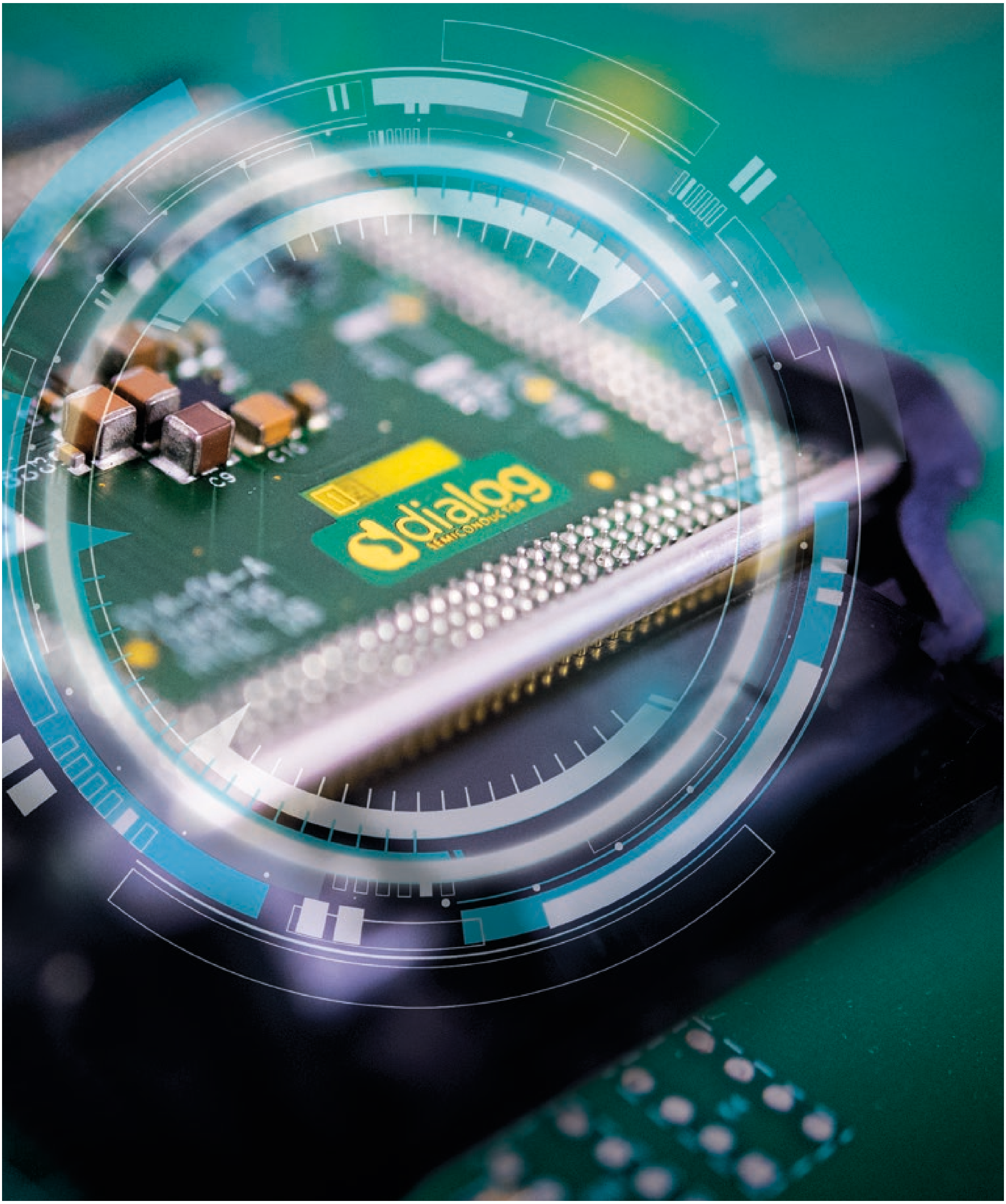
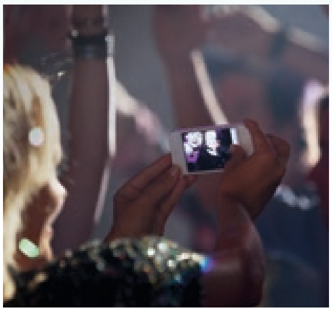
Dialog Semiconductor Plc

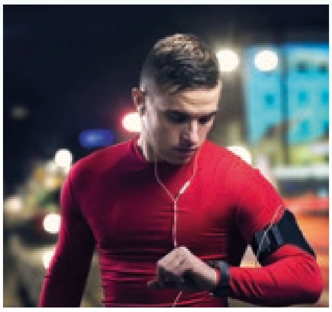
Interim Report for the three- and nine- month periods ended 28 September 2018



Contents

Key products





Press release – 31 October 2018

DIALOG SEMICONDUCTOR REPORTS RESULTS FOR THE THIRD QUARTER ENDED 28 SEPTEMBER 2018

Record quarter revenue up 6% year-on-year to US$384 million and strong cash flow generation

London, UK, 31 October 2018 – Dialog Semiconductor Plc (XETRA: DLG), a provider of highly integrated power management, Configurable Mixed-Signal IC, AC/DC, solid state lighting and Bluetooth® low energy wireless technology, today reports unaudited results for the third quarter ended 28 September 2018.

Q3 2018 financial highlights

- Revenue of US$384 million, up 6% year-on-year and slightly above the mid-point of the August guidance.
- Revenue includes the contribution from Silego Technology Inc. ("Silego").
- Gross margin at 48.5% and underlying[1] gross margin at 48.6%, both broadly in line with Q3 2017.
- Operating profit of US$63.5 million, up 1% year-on-year. Underlying[1] operating profit of US$83.7 million, up 9% year-on-year.
- All operating segments delivered operating profit.
- Diluted EPS of US$0.60 (Q3 2017: US$0.62) and underlying[1] diluted EPS of US$0.85 (Q3 2017: US$0.81).
- Cash flow from operating activities of US$87 million (Q3 2017: US$34 million). US$79 million of free cash flow[1] generated in Q3 2018 (Q3 2017: US$7 million). US$617 million of cash and cash equivalents, US$20 million below 29 September 2017.

Q3 2018 operational highlights

- Integration of Silego progressing according to plan.
- First in the industry to demonstrate Stereo High Fidelity (HiFi) quality audio streaming over Bluetooth® low energy.
- Design win momentum for our Configurable Mixed-Signal IC technology (CMIC).
- Maintained a commanding market share in the smartphone rapid charge segment.
- Subsequent to quarter end, on 11 October 2018 the Company entered into an agreement with Apple Inc. to license certain PMIC technologies, transfer certain of its assets and over 300 employees. Dialog has been awarded a broad range of new contracts from Apple for the development and supply of power management, audio subsystem, charging and other mixed-signal integrated circuits.

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

"During the quarter we have delivered record Q3 revenue and strong free cash flow generation. Our configurable technology continues to strengthen our presence in the IoT, Mobile and Computing markets. And as the market for Bluetooth low energy expands, we are developing new products which will enable an increasing number of connected devices."

"Our recent agreement with Apple strengthens our long-standing partnership and delivers immediate value for our shareholders. We are entering a new chapter for Dialog, building on our unique mixed-signal power efficient expertise and a strategic focus on high growth segments of IoT, Mobile, Automotive and Computing & Storage end markets."

"A strong balance sheet and a highly cash generative business model, give us ample financial flexibility to pursue a growth strategy and create long-term shareholder value."

1 Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see page 33).

Press release – 31 October 2018 continued

Outlook

Based on our current visibility and typical seasonal trends, we anticipate revenue for Q4 2018 to be in the range of US$430-US$470 million. At the mid-point, this will result in full year 2018 revenue up 8% year-on-year to US$1,461 million.

In line with the anticipated revenue performance, we expect gross margin for FY 2018 to be broadly in line with FY 2017.

Financial overview

IFRS basis

US$ millions unless stated otherwise	Q3 2018	Q3 2017	Change	9M 2018	9M 2017	Change
Revenue	**383.6**	362.8	+6%	**1,011.4**	889.3	+14%
Gross margin[2]	**48.5%**	48.5%	0bps	**47.6%**	48.2%	-60bps
R&D %[2,3]	**21.4%**	21.5%	-10bps	**23.9%**	24.5%	-60bps
SG&A %[3]	**11.2%**	9.8%	+140bps	**12.0%**	11.2%	+80bps
Operating profit	**63.5**	62.6	+1%	**122.6**	111.6	+10%
Operating margin	**16.6%**	17.3%	-70bps	**12.1%**	12.5%	-40bps
Net income	**46.4**	47.3	-2%	**81.9**	87.5	-6%
Basic EPS $	**0.63**	0.65	-3%	**1.11**	1.19	-7%
Diluted EPS $	**0.60**	0.62	-3%	**1.05**	1.14	-8%
Cash flow from operating activities	**86.9**	34.2	+154%	**192.2**	154.5	+24%

Underlying

US$ millions unless stated otherwise	Q3 2018	Q3 2017	Change	9M 2018	9M 2017	Change
Revenue	**383.6**	362.8	+6%	**1,011.4**	889.3	+14%
Gross margin[2]	**48.6%**	48.7%	-10bps	**48.1%**	48.4%	-30bps
R&D %[2,3]	**19.5%**	19.9%	-40bps	**21.7%**	22.5%	-80bps
SG&A %[3]	**7.7%**	7.6%	+10bps	**9.0%**	8.9%	+10bps
EBITDA	**98.7**	90.5	+9%	**221.9**	192.7	+15%
EBITDA %	**25.7%**	24.9%	+80bps	**21.9%**	21.7%	+20bps
Operating profit	**83.7**	76.6	+9%	**178.2**	151.3	+18%
Operating margin	**21.8%**	21.1%	+70bps	**17.6%**	17.0%	+60bps
Net income	**66.3**	62.4	+6%	**142.5**	124.6	+14%
Basic EPS $	**0.90**	0.85	+6%	**1.93**	1.68	+15%
Diluted EPS $	**0.85**	0.81	+5%	**1.83**	1.60	+14%

2 2017 Gross margin and R&D % are presented on a consistent basis. Further information regarding the reclassification of certain product development costs is presented on page 5 and in note 1 to the interim financial statements.
3 R&D and SG&A as a percentage of revenue.

Revenue in Q3 2018 was up 6% year-on-year to US$384 million. Excluding the contribution of the acquisition of Silego (Q3 2018: US$28.3 million), revenue was 2% below Q3 2017. The small decline was the result of the lower year-on-year revenue in Mobile Systems which was 3% below Q3 2017 due to the reduced share of volume from Apple for the main PMIC for the 2018 smartphone platform announced in May 2018, partially offset by higher content per device in other platforms. In Q3 2018, Advanced Mixed Signal revenue almost doubled year-on-year. Excluding revenue from Silego, Advanced Mixed Signal was up 3% year-on-year as a result of solid demand for rapid charge ICs and Backlighting products. Connectivity was up 2% year-on-year. The year-on-year increase was mainly driven by growth in audio products. Automotive & Industrial was down 11% year-on-year, mostly due to lower volumes in the automotive segment.

At the beginning of the year we changed the classification of the amortisation of capitalised product development costs, the amortisation of acquired developed technology, and royalties. These costs were previously included in cost of sales and they are now included in R&D expenses (see table on page 5 for full details). This change had no impact on operating profit and we made it to improve the comparability of our results with our industry peers. Q3 2018 gross margin was 48.5% in line with Q3 2017. Q3 2018 underlying[1] gross margin was 48.6%, broadly in line with Q3 2017 due to product mix offset by lower manufacturing costs.

Operating expenses (OPEX) comprising SG&A and R&D expenses, in Q3 2018 was up 10% year-on-year to US$125.1 million, or 32.6% of revenue (Q3 2017: 31.3%). The increase in OPEX was mainly due to the consolidation of Silego into the Group. Underlying[1] OPEX in Q3 2018 was up 4% year-on-year to US$104.4 million, or 27.2% of revenue (Q3 2017: 27.5%). The year-on-year increase in underlying[1] OPEX was due to the consolidation of Silego into the Group.

R&D expense in Q3 2018 was up 5% from Q3 2017 to US$82.2 million. The year-on-year increase in R&D expense was the result of the consolidation of Silego into the Group. As a percentage of revenue, R&D in Q3 2018 was broadly in line with Q3 2017 at 21.4%. On an underlying[1] basis, R&D expense was up 3% from Q3 2017 to US$74.7 million. As a percentage of revenue, underlying[1] R&D in Q3 2018 was 40bps below Q3 2017 at 19.5%.

SG&A expense in Q3 2018 was up 21% from Q3 2017 to US$42.9 million. This increase was mainly due to the consolidation of Silego into the Group. In Q3 2018, we incurred US$0.9 million of integration costs relating to the acquisition of Silego and US$3.9 million of corporate transactions costs relating to the aborted acquisition of Synaptics, and the agreement entered with Apple on 11 October 2018. As a percentage of revenue, SG&A in Q3 2018 was 140bps above Q3 2017 at 11.2% (Q3 2017: 9.8%). Underlying[1] SG&A in Q3 2018 was up 7% over Q3 2017 to US$29.7 million. The increase in underlying[1] SG&A was driven by the same reason mentioned above. As a percentage of revenue, underlying SG&A was broadly in line with Q3 2017 at 7.7% (Q3 2017: 7.6%).

Other operating income in Q3 2018 was US$2.6 million, comprising income from R&D contracts of US$1.5 million and $1.1 million arising from a reduction in the estimated contingent consideration payable for Silego. Underlying[1] operating income in Q3 2018 was US$1.5 million in relation to the income from R&D contracts.

Operating profit in Q3 2018 was US$63.5 million, up 1% year-on-year reflecting the increased revenue and other operating income offset by higher OPEX. Operating profit margin in the quarter was 16.6%, 70bps below Q3 2017, mainly due to the higher SG&A as a percentage of revenue as a result of the consolidation of Silego into the Group. Underlying[1] operating profit was US$83.7 million, up 9% year-on-year mainly driven by the revenue growth partially offset by slightly higher OPEX. Underlying[1] operating margin in the quarter was 21.8% 70bps above Q3 2017.

The effective tax rate in Q3 2018 was 24.9% (Q3 2017: 22.6%), including a charge of US$1.4 million (Q3 2017: credit of $1.2 million) resulting from the agreement of prior year items with tax authorities. The higher effective tax rate for Q3 2018 was principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation, business combinations and certain of our strategic investments. The underlying[1] effective tax rate in Q3 2018 was 22.6%, which compares with 20.5% for Q3 2017. Excluding the charge of US$1.4 million (Q3 2017: credit of US$1.2 million) in respect of the agreement of prior year items, the underlying[1] effective tax rate in Q3 2018 was 21.0%, which compares with 22.0% for Q3 2017.

In Q3 2018, net income was 2% below Q3 2017 due to the small increase in operating profit offset by higher income tax expense. Underlying[1] net income was up 6% year-on-year. The year-on-year increase in underlying[1] net income was mainly driven by the operating profit movement. Diluted EPS in Q3 2018 was 3% below Q3 2017. Underlying[1] diluted EPS in Q3 2018 was up 5% year-on-year.

At the end of Q3 2018, our total inventory level was US$141 million, 5% above the previous quarter (or ~64 days), representing a 14-day decrease in our days of inventory from the previous quarter. During Q4 2018, we expect inventory value to increase from Q3 2018 and days of inventory to be below Q3 2018.

At the end of Q3 2018, we had a cash and cash equivalents balance of US$617 million. Cash flow from operating activities in Q3 2018 was US$87 million, more than double Q3 2017 (Q3 2017: US$34 million) mainly as a result of working capital movements and the timing of income tax payments. Free cash flow in Q3 2018 was US$79 million, significantly higher than Q3 2017 (Q3 2017: US$7 million) mostly due to the higher cash flow from operating activities.

On 31 July 2018, the company announced that it had terminated discussions with Synaptics Incorporated (NASDAQ:SYNA) regarding a potential acquisition of Synaptics.

Press release – 31 October 2018 continued

Operational overview

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

Mobile Systems

During Q3 2018, revenue from Mobile Systems business segment was 3% below Q3 2017 due to the reduced share of volume from Apple for the main PMIC for the 2018 smartphone platform announced on 31 May 2018, partially offset by higher content per device in other platforms.

Mobile Systems is gradually expanding its product portfolio of Application Specific Standard Products (ASSP) with next generation Charger ICs and nanopower PMICs. The ultra-compact nanopower PMICs provide high efficiency and flexibility for wearables, smart home applications and many other connected devices.

On 11 October 2018, Dialog entered into an agreement with Apple Inc. to license its power management technologies, transfer certain of its assets and over 300 employees from Dialog to support chip research and development. Apple will pay $300 million in cash for the transaction and prepay $300 million for Dialog products to be delivered over the next three years. The transaction is expected to be completed in the first half of 2019, subject to applicable regulatory approvals and other customary closing conditions.

Dialog has been awarded a broad range of new contracts from Apple for the development and supply of power management, audio subsystem, charging and other mixed-signal integrated circuits. Revenue from the new contracts is expected to be realized starting in 2019 and accelerating in 2020 and 2021.

In parallel, we continue to leverage our power management technology into new markets and geographies through the expansion of our platform reference designs. Our partnership with Spreadtrum provides Dialog with an opportunity to expand market share in mobility in China and Southeast Asia, and the collaborations with Renesas and Xilinx strengthen Dialog's presence in the automotive segment.

Advanced Mixed Signal

In Q4 2017 we created the Advanced Mixed Signal segment, grouping the Power Conversion segment and the business from the acquisition of Silego. During Q3 2018, Advanced Mixed Signal revenue almost doubled year-on-year. Excluding revenue from Silego, Advanced Mixed Signal was up 3% year-on-year mainly as a result of solid demand for rapid charge ICs and Backlighting products.

We expect market adoption of new charging technologies, like USB PD Type-C, to accelerate in 2019. Dialog has successfully maintained a commanding market share in the rapid charge market through a combination of differentiated technology, speed of execution and wide support of rapid charge protocols. Our RapidCharge™ solutions for power adapters had approximately 60% share[4] of the rapid charge adapter market for smartphones at the end of 2017.

Our broad product portfolio in Solid-State Lighting (SSL) LED driver ICs and exclusive digital conversion technologies enable high quality solutions at a low cost. The acquisition of the LED backlighting technology from ams AG in November 2017 has enabled us to expand our customer base, grow our share of the high-end TV market, and target the mobile and automotive display markets over the medium term.

The acquisition of Silego in November 2017 contributed to the expansion of our product portfolio. With over 4.0 billion CMICs having been shipped to date Dialog's configurable technology, including the highly successful GreenPAK™ product family, has established as the leading choice for the market. The ultra-low power consumption and in-system programming, enables customers to rapidly customise and integrate multiple analog, logic and discrete components into a single chip.

In Q3 2018, the technology was adopted by a top audio equipment brand name for its next generation wireless speakers. This technology will contribute to the expansion of our customer base and strengthen our presence in IoT, mobile computing and automotive.

Connectivity

During Q3 2018, the Connectivity Segment delivered 2% year-on-year revenue growth.

Revenue from our SmartBond™ System-on-Chip (SoC) was broadly in line with Q3 2017. The Bluetooth® low energy market is estimated to grow 23% CAGR over the 2016-2021 period[5] a reflection of the continuing adoption of the technology across a wide range of applications. In Q3 2018, Dialog was the first in the industry to develop a proof of concept implementation to demonstrate Stereo High Fidelity (HiFi) quality audio streaming over Bluetooth low energy. This proof of concept demonstrates Bluetooth low energy's potential to deliver the solution developers need, while overcoming the limitations of existing technology. Our strategy remains focused on targeted verticals, like wearables, proximity tags, smart home, and gaming accessories. The latest additions to our portfolio enable increased security, advanced connectivity to the Cloud for IoT devices and new use cases such as Bluetooth® mesh. In Q3 2018, SmartBond™ DA14585 was adopted by a top US OEM for its next-generation proximity tags and a major mobile OEM adopted our Bluetooth low energy technology for its low-power phablet accessory. Revenue from our portfolio of DECT audio products in Q3 2018 was slightly below Q3 2017.

Audio technology performed well during Q3 2018, delivering almost three times more revenue than in Q3 2017. The Connectivity Segment is targeting the consumer headset market with our SmartBeat™ wireless Audio IC. This technology enables a new immersive headset experience and supports both wired USB 3.0 Type-C™ and Bluetooth® based consumer headsets. In Q3 2018, our audio technology was adopted by a top gaming OEM, and by a top Audio equipment OEM for its next generation unified communication low-power Hi-Fi headsets. The DA14195 is currently being evaluated by a number of leading consumer brands for gaming and USB Type-C™ headsets.

4 Dialog estimates.
5 Source: IHS Technology Q1 2018 Tracker and Company estimates.

Automotive and Industrial

Automotive & Industrial revenue in Q3 2018 was 11% below Q3 2017. This decline was the result of lower volumes in the automotive segment.

Other business initiatives

Our strategic partnership with Energous Corporation continued to develop, aiming to drive market adoption of true over the air wireless charging by combining Energous' uncoupled wireless charging technology and Dialog's power saving technologies. In Q1 2018, we announced the acceleration of a complete product roadmap. This announcement was possible after the Federal Communications Commission (FCC) certification of the Mid Field WattUp® transmitter reference design.

Impact of reclassification of certain R&D expenses

With effect from 1 January 2018, we reclassified certain product development costs from cost of sales to research and development (R&D) expenses. As shown in the table below, we have re-presented comparative information for Q3 2017 on a consistent basis.

	IFRS			Underlying[1]		
	As previously classified US$000	Effect of reclassification US$000	As reclassified US$000	As previously classified US$000	Effect of reclassification US$000	As reclassified US$000
Revenue	362,833	–	362,833	362,833	–	362,833
Cost of sales	(192,744)	6,061	(186,683)	(190,547)	4,286	(186,261)
Gross profit	170,089	6,061	176,150	172,286	4,286	176,572
R&D expenses	(72,092)	(6,061)	(78,153)	(68,002)	(4,286)	(72,288)
Operating profit	62,572	–	62,572	76,577	–	76,577
Gross margin %	46.9%		48.5%	47.5%		48.7%
R&D % of revenue	19.9%		21.5%	18.7%		19.9%

****

Dialog Semiconductor invites you today at 09.30 am (London) / 10.30 am (Frankfurt) to take part in a live conference call and to listen to management's discussion of the Company's Q3 2018 performance, as well as guidance for Q4 2018. Participants will need to register using the link below. A full list of dial in numbers will also be available. To register for the webcast and receive dial in numbers, the conference PIN and a unique User ID please click on the link below:

https://www.incommglobalevents.com/registration/client/1395/dialog-semiconductor-q3-earnings-call/

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

http://webcast.openbriefing.com/semiconductor_31102018/

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

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

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

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

The full release including the Company's condensed consolidated income statement, consolidated balance sheet, consolidated statements of cash flows and financial notes for the quarter ended 28 September 2018 is available under the investor relations section of the Company's website at:

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

Press release – 31 October 2018 continued

For further information please contact:

Dialog Semiconductor
Jose Cano
Head of Investor Relations
T: +44 (0)1793 756 961
jose.cano@diasemi.com

FTI Consulting London
Matt Dixon
T: +44 (0)2037 271 137
matt.dixon@fticonsulting.com

FTI Consulting Frankfurt
Anja Meusel
T: +49 (0)69 9203 7120
anja.meusel@fticonsulting.com

Note to editors

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

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

Dialog Semiconductor Plc is headquartered in London with a global sales, R&D and marketing organisation. In 2017, it had US$1.4 billion in revenue and approximately 2,070 employees worldwide. The company is listed on the Frankfurt (XETRA: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index.

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 "Managing risk and uncertainty" in Dialog Semiconductor's most recent Annual Report) or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. We do not intend or assume any obligation to update any forward-looking statement which speaks only as of the date on which it is made, however, any subsequent statement will supersede any previous statement.

Financial review

Basis of preparation

Interim financial statements

The interim financial statements of Dialog Semiconductor Plc ("the Company") and its subsidiaries (together, "Dialog" or "the Group") for the three- and nine-month periods ended 28 September 2018 are set out in Section 2 of this Interim Report.

The interim financial statements are unaudited but have been reviewed by the Company's auditor, Deloitte LLP, whose review report is set out on page 13.

The Group's significant accounting policies are unchanged compared with the year ended 31 December 2017 (see pages 105 to 111 of our Annual Report and Accounts 2017), except for the adoption of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* with effect from 1 January 2018.

Recent accounting pronouncements that have not yet been adopted by the Group are set out in note 1 to the interim financial statements.

Revenue recognition

IFRS 15 *Revenue from Contracts with Customers* provides a single, principles-based five-step model to be applied to all contracts with customers.

Adoption of IFRS 15 had no impact on the recognition and measurement of the majority of the Group's revenue. Under our previous revenue recognition policy, however, revenue on certain sales to distributors and the related cost of sales were not recognised until the onward sale of the products by the distributor to end customers. Under IFRS 15, we are required to recognise revenue on all sales to distributors when the products are physically transferred to the distributors, net of allowances for estimated rebates and returns.

We applied IFRS 15 using the modified retrospective approach, whereby prior periods were not restated and we recognised a credit of US$1.5 million to the opening balance of retained earnings as at 1 January 2018 representing the cumulative effect of the adoption of IFRS 15.

Revenue recognised in 9M 2018 was US$10.1 million higher than it would have been under our previous revenue recognition policy, of which US$9.3 million was recognised in our Advanced Mixed Signal operating segment and US$0.8 million in Connectivity.

Details about the adoption of IFRS 15 and its financial impact are set out in note 14 to the interim financial statements.

Financial instruments

IFRS 9 *Financial Instruments* introduced a new model for classification and measurement of financial assets and financial liabilities, a single, forward-looking "expected loss" model for measuring impairment of financial assets (including trade receivables) and a new approach to hedge accounting that is more closely aligned with an entity's risk management activities.

Adoption of IFRS 9 had no immediate impact on the Group's results or financial position. Details about the adoption of IFRS 9 are set out in note 14 to the interim financial statements.

Reclassification of certain product development costs

With effect from 1 January 2018, we changed the income statement classification of the amortisation of capitalised product development costs, the amortisation of acquired technology-based intangible assets and royalties payable for the use of intellectual property in our product development activities. Previously, we included these costs within cost of sales. We now include them within research and development expenses.

We made this change in order that our results are more comparable with our industry peers.

Comparative information has been re-presented on a consistent basis with the effect that cost of sales was US$17.5 million lower and R&D expenses US$17.5 million higher in 9M 2017 than previously reported. Further information on the reclassification is presented in note 1 to the interim financial statements.

Recent acquisitions

Silego Technology Inc.

We completed the acquisition of Silego Technology Inc. ("Silego") on 1 November 2017.

Silego is included in our Advanced Mixed Signal operating segment. Silego contributed US$74.7 million to the Group's revenue in 9M 2018. Silego's revenue in 9M 2018 was 17% higher than it was in 9M 2017 before we acquired the business.

We incurred integration costs of US$2.1 million in relation to Silego during 9M 2018, taking the total integration costs incurred to date to US$4.4 million.

Also during 9M 2018, we recognised a credit of US$1.5 million due to a decrease in the estimated contingent consideration payable for Silego and a credit of US$0.2 million due to the forfeiture of deferred consideration.

LED backlight business

We acquired ams AG's LED backlight technology and product portfolio on 15 November 2017.

We have included the business in our Advanced Mixed Signal operating segment where it contributed US$7.2 million to revenue in 9M 2018.

Deconsolidation of Dyna Image

We deconsolidated Dyna Image at the end of 2017 and, with effect from 1 January 2018, we have accounted for Dyna Image as an associate using the equity method.

Under the equity method, the Group's revenue no longer includes any contribution from Dyna Image. During 9M 2017, the Group's revenue included Dyna Image's revenue of US$4.4 million.

Agreements entered into with Apple

On 11 October 2018, we announced that we have entered into an agreement with Apple Inc. ("Apple") to licence our power management technologies and to transfer to Apple certain assets and over 300 employees from our design centres in the UK, Germany and Italy. Apple will pay US$300 million for the licence and asset transfers. The transaction is expected to complete in the first half of 2019, subject to applicable regulatory approvals and other customary closing conditions.

Our revenue for 2018 will not be affected by this agreement and we will continue to supply Apple with PMICs for their current generation of products. Revenue associated with the licensing agreement will begin to decline in the second half of 2019 and phase out by 2022. We expect to continue to provide PMICs to other customers across the globe.

At the same time, we announced that we have been awarded a broad range of new contracts from Apple for the development and supply of power management, audio subsystem, charging and other mixed-signal integrated circuits. Revenue from the new contracts is expected to commence in 2019 and accelerate in 2020 and 2021.

On completion of the licence and asset transfer agreement, Apple will make a prepayment of US$300 million that is expected to be recouped against the sale of our products over the following three years.

Non-IFRS measures

Underlying measures of profitability and free cash flow quoted in the Finance Review are non-IFRS measures.

Reconciliations of these measures to the nearest equivalent IFRS measures on a consolidated basis are presented in Section 3 of this Interim Report.

Financial review continued

Results of operations

Analysis by operating segment

Mobile Systems segment revenue was US$702.9 million in 9M 2018 compared with US$666.2 million in 9M 2017, an increase of 6%. Revenue increased principally due to higher demand for our custom PMICs.

Mobile Systems' operating profit was broadly unchanged at US$153.9 million in 9M 2018 compared with US$153.6 million in 9M 2017. Operating profit did not increase in line with revenue principally due to the effect of product mix and higher R&D expenses.

Mobile Systems' underlying operating profit was US$153.6 million compared with US$154.6 million in 9M 2017. Underlying operating margin was lower at 21.9% compared with 23.2% in 9M 2017.

Mobile Systems' underlying operating profit in 9M 2018 excludes a credit of US$0.3 million in relation to payroll taxes arising on share-based compensation (9M 2017: expense of US$1.0 million).

Connectivity segment revenue was US$109.4 million in 9M 2018 compared with US$99.3 million in 9M 2017, an increase of 10%. Excluding the effect of IFRS 15, Connectivity's revenue increased by 9% compared with 9M 2017 due to strong growth in demand for Bluetooth® low energy products.

Connectivity's operating profit was broadly unchanged at US$11.7 million compared with US$11.1 million in 9M 2017, with the effect of increased sales volumes being largely offset by higher R&D expenses.

Connectivity's underlying operating profit was US$11.7 million compared with US$11.2 million in 9M 2017. Underlying operating margin was lower at 10.6% compared with 11.3% in 9M 2017.

Connectivity's underlying operating profit excludes a credit of less than US$0.1 million in relation to payroll taxes arising on share-based compensation (9M 2017: expense of US$0.1 million).

Automotive & Industrial segment revenue was US$26.1 million in 9M 2018 compared with US$25.2 million in 9M 2017, an increase of 4%.

Results by operating segment

	Revenue			Operating profit/(loss)	
US$ millions	**9M 2018**	9M 2017	Change	**9M 2018**	9M 2017
9M 2018 compared with 9M 2017					
Mobile Systems	**702.9**	666.2	+6%	**153.9**	153.6
Connectivity	**109.4**	99.3	+10%	**11.7**	11.1
Automotive & Industrial	**26.1**	25.2	+4%	**10.1**	10.0
Advanced Mixed Signal	**172.9**	92.7	+86%	**1.8**	(2.6)
Total segments	**1,011.3**	883.4	+14%	**177.5**	172.1
Corporate activities	**0.1**	5.9	-99%	**(54.9)**	(60.5)
Total Group	**1,011.4**	889.3	+14%	**122.6**	111.6

Revenue increased because of higher demand for automotive products.

Automotive & Industrial's operating profit was broadly unchanged at US$10.1 million compared with US$10.0 million in 9M 2017. Operating profit reflected higher operating expenses.

Automotive & Industrial's underlying operating profit was US$10.0 million compared with US$10.1 million in 9M 2017. Underlying operating margin was slightly lower at 38.4% compared with 40.1% in 9M 2017.

Automotive & Industrial's underlying operating profit excludes a credit of less than US$0.1 million in relation to payroll taxes arising on share-based compensation (9M 2017: expense of US$0.1 million).

Advanced Mixed Signal segment revenue was US$172.9 million in 9M 2018 compared with US$92.7 million in 9M 2017, an increase of 86%.

Excluding the contribution of Silego and the effect of IFRS 15, Advanced Mixed Signal's revenue was 4% lower compared with 9M 2017. Growth in sales of Rapid Charge™ smartphone power adaptors was offset by lower sales of 5W/10W converters and LED driver ICs for residential uses.

Advanced Mixed Signal made an operating profit of US$1.8 million compared with an operating loss of US$2.6 million in 9M 2017.

Advanced Mixed Signal delivered an underlying operating profit of US$24.1 million compared with US$7.5 million in 9M 2017. Underlying operating margin was higher at 14.0% compared with 8.1% in 9M 2017.

Advanced Mixed Signal's underlying operating result excludes the increase in cost of sales of US$3.1 million arising from consumption of the fair value uplift on inventory acquired with Silego, amortisation of US$17.0 million (9M 2017: US$10.0 million) on the fair value uplift of acquired intangible assets, integration costs of US$1.0 million, deferred consideration payable for Silego treated as compensation expense of US$1.2 million, and a credit of less than US$0.1 million in relation to payroll taxes arising on share-based compensation (9M 2017: expense of US$0.1 million).

Corporate activities principally comprise the costs of operating central corporate functions, the Group's share-based compensation expense and certain other unallocated costs.

Corporate activities also comprise various development stage businesses and, until its deconsolidation at the end of 2017, included the results of Dyna Image.

Corporate activities showed an operating loss of US$54.9 million in 9M 2018 compared with a loss of US$60.5 million in 9M 2017.

Corporate's underlying operating loss was US$21.2 million compared with a loss of US$32.1 million in 9M 2017, with the improvement being principally due to lower R&D expenses in development stage businesses.

Corporate's underlying operating result excludes the Group's share-based compensation expense of US$29.7 million (9M 2017: US$26.2 million) and a credit of less than US$0.1 million in relation to payroll taxes arising on share-based compensation of Corporate employees (9M 2017: expense of US$0.1 million), in 9M 2018, integration costs of $1.1 million, a credit of US$1.8 million arising from reductions in the consideration payable for Silego and corporate transaction costs of US$4.7 million, and, in 9M 2017, amortisation of US$0.8 million on the fair value uplift of acquired intangible assets.

Analysis of the Group's results

Revenue was US$1,011.4 million in 9M 2018 compared with US$889.3 million in 9M 2017, an increase of 14%. Excluding the contribution of Silego, revenue increased by 5% compared with 9M 2017. Revenue increased principally due to higher demand for our PMICs in Mobile Systems. We also experienced higher sales in Connectivity and Automotive & Industrial.

Cost of sales was US$529.8 million in 9M 2018 compared with US$460.5 million in 9M 2017, an increase of 15% that principally reflected higher sales volumes.

Gross profit was US$481.6 million in 9M 2018 compared with US$428.9 million in 9M 2017, an increase of 12%. Gross margin was 60 basis points lower at 47.6% compared with 48.2% in 9M 2017.

Underlying gross profit was US$486.2 million compared with US$430.2 million in 9M 2017, an increase of 13%. Underlying gross margin was 30 basis points lower at 48.1% compared with 48.4% in 9M 2017. Underlying gross margin declined principally due to product mix in Mobile Systems which was partially offset by manufacturing cost efficiencies.

Underlying gross profit excludes share-based compensation expenses and related payroll costs totalling US$1.5 million (9M 2017: US$1.4 million) and, in 9M 2018, the consumption of US$3.1 million of the fair value uplift on inventory acquired with Silego.

Selling and marketing expenses were US$62.7 million in 9M 2018 compared with US$48.5 million in 9M 2017, the increase being principally due to the acquisition of Silego.

Underlying selling and marketing expenses increased to US$48.9 million compared with US$40.2 million in 9M 2017, and were slightly higher as a percentage of the Group's revenue at 4.8% compared with 4.5% in 9M 2017.

Underlying selling and marketing expenses exclude share-based compensation expenses and related payroll costs totalling US$2.9 million (9M 2017: US$2.8 million), amortisation of US$10.5 million (9M 2017: US$5.5 million) on the fair value uplift of acquired intangible assets and, in 9M 2018, deferred consideration payable for Silego treated as compensation expense of US$0.4 million.

General and administrative expenses were US$58.7 million in 9M 2018 compared with US$50.9 million in 9M 2017, the increase being largely due to the acquisition and integration of Silego and corporate transaction costs incurred during 9M 2018.

Underlying general and administrative expenses increased to US$42.3 million compared with US$38.9 million in 9M 2017, but were slightly lower as a percentage of the Group's revenue at 4.2% compared with 4.4% in 9M 2017.

Underlying general and administrative expenses exclude share-based compensation and related payroll costs totalling US$9.7 million (9M 2017: US$10.7 million) and, in 9M 2018, integration costs of US$1.9 million, deferred consideration payable for Silego treated as compensation expense of US$0.1 million and corporate transaction costs of US$4.7 million.

R&D expenses were US$241.4 million in 9M 2018 compared with US$217.9 million in 9M 2017.

R&D costs totalled US$264.2 million (9M 2017: US$219.7 million), of which US$18.9 million (9M 2017: US$14.7 million) was capitalised and US$3.9 million (9M 2017: US$4.7 million) was offset by R&D expenditure credits.

Underlying R&D expenses were US$219.1 million compared with US$199.9 million in 9M 2017, an increase of 10%. Excluding the contribution of Silego, underlying R&D expenses increased by 2%. Underlying R&D expenses were lower as a percentage of the Group's revenue at 21.7% compared with 22.5% in 9M 2017.

Underlying R&D expenses exclude share-based compensation expenses and related payroll costs totalling US$15.2 million (9M 2017: US$12.7 million), amortisation of US$6.5 million (9M 2017: US$5.3 million) on the fair value uplift of acquired technology and, in 9M 2018, deferred consideration payable for Silego treated as compensation expense of US$0.4 million and integration costs of US$0.2 million.

Other operating income was US$3.8 million (9M 2017: less than US$0.1 million), comprising income from R&D contracts of US$2.3 million and a credit of US$1.5 million arising from a reduction in the estimated contingent consideration payable for Silego.

Operating profit was US$122.6 million in 9M 2018 compared with US$111.6 million in 9M 2017.

Underlying operating profit was US$178.2 million compared with US$151.3 million in 9M 2017, an increase of 18%. Underlying operating profit improved principally because the effect of higher sales volumes outweighed the increase in underlying R&D expenses.

Underlying operating margin increased by 60 basis points to 17.6% compared with 17.0% in 9M 2017.

Interest income was US$6.6 million in 9M 2018 compared with US$4.9 million in 9M 2017, with the effect of higher US dollar interest rates being largely offset by the lower average cash balance during 9M 2018.

Interest expense was US$2.3 million in 9M 2018 compared with US$0.5 million in 9M 2017, the increase being largely due to the unwinding of the discount on the estimated contingent consideration payable for Silego.

Other finance expense, net was US$8.0 million in 9M 2018 compared with US$2.5 million in 9M 2017.

We recognised a net currency translation loss on monetary assets and liabilities of US$0.6 million in 9M 2018 compared with a gain of US$1.4 million in 9M 2017.

We also recognised a fair value loss of US$8.6 million (9M 2017: loss of US$4.1 million) on the warrants that we hold over shares in Energous that was partially offset by the amortisation of the gain on initial recognition of the second tranche of warrants amounting to US$1.2 million (9M 2017: US$0.4 million).

In 9M 2017, we recognised a loss of US$0.2 million on the sale of our interest in Arctic Sand.

Income tax expense was US$35.8 million (9M 2017: US$26.0 million) on profit before tax of US$118.9 million (9M 2017: US$113.5 million), an effective tax rate for the period of 30.1% (9M 2017: 22.9%). Our income tax expense for 9M 2018 includes a charge of US$1.4 million (9M 2017: credit of US$1.8 million) resulting from the agreement of prior year items with tax authorities.

Our income tax expense for the first nine months of the year is calculated by applying the estimated effective tax rate for the full year to the profit before tax for the period excluding specific items that distort the tax rate and then by taking into account the tax effect of those specific items. Our high effective tax rate for 9M 2018 is principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation, business combinations and certain of our strategic investments.

Our underlying income tax expense was US$40.0 million (9M 2017: US$32.8 million) on underlying profit before tax of US$183.6 million (9M 2017: US$157.3 million). Our underlying effective tax rate for 9M 2018 was therefore 21.8%, which compares with 20.8% for 9M 2017. Excluding the charge of US$1.4 million (9M 2017: credit of US$1.8 million) in respect of the agreement of prior year items, our underlying effective tax rate for 9M 2018 was 21.0%, which compares with 22.0% for 9M 2017.

Share of loss of associate was US$1.1 million (9M 2017: US$ nil) in relation to Dyna Image.

Financial review continued

Net income was US$81.9 million in 9M 2018 compared with US$87.5 million in 9M 2017. Underlying net income was US$142.5 million compared with US$124.6 million in 9M 2017, an increase of 14%.

Basic earnings per share were US$1.11 (9M 2017: US$1.19) based on the weighted average of 73.9 million shares (9M 2017: 74.6 million shares) that were in issue during the year excluding 2.5 million shares (9M 2017: 1.9 million shares) held by employee benefit trusts and, in 9M 2017, 1.8 million of our own shares that were held in treasury. Underlying basic earnings per share were US$1.93 (9M 2017: US$1.68).

Diluted earnings per share were US$1.05 (9M 2017: US$1.14). Diluted earnings per share additionally reflect the weighted average of 3.9 million (9M 2017: 3.6 million) dilutive employee share options. Underlying diluted earnings per share were US$1.83 (9M 2017: US$1.60).

Summary cash flow statement

US$ millions	9M 2018	9M 2017
Cash generated from operations	**214.4**	139.1
Interest received, net	**5.3**	4.7
Income taxes (paid)/received	**(27.5)**	10.7
Cash flow from operating activities	**192.2**	154.5
Purchase of property, plant and equipment	**(20.2)**	(38.0)
Purchase of intangible assets	**(3.9)**	(4.0)
Capitalised development expenditure	**(19.0)**	(14.7)
Capital element of finance lease payments	**(1.7)**	(3.5)
Free cash flow	**147.4**	94.3
Payment of consideration for Silego	**(12.1)**	–
Purchase of other investments, net	**–**	(13.7)
Purchase of own shares into treasury	**–**	(125.0)
Sale/(purchase) of Dialog shares by EBTs, net	**2.1**	(17.6)
Other cash flows, net	**0.1**	1.0
Net cash inflow/(outflow) during the period	**137.5**	(61.0)
Currency translation differences	**(0.2)**	0.1
Increase/(decrease) in cash and cash equivalents	**137.3**	(60.9)

Cash flows

Cash flow from operating activities was US$192.2 million in 9M 2018 compared with US$154.5 million in 9M 2017, reflecting higher cash generated from operations that was partially offset by the timing of income tax cash flows.

Cash generated from operations before changes in working capital was US$212.8 million compared with US$186.5 million in 9M 2017.

Net working capital decreased by US$1.6 million during 9M 2018 (9M 2017: increased by US$47.5 million).

Demand for our products is typically higher in the fourth quarter of the year and lower in the first and second quarters. We anticipated higher than usual sales of new customer products in the first quarter of 2018 and therefore had higher than usual levels of inventory at the end of 2017. Inventory levels decreased during 9M 2018, releasing cash of US$24.2 million. At the end of 9M 2018, inventories represented 64 days' cost of sales in the preceding quarter (end of 2017: 60 days' cost of sales).

Trade and other payables increased during 9M 2018, benefiting cash flow by US$5.5million. At the end of 9M 2018, trade and other payables represented 51 days' cost of sales in the preceding quarter (end of 2017: 39 days' cost of sales).

Trade and other receivables increased during 9M 2018, absorbing cash of US$20.0 million. At the end of 9M 2018, trade and other receivables represented 23 days' sales in the preceding quarter (end of 2017: 15 days' sales) and reflected our use of receivables financing facilities.

Movements on other working capital items had the effect of absorbing cash of US$8.1 million during 9M 2018.

Net interest received was US$5.3 million compared with US$4.7 million in 9M 2017.

Net income tax payments were US$27.5 million compared with net tax receipts of US$10.7 million in 9M 2017. Income tax cash flows comprise payments on account in respect of current year taxable profits and adjusting payments or receipts in respect of earlier years. During 9M 2017, we received US$37.6 million of income taxes overpaid in respect of earlier years.

Cash flow used for investing activities was US$55.2 million in 9M 2018 compared with US$70.9 million in 9M 2017.

Cash outflows in relation to the purchase of property, plant and equipment and intangible assets and capitalised development expenditure totalled US$43.1 million compared with US$56.7 million in 9M 2017, with the reduction principally reflecting the unusually high expenditure on testing equipment during 9M 2017.

During 9M 2018, we made a number of payments in relation to the acquisition of Silego. We paid a purchase price adjustment of US$0.7 million following agreement with the vendors of Silego's cash, debt and working capital levels on completion. We also paid US$9.1 million in settlement of the first tranche of the contingent consideration payable for Silego and US$2.3 million in settlement of deferred consideration.

During 9M 2017, we paid US$15.0 million on subscription for shares in Energous and received US$1.3 million on the sale of our shareholding in Arctic Sand.

Cash flow from financing activities was US$0.5 million in 9M 2018 compared with an outflow of US$144.6 million in 9M 2017.

During 9M 2018, the employee benefit trusts received US$2.1 million (9M 2017: US$6.7 million) on the exercise of share options by employees and there was a cash outflow of US$1.7 million (9M 2017: US$3.5 million) on the capital element of lease and hire purchase payments.

During 9M 2018, we made no purchases under the Company's share buyback programme (9M 2017: US$125.0 million) and there were no purchases of the Company's shares in the market by employee benefit trusts (9M 2017: US$24.3 million).

Liquidity

Cash and cash equivalents

At the end of 9M 2018, cash and cash equivalents amounted to US$616.5 million (end of 2017: US$479.3 million), which principally comprised investments in money market funds and bank deposits with a maturity of three months or less.

Revolving credit facility

In July 2017, we entered into a US$150.0 million three-year revolving credit facility provided by four financial institutions. The facility is committed and available for general corporate purposes. In June 2018, the facility was extended by a year at a reduced amount of US$112.5 million from July 2020 until it matures in July 2021. On the second anniversary of the facility, we have the option to extend the facility by a further year subject to the consent of the lenders. We also have the option to increase the amount of the facility by US$75 million subject to certain conditions.

We have not yet made any drawings under the facility.

We consider that the revolving credit facility and our significant cash balances are sufficient to satisfy the Group's working capital requirements in the near to medium term.

Receivables financing facilities

We utilise non-recourse receivables financing facilities provided by two financial institutions in an aggregate amount of US$240 million. During Q1 2018, we extended the principal facility of US$220 million for a period of 18 months and it now matures on 31 October 2019.

Gross receivables sold under the facilities decreased by US$41.7 million to stand at US$129.6 million at the end of 9M 2018 compared with US$171.3 million at the end of 2017.

At the end of 9M 2018, cash and cash equivalents included US$110.8 million (end of 2017: US$145.1 million) in relation to receivables sold under these facilities.

Share buyback programme

At the Company's 2016 AGM, the Directors were granted authority to commence a share buyback programme. We returned the equivalent of US$184.7 million to shareholders by way of share purchases under the 2016 AGM authority.

Shareholders renewed the share buyback authority at the Company's 2017 AGM. We did not announce any purchases under the 2017 AGM authority, which expired on 2 May 2018.

At the Company's AGM on 3 May 2018, the Directors were granted the authority to purchase up to 7,638,214 ordinary shares in the capital of the Company, representing approximately 10% of the issued ordinary share capital of the Company as at 21 March 2018.

Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2019, whichever is the earlier. Purchases made under the renewed authority will be off-market and will be effected by way of contingent forward share purchase contracts entered into with Barclays, Goldman Sachs, HSBC or Merrill Lynch acting as brokers.

We have not yet made any purchases under the 2018 AGM authority but have announced our intention to initiate further share purchases following the release of this Interim Report.

Balance sheet

Non-current assets totalled US$765.3 million at the end of 9M 2018 compared with US$816.3 million at the end of 2017, a decrease of US$51.0 million that was principally due to the fluctuation in the fair value of our investments in Energous, amortisation exceeding additions to intangible assets and lower deferred tax assets.

Current assets totalled US$880.8 million at the end of 9M 2018 compared with US$760.5 million at the end of 2017, an increase of US$120.3 million. Cash and cash equivalents increased by US$137.2 million to US$616.5 million. Other current assets decreased by US$16.9 million to US$264.3 million, with a decrease of US$27.5 million in inventories being largely offset by an increase of US$20.0 million in trade and other receivables.

Current liabilities were broadly unchanged at US$198.2 million at the end of 9M 2018 compared with US$199.7 million at the end of 2017. Trade and other payables increased by US$5.5 million to US$112.7 million. Other current liabilities declined by US$7.0 million to US$85.5 million, principally due to income tax payments.

Non-current liabilities totalled US$15.8 million at the end of 9M 2018 compared with US$34.7 million at the end of 2017, the decrease being principally due to the reclassification of the estimated contingent consideration payable for Silego to current liabilities.

Total equity was US$1,432.1 million at the end of 9M 2018 compared with US$1,342.4 million at the end of 2017.

Consequences of Brexit

Considerable uncertainty continues to exist as to the effect of Brexit on the UK's relationships with the EU, with other multilateral organisations and with individual countries after the UK leaves the EU on 29 March 2019.

We continue to believe that Brexit will not have a significant impact on Dialog in the short term because only a small amount of our revenue is derived from customers in the UK. However, since approximately two-thirds of our workforce is based in the EU and our teams are typically comprised of several nationalities, we will monitor very closely any proposed changes to the current regulations in respect of the rights of EU and other nationals to work in the UK, and vice versa.

The longer-term effects of Brexit on our operating environment are difficult to predict and subject to wider global macroeconomic trends and events, but may impact both ourselves and our customers and counterparties.

While the Brexit negotiations are ongoing, we are operating on a business as usual basis within the existing regulations and our continuing focus is on growing our business.

Other information

Members of the Board of Directors and the Management Team

Board of Directors

Rich Beyer, *Chairman*

Dr Jalal Bagherli

Chris Burke (until 3 May 2018)

Alan Campbell

Mike Cannon

Mary Chan

Aidan Hughes

Nick Jeffery

Eamonn O'Hare

Management Team

Dr Jalal Bagherli, *Chief Executive Officer*

Vivek Bhan, *Senior Vice President, Engineering*

Christophe Chene, *Senior Vice President, Asia*

Mohamed Djadoudi, *Senior Vice President, Global Manufacturing Operations and Quality*

Wissam Jabre, *Chief Financial Officer, Senior Vice President, Finance*

Udo Kratz, *Senior Vice President and General Manager, Mobile Systems Business Group*

Davin Lee, *Senior Vice President and General Manager Advanced Mixed Signal Business Group*

Sean McGrath, *Senior Vice President and General Manager, Connectivity, Automotive and Industrial Business Group*

Julie Pope, *Senior Vice President, Human Resources*

Tom Sandoval, *Senior Vice President, Worldwide Sales*

Colin Sturt, *Senior Vice President, General Counsel*

Mark Tyndall, *Senior Vice President, Corporate Development and Strategy and General Manager Emerging Products Business Group*

Going concern

After making enquiries, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future. As at 28 September 2018, the Group held cash and cash equivalents amounting to US$616.5 million and had an undrawn committed US$150.0 million revolving credit facility that reduces to US$112.5 million in July 2020 and matures in July 2021. Accordingly, the Directors have adopted the going concern basis in preparing the interim financial statements for the three- and nine-month periods ended 28 September 2018.

Principal risks and uncertainties

We describe the principal risks and uncertainties that could have a material adverse effect on the achievement of Dialog's three-year mid-range strategy on pages 56 to 60 of our Annual Report and Accounts 2017. In the opinion of the Directors, there has been no fundamental change in the principal risks and uncertainties affecting Dialog since the approval of the Annual Report and Accounts 2017. In particular, while we expect our dependency on Apple as a key customer to reduce over time as a consequence of the licensing agreement that we entered into in October 2018, we expect that Apple will remain our largest customer for the foreseeable future.

Responsibility statement

We confirm that, to the best of our knowledge, the interim financial statements for the three- and nine-month periods ended 28 September 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the interim management report includes a fair review of the development and performance of the Group during the period, a fair review of material transactions with related parties and changes during the period, and fairly describes the principal risks and uncertainties affecting the Group for the remainder of the year ending 31 December 2018.

Dr Jalal Bagherli
Chief Executive Officer

Wissam Jabre
Chief Financial Officer, Senior Vice President, Finance

31 October 2018

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 report for the three- and nine-month periods ended 28 September 2018 which comprises the condensed consolidated statement of income, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and the related notes 1 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company 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 Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

As disclosed in note 1, the annual financial statements of the Company and its subsidiaries are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim report has been prepared in accordance with IAS 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 report based on our review.

Scope of review

We conducted our review in accordance with the 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 inquiries, 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 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 for the three- and nine- month periods ended 28 September 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and the disclosure requirements of the German Securities Trading Act (WpHG).

Deloitte LLP
Statutory Auditor

Reading, UK

31 October 2018

Condensed consolidated statement of income

For the three- and nine- month periods ended 28 September 2018

	Note	Third quarter		First nine months	
		Three months ended 28 September 2018 US$000 (Unaudited)	Three months ended 29 September 2017* US$000 (Unaudited)	**Nine months ended 28 September 2018 US$000 (Unaudited)**	Nine months ended 29 September 2017* US$000 (Unaudited)
Revenue	2, 4	**383,574**	362,833	**1,011,393**	889,322
Cost of sales		**(197,599)**	(186,683)	**(529,794)**	(460,458)
Gross profit		**185,975**	176,150	**481,599**	428,864
Selling and marketing expenses		**(20,432)**	(16,914)	**(62,739)**	(48,477)
General and administrative expenses		**(22,494)**	(18,511)	**(58,680)**	(50,936)
Research and development expenses		**(82,180)**	(78,153)	**(241,358)**	(217,874)
Other operating income		**2,619**	–	**3,776**	50
Operating profit	4	**63,488**	62,572	**122,598**	111,627
Interest income		**2,654**	1,663	**6,565**	4,860
Interest expense		**(664)**	(222)	**(2,322)**	(479)
Other finance expense		**(3,186)**	(2,865)	**(7,980)**	(2,520)
Profit before income taxes		**62,292**	61,148	**118,861**	113,488
Income tax expense		**(15,504)**	(13,837)	**(35,832)**	(25,977)
Profit after income taxes		**46,788**	47,311	**83,029**	87,511
Share of loss of associate		**(367)**	–	**(1,116)**	–
Net income		**46,421**	47,311	**81,913**	87,511
Attributable to:					
– Shareholders in the Company		**46,421**	47,899	**81,913**	88,852
– Non-controlling interests		**–**	(588)	**–**	(1,341)
Net income		**46,421**	47,311	**81,913**	87,511
Earnings per share (US$)	5				
Basic		**0.63**	0.65	**1.11**	1.19
Diluted		**0.60**	0.62	**1.05**	1.14
Weighted average number of shares (in thousands)	5				
Basic		**73,966**	73,846	**73,850**	74,641
Diluted		**77,971**	77,184	**77,754**	78,270

* Certain product development costs have been reclassified from cost of sales to research and development expenses (see note 1).

Condensed consolidated statement of comprehensive income

For the three- and nine- month periods ended 28 September 2018

	Third quarter		First nine months	
	Three months ended 28 September 2018 US$000 (Unaudited)	Three months ended 29 September 2017 US$000 (Unaudited)	**Nine months ended 28 September 2018 US$000 (Unaudited)**	Nine months ended 29 September 2017 US$000 (Unaudited)
Net income	**46,421**	47,311	**81,913**	87,511
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods				
Currency translation differences on foreign operations	**(255)**	114	**(444)**	1,237
Income tax relating to currency translation differences on foreign operations	**(49)**	16	**(111)**	128
Fair value loss on available-for-sale investments	**–**	(5,368)	**–**	(5,842)
Income tax relating to available-for-sale investments	**–**	(81)	**–**	–
Cash flow hedges:				
– Fair value (loss)/gain recognised on effective hedges in the period	**(2,469)**	4,440	**(6,897)**	14,744
– Fair value loss/(gain) transferred to profit or loss	**1,780**	(2,297)	**(5,183)**	2,848
Income tax relating to cash flow hedges	**131**	(412)	**2,312**	(3,457)
	(862)	(3,588)	**(10,323)**	9,658
Items that will not be reclassified to profit or loss				
Fair value loss on equity investments	**(8,194)**	–	**(16,249)**	–
Income tax relating to equity investments	**–**	–	**1,015**	–
	(8,194)	–	**(15,234)**	–
Other comprehensive (loss)/income for the period	**(9,056)**	(3,588)	**(25,557)**	9,658
Total comprehensive income for the period	**37,365**	43,723	**56,356**	97,169
Attributable to:				
– Shareholders in the Company	**37,365**	44,311	**56,356**	98,517
– Non-controlling interests	**–**	(588)	**–**	(1,348)
Total comprehensive income for the period	**37,365**	43,723	**56,356**	97,169

Condensed consolidated balance sheet

As at 28 September 2018

	Note	As at 28 September 2018 US$000 (Unaudited)	As at 31 December 2017* US$000 (Audited)
Assets			
Cash and cash equivalents	6	**616,521**	479,295
Trade and other receivables		**98,178**	78,186
Other current financial assets		**25**	6,649
Inventories	7	**141,451**	168,947
Income tax receivables		**3,753**	12,739
Other current assets		**20,897**	14,656
Total current assets		**880,825**	760,472
Goodwill	8	**439,508**	439,508
Other intangible assets	8	**222,137**	235,637
Property, plant and equipment	9	**78,962**	83,870
Investment in associate	10	**13**	1,100
Other investments	10	**21,275**	46,155
Other non-current financial assets		**1,970**	2,090
Other non-current assets		**462**	503
Deferred tax assets		**1,009**	7,451
Total non-current assets		**765,336**	816,314
Total assets		**1,646,161**	1,576,786
Liabilities and equity			
Trade and other payables		**112,716**	107,195
Other current financial liabilities		**22,740**	16,041
Provisions		**4,786**	3,474
Income taxes payable		**2,630**	13,356
Other current liabilities		**55,349**	59,619
Total current liabilities		**198,221**	199,685
Non-current financial liabilities		**1,274**	17,378
Provisions		**2,786**	3,725
Deferred tax liabilities		**1,817**	4,017
Other non-current liabilities		**9,946**	9,560
Total non-current liabilities		**15,823**	34,680
Ordinary shares		**14,204**	14,204
Share premium account		**403,660**	403,660
Retained earnings		**1,030,635**	915,482
Other reserves	13	**(15,580)**	9,977
Dialog shares held by employee benefit trusts		**(802)**	(902)
Total equity		**1,432,117**	1,342,421
Total liabilities and equity		**1,646,161**	1,576,786

* Extracted from the Company's audited consolidated financial statements for the year ended 31 December 2017.

Condensed consolidated statement of cash flows

For the three- and nine- month periods ended 28 September 2018

	Note	Third quarter		First nine months	
		Three months ended 28 September 2018 US$000 (Unaudited)	Three months ended 29 September 2017* US$000 (Unaudited)	**Nine months ended 28 September 2018 US$000 (Unaudited)**	Nine months ended 29 September 2017* US$000 (Unaudited)
Cash flows from operating activities					
Net income		**46,421**	47,311	**81,913**	87,511
Non-cash items within net income:					
– Depreciation of property, plant and equipment		**8,138**	7,796	**24,074**	22,803
– Amortisation of intangible assets		**12,538**	9,724	**36,563**	29,347
– Addition to inventory reserve, net		**1,222**	446	**3,390**	693
– Share-based compensation expense		**9,131**	8,685	**29,749**	26,138
– Other non-cash items		**1,730**	1,533	**5,526**	(1,559)
Interest income, net		**(1,990)**	(1,440)	**(4,243)**	(4,381)
Income tax expense		**15,504**	13,837	**35,832**	25,977
Cash generated from operations before changes in working capital		**92,694**	87,892	**212,804**	186,529
Changes in working capital:					
– (Increase)/decrease in trade and other receivables		**(23,186)**	(32,368)	**(19,966)**	3,282
– (Increase)/decrease in inventories		**(8,522)**	(38,290)	**24,173**	(82,710)
– Decrease/(increase) in prepaid expenses		**790**	(101)	**(4,964)**	(1,807)
– Increase in trade and other payables		**28,342**	4,625	**5,454**	33,459
– Increase/(decrease) in provisions		**173**	1,099	**(586)**	527
– Change in other assets and liabilities		**3,985**	7,292	**(2,536)**	(223)
Cash generated from operations		**94,276**	30,149	**214,379**	139,057
Interest paid		**(117)**	(81)	**(398)**	(306)
Interest received		**2,623**	2,025	**5,725**	4,999
Income taxes (paid)/received		**(9,886)**	2,109	**(27,523)**	10,734
Cash flow from operating activities		**86,896**	34,202	**192,183**	154,484
Cash flows from investing activities					
Purchase of property, plant and equipment		**(3,462)**	(21,863)	**(20,245)**	(38,031)
Purchase of intangible assets		**(653)**	(1,678)	**(3,891)**	(4,032)
Payment of consideration for Silego	3	**(508)**	–	**(12,119)**	–
Payments for capitalised development costs		**(3,731)**	(2,418)	**(18,950)**	(14,661)
Purchase of other investments, net		**–**	(15,000)	**–**	(13,737)
Increase in other long-term assets		**87**	340	**4**	(435)
Cash flow used for investing activities		**(8,267)**	(40,619)	**(55,201)**	(70,896)
Cash flows from financing activities					
Purchase of own shares into treasury		**–**	(8)	**–**	(125,035)
Currency hedges on share buyback obligation		**–**	–	**–**	1,227
Capital element of finance lease payments		**–**	(787)	**(1,650)**	(3,483)
Purchase of shares by employee benefit trusts		**–**	–	**–**	(24,301)
Sale of shares by employee benefit trusts		**639**	732	**2,125**	6,718
Issue of shares by a subsidiary to non-controlling interests		**–**	–	**–**	1,107
Facility arrangement costs		**–**	(800)	**–**	(800)
Share issue costs		**–**	–	**–**	(27)
Cash flow from/(used for) financing activities		**639**	(863)	**475**	(144,594)
Net cash inflow/(outflow) during the period		**79,268**	(7,280)	**137,457**	(61,006)
Cash and cash equivalents at beginning of period		**537,473**	643,633	**479,295**	697,167
Currency translation differences		**(220)**	(123)	**(231)**	69
Cash and cash equivalents at end of period	6	**616,521**	636,230	**616,521**	636,230

* We have reclassified the capital element of finance lease payments from investing activities to financing activities to better reflect the nature of these cash flows.

Condensed consolidated statement of changes in equity

For the nine- month period ended 28 September 2018

	Ordinary shares US$000	Share premium account US$000	Retained earnings US$000	Other reserves (note 13) US$000	Dialog shares held by employee benefit trusts US$000	Equity attributable to shareholders in the Company US$000	Non-controlling interests US$000	Total US$000
Nine months ended 29 September 2017 (Unaudited)								
As at 31 December 2016	14,402	403,687	862,914	(70,566)	(20,608)	1,189,829	5,077	1,194,906
Net income	–	–	88,852	–	–	88,852	(1,341)	87,511
Other comprehensive income/(loss)	–	–	–	9,665	–	9,665	(7)	9,658
Total comprehensive income/(loss)	–	–	88,852	9,665	–	98,517	(1,348)	97,169
Other changes in equity:								
– Shares issued to employee benefit trusts	373	(27)	–	–	(373)	(27)	–	(27)
– Purchase of own shares into treasury	–	–	3,024	(125,050)	–	(122,026)	–	(122,026)
– Share buyback obligation	–	–	62,584	–	–	62,584	–	62,584
– Cancellation of treasury shares	(571)	–	(186,522)	187,093	–	–	–	–
– Shares issued by a subsidiary	–	–	361	–	–	361	746	1,107
– Purchase of shares by employee benefit trusts	–	–	–	–	(24,301)	(24,301)	–	(24,301)
– Sale of shares by employee benefit trusts	–	–	(37,556)	–	44,274	6,718	–	6,718
– Share-based compensation, net of tax	–	–	27,596	–	–	27,596	–	27,596
As at 29 September 2017	14,204	403,660	821,253	1,142	(1,008)	1,239,251	4,475	1,243,726
Nine months ended 28 September 2018 (Unaudited)								
As at 31 December 2017	**14,204**	**403,660**	**915,482**	**9,977**	**(902)**	**1,342,421**	**–**	**1,342,421**
Adjustment on initial application of IFRS 15 (note 14)	**–**	**–**	**1,541**	**–**	**–**	**1,541**	**–**	**1,541**
Adjusted balance as at 1 January 2018	**14,204**	**403,660**	**917,023**	**9,977**	**(902)**	**1,343,962**	**–**	**1,343,962**
Net income	**–**	**–**	**81,913**	**–**	**–**	**81,913**	**–**	**81,913**
Other comprehensive loss	**–**	**–**	**–**	**(25,557)**	**–**	**(25,557)**	**–**	**(25,557)**
Total comprehensive income/(loss)	**–**	**–**	**81,913**	**(25,557)**	**–**	**56,356**	**–**	**56,356**
Other changes in equity:								
– Sale of shares by employee benefit trusts	**–**	**–**	**2,025**	**–**	**100**	**2,125**	**–**	**2,125**
– Share-based compensation, net of tax	**–**	**–**	**29,674**	**–**	**–**	**29,674**	**–**	**29,674**
As at 28 September 2018	**14,204**	**403,660**	**1,030,635**	**(15,580)**	**(802)**	**1,432,117**	**–**	**1,432,117**

Notes to the condensed consolidated financial statements

For the three- and nine- month periods ended 28 September 2018

1. Background

Description of business

Dialog Semiconductor Plc ('the Company') is a public limited company that is incorporated in England and Wales and domiciled in the United Kingdom. The Company's ordinary shares are listed on the Frankfurt Stock Exchange.

Dialog creates and markets highly integrated, mixed signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid-state lighting and automotive applications. Dialog has four operating segments: Mobile Systems; Connectivity; Advanced Mixed Signal; and Automotive & Industrial. Segment information is presented in note 4.

Registered office

The Company's registered office is at Tower Bridge House, St Katharine's Way, London E1W 1AA, United Kingdom.

Statement of compliance

The interim financial statements of the Company and its subsidiaries (together, "Dialog" or the "Group") on pages 14 to 32 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and adopted for use in the European Union, the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and the disclosure requirements of the German Securities Trading Act (WpHG).

Basis of preparation

The interim financial statements are for the three- and nine- month periods ended 28 September 2018 ("Q3 2018" and "9M 2018") with comparative information for the three- and nine- month periods ended 29 September 2017 ("Q3 2017" and "9M 2017").

The interim financial statements have been prepared using the same principles for recognising assets, liabilities, income and expenses as are used in preparing the Group's annual financial statements, except that, as required by IAS 34, the income tax expense is calculated by applying the estimated effective income tax rate for the current financial year to the year-to-date profit before income taxes excluding specific items that distort the effective income tax rate and then by taking into account the tax effect of those specific items.

Measurements for each interim reporting period are made on a year-to-date basis, which may involve changes in estimates of amounts reported in prior interim periods of the current financial year.

Presentation currency

The interim financial statements are presented in US dollars ("US$"), which is the functional currency of the Company. All US dollar amounts are rounded to the nearest thousand US dollars ("US$000"), except where otherwise stated.

Significant accounting policies

The interim financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments and derivative financial instruments are stated at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group's significant accounting policies are unchanged compared with the year ended 31 December 2017 (see pages 105 to 111 of our Annual Report and Accounts 2017), except for the adoption of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* with effect from 1 January 2018. Information about the adoption of IFRS 15 and IFRS 9 and their impact on the Group's results and financial position is set out in note 14.

Reclassification of certain product development costs

With effect from 1 January 2018, we reclassified within the consolidated income statement the amortisation of capitalised development costs, the amortisation of acquired technology-based intangible assets and royalties payable for the use of intellectual property in our product development activities. Previously, we included these costs within cost of sales. We now include them within research and development expenses.

We have made this change in order that our results are more comparable with those of our industry peers.

Comparative amounts for the three- and nine- month periods ended 29 September 2017 have been re-presented on a consistent basis as follows:

	Three months ended 29 September 2017			Nine months ended 29 September 2017		
	As previously classified US$000	Effect of reclassification US$000	As reclassified US$000	As previously classified US$000	Effect of reclassification US$000	As reclassified US$000
Revenue	362,833	–	362,833	889,322	–	889,322
Cost of sales	(192,744)	6,061	(186,683)	(477,998)	17,540	(460,458)
Gross profit	170,089	6,061	176,150	411,324	17,540	428,864
Research and development expenses	(72,092)	(6,061)	(78,153)	(200,334)	(17,540)	(217,874)
Operating profit	62,572	–	62,572	111,627	–	111,627

Notes to the condensed consolidated financial statements continued

1. Background continued

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. Actual outcomes could differ from those estimates and assumptions and affect the Group´s results in future periods.

Seasonality of operations

Our business is not highly seasonal but our revenue, particularly in our Mobile Systems operating segment, is dependent on the spending patterns in the consumer markets in which our major customers operate. As a result, our revenue tends to be higher in the second half of the year when those customers prepare for the major holiday selling seasons around the turn of the calendar year.

Accounting standards issued but not yet adopted

We outlined in note 1 to our consolidated financial statements for the year ended 31 December 2017 the following relevant accounting pronouncements that have been issued by the IASB but we have not yet adopted:

→ IFRS 16 *Leases*

→ IFRIC 23 *Uncertainty over Income Tax Treatments*

We expect that a significant proportion of the Group's leases that are currently classified as operating leases will be recognised on the balance sheet in accordance with IFRS 16, but we have not yet completed our evaluation of the effect of the changes on the Group's results and financial position. We do not expect that IFRIC 23 will affect the Group's results or financial position.

Review and approval of the interim financial statements

The interim financial statements are unaudited, but have been reviewed by the Company's auditor, Deloitte LLP, whose report can be found on page 13. The interim financial statements do not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. The Company's audited statutory accounts for the year ended 31 December 2017 have been delivered to the Registrar of Companies in England and Wales. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim financial statements were approved by the Board of Directors on 31 October 2018.

2. Revenue

Revenue may be analysed as follows:

	Third quarter		First nine months	
	Three months ended 28 September 2018 US$000	Three months ended 29 September 2017 US$000	**Nine months ended 28 September 2018 US$000**	Nine months ended 29 September 2017 US$000
Sale of goods				
– Sales direct to end customers	**303,472**	310,662	**789,572**	753,175
– Sales to distributors	**79,779**	51,905	**220,991**	135,399
Royalties	**323**	266	**830**	748
Total	**383,574**	362,833	**1,011,393**	889,322

Revenue from research and development contracts of US$1,506 in Q3 2018 (Q3 2017: US$ nil) and US$2,298 in 9M 2018 (9M 2017: US$50) is included in other operating income.

3. Consideration payable for Silego

We completed the acquisition of Silego Technology Inc. ("Silego") on 1 November 2017.

On completion, we paid initial consideration of US$290,508 in cash, including US$22,527 in respect of Silego's estimated cash, debt and working capital levels on completion. During 9M 2018, we paid a purchase price adjustment of US$692 following the agreement with the vendors of Silego's cash, debt and working capital levels on completion.

Also during 9M 2018, we paid US$9,110 in settlement of the first tranche of the contingent consideration payable for Silego that was based on Silego's revenue for the year ended 31 December 2017 and US$2,317 in settlement of deferred consideration.

As at 28 September 2018, we held a liability of US$14,805 (net of discounting of US$870) for the second and final tranche of the contingent consideration that we expect to pay in March 2019 and held a liability of US$3,646 in relation to the remaining deferred consideration that is payable over the period to March 2021.

4. Segment information

a) Analysis by operating segment

Segment information is presented in the financial statements on a basis consistent with the information presented to the Management Team (the "chief operating decision maker") for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses.

The Group's reportable segments are determined based on the nature of the products that they provide to our customers and are as follows: Mobile Systems; Automotive & Industrial; Connectivity; and Advanced Mixed Signal.

→ Mobile Systems provides power management and audio chips 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 & Industrial's products address the safety, management and control of electronic systems in cars and for industrial applications.

→ Connectivity's products include short-range wireless, digital cordless, Bluetooth® and VoIP technology.

→ Advanced Mixed Signal's products include CMICs, AC/DC converter solutions for smaller, fast charging power adaptors for portable devices as well as LED drivers for solid-state lighting products.

We have not aggregated any operating segments in determining our reportable segments. Each operating segment has a manager who is responsible for its performance and is accountable to the Chief Executive Officer.

The Management Team uses operating profit as the principal measure of the profitability of each of the Group's operating segments. Operating profit is, therefore, the measure of segment profit presented in the Group's segment disclosures. Whilst the Management Team also uses underlying operating profit to measure segment profitability, this is used as a supplement to operating profit.

In addition to our reportable segments, we present information for Corporate activities. Corporate activities do not meet the definition of an operating segment. Corporate activities principally comprise central corporate costs, the Group's share-based compensation expense and certain other unallocated costs. Corporate activities also include various development stage businesses and, until its deconsolidation at the end of 2017, included the results of Dyna Image.

Revenue and operating profit by segments are as follows:

Third quarter

	Revenue[1]		Operating profit/(loss)	
	Three months ended 28 September 2018 US$000	Three months ended 29 September 2017 US$000	**Three months ended 28 September 2018 US$000**	Three months ended 29 September 2017 US$000
Mobile Systems	**273,056**	280,073	**68,356**	76,345
Connectivity	**41,072**	40,332	**5,846**	5,773
Automotive & Industrial	**7,238**	8,142	**2,453**	3,108
Advanced Mixed Signal	**62,167**	32,789	**2,242**	(848)
Total segments	**383,533**	361,336	**78,897**	84,378
Corporate activities	**41**	1,497	**(15,409)**	(21,806)
Total Group	**383,574**	362,833	**63,488**	62,572
Interest income			**2,654**	1,663
Interest expense			**(664)**	(222)
Other finance expense			**(3,186)**	(2,865)
Profit before income taxes			**62,292**	61,148

Notes to the condensed consolidated financial statements continued

4. Segment information continued

First nine months

	Revenue[1]		Operating profit/(loss)	
	Nine months ended 28 September 2018 US$000	Nine months ended 29 September 2017 US$000	**Nine months ended 28 September 2018 US$000**	Nine months ended 29 September 2017 US$000
Mobile Systems	**702,867**	666,188	**153,908**	153,633
Connectivity	**109,412**	99,320	**11,666**	11,087
Automotive & Industrial	**26,124**	25,222	**10,059**	10,000
Advanced Mixed Signal	**172,933**	92,737	**1,845**	(2,578)
Total segments	**1,011,336**	883,467	**177,478**	172,142
Corporate activities	**57**	5,855	**(54,880)**	(60,515)
Total Group	**1,011,393**	889,322	**122,598**	111,627
Interest income			**6,565**	4,860
Interest expense			**(2,322)**	(479)
Other finance expense			**(7,980)**	(2,520)
Profit before income taxes			**118,861**	113,488

1 Revenue is from sales to external customers (there were no inter-segment sales).

b) Geographic information

	Third quarter		First nine months	
	Three months ended 28 September 2018 US$000	Three months ended 29 September 2017 US$000	**Nine months ended 28 September 2018 US$000**	Nine months ended 29 September 2017 US$000
Revenue by shipment destination				
United Kingdom	**127**	136	**439**	377
Other European countries	**9,762**	10,395	**30,392**	34,171
Mainland China	**272,880**	278,396	**702,943**	659,188
Hong Kong	**79,190**	54,961	**213,723**	141,096
Other Asian countries	**19,197**	15,471	**55,346**	44,959
Rest of the world	**2,418**	3,474	**8,550**	9,531
Total	**383,574**	362,833	**1,011,393**	889,322

	As at 28 September 2018 US$000	As at 31 December 2017 US$000
Non-current assets[1] by location		
United Kingdom	**50,716**	48,761
Germany	**53,804**	58,782
Netherlands	**55,039**	52,791
USA	**573,051**	589,753
Taiwan	**1,733**	2,222
Rest of the world	**8,696**	9,299
Total	**743,039**	761,608

1 Non-current assets excluding investments and deferred tax assets.

5. Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the period attributable to holders of ordinary shares in the Company by the weighted average number of ordinary shares outstanding during the period.

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

Profit attributable to shareholders in the Company and the weighted average number of ordinary shares for calculating basic and diluted earnings per share were calculated as follows:

		Third quarter		First nine months	
		Three months ended 28 September 2018 US$000	Three months ended 29 September 2017 US$000	**Nine months ended 28 September 2018 US$000**	Nine months ended 29 September 2017 US$000
Profit attributable to shareholders in the Company					
For calculating basic and diluted earnings per share	a	**46,421**	47,899	**81,913**	88,852
Weighted average number of ordinary shares					
Shares in issue at the beginning of the period		**76,382,139**	77,865,955	**76,382,139**	77,865,955
Effect on average number of shares during the period:					
– Shares issued to employee benefit trust		**–**	3,000,000	**–**	2,133,333
– Cancellation of treasury shares		**–**	(4,483,816)	**–**	(1,610,852)
Average number of shares in issue during the period		**76,382,139**	76,382,139	**76,382,139**	78,388,436
Deduct:					
– Average number of shares held by employee benefit trusts		**(2,415,909)**	(2,536,626)	**(2,532,433)**	(1,943,135)
– Average number of treasury shares		**–**	–	**–**	(1,803,854)
For calculating basic earnings per share	b	**73,966,230**	73,845,513	**73,849,706**	74,641,447
Add:					
– Average number of dilutive share options and awards		**4,005,121**	3,338,312	**3,904,278**	3,628,386
For calculating diluted earnings per share	c	**77,971,351**	77,183,825	**77,753,984**	78,269,833
Earnings per share (US$)					
Basic	a/b	**0.63**	0.65	**1.11**	1.19
Diluted	a/c	**0.60**	0.62	**1.05**	1.14

6. Cash and cash equivalents

Cash and cash equivalents may be analysed as follows:

	As at 28 September 2018 US$000	As at 31 December 2017 US$000
Cash at bank	**2,620**	7,794
Cash held by employee benefit trusts	**1,361**	1,151
Cash available from receivables financing facilities	**110,790**	145,100
Money market funds	**246,750**	225,250
Bank deposits	**255,000**	100,000
Total	**616,521**	479,295

Bank deposits are made for varying periods of up to three months.

As at 28 September 2018 and 31 December 2017, no amounts had been drawn from the cash available from receivables financing facilities.

7. Inventories

Inventories were as follows:

	As at 28 September 2018 US$000	As at 31 December 2017 US$000
Raw materials	**18,779**	12,301
Work in progress	**64,161**	59,704
Finished goods	**58,511**	96,942
Total	**141,451**	168,947

Notes to the condensed consolidated financial statements continued

8. Goodwill and other intangible assets

Movements on goodwill and other intangible assets during 9M 2018 may be summarised as follows:

	Goodwill US$000	Other intangible assets US$000
Net book value		
As at 31 December 2017	**439,508**	**235,637**
Effect of movements in foreign currency	–	**(4)**
Additions	–	**23,087**
Amortisation charge for the period	–	**(36,563)**
Disposals	–	**(20)**
As at 28 September 2018	**439,508**	**222,137**

9. Property, plant and equipment

Movements on property, plant and equipment during 9M 2018 may be summarised as follows:

	US$000
Net book value	
As at 31 December 2017	**83,870**
Effect of movements in foreign currency	**(305)**
Additions	**20,245**
Depreciation charge for the period	**(24,074)**
Disposals	**(774)**
As at 28 September 2018	**78,962**

10. Investments

Investments were as follows:

	As at 28 September 2018 US$000	As at 31 December 2017 US$000
Investment in associate	**13**	1,100
Other investments		
Equity investments:		
– Energous shares	**17,588**	33,837
Derivative financial instruments:		
– Energous warrants	**3,687**	12,318
Total other investments	**21,275**	46,155
Total investments	**21,288**	47,255

Investment in associate

We hold a 48.5% ownership interest in Dyna Image Corporation, which was formerly accounted for as a subsidiary but was deconsolidated with effect from 31 December 2017.

Dyna Image is now accounted for as an associate using the equity method. Dyna Image incurred a loss after income taxes during 9M 2018, of which the Group's share of US$1,116 was recognised in profit or loss.

Other investments

Energous Corporation

Energous Corporation ('Energous') is the developer of WattUp®, a wire-free charging technology. We entered into a strategic alliance with Energous in November 2016. At that time, we subscribed for common shares in Energous and were granted warrants to purchase additional common shares. We subscribed for more common shares and were granted further warrants in July 2017.

We hold a total of 1,739,691 common shares in Energous and warrants to purchase up to 1,417,565 common shares. As at 28 September 2018, we held approximately 7% of the issued common shares in Energous.

During 9M 2018, we recognised a fair value loss on the common shares of US$16,249 (9M 2017: loss of US$5,842) in other comprehensive income and recognised a fair value loss of US$8,631 (9M 2017: loss of US$4,096) on the warrants in profit or loss (as other finance expense). Also during 9M 2018, we recognised a credit of US$1,176 (9M 2017: credit of US$373) in profit or loss on the amortisation of the fair value on initial recognition of the second tranche of the warrants (against other finance expense).

11. Additional disclosures on financial instruments

Analysis by class and category

In the following table, the carrying amounts of the financial assets and financial liabilities held by the Group as at 28 September 2018 are analysed by class and category:

	Amortised cost US$000	At fair value through profit or loss US$000	At fair value in designated hedges US$000	At fair value through other comprehensive income US$000	Net book value US$000	Fair value US$000
Financial assets						
Cash and cash equivalents	616,521	–	–	–	616,521	616,521
Trade and other receivables	98,178	–	–	–	98,178	98,178
Energous shares	–	–	–	17,588	17,588	17,588
Energous warrants	–	3,687	–	–	3,687	3,687
Other investments	–	3,687	–	17,588	21,275	
Currency derivatives	–	–	25	–	25	25
Rental and other deposits	1,970	–	–	–	1,970	1,970
Other financial assets	1,970	–	25	–	1,995	
Total financial assets	716,669	3,687	25	17,588	737,969	
Financial liabilities						
Trade and other payables	(112,716)	–	–	–	(112,716)	(112,716)
Currency derivatives	–	–	(5,563)	–	(5,563)	(5,563)
Deferred consideration	(3,646)	–	–	–	(3,646)	(3,646)
Contingent consideration	–	(14,805)	–	–	(14,805)	(14,805)
Other financial liabilities	(3,646)	(14,805)	(5,563)	–	(24,014)	
Total financial liabilities	(116,362)	(14,805)	(5,563)	–	(136,730)	

Notes to the condensed consolidated financial statements continued

11. Additional disclosures on financial instruments continued

Fair value measurement

a) Financial instruments carried at fair value

All financial instruments that are carried at fair value are revalued on a recurring basis. We have not designated any financial instruments at fair value through profit or loss on initial recognition.

We measured the fair value of these financial assets using the following methods and assumptions:

- Common shares in Energous (listed on NASDAQ) – measured at the quoted bid price at the close of business on the balance sheet date.
- Energous warrants – measured using a Black Scholes valuation model based on the quoted bid price of Energous' common shares and other inputs such as implied share price volatility that is modelled based on historical price data for Energous' common shares.
- Contingent consideration – measured based on the expected value of a range of possible outcomes of Silego's revenue for the year ending 31 December 2018.

We measure the fair value of currency derivatives as the present value of the future contractual cash flows, which is estimated using observable spot exchange rates and by applying a discount rate that is based on the yield curves of the respective currencies and reflects the credit risk of the counterparties.

In the following table, the financial instruments that were carried at fair value as at 28 September 2018 are categorised into one of three levels in a fair value hierarchy according to the nature of the significant inputs to the valuation techniques that are used to determine their fair value as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable either directly (as market prices) or indirectly (derived from market prices).
- Level 3 – Unobservable inputs, such as those derived from internal models or using other valuation methods.

	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Financial assets carried at fair value				
Investments:				
– Energous shares	17,588	–	–	17,588
Derivative financial instruments:				
– Currency derivatives	–	25	–	25
– Energous warrants	–	–	3,687	3,687
Total financial assets carried at fair value	17,588	25	3,687	21,300
Financial liabilities carried at fair value				
Derivative financial instruments:				
– Currency derivatives	–	(5,563)	–	(5,563)
Contingent consideration	–	–	(14,805)	(14,805)
Total financial liabilities carried at fair value	–	(5,563)	(14,805)	(20,368)

During 9M 2018, there were no transfers between Level 1 and Level 2.

11. Additional disclosures on financial instruments continued

Changes in the Level 3 fair values during 9M 2018 may be reconciled as follows:

Financial assets carried at fair value

	Energous warrants US$000
As at 31 December 2017	12,318
Fair value loss recognised in profit or loss (other finance expense)	(8,631)
As at 28 September 2018	3,687

Financial liabilities carried at fair value

	Contingent consideration US$000
As at 31 December 2017	(23,709)
Change in fair value recognised in profit or loss:	
– Change in estimate (other operating income)	1,381
– Unwinding of discount (interest expense)	(1,587)
Settlements	9,110
As at 28 September 2018	(14,805)

When measuring the fair value of the Energous warrants, the most significant observable input is the implied volatility of the market price of Energous's common stock over the period to expiry of the warrants. We estimate that if the implied volatility of 88.2% incorporated in the valuation of the first tranche of Energous warrants that expire in November 2018 and that of 94.6% incorporated in the valuation of the second tranche of warrants that expire in July 2020 had been ten percentage points higher or lower, the fair value of the warrants as at 28 September 2018 would have been US$668 higher at US$4,355 or US$673 lower at US$3,014, respectively. In each case, the effect of the increase/(decrease) in fair value would have been recognised in profit or loss as other finance income/(expense).

When measuring the fair value of the remaining contingent consideration payable for the purchase of Silego, the most significant input is the expected value of Silego's revenue for the year ending 31 December 2018. We estimate that if the expected value of Silego's revenue had been 10% higher or lower, the fair value of the remaining contingent consideration payable as at 28 September 2018 would have been US$2,747 higher at US$17,552 or US$14,805 lower at US$nil, respectively. In each case, the effect of the increase/(decrease) in fair value would have been recognised in profit or loss as other operating income/(expense).

b) Financial instruments not carried at fair value

Other financial assets and financial liabilities that are not carried at fair value are of short maturity and/or bear interest at floating rates. We therefore consider that their carrying amounts approximate to their fair values (Level 2).

Notes to the condensed consolidated financial statements continued

12. Share-based compensation

The Company operates a number of share-based compensation plans under which it grants options and awards over its ordinary shares to certain of the Group's employees.

Development of plans

Movements in the total number of share options outstanding during 9M 2018 were as follows:

	Options	Weighted average exercise price €
Outstanding at the beginning of the period	4,303,195	1.50
Granted	1,197,755	0.09
Exercised	(425,584)	4.09
Forfeited	(333,348)	0.19
Outstanding at the end of the period	**4,742,018**	**1.00**
Options exercisable at the end of the period	1,259,659	3.51

Shares held by employee benefit trusts

The Company provides finance to two trusts to purchase its ordinary shares in order to meet its obligations under its share-based compensation plans. As at 28 September 2018, the trusts held 2,365,443 ordinary shares (as at 31 December 2017: 2,791,027 ordinary shares).

Movements in the number of shares held by the trusts during 9M 2018 were as follows:

	Number of shares	Cost US$000
At the beginning of the period	2,791,027	902
Sale or transfer of shares	(425,584)	(100)
At the end of the period	**2,365,443**	**802**

13. Other reserves

Movements on other reserves were as follows:

	Capital redemption reserve US$000	Currency translation reserve US$000	Fair value reserve US$000	Hedging reserve US$000	Treasury shares US$000	Total US$000
Nine months ended 29 September 2017						
As at 31 December 2016	–	(4,400)	2,866	(7,560)	(61,472)	(70,566)
Other comprehensive income/(loss):						
– Currency translation differences on foreign operations	–	1,244	–	–	–	1,244
– Fair value loss on available-for-sale investments	–	–	(5,842)	–	–	(5,842)
– Cash flow hedges:						
Fair value gain recognised on effective hedges	–	–	–	14,744	–	14,744
Fair value loss transferred to profit or loss	–	–	–	2,848	–	2,848
– Income tax credit/(expense)	–	128	–	(3,457)	–	(3,329)
Other changes in equity:						
– Purchase of own shares into treasury	–	–	–	–	(125,050)	(125,050)
– Cancellation of treasury shares	571	–	–	–	186,522	187,093
As at 29 September 2017	571	(3,028)	(2,976)	6,575	–	1,142
Nine months ended 28 September 2018						
As at 31 December 2017	**571**	**(3,699)**	**7,822**	**5,283**	**–**	**9,977**
Other comprehensive loss:						
– Currency translation differences on foreign operations	**–**	**(444)**	**–**	**–**	**–**	**(444)**
– Fair value loss on equity investments	**–**	**–**	**(16,249)**	**–**	**–**	**(16,249)**
– Cash flow hedges:						
Fair value loss recognised on effective hedges	**–**	**–**	**–**	**(6,897)**	**–**	**(6,897)**
Fair value gain transferred to profit or loss	**–**	**–**	**–**	**(5,183)**	**–**	**(5,183)**
– Income tax (expense)/credit	**–**	**(111)**	**1,015**	**2,312**	**–**	**3,216**
As at 28 September 2018	**571**	**(4,254)**	**(7,412)**	**(4,485)**	**–**	**(15,580)**

14. Adoption of IFRS 15 and IFRS 9

Introduction

We adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* with effect from 1 January 2018. We explain below the changes that were made to the Group's significant accounting policies as a consequence of the adoption of these standards and their effect on the Group's results and financial position.

IFRS 15 *Revenue from Contracts with Customers*

Background
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The five steps in the model are as follows: identify the contract with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the performance obligations are satisfied.

Changes in revenue recognition policy
We generate revenue principally through the sale of our products. Relatively small amounts of revenue are generated from royalties for the use of intellectual property assets and from research and development contracts.

Sale of products
Prior to adopting IFRS 15, revenue from the sale of products was recognised when the significant risks and rewards of ownership had been transferred to the customer, the amount of revenue could be measured reliably and it was probable that payment would be received. We considered that these conditions were met when the products were transferred to the customer, except in the case of sales to distributors on "ship and debit" terms.

Where we sell to a distributor on ship and debit terms, the distributor may be entitled to a rebate if the distributor sells the product to end customers at a price lower than the price at which the distributor purchased the products from us. We therefore consider that we retain significant risks of ownership and therefore did not recognise revenue until the distributor had sold the products to end customers.

Under IFRS 15, revenue from the sale of products is recognised when the customer obtains control of the products. We consider that control passes when the products are transferred to the customer. Accordingly, where products are sold on "ex-works" incoterms, revenue is recognised when the products are released for collection by the customer. Otherwise, revenue is recognised when the products are delivered to the customer. Where products are supplied on a consignment basis, delivery takes place and revenue is recognised when the products are taken out of the consignment by the customer.

IFRS 15 had no effect on the recognition and measurement of revenue from the sale of products, except in relation to sales to distributors on ship and debit terms. Revenue on sales to distributors on ship and debit terms is now recognised when the products are transferred to the distributor rather than when the products are sold by the distributor to end customers. Revenue from sales to distributors on ship and debit terms is therefore now recognised earlier than it would have been prior to the adoption of IFRS 15.

Revenue recognised on the sale of products is measured at the fair value of the consideration received or receivable, excluding sales taxes and after making allowance for rebates and product returns.

Rebates are estimated using the expected value method based on actual rebates granted at the distributor and product level during the preceding quarter so as to reflect current pricing trends. As a consequence of our pricing policy, allowances for rebates on sales to distributors on ship and debit terms typically represent a significant proportion of the list price of the products.

Most of our distributor customers are entitled to limited rights of return, referred to as stock rotation rights. Typically, returns are allowed twice-yearly for a credit of up to a percentage of the value of products shipped by us to the distributor during the preceding six-month period. Revenue on sales to distributors is recognised after making allowance for stock rotation claims that is estimated based on stock rotation credits granted at the distributor level during the preceding six- month period. Historically, stock rotation claims have not been significant.

We do not capitalise the incremental costs of obtaining contracts (such as sales representatives' commissions) because the amortisation period of such costs would be one year or less .

Other revenue
IFRS 15 did not affect the recognition and measurement of royalty income and income from research and development contracts.

Revenue from royalties is recognised on an accruals basis in accordance with the terms of the relevant licensing agreements.

Revenue from research and development contracts is recognised by reference to the stage of completion of the contract, which is represented by the costs incurred for work performed to date as a percentage of the estimated total contract costs. If it is probable that a contract will be loss making, the expected loss is recognised immediately as an expense in profit or loss.

Notes to the condensed consolidated financial statements continued

14. Adoption of IFRS 15 and IFRS 9 continued

Financial effect of adopting IFRS 15

We adopted IFRS 15 with effect from 1 January 2018 using the modified retrospective approach, whereby information for prior periods has not been restated but a cumulative effect adjustment was made to the opening balance of retained earnings which represented the cumulative effect of the earlier recognition of revenue sales to distributors on ship and debit terms.

As at 1 January 2018, we recognised a credit to equity of US$1,541 on adoption of IFRS 15, which may be analysed as follows:

	US$000
Deferred revenue	8,578
Sales rebate allowance	(3,367)
Returns liability	(1,156)
Revenue recognised in equity	4,055
Deferred cost of sales	(2,738)
Returns asset	659
Royalty allowance	(24)
Cost of sales recognised in equity	(2,103)
Credit to equity before income taxes	1,952
Income tax expense	(411)
Credit to equity after income taxes	1,541

In the following tables, we summarise the effect of adopting IFRS 15 on the consolidated statement of income for the three- and nine- month periods ended 28 September 2018 and on the consolidated balance sheet as at 28 September 2018. The adoption of IFRS 15 had no effect on other comprehensive income or on the statement of cash flows.

Consolidated statement of income

	Three months ended 28 September 2018			Nine months ended 28 September 2018		
	As reported under IFRS 15 US$000	Adjustment for effect of IFRS 15 US$000	Amounts under IAS 18 US$000	**As reported under IFRS 15 US$000**	Adjustment for effect of IFRS 15 US$000	Amounts under IAS 18 US$000
Revenue	**383,574**	2,109	385,683	**1,011,393**	(10,108)	1,001,285
Cost of sales	**(197,599)**	(674)	(198,273)	**(529,794)**	6,625	(523,169)
Gross profit	**185,975**	1,435	187,410	**481,599**	(3,483)	478,116
Operating profit	**63,488**	1,435	64,923	**122,598**	(3,483)	119,115
Profit before income taxes	**62,292**	1,435	63,727	**118,861**	(3,483)	115,378
Income tax expense	**(15,504)**	(357)	(15,861)	**(35,832)**	673	(35,159)
Profit after income taxes	**46,788**	1,078	47,866	**83,029**	(2,810)	80,219
Net income	**46,421**	1,078	47,499	**81,913**	(2,810)	79,103
Earnings per share (US$)						
Basic	**0.63**	0.01	0.64	**1.11**	(0.04)	1.07
Diluted	**0.60**	0.01	0.61	**1.05**	(0.03)	1.02

Consolidated balance sheet as at 28 September 2018

	As reported under IFRS 15 US$000	Adjustment for effect of IFRS 15 US$000	Amounts under IAS 18 US$000
Assets			
Other current assets	**20,897**	(980)	19,917
Total current assets	**880,825**	(980)	879,845
Total non-current assets	**765,336**	–	765,336
Total assets	**1,646,161**	(980)	1,645,181
Liabilities and equity			
Income taxes payable	**2,630**	(1,084)	1,546
Other current liabilities	**55,349**	4,455	59,804
Total current liabilities	**198,221**	3,371	201,592
Total non-current liabilities	**15,823**	–	15,823
Retained earnings	**1,030,635**	(4,351)	1,026,284
Total equity	**1,432,117**	(4,351)	1,427,766
Total liabilities and equity	**1,646,161**	(980)	1,645,181

14. Adoption of IFRS 15 and IFRS 9 continued

IFRS 9 *Financial Instruments*

Background

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It replaced IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 9 introduced a new model for classification and measurement of financial assets and financial liabilities, a single, forward-looking "expected loss" model for measuring impairment of financial assets (including trade receivables) and a new approach to hedge accounting that is more closely aligned with risk management activities.

Classification and measurement of financial assets and liabilities

IFRS 9 largely retained the requirements of IAS 39 for the classification of financial liabilities but changed the classification of financial assets.

Under IFRS 9, a financial asset must be classified on initial recognition as measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). IFRS 9 eliminated the IAS 39 categories for financial assets of held to maturity, loans and receivables and available-for-sale.

Classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at amortised cost if it is held with the objective of collecting the contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are measured at fair value.

We have an investment in the common shares of Energous Corporation that we intend to hold for the long term for strategic purposes. As permitted by IFRS 9, we have irrevocably elected to present changes in the fair value of this equity investment in other comprehensive income rather than in profit or loss. Consequently, fair value gains or losses arising subsequent to 1 January 2018 that may be realised on any future sale of all or part of this investment will not be reclassified to profit or loss.

We have not chosen to designate any financial assets or financial liabilities at FVTPL that would otherwise be classified as measured at amortised cost or FVOCI.

In the following table, we present the previous classification under IAS 39 of financial assets and financial liabilities held by the Group as at 1 January 2018 and their new classification under IFRS 9. It can be seen that there was no change in the basis of measurement of the financial assets or financial liabilities held by the Group as a result of their reclassification in accordance with IFRS 9.

	Classification under IAS 39	Classification under IFRS 9
Financial assets		
Cash and cash equivalents	Loans and receivables (amortised cost)	Amortised cost
Trade and other receivables	Loans and receivables (amortised cost)	Amortised cost
Investments:		
– Energous shares	Available-for-sale	FVOCI – equity instrument
– Energous warrants	FVTPL	FVTPL
Other financial assets:		
– Currency derivatives	Fair value – hedging instruments	Fair value – hedging instruments
– Rental and other deposits	Loans and receivables (amortised cost)	Amortised cost
Financial liabilities		
Trade and other payables	Amortised cost	Amortised cost
Other financial liabilities:		
– Hire purchase and finance lease obligations	Amortised cost	Amortised cost
– Currency derivatives	Fair value – hedging instruments	Fair value – hedging instruments
– Deferred consideration	Amortised cost	Amortised cost
– Contingent consideration	FVTPL	FVTPL

Notes to the condensed consolidated financial statements continued

14. Adoption of IFRS 15 and IFRS 9 continued

Impairment of financial assets

Where appropriate, financial assets that are measured at amortised cost are stated net of an allowance for credit losses. IFRS 9 replaced the "incurred loss" model in IAS 39 with an "expected credit loss" model.

Trade receivables

As permitted by IFRS 9, we recognise an allowance for credit losses in respect of trade receivables from initial recognition measured as the amount of the lifetime expected credit losses. We previously recognised a credit loss allowance only when there was objective evidence that we may not be able to collect the amount due.

Dialog is a business-to-business supplier with many established customers, several of which are large multi-national businesses, and has a record of insignificant credit losses. Before accepting a new customer, we assess the potential customer's credit quality and establish a credit limit. Credit quality is assessed using data maintained by reputable credit rating agencies, by checking references included in credit applications and, where they are available, by reviewing the customer's recent financial statements. Credit limits are subject to multiple levels of authorisation and are reviewed on a regular basis.

Against this background, we determined that there was no appreciable difference between the credit loss allowance that we recognised against trade receivables using the incurred loss model under IAS 39 and that recognised using the expected credit loss model on adoption of IFRS 9.

Cash and cash equivalents

Under IFRS 9, we normally recognise an allowance for credit losses in respect of cash and cash equivalents that is measured as the amount of expected credit losses over the next 12 months. If, however, the risk of default has increased significantly since initial recognition, we measure the allowance as the amount of lifetime credit losses. We previously recognised a credit loss allowance only when there was objective evidence of default.

Cash deposits and cash equivalent investments are placed only with reputable financial institutions that satisfy the criteria set out in our Board approved treasury policy, including a requirement that each has a median credit rating of not less than A- (Standard & Poor's), A3 (Moody's) or A- (Fitch). Credit risk is further limited by investing only in liquid instruments. Historically, we have not recognised any significant credit losses in respect of cash deposits and cash equivalent investments.

Hedge accounting

We use forward currency contracts principally to hedge our exposure to exchange rate movements on forecast operating expenses and tax cash flows denominated in foreign currencies, principally the euro and the pound sterling. Where possible, these contracts are designated as hedging instruments in cash flow hedge relationships.

We have elected to adopt the new general hedge accounting model in IFRS 9, which requires us to ensure that hedge accounting relationships are aligned with our risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness than was the case under IAS39. Whilst hedges must still be expected to be highly effective on inception and in subsequent periods, the requirement of IAS 39 for the actual effectiveness of the hedge to be within a specified range in order for hedge accounting to continue has been removed under IFRS 9.

We applied the hedge accounting requirements of IFRS 9 prospectively with effect from 1 January 2018. All hedging relationships designated under IAS 39 as at 31 December 2017 met the criteria for hedge accounting under IFRS 9 as at 1 January 2018 and were therefore regarded as continuing hedging relationships.

Financial effect of adopting IFRS 9

We adopted the classification and measurement (including impairment) requirements of IFRS 9 with effect from 1 January 2018 using the modified retrospective approach, whereby information for prior periods has not been restated to reflect these requirements.

We recognised no changes in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 and, therefore, there was no cumulative effect adjustment to the opening balance of equity as at 1 January 2018.

15. Subsequent event

Agreements entered into with Apple Inc.

On 11 October 2018, we announced that we have entered into an agreement with Apple Inc. ('Apple') to licence our power management technologies and to transfer to Apple certain assets and over 300 employees from our design centres in the UK, Germany and Italy. Apple will pay US$300 million for the licence and asset transfers. The transaction is expected to complete in the first half of 2019, subject to applicable regulatory approvals and other customary closing conditions.

Our revenue for 2018 will not be affected by this agreement and we will continue to supply Apple with PMICs for their current generation of products. Revenue associated with the licensing agreement will begin to decline in the second half of 2019 and phase out by 2022. We expect to continue to provide PMICs to other customers across the globe.

At the same time, we announced that we have been awarded a broad range of new contracts from Apple for the development and supply of power management, audio subsystem, charging and other mixed-signal integrated circuits. We expect that revenue from the new contracts will commence in 2019 and accelerate in 2020 and 2021.

On completion of the licence and asset transfer agreement, Apple will make a prepayment of US$300 million that is expected to be recouped against the sale of our products over the following three years.

Financial performance measures

Use of non-IFRS measures

Our use of non-IFRS measures is explained on pages 156 to 161 of our 2017 Annual Report and Accounts.

Underlying measures of performance and free cash flow are non-IFRS measures because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS or are calculated using financial measures that are not calculated in accordance with IFRS. We do not regard non-IFRS measures as a substitute for, or superior to, the equivalent IFRS measures. Non-IFRS measures presented by us may not be directly comparable with similarly-titled measures used by other companies.

Underlying measures of performance

During the periods presented, we excluded from the underlying measures of performance the following specific items of income and expense that were recognised in profit or loss in accordance with IFRS because we consider that they hinder comparison of the financial performance of our businesses from one period to another or with other similar businesses:

- the share-based compensation expense and related payroll taxes;
- the amortisation of identifiable intangible assets recognised in business combinations;
- the following items relating to the accounting for the acquisition of Silego:
  - transaction costs incurred during 9M 2017;
  - the recognition in cost of sales of the consumption of the fair value uplift to inventory held by Silego at the acquisition date;
  - the element of deferred amounts payable for Silego that is recognised as a compensation expense;
  - credits recognised on the forfeiture of deferred consideration payable for Silego;
  - the expense or credit arising from the change in estimate of the liabilities for the contingent consideration payable for Silego and related fees and the interest expense recognised on the unwinding of the discount on the liabilities;
- costs incurred in relation to the integration of Silego with our existing businesses;
- corporate transaction costs incurred during 9M 2018 in relation to the aborted acquisition of Synaptics Incorporated and the licence and asset transfer agreement entered into with Apple Inc.;
- the non-cash element of the interest expense recognised in relation to a patent licensing agreement that is accounted for as a finance lease;
- the effect on profit or loss of the measurement at fair value of strategic investments (comprising the shares and the warrants that we hold in Energous and, until they were sold in May 2017, the shares that we held in Arctic Sand); and
- the income tax effect of the above items, which is calculated by considering the specific tax treatment of each item and by applying the relevant statutory tax rate to those items that are taxable or deductible for tax purposes.

Reconciliation of underlying measures to equivalent IFRS measures

Reconciliations of the underlying measures of performance to the equivalent IFRS measures for the three- and nine- month periods ended 28 September 2018 and 29 September 2017 are presented in the following tables:

Three months ended 28 September 2018

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations (note i)	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
Revenue	383,574	–	–	–	–	–	383,574
Cost of sales	(197,599)	284	335	–	–	–	(196,980)
Gross profit	185,975	284	335	–	–	–	186,594
Gross margin %	*48.5%*						*48.6%*
SG&A expenses	(42,926)	4,734	3,673	940	3,880	–	(29,699)
R&D expenses	(82,180)	5,187	2,272	–	–	–	(74,721)
Other operating income	2,619	–	(1,113)	–	–	–	1,506
Operating profit	63,488	10,205	5,167	940	3,880	–	83,680
Operating margin %	*16.6%*						*21.8%*
Net finance (expense)/income	(1,196)	–	459	–	–	3,199	2,462
Profit before income taxes	62,292	10,205	5,626	940	3,880	3,199	86,142
Income tax expense	(15,504)	(1,829)	(761)	(197)	(571)	(607)	(19,469)
Profit after income taxes	46,788	8,376	4,865	743	3,309	2,592	66,673
Share of loss of associate	(367)	–	–	–	–	–	(367)
Net income (note ii)	46,421	8,376	4,865	743	3,309	2,592	66,306
EBITDA (note iii)	n/a						98,698
EBITDA margin %	*n/a*						*25.7%*

Financial performance measures continued

Three months ended 29 September 2017

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations (note i)	Effective interest	Strategic investments	Underlying basis
Revenue	362,833	–	–	–	–	362,833
Cost of sales	(186,683)	422	–	–	–	(186,261)
Gross profit	176,150	422	–	–	–	176,572
Gross margin %	*48.5%*					*48.7%*
SG&A expenses	(35,425)	4,562	3,156	–	–	(27,707)
R&D expenses	(78,153)	4,090	1,775	–	–	(72,288)
Operating profit	62,572	9,074	4,931	–	–	76,577
Operating margin %	*17.3%*					*21.1%*
Net finance (expense)/income	(1,424)	–	–	65	3,194	1,835
Profit before income taxes	61,148	9,074	4,931	65	3,194	78,412
Income tax expense	(13,837)	(1,530)	(210)	(13)	(461)	(16,051)
Net income (note ii)	47,311	7,544	4,721	52	2,733	62,361
EBITDA (note iii)	n/a					90,498
EBITDA margin %	*n/a*					*24.9%*

Nine months ended 28 September 2018

US$000 unless stated otherwise	**IFRS basis**	**Share-based compensation and related payroll taxes**	**Accounting for business combinations (note i)**	**Integration costs**	**Corporate transaction costs**	**Effective interest**	**Strategic investments**	**Underlying basis**
Revenue	**1,011,393**	**–**	**–**	**–**	**–**	**–**	**–**	**1,011,393**
Cost of sales	**(529,794)**	**1,432**	**3,129**	**13**	**–**	**–**	**–**	**(525,220)**
Gross profit	**481,599**	**1,432**	**3,129**	**13**	**–**	**–**	**–**	**486,173**
Gross margin %	***47.6%***							***48.1%***
SG&A expenses	**(121,419)**	**12,656**	**11,026**	**1,862**	**4,653**	**–**	**–**	**(91,222)**
R&D expenses	**(241,358)**	**15,211**	**6,873**	**228**	**–**	**–**	**–**	**(219,046)**
Other operating income	**3,776**	**–**	**(1,477)**	**–**	**–**	**–**	**–**	**2,299**
Operating profit	**122,598**	**29,299**	**19,551**	**2,103**	**4,653**	**–**	**–**	**178,204**
Operating margin %	***12.1%***							***17.6%***
Net finance (expense)/income	**(3,737)**	**–**	**1,630**	**–**	**–**	**50**	**7,455**	**5,398**
Profit before income taxes	**118,861**	**29,299**	**21,181**	**2,103**	**4,653**	**50**	**7,455**	**183,602**
Income tax expense	**(35,832)**	**129**	**(2,747)**	**(442)**	**(654)**	**(9)**	**(401)**	**(39,956)**
Profit after income taxes	**83,029**	**29,428**	**18,434**	**1,661**	**3,999**	**41**	**7,054**	**143,646**
Share of loss of associate	**(1,116)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,116)**
Net income (note ii)	**81,913**	**29,428**	**18,434**	**1,661**	**3,999**	**41**	**7,054**	**142,530**
EBITDA (note iii)	**n/a**							**221,869**
EBITDA margin %	***n/a***							***21.9%***

Nine months ended 29 September 2017

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations (note i)	Effective interest	Strategic investments	Underlying basis
Revenue	889,322	–	–	–	–	889,322
Cost of sales	(460,458)	1,352	–	–	–	(459,106)
Gross profit	428,864	1,352	–	–	–	430,216
Gross margin %	*48.2%*					*48.4%*
SG&A expenses	(99,413)	13,536	6,804	–	–	(79,073)
R&D expenses	(217,874)	12,695	5,316	–	–	(199,863)
Other operating income	50	–	–	–	–	50
Operating profit	111,627	27,583	12,120	–	–	151,330
Operating margin %	*12.5%*					*17.0%*
Net finance income	1,861	–	–	240	3,904	6,005
Profit before income taxes	113,488	27,583	12,120	240	3,904	157,335
Income tax expense	(25,977)	(5,474)	(630)	(46)	(633)	(32,760)
Net income (note ii)	87,511	22,109	11,490	194	3,271	124,575
EBITDA (note iii)	n/a					192,692
EBITDA margin %	*n/a*					*21.7%*

Notes

(i) Accounting for business combinations

We excluded from the underlying measures of performance the following specific items arising from business combinations accounting under IFRS:

US$000	**Q3 2018**	Q3 2017	**9M 2018**	9M 2017
Acquisition-related costs	**–**	1,332	**–**	1,332
Amortisation of acquired intangible assets	**5,658**	3,599	**16,972**	10,788
Consumption of the fair value uplift of acquired inventory	**335**	–	**3,129**	–
Consideration accounted for as compensation expense	**342**	–	**1,146**	–
Forfeiture of deferred consideration	**(14)**	–	**(177)**	–
Remeasurement of contingent consideration	**(1,154)**	–	**(1,519)**	–
Increase in operating profit	**5,167**	4,931	**19,551**	12,120
Unwinding of discount on contingent consideration	**459**	–	**1,630**	–
Increase in profit before income taxes	**5,626**	4,931	**21,181**	12,120
Income tax credit	**(761)**	(210)	**(2,747)**	(630)
Increase in net income	**4,865**	4,721	**18,434**	11,490

(ii) Underlying earnings per share

Earnings for calculating underlying EPS measures were as follows:

US$000	**Q3 2018**	Q3 2017	**9M 2018**	9M 2017
Underlying measures				
Net income	**66,306**	62,361	**142,530**	124,575
Loss attributable to non-controlling interests	**–**	466	**–**	979
Earnings for calculating basic and diluted EPS	**66,306**	62,827	**142,530**	125,554

Underlying earnings per share measures are calculated using the weighted average number of shares that are used in calculating the equivalent measures under IFRS as presented in note 5 to the interim financial statements as follows:

Number	**Q3 2018**	Q3 2017	**9M 2018**	9M 2017
Weighted average number of ordinary shares				
Basic	**73,966,230**	73,845,513	**73,849,706**	74,641,447
Diluted	**77,971,351**	77,183,825	**77,753,984**	78,269,833

Financial performance measures continued

Underlying earnings per share measures were therefore as follows:

US$	Q3 2018	Q3 2017	9M 2018	9M 2017
Underlying earnings per share				
Basic	**0.90**	0.85	**1.93**	1.68
Diluted	**0.85**	0.81	**1.83**	1.60

(iii) Underlying EBITDA

Underlying EBITDA may be reconciled to net income determined in accordance with IFRS as follows:

US$000	Q3 2018	Q3 2017	9M 2018	9M 2017
Net income	**46,421**	47,311	**81,913**	87,511
Net finance expense/(income)	**1,196**	1,424	**3,737**	(1,861)
Income tax expense	**15,504**	13,837	**35,832**	25,977
Depreciation expense	**8,138**	7,796	**24,074**	22,803
Amortisation expense	**12,538**	9,724	**36,563**	29,347
EBITDA	**83,797**	80,092	**182,119**	163,777
Share-based compensation and related payroll taxes	**10,205**	9,074	**29,299**	27,583
Acquisition-related costs	**–**	1,332	**–**	1,332
Consumption of the fair value uplift of acquired inventory	**335**	–	**3,129**	–
Consideration accounted for as compensation expense	**342**	–	**1,146**	–
Forfeiture of deferred consideration	**(14)**	–	**(177)**	–
Remeasurement of contingent consideration	**(1,154)**	–	**(1,519)**	–
Corporate transaction costs	**3,880**	–	**4,653**	–
Integration costs	**940**	–	**2,103**	–
Share of loss of associate	**367**	–	**1,116**	–
Underlying EBITDA	**98,698**	90,498	**221,869**	192,692

Free cash flow

Free cash flow was calculated as follows:

US$000	Q3 2018	Q3 2017	9M 2018	9M 2017
Cash flow from operating activities	**86,896**	34,202	**192,183**	154,484
Purchase of property, plant and equipment	**(3,462)**	(21,863)	**(20,245)**	(38,031)
Purchase of intangible assets	**(653)**	(1,678)	**(3,891)**	(4,032)
Payments for capitalised development costs	**(3,731)**	(2,418)	**(18,950)**	(14,661)
Capital element of finance lease payments	**–**	(787)	**(1,650)**	(3,483)
Free cash flow	**79,050**	7,456	**147,447**	94,277

Registered office

Dialog Semiconductor Plc
Tower Bridge House
St Katharine's Way
London E1W 1AA
UK
www.dialog-semiconductor.com