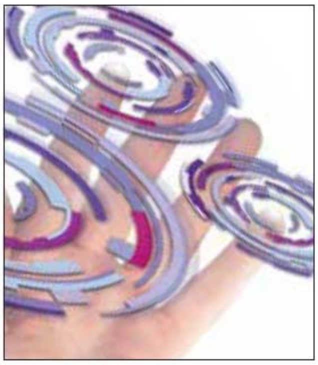
dialog SEMICONDUCTOR

Interim Report | 28 March 2014

The power to be...

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

Key products

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Press Release – 7 May 2014

DIALOG SEMICONDUCTOR REPORTS FIRST QUARTER RESULTS ENDED 28 MARCH 2014

Company delivers first quarter year on year revenue growth of 23% and increasing profitability

London, UK, 7 May 2014 - Dialog Semiconductor Plc (FWB: DLG), a provider of highly integrated power management, audio, AC/DC, solid state lighting and short range wireless technologies, today reports results for its first quarter ending 28 March 2014.

Q1 2014 financial highlights

- Revenue up 23% over Q1 2013 at $221 million
- IFRS gross margin increased year on year to 42.1%
- Underlying (*) EBITDA (**) at $41.3 million or 18.7% of revenue
- IFRS operating profit (EBIT) up 39% over Q1 2013 to $23.0 million or 10.4% of revenue
- Underlying (*) basic and diluted EPS up 67% and 62% respectively over Q1 2013. IFRS basic and diluted EPS up 40% and 33% respectively over Q1 2013
- Record $128.9 million of cash generated from operations

Q1 2014 operational highlights

- Design win momentum continues for Power Management smartphone and tablet designs
- Established early leadership position in the emerging smartphone fast charging segment
- Increased our market share within the high growth Solid State Lighting LED market
- Production start and new design wins for our Bluetooth Smart SoC across multiple verticals
- Extended our offering into emerging wearable devices with the launch of a new audio codec

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

"Dialog had an excellent start to 2014, delivering strong year on year revenue growth, increased profitability and record cash generation. During the quarter we maintained momentum in expanding our product portfolio, with new innovative product launches as well as early success for our Bluetooth Smart SoC."

"The progress we have made in the first quarter underpins our confidence in Dialog's ability to continue to enhance its strong market proposition and grow successfully throughout 2014."

Outlook

Given our current visibility, we continue to anticipate that 2014 will be another year of good growth. As in previous years, revenue performance will be strongly weighted towards the second half of the year driven by a solid ramp of high volume new products.

In Q2 2014, we expect revenue for the quarter to reflect the lower seasonal pattern and to be in the range of $195 to $210 million. Gross margin in Q2 2014 is expected to improve year on year and to be broadly in line with Q1 2014. Gross margin for the full year 2014 is expected to improve year on year.

Financial overview

IFRS US$ million	First Quarter 2014	2013	Var.
Revenue	220.9	180.0	23%
Gross Margin	42.1%	38.1%	+400bps
R&D %	20.7%	20.1%	+60bps
SG&A %	11.5%	8.7%	+280bps
EBIT	23.0	16.6	39%
EBIT %	10.4%	9.2%	+120bps
Net income	14.1	9.9	43%
Basic EPS $	0.21	0.15	40%
Diluted EPS $	0.20	0.15	33%
Operating cash flow	128.9	20.4	531%

Underlying US$ million	First Quarter 2014	2013	Var.
Gross Margin	43.3%	38.2%	+510bps
EBITDA	41.3	27.1	52%
EBITDA %	18.7%	15.1%	+360bps
EBIT	32.2	18.9	70%
EBIT %	14.6%	10.5%	+410bps
Basic EPS $	0.35	0.21	67%
Diluted EPS $	0.34	0.21	62%

Revenue in Q1 2014 was up 23% at $221 million with strong revenue performance in Mobile Systems, Power Conversion and Automotive and Industrial. Mobile Systems segment revenue increased 16% over Q1 2013.

Q1 2014 IFRS gross margin was significantly above Q1 2013 and in line with Q4 2013 at 42.1%. The higher allocation per unit of the fixed component of Cost of Goods Sold was compensated by:

- Continuing realisation of the benefits of manufacturing cost optimisation
- Positive product mix contribution from the latest generation of products in Mobile Systems and the Power Conversion business group.

We continue to expect a year on year gross margin improvement for the full year 2014.

In Q1 2014 underlying net OPEX as a percentage of revenue was at 28.7%, 100 bps above Q1 2013 including the consolidation of Power Conversion (iWatt Inc.) into the Group. Excluding Power Conversion, underlying OPEX % for the traditional Dialog business was in line with Q1 2013.

Underlying R&D investment in Q1 2014 stood at 19.9% of revenue, 30bps above Q1 2013 and including the consolidation of Power Conversion (iWatt Inc.) into the Group. This is in line with the company's strategy of continuing innovation and diversification of its product portfolio.

Underlying SG&A in Q1 2014 stood at 9.4% of revenue, 130bps above Q1 2013 primarily as a result of the consolidation of Power Conversion (iWatt Inc.) into the Group.

In Q1 2014 we achieved IFRS and underlying EBIT of $23.0 million and $32.2 million respectively, 39% and 70% over Q1 2013. Underlying EBIT margin in the quarter was 14.6%. The Q1 2014 underlying EBIT increase of 70% was primarily driven by good performance in the Mobile Systems segment.

In total, a net tax charge of $5.6 million was recorded in Q1 2014. This represents an effective tax rate of 28.5% (Q1 2013: 30.0%). The decrease in our group effective tax rate is driven by the on-going exercise to align our Intellectual Property with the commercial structure of the group. This should allow Dialog to utilise as yet unrecognised UK loss carry forwards and to benefit from the favourable UK Tax regime towards R&D. We believe this gradual decrease is sustainable and will continue to drive further reductions in our effective tax rate in the years to come.

In Q1 2014, underlying net income and underlying EPS improved year on year. Underlying Diluted EPS in Q1 2014 was 62% higher than in the same quarter of 2013.

At the end of Q1 2014, our total inventory level was $88 million (or ~62 days), a decrease of $30 million over the prior quarter. As previously indicated, this represents a 10 day increase in our days of inventory. We are managing our inventory levels tightly and we feel this level is appropriate in order to service our current customer backlog. During Q2 2014 we expect inventory value and inventory days to increase from Q1 2014 in anticipation of a number of high volume product launches during the second half of the year.

At the end of Q1 2014, we had cash and cash equivalents balance of $286 million which was after $15 million early debt repayment. In the first quarter alone we generated $129 million of operating cash and a record $111 million of free cash flow (***). At the end of Q1 2014, the balance of our Term Loan (put in place to acquire iWatt) was $90 million. We intend to do further early debt repayments during the course of Q2 2014.

(*) Underlying results (net of tax) in Q1-2014 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$3.8 million, excluding US$0.6 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, excluding US$0.3 million acquisition and integration expenses in connection with the purchase of iWatt and excluding US$2.7 million of amortisation and depreciation expenses associated with the acquisition of iWatt.

(*) Underlying results (net of tax) in Q1-2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of $1.1 million, excluding $0.9 million of amortisation of intangibles associated with the acquisition of Dialog B.V., excluding $1.9 million noncash-effective interest and financial expense in connection with the convertible bond and discounted purchase prices and excluding US$0.2 million non-cash effective interest expenses related to a licensing agreement entered into in Q3-2012.

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 Q1 2014 is defined as operating profit excluding depreciation for property, plant and equipment, (Q1 2014:US$5.4 million, Q1 2013:US$3.9 million), amortisation of intangible assets (Q1 2014:US$7.9 million, Q1 2013:US$5.1 million) and losses on disposals and impairment of fixed assets (Q1 2014:US$0.1 million, Q1 2013:US$0.3 million).

(***) Free Cash Flow in Q1 2014 is defined as net income of US$14.1 million plus amortisation and depreciation of US$13.2 million, plus net interest expense of US$3.6 million, plus change in working capital of US$88.9 million and minus capital expenditure of US$9.0 million.

Operational overview

In Q1 2014 we added new custom PMIC and AC/DC power conversion design-wins across smartphone, tablet and other new platforms at our largest customers.

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

The transition to faster smartphone charging is gaining momentum. In the first quarter our Power Conversion Business Group introduced innovative new products and began volume shipments in this segment, establishing an early leadership position:

- Dialog launched a Qualcomm® Quick Charge 2.0-compatible AC/DC adapter solution
- We unveiled the world's first rapid charge AC/DC controller compatible with MediaTek Pump Express™

Within the high growth Solid State Lighting LED market, we steadily increase our market share through the addition of new high volume customers and with the expansion of our product portfolio launching two new innovative products in the quarter.

Bluetooth® Smart connectivity is being rapidly adopted across multiple vertical segments, including wireless charging, wearables, health and fitness, human interface devices – including computer peripherals and remote controls – and within the smart home. Dialog SmartBond™ product started volume shipments in the first quarter, and we continued to accelerate our design win conversion rate across all these segments. Dialog's SmartBond™ product leads the industry in terms of lowest power consumption and smallest form factor.

Addressing the emerging wearable segment, during the quarter we launched our latest audio product in a line of CODECs (DA7212) with exceptionally low always-on power consumption which can extend the battery life of new "wearables" such as smart watches and connected fitness devices.

* * * * *

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 Q1 2014 performance, as well as guidance for Q2 2014. To access the call please use the following dial-in numbers: Germany: **0800 101 4960**, UK: **0800 694 0257**, US: **1866 966 9439**, ROW: **+44 (0)1452 555 566**, with no access code required. An instant replay facility will be available for 30 days after the call and can be accessed at **+44 (0)1452 550 000** with access code **#31080031**. An audio replay of the conference call will also be posted soon thereafter on the Company's website at:

http://www.dialog-semiconductor.com/investor-relations

Full release including the Company's consolidated income statement, consolidated balance sheet, consolidated statements of cash flows and selected notes for the period ending 28 March 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 creates highly integrated, mixed-signal integrated circuits (ICs), optimised for personal portable, low energy short-range wireless, LED solid state lighting and automotive applications. The company provides flexible and dynamic support, world-class innovation and the assurance of dealing with an established business partner.

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

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

Dialog Semiconductor Plc is headquartered in London with a global sales, R&D and marketing organisation. In 2013, it had approximately $910 million in revenue and was one of the fastest growing European public semiconductor companies. It currently has approximately 1,100 employees worldwide. The company is listed on the Frankfurt (FWB: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index. It also has convertible bonds listed on the Euro MTF Market on the Luxemburg Stock Exchange (ISIN XS0757015606).

Forward Looking Statements

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

Financial Review

The following table details the historical consolidated statements of the operations of Dialog for the three months ended 28 March 2014 and 29 March 2013:

	Three months ended 28 March 2014		Three months ended 29 March 2013		Change
	US$000	% of revenues	US$000	% of revenues	%
Revenues					
Mobile Systems	**174,006**	**78.8**	150,127	83.4	15.9
Automotive / Industrial	**10,390**	**4.7**	9,206	5.1	12.9
Connectivity	**17,952**	**8.1**	20,621	11.5	(12.9)
Power Conversion	**18,504**	**8.4**	–	0.0	-
Revenues	**220,852**	**100.0**	179,954	100.0	22.7
Cost of sales	**(127,880)**	**(57.9)**	(111,357)	(61.9)	14.8
Gross profit	**92,972**	**42.1**	68,597	38.1	35.5
Selling and marketing expenses	**(14,016)**	**(6.3)**	(8,534)	(4.8)	64.2
General and administrative expenses	**(11,528)**	**(5.2)**	(7,245)	(4.0)	59.1
Research and development expenses	**(45,749)**	**(20.7)**	(36,258)	(20.1)	26.2
Other operating income	**1,301**	**0.6**	–	0.0	-
Operating profit	**22,980**	**10.4**	16,560	9.2	38.8
Interest income and other financial income	**42**	**0.0**	171	0.1	(75.4)
Interest expense and other financial expense	**(3,625)**	**(1.6)**	(2,829)	(1.6)	28.1
Foreign currency exchange gains and losses, net	**337**	**0.2**	235	0.1	43.4
Result before income taxes	**19,734**	**8.9**	14,137	7.9	39.6
Income tax expense	**(5,624)**	**(2.5)**	(4,241)	(2.4)	32.6
Net profit	**14,110**	**6.4**	9,896	5.5	42.6

Results of Operations

Segment Reporting

Revenues in the **Mobile Systems** Segment were US$174.0 million for the three months ended 28 March 2014 (Q1-2013: US$150.1 million) comprising 78.8% of our total revenues (Q1-2013: 83.4%). The increase in this segment is again primarily driven by the success of our growing range of highly integrated and increasingly more complex power management solutions for portable devices such as smartphones and tablet PCs.

The operating profit in the Mobile Systems Segment increased from US$18.9 million for the three months ended 29 March 2013 to US$34.5 million for the three months ended 28 March 2014. This was mainly a result of higher revenues and improved product margins.

Revenues from our **Automotive / Industrial Applications segment** were US$10.4 million for the three months ended 28 March 2014 (Q1-2013: US$9.2 million) representing 4.7% of our total revenues (Q1-2013: 5.1%). The operating profit increased marginally from US$3.1 million for Q1-2013 to US$3.2 million for the three months ended 28 March 2014.

Revenues from our **Connectivity segment** were US$18.0 million or 8.1% of total revenues for Q1-2014 compared to US$20.6 million or 11.5% of total revenues for Q1-2013. For Q1-2014 the Connectivity segment contributed an operating loss of US$2.0 million, compared to an operating loss of US$0.2 million for Q1-2013. As a percentage of revenues the loss increased from 0.7% for Q1-2013 to 11.2% for Q1-2014. This negative movement is the result of the following items: Lower fix cost coverage due to lower seasonal revenues in legacy products and higher R&D-expenses to support the segment's growth strategy in Bluetooth Smart where material revenues are expected in the second half of 2014. The amortisation expenses relating to the purchase price allocation decreased from US$1.1 million for Q1-2013 to US$0.8 million for Q1-2014 after some assets were fully amortised in 2013. From an underlying (*) point of view, Connectivity operating losses were US$1.2 million in Q1 2014, compared to an operating profit of US$0.9 million in Q1 2013. See table on page 7.

The Connectivity segment's underlying financial performance for Q1-2014 and Q1-2013 is summarised below:

US$000	Three months ended 28 March 2014			Three months ended 29 March 2013		
	IFRS	Adjustments	Underlying *)	IFRS	Adjustments	Underlying *)
Revenues	**17,952**	**-**	**17,952**	20,621	-	20,621
Operating profit (loss)	**(2,010)**	**811**	**(1,199)**	(152)	1,062	910

*) Underlying results in Q1-2014 are based on the IFRS interim income, adjusted to exclude US$0.8 million (Q1-2013 US$ 1.1 million) of amortisation expenses related to intangible assets associated with the acquisition of Dialog B.V.

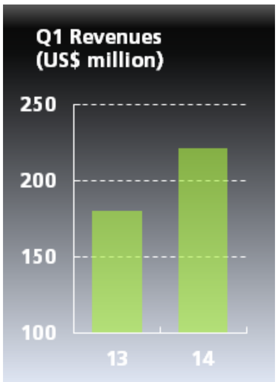
The Power Conversion segment consists of our newly acquired subsidiary iWatt Inc. which was for the first time consolidated in Q3 2013. The Revenues from our **Power Conversion** segment were US$18.5 million or 8.4% of total revenues in Q1 2014. The operating loss in this segment was US$4.8 million in Q1 2014. Underlying (*) operating results do not include depreciation and amortisation expenses related to the acquisition accounting in the amount of US$4.1 million, one-time expenses of US$0.3 million related to the acquisition and integration of iWatt and US$0.1 million for National insurance expenses related to share options. See table below.

The Power Conversion segment's underlying financial performance for Q1 2014 is summarised below:

US$000	Three months ended 28 March 2014		
	IFRS	Adjustments	Underlying *)
Revenues	**18,504**	**-**	**18,504**
Operating profit (loss)	**(4,751)**	**4,521**	**(230)**

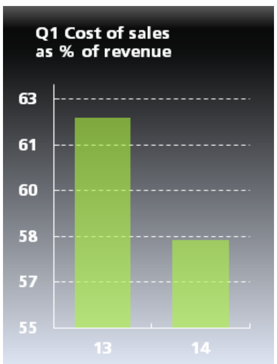
Revenues

Total IFRS revenues were US$220.9 million for the three months ended 28 March 2014 (Q1-2013: US$180.0 million). The increase of 22.7% in revenues results mainly from higher sales prices reflecting the trend to increasingly more complex solutions in our Mobile Systems Segment and the revenue contribution from our new Power Conversion segment. Excluding the contribution of the Power Conversion segment (iWatt), Q1 2014 IFRS revenues were US$ 202.3 million, an increased 12.4% over the amount of US$180.0 million achieved in Q1 2013.



Cost of sales

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs and applicable overhead, depreciation of test and other equipment and the amortization of capitalized development costs. IFRS Cost of sales increased by 14.8% from US$111.4 million for the three months ended 29 March 2013 to US$127.9 million for the three months ended 28 March 2014, resulting mainly from increased revenues compared to Q1-2013 and including the revenues from the new Power Conversion segment (iWatt) now. Additionally, cost of sales in Q1 2014 include US$2.3 million amortisation expenses (Q1 2013: nil) relating to the purchase price allocation in connection with the acquisition of iWatt in Q3-2013. As a percentage of revenues, IFRS cost of sales decreased from 61.9% to 57.9%. This decrease can largely be attributed to material cost reductions as well as the on-going collaboration with our foundry partners to gradually improve our manufacturing process and efficiency.



Underlying (*) cost of sales increased from US$111.1 million in Q1 2013 (61.8% of underlying revenues) to US$125.2 million in Q1 2014 (56.7% of underlying revenues).

Gross profit

Our IFRS gross margin increased from 38.1% of revenues for the three months ended 29 March 2013 to 42.1% of revenues for the three months ended 28 March 2014 driven by lower cost of sales as a percentage of revenues. Q1 2014 underlying (*) gross margin was 43.3% of revenues, 5.1% points higher than a year ago quarter (38.2%). The improvement of the gross margin reflects our efforts in rigorous cost management and new products with higher value contributions.

Selling and marketing expenses

Selling and marketing expenses consist primarily of salaries, travel expenses, sales commissions and advertising and other marketing costs. Also included are amortisation expenses for intangible assets such as customer relationship, key customers and order backlog coming from the purchase price allocation relating to the acquisition of iWatt Inc. in the third quarter of 2013 and SiTel B.V. in 2011. IFRS selling and marketing expenses increased from US$8.5 million for the three months ended 29 March 2013 to US$14.0 million for the three months ended 28 March 2014 (64.2% Year on Year increase). An amount of US$1.9 million of this increase relates to amortisation expenses in connection with the purchase price allocation for the acquisition of iWatt Inc. The iWatt group itself contributes US$3.0 million to the consolidated selling expenses in Q1-2014.

Mainly as a result of higher expenses from the iWatt purchase price allocation, as described, as a percentage of total revenues selling and marketing expenses increased from 4.8% of total revenues in Q1 2013 to 6.3% of total revenues in Q1-2014. Underlying (*) selling and marketing expenses were US$11.0 million (5.0% of total revenues) in Q1-2014 compared to US$7.4 million (4.1% of total revenues) in Q1-2013. As previously reported, Sales & Marketing expenses as a % of total revenues will significantly improve in the second half of 2014 given the strongly weighted nature of our revenues during that period.

General and administrative expenses

General and administrative expenses consist primarily of personnel and support costs for our finance, human resources and other management departments. IFRS General and administrative expenses were US$11.5 million for the first quarter 2014, an increase of 59.1% over the US$7.2 million recorded in Q1-2013. This increase predominantly reflects the growing business of the group and the consolidation of iWatt acquired in Q3-2013 which contributed US$1.7 million additional general and administrative expenses. General and administrative expenses in 2014 also include US$0.3 million acquisition and integration expenses related to the acquisition of iWatt. Furthermore US$0.9 million of the increase relate to movements of the closing share price affecting the UK national insurance cost associated with UK share based payment charges. In Q1-2014 the share price increased from €15.64 at 31 December 2013 to €17.58 at 28 March 2014, while in Q1-2013 the share price decreased from €13.30 at 31 December 2012 to €10.35 at 29 March 2013. As a percentage of total revenues General and administrative expenses increased from 4.0% for the three months ended 29 March 2013 to 5.2% in the three months ended 28 March 2014. Underlying (*) general and administrative expenses increased from US$7.2 in Q1-2013 (4.0% of revenues) to US$9.9 in Q1-2014 (4.5% of revenues). As previously reported, General & administrative expenses as a % of total revenues will significantly improve in the second half of 2014 given the strongly weighted nature of our revenues during that period.

Research and development expenses

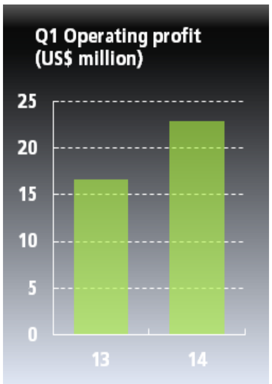
Research and development expenses consist principally of design and engineering-related costs associated with the development of new Application Specific Integrated Circuits ("ASICs") and Application Specific Standard Products ("ASSPs"). IFRS Research and development expenses were US$45.7 million for the three months ended 28 March 2014 (Q1-2013: US$36.3 million), representing a year on year increase of 26.2%. Consequently, as a percentage of total revenues research and development expenses increased from 20.1% in Q1 2013 to 20.7% in Q1 2014. This increase can largely be attributed to an increased R&D headcount which contributed US$4.7 million to support our ongoing growth strategy and the consolidation of the iWatt business which contributed US$5.1 million additional research and development expenses. During the first half of the year, R&D expenses expressed as a % of revenue will remain high due to the seasonality of our business. Following the same trend we saw in 2013 these are expected to decrease significantly in the second half of the year in line with higher revenue contribution. Research and development cost incurred during the quarter typically lead to revenues 6 to 18 months out. As a % of total revenues, underlying (*) research and development expenses increased only marginally from 19.6% in Q1 2013 to 19.9% in Q1 2014.

Other Operating Income

Other Operating Income in Q1-2014 of $1.3 million mainly relates to a payment received from an insurance claim.

Operating profit

We reported an IFRS operating profit of US$23.0 million for the first quarter 2014 (Q1-2013: US$16.6 million). This increase primarily resulted from higher revenues and an improved gross margin. Underlying (*) operating profit in Q1-2014 was US$32.2 million or 14.6% of revenues compared to US$18.9 million or 10.5% in Q1-2013. The profit improvements are driven by an increased volume of new products with a higher value proposition, rigorous cost control and leverage from increased revenues.



Interest income and other financial income

Interest income and other financial income from the Company's investments (primarily short-term deposits and securities) was US$42 thousand for the three months ended 28 March 2014 (Q1-2013: US$171 thousand. The decrease primarily resulted from cash outflows from interest bearing accounts of US$303.9 million in July 2013 in connection with the acquisition of iWatt and persisting low income on cash deposited.

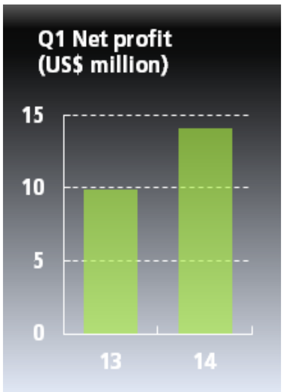
Interest expense and other financial expense

Interest expense and other financial expense consist primarily of expenses from capital leases, hire purchase agreements, the Group's factoring arrangement, the interest charges for the convertible bond and starting from the third quarter 2013, the interest charges for new loan facilities which were drawn in connection with the iWatt acquisition totalling US$115 million of which US$90 million were still outstanding at 28 March 2014. In Q1-2014 interest and other financial expenses were US$3.6 million (Q1-2013: US$2.8 million). The amount in Q1-2014 mainly included two components relating to the convertible bond: US$0.5 million relating to a one per cent coupon payable on a semi-annual basis to the bond holders and US$2.0 million representing the interest expense (non cash) in connection with the measurement of the financial liability from the bond using the effective interest method. The interest expenses related to new debt facilities were US$0.6 million.

Income tax expense

For the three months ended 28 March 2014, a net income tax charge of US$5.6 million was recorded (Q1-2013: US$4.2 million). The effective tax rate in Q1-2014 was 28.5% compared to 30.0% in Q1-2013. The effective tax rates applied in both quarters represent the expected full year effective tax rates. The decrease in our group effective tax rate is driven by the on-going exercise to align our Intellectual Property with the commercial structure of the group. This should allow Dialog to utilise as yet unrecognised UK loss carry forwards and to benefit from the favourable UK Tax regime for technology companies. We believe this gradual decrease is sustainable and will continue to drive further reductions in our effective tax rate in the years to come.

Net profit



For the reasons described above, we reported a net profit of US$14.1 million for the three months ended 28 March 2014 (Q1-2013: US$9.9 million). Underlying(*) net profit increased from US$14.0 million in Q1 2013 (7.8% of total revenues) to US$23.7 million in Q1 2014 (10.7% of total revenues).

Basic and diluted earnings per share in Q1-2014 were US$0.21 and US$0.20 respectively compared to basic and diluted earnings per share of US$0.15 in Q1-2013. Underlying(*) diluted earnings per share in Q1-2014 increased by 62% compared to Q1-2013.

Liquidity and capital resources

Cash flows

Cash generated from operating activities was US$119.3 million for the three months ended 28 March 2014 (Q1-2013 US$18.4 million). With an amount of US$45.2 million (Q1-2013 US$31.8 million) the cash inflow in the three months ended 28 March 2014 mainly resulted from the operating income (before depreciation amortisation and other non-cash effective expenses). In Q1-2014 this cash inflow was increased by cash inflows from divestments from the working capital amounting to US$83.7 million compared to cash outflows of US$11.4 in Q1-2013 million relating to investments into the working capital. The total cash generated from operations was US$128.9 million for three months ended 28 March 2014 (Q1 2013: US$20.4 million). This cash inflow was partly offset by net interests payments of US$1.0 million (Q1 2013: US$52 thousand) and income tax payments of US$8.6 million in Q1 2014 (Q1 2013: US$2.0 million).

Cash used for investing activities was US$9.0 million for the three months ended 28 March 2014 (Q1 2013: US$12.2 million). This consisted primarily of the purchase of tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment for a total of US$4.5 million (Q1 2013: US$7.9 million), the purchase of intangible assets of US$3.0 million (Q1 2013: US$2.1 million) and payments related to capitalised development costs of US$1.5 million (Q1 2013: US$0.8 million). In Q1 2013 an amount of US$1.5 million was spent for an equity investment.

Cash outflow from financing activities was US$9.9 million for Q1-2014 compared to a cash inflow of US$0.3 million for Q1-2013. The net cash outflow in Q1-2014 includes the redemption of loan facilities (see liquidity section below) with an amount of US$15.0 million. This cash outflow was offset by US$5.1 million cash inflows (Q1 2013 US$0.3 million) resulting from share option exercises in connection with the Company's employee share option program.

Liquidity

At 28 March 2014 we had cash and cash equivalents of US$286.5 million (31 December 2013: US$186.0 million). The working capital (defined as current assets minus current liabilities) was US$299.8 million (31 December 2013: US$284.4 million).

Total non-current financial liabilities as of 28 March 2014 were US$256.9 million of which US$173.9 million represents the book value of the liability from the convertible bond (31 December 2013: US$172.0 million) and US$74.0 million relate to two additional debt facilities (31 December 2013: US$84.2 million).

As of 16 July 2013, the company has a US$25.0 million revolving credit line facility (RCF) which is available until March 2017. At the end of July 2013, US$15.0 million was used from this RCF in order to finance the iWatt acquisition. US$10 million of this facility have since been redeemed (in December 2013 and US$5 million in January 2014). In addition to this RCF, the Dialog Group entered into a Base Currency term loan facility in an aggregate amount equal to US$100.0 million of which US$10 million was pre-paid in March 2014. The first annual scheduled amortisation tranche of this Term Loan will be in July 2014 for an amount of US$15 million. The current financial liabilities related to Base Currency term loan facility as of 28 March 2014 were US$15.0 million.

In addition, we have two factoring agreements which provide the Company with up to US$92.0 million of readily available cash. Accordingly, we believe the funding available from these and other sources will be sufficient to satisfy our working capital requirements in the near to medium term if needed.

Dialog Semiconductor's financial performance for Q1-2014 and Q1-2013

	Three months ended 28 March 2014			Three months ended 29 March 2013		
US$000	**IFRS**	**Adjustments**	**Underlying *)**	IFRS	Adjustments	Underlying *)
Revenues	**220,852**	**-**	**220,852**	179,954	-	179,954
Cost of sales	**(127,880)**	**2,682**	**(125,198)**	(111,357)	227	(111,130)
Gross profit	**92,972**	**2,682**	**95,654**	**68,597**	**227**	**68,824**
Selling and marketing expenses	**(14,016)**	**3,042**	**(10,974)**	(8,534)	1,118	(7,416)
General and administrative expenses	**(11,528)**	**1,653**	**(9,875)**	(7,245)	11	(7,234)
Research and development expenses	**(45,749)**	**1,857**	**(43,892)**	(36,258)	1,027	(35,231)
Other operating income	**1,301**	**-**	**1,301**		-	-
Operating profit	**22,980**	**9,234**	**32,214**	**16,560**	**2,383**	**18,943**
Interest income and other financial income	**42**	**-**	**42**	171	-	171
Interest expense and other financial expense	**(3,625)**	**2,245**	**(1,380)**	(2,829)	2,177	(652)
Foreign currency exchange gains and losses, net	**337**	**-**	**337**	235	-	235
Result before income taxes	**19,734**	**11,479**	**31,213**	**14,137**	**4,560**	**18,697**
Income tax expense	**(5,624)**	**(1,906)**	**(7,530)**	(4,241)	(469)	(4,710)
Net profit	**14,110**	**9,573**	**23,683**	**9,896**	**4,091**	**13,987**
Earnings per share (in US$)						
Basic	**0.21**	**0.14**	**0.35**	0.15	0.06	0.21
Diluted	**0.20**	**0.14**	**0.34**	0.15	0.06	0.21
EBITDA **)	**36,333**	**4,936**	**41,269**	**25,902**	**1,247**	**27,149**

*) 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 is defined as operating profit excluding depreciation for property, plant and equipment (Q1-2014: US$5.4 million, Q1-2013: US$3.9 million), amortisation for intangible assets (Q1-2014: US$7.9 million, Q1-2013: US$5.1 million) and losses on disposals and impairment of fixed assets (Q1-2014: US$0.1 million, Q1-2013: US$0.3 million).

Dialog Semiconductor's Underlying adjustments for Q1 2014

US$000	Option expenses	Accrual National Insurance	PPA BV	Convertible Bond	**2014** License agreement	Acquisition and integration costs	PPA iWatt	TOTAL
Cost of sales	(308)	(5)	(100)	-	-	-	(2,269)	(2,682)
Selling and marketing expenses	(663)	(78)	(400)	-	-	-	(1,901)	(3,042)
General and administrative expenses	(925)	(447)	-	-	-	(281)	-	(1,653)
Research and development expenses	(1,475)	(116)	(266)	-	-	-	-	(1,857)
Operating profit	**(3,371)**	**(646)**	**(766)**	**-**	**-**	**(281)**	**(4,170)**	**(9,234)**
Interest expense	-	-	-	(1,990)	(255)	-	-	(2,245)
Result before income taxes	(3,371)	(646)	(766)	(1,990)	(255)	(281)	(4,170)	(11,479)
Income tax expense	-	183	192	-	72	-	1,459	1,906
Net profit	**(3,371)**	**(463)**	**(574)**	**(1,990)**	**(183)**	**(281)**	**(2,711)**	**(9,573)**

Statement of Financial Position

	At 28 March 2014 US$000	At 31 December 2013 US$000	Change US$000	%
Assets				
Cash and cash equivalents	**286,459**	186,025	100,434	54.0
All other current assets	**143,118**	261,419	(118,301)	(45.3)
Total current assets	**429,577**	447,444	(17,867)	(4.0)
Property, plant and equipment, net	**57,364**	58,465	(1,101)	(1.9)
Goodwill	**244,878**	244,878	-	-
Intangible assets	**144,391**	148,591	(4,200)	(2.8)
Investments	**1,541**	1,531	10	0.7
All other non-current assets	**1,613**	1,608	5	0.3
Deferred tax assets	**26,813**	24,935	1,878	7.5
Total non-current assets	**476,600**	480,008	(3,408)	(0.7)
Total assets	**906,177**	927,452	(21,275)	(2.3)
Liabilities and Shareholders' equity				
Current liabilities	**129,742**	163,024	(33,282)	(20.4)
Non-current liabilities	**297,777**	307,778	(10,001)	(3.2)
Net Shareholders' equity	**478,658**	456,650	22,008	4.8
Total liabilities and Shareholders' equity	**906,177**	927,452	(21,275)	(2.3)

The balance sheet total was US$906.2 million at 28 March 2014 (31 December 2013: US$927.5 million). Cash and cash equivalents increased by US$100.4 million or 54.0% to US$286.5 million at 28 March 2014 (31 December 2013: US$186.0 million). This increase was caused by the cash inflows from operating activities which was partly offset by cash outflows for investing activities and financing activities.

Other current assets decreased from US$261.4 million at 31 December 2013 by US$118.3 million to US$143.1 million at 28 March 2014. The decrease of 45.3% is mainly driven by lower trade accounts receivable and inventories balances in comparison to 31 December 2013 which is in line with lower revenues compared to fourth quarter 2013.

Total non-current assets decreased slightly, as investments into tangible, intangible assets and investments of US$9.0 million were largely offset by depreciation and amortization charges in the amount of US$13.2 million. This development was in part offset by the increase of deferred tax assets by US$1.9 million.

Current liabilities decreased by net US$33.3 million of which US$30.0 million relate to decreased trade accounts payables which mainly is a result of lower purchases of inventory compared to fourth quarter 2013.

Non-current liabilities decreased slightly by 3.2% from US$307.8 million to US$297.8 million mainly driven by an unscheduled loan repayment.

Shareholders' equity increased to US$478.7 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 was 52.8% (49.2% at 31 December 2013).

Other Information

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

Board of Directors
Rich Beyer, Chairman; Dr Jalal Bagherli, Chief Executive Officer; Chris Burke; Mike Cannon; Aidan Hughes; John McMonigall; Gregorio Reyes; Russ Shaw; Peter Weber. At the 2014 AGM on 1 May 2014 Eamonn O'Hare was appointed to the Board of Directors as non-executive Director.

Going concern
After making enquiries, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue for the foreseeable future. At 28 March 2014 the Group holds US$286.5 million cash (31 December 2013: US$186.0 million) and has continued access to borrowing facilities of in total US$ 25 million. The Group has profitable forecasts and longer-term plans. For these reasons, the Directors have adopted the going concern basis in preparing the interim consolidated financial statements.

Risks, risk management and opportunities
The risk management, our business risks and opportunities are described in our 2013 annual report – section 2. Compared with the risks and opportunities presented here, no significant additional opportunities and risks arose for the Company in the first three months of 2014. There are currently no identifiable risks that, individually or collectively, could endanger the continued existence of the Company.

Responsibility statement

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

7 May 2014

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

Independent Review Report to Dialog Semiconductor Plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the quarterly financial report for the three months ended 28 March 2014 which comprises the Interim Consolidated Statement of Financial Position, the Interim Consolidated Income Statement, the Interim Consolidated Statement of Comprehensive Income, the Interim Consolidated Statement of Cash Flows, the Interim Consolidated Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the quarterly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of interim financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the quarterly financial report for the three months ended 28 March 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union, the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority and the German Securities Trading Act (WpHG).

Ernst & Young LLP

Reading

7 May 2014

Unaudited interim consolidated statement of financial position

As at 28 March 2014

	Notes	**At 28 March 2014 US$000**	At 31 December 2013 US$000
Assets			
Cash and cash equivalents		**286,459**	186,025
Trade accounts receivable and other receivable		**43,105**	127,336
Inventories	5	**88,314**	117,541
Income tax receivables		**72**	72
Other financial assets		**1,472**	3,994
Other current assets		**10,155**	12,476
Total current assets		**429,577**	447,444
Property, plant and equipment	6	**57,364**	58,465
Goodwill		**244,878**	244,878
Other intangible assets	7	**144,391**	148,591
Investments		**1,541**	1,531
Deposits		**1,454**	1,450
Income tax receivables		**159**	158
Deferred tax assets		**26,813**	24,935
Total non-current assets		**476,600**	480,008
Total assets		**906,177**	927,452
Liabilities and Shareholders' equity			
Trade and other payables		**61,313**	91,391
Other financial liabilities		**19,275**	23,923
Provisions		**6,004**	8,000
Income taxes payable		**5,599**	5,354
Other current liabilities		**37,551**	34,356
Total current liabilities		**129,742**	163,024
Provisions		**1,851**	1,488
Other non-current financial liabilities		**256,899**	265,657
Deferred tax liabilities (non-current)		**39,027**	40,633
Total non-current liabilities		**297,777**	307,778
Ordinary shares		**13,353**	12,852
Additional paid-in capital		**260,195**	246,289
Retained earnings		**217,362**	199,881
Other reserves		**(657)**	(130)
Employee stock purchase plan shares		**(11,595)**	(2,242)
Net Shareholders´ equity		**478,658**	456,650
Total liabilities and Shareholders´ equity		**906,177**	927,452

Unaudited interim consolidated income statement

For the three months ended 28 March 2014

	Notes	**Three months ended 28 March 2014 US$000**	Three months ended 29 March 2013 US$000
Revenue	3	**220,852**	179,954
Cost of sales		**(127,880)**	(111,357)
Gross profit		**92,972**	68,597
Selling and marketing expenses		**(14,016)**	(8,534)
General and administrative expenses		**(11,528)**	(7,245)
Research and development expenses		**(45,749)**	(36,258)
Other operating income		**1,301**	–
Operating profit	3	**22,980**	16,560
Interest income		**42**	171
Interest expense		**(3,625)**	(2,829)
Foreign currency exchange gains (losses), net		**337**	235
Result before income taxes	3	**19,734**	14,137
Income tax expense		**(5,624)**	(4,241)
Net profit		**14,110**	9,896

	2014	2013
Earnings per share (in US$)		
Basic	**0.21**	0.15
Diluted	**0.20**	0.15
Weighted average number of shares (in thousands)		
Basic	**66,726**	65,417
Diluted	**69,438**	67,725

Unaudited interim consolidated statement of comprehensive income

For the three months ended 28 March 2014

	Three months ended 28 March 2014 US$000	Three months ended 29 March 2013 US$000
Net profit	**14,110**	9,896
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	**104**	(155)
Cash flow hedges	**(849)**	(4,315)
Income tax relating to components of other comprehensive income	**218**	762
Other comprehensive income (loss) for the period, net of tax	**(527)**	(3,708)
Total comprehensive income for the period	**13,583**	6,188

Unaudited interim consolidated statement of cash flows

For the three months ended 28 March 2014

	Three months ended 28 March 2014 US$000	Three months ended 29 March 2013 US$000
Cash flows from operating activities:		
Net profit	**14,110**	9,896
Adjustments to reconcile net profit to net cash used for operating activities:		
Interest income, net	**3,583**	2,658
Income tax expense	**5,624**	4,241
Impairment of inventories	**5,144**	3,846
Depreciation of property, plant and equipment	**5,393**	3,920
Amortisation of intangible assets	**7,873**	5,148
Losses on disposals of fixed assets and impairment of fixed and financial assets	**87**	274
Expense related to share-based payments	**3,371**	1,814
Changes in working capital:		
Trade accounts receivable, other receivables and factoring	**84,234**	60,936
Inventories	**24,083**	2,960
Prepaid expenses	**34**	(285)
Trade accounts payable	**(37,093)**	(71,180)
Provisions	**(1,638)**	(284)
Other assets and liabilities	**14,104**	(3,528)
Cash generated from operations	**128,909**	20,416
Interest paid	**(1,017)**	(124)
Interest received	**8**	72
Income taxes paid	**(8,611)**	(1,961)
Cash flow from operating activities	**119,289**	18,403
Cash flows from investing activities:		
Purchase of property, plant and equipment	**(4,505)**	(7,865)
Purchase of intangible assets	**(3,011)**	(2,077)
Payments for capitalised development costs	**(1,495)**	(777)
Purchase of other investments	**–**	(1,500)
Deposits received back (made)	**–**	(5)
Cash flow used for investing activities	**(9,011)**	(12,224)
Cash flows from financing activities:		
Redemption of loan	**(15,000)**	–
Sale of employee stock purchase plan shares	**5,058**	251
Cash flow from financing activities	**(9,942)**	251
Cash flow from (used for) operating, investing and financing activities	**100,336**	6,430
Net foreign exchange difference	**98**	(218)
Net increase in cash and cash equivalents	**100,434**	6,212
Cash and cash equivalents at beginning of period	**186,025**	312,435
Cash and cash equivalents at end of period	**286,459**	318,647

Unaudited interim consolidated statement of changes in equity

For the three months ended 28 March 2014

	Ordinary Shares US$000	Additional paid-in capital US$000	Retained earnings (Accumulated deficit) US$000	Other reserves Currency translation adjustment US$000	Hedges US$000	Employee stock purchase plan shares US$000	Total US$000
Balance at 31 December 2012 / 1 January 2013	**12,852**	**243,829**	**129,190**	**(1,964)**	**1,537**	**(2,853)**	**382,591**
Total comprehensive income (loss)	–	–	9,896	(595)	(3,113)	–	6,188
Sale of employee stock purchase plan shares	–	175	–	–	–	76	251
Equity settled transactions, net of tax	–	–	1,814	–	–	–	1,814
Changes in Equity total	**–**	**175**	**11,710**	**(595)**	**(3,113)**	**76**	**8,253**
Balance at 29 March 2013	**12,852**	**244,004**	**140,900**	**(2,559)**	**(1,576)**	**(2,777)**	**390,844**
Balance at 31 December 2013 / 1 January 2014	**12,852**	**246,289**	**199,881**	**(1,710)**	**1,580**	**(2,242)**	**456,650**
Total comprehensive income (loss)	–	–	14,110	81	(608)	–	13,583
Capital Increase for employee share option plan (gross proceeds)	501	9,780	–	–	–	(10,281)	-
Transaction cost of capital increase - employee share option plan	–	(4)	–	–	–	–	(4)
Sale of employee stock purchase plan shares	–	4,130	–	–	–	928	5,058
Equity settled transactions, net of tax	–	–	3,371	–	–	–	3,371
Changes in Equity total	**501**	**13,906**	**17,481**	**81**	**(608)**	**(9,353)**	**22,008**
Balance at 28 March 2014	**13,353**	**260,195**	**217,362**	**(1,629)**	**972**	**(11,595)**	**478,658**

Unaudited notes to the interim condensed consolidated financial statements

For the three months ended 28 March 2014

1. General

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

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

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

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

Dialog Semiconductor Plc is headquartered in London with a global sales, R&D and marketing organisation. In 2013, it had approximately $903 million in revenue and was one of the fastest growing European public semiconductor companies. At 31 December 2013, the Company had approximately 1,100 employees worldwide. The company is listed on the Frankfurt (FWB: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index. It also has convertible bonds listed on the Euro MTF Market on the Luxemburg Stock Exchange (ISIN XS0757015606).

2. Summary of significant accounting policies

The accompanying interim consolidated financial statements have been prepared on the basis of the recognition and measurement requirements of IFRS and its interpretation adopted by the EU. As permitted by IAS 34, Management has decided to publish a condensed version compared to the consolidated financial statements at December 31, 2013.

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

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

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

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

Please refer to note 2 to the consolidated financial statements as of December 31, 2013 for the accounting policies applied for the Company's financial reporting.

Changes in accounting policies and disclosures
The accounting policies are consistent with those of the previous financial year except for the changes resulting from the adoption of the following amended, revised and new Standards and new IFRIC interpretations during the first quarter 2014:

IFRS 14 Regulatory Deferral Accounts
The International Accounting Standards Board (IASB) issued an interim Standard, IFRS 14 Regulatory Deferral Accounts in January 2014 for the annual periods beginning on or after 1 January 2016. The aim of this interim Standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities.

2. Summary of significant accounting policies continued

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

Presentation of condensed interim financial statements

The accompanying condensed interim consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) which, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented. Operating results for the three months ended 28 March 2014 are not necessarily indicative of the results to be expected for the full year ending 31 December 2014.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and judgments include the recoverability of the long-lived assets and assets held for sale, the realisability of deferred income tax assets and inventories, and the fair value of stock-based employee compensation awards. Actual results may differ from those estimates.

3. Segment reporting

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

The Group reports on four (2013: three) 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 newly acquired iWatt business. The identification of Company components as operating segments is based in particular on the existence of business unit managers who report directly to the Board of Management of Dialog and who are responsible for the performance of the segment under their charge.

a) Operating segments

The Group's operating segments are:

Mobile Systems

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

Automotive and Industrial

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

Connectivity

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

Power conversion

The new Power conversion and LED Solid State Lighting (SSL) segment includes the operating segment of our newly acquired subsidiary iWatt Inc.

3. Segment Reporting continued

	Three months ended 28 March 2014						Three months ended 29 March 2013				
	Mobile Systems US$000	Automotive/ Industrial US$000	Connectivity US$000	Power Conversion US$000	Corporate US$000	Total US$000	Mobile Systems US$000	Automotive/ Industrial US$000	Connectivity US$000	Corporate US$000	Total US$000
Revenues	**174,006**	**10,390**	**17,952**	**18,504**	**-**	**220,852**	150,127	9,206	20,621	-	179,954
Operating profit (loss) 1)	**34,456**	**3,224**	**(2,010)**	**(4,751)**	**(7,939)**	**22,980**	18,894	3,069	(152)	(5,251)	16,560
Financial results	**(255)**	**-**	**-**	**-**	**(2,991)**	**(3,246)**	(300)	-	-	(2,123)	(2,423)
Result before income taxes	**34,201**	**3,224**	**(2,010)**	**(4,751)**	**(10,930)**	**19,734**	18,594	3,069	(152)	(7,374)	14,137

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

b) Geographic information

	Three months ended 28 March 2014 US$000	Three months ended 29 March 2013 US$000
Revenues		
United Kingdom	**179**	312
Other European countries	**14,474**	15,099
China	**183,205**	145,226
Other Asian countries	**20,127**	17,665
Other countries	**2,867**	1,652
Total revenues	**220,852**	179,954

	At 28 March 2014 US$000	At 31 December 2013 US$000
Assets		
Germany	**311,471**	438,816
USA	**376,946**	377,293
Japan	**2,439**	1,946
United Kingdom	**159,516**	54,316
Netherlands	**51,013**	51,477
Other	**4,792**	3,604
Total assets	**906,177**	927,452

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

4. Share-based compensation

Stock option plan activity for the period ended 28 March 2014 was as follows:

	Three months ended 28 March 2014		Three months ended 29 March 2013	
	Options	Weighted average exercise price €	Options	Weighted average exercise price €
Outstanding at beginning of year	**6,036,051**	**7.93**	5,878,825	7.83
Granted	**1,231,690**	**0.12**	189,648	14.34
Exercised	**(882,549)**	**4.36**	(72,733)	2.63
Forfeited	**(129,832)**	**2.49**	(15,306)	8.66
Outstanding at end of year	**6,255,360**	**7.01**	5,980,434	8.10
Options exercisable at period end	**2,798,164**	**8.04**	3,117,084	4.88

The Company established an employee benefit trust (the "Trust"). The Trust purchases shares in the Company for the benefit of employees under the Group's share option scheme. At 28 March 2014 the Trust held 4,215,250 shares.

5. Inventories

Inventories consisted of the following:

	At 28 March 2014 US$000	At 31 December 2013 US$000
Raw materials	**8,123**	14,276
Work-in-process	**24,750**	26,815
Finished goods	**55,440**	76,438
Deposits	**1**	12
Total	**88,314**	117,541

6. Property, plant and equipment

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

	At 28 March 2014 US$000	At 31 December 2013 US$000
Gross carrying amount	**179,990**	175,956
Accumulated depreciation	**122,626**	117,491
Net carrying amount	**57,364**	58,465

The Company has contractual commitments for the acquisition or property, plant and equipment of US$7,928,000.

7. Intangible assets

Intangible assets subject to amortisation represent licenses, patents, software and customer based intangible assets:

	At 28 March 2014 US$000	At 31 December 2013 US$000
Gross carrying amount	**233,190**	229,619
Accumulated depreciation	**88,799**	81,028
Net carrying amount	**144,391**	148,591

The Company has contractual commitments for the acquisition of intangible assets of US$1,207,000. In addition the company has a contingent liability of US$400,000 in connection with the purchase of intangible assets. This liability is contingent to certain shipping volumes, relating to acquired technology, being met. We expect to reach these shipping volumes in the third quarter of 2014.

8. Additional disclosures on financial instruments

Set out below is an overview of financial instruments held by the Group as at 28 March 2014:

		Amounts recognised in the statement of financial position according to IAS 39					
	Category in accordance with IAS 39	Carrying amount 28 March 2014 US$000	Amortised cost US$000	Fair value recognised in other comprehensive income US$000	Fair value recognised in profit or loss US$000	Fair-Value-Hierarchy	Fair value 28 March 2014 US$000
Assets							
Cash at bank and Short-term deposits	LaR	**286,459**	286,459	–	–	n/a	**286,459**
Trade accounts receivable and other receivable	LaR	**43,105**	43,105	–	–	n/a	**43,105**
Other non-derivative financial assets							
Deposits for hedging contracts	LaR	**–**	–	–	–	Level 1	**–**
Derivative financial assets							
Derivatives without hedging relationship	n/a	**–**	–	–	–		**–**
Derivatives with hedging relationship	n/a	**1,472**	–	1,472	–	Level 2	**1,472**
Investments	AfS	**1,541**	–	–	–	Level 3	**1,541**
Liabilities							
Trade account payables	FLAC	**53,622**	53,622	–	–	n/a	**53,622**
Other payables	FLAC	**7,691**	7,691	–	–	n/a	**7,691**
Other financial liabilities	FLAC	**89,026**	89,026	–	–	n/a	**89,026**
Hire purchase agreements and finance lease obligations	FLAC	**12,148**	12,148	–	–	Level 2	**13,006**
Convertible Bond	FLAC	**174,883**	174,883	–	–	Level 2	**189,948**
Derivative financial liabilities							
Derivatives without hedging relationship	n/a	**–**	–	–	–		**–**
Derivatives with hedging relationship	n/a	**117**	–	117	–	Level 2	**117**
Of which aggregated by category in accordance with IAS 39:							
Loans and receivables (LaR)		**329,564**	329,564	–	–		**329,564**
Held-to-maturity investments (HtM)		**–**	–	–	–		**–**
Available-for-sale financial assets (AfS)		**1,541**	–	–	–		**1,541**
Derivatives without hedging relationship		**–**	–	–	–		**–**
Derivative financial assets with hedging relationship		**1,472**	–	1,355	–		**1,355**
Derivatives with hedging relationship		**(117)**	–	(117)	–		**(117)**
Financial liabilities at amortised cost (FLAC)		**(337,370)**	(337,370)	–	–		**(353,292)**

The fair value of derivatives has been determined with reference to available market information (interest rate and forward currency translation rate: Level 2) applying the mark-to-market method. The carrying amounts of the loans and receivables and other financial liabilities approximate their fair values due to short-term maturities. Since the market conditions affecting the non-current liability component of the convertible bond and liability related to long term finance lease contract have changed the fair value at 28 March 2014 deviates from the carrying amount. Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. Due to the lack of a reliable measurement basis for the fair value of the equity investment this is held at cost of US$1.5 million. Instruments allocated to the column "fair value recognised in other comprehensive income" are derivative financial instruments designated as cash flow hedges.

8. Additional disclosures on financial instruments continued

Risk management activities

Cash flow hedges for currency risks

The main functional currency within the Group and the presentation currency for the consolidated financial statements is the US$. Accordingly, foreign exchange risks arise from transactions, and recognised assets and liabilities, the functional currency of which is not the US$. The currencies giving rise to these exposure risks are primarily the Euro and Pound Sterling. The majority of the Group's revenue and material expenses are denominated in US$. The majority of other operating expenses are denominated in Euros and Pounds Sterling. The Group has transactional currency exposures. Such exposure arises from the sales or purchases by an operating unit in currencies other than the unit's functional currency. In Q1-2014 and Q1-2013 nearly all the Group's sales were denominated in US$.

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

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

As at 28 March 2014 the following unrealized effects were recorded on other comprehensive income:

	Forward currency contracts			**Total At 28 March 2014**
	Euro US$000	GBP US$000	JPY US$000	**US$000**
Gain	10	1,454	8	**1,472**
Loss	(5)	(30)	(80)	**(115)**
Unrealised net gain (loss) before tax	**5**	**1,424**	**(72)**	**1,357**
Tax effect	(1)	(404)	20	**(385)**
Unrealised net gain (loss) after tax	**4**	**1,020**	**(52)**	**972**

Valuation techniques

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

9. Transactions with related parties

As described in the Company's annual report 2013, note 28 the related parties of the Company are comprised of eight Non-Executive members of the Board of Directors and nine members of the executive management. The group of related parties has not changed in the first quarter of 2014. Transactions with those related parties only comprise their compensation which did not significantly change compared to 2013. At the 2014 AGM on 1 May 2014 Eamonn O'Hare was appointed to the Board of Directors as non-executive Director.

10. Subsequent events

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

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