

## Press release – 6 November 2019

### Dialog Semiconductor reports results for the third quarter ended 27 September 2019

#### Q3 2019 Revenue up 7% year-on-year to US\$409 million slightly above the high-end of the guidance range, earnings acceleration and strong cash flow generation.

London, UK, 6 November 2019 – Dialog Semiconductor Plc (XETRA: DLG) today reports unaudited results for the third quarter ended 27 September 2019.

US\$ millions	IFRS basis (unaudited)		Underlying <sup>1</sup> (unaudited)		
	Q3 2019	Q3 2018	Q3 2019	Q3 2018	Change
Revenue	<b>408.8</b>	383.6	<b>408.8</b>	383.6	+7%
Gross margin	<b>49.2%</b>	48.5%	<b>49.5%</b>	48.6%	+90bps
Operating expenses <sup>2</sup>	<b>122.5</b>	125.1	<b>103.7</b>	104.4	-1%
Operating profit	<b>83.9</b>	63.5	<b>103.8</b>	83.7	+24%
Operating margin	<b>20.5%</b>	16.6%	<b>25.4%</b>	21.8%	+360bps
Diluted EPS	<b>0.91</b>	0.60	<b>1.13</b>	0.85	+33%
Free cash flow			<b>86.8</b>	79.1	+10%

1 Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see page 5).

2 Comprising SG&A and R&D expenses.

#### Q3 2019 Financial highlights

- Revenue of US\$409 million slightly above the high end of the guidance range and 7% above Q3 2018.
- Gross margin at 49.2% (Q3 2018: 48.5%) and underlying gross margin at 49.5% (Q3 2018: 48.6%) in line with the July guidance.
- Operating profit of US\$83.9 million, 32% higher than in Q3 2018. Underlying operating profit of US\$103.8 million, 24% above Q3 2018.
- Diluted EPS of US\$0.91 (Q3 2018: US\$0.60) and underlying diluted EPS of US\$1.13 (Q3 2018: US\$0.85).
- US\$37 million returned to shareholders in Q3 2019 through the 2019 Buyback Programme.
- At the end of Q3 2019, we held cash and cash equivalents of US\$1,171 million.
- On 7 October 2019, the Company announced it had signed a definitive agreement to acquire Creative Chips GmbH, a supplier of Integrated Circuits (ICs) to the Industrial Internet of Things (IIoT) market. The transaction was closed on 31 October 2019.

#### Q3 2019 Operational highlights

- Continued design-in momentum at our largest customer for the development and supply of a number of mixed-signal integrated circuits. Revenue from recently awarded high-volume contracts is expected to begin with new smartphones for the second half of 2021.
- Revenue from our largest customer in Custom Mixed Signal not covered by the license agreement doubled year-on-year.
- Extended product portfolio with the launch of new configurable, high-frequency sub-PMICs, powering advanced multi-core processors in a wide range of applications.
- Launched the first automotive Configurable Mixed-Signal IC (CMIC), the SLG46620-A, providing lower project costs, shorter time to market and unified development flows.
- Q3 2019 revenue from our AC/DC charging products was up 8% year-on-year, led by growth in rapid charge products.
- Increased our footprint in IoT with our Bluetooth® low energy (BLE) products, which delivered 51% year-on-year revenue growth.
- Samsung adopted our BLE SoC, DA14697, for seamless connectivity and enhanced battery life in its latest wearable Galaxy Fit.

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

*“We have reported another excellent quarter, delivering record Q3 revenue slightly above the high-end of the guidance range alongside increased operating profit and strong cash flow generation. This strong performance is the result of our strategic focus in high-growth segments of our target end markets coupled with operational excellence. Since the beginning of the year we have been awarded new designs for mixed-signal custom products, in a wide range of applications, including power management, charging, display and backlighting LED drivers which we estimate will generate a lifetime revenue of approximately one billion dollars.”*

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*“The recently announced acquisition of Creative Chips, gives us a strong foothold in the growing industrial IoT market, broadening our customer base and opening up new potential opportunities for our existing product portfolio. Our solid financial position enables us to make targeted investments to expand our product portfolio and leverage our technology into new markets. These investments support our growth strategy and help to rebalance the end-market exposure of our business, creating long-term and sustainable value for shareholders.”*

### Outlook

In Q4 2019, we anticipate revenue to be in the range of US\$350 million to US\$390 million. At the mid-point, this will result in full year 2019 IFRS revenue of US\$1,556 million and underlying revenue of US\$1,410 million.

FY 2019 underlying gross margin is expected to be broadly in line with that achieved in 9M 2019.

### Q3 2019 Financial overview

Revenue was 7% above Q3 2018 at US\$409 million driven by year-on-year growth in all business segments. License revenue of US\$6 million related to the Apple agreement was reported in Corporate.

Gross margin was 49.2%, 70bps above Q3 2018 due to the positive contribution from the license revenue (Q3 2019: US\$6 million; Q3 2018: nil).

Q3 2019 underlying<sup>1</sup> gross margin was 49.5%, 90bps above Q3 2018, due to the positive contribution from the ongoing license revenue as well as favourable product mix and lower manufacturing costs.

Operating expenses (OPEX) comprising SG&A and R&D expenses, in Q3 2019 were 2% below Q3 2018 representing 30.0% of revenue (Q3 2018: 32.6%). Underlying OPEX was down 1% year-on-year at 25.4% of revenue (Q3 2018: 27.2%) due to lower R&D expenses offsetting the acquisition of FCI.

R&D expenses in Q3 2019 were 4% below Q3 2018 representing 19.3% of revenue (Q3 2018: 21.4%). Underlying R&D expenses were down 4% year-on-year representing 17.6% of revenue (Q3 2018: 19.5%). The decrease in R&D expenses was mainly due to the transfer of over 300 employees to Apple on 8 April 2019.

SG&A expenses in Q3 2019 were up 2% from Q3 2018, representing 10.7% of revenue (Q3 2018: 11.2%). Underlying SG&A in Q3 2019 was 6% above Q3 2018 representing 7.7% of revenue (Q3 2018: 7.7%). The increase in SG&A expenses was mainly due to the acquisition of FCI.

Other operating income in Q3 2019 was US\$5.2 million (Q3 2018: US\$2.6 million), which comprised income from engineering contracts.

Underlying other operating income in Q3 2019 was also US\$5.2 million, significantly above Q3 2018 (Q3 2018: US\$1.5 million) due to higher income from engineering development work contracts for specific customers.

Operating profit in Q3 2019 was US\$83.9 million, 32% above Q3 2018, mainly reflecting the higher revenue and gross margin, together with lower operating expenses. Underlying<sup>1</sup> operating profit was US\$103.8 million, 24% above Q3 2018.

The effective tax rate in Q3 2019 was 21.3% (Q3 2018: 24.9%). The relatively high effective tax rate for Q3 2018 was principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation, business combinations and certain of our strategic investments. The underlying effective tax rate in Q3 2019 was 20.5%, down 50bps on the Q3 2018 underlying effective tax rate of 21.0%.

Net income was 47% above Q3 2018 at US\$68.2 million (Q3 2018: US\$46.4 million). This increase was mostly due to the increase in operating profit.

Underlying net income was up 28% year-on-year. The year-on-year increase in underlying net income was mainly driven by the underlying operating profit movement.

Diluted EPS in Q3 2019 was up 52% year-on-year at US\$0.91 (Q3 2018: US\$0.60). Underlying diluted EPS in Q3 2019 was up 33% year-on-year to US\$1.13 (Q3 2018: US\$0.85).

At the end of Q3 2019, our total inventory level was US\$125 million (or ~54 days), which is 20% below the previous quarter, representing a 29-day decrease in our days of inventory from Q2 2019. During Q4 2019, we expect inventory value to be broadly in line with Q3 2019 and days of inventory to be slightly above Q3 2019.

On 19 September 2019, the first interim settlement of the first tranche of the 2019 Buyback Programme took place. The Company purchased 800,000 ordinary shares for €33.1 million at an initial average price of €41.40. Under this tranche the company committed to purchase shares for an amount between €125 million and €150 million and a latest maturity date of 5 December 2019. Subsequent to quarter end, on 31 October 2019, we completed the second interim settlement of this tranche, purchasing 865,000 ordinary shares for €37.1 million at an initial average price of €42.87.

At the end of Q3 2019, we held cash and cash equivalents of US\$1,171 million. Cash inflow from operating activities in Q3 2019 was US\$97.3 million, up 12% over Q3 2018 (Q3 2018: US\$86.9 million) mainly as a result of higher cash generated from operations partially offset by higher income tax paid. Free cash flow in Q3 2019 was US\$86.8 million, 10% above Q3 2018 (Q3 2018: US\$79.1 million) mostly due to the higher cash flow from operating activities. Free cash flow margin (as a percentage of revenue) in Q3 2019 was above Q3 2018 at 21.2% (Q3 2018: 20.6%).

In support of our growth strategy and the expansion of our product portfolio, on 7 October 2019, the Company announced it had signed a definitive agreement to acquire Creative Chips GmbH, a Germany based fabless semiconductor company supplying a broad portfolio of industrial Ethernet and other mixed-signal products to top-tier, blue-chip manufacturers of industrial automation systems. Creative Chips is expected to generate revenues of approximately US\$20 million in calendar year 2019 with revenue growth of over 25% per annum anticipated over the next few years. The transaction was completed on 31 October 2019. We purchased Creative Chips for consideration of US\$80 million on a cash and debt-free basis. Additional contingent consideration of up to US\$23 million in cash, may be payable based on future revenue targets in 2020 and 2021.

### Q3 2019 Segmental overview

Dialog is a fabless semiconductor company primarily focused on the development of highly integrated mixed-signal products for consumer electronics and other high-growth markets. Our highly skilled engineers, partnership approach, operational flexibility and the quality of our products are sources of competitive advantage. Our primary end markets are consumer markets such as the Internet of Things (IoT) and Mobile. The increasing adoption of standard technologies, such as Bluetooth® low energy or LED lighting, and the expansion of high-performance processors into infotainment systems, has contributed to the expansion of our presence in the automotive segment. In line with our strategic goals, we intend to continue the expansion of our product portfolio through a combination of organic and inorganic initiatives. Our ambition is to build a vibrant mixed-signal business, with a balanced end market exposure, on innovative low power products which enable our customers to get fast to market.

### Underlying results by segment

US\$ millions - unless stated otherwise	Revenue			Operating profit/(loss)			Operating margin	
	Q3 2019	Restated <sup>3</sup> Q3 2018	Change	Q3 2019	Restated <sup>3</sup> Q3 2018	Change	Q3 2019	Restated <sup>3</sup> Q3 2018
Custom Mixed Signal	<b>278.2</b>	274.6	+1%	<b>88.7</b>	72.0	+23%	<b>31.9%</b>	26.2%
Advanced Mixed Signal	<b>70.0</b>	66.3	+6%	<b>6.2</b>	9.1	-32%	<b>8.8%</b>	13.6%
Connectivity & Audio	<b>54.3</b>	42.7	+27%	<b>5.4</b>	5.6	-3%	<b>10.0%</b>	13.1%
Total Segments	<b>402.5</b>	383.6	+5%	<b>100.3</b>	86.7	+16%	<b>24.9%</b>	22.6%
Corporate and other unallocated items	<b>6.3</b>	–	nm	<b>3.5</b>	(3.0)	nm	<b>55.7%</b>	nm
<b>Total Group</b>	<b>408.8</b>	383.6	+7%	<b>103.8</b>	83.7	+24%	<b>25.4%</b>	21.8%

### Custom Mixed Signal (CMS)

In Q3 2019 revenue was US\$278 million, up 1% over Q3 2018 due to higher volumes and content per device across multiple platforms, partially offset by lower volumes from smartphone main PMICs. Revenue in CMS from our largest customer's products not covered by the licensing agreement doubled year-on-year to US\$92 million (Q3 2018: US\$46 million). Underlying operating profit for CMS increased 23% year-on-year to \$88.7 million. This improvement was mainly due to the slightly higher revenue and lower operating expenses.

We continue to receive requests for quotations for new custom designs for 2021 and beyond in diverse areas of power, charging, display and audio technologies.

Dialog has recently been awarded high-volume new contracts from our largest customer for the development and supply of a range of mixed-signal integrated circuits. Revenue from recently awarded high-volume contracts is expected to begin with new smartphones in the second half of 2021.

During the quarter we expanded our power management product portfolio with the introduction of four new sub-PMICs that offer best-in-class transient response and in-circuit digital programmability, in a smaller form factor than current market solutions. The devices are ideal for ARM® Cortex™ based multi-core application processors and high-performance SoCs, FPGAs and GPUs. The four new sub-PMICs drive higher efficiency without sacrificing functionality, simplifying complex system sequencing with digital programmability and configurability, for a seamless interface to the system microcontroller depending on the system requirements.

In parallel, we continue to leverage our power management technology into new markets and geographies through the expansion of our platform reference designs. The collaborations with Renesas and Xilinx strengthen Dialog's presence in the IVI<sup>4</sup> and ADAS<sup>4</sup> applications automotive segment. There are currently over 45 automotive customer engagements in place most of which are expected to go into production over the next three years.

<sup>3</sup> Restated to reflect the segment reorganisation and measurement changes.

<sup>4</sup> Intelligent In-Vehicle Infotainment and Advanced Driver-Assistance Systems.

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### Advanced Mixed Signal (AMS)

During Q3 2019, AMS revenue was 6% above Q3 2018. Revenue from AC/DC charging products was up 17% sequentially and 8% above Q3 2018, led by growth in rapid charge. Revenue from LED drivers ICs and CMICs was also up year-on-year. During the quarter we continued to invest in our AMS business, resulting in lower underlying operating profit year-on-year.

Dialog has successfully maintained a commanding market share in the rapid charge market through a combination of differentiated technology, speed of execution and wide support of rapid charge protocols.

Our broad product portfolio, which includes LED backlighting and Solid-State Lighting (SSL) LED driver ICs, and proprietary digital control technology for power conversion, enable high quality solutions at a low cost. LED backlighting performed strongly during Q3 2019, contributing to the expansion of our customer base in the high-end TV market, as well as targeting the mobile and automotive display markets over the medium term.

With over 4.0 billion CMICs having been shipped since launch, Dialog's configurable technology, including the highly successful GreenPAK™ product family, has become established as the leading choice in the market. Low power consumption and in-system programming enables customers to rapidly customise and integrate multiple analog, logic and discrete components into a single chip. In Q3 2019, we launched our first automotive grade CMIC device bringing Dialog's GreenPAK™ platform to the automotive space, providing lower project costs, an accelerated time to market and unified development flows. This CMIC, along with other members of the GreenPAK family, replace dozens of components in automotive applications to optimize flexibility, footprint and a reduction of the bill of materials. During the quarter, our CMIC incorporating Dialog's industry-leading LDO regulator was adopted by three tier 1 mobile customers and is being evaluated by various other customers.

### Connectivity and Audio (C&A)

During Q3 2019, revenue was 27% above Q3 2018 as a result of the strong performance of Bluetooth® low energy and the new audio products, alongside the revenue contribution from the acquisition of FCI. Underlying operating profit in C&A was broadly in line with Q3 2018 at US\$5.4 million mainly due to the acquisition of FCI.

Revenue from our SmartBond™ System-on-Chip (SoC) was 51% above Q3 2018, due to the ramp of new products from customers in Korea and China. The DA1469x family, the latest addition to Dialog's SmartBond™ line, was adopted by Samsung's Galaxy Fit fitness tracker. Our most advanced SmartBond™ product enables the Galaxy Fit seamless smartphone connectivity while conserving energy to extend battery life. The Bluetooth® low energy market is estimated to grow over 20% CAGR over the 2019-2022 period<sup>5</sup>, a reflection of the continuing adoption of the technology across a wide range of applications. Our strategy remains focused on targeted verticals, like wearables, proximity tags, smart home, gaming accessories and connected health. On 4th November we launched SmartBond™ TINY, the latest addition to our Bluetooth® low energy offering. SmartBond TINY has been designed to power the next billion IoT devices, lowering the cost of adding Bluetooth® low energy functionality to a system without compromising performance or size. New audio technology performed strongly during Q3 2019, up 65% over Q3 2018. The C&A Segment is targeting the rapidly-growing consumer wireless headset market with our SmartBeat™ wireless Audio IC. This technology enables a new immersive headset experience and supports both wired USB 3.0 Type-C™ and Bluetooth® based consumer headsets. Our product portfolio targeting the headset market also includes a family of highly-integrated audio codec chips that deliver best-in-class active noise cancellation (ANC), providing optimal audio performance in any environment.

<sup>5</sup> Source: IHS Technology October 2019 and Company estimates.

## Non-IFRS measures

Underlying measures of performance and free cash flow quoted in this press release are non-IFRS measures. Our use of underlying measures and reconciliations of the underlying measures to the nearest equivalent IFRS measures are presented in Section 3 of the Q3 2019 Interim report. For ease of reference, we present below reconciliations for the non-IFRS measures quoted in this press release:

### Q3 2019

US\$000	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
<b>Revenue</b>	408,803	–	–	–	–	–	408,803
<b>Gross profit</b>	201,158	696	483	–	–	–	202,337
<b>SG&amp;A expenses</b>	(43,611)	6,141	5,343	306	235	–	(31,586)
<b>R&amp;D expenses</b>	(78,846)	3,881	2,877	–	–	–	(72,088)
<b>Other operating income</b>	5,156	–	–	–	–	–	5,156
<b>Operating profit</b>	83,857	10,718	8,703	306	235	–	103,819
<b>Net finance income</b>	2,778	–	–	–	–	(121)	2,657
<b>Profit before income taxes</b>	86,635	10,718	8,703	306	235	(121)	106,476
<b>Income tax expense</b>	(18,439)	(2,204)	(1,127)	(58)	(3)	24	(21,807)
<b>Net income</b>	68,196	8,514	7,576	248	232	(97)	84,669

### Q3 2018

US\$000	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
Revenue	383,574	–	–	–	–	–	383,574
Gross profit	185,975	284	335	–	–	–	186,594
SG&A expenses	(42,926)	4,734	3,673	940	3,880	–	(29,699)
R&D expenses	(82,180)	5,187	2,272	–	–	–	(74,721)
Other operating income	2,619	–	(1,113)	–	–	–	1,506
Operating profit	63,488	10,205	5,167	940	3,880	–	83,680
Net finance (expense)/income	(1,196)	–	459	–	–	3,199	2,462
Profit before income taxes	62,292	10,205	5,626	940	3,880	3,199	86,142
Income tax expense	(15,504)	(1,829)	(761)	(197)	(571)	(607)	(19,469)
Profit after income taxes	46,788	8,376	4,865	743	3,309	2,592	66,673
Share of loss of associate	(367)	–	–	–	–	–	(367)
<b>Net income</b>	46,421	8,376	4,865	743	3,309	2,592	66,306

### Accounting for business combinations

US\$000	Q3 2019	Q3 2018
Acquisition-related costs	1,021	–
Amortisation of acquired intangible assets	6,964	5,658
Consumption of the fair value uplift of acquired inventory	483	335
Consideration accounted for as compensation expense	285	342
Forfeiture of deferred consideration	(50)	(14)
Remeasurement of contingent consideration	–	(1,154)
<b>Increase in operating profit</b>	<b>8,703</b>	5,167
Unwinding of discount on contingent consideration	–	459
<b>Increase in profit before income taxes</b>	<b>8,703</b>	5,626
Income tax credit	(1,127)	(761)
<b>Increase in net income</b>	<b>7,576</b>	4,865

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### EBITDA

US\$000	Q3 2019	Q3 2018
Net income	68,196	46,421
Net finance (income)/expense	(2,778)	1,196
Income tax expense	18,439	15,504
Depreciation expense	10,189	8,138
Amortisation expense	13,774	12,538
<b>EBITDA</b>	<b>107,820</b>	<b>83,797</b>
Share-based compensation and related payroll taxes	10,718	10,205
Acquisition-related costs	1,021	–
Consumption of the fair value uplift of acquired inventory	483	335
Consideration accounted for as compensation expense	285	342
Forfeiture of deferred consideration	(50)	(14)
Remeasurement of contingent consideration	–	(1,154)
Corporate transaction costs	235	3,880
Integration costs	306	940
Share of loss of associate	–	367
<b>Underlying EBITDA</b>	<b>120,818</b>	<b>98,698</b>

### Free cash flow

US\$000	Q3 2019	Q3 2018
Cash flow from operating activities	97,316	86,896
Purchase of property, plant and equipment	(3,157)	(3,462)
Purchase of intangible assets	(1,770)	(653)
Payments for capitalised development costs	(2,618)	(3,731)
Capital element of lease payments	(2,981)	–
<b>Free cash flow</b>	<b>86,790</b>	<b>79,050</b>

Dialog Semiconductor invites you today at 07.30 am (London) / 08.30 am (Frankfurt) to take part in a live conference call and to listen to management's discussion of the Company's Q3 2019 performance, as well as guidance for Q4 2019. Participants will need to register using the link below. A full list of dial in numbers will also be available. To register for the webcast and receive dial in numbers, the conference PIN and a unique User ID please click on the link below:

<https://www.incommglobalevents.com/registration/client/2298/dialog-semiconductor-2019-q3-results/>

In parallel to the call, the presentation will be available at:

<https://webcast.openbriefing.com/dialog-Q3results/>

The presentation will also be available under the investor relations section of the Company's website at:

<https://www.dialog-semiconductor.com/investor-relations/results-center>

A replay will be posted on the Dialog website four hours after the conclusion of the presentation and will be available at:

<https://www.dialog-semiconductor.com/investor-relations/results-center>

The full release including the Company's unaudited consolidated financial statements for the quarter ended 27 September 2019 is available under the investor relations section of the Company's website at:

<https://www.dialog-semiconductor.com/investor-relations/results-center>

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### About Dialog Semiconductor

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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 employees, the 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® Low Energy, 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. It currently has approximately 2,000 employees worldwide. In 2018, it had approximately US\$ 1.44 billion in revenue. The company is listed on the Frankfurt (XETRA: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax and MDAX indices.

### Forward Looking Statements

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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 "Managing risk and uncertainty" 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.