dialog SEMICONDUCTOR

Leading through **innovation**

Financials and selected notes 2014

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Press Release – 19 February 2015

DIALOG SEMICONDUCTOR REPORTS RESULTS FOR FOURTH QUARTER AND YEAR ENDED 31 DECEMBER 2014

Full year revenue growth of 28% and strong cash flow generation

London, UK, 19 February 2015 - 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 fourth quarter and year ended 31 December 2014.

Q4 and full year 2014 financial highlights

- Q4 2014 IFRS Revenue, up 24% over Q4 2013 to $435 million. Full year IFRS revenue up 28% to $1,156 million.
- Full year IFRS gross margin at 44.5%
- Q4 2014 Underlying (*) EBITDA (**) up 50% to $129.6 million or 29.8% of revenue. Full year Underlying (*) EBITDA (**) up 55% to $269.4 million or 23.3% of revenue
- Q4 IFRS operating profit (EBIT) up 49% to $105.1million or 24.2% of revenue. Full year IFRS EBIT up 81% to $185.9 million or 16.1% of revenue
- IFRS full year tax rate at 18.5%, including one-off non-cash deferred tax credit of $17.8 million ; 29.0% IFRS tax rate excluding one-off
- Underlying (*) Q4 2014 diluted EPS up 67% over Q4 2013 to $1.17. Full year 2014 Underlying (*) diluted EPS up 58% to $2.27
- Cash from operating activities in Q4 2014 was up 158% to $119.3 million. Cash and cash equivalents balance as of 31 December 2014 was $324 million

Q4 and full year 2014 operational highlights

- Continued momentum with power management design wins, across new platforms and models at our largest customers
- Successfully delivered a steep ramp of new products to meet our customers demand
- Increased the content of our products and achieved an ASP of $2.66 in 2014, excluding Power Conversion products
- SmartBond™ remains the world's lowest power and smallest Bluetooth Smart system-on-chip
- Our quick charging and lighting segments made significant advancement
- Extended our customer base in Asia with our collaboration with MediaTek and LG

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

"I am extremely pleased with the exceptional business performance we have achieved in Q4 and over the full year. We have delivered uninterrupted annual revenue growth for the 8th consecutive year; while significantly increasing margins, investing in R&D and generating high cash returns to allow the company to return to a bank debt free position significantly ahead of schedule.

Our financial performance reflects our relentless focus on delivering competitive and differentiated products in high growth consumer electronics markets. We now have good visibility of another year of growth ahead in 2015, with Dialog at the core of a new generation of ultra-portable devices and low-power connected consumer electronics."

Outlook

Given our current visibility, we expect 2015 to be another year of good growth. As in previous years, revenue performance will be strongly weighted towards the second half of the year.

Q1 2015 revenue will reflect the expected seasonal pattern and deliver year on year growth. We expect revenue for Q1 2015 to be in the range of $265 to $300 million.

In line with the seasonal lower revenue, gross margin in Q1 2015 will decline sequentially but improve on a year-on-year basis. Gross margin in 2015 is expected to remain broadly at a similar level to the full year 2014.

Financial overview

IFRS		Fourth Quarter			Full Year	
000US$	**2014**	2013	% Var.	**2014**	2013	% Var.
Revenue	**435.0**	351.4	+24%	**1,156.1**	901.4	+28%
Gross Margin	**46.3%**	42.2%	+410bps	**44.5%**	39.0%	+550bps
R&D %	**14.3%**	14.6%	(30)bps	**18.5%**	17.8%	+70bps
SG&A %	**8.2%**	8.6%	(40)bps	**10.3%**	10.3%	0bps
EBIT	**105.1**	70.6	+49%	**185.9**	102.7	+81%
EBIT %	**24.2%**	20.1%	+410bps	**16.1%**	11.4%	+470bps
Net income	**70.6**	46.6	+51%	**138.1**	62.2	+122%
Basic EPS $	**1.05**	0.71	+48%	**2.05**	0.95	+116%
Diluted EPS $	**0.95**	0.66	+44%	**1.93**	0.92	+110%
Operating cash flow	**119.3**	46.2	+158%	**270.5**	110.7	+144%

Underlying		Fourth Quarter			Full Year	
000US$	2014	2013	% Var.	2014	2013	% Var.
Revenue	**435.0**	352.3	+23%	**1,156.1**	907.6	+27%
Gross Margin	**46.6%**	43.0%	+360bps	**45.3%**	40.5%	+480bps
EBITDA	**129.6**	86.2	+50%	**269.4**	174.2	+55%
EBITDA %	**29.8%**	24.5%	+530bps	**23.3%**	19.2%	+410bps
EBIT	**117.9**	76.4	+54%	**230.3**	139.6	+65%
EBIT %	**27.1%**	21.7%	+540bps	**19.9%**	15.4%	+450bps
Net income	**89.2**	52.1	+71%	**172.2**	97.6	+76%
Basic EPS $	**1.33**	0.79	+68%	**2.56**	1.49	+72%
Diluted EPS $	**1.17**	0.70	+67%	**2.27**	1.44	+58%

See underlying definition on page 4.

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

IFRS Revenue in Q4 2014 was 24% above the previous year with strong performance across most business segments: Mobile Systems was up 24%, Power Conversion, up 55% (38% on an Underlying (*) basis) and Connectivity was up 18%.

Q4 2014 IFRS gross margin was 410bps above Q4 2013 and 150bps 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 new products in Mobile Systems, Connectivity and Power Conversion.

In Q4 2014 underlying (*) net OPEX as a percentage of revenue was 19.5%, 180bps below Q4 2013. For the full year, underlying OPEX was 25.4% of revenue, 30bps above FY 2013.

Q4 2014 underlying (*) R&D investment stood at 13.4% of revenue, 80bps below Q4 2013 and 520bps below Q3 2014. For the year 2014, underlying (*) R&D was 17.5%, 30 bps above the previous year as a result of the acceleration of our R&D investments in both, existing product initiatives as well as new initiatives that have the potential to support profitable growth and accelerate the diversification of our business.

Underlying (*) SG&A in Q4 2014 stood at 6.2% of revenue, 100bps below Q4 2013 and 210bps below Q3 2014. During 2014 we continued to manage our SG&A costs effectively and kept underlying (*) SG&A at 8.1% of revenue, in line with the previous year.

In Q4 2014 we achieved IFRS and underlying(*) EBIT of $105.1 million and $117.9 million respectively, 49% and 54% over Q4 2013. Underlying (*) EBIT margin in the quarter was 27.1%. The Q4 2014 underlying(*) EBIT increase of 54% was primarily driven by the solid performance of the Mobile Systems segment and the return to profitability of the Connectivity segment (Q4 2014: $2.9 million; Q42013: loss of $3.7 million). During 2014 underlying (*) EBIT increased by 65%, more than twice the rate of revenue growth in the same period.

In 2014, a net IFRS tax charge of $31.2 million was recorded (2013: US$27.5 million), which includes a one-off non-cash deferred tax credit of US$ 17.8 million. This credit arose during the year resulting from an intra-group reorganisation of certain Intellectual Property, which impacted the recorded value of deferred tax liabilities. This intra-group reorganisation took place in Q1 2014 but the impact of the recorded value of deferred tax liabilities was only identified during the detailed preparation of the year-end financial statements. The one-off non-cash deferred tax credit was therefore recorded in the full year 2014 results, giving an IFRS group effective tax rate for the full year of 18.5% (2013:30.7%).The group effective tax rate excluding this one-off non-cash deferred tax credit was 29.0%.The decrease in our Group effective tax rate, (excluding the one-off non-cash deferred tax credit), is driven by the on-going exercise to align our Intellectual Property ownership with the commercial structure of the group. This has allowed Dialog to utilise and to further partially recognise previously unrecognised UK loss carry forwards and other UK tax attributes and to benefit from the favourable UK Tax regime for technology companies. 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 Q4 2014, underlying (*) net income increased 71% over Q4 2013. Underlying (*) diluted EPS in Q4 2014 was 67% higher than in the same quarter of 2013 resulting in a full year 2014 underlying diluted EPS year-on-year growth of 58%.

At the end of Q4 2014, our total inventory level was $99 million (or ~38 days), a decrease of $49 million over the prior quarter. This represents a 50 day decrease in our days of inventory on the back of a record revenue quarter for Dialog. During Q1 2015 we expect inventory value and inventory days to increase from Q4 2014 to service our current customer backlog.

As of 31 December 2014, we had cash and cash equivalents balance of $324 million which included the last early bank debt repayment of $40 million. In the fourth quarter we generated $119 million of cash from operating activities, an increase of 158% over the same quarter of 2013. The strong cash generation of the business has allowed the company to return to a bank debt free position significantly ahead of schedule and generated $213 million of free cash flow(***) during 2014.

(*) Underlying results (net of tax) in Q4-2014 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$10.0 million, excluding US$0.2 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US$2.1 million non-cash effective interest expense in connection with the convertible bond, excluding US$ 0.5 million non-cash effective interest expense related to a licensing agreement, excluding US$0.9 million acquisition and integration expenses in connection with the purchase of iWatt, and excluding US$4.9 million of amortisation and depreciation expenses associated with the acquisition of iWatt.

(*)Underlying results (net of tax) in Q4-2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$2.2 million, excluding US$1.1 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$0.5 million acquisition and integration expenses in

connection with the purchase of iWatt and excluding US$2.8 million of amortisation and depreciation expenses associated with the acquisition of iWatt, deferred sales and related cost of sales that were reversed in connection with the iWatt business integration of US$ 0.6 million were brought back. Furthermore the gain of US$ 3.2 million from the release of an earn-out provision in relation to the iWatt acquisition was reversed and a recorded income related to a payment the company received in connection with the insolvency of BenQ of US$0.7 million was also taken out.

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 Q4 2014 is defined as operating profit excluding depreciation for property, plant and equipment, (Q4 2014:US$5.4 million, Q4 2013:US$5.4 million), amortisation of intangible assets (Q4 2014:US$9.8 million, Q4 2013:US$9.1 million) and losses on disposals and impairment of fixed assets (Q4 2014:US$0.1 million, Q4 2013:US$0.8 million).

(***) Free Cash Flow in FY 2014 is defined as net income of US$138.1 million plus amortisation and depreciation of US$55.6 million, plus net interest expense of US$14.4 million, plus change in working capital of US$47.8 million and minus capital expenditure of US$43.0 million.

Operational overview

In Q4 2014 we added new custom PMIC design wins both across new platforms and next generation models at our largest customers. Additionally, during the quarter we successfully delivered the beginning of a steep ramp of new products launched by our customers.

Dialog continued to lead in delivering the highest level of power management integration and power efficiency in its PMIC products. This allowed us to increase the Average Sales Price (ASP) of our products by 16%, excluding the Power Conversion segment, from $2.30 in 2013 to $2.66 in 2014.

In support of our diversification programs, Q4 saw the start of high volume shipments for our SmartBond™ - Bluetooth® Smart - solution. With the technology being rapidly adopted across multiple IoT segments, we added new design wins in applications including wireless charging, wearables, smart home and human interface devices. Dialog's SmartBond™ remains the industry's smallest footprint solution in addition to consuming less than half the power of competing devices, critical parameters for IoT applications demanding long battery lifetime.

Throughout Q4 2014 and the first few weeks of 2015 we rolled out a number of new products from the Power Conversion Business segment. We entered the MR16 – low voltage (12 volt) downlight LED form factor – market segment with an excellent dimming and universal transformer compatibility solution. Additionally, we launched a new dimming platform, delivering the ultimate in dimming performance while eliminating more than 20 external components from the bill of materials. These two devices allow Dialog to continue its market leadership in the dimming segment of the fast growing LED domestic retrofit market.

Power Conversion made also significant progress with large ODMs in Asia in the quick charge segment with the development of new products which accommodate the latest proprietary quick charge protocols of various companies.

Our sub-PMIC multi-phase DC-DC approach in 2014 allowed us to accelerate adoption of our technology for the China smartphone market. Through our strategic cooperation with Mediatek with sub-PMIC ICs for their MT6595 and MT6795 Octa-core reference platforms, we added design wins with Meizu, Lenovo and other top emerging China smartphone brands. Additionally, Q4 saw the start of volume production of a new custom PMIC for LG's new NUCLUN application processor which is sold alongside our sub-PMIC solution in LG's latest smartphone models.

Leveraging the unique advantages of our touch technology, Q4 2014 also saw the start of volume production of our Smartwave™ multi-touch display solution by a top US PC OEM in a low cost 23 inch All-in-One PC.

* * * * *

Dialog Semiconductor invites you today at 09.00 am (London) / 10.00 am (Frankfurt) to take part in a live conference call and to listen to management's discussion of the Company's Q4 and full year 2014 performance, as well as guidance for Q1 2015. Participants will need to register using the link below labelled ‘Online Registration’. A full list of dial-in numbers will also be available.

Webcast & Telephone Registration:

http://wcc.webeventservices.com/r.htm?e=921569&s=1&k=678BC566C5DE430441B4F2D45A740A95

Conference Number: +44 (0)207 192 8000

Conference ID: 61960817

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.

Full release including the Company’s consolidated income statement, consolidated balance sheet, consolidated statements of cash flows and selected notes for the period ending 31 December 2014 is available under the investor relations section of the Company’s website at: http://www.dialog-semiconductor.com/investor-relations

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Note to editors

Dialog Semiconductor provides highly integrated standard (ASSP) and custom (ASIC) mixed-signal integrated circuits (ICs), optimised for Smartphone, Tablet, IoT, LED Solid State Lighting (SSL) and Smart Home applications. Dialog brings decades of experience to the rapid development of ICs while providing flexible and dynamic support, world-class innovation and the assurance of dealing with an established business partner. With world-class manufacturing partners, Dialog operates a fabless business model and is a socially responsible employer pursuing many programs to benefit the employees, community, other stakeholders and the environment we operate in.

Dialog's power saving technologies including DC-DC configurable system power management deliver high efficiency and enhance the consumer's user experience by extending battery lifetime and enabling faster charging of their portable devices. Its technology portfolio also includes audio, Bluetooth® Smart, Rapid Charge™ AC/DC power conversion and multi-touch.

Dialog Semiconductor plc is headquartered in London with a global sales, R&D and marketing organisation. In 2014, it had $1.16 billion in revenue and was one of the fastest growing European public semiconductor companies. It currently has approximately 1,400 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.

Further Financial Information

The following tables detail the historical consolidated statements of the operations of Dialog for the years ended 31 December 2014 and 31 December 2013 both on an IFRS and underlying (*) basis.

Dialog Semiconductor's IFRS and underlying financial performance for 2014 and 2013

	2014			2013 ***)		
US$000	IFRS	Adjustments	Underlying *)	IFRS	Adjustments	Underlying *)
Revenues	**1,156,105**	**-**	**1,156,105**	901,380	6,222	907,602
Gross profit	**514,809**	**8,597**	**523,406**	351,808	15,714	367,522
Operating profit (loss)	**185,902**	**44,363**	**230,265**	102,660	36,935	139,595
Result before income taxes	**169,321**	**53,632**	**222,953**	89,712	45,870	135,582
Income tax expense	**(31,242)**	**(19,542)**	**(50,784)**	(27,508)	(10,459)	(37,967)
Net profit	**138,079**	**34,090**	**172,169**	62,204	35,410	97,614
Earnings per share (in US$)						
Basic	**2.05**	**0.51**	**2.56**	0.95	0.54	1.49
Diluted	**1.93**	**0.34**	**2.27**	0.92	0.52	1.44
EBITDA **)	**241,884**	**27,546**	**269,430**	151,256	22,957	174,213

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

**) EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (2014: US$22,1 million, 2013: US$18,6 million), amortisation for intangible assets (2014: US$33,4 million, 2013: US$28,6 million) and losses on disposals and impairment of fixed assets (2014: US$0,4 million, 2013: US$1,4 million).

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

Dialog Semiconductor's Revenue breakdown by Business Segment on an IFRS basis for 2014 and 2013

	2014		2013***)	
000US$	**Revenue**	**EBIT**	Revenue	EBIT
Revenues				
Mobile Systems	**942,628**	**244,180**	744,869	141,242
Automotive / Industrial	**40,952**	**11,232**	37,259	12,211
Connectivity	**92,120**	**(2,163)**	91,616	(2,121)
Power Conversion	**80,367**	**(21,135)**	26,768	(22,533)
Corporate Sector	**38**	**(46,212)**	868	(26,139)
Total	**1,156,105**	**185,902**	901,380	102,660

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

Please refer to Appendix for a full explanation of underlying adjustments made.

Results of Operations

Segment Reporting

Mobile Systems revenue was up 26.5% on 2013 fuelled by the good performance of those products launched in the second half of 2013 and a number of high volume product launches during the second half of 2014 (see Note 27 - Segment Reporting included in the consolidated financial statements). Our growing range of highly integrated power management solutions for portable devices continued to drive the strong success of this division with both existing and new customers. The IFRS operating profit increased 72.9% from 2013 as a result of the strong revenue performance, favourable mix and higher product margins achieved through continuous manufacturing yields improvements and cost efficiency gains.

Automotive & Industrial Applications revenue was up 9.9% on 2013, mostly as a result of the strong performance of our niche automotive range of products. This business segment represented 3.5% of total company revenue (2013: 4.1%). The IFRS operating profit decreased 8% from 2013 due to a slight increase in R&D investments.

Connectivity revenue in 2014 was up 0.6% over 2013 and it represented 8.0% of the total revenue of the company (2013: 10.2% of total revenue). This modest increase in revenue was the result of two underlying trends; the continuous softness in the legacy DECT cordless phone business, partly offset by growth in new markets such as DECT based professional applications, i.e. as cordless headsets and microphones and the emerging Bluetooth® Smart segment.

Connectivity generated an IFRS operating loss of US$2.2 million in 2014, broadly in line with the previous year (2013: operating loss of US$2.1 million). This movement was caused by lower fixed cost coverage due to lower seasonal revenues in legacy products and higher R&D-expenses to support the development of our Bluetooth® Smart business. Amortisation expenses relating to the purchase price allocation (PPA) decreased from US$5.1 million in 2013 to US$1.6 million in 2014 as some assets were fully amortised in 2013. Excluding the impact from the PPA 2014 operating profit almost reached break-even point.

Revenue from our **Power Conversion** segment was up 200% to US$80.4 million, representing 7.0% of the total company revenue. This increase is largely due to the fact that this segment was only consolidated into Dialog from 16 July 2013.

The Power Conversion segment recorded an IFRS operating loss of US$21.1 million in 2014 compared to an IFRS operating loss of US$22.5 million in2013. On an underlying basis the operating loss increased to US$2.3 million in 2014 (see table below) as we continued to invest in R&D and bring new products to market. 2014 underlying operating results do not include depreciation and amortisation expenses in the amount of US$15.2 million and additional acquisition and integration related costs of US$3.2 million. Furthermore we posted in H2 2014 a one-off US$1.7 million inventory reserve for potential excess and obsolescence ahead of the migration from the former iWatt supply chain system onto our SAP ERP system in early 2015.

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

US$000	**2014**		2013 ***)	
Underlying *)	**Revenue**	**EBIT**	Revenue	EBIT
Connectivity	**92,120**	**(322)**	91,616	3,061

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

US$000	**2014**		2013 ***)	
Underlying *)	**Revenue**	**EBIT**	Revenue	EBIT
Power Conversion	**80,367**	**(2,299)**	33,841	(903)

*) Underlying results (net of tax) in 2014 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$25.1 million, excluding US$1.2 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US$8.3 million non-cash effective interest expense in connection with the convertible bond, excluding US$ 1.0 million non-cash effective interest expense related to a licensing agreement, US$1.3 million of expenses associated with the merger discussions with ams AG, excluding US$3.2 million acquisition and integration expenses in connection with the purchase of iWatt, excluding US$11.9 million of amortisation and depreciation expenses associated with the acquisition of iWatt and a US$17.8 million one-off tax impact of an intra-group reorganization of certain Intellectual Property.

*) Underlying results in 2013 are based on IFRS consolidated income statement, adjusted to include deferred revenue in the amount of US$7.1 million. Expenses of US$8.9 million for amortisation of intangibles associated with the acquisition of iWatt group, US$7.0 million higher cost of sales related to fair value measurement of inventories and cost of US$3.2 million related to adjustment of deferred revenues are excluded from operating result. As one-time expenses-related acquisition and integration costs in amount of US$1.8 million are also excluded from operating result.

Please refer to Appendix for a full explanation of underlying adjustments made.

Revenues
Total IFRS revenue for the full year 2014 was up 28% to US$1.156 million (2013: US$901.4 million). This increase was 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. IFRS cost of sales for the period ending 31 December 2014 was up 16.7% to US$641.3 million (2013: US$549.6million). The increase can largely be attributed to the growth of our business

As a percentage of revenue, cost of sales decreased from 61.0% in 2013 to 55.5% in 2014. This year-on-year decrease was built on our ability to manage product mix and continuously improve the efficiency of the manufacturing process.

On an underlying (*) basis, cost of sales in 2014 was US$632.7 million or 54.7% of underlying revenues. This amount represents a 17.1% increase on the previous year (2013: US$540.1 million or 59.5% of total revenue).

Gross Profit
Our IFRS gross margin increased 550 basis points from 39.0% in 2013 to 44.5% of revenue for the period ending 31 December 2014. On an underlying (*) basis, gross margin also improved by 480 basis points to 45.3% in 2014 (2013: 40.5%). IFRS gross margin improved as a result of the following four key elements:

- The realisation of the benefits of manufacturing cost optimisation over the year.

- Positive product mix contribution from new products in Mobile Systems and the Connectivity Segment.

- Higher revenue and the subsequent lower allocation per unit of the fixed component of Cost of Sales – or Cost of Goods Sold (COGS).

IFRS gross profit for the period ending 31 December 2014 was US$514.8 million, representing a year-on-year increase of 46.3% (2013: US$351.8 million).

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 BV in 2011.

IFRS selling and marketing expenses were up 22.6% to US$60.1 million and represented 5.2% of total revenue, a decrease of 20 basis points on 2013 (2013: 5.4% of total IFRS revenue). This decrease was achieved despite additional investments made post acquisition in Power Conversion and in Connectivity to support the launch of our Bluetooth® Smart™ product.

The contribution to selling and marketing expenses from the acquired iWatt business was US$21.4 million, of which US$7.6 million were 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 SiTel BV purchase price allocation, on an underlying (*) basis selling and marketing expenses were up 25.7% to US$48.7 million in 2014 (2013: US$ 38.8 million) and represented 4.2% total underlying (*) revenues 10 basis points below 2013 (2013: 4.3% of total underlying (*) revenues).

General and administrative expenses
General and administrative expenses consist primarily of personnel and support costs for our finance, human resources and other management departments.

IFRS general and administrative expenses were up 34.3% to US$59.4 million and represented 5.1% of total revenue in 2014, (2013: US$44.3 million or 4.9% of total revenue). This increase predominantly reflects the growth our business and the consolidation of the iWatt business (Power Conversion), which contributed US$3.9 million additional general and administrative expenses. Furthermore, general and administrative expenses in 2014 include US$3.2 million acquisition and integration expenses related to the acquisition of iWatt (see note 4 – Business Combinations in the consolidated financial statements).

Excluding the additional expenses relating to the iWatt acquisition as well as share option and amortisation expenses relating to the SiTel BV purchase price allocation, underlying (*) general and administrative expenses were US$44.6 million and as a percentage of underlying (*) revenue were 3.9%, representing a modest increase of 10 basis points on 2013 (2013: US$34.8 million or 3.8% of underlying (*) revenue).

Research and development expenses
Research and development expenses consist principally of design and engineering-related costs associated with the development of new ASICs and Application Specific Standard Products (ASSPs).

IFRS research and development expenses (net of customer funded projects) were US$213.8 million in 2014 (2013: US$160.8 million), representing a year-on-year increase of 33.0%. As a percentage of total revenues, IFRS research and development expenses increased from 17.8% in 2013 to 18.5% in 2014. This increase was largely attributed to a higher R&D headcount to support our ongoing growth strategy (our engineering headcount has almost quadrupled since 2010) and the consolidation of iWatt business (Power Conversion segment) since July 2013.

Excluding iWatt, R&D expenses in 2014 were US$26.5 million above 2013 to US$177.0 million. The increase was largely attributed to a higher R&D headcount to support continuous innovation, growth and our diversification strategy. This increase was partially reduced by capitalised research and development expenses of US$6.7 million (2013: US$5.9 million)

Other Operating Income in the period ending 31 December 2014 was US$4.4 million (2013: US$4.9 million). This amount includes US$0.9 million which relates to a payment received from an insurance claim and a gain of US$1.9 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

IFRS operating profit for the period ending 31 December 2014 was up 81.1% on 2013 to US$185.9 million.

On an underlying (*) basis, operating profit in 2014 was up 64.9% to US$230.3 million. Underlying EBIT margin in 2014 was19.9% , 450 basis points higher than 2013 (2013:15.4%). This increase was driven by improved product margins, positive product mix contributions and efficiencies in Selling and General Admin expenses.

Interest income and other financial income

Interest income and other financial income from the Company's investments (primarily short-term deposits) were US$419 thousand for 2014 (2013: US$565 thousand). The decrease primarily resulted from a general decrease of interest rates on deposits and the short term nature of our investments.

Interest expense and other financial expense

Interest expense and other financial expense consist primarily of expenses from the Group's factoring arrangement, the interest charges for the convertible bond starting from the third quarter 2013 and the interest charges for loan facilities totalling US$115 million in connection with the acquisition of iWatt in 2013.

In 2014, interest and other financial expenses were US$14.8 million (2013: US$13.3 million). The amount in 2014 was made up of two components related to the convertible bond: US$2.0 million for a 1% coupon payable on a semi-annual basis to the bond holders and US$8.3 million (non-cash) 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 the debt facilities were US$1.1 million.

Income tax expense

For the period ending 31 December 2014 a net IFRS income tax charge of US$31.2 million was recorded (2013: US$27.5 million) which includes a one-off non-cash deferred tax credit of US$17.8 million. This one-off credit arose during the year resulting from of an intra-group reorganisation of certain Intellectual Property, which impacted the recorded value of deferred tax liabilities. This intra-group reorganisation took place in Q1 2014 but the impact of the recorded value of deferred tax liabilities was only identified during the detailed preparation of the year-end financial statements. The one-off non-cash deferred tax credit was therefore recorded in the full year 2014 results, giving an IFRS group effective tax rate excluding this one-off impact was 29.0%.

When reporting the 2015 IFRS results and to facilitate quarterly comparisons, the Company plans to adjust the previously reported quarterly financial statements for the first three, six and nine months of 2014.

For the first three months an adjusted IFRS total tax benefit of US$12.1 million will now be reported leading to an adjusted IFRS net income of US$31.9 million and IFRS basic EPS of US$0.48.

For the first six months an adjusted IFRS total tax benefit of US$8.5 million will now be reported, leading to an adjusted IFRS net income of US$40.9 million and IFRS basic EPS of US$0.61. For the first nine months an adjusted total IFRS tax expense of US$2.1 million will now be reported, leading to an adjusted IFRS net income of US$67.5 million and IFRS basic EPS of US$1.01.

The decrease in our group effective tax rate (excluding the one-off non-cash deferred tax credit) is driven by the on-going exercise to align our Intellectual Property ownership with the commercial structure of the group. This has allowed Dialog to utilise and to further partially recognise previously unrecognised UK loss carry forwards and other UK tax attributes 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 IFRS net profit of US$138.1 million for the period ending 31 December 2014 (2013: US$62.2 million), representing a 122% year-on-year increase.

Underlying (*) net profit increased 76.4% to US$172.2 million in 2014, representing 14.9% of total revenue (2013: 10.8% of total revenue).

IFRS basic and diluted earnings per share in the period ending 31 December 2014 were up 116% and 110% respectively to US$2.05 and US$1.93 (2013: basic and diluted earnings per share of US$0.95 and US$0.92. Underlying (*) basic and diluted earnings per share in 2014 increased by 72% and 58% compared to 2013 and reached US$2.56 and 2.27 respectively.

Liquidity and capital resources

Cash flows

Cash flow from operating activities was US$270.5 million in 2014 (2013: 110.7 million). Cash inflow during 2014 was US$266.4 million (2013: US$170.8 million) and resulted from the Company's net profit adjusted by depreciation, amortisation and other non-cash effective expenses. This cash inflow also increased by changes in working capital of US$37.9 million (2013: US$18.8 million cash outflows for investments in working capital), demonstrating our capacity to manage working capital tightly despite the year-on-year revenue growth. In addition, in 2014 the Company paid US$33.9 million for income taxes (2013: US$41.4 million). The amount paid in 2014 mainly represents advanced payments for corporate income taxes.

Cash used for investing activities was US$43.0 million for the period ending 31 December 2014 (2013: US$344.2 million). Cash used for investing activities in 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$23.8 million (2013: US$23.2 million). The purchase of intangible assets was US$12.1 million (2013: US$9.5 million) and payments relating to capitalised development costs were US$6.7 million (2013: US$6.0 million). Cash used for investing activities in 2013 consisted primarily of the net cash outflow of US$303.9 million in connection with the iWatt acquisition in July 2013.

Cash flow used for financing activities was US$89.1 million in 2014 compared to a cash inflow of US$106.7 million in 2013. The cash inflow in 2013 relates mainly to two debt facilities (in total US$115 million) to finance the iWatt acquisition of which US$10 million was pre-paid in 2013 and US$105 million was pre-paid in 2014. Cash inflows from financing activities in 2014 resulted from share option exercises in amount of US$15.9 million (2013: US$3.1 million) in connection with the Company's employee share option programme.

Liquidity

At 31 December 2014 we had cash and cash equivalents of US$324.3million (31 December 2013: US$186.0 million). The working capital (defined as current assets minus current liabilities) was US$351.4 million (31 December 2013: US$284.4 million).

As of 31 December 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, in 2013 the Company entered into a Base Currency Term Loan facility with 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 H2 2014, the Company made further pre-payments. As a result, there is no amount outstanding as of 31 December 2014.

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.

Statement of Financial Position

	At 31 December 2014 US$000	At 31 December 2013 US$000	Change US$000	%
Assets				
Cash and cash equivalents and restricted cash	**324,280**	186,025	138,255	74.3
All other current assets	**213,850**	261,419	(47,569)	(18.2)
Total current assets	**538,130**	447,444	90,686	20.3
Property, plant and equipment, net	**59,263**	58,465	798	1.4
Goodwill	**244,878**	244,878	-	0.0
Intangible assets	**131,505**	148,591	(17,086)	(11.5)
Investments	**1,446**	1,531	(85)	(5.6)
All other non-current assets	**1,953**	1,608	345	21.5
Deferred tax assets	**28,771**	24,935	3,836	15.4
Total non-current assets	**467,816**	480,008	(12,192)	(2.5)
Total assets	**1,005,946**	927,452	78,494	8.5
Liabilities and Shareholders' equity				
Current liabilities	**186,737**	163,024	23,713	14.5
Non-current liabilities	**195,533**	307,778	(112,245)	(36.5)
Net Shareholders' equity	**623,676**	456,650	167,026	36.6
Total liabilities and Shareholders' equity	**1,005,946**	927,452	78,494	8.5

The balance sheet total was US$1.005.946 million at 31 December 2014 (31 December 2013: US$927.5 million). Cash and cash equivalents increased by US$138.3 million or 74.3% to US$324.3 million at 31 December 2014 (31 December 2013: US$186.0 million). This increase was mainly caused by the cash inflows from operating activities (US$270.5 million) which were partially offset by cash outflows from investing activities amounting to US$43.0 million. The financing activities contain a cash inflow of US$15.9 million in relation to share option exercises which was offset by the voluntary and scheduled term loan repayments totalling US$105 million related to the Company's US$115 million Term Loan.

Other current assets decreased by US$47.6 million from US$261.4 million at 31 December 2013 to US$213.9 million at 31 December 2014. The decrease of 18.2% is mainly driven by a US$26.8 million reduction in trade accounts receivable balances and by a US$18.4 million decrease in inventories in comparison to 31 December 2013. Deferred tax assets increased 15.4% from US$ 24.9 million at 31 December 2013 to US$ 28.8 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$23.7 million to US$186.7 million of which US$24.1 million relate to increased income tax payables. Other financial liabilities decreased by US$1.8 million to US$22.1 million of which US$17.5 million relate to book losses from the revaluation of outstanding foreign exchange hedges. Total non-current liabilities as of 31 December 2014 were US$195.5 million (2013: US$307.8 million) of which US$180.2 million represents the book value of the liability from the convertible bond (31 December 2013: US$172.0 million). The decrease of non-current liabilities of US$112.2 million is mainly the result of the loan repayments.

Net debt which is defined as short and long-term financial liabilities less cash was US$114.0 million (Net Cash) at 31 December 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$623.7 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 62.0% (49.2% at 31 December 2013).

Audited consolidated statement of financial position

As at 31 December 2014

	Notes	At 31 December 2014 US$000	At 31 December 2013 US$000
Assets			
Cash and cash equivalents	5	**324,280**	186,025
Trade accounts receivable and other receivable		**100,569**	127,336
Inventories	6	**99,140**	117,541
Income tax receivables	4	**64**	72
Other financial assets		**3,586**	3,994
Other current assets		**10,491**	12,476
Total current assets		**538,130**	447,444
Property, plant and equipment		**59,263**	58,465
Goodwill	3	**244,878**	244,878
Other intangible assets		**131,505**	148,591
Investments		**1,446**	1,531
Deposits		**1,858**	1,450
Income tax receivables	4	**95**	158
Deferred tax assets	4	**28,771**	24,935
Total non-current assets		**467,816**	480,008
Total assets		**1,005,946**	927,452
Liabilities and Shareholders' equity			
Trade and other payables		**90,906**	91,391
Other financial liabilities		**22,120**	23,923
Provisions		**8,305**	8,000
Income taxes payable		**29,409**	5,354
Other current liabilities		**35,997**	34,356
Total current liabilities		**186,737**	163,024
Provisions		**1,955**	1,488
Other non-current financial liabilities	7	**188,123**	265,657
Deferred tax liabilities	4	**5,455**	40,633
Total non-current liabilities		**195,533**	307,778
Ordinary shares		**13,353**	12,852
Additional paid-in capital		**274,517**	246,289
Retained earnings		**366,650**	199,881
Other reserves		**(15,776)**	(130)
Employee stock purchase plan shares		**(15,068)**	(2,242)
Net Shareholders´ equity		**623,676**	456,650
Total liabilities and Shareholders´ equity		**1,005,946**	927,452

These financial statements were approved by the Board of Directors on 19 February 2015 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Audited consolidated income statement

For the year ended 31 December 2014

	Notes	2014 US$000	2013 reclassified US$000*)
Revenue	8	**1,156,105**	901,380
Cost of sales		**(641,296)**	(549,572)
Gross profit		**514,809**	351,808
Selling and marketing expenses		**(60,070)**	(49,000)
General and administrative expenses		**(59,445)**	(44,255)
Research and development expenses	8	**(213,808)**	(160,814)
Other operating income		**4,416**	4,921
Operating profit	8	**185,902**	102,660
Interest income		**419**	565
Interest expense		**(14,829)**	(13,345)
Foreign currency exchange gains (losses), net		**(2,171)**	(168)
Result before income taxes		**169,321**	89,712
Income tax expense	4	**(31,242)**	(27,508)
Net profit		**138,079**	62,204

		2014	2013
Earnings per share (in US$)			
Basic		**2.05**	0.95
Diluted		**1.93**	0.92
Weighted average number of shares (in thousands)	2		
Basic		**67,329**	65,641
Diluted		**76,882**	67,676

*) The presentation of income and related expenses from customer specific research and development costs has changed. Please see note 2 of the Financials and Selected Notes 2014 Report.

Audited statement of comprehensive income

For the year ended 31 December 2014

	2014 US$000	2013 US$000
Net profit	**138,079**	62,204
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	**(1,032)**	269
Cash flow hedges	**(19,794)**	91
Income tax relating to components of other comprehensive income	**5,180**	(63)
Other comprehensive income (loss) for the year, net of tax	**(15,646)**	297
Total comprehensive income for the year	**122,433**	62,501

Audited consolidated statement of cash flows

For the year ended 31 December 2014

	Notes	2014 US$000	2013 US$000
Cash flows from operating activities:			
Net profit		**138,079**	62,204
Adjustments to reconcile net profit to net cash generated from operations:			
Interest expense net		**14,410**	12,780
Income tax expense	4	**31,242**	27,508
Impairment of inventories		**9,828**	14,445
Depreciation of property, plant and equipment		**22,144**	18,581
Amortisation of intangible assets		**33,431**	28,646
Result on disposals of fixed assets and impairment of fixed and financial assets		**407**	1,369
Expense related to share-based payments		**21,173**	8,487
Changes in working capital:			
Trade accounts receivable, other receivables and factoring		**26,764**	(33,418)
Inventories		**8,570**	26,871
Prepaid expenses		**(376)**	(923)
Trade accounts payable		**(7,494)**	(19,490)
Provisions		**816**	4,135
Other assets and liabilities		**9,657**	4,067
Cash generated from operations		**308,651**	155,262
Interest paid		**(4,680)**	(3,805)
Interest received		**396**	587
Income taxes paid		**(33,909)**	(41,365)
Cash flow from operating activities		**270,458**	110,679
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(23,842)**	(23,173)
Purchase of iWatt net of acquired cash		**–**	(303,851)
Purchase of intangible assets		**(12,058)**	(9,519)
Payments for capitalised development costs		**(6,670)**	(5,974)
Sale (purchase) of other investments		**34**	(1,500)
Change in other long term assets		**(474)**	(186)
Cash flow used for investing activities		**(43,010)**	(344,203)
Cash flows from financing activities:			
Payment for capital increase		**(39)**	–
Net cash flow from financial liabilities		**(105,000)**	103,650
Purchase of employee stock purchase plan shares		**(6,172)**	–
Sale of employee stock purchase plan shares		**22,114**	3,071
Cash flow from (used for) financing activities		**(89,097)**	106,721
Cash flow from (used for) operating, investing and financing activities		**138,351**	(126,803)
Net foreign exchange difference		**(96)**	393
Net increase (decrease) in cash and cash equivalents		**138,255**	(126,410)
Cash and cash equivalents at beginning of period		**186,025**	312,435
Cash and cash equivalents at end of period	5	**324,280**	186,025

Audited consolidated statement of changes in equity

For the year ended 31 December 2014

	Ordinary shares US$000	Additional paid-in capital US$000	Retained earnings US$000	Other reserves: Currency translation adjustment US$000	Other reserves: Hedges US$000	Other reserves: Employee stock purchase plan shares US$000	Total US$000
Balance at 1 January 2013	**12,852**	**243,829**	**129,190**	**(1,964)**	**1,537**	**(2,853)**	**382,591**
Net profit	–	–	62,204	–	–	–	62,204
Other comprehensive income	–	–	–	254	43	–	297
Total comprehensive income (loss)	–	–	62,204	254	43	–	62,501
Sale of employee stock purchase plan shares	–	2,460	–	–	–	611	3,071
Equity settled transactions, net of tax	–	–	8,487	–	–	–	8,487
Changes in equity total	**–**	**2,460**	**70,691**	**254**	**43**	**611**	**74,059**
Balance at 31 December 2013 / 1 January 2014	**12,852**	**246,289**	**199,881**	**(1,710)**	**1,580**	**(2,242)**	**456,650**
Net profit	–	–	138,079	–	–	–	138,079
Other comprehensive income	–	–	–	(1,297)	(14,349)	–	(15,646)
Total comprehensive income (loss)	–	–	138,079	(1,297)	(14,349)	–	122,433
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)
Acquisition of employee stock purchase plan shares	–	–	–	–	–	(6,172)	(6,172)
Sale of employee stock purchase plan shares	–	18,487	–	–	–	3,627	22,114
Equity settled transactions, net of tax	–	–	28,690	–	–	–	28,690
Changes in equity total	**501**	**28,228**	**166,769**	**(1,297)**	**(14,349)**	**(12,826)**	**167,026**
Balance at 31 December 2014	**13,353**	**274,517**	**366,650**	**(3,007)**	**(12,769)**	**(15,068)**	**623,676**

Notes to the consolidated financial statements

For the year ended 31 December 2014

1. Basis for preparation

The Annual Financial Report announcement was approved by the Board of Directors on 19 February 2015.

The financial information set out in this Annual Financial Report announcement for the year ended 31 December 2014 does not constitute the Group's statutory accounts as defined by s434 of the Companies Act but has been extracted from the 2014 statutory accounts on which an unqualified audit report has been made by the auditors, and which did not contain an emphasis of matter paragraph nor a statement under section 498(2) or (3) of CA 2006. The financial information included in the annual report announcement for the prior year ended 31 December 2013 has been extracted from the 2013 statutory accounts on which an unqualified audit report has been made by the auditors, and which did not contain an emphasis of matter paragraph nor a statement under section 498(2) or (3) of CA 2006.

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). The accounting policies have been consistently applied to all periods presented.

The audited financial statements for the year ended 31 December 2013 have been delivered to the Registrar of Companies and those for 31 December 2014 will be delivered in due course.

2. Selected significant accounting policies

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit (loss) for the year attributable to ordinary equity holders of Dialog by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit (loss) attributable to ordinary equity holders of Dialog by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued if all the securities or other contracts to issue ordinary shares were exercised.

The weighted average number of shares outstanding is as follows:

	2014 US$000	2013 US$000
Basic number of shares	**67,329**	65,641
Effect of dilutive options outstanding	**9,553**	2,035
Dilutive number of shares	**76,882**	67,676

The number of anti-dilutive share options outstanding was 950,340 (2013: 3,179,646).

In 2014 the potential ordinary shares of the convertible bond were dilutive as their conversion to ordinary shares would decrease earnings per share.

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 present income from customer-specific research and development contracts within the revenue line; associated expenses were presented under cost of sales. Going forward, the income will be presented 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. The change in policy will lead to a more transparent presentation and will improve the comparability within the peer group.

2. Selected significant accounting policies continued

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:

	2013 as previously reported	Reclassification	2013 reclassified
	US$000	US$000	US$000
Revenue	902,907	(1,527)	901,380
Cost of sales	(551,099)	1,527	(549,572)
Gross profit	**351,808**	–	**351,808**
Research and development expenses	(159,287)	(1,527)	(160,814)
Other operating income	3,394	1,527	4,921
Operating profit	**102,660**	–	**102,660**

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

3. Allocation of goodwill

The unallocated goodwill in 2013 of US$212,595,000 comprised the value of significant expected synergies, especially within the Mobile System segment, as well as other benefits from combining the assets and activities of iWatt Inc. with those of the Dialog Group. In view of the significant differences that existed between the Dialog Group and the former iWatt Group when it comes to sales channels and the geographical foot print in particular, the evaluation was on going at 31 December 2013.

During the integration process, one of the key activities was the evaluation of the complementarity between the two groups as it relates to technology, product portfolio, customer base and sales channels, in an effort to properly and reliably identify cross selling opportunities between the in 2013 acquired iWatt Group and Dialog's existing segments. Dialog considers its operating segments as cash-generating units. In the second quarter of 2014 the evaluation process of synergies and the purchase price allocation were finalized. The final goodwill allocation did not result in fair value changes of the acquired assets and goodwill compared to the amounts reported in the financial statements as of 31 December 2013.

IFRS 36.80 requires the allocation of goodwill to the cash generating units expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Management decided to determine the present value of the synergies based on the expected cash flow approach and to allocate these to the identified cash-generating units.

Based on the expected cash flow approach the unallocated goodwill of US$212,595,000 has been allocated to the cash generating units Power Conversion (US$49,515,000), Mobile Systems (US$102,014,000) and Connectivity (US$61,066,000). Based on management assumptions the Automotive/Industrial segment will not benefit from synergies from the business combination with iWatt. The first annual impairment review of this goodwill took place in Q4 2014 (for further details, please refer to note 6 of the Financials and Selected Notes 2014 Report).

For impairment testing purposes, goodwill acquired through business combinations (2013: iWatt and 2011: SiTel) has been allocated, as follows:

	Power Conversion		Connectivity		Mobile Systems		Unallocated		Total	
	2014 US$000	2013 US$000	**2014 US$000**	2013 US$000	**2014 US$000**	2013 US$000	**2014 US$000**	2013 US$000	**2014 US$000**	2013 US$000
Goodwill	**49,515**	–	**88,199**	27,133	**107,164**	5,150	**–**	212,595	**244,878**	244,878

4. Income taxes

Income tax benefit (expense) is comprised of the following components:

	2014 US$000	2013 US$000
Current taxes:		
United Kingdom	**–**	–
Foreign	**(56,695)**	(35,702)
Deferred taxes:		
United Kingdom	**2,558**	–
Foreign	**22,895**	8,194
Income tax expense	**(31,242)**	(27,508)

	2014 US$000	2013 US$000
Current taxes:		
Current income tax charge	**(56,689)**	(36,979)
Adjustments in respect of current income tax of previous year	**(6)**	1,277
Deferred taxes:		
Relating to origination and reversal of temporary differences	**(7,765)**	7,186
Relating to the recognition of previously unrecognised deferred tax assets	**11,009**	1,983
Movement in deferred tax liabilities following intra-group reorganisation *)	**17,759**	-
Adjustments recognised for tax of prior periods	**4,450**	(975)
Income tax expense	**(31,242)**	(27,508)

*) The amount of US$17,759,000 relates to a one-off non-cash deferred tax credit resulting from an intra-group reorganisation of certain Intellectual Property, which impacted the recorded value of deferred tax liabilities.

	2014 US$000	2013 US$000
Tax charged / (credited) directly to other comprehensive income:		
Current tax charge/(credit)	**–**	–
Deferred tax charge/(credit)	**5,180**	(63)
Total tax charged / (credited) directly to other comprehensive income	**5,180**	(63)
Tax charged / (credited) directly to equity:		
Current tax charge/(credit)	**–**	–
Deferred tax charge/(credit)	**7,517**	–
Total tax charged / (credited) directly to equity	**7,517**	–

Factors affecting the tax expense for the year

Historically, even though Dialog Plc is a UK company, the reconciliation of income taxes was determined using the German income tax rate, on the basis that the principal operations were located in Germany. However, in light of the evolutionary change in the Group's operating model, and in particular the on-going exercise to align our Intellectual Property ownership with the commercial structure of the Group, this is no longer the case. Operations are now global, with strategic decision-making centred in the UK. Accordingly, it is now considered appropriate to perform the reconciliation of income taxes to the UK rate of the parent company, Dialog Plc.

4. Income taxes continued

A reconciliation of income taxes determined using the UK income tax rate of 21.5% (2013: 23.25%), is as follows:

	2014 US$000	2013 US$000
Expected income tax expense	**(36,404)**	(20,858)
Tax rate differential	**(12,901)**	(5,251)
Non-deductible portion of share-based payments	**(5,120)**	(2,276)
Tax benefit from share-based payments	**4,267**	1,487
Tax free income (non-deductible expenses)	**(553)**	(71)
Benefit from previously unrecognised deferred tax assets that is used to reduce actual income tax expense	**11,009**	1,983
Additional losses for which no deferred tax asset is recognised	**(6,495)**	(2,827)
Adjustments recognised for tax of prior periods	**4,444**	302
Differences arising from differences between functional currency and tax currency	**(5,426)**	(45)
Tax gain on intra-group reorganisation	**(2,445)**	–
Movement in deferred tax liabilities following intra-group reorganisation *)	**17,759**	–
Other	**623**	48
Actual income tax expense	**(31,242)**	(27,508)

*) The amount of US$17,759,000 relates to a one-off non-cash deferred tax credit resulting from an intra-group reorganisation of certain Intellectual Property, which impacted the recorded value of deferred tax liabilities.

Deferred tax

Deferred income tax assets and liabilities are summarised as follows:

	At 31 December 2014 US$000	At 31 December 2013 US$000
Temporary differences relating to intangible assets	**(10,818)**	(43,028)
Other temporary differences	**8,105**	1,913
Deferred taxes in relation to tax credits	**3,200**	2,771
Net operating loss carryforwards	**22,829**	22,646
Recognised net deferred tax assets / (liabilities)	**23,316**	(15,698)

4. Income taxes continued

Tax loss carryforwards, temporary differences and net deferred tax assets are summarised as follows:

	31 December 2014			31 December 2013		
	Tax loss carryforwards US$000	**Temporary differences US$000**	**Net deferred tax assets (liabilities) US$000**	Tax loss carryforwards US$000	Temporary differences US$000	Net deferred tax assets (liabilities) US$000
Germany	**–**	**5,206**	**1,477**	–	1,026	288
UK	**106,573**	**18,236**	**7,940**	73,600	31,968	–
Netherlands	**30,714**	**(6,146)**	**6,142**	23,258	(7,863)	3,849
US	**51,642**	**(19,134)**	**7,002**	64,509	(112,154)	(20,398)
Other	**–**	**1,883**	**755**	–	1,563	563
Total	**188,929**	**45**	**23,316**	161,367	(85,460)	(15,698)

The amount of deductible temporary differences and unused tax loss carryforwards for which no deferred tax asset is recognised in the balance sheet is US$82,643,000 (2013: US$121,579,000). In addition, no deferred tax asset is recognised in respect of federal and state tax credits of US$4,416,000 (2013: 3,643,000). The amount of deductible temporary differences and unused tax loss carry forwards for which no deferred tax asset is recognised has reduced in the year primarily as a result of the on-going exercise to align our Intellectual Property ownership with the commercial structure of the Group. This has allowed Dialog to utilise and to further partially recognise previously unrecognised UK tax loss carry forwards and other UK deductible temporary differences.

In assessing whether the deferred tax assets can be used, management considers the probability that some, or all, of the deferred tax assets will not be realised. The utilisation of deferred tax assets depends upon generating taxable profit during the periods in which those temporary differences become deductible or tax-loss carryforwards can be utilised. Management considers the reversal of deferred tax liabilities, projected future taxable income, benefits that could be realised from available tax planning strategies and other positive and negative factors in making this assessment.

The utilisation of tax loss carryforwards and temporary differences for which currently no deferred tax asset is recognized is subject to the achievement of positive income in periods which are beyond the Company's current business plan and therefore this utilisation is uncertain. Consequently no deferred tax assets were recognised for these losses and temporary differences.

The tax loss carryforwards in the US will expire between 2014 and 2034 and in the Netherlands between 2017 and 2023; other tax loss carryforwards have no expiration date.

The amount shown under "income tax receivables" in the statement of financial position includes a corporation tax refund claim of the Group's German subsidiary. The total amount the German subsidiary is entitled to receive amounts to €414,000 to be paid out in ten equal amounts during 2008 to 2017. The amount shown within the non-current assets represents the discounted part of the claim that is due after 2015. The amount that will be paid in 2015 is shown within the current assets.

No deferred tax has been recognised in respect of undistributed earnings of subsidiaries because no liability is expected to arise on distribution under applicable tax legislation or because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

5. Cash and cash equivalents

	At 31 December 2014 US$000	At 31 December 2013 US$000
Cash at bank	**178,242**	151,016
Short-term deposits	**140,204**	35,009
Deposits designated as a hedging instrument	**5,834**	–
Cash and cash equivalents	**324,280**	186,025

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. Deposits designated as a hedging instrument are classified as cash flow hedges to cover firm commitments and forecast transactions in Euros, Pound Sterling and Japanese Yen.

6. Inventories

Inventories are comprised of the following:

	At 31 December 2014 US$000	At 31 December 2013 US$000
Raw materials	**11,013**	14,276
Work-in-process	**30,047**	26,815
Finished goods	**58,080**	76,438
Deposits	**–**	12
	99,140	117,541

7. Other non-current financial liabilities

Other non-current financial liabilities comprise:

	At 31 December 2014 US$000	At 31 December 2013 US$000
Liabilities relating to the convertible bond	**180,207**	171,971
Bank loan	**–**	84,179
Liabilities relating to hire purchase and finance lease obligations	**7,916**	9,507
	188,123	265,657

8. Segmental 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 considered the Group as being the Board of Management.

The Group reports on four (2013: 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 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.

8. Segmental reporting continued

a) Operating segments

The Group's operating segments are:

Mobile Systems

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

Automotive and Industrial

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

Connectivity

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

Power conversion

This segment includes our AC/DC converter solutions for smaller, fast charging power adaptors for portable devices as well as our LED drivers for solid-state lighting products.

	2014						2013 reclassified *)					
	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 [1]	**942,628**	**40,952**	**92,120**	**80,367**	**38[3]**	**1,156,105**	744,869	37,259	91,616	26,768	868[3]	901,380
R&D expenses	**141,246**	**2,392**	**25,703**	**22,476**	**21,991**	**213,808**	118,091	1,749	22,677	8,806	9,491	160,814
Operating profit (loss) [2]	**244,180**	**11,232**	**(2,163)**	**(21,135)**	**(46,212)**	**185,902**	141,242	12,211	(2,121)	(22,533)	(26,139)	102,660
Depreciation/ amortisation	**41,535**	**227**	**5,060**	**5,739**	**3,021**	**55,582**	35,230	152	5,467	5,163	1,215	47,227
Inventory impairment and fixed asset disposal losses	**6,096**	**260**	**212**	**3,582**	**85**	**10,235**	11,832	154	2,200	1,504	124	15,814
Investments	**30,681**	**167**	**3,737**	**4,239**	**2,231**	**41,055[4]**	27,199	117	4,220	3,986	938	36,460[5]
	At 31 Dec 2014						At 31 Dec 2013					
Inventories	**71,327**	**6,165**	**13,678**	**7,970**	**–**	**99,140**	93,604	7,460	11,227	4,752	498	117,541

*) The presentation of income and related expenses from customer specific research and development costs has changed. Please see note 2 of the Financials and Selected Notes 2014 Report.

[1] All revenues are from sales to external customers.

[2] Certain overhead costs are predominantly allocated based on sales and headcount.
The Operating loss of the Corporate Segment results from Holding and Trust related expenses, share option and business development costs.

[3]The revenue in the corporate column include mainly sales discounts and in 2013 the BenQ settlement.

[4] Including US$24,393,000 additions to PPE, US$16,696,000 additions to intangible assets and US$34,000 currency change of other investments.

[5] Including US$23,115,000 additions to PPE, US$11,844,000 additions to intangible assets and -US$1,501,000 purchase of other investments.

Investments comprise additions to property, plant and equipment, and intangible assets.

In 2014 and 2013 the Group had no inter-segment sales, income, expenses, receivables, payables or provisions.

8. Segmental reporting continued

There are no differences between the measurements of the reportable segments profits and losses, inventories and the Group's profit and losses, assets and liabilities.

b) Corporate

Revenues in the Corporate column include US$38,000 revenue components (2013: US$851,000 BenQ Cash settlement).

R&D expenses in the Corporate column predominantly include stock option expenses and expenses for the Executive Incentive Plan (EIP) of US$9,761,000 (2013: US$3,564,000). Furthermore there are US$11,730,000 (2013: US$5,789,000) development expenses for new technology projects and US$467,000 for Powerventure (2013: US$ nil).

The operating losses recorded in the corporate column for the year ended 31 December 2014 of US$46,212,000 (2013: US$26,139,000) are primarily resulting from stock option expenses US$21,170,000 (including EIP) (2013: US$8,487,000), the costs of the holding company US$10,941,000 (2013: US$12,838,000), expenses for developing new technology projects US$16,151,000 (2013: US$8,783,000) and US$494,000 for Powerventure (2013: US$ nil). Additionally in 2014 NRE Revenues in amount of US$600,000 (2013: US$996,000 BenQ cash settlement) were included as well as another operating income of US$1,939,000 (2013: US$3,249,000) resulting from release of earn out provision.

c) Geographic information – Revenues by shipment destination

	2014 US$000	2013 reclassified *) US$000
Revenues		
United Kingdom	**782**	945
Other European countries	**60,098**	62,628
China	**983,412**	742,324
Other Asian countries	**100,667**	87,022
Other countries	**11,146**	8,461
Total revenues	**1,156,105**	901,380

Investments		
Germany	**15,042**	21,072
Japan	**273**	121
United Kingdom	**9,751**	8,266
Netherlands	**4,718**	3,599
USA	**6,696**	1,796
Taiwan	**720**	145
Singapore	**18**	97
Other	**3,837**	1,364
Total investments	**41,055**	36,460

*) The presentation of income and related expenses from customer specific research and development costs has changed. Please see note 2 of the Financials and Selected Notes 2014 Report.

8. Segmental reporting continued

	At 31 December 2014 US$000	At 31 December 2013 US$000
Assets		
Germany	**451,769**	438,816
USA	**359,435**	377,293
United Kingdom	**124,745**	54,316
Netherlands	**51,893**	51,477
Japan	**2,386**	1,946
Other	**15,718**	3,604
Total assets	**1,005,946**	927,452

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

9. Subsequent event

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

Appendix to further Financial Information

The following tables detail the historical consolidated statements of the operations of Dialog for the years ended 31 December 2014 and 31 December 2013 both on an IFRS and underlying (*) basis.

	2014			2013*)		
US$000	**IFRS**	**Adjustments**	**Underlying [1)]**	IFRS	Adjustments	Underlying [1)]
Revenues	**1,156,105**	**-**	**1,156,105**	901,380	6,222	907,602
Cost of sales	**(641,296)**	**8,597**	**(632,699)**	(549,572)	9,492	(540,080)
Gross profit	**514,809**	**8,597**	**523,406**	351,808	15,714	367,522
Selling and marketing expenses	**(60,070)**	**11,339**	**(48,731)**	(49,000)	10,243	(38,757)
General and administrative expenses	**(59,445)**	**14,796**	**(44,649)**	(44,255)	9,442	(34,813)
Research and development expenses	**(213,808)**	**11,570**	**(202,238)**	(160,814)	4,930	(155,884)
Other operating income	**4,416**	**(1,939)**	**2,477**	4,921	(3,394)	1,527
Operating profit (loss)	**185,902**	**44,363**	**230,265**	102,660	36,935	139,595
Interest income and other financial income	**419**	**-**	**419**	565	-	565
Interest expense and other financial expense	**(14,829)**	**9,269**	**(5,560)**	(13,345)	8,935	(4,410)
Foreign currency exchange gains and losses, net	**(2,171)**	**-**	**(2,171)**	(168)	-	(168)
Result before income taxes	**169,321**	**53,632**	**222,953**	89,712	45,870	135,582
Income tax expense	**(31,242)**	**(19,542)**	**(50,784)**	(27,508)	(10,459)	(37,967)
Net profit	**138,079**	**34,090**	**172,169**	62,204	35,410	97,614
Earnings per share (in US$)						
Basic	**2.05**	**0.51**	**2.56**	0.95	0.54	1.49
Diluted	**1.93**	**0.34**	**2.27**	0.92	0.52	1.44
EBITDA [2)]	**241,884**	**27,546**	**269,430**	151,256	22,957	174,213

1) 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.

2) EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (2014: US$22.1 million, 2013: US$18.6 million), amortisation for intangible assets (2014: US$33.4 million, 2013: US$28.6 million) and losses on disposals and impairment of fixed assets (2014: US$0.4 million, 2013: US$1.4 million).

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

Dialog Semiconductor's Underlying adjustments for 2014

US$000	Option Expense and National Insurance	PPA BV	Convertible Bond	Licence agreement	2014 Acquisition and integration costs	Merger costs	PPA iWatt	One-off non-cash deferred tax credit	TOTAL
Revenues	-	-	-	-	-	-	-	-	-
Cost of sales	(848)	(103)	-	-	-	-	(7,646)	-	(8,597)
Selling and marketing expenses	(3,337)	(400)	-	-	-	-	(7,602)	-	(11,339)
General and administrative expenses	(10,363)	-	-	-	(3,165)	(1,268)	-	-	(14,796)
Research and development expenses	(10,504)	(1,066)	-	-	-	-	-	-	(11,570)
Other operating income	-	-	-	-	-	-	1,939	-	1,939
Operating profit (loss)	**(25,052)**	**(1,569)**	**-**	**-**	**(3,165)**	**(1,268)**	**(13,309)**	**-**	**(44,363)**
Interest expense and other financial expense	-	-	(8,269)	(1,000)	-	-	-	-	(9,269)
Result before income taxes	**(25,052)**	**(1,569)**	**(8,269)**	**(1,000)**	**(3,165)**	**(1,268)**	**(13,309)**	**-**	**(53,632)**
Income tax expense	-	392	-	-	-	-	1,391	17,759	19,542
Net profit	**(25,052)**	**(1,177)**	**(8,269)**	**(1,000)**	**(3,165)**	**(1,268)**	**(11,918)**	**17,759**	**(34,090)**

(*) Underlying results (net of tax) in 2014 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$25.1 million, excluding US$1.2 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US$8.3 million non-cash effective interest expense in connection with the convertible bond, excluding US$ 1.0 million non-cash effective interest expense related to a licensing agreement, US$1.2 million of expenses associated with the merger discussions with ams AG, excluding US$3.1 million acquisition and integration expenses in connection with the purchase of iWatt, excluding US$11.9 million of amortisation and depreciation expenses associated with the acquisition of iWatt and a US$17.8 million one-off tax impact of an intra-group reorganization of certain Intellectual Property.

Dialog Semiconductor's Underlying adjustments for 2013

	Option Expense and National Insurance	PPA BV	Convertible Bond	2013 Licence agreement	Acquisition and integration costs	PPA iWatt	BenQ	TOTAL
Revenue	-	-	-	-	-	(7,073)	851	(6,222)
Cost of sales	(686)	(806)	-	-	(15)	(7,985)	-	(9,492)
Selling and marketing expenses	(1,892)	(3,197)	-	-	(404)	(4,750)	-	(10,243)
General and administrative expenses	(3,098)	(2)	-	-	(6,342)	-	-	(9,442)
Research and development expenses	(3,685)	(1,063)	-	-	(182)	-	-	(4,930)
Other operating income	-	-	-	-	-	3,249	145	3,394
Operating profit	**(9,361)**	**(5,068)**	**-**	**-**	**(6,943)**	**(16,559)**	**996**	**(36,935)**
Interest expense and other financial expense	-	-	(7,801)	(1,134)	-	-	-	(8,935)
Result before income taxes	**(9,361)**	**(5,068)**	**(7,801)**	**(1,134)**	**(6,943)**	**(16,559)**	**996**	**(45,870)**
Income taxes	1,582	1,267	-	322	638	6,933	(283)	10,459
Net income	**(7,779)**	**(3,801)**	**(7,801)**	**(812)**	**(6,305)**	**(9,626)**	**713**	**(35,410)**

(*) Underlying results (net of tax) in 2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$7.8 million, excluding US$3.8 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US$7.8 million non-cash effective interest expense in connection with the convertible bond, excluding US$ 0.8 million non-cash effective interest expense related to a licensing agreement entered into in Q3-2012, excluding US$6.3 million acquisition and integration expenses in connection with the purchase of iWatt and US$10.3 million of amortisation and depreciation expenses associated with the acquisition of iWatt, deferred sales and related cost of sales that were reversed in connection with the iWatt business integration of US$ 2.5 million were brought back. Furthermore the gain US$ of 3.2 million from the release of an earn-out provision in relation to the iWatt acquisition was reversed and a recorded income related to a payment the company received in connection with the insolvency of BenQ of US$ 0.7 million was also taken out.

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

US$000		2014			2013 *)	
	IFRS	Adjustments	Underlying [1]	IFRS	Adjustments	Underlying [2]
Revenues	**92,120**	**-**	**92,120**	91,616	-	91,616
Operating profit (loss)	**(2,163)**	**1,841**	**(322)**	(2,121)	5,182	3,061

1) Underlying results in 2014 are based on IFRS consolidated income statement, adjusted to exclude US$1.6 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and charges for National Insurance related to share-based compensation in the amount of US$0.2 million.

2) Underlying results in 2013 are based on IFRS consolidated income statement, adjusted to exclude US$5.1 million of amortisation of intangibles associated with the acquisition ofDialog B.V. and charges for National Insurance related to share-based compensation in the amount of US$0.1 million.

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

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

US$000		2014			2013 *)	
	IFRS	**Adjustments**	**Underlying** [1)]	IFRS	Adjustments	Underlying [2)]
Revenues	**80,367**	**-**	**80,367**	26,768	7,073	33,841
Operating profit (loss)	**(21,135)**	**18,836**	**(2,299)**	(22,533)	21,630	(903)

1) Underlying results in 2014 are based on IFRS consolidated income statement, adjusted to exclude expenses of US$13.5 million for amortisation of intangibles associated with the acquisition of iWatt group, US$1.7 million higher cost of sales related to fair value measurement of inventories and charges for National Insurance related to share-based compensation in the amount of US$0.4 million As one-time expenses-related acquisition and integration costs in amount of US$3.2million are also excluded from operating result.

2) Underlying results in 2013 are based on IFRS consolidated income statement, adjusted to include deferred revenue in the amount of US$7.1 million. Expenses of US$8.9 million for amortisation of intangibles associated with the acquisition of iWatt group, US$7.0 million higher cost of sales related to fair value measurement of inventories and cost of US$3.2 million related to adjustment of deferred revenues are excluded from operating result. As one-time expenses-related acquisition and integration costs in amount of US$1.8 million are also excluded from operating result.

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

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