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# Press Release – 20 February 2014

## **DIALOG SEMICONDUCTOR REPORTS RESULTS FOR FOURTH QUARTER AND YEAR ENDED 31 DECEMBER 2013**

*Company confirms full year revenue growth of 17% and increasing profitability*

**London, UK, 20 February 2014** – Dialog Semiconductor (FWB: DLG), a provider of highly integrated innovative power management, audio, AC/DC and short range wireless technologies, today reports results for its fourth quarter and year ended 31 December 2013.

### **Q4 and full year 2013 financial highlights**

- IFRS Revenue in Q4 up 31% over Q4 2012 at \$352 million. Full year IFRS revenue at \$903 million representing 17% growth over FY 2012
- Q4 2013 underlying gross margin improved by 290 bps on Q3 2013 to 42.9%. Underlying gross margin for the full year was 40.4%
- Q4 2013 underlying(\*) EBITDA(\*\*) up 55% over Q4 2012 to \$86.2 million or 24.4% of revenue. Full year underlying(\*) EBITDA(\*\*) up 30% to \$174.2 million or 19.2% of revenue
- Q4 2013 underlying EBIT up 62% to \$76.4 million or 21.7% of revenue. Full year underlying EBIT up 30% to \$139.6 million. On an IFRS basis full year EBIT was up 13% to \$102.7 million
- Underlying(\*) Q4 2013 diluted EPS up 56% over Q4 2012 to 70 cents. Full year underlying(\*) diluted EPS up 21% over FY 2012 to \$1.44
- Cash generated from operating activities in Q4 2013 was \$46.2 million. Full year 2013 cash generated from operating activities was up 111% on FY 2012 to \$110.7 million; cash and cash equivalents balance as of 31 December 2013 was \$186.0 million

### **Q4 and full year 2013 operational highlights**

- Continued momentum with power management smartphone and tablet design wins, across new platforms and models at our largest customers
- Diversification efforts continued with new product launches, new application partners added and the continued ramp of new platform design wins for power management and audio at Samsung
- Continued to increase content of our products and achieved an ASP of \$2.30 in 2013 excluding Power Conversion products
- SmartBond™, the world's smallest and lowest power Bluetooth Smart System-on-Chip (SoC) entered volume production
- SmartWave™, our first multi-touch IC, gained traction with a number of ODMs
- Our collaboration with Asia based chipset partners to address their local markets continued to build momentum
- New product rollouts by the Power Conversion Business Group

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

*"I am very pleased with the exceptional business performance we have achieved in Q4 and over the full year, delivering uninterrupted annual revenue growth for the 7th consecutive year, increasing profitability and outstanding cash generation.*

*During the year, we grew significantly faster than the industry average while investing in new product development and innovation. We have laid the foundations for a more diversified business and we are well placed to build on the market opportunity open to us in 2014 and beyond."*

## Outlook

Given our current visibility, we expect 2014 to be another year of good growth. As in previous years, revenue performance will be strongly weighted towards the second half of the year.

Q1 2014 revenue will reflect the traditional seasonal pattern and deliver year on year growth. We expect revenue for Q1 2014 to be in the range of \$200 to \$215 million.

Gross margin is expected to improve year on year in 2014. In line with the seasonal lower revenue, gross margin in Q1 2014 will decline sequentially but improve on a year on year basis.

## Financial overview

Underlying US\$ million	Fourth Quarter 2013	2012	% Var.	Full Year 2013	2012	% Var.
<b>Revenue</b>	352.7	267.7	32%	909.1	773.6	18%
<b>Gross Margin</b>	42.9%	38.6%	+430bps	40.4%	38.0%	+240bps
<b>EBITDA</b>	86.2	55.5	55%	174.2	134.5	30%
<b>EBITDA %</b>	24.4%	20.7%	+370bps	19.2%	17.4%	+180bps
<b>EBIT</b>	76.4	47.2	62%	139.6	107.5	30%
<b>EBIT %</b>	21.7%	17.6%	+410bps	15.4%	13.9%	+150bps
<b>Net income</b>	52.1	33.9	54%	97.6	80.0	22%
<b>Basic EPS \$</b>	0.79	0.52	52%	1.49	1.24	20%
<b>Diluted EPS \$</b>	0.70	0.45	56%	1.44	1.19	21%

  

IFRS US\$ million	Fourth Quarter 2013 <sup>(1)</sup>	2012	% Var.	Full Year 2013 <sup>(1)</sup>	2012	% Var.
<b>Revenue</b>	351.8	267.7	31%	902.9	773.6	17%
<b>Gross Margin</b>	42.1%	38.5%	+360bps	39.0%	37.8%	+120bps
<b>R&amp;D %</b>	14.5%	13.1%	+140bps	17.6%	16.5%	+110bps
<b>SG&amp;A %</b>	8.5%	8.2%	+30bps	10.4%	9.3%	+110bps
<b>EBIT</b>	70.6	44.5	59%	102.7	91.0	13%
<b>EBIT %</b>	20.1%	16.6%	+350bps	11.4%	11.8%	(40)bps
<b>Net income</b>	46.6	30.2	54%	62.2	62.5	0%
<b>Basic EPS \$</b>	0.71	0.46	54%	0.95	0.97	(2)%
<b>Diluted EPS \$</b>	0.66	0.43	53%	0.92	0.93	(1)%
<b>Operating cash flow</b>	46.2	53.5	(14)%	110.7	52.4	111%

[1] Including acquisition and integration costs of \$0.5 million in Q4 2013 and \$6.9 million in FY 2013

Underlying revenue in Q4 2013 was \$353 million, representing a 32% year on year increase and a 57% sequential increase over Q3 2013. During December we saw stronger than anticipated demand in Mobile Systems resulting in Mobile Systems segment revenues of \$745 million for the full year 2013, up 17% on 2012.

Underlying Q4 2013 gross margin was 42.9%, 290bps above the previous quarter and 430bps above Q4 2012. Underlying FY 2013 gross margin was 40.4%, +240bps improvement on FY 2012 supported by three key elements:

- The net realisation of the benefits of manufacturing cost optimisation
- Positive product mix contribution from the Power Conversion Business Group, the Connectivity Segment and new products in Mobile Systems
- Higher revenue and the subsequent lower allocation per unit of the fixed component of Cost of Goods Sold (COGS)

In Q4 2013 underlying OPEX as percentage of revenue was at 21.2%, broadly in line with Q4 2012. For the full year, underlying OPEX was 25.0% of revenue, 90bps above FY 2012 and including the first time consolidation of iWatt into the Group. On a stand-alone basis, underlying OPEX % for the traditional Dialog business was broadly in line with FY 2012.

Underlying R&D investment in Q4 2013 stood at 14.1% of revenue, 150bps above Q4 2012. In line with the company's strategy of continuing innovation and diversification of our product portfolio, full year underlying R&D as a percentage of revenue was 17.0%, up 110bps on FY 2012. This was driven by the first time consolidation of iWatt into the Group and additional R&D investment in the Connectivity segment during the last quarter of the year.

Underlying SG&A in Q4 2013 stood at 7.2% of revenue, 60bps below Q4 2012. In 2013 we increased the efficiency of the SG&A organisation. For the full year, underlying SG&A stood at 8.0%, 20 bps below FY 2012 despite the first time consolidation of iWatt into the business.

In Q4 2013 we achieved a record IFRS and underlying EBIT of \$70.6 million and \$76.4 million respectively, 59% and 62% over Q4 2012. Underlying EBIT margin in the quarter was 21.7%. The full year underlying EBIT increase of 30% was the result of the improved profitability across all business segments.

In total, a net tax charge of \$19.8 million was recorded in Q4 2013. This represents an effective tax rate for the full year of 31% (FY 2012: 27%), slightly below our 33% target. In 2014 we expect a gradual decrease in the tax rate from 31% in 2013 to below 30%.

In Q4 2013, underlying net income and underlying EPS improved sequentially and year on year. Underlying Diluted EPS in Q4 2013 was 56% higher than in the same quarter of 2012, resulting in a full year 2013 fully diluted underlying EPS year on year growth of 21%.

At the end of Q4 2013, our total inventory level was \$118 million (or ~52 days), a decrease of \$26 million over the prior quarter and a 40 day reduction 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 Q1 2014 we expect inventory value to reduce from Q4 2013. The lower revenue level in Q1 2014 will result in an increase of inventory days from Q4 2013.

At the end of Q4 2013, we had cash and cash equivalents balance of \$186 million. In the fourth quarter alone we generated \$46 million of cash from operating activities or \$27 million of free cash flow(\*\*\*), in line with the strong cash generation profile of our business. Cash from operating activities for the full year was up 111% on FY 2012 to \$111 million. Excluding the impact of the iWatt acquisition, in 2013 we generated \$78 million of free cash flow, the highest on record.

*(\*) Underlying results (net of tax) in Q4-2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$2.2 million, excluding US\$1.1 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US\$2.0 million non-cash effective interest expense in connection with the convertible bond, excluding US\$ 0.2 million non-cash effective interest expense related to a licensing agreement entered into in Q3-2012, excluding US\$0.5 million acquisition and integration expenses in connection with the purchase of iWatt and excluding US\$2.8 million of amortisation and depreciation expenses associated with the acquisition of iWatt, deferred sales and related cost of sales that were reversed in connection with the iWatt business integration of US\$ 0.6 million were brought back. Furthermore the gain US\$ of 3.2 million from the release of an earn-out provision in relation to the iWatt acquisition was reversed and a recorded income related to a payment the company received in connection with the insolvency of BenQ of US\$0.7 million was also taken out.*

(\*) Underlying results (net of tax) in Q4 2012 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of \$1.4 million, excluding \$0.9 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and excluding \$1.5 million noncash-effective interest and financial expense in connection with the convertible bond and discounted purchase prices.

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

(\*) Underlying results net of tax in 2012 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$8.3 million, excluding US\$4.1 million of amortisation of intangibles associated with the acquisition of SiTel Semiconductor B.V. (now Dialog B.V.), excluding US\$0.6 million in relation to previously capitalized R&D expenses for close to end of life products- the products were fully amortized by the end of Q1-2012, excluding US\$4.5 million (2011:nil) noncash-effective interest and financial expense in connection with the convertible bond and discounted purchase prices and in 2011 excluding one-time transaction costs of US\$ 3.2 million associated with the acquisition of Dialog B.V.

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. For the fourth quarter and full year 2013 a more detailed reconciliation for each of these measures has been provided in the financial review section of the Financial and Selected notes report.

(\*\*) EBITDA in Q4 2013 is defined as operating profit excluding depreciation for property, plant and equipment, (Q4 2013:US\$5.4 million, Q4 2012:US\$3.6 million), amortisation of intangible assets (Q4 2013:US\$9.1 million, Q4 2012:US\$5.2 million) and losses on disposals and impairment of fixed assets (Q4 2013:US\$0.8 million, Q4 2012:US\$0.7 million).

EBITDA in 2013 is defined as operating profit excluding depreciation for property, plant and equipment, (2013:US\$18.6 million, 2012:US\$12.7 million), amortisation of intangible assets (2013:US\$28.6 million, 2012:US\$19.6 million) and losses on disposals and impairment of fixed assets (2013:US\$1.4 million, 2012:US\$1.0 million).

(\*\*\*) Free Cash Flow in 2013 is defined as net income of US\$46.6 million plus amortisation and depreciation of US\$14.5 million, plus net interest expense of US\$3.7 million, minus change in working capital of US\$29.4 million and minus capital expenditure of US\$8.4 million.

## Operational overview

In Q4 2013 we won additional new custom PMIC designs across new platforms and models at our largest customers. During the quarter we expanded our collaboration with Samsung with a fourth platform win. Our power management IC (PMIC) with integrated audio functionality is being used in the recently launched Samsung Galaxy trend 3 smartphone.

Dialog continued to lead in delivering the highest level of integration and power efficiency in its products. This allowed us to increase the Average Sales Price (ASP) of our products, excluding the Power Conversion segment, from \$1.96 in 2012 to \$2.30 in 2013.

SmartBond™ System-on-Chip (SoC), the world's smallest and lowest power Bluetooth Smart device, is now in production. SmartBond™, is designed to enable consumers to use innovative new apps on their smartphones and tablets that can easily connect with watches, fitness-bands and monitors, medical, sporting remote control, computer peripherals and a vast and fast growing number of other applications. Dialog has worked with a number of leading module manufacturers including Panasonic Industrial Devices Europe GmbH to develop tiny modules allowing product designers with little RF expertise to rapidly create unique Bluetooth Smart applications.

We continue to work and make progress with a number of OEMs and ODMs with SmartWave™, our multi-touch IC technology and expect the first application to deploy the technology to be within the PC segment.

The high volume Chinese smartphone and tablet market is of strategic importance to Dialog. We are currently engaged with a number of leading chipset providers to this market, to address this opportunity with our power management, audio and fast charging technologies.

Throughout Q4 2013 and the first few weeks of 2014 we rolled out a number of products from the Power Conversion Business Group. We are engaged with the leading application chipset providers and smartphone OEMs to deploy various fast charging solutions addressing the different variants of the technology. We recently announced our collaboration with Qualcomm including the launch of our products for Quickcharge 2.0 power supplies. We expect to start production already in Q1 2014 of this technology. Additionally, in collaboration with Intel, supporting their Intel® Turbo Boost Technology, we were the first company to deliver incredibly slim, ultra-light charger designs that users should expect with next-generation Ultrabooks™.

In Q4 2013, we launched a new platform DA6401 addressing the SSL smart lighting segment. This platform supports features such as digital dimming and it is the first driver to include support for the emerging Ledotron dimming standard and enables many smart lighting applications through an embedded dsp. We continue to maintain a leadership position within solid state lighting with our portfolio of SSL products.

\* \* \* \* \*

Dialog Semiconductor invites you today at 09.00 UK /10.00 CET to take part in a live conference call and to listen to management's discussion of the Company's Q4 and full year 2013 performance, as well as guidance for Q1 2014.

To access the call please use the following dial-in numbers: Germany 0800 101 4960, UK 0800 694 0257, USA 1866 966 9439 and Rest of World +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 31198616#. An audio replay of the conference call will also be posted soon thereafter on the Company's website at:

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

Full release including the Company's consolidated income statement, consolidated balance sheet, consolidated statements of cash flows and selected notes for the period ending 31 December 2013 is available under the investor relations section of the Company's website at:

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

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### Note to editors

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

With its focus and expertise in energy-efficient system power management and 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 \$909 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 Luxembourg Stock Exchange (ISIN XS0757015606).

### Forward Looking Statements

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



## Further Financial Information

The following tables detail the historical consolidated statements of the operations of Dialog for the years ended 31 December 2012 and 31 December 2013 both on an IFRS and underlying<sup>1)</sup> and basis.

### Dialog Semiconductor's IFRS and Underlying financial performance for 2013 and 2012

US\$000	IFRS	2013 Adjustments	Underlying <sup>1)</sup>	IFRS	2012 Adjustments	Underlying <sup>1)</sup>
Revenues	<b>902,907</b>	<b>6,222</b>	<b>909,129</b>	773,583	-	773,583
Cost of sales	<b>(551,099)</b>	<b>9,492</b>	<b>(541,607)</b>	(480,971)	1,142	(479,829)
<b>Gross profit</b>	<b>351,808</b>	<b>15,714</b>	<b>367,522</b>	292,612	1,142	293,754
Selling and marketing expenses	<b>(49,000)</b>	<b>10,243</b>	<b>(38,757)</b>	(38,669)	6,286	(32,383)
General and administrative expenses	<b>(44,255)</b>	<b>9,442</b>	<b>(34,813)</b>	(33,476)	4,296	(29,180)
Research and development expenses	<b>(159,287)</b>	<b>4,930</b>	<b>(154,357)</b>	(127,886)	4,716	(123,170)
Restructuring expenses	-	-	-	(1,549)	-	(1,549)
Other operating income	<b>3,394</b>	<b>(3,394)</b>	-	-	-	-
<b>Operating profit</b>	<b>102,660</b>	<b>36,935</b>	<b>139,595</b>	91,032	16,440	107,472
Interest income and other financial income	<b>565</b>	-	<b>565</b>	1,360	-	1,360
Interest expense and other financial expense	<b>(13,345)</b>	<b>8,935</b>	<b>(4,410)</b>	(6,466)	4,668	(1,798)
Foreign currency exchange gains and losses, net	<b>(168)</b>	-	<b>(168)</b>	199	-	199
<b>Result before income taxes</b>	<b>89,712</b>	<b>45,870</b>	<b>135,582</b>	86,125	21,108	107,233
Income tax expense	<b>(27,508)</b>	<b>(10,459)</b>	<b>(37,967)</b>	(23,612)	(3,659)	(27,271)
<b>Net profit</b>	<b>62,204</b>	<b>35,411</b>	<b>97,615</b>	62,513	17,449	79,962
Earnings per share (in US\$)						
Basic	<b>0.95</b>	<b>0.54</b>	<b>1.49</b>	0.97	0.27	1.24
Diluted	<b>0.92</b>	<b>0.52</b>	<b>1.44</b>	0.93	0.26	1.19
<b>EBITDA <sup>2)</sup></b>	<b>151,256</b>	<b>22,958</b>	<b>174,214</b>	124,352	10,162	134,514

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

2) EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (2013: US\$18.6 million, 2012: US\$12.7 million), amortisation for intangible assets (2013: US\$28.6 million, 2012: US\$19.6 million) and losses on disposals and impairment of fixed assets (2013: 1.4 million, 2012: US\$1.0 million).

## Dialog Semiconductor's Underlying adjustments for 2013

US\$000	2013								TOTAL
	Option expenses	Accrual National Insurance	PPA BV	Convertible Bond	License agreement	Acquisition and integration costs	PPA iWatt	BenQ	
Revenue	-	-	-	-	-	-	(7,073)	851	(6,222)
Cost of sales	(681)	(5)	(806)	-	-	(15)	(7,985)	-	(9,492)
Selling and marketing expenses	(1,769)	(123)	(3,197)	-	-	(404)	(4,750)	-	(10,243)
General and administrative expenses	(2,473)	(625)	(2)	-	-	(6,342)	-	-	(9,442)
Research and development expenses	(3,564)	(121)	(1,063)	-	-	(182)	-	-	(4,930)
Other operating income	-	-	-	-	-	-	3,249	145	3,394
<b>Operating profit</b>	<b>(8,487)</b>	<b>(874)</b>	<b>(5,068)</b>	<b>-</b>	<b>-</b>	<b>(6,943)</b>	<b>(16,559)</b>	<b>996</b>	<b>(36,935)</b>
Interest expense and other financial expense	-	-	-	(7,801)	(1,134)	-	-	-	(8,935)
<b>Result before income taxes</b>	<b>(8,487)</b>	<b>(874)</b>	<b>(5,068)</b>	<b>(7,801)</b>	<b>(1,134)</b>	<b>(6,943)</b>	<b>(16,559)</b>	<b>996</b>	<b>(45,870)</b>
Income taxes	1,334	248	1,267	-	322	638	6,933	(283)	10,459
<b>Net income</b>	<b>(7,153)</b>	<b>(626)</b>	<b>(3,801)</b>	<b>(7,801)</b>	<b>(812)</b>	<b>(6,305)</b>	<b>(9,626)</b>	<b>713</b>	<b>(35,411)</b>

See underlying definition on page 3

## Dialog Semiconductor's financial performance on an IFRS basis for 2013 and 2012

	2013		2012		Change %
	US\$000	% of revenues	US\$000	% of revenues	
Revenues					
Mobile Systems	744,869	82.4	638,765	82.6	16.6
Automotive / Industrial	37,814	4.2	38,686	5.0	(2.3)
Connectivity	92,588	10.3	96,133	12.4	(3.7)
Power Conversion	26,768	3.0	-	-	-
Corporate Sector	868	0.1	(1)	0.0	>1,000
<b>Revenues</b>	<b>902,907</b>	<b>100.0</b>	<b>773,583</b>	<b>100.0</b>	<b>16.7</b>
Cost of sales	(551,099)	(61.0)	(480,971)	(62.2)	14.6
<b>Gross profit</b>	<b>351,808</b>	<b>39.0</b>	<b>292,612</b>	<b>37.8</b>	<b>20.2</b>
Selling and marketing expenses	(49,000)	(5.4)	(38,669)	(5.0)	26.7
General and administrative expenses	(44,255)	(4.9)	(33,476)	(4.3)	32.2
Research and development expenses	(159,287)	(17.6)	(127,886)	(16.5)	24.6
Restructuring expenses	-	0.0	(1,549)	(0.2)	-
Other operating income	3,394	0.4	-	0.0	-
<b>Operating profit</b>	<b>102,660</b>	<b>11.4</b>	<b>91,032</b>	<b>11.8</b>	<b>12.8</b>
Interest income and other financial income	565	0.0	1,360	0.2	(58.5)
Interest expense and other financial expense	(13,345)	(1.5)	(6,466)	(0.8)	106.4
Foreign currency exchange gains and losses, net	(168)	0.0	199	(0.1)	(184.4)
<b>Result before income taxes</b>	<b>89,712</b>	<b>9.9</b>	<b>86,125</b>	<b>11.1</b>	<b>4.2</b>
Income tax expense	(27,508)	(3.0)	(23,612)	(3.0)	16.5
<b>Net profit</b>	<b>62,204</b>	<b>6.9</b>	<b>62,513</b>	<b>8.1</b>	<b>(0.5)</b>

## Results of Operations

### Segment Reporting

Revenues for the **Mobile Systems** segment for the year ended 31 December 2013 were US\$744.9 million (2012: US\$638.8 million), representing 82.4% of our total revenues compared to 82.6 % for the year ended 31 December 2012. The 16.6% year on year revenue increase is primarily driven by the continuous 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 (see Note 26 to the consolidated financial statements) grew to US\$141.2 million from US\$112.2 million achieved in 2012, an increase of 25.8%. As a % of Mobile Systems revenues, 2013 operating profit was 19% compared to 17.6% in 2012. This increased profitability was primarily driven by higher revenue, continuous product margin improvements and by leveraging operating expenses.

Revenues from our **Automotive / Industrial Applications segment** were US\$37.8 million compared to US\$38.7 million in the prior year, representing 4.2% of our total revenues (2012: 5.0%). The marginal decrease in revenue is mainly the result of lower sales volumes in the area of professional lighting applications caused by the on-going unfavourable economic climate in Europe and our reduced investments in Automotive. Although demand for our products picked up in the second half of 2013, this was not sufficient to compensate for the softness experienced in the first half of the year.

Operating profit in the segment was US\$12.2 million (2012: US\$8.1 million). Despite lower revenues in the sector, 2013 operating profit

increased by 50.3% over 2012 to be 32.3% of Automotive & Industrial total revenues (2012: 21.0%). This increased profitability is the result of continuous improvements in manufacturing processes, the redeployment of R&D and selling resources and attributable overhead expenses from this sector to the Mobile System segment in support of high growth.

Revenues from our **Connectivity segment** were US\$92.6 million (2012: US\$96.1) representing 10.3% of total revenues compared to 12.4% for the year ended 31 December 2012. This reflects the continuous softness in the DECT Cordless phone market especially in Europe.

The Connectivity segment contributed an operating loss of US\$2.1 million, compared to an operating loss of US\$13.1 million in 2012. As a percentage of revenues the loss of 13.7% in 2012 reduced to 2.3% in 2013. This development can largely be attributed to an improved gross margin achieved during 2013 compared to a year ago. This improvement results from a shift to sales of higher value products, increasing manufacturing efficiencies and related cost reductions. Further positive effects are attributable to a decrease in amortisation expenses relating to the purchase price allocation from US\$6.3 million in 2012 to US\$5.1 million in 2013 as certain assets were fully amortised in 2012. In addition the operating profit in 2013 includes benefits from capitalized R&D expenses of US\$2.5 million, compared to US\$0.6 million in 2012. This capitalization represents the portion of R&D expenses that is expected to provide future benefits from completely developed technologies. Furthermore, in 2012, a one-time expenses of approximately US\$1.0 million were recorded relating to the transfer of certain legacy Connectivity products to a new assembly site. On an underlying (\*) basis, Connectivity operating profits were US\$3.1 million in 2013, compared to an operating loss of US\$6.3 million in 2012.

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

US\$000	2013			2012		
	IFRS	Adjustments	Underlying *)	IFRS	Adjustments	Underlying *)
Revenues	92,588	-	92,588	96,133	-	96,133
Operating profit (loss)	(2,121)	5,182	3,061	(13,144)	6,887	(6,257)

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

Underlying results in 2012 are based on IFRS consolidated interim income statement, adjusted to exclude US\$6.3 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and share-based compensation charges and related charges for National Insurance of US\$0.6 million.

The newly created **Power Conversion segment** includes the operating segment of our newly acquired subsidiary iWatt Inc., USA (for further information please refer to note 4 - Business Combinations and note 26 - Segment Reporting - consolidated financial statements). Revenues from our Power Conversion segment were US\$26.8 million or 3% of total revenues for the five and a half months this entity was consolidated in 2013. The operating loss in the Power Conversion segment was US\$ 22.5 million in 2013. On an underlying (\*) basis revenues were US\$33.9 million and operating loss was US\$0.9 million. The underlying revenues include US\$7.1

million of deferred revenue that have been eliminated from IFRS results as part of the purchase accounting associated with the acquisition of iWatt. Underlying cost of sales include additional expenses of US\$ 3.2 million in relation to the aforementioned deferred revenues. Furthermore, underlying operating results do not include depreciation and amortisation expenses in the amount of US\$8.9 million and additional costs for material consumption of US\$7.0 million; all these adjustments relate to the acquisition accounting. Further one-time costs relating to the acquisition and integration of iWatt of US\$1.8 million were excluded from underlying expenses.

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

US\$000	2013		Underlying *)
	IFRS	Adjustments	
Revenues	26,768	7,073	33,841
Operating profit (loss)	(22,533)	21,630	(903)

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

**Revenues**

Total IFRS revenues for 2013 were US\$902.9 million, up 16.7% from 2012 (2012: US\$ 773.6 million). As described above, the newly acquired iWatt business contributed US\$26.8 million of IFRS revenues since 16 July 2013 (underlying\* revenues: US\$33.9 million – including US\$7.1 million of one-off deferred revenue as part of the purchase accounting). The revenue growth is mainly attributable to higher sales volumes, an increase in average selling prices ("ASPs") from our more complex devices in our Mobile Systems Segment and the revenue contribution from the new Power Conversion segment. Excluding iWatt contribution, 2013 IFRS revenues grew 13.3% over 2012 (2013: US\$ 876.1 million).

**Cost of sales**

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs, applicable overhead and depreciation of test and other equipment. IFRS Cost of sales for the period ending 31 December 2013 was up 14.6% to US\$551.1 million (2012: US\$481.0 million). The increase can largely be attributed to increased revenues and iWatt acquisition related accounting adjustments. 2013 IFRS Cost of Sales is net off a one-time inventory purchase price adjustment (US\$ 7.0 million), amortisation and depreciation expenses relating to the purchase price allocation of iWatt (US\$4.1 million) as well as SiTel acquisition (US\$0.8 million) and the reversal of cost of sales related to deferred revenues (US\$3.2 million). As a percentage of revenues, IFRS cost of sales decreased from 62.2% in 2012 to 61.0% in 2013. Underlying (\*) cost of sales increased from US\$479.8 million in 2012 (62.0% of underlying revenues) to US\$541.6 million in 2013 (59.6% of underlying\* revenues). This reduced cost of sales contribution to revenue drove the gross profit increase.

**Gross profit**

Our IFRS gross margin increased from 37.8% of revenues in 2012 to 39.0% of revenues for the period ending 31 December 2013. On an IFRS basis, the acquisition of the iWatt business contributed negatively to the 2013 group profit as a result of one-time accounting related adjustments. On an underlying (\*) basis, the gross margin improved from 38.0% in 2012 to 40.4%. The gross margin improvements throughout 2013 were the result of three key elements:

- The realisation of the benefits of manufacturing cost optimisation over the last six months ;
- Positive product mix contribution from the Power Conversion Business Group, the Connectivity Segment and new products in Mobile Systems;

- Higher revenues and the subsequent lower allocation per unit of the fixed component of Cost of Goods Sold (COGS) .

IFRS Gross profit for the period ending 31 December 2013 was US\$351.8 million, an increase of 20.2% compared to US\$292.6 million in 2012, mainly driven by increased revenues and material cost improvements.

**Selling and marketing expenses**

Selling and marketing expenses consist primarily of salaries, travel expenses, sales commissions, advertising and other marketing costs. Also included are amortisation expenses for intangible assets such as customer relationships, key customers and order backlog resulting from the purchase price allocation related to the acquisition of iWatt Inc. in the third quarter of 2013 and SiTel BV in 2011.

IFRS Selling and marketing expenses increased from US\$38.7 million in 2012 (5.0% of total IFRS revenues) to US\$49.0 million for the period ending 31 December 2013 (5.4% of total IFRS revenues). The newly acquired iWatt business contributed US\$10.6 million of selling and marketing expenses, of which US\$4.8 million were amortisation expenses resulting from the purchase price allocation. Excluding these amortisation expenses and other adjustments for the integration of iWatt as well as share option and amortisation expenses relating to the SiTel BV purchase price allocation, on an underlying\* basis selling and marketing expenses were US\$ 38.8 million in 2013 (4.3% of total underlying\* revenues) compared to US\$32.4 million in 2012 (4.2% of total underlying\* revenues).

**General and administrative expenses**

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

IFRS General and administrative expenses were US\$44.3 million (4.9% of total revenues) in 2013, an increase of 32.2% over the US\$33.5 million (4.3% of total revenues) recorded in 2012. This increase predominantly reflects a growing business and the consolidation of the newly acquired iWatt business which contributed US\$3.2 million additional general and administrative expenses. Furthermore general and administrative expenses in 2013 include US\$6.3 million acquisition and integration expenses related to the acquisition of iWatt (see note 4 Business Combinations in the condensed consolidated financial statements). Excluding the additional expenses relating to the iWatt acquisition as well as share option and amortisation expenses relating to the SiTel BV purchase price allocation, underlying (\*) general and administrative

expenses increased from US\$29.2 million in 2012 (3.8% of total IFRS revenues) to US\$34.8 million in 2013 (3.8% of underlying\* revenues).

### Research and development expenses

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

IFRS research and development expenses (net of customer funded projects) were US\$159.3 million in 2013 (2012: US\$127.9 million), representing a year over year increase of 24.6%. As a percentage of total revenues, IFRS research and development expenses increased from 16.5% to 17.6%. This increase can largely be attributed to an increased R&D headcount to support our on-going growth strategy (our Engineering headcount has now more than double since 2010) despite lower than expected revenue growth in the first half of 2013 and the acquisition of iWatt business in July 2013.

Excluding iWatt, 2013 IFRS R&D expenses were US\$150.5 million, US\$22.6 million above 2012 or 17.1% of 2013 revenues excluding iWatt. Underlying (\*) research and development increased from US\$123.2 million (15.9% of total revenues) to US\$154.4 million in 2013 (17.0% of total underlying revenues).

### Operating profit

IFRS Operating profit for the period ending 31 December 2013 was US\$102.7 million, compared to US\$91.0 million in 2012.

Since being acquired in July 2013, iWatt business contributed an IFRS loss of US\$22.5 million to the operating profit of Dialog Group, mainly as a result of accounting adjustments booked in connection with the acquisition and related purchase price allocation expenses. On the other hand a higher gross profit and lower amortisation expenses associated with the acquisition of SiTel (US\$ (1.2) million) had a positive impact on operating profit.

Underlying (\*) operating profit in 2013 was US\$139.6 million or 15.4% of underlying revenues compared to US\$107.5 million or 13.9% in 2012. The year on year improvement in underlying operation profit is the result of higher revenues and the subsequent lower allocation per unit of the fixed component of our operating expenses and improved product margins.

### Interest income and other financial income

Interest income and other financial income from the Company's investments (primarily short-term deposits) was US\$565 thousand for the period ending 31 December 2013 (2012: US\$1.4 million). The decrease primarily resulted from the cash outflow of US\$303.9 million in July 2013 in connection with the acquisition of iWatt. Furthermore, a general decrease of interest rates on financial markets associated with the short term nature of our investments led to an additional decrease of interest income.

### Interest expense and other financial expense

Interest expense and other financial expense consist primarily of expenses from capital leases, hire purchase agreements and the Group's factoring arrangement. Furthermore, starting from the second quarter 2012 the expenses included the interest charges for the convertible bond and starting from the third quarter 2013 the interest charges for new loan facilities totalling US\$115 million (Outstanding at December 31, 2013: US\$105 million) which the Company contracted in connection with the acquisition of iWatt.

In 2013, interest and other financial expenses were US\$13.3 million (2012: US\$6.5 million). The amount in 2013 mainly includes two components related to the convertible bond: US\$2.0 million for a one per cent coupon payable on a semi-annual basis to the bond holders and US\$7.8 million (non cash) for the interest expense in connection with the measurement of the financial liability from the bond using the effective interest method. The interest expenses related to new debt facilities were US\$1.6 million. The year on year increase mainly results from charges relating to the convertible bond for which in 2013 we recorded expenses for the full 12 months compared to only five and a half months in 2012. In addition 2013 also includes the expenses for the new loan facility contracted in July of that year.

### Income tax expense

In 2013, a net IFRS income tax charge of US\$27.5 million was recorded (2012: US\$23.6 million) resulting in an effective tax rate of 30.7% (2012: 27.4%). The main reasons for the increase in the effective tax rate were that in 2013 a lower amount of previously unrecognised deferred tax assets was recognised and the effect on the tax rate arising from the acquisition of iWatt.

### Net profit

For the reasons described above, we reported a net IFRS profit of US\$62.2 million in 2013 (2012: US\$62.5 million). On an underlying (\*) basis, however, 2013 net profit increased year on year by US\$17.6 million to US\$97.6 million.

Basic and diluted IFRS earnings per share in 2013 were US\$0.95 and US\$0.92 respectively compared to basic and diluted IFRS earnings per share of US\$0.97 and US\$0.93 in 2012 respectively.

On an underlying basis (\*), Net Profit increased from US\$80.0 million in 2012 to US\$97.6 million in 2013 (10.7% of underlying total revenues)

### Liquidity and capital resources

#### Cash flows

**Cash flow generated from operating activities** was US\$110.7 million in 2013 (2012: US\$52.4 million). Cash inflow during 2013 was US\$170.8 million (2012: US\$139.7 million) and resulted from the Company's net profit adjusted by depreciation, amortisation and other non-cash effective expenses. This cash inflow was only partially offset by cash outflows for investments in working capital of US\$18.8 million (2012: US\$77.9 million cash outflow), demonstrating our capacity to manage working capital tightly despite the year on year revenue growth. In addition in 2013, the Company paid US\$41.3 million for income taxes

(2012: US\$9.5 million) as a result of German tax losses having been fully utilised in 2012.

**Cash used for investing activities** was US\$344.2 million for the period ending 31 December 2013 (2012: US\$54.3 million). Cash used for investing activities consisted primarily of the net cash outflow of US\$303.9 million in connection with the iWatt purchase and further investments in tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment totalling US\$23.2 million (2012: US\$35.0 million). The purchase of intangible assets were US\$9.5 million (2012: US\$13.4 million) and payments related to capitalised development costs were US\$6.0 million, flat to 2012.

**Cash flow from financing activities** was US\$106.7 million in 2013 compared to US\$200.7 million in 2012. The cash inflow in 2013 relates mainly to two debt facilities (in total US\$115 million) related to financing activities for the iWatt acquisition of which US\$10 million was pre-paid in Q4 2013. Further cash inflows resulted from share option exercises in connection with the Company's employee share option program. 2012 cash inflow came primarily from the proceeds of a Convertible Bond issued in April 2012 (US\$196.6 million).

#### Liquidity

At 31 December 2013 we had cash and cash equivalents of US\$186.0 million (31 December 2012: US\$312.4 million). The working capital

(defined as current assets minus current liabilities) was US\$284.4 million (31 December 2012: US\$420.9 million).

Total non-current financial liabilities as of 31 December 2013 were US\$265.7 million of which US\$171.9 million represents the book value of the liability from the convertible bond (31 December 2012: US\$164.2 million) and US\$84.2 million relate to two additional debt facilities.

Up to July 2013, the Company had a three-year (2011-2014) revolving credit facility of US\$35.0 million available for use that bears an interest rate of LIBOR +140bp. At 31 December 2012 we had no amounts outstanding under this facility. As of 16 July 2013, the facility was cancelled and replaced by a US\$ 25.0 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 but US\$ 10 million was subsequently pre-paid in December 2013. In addition to the RCF Dialog Group entered into a Base Currency term loan facility in an aggregate amount equal to US\$100.0 million.

In addition, we have two factoring agreements which provide the Company with up to US\$75.0 million of readily available cash. Accordingly, we believe the funding available from these and other sources will be sufficient to satisfy our working capital requirements in the near to medium term if needed.

## Statement of Financial Position

	At 31 December 2013 US\$000	At 31 December 2012 US\$000	Change US\$000	%
<b>Assets</b>				
Cash and cash equivalents and restricted cash	<b>186,025</b>	312,435	(126,410)	(40.5)
All other current assets	<b>261,419</b>	251,067	10,352	4.1
<b>Total current assets</b>	<b>447,444</b>	563,502	(116,058)	(20.6)
Property, plant and equipment, net	<b>58,465</b>	50,318	8,147	16.2
Goodwill	<b>244,878</b>	32,283	212,595	>500
Intangible assets	<b>148,591</b>	51,789	96,802	186.9
Investments	<b>1,531</b>	-	1,531	-
All other non-current assets	<b>1,608</b>	1,335	273	20.4
Deferred tax assets	<b>24,935</b>	8,913	16,022	179.8
<b>Total non-current assets</b>	<b>480,008</b>	144,638	335,370	231.9
<b>Total assets</b>	<b>927,452</b>	708,140	219,312	31.0
<b>Liabilities and Shareholders' equity</b>				
Current liabilities	<b>163,024</b>	142,650	20,374	14.3
Non-current liabilities	<b>307,778</b>	182,899	124,879	68.3
Net Shareholders' equity	<b>456,650</b>	382,591	74,059	19.4
<b>Total liabilities and Shareholders' equity</b>	<b>927,452</b>	708,140	219,312	31.0

The balance sheet total was US\$927.5 million at 31 December 2013 (31 December 2012: US\$708.1 million). Cash and cash equivalents decreased by US\$126.4 million or 40.5% to US\$186.0 million at 31 December 2013 (31 December 2012: US\$312.4 million). This decrease was mainly caused by the cash outflows from investing activities amounting to US\$344.2 million to finance the acquisition of iWatt Inc. in July 2013 which was partly offset by cash inflows from operating (US\$110.7 million) and financing (US\$106.7 million) activities.

Other current assets increased from US\$251.1 million at 31 December 2012 to US\$261.4 million at 31 December 2013. The increase of 4.1% is mainly driven by US\$ 42.7 million incremental trade accounts receivable but offset by a US\$34.9 million reduction in inventories when compared to 31 December 2012.

Total non-current assets increased significantly; mainly driven by the iWatt acquisition in the third quarter 2013 that led to the recognition of goodwill of US\$ 244.9 million (we refer to note 4 to the consolidated financial statements). Non-current assets totalling US\$134.9 million were added to the group's balance sheet during the initial consolidation of iWatt (we refer to note 4 to the consolidated financial statements for further information). In addition we have invested into tangible and intangible assets for a total of US\$32.7 million. These additions were more than offset by depreciation and amortisation charges in the amount of US\$47.2 million. Furthermore we have made a strategic equity

investment into Arctic Sand Technologies, Inc. amounting to US\$ 1.5 million, for further information we refer to our Q2-2013 interim financial statements.

Current liabilities increased by net US\$20.4 million which is mainly the result of the US\$ 19.8 million increase in other current financial liabilities. This increase represents mainly the short-term portion of the new debt facilities taken as a result of the iWatt acquisition.

The increase of non-current liabilities is mainly dominated by new debt facilities with a total fair value of US\$84.2 million, the deferred tax liability of US\$38.7 million relating to the purchase price allocation of the iWatt acquisition and the compounding of the convertible bond in the amount of US\$171.9 million.

Net debt which is defined as short and long-term financial liabilities less cash was US\$103.6 million at 31 December 2013. This compares to a net cash position (cash less financial liabilities) of US\$ 131.7 million at 31 December 2012. This change is mainly related to the purchase of iWatt as explained above.

Shareholders' equity increased to US\$456.7 million (US\$382.6 million at 31 December 2012) which is mainly a result of our net profit (adjusted by expenses for share based payments). The equity ratio was 49.2% (54.0% at 31 December 2012).

# Audited consolidated statement of financial position

As at 31 December 2013

	Notes	At 31 December 2013 US\$000	At 31 December 2012 US\$000
<b>Assets</b>			
Cash and cash equivalents	5	186,025	312,435
Trade accounts receivable and other receivable		127,336	82,887
Inventories	6	117,541	152,455
Income tax receivables	4	72	60
Other financial assets		3,994	3,120
Other current assets		12,476	12,545
<b>Total current assets</b>		<b>447,444</b>	<b>563,502</b>
Property, plant and equipment		58,465	50,318
Goodwill	3	244,878	32,283
Other intangible assets		148,591	51,789
Investments		1,531	–
Deposits		1,450	1,137
Income tax receivables	4	158	198
Deferred tax assets	4	24,935	8,913
<b>Total non-current assets</b>		<b>480,008</b>	<b>144,638</b>
<b>Total assets</b>		<b>927,452</b>	<b>708,140</b>
<b>Liabilities and Shareholders' equity</b>			
Trade and other payables		91,391	106,216
Other financial liabilities		23,923	4,117
Provisions		8,000	1,288
Income taxes payable		5,354	9,359
Other current liabilities		34,356	21,670
<b>Total current liabilities</b>		<b>163,024</b>	<b>142,650</b>
Provisions		1,488	603
Other non-current financial liabilities		265,657	176,617
Deferred tax liabilities (non-current)	4	40,633	5,679
<b>Total non-current liabilities</b>		<b>307,778</b>	<b>182,899</b>
Ordinary shares		12,852	12,852
Additional paid-in capital		246,289	243,829
Retained earnings		199,881	129,190
Other reserves		(130)	(427)
Employee stock purchase plan shares		(2,242)	(2,853)
<b>Net Shareholders' equity</b>		<b>456,650</b>	<b>382,591</b>
<b>Total liabilities and Shareholders' equity</b>		<b>927,452</b>	<b>708,140</b>

These financial statements were approved by the Board of Directors on 20 February 2014 and were signed on its behalf by:

**Dr Jalal Bagherli**  
Director



# Audited consolidated income statement

For the year ended 31 December 2013

	Notes	2013 US\$000	2012 US\$000
Revenue	7, 8	902,907	773,583
Cost of sales		(551,099)	(480,971)
<b>Gross profit</b>		<b>351,808</b>	292,612
Selling and marketing expenses	7	(49,000)	(38,669)
General and administrative expenses	7	(44,255)	(33,476)
Research and development expenses	7	(159,287)	(127,886)
Restructuring		–	(1,549)
Other operating income	3,8	3,394	–
<b>Operating profit</b>		<b>102,660</b>	91,032
Interest income		565	1,360
Interest expense		(13,345)	(6,466)
Foreign currency exchange gains (losses), net		(168)	199
<b>Result before income taxes</b>		<b>89,712</b>	86,125
Income tax expense	4	(27,508)	(23,612)
<b>Net profit</b>		<b>62,204</b>	62,513
		<b>2013</b>	2012
<b>Earnings per share (in US\$)</b>			
Basic		0.95	0.97
Diluted		0.92	0.93
<b>Weighted average number of shares (in thousands)</b>			
Basic	2	65,641	64,681
Diluted	2	67,676	67,354

# Audited statement of comprehensive income

For the year ended 31 December 2013

	2013 US\$000	2012 US\$000
<b>Net profit</b>	<b>62,204</b>	62,513
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</b>		
Exchange differences on translating foreign operations	<b>269</b>	(322)
Cash flow hedges	<b>91</b>	8,871
Income tax relating to components of other comprehensive income	<b>(63)</b>	(725)
<b>Other comprehensive income (loss) for the year, net of tax</b>	<b>297</b>	7,824
<b>Total comprehensive income for the year</b>	<b>62,501</b>	70,337

# Audited consolidated statement of cash flows

For the year ended 31 December 2013

	Notes	2013 US\$000	2012 US\$000
<b>Cash flows from operating activities:</b>			
Net profit		62,204	62,513
<b>Adjustments to reconcile net profit to net cash used for operating activities:</b>			
Interest income, net		12,780	5,106
Income tax expense	4	27,508	23,612
Impairment of inventories		14,445	8,207
Depreciation of property, plant and equipment		18,581	12,698
Amortisation of intangible assets		28,646	19,593
Losses on disposals of fixed assets and impairment of fixed assets		1,369	1,029
Expense related to share-based payments		8,487	6,955
<b>Changes in working capital:</b>			
Trade accounts receivable, other receivables and factoring		(33,418)	(36,158)
Inventories		26,871	(105,015)
Prepaid expenses		(923)	(159)
Trade accounts payable		(19,490)	55,652
Provisions		4,135	293
Other assets and liabilities		4,067	7,462
<b>Cash generated from operations</b>		<b>155,262</b>	<b>61,788</b>
Interest paid		(3,805)	(1,141)
Interest received		587	1,277
Income taxes paid		(41,365)	(9,483)
<b>Cash flow from operating activities</b>		<b>110,679</b>	<b>52,441</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment		(23,173)	(35,025)
Purchase of iWatt net of acquired cash	3	(303,851)	–
Purchase of intangible assets		(9,519)	(13,417)
Payments for capitalised development costs		(5,974)	(5,956)
Sale (purchase) of other investments		(1,500)	–
Change in other long term assets		(186)	98
<b>Cash flow used for investing activities</b>		<b>(344,203)</b>	<b>(54,300)</b>
<b>Cash flows from financing activities:</b>			
Cash flow from the convertible bond		–	196,631
Net cash flow from financial liabilities		103,650	–
Sale of employee stock purchase plan shares		3,071	4,114
<b>Cash flow from financing activities</b>		<b>106,721</b>	<b>200,745</b>
<b>Cash flow from (used for) operating, investing and financing activities</b>		<b>(126,803)</b>	<b>198,886</b>
<b>Net foreign exchange difference</b>		<b>393</b>	<b>(41)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(126,410)</b>	<b>198,845</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>312,435</b>	<b>113,590</b>
<b>Cash and cash equivalents at end of period</b>	5	<b>186,025</b>	<b>312,435</b>

# Audited consolidated statement of changes in equity

For the year ended 31 December 2013

	Ordinary Shares US\$000	Additional paid-in capital US\$000	Retained earnings US\$000	Other reserves			Total US\$000
				Currency translation adjustment US\$000	Hedges US\$000	Employee stock purchase plan shares US\$000	
<b>Balance at 1 January 2012</b>	<b>12,380</b>	<b>203,911</b>	<b>59,722</b>	<b>(1,879)</b>	<b>(6,372)</b>	<b>(3,158)</b>	<b>264,604</b>
Total comprehensive income (loss)	–	–	62,513	(85)	7,909	–	70,337
Conversion right embedded in Convertible Bond	–	37,393	–	–	–	–	37,393
Convertible Bond transaction cost attributable to conversion right	–	(814)	–	–	–	–	(814)
Capital Increase for employee share option plan (gross proceeds)	472	2,680	–	–	–	(3,152)	–
Transaction cost of capital increase - employee share option plan	–	(33)	–	–	–	–	(33)
Sale of employee stock purchase plan shares	–	692	–	–	–	3,457	4,149
Equity settled transactions, net of tax	–	–	6,955	–	–	–	6,955
<b>Changes in Equity total</b>	<b>472</b>	<b>39,918</b>	<b>69,468</b>	<b>(85)</b>	<b>7,909</b>	<b>305</b>	<b>117,987</b>
<b>Balance at 31 December 2012 / 1 January 2013</b>	<b>12,852</b>	<b>243,829</b>	<b>129,190</b>	<b>(1,964)</b>	<b>1,537</b>	<b>(2,853)</b>	<b>382,591</b>
Total comprehensive income (loss)	–	–	62,204	254	43	–	62,501
Sale of employee stock purchase plan shares	–	2,460	–	–	–	611	3,071
Equity settled transactions, net of tax	–	–	8,487	–	–	–	8,487
<b>Changes in Equity total</b>	<b>–</b>	<b>2,460</b>	<b>70,691</b>	<b>254</b>	<b>43</b>	<b>611</b>	<b>74,059</b>
<b>Balance at 31 December 2013</b>	<b>12,852</b>	<b>246,289</b>	<b>199,881</b>	<b>(1,710)</b>	<b>1,580</b>	<b>(2,242)</b>	<b>456,650</b>

# Notes to the consolidated financial statements

For the year ended 31 December 2013

## 1. Basis for preparation

The Annual Financial Report announcement was approved by the Board of Directors on 20 February 2014.

The financial information set out in this Annual Financial Report announcement for the year ended 31 December 2013 does not constitute the Group's statutory accounts as defined by s434 of the Companies Act but has been extracted from the 2013 statutory accounts on which an unqualified audit report has been made by the auditors, and which did not contain an emphasis of matter paragraph nor a statement under section 498(2) or (3) of CA 2006. The financial information included in the annual report announcement for the prior year ended 31 December 2012 has been extracted from the 2012 statutory accounts on which an unqualified audit report has been made by the auditors, and which did not contain an emphasis of matter paragraph nor a statement under section 498(2) or (3) of CA 2006.

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

The audited financial statements for the year ended 31 December 2012 have been delivered to the Registrar of Companies and those for 31 December 2013 will be delivered in due course.

## 2. Earnings per share

### Earnings per share

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

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

The weighted average number of shares outstanding is as follows:

	2013 000	2012 000
Basic number of shares	65,641	64,681
Effect of dilutive options outstanding	2,035	2,673
<b>Dilutive number of shares</b>	<b>67,676</b>	67,354

The number of anti-dilutive share options outstanding was 3,179,646 (2012: 1,071,524).

In 2013 the potential ordinary shares of the convertible bond were antidilutive as their conversion to ordinary shares would increase earnings per share.

## 3. Business combination

### Acquisition in 2013

On 16 July 2013 Dialog Semiconductor Plc acquired 100% of the voting rights of iWatt Inc. ("iWatt") for a purchase price with a fair value of US\$ 311,449,000 of which US\$306,261,000 was paid in cash at the time of the acquisition. Headquartered in Campbell, California, with approximately 180 employees worldwide, iWatt is a leading provider of digital power management integrated circuits with a patent portfolio of more than 110 patents and a strong design and application engineering presence in Asia. Its innovative PrimAccurate™ technology platform enables high performance, energy-efficient, small form-factor and cost-effective solutions for markets such as AC/DC power conversion and LED Solid State Lighting (SSL). The Company's solutions are designed into the products of leading global OEMs and it has shipped more than one billion power management ICs since 2007.

### **3. Business combination continued**

This acquisition underscores Dialog's strategy to diversify its markets and growth opportunities through select strategic acquisitions. iWatt's business is highly complementary to Dialog's existing PMIC business. It will enable the resulting business combination to address adjacent emerging power management segments and increase its Total Addressable Market. It diversifies Dialog's product portfolio adding two high growth product families; AC/DC charge adaptor IC and a broad range of LED Solid State Lighting ICs. iWatt's business contributes to the diversification of Dialog's client portfolio by adding new Tier-1 customers and expanding the business opportunities at existing smartphone Tier-1 OEMs.

The acquisition has been accounted for using the acquisition method as required by IFRS 3.4. Due to the timing of the acquisition the initial accounting for the business combination is incomplete at the time the financial statements were authorized for issue. The fair values recognized on the acquisition represent provisional amounts.

### 3. Business combination continued

#### Assets acquired and liabilities assumed

The book values at iWatt and provisional fair values of the identifiable assets and liabilities of iWatt as at the date of acquisition were:

	Book values at iWatt US\$000	Fair value adjustments US\$000	Fair value recognised on acquisition US\$000
<b>Assets</b>			
Cash and cash equivalents	2,410	–	2,410
Trade accounts receivable and other receivable	11,017	–	11,017
Inventories	6,034	6,996	13,030
Other current assets	776	–	776
Property, plant and equipment	1,749	3,117	4,866
Intangible assets <sup>1)</sup>	54	113,499	113,553
Deferred tax assets	16,200	–	16,200
Other non-current assets	314	–	314
<b>Total assets</b>	<b>38,554</b>	<b>123,612</b>	<b>162,166</b>
<b>Liabilities</b>			
Trade and other payables	11,585	–	11,585
Provisions	7,342	(3,903)	3,439
Income taxes payable	227	–	227
Other current liabilities	3,431	–	3,431
Deferred tax liabilities	–	44,630	44,630
<b>Total liabilities</b>	<b>22,585</b>	<b>40,727</b>	<b>63,312</b>
Total identifiable net assets at fair value	15,969	82,885	98,854
Goodwill arising on acquisition			212,595
<b>Purchase price</b>			<b>311,449</b>
Fair value of contingent consideration (earn out)			(5,188)
<b>Purchase consideration transferred</b>			<b>306,261</b>

[1] For further information please refer to note 13 of consolidated financial statements and notes for the year ended 31 December 2013 for allocation of fair value adjustments to Group's asset classes

The fair value of the trade receivables amounts to US\$11,017,000. None of the trade receivables have been impaired and it is expected that the full contractual amounts will be collected. The fair value of inventories contains a step-up of US\$6,801,000 which has an adverse impact on gross margin and the financial results for the current reporting period.

The intangible assets comprise mainly customer and technology (including core technology) related intangible assets.

The deferred tax assets mainly represent tax loss carryforwards, temporary differences relating to intangible assets, other temporary differences and tax credits.

The deferred tax liability mainly comprises the tax effect on fair value adjustments from the purchase price allocation.

### 3. Business combination continued

The goodwill of US\$212,595,000 comprises the value of expected significant synergies, especially with the Company's mobile system segment, and other benefits from combining the assets and activities of iWatt with those of the Dialog Group as explained above. The allocation of Goodwill to existing and new segments will be based on commercial information available on the acquisition date and finalised during the measurement period of 12 months subsequent to the acquisition date. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of the acquisition, iWatt has contributed US\$26,768,000 of revenue (net of US\$7,073,000 of deferred revenue which was not accounted for due to acquisition accounting rules) and a loss of US\$22,533,000 before tax which are presented in the Group's newly created segment Power Conversion. If iWatt had been acquired on 1 January 2013, revenue of the Group in 2013 would have been US\$942,520,000. However, due to a lack of IFRS-specific data prior to the acquisition of iWatt, pro-forma profit or loss of the combined entity in 2013 cannot be determined reliably.

#### Purchase consideration

The total purchase price consideration amounted to US\$306,261,000. There is an additional total contingent consideration (Earn out) of up to 35,000,000.

#### Analysis of cash flows from acquisition

	US\$000
Transaction costs of the acquisition (included in cash flows from operating activities)	<b>(3,974)</b>
Total cash outflow for acquisition (included in cash flows from investing activities)	<b>(306,261)</b>
Net cash acquired with the subsidiary (included in cash flows from investing activities)	<b>2,410</b>
<b>Net cash flow on acquisition</b>	<b>(307,825)</b>

Acquisition costs of US\$3,974,000 have been expensed and are included in general and administrative expenses in the income statement.

#### Contingent consideration

As part of the purchase agreement with the previous owner of iWatt, a contingent consideration has been agreed.

The contingent consideration is based on post-acquisition revenue targets to be achieved within two earn out periods, the six months ended 31 December 2013 (the "First Earn-Out Period") and the nine months ended September 30, 2014 (the "Second Earn-Out Period"). The maximum payment relating to the first earn out period is US\$17.0 million and the maximum payment relating to the second earn out period is US\$18.0 million. In relation to these earn outs we have initially recognized a provision of US\$5.2 million which was reduced to US\$1.9 million at 31 December 2013. The reduction of US\$3.3 million resulted in a gain which is included in other operating income in the consolidated income statement. We note that a minimum of 90% of the stretch targets set by former iWatt owners must be achieved before any earn out is achieved.

Other earn outs which are related to post acquisition employment are treated as post acquisition compensation and are expensed in the income statement over the relevant period.

The acquisition is being funded from both Dialog's existing cash resources and additional debt facilities of US\$115 million of which US\$10 million have been repaid in December 2013.

#### Consideration for unvested share options

At the Effective Date of acquisition, each unvested option on iWatt shares was cancelled. Instead, a cash compensation has been offered to employees with unvested options which had an Exercise Price per Option lower than the implied Share Price, calculated based upon the effective date consideration. This compensation will be paid out by Dialog over the former vesting period of the cancelled option subject to the employee remaining with Dialog and will be recorded as compensation expense in the income statement. The maximum amount of compensation that will be paid out is US\$3,175,000.



#### 4. Income taxes

Income (loss) before income taxes consists of the following:

	2013 US\$000	2012 US\$000
Germany	118,932	96,999
Foreign	(29,220)	(10,874)
	<b>89,712</b>	<b>86,125</b>

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

	2013 US\$000	2012 US\$000
<b>Current taxes:</b>		
Germany	(36,105)	(12,819)
Foreign	403	(852)
<b>Deferred taxes:</b>		
Germany	943	(14,860)
Foreign	7,251	4,919
<b>Income tax expense</b>	<b>(27,508)</b>	<b>(23,612)</b>

	2013 US\$000	2012 US\$000
<b>Current taxes:</b>		
Current income tax charge	(36,105)	(13,391)
Adjustments in respect of current income tax of previous year	403	(280)
<b>Deferred taxes:</b>		
Relating to origination and reversal of temporary differences	8,194	(12,073)
Relating to a reversal of a previous write-down of a deferred tax asset	–	2,132
<b>Income tax expense</b>	<b>(27,508)</b>	<b>(23,612)</b>

Although Dialog Plc. is a UK company, its principal operations are located in Germany. Accordingly, the following information is based on German corporate tax law.

The tax rate for its German subsidiary is 15%; considering the impact of the solidarity surcharge of 5.5%, the federal corporate tax rate amounts to 15.8%. Combining the federal corporate tax rate with the trade tax rate of 12.6%, the combined statutory tax rate of the German subsidiary is 28.4%.

#### 4. Income taxes continued

A reconciliation of income taxes determined using the combined German income tax rate of 28.4% (2012: 28.4%), is as follows:

	2013 US\$000	2012 US\$000
Expected income tax expense	(25,457)	(24,439)
Tax rate differential	(652)	(568)
Non-deductible portion of share based payments	(2,276)	(1,782)
Tax benefit from share based payments	1,487	3,434
Tax free income (non-deductible expenses)	(71)	(291)
Recognised deferred tax assets relating to a reversal of a previous write-down of deferred tax assets and first time recognition of deferred tax assets relating to prior years	–	2,132
Benefit from previously unrecognised deferred tax assets that is used to reduce current tax expense	1,983	1,631
Additional losses for which no deferred tax asset is recognised	(2,827)	(2,543)
Adjustments recognised for tax of prior periods	302	(388)
Differences arising from differences between functional currency and tax currency	(45)	(773)
Other	48	(25)
<b>Actual income tax expense</b>	<b>(27,508)</b>	<b>(23,612)</b>

Deferred income tax assets and liabilities are summarised as follows:

	At 31 December 2013 US\$000	At 31 December 2012 US\$000
Temporary differences relating to intangible assets	(43,028)	(5,111)
Other temporary differences	1,913	2,178
Deferred taxes in relation to tax credits	2,771	–
Net operating loss carryforwards	22,646	6,167
<b>Total net deferred tax assets</b>	<b>(15,698)</b>	<b>3,234</b>
<b>Impaired deferred tax assets</b>	<b>–</b>	<b>–</b>
<b>Recognised net deferred tax assets</b>	<b>(15,698)</b>	<b>3,234</b>

#### 4. Income taxes continued

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

	31 December 2013			31 December 2012		
	Tax loss carryforwards US\$000	Temporary Differences US\$000	Net deferred tax assets (liabilities) US\$000	Tax loss carryforwards US\$000	Temporary Differences US\$000	Net deferred tax assets (liabilities) US\$000
Germany	–	1,026	288	629	(2,181)	(440)
UK	73,600	31,968	–	69,739	23,084	–
Netherlands	23,258	(7,863)	3,849	19,384	(13,244)	945
US <sup>1)</sup>	64,509	(112,154)	(20,398)	4,029	928	2,132
Other	–	1,563	563	–	1,296	597
<b>Total</b>	<b>161,367</b>	<b>(85,460)</b>	<b>(15,698)</b>	<b>93,781</b>	<b>9,883</b>	<b>3,234</b>

[1] Including an estimated amount of US\$39,847,000 (2012: US\$2,806,000) for state tax loss carryforwards

The amount of deductible temporary differences and unused tax loss carryforwards for which no deferred tax asset is recognised in the balance sheet is US\$121,579,000 (2012: US\$95,179,000). In addition, no deferred tax asset is recognised in respect of tax credits of US\$3,643,000 (2012: nil).

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

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

The tax loss carryforwards in the US will expire between 2018 and 2033 and in the Netherlands between 2017 and 2019; other tax loss carryforwards have no expiration date.

The amount shown under "income tax receivables" in the statement of financial position includes a corporation tax refund claim of the Group's German subsidiary. The total amount the German subsidiary is entitled to receive amounts to €414,000 to be paid out in ten equal amounts during 2008 to 2017. The amount shown within the non-current assets represents the discounted part of the claim that is due after 2014. The amount that will be paid in 2014 is shown within the current assets.

#### 5. Cash and cash equivalents

	At 31 December 2013 US\$000	At 31 December 2012 US\$000
Cash at bank	151,016	136,117
Short-term deposits	35,009	170,000
Deposits designated as a hedging instrument	–	6,318
<b>Cash and cash equivalents</b>	<b>186,025</b>	<b>312,435</b>

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

## 6. Inventories

Inventories are comprised of the following:

	At 31 December 2013 US\$000	At 31 December 2012 US\$000
Raw materials	14,276	20,686
Work-in-process	26,815	51,739
Finished goods	76,438	79,942
Deposits	12	88
	<b>117,541</b>	152,455

## 7. Segmental reporting

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

The Group reports on four (2012: 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 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. (please refer to Note 4 for further information).

## 7. Segmental reporting continued

	2013						2012				
	Mobile Systems US\$000	Automotive/ Industrial US\$000	Connectivity US\$000	Power Conversion US\$000	Corporate <sup>3)</sup> US\$000	Total US\$000	Mobile Systems US\$000	Automotive/ Industrial US\$000	Connectivity US\$000	Corporate US\$000	Total US\$000
Revenues <sup>1)</sup>	<b>744,869</b>	<b>37,814</b>	<b>92,588</b>	<b>26,768</b>	<b>868</b>	<b>902,907</b>	638,765	38,686	96,133	(1)	773,583
R&D expenses	<b>118,091</b>	<b>1,194</b>	<b>21,705</b>	<b>8,806</b>	<b>9,491</b>	<b>159,287</b>	96,586	3,613	24,590	3,097	127,886
Operating profit (loss) <sup>2)</sup>	<b>141,242</b>	<b>12,211</b>	<b>(2,121)</b>	<b>(22,533)</b>	<b>(26,139)</b>	<b>102,660</b>	112,244	8,127	(13,144)	(16,195)	91,032
Depreciation/ amortisation	<b>35,230</b>	<b>152</b>	<b>5,467</b>	<b>5,163</b>	<b>1,215</b>	<b>47,227</b>	26,268	508	5,515	–	32,291
Inventory impairment, impairment of fixed assets and fixed asset disposal losses	<b>11,832</b>	<b>154</b>	<b>2,200</b>	<b>1,504</b>	<b>124</b>	<b>15,814</b>	8,470	26	740	–	9,236
Investments	<b>27,199</b>	<b>117</b>	<b>4,220</b>	<b>3,986</b>	<b>938</b>	<b>36,460<sup>4)</sup></b>	55,693	1,077	11,692	–	68,462 <sup>5)</sup>
	At 31 Dec 2013						At 31 Dec 2012				
Inventories	<b>93,604</b>	<b>7,460</b>	<b>11,227</b>	<b>4,752</b>	<b>498</b>	<b>117,541</b>	129,121	7,989	14,868	477	152,455

[1] All revenues are from sales to external customers

[2] Certain overhead costs are predominantly allocated based on sales and headcount.

The Operating loss of the Corporate Segment results from Holding and Trust related expenses, share option and business development costs

[3] The revenue in the corporate column include mainly the BenQ settlement (please refer to note 8) and sales discounts

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

[5] Including 35,048 US\$000 additions to PPE, 33,512 US\$000 additions to intangible assets and -98 US\$000 deposits

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

In 2013 and 2012 the Group had no inter-segment sales, income, expenses, receivables, payables or provisions.

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

### b) Corporate

Revenues in the Corporate column include sales discounts on early payment of US\$ nil (2012: US\$1,000). The amount in 2013 also includes the BenQ Cash settlement of US\$851,000.

R&D expenses in the Corporate column predominantly include stock option expenses, expenses for the Management Long Term Incentive Plan (LTIP) and expenses for the Executive Incentive Plan (EIP) of US\$ 3,564,000 (2012: US\$2,950,000). Furthermore there are US\$5,789,000 (2012: US\$478,000) development expenses for new technology projects.

The operating losses recorded in the corporate column for the year ended 31 December 2013 of US\$26,139,000 (2012: US\$16,195,000) are primarily resulting from stock option expenses US\$8,487,000 (including LTIP and EIP) (2012: US\$5,808,000), the costs of the holding company US\$12,838,000 (2012: US\$9,910,000) and expenses for developing new technology projects US\$8,783,000 (2012: US\$478,000). Additionally in 2013 the BenQ cash settlement in the amount of US\$996,000 (2012: US\$ nil) was included as well as another operating income of US\$3,249,000 resulting from release of earn out provision.

## 7. Segmental reporting continued

## c) Geographic information – Revenues by shipment destination

	2013 US\$000	2012 US\$000
<b>Revenues</b>		
United Kingdom	945	2,317
Other European countries	63,183	72,722
China	742,324	600,991
Other Asian countries	87,994	90,294
Other countries	8,461	7,259
<b>Total revenues</b>	<b>902,907</b>	<b>773,583</b>

<b>Investments</b>		
Germany	21,072	38,278
Japan	121	41
United Kingdom	8,266	3,044
Netherlands	3,599	3,391
USA	1,796	22,686
Taiwan	145	420
Singapore	97	369
Other	1,364	233
<b>Total investments</b>	<b>36,460</b>	<b>68,462</b>

	At 31 December 2013 US\$000	At 31 December 2012 US\$000
<b>Assets</b>		
Germany	438,816	461,824
USA	377,293	23,334
Japan	1,946	2,459
United Kingdom	54,316	159,978
Netherlands	51,477	57,608
Other	3,604	2,937
<b>Total assets</b>	<b>927,452</b>	<b>708,140</b>

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

## **8. BenQ settlement**

In the fourth quarter of 2013, the company received an unexpected cash settlement of US\$996,000. As the allocation of the payment was not confirmed by the paying party, we were only able to allocate it in Q4 to receivables which had been previously written down and revenues that had not been recognised in 2006 as a result of the insolvency of BenQ Mobile. The amount represents 15% of the original claim to BenQ Mobile. Of this amount, US\$851,000 were classified as revenue and US\$145,000 were classified as other operating income. The amount shown as revenue represents prior period revenue. As one of the criteria for revenue recognition under IFRS was not met, for this amount the related revenue was not accounted for in 2006. The amount shown as other operating income was previously recognised as revenue in the periods preceding the insolvency but the underlying receivables were written down against other operating expenses.

## **9. Subsequent event**

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

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