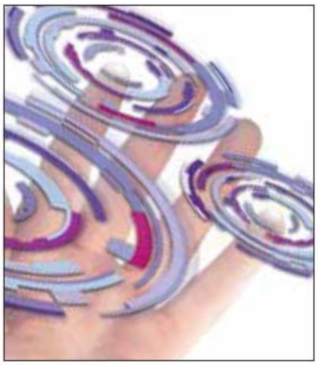
dialog SEMICONDUCTOR

Interim Report | 26 September 2014

The power to be...

...personal
...portable
...connected

Key products







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Press Release – 29 October 2014

DIALOG SEMICONDUCTOR REPORTS THIRD QUARTER RESULTS ENDED 26 SEPTEMBER 2014

Third quarter year on year revenue growth of 28% and increasing profitability

London, UK, 29 October 2014 - Dialog Semiconductor plc (FWB: DLG), a provider of highly integrated power management, AC/DC, solid state lighting and Bluetooth® Smart wireless technology, today reports results for its third quarter ending 26 September 2014.

Q3 2014 financial highlights

- IFRS revenue up 28% over Q3 2013 at $281 million
- IFRS gross margin increased sequentially and year on year to 44.8%
- Underlying (*) EBITDA (**) at $60.8 million or 21.6% of revenue
- IFRS operating profit (EBIT) increased year on year to $41.9 million or 14.9% of revenue
- Underlying (*) basic and diluted EPS up 70% and 66% respectively over Q3 2013. IFRS basic and diluted EPS up 680% and 660% respectively over Q3 2013
- $29 million of cash generated from operations

Q3 2014 operational highlights

- Successfully delivered a steep ramp of new products to meet our customers demand
- Design win momentum continued for Power Management smartphone and tablet designs
- Design win success from our collaboration with MediaTek, powering Lenovo and Meizu latest smartphones
- New design wins for our Bluetooth Smart SoC across multiple verticals
- Brought further innovation to the AC/DC market with new products in Power Conversion

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

"I am delighted to report on a successful third quarter for Dialog which has seen us match strong operational progress with further, tangible improvements in profitability. We have successfully delivered the first phase of the steep ramp of new products for our customers. Now the focus turns to pushing ahead with completing that ramp in what will be a very busy end of the year for us and our customers."

"We continue to be excited by the interest and activity in our Bluetooth Smart product segment, look forward to making further progress here and building momentum in our Asia strategy in the months ahead."

Outlook

In line with our expectation of a stronger second half of the year and given our current visibility, we expect Q4 2014 revenue in the range of $390 million to $430 million. This will result in a full year revenue range of $1,111 million to $1,151 million.

We anticipate that underlying gross margin for the full year will be consistent with the level achieved year to date. This will result in gross margin improvement for the full year 2014 over 2013.

Financial overview

IFRS US$ million	Third Quarter 2014	2013	Var.
Revenue	281.0	219.1	+28%
Gross Margin	44.8%	35.5%	+930bps
R&D %	19.6%	18.1%	+150bps
SG&A %	10.4%	13.3%	(290)bps
EBIT	41.9	9.5	+342%
EBIT %	14.9%	4.3%	+1.060bps
Net income	26.6	3.6	+638%
Basic EPS $	0.39	0.05	+680%
Diluted EPS $	0.38	0.05	+660%
Cash from operations	29.3	18.4	+59%

Underlying US$ million	Third Quarter 2014	2013	Var.
Gross Margin	45.4%	40.1%	+530bps
EBITDA	60.8	41.0	+48%
EBITDA %	21.6%	18.3%	+330bps
EBIT	51.7	32.2	+61%
EBIT %	18.4%	14.3%	+410bps
Net income	37.6	21.8	+72%
Basic EPS $	0.56	0.33	+70%
Diluted EPS $	0.53	0.32	+66%

See underlying definition on page 3.

The presentation of income and related expenses from customer specific research and development costs has changed. Please see note 2 of the Q3 2014 Interim Report.

Revenue in Q3 2014 was up 28% at $281 million with strong revenue performance in Mobile Systems, up 31% on Q3 2013, and in Power Conversion up 61% over Q3 2013.

Q3 2014 IFRS gross margin was 930bps above Q3 2013 and 160bps above the previous quarter. This was the result of the following items:

- Higher revenue achieved in the quarter and the subsequent lower allocation per unit of the fixed component of Cost of Goods Sold
- Benefits of manufacturing cost optimisation, yield and test time improvements in high volume products
- Positive product mix contribution from the Connectivity Segment and new products in Mobile Systems
- Positive $1.1 million impact from the partial release of an excess inventory reserve. Excluding this release, Q3 2014 IFRS gross margin was 44.4%

In Q3 2014 underlying (*) net OPEX as a percentage of revenue was 27.0%, 460bps below Q2 2014 and 120bps above Q3 2013.

Underlying (*) R&D investment in Q3 2014 stood at 18.6% of revenue, 320bps below Q2 2014 and 160bps above Q3 2013. We have accelerated our R&D investments in both, existing product initiatives as well as new initiatives that have the potential to support profitable growth and the diversification of our business.

Underlying (*) SG&A in Q3 2014 stood at 8.4% of revenue, 160bps below Q2 2014 and 40bps below Q3 2013. We continued to manage our SG&A costs effectively and achieved further leverage.

In Q3 2014 we achieved IFRS and underlying (*) EBIT of $41.9 million and $51.7 million respectively, 342% and 61% over Q3 2013. Underlying EBIT margin in the quarter was 18.4%. The Q3 2014 underlying EBIT increase of 61% was primarily driven by the solid performance of the Mobile Systems segment.

In total, a net tax charge of $10.6 million was recorded in Q3 2014. This represents an effective year to date tax rate of 28.5% (Q3 YTD 2013: 33.0%). The decrease in our group effective tax rate is driven by the on-going exercise to align our Intellectual Property with the commercial structure of the group. This should allow Dialog to utilise as yet unrecognised UK loss carry forwards and to benefit from the favourable UK Tax regime towards R&D. We believe this gradual decrease is sustainable and will continue to drive further reductions in our effective tax rate in the years to come.

In Q3 2014, underlying (*) net income increased 72% year on year. Underlying diluted EPS in Q3 2014 was 66% higher than in the same quarter of 2013.

At the end of Q3 2014, our total inventory level was $148 million (or ~88 days), an increase of $29 million over the prior quarter. This represents a 2 day increase in our days of inventory. We are managing our inventory levels tightly and we feel this level is appropriate in order to service our current customer backlog. During Q4 2014 we expect inventory value and inventory days to decrease from Q3 2014 as we service the high level of demand expected in the quarter.

At the end of Q3 2014, we had cash and cash equivalents balance of $257 million which included $25 million debt repayment. In the third quarter we generated $29 million of cash from operations, an increase of 59% over the same quarter of 2013. At the end of Q3 2014, the balance of our Term Loan (put in place to acquire iWatt) was $40 million. We intend to do further early debt repayments during the course of Q4 2014.

(*) Underlying results (net of tax) in Q3 2014 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$4.4 million, excluding US$0.2 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US$2.1 million non-cash effective interest expense in connection with the convertible bond, excluding US$0.2 million non-cash effective interest expense related to a licensing agreement, US$0.4 million of expenses associated with the merger discussions with ams AG, excluding US$1.4 million acquisition and integration expenses in connection with the purchase of iWatt, and excluding US$2.3 million of amortisation and depreciation expenses associated with the acquisition of iWatt.

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

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

(**) EBITDA in Q3 2014 is defined as operating profit excluding depreciation for property, plant and equipment, (Q3 2014: US$5.4 million, Q3 2013: US$5.1 million), amortisation of intangible assets (Q3 2014: US$7.4 million, Q3 2013: US$9.6 million) and losses on disposals and impairment of fixed assets (Q3 2014: US$0.0 million, Q3 2013: US$0.2 million).

(***) Free Cash Flow in Q3 2014 is defined as net income of US$26.6 million plus amortisation and depreciation of US$12.8 million, plus net interest expense of US$3.3 million, minus change in working capital of US$28.9 million and minus capital expenditure of US$12.7 million.

Operational overview

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

As part of our initiatives to expand our business footprint in Asia, we are partnering with MediaTek to power the fast growing China LTE smartphone market with our highly integrated power management solutions. Lenovo and Meizu have selected the DA9210 power management IC (PMIC) to deliver precision power to MediaTek MT6595 SoC and improve the user experience of their latest smartphones - the Lenovo Vibe X2 and Meizu MX4 -.

Bluetooth® Smart connectivity is being rapidly adopted across multiple vertical segments, such as wireless charging, wearables, health and fitness, smart home and human interface devices, including computer peripherals and remote controls. During the quarter our leading product SmartBond™ SoC was selected by several customers and ramping into production by the following two:

- Xiaomi, one of China's fastest growing companies included SmartBond™ in its new Mi Band fitness tracking wrist band, delivering up to thirty days of battery power from a single charge.

- SMK Corporation, a leading manufacturer of remote controls and consumer electronics selected our Bluetooth Smart SoC for two of their new remote control models; one of which was selected by a tier one set-top box manufacturer.

Bringing innovation to the IoT and wearables market in a joint collaboration with Energous Corporation (NASDAQ: WATT). Dialog and Energous will engage customers and further evaluate the market for wire-free charging technology that provides power at a distance with complete mobility under full software control. Both companies plan to demonstrate in a proof-of-concept reference design the ability to charge wearable CE devices without the need for power connectors or charging mats, bringing together our leading Bluetooth Smart IC with its energy harvesting support and Energous' over the air wireless charging technology.

SmartWave™ Multi-Touch Integrated Circuit (MTIC™) is in volume production with products anticipated in-store before year end from a major PC OEM. Touch modules featuring Dialog's SmartWave MTICs are now available in a range of sizes from 15" to 65" featuring both flat and curved screens. These low-cost, optically superior, Windows 8-certified touch modules will feature in a range of PCs, with the first products anticipated to hit stores before the end of the year.

Power Conversion Business Group brought leading innovation to the power adapters market with the launch of two new products:

- iW671 synchronous rectifier designed to enable small, higher power adapters for mobile devices

- iW1770 PrimAccurate™ primary-side controller offering a 60W peak power mode from a 40W supply, enabling compact, light-weight, high power density adapters for Ultrabooks™, network devices and other home electronics products.

* * * * *

Dialog Semiconductor invites you today at 09.30 am (London) / 10.30 am (Frankfurt) to take part in a live conference call and to listen to management's discussion of the Company's Q3 2014 performance, as well as guidance for Q4 2014. Participants will need to register using the link below labelled 'Online Registration'. Participants will then receive an email with the list of regional dial-in numbers and the passcode.

Webcast & Telephone Registration: http://wcc.webeventservices.com/r.htm?e=864368&s=1&k=3644AE70BE92C5BAC2632629DB9DB91F

In synchronicity with the call, the analyst presentation will be webcasted on our website at: **http://www.dialog-semiconductor.com/investor-relations.** A replay will be posted at the same address four hours after the conclusion of the presentation and will be available for 30 days. 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 **#18264559.**

Full release including the Company's consolidated income statement, consolidated balance sheet, consolidated statements of cash flows and selected notes for the period ending 26 September 2014 is available under the investor relations section of the Company's website at:
http://www.dialog-semiconductor.com/investor-relations

For further information please contact:

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

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

FTI Consulting Frankfurt
Anja Meusel
T: +49 (0) 69 9203 7120
anja.meusel@fticonsulting.com

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

With its focus and expertise in energy-efficient system power management and a technology portfolio that also includes audio, short-range wireless, AC/DC power conversion and multi-touch, Dialog brings decades of experience to the rapid development of ICs for personal portable and digital consumer applications, including smartphones, tablets, Ultrabooks™ and emerging wearable type devices.

Dialog's power management processor companion chips increase the performance of portable devices by extending battery lifetime, enabling faster charging and enhancing the consumer's experience. With world-class manufacturing partners, Dialog operates a fabless business model.

Dialog Semiconductor plc is headquartered in London with a global sales, R&D and marketing organisation. In 2013, it had approximately $910 million in revenue and was one of the fastest growing European public semiconductor companies. It currently has approximately 1,200 employees worldwide. The company is listed on the Frankfurt (FWB: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index. It also has convertible bonds listed on the Euro MTF Market on the Luxemburg Stock Exchange (ISIN XS0757015606).

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

Financial Review

The following tables detail the interim consolidated statements of the operations of Dialog for the three and nine months ended 26 September 2014 and 27 September 2013:

	Three months ended 26 September 2014		Three months ended 27 September 2013 *)		Change
	US$000	**% of revenues**	US$000	% of revenues	%
Revenues					
Mobile Systems	**225,553**	**80.4**	171,938	78.5	31.2
Automotive / Industrial	**10,806**	**3.8**	10,208	4.7	5.9
Connectivity	**23,700**	**8.4**	23,960	10.9	(1.1)
Power Conversion	**20,934**	**7.4**	13,014	5.9	60.9
Corporate	**33**	**0.0**	8	0.0	312.5
Revenues	**281,026**	**100.0**	219,128	100.0	28.2
Cost of sales	**(155,262)**	**(55.2)**	(141,299)	(64.5)	9.9
Gross profit	**125,764**	**44.8**	77,829	35.5	61.6
Selling and marketing expenses	**(15,640)**	**(5.6)**	(15,693)	(7.2)	(0.3)
General and administrative expenses	**(13,403)**	**(4.8)**	(13,300)	(6.1)	0.8
Research and development expenses	**(54,983)**	**(19.6)**	(39,692)	(18.1)	38.5
Other operating income	**171**	**0.1**	340	0.2	(49.7)
Operating profit	**41,909**	**14.9**	9,484	4.3	341.9
Interest income and other financial income	**88**	**0.0**	183	0.1	(51.9)
Interest expense and other financial expense	**(3,423)**	**(1.2)**	(3,843)	(1.8)	(10.9)
Foreign currency exchange gains and losses, net	**(1,398)**	**(0.5)**	319	0.1	(538.2)
Result before income taxes	**37,176**	**13.2**	6,143	2.8	505.2
Income tax expense	**(10,595)**	**(3.8)**	(2,542)	(1.2)	316.8
Net profit	**26,581**	**9.5**	3,601	1.6	638.2

*) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively. For further information please refer to note 2 of the Q3 financial statements.

	Nine months ended 26 September 2014 US$000	% of revenues	Nine months ended 27 September 2013 *) US$000	% of revenues	Change %
Revenues					
Mobile Systems	**565,889**	**78.5**	441,967	80.3	28.0
Automotive / Industrial	**31,715**	**4.4**	26,802	4.9	18.3
Connectivity	**64,492**	**8.9**	68,159	12.4	(5.4)
Power Conversion	**59,004**	**8.2**	13,014	2.4	353.4
Corporate	**38**	**0.0**	8	0.0	375.0
Revenues	**721,138**	**100.0**	549,950	100.0	31.1
Cost of sales	**(407,617)**	**(56.5)**	(346,393)	(63.0)	17.7
Gross profit	**313,521**	**43.5**	203,557	37.0	54.0
Selling and marketing expenses	**(44,454)**	**(6.2)**	(32,705)	(5.9)	35.9
General and administrative expenses	**(39,561)**	**(5.5)**	(30,398)	(5.5)	30.1
Research and development expenses	**(151,404)**	**(21.0)**	(109,467)	(19.9)	38.3
Other operating income	**2,705**	**0.4**	1,122	0.2	141.1
Operating profit	**80,807**	**11.2**	32,109	5.9	151.7
Interest income and other financial income	**296**	**0.0**	524	0.1	(43.5)
Interest expense and other financial expense	**(10,714)**	**(1.5)**	(9,546)	(1.7)	12.2
Foreign currency exchange gains and losses, net	**(848)**	**(0.1)**	177	0.0	(579.1)
Result before income taxes	**69,541**	**9.6**	23,264	4.3	198.9
Income tax expense	**(19,819)**	**(2.7)**	(7,678)	(1.4)	158.1
Net profit	**49,722**	**6.9**	15,586	2.8	219.0

*) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively. For further information please refer to note 2 of the Q3 financial statements.

Results of Operations

Segment Reporting

Revenues for the **Mobile Systems segment** (see Note 3 - Segment Reporting included in the interim consolidated financial statements) were US$225.6 million for the three months ended 26 September 2014 compared to US$171.9 million for the same period of 2013. This represents 80.4% of our total revenues compared to 78.5% in the same period of the prior year. The 31.2% increase in revenues is fuelled by a higher number of high volumes product launches during the third quarter of 2014 compared a year ago quarter. For the first nine months of 2014, revenues in this segment were US$565.9 million compared to US$442.0 million in the same period of 2013, an increase of 28.0%. The increase in the first nine months in this sector is primarily driven by the success of our growing range of highly integrated power management solutions for portable devices including portable media players, smartphones and tablet PCs in addition to our customer diversification efforts. The operating profit in the Mobile Systems Segment increased from US$27.3 million for the three months ended 27 September 2013 to US$58.0 million for the three months ended 26 September 2014. For the first nine months of 2014, the operating profit in this segment was US$123.0 million compared to US$57.2 million in the same period of 2013, an increase of 115.0% driven by higher revenue, favourable product mix and improved product margins through continuous manufacturing efficiency gains.

Revenues from our **Automotive / Industrial Applications segment** were US$10.8 million for the three months ended 26 September 2014 compared to US$10.2 million in the same period of the prior year. This represents 3.8% of our total revenues compared to 4.7% in the same period of 2013. For the first nine months of 2014, revenues in this segment were US$31.7 million compared to US$26.8 million in the same period of 2013, an increase of 18.3%. The operating profit was US$3.0 million for the three months ended 26 September 2014 compared to US$3.3 million in the same period of the prior year. For the first nine months of 2014, operating profit increased from US$8.6 million for the first nine months of 2013 to US$9.1 million for the first nine months of 2014. This increased profitability is the result of higher revenues allowing us to further leverage the fixed elements of our cost of goods sold and continuous improvements in our manufacturing yields.

Revenues from our **Connectivity segment** were US$23.7 million for the three months ended 26 September 2014 compared to US$24.0 million in the same period of the prior year. This represents 8.4% of our total revenues compared to 10.9% in the same period of 2013. For the first nine months of 2014, revenues in this segment were US$64.5 million or 8.9% of total revenues compared to US$68.2 million in the same period 2013 or 12.4% of total revenues, a year-on-year decrease of 5.4%. This decrease in revenues can be attributed to the continuous softness in the legacy DECT cordless phone business which is currently only partly offset by emerging growth in new markets such as DECT based professional cordless headsets and microphones and the emerging Smart Bluetooth for which we have very competitive product offerings.

For Q3 2014 the Connectivity segment contributed an operating loss of US$1.7 million, compared to an operating profit of US$0.9 million for Q3 2013. For the first nine months of 2014 we recorded an operating loss of US$4.6 million, compared to an operating profit of US$3.0 million in the same year ago period. This adverse movement is driven by: lower fixed cost coverage due to lower seasonal revenues in legacy products and higher R&D-expenses to support the segment´s growth strategy in Bluetooth Smart where material revenues are expected in Q4 2014. Amortisation expenses relating to the purchase price allocation decreased from US$3.7 million for the first nine months of 2013 to US$1.3 million for the 2014 comparative period after some assets were fully amortised in 2013.

On an underlying (*) basis, Connectivity booked an operating loss in Q3 2014 of US$1.5 million and US$3.2million for the first nine months of 2014, compared to an operating profit of US$2.5 million in Q3 2013 and US$6.8 million for the first nine months of 2013.

The Connectivity segment's underlying financial performance for Q3 2014 and Q3 2013 is summarised below:

US$000	Three months ended 26 September 2014			Three months ended 27 September 2013		
	IFRS	**Adjustments**	**Underlying *)**	IFRS	Adjustments	Underlying *)
Revenues	**23,700**	**-**	**23,700**	23,960	-	23,960
Operating profit (loss)	**(1,671)**	**218**	**(1,453)**	937	1,515	2,452

*) Underlying results in Q3 2014 are based on the IFRS interim income, adjusted to exclude US$0.3 million (Q3 2013: US$1.3 million) of amortisation of intangibles associated with the acquisition of Dialog B.V. and excluding benefits of US$0.05 million (Q3 2013: expenses of US$0.2 million) for National Insurance related to share options.

The Connectivity segment's underlying financial performance for the first nine months 2014 and the first nine months 2013 is summarised below:

US$000	Nine months ended 26 September 2014			Nine months ended 27 September 2013		
	IFRS	**Adjustments**	**Underlying *)**	IFRS	Adjustments	Underlying *)
Revenues	**64,492**	**-**	**64,492**	68,159	-	68,159
Operating profit (loss)	**(4,647)**	**1,423**	**(3,224)**	3,046	3,735	6,781

*) Underlying results in the first nine months 2014 are based on the IFRS interim income, adjusted to exclude US$1.3 million (first nine months 2013: US$3.7 million) of amortisation of intangibles associated with the acquisition of Dialog B.V. and excluding expenses of US$0.1 million (first nine months 2013: US$0.1 million) for National Insurance related to share options.

Revenues from our **Power Conversion segment** were US$20.9 for the three months ended 26 September 2014 (or 7.4% of total revenues) compared to US$13.0 million for the two and half months this entity was consolidated in Q3 2013 post iWatt acquisition (or 5.9% of total revenues). For the first nine months of 2014, recorded revenues were US$59.0 million (or 8.2% of total revenues), up 353% compared to the same year ago period. This increase is largely due to the fact that iWatt was only consolidated into Dialog on 16 July 2013. Compared to the prior quarter, Q3 2014 revenues were up 7% on a like to like basis which demonstrates that Power Conversion segment is returning to growth post integration.

During the three months ending 26 September 2014, Power Conversion segment recorded an operating loss of US$5.6 million compared to an operating loss of US$14.9 million in the year ago quarter. On an underlying (*) basis, revenues were unchanged at US$20.9 million but operating loss was reduced to US$0.8 million. This compares to underlying (*) revenues of US$18.4 million and an underlying operating profit of US$1.3 million recorded in Q3 2013 (see Q3 2013 Interim Report Section 1 – Business Review posted on our website for further details). Underlying operating results in Q3 2014 do not include depreciation and amortisation expenses in the amount of US$3.5 million and additional acquisition and integration related costs of US$1.4 million; all these adjustments relate to the acquisition accounting. Furthermore we posted in Q3 2014 a one-off US$1.8 million inventory reserve for potential excess and obsolescence. We expect inventory controls to be tightened up as we migrate from former iWatt supply chain system onto our SAP ERP system at the end of 2014.

The Power Conversion segment's underlying financial performance for Q3 2014 and Q3 2013 is summarised below:

US$000	Three months ended 26 September 2014			Three months ended 27 September 2013		
	IFRS	**Adjustments**	**Underlying *)**	IFRS	Adjustments	Underlying *)
Revenues	**20,934**	**-**	**20,934**	13,014	5,358	18,372
Operating profit (loss)	**(5,606)**	**4,813**	**(793)**	(14,874)	16,164	1,290

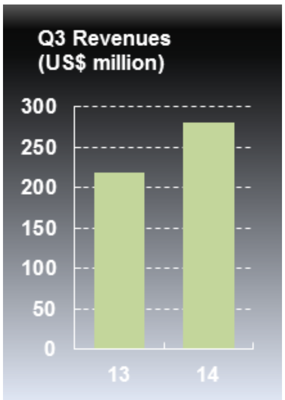
*) Underlying results in Q3 2014 are based on the IFRS interim income, adjusted to exclude US$3.5 million (Q3 2013: US$4.7 million) of amortisation expenses related to intangible assets associated with the acquisition of iWatt Inc. and excluding benefits for National Insurance of US$0.1 million (Q3 2013: US$0.0 million) related to share options as well excluding acquisition and integration costs of US$1.4 million (Q3 2013: US$1.7 million). Furthermore underlying results in Q3 2013 do include US$5.4 million of deferred revenue that have been eliminated from IFRS results as part of the purchase accounting associated with the acquisition of iWatt. Underlying cost of sales do include additional expenses of US$2.4 million in relation to the aforementioned deferred revenues but do not include additional costs for material consumption of US$6.8 million which also related to the acquisition accounting.

The Power Conversion segment's underlying financial performance for the first nine months 2014 is summarised below:

US$000	Nine months ended 26 September 2014		
	IFRS	Adjustments	Underlying *)
Revenues	59,004	-	59,004
Operating profit (loss)	(14,953)	(14,255)	(698)

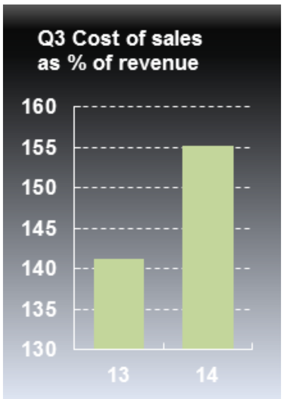
*) Underlying results in the first nine months 2014 are based on the IFRS interim income, adjusted to exclude US$11.9 million of amortisation expenses related to intangible assets associated with the acquisition of iWatt Inc. and excluding expenses for National Insurance of US$0.2 million related to share options as well excluding acquisition and integration costs of US$2.2 million.

Revenues



Total revenues were US$281.0 million for the three months ended 26 September 2014 compared to US$219.1 million for the same period of the prior year. For the first nine months of 2014, revenues were US$721.1 million compared to US$550.0 million (or US$555.3 million underlying*) in the same period of 2013. The increase of 31.1% is mainly attributable to higher sales volumes, an increase in average selling prices ("ASPs") from our more complex devices in our Mobile Systems Segment and the revenue contribution from the new Power Conversion segment.

Cost of sales



Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs, applicable overhead and depreciation of test and other equipment. Cost of sales increased by only 9.9%, to US$155.3 million for the three months ended 26 September 2014 (Q3 2013: US$141.3 million), driven mostly by increased revenues. Additionally, our Power Conversion business (iWatt) contributed US$14.7 million to cost of sales in Q3 2014. This amount includes a one-time inventory adjustment of US$1.8 million and amortisation and depreciation expenses of US$1.6 million relating to the purchase price allocation. As a percentage of revenues, cost of sales decreased from 64.5% for Q3 2013 to 55.2% for Q3 2014. For the first nine months, as a percentage of revenues, cost of sales decreased from 63.0% in 2013 to 56.5% in 2014.

For the first nine months of 2014, underlying (*) cost of sales was US$400.4 million (55.5% of underlying revenues) compared to US$339.1 million in the first nine months of 2013 (61.1% of total revenues).

Gross profit

IFRS Gross profit for the third quarter of 2014 was US$125.8 million, an increase of 61.6% compared to US$77.8 million in the third quarter of 2013. During that comparative period, IFRS gross margin increased from 35.5% of revenues to 44.8% of revenues.

IFRS gross margin improved as a result of the following four key elements:

- The realisation of the benefits of manufacturing cost optimisation over the last nine months.
- Positive product mix contribution from the Connectivity Segment and new products in Mobile Systems.
- Higher revenue in the quarter and the subsequent lower allocation per unit of the fixed component of Cost of Sales – or Cost of Goods Sold (COGS).
- The partial release of an excess inventory reserve which was built in prior periods after new orders were received in September 2014 (US$1.1 million).

Excluding the partial release of the excess inventory reserve mentioned above, Q3 2014 gross margin would have been 44.3%.

On an underlying (*) basis, the gross margin improved from 38.9% in the first nine months of 2013 to 44.5% for the same period of 2014. The gross margin improvement in the first nine months 2014 was underpinned by the same elements driving the gross margin increase in the third quarter as explained above.

Selling and marketing expenses

Selling and marketing expenses consist primarily of salaries, travel expenses, sales commissions, advertising and other marketing costs. Also included are amortisation expenses for intangible assets such as customer relationships, key customers and order backlog resulting from the purchase price allocation related to the acquisition of iWatt Inc. in the third quarter of 2013 and SiTel B.V. in 2011. For the three months ended 26 September 2014, selling and marketing expenses were US$15.6 million, almost flat to a year ago quarter (US$15.7 million). However, as a percentage of total revenues, selling and marketing expenses decreased from 7.2% of total revenues in Q3 2013 to 5.6% of total revenues in Q3 2014. The iWatt business contributed US$5.3 million of selling and marketing expenses, including US$1.9 million amortisation expenses resulting from the purchase price allocation. Excluding these amortisation expenses and other adjustments for the integration of iWatt as well as share option and amortisation expenses relating to the Dialog BV purchase price allocation, on an underlying (*) basis, selling and marketing expenses were US$12.8 million for Q3 2014 (Q3 2013: US$11.0 million). For the first nine months of 2014, selling and marketing expenses increased to US$44.5 million (6.2% of total revenues) compared to US$32.7 million (5.9% of total revenues) for the year ago equivalent period.

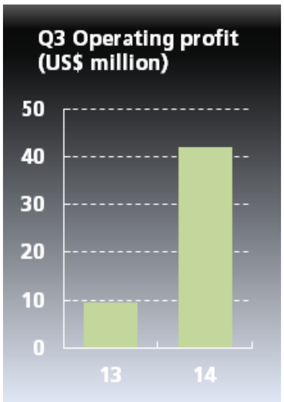
General and administrative expenses
General and administrative expenses consist primarily of personnel and support costs for our finance, human resources and other management departments. General and administrative expenses were US$13.4 million (4.8% of total revenues) for the third quarter of 2014, almost unchanged compared to the US$13.3 million (6.1% of total revenues) recorded in Q3 2013. The consideration of acquired iWatt business contributed US$0.9 million additional general and administrative expenses. Furthermore general and administrative expenses in Q3 2014 include US$1.4 million acquisition and integration expenses related to the acquisition of iWatt.

For the first nine months of 2014 and 2013, general and administrative costs were US$39.6 million (or 5.5% of total revenues) and US$30.4 million (or 5.5% of total revenues) respectively. Underlying (*) general and administrative expenses increased from US$22.6 million in the first nine months of 2013 (4.1% of revenues) to US$31.0 million in the same period of 2014 (4.3% of revenues).

Research and development expenses
Research and development expenses consist principally of design and engineering-related costs associated with the development of new Application Specific Integrated Circuits ("ASICs") and Application Specific Standard Products ("ASSPs"). Research and development expenses (were US$55.0 million for the three months ended 26 September 2014 (Q3 2013: US$39.7 million), representing a year over year increase of 38.5%. As a percentage of total revenues, research and development expenses increased from 18.1% to 19.6% during these comparative periods. The contribution of the iWatt business was US$5.7 million in the third quarter 2014. For the first nine months of 2014, our R&D expenses were US$151.4 million (21.0% of total revenues) compared to US$109.5 million (19.9% of total revenues) in the first nine months of 2013. Excluding iWatt, R&D expenses in the first nine months 2014 were US$134.9 million, US$29.7 million above the same period 2013. With an amount of US$16.5 million the increase can largely be attributed to an increased R&D headcount to support our ongoing growth strategy. These increases were partially reduced by capitalised research and development expenses of US$3.5 million compared to US$5.8 million in the same period of the prior year.

Other Operating Income
Other Operating Income in Q3 2014 was US$0.2 million (Q3 2013: US$0.3 million). For the first nine months of 2014 other operating Income was US$2.7 million (Q3 2013: US$1.1 million) and includes US$0.9 million which relates to a payment received from an insurance claim. It also includes a gain of US$0.7 million from a further reduction of the Earn-Out provision booked for a contingent consideration in relation to the iWatt acquisition (for further information please refer to note 4 to the 2013 consolidated financial statements and notes).

Operating profit
We report an operating profit of US$41.9 million for the third quarter of 2014 compared to US$9.5 million for the same period of 2013. Operating profit for the first nine months of 2014 was US$80.8 million, compared to US$32.1 million for the same period of 2013.



Underlying (*) operating profit in the first nine months of 2014 was US$112.3 million or 15.6% of underlying revenues compared to US$63.2 million or 11.4% in the same period of 2013 fuelled by improved product margins, positive product mix contributions and leverage on the fixed elements of our operating expenses.

Interest income and other financial income
Interest income and other financial income from the Company's investments (primarily short-term deposits) were US$88 thousand for the three months ended 26 September 2014 (Q3 2013: US$183 thousand). The decrease primarily resulted from a general decrease of interest rates on financial markets associated with the short-term nature of our investments led to an additional decrease of interest income. For the first nine months of 2014, we recorded an interest income and other financial income of US$296 thousand compared to US$524 thousand in the same period of 2013.

Interest expense and other financial expense
Interest expense and other financial expense consist primarily of expenses from capital leases, hire purchase agreements and the Group's factoring arrangement, the interest charges for the convertible bond and starting from the third quarter 2013 also the interest charges for new loan facilities totalling US$115 million in connection with the acquisition of iWatt of which US$40 million are still outstanding at 26 September 2014.

In Q3 2014 interest and other financial expenses were US$3.4 million (Q3 2013: US$3.8 million). The amount in Q3 2014 mainly includes two components related to the convertible bond: US$0.5 million for a one percent coupon payable on a semi-annual basis to the bond holders and US$2.1 million for the interest expense in connection with the measurement of the financial liability from the bond using the effective interest method. The interest expenses related to new debt facilities were US$0.3 million. For the first nine months of 2014, interest expenses and other financial expenses were US$10.7 million compared to US$9.5 million for the first nine months of 2013. The net increase is linked to the measurement effects of the financial liability from the convertible bonds which are based on increasing compounding amounts.

Foreign currency exchange gains and losses
The foreign currency exchange gains and losses mainly result from foreign currency cash transactions and period end revaluation of foreign currency denominated cash into US dollars.

Hedging instruments and hedge accounting

The Group uses forward contracts, mainly for the purposes of hedging currency risks that arise from its operating activities. Beside these, the Group designated certain non US$ deposits as hedging instruments in order to hedge foreign currency risks as well. These hedging instruments are re-measured at fair value on each subsequent reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses are recorded in other comprehensive income.

Any gains and losses arising from changes in the fair value on these financial instruments and the deposits during the year that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of derivatives is equal to their positive or negative market value. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of the deposits was measured based on foreign currency market rates at each reporting date.

If the requirements for hedge accounting set out in IAS 39 are met, the Group designates and documents the hedge relationship from the date a derivative contract is entered into or the cash deposit is designated as a hedging instrument, either as a fair value hedge or a cash flow hedge

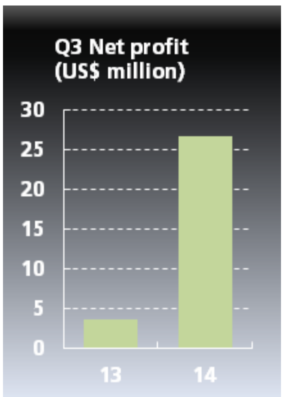
For the nine months ended 26 September 2014, a net loss of US$10.2 million was recorded in equity.

Income tax expense

For the nine months ended 26 September 2014, a net income tax charge of US$19.8 million was recorded (nine months ended 27 September 2013: US$7.7 million) resulting in an effective tax rate of 28.5% (nine months ended 27 September 2013: 33.0%). The effective tax rate applied in both the current year and prior year comparative period represent the expected full year effective tax rates. The decrease in our group effective tax rate is driven by the on-going exercise to align our Intellectual Property ownership with the commercial structure of the group. This should allow Dialog to utilise as yet unrecognised UK loss carry forwards and to benefit from the favourable UK tax regime for technology companies. We believe the gradual decrease is sustainable and will continue to drive further reductions in our effective tax rate in the years to come.

Net profit

For the reasons described above, we reported a net profit of US$26.6 million for the three months ended 26 September 2014 (Q3 2013: US$3.6 million).



Underlying (*) net profit increased from US$21.8 million in Q3 2013 (9.7% of total revenues) to US$37.6 million in Q3 2014 (13.4% of total revenues).

Basic and diluted earnings per share in Q3 2014 were US$0.39 and US$0.38 respectively, compared to basic and diluted earnings per share of US$0.05 both in Q3 2013. Underlying (*) diluted earnings per share in Q3 2014 increased by 66% compared to Q3 2013.

For the first nine months of 2014, net profit reached US$49.7 million compared to US$15.6 million in the comparison period 2013 with basic earnings per share at US$0.74 (first nine months of 2013: US$0.24) and diluted earnings per share at US$0.71(first nine months of 2013: US$0.23).

Liquidity and capital resources

Cash flows

Cash generated from operations was US$29.3 million for the three months ended 26 September 2014 (Q3 2013: US$18.4 million). With an amount of US$61.8 million (Q3 2013: US$30.8 million) the cash inflow before working capital changes in the three months ended 26 September 2014 mainly resulted from the operating income (before depreciation, amortisation and other non-cash effective expenses). In Q3 2014 this cash inflow was partly offset by cash outflows for investments in working capital of US$32.4 million (Q3 2013: US$12.3 million). In addition in Q3 2014, the Company paid US$8.7 million for income taxes (Q3 2013: US$10.5 million). The amount paid in Q3 2014 mainly represents advanced payments for corporate income taxes.

Cash used for investing activities was US$12.7 million for the three months ended 26 September 2014 (Q3 2013: US$313.1 million). Cash used for investing activities in Q3 2014 consisted primarily of the purchase of tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment for a total of US$7.5 million (Q3 2013: US$4.4 million) and the purchase of intangible assets for a total of US$3.4 million (Q3 2013: US$2.6 million) and payments related to capitalised development costs of US$1.9 million (Q3 2013: US$2.2 million). Cash used for investing activities in Q3 2013 consisted primarily of the net cash outflow of US$303.9 in connection with the iWatt acquisition in July 2013.

Cash used for financing activities was US$23.3 million in Q3 2014 compared to a cash inflow in the prior year quarter of US$115.5 million. With an amount of US$ 25 million the cash outflow in Q3-2013 relates mainly to the loan repayments. The cash inflow in Q3 2013 relates mainly to two debt facilities (in total US$115 million) contracted for the iWatt acquisition. Cash inflows in Q3 2014 resulted from share option exercises in amount of US$1.7 million (Q3 2013: US$1.8 million) in connection with the Company's employee share option programme.

Liquidity

At 26 September 2014 we had cash and cash equivalents of US$257.3 million (31 December 2013: US$186.0 million). The working capital (defined as current assets minus current liabilities) was US$285.5 million (31 December 2013: US$284.4 million).

As of 26 September 2014, the Company has a US$10.0 million revolving credit line facility which remains untapped (Q2 2014: US$25 million untapped). In addition to this, the Company entered into a Base Currency Term Loan facility with in an aggregate amount equal to US$100 million (payable by March 2017) of which US$35 million was pre-paid by the end of Q2 2014. During Q3 2014, the Company made further prepayments amounting to US$25 million.

As a result, the amount outstanding as of 26 September 2014 is now down to US$40.0 million, of which US$25.0 million is classified as current liability.

In addition, the Company has two factoring agreements which provide the Company with up to US$92.0 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 Q3 2014 and Q3 2013

	Three months ended 26 September 2014			Three months ended 27 September 2013 ***)		
US$000	**IFRS**	**Adjustments**	**Underlying *)**	IFRS	Adjustments	Underlying *)
Revenues	**281,026**	**-**	**281,026**	219,128	5,358	224,486
Cost of sales	**(155,262)**	**1,692**	**(153,570)**	(141,299)	6,753	(134,546)
Gross profit	**125,764**	**1,692**	**127,456**	77,829	12,111	89,940
Selling and marketing expenses	**(15,640)**	**2,791**	**(12,849)**	(15,693)	4,657	(11,036)
General and administrative expenses	**(13,403)**	**2,654**	**(10,749)**	(13,300)	4,472	(8,828)
Research and development expenses	**(54,983)**	**2,700**	**(52,283)**	(39,692)	1,486	(38,206)
Other operating income	**171**	**-**	**171**	340	-	340
Operating profit	**41,909**	**9,837**	**51,746**	9,484	22,726	32,210
Interest income and other financial income	**88**	**-**	**88**	183	-	183
Interest expense and other financial expense	**(3,423)**	**2,337**	**(1,086)**	(3,843)	2,265	(1,578)
Foreign currency exchange gains and losses, net	**(1,398)**	**-**	**(1,398)**	319	-	319
Result before income taxes	**37,176**	**12,174**	**49,350**	6,143	24,991	31,134
Income tax expense	**(10,595)**	**(1,168)**	**(11,763)**	(2,542)	(6,746)	(9,288)
Net profit	**26,581**	**11,006**	**37,587**	3,601	18,245	21,846
Earnings per share (in US$)						
Basic	**0.39**	**0.16**	**0.56**	0.05	0.28	0.33
Diluted	**0.38**	**0.16**	**0.53**	0.05	0.27	0.32
EBITDA **)	**54,727**	**6,051**	**60,778**	24,369	16,641	41,010

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

**) EBITDA in Q3 2014 is defined as operating profit excluding depreciation for property, plant and equipment (Q3 2014: US$5.4 million, Q3 2013: US$5.1 million), amortisation for intangible assets (Q3 2014: US$7.4 million, Q3 2013: US$9.6 million) and losses on disposals and impairment of fixed assets (Q3 2014: US$0.0 million, Q3 2013: US$0.2 million).

***) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively. For further information please refer to note 2 to the Q3 financial statements.

Dialog Semiconductor's underlying adjustments for Q3 2014

	Q3 2014								
US$000	Option expenses	Accrual National Insurance	PPA BV	Convertible Bond	License agreement	Acquisition and integration costs	Merger costs	PPA iWatt	TOTAL
Revenues	-	-	-	-	-	-	-	-	-
Cost of sales	(73)	-	-	-	-	-	-	(1,619)	(1,692)
Selling and marketing expenses	(992)	102	-	-	-	-	-	(1,901)	(2,791)
General and administrative expenses	(1,446)	614	-	-	-	(1,368)	(454)	-	(2,654)
Research and development expenses	(2,410)	(24)	(266)	-	-	-	-	-	(2,700)
Other operating income	-	-	-	-	-	-	-	-	-
Operating profit	**(4,921)**	**692**	**(266)**	**-**	**-**	**(1,368)**	**(454)**	**(3,520)**	**(9,837)**
Interest expense and other financial expense	-	-	-	(2,106)	(231)	-	-	-	(2,337)
Result before income taxes	**(4,921)**	**692**	**(266)**	**(2,106)**	**(231)**	**(1,368)**	**(454)**	**(3,520)**	**(12,174)**
Income tax expense	-	(197)	67	-	66	-	-	1,232	1,168
Net profit	**(4,921)**	**495**	**(199)**	**(2,106)**	**(165)**	**(1,368)**	**(454)**	**(2,288)**	**(11,006)**

Dialog Semiconductor's underlying financial performance for the first nine months of 2014 and 2013

US$000	Nine months ended 26 September 2014 IFRS	Adjustments	Underlying *)	Nine months ended 27 September 2013 ***) IFRS	Adjustments	Underlying *)
Revenues	**721,138**	**-**	**721,138**	549,950	5,358	555,308
Cost of sales	**(407,617)**	**7,201**	**(400,416)**	(346,393)	7,262	(339,131)
Gross profit	**313,521**	**7,201**	**320,722**	203,557	12,620	216,177
Selling and marketing expenses	**(44,454)**	**9,000**	**(35,454)**	(32,705)	7,004	(25,701)
General and administrative expenses	**(39,561)**	**8,579**	**(30,982)**	(30,398)	7,799	(22,599)
Research and development expenses	**(151,404)**	**7,416**	**(143,988)**	(109,467)	3,642	(105,825)
Other operating income	**2,705**	**(689)**	**2,016**	1,122	-	1,122
Operating profit	**80,807**	**31,507**	**112,314**	32,109	31,065	63,174
Interest income and other financial income	**296**	**-**	**296**	524	-	524
Interest expense and other financial expense	**(10,714)**	**6,866**	**(3,848)**	(9,546)	6,657	(2,889)
Foreign currency exchange gains and losses, net	**(848)**	**-**	**(848)**	177	-	177
Result before income taxes	**69,541**	**38,373**	**107,914**	23,264	37,722	60,986
Income tax expense	**(19,819)**	**(5,172)**	**(24,991)**	(7,678)	(7,830)	(15,508)
Net profit	**49,722**	**33,201**	**82,923**	15,586	29,892	45,478
Earnings per share (in US$)						
Basic	**0.74**	**0.49**	**1.23**	0.24	0.46	0.69
Diluted	**0.71**	**0.47**	**1.17**	0.23	0.44	0.67
EBITDA **)	**121,492**	**18,347**	**139,839**	65,331	22,662	87,993

*) 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 in the first nine months of 2014 is defined as operating profit excluding depreciation for property, plant and equipment (first nine months 2014: US$16.8 million, first nine months 2013: US$13.1 million), amortisation for intangible assets (first nine months 2014: US$23.6 million, first nine months 2013: US$19.6 million) and losses on disposals and impairment of fixed assets (first nine months 2014: US$0.3 million, first nine months 2013: US$0.5 million).

***) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively. For further information please refer to note 2 to the Q3 financial statements.

Dialog Semiconductor's underlying adjustments for the first nine months of 2014

	Nine months ended 26 September 2014								
US$000	Option expenses	Accrual National Insurance	PPA BV	Convertible Bond	License agreement	Acquisition and integration costs	Merger costs	PPA iWatt	TOTAL
Revenues	-	-	-	-	-	-	-	-	-
Cost of sales	(922)	(20)	(103)	-	-	-	-	(6,156)	(7,201)
Selling and marketing expenses	(2,761)	(137)	(400)	-	-	-	-	(5,702)	(9,000)
General and administrative expenses	(3,972)	(1,108)	-	-	-	(2,209)	(1,290)	-	(8,579)
Research and development expenses	(6,157)	(460)	(799)	-	-	-	-	-	(7,416)
Other operating income	-	-	-	-	-	-	-	689	689
Operating profit	**(13,812)**	**(1,725)**	**(1,302)**	**-**	**-**	**(2,209)**	**(1,290)**	**(11,169)**	**(31,507)**
Interest expense and other financial expense	-	-	-	(6,137)	(729)	-	-	-	(6,866)
Result before income taxes	**(13,812)**	**(1,725)**	**(1,302)**	**(6,137)**	**(729)**	**(2,209)**	**(1,290)**	**(11,169)**	**(38,373)**
Income tax expense	-	489	326	-	207	-	-	4,150	5,172
Net profit	**(13,812)**	**(1,236)**	**(976)**	**(6,137)**	**(522)**	**(2,209)**	**(1,290)**	**(7,019)**	**(33,201)**

Statement of Financial Position

	At 26 September 2014 US$000	At 31 December 2013 US$000	Change US$000	%
Assets				
Cash and cash equivalents	**257,298**	186,025	71,273	38.3
All other current assets	**227,261**	261,419	(34,158)	(13.1)
Total current assets	**484,559**	447,444	37,115	8.3
Property, plant and equipment, net	**58,815**	58,465	350	0.6
Goodwill	**244,878**	244,878	-	-
Intangible assets	**135,031**	148,591	(13,560)	(9.1)
Investments	**1,512**	1,531	(19)	(1.2)
All other non-current assets	**1,552**	1,608	(56)	(3.5)
Deferred tax assets	**37,547**	24,935	12,612	50.6
Total non-current assets	**479,335**	480,008	(673)	(0.1)
Total assets	**963,894**	927,452	36,442	3.9
Liabilities and Shareholders' equity				
Current liabilities	**199,017**	163,024	35,993	22.1
Non-current liabilities	**241,319**	307,778	(66,459)	(21.6)
Net Shareholders’ equity	**523,558**	456,650	66,908	14.7
Total liabilities and Shareholders' equity	**963,894**	927,452	36,442	3.9

The balance sheet total was US$963.9 million at 26 September 2014 (31 December 2013: US$927.5 million). Cash and cash equivalents increased by US$71.3 million or 38.3% to US$257.3 million at 26 September 2014 (31 December 2013: US$186.0 million). This increase was mainly caused by the cash inflows from operating activities (US$151.1 million) which were partially offset by cash outflows from investing activities amounting to US$30.5 million. The financing activities contain a cash inflow of US$14.7 million in relation to share option exercises which was offset by the voluntary and scheduled repayments totalling US$65 million (year-to-date 26 September 2014) related to the Company’s US$115 million Term Loan.

Other current assets decreased by US$34.2 million from US$261.4 million at 31 December 2013 to US$227.3 million at 26 September 2014. The decrease of 13.1% is mainly driven by a US$57.2 million reduction in trade accounts receivable balances which was partially offset by a US$30.5 million increase in inventories in comparison to 31 December 2013. This increase in inventory is in line with the expected demand for the fourth quarter of 2014. Deferred tax assets increased 50.6% from US$ 24.9 million at 31 December 2013 to US$ 37.5 million. The increase mainly relates to the partial recognition of previously unrecognized deferred tax assets in the UK as a result of the on-going exercise to align our Intellectual Property ownership with the commercial structure of the group.

Current liabilities increased by net US$36.0 million of which US$15.2 million relate to increased trade and other payables resulting from increased inventory purchases in Q3 2014 compared to the fourth quarter 2013, reflecting the growth in the pipeline. Other financial liabilities increased by US$18.3 million of which US$11.8 million relate to increased book losses from the revaluation of outstanding foreign exchange hedges and US$5 million relate to higher scheduled redemptions of loans, within the next 12 months, this amount was transferred from long term financial liabilities. In addition income tax payables increased by US$4.8 million. Total non-current liabilities as of 26 September 2014 were US$241.3 million of which US$179 million represents the book value of the liability from the convertible bond (31 December 2013: US$172.0 million) and US$14.2 million the non-current portion of the remaining Term Loan facility (31 December 2013: US$84.2 million).

Net debt which is defined as short and long-term financial liabilities less cash was US$14.2 million (Net Cash) at 26 September 2014. This compares to a net debt position (cash less financial liabilities) of US$103.6 million at 31 December 2013.

Shareholders’ equity increased to US$523.6 million (US$456.7 million at 31 December 2013) which is mainly a result of our net profit (adjusted by expenses for share based payments). The equity ratio increased to 54.3% (49.2% at 31 December 2013).

Other Information

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

Board of Directors
Rich Beyer, Chairman; Dr Jalal Bagherli, Chief Executive Officer; Chris Burke; Mike Cannon; Aidan Hughes; John McMonigall; Russ Shaw; Peter Weber; Eamonn O'Hare.

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 26 September 2014 the Group holds US$257.3 million cash (31 December 2013: US$186.0 million) and has continued access to other borrowing facilities of in total US$10 million. 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 2013 annual report – section 2. Compared with the risks and opportunities presented here, no significant additional opportunities and risks arose for the Company in the first nine months of 2014. There are currently no identifiable risks that, individually or collectively, could endanger the continued existence of the Company.

Responsibility statement

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

29 October 2014

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

Independent Review Report to Dialog Semiconductor Plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the three and nine months ended 26 September 2014 which comprises the Interim Consolidated Statement of Financial Position, the Interim Consolidated Income Statement, the Interim Consolidated Statement of Comprehensive Income, the Interim Consolidated Statement of Cash Flows, the Interim Consolidated Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the quarterly 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 Services 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 quarterly financial report has been prepared in accordance with International Accounting Standards 34, “Interim Financial Reporting,” as adopted by the European Union.

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the three and nine months ended 26 September 2014 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 Services Authority and the German Securities Trading Act (WpHG).

Ernst & Young LLP

Reading

29 October 2014

Unaudited interim consolidated statement of financial position

As at 26 September 2014

	Notes	**At 26 September 2014 US$000**	At 31 December 2013 US$000
Assets			
Cash and cash equivalents		**257,298**	186,025
Trade accounts receivable and other receivable		**70,122**	127,336
Inventories	5	**148,012**	117,541
Income tax receivables		**115**	72
Other financial assets		**–**	3,994
Other current assets		**9,012**	12,476
Total current assets		**484,559**	447,444
Property, plant and equipment	6	**58,815**	58,465
Goodwill		**244,878**	244,878
Other intangible assets	7	**135,031**	148,591
Investments	9	**1,512**	1,531
Deposits		**1,449**	1,450
Income tax receivables		**103**	158
Deferred tax assets		**37,547**	24,935
Total non-current assets		**479,335**	480,008
Total assets	3	**963,894**	927,452
Liabilities and Shareholders' equity			
Trade and other payables		**106,607**	91,391
Other financial liabilities		**42,207**	23,923
Provisions		**8,238**	8,000
Income taxes payable		**10,106**	5,354
Other current liabilities		**31,859**	34,356
Total current liabilities		**199,017**	163,024
Provisions		**1,984**	1,488
Other non-current financial liabilities		**200,867**	265,657
Deferred tax liabilities (non-current)		**38,468**	40,633
Total non-current liabilities		**241,319**	307,778
Ordinary shares		**13,353**	12,852
Additional paid-in capital		**268,832**	246,289
Retained earnings		**263,415**	199,881
Other reserves		**(11,373)**	(130)
Employee stock purchase plan shares		**(10,669)**	(2,242)
Net Shareholders´ equity		**523,558**	456,650
Total liabilities and Shareholders´ equity		**963,894**	927,452

Unaudited interim consolidated income statement

For the three and nine months ended 26 September 2014

	Notes	**Three months ended 26 September 2014**	Three months ended 27 September 2013 restated	**Nine months ended 26 September 2014**	Nine months ended 27 September 2013 restated
		US$000	US$000	**US$000**	US$000
Revenue	2, 3	**281,026**	219,128	**721,138**	549,950
Cost of sales	2	**(155,262)**	(141,299)	**(407,617)**	(346,393)
Gross profit		**125,764**	77,829	**313,521**	203,557
Selling and marketing expenses		**(15,640)**	(15,693)	**(44,454)**	(32,705)
General and administrative expenses		**(13,403)**	(13,300)	**(39,561)**	(30,398)
Research and development expenses	2	**(54,983)**	(39,692)	**(151,404)**	(109,467)
Other operating income	2	**171**	340	**2,705**	1,122
Operating profit	3	**41,909**	9,484	**80,807**	32,109
Interest income		**88**	183	**296**	524
Interest expense		**(3,423)**	(3,843)	**(10,714)**	(9,546)
Foreign currency exchange gains (losses), net		**(1,398)**	319	**(848)**	177
Result before income taxes	3	**37,176**	6,143	**69,541**	23,264
Income tax expense		**(10,595)**	(2,542)	**(19,819)**	(7,678)
Net profit		**26,581**	3,601	**49,722**	15,586

	Three months ended 26 September 2014	Three months ended 27 September 2013	**Nine months ended 26 September 2014**	Nine months ended 27 September 2013
Earnings per share (in US$)				
Basic	**0.39**	0.05	**0.74**	0.24
Diluted	**0.38**	0.05	**0.71**	0.23
Weighted average number of shares (in thousands)				
Basic	**67,550**	65,819	**67,052**	65,605
Diluted	**70,782**	67,940	**69,993**	67,654

Unaudited interim consolidated statement of comprehensive income

For the three and nine months ended 26 September 2014

	Three months ended 26 September 2014 US$000	Three months ended 27 September 2013 US$000	**Nine months ended 26 September 2014 US$000**	Nine months ended 27 September 2013 US$000
Net profit	**26,581**	3,601	**49,722**	15,586
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translating foreign operations	**(1,386)**	456	**(1,071)**	152
Cash flow hedges	**(12,922)**	3,547	**(14,310)**	(189)
Income tax relating to components of other comprehensive income	**3,886**	(797)	**4,138**	(153)
Other comprehensive income (loss) for the year, net of tax	**(10,422)**	3,206	**(11,243)**	(190)
Total comprehensive income for the year	**16,159**	6,807	**38,479**	15,396

Unaudited interim consolidated statement of cash flows

For the three and nine months ended 26 September 2014

	Three months ended 26 September 2014 US$000	Three months ended 27 September 2013 US$000	**Nine months ended 26 September 2014 US$000**	Nine months ended 27 September 2013 US$000
Cash flows from operating activities:				
Net profit	**26,581**	3,601	**49,722**	15,586
Adjustments to reconcile net profit to net cash used for operating activities:				
Interest income, net	**3,335**	3,660	**10,418**	9,022
Income tax expense	**10,595**	2,542	**19,819**	7,678
Impairment of inventories	**3,503**	3,950	**11,005**	8,112
Depreciation of property, plant and equipment	**5,373**	5,104	**16,785**	13,124
Amortisation of intangible assets	**7,420**	9,552	**23,623**	19,561
Losses on disposals of fixed assets and impairment of fixed and financial assets	**25**	229	**277**	537
Expense related to share-based payments	**4,922**	2,135	**13,812**	5,974
Changes in working capital:				
Trade accounts receivable, other receivables and factoring	**(21,938)**	(29,597)	**57,217**	30,957
Inventories	**(32,231)**	(26,310)	**(41,472)**	7,732
Prepaid expenses	**(753)**	(1,093)	**(457)**	(326)
Trade accounts payable	**22,832**	36,461	**8,235**	(22,923)
Provisions	**364**	5,499	**744**	5,151
Other assets and liabilities	**(701)**	2,709	**10,181**	(3,590)
Cash generated from (used for) operations	**29,327**	18,442	**179,909**	96,595
Interest paid	**(507)**	(355)	**(3,218)**	(1,613)
Interest received	**112**	185	**272**	550
Income taxes paid	**(8,703)**	(10,467)	**(25,849)**	(31,028)
Cash flow from operating activities	**20,229**	7,805	**151,114**	64,504
Cash flows from investing activities:				
Purchase of property, plant and equipment	**(7,466)**	(4,364)	**(17,945)**	(17,143)
Purchase of iWatt net of acquired cash	**–**	(303,851)	**–**	(303,851)
Purchase of intangible assets	**(3,355)**	(2,646)	**(9,069)**	(7,360)
Payments for capitalised development costs	**(1,876)**	(2,178)	**(3,540)**	(5,784)
Sale (Purchase) of other investments	**–**	68	**30**	(1,432)
Change in other long term assets	**(43)**	(162)	**(20)**	(176)
Cash flow used for investing activities	**(12,740)**	(313,133)	**(30,544)**	(335,746)
Cash flows from financing activities:				
Cash flow used for capital increase	**–**	–	**(39)**	–
Sale of employee stock purchase plan shares	**1,749**	1,822	**14,656**	2,361
Redemption of loan	**(25,000)**	113,650	**(65,000)**	113,650
Cash flow from financing activities	**(23,251)**	115,472	**(50,383)**	116,011
Cash flow from (used for) operating, investing and financing activities	**(15,762)**	(189,856)	**70,187**	(155,231)
Net foreign exchange difference	**1,036**	206	**1,086**	(111)
Net increase (decrease) in cash and cash equivalents	**(14,726)**	(189,650)	**71,273**	(155,342)
Cash and cash equivalents at beginning of period	**272,024**	346,743	**186,025**	312,435
Cash and cash equivalents at end of period	**257,298**	157,093	**257,298**	157,093

Unaudited interim consolidated statement of changes in equity

For the nine months ended 26 September 2014

				Other reserves			
	Ordinary Shares US$000	Additional paid-in capital US$000	Retained earnings US$000	Currency translation adjustment US$000	Hedges US$000	Employee stock purchase plan shares US$000	Total US$000
Balance at 31 December 2012 / 1 January 2013	**12,852**	**243,829**	**129,190**	**(1,964)**	**1,537**	**(2,853)**	**382,591**
Total comprehensive income (loss)	–	–	15,586	(33)	(157)	–	15,396
Sale of employee stock purchase plan shares	–	1,836	–	–	–	525	2,361
Equity settled transactions, net of tax	–	–	5,975	–	–	–	5,975
Changes in Equity total	**–**	**1,836**	**21,561**	**(33)**	**(157)**	**525**	**23,732**
Balance at 27 September 2013	**12,852**	**245,665**	**150,751**	**(1,997)**	**1,380**	**(2,328)**	**406,323**
Balance at 31 December 2013 / 1 January 2014	**12,852**	**246,289**	**199,881**	**(1,710)**	**1,580**	**(2,242)**	**456,650**
Total comprehensive income (loss)	–	–	49,722	(994)	(10,249)	–	38,479
Capital Increase for employee share option plan (gross proceeds)	501	9,780	–	–	–	(10,281)	–
Transaction cost of capital increase - employee share option plan	–	(39)	–	–	–	–	(39)
Sale of employee stock purchase plan shares	–	12,802	–	–	–	1,854	14,656
Equity settled transactions, net of tax	–	–	13,812	–	–	–	13,812
Changes in Equity total	**501**	**22,543**	**63,534**	**(994)**	**(10,249)**	**(8,427)**	**66,908**
Balance at 26 September 2014	**13,353**	**268,832**	**263,415**	**(2,704)**	**(8,669)**	**(10,669)**	**523,558**

Unaudited notes to the interim condensed consolidated financial statements

For the three and nine months ended 26 September 2014

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 Plc (Dialog) 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 a technology portfolio that also includes audio, short-range wireless, AC/DC power conversion and multi-touch, Dialog brings decades of experience to the rapid development of ICs for personal portable and digital consumer applications, including smartphones, tablets, Ultrabooks™ and digital cordless phones.

Dialog's power management processor companion chips increase the performance of portable devices by extending battery lifetime, enabling faster charging and enhancing the consumer's multimedia experience. With world-class manufacturing partners, Dialog operates a fabless business model.

Dialog is headquartered in London with a global sales, R&D and marketing organisation. In 2013, it had US$902.9 million in revenue and was one of the fastest growing European public semiconductor companies. At 31 December 2013, the Company had approximately 1,100 employees worldwide. The Company is listed on the Frankfurt (FWB: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index. It also has convertible bonds listed on the Euro MTF Market on the Luxemburg Stock Exchange (ISIN XS0757015606).

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, 2013.

The quarterly report has been prepared under IAS 34 to meet the prime standards of the Frankfurt stock exchange with regards to quarterly financial reporting and also to cover the requirements with regards to interim management statements reporting 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 this interim statement does not amount to statutory financial statements within the meaning of section 435 of the Companies Act 2006. The financial information contained in this report is unaudited but has been reviewed by Ernst & Young LLP. The financial statements for the year ended 31 December 2013, from which information has been extracted, was prepared under IFRS and has been delivered to the Registrar of Companies. The report of the auditors was unqualified in accordance with sections 495 to 497 of the Companies Act 2006 and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The 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, 2013 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 voluntary change regarding the presentation of income and related expenses from customer-specific research and development as described below and changes resulting from the adoption of the following amended, revised and new Standards and new IFRIC interpretations during the first nine months of 2014:

IFRS 9 Financial Instruments
The International Accounting Standards Board (IASB) issued the completed Standard IFRS 9 Financial Instruments in July 2014 for the annual periods beginning on or after 1 January 2018.

The package of improvements introduced by IFRS 9 includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. After its completion, the new Standard addresses the following accounting issues:

2. Summary of significant accounting policies continued

Classification and Measurement
Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces an approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements. The new model also results in a single impairment model being applied to all financial instruments.

Impairment
The IASB has introduced a new expected-loss impairment model that will require more timely recognition of expected credit losses. The new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting
IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements.

Own credit
IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

Dialog is in the process of analysing the impact of the new Standard on its accounting for financial instruments.

IFRS 15 Revenue from Contracts with Customers
The IASB issued IFRS 15 Revenue Recognition in May 2014 for the annual periods beginning on or after 1 January 2017.

The core principle of the new Standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the Company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (e.g. service revenue and contract modifications) and improve guidance for multiple-element arrangements.

Dialog is in the process of analysing the impact of the new Standard on its revenue recognition principles.

IFRS 14 Regulatory Deferral Accounts
The IASB issued an interim Standard, IFRS 14 Regulatory Deferral Accounts in January 2014 for the annual periods beginning on or after 1 January 2016.

The aim of this interim Standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the Standard. IFRS 14 Regulatory Deferral Accounts is effective from 1 January 2016, with early application permitted.

As Dialog is not engaged in rate-regulated activities, the amendment does not have an impact on the Dialog group.

Annual Improvements to IFRSs 2012–2014 Cycle
The IASB issued Annual Improvements to IFRSs 2012–2014 Cycle in September 2014 for the annual periods beginning on or after 1 January 2016.

Annual Improvements to IFRSs is a series of amendments to IFRSs in response to issues raised during the 2012-2014 cycle for annual improvements. The amendments address the following accounting issues:

IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations': Change in methods of disposal
The amendment clarifies that when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.

IFRS 7, 'Financial Instruments': Disclosures
There are two amendments to IFRS 7:

1. Servicing contracts
If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. IFRS 7 provides guidance on what is meant by continuing

2. Summary of significant accounting policies continued

involvement in this context. The amendment adds specific guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement.

2. Interim financial statements
The amendment clarifies that the additional disclosure required by the amendments to IFRS 7, 'Disclosure-Offsetting Financial Assets and Financial Liabilities' is not specifically required for all interim periods. However, the additional disclosure is given in condensed interim financial statements that are prepared in accordance with IAS 34 Interim Financial Reporting when its inclusion would be required by the requirements of IAS 34.

<u>IAS 19, 'Employee benefits': Discount rate</u>
The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.

<u>IAS 34, 'Interim financial reporting': Disclosures</u>
The amendment clarifies the meaning of disclosure of information 'elsewhere in the interim financial report'. Further the amendment requires an inclusion of a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.

Dialog is in the process of analysing the impact of the Annual Improvements to IFRSs 2012-2014.

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures
The IASB issued amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in September 2014 for the annual periods beginning on or after 1 January 2016.

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The amendments are not relevant to Dialog, as Dialog has no investments in joint operations or associates.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
The IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets in May 2014 for the annual periods beginning on or after 1 January 2016.

IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset. The amendments have clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

The new Standard is not relevant to Dialog, as Dialog has not applied revenue based depreciation methods.

IFRS 11 Joint Arrangements
The IASB issued amendments to IFRS 11 Joint Arrangements in May 2014 for annual periods beginning on or after 1 January 2016. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

The new Standard is not relevant to Dialog, as Dialog has no investments in joint operations.

Presentation of condensed interim financial statements
The accompanying condensed interim consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) which, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented. Operating results for the nine months ended 26 September 2014 are not necessarily indicative of the results to be expected for the full year ending 31 December 2014.

2. Summary of significant accounting policies continued

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. Significant items subject to such estimates and judgments include the recoverability of the long-lived assets and assets held for sale, the realisability of deferred income tax assets and inventories, and the fair value of stock-based employee compensation awards. Actual results may differ from those estimates.

Voluntary change in accounting policy
In 2014 management decided to change the presentation of income and related expenses from customer-specific research and development contracts. The previous accounting policy was to show income from customer-specific research and development contracts within the revenue line; associated expenses were shown under cost of sales. Going forward, the income will be shown within the other operating income line; the expenses will be shown under research and development expenses.

The new accounting policy was adopted on 1 January 2014 and has been applied retrospectively. Management judges that the change in policy will lead to a more transparent presentation.

As this voluntary change in accounting policy has an effect on the current and prior reporting periods, management reports the following affected financial statement lines according to IAS8.29:

	Three months ended 27 September 2013 as previously reported US$000	Restatement US$000	Three months ended 27 September 2013 restated US$000	Nine months ended 27 September 2013 as previously reported US$000	Restatement US$000	Nine months ended 27 September 2013 restated US$000
Revenue	219,468	(340)	219,128	551,072	(1,122)	549,950
Cost of sales	(141,639)	340	(141,299)	(347,515)	1,122	(346,393)
Gross profit	**77,829**	**–**	**77,829**	**203,557**	**–**	**203,557**
Research and development expenses	(39,352)	(340)	(39,692)	(108,345)	(1,122)	(109,467)
Other operating income	–	340	340	–	1,122	1,122
Operating profit	**9,484**	**–**	**9,484**	**32,109**	**–**	**32,109**

The reclassification of income and related expenses from customer-specific research and development contracts does not impact earnings per share.

Seasonality of operations
The Dialog group creates highly integrated, mixed-signal ICs, optimized for personal portable, low energy short-range wireless, LED solid state lighting and automotive applications. The majority of the revenue generated in our Mobile Systems segment is dependent on the life cycle of our customers' products and the seasonal nature of the spending pattern in the consumer markets we operate in. Due to this, higher revenues and operating profits are usually expected in the second half of the year compared to the first six months. This information is provided to allow for a better understanding of the results, however, management has concluded that it does not operate in a 'highly seasonal' business in accordance with IAS 34.21.

3. Segment reporting

Following the provisions of IFRS 8, reportable operating segments are identified based on the "management approach". The management approach requires external segment reporting based on the Group's internal organisational and management structure and on internal financial reporting to the chief operating decision maker, which is considered by the Group as being the Board of Management.

The Group reports on four operating segments, which are independently managed by bodies responsible for the respective segments depending on the nature of products offered. The fourth segment was added in the third quarter 2013 and represents the acquired iWatt business. The identification of Company components as operating segments is based in particular on the existence of business unit managers who report directly to the Board of Management of Dialog and who are responsible for the performance of the segment under their charge.

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.

3. Segment Reporting continued

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, Bluetooth and VoIP technology. The Connectivity segment includes the operating results of our subsidiary Dialog Semiconductor B.V.

Power Conversion

The Power Conversion and LED Solid State Lighting (SSL) segment includes the iWatt Inc. (now Dialog Semiconductor Inc.) operating segment acquired in Q3 2013.

	Three months ended 26 September 2014						Three months ended 27 September 2013 [2]					
	Mobile Systems US$000	**Automotive/ Industrial US$000**	**Connectivity US$000**	**Power Conversion US$000**	**Corporate US$000**	**Total US$000**	Mobile Systems US$000	Automotive/ Industrial US$000	Connectivity US$000	Power Conversion US$000	Corporate US$000	Total US$000
Revenues	**225,553**	**10,806**	**23,700**	**20,934**	**33**	**281,026**	171,938	10,208	23,960	13,014	8	219,128
Operating profit (loss) [1]	**58,044**	**3,029**	**(1,671)**	**(5,606)**	**(11,887)**	**41,909**	27,307	3,300	937	(14,874)	(7,186)	9,484
Financial results	**(231)**	**-**	**-**	**-**	**(4,502)**	**(4,733)**	(278)	-	-	-	(3,063)	(3,341)
Result before income taxes	**57,813**	**3,029**	**(1,671)**	**(5,606)**	**(16,389)**	**37,176**	27,029	3,300	937	(14,874)	(10,249)	6,143

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

2) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been restated retrospectively. For further information please refer to note 2.

	Nine months ended 26 September 2014						Nine months ended 27 September 2013 [2]					
	Mobile Systems US$000	**Automotive/ Industrial US$000**	**Connectivity US$000**	**Power Conversion US$000**	**Corporate US$000**	**Total US$000**	Mobile Systems US$000	Automotive/ Industrial US$000	Connectivity US$000	Power Conversion US$000	Corporate US$000	Total US$000
Revenues	**565,889**	**31,715**	**64,492**	**59,004**	**38**	**721,138**	441,967	26,802	68,159	13,014	8	549,950
Operating profit (loss) [1]	**122,977**	**9,142**	**(4,647)**	**(14,953)**	**(31,712)**	**80,807**	57,211	8,579	3,046	(14,874)	(21,853)	32,109
Financial results	**(729)**	**-**	**-**	**-**	**(10,537)**	**(11,266)**	(867)	-	-	-	(7,978)	(8,845)
Result before income taxes	**122,248**	**9,142**	**(4,647)**	**(14,953)**	**(42,249)**	**69,541**	56,344	8,579	3,046	(14,874)	(29,831)	23,264

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

2) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been restated retrospectively. For further information please refer to note 2.

3. Segment Reporting continued

b) Geographic information

	Three months ended 26 September 2014 US$000	Three months ended 27 September 2013 [1] US$000	Nine months ended 26 September 2014 US$000	Nine months ended 27 September 2013 [1] US$000
Revenues				
United Kingdom	**225**	231	**576**	798
Other European countries	**15,482**	15,936	**45,152**	44,482
China	**234,509**	174,598	**594,569**	432,760
Other Asian countries	**28,116**	25,853	**72,224**	65,257
Other countries	**2,694**	2,510	**8,617**	6,654
Total revenues	**281,026**	219,128	**721,138**	549,950

[1] Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been restated retrospectively. For further information please refer to note 2.

	At 26 September 2014 US$000	At 31 December 2013 US$000
Assets		
Germany	**390,730**	438,816
USA	**361,213**	377,293
Japan	**2,005**	1,946
United Kingdom	**150,579**	54,316
Netherlands	**52,331**	51,477
Other	**7,036**	3,604
Total assets	**963,894**	927,452

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 nine months ended 26 September 2014 was as follows:

	Nine months ended 26 September 2014		Nine months ended 27 September 2013	
	Options	**Weighted average exercise price €**	Options	Weighted average exercise price €
Outstanding at beginning of year	**6,036,051**	**7.93**	5,878,825	7.83
Granted	**1,570,292**	**0.13**	957,551	5.52
Exercised	**(1,653,935)**	**6.75**	(500,033)	3.56
Forfeited	**(170,476)**	**4.08**	(228,798)	7.79
Outstanding at end of year	**5,781,932**	**6.23**	6,107,545	7.82
Options exercisable at period end	**2,447,662**	**8.45**	3,244,921	6.38

The Company established an employee benefit trust (the "Trust"). The Trust purchases shares in the Company for the benefit of employees under the Group's share option scheme. At 26 September 2014 the Trust held 3,443,864 shares.

5. Inventories

Inventories consisted of the following:

	At 26 September 2014 US$000	At 31 December 2013 US$000
Raw materials	**6,056**	14,276
Work-in-process	**99,467**	26,815
Finished goods	**42,489**	76,438
Deposits	**–**	12
Total	**148,012**	117,541

The impairment of inventories recognised as expense during the nine months ended 26 September 2014 was US$11,005,000 (nine months ended 2013: US$8,112,000). This expense is included in cost of sales in the income statement.

6. Property, plant and equipment

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

	At 26 September 2014 US$000	At 31 December 2013 US$000
Gross carrying amount	**189,633**	175,956
Accumulated depreciation	**130,818**	117,491
Net carrying amount	**58,815**	58,465

The Company has contractual commitments for the acquisition of property, plant and equipment of US$5,884,013.

7. Other intangible assets

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

	At 26 September 2014 US$000	At 31 December 2013 US$000
Gross carrying amount	**239,509**	229,619
Accumulated depreciation	**104,478**	81,028
Net carrying amount	**135,031**	148,591

The Company has contractual commitments for the acquisition of intangible assets of US$3,632,045.

8. Earn-out provision

As previously reported in Note 4 to the annual report and accounts 2013 as part of the iWatt purchase Agreement and Plan of Merger entered into among the parties on July 1st 2013, a contingent consideration (Earn-out) was agreed with the previous owners of iWatt. The maximum payment relating to the two earn-out periods is US$35 million. On January 28th 2014, Dialog's management informed the previous owners that the targets for the first earn-out period were not achieved and that as a result, no payment will be made for this period. On April 9th 2014, the previous owners of iWatt commenced litigation against Dialog in the Court of Chancery in Delaware seeking damages for alleged breaches of the purchase agreement as it relates to the earn-out payments. Dialog's management believes that it has complied with all of its obligations under the Merger Agreement and plans to defend the litigation. At the time of publication of our Q3-2014 results Dialog's management believes that revenue targets for the "Second Earn-Out Period" for the nine months ended September 30, 2014 have not been met.

9. Additional disclosures on financial instruments

Set out below is an overview of financial instruments held by the Group as at 26 September 2014:

	Category in accordance with IAS 39	**Carrying amount 26 September 2014 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-Hierarchy	**Fair value 26 September 2014 US$000**
		Amounts recognised in the statement of financial position according to IAS 39						
Assets								
Cash at bank and short-term deposits	LaR	**257,298**	257,298	–	–	–	n/a	**257,298**
Deposits designated as a hedging instrument	n/a	**–**	–	–	–	–	–	**–**
Trade accounts receivable and other receivable	LaR	**70,122**	70,122	–	–	–	n/a	**70,122**
Other non-derivative financial assets								
Deposits for hedging contracts	LaR	**–**	–	–	–	–	Level 1	**–**
Derivative financial assets								
Derivatives without hedging relationship	n/a	**–**	–	–	–	–	–	**–**
Derivatives with hedging relationship	n/a	**–**	–	–	–	–	Level 2	**–**
Investments	AfS	**1,512**	–	–	1,512	–	Level 3	**1,512**
Liabilities								
Trade accounts payable	FLAC	**96,868**	96,868	–	–	–	n/a	**96,868**
Other payable	FLAC	**9,739**	9,739	–	–	–	n/a	**9,739**
Other financial liabilities	FLAC	**41,017**	41,017	–	–	–	n/a	**41,017**
Hire purchase agreements and finance lease obligations	FLAC	**10,922**	10,922	–	–	–	Level 2	**11,219**
Convertible bond	FLAC	**179,031**	179,031	–	–	–	Level 2	**191,758**
Derivative financial liabilities								
Derivatives without hedging relationship	n/a	**–**	–	–	–	–	–	**–**
Derivatives with hedging relationship	n/a	**12,104**	–	–	12,104	–	Level 2	**12,104**
Of which aggregated by category in accordance with IAS 39:								
Loans and receivables (LaR)		**327,420**	327,420	–	–	–	–	**327,420**
Deposits designated as a hedging instrument		**–**	–	–	–	–	–	**–**
Held-to-maturity investments (HtM)		**–**	–	–	–	–	–	**–**
Available-for-sale financial assets (AfS)		**1,512**	–	–	–	–	–	**1,512**
Derivatives without hedging relationship		**–**	–	–	–	–		**–**
Derivative financial liabilities with hedging relationship		**(12,104)**	–	–	(12,104)	–	–	**(12,104)**
Financial liabilities at amortised cost (FLAC)		**(337,577)**	(337,577)	–	–	–	–	**(350,601)**

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 and liability related to long-term finance lease contract have changed, the fair value at 26 September 2014 deviates from the carrying amount. Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. Due to the lack of a reliable measurement basis for the fair value of the equity investment this is held at cost of US$1.5 million. Instruments allocated to the column "fair value recognised in other comprehensive income" are derivative financial instruments designated as cash flow hedges.

9. Additional disclosures on financial instruments continued

Risk management activities

Cash flow hedges for currency risks

The main functional currency within the Group and the presentation currency for the consolidated financial statements is the US$. Accordingly, foreign exchange risks arise from transactions, and recognised assets and liabilities, the functional currency of which is not the US$. The currencies giving rise to these exposure risks are primarily the Euro and Pound Sterling. The majority of the Group's revenue and material expenses are denominated in US$. The majority of other operating expenses are denominated in Euros and Pounds Sterling. The Group has transactional currency exposures. Such exposure arises from the sales or purchases by an operating unit in currencies other than the unit's functional currency. In Q3 2014 as well as first nine months 2014 and related periods in 2013 nearly all the Group's sales were denominated in US$.

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 26 September 2014 the following unrealized effects were recorded on other comprehensive income:

	Forward currency contracts			Deposits	**Total At 26 September 2014**
	Euro US$000	GBP US$ 000	JPY US$000	JPY US$000	**US$000**
Gain	–	–	–	–	**–**
Loss	(9,682)	(2,168)	(254)	–	**(12,104)**
Unrealised net gain (loss) before tax	**(9,682)**	**(2,168)**	**(254)**	**–**	**(12,104)**
Tax effect	2,748	615	72	–	**3,435**
Unrealised net gain (loss) after tax	**(6,934)**	**(1,553)**	**(182)**	**–**	**(8,669)**

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.

10.Transactions with related parties

As described in the Company's annual report 2013, note 28, the related parties of the Company are comprised of eight non-Executive members of the Board of Directors and nine members of the executive management. At the 2014 AGM on 1 May 2014, Eamonn O'Hare was appointed to the Board of Directors as non-executive Director. In the course of 2014 Vivek Bhan (Senior Vice President, Engineering) and Davin Lee (Senior Vice President and General Manager Power Conversion Business Group) joined the executive management team. Transactions with those related parties only comprise their compensation which did not significantly change compared to 2013.

11. Subsequent events

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

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

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

Dialog Semiconductor Plc
Tower Bridge House
St Katharine's Way
London E1W 1AA
UK
Email: enquiry@diasemi.com

100 Longwater Avenue
Green Park
Reading RG2 6GP
UK
Tel: (+44) 1793-757700
Fax: (+44) 1189 450219
Email: enquiry@diasemi.com

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

North America
Dialog Semiconductor Inc.
675 Campbell Technology Parkway
Suite 150
Campbell, CA 95008
USA
Phone: (+1) 408 374 4200
Fax: (+1) 408 341 0455
Email: NA_sales_enquiries@diasemi.com

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

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

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

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

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

www.dialog-semiconductor.com