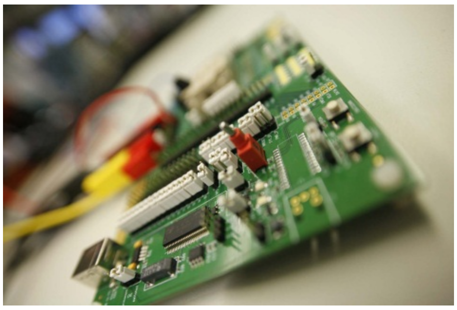
Interim Report as of 27 September 2013

# The power to be...
# ...personal
# ...portable
# ...connected



**Contents**

## Section 1: Business Review



## Section 2: Unaudited interim condensed consolidated financial statements

Press Release – 29 October 2013

# DIALOG SEMICONDUCTOR REPORTS THIRD QUARTER RESULTS ENDED 27 SEPTEMBER 2013

## *Company delivers 25% year on year revenue growth and increasing profitability*

**Kirchheim/Teck, Germany, 29 October 2013** - Dialog Semiconductor (FWB: DLG), a provider of highly integrated innovative power management, audio, AC/DC and short range wireless technologies, today reports results for its third quarter ending 27 September 2013.

**Q3 2013 financial highlights**

- IFRS revenue at $219.5 million, up 22% on Q3 2012; up 25% on an underlying (*) basis
- Mobile Systems IFRS revenue at $171.9 million, up 17% on Q3 2012
- Power Conversion (formerly iWatt Inc.) underlying (*) revenue at $18.4 million excluding $5.4 million impact of IFRS adjustments
- Underlying (*) Gross margin at 40.0%, 180bps above Q3 2012
- Underlying (*) operating profit (EBIT) up 47% to $32.2 million or 14.3% of revenue. IFRS operating profit (EBIT) down 46% to $9.5 million or 4.3% of revenue
- Underlying (*) basic and diluted EPS of 33 and 32 cents, up 18% and 19% respectively on Q3 2012. IFRS basic and diluted EPS of 5 cents, down 74% and 72% respectively on Q3 2012
- Cash generated from operations at $18.4 million. Cash and cash equivalents balance as of 27 September 2013 of $157.1 million

**Q3 2013 operational highlights**

- The integration of iWatt has progressed according to plan since completion on 16 July 2013
- Continued power management smartphone and tablet design win momentum, across new platforms and models of our largest customers
- Successfully delivered a steep ramp of new products to meet our customers demand
- Licenced Tensilica® HiFi Audio/Voice DSP IP from Cadence Design Systems, to develop next-generation audio solutions for our connectivity products
- Continued new products rollout by the Power Conversion Business Group (formerly iWatt Inc.)
- Gained traction in the wearable market with SmartbondTM, our leading low energy Bluetooth Smart SoC
- The migration to 0.13nm BCD technology continued according to plan and first products will be available for sampling next quarter

- Subsequent to the end of the reporting period we extended our customer footprint with a fourth platform win with Samsung announced on 24 October 2013

**Commenting on the results Dialog Chief Executive, Dr Jalal Bagherli, said:**

*"I'm really pleased to report a robust set of results delivering strong revenue growth, increasing profitability and solid cash generation."*

*"We have devoted significant attention to the smooth integration of iWatt into our business. This acquisition supports our strategy to diversify our markets and our customer base and our team remains really excited about the opportunities it brings."*

*"During the quarter Dialog successfully delivered on the beginning of the steep ramp of new products we anticipated for the second half of this year and we remain focused on the successful delivery of what will be a very busy end to 2013."*

## Outlook

In line with our expectation of a stronger second half of the year and given our current visibility, we expect revenue growth momentum to continue in Q4 2013 with underlying revenue in the range of $270 million to $295 million(1). This will result in a full year underlying revenue range of $826 million to $851 million.

In Q4 2013 we expect underlying gross margin, to improve sequentially and on a year on year basis. This will result in underlying gross margin improvement for full year 2013 over 2012.

(1) **Estimated Q4 2013 revenue adjustment of $1.7 million in Power Conversion Business Group (formerly iWatt Inc.)**

## Financial overview

| | IFRS (2) Third Quarter | | | Third Quarter underlying (*) | | |
|---|---|---|---|---|---|---|
| **US$ million** | **2013** | **2012** | **% Var.** | **2013** | **2012** | **% Var.** |
| Revenue | 219.5 | 180.0 | 22% | 224.8 | 180.0 | 25% |
| Gross Margin | 35.5% | 38.0% | (250)bps | 40.0% | 38.2% | +180bps |
| R&D % | 17.9% | 18.8% | (90)bps | 16.8% | 18.0% | (120)bps |
| SG&A % | 13.3% | 9.5% | +380bps | 8.8% | 8.0% | +80bps |
| EBITDA | 24.4 | 26.3 | (7)% | 41.0 | 29.9 | 37% |
| EBITDA % | 11.1% | 14.6% | (350)bps | 18.2% | 16.6% | +160bps |
| EBIT | 9.5 | 17.5 | (46)% | 32.2 | 21.8 | 47% |
| EBIT % | 4.3% | 9.7% | (540)bps | 14.3% | 12.1% | +220bps |
| Net income | 3.6 | 12.1 | (70)% | 21.8 | 18.0 | 22% |
| Basic EPS $ | 0.05 | 0.19 | (74)% | 0.33 | 0.28 | 18% |
| Diluted EPS $ | 0.05 | 0.18 | (72)% | 0.32 | 0.27 | 19% |
| Operating cash flow | 18.4 | (19.6) | n/a | - | - | - |

(2) **Including $3.5 million of acquisition and integration costs**

## Power Conversion Q3 2013

| | | Adjustments | | | | |
|---|---|---|---|---|---|---|
| **US$000** | **IFRS** | **Inventory revaluation** | **Def. Revenue** | **PPA** | **Integration costs** | **Underlying *)** |
| Revenues | 13.0 | - | 5.4 | - | - | 18.4 |
| EBIT | (14.9) | 6.8 | 3.0 | 4.7 | 1.7 | 1.3 |

Revenue in Q3 2013 was up 25% at $225 million, excluding the impact of $5.4 million of an IFRS adjustment relating to the accounting associated with the acquisition of iWatt deferred revenue. In addition to the strong performance in Mobile Systems underpinned by several new product launches, revenue in Automotive and Industrial was up 18% to $10.3 million, an uptick in Automotive from the softness observed in Q2 2013 and in line with our expectations.

Underlying Q3 2013 gross margin was 40.0%, 180bps above Q3 2012. The gross margin improvement in the quarter was the result of three key elements:

- The net realisation of the benefits of manufacturing cost optimisation over the last six months
- Positive product mix contribution from the Power Conversion Business Group, the Connectivity Segment and new products in Mobile Systems
- Higher revenue in the quarter and the subsequent lower allocation per unit of the fixed component of Cost of Goods Sold (COGS)

We continue to expect year on year underlying gross margin improvement for Q4 2013 and the full year 2013.

Underlying R&D investment in Q3 2013 stood at 16.8% of revenue, 120 bps below Q3 2012. On a trailing twelve months basis R&D was 17.4% of revenue, in line with Q3 2012 and 30bps below Q2 2013. In line with the company's strategy of continuing innovation and to accelerate the diversification our product portfolio, the absolute value of R&D costs increased by 20% over Q2 2013, nearly double the 11% increase we saw in the same period of 2012. We remain confident about our product pipeline and we anticipate new products launches in Q4 2013 and into 2014.

Underlying SG&A in Q3 2013 was 80bps above Q2 2013 at 8.8%. This increase is primarily driven by the consolidation of iWatt into the Group and the impact of the different SG&A structure. On a trailing twelve months basis, excluding the impact of PPA and $3.5 million of acquisition and integration costs, SG&A was 9.2% of revenue, 60bps below Q3 2012.

Underlying EBIT in Q3 2013 was up 47% over Q3 2012 to $32.2 million. This increase was the result of the higher revenue in the quarter, the continuing improvement in gross margin and the successful turnaround of the Connectivity segment (Q3 2013 IFRS $0.9 million profit; Q3 2012 IFRS $2.8 million losses).

After the consolidation of iWatt into the Group, we now expect the tax rate for the full year 2013 to be at around 33% (30% before the consolidation of iWatt into the Group).A net tax charge of $2.5 million was recorded in Q3 2013 on an IFRS basis. This rate is above the effective tax rate for Q3 2012 of 27%.

Underlying net income was 22% above Q3 2012 at $21.8 million. This improvement is the result of the increase in EBIT partially offset by higher interest expenses and a slightly higher effective tax rate. The increase in interest expenses relates to the additional financing required to fund the acquisition of iWatt.

At the end of Q3 2013, the value of our total inventory was $144.3 million, an increase of 26% over Q2 2013 (or ~92 days, 17 days below Q2 2013) in anticipation of a number of product launches during the second half of this year. The percentage of raw materials out of the total inventory value was 13%, a third of the level we saw in the previous quarter (Q2 2013: 31%).The percentage of finished goods and work in progress out of the total inventory increased slightly to 52% (Q2 2013: 41%) and 35% (Q2 2013: 28%) respectively. During Q4 2013 we expect both, inventory value and inventory days to decline as we service the high level of demand expected in the quarter.

At the end of Q3 2013, we had cash and cash equivalents balance of $157.1 million. In the third quarter we generated $18.4 million of operating cash. Free cash flow (***) movement in the quarter before the cash payment for the acquisition of iWatt was an inflow of $4.3 million (Q3 2012: outflow of $40.3 million).

**) Underlying results (net of tax) in Q3-2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$2.8 million, excluding US$1.0 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US$2.0 million non-cash effective interest expense in connection with the convertible bond, excluding US$ 0.2 million non-cash effective interest expense related to a licensing agreement entered into in Q3-2012, excluding US$2.9 million acquisition and integration expenses in connection with the purchase of iWatt and US$7.5 million of amortisation and depreciation expenses associated with the acquisition of iWatt. Furthermore, sales of US$ 3.5 million that were reversed in connection with the iWatt business integration and related cost of sales of $1.6 million were brought back in the calculation of underlying results.*

*Underlying results in Q3-2012 (net of tax) are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$2.9 million, excluding US$1.5 million of amortisation of intangibles associated with the acquisition of Dialog B.V., excluding US$1.0 million non-cash effective interest expense in connection with the convertible bond and excluding US$0.4 million non-cash effective interest expense related to the new licensing agreement (please refer to note 6 to the Q3-2012 interim consolidated financial statements).*

*Underlying results (net of tax) in the first nine months 2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$5.5 million, excluding US$2.8 million of amortisation of intangibles associated with the acquisition of SiTel, excluding US$5.8 million non-cash effective interest expense in connection with the convertible bond, US$ 0.6 million non-cash effective interest expense related to a licensing agreement entered into in Q3-2012, excluding US$5.8 million acquisition and integration expenses in connection with the acquisition of iWatt and US$7.5 million of amortisation and depreciation expenses associated with the acquisition of iWatt. Furthermore, sales of US$ 3.5 million that were reversed in connection with the iWatt business integration and related cost of sales of $1.6 million were brought back in the calculation of underlying results.*

*Underlying results (net of tax) in the first nine months 2012 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$8.6 million, excluding US$5.1 million of amortisation of intangibles associated with the acquisition of SiTel, excluding US$2.7 million non-cash effective interest expense in connection with the convertible bond and excluding US$0.4 million non-cash effective interest expense related to the new licensing agreement (please refer to note 6 to the Q3-2012 interim consolidated financial statements).*

*The term "underlying" is not defined in IFRS and therefore may not be comparable with similarly titled measures reported by other companies. Underlying measures are not intended as a substitute for, or a superior measure to, IFRS measures. Underlying results (net of tax) have been fully reconciled to IFRS results (net of tax) above. All other underlying measures disclosed within this report are a component of this measure and adjustments between IFRS and underlying measures for each of these measures are a component of those disclosed above. For the third quarter 2013 a more detailed reconciliation for each of these measures has been provided in the financial review section of the Q3-2013 interim consolidated financial statements.*

***) EBITDA in Q3 is defined as operating profit excluding depreciation for property, plant and equipment (Q3 2013: US$5.1 million, Q3 2012: US$3.4 million), amortisation for intangible assets (Q3 2013: US$9.6 million, Q3 2012: US$5.4 million) and losses on disposals and impairment of fixed assets (Q3 2013: 0.2 million, Q3 2012: US$0.0 million).*

*EBITDA for the first nine months periods is defined as operating profit excluding depreciation for property, plant and equipment (Q1-Q3 2013: US$13.1 million, Q1-Q3 2012: US$9.1 million), amortisation for intangible assets (Q1-Q3 2013: US$19.6 million, Q1-Q3 2012: US$14.4 million) and losses on disposals and impairment of fixed assets (Q1-Q3 2013: US$0.5 million, Q1-Q3 2012: US$0.3 million).*

*(***) Free Cash Flow is defined as net income of US$3.6 million plus amortisation and depreciation of US$14.7 million, plus net interest expense of US$3.7 million, minus change in working capital of US$8.4 million and minus capital expenditure of US$9.3 million.*

**Operational overview**

The integration of the Power Conversion Business Group (formerly iWatt) progressed swiftly through the third quarter. We remain focused on delivering a successful and smooth integration and our team continues to be really excited about the potential business opportunities that arise from the combination of our Mobile Systems and Power Conversion Groups.

The high level of integration in our power management IC (PMIC) continued to support an increase in the Average Sales Price (ASP).

During the quarter we successfully delivered a steep ramp of new products launched by our customers.

We made good progress in the diversification of our customer footprint with a fourth global smartphone platform win with Samsung announced on 24 October. Our power management IC (PMIC) with integrated audio functionality is being used in the recently launched Samsung Galaxy Trend 3 smartphone.

As part of our continued investment in innovation, we licensed the Tensilica® HiFi Audio/Voice DSP IP from Cadence Design Systems, Inc. (NASDAQ: CDNS). Dialog will initially deploy the IP to develop next-generation audio solutions for its connectivity products and continue to deliver on critical customer success factors such as sound quality, performance and low power consumption.

Throughout Q3 2013 we rolled out a number of products from the Power Conversion Business Group. These new products enable our customers to address key market trends and reduce their cost while improving efficiency, extending operating life and enhancing safety. In the Solid State Lighting (SSL) segment, we launched a new LED driver that delivers exceptional performance for commercial lighting, while simplifying the design, reducing the cost and solving system heat management issues compared to conventional driver approaches. In the AC/DC conversion segment, we launched the first digital pulse width modulation (PWM) controller that allows designers to address the market trends for lower standby power and higher efficiency at reduced cost.

We are gaining traction in the wearable market where SmartbondTM, our leading low energy Bluetooth product - lowest power, smallest footprint- has a number of design-ins with leading brand customers, paving the way for the inclusion of our other power management technologies. Additionally we have early design-in success in the medical market with our Bluetooth technology.

The transition of our power management IP to 0.13 micron BCD technology continued according to plan and we will have first products for sampling available next quarter. This smaller geometry allows us to even further increase the level of functionality we can integrate into our PMIC's, including the integration of increased digital power management functionality. Additionally, it gives us access to increased manufacturing capacity at our foundry partners and a future platform to transition to 300 mm wafer manufacturing.

* * * * *

Dialog Semiconductor invites you today at 09.00 am (London) / 10.00 am (Frankfurt) to take part in a live conference call and to listen to management's discussion of the Company's Q3 2013 performance, as well as guidance for Q4 2013. To access the call please use the following dial-in numbers: Germany: **0800 101 4960**, UK: **0800 694 0257**, US: **1866 966 9439**, ROW: **+44 (0)1452 555 566**, with no access code required. An instant replay facility will be available for 30 days after the call and can be accessed at **+44 (0)1452 550 000** with access code **#75377524**. An audio replay of the conference call will also be posted soon thereafter on the Company's website at:

http://www.diasemi.com/investor-relations

This press release should be read in conjunction with the financial review and unaudited interim condensed consolidated financial statements, where further information is given. Full unaudited interim condensed consolidated financial statements including the independent review report to Dialog Semiconductor plc, unaudited interim consolidated statement of financial position, unaudited interim consolidated income statement, unaudited interim consolidated statement of comprehensive income, unaudited interim consolidated statement of cash flows, unaudited interim consolidated statement of changes in equity and unaudited notes to the interim condensed consolidated financial statements for the period ending 27 September 2013 is available under the investor relations section of the Company's website at:

http://www.diasemi.com/investor-relations

**For further information please contact:**

Dialog Semiconductor
Jose Cano
Head of Investor Relations
T: +44 (0)1793 756 961
jose.cano@diasemi.com

FTI Consulting London
Matt Dixon
T: +44 (0)20 7269 7214
matt.dixon@fticonsulting.com

FTI Consulting Frankfurt
Thomas M. Krammer
T: +49 (0) 69 9203 7183
thomas.krammer@fticonsulting.com

**Note to editors**

Dialog Semiconductor creates highly integrated, mixed-signal integrated circuits (ICs) optimised for personal portable, low energy short-range wireless, LED solid state lighting, and automotive applications. The Company provides flexible and dynamic support, world-class innovation and the assurance of dealing with an established business partner.

With its focus and expertise in energy efficient system power management, and with a technology portfolio including audio, short range wireless, AC/DC power conversion and multi-touch technology, Dialog brings decades of experience to the rapid development of ICs for personal portable applications including smartphones, tablets, ultrabooks and digital cordless phones..

Dialog's power management processor companion chips are essential for enhancing both the performance in terms of extended battery lifetime and the consumers' multimedia experience. With world-class manufacturing partners, Dialog operates a fabless business model.

Dialog Semiconductor plc is headquartered near Stuttgart with a global sales, R&D and marketing organisation. In 2012, it had $774 million in revenue and was one of the fastest growing European public semiconductor companies. Dialog Semiconductor currently has approximately 1,000 employees. The Company is listed on the Frankfurt (FWB: DLG) stock exchange and is a member of the German TecDax index. It also has a convertible bond listed on the Euro MTF Market on the Luxemburg Stock Exchange (ISIN XS0757015606)

**Forward Looking Statements**

This press release contains "forward-looking statements" that reflect management's current views with respect to future events. The words "anticipate," "believe," "estimate, "expect," "intend," "may," "plan," "project" and "should" and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties, including, but not limited to: an economic downturn in the semiconductor and telecommunications markets; changes in currency exchange rates and interest rates, the timing of customer orders and manufacturing lead times, insufficient, excess or obsolete inventory, the impact of competing products and their pricing, political risks in the countries in which we operate or sale and supply constraints. If any of these or other risks and uncertainties occur (some of which are described under the heading "Risks and their management" in Dialog Semiconductor's most recent Annual Report) or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. We do not intend or assume any obligation to update any forward-looking statement which speaks only as of the date on which it is made, however, any subsequent statement will supersede any previous statement.

# Financial Review

The following tables detail the interim consolidated statements of the operations of Dialog for the three and nine months ended 27 September 2013 and 28 September 2012 both on an underlying*) and IFRS basis.

**Dialog Semiconductor's IFRS and Underlying financial performance for Q3-2013 and Q3-2012**

| | **Three months ended 27 September 2013** | | | Three months ended 28 September 2012 (unreviewed) | | |
|---|---|---|---|---|---|---|
| US$000 | **IFRS** | **Adjustments** | **Underlying *)** | IFRS 1) | Adjustments | Underlying *) |
| Revenues | **219,468** | **5,358** | **224,826** | 180,023 | - | 180,023 |
| Cost of sales | **(141,639)** | **6,753** | **(134,886)** | (111,533) | 280 | (111,253) |
| **Gross profit** | **77,829** | **12,111** | **89,940** | 68,490 | 280 | 68,770 |
| Selling and marketing expenses | **(15,693)** | **4,657** | **(11,036)** | (9,223) | 1,535 | (7,688) |
| General and administrative expenses | **(13,300)** | **4,472** | **(8,828)** | (7,938) | 1,190 | (6,748) |
| Research and development expenses | **(39,352)** | **1,486** | **(37,866)** | (33,868) | 1,375 | (32,493) |
| **Operating profit** | **9,484** | **22,726** | **32,210** | 17,461 | 4,380 | 21,841 |
| Interest income and other financial income | **183** | **-** | **183** | 467 | - | 467 |
| Interest expense and other financial expense | **(3,843)** | **2,265** | **(1,578)** | (2,083) | 1,445 | (638) |
| Foreign currency exchange gains and losses, net | **319** | **-** | **319** | 770 | - | 770 |
| **Result before income taxes** | **6,143** | **24,991** | **31,134** | 16,615 | 5,825 | 22,440 |
| Income tax expense | **(2,542)** | **(6,746)** | **(9,288)** | (4,487) | - | (4,487) |
| **Net profit** | **3,601** | **18,245** | **21,846** | 12,128 | 5,825 | 17,953 |
| Earnings per share (in US$) | | | | | | |
| Basic | **0.05** | **0.28** | **0.33** | 0.19 | 0.09 | 0.28 |
| Diluted | **0.05** | **0.27** | **0.32** | 0.18 | 0.09 | 0.27 |
| **EBITDA **)** | **24,369** | **16,641** | **41,010** | 26,319 | 3,604 | 29,923 |

*) Underlying results (net of tax) in Q3-2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$2.8 million, excluding US$1.0 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US$2.0 million non-cash effective interest expense in connection with the convertible bond, excluding US$ 0.2 million non-cash effective interest expense related to a licensing agreement entered into in Q3-2012, excluding US$2.9 million acquisition and integration expenses in connection with the purchase of iWatt and US$7.5 million of amortisation and depreciation expenses associated with the acquisition of iWatt. Furthermore, sales of US$ 3.5 million that were reversed in connection with the iWatt business integration and related cost of sales of $1.6 million were brought back in the calculation of underlying results.

Underlying results in Q3-2012 (net of tax) are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$2.9 million, excluding US$1.5 million of amortisation of intangibles associated with the acquisition of Dialog B.V., excluding US$1.0 million non-cash effective interest expense in connection with the convertible bond and excluding US$0.4 million non-cash effective interest expense related to the new licensing agreement (please refer to note 6 to the Q3-2012 interim consolidated financial statements).

The term "underlying" is not defined in IFRS and therefore may not be comparable with similarly titled measures reported by other companies. Underlying measures are not intended as a substitute for, or a superior measure to, IFRS measures. Underlying results (net of tax) have been fully reconciled to IFRS results (net of tax) above. All other underlying measures disclosed within this report are a component of this measure and adjustments between IFRS and underlying measures for each of these measures are a component of those disclosed above. For the third quarter 2013 a more detailed reconciliation for each of these measures has been provided on page 8.

**) EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (Q3 2013: US$5.1 million, Q3 2012: US$3.4 million), amortisation for intangible assets (Q3 2013: US$9.6 million, Q3 2012: US$5.4 million) and losses on disposals and impairment of fixed assets (Q3 2013: 0.2 million, Q3 2012: US$0.0 million).

## Dialog Semiconductor's Underlying adjustments for Q3-2013

| | Three months ended 27 September 2013 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | IFRS | | Adjustments | | | | | | | Underlying *) | |
| | | | iWatt | iWatt | iWatt | iWatt | iWatt | Dialog | Total | | |
| US$000 | | % | Def. Revenue | inventory step up | PPA | Mask depreciation | M&A expenses & integration expenses | other underlying adjustments | Adjustments | | % |
| Revenues | **219,468** | | 5,358 | - | - | - | - | - | **5,358** | **224,826** | |
| Cost of sales | **(141,639)** | | (2,402) | 6,801 | 1,226 | 649 | 15 | 464 | **6,753** | **(134,886)** | |
| **Gross profit** | **77,829** | **35.5%** | **2,956** | **6,801** | **1,226** | **649** | **15** | **464** | **12,111** | **89,940** | **40.0%** |
| Selling and marketing expenses | **(15,693)** | **7.2%** | - | - | 2,862 | - | 404 | 1,391 | **4,657** | **(11,036)** | **4.9%** |
| General and administrative expenses | **(13,300)** | **6.1%** | - | - | - | - | 2,860 | 1,612 | **4,472** | **(8,828)** | **3.9%** |
| Research and development expenses | **(39,352)** | **17.9%** | - | - | - | - | 182 | 1,304 | **1,486** | **(37,866)** | **16.8%** |
| **Operating profit** | **9,484** | **4.3%** | **2,956** | **6,801** | **4,088** | **649** | **3,461** | **4,771** | **22,726** | **32,210** | **14.3%** |
| Interest income and other financial income | **183** | | - | - | - | - | - | - | **-** | **183** | |
| Interest expense and other financial expense | **(3,843)** | | - | - | - | - | - | 2,265 | **2,265** | **(1,578)** | |
| Foreign currency exchange gains and losses, net | **319** | | - | - | - | - | - | - | **-** | **319** | |
| **Result before income taxes** | **6,143** | **2.8%** | **2,956** | **6,801** | **4,088** | **649** | **3,461** | **7,036** | **24,991** | **31,134** | **13.8%** |
| Income tax expense | **(2,542)** | | (1,035) | (2,380) | (1,431) | (227) | (584) | (1,089) | **(6,746)** | **(9,288)** | |
| **Net profit** | **3,601** | **1.6%** | **1,921** | **4,421** | **2,657** | **422** | **2,877** | **5,947** | **18,245** | **21,846** | **9.7%** |
| Earnings per share (in US$) | **-** | | | | | | | | | | |
| Basic | **0.05** | | 0.03 | 0.07 | 0.04 | 0.01 | 0.04 | 0.09 | **0.28** | **0.33** | |
| Diluted | **0.05** | | 0.03 | 0.07 | 0.04 | 0.01 | 0.04 | 0.09 | **0.27** | **0.32** | |
| **EBITDA **)** | **24,369** | | **2,956** | **6,801** | **-** | **-** | **3,461** | **3,423** | **16,641** | **41,010** | |

*) The term "underlying" is not defined in IFRS and therefore may not be comparable with similarly titled measures reported by other companies. Underlying measures are not intended as a substitute for, or a superior measure to, IFRS measures.

**) EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (Q3 2013: US$5.1 million, Q3 2012: US$3.4 million), amortisation for intangible assets (Q3 2013:US$9.6 million, Q3 2012: US$5.4 million) and losses on disposals and impairment of fixed assets (Q3 2013: 0.2 million, Q3 2012: US$0.0 million).

### Dialog Semiconductor's financial performance on an IFRS basis for Q3-2013 and Q3-2012

| | **Three months ended 27 September 2013** | | Three months ended 28 September 2012 (unreviewed) | | Change |
|---|---|---|---|---|---|
| | **US$000** | **% of revenues** | US$000 | % of revenues | % |
| **Revenues** | | | | | |
| Mobile Systems | **171,938** | **78.4** | 146,782 | 81.5 | 17.1 |
| Automotive / Industrial | **10,348** | **4.7** | 8,765 | 4.9 | 18.1 |
| Connectivity | **24,160** | **11.0** | 24,176 | 13.4 | (0.1) |
| Power Conversion | **13,014** | **5.9** | – | 0.0 | - |
| Corporate Sector | **8** | **0.0** | 300 | 0.2 | (97.3) |
| **Revenues** | **219,468** | **100.0** | 180,023 | 100.0 | 21.9 |
| Cost of sales | **(141,639)** | **(64.5)** | (111,533) | (62.0) | 27.0 |
| **Gross profit** | **77,829** | **35.5** | 68,490 | 38.0 | 13.6 |
| Selling and marketing expenses | **(15,693)** | **(7.2)** | (9,223) | (5.1) | 70.2 |
| General and administrative expenses | **(13,300)** | **(6.1)** | (7,938) | (4.4) | 67.5 |
| Research and development expenses | **(39,352)** | **(17.9)** | (33,868) | (18.8) | 16.2 |
| **Operating profit** | **9,484** | **4.3** | 17,461 | 9.7 | (45.7) |
| Interest income and other financial income | **183** | **0.1** | 467 | 0.3 | (60.8) |
| Interest expense and other financial expense | **(3,843)** | **(1.8)** | (2,083) | (1.2) | 84.5 |
| Foreign currency exchange gains and losses, net | **319** | **0.1** | 770 | 0.4 | (58.6) |
| **Result before income taxes** | **6,143** | **2.8** | 16,615 | 9.2 | (63.0) |
| Income tax expense | **(2,542)** | **(1.2)** | (4,487) | (2.5) | (43.3) |
| **Net profit** | **3,601** | **1.6** | 12,128 | 6.7 | (70.3) |

## Dialog Semiconductor's IFRS and Underlying financial performance for the first nine months of 2013 and 2012

| | **Nine months ended 27 September 2013** | | | Nine months ended 28 September 2012 (unreviewed) | | |
|---|---|---|---|---|---|---|
| US$000 | **IFRS** | **Adjustments** | **Underlying *)** | IFRS 1) | Adjustments | Underlying *) |
| Revenues | **551,072** | **5,358** | **556,430** | 505,896 | - | 505,896 |
| Cost of sales | **(347,515)** | **7,262** | **(340,253)** | (316,216) | 840 | (315,376) |
| **Gross profit** | **203,557** | **12,620** | **216,177** | 189,680 | 840 | 190,520 |
| Selling and marketing expenses | **(32,705)** | **7,004** | **(25,701)** | (28,006) | 5,265 | (22,741) |
| General and administrative expenses | **(30,398)** | **7,799** | **(22,599)** | (22,193) | 4,059 | (18,134) |
| Research and development expenses | **(108,345)** | **3,642** | **(104,703)** | (92,904) | 3,556 | (89,348) |
| **Operating profit** | **32,109** | **31,065** | **63,174** | 46,577 | 13,720 | 60,297 |
| Interest income and other financial income | **524** | **-** | **524** | 1,062 | - | 1,062 |
| Interest expense and other financial expense | **(9,546)** | **6,657** | **(2,889)** | (3,851) | 3,130 | (721) |
| Foreign currency exchange gains and losses, net | **177** | **-** | **177** | 458 | - | 458 |
| **Result before income taxes** | **23,264** | **37,722** | **60,986** | 44,246 | 16,850 | 61,096 |
| Income tax expense | **(7,678)** | **(7,830)** | **(15,508)** | (11,947) | - | (11,947) |
| **Net profit** | **15,586** | **29,892** | **45,478** | 32,299 | 16,850 | 49,149 |
| Earnings per share (in US$) | | | | | | |
| Basic | **0.24** | **0.45** | **0.69** | 0.50 | 0.26 | 0.76 |
| Diluted | **0.23** | **0.44** | **0.67** | 0.48 | 0.25 | 0.73 |
| **EBITDA **)** | **65,331** | **22,662** | **87,993** | 70,448 | 8,576 | 79,024 |

*) Underlying results (net of tax) in the first nine months 2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$5.5 million, excluding US$2.8 million of amortisation of intangibles associated with the acquisition of SiTel, excluding US$5.8 million non-cash effective interest expense in connection with the convertible bond, US$ 0.6 million non-cash effective interest expense related to a licensing agreement entered into in Q3-2012, excluding US$5.8 million acquisition and integration expenses in connection with the acquisition of iWatt and US$7.5 million of amortisation and depreciation expenses associated with the acquisition of iWatt. Furthermore, sales of US$ 3.5 million that were reversed in connection with the iWatt business integration and related cost of sales of $1.6 million were brought back in the calculation of underlying results.

Underlying results (net of tax) in the first nine months 2012 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$8.6 million, excluding US$5.1 million of amortisation of intangibles associated with the acquisition of SiTel, excluding US$2.7 million non-cash effective interest expense in connection with the convertible bond and excluding US$0.4 million non-cash effective interest expense related to the new licensing agreement (please refer to note 6 to the Q3-2012 interim consolidated financial statements).

The term "underlying" is not defined in IFRS and therefore may not be comparable with similarly titled measures reported by other companies. Underlying measures are not intended as a substitute for, or a superior measure to, IFRS measures. Underlying results (net of tax) have been fully reconciled to IFRS results (net of tax) above. All other underlying measures disclosed within this report are a component of this measure and adjustments between IFRS and underlying measures for each of these measures are a component of those disclosed above. For the third quarter 2013 a more detailed reconciliation for each of these measures has been provided on page 8.

**) EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (Q1-Q3 2013: US$13.1 million, Q1-Q3 2012: US$9.1 million), amortisation for intangible assets (Q1-Q3 2013: US$19.6 million, Q1-Q3 2012: US$14.4 million) and losses on disposals and impairment of fixed assets (Q1-Q3 2013: US$0.5 million, Q1-Q3 2012: US$0.3 million).

### Dialog Semiconductor's financial performance on an IFRS basis for the first nine months 2013 and 2012

| | Nine months ended 27 September 2013 | | Nine months ended 28 September 2012 (unreviewed) | | Change |
|---|---|---|---|---|---|
| | **US$000** | **% of revenues** | US$000 | % of revenues | % |
| **Revenues** | | | | | |
| Mobile Systems | **441,967** | **80.2** | 404,979 | 80.1 | 9.1 |
| Automotive / Industrial | **27,212** | **4.9** | 29,251 | 5.8 | (7.0) |
| Connectivity | **68,871** | **12.5** | 71,367 | 14.1 | (3.5) |
| Power Conversion | **13,014** | **2.4** | - | 0.0 | - |
| Corporate Sector | **8** | **0.0** | 299 | 0.1 | (97.3) |
| **Revenues** | **551,072** | **100.0** | 505,896 | 100.1 | 8.9 |
| Cost of sales | **(347,515)** | **(63.1)** | (316,216) | (62.5) | 9.9 |
| **Gross profit** | **203,557** | **36.9** | 189,680 | 37.6 | 7.3 |
| Selling and marketing expenses | **(32,705)** | **(5.9)** | (28,006) | (5.5) | 16.8 |
| General and administrative expenses | **(30,398)** | **(5.5)** | (22,193) | (4.4) | 37.0 |
| Research and development expenses | **(108,345)** | **(19.7)** | (92,904) | (18.4) | 16.6 |
| **Operating profit** | **32,109** | **5.8** | 46,577 | 9.3 | (31.1) |
| Interest income and other financial income | **524** | **0.1** | 1,062 | 0.2 | (50.7) |
| Interest expense and other financial expense | **(9,546)** | **(1.7)** | (3,851) | (0.8) | 147.9 |
| Foreign currency exchange gains and losses, net | **177** | **0.0** | 458 | 0.1 | (61.4) |
| **Result before income taxes** | **23,264** | **4.2** | 44,246 | 8.8 | (47.4) |
| Income tax expense | **(7,678)** | **(1.4)** | (11,947) | (2.4) | (35.7) |
| **Net profit** | **15,586** | **2.8** | 32,299 | 6.4 | (51.7) |

## Results of Operations

### Segment Reporting

Revenues for the **Mobile Systems** segment (see Note 4 - Segment Reporting included in the interim consolidated financial statements) were US$171.9 million for the three months ended 27 September 2013 compared to US$146.8 million for the same period of 2012. This represents 78.4% of our total revenues compared to 81.5 % in the same period of the prior year. The increased revenues are a result of a higher number of product launches during the third quarter of 2013 compared to the third quarter of 2012. For the first nine months of 2013, revenues in this segment were US$442.0 million compared to US$405.0 million in the same period of 2012, an increase of 9.1%. The increase in the first nine months in this sector is primarily driven by the success of our growing range of highly integrated power management solutions for portable devices including portable media players, smartphones and tablet PCs. The operating profit in the Mobile Systems Segment increased from US$22.3 million for the three months ended 28 September 2012 to US$27.3 million for the three months ended 27 September 2013. For the first nine months of 2013, the operating profit in this segment was US$57.2 million compared to US$58.5 million in the same period of 2012, a decrease of 2.2%. This marginal decrease was mainly driven by a headcount increase in the sector and the redeployment of R&D and selling resources and attributable overhead expenses from the automotive and industrial applications sector to the mobile system sector in support of our strategic long term growth and diversification efforts. For further explanations please refer to the sections "Automotive / Industrial Applications segment" and "Research and development expenses" here below.

Revenues from our **Automotive / Industrial Applications segment** were US$10.3 million for the three months ended 27 September 2013 compared to US$8.8 million in the same period of the prior year. This represents 4.7% of our total revenues compared to 4.9% in the same period of 2012. For the first nine months of 2013, revenues in this segment were US$27.2 million compared to US$29.3 million in the same period of 2012, a decrease of 7.0%. The operating profit was US$3.3 million for the three months ended 27 September 2013 compared to US$1.3 million in the same period of the prior year. For the first nine months of 2013, despite lower revenues in the sector, operating profit increased from US$5.6 million for the first nine months of 2012 to US$8.6 million. This increased profitability is the result of incremental revenues against a fairly fixed operational expenditure structure, continuous improvements in manufacturing processes, the redeployment of R&D and selling resources and attributable overhead expenses from this sector to the mobile system sector in support of high growth. Revenues from our **Connectivity segment** were US$24.2 million both in Q3-2013 and in Q3-2012. This represents 11.0% of our total revenues for Q3-2013 compared to 13.4% of our total revenues for Q3-2012. For Q3-2013 the Connectivity segment contributed an operating profit of US$0.9 million, compared to an operating loss of US$2.8 million for Q3-2012. As a percentage of revenues the loss of 11.4% for Q3-2012 turned into a gain of 3.9% for Q3-2013. This development can largely be attributed to an improved gross margin achieved in the third quarter of 2013 compared to a year ago. This improvement results from a shift to sales of higher value products, increasing manufacturing efficiencies and related cost reductions. For the first nine months of 2013, revenues in this segment were US$68.9 million compared to US$71.4 million in the same period of 2012. In the first nine months of 2013 we recorded an operating profit of US$3.0 million, compared to an operating loss of US$7.7 million in the same period of 2012. This positive movement was attributable to a decrease in amortisation expenses relating to the purchase price allocation from US$5.1 million for the first nine months of 2012 to US$3.7 million for the same period of 2013 as certain assets were fully amortized in 2012. Furthermore the operating profit in the first nine months of 2013 includes benefits from capitalized R&D expenses of US$2.5 million, compared to US$0.5 million in the same period of 2012. This capitalization represents the portion of R&D expenses that is expected to provide future benefits from completely developed technologies. Furthermore, in the first nine months of 2012, a one-time expense of approximately US$1.0 million was recorded relating to the transfer of certain legacy Connectivity products to a new assembly site. From an underlying (*) point of view, Connectivity operating profits were US$2.5 million in Q3-2013, compared to an operating loss of US$1.1 million in Q3-2012.

**The connectivity segment's underlying financial performance for Q3-2013 and Q3-2012 is summarised below:**

| US$000 | | Three months ended 27 September 2013 | | | Three months ended 28 September 2012 (unreviewed) | |
|---|---|---|---|---|---|---|
| | **IFRS** | **Adjustments** | **Underlying *)** | IFRS | Adjustments | Underlying *) |
| Revenues | **24,160** | **-** | **24,160** | 24,176 | - | 24,176 |
| Operating profit (loss) | **937** | **(1,515)** | **2,452** | (2,757) | (1,649) | (1,108) |

*) Underlying results in Q3-2013 are based on IFRS consolidated interim income statement, adjusted to exclude US$1.3 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and charges for National Insurance related to share-based compensation in amount of US$0.2 million.

Underlying results in Q3-2012 are based on IFRS consolidated interim income statement, adjusted to exclude US$1.5 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and share-based compensation charges and related charges for National Insurance of US$0.2 million.

**The connectivity segment's underlying financial performance for the first nine months 2013 and the first nine months 2012 is summarised below:**

| US$000 | | Nine months ended 27 September 2013 | | | Nine months ended 28 September 2012 (unreviewed) | |
|---|---|---|---|---|---|---|
| | **IFRS** | **Adjustments** | **Underlying *)** | IFRS | Adjustments | Underlying *) |
| Revenues | **68,871** | **-** | **68,871** | 71,367 | - | 71,367 |
| Operating profit (loss) | **3,046** | **3,735** | **6,781** | (7,664) | 5,851 | (1,813) |

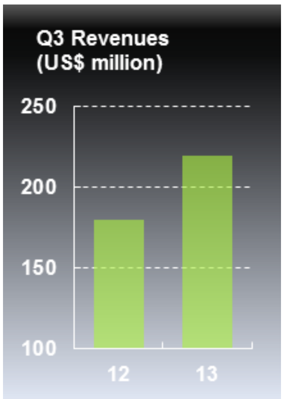
*) Underlying results in first nine months 2013 are based on IFRS consolidated interim income statement, adjusted to exclude US$3.6 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and excluding charges for National Insurance of US$0.1 million related to share options.

Underlying results in in the first nine months 2012 are based on IFRS, adjusted to exclude US$5.1 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and excluding charges for National Insurance of US$0.7 million related to share options.

The newly created **Power Conversion segment** includes the operating segment of our newly acquired subsidiary iWatt Inc, USA (for further information please refer to note 3 - Business Combinations and note 4 - Segment Reporting - to the interim consolidated financial statements). Revenues from our Power Conversion segment were US$13.0 million or 5.9% of total revenues for the two and a half months this entity was consolidated in Q3-2013. The operating loss in the Power Conversion segment was US$ 14.9 million in Q3-2013. On an underlying (*) basis revenues were US$18.4 million and operating profit was US$1.3 million. The underlying revenues include US$5.4 million of deferred revenue that have been eliminated from IFRS results as part of the purchase accounting associated with the acquisition of iWatt. Underlying cost of sales include additional expenses of US$ 2.4 million in relation to the aforementioned deferred revenues. Furthermore, underlying operating results do not include depreciation and amortization expenses in the amount of US$4.7 million and additional costs for material consumption of US$6.8 million; all these adjustments relate to the acquisition accounting. Further one-time costs relating to the acquisition and integration of iWatt of US$1.7 million were excluded from underlying expenses.

## Revenues

Total revenues were US$219.5 million for the three months ended 27 September 2013 compared to US$180.0 million for the same period of the prior year. As described above, the newly acquired iWatt business contributed US$13.0 million to the revenues in the third quarter 2013. For the first nine months of 2013, revenues were US$551.1 million compared to US$505.9 million in the same period of 2012. The increase of 8.9%is mainly attributable to higher sales volumes, an increase in average selling prices ("ASPs") from our more complex devices in our Mobile Systems Segment and the revenue contribution from the new Power Conversion segment.



### Cost of sales

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs, applicable overhead and depreciation of test and other equipment. Cost of sales increased by 27.0% from US$111.5 million for the three months ended 28 September 2012 to US$141.6 million for the three months ended 27 September 2013, driven mostly by increased revenues. Additionally, our newly acquired iWatt business contributed US$15.8 million to cost of sales in the quarter. This amount of US$15.8 includes a one-time inventory purchase price adjustment of US$6.8 million and amortization and depreciation expenses of US$1.9 Million relating to the purchase price allocation. As a percentage of revenues, cost of sales increased from 62.0% for Q3-2012 to 64.5% for Q3-2013. As a result, cost of sales as a percentage of revenue increased from 62.5% for the first nine months of 2012 to 63.1% in the same period of 2013. Underlying (*) cost of sales increased from US$315.4 million in the first nine months of 2012 (62.3% of revenues) to US$340.3 million in the same period of 2013 (61.1% of underlying revenues).

### Gross profit

Our IFRS gross margin decreased from 38.0% of revenues for the three months ended 28 September 2012 to 35.5% of revenues for the three months ended 27 September 2013 driven by higher cost of sales as a percentage of revenues. On an IFRS basis the acquisition of the iWatt business contributed negatively to the group profit. On an underlying (*) basis, the gross margin improved from 38.2% in Q3-2012 to 40.0% in Q3-2013; compared to Q2-2013 with 37.9%, the underlying gross margin increased by 2.1 percentage points. The gross margin improvement in the quarter was the result of three key elements:

- The realisation of the benefits of manufacturing cost optimisation over the last six months
- Positive product mix contribution from the Power Conversion Business Group, the Connectivity Segment and new products in Mobile Systems
- Higher revenue in the quarter and the subsequent lower allocation per unit of the fixed component of Cost of Sales - or Cost of Goods Sold (COGS)

Gross profit for the third quarter of 2013 was US$77.8 million, an increase of 13.6% compared to US$68.5 million in the third quarter of 2012, mainly driven by increased revenues.

The gross margin for the first nine months of 2013 was 36.9% compared to 37.6% achieved in the same period of 2012, a decrease of 0.7 percentage points. Gross profit for the first nine months of 2013 was US$203.6 million, 7.3% above the previous year’s figure of US$189.7 million. From an underlying (*) point of view, the gross margin improved from 37.7% in the first nine months of 2012 to 38.9% for the same period of 2013. The gross margin improvement in the first nine months 2013 was underpinned by the same elements driving the gross margin increase in the third quarter as explained above.

### Selling and marketing expenses

Selling and marketing expenses consist primarily of salaries, travel expenses, sales commissions, advertising and other marketing costs. Also included are amortisation expenses for intangible assets such as customer relationships, key customers and order backlog resulting from the purchase price allocation related to the acquisition of iWatt Inc. in the third quarter of 2013 and SiTel B.V. in 2011. Selling and marketing expenses increased from US$9.2 million for the three months ended 28 September 2012 to US$15.7 million for the three months ended 27 September 2013. As a percentage of total revenues, selling and marketing expenses increased from 5.1% of total revenues in Q3-2012 to 7.2% of total revenues in Q3-2013. The newly acquired iWatt business contributed US$5.7 million of selling and marketing expenses, including US$2.9 million amortisation expenses resulting from the purchase price allocation. Excluding these amortisation expenses and other adjustments for the integration of iWatt as well as share option and amortisation expenses relating to the Dialog BV purchase price allocation, on an underlying basis selling and marketing expenses were US$ 11.0 million for Q3-2013 (Q3-2012:US$ 7.7 million). For the first nine months of 2013, selling and marketing expenses increased from US$28.0 million (5.5% of total revenues) for the first nine months of 2012 to US$32.7 million (5.9% of total revenues) This increase is mainly driven by the additional costs contributed by iWatt.

### General and administrative expenses

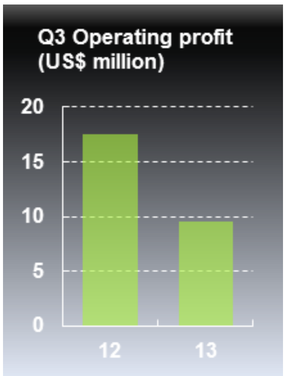
General and administrative expenses consist primarily of personnel and support costs for our finance, human resources and other management departments. General and administrative expenses were US$13.3 million (6.1% of total revenues) for the third quarter of 2013, an increase of 67.5% over the US$7.9 million (4.4% of total revenues) recorded in Q3-2012. This increase predominantly reflects the consolidation of the newly acquired iWatt business which contributed US$2.1 million additional general and administrative expenses. Furthermore general and administrative expenses in Q3-2013 include US$1.8 million acquisition and integration expenses related to the acquisition of iWatt (see note 3 Business Combinations in the interim condensed consolidated financial statements). For the first nine months of 2013 and 2012, general and administrative costs were US$30.4 million (or 5.5% of total revenues) and US$22.2 million (or 4.4% of total revenues) respectively. Excluding the additional expenses relating to iWatt general and administrative expenses for the first nine months of 2013 were US$23.4 million, an increase of US$1.2 million over the same period 2012. Underlying (*) general and administrative expenses increased from US$18.1 million in the first nine months of 2012 (3.6% of revenues) to US$22.6 million in the same period of 2013 (4.1% of revenues).

### Research and development expenses

Research and development expenses consist principally of design and engineering-related costs associated with the development of new Application Specific Integrated Circuits (“ASICs”) and Application Specific Standard Products (“ASSPs”). Research and development expenses (net of customer funded projects) were US$39.4 million for the three months ended 27 September 2013 (Q3-2012: US$33.9 million), representing a year over year increase of 16.2%. As a percentage of total revenues, research and development expenses decreased from 18.8% to 17.9% during these periods. The contribution of the iWatt business was US$4.2 million in the third quarter 2013. For the first nine months of 2013, our R&D expenses were US$108.3 million (19.7% of total revenues) compared to US$92.9 million (18.4% of total revenues) in the first nine months of 2012. Excluding iWatt, R&D expenses in the first nine months 2013 were US$104.1 million, US$11.2 million above the same period

2012. With an amount of US$9.7 million this increase can largely be attributed to an increased R&D headcount to support our ongoing growth strategy and US$2.7 million relate to increased external service costs. These increases were partially offset by higher capitalized research and development expenses of US$5.8 million compared to US$3.4 million in the same period of the prior year.

### Operating profit




We report an operating profit of US$9.5 million for the third quarter of 2013 compared to US$17.5 million for the same period of 2012. Operating profit for the first nine months of 2013 was US$32.1 million, compared to US$46.6 million for the same period of 2012. The year on year decrease for the first nine months was US$14.5 million and is mainly the result of higher R&D expenses, a one-off charge of US$4.9 million relating to the acquisition and integration of iWatt and the absolute contribution from the consolidation of iWatt into the group in Q3 2013. From the day of the acquisition our newly acquired iWatt business contributed a loss of US$14.9 million to the operating profit of Dialog Group, mainly as result of expenses booked in connection with the purchase price allocation. A higher gross profit and lower amortisation expenses associated with the acquisition of SiTel (US$ -1.4 million) had a positive impact on operating profit.

Underlying (*) operating profit in the first nine months of 2013 was US$63.2 million or 11.4% of underlying revenues compared to US$60.3 million or 11.9% in the same period of 2012.

### Interest income and other financial income

Interest income and other financial income from the Company's investments (primarily short-term deposits) was US$183 thousand for the three months ended 27 September 2013 (Q3-2012: US$467 thousand). The decrease primarily resulted from the cash outflow of 303.9 million in July 2013 in connection with the acquisition of iWatt. Furthermore a general decrease of interest rates on financial markets associated with the short term nature of our investments led an additional decrease of interest income. For the first nine months of 2013, we recorded an interest income and other financial income of US$524 thousand compared to US$1,062 thousand in the same period of 2012.

### Interest expense and other financial expense

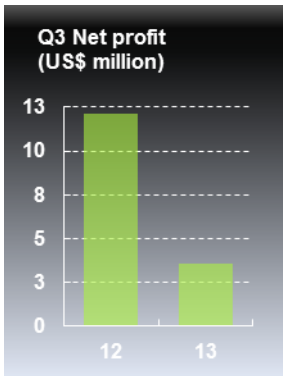
Interest expense and other financial expense consist primarily of expenses from capital leases, hire purchase agreements and the Group's factoring arrangement. Furthermore, starting from the second quarter 2012 the expenses included the interest charges for the convertible bond and starting from the third quarter 2013 also the interest charges for new loan facilities totalling US$115 million which the Company entered into in connection with the acquisition of iWatt.

In Q3-2013 interest and other financial expenses were US$3.8 million (Q3-2012: US$2.1million). The amount in Q3-2013 mainly includes two components related to the convertible bond: US$0.5 million for a one per cent coupon payable on a semi-annual basis to the bond holders and US$2.0 million for the interest expense in connection with the measurement of the financial liability from the bond using the effective interest method. The interest expenses related to new debt facilities were US$0.6 million. For the first nine months of 2013, interest expenses and other financial expenses were US$9.6 million compared to US$3.9 million for the first nine months of 2012. The increase mainly results from charges relating to the convertible bond for which in 2013 we recorded expenses for 9 months compared to only five and a half months in 2012. In addition 2013 also includes the expenses for the new loan facility.

### Income tax expense

For the nine months ended 27 September 2013, a net income tax charge of US$7.7 million was recorded (nine months ended 28 September 2012: US$11.9 million) resulting in an effective tax rate of 33.0% (nine months ended 28 September 2012: 27.0%). The main reasons for the increase of the effective tax rate were that in the first nine months of 2013 a lower amount of previously unrecognised deferred tax assets was recognised and the effect on the tax rate arising from the acquisition of iWatt.

### Net profit




For the reasons described above, we reported a net profit of US$3.6 million for the three months ended 27 September 2013 (Q3-2012: US$12.1 million).

Basic and diluted earnings per share in Q3-2013 were US$0.05 compared to basic and diluted earnings per share of US$0.19 and US$0.18 in Q3-2012 respectively.

For the first nine months of 2013, net profit reached US$15.6 million compared to US$32.3 million in the comparison period 2012 with basic earnings per share at US$0.24 (first nine months of 2012: US$0.50) and diluted earnings per share at US$0.23 (first nine months of 2012: US$0.23).

### Liquidity and capital resources

Cash flows

**Cash generated from operating activities** was US$18.4 million for the three months ended 27 September 2013 (Q3-2012: Cash used from operating activities US$19.6 million). With an amount of US$35.9 million (Q3-2012: US$ 31.1 million) the cash inflow in the three months ended 27 September 2013 mainly resulted from the operating income (before depreciation amortisation and other non-cash effective expenses). In Q3-2013 this cash inflow was partly offset by cash outflows for investments in working capital of US$17.5 million (Q3-2012 US$50.7 million). In addition in Q3-2013, the Company paid US$10.5 million for income taxes (Q3-2012: 1.3 million). The amount paid in Q3-2013 mainly represents advanced payments for corporate income taxes.

**Cash used for investing activities** was US$313.1 million for the three months ended 27 September 2013 (Q3-2012: US$14.2 million). Cash used for investing activities in Q3-2013 consisted primarily of the net cash outflow of US$303.9 in connection with the iWatt purchase. Furthermore, the purchase of tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment led to cash outflows of US$4.4 million (Q3-2012: US$5.5 million). The purchase of intangible assets were US$2.6 million (Q2-2012: US$7.5 million) and payments related to capitalised development costs were US$2.1 million (Q3-2012: US$1.1 million).

**Cash flow from financing activities** was US$115.5 million for Q3-2013 and US$10.9 million for Q3-2012. The cash inflow in Q3-2013 relates mainly to two debt facilities (in total US$115 million) related to financing activities for the iWatt acquisition. Further cash inflows resulted from share option exercises in connection with the Company's employee share option program.

Liquidity

At 27 September 2013 we had cash and cash equivalents of US$157.1 million (31 December 2012: US$312.4 million). The working capital (defined as current assets minus current liabilities) was US$261.9 million (31 December 2012: US$420.9 million).

Total noncurrent financial liabilities as of 27 September 2013 were US$294.6 million of which US$170.9 million represents the book value of the liability from the convertible bond (31 December 2012: US$164.2 million) and US$114.4 million relate to two additional debt facilities.

We had a three-year (2011-2014) revolving credit facility of US$35.0 million available for use that bears an interest rate of LIBOR +140bp. At 31 December 2012 we had no amounts outstanding under this facility. As of 16 July 2013 the facility was cancelled and replaced by a US$ 25.0 million revolving credit line facility which is available until March 2017. This facility has been used in the amount of US$15.0 million in order to finance the iWatt acquisition (this amount is included in the US$114.4 million mentioned above). In addition, we have two factoring agreements which provide the Company with up to US$60.0 million of readily available cash. Accordingly, we believe the funding available from these and other sources will be sufficient to satisfy our working capital requirements in the near to medium term if needed.

## Statement of Financial Position

| | **At 27 September 2013 US$000** | At 31 December 2012 US$000 | Change US$000 | % |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | **157,093** | 312,435 | (155,342) | (49.7) |
| All other current assets | **237,439** | 251,067 | (13,628) | (5.4) |
| **Total current assets** | **394,532** | 563,502 | (168,970) | (30.0) |
| Property, plant and equipment, net | **58,592** | 50,318 | 8,274 | 16.4 |
| Goodwill | **246,359** | 32,283 | 214,076 | - |
| Intangible assets | **156,714** | 51,789 | 104,925 | 202.6 |
| Investments | **1,491** | - | 1,491 | - |
| All other non-current assets | **1,605** | 1,335 | 270 | 20.2 |
| Deferred tax assets | **22,871** | 8,913 | 13,958 | 156.6 |
| **Total non-current assets** | **487,632** | 144,638 | 342,994 | 237.1 |
| **Total assets** | **882,164** | 708,140 | 174,024 | 24.6 |
| **Liabilities and Shareholders' equity** | | | | |
| Current liabilities | **132,632** | 142,650 | (10,018) | (7.0) |
| Non-current liabilities | **343,209** | 182,899 | 160,310 | 87.6 |
| Net Shareholders' equity | **406,323** | 382,591 | 23,732 | 6.2 |
| **Total liabilities and Shareholders' equity** | **882,164** | 708,140 | 174,024 | 24.6 |

The balance sheet total was US$882.2 million at 27 September 2013 (31 December 2012: US$708.1 million). Cash and cash equivalents decreased by US$155.3 million or 49.7% to US$157.1 million at 27 September 2013 (31 December 2012: US$312.4 million). This decrease was mainly caused by the cash outflows from investing activities amounting to US$335.7 million dominated by the acquisition of iWatt Inc. which were partly offset by cash inflows from operating (US$64.5 million) and financing (US$116,0 million) activities.

Other current assets decreased from US$251.1 million at 31 December 2012 by US$13.6 million to US$237.4 million at 27 September 2013. The decrease of 5.4% is mainly driven by lower trade accounts receivable balances and inventories in comparison to 31 December 2012 which is in line with lower revenues in Q3-2013 compared to fourth quarter 2012. This decrease was partially offset by higher tax receivables relating to income tax prepayments.

Total non-current assets increased significantly, mainly driven by the iWatt acquisition in the third quarter 2013 with goodwill of US$ 214 million generated, we refer to note 3 to the interim condensed consolidated financial statements. Non-current assets totalling 137.4 million were added to the group's balance sheet during the initial consolidation of iWatt; we refer to note 3 to the interim condensed consolidated financial statements for further information. In addition we have invested into tangible and intangible assets of US$30.3 million. These additions were more than offset by depreciation and amortization charges in the amount of US$32.7 million. Furthermore we have made a strategic equity investment into Arctic Sand Technologies, Inc. amounting to US$ 1.4 million, for further information we refer to our Q2-2013 interim financial statements.

Current liabilities decreased by net US$10.0 million of which US$11.4 million relate to decreased trade accounts payables which is mainly a result of lower inventory purchases in Q3-2013 compared to Q4-2012. In addition income tax payables decreased by US$9.1 million. This decrease was partly offset by the recognition of a contingent consideration of US$ 5.2 million related to the iWatt acquisition (please refer to note 3 to the interim condensed consolidated financial statements) and the recognition of a deferred revenue liability of US$ 3.6 million coming from iWatt. Furthermore, a provision for a potential liability of US$ 5.0 million was booked for committed services during the quarter which were not yet invoiced.

The increase of non-current liabilities is mainly dominated by new debt facilities with a total fair value of US$114.4 million, the deferred tax liability of US$40.6 million relating to the purchase price allocation of the iWatt acquisition and the compounding of the convertible bond in the amount of US$6.3 million.

Net debt which is defined as short and long-term financial liabilities less cash was US$142.1 million at 27 September 2013. This compares to a net cash position (cash less financial liabilities) of US$ 131.7 million at 31 December 2012. This change is mainly related to the purchase of iWatt as explained above.

Shareholders' equity increased to US$406.3 million (US$382.6 million at 31 December 2012) which is mainly a result of our net profit (adjusted by expenses for share based payments). The equity ratio was 46.1% (54.0% at 31 December 2012).

# Other Information

**Members of the Management and the Board of Directors**
**Management**
Dr Jalal Bagherli, Chief Executive Officer; Andrew Austin, Vice President, Sales; Mohamed Djadoudi, Vice President, Global Manufacturing Operations and Quality; Gary Duncan, Vice-President, Product Development; Christophe Chene, Vice President, Asia; Sean McGrath, Vice President and General Manager Connectivity, Automotive and Industrial Group; Udo Kratz, Senior Vice President, General Manager Mobile Systems Business Group; Martin Powell, Vice President, Human Resources; Jean-Michel Richard, CFO, Vice President Finance; Mark Tyndall, Vice President Business Development and Corporate Strategy.

**Board of Directors**
Rich Beyer, Chairman; Dr Jalal Bagherli, Chief Executive Officer; Gregorio Reyes, Chris Burke; Mike Cannon; Aidan Hughes; John McMonigall; Russ Shaw; Peter Weber.

**Going concern**
After making enquiries, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue for the foreseeable future. At 27 September 2013 the Group holds US$157.1 million cash (31 December 2012: US$312.4 million) and has continued access to other borrowing facilities. The Group has profitable forecasts and longer-term plans. For these reasons, the Directors have adopted the going concern basis in preparing the interim consolidated financial statements.

**Principal risks and uncertainties**
The risk management, our business risks and opportunities are described in our 2012 annual report – section 2. Compared with the risks and opportunities presented here, no significant additional opportunities and risks arose for the Company in the first nine months of 2013. There are currently no identifiable risks that, individually or collectively, could endanger the continued existence of the Company.

# Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, as well as a fair review of information on material transactions with related parties and changes since the last annual report together with a description of the principal risks and uncertainties associated with the expected development of the group for the remaining months of the financial year.

29 October 2013

| | |
|---|---|
| Dr Jalal Bagherli | Jean-Michel Richard |
| CEO | CFO, Vice President Finance |

# Independent Review Report to Dialog Semiconductor Plc

**Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the three and nine months ended 27 September 2013 which comprises the Interim Consolidated Statement of Financial Position, the Interim Consolidated Income Statement, the Interim Consolidated Statement of Comprehensive Income, the Interim Consolidated Statement of Cash Flows, the Interim Consolidated Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of interim financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

**Directors' Responsibilities**

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and the German Securities Trading Act (WpHG).

As disclosed in note 2, the annual financial statements of the Company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standards 34, “Interim Financial Reporting,” as adopted by the European Union.

**Our Responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the three and nine months ended 27 September 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union, the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and the German Securities Trading Act (WpHG).

**Other matter**

As noted in the summary of significant accounting policies note, the corresponding figures for the interim period ended 28 September 2012 are unreviewed.

Ernst & Young LLP

Reading

29 October 2013

# Unaudited interim consolidated statement of financial position

As at 27 September 2013

| | Notes | At 27 September 2013 US$000 | At 31 December 2012 US$000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | **157,093** | 312,435 |
| Trade accounts receivable and other receivable | | **62,947** | 82,887 |
| Inventories | 6 | **144,278** | 152,455 |
| Income tax receivables | | **8,327** | 60 |
| Other financial assets | | **4,005** | 3,120 |
| Other current assets | | **17,882** | 12,545 |
| **Total current assets** | | **394,532** | 563,502 |
| Property, plant and equipment | 7 | **58,592** | 50,318 |
| Goodwill | 3 | **246,359** | 32,283 |
| Other intangible assets | 8 | **156,714** | 51,789 |
| Investments | | **1,491** | – |
| Deposits | | **1,452** | 1,137 |
| Income tax receivables | | **153** | 198 |
| Deferred tax assets | | **22,871** | 8,913 |
| **Total non-current assets** | | **487,632** | **144,638** |
| **Total assets** | | **882,164** | 708,140 |
| **Liabilities and Shareholders' equity** | | | |
| Trade and other payables | | **94,802** | 106,216 |
| Other financial liabilities | | **4,573** | 4,117 |
| Provisions | | **6,208** | 1,288 |
| Income taxes payable | | **271** | 9,359 |
| Other current liabilities | | **26,778** | 21,670 |
| **Total current liabilities** | | **132,632** | **142,650** |
| Provisions | | **4,272** | 603 |
| Other non-current financial liabilities | 9 | **294,579** | 176,617 |
| Deferred tax liabilities (non-current) | | **44,358** | 5,679 |
| **Total non-current liabilities** | | **343,209** | 182,899 |
| Ordinary shares | | **12,852** | 12,852 |
| Additional paid-in capital | | **245,665** | 243,829 |
| Retained earnings | | **150,751** | 129,190 |
| Other reserves | | **(617)** | (427) |
| Employee stock purchase plan shares | | **(2,328)** | (2,853) |
| **Net Shareholders´ equity** | | **406,323** | 382,591 |
| **Total liabilities and Shareholders´ equity** | | **882,164** | 708,140 |

# Unaudited interim consolidated income statement

For the three and nine months ended 27 September 2013

| | Notes | **Three months ended 27 September 2013 US$000** | Three months ended 28 September 2012 (unreviewed) US$000 | **Nine months ended 27 September 2013 US$000** | Nine months ended 28 September 2012 (unreviewed) US$000 |
|---|---|---|---|---|---|
| Revenue | 4 | **219,468** | 180,023 | **551,072** | 505,896 |
| Cost of sales | | **(141,639)** | (111,533) | **(347,515)** | (316,216) |
| **Gross profit** | | **77,829** | 68,490 | **203,557** | 189,680 |
| Selling and marketing expenses | | **(15,693)** | (9,223) | **(32,705)** | (28,006) |
| General and administrative expenses | | **(13,300)** | (7,938) | **(30,398)** | (22,193) |
| Research and development expenses | | **(39,352)** | (33,868) | **(108,345)** | (92,904) |
| **Operating profit** | 4 | **9,484** | 17,461 | **32,109** | 46,577 |
| Interest income | | **183** | 467 | **524** | 1,062 |
| Interest expense | | **(3,843)** | (2,083) | **(9,546)** | (3,851) |
| Foreign currency exchange gains (losses), net | | **319** | 770 | **177** | 458 |
| **Result before income taxes** | 4 | **6,143** | 16,615 | **23,264** | 44,246 |
| Income tax expense | | **(2,542)** | (4,487) | **(7,678)** | (11,947) |
| **Net profit** | | **3,601** | 12,128 | **15,586** | 32,299 |

| | **Three months ended 27 September 2013** | Three months ended 28 September 2012 (unreviewed) | **Nine months ended 27 September 2013** | Nine months ended 28 September 2012 (unreviewed) |
|---|---|---|---|---|
| **Earnings per share (in US$)** | | | | |
| Basic | **0.05** | 0.19 | **0.24** | 0.50 |
| Diluted | **0.05** | 0.18 | **0.23** | 0.48 |
| **Weighted average number of shares (in thousands)** | | | | |
| Basic | **65,819** | 64,984 | **65,605** | 64,453 |
| Diluted | **67,940** | 67,551 | **67,654** | 67,042 |

# Unaudited interim consolidated statement of comprehensive income

For the three and nine months ended 27 September 2013

| | **Three months ended 27 September 2013 US$000** | Three months ended 28 September 2012 (unreviewed) US$000 | **Nine months ended 27 September 2013 US$000** | Nine months ended 28 September 2012 (unreviewed) US$000 |
|---|---|---|---|---|
| **Net profit** | **3,601** | 12,128 | **15,586** | 32,299 |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods:** | | | | |
| Exchange differences on translating foreign operations | **456** | (323) | **152** | (162) |
| Cash flow hedges | **3,547** | 4,124 | **(189)** | 7,238 |
| Income tax relating to components of other comprehensive income | **(797)** | (852) | **(153)** | (318) |
| **Other comprehensive income (loss) for the year, net of tax** | **3,206** | 2,949 | **(190)** | 6,758 |
| **Total comprehensive income for the year** | **6,807** | 15,077 | **15,396** | 39,057 |

# Unaudited interim consolidated statement of cash flows

For the three and nine months ended 27 September 2013

| | Notes | **Three months ended 27 September 2013 US$000** | Three months ended 28 September 2012 (unreviewed) US$000 | **Nine months ended 27 September 2013 US$000** | Nine months ended 28 September 2012 (unreviewed) US$000 |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net profit | | **3,601** | 12,128 | **15,586** | 32,299 |
| Adjustments to reconcile net profit to net cash used for operating activities: | | | | | |
| Interest income, net | | **3,660** | 1,616 | **9,022** | 2,789 |
| Income tax expense | | **2,542** | 4,487 | **7,678** | 11,947 |
| Impairment of inventories | | **3,950** | 2,074 | **8,112** | 3,631 |
| Depreciation of property, plant and equipment | | **5,104** | 3,423 | **13,124** | 9,096 |
| Amortisation of intangible assets | | **9,552** | 5,397 | **19,561** | 14,428 |
| Losses on disposals of fixed assets and impairment of fixed and financial assets | | **229** | 38 | **537** | 347 |
| Expense related to share-based payments | | **2,135** | 1,925 | **5,974** | 5,080 |
| Changes in working capital: | | | | | |
| Trade accounts receivable, other receivables and factoring | | **(29,597)** | (24,729) | **30,957** | (28,504) |
| Inventories | | **(26,310)** | (51,866) | **7,732** | (93,279) |
| Prepaid expenses | | **(1,093)** | 57 | **(326)** | 675 |
| Trade accounts payable | | **36,461** | 27,055 | **(22,923)** | 47,525 |
| Provisions | | **5,499** | 275 | **5,151** | 433 |
| Other assets and liabilities | | **2,709** | (1,507) | **(3,590)** | 653 |
| **Cash generated from (used for) operations** | | **18,442** | (19,627) | **96,595** | 7,120 |
| Interest paid | | **(355)** | (1,064) | **(1,613)** | (1,064) |
| Interest received | | **185** | 510 | **550** | 773 |
| Income taxes paid | | **(10,467)** | (1,339) | **(31,028)** | (7,879) |
| **Cash flow from operating activities** | | **7,805** | (21,520) | **64,504** | (1,050) |
| Cash flows from investing activities: | | | | | |
| Purchase of property, plant and equipment | | **(4,364)** | (5,472) | **(17,143)** | (30,123) |
| Purchase of iWatt net of acquired cash | 3 | **(303,851)** | | **(303,851)** | – |
| Purchase of intangible assets | | **(2,646)** | (7,518) | **(7,360)** | (10,305) |
| Payments for capitalised development costs | | **(2,178)** | (1,179) | **(5,784)** | (3,405) |
| Sale (Purchase) of other investments | | **68** | – | **(1,432)** | – |
| Change in other long term assets | | **(162)** | (61) | **(176)** | 101 |
| **Cash flow used for investing activities** | | **(313,133)** | (14,230) | **(335,746)** | (43,732) |
| Cash flows from financing activities: | | | | | |
| Convertible Bond | | **–** | (66) | **–** | 196,724 |
| Sale of employee stock purchase plan shares | | **1,822** | 1,050 | **2,361** | 3,805 |
| Financial liabilities | 9 | **113,650** | 10,000 | **113,650** | 10,000 |
| **Cash flow from financing activities** | | **115,472** | 10,984 | **116,011** | 210,529 |
| Cash flow from (used for) operating, investing and financing activities | | **(189,856)** | (24,766) | **(155,231)** | 165,747 |
| Net foreign exchange difference | | **206** | (124) | **(111)** | (274) |
| **Net increase (decrease) in cash and cash equivalents** | | **(189,650)** | (24,890) | **(155,342)** | 165,473 |
| Cash and cash equivalents at beginning of period | | **346,743** | 303,953 | **312,435** | 113,590 |
| **Cash and cash equivalents at end of period** | | **157,093** | 279,063 | **157,093** | 279,063 |

# Unaudited interim consolidated statement of changes in equity

For the nine months ended 27 September 2013

| | Ordinary Shares US$000 | Additional paid-in capital US$000 | Retained earnings US$000 | Other reserves Currency translation adjustment US$000 | Hedges US$000 | Employee stock purchase plan shares US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2012 1)** | **12,380** | **203,911** | **59,722** | **(1,879)** | **(6,372)** | **(3,158)** | **264,604** |
| Total comprehensive income adjusted | – | – | 32,299 | 134 | 6,624 | – | 39,057 |
| Conversion right embedded in Convertible Bond | – | 37,393 | – | – | – | – | 37,393 |
| Convertible Bond transaction cost attributable to conversion right | – | (796) | – | – | – | – | (796) |
| Capital Increase for employee share option plan (gross proceeds) | 472 | 2,647 | – | – | – | (3,119) | - |
| Transaction cost of capital increase - employee share option plan | – | (33) | – | – | – | – | (33) |
| Sale of employee stock purchase plan shares | – | 431 | – | – | – | 3,409 | 3,840 |
| Equity settled transactions, net of tax | – | – | 5,080 | – | – | – | 5,080 |
| **Changes in Equity total** | **472** | **39,642** | **37,379** | **134** | **6,624** | **290** | **84,541** |
| **Balance at 28 September 2012 (unreviewed)** | **12,852** | **243,553** | **97,101** | **(1,745)** | **252** | **(2,868)** | **349,145** |
| | | | | | | | |
| **Balance at 31 December 2012 / 1 January 2013** | **12,852** | **243,829** | **129,190** | **(1,964)** | **1,537** | **(2,853)** | **382,591** |
| Total comprehensive income (loss) | – | – | 15,586 | (33) | (157) | – | 15,396 |
| Sale of employee stock purchase plan shares | – | 1,836 | – | – | – | 525 | 2,361 |
| Equity settled transactions, net of tax | – | – | 5,975 | – | – | – | 5,975 |
| **Changes in Equity total** | **–** | **1,836** | **21,561** | **(33)** | **(157)** | **525** | **23,732** |
| **Balance at 27 September 2013** | **12,852** | **245,665** | **150,751** | **(1,997)** | **1,380** | **(2,328)** | **406,323** |

1) The beginning balance at 1 January 2012 of Retained Earnings includes an adjustment of the deferred tax in amount of US$1,489,000. The adjustment is related to the finalization of acquisition accounting including the purchase price allocation during the measurement period in 2012. The final results led to changes to the PPA and numbers 2011 have been retrospectively adjusted. We refer to Note 4 of the consolidated financial statements for the year ended 31 December 2012.

# Unaudited notes to the interim condensed consolidated financial statements

For the three and nine months ended 27 September 2013

## 1. General

**Company name and registered office**
Dialog Semiconductor Plc
Tower Bridge House
St Katharine's Way
London E1W 1AA
United Kingdom

**Description of Business**
Dialog Semiconductor creates highly integrated, mixed signal integrated circuits (ICs), optimised for personal portable, short-range wireless, lighting and automotive applications. The Company provides its customers with flexible and dynamic support, world-class innovation and the assurance of dealing with an established business partner.

With its focus and expertise in energy-efficient system power management, audio, low energy short-range wireless and VoIP technologies, Dialog brings decades of experience to the rapid development of ICs.

Dialog's power management processor companion chips enhance the performance of personal portable devices – including smartphones, tablets and Ultrabooks™ – by extending battery play time and supporting increasingly demanding multimedia applications. Our short-range wireless technology provides connectivity to wireless headsets, microphones and gaming consoles and is enabling the emergence of innovative new smart home applications.

Dialog Semiconductor Plc is headquartered near Stuttgart, with a global sales, R&D and marketing organisation. In 2012, it had US$774 million in revenue and continues to be one of the fastest growing European public semiconductor companies. At 31 December 2012, the Company had 806 employees. With world-class manufacturing partners, Dialog operates a fabless business model. The Company is listed on the Frankfurt (FWB: DLG) stock exchange and is a member of the German TecDAX index.

## 2. Summary of significant accounting policies

The accompanying interim consolidated financial statements have been prepared on the basis of the recognition and measurement requirements of IFRS and its interpretation adopted by the EU. As permitted by IAS 34, Management has decided to publish a condensed version compared to the consolidated financial statements at December 31, 2012.

The quarterly report has been prepared under IAS 34 to meet the prime standards of the Frankfurt stock exchange with regards to quarterly financial reporting and also to cover the requirements with regards to interim management statements reporting of the Disclosure and Transparency Rules of the UK Financial Services Authority and the German Securities Trading Act.

The financial information contained in this interim statement does not amount to statutory financial statements within the meaning of section 435 of the Companies Act 2006. The financial information contained in this report is unaudited but has been reviewed by Ernst & Young LLP. The financial statements for the year ended 31 December 2012, from which information has been extracted, was prepared under IFRS and has been delivered to the Registrar of Companies. The report of the auditors was unqualified in accordance with sections 495 to 497 of the Companies Act 2006 and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The comparative financial information was not subject to a review by Ernst & Young LLP.

The interim financial statements are presented in US dollars ("US$") except when otherwise stated. They are prepared on the historical cost basis except that financial instruments classified as available-for-sale and derivative financial instruments are stated at their fair value. The accounting policies and methods of computation are consistent with those of the previous financial year.

Please refer to note 2 to the consolidated financial statements as of December 31, 2012 for the accounting policies applied for the Company's financial reporting.

**Changes in accounting policies and disclosures**
The accounting policies are consistent with those of the previous financial year except for the changes resulting from the adoption of the following amended, revised and new Standards and new IFRIC interpretations during the first nine month of 2013:

## 2. Summary of significant accounting policies continued

*IAS 19 Employee Benefits (amended)*
The amendments to IAS 19 Employee Benefits were issued in December 2010 and are effective for annual periods beginning on or after 1 January 2013. The amendments especially relate to:

- eliminating an option to defer the recognition of gains and losses, known as the 'corridor method', improving comparability and faithfulness of presentation;
- streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income (OCI), thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations;
- enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

Since the Group does not operate any defined benefit plan, the Group does not expect a material effect on its financial statements resulting from this amendment.

*IFRS 13 Fair Value Measurement*
The new IFRS 13 was issued in May 2011 and is effective for periods beginning on or after 1 January 2013. The requirements of IFRS 13 do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The initial application of the standard does not lead to significant changes in the measurement of assets and liabilities. Changes are required in the consolidated notes, according to which the disclosures on the fair values of financial instruments and classification of financial instruments, which previously had to be made only in the year-end financial statements, now also have to be made in the interim reports. Further information is provided in Note 10.

*IAS 1 Presentation of Financial Statements*
The amendments to IAS 1 were issued in June 2011 and are effective for annual periods beginning on or after 1 July 2012. The amendments require companies preparing financial statements in accordance with IFRSs to group together items within Other Comprehensive Income ("OCI") that may be reclassified to the profit or loss section of the income statement in the future. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendment will primarily result in a grouping of OCI items. All OCI items presented by the Group are reclassifiable.

*IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities Amendments to IFRS 7*
The amendment was issued in December 2011 and is effective for periods beginning on or after 1 January 2013 and requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

**Presentation of condensed interim financial statements**
The accompanying condensed interim consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) which, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented. Operating results for the nine months ended 27 September 2013 are not necessarily indicative of the results to be expected for the full year ending 31 December 2013.

**Use of Estimates**
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these condensed interim financial statements, the significant judgments made by management in applying the group accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2012.

## 3. Business combinations

**Acquisitions in 2013**

On 16 July 2013 Dialog Semiconductor Plc acquired 100% of the voting rights of iWatt Inc. (“iWatt”) for a purchase price with a fair value of US$ 311,449,000 of which US$306,261,000 was paid in cash at the time of the acquisition. Headquartered in Campbell, California, with approximately 180 employees worldwide, iWatt is a leading provider of digital power management integrated circuits with a patent portfolio of more than 110 patents and a strong design and application engineering presence in Asia. Its innovative PrimAccurate™ technology platform enables high performance, energy-efficient, small form-factor and cost-effective solutions for markets such as AC/DC power conversion and LED Solid State Lighting (SSL). The Company’s solutions are designed into the products of leading global OEMs and it has shipped more than one billion power management ICs since 2007.

This acquisition underscores Dialog's strategy to diversify its markets and growth opportunities through select strategic acquisitions. iWatt’s business is highly complementary to Dialog’s existing PMIC business. It will enable the resulting business combination to address adjacent emerging power management segments and increase its Total Addressable Market. It diversifies Dialog’s product portfolio adding two high growth product families; AC/DC charge adaptor IC and a broad range of LED Solid State Lighting ICs. iWatt’s business contributes to the diversification of Dialog’s client portfolio by adding new Tier-1 customers and expanding the business opportunities at existing smartphone Tier-1 OEMs.

The acquisition has been accounted for using the acquisition method as required by IFRS 3.4. Due to the timing of the acquisition the initial accounting for the business combination is incomplete at the time the financial statements were authorized for issue. The fair values recognized on the acquisition represent provisional amounts.

**Assets acquired and liabilities assumed**

The book values at iWatt and provisional fair values of the identifiable assets and liabilities of iWatt as at the date of acquisition were:

| | Book values at iWatt US$000 | Fair value adjustments US$000 | **Fair value recognised on acquisition US$000** |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 2,410 | – | **2,410** |
| Trade accounts receivable and other receivable | 11,017 | – | **11,017** |
| Inventories | 6,034 | 6,802 | **12,836** |
| Other current assets | 776 | – | **776** |
| Property, plant and equipment | 1,749 | 3,117 | **4,866** |
| Intangible assets | 54 | 114,076 | **114,130** |
| Deferred tax assets | 15,389 | – | **15,389** |
| Other non-current assets | 314 | – | **314** |
| **Total assets** | **37,743** | **123,995** | **161,738** |
| **Liabilities** | | | |
| Trade and other payables | 11,585 | – | **11,585** |
| Provisions | 7,342 | (3,903) | **3,439** |
| Income taxes payable | 264 | – | **264** |
| Other current liabilities | 3,431 | – | **3,431** |
| Deferred tax liabilities | – | 45,645 | **45,645** |
| **Total liabilities** | **22,622** | **41,742** | **64,364** |
| **Total identifiable net assets at fair value** | **15,121** | **82,253** | **97,374** |
| Goodwill arising on acquisition | | | **214,075** |
| **Purchase price** | | | **311,449** |
| Fair value of contingent consideration (earn out) | | | **(5,188)** |
| **Purchase consideration transferred** | | | **306,261** |

The fair value of the trade receivables amounts to US$11,017,000. None of the trade receivables have been impaired and it is expected that the full contractual amounts will be collected. The fair value of inventories contains a step-up of US$6,801,000 which has an adverse impact on gross margin and the financial results for the current reporting period (for further details see management report on page 8).

The intangible assets comprise mainly customer and technology (including core technology) related intangible assets.

From the date of the acquisition, iWatt has contributed US$13,014,000 of revenue and a loss of US$14,874,000 before tax which are shown in the Group's newly created segment Power Conversion. If iWatt had been acquired on 1 January 2013, revenue of the Group for the first nine months of 2013 would have been US$590,694,000. However, due to a lack of IFRS-specific data prior to the acquisition of iWatt, pro-forma profit or loss of the combined entity for the first nine months 2013 cannot be determined reliably.

The deferred tax liability mainly comprises the tax effect on fair value adjustments from the purchase price allocation.

The goodwill of US$214,075,000 comprises the value of expected significant synergies and other benefits from combining the assets and activities of iWatt with those of the Dialog Group as explained above. The allocation of Goodwill to existing and new segments will be finalized during the measurement period of 12 months subsequently to the acquisition date. None of the goodwill recognised is expected to be deductible for income tax purposes.

**Purchase consideration**
The total purchase consideration paid amounted to US$306,261,000. There is an additional total possible contingent consideration (Earn out) of up to 35,000,000.

**Analysis of cash flows from acquisition**

| | US$000 |
|---|---|
| Transaction costs of the acquisition (included in cash flows from operating activities) | **(3,974)** |
| Total cash outflow for acquisition (included in cash flows from investing activities) | **(306,261)** |
| Net cash acquired with the subsidiary (included in cash flows from investing activities) | **2,410** |
| **Net cash flow on acquisition** | **(307,825)** |

Acquisition costs of US$3,974,000 have been expensed and are included in general and administrative expenses in the income statement. Further transaction costs are expected to occur in the fourth quarter 2013.

**Contingent consideration**
As part of the purchase agreement with the previous owner of iWatt, a contingent consideration has been agreed.

The contingent consideration is based on future revenue targets to be achieved within two earn out periods, the six months ended December 31, 2013 (the "First Earn-Out Period") and the nine months ended September 30, 2014 (the "Second Earn-Out Period"). The maximum payment relating to the first earn out period is US$17.0 million and the maximum payment relating to the second earn out period is US$18.0 million. Of these amounts we have recognized US$5.2 million as contingent consideration. We note that a minimum of 90% of the stretch targets set by former iWatt owners must be achieved before any earn out is achieved.

Other earn outs which are related to post acquisition employment are treated as post acquisition compensation and are expensed in the income statement over the relevant period.

The acquisition is being funded from both Dialog's existing cash resources and additional debt facilities of US$115 million.

**Consideration for unvested share options**
At the Effective Date of acquisition, each unvested option on iWatt shares was cancelled. Instead, a cash compensation has been offered to employees with unvested options which had an Exercise Price per Option lower than the implied Share Price, calculated based upon the effective date consideration. This compensation will be paid out by Dialog over the former vesting period of the cancelled option subject to the employee remaining with Dialog. The maximum amount of compensation that will be paid out is US$3,175,000.

## 4. Segment reporting
The Segment information is presented in respect of the Group's operating segments. The operating segments are based on the principal products in accordance with Company's reporting structure.

**a) Operating Segments**

The Group's operating segments are:

Mobile Systems

This segment includes our power management and audio chips especially designed to meet the needs of the wireless systems markets and a range of advanced driver technologies for low power display applications – from PMOLEDs, to electronic paper and MEMS displays.

Automotive and Industrial

In the automotive and industrial market our products address the safety, management and control of electronic systems in cars and for industrial applications.

Connectivity

The activities of this segment include short-range wireless, digital cordless and VoIP technology. The Connectivity segment includes the operating results of our subsidiary Dialog Semiconductor B.V.

Power conversion

The new Power conversion and LED Solid State Lighting (SSL) segment includes the operating segment of our newly acquired subsidiary iWatt Inc. (please refer to Note 3 for further information).

| | Three months ended 27 September 2013 | | | | | | Three months ended 28 September 2012 (unreviewed) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Mobile Systems US$000** | **Automotive/ Industrial US$000** | **Connectivity US$000** | **Power conversion US$000** | **Corporate US$000** | **Total US$000** | Mobile Systems US$000 | Automotive/ Industrial US$000 | Connectivity US$000 | Corporate US$000 | Total US$000 |
| Revenues | **171,938** | **10,348** | **24,160** | **13,014** | **8** | **219,468** | 146,782 | 8,765 | 24,176 | 300 | 180,023 |
| Operating profit (loss) [1] | **27,307** | **3,300** | **937** | **(14,874)** | **(7,186)** | **9,484** | 22,293 | 1,263 | (2,757) | (3,338) | 17,461 |
| Financial results | **(278)** | **-** | **-** | **-** | **(3,063)** | **(3,341)** | (407) | - | - | (439) | (846) |
| **Result before income taxes** | **27,029** | **3,300** | **937** | **(14,874)** | **(10,249)** | **6,143** | 21,886 | 1,263 | (2,757) | (3,777) | 16,615 |

[1] Certain overhead costs are allocated mainly based on sales and headcount.

| | Nine months ended 27 September 2013 | | | | | | Nine months ended 28 September 2012 (unreviewed) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Mobile Systems US$000** | **Automotive/ Industrial US$000** | **Connectivity US$000** | **Power conversion US$000** | **Corporate [2] US$000** | **Total US$000** | Mobile Systems US$000 | Automotive/ Industrial US$000 | Connectivity US$000 | Corporate US$000 | Total US$000 |
| Revenues | **441,967** | **27,212** | **68,871** | **13,014** | **8** | **551,072** | 404,979 | 29,251 | 71,367 | 299 | 505,896 |
| Operating profit (loss) [1] | **57,211** | **8,579** | **3,046** | **(14,874)** | **(21,853)** | **32,109** | 58,492 | 5,581 | (7,664) | (9,832) | 46,577 |
| Financial results | **(867)** | **-** | **-** | **-** | **(7,978)** | **(8,845)** | (407) | - | - | (1,924) | (2,331) |
| **Result before income taxes** | **56,344** | **8,579** | **3,046** | **(14,874)** | **(29,831)** | **23,264** | 58,085 | 5,581 | (7,664) | (11,756) | 44,246 |

[1] Certain overhead costs are allocated mainly based on sales and headcount.
[2] Corporate Segment mainly includes holding and trust expenses US$8,799 million, expenses for share options US$5,973 million and business development expenses US$6,424 million.

## Segment Reporting continued

### b) Geographic information

| | **Three months ended 27 September 2013 US$000** | Three months ended 28 September 2012 (unreviewed) US$000 |
|---|---|---|
| **Revenues** | | |
| United Kingdom | **231** | 694 |
| Other European countries | **16,076** | 16,603 |
| China | **174,598** | 135,830 |
| Other Asian countries | **26,053** | 25,421 |
| Other countries | **2,510** | 1,475 |
| **Total revenues** | **219,468** | 180,023 |

| | **At 27 September 2013 US$000** | At 31 December 2012 US$000 |
|---|---|---|
| **Assets** | | |
| Germany | **339,025** | 461,824 |
| Japan | **2,138** | 2,459 |
| United Kingdom | **89,954** | 159,978 |
| Netherlands | **62,109** | 57,608 |
| Other | **388,938** | 26,271 |
| **Total assets** | **882,164** | 708,140 |

Revenues are allocated to countries based on the location of the shipment destination. Segmental assets are allocated based on the geographic location of the asset.

## 5. Share-based compensation

Stock option plan activity for the period ended 27 September 2013 was as follows:

| | **Options** | **Weighted average exercise price €** |
|---|---|---|
| Outstanding at beginning of year | **5,878,825** | **7.83** |
| Granted | **957,551** | **5.52** |
| Exercised | **(500,033)** | **3.56** |
| Forfeited | **(228,798)** | **7.79** |
| **Outstanding at end of year** | **6,107,545** | **7.82** |
| Options exercisable at period end | **3,244,921** | **6.38** |

The Company established an employee benefit trust (the "Trust"). The Trust purchases shares in the Company for the benefit of employees under the Group's share option scheme. At 27 September 2013 the Trust held 2,179,735 shares.

## 6. Inventories

Inventories consisted of the following:

| | **At 27 September 2013 US$000** | At 31 December 2012 US$000 |
|---|---|---|
| Raw materials | **18,986** | 20,686 |
| Work-in-process | **49,970** | 51,739 |
| Finished goods | **75,245** | 79,942 |
| Deposits | **77** | 88 |
| **Total** | **144,278** | 152,455 |

## 7. Property, plant and equipment

Property, plant and equipment consisted of test equipment, leasehold improvements, office and other equipment and advance payments:

| | **At 27 September 2013 US$000** | At 31 December 2012 US$000 |
|---|---|---|
| Gross carrying amount | **171,084** | 150,418 |
| Accumulated depreciation | **112,492** | 100,100 |
| **Net carrying amount** | **58,592** | 50,318 |

The Company has contractual commitments for the acquisition or property, plant and equipment of US$5,993,000.

## 8. Other Intangible assets

Intangible assets subject to amortisation represent licenses, patents software and capitalized R&D expenses as well as customer related intangible assets and other intangible assets acquired in business combinations.

| | **At 27 September 2013 US$000** | At 31 December 2012 US$000 |
|---|---|---|
| Gross carrying amount | **228,580** | 104,117 |
| Accumulated depreciation | **71,866** | 52,328 |
| **Net carrying amount** | **156,714** | 51,789 |

The Company has contractual commitments for the acquisition of intangible assets of US$735,000.

In addition the Company has a contingent liability of US$400,000 in connection with the purchase of intangible assets. This liability is contingent to certain milestones being met which is expected to occur within the next 12 months.

## 9. Other non-current financial liabilities

The subjects of new debt facilities are Base Currency term loan facility in an aggregate amount equal to US$100.0 million and a multicurrency revolving loan facility in an aggregate amount of US$15.0 million equal to the total revolving facility commitments. The cash inflow from facilities use is mainly dedicated to the payment to the vendor of the purchase price for the Capital Stock and the payment of the Acquisition Costs (other than periodic fees). The applied interest rate contains the margin, LIBOR and mandatory cost. These are the cost of compliance with the requirements of the Bank of England and/or the Financial Conduct Authority and the requirements of the European Central Bank. The termination date of both facilities is the 31 March 2017.

## 10. Additional disclosures on financial instruments

Set out below is an overview of financial instruments held by the Group as at 27 September 2013:

| | Category in accordance with IAS 39 | **Carrying amount 27 September 2013 US$000** | Amounts recognised in the statement of financial position according to IAS 39 Amortised cost US$000 | Cost US$000 | Fair value recognised in other comprehensive income US$000 | Fair value recognised in profit or loss US$000 | Fair value 27 September 2013 US$000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash at bank and Short-term deposits | LaR | **157,093** | 157,093 | – | – | – | 157,093 |
| Deposits designated as a hedging instrument | n/a | **–** | – | – | – | – | – |
| Trade accounts receivable and other receivable | LaR | **62,947** | 62,947 | – | – | – | 62,947 |
| Other non-derivative financial assets | | | | | | | |
| Deposits for hedging contracts | LaR | **1,532** | 1,532 | – | – | – | 1,532 |
| Derivative financial assets | | | | | | | |
| Derivatives without hedging relationship | n/a | **–** | – | – | – | – | – |
| Derivatives with hedging relationship | n/a | **2,473** | – | – | 2,473 | – | 2,473 |
| Investments | AfS | **1,491** | – | – | 1,491 | – | 1,491 |
| Liabilities | | | | | | | |
| Trade accounts payable | FLAC | **87,819** | 87,819 | – | – | – | 87,819 |
| Other payable | FLAC | **6,983** | 6,983 | – | – | – | 6,983 |
| Other financial liabilities | FLAC | **127,959** | 127,959 | – | – | – | 127,959 |
| Convertible bond | FLAC | **170,882** | 170,882 | – | – | – | 184,040 |
| Derivative financial liabilities | | | | | | | |
| Derivatives without hedging relationship | n/a | **–** | – | – | – | – | – |
| Derivatives with hedging relationship | n/a | **311** | – | – | 311 | – | 311 |
| Of which aggregated by category in accordance with IAS 39: | | | | | | | |
| Loans and receivables (LaR) | | **221,572** | 221,572 | – | – | – | 221,572 |
| Deposits designated as a hedging instrument | | **–** | – | – | – | – | – |
| Held-to-maturity investments (HtM) | | **–** | – | – | – | – | – |
| Available-for-sale financial assets (AfS) | | **1,491** | – | – | – | – | 1,491 |
| Derivatives without hedging relationship | | **–** | – | – | – | – | – |
| Derivative financial assets with hedging relationship | | **2,473** | – | – | 2,473 | – | 2,473 |
| Derivative financial liabilities with hedging relationship | | **(311)** | | | (311) | | (311) |
| Financial liabilities at amortised cost (FLAC) | | **(393,643)** | (393,643) | – | – | – | (406,801) |

The fair value of derivatives has been determined with reference to available market information (Level 2) applying Mark-to-market method. The carrying amounts of the loans and receivables and financial liabilities approximate their fair values due to short-term maturities. Since the market conditions affecting the non-current liability component of the convertible bond have changed the fair value at 27 September 2013 deviates from the carrying amount. For the applied measurement technique we refer to Note 18 of the consolidated financial statements at December 31, 2012. Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. For the equity investment held at cost of US$1,5m there is no active market with publicly available market prices. Instruments allocated to the column "fair value recognised in other comprehensive income" are derivative financial instruments designated as cash flow hedges.

Additional disclosures on financial instruments continued

**Risk management activities**

**Cash flow hedges for currency risks**

The main functional currency within the Group and the presentation currency for the consolidated financial statements is the US$. Accordingly, foreign exchange risks arise from transactions, and recognised assets and liabilities, the functional currency of which is not the US$. The currencies giving rise to these exposure risks are primarily the Euro and Pound Sterling. The majority of the Group's revenue and material expenses are denominated in US$. The majority of other operating expenses are denominated in Euros and Pounds Sterling. The Group has transactional currency exposures. Such exposure arises from the sales or purchases by an operating unit in currencies other than the unit's functional currency. In Q3-2013 as well as first nine months 2013 and related periods in 2012 nearly all the Group's sales were denominated in US$.

The Group uses forward currency contracts as well as certain deposits (together referred to as the "hedging instruments") to eliminate the currency exposure of recurring expected payments, such as salaries, wages and office rents non-US$ denominated. The hedging instruments must be the same currency as the hedged item.

The terms of the foreign currency forward contracts have been negotiated to match the terms of the forecasted transactions. Both parties of the contract have fully cash collateralised the foreign currency forward contracts, and therefore, effectively eliminated any credit risk associated to the contracts (both the counterparty's and the Group's own credit risk). Consequently, the hedges were assessed to be highly effective.

As at 27 September 2013 the following unrealized effects were recorded on other comprehensive income:

| | Forward currency contracts | | | Deposits | **Total** |
|---|---|---|---|---|---|
| | Euro<br>US$000 | GBP<br>US$000 | JPY<br>US$000 | JPY<br>US$000 | **At 27 September 2013**<br>**US$000** |
| Gain | 407 | 2,051 | 15 | – | **2,473** |
| Loss | – | – | (311) | (236) | **(547)** |
| **Unrealised net gain (loss) before tax** | **407** | **2,051** | **(296)** | **(236)** | **1,926** |
| Tax effect | (115) | (582) | 84 | 67 | **(546)** |
| **Unrealised net gain (loss) after tax** | **292** | **1,469** | **(212)** | **(169)** | **1,380** |

**Valuation techniques**

The foreign currency forward contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. All contracts are fully cash collateralised, thereby eliminating both counterparty and the Group's own credit risk.

## 11. Transactions with related parties

As described in the Company's annual report 2012, note 26 the related parties of the Company were comprised of eight Non-Executive members of the Board of Directors and ten members of the executive management. On 2 May 2013 at the Company's AGM two new members of the board of Directors were appointed. Transactions with those related parties only comprise their compensation which, besides the additional fees for the new Non-Executive Directors, did not significantly change compared to 2012.

## 12. Subsequent events

There are no known events after the date of the Statement of Financial Position that require disclosure.

**Germany**
*Dialog Semiconductor GmbH*
Neue Strasse 95
D-73230 Kirchheim/Teck-Nabern
Germany
Phone: (+49) 7021 805-0
Fax: (+49) 7021 805-100
Email: dialog.nabern@diasemi.com

**United Kingdom**
*Dialog Semiconductor (UK) Ltd*
Delta 200
Delta Business Park
Welton Road
Swindon
Wiltshire SN5 7XB
UK
Phone: (+44) 1793 757700
Fax: (+44) 1793 757800
Email: dialog.swindon@diasemi.com

**The Netherlands**
*Dialog Semiconductor B.V.*
Het Zuiderkruis 53
5215 MV 's-Hertogenbosch
The Netherlands
Phone: (+31) 73 640 88 22
Fax: (+31) 73 640 88 23
Email: dialog.nl@diasemi.com

**North America**
*Dialog North America*
2560 Mission College Boulevard
Santa Clara
California 95054
USA
Phone: (+1) 408 845 8500
Fax: (+1) 408 845 8505
Email: NA_sales_enquiries@diasemi.com

**Japan**
*Dialog Semiconductor K.K.*
Kamiyacho MT Bldg 16F
4-3-20 Toranomon
Minato-ku
Tokyo 105-0001
Japan
Phone: (+81) 3 5425 4567
Fax: (+81) 3 5425 4568
Email: dialog.tokyo@diasemi.com

**Taiwan & Greater China**
*Dialog Semiconductor GmbH*
*Taiwan Branch*
9F, No 185, Sec 2, Tiding Blvd
Neihu district
Taipei city 114
Taiwan, R.O.C.
Phone: (+886) 281 786 222
Fax: (+886) 281 786 220
Email: dialog.taiwan@diasemi.com

**Singapore**
*Dialog Semiconductor GmbH*
*Singapore branch*
10 Ang Mo Kio. Street 65.
Unit # 03-11A Techpoint
Singapore 569059
Phone: (+65) 64849929
Fax: (+65) 64843455
Email: dialog.singapore@diasemi.com

**Korea**
*Dialog Semiconductor (UK) Ltd*
*Korea Branch*
501 Dongsung B/D,
158-9, Samsung-Dong
Kangnam-Ku, Seoul
Korea, 135-830
Phone: (+82) 2 569 2301
Fax: (+82) 2 569 2302
Email: dialog.korea@diasemi.com

Dialog Semiconductor Plc
Tower Bridge House
St Katharine's Way
London E1W 1AA
UK

www.dialog-semiconductor.com