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Key products



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Press Release – 30 July 2014

DIALOG SEMICONDUCTOR REPORTS SECOND QUARTER RESULTS ENDED 27 JUNE 2014

*Company delivers second quarter year on year revenue growth of 45%
and increasing profitability*

London, UK, 30 July 2014 - Dialog Semiconductor plc (FWB: DLG), a provider of highly integrated power management, AC/DC, solid state lighting and Bluetooth® Smart wireless technology, today reports results for its second quarter ending 27 June 2014.

Q2 2014 financial highlights

- Revenue up 45% over Q2 2013 to \$219 million
- IFRS gross margin increased sequentially and year on year to 43.2%
- Underlying (*) EBITDA (***) at \$37.8 million or 17.2% of revenue
- IFRS operating profit (EBIT) at \$15.9 million or 7.3% of revenue
- Underlying (*) basic and diluted EPS up 113% and 121% respectively over Q2 2013. IFRS basic and diluted EPS up 333% over Q2 2013
- \$21.7 million of cash generated from operations

Q2 2014 operational highlights

- Design win momentum continues for Power Management smartphone and tablet designs
- Expanding our leadership position in the emerging mobile device fast charging segment
- Entering the fast growing PC and tablet peripherals market with SmartBond™ our Bluetooth® Smart SoC
- Our collaboration with Asia based chipset partners to address their local markets continued to build momentum

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

"During the second quarter, Dialog delivered an excellent set of results, once again achieving robust revenue growth and increased profitability. In addition to this, we maintained positive momentum in product innovation with new launches in the fast charging segment along with further market adoption of our industry leading Bluetooth® Smart SoC."

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

We remain focused on delivering a successful steep ramp of a number of new products through the next two quarters to meet customer demand."

Outlook

Given our current visibility, we continue to anticipate that 2014 will be another year of good growth driven by a solid ramp of high volume new products.

In Q3 2014, we expect revenue for the quarter to be in the range of \$240 to \$265 million.

Gross margin in Q3 2014 is expected to improve year on year and be broadly in line with Q2 2014. We expect gross margin for the full year 2014 to be above 2013.

Financial overview

IFRS US\$ million	Second Quarter 2014**	2013*	Var.	First Half 2014**	2013*	Var.
Revenue	219.3	151.1	45%	440.1	330.8	+33%
Gross Margin	43.2%	37.8%	+540bps	42.7%	38.0%	+470bps
R&D %	23.1%	22.0%	+110bps	21.9%	21.1%	+80bps
SG&A %	13.4%	12.1%	+130bps	12.5%	10.3%	+220bps
EBIT	15.9	6.1	+162%	38.9	22.6	+72%
EBIT %	7.3%	4.0%	+330bps	8.9%	6.8%	+210bps
Net income	9.0	2.1	+332%	23.1	12.0	+93%
Basic EPS \$	0.13	0.03	+333%	0.35	0.18	+94%
Diluted EPS \$	0.13	0.03	+333%	0.33	0.18	+83%
Operating cash flow	21.7	57.7	(62)%	150.6	78.2	+93%

(*) Including \$2.9 million of acquisition related costs

(**) Including \$0.8 million of costs related to merger discussions with ams AG.

Underlying US\$ million	Second Quarter 2014	2013	Var.	First Half 2014	2013	Var.
Gross Margin	44.5%	38.0%	+650bps	43.9%	38.2%	+570bps
EBITDA	37.8	19.8	+91%	79.1	48.1	+64%
EBITDA %	17.2%	13.1%	+410bps	18.0%	14.5%	+350bps
EBIT	28.4	12.0	+136%	60.6	31.0	+96%
EBIT %	12.9%	8.0%	+490bps	13.8%	9.4%	+440bps
Net income	21.7	9.6	+124%	45.3	23.6	+92%
Basic EPS \$	0.32	0.15	+113%	0.68	0.36	+89%
Diluted EPS \$	0.31	0.14	+121%	0.65	0.35	+86%

The presentation of income and related expenses from customer specific research and development costs has changed. Please see note 2 of the Q2 2014 Interim Report.

Revenue in Q2 2014 was up 45% year on year at \$219 million, 8% above the mid-point of our Q2 guidance range. During the quarter Mobile Systems segment revenue increased 39% over Q2 2013.

Q2 2014 IFRS gross margin was 540bps above Q2 2013 and 110bps above the previous quarter. This was the result of the following three points:

- Higher revenue achieved in the quarter
- Yield and test time improvements in high volume products
- Positive product mix contribution from the last generation of products in Mobile Systems and from Power Conversion.

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

In Q2 2014 underlying (*) net OPEX as a percentage of revenue was at 31.6%, 160bps above Q2 2013 including the consolidation of Power Conversion (iWatt Inc.) into the Group. This supports our growth strategy and the higher revenue contribution expected in H2 2014. On a trailing twelve month basis, Underlying OPEX % was 60bps below Q2 2013.

Underlying (*) R&D investment in Q2 2014 stood at 21.8% of revenue, 50bps above Q2 2013 and including the consolidation of Power Conversion into the Group. This is in line with the company's strategy of continuous innovation, diversification of its product portfolio and revenue growth.

Underlying (*) SG&A in Q2 2014 stood at 10.0% of revenue, 90bps above Q2 2013 primarily as a result of the consolidation of Power Conversion into the Group, where the current revenue is not yet high enough to absorb fixed costs and on-going investments in support functions.

In Q2 2014 we achieved IFRS and underlying (*) EBIT of \$15.9 million and \$28.4 million respectively, 162% and 136% over Q2 2013. Underlying EBIT margin in the quarter was 12.9%. The Q2 2014 underlying EBIT increase of 136% was primarily driven by good performance in the Mobile Systems segment. On an underlying (*) basis, Q2 2014 operating profit (EBIT) for the Power Conversion segment was \$0.3 million.

In total, a net tax charge of \$3.6 million was recorded in Q2 2014. This represents an effective tax rate of 28.5% (Q2 2013: 30.0%). The decrease in our group effective tax rate is driven by the on-going exercise to align our Intellectual Property ownership with the commercial structure of the group. This should allow Dialog to utilise as yet unrecognised UK loss carry forwards and to benefit from the favourable UK Tax regime 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 Q2 2014, underlying (*) net income and underlying EPS improved significantly year on year. Underlying Diluted EPS in Q2 2014 was 31 cents, 121% above the same quarter of 2013.

At the end of Q2 2014, our total inventory level was \$119 million (or ~86 days), an increase of \$31 million over the prior quarter, in line with our expectations. This represents a sequential 24 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 demand. During Q3 2014 we expect inventory value to increase but inventory days to decrease from Q2 2014 in anticipation of a number of high volume product launches.

At the end of Q2 2014, we had cash and cash equivalents balance of \$272 million which was after \$25 million early debt repayment. In the second quarter we generated \$22 million of cash from operations. At the end of Q2 2014, the balance of our Term Loan (put in place to acquire iWatt) was \$65 million. We intend to do further early debt repayments during the course of Q3 2014.

() Underlying results (net of tax) in Q2-2014 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$6.8 million, excluding US\$0.2 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\$0.6 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, US\$0.8 million of expenses associated with the merger discussions with ams AG and excluding the gain of US\$0.7m from the release of an earn out provision in relation to the iWatt acquisition*

Underlying results (net of tax) in Q2-2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$1.6 million, excluding US\$0.9 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US\$1.9 million non-cash 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 and excluding costs of US\$2.9 million acquisition expenses in connection with the purchase of iWatt and its related tax effects.

Underlying results (net of tax) in H1-2014 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$10.6 million, excluding US\$0.8 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US\$5.4 million of amortisation and depreciation expenses associated with the acquisition of iWatt, excluding US\$4.0 million non-cash interest expense in connection with the convertible bond, US\$0.4 million non-cash effective interest expense related to a licensing agreement entered into in Q3-2012, excluding US\$0.8 million acquisition and integration expenses associated with the acquisition of iWatt, US\$0.8 million of expenses associated with the merger discussions with ams AG and excluding the gain of US\$0.7m from the release of an earn out provision in relation to the iWatt acquisition.

Underlying results (net of tax) in H1-2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$2.8 million, excluding US\$1.7 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US\$3.8 million non-cash interest expense in connection with the convertible bond, excluding US\$0.4 million non-cash effective interest expense related to a licensing agreement entered into in Q3-2012, excluding costs of US\$2.9 million incurred during the acquisition of iWatt and its the related tax effects.

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 Q2-2014 is defined as operating profit excluding depreciation for property, plant and equipment, (Q2 2014:US\$6.0 million, Q2 2013:US\$4.1 million), amortisation of intangible assets (Q2 2014:US\$8.3 million, Q2 2013:US\$4.9 million) and losses on disposals and impairment of fixed assets (Q2 2014:US\$0.2 million, Q2 2013:US\$0.0 million).*

EBITDA in H1-2014 is defined as operating profit excluding depreciation for property, plant and equipment (H1-2014: US\$11.4 million, H1 2013: US\$8.0 million), amortisation for intangible assets (H1-2014: US\$16.2 million, H1-2013: US\$10.0 million) and losses on disposals and impairment of fixed assets (H1-2014: US\$0.3 million, H1-2013: US\$0.3 million).

Operational overview

During the quarter we completed a number of our highly integrated PMIC designs which are being sampled to our customers, before transition into our production environment. Our R&D teams are now engaged in next generation designs, using existing 0.25 micron BCD technology and the new 0.13 micron BCD technology for products to be launched in 2015 and beyond.

The mobile device fast charging segment continued to gain momentum. During the second quarter our Power Conversion Business Group expanded its leadership position in this segment:

- Launched a rapid charge AC/DC controller compatible with MediaTek Pump Express Plus™ targeting the higher power class Chinese tablet and smartphone market
- Started shipping in volume our Qualcomm Quick Charge 2.0-compatible AC/DC adapter IC in the Japanese smartphone supply market to customers including Hosedin Corporation.

Widespread adoption of Bluetooth® Smart connectivity continues to gain momentum across multiple vertical segments. During the quarter we announced the use of SmartBond™ into the fast growing PC and tablet peripherals market with a wireless keyboard reference design. This reference design will help our customers minimise development costs and workload while ensuring fast time-to-market. SmartBond™ leads the industry in terms of lowest power consumption and smallest form factor.

We continued to make positive progress during the quarter on our multiple China market initiatives across the three business groups. We target the fast growing China LTE smartphone market, partnering with the key players for our high integrated power management solutions. We expect revenue from these design wins to start in Q4 2014. In addition, we have secured early design wins for our AC/DC rapid charge solutions supporting Mediatek's PumpExpress™ platforms across multiple power classes with the top China smartphone manufacturers, and now start to ship early production volumes. Our Bluetooth SmartBond™ SOC gained traction in multiple applications including new generation fitness bands.

During the quarter we launched a highly-efficient switching charger IC with an integrated high-accuracy fuel gauge addressing the fast growing China smartphone LTE market. The DA9150 targets USB powered smartphones for the China market, tablets and emerging wearable devices.

* * * * *

Dialog Semiconductor invites you today at 10.00 am (London) / 11.00 am (Frankfurt) to take part in a live conference call and to listen to management's discussion of the Company's Q2 2014 performance, as well as guidance for Q3 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 **#69920626**. 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 27 June 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 tables detail the interim consolidated statements of the operations of Dialog for the three and six months ended 27 June 2014 and 28 June 2013:

	Three months ended 27 June 2014		Three months ended 28 June 2013 ^{*)}		Change %
	US\$000	% of revenues	US\$000	% of revenues	
Revenues					
Mobile Systems	166,330	75.9	119,902	79.3	38.7
Automotive / Industrial	10,518	4.8	7,508	5.0	40.1
Connectivity	22,841	10.4	23,712	15.7	(3.7)
Power Conversion	19,566	8.9	-	0.0	-
Corporate Sector	5	0.0	-	0.0	-
Revenues	219,260	100.0	151,122	100.0	45.1
Cost of sales	(124,475)	(56.8)	(93,991)	(62.2)	32.4
Gross profit	94,785	43.2	57,131	37.8	65.9
Selling and marketing expenses	(14,798)	(6.7)	(8,478)	(5.6)	74.5
General and administrative expenses	(14,630)	(6.7)	(9,853)	(6.5)	48.5
Research and development expenses	(50,672)	(23.1)	(33,263)	(22.0)	52.3
Other operating income	1,233	0.6	528	0.3	133.5
Operating profit	15,918	7.3	6,065	4.0	162.5
Interest income and other financial income	166	0.1	170	0.1	(2.4)
Interest expense and other financial expense	(3,666)	(1.7)	(2,874)	(1.9)	27.6
Foreign currency exchange gains and losses, net	213	0.1	(377)	(0.2)	-
Result before income taxes	12,631	5.8	2,984	2.0	323.3
Income tax expense	(3,600)	(1.6)	(895)	(0.6)	302.2
Net profit	9,031	4.1	2,089	1.4	332.3

*) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively. For further information please refer to note 2 of the Q2 financial statements.

	Six months ended 27 June 2014		Six months ended 28 June 2013 ^{*)}		Change %
	US\$000	% of revenues	US\$000	% of revenues	
Revenues					
Mobile Systems	340,335	77.3	270,029	81.6	26.0
Automotive / Industrial	20,909	4.8	16,594	5.0	26.0
Connectivity	40,793	9.3	44,199	13.4	(7.7)
Power Conversion	38,070	8.6	-	0.0	-
Corporate Sector	5	0.0	-	0.0	-
Revenues	440,112	100.0	330,822	100.0	33.0
Cost of sales	(252,355)	(57.3)	(205,094)	(62.0)	23.0
Gross profit	187,757	42.7	125,728	38.0	49.3
Selling and marketing expenses	(28,814)	(6.6)	(17,012)	(5.1)	69.4
General and administrative expenses	(26,158)	(5.9)	(17,098)	(5.2)	53.0
Research and development expenses	(96,421)	(21.9)	(69,775)	(21.1)	38.2
Other operating income	2,534	0.6	782	0.2	224.0
Operating profit	38,898	8.9	22,625	6.8	71.9
Interest income and other financial income	208	0.0	341	0.1	(39.0)
Interest expense and other financial expense	(7,291)	(1.6)	(5,703)	(1.7)	27.8
Foreign currency exchange gains and losses, net	550	0.1	(142)	0.0	-
Result before income taxes	32,365	7.4	17,121	5.2	89.0
Income tax expense	(9,224)	(2.1)	(5,136)	(1.6)	79.6
Net profit	23,141	5.3	11,985	3.6	93.1

*) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively. For further information please refer to note 2 of the Q2 financial statements.

Results of Operations

Segment Reporting

Revenues in the **Mobile Systems segment** (see Note 3 to the interim consolidated financial statements and notes - Segment Reporting) were US\$166.3 million for the three months ended 27 June 2014 (Q2 2013: US\$119.9 million) comprising 75.9% of our total revenues (Q2 2013: 79.3%). For the first six months of 2014, revenues in this segment were US\$340.3 million compared to US\$270.0 million in the same period of 2013, an increase of 26.0%. The increase in this sector 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\$11.0 million for the three months ended 28 June 2013 to US\$30.5 million for the three months ended 27 June 2014. For the first six months of 2014, the operating profit in this segment was US\$64.9 million compared to US\$29.9 million in the same period of 2013, an increase of 117.1%. This was mainly a result of higher revenues and improved product margins.

Revenues from our **Automotive / Industrial Applications segment** were US\$10.5 million for the three months ended 27 June 2014 (Q2 2013: US\$7.5 million) representing 4.8% of our total revenues (Q2 2013: 5.0%). For the first six months of 2014, revenues in this segment were US\$20.9 million compared to US\$16.6 million in the same period 2013,

an increase of 26.0%. The operating profit was US\$2.9 million for the three months ended 27 June 2014 (Q2 2013: US\$2.2 million). For the first six months of 2014, operating profit increased from US\$5.3 million in H1 2013 to US\$6.1 million. This was mainly driven by increased product margins from increased manufacturing yields.

Revenues from our **Connectivity segment** were US\$22.8 million or 10.4% of total revenues for Q2 2014 compared to US\$23.7 million or 15.7% of total revenues for Q2 2013, a decrease of 3.7%. For the first six months of 2014, revenues in this segment were US\$40.8 million or 9.3% of total revenues compared to US\$44.2 million in the same period 2013 or 13.4% of total revenues, a decrease of 7.7%. This decrease in revenues can be attributed to the continuous softness in the legacy DECT cordless phone business which is currently only partly offset by emerging growth in new markets such as DECT based professional cordless headsets and microphones and the emerging Smart Bluetooth for which we have very competitive product offerings. For Q2 2014 the Connectivity segment contributed an operating loss of US\$1.0 million, compared to an operating profit of US\$2.3 million for Q2 2013. As a percentage of revenue the profit of 9.5% for Q2 2013 turned to a loss of 4.2% for Q2 2014. In H1 2014, we recorded an operating loss of US\$3.0 million, compared to an operating profit of US\$2.1 million in H1 2013. This adverse movement is driven by: lower fixed cost coverage due to lower seasonal revenues in legacy products and higher R&D-expenses to support the segment's growth strategy in Bluetooth Smart where material revenues are expected in the second half of 2014. Amortisation expenses

relating to the purchase price allocation decreased from US\$2.3 million for H1 2013 to US\$1.0 million for H1 2014 after some assets were fully amortised in 2013. The operating profit in H1 2013 included a gain of US\$0.1 million that relates to lower National Insurance provisions for UK based employees associated with share options as a result of the share price decrease in H1 2013. The operating loss in H1 2014 included an

expense of US\$0.2 million as a result of the share price increase in H1 2014. From an underlying (*) point of view, Connectivity operating loss were US\$1.8 million in H1 2014, compared to an operating profit of US\$4.3 million in H1 2013.

The Connectivity segment's underlying financial performance for Q2 2014 and Q2 2013 is summarised below:

US\$000	Three months ended 27 June 2014			Three months ended 28 June 2013		
	IFRS	Adjustments	Underlying *)	IFRS	Adjustments	Underlying *)
Revenues	22,841	-	22,841	23,712	-	23,712
Operating profit (loss)	(965)	394	(571)	2,260	1,158	3,418

*) Underlying results in Q2 2014 are based on the IFRS interim income, adjusted to exclude US\$0.3 million (Q2 2013 US\$1.1 million) of amortisation expenses related to intangible assets associated with the acquisition of Dialog B.V. and excluding expenses of US\$0.1 million for National Insurance related to share options.

The Connectivity segment's underlying financial performance for H1 2014 and H1 2013 is summarised below:

US\$000	Six months ended 27 June 2014			Six months ended 28 June 2013		
	IFRS	Adjustments	Underlying *)	IFRS	Adjustments	Underlying *)
Revenues	40,793	-	40,793	44,199	-	44,199
Operating profit (loss)	(2,976)	1,205	(1,771)	2,109	2,220	4,329

*) Underlying results in H1 2014 are based on IFRS consolidated interim income statement, adjusted to exclude US\$1.0 million (H1 2013 US\$2.3 million) of amortisation of intangibles associated with the acquisition of Dialog B.V. and excluding expenses for National Insurance of US\$0.2 million (H1 2013 benefit of US\$0.1 million) related to share options.

The Power Conversion segment consists of our subsidiary Dialog Semiconductor Inc. (former iWatt Inc.) which was for the first time consolidated in Q3 2013. The Revenues from our **Power Conversion segment** were US\$19.6 million or 8.9% of total revenues in Q2 2014 and were US\$38.1 million or 8.6% of total revenues in H1 2014. The operating loss in this segment was US\$4.6 million in Q2 2014 (H1 2014: US\$9.3 million). Underlying (*) operating profit of Q2 2014 was US\$0.3 million (H1 2014: US\$0.1 million profit) and does not include depreciation and amortisation expenses related to the acquisition accounting in the amount of US\$4.2 million (H1 2014: US\$8.3 million), one-time expenses of US\$0.6 million (H1 2014: US\$0.8 million) related to the acquisition and integration of iWatt and US\$0.2 million (H1 2014: US\$0.3 million) for National Insurance expenses related to share options. See table below.

The Power Conversion segment's underlying financial performance for Q2 2014 is summarised below:

US\$000	Three months ended 27 June 2014		
	IFRS	Adjustments	Underlying *)
Revenues	19,566	-	19,566
Operating profit (loss)	(4,595)	4,921	326

*) Underlying results in Q2 2014 are based on the IFRS interim income, adjusted to exclude US\$4.2 million of amortisation expenses related to intangible assets associated with the acquisition of iWatt Inc. and excluding expenses for National Insurance of US\$0.2 million related to share options as well excluding acquisition and integration costs of US\$0.6 million.

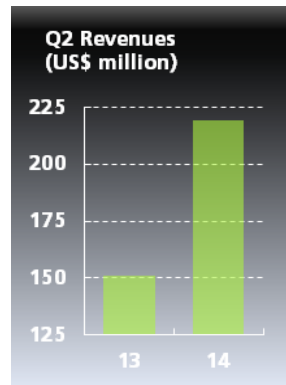
The Power Conversion segment's underlying financial performance for H1 2014 is summarised below:

US\$000	Six months ended 27 June 2014		
	IFRS	Adjustments	Underlying *)
Revenues	38,070	-	38,070
Operating profit (loss)	(9,347)	9,442	95

*) Underlying results in H1 2014 are based on the IFRS interim income, adjusted to exclude US\$8.3 million of amortisation expenses related to intangible assets associated with the acquisition of iWatt Inc. and excluding expenses for National Insurance of US\$0.3 million related to share options as well excluding acquisition and integration costs of US\$0.8 million.

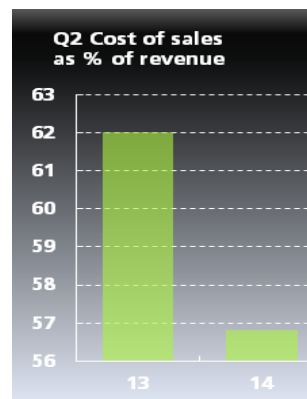
Revenues

Total revenues were US\$219.3 million for the three months ended 27 June 2014 (Q2 2013: US\$151.1 million). For the first six months of 2014, revenues were US\$440.1 million compared to US\$330.8 million in the same period 2013. The increase of 33.0% in revenues from H1 2013 to H1 2014 results mainly from higher sales volumes (including iWatt now) and increasing ASPs due to the increased contribution of higher value devices in our Mobile Systems segment.



Cost of sales

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs and applicable overhead and depreciation of test and other equipment. IFRS Cost of sales increased by 32.4% from US\$94.0 million for the three months ended 28 June 2013 to US\$124.5 million for the three months ended 27 June 2014, resulting from increased revenues compared to Q2 2013 and including the revenues from the Power Conversion segment (iWatt). As a percentage of revenues, IFRS cost of sales decreased from 62.2% to 56.8%. This decrease can largely be attributed to material cost reductions and the on-going collaboration with our foundry and backend partners to gradually improve our manufacturing efficiencies. For the same reason IFRS Cost of Sales as a percentage of revenue decreased from 62.0% in H1 2013 to 57.3% in H1 2014.



In addition IFRS cost of sales in Q2 2014 include depreciation and amortisation expenses related to the acquisition accounting of SiTel and iWatt Inc., share options and related National Insurance expenses in the amount of US\$2.8 million (Q2 2013: US\$0.3 million) and in H1 2014 US\$5.5 million (H1 2013: US\$0.5 million).

Underlying (*) cost of sales increased from US\$93.7 million in Q2 2013 (62.0% of underlying revenues) to US\$121.6 million in Q2 2014 (55.5% of underlying revenues). For the first six months of 2014 underlying cost of sales were US\$246.8 million (56.1% of underlying revenues) compared to US\$204.6 million (61.8% of underlying revenues) in the same period 2013.

Gross profit

Our IFRS gross margin increased from 37.8% of revenues for the three months ended 28 June 2013 to 43.2% of revenues for the three months ended 27 June 2014 driven by lower cost of sales as a percentage of

revenues. On an underlying basis the gross margin improved from 38.0% in Q2 2013 to 44.5% in Q2 2014.

IFRS gross profit for the second quarter of 2014 was US\$94.8 million, 65.9% above the amount in the second quarter of 2013 (US\$57.1 million).

The IFRS gross margin for H1 2014 was 42.7% compared to 38.0% achieved in H1 2013, an increase of 470 basis points. IFRS Gross profit for the first six months of 2014 was US\$187.8 million, 49.3% above the previous year's figures (US\$125.7 million). The improvement of gross margin reflects our efforts in rigorous cost management and continuously higher proportion of revenues coming from new products with higher value contributions.

Underlying (*) gross profit for the second quarter of 2014 was US\$97.6 million, 70.0% above the amount in the second quarter of 2013 (US\$57.4 million). Underlying gross profit for the first six months of 2014 was US\$193.3 million, 53.2% above the previous year's figures (US\$126.2 million). The underlying gross margin for H1 2014 was 43.9% compared to 38.2% achieved in H1 2013, an increase of 570 basis points.

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 amortization 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 28 June 2013 to US\$14.8 million for the three months ended 27 June 2014 (74.5% year on year increase). An amount of US\$1.9 million of this increase relates to amortization expenses in connection with the purchase price allocation for the acquisition of iWatt Inc. The iWatt group itself contributes US\$3.6 million to the consolidated selling expenses in Q2 2014. As a percentage of total revenues, selling and marketing expenses increased from 5.6% of total revenues in Q2 2013 to 6.7% of total revenues in Q2 2014. Similarly, selling and marketing expenses increased from US\$17.0 million (5.1% of total revenues) for the first six months 2013 to US\$28.8 million (6.6% of total revenues) for the first six months 2014. This increase is mainly driven by increased amortisation expenses relating to the purchase price allocation associated with the acquisition of iWatt in July 2013 which increased by US\$3.8 million compared to H1 2013.

Underlying (*) selling and marketing expenses increased from US\$7.2 million for the three months ended 28 June 2013 (or 4.8% of total revenues) to US\$11.6 million for the three months ended 27 June 2014 (or 5.3% of total revenues). Underlying (*) selling and marketing expenses increased from US\$14.7 million for the six months ended 28 June 2013 (or 4.4% of total revenues) to US\$22.6 million for the six months ended 27 June 2014 (or 5.1% of total revenues). This increase as a percentage of total revenues is driven by our strategy to scale up our distribution network ahead of incremental revenues coming from new products in Power Conversion and Connectivity.

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\$14.6 million (6.7% of total revenues) for the second quarter 2014, an increase of 48.5% over the US\$9.9 million (6.5% of total revenues) recorded in Q2 2013. General and administrative expenses recorded in Q2 2014 included US\$0.8 million of M&A related cost, US\$0.6 million of iWatt acquisition and integration cost, US\$1.6 million of stock option cost and US\$1.3 million of UK National Insurance cost associated with UK share based payment charges. At close Q2 2014, Dialog's share price was €24.66 compared to €17.58 at the beginning of the quarter. This 40.3% increase in share price drove us to accrue an additional US\$1.3 million to cover potential UK National Insurance liabilities for our UK based employees. Excluding US\$1.4 million of M&A and integration cost occurred during the quarter, Q2 2014 general and administrative expenses would have been US\$13.2 million or 6.0% of total revenues.

For the first six months of 2014 and 2013, general and administrative costs were US\$26.2 million (or 5.9% of total revenues) and US\$17.1 million (or 5.2% of total revenues) respectively. IFRS General and administrative expenses recorded in H1 2014 included US\$0.8 million of M&A related cost, US\$0.8 million of iWatt acquisition and integration cost, US\$2.5 million of stock option cost and US\$1.7 million of UK National Insurance cost associated with UK share based payment charges. At close Q2 2014, Dialog's share price was €24.66 compared to €15.64 at 31 December 2013. This 57.7% increase in share price drove us to accrue an additional US\$1.7 million to cover potential UK National Insurance liabilities for our UK based employees. Excluding US\$1.7 million of M&A and integration cost occurred during that period, H1 2014 general and administrative expenses would have been US\$24.5 million or 5.6% of total revenues. This compares to 5.2% of total revenues for the year ago equivalent period. This cost increase is mainly driven by share based compensation expenses and personal costs for support functions reflecting the growth of the company.

Underlying (*) general and administrative expenses increased from US\$13.8 million in H1 2013 (4.2% of revenues) to US\$20.2 million in H1 2014 (4.6% of revenues). This increase as a percentage of total revenues is driven by our strategy to scale up our support functions ahead of incremental revenues as part of our on-going growth strategy. On an underlying basis we expect general and administrative expenses in relation to revenues to significantly improve in the second half of 2014 in line with higher expected revenues during that same 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\$50.7 million for the three months ended 27 June 2014 (Q2 2013: US\$33.3 million), representing a year on year increase of 52.3%. As a percentage of total revenues research and development expenses increased from 22.0% to 23.1% in those periods.

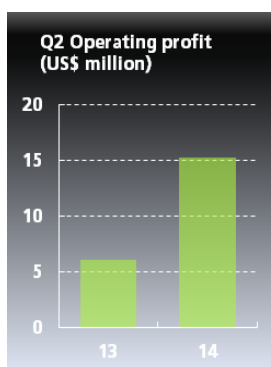
For the first six months of 2014, our R&D expenses were US\$96.4 million (21.9% of total revenues) compared to US\$69.8 million (21.1% of total revenues) in the first six months of 2013. Of that increase, an amount of

US\$9.8 million was primarily due to the continuous increase in R&D headcount in support of our on-going growth strategy, higher stock option expenses and related expenses of US\$2.6 million and the consolidation of the iWatt business which contributed US\$12.0 million of additional R&D-expenses. During the first half of the year, R&D expense expressed as a % of revenue remained high due to the seasonality of our business. Following the same trend we saw in 2013 this is expected to improve significantly in the second half of the year in line with the seasonality of our business which brings a much higher revenue contribution. R&D cost incurred during the quarter typically lead to revenue 6 to 18 months out.

Other Operating Income

Other Operating Income in Q2 2014 was US\$1.2 million (Q2 2013: US\$0.5 million). US\$0.5 million (Q2 2013: 0.5 million) relate to income from customer funded R&D-projects. US\$0.7 million of the amount shown for Q2 2014 relates to a gain from a further reduction of the Earn-Out provision booked for a contingent consideration in relation to the iWatt acquisition (for further information please refer to note 4 to the 2013 consolidated financial statements and notes). For the first six months of 2014 other operating Income was US\$2.5 million (H1 2013: US\$0.8 million). The amount in H1 2014 also relates to a payment received in Q1 2014 from an insurance claim.

Operating profit



We reported an IFRS operating profit of US\$15.9 million for the second quarter 2014 (Q2 2013: US\$6.1 million). For the first six months of 2014, we reported an operating profit of US\$38.9 million (8.9% of total revenues). This compares to an operating profit of US\$22.6 million in the prior year six months period (or 6.8% of total revenues). This increased profitability results primarily from the leverage of higher revenues, an improved gross margin due to new products with higher value proposition and rigorous cost control.

Q2 2014 underlying (*) operating profit was US\$28.4 million or 12.9% of total revenues compared to US\$12.0 million or 7.9% in Q2 2013. H1 2014 underlying (*) operating profit was US\$60.6 million or 13.8% of total revenues compared to US\$31.0 million or 9.4% in H1 2013. This underpins the improvements we have achieved during the compared periods both in the top line but also across gross margin and operating expenses.

Interest income and other financial income

Interest income and other financial income from the company's investments (primarily short-term deposits) was US\$166 thousand for the three months ended 27 June 2014 (Q2 2013: US\$170 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. For the first six months of 2014, we recorded interest income and other financial income of US\$208 thousand compared to US\$341 thousand in the same period of 2013.

Interest expense and other financial expense

Interest expense and other financial expense consist primarily of expenses from capital leases, hire purchase agreements, 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\$65 million were still outstanding at 27 June 2014.

In Q2 2014, interest and other financial expenses were US\$3.7 million (Q2 2013: US\$2.9 million). The amount in Q2 2014 mainly included two components relating to the convertible bond: US\$0.5 million relating to a one percent 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. For the first six months of 2014, interest expenses and other financial expenses were US\$7.3 million compared to US\$5.7 million for the first six months of 2013. The increase is linked to the measurement effects of the financial liability from the convertible bond, which are based on increasing compounding amounts. On the other hand, the interest expenses related to new debt facilities were incurred for the first full six months in 2014 and the second half-year of 2013 only.

Income tax expense

For the three months ended 27 June 2014, a net income tax charge of US\$3.6 million was recorded (Q2 2013: US\$0.9 million). The effective tax rate in Q2 2014 was 28.5% compared to 30% in Q2 2013. For the six months ended 27 June 2014, a net income tax charge of US\$9.2 million was recorded (H1 2013: US\$5.1 million) resulting in an effective tax rate of 28.5% (H1 2013 30.0%). The effective tax rates applied in both periods and in the comparative prior year periods represent the expected

full year effective tax rates. The decrease in our group effective tax rate is driven by the on-going exercise to align our Intellectual Property ownership with the commercial structure of the group. This should allow Dialog to utilise as yet unrecognised UK loss carry forwards and to benefit from the favourable UK tax regime for technology companies. We believe this gradual decrease is sustainable and will continue to drive further reductions in our effective tax rate in the years to come.

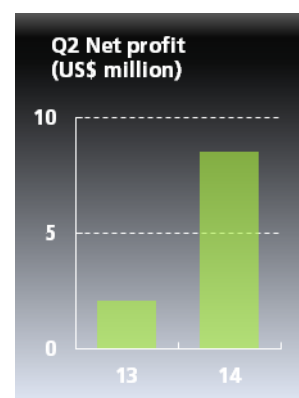
Net profit

For the reasons described above, we reported a net profit of US\$9.0 million for the three months ended 27 June 2014 (Q2 2013: US\$2.1 million).

Underlying (*) net profit increased from US\$9.6 million in Q2 2013 (6.4% of total revenues) to US\$21.7 million in Q2 2014 (9.9% of total revenues).

Basic and diluted earnings per share in Q2 2014 were US\$0.13 and US\$0.13, respectively, compared to basic and diluted earnings per share of US\$0.03 in Q2 2013. Underlying (*) diluted earnings per share in Q2 2014 increased by 121.4% compared to Q2 2013.

For the first six months of 2014, net profit reached US\$23.1 million compared to US\$12.0 million in the comparison period 2013 with basic earnings per share at US\$0.35 (H1 2013: US\$0.18) and diluted earnings per share at US\$0.33 (H1 2013: US\$0.18).



Liquidity and capital resources

Cash flows

Cash generated from operating activities was US\$11.6 million for the three months ended 27 June 2014 (Q2 2013: Cash generated from operating activities US\$38.3 million). With an amount of US\$38.5 million (Q2 2013: US\$17.0 million) the cash inflow before working capital changes in the three months ended 27 June 2014 mainly resulted from the operating income (before depreciation, amortisation and other non-cash effective expenses). In Q2 2014 this cash inflow was decreased by cash outflows from increased working capital needs of US\$16.8 million (in Q2 2013 a cash inflow of US\$40.7 million relating to a decrease of working capital was recorded). In addition in Q2 2014, the Company paid US\$8.5 million for income taxes (Q2 2013: US\$18.6 million). The amount paid in Q2 2014 mainly represents advanced payments for corporate income taxes.

Cash used for investing activities was US\$8.8 million for the three months ended 27 June 2014 (Q2 2013: US\$10.4 million). Cash used for investing activities in Q2 2014 consisted primarily of the purchase of tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment for a total of US\$6.0 million (Q2 2013: US\$4.9 million), the purchase of intangible assets of US\$2.7 million (Q2 2013: US\$2.6 million) and payments related to capitalised development costs of US\$0.2 million (Q2 2013: US\$2.8 million).

Cash used for financing activities was US\$17.2 million for the three months ended 27 June 2014 (Q2 2013: cash inflow US\$0.3 million). The net cash outflow in Q2 2014 includes the redemption of loan facilities (see liquidity section below) with an amount of US\$25.0 million. This cash outflow was offset by US\$7.8 million cash inflows (Q2 2013 US\$0.3 million) resulting from share option exercises in connection with the company's employee share option program.

Liquidity

At 27 June 2014 we had cash and cash equivalents of US\$272.0 million (31 December 2013: US\$186.0 million). The working capital (defined as current assets minus current liabilities) was US\$300.3 million (31 December 2013: US\$284.4 million).

Total non-current liabilities as of 27 June 2014 were US\$272.9 million of which US\$176.0 million represents the book value of the liability from the convertible bond (31 December 2013: US\$172.0 million) and US\$49.1 million relate to a Base Currency term loan facility (31 December 2013: US\$84.2 million).

As of 27 June 2014, 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. In addition an amount of US\$25 million have been redeemed during the second quarter 2014. The current financial liabilities related to the Base Currency term loan facility as of 27 June 2014 were US\$15.0 million, which is the amount planned to be redeemed within the next 12 months.

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 Q2 2014 and Q2 2013

US\$000	Three months ended 27 June 2014			Three months ended 28 June 2013 ^{***}		
	IFRS	Adjustments	Underlying ^{*)}	IFRS	Adjustments	Underlying ^{*)}
Revenues	219,260	-	219,260	151,122	-	151,122
Cost of sales	(124,475)	2,827	(121,648)	(93,991)	282	(93,709)
Gross profit	94,785	2,827	97,612	57,131	282	57,413
Selling and marketing expenses	(14,798)	3,167	(11,631)	(8,478)	1,229	(7,249)
General and administrative expenses	(14,630)	4,272	(10,358)	(9,853)	3,316	(6,537)
Research and development expenses	(50,672)	2,859	(47,813)	(33,263)	1,129	(32,134)
Other operating income	1,233	(689)	544	528	-	528
Operating profit	15,918	12,436	28,354	6,065	5,956	12,021
Interest income and other financial income	166	-	166	170	-	170
Interest expense and other financial expense	(3,666)	2,284	(1,382)	(2,874)	2,215	(659)
Foreign currency exchange gains and losses, net	213	-	213	(377)	-	(377)
Result before income taxes	12,631	14,720	27,351	2,984	8,171	11,155
Income tax expense	(3,600)	(2,098)	(5,698)	(895)	(615)	(1,510)
Net profit	9,031	12,622	21,653	2,089	7,556	9,645
Earnings per share (in US\$)						
Basic	0.13	0.19	0.32	0.03	0.12	0.15
Diluted	0.13	0.18	0.31	0.03	0.11	0.14
EBITDA ^{**}	30,432	7,360	37,792	15,060	4,774	19,834

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

(**) EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (Q2 2014: US\$6.0 million, Q2 2013: US\$4.1 million), amortisation for intangible assets (Q2 2014: US\$8.3 million, Q2 2013: US\$4.9 million) and losses on disposals and impairment of fixed assets (Q2 2014: US\$0.2 million, Q2 2013: US\$0.0 million).

***) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively. For further information please refer to note 2 to the Q2 financial statements.

Dialog Semiconductor's Underlying adjustments for Q2 2014

US\$000	Q2 2014									TOTAL
	Option expenses	Accrual National Insurance	PPA BV	Convertible Bond	License agreement	Acquisition and integration costs	Merger costs	PPA iWatt		
Revenues	-	-	-	-	-	-	-	-	-	-
Cost of sales	(541)	(15)	(3)	-	-	-	-	(2,268)		(2,827)
Selling and marketing expenses	(1,106)	(161)	-	-	-	-	-	(1,900)		(3,167)
General and administrative expenses	(1,601)	(1,275)	-	-	-	(560)	(836)	-		(4,272)
Research and development expenses	(2,272)	(320)	(267)	-	-	-	-	-		(2,859)
Other operating income	-	-	-	-	-	-	-	689		689
Operating profit	(5,520)	(1,771)	(270)	-	-	(560)	(836)	(3,479)		(12,436)
Interest expense and other financial expense	-	-	-	(2,041)	(243)	-	-	-		(2,284)
Result before income taxes	(5,520)	(1,771)	(270)	(2,041)	(243)	(560)	(836)	(3,479)		(14,720)
Income tax expense	-	503	67	-	69	-	-	1,459		2,098
Net profit	(5,520)	(1,268)	(203)	(2,041)	(174)	(560)	(836)	(2,020)		(12,622)

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

US\$000	Six months ended 27 June 2014			Six months ended 28 June 2013 ^{***}		
	IFRS	Adjustments	Underlying ^{*)}	IFRS	Adjustments	Underlying ^{*)}
Revenues	440,112	-	440,112	330,822	-	330,822
Cost of sales	(252,355)	5,509	(246,846)	(205,094)	509	(204,585)
Gross profit	187,757	5,509	193,266	125,728	509	126,237
Selling and marketing expenses	(28,814)	6,209	(22,605)	(17,012)	2,347	(14,665)
General and administrative expenses	(26,158)	5,925	(20,233)	(17,098)	3,327	(13,771)
Research and development expenses	(96,421)	4,716	(91,705)	(69,775)	2,156	(67,619)
Other operating income	2,534	(689)	1,845	782	-	782
Operating profit	38,898	21,670	60,568	22,625	8,339	30,964
Interest income and other financial income	208	-	208	341	-	341
Interest expense and other financial expense	(7,291)	4,529	(2,762)	(5,703)	4,392	(1,311)
Foreign currency exchange gains and losses, net	550	-	550	(142)	-	(142)
Result before income taxes	32,365	26,199	58,564	17,121	12,731	29,852
Income tax expense	(9,224)	(4,004)	(13,228)	(5,136)	(1,084)	(6,220)
Net profit	23,141	22,195	45,336	11,985	11,647	23,632
Earnings per share (in US\$)						
Basic	0.35	0.33	0.68	0.18	0.18	0.36
Diluted	0.33	0.32	0.65	0.18	0.17	0.35
EBITDA ^{**)}	66,765	12,296	79,061	40,962	7,157	48,119

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

**) EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (H1 2014: US\$11.4 million, H1 2013: US\$8.0 million), amortisation for intangible assets (H1 2014: US\$16.2 million, H1 2013: US\$10.0 million) and losses on disposals and impairment of fixed assets (H1 2014: US\$0.3 million, H1 2013: US\$0.3 million).

***) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively. For further information please refer to note 2 to the Q2 financial statements.

Dialog Semiconductor's Underlying adjustments for H1 2014

US\$000	Six months ended 27 June 2014									TOTAL
	Option expenses	Accrual National Insurance	PPA BV	Convertible Bond	License agreement	Acquisition and integration costs	Merger costs	PPA iWatt		
Revenues	-	-	-	-	-	-	-	-	-	-
Cost of sales	(849)	(20)	(103)	-	-	-	-	(4,537)		(5,509)
Selling and marketing expenses	(1,769)	(239)	(400)	-	-	-	-	(3,801)		(6,209)
General and administrative expenses	(2,526)	(1,722)	-	-	-	(841)	(836)	-		(5,925)
Research and development expenses	(3,747)	(436)	(533)	-	-	-	-	-		(4,716)
Other operating income	-	-	-	-	-	-	-	689		689
Operating profit	(8,891)	(2,417)	(1,036)	-	-	(841)	(836)	(7,649)		(21,670)
Interest expense and other financial expense	-	-	-	(4,031)	(498)	-	-	-		(4,529)
Result before income taxes	(8,891)	(2,417)	(1,036)	(4,031)	(498)	(841)	(836)	(7,649)		(26,199)
Income tax expense	-	686	259	-	141	-	-	2,918		4,004
Net profit	(8,891)	(1,731)	(777)	(4,031)	(357)	(841)	(836)	(4,731)		(22,195)

Statement of Financial Position

	At 27 June 2014 US\$000	At 31 December 2013 US\$000	Change US\$000	%
Assets				
Cash and cash equivalents	272,024	186,025	85,999	46.2
All other current assets	176,730	261,419	(84,689)	(32.4)
Total current assets	448,754	447,444	1,310	0.3
Property, plant and equipment, net	57,746	58,465	(719)	(1.2)
Goodwill	244,878	244,878	-	-
Intangible assets	138,532	148,591	(10,059)	(6.8)
Investments	1,577	1,531	46	3.0
All other non-current assets	1,605	1,608	(3)	(0.2)
Deferred tax assets	28,941	24,935	4,006	16.1
Total non-current assets	473,279	480,008	(6,729)	(1.4)
Total assets	922,033	927,452	(5,419)	(0.6)
Liabilities and Shareholders' equity				
Current liabilities	148,410	163,024	(14,614)	(9.0)
Non-current liabilities	272,895	307,778	(34,883)	(11.3)
Net Shareholders' equity	500,728	456,650	44,078	9.7
Total liabilities and Shareholders' equity	922,033	927,452	(5,419)	(0.6)

The balance sheet total was US\$922.0 million at 27 June 2014 (31 December 2013: US\$927.5 million). Cash and cash equivalents increased by US\$86.0 million or 46.2% to US\$272.0 million at 27 June 2014 (31 December 2013: US\$186.0 million). This increase was caused by the cash inflows from operating activities which were partly offset by cash outflows for investing activities and the redemption of loans as prescribed above.

Other current assets decreased from US\$261.4 million at 31 December 2013 by US\$84.7 million to US\$176.7 million at 27 June 2014. The decrease of 32.4% is mainly driven by lower trade accounts receivable 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\$17.8 million were overcompensated by depreciation and amortization charges in the amount of US\$27.6 million.

Current liabilities decreased by US\$14.6 million of which US\$7.5 million relate to decreased trade accounts payables which mainly is a result of lower purchases of inventory compared to Q4-2013. Other financial liabilities decreased by US\$4.8 million mainly driven by a lower short-term classified amount of the debt facility at 27 June 2014 compared to 31 December 2013.

Non-current liabilities decreased by US\$34.9 million or 11.3% driven by the repayments of debt facilities during H1 2014.

Shareholders' equity increased to US\$500.7 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 54.3% (49.2% at 31 December 2013).

Other Information

Members of the Management and the Board of Directors

Management

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

Board of Directors

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

Going concern

After making enquiries, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue for the foreseeable future. At 27 June 2014 the Group holds US\$272.0 million cash (31 December 2013: US\$186.0 million) and has continued access to other 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.

Principal risks and uncertainties

The risk management, our business risks and opportunities are described in our 2013 annual report – section 2. Compared with the risks and opportunities presented here, no significant additional opportunities and risks arose for the Company in the first six 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 descrip-

tion of the principal risks and uncertainties associated with the expected development of the group for the remaining months of the financial year.

30 July 2014

Dr Jalal Bagherli
CEO

Jean-Michel Richard
CFO, Senior Vice President Finance

Independent Review Report to Dialog Semiconductor Plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the three and six months ended 27 June 2014 which comprises the Interim Consolidated Statement of Financial Position, the Interim Consolidated Income Statement, the Interim Consolidated Statement of Comprehensive Income, the Interim Consolidated Statement of Cash Flows, the Interim Consolidated Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the quarterly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of interim financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the three and six months ended 27 June 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

30 July 2014

Unaudited interim consolidated statement of financial position

As at 27 June 2014

	Notes	At 27 June 2014 US\$000	At 31 December 2013 US\$000
Assets			
Cash and cash equivalents		272,024	186,025
Trade accounts receivable and other receivable		48,189	127,336
Inventories	5	119,284	117,541
Income tax receivables		71	72
Other financial assets		902	3,994
Other current assets		8,284	12,476
Total current assets		448,754	447,444
Property, plant and equipment	6	57,746	58,465
Goodwill	8	244,878	244,878
Other intangible assets	7	138,532	148,591
Investments	10	1,577	1,531
Deposits		1,445	1,450
Income tax receivables		160	158
Deferred tax assets		28,941	24,935
Total non-current assets		473,279	480,008
Total assets	3	922,033	927,452
Liabilities and Shareholders' equity			
Trade and other payables		83,875	91,391
Other financial liabilities		19,114	23,923
Provisions		7,924	8,000
Income taxes payable		4,644	5,354
Other current liabilities		32,853	34,356
Total current liabilities		148,410	163,024
Provisions		1,967	1,488
Other non-current financial liabilities		233,911	265,657
Deferred tax liabilities (non-current)		37,017	40,633
Total non-current liabilities		272,895	307,778
Ordinary shares		13,353	12,852
Additional paid-in capital		267,234	246,289
Retained earnings		231,912	199,881
Other reserves		(951)	(130)
Employee stock purchase plan shares		(10,820)	(2,242)
Net Shareholders' equity		500,728	456,650
Total liabilities and Shareholders' equity		922,033	927,452

Unaudited interim consolidated income statement

For the three and six months ended 27 June 2014

	Notes	Three months ended 27 June 2014	Three months ended 28 June 2013 restated	Six months ended 27 June 2014	Six months ended 28 June 2013 restated
		US\$000	US\$000	US\$000	US\$000
Revenue	2, 3	219,260	151,122	440,112	330,822
Cost of sales	2	(124,475)	(93,991)	(252,355)	(205,094)
Gross profit		94,785	57,131	187,757	125,728
Selling and marketing expenses		(14,798)	(8,478)	(28,814)	(17,012)
General and administrative expenses		(14,630)	(9,853)	(26,158)	(17,098)
Research and development expenses	2	(50,672)	(33,263)	(96,421)	(69,775)
Other operating income	2	1,233	528	2,534	782
Operating profit	3	15,918	6,065	38,898	22,625
Interest income		166	170	208	341
Interest expense		(3,666)	(2,874)	(7,291)	(5,703)
Foreign currency exchange gains (losses), net		213	(377)	550	(142)
Result before income taxes	3	12,631	2,984	32,365	17,121
Income tax expense		(3,600)	(895)	(9,224)	(5,136)
Net profit		9,031	2,089	23,141	11,985
		Three months ended 27 June 2014	Three months ended 28 June 2013	Six months ended 27 June 2014	Six months ended 28 June 2013
Earnings per share (in US\$)					
Basic		0.13	0.03	0.35	0.18
Diluted		0.13	0.03	0.33	0.18
Weighted average number of shares (in thousands)					
Basic		67,246	65,540	66,800	65,493
Diluted		70,325	67,466	69,598	67,569

Unaudited interim consolidated statement of comprehensive income

For the three and six months ended 27 June 2014

	Three months ended 27 June 2014 US\$000	Three months ended 28 June 2013 US\$000	Six months ended 27 June 2014 US\$000	Six months ended 28 June 2013 US\$000
Net profit	9,031	2,089	23,141	11,985
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translating foreign operations	211	(149)	315	(304)
Cash flow hedges	(539)	579	(1,388)	(3,736)
Income tax relating to components of other comprehensive income	34	(118)	252	644
Other comprehensive income (loss) for the year, net of tax	(294)	312	(821)	(3,396)
Total comprehensive income for the year	8,737	2,401	22,320	8,589

Unaudited interim consolidated statement of cash flows

For the three and six months ended 27 June 2014

	Three months ended 27 June 2014 US\$000	Three months ended 28 June 2013 US\$000	Six months ended 27 June 2014 US\$000	Six months ended 28 June 2013 US\$000
Cash flows from operating activities:				
Net profit	9,031	2,089	23,141	11,985
Adjustments to reconcile net profit to net cash used for operating activities:				
Interest income, net	3,500	2,704	7,083	5,362
Income tax expense	3,600	895	9,224	5,136
Impairment of inventories	2,358	316	7,502	4,162
Depreciation of property, plant and equipment	6,019	4,100	11,412	8,020
Amortisation of intangible assets	8,330	4,861	16,203	10,009
Losses on disposals of fixed assets and impairment of fixed and financial assets	165	34	252	308
Expense related to share-based payments	5,519	2,025	8,890	3,839
Changes in working capital:				
Trade accounts receivable, other receivables and factoring	(5,079)	(382)	79,155	60,554
Inventories	(33,324)	31,082	(9,241)	34,042
Prepaid expenses	262	1,052	296	767
Trade accounts payable	22,496	11,796	(14,597)	(59,384)
Provisions	2,018	(64)	380	(348)
Other assets and liabilities	(3,221)	(2,772)	10,882	(6,299)
Cash generated from (used for) operations	21,674	57,736	150,582	78,153
Interest paid	(1,694)	(1,134)	(2,711)	(1,258)
Interest received	152	294	160	365
Income taxes paid	(8,535)	(18,600)	(17,146)	(20,561)
Cash flow from operating activities	11,597	38,296	130,885	56,699
Cash flows from investing activities:				
Purchase of property, plant and equipment	(5,974)	(4,914)	(10,479)	(12,779)
Purchase of intangible assets	(2,703)	(2,637)	(5,714)	(4,714)
Payments for capitalised development costs	(169)	(2,829)	(1,664)	(3,606)
Sale of property, plant and equipment	30	–	30	–
Purchase of other investments	–	–	–	(1,500)
Change in other long term assets	23	(9)	23	(14)
Cash flow used for investing activities	(8,793)	(10,389)	(17,804)	(22,613)
Cash flows from financing activities:				
Redemption of loan	(25,000)	–	(40,000)	–
Sale of employee stock purchase plan shares	7,849	288	12,907	539
Cash flow used for capital increase	(39)	–	(39)	–
Cash flow from financing activities	(17,190)	288	(27,132)	539
Cash flow from (used for) operating, investing and financing activities	(14,386)	28,195	85,949	34,625
Net foreign exchange difference	(49)	(99)	50	(317)
Net increase in cash and cash equivalents	(14,435)	28,096	85,999	34,308
Cash and cash equivalents at beginning of period	286,459	318,647	186,025	312,435
Cash and cash equivalents at end of period	272,024	346,743	272,024	346,743

Unaudited interim consolidated statement of changes in equity

For the six months ended 27 June 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)	–	–	11,985	(697)	(2,699)	–	8,589
Sale of employee stock purchase plan shares	–	354	–	–	–	186	540
Equity settled transactions, net of tax	–	–	3,839	–	–	–	3,839
Changes in Equity total	–	354	15,824	(697)	(2,699)	186	12,968
Balance at 28 June 2013	12,852	244,183	145,014	(2,661)	(1,162)	(2,667)	395,559
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)	–	–	23,141	173	(994)	–	22,320
Capital Increase for employee share option plan (gross proceeds)	501	9,780	–	–	–	(10,281)	–
Transaction cost of capital increase - employee share option plan	–	(39)	–	–	–	–	(39)
Sale of employee stock purchase plan shares	–	11,204	–	–	–	1,703	12,907
Equity settled transactions, net of tax	–	–	8,890	–	–	–	8,890
Changes in Equity total	501	20,945	32,031	173	(994)	(8,578)	44,078
Balance at 27 June 2014	13,353	267,234	231,912	(1,537)	586	(10,820)	500,728

Unaudited notes to the interim condensed consolidated financial statements

For the three and six months ended 27 June 2014

1. General

Company name and registered office

Dialog Semiconductor Plc
Tower Bridge House
St Katharine's Way
London E1W 1AA
United Kingdom

Description of Business

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

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

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

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

2. Summary of significant accounting policies

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

The quarterly and half yearly 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 half yearly reporting of the Disclosure and Transparency Rules of the UK Financial Services Authority and the German Securities Trading Act.

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

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

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

Changes in accounting policies and disclosures

The accounting policies are consistent with those of the previous financial year except for the voluntary change regarding the presentation of income and related expenses from customer-specific research and development as described below and changes resulting from the adoption of the following amended, revised and new Standards and new IFRIC interpretations during the first half of 2014:

2. Summary of significant accounting policies continued

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.

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.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

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

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

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

IFRS 11 Joint Arrangements

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

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

IFRS 15 Revenue Recognition

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

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

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

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 six months ended 27 June 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.

2. Summary of significant accounting policies continued

Voluntary change in accounting policy

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

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

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

	Three months ended 28 June 2013 as previously reported US\$000	Restatement US\$000	Three months ended 28 June 2013 adjusted US\$000	Six months ended 28 June 2013 as previously reported US\$000	Restatement US\$000	Six months ended 28 June 2013 adjusted US\$000
Revenue	151,650	(528)	151,122	331,604	(782)	330,822
Cost of sales	(94,519)	528	(93,991)	(205,876)	782	(205,094)
Gross profit	57,131	–	57,131	125,728	–	125,728
Research and development expenses	(32,735)	(528)	(33,263)	(68,993)	(782)	(69,775)
Other operating income	–	528	528	–	782	782
Operating profit	6,065	–	6,065	22,625	–	22,625

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

Seasonality of operations

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

3. Segment reporting

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

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

a) Operating Segments

The Group's operating segments are:

Mobile Systems

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

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 iWatt Inc. (now Dialog Semiconductor Inc.) operating segment acquired in Q3 2013.

	Three months ended 27 June 2014						Three months ended 28 June 2013 ²⁾				
	Mobile Systems	Automotive/Industrial	Connectivity	Power Conversion	Corporate	Total	Mobile Systems	Automotive/Industrial	Connectivity	Corporate	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Revenues	166,330	10,518	22,841	19,566	5	219,260	119,902	7,508	23,712	-	151,122
Operating profit (loss) ¹⁾	30,475	2,889	(965)	(4,595)	(11,886)	15,918	11,010	2,210	2,260	(9,415)	6,065
Financial results	(243)	-	-	-	(3,044)	(3,287)	(289)	-	-	(2,792)	(3,081)
Result before income taxes	30,232	2,889	(965)	(4,595)	(14,930)	12,631	10,721	2,210	2,260	(12,207)	2,984

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

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

	Six months ended 27 June 2014						Six months ended 28 June 2013 ²⁾				
	Mobile Systems	Automotive/Industrial	Connectivity	Power Conversion	Corporate	Total	Mobile Systems	Automotive/Industrial	Connectivity	Corporate	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Revenues	340,335	20,909	40,793	38,070	5	440,112	270,029	16,594	44,199	-	330,822
Operating profit (loss) ¹⁾	64,932	6,114	(2,976)	(9,347)	(19,825)	38,898	29,904	5,279	2,109	(14,667)	22,625
Financial results	(498)	-	-	-	(6,035)	(6,533)	(589)	-	-	(4,915)	(5,504)
Result before income taxes	64,434	6,114	(2,976)	(9,347)	(25,860)	32,365	29,315	5,279	2,109	(19,582)	17,121

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

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

b) Geographic information

	Three months ended 27 June 2014 US\$000	Three months ended 28 June 2013 ¹⁾ US\$000	Six months ended 27 June 2014 US\$000	Six months ended 28 June 2013 ¹⁾ US\$000
Revenues				
United Kingdom	172	254	350	567
Other European countries	15,078	13,612	29,669	28,545
China	176,857	112,937	360,062	258,161
Other Asian countries	23,980	21,828	44,108	39,405
Other countries	3,173	2,491	5,923	4,144
Total revenues	219,260	151,122	440,112	330,822

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

3. Segment reporting continued

	At 27 June 2014 US\$000	At 31 December 2013 US\$000
Assets		
Germany	308,655	438,816
USA	380,094	377,293
Japan	2,166	1,946
United Kingdom	169,385	54,316
Netherlands	54,911	51,477
Other	6,822	3,604
Total assets	922,033	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 six months ended 27 June 2014 was as follows:

	Six months ended 27 June 2014		Six months ended 28 June 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	1,462,777	0.11	770,137	5.02
Exercised	(1,509,831)	6.51	(181,191)	2.36
Forfeited	(142,900)	3.67	(178,567)	6.26
Outstanding at end of year	5,846,097	6.44	6,289,204	7.69
Options exercisable at period end	2,391,968	8.05	3,209,988	5.37

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 27 June 2014 the Trust held 3,587,968 shares.

5. Inventories

Inventories consisted of the following:

	At 27 June 2014 US\$000	At 31 December 2013 US\$000
Raw materials	10,096	14,276
Work-in-process	49,536	26,815
Finished goods	59,652	76,438
Deposits	-	12
Total	119,284	117,541

The impairment of inventories recognised as expense during the six months ended 27 June 2014 was US\$7,502,000 (H1 2013: US\$4,162,000). This expense is included in cost of sales in the income statement.

6. Property, plant and equipment

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

	At 27 June 2014 US\$000	At 31 December 2013 US\$000
Gross carrying amount	184,169	175,956
Accumulated depreciation	126,423	117,491
Net carrying amount	57,746	58,465

The Company has contractual commitments for the acquisition of property, plant and equipment of US\$7,851,000.

7. Other intangible assets

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

	At 27 June 2014 US\$000	At 31 December 2013 US\$000
Gross carrying amount	235,708	229,619
Accumulated depreciation	97,176	81,028
Net carrying amount	138,532	148,591

The Company has contractual commitments for the acquisition of intangible assets of US\$2,062,000. 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. Allocation of goodwill

As described in the Company's annual report 2013, note 4 the goodwill of US\$212,595,000 comprised the value of significant expected synergies, especially within the Company's Mobile System segment, as well as other benefits from combining the assets and activities of iWatt Inc. with those of the Dialog Group. At 31 December 2013, the integration of iWatt Inc. and its subsidiaries was still on-going.

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

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

Based on the expected cash flow approach the goodwill has now been allocated between cash generating units as US\$49,515,000 to Power Conversion, US\$102,014,000 to Mobile Systems and US\$61,066,000 to Connectivity. Based on management assumptions the Automotive/Industrial segment will not benefit from synergies from the business combination with iWatt. The first annual impairment review of this goodwill will take place in Q4 2014.

9. Earn-out provision

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

10. Additional disclosures on financial instruments

Set out below is an overview of financial instruments held by the Group as at 27 June 2014:

Amounts recognised in the statement of financial position according to IAS 39								
Category in accordance with IAS 39	Carrying amount 27 June 2014 US\$000	Amortised cost US\$000	Cost US\$000	Fair value recognised in other comprehensive income US\$000	Fair value recognised in profit or loss US\$000	Fair-Value-Hierarchy	Fair value 27 June 2014 US\$000	
Assets								
Cash at bank and short-term deposits	LaR	272,024	272,024	–	–	–	n/a	272,024
Deposits designated as a hedging instrument	n/a	–	–	–	–	–	–	–
Trade accounts receivable and other receivable	LaR	48,189	48,189	–	–	–	n/a	48,189
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	902	–	–	902	–	Level 2	902
Investments	AfS	1,577	–	–	1,577	–	Level 3	1,577
Liabilities								
Trade account payables	FLAC	75,863	75,863	–	–	–	n/a	75,863
Other payables	FLAC	8,012	8,012	–	–	–	n/a	8,012
Other financial liabilities	FLAC	64,977	64,977	–	–	–	n/a	64,977
Hire purchase agreements and finance lease obligations	FLAC	11,541	11,541	–	–	–	Level 2	11,873
Convertible bond	FLAC	176,422	176,422	–	–	–	Level 2	190,542
Derivative financial liabilities								
Derivatives without hedging relationship	n/a	–	–	–	–	–	–	–
Derivatives with hedging relationship	n/a	85	–	–	85	–	Level 2	85
Of which aggregated by category in accordance with IAS 39:								
Loans and receivables (LaR)		320,213	320,213	–	–	–		320,213
Deposits designated as a hedging instrument		–	–	–	–	–		–
Held-to-maturity investments (HtM)		–	–	–	–	–		–
Available-for-sale financial assets (AfS)		1,577	–	–	–	–		–
Derivatives without hedging relationship		–	–	–	–	–		–
Derivatives with hedging relationship		817	–	–	817	–		817
Financial liabilities at amortised cost (FLAC)		(336,815)	(336,815)	–	–	–		(351,267)

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 27 June 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.

10. 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 Q2 2014 as well as the first six months of 2014 and related periods in 2013 nearly all the Group's sales were denominated in US\$.

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

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

As at 27 June 2014 the following unrealised effects were recorded in other comprehensive income:

	Forward currency contracts			Total At 27 June 2014 US\$000
	Euro US\$000	GBP US\$000	JPY US\$000	
Gain	217	656	29	902
Loss	(85)	–	–	(85)
Unrealised net gain (loss) before tax	132	656	29	817
Tax effect	(37)	(186)	(8)	(231)
Unrealised net gain (loss) after tax	95	470	21	586

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.

11. Transactions with related parties

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

12. Subsequent events

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

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