Annual Report
2018

NORDIC® SEMICONDUCTOR

Content

Ready to take the next big step into cellular IoT

#1 PROVIDER OF LOW POWER WIRELESS

Nordic Semiconductor (Nordic or the Group) is a leading provider of IC solutions for wireless connectivity and IoT. Nordic is a market leader in short-range wireless and is prepared for 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 smart-phones and apps, and the on-going growth of the Internet in general.

Nordic pioneered the development of ultra-low power wireless (a category defined by the ability to operate from small batteries for years, and which 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 have 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.

For short to medium range distances 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 smart-phones and apps technologically and commercially available for end users, it will now do the same for the IoT to form what is being called 'cellular IoT'.

During 2018, Nordic launched the nRF91 Series, Nordic's first family of low power cellular devices for the Internet of Things. The series has been engineered from inception to perform at the highest possible standards for energy-efficiency and security whilst simultaneously bringing advanced application performance and possibilities to cellular IoT. With an unprecedented level of integration bringing LTE-M, NB-IoT, GPS, all RF Front End and power management into a very small package the nRF91 Series makes single chip solutions a real possibility.

LETTER FROM THE CEO

Macroeconomic factors hit the semiconductor industry in 2018. Nordic Semiconductor delivered record revenue and launched a world-leading cellular IoT solution with exciting prospects.

Svenn-Tore Larsen, Chief Executive Officer

2018 started off strong, with growth rates for our Bluetooth product lines of 50.1% in the first half compared to same period last year. However, during the second half, we experienced disappointing growth rates driven by a sharp reduction of demand from one application within our Building and Retail market in China, as well as uncertainties related to trade tensions between China and the US, resulting in reduced demand for our products.

After four years of investing in our cellular IoT module product line, we finally released the product and recognized the first revenue. Despite a challenging market due to trade tensions between the US and China, revenues from Nordic's existing Bluetooth Low Energy and proprietary ultra-low power wireless product lines increased 15% year-on-year to MUSD 271. A strong focus on operational improvements resulted in gross margin expansion of 2.6 p.p. to 49.8% and we ended the year above our 50% gross margin target. Although operating margin was impacted by our significant investment in development and scaling for our new cellular line of products, we saw an 1.0% increase in EBITDA margin (to 11%).

Continued profitability has allowed the company to maintain vital investment spending in both its Bluetooth and cellular R&D divisions.

I estimate the application-range for our cellular IoT modules to be at least 10× the breadth and diversity currently applicable to Bluetooth. Meanwhile, Bluetooth chips will complement cellular IoT in many applications and will therefore significantly expand its application range as the IoT wave grows. Prime examples of areas of opportunity for both technologies include smart agriculture, cargo shipping, smart cities, utilities (e.g. metering), and industrial IoT (IIoT).

Cellular IoT as a business area will continue to be cash negative. However, we plan to achieve break even in 2020. In parallel, Nordic expects its Bluetooth business to continue expanding at 20-30% per year (Bluetooth growth was 23.3% in 2018) in the medium term.

> Nordic expects its Bluetooth business to continue expanding at 20-30% per year in the medium term.

2018 was another record year for development kit shipment with close to 65,000 units shipped, a 39% increase from 2017. Nordic design wins in the wider Bluetooth market also hit record high, according to Bluetooth LE and FCC certification data from DNB Markets. Both will contribute to future growth in Bluetooth revenue, and are key leading indicators of our on-going Bluetooth Low Energy market leadership.

Patient and long-term investment in R&D is vital for Nordic to be positioned to maintain and meet future growth opportunities. At year end, our R&D headcount was 515, a ~20% increase in two years. We are also building out our testing capabilities required to meet new tier-1 customer requirements on quality and reliability and increasing sales and marketing staff (around 100 = ~20% increase in two years) to be ready to go to market with our new cellular product line.

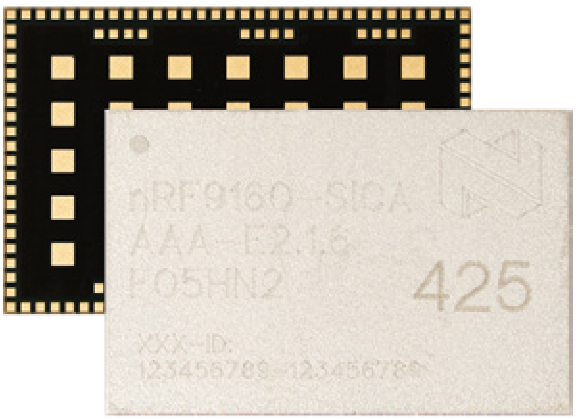
Continued R&D investments were also a key factor behind the increase of the company's profit margins in 2018, as evidenced in cost improvements and stable yields from the nRF52 Series chip platform. With highly advanced, market-leading integration, features, performance and developer support, the nRF52 Series platform delivers unique benefits to Nordic customers, whose total design-in and end-product complexity and costs are significantly lower than with competing solutions. Nordic's popular customer technical support is regularly cited by customers as a key reason they not only select Nordic but stay loyal to the company in the long run. The numbers speak for themselves: Nordic's online technical support community — Nordic DevZone — was visited 2.3 million times during 2018 by over 744,000 users. DevZone is widely regarded as one of the most popular support sites in the semiconductor industry — particularly for engineers with limited RF experience, start-ups, developers, hobbyists, and students.

We intend to invest in maintaining and leveraging this advantage over our competitors in time-to-market, total cost and developer support with our future Bluetooth chips and nRF91 Series of cellular IoT modules

Investment in Nordic's sales activities remains crucial to supporting a record number of design wins, customers, and sales across an ever-expanding range of markets. Also, Nordic's marketing activities have enabled us to reach record numbers of new and existing customers. Our highly acclaimed Tech Tour program reached more than 2000 developers in full-day, face-to-face seminars on Nordic's products and technology in 2018. Our re-designed and modernized website attracted more than 150K users per month in Q4 2018 and has continued growing by 10K user per month into 2019. We are proud to have established Nordic as a major player in cellular IoT, especially in the eyes of influential international IoT and telecoms media, most of which had not even heard of Nordic Semiconductor this time last year, but now write about the company on a regular basis.

Increased recognition in the IoT space has helped Nordic forge the required cellular operator and carrier relationships required for the seamless global rollout of its nRF91 Series. Like mobile phones, all cellular IoT modules rely on SIM technology and local operator credentials to operate.

Leveraging our prior investments in ease-of-use for Bluetooth Low Energy developers, in June 2018 we launched the free "nRF Connect for Cloud" service to enable simple out-of-the-box Cloud connectivity and Cloud-based evaluation, test, and verification of Nordic-based Bluetooth LE customer designs.



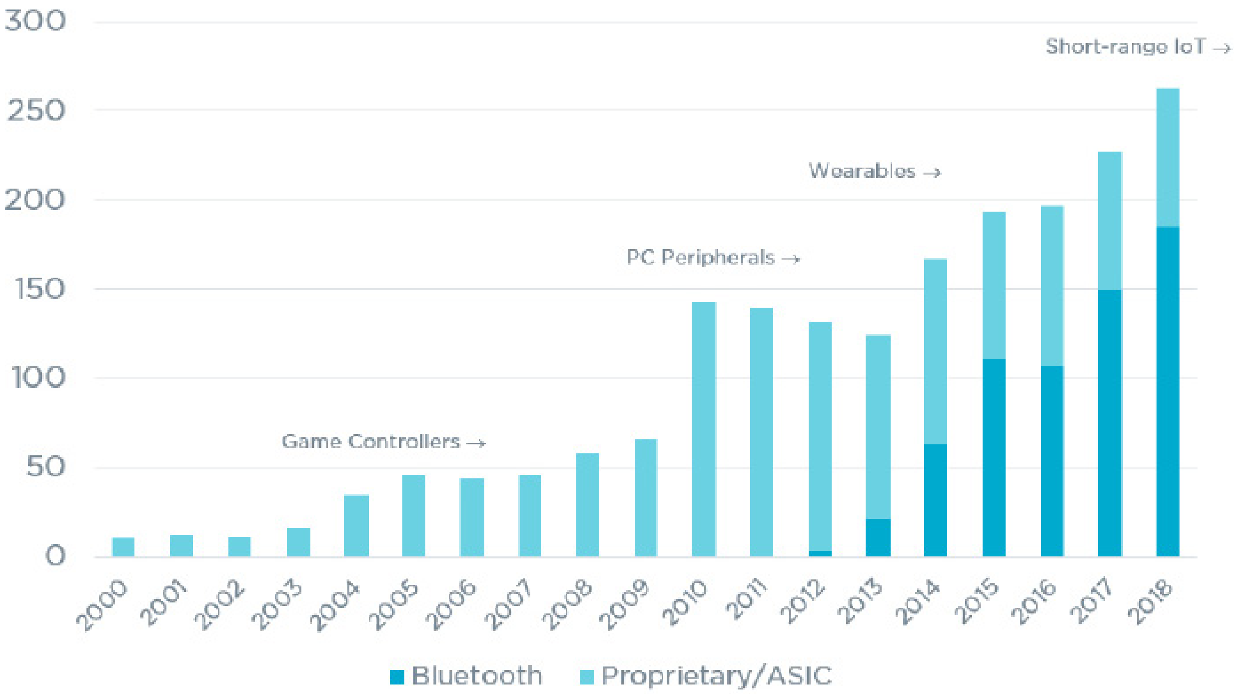
Nordic's nRF9160 SoC

In the social responsibility arena, a delightful success story has been Nordic's ongoing involvement in the micro:bit, which is designed to encourage and inspire children to get into coding and IT. Nordic was an official Product Partner of the BBC's original micro:bit (which is powered by a Nordic Bluetooth chip) and given free to every 11 to 12 year-old U.K. school child in 2016. Today the micro:bit continues to be highly popular under the stewardship of the not-for-profit Micro:bit Educational Foundation, which in October 2018 announced that over two million micro:bits had been shipped to over 50 countries while the growth-rate shows no sign of slowing down.

In summary, 2018 was a challenging year for Nordic and we are not content with our top or bottom-line growth. However, this is the final year of our four-year investment in cellular IoT without revenue contribution. Nordic is well-positioned to capitalize on growth in cellular IoT, while maintaining growth in existing Bluetooth and ultra-low power wireless markets (including proprietary, Thread, Zigbee offerings).

All these wireless technologies — together with Nordic Semiconductor — will be critical enablers in the construction of the wireless backbone which will connect trillions of things to each other and billions of people in the future world of IoT.

Revenue (MUSD)



REPORT FROM THE BOARD OF DIRECTORS

2018 saw continued Bluetooth growth from a large variety of verticals, in addition to strong designs going into production from tier one customers. Although the second half of the year was muted by trade tensions between the US and China, as well as lower demand from certain high-volume applications in China, overall Bluetooth revenue grew by 23% growth Y-o-Y. This growth is a result of investments made in 2016 and 2017, which have allowed us to significantly extend our Bluetooth Low Energy (Bluetooth) product line and increase our share of design wins.

In 2019, we aim to further strengthen our position in the rapidly developing Bluetooth market, while simultaneously strengthen our readiness to pursue market opportunities presented by long-range wireless and cellular IoT.

Operations in 2018

Net profit after tax for Nordic Semiconductor Group was MUSD 8.9 in 2018, an increase of 31.0% from 2017. Revenue increased 14.9% from MUSD 236.0 in 2017 to MUSD 271.1 in 2018. Gross margin improved 2.6 percentage points to 49.8% in 2018 from 47.2% in 2017. Yield issues at the end of 2016 and beginning of 2017 have been resolved and we achieved our 50% target for gross margin in the second half of 2018.

While delivering operational improvements, we have continued investing for future growth by strengthening our R&D, operations and sales teams, with a focus on both short-range and long-range applications. EBITDA margin increased to 11% in 2018 from 10% in 2017, despite significant investments in future growth. We achieved EBITDA of MUSD 30.8 in 2018, a 32.0% increase from MUSD 23.3 in 2017. For a definition of Alternative Performance Measures (APM), including EBITDA, see page 68.

During 2018, Nordic expanded the nRF52 Series and ramped the nRF52840 multiprotocol System-on-Chip (SoC), which is our most advanced chip yet, with a unique Thread certified solution enabling simultaneous Thread and Bluetooth 5 connectivity.

After nearly 4 years of dedicated development, we released the nRF91 Series LTE-M/NB-IoT low-power cellular IoT solution in December 2018. We sampled more than 300 lead customers during 2018, we shipped more than 2 000 cellular development kits in December 2018 and we have achieved approval for operation in most live networks of cellular operators.

Strategy and long term target

Nordic's mission is to be a world-leading supplier of low-power connectivity. This includes both short-range and long-range technologies, a combination we believe makes Nordic unique in the industry. In order to capture strong Bluetooth growth as well as new cellular IoT opportunities, we have significantly strengthened our sales and marketing capabilities in 2018, both within key account sales 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. We expect Nordic's operational leverage to increase over time, positively affecting EBITDA margins.

During 2018, we have continued to make efforts to increase customer and vertical diversification, and this will continue in 2019.

An important objective for 2018 has been to build a strong position in low power cellular IoT, leveraging our existing customer base and market reach. During 2018, Nordic has secured the first design wins and launched the nRF91 Series in the market. In 2019 Nordic will be ramping up production.

Group Overview

Nordic is a fabless semiconductor group, which designs, sells and delivers integrated circuits and related intellectual property for use in short and now also long-range wireless applications. The Group specializes in ultra-low power wireless solutions, based on its proprietary 2.4 GHz RF, Bluetooth Low Energy and most recently cellular IoT technologies. Nordic is a pioneer in ultra-low power wireless technology, and with more than 300 million units sold last year, the Group can claim a leading position in this sector. With the launch of our long-range low-power cellular chipset in 2018, we are providing customers with a broad portfolio of low-power connectivity solutions across the spectrum of distances from near-field to long-range.

Nordic'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 include consumer electronics, wearables, building and retail, healthcare, and other applications.

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

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	2018	2017	Change %
Proprietary wireless	77 254	77 428	-0.2%
Bluetooth	185 148	150 126	23.3%
Long-range (cellular IoT)	232	0	NA
ASIC Components	7 994	7 916	1,0%
Consulting services	505	533	-5.2%
Total	**271 134**	**236 003**	**14.9%**

Total revenue increased 14.9% to MUSD 271.1 in 2018 from MUSD 236.0 in 2017. The increase is mainly attributable to a 23.3% increase in sales of our Bluetooth LE solutions to MUSD 185.1 from MUSD 150.1 in 2017. Bluetooth revenue represented 68.3% of Nordic's total revenue in 2018 compared to 63.6% in 2017. Nordic won a large number of designs at the end of 2016 and 2017, and these wins positively affected revenue in the first half of 2018. Unfortunately, trade tensions between the US and China as well as lower demand from specific market segments in China resulted in muted revenue growth in the second half of the year.

During 2018 there has been a significant growth especially within the healthcare and others market (mainly module manufacturers). Revenue from healthcare has increased by 58.7 % to MUSD 22.6 and others market increased by 74.9 % to MUSD 35.6.

Revenue from proprietary products declined 0.2% to MUSD 77.3 in 2018 from MUSD 77.44 in 2017. We won new designs and with this confirmed an extended life cycle for our proprietary products, resulting in a softer revenue decline than expected, although we foresee that sales of Proprietary products will be impacted by changes in product mix and a transition to Bluetooth Low Energy with a continued expected decline in volumes in the years to come.

Sales of ASIC products during 2018 was similar to 2017 with 1.0% growth to MUSD 8.0. No new ASICS designs are being developed and future revenue will therefore depend on demand from existing customers and applications.

Gross Profit

Amounts in USD thousand	2018	2017
Gross Profit	135 021	111 487
Gross Margin	49.8%	47.2%

Gross profit was MUSD 135.0, or 49.8% of revenue, compared with MUSD 111.5, or 47.2% of revenue in 2017. Gross margin in 1H 2017 was negatively affected by yield issues in connection with the ramp-up of the nRF52 Series product line.

We continued driving gross margin improvements in the second half of 2017 and throughout 2018 and are satisfied that we reached our 50 % gross margin target for 2H 2018.

Operating expenses

Amounts in USD thousand	2018	2017
Payroll expenses	70 048	60 517
Other operating expenses	34 199	27 657
Depreciation	16 727	12 863
Total operating expenses	120 974	101 037

Total operating expenses ended at MUSD 121.0, an increase of 19.7% from MUSD 101.0 in 2017. This increase comprises an increase in the number of employees, higher activity related to release of new products and scaling operations for 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 116.0 in 2018, compared with MUSD 94.6 in 2017. This represents an increase of 22.6% in absolute terms, and an increase of 3 percentage points to 43% of revenue in 2018, compared to 40% in 2017.

Total headcount grew 14.0% from 601 at the end of 2017 to 685 at the end of 2018, as we are devoting more resources to both short-range and long-range R&D, where the number of employees increased from 457 (2017) to 515 (2018). We have also strengthened our sales and supply chain organization to be able to handle expected growth in volumes in 2019 and beyond. Other operating expenses related to R&D, software, IP and test manufacturing have increased with the higher activity level associated with to the nRF91 product launch.

Development of new wireless components is essential to the Group's continued competitiveness in a rapidly evolving market. At the end of 2018, R&D personnel represented 75% of the Group's employees (76% in 2017). During 2018, total R&D spending including capitalized items amounted to 28.4% of revenues compared with 26.8% in 2017. In 2018, we capitalized MUSD 13.0 related to R&D projects that are in the commercialization phase of development, compared to MUSD 8.6 in 2017. Operating expenses recognized in the P&L from these activities decreased to MUSD 17.0 in 2018 from MUSD 20.1 in 2017 due to capitalization of cellular expenses. Nordic capitalized a total of MUSD 9.8 of the cellular expenses in 2018.

Taxes

The tax expense for the Group for the financial year 2018 was MUSD 6.2, representing 41.3 % of profit before tax. The base tax rate for the Group is 23 %. The USD had a strong appreciation against NOK in Q4 2018 and as the tax return is prepared in NOK, the parent company had a large currency gain, increasing taxable profit.

Cash flow and balance sheet

In 2018, the Group has generated net cash flow from operating activities of MUSD 30.5 (MUSD 35.0 in 2017). Cash flow from operating activities has been used to finance the investing activities of MUSD 30.5 (MUSD 19.4 in 2017). The Group raised MUSD 98.9 in a capital increase in April 2018, of which MUSD 20 was used to repay long-term debt. In addition, the Group has purchased treasury shares for a total of MUSD 12.4 during 2018. Cash at the end of the year was MUSD 103.9.

Nordic has decreased inventory levels by MUSD 1.1 to MUSD 42.7 at year-end 2018 from MUSD 43.8 year-end 2017 despite a significant revenue increase. Accounts receivable increased by MUSD 3.2 to MUSD 51.8 at year-end 2018 from MUSD 48.6 at year-end 2017. Tight cash management and cash generation are key priorities within the Group. Total assets increased by MUSD 82.0 to MUSD 267.1 at year-end 2018, mainly due to the capital increase.

Financial Risk

Strategic risk

Demand for Nordic'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 rates. As demand increases, new competitors are likely to enter the market and different trends may increase volatility of both revenue and earnings for Nordic.

Nordic's success depends on its ability to anticipate customer needs and address these with competitive technical solutions and outstanding customer support. Nordic invests heavily in research and development to anticipate and respond to new market trends. The Group rapidly implements new design to meet customer needs and to adapt to new protocols available from standard setting organizations.

In order to successfully execute our current and future business commitments, we need to continue building our organizational capability for continuous innovation and at the same time grow our organization while maintaining and refining the Nordic culture. We seek to create a positive working environment that results in low levels of staff turnover, while at the same time maintaining effective recruitment and retention processes to attract and engage the best candidates in the global technology industry.

Operational Risk

The Group's outsourcing of manufacturing and direct distribution requires close collaboration with third-party subcontractors and distributors. We conduct extensive qualification programs in connection with new designs in order to minimize risk with product launches. To reduce risk of delivery issues related to natural disasters, we ensure second sourcing and sufficient inventories of all our key products.

Liquidity Risk

As a growing company, Nordic needs to have available funds to ensure short-term variations in capital needs. We maintain a sufficient balance of available cash and we currently have in place two long-term revolving credit facilities ("RCFs"), which enable us to borrow up to MUSD 40 and MUSD 25 at any time with an interest rate equal to LIBOR + margin. The line of credit of MUSD 40 expires in September 2020, while the MUSD 25 credit line expires in November 2022. As of December 31, 2018, the Group had not drawn on any credit facilities. In addition, the Group has a non-utilized MEUR 10 overdraft facility available to finance short-term working capital requirements. Available cash on December 31, 2018 including credit facilities is close to MUSD 180 compared to MUSD 94, 31 December 2017. The Group has a healthy equity ratio of 82.9 % at year-end 2018 compared to 67.5% year-end 2017. Financial covenants 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.

Foreign Currency Risk
The Group is exposed to foreign exchange risk in its ordinary business, which can impact profit margin. 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.

Credit risk
Finally, the Group has an inherent exposure to credit risk, although this has historically not resulted in any significant losses. Nordic 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.

Overall Risk Management
The Board oversees the risk management process and carries out biannual reviews of the Group's most important areas of exposure and internal control processes.

Personnel and Organization

At the end of 2018, the Group had 685 employees, compared to 601 in 2017, of whom 319 (270) were employed outside of Norway. Well-functioning cooperation between management and employee representatives contributes to open lines of communication and addressing any challenges at an early stage.

There were 89 (77) female employees at the end of 2018, corresponding to 13% (13%) of total number of employees.

The Group had 363 full-time employees in Norway, including 57 female employees. There were 319 full-time employees in Finland, China, Hong Kong, South Korea, Japan, the Philippines, Taiwan, Switzerland, Poland, UK, the Netherlands and the US, including 33 females. The average salary for female employees was 83% (82%) of the average salary for male employees excluding executive management. Gender differences in salary levels can be explained 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, which mainly is 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 bias when recruiting for positions within Nordic. 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 in engineering students and experienced candidates in Norway and other primary recruiting markets for Nordic. Nordic participates in the "Jenteprosjektet Ada", initiated by Norwegian University of Science and Technology. The project aims to recruit, motivate and educate females within the IT industry in Norway.

Absence due to illness was 2.2% in 2018 and in 2017. No occupational illnesses or injuries were reported in 2018.

Executive Management consists of six men and one female, and in the Board of Directors there are two female and three male shareholder elected members.

Environmental Statement

Nordic 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 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 ISO 9001, ISO 14001 and OHSAS 18001 certified management system.

Nordic 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.

The Board has prepared a separate report on corporate social responsibility in line with Oslo Stock Exchange's recommendation. The report also covers employee and environmental considerations. The report can be downloaded from www.nordicsemi.com.

Corporate Governance

Nordic's guidelines and practice for Corporate Governance are in accordance with the Norwegian Code of Practice for Corporate Governance, dated 17 October 2018 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 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.

In accordance with the Group's dividend policy and taking into consideration the cash position and funding requirements to pursue Nordic's growth strategy in the coming years, the Board is not proposing any dividend distribution for 2018 at its Annual General Meeting in April.

The net profit of the parent company of the Group totaled MUSD 6.4 in 2018 and Board of Directors proposes that the net profit to be transferred to other equity.

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 universal in its application. In the medium term, we expect Bluetooth revenue to grow by 20 to 30% annually. The Group guides for a MUSD 50-55 in total revenue for Q1 2019.

Our proprietary business will continue to contribute significantly to our financial results, although it is expected that more designs will be transferred to the Group's Bluetooth Low Energy 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 strong market position in Bluetooth Low Energy in the future, building on a product range that includes the higher value state-of-the-art nRF52 Series SoCs as well as product variations at different price points. Nordic 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, we expect to see growth from our investments in low power cellular technology, where our market leading technology architecture is being integrated with wireless technology.

Nordic 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, March 14, 2019

Birger Steen
Chair

Tore Valderhaug
Vice-Chair

Craig Ochikubo
Board member

Inger Berg Ørstavik
Board member

Svenn-Tore Larsen
Chief Executive Officer

Anne Marit Panengstuen
Board member

Asbjørn Sæbø
Board member, employee

Susheel Raj Nuguru
Board member, employee

Jon Helge Nistad
Board member, employee

Financial Statements

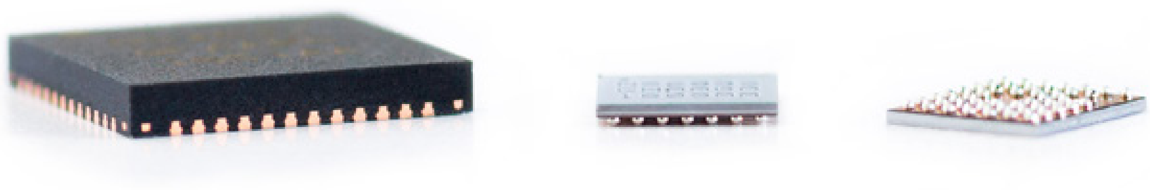
Income statement (for the year ended December 31)

GROUP				PARENT	
2018	**2017**	**Amount in USD 1000**	**Note**	**2018**	**2017**
271 134	**236 003**	**Total Revenue**	**3**	**271 878**	**236 809**
-136 111	-123 645	Cost of materials	4	-136 111	-123 645
-1	-872	Direct project costs		-1	-872
135 021	**111 487**	**Gross profit**		**135 766**	**112 293**
-70 048	-60 517	Payroll expenses	9/10/12/18	-42 796	-38 788
-34 199	-27 657	Other operating expenses	5/21	-68 546	-55 147
-16 727	-12 863	Depreciation	11/12	-13 781	-10 571
14 047	**10 450**	**Operating profit**		**10 642**	**7 787**
1 782	275	Financial income	6/22	1 782	274
-428	-622	Financial expenses	6/22	-427	-622
-320	-322	Net foreign exchange gains (losses)	6/22	-319	-352
15 081	**9 780**	**Profit before tax**		**11 678**	**7 087**
-6 222	-3 017	Income tax expense	7	-5 263	-2 393
8 859	**6 763**	**Net profit after tax**		**6 415**	**4 693**
		Attributable to:			
8 859	6 763	Equity holders of the parent			
0,05	0,04	Ordinary earnings per share (USD)	8	0,04	0,04
0,05	0,04	Fully diluted earnings per share (USD)	8	0,04	0,04
2018	**2017**	**Statement of comprehensive income**		**2018**	**2017**
8 859	**6 763**	**Net profit after tax**		**6 415**	**4 693**
-21	-25	Actuarial gains (losses) on defined benefit plans (before tax)		-21	-25
5	6	Income tax effect	7	5	6
-324	134	Currency translation differences			
8 519	**6 878**	**Total Comprehensive Income**		**6 399**	**4 674**

Statement of financial position (as of December 31)

GROUP				PARENT	
2018	**2017**	**Amount in USD 1000**	**Note**	**2018**	**2017**
		ASSETS			
		Non-current assets			
27 686	18 925	Capitalized development expenses	12	27 686	18 925
15 063	15 509	Software and other intangible assets	12	14 604	15 300
1 335	1 516	Deferred tax assets	7	1 168	1 341
17 582	12 258	Fixed assets	11/22	13 530	7 999
0	0	Shares in subsidiaries	1/13	43	15
61 667	**48 209**	**Total non-current assets**		**57 031**	**43 580**
		Current assets			
42 679	43 789	Inventory	4	42 679	43 789
51 784	48 582	Accounts receivable	14/22	51 784	48 582
7 155	7 844	Other short-term receivables	15	7 269	16 576
103 876	36 695	Cash and cash equivalents	16/22	100 522	35 020
205 494	**136 910**	**Total current assets**		**202 254**	**143 967**
267 161	**185 119**	**TOTAL ASSETS**		**259 285**	**187 548**

		EQUITY			
303	283	Share capital	17	303	283
-5	-2	Treasury shares	17	-5	-2
113 355	14 436	Share Premium	17	113 355	14 436
107 896	110 306	Other components of equity		100 718	105 541
221 549	**124 953**	**Total equity**		**214 370**	**120 258**
		LIABILITIES			
		Non-current liabilities			
279	293	Pension liability	18	279	293
0	20 000	Other long-term loan facility	22	0	20 000
279	**20 293**	**Total non-current liabilities**		**279**	**20 293**
		Current liabilities			
10 424	13 075	Accounts payable	20/22	9 681	12 337
5 043	3 069	Income taxes payable	7	4 854	2 508
2 901	2 774	Public duties	20	2 471	2 388
26 966	20 955	Other short-term debt	15/20	27 630	29 765
45 333	**39 873**	**Total current liabilities**		**44 636**	**46 997**
45 612	**60 166**	**Total liabilities**		**44 915**	**67 290**
267 161	**185 119**	**TOTAL EQUITY AND LIABILITY**		**259 285**	**187 548**



Oslo, March 14, 2019

Birger Steen Chair	**Tore Valderhaug** Vice-Chair	**Craig Ochikubo** Board Member
Inger Berg Ørstavik Board Member	**Svenn-Tore Larsen** Chief Executive Officer	**Anne Marit Panengstuen** Board Member
Asbjørn Sæbø Board Employee Representative	**Susheel Raj Nuguru** Board Employee Representative	**Jon Helge Nistad** Board Employee Representative

Nordic Semiconductor Group

Consolidated statement of changes in equity

for the year ended December 31

Amount in USD 1000	Share capital	Treasury shares	Share premium	Other paid in capital	Currency translation reserve	Retained earnings	Total equity
Equity as of 01.01.17	**283**	**-2**	**14 436**	**968**		**101 264**	**116 949**
Net profit for the period						6 763	6 763
Share based compensation				1 126			1 126
Other comprehensive income					134	-19	115
Equity as of 01.01.18	**283**	**-2**	**14 436**	**2 094**	**134**	**108 008**	**124 953**
Net profit for the period						8 859	8 859
Purchase of treasury share		-4				-12 071	-12 075
Issue of share capital	20		98 919				98 939
Share based compensation		1		1 213			1 214
Other comprehensive income					-324	-16	-341
Equity as of 31.12.18	**303**	**-5**	**113 355**	**3 307**	**-190**	**104 780**	**221 549**

Nordic Semiconductor Parent

Statement of changes in equity

for the year ended December 31

Amount in USD 1000	Share capital	Treasury shares	Share premium	Other paid in capital	Retained earnings	Total equity
Equity as of 01.01.17	**283**	**- 2**	**14 436**	**-366**	**100 324**	**114 676**
Net profit for the period					4 693	4 693
Share based compensation				907		907
Other comprehensive income					-19	-19
Equity as of 01.01.18	**283**	**-2**	**14 436**	**541**	**104 999**	**120 258**
Net profit for the period					6 415	6 415
Purchase of treasury shares		-4			-12 071	-12 075
Issue of share capital	20		98 919			98 939
Share based compensation		1		849		850
Other comprehensive income					-16	-16
Equity as of 31.12.18	**303**	**-5**	**113 355**	**1 391**	**99 327**	**214 370**

Statement of cash flows
for the year ended December 31

GROUP				PARENT	
2018	**2017**	**Amount in USD 1000**	**Note**	**2018**	**2017**
		Cash flows from operating activities			
15 081	9 780	Profit before tax		11 678	7 087
-2 759	-1 600	Taxes paid for the period	7	-2 759	-1 382
16 727	12 863	Depreciation	11/12	13 781	10 571
-4 708	12 152	Change in inventories, trade receivables and payables	4/14/20/22	-4 748	11 895
1 231	1 126	Share-based compensation		882	907
-30	-19	Movement in pensions		-30	-19
4 974	743	Other operations related adjustments		7 243	1 819
30 516	**35 049**	**Net cash flows from operating activities**		**26 046**	**30 880**
		Cash flows used in investing activities			
-17 530	-10 832	Capital expenditures (including software)	11/12	-14 384	-7 720
-12 993	-8 572	Capitalized development expenses	12	-12 993	-8 572
-30 523	**-19 404**	**Net cash flows used in investing activities**		**-27 377**	**-16 292**
		Cash flows from financing activities			
-12 075	0	Purchase of treasury shares	17	-12 075	0
98 939	0	Capital increase		98 939	0
-32	0	Cash settlemet of options contract and issue of share capital		-32	0
-20 000	0	Interest bearing debt		-20 000	0
66 832	**0**	**Net cash flows from financing activities**		**66 832**	**0**
357	-86	Effects of exchange rate changes on cash and cash equivalents		0	**0**
67 181	**15 560**	**Net change in cash and cash equivalents**		**65 501**	**14 588**
36 695	21 135	Cash and cash equivalents as of 1.1.		35 020	20 432
103 876	**36 695**	**Cash and cash equivalents as of 31.12.**	**16/22**	**100 522**	**35 020**
1 560	1 452	Restricted cash incl. in the cash and cash equivalents as of 31.12.	16	1 560	1 452

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 five wholly-owned subsidiaries, Nordic Semiconductor Inc., Nordic Semiconductor Poland Sp. z.o.o, Nordic Semiconductor Finland OY, Nordic Semiconductor Japan KK and Nordic Semiconductor Germany GmbH.

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

The financial accounts were approved for publication by the Board of Directors on March 14, 2019, and will be presented for approval at the Annual General Meeting on April 24, 2019.

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

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 Comp The preparation of financial statement in accordance with IFRS requires that management uses 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 continuously 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 2.10.

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.

Estimating variable consideration for "Ship and Debit"

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. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. The Group uses the most likely amount method for calculating the discount, by assessing historical discounts to each distributor, the distributors' inventory level as of 31 December 2018 and expected sales mix. An estimate for this discount is provided in the accounts, reducing the revenue and increasing refund liabilities.

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 2018 MUSD 13.0 was capitalized, mainly related to the long-range cellular IoT products. The carrying amount of capitalized development costs as of December 31, 2018 and 2017 was MUSD 27.7 and MUSD 18.9 respectively.

2.3 Changes in accounting principles

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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. IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures. The Group adopted IFRS 15 using the modified retrospective method of adoption. There are no cumulative effects of initially applying the standard and no changes in how the Group recognizes revenue going forward. All the Group's revenue is revenue from contract with customers. The Group does not have Contract Assets or Liabilities, but the Ship and Debit accrual is classified as a Refund Liability, included in Current Liabilities.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 and adjusting the comparative information for the period beginning 1 January 2017. The standard had no impact on the comparative numbers.

(a) Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group. The Group has no financial assets at fair value. The following are the changes in the classification of the Group's financial assets:

Trade receivables and Other non-current financial assets previously classified as Loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as Debt instruments at amortized cost.

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

(b) Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. The Group has chosen the simplified approach and will record lifetime expected losses on all trade receivables. The Group has long-term relationships with current customers. Taking the customers' strong market position and forward-looking factors into consideration, the loss allowance has remained at zero after implementing IFRS 9.

2.4 Foreign currency

The presentation currency in the Group's consolidated financial statements is USD. The most significant subsidiary in the Group, Nordic Semiconductor ASA, has USD as its functional currency. Balance sheet items of foreign branches and subsidiaries in other functional currencies are translated into the presentation currency, USD, according to the exchange rates prevailing on the balance sheet date, while profit or loss items are translated according to monthly average exchange rates. Changes in net assets resulting from exchange rate movements are recognized in other comprehensive income.

Monetary assets and liabilities in foreign currency are translated into the entities' functional currency at the exchange rates prevailing on the balance sheet date. Changes in the carrying amount of such assets due to exchange rate movements between the transaction date and the balance sheet date 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 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.

2.7 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.

2.8 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.

2.9 Intangible assets

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 from contracts with customers

The Group is in the business of developing and selling integrated circuits. Revenue from contracts with customers is recognized when control of the goods are transferred to the customer (distributor) at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The time of delivery, and the time where control of goods are transferred, is usually the time when the goods are transferred to the transport carrier. At the delivery time, the Group has the right of payment for the asset, the customer has legal title to the asset, physical possession has been transferred to the customer and customer has the significant risks and rewards of ownership of the asset.

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.

The normal credit term is 30-60 days upon delivery.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g. warranties). In determining the transaction price for the sale of integrated circuits, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of integrated circuits provide customers with ship and debit rebates. The rights of ship and debit rebates give rise to variable consideration.

Ship and Debit

The Group provides retrospective rebates to certain distributors, given that the distributors have sold the goods to specific customer accounts. The Ship and Debit rebates are mostly offset against amounts payable by the distributor, but can also be paid to the distributor if there are no payable to offset against. To estimate the variable consideration for the expected future rebates, the Group applies the expected value method for each distributor account with a Ship and Debit agreement. The Group applies the requirements on constraining estimates of variable consideration and recognizes a refund liability for the expected future rebates

ii) Stock rotation

Certain contracts provide a distributor with a right to a certain level of stock rotation. The Group tracks the distributor's inventory and can initiate a stock rotation earlier if a certain product is selling better with another distributor. As the products have similar margin, there are no significant losses for the Group when stock rotations are initiated. The Group does not make provisions or adjustments for stock rotation unless we expect the goods returned to be obsolete. Stock rotation provisions are made if necessary based on most likely amount method.

iii) Significant financing component

Generally, the Group receives no short-term advances from its customers. Furthermore, no customers have more than 60 days credit terms. The Group's credit term is not a significant benefit of financing and no adjustments to the transaction price for significant financing components are therefore required under IFRS 15.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section 2.19.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

Assets and liabilities arising from rights of return

Right of return asset

Right of return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products. As the customers are only able to exchange the goods, the Group does not have a right of return asset.

Refund liabilities
A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Cost to obtain a contract
The Group does not pay commission to employees and all costs related to getting a customer order is immediately expensed. The amortization period for a contract asset would be one year or less, hence the Group is able to use the practical expedient and expense costs directly.

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, 2018.

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, Long-Range (cellular IoT), 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 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 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 2.11 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

The Group only has the first category; Financial assets at amortized cost (debt instruments).

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

  and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes trade receivables and other short-term receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

  or

- The Group has transferred the asset according to IFRS 9.3.2.4 and 9.3.2.5

Impairment of financial assets

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses (ECLs). The Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings. For more information, refer to note 22.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

2.20 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, 2018 and have not been applied in preparing these financial statements. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16, issued in January 2016, establishes a balance sheet lease accounting model that will increase transparency and comparability beginning in 2019. 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.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to IFRS 16

The Group plans to adopt IFRS 16 using the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption.

The main leases that will be recognized in the balance sheet are the different office leases. The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., copy machines, coffee machines etc.) that are considered of low value.

During 2018, the Group has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/ (decrease) as at January 1, 2019:

Amounts in USD thousand

Assets	
Property, plant and equipment (right-of-use assets)	21 843
Liabilities	
Lease liability	21 843

There will be no impact on equity on January 1, 2019. For the full year of 2019, the Group has estimated that the standard will have the following impact (subject to change with new leases and amendments of current leases):

Amounts in USD thousand

Other operating expenses	-3 989
EBITDA	**3 989**
Depreciation	3 779
EBIT	**210**
Interest expense	789
Profit before tax	**-579**

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.

3.1 Disaggregated revenue information

Revenue classified by end product applications:
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 2018, wireless components accounted for 96.8% of sales versus 96.4% in 2017. In addition to standard components, the Group sells customer-specific ASIC components (Application Specific Integrated Circuits) and related Consulting Services.

The Group has during 2018 recognized the first long-range (cellular IoT) revenue. Most of Nordic's cellular IoT customers are in the development phase and revenue from this technology is mainly sale of development kits. During 2019, Nordic will report the long-range (cellular IoT) revenue in the relevant end product area.

GROUP			PARENT	
2018	**2017**	**Revenue**	**2018**	**2017**
111 724	98 691	Consumer Electronics	111 724	98 691
43 838	37 355	Wearables	43 838	37 355
48 646	56 912	Building/Retail	48 646	56 912
22 578	14 231	Healthcare	22 578	14 231
35 618	20 365	Others	35 618	20 365
262 404	**227 554**	**Wireless components**	**262 404**	**227 554**
232		Long-range (cellular IoT)	232	
7 994	7 916	ASIC components	7 994	7 916
504	533	Consulting services	504	533
0	0	Management fee	744	806
271 134	**236 003**	**Total revenues**	**271 878**	**236 809**

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

GROUP			PARENT	
2018	**2017**		**2018**	**2017**
33 608	21 072	Europe	34 195	21 714
32 810	22 824	Americas	32 966	22 978
204 716	192 107	Asia/Pacific	204 717	192 117
271 134	**236 003**	**Total revenues**	**271 878**	**236 809**

The Group sells its components to distributors (referred to as the Group's customers), which then sell components onward to electronics manufacturers which build end products and sell them to end-customers across the world. Two distributors represented more than 10% of the Group's total revenues in 2018 (in total 40%). These two distributors represented 28% and 11% of the Group's total revenues respectively. In comparison, three distributors represented more than 10% of the Group's total revenues in 2017 (in total 47%), with 21%, 16% and 10% of revenues respectively. These distributors are based in Asia.

Revenue from contracts with customers classified by timing of revenue recognition:

2018	2017		2018	2017
270 630	235 470	Goods transferred at a point in time	270 630	235 470
504	533	Services transferred over time	1 248	1 339
271 134	**236 003**	**Total revenue from contracts with customers**	**271 878**	**236 809**

3.2 Contract balances

2018	2017		2018	2017
51 784	48 582	Trade receivables	51 784	48 582

Trade receivables are non-interest bearing and are generally on terms of 30 to 60 days. See note 22 for further details.

3.3 Right of return assets and refund liabilities

2018	2017		2018	2017
11 393	8 102	Refund liability – arising from ship & debit	11 393	8 102
1 600	0	Refund liability – arising from stock rotation	1 600	0

3.4 Performance obligations

The performance obligations for the sale of components is normally satisfied upon the time of delivery. Payment is generally due 30 to 60 days within delivery.

For the consulting services the performance obligation is satisfied over-time and the customer is generally invoiced at month-end for the work performed.

The Group has decided to use the practical expedient and not disclose unsatisfied or partially unsatisfied performance obligations. All remaining performance obligations are expected to be recognized within one year.

Note 4: Cost of materials / inventory

All figures in USD 1000

GROUP 2018	GROUP 2017		PARENT 2018	PARENT 2017
135 003	131 900	Cost of goods, gross	135 003	131 900
1 108	- 8 255	Changes in inventory	1 108	- 8 255
136 111	**123 645**	**Cost of goods, net**	**136 111**	**123 645**
21 491	21 932	Raw material	21 491	21 932
7 291	9 381	Work in Progress	7 291	9 381
13 898	12 476	Finished Goods	13 898	12 476
42 679	**43 789**	**Total inventory, net**	**42 679**	**43 789**
1 993	1 239	Amount written down	1 993	1 239

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 2018	GROUP 2017		PARENT 2018	PARENT 2017
9 033	6 987	Service and maintenance	8 478	6 794
8 011	6 109	Other consultancy fees	5 182	4 495
5 403	4 512	Office rental expenses	4 144	3 570
1 087	1 140	Office equipment	907	975
4 947	4 080	Material and components	4 483	3 815
-36	-27	Tax grant	-36	-27
-3 210	-3 046	Capitalized development expenses	-3 210	-3 046
3 811	3 107	Travel and meeting expenses	2 649	2 317
5 153	4 795	Other operating expenses	4 890	4 535
0	0	Other operating expenses intercompany	41 059	31 719
34 199	**27 657**	**Total other operating expenses**	**68 546**	**55 147**

Auditor remuneration, excl. of VAT

Fees to the auditor are included in consultancy fees above.

GROUP 2018	GROUP 2017		PARENT 2018	PARENT 2017
106	75	Statutory audit services	82	60
28	27	Tax advisory services	24	23
22	25	Other audit related services	22	21
156	**127**	**Total revenues**	**128**	**104**

Note 6: Net financial items

All figures in USD 1000

GROUP 2018	GROUP 2017		PARENT 2018	PARENT 2017
1782	244	Interest income	1782	243
0	31	Other financial income	0	31
1782	**275**	**Financial income**	**1782**	**274**
428	622	Financial expense	427	622
320	322	Foreign exchange loss (net)	319	352
748	**944**	**Financial expense**	**746**	**974**

Note 7: Tax

All figures in USD 1000

GROUP 2018	GROUP 2017	**Tax expense consists of**	PARENT 2018	PARENT 2017
-6 119	-2 451	Tax payable	-5 160	-1 684
-103	-567	Change in deferred tax / tax benefit	-103	-709
-6 222	**-3 017**	**Tax expense**	**-5 263**	**-2 393**

GROUP 2018	GROUP 2017	**Reconciliation of nominal and actual tax expense**	PARENT 2018	PARENT 2017
15 081	9 780	Profit before tax	11 678	7 087
-3 469	**-2 395**	**Tax at nominal rate 23 % (24% 2017)**	**-2 686**	**-1 707**
-30	51	Tax effect of different tax rates in other countries	-62	0
-153	-557	Tax effect permanent differences	93	-515
0	18	Excess tax provision previous year	0	18
-51	-59	Effect of change in tax rate	-51	-59
-2 521	-112	Currency effect from translation to USD	-2 557	-131
-6 222	**-3 017**	**Tax expense**	**-5 263**	**-2 393**

GROUP

Temporary differences:	**Balance Sheet**		**Income Statement**		**Other Comp. income**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Deferred tax benefit						
Inventory	322	236	86	146	0	0
Fixed Assets	951	957	-6	-262	0	0
Options (share based payments)	453	323	130	-407	0	0
Pension obligation	61	67	-6	-3	0	0
Accruals	22	23	-1	23	5	6
Deferred tax benefit - gross	**1 809**	**1 607**	**202**	**-503**	**5**	**6**
Gain and loss account	65	91	-25	-25	0	0
Net other tax-obligations	409	0	409	0	0	0
Deferred tax obligation - gross	**474**	**91**	**384**	**-25**	**0**	**0**
Currency effect of translation to USD	0	0	78	-88	0	0
Net deferred tax benefit (obligation)	1 335	1 516	0	0	0	0
Deferred tax expense	0	0	-103	-567	5	6

PARENT

Temporary differences:	**Balance Sheet**		**Income Statement**		**Other Comp. income**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Deferred tax benefit						
Inventory	322	236	86	146	0	0
Fixed Assets	784	782	2	-437	0	0
Options (share based payments)	453	323	130	-407	0	0
Pension obligation	61	67	-11	-9	5	6
Accruals	22	23	-1	23	0	0
Deferred tax benefit - gross	**1 642**	**1 432**	**205**	**-685**	**5**	**6**
Gain and loss account	65	91	-25	-25	0	0
Net other tax-obligations	409	0	409	0	0	0
Deferred tax obligation - gross	**474**	**91**	**384**	**-25**	**0**	**0**
Currency effect of translation to USD	0	0	75	-49	0	0
Net deferred tax benefit (obligation)	1 168	1 341	0	0	0	0
Deferred tax expense	0	0	-103	-709	5	6

GROUP 2018	GROUP 2017	Reconciliation of net deferred tax benefit:	PARENT 2018	PARENT 2017
1 516	1 973	Opening balance as of 1.1	1 341	1 946
-104	-567	Tax expense/income recognized in profit and loss	-104	-709
5	6	Tax expense/income recognized in other comprehensive income	5	6
-82	104	Currency effect from translation to USD	-75	98
1 335	**1 516**	**Net deferred tax benefit 31.12**	**1 168**	**1 341**

GROUP 2018	GROUP 2017	Net deferred tax recognized in OCI as of 31.12:	PARENT 2018	PARENT 2017
5	6	Net gain/(loss) on actuarial gains and losses	5	6
5	**6**	**Total tax other comprehensive income**	**5**	**6**

Note 8: Shares outstanding

	2018	2017
Basis for calculation of basic earnings per share		
Earnings for the year (USD '000)	8 859	6 763
Weighted average number of outstanding shares ('000)	172 591	161 796
Earnings per share (USD)	**0,05**	**0,04**
Basis for calculation of fully diluted earnings per share		
Earnings for the year (USD '000)	8 859	6 763
Weighted average number of outstanding shares ('000)	179 454	161 926
Earnings per share (USD)	**0,05**	**0,04**

The number of shares was as follows:

Date		Number of shares issued	Shares outstanding
2018-01-01	Balance at beginning of period	163 481 600	161 795 781
2018-12-31	Balance at end of period	179 781 600	175 236 600

Note 9: Payroll expenses

All figures in USD 1000

GROUP 2018	GROUP 2017	Combined expenses for salary and other compensation are distributed as follows:	PARENT 2018	PARENT 2017
57 604	47 068	Salary and vacation pay	36 412	30 408
11 364	9 928	Other compensation	8 330	7 350
5 904	4 932	Payroll tax	5 661	4 759
-482	-521	Tax grant	-482	-521
5 432	4 636	Defined contribution pension	2 649	2 317
-9 774	-5 526	Capitalized development expenses (hourly costs)	-9 774	-5 526
70 048	**60 517**	**Total**	**42 796**	**38 788**
641	566	Weighted average number of full time employees	415	371

GROUP 2018	GROUP 2017	Company's employees as of December 31, are distributed as follows:	PARENT 2018	PARENT 2017
366	331	Norway	366	331
26	26	China	26	26
4	4	South Korea	4	4
30	24	USA	1	1
19	11	Taiwan	19	11
4	3	Japan	0	0
19	15	Philippines	19	15
1	1	Switzerland	1	1
35	30	Poland	0	0
174	154	Finland	0	0
1	0	Germany	0	0
3	0	Sweden	3	0
1	0	Spain	1	0
1	1	UK	1	1
1	1	The Netherlands	1	1
685	**601**	**Total**	**442**	**391**

Note 10: Compensation to Group management and Board of Directors

All figures in USD 1000

Total compensation expensed for Board Members	2018	2017
Birger Steen, Chair (from 14.12.2018)	87	39
Terje Rogne, Chair (until 24.10.2018)	67	60
Tore Valderhaug, Vice-Chair	55	44
Craig Ochikubo, Board Member	85	56
Inger Berg Ørstavik, Board Menber	31	22
Anne-Cecilie Fagerlie, Board Member	9	40
Beatriz Malo de Molina, Board Member (until 30.4.18)	9	37
Jon Helge Nistad, Board Employee Representativee (Board remuneration only)	12	5
Asbjørn Sæbø, Board Employee Representative (Board remuneration only)	12	7
Susheel Nuguru, Board Employee Representative (Board remuneration only)	10	0
Joakim Ferm, former Board Employee Representative (Board remuneration only)	2	7
Lasse Olsen, former Board Employee Representative (Board remuneration only)	0	2
Total	**380**	**320**

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

2018	Salary	Bonus	Options**	Other compensation	Pension expenses	Total
Svenn-Tore Larsen, CEO	421	70	78	2	16	**587**
Pål Elstad, CFO	241	45	52	2	16	**356**
Svein-Egil Nielsen, CTO	226	42	52	2	16	**338**
Geir Langeland, Sales & Marketing Director	233	42	52	2	16	**345**
Ebbe Rømcke, Quality Director	166	30	26	2	16	**240**
Ole Fredrik Morken, Supply Chain Director	304	36	52	1	16	**409**
Marianne Frydenlund, Legal Director	103	24	2	1	12	**142**
Thomas E. Bonnerud, Director of Strategy and IR***	147	0	0	1	12	**160**
Total	**1 841**	**289**	**314**	**13**	**120**	**2 577**
2017	**Salary**	**Bonus**	**Options****	**Other compensation**	**Pension expenses**	**Total**
Svenn-Tore Larsen, CEO	374	99	144	2	16	**635**
Pål Elstad, CFO	214	60	96	1	16	**388**
Svein-Egil Nielsen, CTO	201	60	96	1	16	**375**
Geir Langeland, Sales & Marketing Director	208	60	96	1	16	**381**
Ebbe Rømcke, Quality Director	149	30	48	1	16	**244**
Ole Fredrik Morken, Supply Chain Director	310	60	96	1	16	**484**
Thomas E. Bonnerud, Director of Strategy and IR	163	60	49	1	16	**290**
Total	**1 619**	**432**	**625**	**10**	**111**	**2 797**

*Management compensation is paid in NOK. Exchange rate for 2018: 8.13 and 2017: 8.27
**Option cost is the expense of fair value of options based on Black Scholes calculation
***Until August 2018

Executive Compensation Declaration 2019

The Board has established a Compensation Committee to recommend and evaluate remuneration principles and execution for the CEO, to guide and evaluate, principles and strategy for the compensation of Executive Management and to evaluate and oversee the overall compensation strategy for the Group. 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 of the Group's policy for remuneration and compensation is that the members of the Executive Management team shall be offered competitive terms, to achieve the desired competence and incentives in the Group's Executive Management team.

The Group 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 are awarded as a direct cash payment. The Plan targets are set for the entire team to recognize Nordic's culture, collaboration and interdependencies among the existing team members in additional to individual KPI's. Targets are set for total revenue, EBITDA, new product revenue and achievement of individual KPI's. Achievement of targets will result in performance pay bonus of 25% of base salary. The performance bonus is capped at 50% of base salary.

The Executive Management team and other employees have a long-term incentive plan (LTI), structured as a 4-year option plan. The plan for the Executive Management team was approved in 2015 and 4 692 812 option grants have been made to both executives and other employees in 2016, 2017 and 2018.

The LTI rewards employees for creating shareholder value over the long term. While the targets for the LTI is set at Group level, the grant size per individual may differ given the performance of the individual. The LTI is subject to an absolute limit and fulfillment of performance criteria, both decided by the Board at its discretion.

The grant size is proposed by the CEO in consideration of the contribution, team-play and effort of each executive. The Board reviews the rationales for the grants, refines and/or approves the grant sizes.

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

The Group'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 Group is acquired or merged with another company. The rest of the executive management team has a 3 month resignation period and there are no severance pay agreements.

The guidelines for determination of salary and other compensation for leading employees as outlined for the Annual General Meeting in 2018 have been complied with.

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

	Options granted 2018*	Options granted 2017*
Svenn-Tore Larsen, CEO	62 000 stock options	65 575 stock options
Pål Elstad, CFO	42 000 stock options	43 804 stock options
Geir Langeland, Sales Director	42 000 stock options	43 804 stock options
Svein-Egil Nielsen, CTO	42 000 stock options	43 804 stock options
Ebbe Rømcke, Quality Director	21 000 stock options	21 771 stock options
Ole Fredrik Morken, Supply Chain Director	42 000 stock options	43 804 stock options
Marianne Frydenlund. Legal Director	5 000 stock options	0 stock options
Jon Helge Nistad, Board Employee Representative	3 000 stock options	3 501 stock options
Susheel Nuguru, Board Employee Representative	0 stock options	0 stock options
Asbjørn Sæbø, Board Employee Representative	5 100 stock options	0 stock options

*No options were exercised in 2018 and 2017 by primary insiders.

Note 11: Fixed assets

All figures in USD 1000

GROUP

2018	Office and lab equipment	Computer equipment and machinery	Fixture and fittings	Property	Total
Opening balance	10 394	31 062	2 240	333	44 029
Additions	4 488	8 364	449		13 300
Acquisition cost as of 31.12	**14 882**	**39 425**	**2 689**	**333**	**57 329**
Opening balance	5 889	24 437	1 445	-	31 771
Depreciation expenses	2 834	4 799	343		7 976
Accumulated depreciation as of 31.12	**8 723**	**29 238**	**1 788**	**-**	**39 747**
Net carrying value as of 31.12	**6 159**	**10 189**	**901**	**333**	**17 582**

PARENT

2018	Office and lab equipment	Computer equipment and machinery	Fixture and fittings	Property	Total
Opening balance	6 598	28 396	2 043	333	37 370
Additions	2 309	8 198	225		10 733
Acquisition cost as of 31.12	**8 907**	**36 594**	**2 269**	**333**	**48 103**
Opening balance	4 748	23 225	1 398		29 371
Depreciation expenses	761	4 170	270		5 201
Accumulated depreciation as of 31.12	**5 509**	**27 395**	**1 668**		**34 573**
Net carrying value as of 31.12	**3 398**	**9 199**	**601**	**333**	**13 530**

Fixed assets located in countries where Nordic does not have a legal entity
The Group has testers located in the Philippines and Taiwan with net carrying value of MUSD 6.2 as of 31.12.2018.

GROUP

2017	Office and lab equipment	Computer equipment and machinery	Fixture and fittings	Property	Total
Opening balance	6 638	29 374	2 058	333	38 403
Additions	3 756	1 688	182		5 626
Acquisition cost as of 31.12	**10 394**	**31 062**	**2 240**	**333**	**44 030**
Opening balance	3 944	20 004	1 089		25 037
Depreciation expenses	1 945	4 433	356		6 734
Accumulated depreciation as of 31.12	**5 889**	**24 437**	**1 445**		**31 771**
Net carrying value as of 31.12	**4 505**	**6 625**	**795**	**333**	**12 259**

PARENT

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

GROUP AND PARENT

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

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

Non-depreciable 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.

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

2018	Purchased Software	Capitalized Development costs	Total
Acquisition cost			
Opening balance	27 296	41 711	69 007
Additions	4 072	12 993	17 066
Accumulated cost as of 31.12	**31 368**	**54 704**	**86 073**
Accumulated depreciation			
Opening balance	11 787	22 786	34 573
Depreciation expenses	4 518	4 232	8 751
Total accumulated depreciation as of 31.12	**16 305**	**27 018**	**43 324**
Net carrying amount	**15 063**	**27 686**	**42 749**

PARENT

2018	Purchased Software	Capitalized Development costs	Total
Acquisition cost			
Opening balance	27 075	41 711	68 786
Additions	3 651	12 993	16 645
Accumulated cost as of 31.12	**30 727**	**54 704**	**85 431**
Accumulated depreciation			
Opening balance	11 775	22 786	34 561
Depreciation expenses	4 348	4 232	8 580
Total accumulated depreciation as of 31.12	**16 123**	**27 018**	**43 141**
Net carrying amount	**14 604**	**27 686**	**42 290**

GROUP	Non-capitalized R&D expenses:	PARENT
43 790	Personnel expenses	22 783
19 846	Other operating expenses	13 505
63 636	**Total cost recognized in income statement**	**36 288**
76 629	**Total cost for R&D (incl. capitalized development cost)**	**49 281**

GROUP

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

PARENT

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

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

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

Estimated useful life	3 – 10 years	1 – 5 years
Depreciation method	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 folowing subsidiaries have been included in the financial statements

Subsidiaries consolidated in	Established Year	Location	Share Ownership	Voting Rights
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%
Nordic Semiconductor Germany GmbH	2018	Germany	100%	100%

Subsidiaries as of 31 December 2018	Ownership	Share of votes	Net profit 2018	Equity 31. Dec 2018
Nordic Semiconductor Inc, USA	100%	100%	152	1 290
Nordic Semiconductor Poland S.p Z o.o.	100%	100%	93	333
Nordic Semiconductor Finland OY	100%	100%	2 051	5 488
Nordic Semiconductor Japan KK	100%	100%	39	71
Nordic Semiconductor Germany GmbH	100%	100%	5	40

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 manly a sales company, but in 2016 a small R&D department was also started. All sales conducted are 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 are on behalf of the parent company.

Nordic Semiconductor Germany GmbH is a sales company. All sales conducted are on behalf of the parent company.

Note 14: Accounts Receivable

All figures in USD 1000

GROUP 2018	GROUP 2017		PARENT 2018	PARENT 2017
51 784	48 582	Gross receivables	51 784	48 582
0	0	Provision for doubtful accounts	0	0
51 784	**48 582**	**Accounts Receivable, net**	**51 784**	**48 582**

Note 15: Intercompany balances

All figures in USD 1000

PARENT	2018	2017
Receivables		
Loan to group companies	0	3 150
Receivables group companies	1 250	7 081
Total	**1 250**	**10 231**
Payables		
Short-term debt group companies	4 732	12 048
Total	**4 732**	**12 048**

Note 16: Cash and cash equivalents

All figures in USD 1000

GROUP 2018	GROUP 2017	Cash and cash equivalents as of the balance sheet date were as follows:	PARENT 2018	PARENT 2017
102 316	35 243	Cash holdings	98 961	33 568
1 560	1 452	Tax deduction account (restricted funds)	1 560	1 452
103 876	**36 695**	**Cash and cash equivalents in statement of financial position**	**100 522**	**35 020**

Cash at banks earns interest at floating rates based on daily bank deposit rates.

For information on liquidity risk, see note 22.

Note 17: Share capital and shareholder information

Share capital

The share capital in Nordic Semiconductor as of December 31, 2018 consists of one share class with a total of 179 781 600 shares with a face value of NOK 0.01, with a total share capital of NOK 1 797 816. 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.

During the year the following changes have been made in the number of shares, share capital and share premium:

GROUP	Number of shares		Share capital (USD 1000)		Treasury shares (USD 1000)		Share premium (USD 1000)	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Holdings as of 1.1	163 481 600	163 481 600	283	283	-2	-2	14 436	14 436
Issue of share capital	16 300 000		20				98 919	
Change in treasury shares					-3			
Holdings as of 31.12	**179 781 600**	**163 481 600**	**303**	**283**	**-5**	**-2**	**113 355**	**14 436**

Dividend

No dividend was paid during 2018.

Authority to issue shares

The Board of the Parent company, based on a resolution from the annual general meeting on April 17, 2018, has used the authority to increase the company's share capital by issuing up to 16,300,000 shares with a par value of NOK 163,000.

Treasury shares

The Company owned 4 545 000 treasury shares on December 31, 2018. At January 1, 2018, the Company owned 1,685,819 treasury shares. Based on a resolution of the annual general meeting of April 17, 2018, the Board has authority to purchase the 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 company's share capital, and the price per share that the company may pay for shares shall not be lower than the face value and not higher than NOK 200. This authority applies until the company's regular general meeting in 2019, and by June 30, 2019 the latest.

Stock Option Grant

With reference to the Extraordinary General Meeting ("EGM"), on December 8, 2015, Nordic Semiconductor approved a 4-year option program for the Group.

See note 19 for further information on each annual grant.

Shareholder overview

The largest shareholders in Nordic Semiconductor ASA were as follows as of December 31, 2018:

Shareholder	Shares	Percentage
FOLKETRYGDFONDET	24 656 754	13,71 %
ACCELERATOR LTD	16 482 950	9,17 %
VERDIPAPIRFONDET DNB NORGE (IV)	8 919 877	4,96 %
Citibank, N.A.	5 750 358	3,20 %
KLP AKSJENORGE	5 490 000	3,05 %
NORDIC SEMICONDUCTOR ASA	4 545 000	2,53 %
KOMMUNAL LANDSPENSJONSKASSE	3 879 076	2,16 %
ALDEN AS	3 729 375	2,07 %
DANSKE INVEST NORSKE INSTIT. II.	3 467 973	1,93 %
PASSESTA AS	3 410 000	1,90 %
VERDIPAPIRFONDET PARETO INVESTMENT	3 211 000	1,79 %
VERDIPAPIRFONDET DNB NORGE SELEKTI	2 864 875	1,59 %
FOUGNER INVEST AS	2 654 550	1,48 %
MP PENSJON PK	2 517 434	1,40 %
TTC INVEST AS	2 300 000	1,28 %
Norron Sicav - Target	2 201 393	1,22 %
Norron Sicav - Active	2 188 966	1,22 %
JPMorgan Chase Bank, N.A., London	2 129 709	1,18 %
Skandinaviska Enskilda Banken AB	1 942 272	1,08 %
DANSKE INVEST NORSKE AKSJER INST	1 848 100	1,03 %
Total for the 20 largest shareholders	**104 189 662**	**57,95 %**
Other shareholders	75 591 938	42,05 %
Total shares outstanding	**179 781 600**	**100 %**

Shares held by the Board of Directors and Executive Management were as follows as of December 31, 2018.

Name	Shares
Birger Steen	35 460
Tore Valderhaug	5 769
Anne Marit Panengstuen	0
Craig Ochikubo	13 500
Inger Berg Ørstavik	1 000
Asbjørn Sæbø	10 000
Susheel Nuguru	0
Jon Helge Nistad	0
Svenn-Tore Larsen	1 905 400
Pål Elstad	8 846
Geir Langeland	177 700
Svein-Egil Nielsen	17 000
Ebbe Rømcke	68 900
Ole Fredrik Morken	160 000
Marianne Frydenlund	2 000
Total	**2 405 575**

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 2018 the pension liability was USD 60 000.

For the company in Finland pensions are financed by contributions from the insured employees and employers. 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:

Defined Pension Plan	**2018**	**2017**
Current service cost	0	0
Interest expense	26	33
Expected return on plan assets	-21	-27
Administration fee	2	4
Total pension expense excl. social security tax	**7**	**10**
Social security tax	1	1
Total pension expense incl. social security tax	**8**	**11**

Net pension obligation for the year was calculated as follows:	**2018**	**2017**
Pension obligations	1 096	1 135
Plan assets	905	901
Estimated net pension obligations	**192**	**234**
Social security tax	27	33
Total pension expense incl. social security tax	**219**	**267**

Total pension liability for the Group	**2018**	**2017**
Employees in Norway	219	267
Employees in Philippines	60	26
Total	**279**	**293**

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 2018, the cost of the defined contribution pension was USD 2 649 000, and the plan had 362 members.

Note 19: Stock options

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 company's share price exceeds a cap of NOK 143.16, the company may settle the option grant by compensating the employee the difference between the cap and the strike price.

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 company's share price exceeds a cap of NOK 107.31, the company may settle the option grant by compensating the employee the difference between the cap and the strike price.

On February 27, 2018, Nordic Semiconductor granted 1,477,400 share options to 300 employees. 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 company's share price exceeds a cap of NOK 141.81, the company 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 2018 and 2017 is below:

	2018	2017
Outstanding options 1.1	**3 127 663**	**5 287 714**
Options granted	1 477 400	1 625 412
Options forfeited	97 060	54 761
Options exercised	0	0
Options expired	287 710	3 730 702
Outstanding options 31.12	**4 194 293**	**3 127 663**
Of which exercisable	1 265 338	506 671

The fair value of the options is set on the grant date and expensed over the vesting period. KUSD 1 213 was expensed during 2018 and KUSD 1 130 in 2017.

The fair value of options granted in 2018 was NOK 11.17 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 NOK 42.97 on the date of grant in 2018.

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 141.81. At this price, the company 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 38.02% on the date of grant in 2018.

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 2018, i.e. 1.39 %.

Note 20: Current liabilities

All figures in USD 1000

GROUP 2018	GROUP 2017		PARENT 2018	PARENT 2017
10 424	13 075	Accounts payable	9 681	12 337
5 043	3 069	Income taxes payable	4 854	2 508
2 901	2 774	Social security tax and payroll tax	2471	2 388
5 751	5 160	Holiday pay	3 970	3 538
11 393	8 102	Provision of Ship and Debit	11 393	8 102
9 821	7 693	Accrued expenses	12 267	18 124
45 333	**39 873**	**Total Current liabilities**	**44 636**	**46 997**

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.

2018	2017		2018	2017
4 331	3 536	Office lease	3 244	2 709
385	80	Lease of machinery	225	71
4 717	**3 616**	**Total lease expense**	**3 469**	**2 780**

As of December 31, 2018, the Group leased offices in Trondheim, Oslo, Dahle, Oulu, Turku, Espoo, Krakow, Portland, Hong Kong, Shenzhen, Bejing, Shanghai, Seoul, Tokyo, Manila and Taiwan. Some lease amounts are fixed, others are regulated annualy based on the consumer price index.

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

GROUP		PARENT
4 410	Within 1 year	3 339
12 263	1 to 5 years	10 359
9 291	After 5 years	9 291
25 964	**Total non-cancellable leases**	**22 989**

The following table present the reconciliation of lease liabilities as of January 1, 2019:

GROUP		PARENT
25 964	**Operating lease commitment December 31, 2018 as disclosed in the financial statements**	**22 989**
	Recognition exception for:	
-236	*Short-term leases*	*-217*
-434	*Leases for low-value assets*	*-253*
-3 451	Effect from discounting at the incremental borrowing rate as of January 1, 2019	-3 303
21 843	**Lease liability recognized at January 1, 2019**	**19 217**

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 2018.

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

GROUP			PARENT	
2018	**2017**		**2018**	**2017**
221 549	124 953	Total equity	214 370	120 258
267 161	185 119	Total assets	259 285	187 548
83 %	**67%**	**Equity share**	**83 %**	**64%**

Financial assets

In the table below, the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets are shown.

GROUP

As of December 31, 2018

IAS 39 measurement category		IFRS 9 measurement category
Loans and receivables		Amortized cost
Accounts receivables and short-term receivables	*58 939*	*58 939*

As of January 1, 2018

IAS 39 measurement category		IFRS 9 measurement category
Loans and receivables		Amortized cost
Accounts receivables and short-term receivables	*56 426*	*56 426*

PARENT

As of December 31, 2018

IAS 39 measurement category		IFRS 9 measurement category
Loans and receivables		Amortized cost
Accounts receivables and short-term receivables	*59 053*	*59 053*

As of January 1, 2018

IAS 39 measurement category		IFRS 9 measurement category
Loans and receivables		Amortized cost
Accounts receivables and short-term receivables	*65 158*	*65 158*

GROUP	2018	2017
Debt instruments at amortized cost		
Accounts receivables and other short-term receivables	58 939	56 426
Total financial assets	**58 939**	**56 426**

PARENT	2018	2017
Debt instruments at amortized cost		
Accounts receivables and other short-term receivables	59 053	65 158
Total financial assets	**59 053**	**65 158**

Financial liabilities

Interest-bearing loans and borrowings:

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 November 2020, while the other MUSD 25 expires in November 2022. As of December 31, 2018, Nordic has not drawn on any of the credit lines (MUSD 20 drawn as of 31.12.2017). 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 up to 24 months of rent for the office in Trondheim.

GROUP	2018	2017
Non-current interest-bearing loans and borrowings		
RCF	0	20 000
Other financial liabilities at amortized cost, other than interest-bearing loans and borrowings		
Accounts payable and other short-term debt	37 390	34 030
Total financial liabilities	**37 390**	**54 030**

PARENT	2018	2017
Non-current interest-bearing loans and borrowings		
RCF	0	20 000
Other financial liabilities at amortized cost, other than interest-bearing loans and borrowings		
Accounts payable and other short-term debt	37 311	42 102
Total financial liabilities	**37 311**	**62 102**

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

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Group's sale of components takes place through its distribution partners within defined geographic regions, where Asia is the dominant region. The Group depends on a relatively small number of customers. Customer credit risk is managed by each region subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit evaluation and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and assurance from distributors that end customer sales is secured through letter of credits is obtained.

The Group's provision matrix is initially based on the historical observed default rates. The Group has calibrated the matrix to adjust the historical credit loss experience with forward-looking information.

Age distribution of customer receivables was:

GROUP 2018	GROUP 2017	Gross total	PARENT 2018	PARENT 2017
44 391	45 510	Not due	44 391	45 510
3 587	2 388	Past due 0-30 days	3 587	2 388
2 535	329	Past due 31-120 days	2 535	329
1 271	356	Over 120 days	1 271	356
51 784	**48 582**	**Total**	**51 784**	**48 582**

86% of receivables are within terms. Expected credit loss rate is 0 % for all receivables. The Group has a limited number of customers, regular contact and long-term relationships with most of its customer base. Some of the customers are dependent on Nordic Semiconductor to stay in business. The book value of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk on the balance sheet date was:

GROUP 2018	GROUP 2017		PARENT 2018	PARENT 2017
58 939	56 426	Accounts receivable and other short-term receivables	59 053	65 158

(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. Any surplus cash is spread in bank deposits with at least two reputable international banks. The company holds no other debt securities.

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, 2018:

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	45 333	45 333	34 474	5 327	5 532			
Other contractual obligations	0	27 206	1 103	1 103	2 205	7 830	5 675	9 291

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	44 636	44 636	35 747	3 546	5 343			
Other contractual obligations	0	24 231	835	835	1 670	5 926	5 675	9 291

*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 November 2020, 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 per year as the credit facility is not utilized.

For 2017 the negative effect on profit before tax given the utilization of RCF as of 31.12.2017 of MUSD 20 was 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.

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%	+/- 680

The table below shows sales in the most significant currencies:

GROUP	2018			2017		
	Local currency (1000)	USD (1000)	Share of total revenues in %	Local currency (1000)	USD (1000)	Share of total revenues in %
USD	268 597	268 597	99.1%	234 231	234 231	99.2%
EUR	2 163	2 537	0.9%	1 560	1 772	0.8%
Total		**271 134**	**100.0%**		**236 003**	**100.0%**

PARENT	2018			2017		
	Local currency (1000)	USD (1000)	Share of total revenues in %	Local currency (1000)	USD (1000)	Share of total revenues in %
USD	268 713	268 713	98.8%	234 489	234 489	99.0%
EUR	2597,9	3 050	1.1%	2 010	2 310	1.0%
Other		115	0.1%		10	0.0%
Total		**271 878**	**100.0%**		**236 809**	**100.0%**

(v) Determination of fair value

As of December 31, 2018 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	**2018**		**2017**	
	Book value	**Fair market value**	**Book value**	**Fair market value**
Financial assets				
Accounts receivable and other short-term receivables	58 939	58 939	56 426	56 426
Financial liabilities				
RCF	0	0	20 000	20 000
Accounts payable and other short-term debt	37 390	37 390	34 030	34 030

PARENT	**2018**		**2017**	
	Book value	**Fair market value**	**Book value**	**Fair market value**
Financial assets				
Accounts receivable and other short-term receivables	59 053	59 053	65 158	65 158
Financial liabilities				
RCF	0	0	20 000	20 000
Accounts payable and other short-term debt	37 311	37 311	42 102	42 102

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

Note 23: Events after the balance sheet date

There are no events after the balance sheet date with materially affect on 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.

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 2018 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, March 14, 2019

Birger Steen Chair	**Tore Valderhaug** Vice-Chair	**Craig Ochikubo** Board Member
Inger Berg Ørstavik Board Member	**Svenn-Tore Larsen** Chief Executive Officer	**Anne Marit Panengstuen** Board Member
Asbjørn Sæbø Board Employee Representative	**Susheel Raj Nuguru** Board Employee Representative	**Jon Helge Nistad** Board Employee Representative

STANDARDS OF CORPORATE GOVERNANCE

The Board of Directors ("Board") and Management of Nordic Semiconductor ASA ("Nordic" or 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 treat-ment 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 Responsible Business Alliance (RBA) 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 (CSR) report, as published on Nordic Semiconductor's website.

The Board's statement on corporate governance is set out below. It complies with the structure adopted by the Norwegian Corporate Governance Board (NUES). The statement also meets the information requirements set out in Section 3-3b of the Accounting Act and Section 5-8a of the Securities Trading Act.

The Articles of Association do not contain provisions that deviate from Chapter 5 of the Public Limited Liability Companies Act. The information requirements in the Accounting Act are integrated into the statement below where appropriate. This also applies to information about matters related to shareholders.

Statement of corporate governance

The Company adheres to the NUES and is subject to reporting requirements relating to corporate governance according to Section 3-3b of the Accounting Act.

The Company's foundational values are described in Nordic's Company Policies, and the procedures and guidelines for ethics and corporate responsibility have been designed based on these policies. The company has a separate annual report on CSR.

Deviations from the Code of Practice: None

Activities

The Articles of Association describe the objective and set clear limits for the company's business.

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

Nordic 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, various Bluetooth related standards and emerging standards for cellular IoT communications like NB-IoT and LTE-M. All manufacturing and direct distribution of components are outsourced to specialist subcontractors. The company is headquartered in Trondheim, Norway, and has offices in USA, China, Korea, Japan, Taiwan, Poland, Finland, Germany and the Philippines.

The Board sets clear objectives for the business with a view to create value for shareholders. The Board leads the company's strategic planning and make decisions that form a basis for the company's executive management to prepare and carry out investments to drive future growth. Strategic plans are evaluated on an ongoing basis, with a Board strategy review being conducted annually in an off-site multi-day meeting. New and updated long-term objectives, strategies and risk profiles are agreed on towards the end of the year, or in connection with major events.

The objectives include matters that relate to human rights, employee rights and social matters, the prevention of corruption, the working environment equal treatment, discrimination and environmental impact.; see the separate statement on CSR. The objectives are revised and adopted annually. Objectives for the coming year are revised and determined annually towards the end of the current year.

Deviations from the Code of Practice: None

Equity and dividends

The Board of Directors ensures that the company has a capital structure that is appropriate to the Company's objectives, strategy and risk profile. The Company's growth philosophy, as well as the cyclicality of its business, means that the Company will aim 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, while taking longer term growth targets into consideration. 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 17, 2018, 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 2019. The Board believes that it is expedient for the Board to be authorized to purchase own shares, partly to fulfil the remuneration schemes for employees, and partly so that shares can be used as a consideration in connection with the acquisition of businesses or for subsequent sale or cancellation. Such authorization must be decided by the General Meeting and will apply until 30 June the following year.

In accordance with the decision passed at the general meeting held April 17, 2018, 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 2019, 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' preemptive 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 2019.

Deviations from the Code of Practice: None.

Equal treatment of shareholders and transactions with close associates

The Company is generally cautious in regard 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 Board 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 with 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.

The Company considers Shareholders' preemption rights in connection with an increase in share capital to be an important and fundamental right in a healthy shareholder community, and the preemption right can only be waived in exceptional circumstances. Waiving of this right will be based on the Company's and shareholders' mutual interests. In such case, there will be full transparency about the matter, and the shareholders will receive identical information simultaneously through a stock exchange announcement and subsequently on the Company's website.

This also applies if the Board utilizes the authorizations it has been granted.

The Company's transactions in own shares must always comply with the arm's length principle and be on ordinary market terms.

Deviations from the Code of Practice: None.

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.

Each share carries one vote.

Deviations from the Code of Practice: None.

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 and the Board encourages all shareholders to participate and exercise their rights at the Annual General Meeting.

The Board of Directors should ensure that the Annual General Meeting is held in accordance with the Norwegian Code of Practice for Corporate Governance ensuring all shareholders the ability to participate. 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 one working day prior to the Annual General Meeting. The Board of Directors should further ensure that:

- The resolutions and supporting information distributed are sufficiently detailed, comprehensive and specific to allow shareholders to form a view on all matters to be considered at the meeting
- Any deadline for shareholders to give notice of their intention to attend the meeting is set as close to the date of the meeting as possible
- The Chair of the Board of Directors and the Chair of the Nomination Committee are present at the general meeting. In addition, the Chair of the Audit Committee and the Compensation Committee should attend the meeting
- The general meeting is able to elect an independent Chair for the general meeting

Shareholders should be able to vote on each individual matter, including on each individual candidate nominated for election. Shareholders who cannot attend the meeting in person should be given the opportunity to vote. The Company should design the form for the appointment of a proxy to make voting on each individual matter possible and should nominate a person who can act as a proxy for shareholders.

Deviations from the Code of Practice: None.

Nomination Committee

Nordic Semiconductor has a Nomination Committee, as provided for in the Articles of Association. The Annual General Meeting stipulate guidelines for the duties of the nomination committee, elect the chair and members, and stipulates the committee´s remuneration.

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 should justify why it is proposing each candidate in the notice for the AGM separately, including information on the candidates' competence, capacity and independence.

The nomination committee holds regular meetings with major shareholders as well as management and individual shareholder elected Board members. 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 Sjo

Deviations from the Code of Practice: None.

The composition and independence of the Board of Directors

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

The composition of the Board of Directors should ensure that the Board can attend to the common interests of all shareholders and meets the company's need for expertise, capacity and diversity. Attention should be paid to ensuring that the Board can function effectively as a collegiate body.

The composition of the Board of Directors should ensure that it can operate independently of any special interests. The majority of the shareholder-elected members of the Board should be independent of the Company's executive personnel and material business contacts. No executive personnel or representatives of business associates are members of the Board.

The shareholder-elected Board members are elected, in accordance with the Articles of Association, for one year at a time. The employee representatives are elected for two years at a time.

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 and on the Company's webpage.

Members of the Board are encouraged to hold shares in the company.

Deviations from the Code of Practice: None.

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 competent executive 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 2019 stipulates eight meetings, two of which are scheduled as all day or multi-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 two board committees comprising Board members – the Compensation Committee and the Audit Committee. The committees' mandates are based on a group perspective. The board committees do not have decision-making power but are charged with making proper preparations for board meetings in the matters with which they are concerned. In the Board's experience, the work of board committees makes make the overall Board more effective and efficient and has allows for deeper and stronger involvement in the business's challenges and initiatives.

The Board has established a Compensation Committee to recommend and evaluate remuneration principles and execution for the CEO, to guide and evaluate, principles and strategy for the compensation of executive management and to evaluate and oversee the overall compensation strategy for the company. The committee consists of three members and have planned 5 meetings in 2019.

The Audit Committee consists of two members of the Board. The Committee collectively has 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 at least one member has 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.

The Audit Committee held 6 meetings in 2018 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.

Deviations from the Code of Practice: None.

Risk Management and internal control

The Board and Management are committed to ensure 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 Board complies with NUES's recommendations in its work on risk management and internal control. The Company's most important risk areas and the internal control system are continuously reviewed.

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 annual review of the company's business strategy focusing on market development, technology updates, competitive positioning and risk factors. In addition, the Board reviews various aspects of the company's business throughout the year, including performing a half yearly detailed risk review.

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.

Deviations from the Code of Practice: None.

Remuneration to the Board of Directors

Remuneration to the Board of Directors is decided by the Annual General Meeting based in the Nomination Committees recommendation. All remuneration to the Board of Directors is disclosed in Note 10 of the Nordic Semiconductor Group annual accounts. The remuneration to Board members is not performance based or linked to the company's performance, and the company does not provide share options to Board members. Members of the Board of Directors receives remuneration for work related to Board committees.

Deviations from the Code of Practice: None.

Remuneration to the Executive Management

Board of Directors discusses and approves the terms and conditions for the CEO once a year and reviews 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 Company continues to attract and retain the desired and necessary talent . Compensation for executive management is established in accordance with the above-mentioned main principle.

The Company has established an annual performance bonus for the executive management team, for which the employee must remain within his position until the start of the following year to be eligible. The bonuses are awarded through a direct cash payment and, when appropriate, long-term incentives in the form of restricted shares and/or stock options. Performance-based compensation is subject to absolute payout limits and fulfillment of performance criteria, both decided by the Board at its discretion.

Deviations from the Code of Practice: None.

Information and Communications

The Board of Directors has established a communications strategy for the company's reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in the securities market. The strategy has been published on the Company's investor relations web pages (www.nordicsemi.com/About-us/Investor-Relations).

Nordic Semiconductor aims to communicate actively, openly and in a timely fashion with the financial market. The Company'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 2019 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 investor relations webpages together with the quarterly and annual reports and a comprehensive and detailed presentation of other information, reports and documents. .

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

Deviations from the Code of Practice: None.

Takeovers

The Board of Directors have established guiding principles for how it will act in the event of a takeover bid.

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

Deviations from the Code of Practice: None.

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. In addition, the auditor meets the Audit Committee on a regular basis. 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. Therefore, 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

Deviations from the Code of Practice: None.

AUDITOR OPINION LETTER

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Statsautoriserte revisorer
Ernst & Young AS

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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 sheets as at 31 December 2018, 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 2018 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 2018. 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 matters below, provide the basis for our audit opinion on the financial statements.

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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 end customers, the distributor will receive a discount after the sale is made, referred to as ship and debit discount. The related provision is by management primarily determined by assessing historical discounts to each distributor, the distributors' inventory levels as of 31 December 2018 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 recorded a ship and debit provision of USD 11.4 million as of 31 December 2018.

We assessed the Group's revenue recognition policy, including revenue recognition for ship and debit sales and the related adoption of IFRS 15. Further, we obtained an understanding of management's process for estimating the ship and debit provision as of 31 December 2018 and read a sample of distributor sales agreements. We compared the estimated ship and debit provision as of 31 December 2018 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 2018 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 2.10 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 2018.

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 of Directors 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.

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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, 14 March 2019
ERNST & YOUNG AS

Magnus H. Birkeland

Magnus H. Birkeland
State Authorised Public Accountant (Norway)

Board of directors & Executive Management

BOARD OF DIRECTORS

Birger Steen Chair

Birger Steen is a technology investor based in Seattle, WA. He served as CEO of Parallels, Inc. from 2010 to 2016. He was Vice President of Worldwide SMB and Distribution at Microsoft Corp. in Redmond and General Manager of Microsoft Russia and Microsoft Norway from 2002 to 2010. Prior to joining Microsoft, Mr. Steen was CEO of Scandinavia Online and Vice President of Business Development in Schibsted ASA, where he first served as a consultant while at McKinsey & Company 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. Current holdings in the company: 138 460 shares.

Tore Valderhaug Vice-Chair

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 public listed companies, including Cermaq 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 public listed company Q-Free ASA and Salmones Camanchaca SA, as well as the non-listed inApril AS, Optimar AS and Remøy Group. Current holdings in the company: 5 769 shares.

Craig Ochikubo Board Member

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. Current holdings in the company: 13 500 shares.

Inger Berg Ørstavik Board Member

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). Current holdings in the company: 1 000 shares.
(Photo: UiO v/E. Dobos)

BOARD OF DIRECTORS

Anne Marit Panengstuen Board Member

Mrs. Panengstuen has since August 2014 served as CEO of Siemens AS. In Siemens, she has worked as project engineer, and had several positions within sales and management. Before she became the CEO, she was Head of the Industry Sector, one of 4 sectors within Siemens.

Jon Helge Nistad Board 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: 10 001 share options.

Asbjørn Sæbø Board 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. Currently he dedicates his time to participating in the development of new Bluetooth specifications and implementation of those specifications. Before that, he was responsible for development and release of Nordic's Bluetooth Low Energy protocol stack, delivering 150 releases of that over five years. Before joining Nordic, Asbjørn Sæbø 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). Current holdings in the company: 10 000 shares and 10 700 share options.

Susheel Raj Nuguru Board Employee Representative

Susheel has a Master of Science in Electronics from Tampere University of Technology. He has been with Nordic since 2012, but has been working with embedded programming since 2004. His area of focus is the software side of real time systems. Susheel is currently employed as a Technical Support Senior Engineer at Nordic. During his employment with Nordic he has gained experience within sales, marketing and R&D while working for various departments.

EXECUTIVE MANAGEMENT

Svenn-Tore Larsen Chief Executive Officer

Mr. 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. Current holdings in the company: 1 905 400 shares and 193 150 share options.

Pål Elstad Chief Financial Officer

Mr. 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). Current holdings in the company: 8 846 shares and 129 608 share options.

Geir Langeland Sales and Marketing Director

Mr. 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. Current holdings in the company: 177 700 shares and 129 608 share options.

Svein-Egil Nielsen Chief Technology Officer

Mr. Nielsen holds an MBA from the Haas School of Business at the University of California, Berkeley and a Bachelor of Engineering honors degree in Computer and Electronics Systems from University of Stathclyde. 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. Current holdings in the company: 17 000 shares and 129 608 share options.

EXECUTIVE MANAGEMENT

Ebbe Rømcke Quality Director

Mr. 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 has also experience from Digital Design and Project Management in Normarc AS (now Park Air Systems), a leading manufacturer of aviation systems. Holdings in the company: 68 900 shares and 64 542 share options.

Ole Fredrik Morken Supply Chain Director

Mr. 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 Norwegian University of Science and Technology (NTNU). Holdings in the company: 160 000 shares and 129 608 share options.

Marianne Frydenlund Legal Director

Mrs. Frydenlund holds a law degree from the University of Oslo and North Dakota. She started her career in 2007 as a Warranty Responsible in StatoilHydro (Equinor), before taking on various Legal Counsel and Contract Manager positions. Her experience includes working for Huawei Technologies, Aker Engineering & Technologies (Aker Solutions) and Nexans Norway. During her time with these companies she was responsible for contract negotiations related to tenders for large engineering, procurement, construction & installation projects and contract management in the execution phase of such projects. Marianne sits on the Board of the Norwegian Company Lawyers Association and is on the committee for the annual vinter seminar for Industrijuristgruppen/ Industry Lawyer Association. Mrs. Frydenlund was appointed Legal Director at Nordic Semiconductor in February 2018, and also acts as Secretary to the Board of Directors. Holdings in the company: 2 000 shares and 5 000 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 (amount in USD million):

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

GROUP	2018	2017
Gross profit	135.0	111.5
Total revenue	271.1	236.0
Gross Margin	**49.8%**	**47.2%**

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

- **EBITDA.** Earnings before interest, taxes (operating profit), depreciation and amortization.

GROUP	2018	2017
Operating profit	14.0	10.5
Depreciation	16.7	12.9
EBITDA	**30.8**	**23.3**

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

GROUP	2018	2017
EBITDA	30.8	23.3
Total Revenue	271.1	236.0
EBITDA Margin	**11.4%**	**9.9%**

- **Adjusted EBITDA Margin.** EBITDA excluding cellular IoT, divided by Total Revenue exluding cellular IoT revenue. This APM shows Nordic's profitability excluding products in an investment phase with limited revenue.

GROUP	2018	2017
Reported EBITDA	30.8	23.3
Long-range (cellular IoT) EBITDA loss	16.9	20.0
Adjusted EBITDA	**47.7**	**43.4**
Total revenue (excluding cellular IoT revenue)	270.9	236.0
Adjusted EBITDA margin	**17.6%**	**18.4%**

- **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. Nordic management believes that this measurement best captures the expenses impacting the cash flow of the Group.

GROUP	2018	2017
Payroll expenses	70.0	60.5
Other opex	34.2	27.7
Depreciation	16.7	12.9
Total operating expenses	**121.0**	**101.0**
Depreciation	-16.7	-12.9
Option expense	-1.2	-1.1
Receivable write-off	0	-1.0
Capitalized expenses	13.0	8.6
Cash Operating Expenses	**116.0**	**94.6**

- **Last twelve months operating expenses exluding depreciation divided by last twelve months revenue**. Nordic's business is seasonal and by dividing last twelve months operating expenses excl. depreciation by last twelve months revenue, management is able to track cost level trends in relation to revenue. As a growth business it is key to keep cost level under control while still growing the business, and this ratio keeps track on that.

	2018	2017
Total operating expenses	121.0	101.0
Depreciation	-16.7	-12.9
Operating expenses excluding depreciation	**104.2**	**88.**
Total revenue	271.1	236.0
LTM opex / LTM revenue	**38.4%**	**37.4%**

- **Net working capital divided by last twelve months revenue**. Net working capital is a measure of both a company's efficiency and its short-term financial health, and by dividing the measure by last twelve months, seasonal effects are excluded. Nordic management uses this ratio to report on liquidity management to the financial market and internally to track performance.

	2018	2017
Current assets	205.5	136.9
Cash and cash equivalents	-103.9	-36.7
Current liabilities	-45.3	-39.9
Income taxes payable	5.0	3.1
Net working capital	**61.3**	**63.4**
Total revenue	271.1	236.0
NWC / LTM revenue	**22.6%**	**26.9%**

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