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# Press Release – 23 July 2013

## DIALOG SEMICONDUCTOR REPORTS SECOND QUARTER RESULTS ENDED

28 JUNE 2013

***Company delivers second quarter revenue at the upper end of May guidance and year on year gross margin improvement***

**Kirchheim/Teck, Germany, 23 July 2013** - Dialog Semiconductor plc (FWB: DLG), a provider of highly integrated innovative power management, audio and low energy short range wireless technologies, today reports results for its second quarter ending 28 June 2013.

### Q2 2013 financial highlights

- Revenue at \$152 million, down 5% on Q2 2012
- Connectivity segment revenue up 4% over Q2 2012
- Gross margin at 37.7%, 20bps above Q2 2012
- Underlying (\*) EBITDA (\*\*\*) at \$19.8 million or 13.1% of revenue
- IFRS operating profit (EBIT) at \$6.1 million or 4.0% of revenue. Excluding acquisition related costs of \$2.9 million incurred in Q2, IFRS EBIT at 6.0% of revenue
- Connectivity segment IFRS operating profit (EBIT) at \$2.3 million or 9.4% of revenue
- IFRS basic and diluted EPS of 3 cents, down 10 and 9 cents respectively on Q2 2012 Underlying (\*) basic and diluted EPS of 15 and 14 cents, down 6 and 5 cents respectively on Q2 2012. Basic and diluted EPS impact of acquisition related costs was 4 cents respectively
- Cash generated from operations at \$57.7 million. Cash and cash equivalents balance as of 28 June 2013 increased by \$28.1 million from Q1 2013 to \$346.7 million

### Q2 2013 operational highlights

- The acquisition of iWatt completed as expected on 16 July
- Continued power management smartphone and tablet design win momentum, across new platforms and models of our largest clients
- Broadened our product portfolio with the launch of Smartbond™ the world's lowest power Bluetooth Smart System-on-Chip (SoC)
- Wistron adopted Smartwave™, our multi-touch IC to provide tier one PC manufacturing partners with a 23 inch touch All-in-One product
- Expanded our partnership with Freescale with a new audio codec reference module for their Tower System Development Platform

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

*"We have delivered a good set of results in the second quarter while maintaining our innovation focus and generating significant cash from our business. The launch of two new product families, Smartbond™ and Smartwave™ opens up new addressable markets, supporting the diversification of our business and enabling exciting new applications."*

"Dialog remains focused on delivering a successful steep ramp of a number of new products through the next two quarters to meet client demand. Lastly, I am very excited to have recently completed the acquisition of iWatt and we are now devoting significant attention to the integration of the business."

## Outlook

In Q3 2013, excluding the contribution from the acquired iWatt business, we expect revenue for the quarter to be in the range of \$190 to \$210 million.

Given the visibility we have, we remain confident about the Company's revenue growth for the full year, driven by the ramp of high volume new products.

In Q3 2013, excluding the contribution of the acquired iWatt business, gross margin is expected to improve sequentially and on a year on year basis and continue to improve through the second half of 2013. This will result in gross margin improvement for full year 2013 over 2012.

In Q3 2012, we expect the acquired iWatt business to contribute an additional \$18 to \$20 million revenue from July 16, representing approximately a 15% year on year growth for the full quarter.

## Financial overview

IFRS <sup>1)</sup> US\$ million	Second Quarter			First Half		
	2013	2012	% Var.	2013	2012	% Var.
Revenue	<b>151.7</b>	159.5	(5)%	<b>331.6</b>	325.9	2%
Gross Margin	<b>37.7%</b>	37.5%	+20bps	<b>37.9%</b>	37.2%	+70bps
R&D %	<b>21.6%</b>	19.1%	+250bps	<b>20.8%</b>	18.1%	+270bps
SG&A %	<b>12.1%</b>	10.0%	+210bps	<b>10.3%</b>	10.2%	(10)bps
EBIT	<b>6.1</b>	13.4	(55)%	<b>22.6</b>	29.1	(22)%
EBIT %	<b>4.0%</b>	8.4%	(440)bps	<b>6.8%</b>	9.0%	(220)bps
Net income	<b>2.1</b>	8.5	(76)%	<b>12.0</b>	20.2	(41)%
Basic EPS \$	<b>0.03</b>	0.13	(77)%	<b>0.18</b>	0.31	(42)%
Diluted EPS \$	<b>0.03</b>	0.12	(75)%	<b>0.18</b>	0.30	(40)%
Operating cash flow	<b>57.7</b>	(9.0)	n/a	<b>78.2</b>	26.8	192%

<sup>1)</sup> Including \$2.9 million of acquisition related costs

Underlying US\$ million	Second Quarter			First Half		
	2013	2012	% Var.	2013	2012	% Var.
Gross Margin	37.9%	37.5%	+40bps	38.1%	37.4%	+70bps
EBITDA	19.8	24.4	(19)%	48.1	51.5	(7)%
EBITDA %	13.1%	15.3%	(220)bps	14.5%	15.8%	(130)bps
EBIT	12.0	16.9	(29)%	31.0	38.5	(19)%
EBIT %	7.9%	10.6%	(270)bps	9.3%	11.8%	(250)bps
Basic EPS \$	0.15	0.21	(29)%	0.36	0.47	(23)%
Diluted EPS \$	0.14	0.19	(26)%	0.35	0.45	(22)%

Revenue in Q2 2013 was down 5% at \$152 million. As expected, revenue in Mobile Systems segment was down 5% over Q2 2012. During the quarter we saw good momentum in the Connectivity segment, with revenue up 4% on Q2 2012.

Q2 2013 gross margin was 37.7%, 20bps above Q2 2012 and in line with our May guidance. The anticipated marginal sequential decline versus Q1 2013 is the result of the lower revenue in the quarter and the subsequent higher allocation per unit of the fixed component of Cost of Sales - or Cost of Goods Sold (COGS). In addition to the on-going collaboration with our foundry partners, the Connectivity segment contributed to the positive year on year gross margin trend. As a result of all these efforts, we continue to expect year on year gross margin improvement for the full year 2013.

R&D investment in Q2 2013 stood at 21.6% of revenue, 250 bps over Q2 2012 and despite a sequential decline of 10% on Q1 2013 in the absolute amount of R&D. On a trailing twelve months basis, R&D was 17.7% of revenue, 70bps above Q2 2012. The strong investment in R&D resources and projects is an important part of the company's strategy to accelerate diversification of its product portfolio, to address new market applications and broaden its customer base. We remain confident about our product pipeline and we expect to launch new products through the second half of 2013 and into 2014.

During the quarter we maintained best in class SG&A expense levels. Excluding \$2.9 million costs related to the acquisition of iWatt, SG&A in Q2 2013 was broadly in line with Q2 2012 at 10.1% of revenue, representing a sequential decline of 3% on Q1 2013. On a trailing twelve months basis SG&A was 9.0% of revenue, 90bps below Q2 2012 after excluding acquisition related costs. As in Q1 2013, we saw lower amortisation expenses relating to the purchase price allocation from the SiTel acquisition and lower national insurance costs associated with share based payment charges.

IFRS EBIT in Q2 2013 excluding costs related to the acquisition of iWatt was down 33% on Q2 2012 to \$9.0 million. This decline was the consequence of the lower revenue in Q2 2013 and the continuing investment in R&D resources and projects to fuel future growth. The positive trend we saw in Connectivity segment in Q1 2013 continued during the second quarter. This segment was for the first time profitable on an IFRS basis with Q2 2013 EBIT at \$2.3 million (Q2 2012: loss of \$2.2 million). During the second quarter we continued to benefit from all the initiatives we took during 2012 to gain greater supply chain efficiencies and re-focus on higher margin business opportunities.

A net tax charge of \$0.9 million was recorded in Q2 2013. This is in line with our May guidance, representing a 30% effective tax rate. This rate is above the effective tax rate for Q2 2012 of 27%. We continue to expect the tax rate to peak in 2013 at around 30% before the consolidation of iWatt into the Group.

IFRS net income was \$2.1 million, 76% below Q2 2012. Excluding acquisition related costs incurred in the quarter, IFRS net income was \$5.1 million, 40% below Q2 2012. This drop was the result of the decrease in EBIT and the higher interest expenses being partially offset by the lower value of the tax charge. The increase in interest expenses relates to the measurement of the financial liability from the convertible bond. On an underlying basis Q2 2013 net income was below Q2 2012 mainly as a result of the lower revenue and the sustained investment in R&D in line with our strategic growth and diversification objectives.

At the end of Q2 2013, the value of our total inventory was \$114 million, 22% below Q1 2013 (or ~109 days, 11 days below Q1 2013). As indicated in May, the value of our finished goods continued to reduce, resulting on a 39% decrease on Q1 2013. The percentage of raw materials out of the total inventory value was 31% (Q1 2013: 30%) and the percentage of work in progress reached 28% (Q1 2013: 18%). We expect inventory value to increase during Q3 2013 in anticipation of a number of product launches during the second half.

At the end of Q2 2013, we had cash and cash equivalents balance of \$346.7 million. In the second quarter we generated \$57.7 million of operating cash. Free cash flow (\*\*\*) movement in the quarter was an inflow of \$44.4 million.

*(\*) Underlying results(net of tax) in Q2-2013 are based on IFRS consolidated interim net income statement, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$1.6 million, excluding US\$0.9 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US\$ 1.9 million non-cash 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 and excluding costs of US\$2.9 million incurred during the acquisition of iWatt and also excluding the related tax effects.*

*Underlying results(net of tax) in Q2-2012 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$1.9 million, excluding US\$1.2 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and excluding US\$1.7 million interest expense in connection with the convertible bond.*

*Underlying results (net of tax) in H1-2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$2.8 million, excluding US\$1.7 million of amortisation of intangibles associated with the acquisition of SiTel, excluding US\$3.8 million non-cash interest expense in connection with the convertible bond, US\$ 0.4 million non-cash effective interest expense related to a licensing agreement entered into in Q3-2012, excluding costs of US\$2.9 million incurred during the acquisition of iWatt and also excluding the related tax effects.*

*Underlying results (net of tax) in H1-2012 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$5.6 million, excluding US\$2.8 million of amortisation of intangibles associated with the acquisition of SiTel and excluding US\$1.7 million non-cash interest expense in connection with the convertible bond.*

*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 (Q2 2013: US\$4.1 million, Q2 2012: US\$3.0 million), amortisation for intangible assets (Q2 2013: US\$4.9 million, Q2 2012: US\$4.3 million) and losses on disposals and impairment of fixed assets (Q2 2013: US\$0.0 million, Q2 2012: US\$0.1 million).*

*EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (H1-2013: US\$8.0 million, H1 2012: US\$5.6 million), amortisation for intangible assets (H1-2013: US\$10.0 million, H1-2012: US\$9.0 million) and losses on disposals and impairment of fixed assets (H1-2013: US\$0.3 million, H1-2012: US\$0.3 million).*

(\*\*\*) Free Cash Flow is defined as net income of US\$2.1 million plus amortisation and depreciation of US\$ 9.0 million, plus net interest expense of US\$2.7 million, plus change in working capital of US\$41.0 million and minus capital expenditure of US\$10.4 million.

#### Operational overview

The acquisition of iWatt closed on 16 July. It underscores Dialog's strategy to diversify our markets and growth opportunities through select strategic acquisitions. iWatt's digital power management business is highly complementary to our existing business, enabling Dialog to address adjacent emerging power management segments, such as cutting-edge AC/DC chargers and adapters and ICs for LED solid state lighting. The combined business will be in a unique position to provide the complete solution for next-generation faster charging and power management for portable devices. During the coming months our team will devote significant attention to the smooth integration of the business.

During the quarter we completed a number of our highly integrated PMIC designs which are being sampled to our customers, before transition into our production environment. Our R&D teams are now engaged in next generation designs, using existing 0.25 micron BCD technology and the new 0.13 micron BCD technology for products to be launched in 2014 and beyond.

Building on our innovation effort and as part of our connectivity strategy we entered the Bluetooth® Smart segment with the launch of Smartbond™, the world's lowest power Bluetooth® Smart System-on-Chip (SoC). This solution more than doubles the battery life of an app-enabled smartphone accessory or computer peripheral in comparison to competing solutions on the market. It's designed to connect keyboards, mice and remote controls wirelessly to tablets, laptops or Smart TVs and enables consumers to use innovative new apps on their smartphones and tablets. Murata is the first module manufacturer to adopt Smartbond™.

We continued to broaden our client portfolio and we were very pleased that Wistron adopted Smartwave™, our recently launched multi-touch IC. Wistron has developed a 23 inch, Windows 8 compliant multi-touch module targeting high volume All-in-One PCs and display monitors. This multi-touch module can be used as a direct one-to-one replacement of today's projected capacitive touch module. This win further supports the diversification of our business, expanding our addressable market into mass market PCs, including Ultrabooks™.

We extended our cooperation with Freescale with a new audio codec reference module for their Tower System Development Platform. OEMs can now use Dialog's latest low power audio codec to significantly improve the consumer's audio experience. An on-chip, programmable Digital Signal Processor (DSP) offloads audio software from the host processor, enabling OEMs to benefit from consistent high quality audio including SRS Sound™.

Our DA6021 PMIC which we developed in collaboration with Intel for their Bay Trail processor is now qualified and being sampled to customers. Together with the Bay Trail processor, this PMIC delivers outstanding battery life for new tablet designs.

\* \* \* \* \*

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 Q2 2013 performance, as well as guidance for Q3 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 **#96486411**. 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 28 June 2013 is available under the investor relations section of the Company's website at:

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

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**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 six months ended 28 June 2013 and 29 June 2012:

	Three months ended 28 June 2013		Three months ended 29 June 2012		Change %
	US\$000	% of revenues	US\$000	unreviewed % of revenues	
<b>Revenues</b>					
Mobile Systems	<b>119,902</b>	<b>79.1</b>	126,054	79.0	(4.9)
Automotive / Industrial	<b>7,658</b>	<b>5.0</b>	10,369	6.5	(26.1)
Connectivity	<b>24,090</b>	<b>15.9</b>	23,103	14.5	4.3
Corporate Sector	<b>–</b>	<b>0.0</b>	(1)	0.0	-
<b>Revenues</b>	<b>151,650</b>	<b>100.0</b>	159,525	100.0	(4.9)
Cost of sales	<b>(94,519)</b>	<b>(62.3)</b>	(99,781)	(62.5)	(5.3)
<b>Gross profit</b>	<b>57,131</b>	<b>37.7</b>	59,744	37.5	(4.4)
Selling and marketing expenses	<b>(8,478)</b>	<b>(5.6)</b>	(9,494)	(6.0)	(10.7)
General and administrative expenses	<b>(9,853)</b>	<b>(6.5)</b>	(6,453)	(4.0)	52.7
Research and development expenses	<b>(32,735)</b>	<b>(21.6)</b>	(30,397)	(19.1)	7.7
<b>Operating profit</b>	<b>6,065</b>	<b>4.0</b>	13,400	8.4	(54.7)
Interest income and other financial income	<b>170</b>	<b>0.1</b>	496	0.3	(65.7)
Interest expense and other financial expense	<b>(2,874)</b>	<b>(1.9)</b>	(1,725)	(1.1)	66.6
Foreign currency exchange gains and losses, net	<b>(377)</b>	<b>(0.2)</b>	(471)	(0.3)	(20.0)
<b>Result before income taxes</b>	<b>2,984</b>	<b>2.0</b>	11,700	7.3	(74.5)
Income tax expense	<b>(895)</b>	<b>(0.6)</b>	(3,159)	(2.0)	(71.7)
<b>Net profit</b>	<b>2,089</b>	<b>1.4</b>	8,541	5.4	(75.5)



	Six months ended 28 June 2013		Six months ended 29 June 2012 unreviewed		Change
	US\$000	% of revenues	US\$000	% of revenues	%
<b>Revenues</b>					
Mobile Systems	270,029	81.4	258,197	79.2	4.6
Automotive / Industrial	16,864	5.1	20,486	6.3	(17.7)
Connectivity	44,711	13.5	47,191	14.5	(5.3)
Corporate Sector	-	0.0	(1)	0.0	(100.0)
<b>Revenues</b>	<b>331,604</b>	<b>100.0</b>	<b>325,873</b>	<b>100.0</b>	<b>1.8</b>
Cost of sales	(205,876)	(62.1)	(204,683)	(62.8)	0.6
<b>Gross profit</b>	<b>125,728</b>	<b>37.9</b>	<b>121,190</b>	<b>37.2</b>	<b>3.7</b>
Selling and marketing expenses	(17,012)	(5.1)	(18,783)	(5.8)	(9.4)
General and administrative expenses	(17,098)	(5.2)	(14,255)	(4.4)	19.9
Research and development expenses	(68,993)	(20.8)	(59,036)	(18.1)	16.9
<b>Operating profit</b>	<b>22,625</b>	<b>6.8</b>	<b>29,116</b>	<b>9.0</b>	<b>(22.3)</b>
Interest income and other financial income	341	0.1	595	0.2	(42.7)
Interest expense and other financial expense	(5,703)	(1.7)	(1,768)	(0.5)	222.6
Foreign currency exchange gains and losses, net	(142)	0.0	(312)	(0.1)	(54.5)
<b>Result before income taxes</b>	<b>17,121</b>	<b>5.2</b>	<b>27,631</b>	<b>8.6</b>	<b>(38.0)</b>
Income tax expense	(5,136)	(1.5)	(7,460)	(2.3)	(31.2)
<b>Net profit</b>	<b>11,985</b>	<b>3.7</b>	<b>20,171</b>	<b>6.2</b>	<b>(40.6)</b>

## Results of Operations

### Segment Reporting

Revenues in the **Mobile Systems** Segment (see Note 3 to the interim consolidated financial statements and notes - Segment Reporting) were US\$119.9 million for the three months ended 28 June 2013 (Q2-2012: US\$126.1 million) comprising 79.1% of our total revenues (Q2-2012: 79.0%). The decline is a result of a lower number of product launches during the first quarter 2013 compared to the first quarter in 2012. For the first six months of 2013, revenues in this segment were US\$270.0 million compared to US\$258.2 million in the same period of 2012, an increase of 4.6%. The increase in the first six months in this sector is again 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 decreased from US\$16.4 million for the three months ended 29 June 2012 to US\$11.0 million for the three months ended 28 June 2013. For the first six months of 2013, the operating profit in this segment was US\$29.9 million compared to US\$36.2 million in the same period 2012, a decrease of 17.4%. This was mainly a result of higher R&D expenses allocated to this segment to support 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" below.

Revenues from our **Automotive / Industrial Applications segment** were US\$7.7 million for the three months ended 28 June 2013 (Q2-2012:

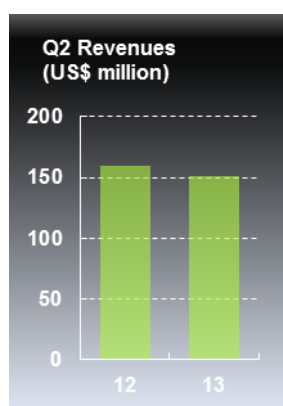
US\$10.4 million) representing 5.0% of our total revenues (Q2-2012: 6.5%). For the first six months of 2013, revenues in this segment were US\$16.9 million compared to US\$20.5 million in the same period 2012, a decrease of 17.7%. The operating profit was US\$ 2.2 million for the three months ended 28 June 2013 (Q2-2012: US\$ 2.8 million). Despite lower revenues in the sector, for the first six months of 2013, operating profit increased from US\$4.3 million for H1-2012 to US\$5.3 million. This was mainly driven by increased product margins from higher manufacturing yields and from the redeployment of R&D and selling resources and attributable overhead expenses from this sector to the mobile system sector.

Revenues from our **Connectivity segment** were US\$24.1 million or 15.9% of total revenues for Q2-2013 compared to US\$23.1 million or 14.5% of total revenues for Q2-2012. For Q2-2013 the Connectivity segment contributed an operating gain of US\$2.3 million, compared to an operating loss of US\$2.2 million for Q2-2012. As a percentage of revenue the loss of 9.5% for Q2-2012 turned to a gain of 9.4% for Q2-2013. This development can largely be attributed to a higher gross margin achieved in the second quarter 2013 which increased over 600 bps compared to the same period a year ago. This improvement results from the sale of higher value products, increasing manufacturing efficiencies and related cost reductions. For the first six months of 2013, revenues in this segment were US\$44.7 million compared to US\$47.2 million in the same period 2012. In H1-2013 we recorded an operating gain of US\$2.1 million, compared to an operating loss of US\$4.9 million in H1-2012. This positive movement also refers to the following items: Amortisation expenses relating to the purchase price allocation decreased

from US\$3.7 million for H1-2012 to US\$2.3 million for H1-2013 after some assets were fully amortised in 2012. The operating loss in H1-2012 included an expense of US\$ 0.5 million that relates to higher National Insurance provisions for UK based employees associated to share options as a result of the share price increase in H1-2012. The operating profit in H1-2013 included a gain of US\$ 0.1 million as a result of the share price decrease in H1-2013. Furthermore, in H1-2012 one-time costs of about US\$0.7 million were recorded which relate to the transfer of certain legacy Connectivity products to a new assembly site. From an underlying (\*) point of view, Connectivity operating profits were US\$4.3 million in H1 2013, compared to an operating loss of US\$0.7 million in H1-2012.

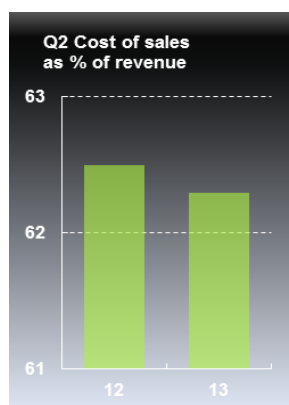
### Revenues

Total revenues were US\$151.7 million for the three months ended 28 June 2013 (Q2-2012: US\$159.5 million). For the first six months of 2013, revenues were US\$331.6 million compared to US\$325.9 million in the same period 2012. The increase of 1.8% in revenues from H1-2012 to H1-2013 results mainly from higher sales volumes and increasing ASPs due to more complex devices in our Mobile Systems Segment.



### Cost of sales

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs and applicable overhead and depreciation of test and other equipment. Cost of sales decreased by 5.3% from US\$99.8 million for the three months ended 29 June 2012 to US\$94.5 million for the three months ended 28 June 2013, resulting from decreased revenues during the quarter. As a percentage of revenues, cost of sales decreased from 62.5% to 62.3%. This decrease can largely be attributed to material cost reductions, the on-going collaboration with our foundry and backend partners to gradually improve our manufacturing process. For the same reason Cost of Sales as a percentage of revenue decreased from 62.8% in H1-2012 to 62.1% in H1-2013.



### Gross profit

Our gross margin increased from 37.5% of revenues for the three months ended 29 June 2012 to 37.7% of revenues for the three months ended 28 June 2013 driven by lower cost of sales as a percentage of revenues. On an underlying basis the gross margin improved from 37.5% in Q2-2012 to 37.9% in Q2-2013. However, compared to Q1-2013, gross margin decreased by 40 basis points (Q1-2013: 38.1%). This marginal decline is the result of the lower revenue achieved in Q2-2013 compared to the first quarter of 2013 and the subsequent higher allocation per unit of the fixed component of COGS.

Gross profit for the second quarter of 2013 was US\$57.1 million, 4.4% below the amount in the second quarter of 2012 (US\$59.7 million).

The gross margin for H1-2013 was 37.9% compared to 37.2% achieved in H1-2012, an increase of 0.7 percentage points. Gross profit for the first six months of 2013 was US\$125.7 million, 3.7% above the previous year's figures (US\$121.2 million). The improvement of gross margin reflects our efforts in rigorous cost management.

### Selling and marketing expenses

Selling and marketing expenses consist primarily of salaries, travel expenses, sales commissions and advertising and other marketing costs. Also included are amortization expenses for intangible assets such as customer relationship, key customers and order backlog coming from the purchase price allocation relating to the acquisition of SiTel B.V. in 2011. Selling and marketing expenses decreased from US\$9.5 million for the three months ended 29 June 2012 to US\$8.5 million for the three months ended 28 June 2013 (10.7% Year on Year reduction). As a percentage of total revenues, selling and marketing expenses decreased from 6.0% of total revenues in Q2-2012 to 5.6% of total revenues in Q2-2013. Similarly, selling and marketing expenses decreased from US\$18.8 million (5.8% of total revenues) for the first six months 2012 to US\$17.0 million (5.1% of total revenues) for the first six months 2013. This decrease is mainly driven by lower amortisation expenses relating to the purchase price allocation which decreased from US\$3.1 million in H1-2012 to US\$1.6 million in H2-2013 as some of these assets were fully amortised in 2012 no expenses are recorded in H1-2013.

### General and administrative expenses

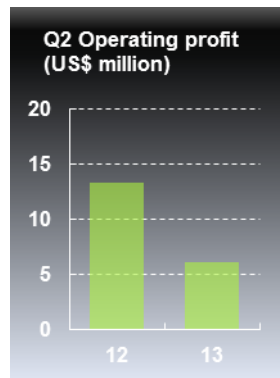
General and administrative expenses consist primarily of personnel and support costs for our finance, human resources and other management departments. General and administrative expenses were US\$9.9 million (6.5% of total revenues) for the second quarter 2013, an increase of 52.7% over the US\$6.5 million (4.0% of total revenues) recorded in Q2-2012. Of that increase, US\$2.9 million was mainly due to one-time M&A costs related to the acquisition of iWatt (pls. refer to section 2 - Note 10 to the interim condensed consolidated financial statements). For the first six months 2013 and 2012, general and administrative costs were US\$17.1 million (or 5.2% of total revenues) and US\$14.3 million (or 4.4% of total revenues) respectively. Excluding this one-time M&A expenses the General and administrative expenses in H2-2013 were \$14.2 million or 0.7% below H1-2012. In addition the amount in H1-2013 includes a benefit of US\$ 0.6 million (H1-2012 expense of US\$2.3 million) which was mainly due to movements in the closing share price affecting the National insurance cost associated with share based payment charges. In H1-2012 the share price increased from €12.36 at 31 December 2011 to €14.27 at 29 June 2012, in H1-2013 the share price decreased from €13.30 at 31 December 2012 to €9.62 at 28 June 2013. The lower National insurance expenses were offset by higher costs mainly personal costs for support functions reflecting the growth of the company. Underlying (\*) general and administrative expenses increased from US\$ 11.4 million in H1-2012 (3.5% of revenues) to US\$ 13.8 million in H1-2013 (4.2% of revenues). On an underlying basis we expect general and administrative expenses in relation to revenues to improve in the second half of 2012 in line with a higher expected revenue in H2-2013.

### 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\$32.7 million for the three months ended 28 June 2013 (Q2-2012: US\$30.4 million), representing a year on year increase of 7.7%. As a percentage of total revenues research and development expenses increased from 19.1% to 21.6% in those periods. For the first six months of 2013, our R&D expenses were US\$69.0 million (20.8% of total revenues) compared to US\$59.0 million (18.1% of total revenues) in the first six months of 2012. Of that increase, an amount of US\$ 5.2 million was primarily due to the continuous increase in R&D headcount in support of our on-going growth strategy, US\$ 0.8 million of the increase relate to higher engineering costs spent for new products, US\$1.5 million relate to higher design software costs, US\$1.8 million relate to the amortisation of a license agreement the company entered into in Q3-2012 and US\$1.9 million relate to increased external service costs. During the first half of the year, R&D expense expressed as a % of revenue remained high due to the seasonality of our business. Following the same trend we saw in 2012 this is expected to improve significantly in the second half of the year in line with higher revenue contribution. R&D cost incurred during the quarter typically lead to revenue 6 to 18 months out.

### Operating profit

We reported an operating profit of US\$6.1 million for the second quarter 2013 (Q2-2012: US\$13.4 million). For the first six months of 2013, we reported an operating profit of US\$22.6 million. This compares to an operating profit of US\$29.1 million in the previous year. This decrease primarily resulted, despite an improved gross margin in % of revenues, from higher R&D expenses and one-time M&A expenses of US\$2.9 million as explained above. When comparing H1-2013 with H1-2012 an additional effect was given by US\$ 2.6 million lower share option and related expenses in H1-2013 compared to H1-2012 and US\$1.4 million lower amortisation expenses related to the purchase price allocation in H1-2013. Underlying (\*) operating profit in H1-2013 was US\$ 31.0 million or 9.3% of revenues compared to US\$38.5 million or 11.8% in H1-2012.



### Interest income and other financial income

Interest income and other financial income from the Company's investments (primarily short-term deposits) was US\$170 thousand for the three months ended 28 June 2013 (Q2-2012: US\$496 thousand). The decrease is associated with the short term nature of our investments of the proceeds of the Convertible Bond on interest bearing accounts and general decrease of interest rates on financial markets. For the first six months of 2013, we recorded interest income and other financial income of US\$341 thousand compared to US\$595 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, the Group's factoring arrangement and starting from the second quarter 2012 the interest expense related to the convertible bond. In Q2-2013 interest and other financial expenses were US\$2.8 million (Q2-2012: US\$1.7 million). The amount in Q2-2013 mainly included 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\$1.9 million for the interest expense in connection with the measurement of the financial liability from the bond using the effective interest method.

For the first six months of 2013, interest expenses and other financial expenses were US\$5.7 million compared to US\$1.7 million the first six months of 2012. The increase is linked to the convertible bond as mentioned above and to the fact that in 2013 interest expenses were considered for full six months instead of two and a half months in the same period of 2012.

### Income tax expense

For the three months ended 28 June 2013, a net income tax charge of US\$0.9 million was recorded (Q2-2012: US\$3.2 million). The effective tax rate in Q2-2013 was 30% compared to 27% in Q2-2012. The main reason for the increase of the effective tax rate was that in 2013 a lower amount of previously unrecognised deferred tax assets was recognised. The 30% effective tax rate applied in Q2 2013 represents the expected full year 2013 effective tax rate before possible effects on the tax rate arising from the acquisition of iWatt.

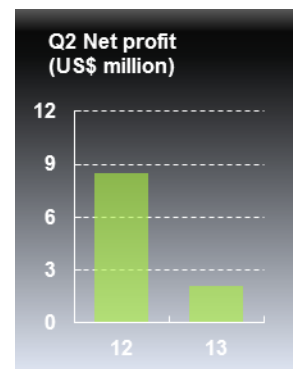
For the six months ended 28 June 2013, a net income tax charge of US\$5.1 million was recorded (H1-2012: US\$7.5 million) resulting in an effective tax rate of 30.0% (H1-2012 27.0%) Again, the main reason for the increase of the effective tax rate was that in H1-2013 a lower amount of previously unrecognised deferred tax assets was recognised.

### Net profit

For the reasons described above, we reported a net profit of US\$2.1 million for the three months ended 28 June 2013 (Q2-2012: US\$8.5 million).

Basic and diluted earnings per share in Q2-2013 were US\$0.03 compared to basic and diluted earnings per share of US\$0.13 and US\$0.12 in Q2-2012 respectively.

For the first six months of 2013, net profit reached US\$11.9 million compared to US\$20.2 million in the comparison period 2012 with basic earnings per share at US\$0.18 (H1-2012: US\$0.31) and diluted earnings per share at US\$0.18 (H1-2012: US\$0.30).



## Liquidity and capital resources

### Cash flows

**Cash generated from operating activities** was US\$57.7 million for the three months ended 28 June 2013 (Q2-2012: Cash used from operating activities US\$ 9.0 million). With an amount of US\$17.0 million (Q2-2012: US\$ 22.2 million) the cash inflow in the three months ended 28 June 2013 mainly resulted from the operating income (before depreciation amortisation and other non-cash effective expenses). In Q2-2013 this cash inflow was increased by cash inflows from reduced working capital needs of US\$40.7 million (In Q2-2012 a cash outflow of US\$31.2 million relating to an increase of working capital was recorded). In addition in Q2-2013, the company paid US\$18.6 million for income taxes (Q2-2012: 1.5 million). The amount paid in Q2-2013 mainly represents advanced payments for corporate income taxes.

**Cash used for investing activities** was US\$10.4 million for the three months ended 28 June 2013 (Q2-2012: US\$19.0 million). Cash used for investing activities in Q2-2013 consisted primarily of the purchase of tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment for a total of US\$4.9 million (Q2-2012: US\$16.8 million), the purchase of intangible assets of US\$2.6 million (Q2-2012: US\$1.0 million) and payments related to capitalised development costs of US\$2.8 million (Q2-2012: US\$1.2 million).

**Cash flow from financing activities** was US\$0.3 million for Q2-2013 and US\$197.3 million for Q2-2012. The cash inflow in Q2-2013 and Q2-

2012 relates to proceeds resulting from share option exercises in connection with the Company's employee share option program. The cash-inflow in Q2-2012 was mainly dominated by the cash inflow from the convertible bond in amount of US\$201.0 million net of transaction costs of US\$4.2 million.

### Liquidity

At 28 June 2013 we had cash and cash equivalents of US\$346.7 million (31 December 2012: US\$312.4 million). The working capital (defined as current assets minus current liabilities) was US\$432.1 million (31 December 2012: US\$420.9 million).

With an amount of US\$167.9 million, long-term debt as of 28 June 2013 represents mainly the book value of the liability from the convertible bond (31 December 2012: US\$164.2 million).

We had available for use a three-year (2011-2014) revolving credit facility of US\$35.0 million that bears interest at a rate of LIBOR +140bp. At 28 June 2013 and 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 Million revolving credit line facility which is available until March 2017. 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.

## Dialog Semiconductor's financial performance for Q2-2013 and Q2-2012

US\$000	Three months ended 28 June 2013			Three months ended 29 June 2012 (unreviewed)		
	IFRS	Adjustments	Underlying *)	IFRS	Adjustments	Underlying *)
Revenues	151,650	-	151,650	159,525	-	159,525
Cost of sales	(94,519)	(282)	(94,237)	(99,781)	(4)	(99,777)
<b>Gross profit</b>	<b>57,131</b>	<b>(282)</b>	<b>57,413</b>	59,744	(4)	59,748
Selling and marketing expenses	(8,478)	(1,229)	(7,249)	(9,494)	(1,801)	(7,693)
General and administrative expenses	(9,853)	(3,316)	(6,537)	(6,453)	(993)	(5,460)
Research and development expenses	(32,735)	(1,129)	(31,606)	(30,397)	(710)	(29,687)
<b>Operating profit</b>	<b>6,065</b>	<b>(5,956)</b>	<b>12,021</b>	13,400	(3,508)	16,908
Interest income and other financial income	170	-	170	496	-	496
Interest expense and other financial expense	(2,874)	(2,215)	(659)	(1,725)	(1,685)	(40)
Foreign currency exchange gains and losses, net	(377)	-	(377)	(471)	-	(471)
<b>Result before income taxes</b>	<b>2,984</b>	<b>(8,171)</b>	<b>11,155</b>	11,700	(5,193)	16,893
Income tax expense	(895)	615	(1,510)	(3,159)	397	(3,556)
<b>Net profit</b>	<b>2,089</b>	<b>(7,556)</b>	<b>9,645</b>	8,541	(4,796)	13,337
Earnings per share (in US\$)						
Basic	0.03	(0.12)	0.15	0.13	(0.07)	0.21
Diluted	0.03	(0.11)	0.14	0.12	(0.07)	0.19
<b>EBITDA **)</b>	<b>15,060</b>	<b>(4,774)</b>	<b>19,834</b>	20,773	(3,604)	24,377

\*) Underlying results (net of tax) in Q2-2013 are based on IFRS consolidated interim net income statement, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$1.6 million, excluding US\$0.9 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US\$ 1.9 million non-cash interest expense in connection with the convertible bond and excluding US\$ 0.2 million non-cash effective interest expense related to a licensing agreement entered into in Q3-2012, excluding costs of US\$2.9 million incurred during the acquisition of iWatt and also excluding the related tax effects.

Underlying results (net of tax) in Q2-2012 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$1.9 million, excluding US\$1.2 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and excluding US\$1.7 million interest expense in connection with the convertible bond.

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 (Q2 2013: US\$4.1 million, Q2 2012: US\$3.0 million), amortisation for intangible assets (Q2 2013: US\$4.9 million, Q2 2012: US\$4.3 million) and losses on disposals and impairment of fixed assets (Q2 2013: 0.0 million, Q2 2012: US\$0.1 million).

## The connectivity segment's underlying financial performance for Q2-2013 and Q2-2012 is summarised below:

US\$000	Three months ended 28 June 2013			Three months ended 29 June 2012 (unreviewed)		
	IFRS	Adjustments	Underlying *)	IFRS	Adjustments	Underlying *)
Revenues	24,090	-	24,090	23,103	-	23,103
Operating profit (loss)	2,260	(1,158)	3,418	(2,203)	(1,643)	(560)

\*) Underlying results in Q2-2013 are based on IFRS consolidated interim income statement, adjusted to exclude US\$1.2 million of amortisation of intangibles associated with the acquisition of Dialog B.V.

Underlying results in Q2-2012 are based on IFRS consolidated interim income statement, adjusted to exclude US\$1.6 million of amortisation of intangibles associated with the acquisition of SiTel.

**Dialog Semiconductor's underlying financial performance for the first six months of 2013 and 2012 is summarised below:**

US\$000	Six months ended 28 June 2013			Six months ended 29 June 2012 (unreviewed)		
	IFRS	Adjustments	Underlying *)	IFRS	Adjustments	Underlying *)
Revenues	<b>331,604</b>	-	<b>331,604</b>	325,873	-	325,873
Cost of sales	<b>(205,876)</b>	<b>(509)</b>	<b>(205,367)</b>	(204,683)	(560)	(204,123)
<b>Gross profit</b>	<b>125,728</b>	<b>(509)</b>	<b>126,237</b>	121,190	(560)	121,750
Selling and marketing expenses	<b>(17,012)</b>	<b>(2,347)</b>	<b>(14,665)</b>	(18,783)	(3,730)	(15,053)
General and administrative expenses	<b>(17,098)</b>	<b>(3,327)</b>	<b>(13,771)</b>	(14,255)	(2,869)	(11,386)
Research and development expenses	<b>(68,993)</b>	<b>(2,156)</b>	<b>(66,837)</b>	(59,036)	(2,181)	(56,855)
<b>Operating profit</b>	<b>22,625</b>	<b>(8,339)</b>	<b>30,964</b>	29,116	(9,340)	38,456
Interest income and other financial income	<b>341</b>	-	<b>341</b>	595	-	595
Interest expense and other financial expense	<b>(5,703)</b>	<b>(4,392)</b>	<b>(1,311)</b>	(1,768)	(1,685)	(83)
Foreign currency exchange gains and losses, net	<b>(142)</b>	-	<b>(142)</b>	(312)	-	(312)
<b>Result before income taxes</b>	<b>17,121</b>	<b>(12,731)</b>	<b>29,852</b>	27,631	(11,025)	38,656
Income tax expense	<b>(5,136)</b>	<b>1,084</b>	<b>(6,220)</b>	(7,460)	921	(8,381)
<b>Net profit</b>	<b>11,985</b>	<b>(11,647)</b>	<b>23,632</b>	20,171	(10,104)	30,275
Earnings per share (in US\$)						
Basic	<b>0.18</b>	<b>(0.18)</b>	<b>0.36</b>	0.31	(0.16)	0.47
Diluted	<b>0.18</b>	<b>(0.17)</b>	<b>0.35</b>	0.30	(0.15)	0.45
<b>EBITDA **)</b>	<b>40,962</b>	<b>(7,157)</b>	<b>48,119</b>	44,129	(7,341)	51,470

\*) Underlying results (net of tax) in H1-2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$2.8 million, excluding US\$1.7 million of amortisation of intangibles associated with the acquisition of SiTel, excluding US\$3.8 million interest expense in connection with the convertible bond, US\$ 0.4 million non-cash effective interest expense related to a licensing agreement entered into in Q3-2012, excluding costs of US\$2.9 million incurred during the acquisition of iWatt and also excluding the related tax effects.

Underlying results (net of tax) in H1-2012 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$5.6 million, excluding US\$2.8 million of amortisation of intangibles associated with the acquisition of SiTel and excluding US\$1.7 million interest expense in connection with the convertible bond.

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 (H1-2013: US\$8.0 million, H1 2012: US\$5.6 million), amortisation for intangible assets (H1-2013: US\$10.0 million, H1-2012: US\$9.0 million) and losses on disposals and impairment of fixed assets (H1-2013: US\$0.3 million, H1-2012: US\$0.3 million).

**The connectivity segment's underlying financial performance for H1-2013 and H1-2012 is summarised below:**

US\$000	Six months ended 28 June 2013			Six months ended 29 June 2012 (unreviewed)		
	IFRS	Adjustments	Underlying *)	IFRS	Adjustments	Underlying *)
Revenues	<b>44,711</b>	-	<b>44,711</b>	47,191	-	47,191
Operating profit (loss)	<b>2,109</b>	<b>(2,220)</b>	<b>4,329</b>	(4,899)	(4,202)	(697)

\*) Underlying results in H1-2013 are based on IFRS consolidated interim income statement, adjusted to exclude US\$2.3 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and excluding a benefit for National Insurance of US\$0.1 million related to share options.

Underlying results in H1-2012 are based on IFRS consolidated interim income statement, adjusted to exclude US\$3.7 million of amortisation of intangibles associated with the acquisition of SiTel and excluding charges for National Insurance of US\$0.5 million related to share options.

## Statement of Financial Position

	At 28 June 2013 US\$000	At 31 December 2012 US\$000	Change US\$000	%
<b>Assets</b>				
Cash and cash equivalents	<b>346,743</b>	312,435	34,308	11.0
All other current assets	<b>152,811</b>	251,067	(98,256)	(39.1)
<b>Total current assets</b>	<b>499,554</b>	563,502	(63,948)	(11.3)
Property, plant and equipment, net	<b>54,274</b>	50,318	3,956	7.9
Goodwill	<b>32,283</b>	32,283	-	-
Intangible assets	<b>48,069</b>	51,789	(3,720)	(7.2)
Investments	<b>1,500</b>	-	1,500	-
All other non-current assets	<b>1,167</b>	1,335	(168)	(12.6)
Deferred tax assets	<b>9,680</b>	8,913	767	8.6
<b>Total non-current assets</b>	<b>146,973</b>	144,638	2,335	1.6
<b>Total assets</b>	<b>646,527</b>	708,140	(61,613)	(8.7)
<b>Liabilities and Shareholders' equity</b>				
Current liabilities	<b>67,421</b>	142,650	(75,229)	(52.7)
Non-current liabilities	<b>183,547</b>	182,899	648	0.4
Net Shareholders' equity	<b>395,559</b>	382,591	12,968	3.4
<b>Total liabilities and Shareholders' equity</b>	<b>646,527</b>	708,140	(61,613)	(8.7)

The balance sheet total was US\$646.5 million at 28 June 2013 (31 December 2012: US\$708.1 million). Cash and cash equivalents increased by US\$34.3 million or 11.0% to US\$346.7 million at 28 June 2013 (31 December 2012: US\$312.4 million). This increase was caused by the cash inflows from operating activities which were partly offset by cash outflows for investing activities as prescribed above. Other current assets decreased from US\$251.1 million at 31 December 2012 by US\$98.3 million to US\$152.8 million at 28 June 2013. The decrease of 39.1% is mainly driven by lower trade accounts receivable balances and inventories in comparison to 31 December 2012 which is in line with lower revenues compared to fourth quarter 2012. Total non-current assets increased slightly, as investments into tangible, intangible assets and investments of US\$22.6 million were largely offset by depreciation

and amortization charges in the amount of US\$18.0 million. On the other hand deferred tax assets increased by US\$0.7 million.

Current liabilities decreased by net US\$75.3 million of which US\$59.6 million relate to decreased trade accounts payables which mainly is a result of lower purchases of inventory compared to Q4-2012. Other liabilities decreased by US\$7.5 million mainly driven by lower personal related accruals at 28 June compared to 31 December 2012.

Shareholders' equity increased to US\$395.6 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 61.2% (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

Gregorio Reyes, Chairman; Dr Jalal Bagherli, Chief Executive Officer; Chris Burke; Aidan Hughes; John McMonigall; Russ Shaw; Peter Weber; Dr Chang-Bun Yoon; Rich Beyer; Mike Cannon.

### 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 28 June 2013 the Group holds US\$346.7 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 six 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 descrip-

tion of the principal risks and uncertainties associated with the expected development of the group for the remaining months of the financial year.

23 July 2013

Dr Jalal Bagherli  
CEO

Jean-Michel Richard  
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 six months ended 28 June 2013 which comprises the Interim Consolidated Statement of Financial Position, the Interim Consolidated Income Statement, the Interim 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 six months ended 28 June 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 29 June 2012 are unreviewed.

Ernst & Young LLP

Reading

23 July 2013

# Unaudited interim consolidated statement of financial position

As at 28 June 2013

	Notes	At 28 June 2013 US\$000	At 31 December 2012 US\$000
<b>Assets</b>			
Cash and cash equivalents		346,743	312,435
Trade accounts receivable and other receivable		22,332	82,887
Inventories	5	114,221	152,455
Income tax receivables		4,427	60
Other financial assets		1,779	3,120
Other current assets		10,052	12,545
<b>Total current assets</b>		<b>499,554</b>	<b>563,502</b>
Property, plant and equipment	6	54,274	50,318
Goodwill		32,283	32,283
Other intangible assets	7	48,069	51,789
Investments	9	1,500	–
Deposits		967	1,137
Income tax receivables		200	198
Deferred tax assets		9,680	8,913
<b>Total non-current assets</b>		<b>146,973</b>	<b>144,638</b>
<b>Total assets</b>		<b>646,527</b>	<b>708,140</b>
<b>Liabilities and Shareholders' equity</b>			
Trade and other payables		46,630	106,216
Other financial liabilities		5,602	4,117
Provisions		920	1,288
Income taxes payable		98	9,359
Other current liabilities		14,171	21,670
<b>Total current liabilities</b>		<b>67,421</b>	<b>142,650</b>
Provisions		593	603
Other non-current financial liabilities		178,901	176,617
Deferred tax liabilities (non-current)		4,053	5,679
<b>Total non-current liabilities</b>		<b>183,547</b>	<b>182,899</b>
Ordinary shares		12,852	12,852
Additional paid-in capital		244,183	243,829
Retained earnings		145,014	129,190
Other reserves		(3,823)	(427)
Employee stock purchase plan shares		(2,667)	(2,853)
<b>Net Shareholders' equity</b>		<b>395,559</b>	<b>382,591</b>
<b>Total liabilities and Shareholders' equity</b>		<b>646,527</b>	<b>708,140</b>

# Unaudited interim consolidated income statement

For the three and six months ended 28 June 2013

	Notes	Three months ended 28 June 2013	Three months ended 29 June 2012 unreviewed	Six months ended 28 June 2013	Six months ended 29 June 2012 unreviewed
		US\$000	US\$000	US\$000	US\$000
Revenue	3	<b>151,650</b>	159,525	<b>331,604</b>	325,873
Cost of sales		<b>(94,519)</b>	(99,781)	<b>(205,876)</b>	(204,683)
<b>Gross profit</b>		<b>57,131</b>	59,744	<b>125,728</b>	121,190
Selling and marketing expenses		<b>(8,478)</b>	(9,494)	<b>(17,012)</b>	(18,783)
General and administrative expenses		<b>(9,853)</b>	(6,453)	<b>(17,098)</b>	(14,255)
Research and development expenses		<b>(32,735)</b>	(30,397)	<b>(68,993)</b>	(59,036)
<b>Operating profit</b>	3	<b>6,065</b>	13,400	<b>22,625</b>	29,116
Interest income		<b>170</b>	496	<b>341</b>	595
Interest expense		<b>(2,874)</b>	(1,725)	<b>(5,703)</b>	(1,768)
Foreign currency exchange gains (losses), net		<b>(377)</b>	(471)	<b>(142)</b>	(312)
<b>Result before income taxes</b>	3	<b>2,984</b>	11,700	<b>17,121</b>	27,631
Income tax expense		<b>(895)</b>	(3,159)	<b>(5,136)</b>	(7,460)
<b>Net profit</b>		<b>2,089</b>	8,541	<b>11,985</b>	20,171
		<b>Three months ended 28 June 2013</b>	Three months ended 29 June 2012	<b>Six months ended 28 June 2013</b>	Six months ended 29 June 2012
<b>Earnings per share (in US\$)</b>					
Basic		<b>0.03</b>	0.13	<b>0.18</b>	0.31
Diluted		<b>0.03</b>	0.12	<b>0.18</b>	0.30
<b>Weighted average number of shares (in thousands)</b>					
Basic		<b>65,540</b>	64,383	<b>65,493</b>	64,181
Diluted		<b>67,466</b>	68,399	<b>67,569</b>	67,905

# Unaudited interim consolidated statement of comprehensive income

For the three months ended 28 June 2013

	<b>Three months ended 28 June 2013</b>	Three months ended 29 June 2012 (unreviewed)	<b>Six months ended 28 June 2013</b>	Six months ended 29 June 2012 (unreviewed)
	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
<b>Net profit</b>	<b>2,089</b>	8,541	<b>11,985</b>	20,171
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</b>				
Exchange differences on translating foreign operations	<b>(149)</b>	228	<b>(304)</b>	161
Cash flow hedges	<b>579</b>	(1,236)	<b>(3,736)</b>	3,114
Income tax relating to components of other comprehensive income	<b>(118)</b>	140	<b>644</b>	534
<b>Other comprehensive income (loss) for the year, net of tax</b>	<b>312</b>	(868)	<b>(3,396)</b>	3,809
<b>Total comprehensive income for the year</b>	<b>2,401</b>	7,673	<b>8,589</b>	23,980

# Unaudited interim consolidated statement of cash flows

For the three and six months ended 28 June 2013

	Notes	Three months ended 28 June 2013	Three months ended 29 June 2012 (unreviewed)	Six months ended 28 June 2013	Six months ended 29 June 2012 (unreviewed)
		US\$000	US\$000	US\$000	US\$000
Cash flows from operating activities:					
Net profit		2,089	8,541	11,985	20,171
Adjustments to reconcile net profit to net cash used for operating activities:					
Interest income, net		2,704	1,229	5,362	1,173
Income tax expense		895	3,159	5,136	7,460
Impairment of inventories		316	280	4,162	1,557
Depreciation of property, plant and equipment		4,100	2,950	8,020	5,673
Amortisation of intangible assets		4,861	4,315	10,009	9,031
Losses on disposals of fixed assets and impairment of fixed and financial assets		34	108	308	309
Expense related to share-based payments		2,025	1,641	3,839	3,155
Changes in working capital:					
Trade accounts receivable, other receivables and factoring		(382)	(8,970)	60,554	(3,775)
Inventories		31,082	(22,062)	34,042	(41,413)
Prepaid expenses		1,052	1,400	767	618
Trade accounts payable		11,796	(3,934)	(59,384)	20,470
Provisions		(64)	80	(348)	158
Other assets and liabilities		(2,772)	2,237	(6,299)	2,185
<b>Cash generated from operations</b>		<b>57,736</b>	<b>(9,026)</b>	<b>78,153</b>	<b>26,772</b>
Interest paid		(1,134)	–	(1,258)	–
Interest received		294	187	365	263
Income taxes paid		(18,600)	(1,491)	(20,561)	(6,566)
<b>Cash flow from operating activities</b>		<b>38,296</b>	<b>(10,330)</b>	<b>56,699</b>	<b>20,469</b>
Cash flows from investing activities:					
Purchase of property, plant and equipment		(4,914)	(16,804)	(12,779)	(24,737)
Purchase of intangible assets		(2,637)	(1,029)	(4,714)	(2,787)
Payments for capitalised development costs		(2,829)	(1,238)	(3,606)	(2,226)
Sale of property, plant and equipment		–	–	–	86
Purchase of other investments	9	–	–	(1,500)	–
Change in other long term assets		(9)	18	(14)	162
<b>Cash flow used for investing activities</b>		<b>(10,389)</b>	<b>(19,053)</b>	<b>(22,613)</b>	<b>(29,502)</b>
Cash flows from financing activities:					
Convertible Bond		–	196,790	–	196,790
Sale of employee stock purchase plan shares		288	524	539	2,755
<b>Cash flow from financing activities</b>		<b>288</b>	<b>197,314</b>	<b>539</b>	<b>199,545</b>
Cash flow from (used for) operating, investing and financing activities		28,195	167,931	34,625	190,512
Net foreign exchange difference		(99)	(322)	(317)	(149)
<b>Net increase in cash and cash equivalents</b>		<b>28,096</b>	<b>167,609</b>	<b>34,308</b>	<b>190,363</b>
Cash and cash equivalents at beginning of period		318,647	136,344	312,435	113,590
Cash and cash equivalents at end of period		346,743	303,953	346,743	303,953

# Unaudited interim consolidated statement of changes in equity

For the six months ended 28 June 2013

	Ordinary Shares US\$000	Additional paid-in capital US\$000	Retained earnings (Accumulated deficit) US\$000	Other reserves Currency translation adjustment US\$000	Hedges US\$000	Employee stock purchase plan shares US\$000	Total US\$000
<b>Balance at 1 January 2012 <sup>1)</sup></b>	<b>12,380</b>	<b>203,911</b>	<b>59,722</b>	<b>(1,879)</b>	<b>(6,372)</b>	<b>(3,158)</b>	<b>264,604</b>
Total comprehensive income adjusted	–	–	20,171	146	3,663	–	23,980
Conversion right embedded in Convertible Bond	–	37,377	–	–	–	–	37,377
Convertible Bond transaction cost attributable to conversion right	–	(782)	–	–	–	–	(782)
Capital Increase for employee share option plan (gross proceeds)	472	2,661	–	–	–	(3,152)	(19)
Sale of employee stock purchase plan shares	–	2,533	–	–	–	244	2,777
Equity settled transactions, net of tax	–	–	3,155	–	–	–	3,155
<b>Changes in Equity total</b>	<b>472</b>	<b>41,789</b>	<b>23,326</b>	<b>146</b>	<b>3,663</b>	<b>(2,908)</b>	<b>66,488</b>
<b>Balance at 29 June 2012 (unreviewed)</b>	<b>12,852</b>	<b>245,700</b>	<b>83,048</b>	<b>(1,733)</b>	<b>(2,709)</b>	<b>(6,066)</b>	<b>331,092</b>
<b>Balance at 31 December 2012 / 1 January 2013</b>	<b>12,852</b>	<b>243,829</b>	<b>129,190</b>	<b>(1,964)</b>	<b>1,537</b>	<b>(2,853)</b>	<b>382,591</b>
Total comprehensive income (loss)	–	–	11,985	(697)	(2,699)	–	8,589
Sale of employee stock purchase plan shares	–	354	–	–	–	186	540
Equity settled transactions, net of tax	–	–	3,839	–	–	–	3,839
<b>Changes in Equity total</b>	<b>–</b>	<b>354</b>	<b>15,824</b>	<b>(697)</b>	<b>(2,699)</b>	<b>186</b>	<b>12,968</b>
<b>Balance at 28 June 2013</b>	<b>12,852</b>	<b>244,183</b>	<b>145,014</b>	<b>(2,661)</b>	<b>(1,162)</b>	<b>(2,667)</b>	<b>395,559</b>

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 six months ended 28 June 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 and half yearly 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 half yearly reporting of the Disclosure and Transparency Rules of the UK Financial Services Authority and the German Securities Trading Act.

The financial information contained in the report is unaudited but has been reviewed by Ernst & Young LLP.

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 half 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 8.

### *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 six months ended 28 June 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. 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.:

	Three months ended 28 June 2013					Three months ended 29 June 2012 (unreviewed)				
	Mobile Systems US\$000	Automotive/ Industrial US\$000	Connectivity 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	119,902	7,658	24,090	-	151,650	126,054	10,369	23,103	(1)	159,525
<b>Operating profit (loss) <sup>1)</sup></b>	<b>11,010</b>	<b>2,210</b>	<b>2,260</b>	<b>(9,415)</b>	<b>6,065</b>	<b>16,448</b>	<b>2,761</b>	<b>(2,203)</b>	<b>(3,606)</b>	<b>13,400</b>
Financial results	(289)	-	-	(2,792)	(3,081)	-	-	-	(1,700)	(1,700)
<b>Result before income taxes</b>	<b>10,721</b>	<b>2,210</b>	<b>2,260</b>	<b>(12,207)</b>	<b>2,984</b>	<b>16,448</b>	<b>2,761</b>	<b>(2,203)</b>	<b>(5,306)</b>	<b>11,700</b>

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

	Six months ended 28 June 2013					Six months ended 29 June 2012 (unreviewed)				
	Mobile Systems US\$000	Automotive/ Industrial US\$000	Connectivity 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	270,029	16,864	44,711	-	331,604	258,197	20,486	47,191	(1)	325,873
<b>Operating profit (loss) <sup>1)</sup></b>	<b>29,904</b>	<b>5,279</b>	<b>2,109</b>	<b>(14,667)</b>	<b>22,625</b>	<b>36,190</b>	<b>4,318</b>	<b>(4,899)</b>	<b>(6,493)</b>	<b>29,116</b>
Financial results	(589)	-	-	(4,915)	(5,504)	-	-	-	(1,485)	(1,485)
<b>Result before income taxes</b>	<b>29,315</b>	<b>5,279</b>	<b>2,109</b>	<b>(19,582)</b>	<b>17,121</b>	<b>36,190</b>	<b>4,318</b>	<b>(4,899)</b>	<b>(7,978)</b>	<b>27,631</b>

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

## Segment Reporting continued

### b) Geographic information

	Three months ended 28 June 2013	Three months ended 29 June 2012 unreviewed
	US\$000	US\$000
<b>Revenues</b>		
United Kingdom	254	700
Other European countries	13,740	18,348
China	112,937	112,712
Other Asian countries	22,228	25,818
Other countries	2,491	1,947
<b>Total revenues</b>	<b>151,650</b>	159,525

	At 28 June 2013	At 31 December 2012
	US\$000	US\$000
<b>Assets</b>		
Germany	380,603	461,824
Japan	2,015	2,459
United Kingdom	186,520	159,978
Netherlands	53,006	57,608
Other	24,383	26,271
<b>Total assets</b>	<b>646,527</b>	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.

## 4. Share-based compensation

Stock option plan activity for the period ended 28 June 2013 was as follows:

	Six months ended 28 June 2013	Weighted average exercise price
	Options	€
Outstanding at beginning of year	5,878,825	7.83
Granted	770,137	5.02
Exercised	(181,191)	2.36
Forfeited	(178,567)	6.26
<b>Outstanding at end of year</b>	<b>6,289,204</b>	<b>7.69</b>
Options exercisable at period end	3,209,988	5.37

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 28 June 2013 the Trust held 2,502,709 shares.

## 5. Inventories

Inventories consisted of the following:

	At 28 June 2013 US\$000	At 31 December 2012 US\$000
Raw materials	35,897	20,686
Work-in-process	31,592	51,739
Finished goods	46,656	79,942
Deposits	76	88
<b>Total</b>	<b>114,221</b>	<b>152,455</b>

## 6. Property, plant and equipment

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

	At 28 June 2013 US\$000	At 31 December 2012 US\$000
Gross carrying amount	161,540	150,418
Accumulated depreciation	107,266	100,100
<b>Net carrying amount</b>	<b>54,274</b>	<b>50,318</b>

The Company has contractual commitments for the acquisition or property, plant and equipment of US\$4,484,000.

## 7. Other Intangible assets

Intangible assets subject to amortisation represent licenses, patents software and capitalized R&D expenses:

	At 28 June 2013 US\$000	At 31 December 2012 US\$000
Gross carrying amount	110,274	104,117
Accumulated depreciation	62,205	52,328
<b>Net carrying amount</b>	<b>48,069</b>	<b>51,789</b>

The Company has contractual commitments for the acquisition of intangible assets of US\$625,000.

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 9 months.

## 8. Additional disclosures on financial instruments

Set out below is an overview of financial instruments held by the Group as at 28 June 2013:

	Category in accordance with IAS 39	Amounts recognised in the statement of financial position according to IAS 39					
		Carrying amount 28 June 2013 US\$000	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 28 June 2013 US\$000
<b>Assets</b>							
Cash at bank and Short-term deposits	LaR	<b>345,834</b>	345,834	–	–	–	345,834
Deposits designated as a hedging instrument	n/a	<b>909</b>	–	–	909	–	909
Trade accounts receivable and other receivable	LaR	<b>22,332</b>	22,332	–	–	–	22,332
Other non-derivative financial assets							
Deposits for hedging contracts	LaR	<b>1,533</b>	1,533	–	–	–	1,533
Derivative financial assets							
Derivatives without hedging relationship	n/a	–	–	–	–	–	–
Derivatives with hedging relationship	n/a	<b>246</b>	–	–	246	–	246
Investments	AfS	<b>1,500</b>	–	–	1,500	–	1,500
<b>Liabilities</b>							
Trade account payables	FLAC	<b>37,689</b>	37,689	–	–	–	37,689
Other payables	FLAC	<b>8,941</b>	8,941	–	–	–	8,941
Other financial liabilities	FLAC	<b>14,485</b>	14,485	–	–	–	14,485
Convertible bond	FLAC	<b>168,392</b>	168,392	–	–	–	182,079
Derivative financial liabilities							
Derivatives without hedging relationship	n/a	–	–	–	–	–	–
Derivatives with hedging relationship	n/a	<b>1,626</b>	–	–	1,626	–	1,626
Of which aggregated by category in accordance with IAS 39:							
Loans and receivables (LaR)		<b>369,699</b>	369,699	–	–	–	369,699
Deposits designated as a hedging instrument		<b>909</b>	–	–	909	–	909
Held-to-maturity investments (HtM)		–	–	–	–	–	–
Available-for-sale financial assets (AfS)		<b>1,500</b>	–	–	–	–	–
Derivatives without hedging relationship		–	–	–	–	–	–
Derivatives with hedging relationship		<b>(1,380)</b>	–	–	(1,380)	–	(1,380)
Financial liabilities at amortised cost (FLAC)		<b>(229,507)</b>	(229,507)	–	–	–	(243,194)

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 28 June 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.

## 8. 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 Q2-2013 as well as first six 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 28 June 2013 the following unrealized effects were recorded on other comprehensive income:

	Forward currency contracts			Deposits	Total
	Euro US\$000	GBP US\$ 000	JPY US\$000	JPY US\$000	At 28 June 2013 US\$000
Gain	135	111	0	0	<b>246</b>
Loss	0	(960)	(667)	(241)	<b>(1,868)</b>
<b>Unrealised net gain (loss) before tax</b>	<b>135</b>	<b>(849)</b>	<b>(667)</b>	<b>(241)</b>	<b>(1,622)</b>
Tax effect	(38)	241	189	68	<b>460</b>
<b>Unrealised net gain (loss) after tax</b>	<b>97</b>	<b>(608)</b>	<b>(478)</b>	<b>(173)</b>	<b>(1,162)</b>

#### 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.

## 9. Investments

As part of our advanced technology development strategy, on 14 January 2013 the Company announced a strategic equity investment into Arctic Sand Technologies, Inc., an MIT spin-off commercialising an innovative new approach to power conversion for multiple markets, including smartphones, tablets, ultrabooks(TM) and data centres. The investment was part of a Series A funding round, with Dialog participating alongside other venture capital and strategic investors. The investment of US\$1.5 million represents a 7.69% share in Arctic Sand on fully diluted position.

## 10. Acquisition of iWatt

On 16 July 2013 Dialog Semiconductor plc acquired 100% of the voting rights of iWatt Inc. ("iWatt") a leading provider of digital power management integrated circuits (ICs), for a cash payment of approximately \$310 million, with an additional contingent consideration (Earn Out) of up to \$38 million. 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 \$17.0 million the maximum payment relating to the second earn out period is \$21.0 million. The acquisition is being funded from both Dialog's existing cash resources and additional debt facilities of \$125 million.

Headquartered in Silicon Valley, 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 (TAM). 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. For the reasons described above management expects significant synergies and other benefits from combining the assets and activities of iWatt with those of the Dialog Group. Consequently management expects a significant amount of goodwill arising from the transaction.

The acquisition will be accounted for using the acquisition method. Given the timing of the transaction resulting in the proximity of the acquisition date to the authorization date for issue, it has not been possible to provide disclosures required by IFRS 3 B 64 (f), (k)-(l) and (n)-(q) in connection with B 66 as the acquisition accounting is still in the process of being finalised. Management expects that the goodwill will not be tax deductible.

In Q2-2013 transaction costs of \$2.9 million have been expensed and are included in general and administrative expenses in the income statement. Further transaction costs are expected to occur in the third quarter 2013.

### **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**

Besides the Acquisition of iWatt which is explained in note 10 there are no known events after the date of the Statement of Financial Position that require disclosure.

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