60% and 20% of the Group's operating expenses excluding depreciation are in NOK and EUR. Nordic does not hedge its exposure to foreign currency risk.

The table below shows sales in the most significant currencies:

GROUP		2017		2016		
	Local currency	USD (1000)	Share of total revenues in %	Local currency	USD (1000)	Share of total revenues in %
USD	234 231	234 231	99.2%	196 167	196 186	99.2%
EUR	1 560	1 772	0.8%	1 360	1 511	0.8%
<b>Total</b>		<b>236 003</b>	<b>100.0%</b>		<b>197 697</b>	<b>100.0%</b>

PARENT		2017		2016		
	Local currency	USD (1000)	Share of total revenues in %	Local currency	USD (1000)	Share of total revenues in %
USD	234 489	234 489	99.0%	196 351	196 351	99.2%
EUR	2 010	2 310	1.0%	1 437	1 593	0.8%
Other		10	0.0%			
<b>Total</b>		<b>236 809</b>	<b>100.0%</b>		<b>197 944</b>	<b>100.0%</b>

Below is a sensitivity analysis of changes in the NOK exchange rate on balance sheet items, and their impact on Profit before tax:

	Profit before tax
NOK exchange rate +/- 10%	+/- 536

### (v) Determination of fair value

As of December 31, 2017 the Group had no financial assets or financial liabilities where there is considered to be a difference between book value and fair value.

Below is an overview of Nordic's financial instruments:

GROUP	2017		2016	
	Book value	Fair market value	Book value	Fair market value
<b>Financial assets</b>				
Cash and bank deposits	36 695	36 695	21 135	21 135
Accounts receivable	48 582	48 582	54 772	54 772
<b>Financial liabilities</b>				
Other long-term liabilities	20 000	20 000	20 000	20 000
Accounts payable	13 075	13 075	15 295	15 295

PARENT	2017		2016	
	Book value	Fair market value	Book value	Fair market value
<b>Financial assets</b>				
Cash and bank deposits	35 020	35 020	20 432	20 432
Accounts receivable	48 582	48 582	54 772	54 772
<b>Financial liabilities</b>				
Other long-term liabilities	20 000	20 000	20 000	20 000
Accounts payable	12 337	12 337	14 887	14 887

Book value is a reasonable estimate of fair value in cases where these numbers are identical.

### Note 23: Events after the balance sheet date

With reference to the Annual General Meeting ("AGM") on April 24, 2017, Nordic Semiconductor has on February 27, 2018, granted 1,447,400 share options to employees and primary insiders. On the AGM the Parent company was given the approval to issue up to 1.7 million options in 2018, 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 47,27 (10% above volume weighted average share price the week following Q4 2017 results). If the Parent company's share price exceeds a cap of NOK 141.81, Nordic may settle the option grant by compensating the employee the difference between the cap and the strike price.

Otherwise, no events have occurred since the end of the fiscal year, which are expected to materially affect the financial statements.

### Note 24: Related party transactions

Nordic Semiconductor ASA, the Parent company of the Group, is listed on Oslo Stock exchange. The Group has no material transactions with related parties.



A full-page background image of two ice climbers on a massive glacier, tinted in shades of blue and purple. One climber is high up on the ice face, while the other is lower down. A rope connects them. The text 'Declaration to the Annual Report' is overlaid in white, preceded by a vertical orange bar.

# Declaration to the Annual Report



# DECLARATION TO THE ANNUAL REPORT

## Responsibility Statement

- The Chief Executive Officer and the Board of Directors confirm, to the best of our knowledge, that the financial statements for 2017 have been prepared in accordance with current accounting standards and give a true and fair view of the Parent company and the Group's assets, liabilities, financial position and results of the operations.
- We also confirm that the report by the Board of Directors provides a fair overview of the Parent company and the Group and its development, financial results and position, and describes the Group's key risks and uncertainties.

Oslo, 16 March 2018



Terje Rogne  
Chairman




Anne-Cecilie Fagerlie  
Board member



Craig Ochikubo  
Board member



Beatriz Malo de Molina  
Board member



Tore Valderhaug  
Board member



Birger Steen  
Board member



Inger Berg Ørstavik  
Board member



Joakim Fern  
Board member, employee



Jon Helge Nistad  
Board member, employee



Asbjørn Sæbø  
Board member, employee



Sverre Torsen  
Chief Executive Officer

# STANDARDS OF CORPORATE GOVERNANCE

The Board of Directors and management of Nordic Semiconductor (the "company") aim to execute their respective tasks in accordance with the highest standards for corporate governance.

Nordic Semiconductor's standards for corporate governance provide a critical foundation for the company's management. These principles must be viewed in conjunction with the company's efforts to constantly promote a sound corporate culture throughout the organization. The company's core values of respect, trust, accountability and equal treatment are central to the Board's and management's efforts to build confidence in the company, both internally and externally. Nordic Semiconductor is a UN Global Compact (UNGC) signatory and is committed to the Ten Principles as set forth by the UNGC in the areas of Human Rights, Labor, Environment and Anti-corruption. Nordic Semiconductor has adopted the Electronics Industry Citizenship Coalition (EICC) Code of Conduct, which specifically focuses on topics relevant for the electronics industry, and promotes this to ensure sustainable business operations and supply chain. Additional information on this work can be read in the annual Corporate Social Responsibility report, as published on Nordic Semiconductor's website.

Nordic Semiconductor's principles for corporate governance are based on Norwegian law, regulations by the Oslo Stock Exchange and the Norwegian Code of Practice for corporate governance published on October 30, 2014. The company's policy on corporate governance are published each year in the annual report, and described in detail below.

## Activities

Nordic Semiconductor's Articles of Association states, "The object for which the company is established is the development and sale of electronic components, integrated circuits, design tools and related solutions."

Nordic Semiconductor designs, sells and delivers integrated circuits and related intellectual property for use in short and long-range wireless applications. The company specializes in ultra-low power components, based on its proprietary 2.4 GHz RF and Bluetooth low energy. All manufacturing and direct distribution of components are outsourced to specialist subcontractors. The company is headquartered in Trondheim and Oslo, Norway, and has offices in Finland, USA, Poland, Hong Kong, China, Korea, Japan, Taiwan and the Philippines.

## Equity and dividends

The company's growth philosophy, as well as the cyclicity of its business, means that the company will undertake to maintain a high equity ratio and considerable liquidity. The company aims primarily to provide shareholders with returns in the form of appreciation of the shares and has a long term goal to pay dividends based on surplus cash generated by the company. This assumes that the company's needs for financial strength relative to operational requirements and new investments are addressed. The company's dividend policy is reviewed each year by the Board of Directors. The Annual General Meeting can mandate the Board the authorization to pay dividends based on the latest approved Annual Report. The justification for this authorization needs to be explained and should reflect the company's dividend policy.

The Board of Directors, in accordance with the resolution of the Annual General Meeting held April 24, 2017, has been authorized to buy back up to 16,300,000 own shares for a total par value of NOK 163,000.00 in one or more transactions. The authorization is limited to 10 percent of the company's share capital, and the price per share which the company may pay for shares acquired in this manner shall not be less than the par value nor greater than NOK 200. This power of attorney will remain in effect until the company's ordinary annual general meeting in 2018.

In accordance with the decision passed at the general meeting held April 17, 2017, the Board of Directors has the authority to increase the company's share capital by issuing up to 16,300,000 shares with a total par value of NOK 163,000. The authority is to be used for purposes defined in the Notice of the Annual General Meeting, including strengthening the company's shareholder's equity, to execute share capital increases with one or more strategic partners, or to complete a merger or acquisition using shares or cash. This power of attorney will remain in effect until the company's annual general meeting in 2018, and can be implemented through a private placement, rights issue or public offering.

Nordic Semiconductor has one class of shares, where each share has one vote at the company's shareholders' meeting. Nordic Semiconductor strictly adheres to the

principle of equal treatment of all shareholders. The company's transactions in its own shares are conducted in accordance with good stock exchange practice in Norway.

If the Board wishes to quickly raise capital, the Board has been authorized to direct a share capital increase to selected investors chosen by the Board, up to the limits quantified above. In this event, the company will notify the stock exchange of its reasons for implementing a directed share placement. Existing shareholders' pre-emptive subscription rights under §10-4 in the Norwegian Companies Act can be waived under these circumstances.

Such capital increases shall be executed at or near the current stock price listed on the Oslo Stock Exchange. This authorization remains valid until the company's ordinary annual general meeting in 2018.

The company is generally cautious in regards to transactions with shareholders, members of the Board of Directors, senior employees or related parties to the above. To ensure that the best code of conduct applies, the company requires notification and review of any process or transaction in which both the company and a senior employee or member of the Board of Directors may have interests.

Nordic Semiconductor will seek to comply to the principles of equal treatment of related parties and possible transactions with related parties that are laid down in the Norwegian Code of Practice for Corporate Governance.

### Freely negotiable shares

Nordic Semiconductor's shares are freely tradable and there are no restrictions on the sale and purchase of the company's shares beyond those pursuant to Norwegian law.

### Annual General Meeting

The Annual General Meeting is the company's highest body and the shareholders exert their authority in the company through the Annual General Meeting. Nordic Semiconductor encourages all shareholders to participate and exercise their rights at the Annual General Meeting.

Nordic Semiconductor has an ambition to hold the Annual General Meeting in accordance with the Norwegian Code of Practice for Corporate Governance. The notice of the Annual General Meeting, including relevant information shall be announced and distributed at least 21 days in advance of the Annual General Meeting, and the final date for notification of attendance is three working days prior to the Annual General Meeting.

Shareholders who are unable to attend may vote by proxy. Members of the Board of Directors and the auditor attend the Annual General Meeting. The Annual General Meeting is chaired by a person independent of the company's Board of Directors and management.

Pursuant to the Articles of Association the following issues shall be discussed and decided at the Annual General Meeting

- Approval of the profit and loss account and balance sheet, including the allocation of annual profits and payment of dividends.
- Appointment of members of the Board of Directors and nomination committee.
- Determination of remuneration for Board members and the Auditor's fee.
- Remuneration of executive management. The remuneration of executive management should be a separate appendix to the agenda for the annual general meeting and separate votes should be held on these aspects.
- Any other matters mentioned in the meeting notice

### Nomination Committee

Nordic Semiconductor has a Nomination Committee which is elected with a defined mandate during the Annual General Meeting. The Nomination Committee's duties are to represent the interests of the shareholders in general, and to propose qualified candidates for the Annual General Meeting's election of the Board of Directors as well as to propose the remuneration to the Board of Directors. The Nomination Committee will provide reasons for its recommendation in the notice for the AGM, including information on the candidates' competence, capacity and independence. The nomination committee holds regular meetings with major shareholders as well as management and the individual shareholder elected Board member. In addition, all shareholders can submit suggestions to the nomination committee through a link on Nordic's webpage.

The Nomination Committee consists of three members who are shareholders or who represent the shareholders. The company's executive personnel are not represented on the Nomination Committee. The deadline for submitting proposals to the Nomination Committee is one month before the Annual General Meeting

The members of the Nomination Committee are:

- John Harald Henriksen
- Viggo Leisner
- Jarle Sjø

## The composition and independence of the Board of Directors

The Board of Directors and the Chairman of the Board of Directors are elected by the shareholders at the Annual General Meeting on the basis of proposals from the Election Committee.

Both the Chairman and the shareholder-elected members of the Board of Directors are elected for a term of up to two years. A more detailed description of the background, qualifications, and term of service of each member of the Board of Directors and the number of Nordic Semiconductor shares they own are provided in the annual report. Members of the Board are encouraged to hold shares in the company.

The composition of the Board of Directors meets the requirements of the Norwegian Code of Practice for Corporate Governance with respect to members' independence of the executive management and with respect to important business relationships. The independence of the members of the Board of Directors is also evident in the fact that there are few instances of disqualification in connection with matters dealt with at Board meetings. Representatives of the executive personnel are not members of the Board of Directors.

## The work of the Board of Directors

The conduct of the Board of Directors is in accordance with the Board instructions of Nordic Semiconductor ASA. In accordance with the said instructions, the Board is responsible, to the degree necessary, for approving business strategies and budgets for the company. The Board is also responsible for ensuring that the company has a competent management with clear internal distribution of responsibility and work.

Each year, the Board of Directors adopts a specific meeting and activity plan for the following year. This plan covers strategic planning, monitoring of the business, and other relevant business issues. The Board's activity plan for 2018 stipulates eight meetings, two of which are scheduled for all day meetings to discuss and explore strategy and technology-specific issues.

The Board of Directors carries out an evaluation of its activities each year and on this basis discusses improvements in the organization and implementation of its work.

The Board has established a Compensation Committee to discuss and decide the remuneration principles for the CEO and executive management.

In 2014, the Board established an Audit Committee. The Audit Committee consists of two members of the Board both of which are independent of Group Management.

The Committee has collectively the competence required in the Public Limited Liability Companies Act § 6-42. Both members are independent according to § 6-42 Public Limited Liability Companies Act, and both members have the required qualifications within accounting or auditing.

The Committee supports the Board with respect to the assessment and control of financial risk, financial reporting, auditing, control, and prepares discussions and resolutions for Board meetings. It has no decision-making authority.

The Audit Committee held 6 meetings in 2017 and has been in regular contact with the Company's auditor regarding audits of the statutory accounts and it also assesses and monitors the auditor's independence, including non-audit services provided by the auditor.

## Risk Management and internal control

The Board and management are committed to ensuring that the company maintains sound and effective internal controls to safeguard the value of the enterprise, as well as its principles of ethical conduct and corporate social responsibility. Nordic Semiconductor's risk management system is fundamental to the achievement of its financial goals.

The company's primary internal control routines related to financial reporting are as follows: The finance team prepares a monthly financial report which is distributed to and reviewed by CEO and the Board of Directors. In preparing the monthly financial report, the accounting team conducts reconciliations of all major balance sheet items, which are independently reviewed by a second member of the team. Balance sheet items subject to accounting estimates are regularly analyzed to ensure that all assumptions relating to the accounting estimate remain valid. As part of the monthly financial report, the financial results are compared with the company's budget and prior forecast to analyze variances and ensure that they are not the result of incorrect reporting.

Each year, the external auditor performs tests of the company's internal control routines. The quarterly and annual financial reports are also subject to review and approval by the Board. In addition, the Board of Directors performs biannual reviews of the company's business strategy focusing on market development, technology updates, competitive positioning and risk factors.

The Board presents an in depth description and analysis of the company's financial status in the Report of the Board of Directors in the company's annual report. The report also describes the main drivers and risks related to the operation of the business.

## Remuneration to the Board of Directors

All remuneration to the Board of Directors is disclosed in Note 10 of the Nordic Semiconductor Group annual accounts.

Members of the Board of Directors receives remuneration for work related to Board committees. The remuneration to Board members is not performance based, and the company does not provide share options to Board members.

## Remuneration of the Executive Management

The Board of Directors discusses and approves the terms and conditions for the CEO once a year and monitors the general terms and conditions for other senior employees of the group.

The main principle in the Company's policy for remuneration and compensation is that the leading employees shall be offered competitive terms, so as to ensure the desired competence and incentives. Salary and other benefits for executive management will in the current year be established in accordance with the above-mentioned main principle.

The Company has established an annual performance bonus for the executive management team, in which the employee must remain within his position until the start of the following year in order to be eligible. The bonuses are awarded through a direct cash payment. Performance-based compensation will be subject to an absolute limit and fulfillment of performance criteria, both decided by the Board at its discretion.

## Information and Communications

Nordic Semiconductor strives to communicate actively and openly with the financial market. Nordic Semiconductor's accounting procedures are highly transparent and its financial statements are prepared and presented in accordance with the International Financial Reporting Standards (IFRS). The Board of Directors monitors the company's reporting.

Nordic Semiconductor's financial reporting calendar for 2018 has been announced to the Oslo Stock Exchange and can be found on the company's website. The company's annual and quarterly reports contain extensive information about the various aspects of the company's activities. The company's quarterly presentations are transmitted directly on the internet and may be found on Nordic Semiconductor's websites together with the quarterly and annual reports. A comprehensive and detailed presentation of other information, reports and documents may also be found on Nordic Semiconductor's websites. The company always ensures

that all shareholders are treated equally as regards access to financial information.

Nordic Semiconductor's Chief Financial Officer is responsible for contact with shareholders apart from the General Meeting. The Chief Financial Officer reports regularly to the Board about the company's investor relations activities.

## Takeovers

The Board of Directors will not seek to hinder or obstruct any takeover bid for the company's activities or shares. In the event of a takeover bid, as discussed in item 14 of the Norwegian Code of Practice for Corporate Governance, the Board of Directors will seek to comply with the recommendations therein as well as complying with relevant legislation and regulations.

If the Company is acquired, the CEO's resignation period extends to 12 months, and any remaining retention bonus to the CEO will be paid in its entirety following the closing of the acquisition, as described in Note 10 of the Group financial statements. There are otherwise no material obligations expected by the company as a result of an acquisition, aside from normal legal and advisory fees.

## Auditor

EY has been elected by the Annual General Meeting to act as auditor to confirm to the Annual General Meeting that Nordic Semiconductor's annual accounts have been prepared and presented in accordance with current laws and regulations. Fees paid to the auditor are approved at the Annual General Meeting.

In the fall, the external auditor presents to the Audit Committee an evaluation of risk, internal control and the quality of reporting at Nordic Semiconductor, and the audit plan for the current year. The external auditor also takes part in the Board's discussions on the annual financial statements. On both occasions, the Board of Directors ensures that the Board and the external auditor are able to discuss relevant matters at a meeting at which the executive management is not present.

The auditor shall be independent of the company. As a consequence, Nordic Semiconductor does not engage the elected auditor for tasks other than the financial audit required by law. Nevertheless, the auditor is used for tasks that are naturally related to the audit, such as technical assistance with tax returns, annual accounts, understanding of accounting and tax rules and confirmation of financial information in various contexts.



# AUDITOR OPINION LETTER



Statsautoriserte revisorer  
Ernst & Young AS

Dronning Eufemias gate 6, NO-0191 Oslo  
Postboks 1156 Sentrum, NO-0107 Oslo

Foretaksregisteret: NO 976 389 387 MVA  
Tlf: +47 24 00 24 00

www.ey.no  
Medlemmer av Den norske revisorforening

## INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Nordic Semiconductor ASA

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Nordic Semiconductor ASA, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheet as at 31 December 2017, the statements of other comprehensive income, income statement, the statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2017 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's *responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the financial statements.

### Revenue recognition – ship and debit provision

Revenue from sale of components is recognized at the time of delivery to the distributors, which is usually the time when the components are transferred to the transport carrier. When a distributor sells components to specified customers, the distributor will receive a discount after the sale is made,





commonly known as ship and debit discount. The related provision is primarily determined by assessing historical discounts to each distributor, the distributors' inventory levels as of 31 December 2017 and

assumed sales mix. Due to the estimates involved in measuring the ship and debit provision, we determine such ship and debit provision to be a key audit matter.

The Group and the parent company recorded a ship and debit provision of USD 8.1 million as of 31 December 2017. As part of our audit procedures, we assessed the Group's revenue recognition policy, including revenue recognition for ship and debit sales. Further, we obtained an understanding of management's process for estimating the ship and debit provision as of 31 December 2017 and read a sample of distributor sales agreements. We compared the estimated ship and debit provision as of 31 December 2017 to historical discount levels and held discussions with management to evaluate their estimated distributor discounts on an individual distributor basis. We considered the accuracy of management's prior year estimates by comparing actual discounts in 2017 related the prior year ship and debit provision, and evaluated the level of consistency in the provision methodology from previous years. We also tested the mathematical accuracy of the provision calculation.

Refer to Note 2.2, Note 2.11 and Note 20 in respect of the Group's revenue recognition policy, including significant judgments, estimates and assumptions, and the recorded ship and debit provision as of 31 December 2017.

#### **Other information**

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of management for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

### Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.



### **Opinion on registration and documentation**

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 16 March 2018  
ERNST & YOUNG AS

A handwritten signature in blue ink, which appears to read 'Magnus H. Birkeland', is written over a faint, light blue circular watermark or seal.

Magnus H. Birkeland  
State Authorised Public Accountant (Norway)



A full-page background image featuring a rock climber silhouetted against a vibrant sunset sky. The climber is positioned on the left side of the frame, ascending a dark, craggy rock face. A rope is visible extending from the climber down towards the bottom left. The sky transitions from a deep orange near the horizon to a bright yellow at the top, with wispy clouds catching the low light. In the lower portion of the image, a calm body of water reflects the sky, surrounded by dark, silhouetted hills and mountains.

# Board of directors & Executive Management



# BOARD OF DIRECTORS



**Terje Rogne (1960)** Chairman of the Board

**Shareholder elected**

Terje Rogne is currently Chairman of Nokas AS and a Board member of Apptix ASA. From 1994 until 2004, Rogne was Chief Financial Officer of Tandberg ASA. Afterward, he then served as the Head of Operations and Investor Relations for Tandberg until 2008. Before his career in Tandberg, Rogne was Finance Director in Kværner AS. He has an MBA from the University of San Diego and a Bachelor of Business degree from the Oslo School of Business Administration. Holdings in the company: 1 080 000 shares.



**Craig Ochikubo (1963)** Board member

**Shareholder elected**

Craig Ochikubo has a Master of Science degree in Electrical Engineering from the University of Southern California in Los Angeles and has more than 30 years experience in the wireless semiconductor and electronics industries at both start-up and Fortune 500 companies including, Broadcom Corporation, Innovent Systems, RF-Link Technology, Cadence, and TRW. He has led global engineering and business teams in Europe, Asia, and North America and successfully drove long-term business at top-tier consumer electronics companies. He spent 14 years at Broadcom where he held senior executive positions running their global wireless personal area networking business unit, and LTE cellular development teams. Holdings in the company: 13 500 shares.



**Tore Valderhaug (1960)** Board member

**Shareholder elected**

Tore Valderhaug is a Norwegian State Authorized Public Accountant with ten years of audit experience mainly from Arthur Andersen & Co. He has held positions as finance director and CFO in several publicly listed companies, including Cermag ASA, EDB Business Partner, ASK Proxima/InFocus, Ocean Rig and Unitor. Mr. Valderhaug has also worked within corporate finance and private equity firms. Tore Valderhaug is currently working as a consultant and is also a board member of the publicly listed companies XXL ASA, Q-Free ASA and Salmenes Camanchaca SA as well as the non-listed companies inApril AS and Remøy Group. Holdings in the company: 5 769 shares.



**Anne-Cecilie Fagerlie (1958)** Board member

**Shareholder elected**

Anne-Cecilie Fagerlie is Vice President Global Infrastructure Services at CGI. She has a Master degree in Computer Science from NTH (now NTNU). Afterward, she began working at Arthur Andersen/Andersen Consulting/Accenture where she became partner in 1993. In 2002, Fagerlie joined Aker Kværner as Senior Vice President of Group IT. From 2006 to 2012 she was General Manager of Nordics in Avanade, an international consultancy owned by Accenture and Microsoft. Recently she was Executive Vice President in Evry.

# BOARD OF DIRECTORS



**Beatriz Malo de Molina (1972)** Board member

**Shareholder elected**

Beatriz Malo de Molina holds a Bachelor of Science degree in Languages and International Business from Georgetown University and a Master of Philosophy degree from the University of Oslo. Professional experience includes: Head of Mergers & Acquisitions at Orkla ASA, Investment Director at Kistefos AS, Associate Principal at McKinsey & Company, and Executive Director in the Investment Banking Division of Goldman Sachs & Co. where she spent 10 years focused on corporate finance, M&A, and equity capital markets. She began her career in New York in 1994, and has since worked in Mexico City, Frankfurt, London. Beatriz is also a member of the board of Norway's early-stage fund, Investinor, of the publicly listed company Nel Hydrogen, and of Energy Nest.



**Inger Berg Ørstavik (1974)** Board member

**Shareholder elected**

Inger Berg Ørstavik is an associate professor at the Department of Private Law, University of Oslo. She has previously been a partner with Advokatfirmaet Schjødt AS and a lawyer at the office of the Attorney General for Civil Affairs. Mrs. Ørstavik has a law degree from the University of Oslo, a LL.M. from Ruprecht-Karls-Universität in Heidelberg, Germany, and a Ph.D. from the University of Oslo in the areas of intellectual property law and competition law. She has taught international human rights law at Fudan University in Shanghai, China where she resided from 2005 to 2009. Mrs. Ørstavik is member of the BoD in REC Silicon ASA, and she chairs the Food and Drink Industry Professional Practices Committee (MFU).



**Birger Steen (1966)** Board member

**Shareholder elected**

Birger Steen (born 1966) is based in Seattle. From 2010 to 2017, he was the CEO of Parallels, Inc. He previously served as Vice President of Worldwide SMB and Distribution at Microsoft and as General Manager of Microsoft Russia and Microsoft Norway. Prior to joining Microsoft in 2002, Mr. Steen was CEO of Scandinavia Online and Vice President of Business Development in Schibsted ASA. He worked for McKinsey & Company as a consultant and engagement manager from 1993 to 1996. Mr. Steen received his MSc in Computer Science and Industrial Engineering from the Norwegian Institute of Technology in Trondheim. He also holds a degree in Russian language from the Defense School of Intelligence and Security in Oslo and received his MBA from INSEAD in France. Mr. Steen has served as a Non-Executive Director of Schibsted ASA since 2014 and at Nordea Bank AB since 2015. Holdings in the company: 2 460 shares.



# BOARD OF DIRECTORS



**Asbjørn Sæbø (1968)** Board member

**Employee representative**

Asbjørn Sæbø has a Ph.D. degree in Telecommunications from NTNU in Trondheim. He has been with Nordic since 2006, working with development of firmware for Bluetooth Low Energy in various roles, including as project leader responsible for the Bluetooth Low Energy protocol stack firmware. Previously, he has worked as a development engineer in a startup company on active noise control and as a Post.Doc. at the Centre for Quantifiable Quality of Service in Communication Systems (a Centre of Excellence at NTNU). Mr. Sæbø is also a board member of the non-listed company DAAL Noise Control Systems AS. Holdings in the company: 10 000 shares and 5 600 share options.



**Joakim Ferm (1981)** Board member

**Employee representative**

Joakim Ferm has a Master of Science degree in Electrical engineering from Chalmers, Gothenburg. Joakim has been employed at Nordic Semiconductor in Trondheim since 2008, he is a Senior Project Manager with experience from application design and digital design. Holdings in the company: 9 452 share options.



**Jon Helge Nistad (1981)** Board member

**Employee representative**

Jon Helge Nistad has a Master of Science degree in Electrical Engineering from NTNU in Trondheim. Jon Helge has been employed in Nordic Semiconductor since 2006, where he has gained experience in application development, embedded software design and project management. He is currently working as a Senior R&D engineer in Nordic Semiconductor. Holdings in the company: 7 001 share options.

# EXECUTIVE MANAGEMENT



**Svenn-Tore Larsen (1959)** Chief Executive Officer

Svenn-Tore Larsen is an Electronic Engineer from the University of Strathclyde, UK. He was appointed Chief Executive Officer of Nordic Semiconductor in February 2002. Mr. Larsen has broad international experience in the semiconductor business, previously as Director for the Nordic region for Xilinx Inc. He has also been working at Philips Semiconductor. Larsen was member of the Board of Nordic Semiconductor from 2000–2002. Holdings in the company: 1 890 400 shares and 131 150 share options.



**Pål Elstad (1971)** Chief Financial Officer

Pål Elstad has held several senior financial positions, most recently as investor relations responsible for REC Silicon ASA and Head of Finance for REC Solar in Singapore. In addition, he has extensive manufacturing and supply-chain experience from General Electric Healthcare. Mr. Elstad holds a Bachelor of Economics degree from the Norwegian Business School (BI) and is a State Authorized Public Accountant (CPA). Holdings in the company: 3 846 shares and 87 608 share options.



**Geir Langeland (1970)** Sales and Marketing Director

Geir Langeland has a B.eng Honours degree in Electronics from University of Manchester Institute of Science and Technology (UMIST). He was appointed Product Manager Standard Components at Nordic Semiconductor in October 1999, before being appointed to Director Sales and Marketing September 2005. Before joining Nordic, Mr. Langeland worked as Field Sales/Applications Engineer in Memec Norway, a leading global electronic components distribution company. Holdings in the company: 177 700 shares and 87 608 share options.



**Svein-Egil Nielsen (1969)** Chief Technology Officer

Svein-Egil Nielsen holds an MBA from the Haas School of Business at the University of California, Berkeley and Bachelor of Engineering honors degree in Computer and Electronics Systems from University of Strathclyde. He joined Nordic in 2001 as Director of Sales and Marketing. He also held a position as R&D director from 2005 to 2006 and Director of Emerging Technologies and Strategic Partnerships from 2010 to 2012. Additionally, he served Innovation Norway as their Director of San Francisco and Houston offices where he was in charge of promoting Norwegian technology from 2007 to 2010. Prior to Nordic, he worked for Boston Consulting Group as a consultant. Holdings in the company: 15 000 shares and 87 608 share options.

# EXECUTIVE MANAGEMENT



**Ebbe Rømcke (1964)** Quality Director

Ebbe Rømcke has an M.Sc. degree in Electronics Engineering from Norwegian University of Science and Technology (NTNU). He was appointed Quality Director of Nordic Semiconductor in 2002. Prior to this Mr. Rømcke worked eight years in the company as Digital Designer, Project Manager and Group Manager. He also has experience from Digital Design and Project Management in Normarc AS (now Indra Navia), a leading manufacturer of aviation systems. Holdings in the company: 68 900 shares and 43 542 share options.



**Ole Fredrik Morken (1970)** Supply Chain Director

Ole Fredrik Morken joined the company as an Analog IC designer in 1994 and has since held numerous positions related to Project- and Supply Chain Management, including a brief employment for SensoNor ASA in 1999. He was appointed Supply Chain Director in 2010 and is currently based in Taipei. Mr. Morken holds a Master's degree in Electronics Engineering from the Norwegian University of Science and Technology (NTNU). Holdings in the company: 160 000 shares and 87 608 share options.



**Thomas E. Bonnerud (1977)** Director of Strategy and IR

Thomas Bonnerud has an M.Sc. degree in Electrical Engineering from the Norwegian University of Science and Technology (NTNU). He joined Nordic in 2001 as a High-Speed Data Converter Design Engineer, and has since held various positions within Product Management. He is currently responsible for Nordic's overall product roadmap. Holdings in the company: 7 420 shares and 51 804 share options.

# ALTERNATIVE PERFORMANCE MEASURES

The financial information is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. Additionally, it is management's intent to provide alternative performance measures (APM) that are regularly reviewed by management to enhance the understanding of the Group's performance. An Alternative Performance Measure is a measure of historical or future financial performance, financial position, or cash flows other than a financial measure defined or specified in the applicable financial reporting framework.

## The Group has identified the following APMs used in reporting:

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

GROUP	2017	2016
Gross profit	111,487	93,044
Total revenue	236,003	197,698
Gross Margin	47.2%	47.1%

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

- **EBIT.** Earnings before interest and tax. Equivalent to Operating profit in IFRS 1.
- **EBITDA.** Earnings before interest, taxes, depreciation and amortization.

GROUP	2017	2016
Operating profit	10,450	9,708
Depreciation	12,863	11,473
EBITDA	23,313	21,181

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

GROUP	2017	2016
EBITDA	23,313	21,181
Total revenue	236,003	197,698
EBITDA Margin	10%	11%

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

GROUP	2017	2016
Payroll expenses	60,517	49,185
Other Opex	27,657	22,677
Depreciation	12,863	11,473
Total Operating Expenses	101,037	83,335

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

GROUP	2017	2016
Total operating expenses	101,037	83,335
Depreciation	-12,863	-11,473
Option expense	-1,127	-313
Receivable write-off	-1,000	0
Capitalized expenses	8,572	5,304
Cash Operating Expenses	94,618	76,854

# Nordic offices

## PARENT COMPANY WITH BRANCH OFFICES

### Nordic Semiconductor ASA

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#### NORWAY | TRONDHEIM

Otto Nielsens veg 12  
7004 Trondheim, Norway  
Phone: +47 72 89 89 00

#### NORWAY | OSLO

Karenslyst Allé 5  
0213 Oslo, Norway  
Phone: +47 22 51 10 50

#### HONG KONG

Unit 2502, 25F, Golden Centre  
188 Des Voeux Road Central  
Sheung Wan, Hong Kong  
Phone: +852 3752 3780

#### CHINA | SHANGHAI

Level 12, Chong Hing Finance Center,  
288 Nanjing West Road, Puxi  
Shanghai 200003, China  
Phone: +86 21 8017 7338

#### CHINA | SHENZHEN

Room 716, 7/F, ZBJ Financial Centre  
319 Fuhua Street, Futian Town  
Shenzhen 518000, China  
Phone: +86 755 2393 4430

#### CHINA | BEIJING

5/F, South Block, Tower C, Raycom  
InfoTech Park, No. 2, Kexueyuan  
South Road, Haidian District  
Beijing 100190, China  
Phone: +86 10 5982 2133

#### KOREA | SEOUL

30F, ASEM Tower, 517  
Yeongdongdaero, Gangnam-gu  
Seoul 06164, Korea  
Phone: +82-2-6001-3056

#### PHILIPPINES | ALABANG

21F Asian Star Building,  
ASEAN Drive, Filinvest Corporate City  
Alabang, 1781 Muntinlupa City  
Philippines

#### TAIWAN | TAIPEI

6F-5, No. 188, Section 5  
Nanjing E Rd., Songshan District  
Taipei City 10571, Taiwan  
Phone: +886 2 7707 4751

## SUBSIDIARY COMPANY

### Nordic Semiconductor Finland OY

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#### FINLAND | OULU

Yrttipellontie 1 D  
90230 Oulu, Finland

#### FINLAND | TURKU

Tykistökatu 4 B  
20520 Turku, Finland

#### FINLAND | ESPOO

Huoneistonro 301, 3. krs  
Metsäneidonkuja 10  
02130 Espoo, Finland

### Nordic Semiconductor Inc.

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#### USA | CALIFORNIA

1250 Oakmead Pkwy  
Suite 210, Sunnyvale  
CA 94085-4037, USA  
Phone: +1 (408) 437 7751

#### USA | OREGON

1355 NW Everett St  
Suite 100, Portland  
OR 97209, USA  
Phone: +1 (503) 848 5782

### Nordic Semiconductor Poland Sp. z o.o.

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#### POLAND | KRAKÓW

Bratysławska 1A  
31-201 Kraków, Poland  
Phone: +48 574 647 705

### Nordic Semiconductor KK

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#### JAPAN | TOKYO

20F, Yokohama Landmark Tower  
2-2-1 Minato-Mirai  
Nishi-ku, Yokohama-shi  
Kanagawa 220-8120, Japan  
Phone: +81-(0)45-277-3846



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