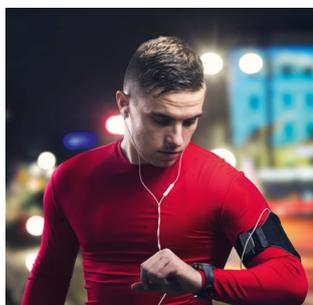
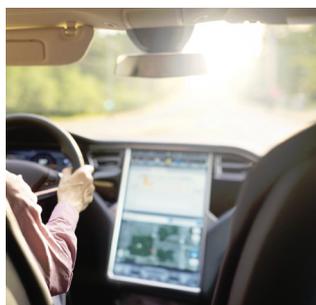


Powering
the smart
connected
future

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Press release – 30 July 2019

Dialog Semiconductor reports results for the second quarter ended 28 June 2019

Q2 2019 Revenue slightly above the high-end of the guidance range at US\$482 million, earnings acceleration and strong cash flow generation.

London, UK, 30 July 2019 – 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 second quarter ended 28 June 2019.

Q2 2019 Financial highlights

- Revenue of US\$482 million including US\$146 million one-off license revenue. Underlying¹ revenue of US\$336 million, slightly above the high end of the guidance range and 14% above Q2 2018.
- Gross margin at 64.7% (Q2 2018: 48.0%) and underlying¹ gross margin at 49.7% (Q2 2018: 48.3%) in line with the May guidance.
- Operating profit of US\$217.0 million, over eight times higher than in Q2 2018. Underlying¹ operating profit of US\$82.1 million, 95% above Q2 2018.
- All segments were profitable.
- Diluted EPS of US\$2.20 (Q2 2018: US\$0.23) and underlying¹ diluted EPS of US\$0.86 (Q2 2018: US\$0.45).
- Q2 cash flow from operating activities of US\$300.1 million (Q2 2018: US\$55.6 million). US\$290.3 million of free cash flow¹ generated in Q2 2019 (Q2 2018: US\$36.5 million). US\$1,141 million of cash and cash equivalents at 28 June 2019, US\$604 million above 29 June 2018.
- On 8 April 2019, the Company completed the transaction with Apple to license certain power management technologies, and transfer certain assets and over 300 employees.
- On 31 May 2019, the Company completed the acquisition of Silicon Motion's mobile communications product line ("FCI") including Ultra-Low-Power Wi-Fi, extending its position in IoT connectivity.
- US\$112 million returned to shareholders in Q2 2019 through the 2018 Buyback Programme.
- On 5 June 2019, the Company announced a new share buyback tranche under the 2019 Buyback Programme for an amount between €125 million and €150 million.
- On 22 July 2019, the Company announced an update to its reporting segments, reducing the number from four to three: Custom Mixed Signal, Advanced Mixed Signal and Connectivity & Audio.

Q2 2019 Operational highlights

- Continued design win momentum at our largest customer for the development and supply of mixed-signal integrated circuits. Revenue from the new contracts is expected to be realized over the course of the next three years.
- Maintained a commanding market share in the smartphone rapid charge segment. Adoption of the USB Power Delivery ("USB PD Type-C") standard continues to accelerate in mobile devices. Q2 2019 revenue from our AC/DC charging products was up 52% sequentially, led by growth in rapid charge products.
- Launched the first Configurable Mixed-signal Integrated Circuit (CMIC) incorporating Dialog's differentiated IP, an industry-leading LDO regulator with the lowest noise performance, ideal to power advanced camera and sensor systems.
- Increasing our footprint in the IoT end market with our Bluetooth® low energy products, delivering 26% year-on-year revenue growth.
- As part of our IoT connectivity strategy Dialog launched its first Wi-Fi SoC targeted at battery-powered IoT devices enabling direct connectivity to Wi-Fi networks, while typically supporting a battery power lifetime greater than one year.
- Expanded our product portfolio with a family of highly-integrated audio codec chips that deliver best-in-class active noise cancellation ("ANC") to the rapidly-growing wireless headphones market.
- In support of Dialog's growth strategy, on 22 July 2019, the Company communicated an update to its organisational structure including the appointment of Alex McCann as Senior Vice President Global Operations.

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

"This has been an excellent quarter, one where we have delivered revenue growth above the high-end of the guidance range, significantly improved operating profit and strong cash flow generation. Revenue from products in Custom Mixed Signal not covered by the agreement with Apple trebled year-on-year and we continued to increase our footprint in the IoT end-market as our Bluetooth low energy and new audio products delivered another quarter of strong year-on-year growth."

We have a healthy customer design-in pipeline and a robust financial position which is allowing us to make targeted investments to expand our product portfolio and leverage our technology into new markets. These investments are helping to build a vibrant mixed-signal business with a more balanced exposure to fast growing end-markets and create value for shareholders."

¹ Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see page 39).

Press release – 30 July 2019 continued

Outlook

In Q3 2019, we anticipate revenue to be in the range of US\$360 million to US\$400 million. Q3 2019 underlying¹ gross margin is expected to be broadly in line with Q2 2019.

As we enter the second half of the year, FY 2019 underlying¹ revenue is now expected to decline from FY 2018 by mid-single digit percentage points and to be second half weighted. FY 2019 underlying¹ gross margin is expected to be above that achieved in FY 2018.

Financial overview

IFRS basis (unaudited)

US\$ millions unless otherwise stated	Q2 2019	Q2 2018	Change	H1 2019	H1 2018	Change
Revenue	482.0	295.7	+63%	776.9	627.8	+24%
Gross margin	64.7%	48.0%	nm	58.9%	47.1%	nm
R&D % of revenue	15.7%	26.5%	nm	20.1%	25.4%	-530bps
SG&A % of revenue	10.0%	13.0%	-300bps	11.9%	12.5%	-60bps
Other operating income % of revenue	6.0%	0.3%	+570bps	4.3%	0.2%	+410bps
Operating profit	217.0	26.2	+727%	242.3	59.1	+310%
Operating margin	45.0%	8.9%	nm	31.2%	9.4%	nm
Net income	170.1	18.1	nm	188.5	35.5	+431%
Basic EPS \$	2.33	0.24	nm	2.56	0.48	+433%
Diluted EPS \$	2.20	0.23	nm	2.42	0.46	+426%
Cash flow from operating activities	300.1	55.6	+439%	341.7	105.3	+225%

Underlying¹ (unaudited)

US\$ millions unless otherwise stated	Q2 2019	Q2 2018	Change	H1 2019	H1 2018	Change
Revenue	336.2	295.7	+14%	631.1	627.8	+1%
Gross margin	49.7%	48.3%	+140bps	49.6%	47.7%	+190bps
R&D % of revenue	20.1%	24.0%	-390bps	22.2%	23.0%	-80bps
SG&A % of revenue	9.1%	10.2%	-110bps	9.8%	9.8%	0bps
EBITDA	99.0	56.7	+75%	162.3	123.2	+32%
EBITDA margin	29.4%	19.2%	nm	25.7%	19.6%	+610bps
Operating profit	82.1	42.1	+95%	129.3	94.5	+37%
Operating margin	24.4%	14.2%	nm	20.5%	15.1%	+540bps
Net income	66.7	35.3	+89%	105.0	76.2	+38%
Basic EPS \$	0.91	0.48	+90%	1.43	1.03	+39%
Diluted EPS \$	0.86	0.45	+91%	1.35	0.98	+38%

1 Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see page 39).

Revenue in Q2 2019 was 63% above Q2 2018 at US\$482 million, including the license revenue relating to the Apple agreement: a one-off license revenue of US\$146 million and US\$6 million of ongoing license revenue. The license revenue related to the Apple agreement was reported in Corporate. Underlying¹ revenue in Q2 2019 was 14% above Q2 2018 at US\$336 million, including the ongoing license revenue. Custom Mixed Signal and Connectivity & Audio were the main drivers of the strong underlying¹ revenue performance in the quarter. Custom Mixed Signal underlying¹ revenue was US\$219 million, up 13% over Q2 2018 due to higher volumes and content per device across multiple platforms, partially offset by the reduced share of volume from Apple for the main PMIC for the 2018 smartphone platform, as announced in May 2018. Underlying¹ revenue in Custom Mixed Signal from products not covered by the licensing agreement with Apple trebled year-on-year to US\$64 million (Q2 2018: US\$21 million). In Q2 2019, Advanced Mixed Signal underlying¹ revenue was 1% above Q2 2018. Revenue from AC/DC charging products was up 52% sequentially, led by growth in rapid charge, but below Q2 2018. This was offset by good growth of LED backlighting products. Connectivity & Audio underlying¹ revenue was 25% above Q2 2018 as a result of the strong performance of Bluetooth[®] low energy and the new audio products.

Q2 2019 gross margin was 64.7%, significantly above Q2 2018 due to the positive contribution from the license revenue as well as favourable product mix and lower manufacturing costs. Q2 2019 underlying¹ gross margin was 49.7%, 140 basis points above Q2 2018, due to the positive contribution from the ongoing license revenue (Q2 2019: US\$6 million; Q2 2018: nil) as well as favourable product mix and lower manufacturing costs.

Operating expenses (OPEX) comprising SG&A and R&D expenses, in Q2 2019 were 6% above Q2 2018 at US\$123.7 million, or 25.7% of revenue (Q2 2018: 39.5%). The increase in OPEX was mainly due to US\$8 million of transaction related costs reported in SG&A and the first time consolidation of FCI into the group. Underlying¹ OPEX in Q2 2019 was down 3% year-on-year to US\$98.0 million, or 29.2% of revenue (Q2 2018: 34.2%). The year-on-year decrease in underlying¹ OPEX was mostly due to lower R&D expenses partially offset by the first time consolidation of FCI into the group.

R&D expenses in Q2 2019 were 3% below Q2 2018 at US\$75.6 million (Q2 2018 US\$78.3 million). The reduction in R&D expenses were mainly due to the transfer of over 300 employees to Apple on 8 April 2019. As a percentage of revenue, R&D in Q2 2019 was significantly below Q2 2018 at 15.7% (Q2 2018: 26.5%) due to the higher revenue and lower R&D expenses. On an underlying¹ basis, R&D expenses were down 5% year-on-year to US\$67.5 million (Q2 2018 US\$71.0 million). This includes savings from the transfer of employees to Apple. As a percentage of revenue, underlying¹ R&D in Q2 2019 was 390bps below Q2 2018 at 20.1% (Q2 2018: 24.0%), as a result of the higher revenue and the lower R&D expenses.

SG&A expenses in Q2 2019 were up 26% from Q2 2018 to US\$48.2 million (Q2 2018 US\$38.4 million). This increase was mainly due to US\$7.6 million of transaction costs relating to the licensing agreement with Apple and the acquisition of FCI. As a percentage of revenue, SG&A in Q2 2019 was 300bps below Q2 2018 at 10.0% (Q2 2018: 13.0%) due to the higher revenue. Underlying¹ SG&A in Q2 2019 was 1% above Q2 2018 at US\$30.5 million (Q2 2018: US\$30.2 million) due to the first time consolidation of FCI into the group. As a percentage of revenue, underlying¹ SG&A was 110bps below Q2 2018 at 9.1% (Q2 2018: 10.2%) due to the higher revenue.

Other operating income in Q2 2019 was US\$28.9 million (Q2 2018: US\$1.0 million), comprised of a one-time US\$16.0 million gain on the transfer of assets and US\$12.5 million income from engineering contracts, both relating to the Apple license agreement. Underlying¹ other operating income in Q2 2019 was US\$13.0 million, materially above Q2 2018 (Q2 2018: US\$0.5 million) due to the income from engineering contracts relating to the Apple license agreement.

Operating profit in Q2 2019 was US\$217.0 million, materially above Q2 2018, mainly reflecting the higher revenue and other operating income partially offset by transaction related costs. Operating profit margin in the quarter was 45.0%, also materially above Q2 2018, mainly due to the higher revenue and gross margin combined with higher other operating income. Underlying¹ operating profit was US\$82.1 million, 95% above Q2 2018 mainly due to the higher revenue and other operating income, as well as lower OPEX. Underlying¹ operating margin in the quarter was 24.4%, 10.2 percentage points higher than Q2 2018 (Q2 2018: 14.2%).

The effective tax rate in H1 2019 was 22.9% (H1 2018: 35.9%) and in Q2 2019 was 22.0% (Q2 2018: 34.5%). The relatively high effective tax rates for H1 2018 and Q2 2018 are 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 underlying¹ effective tax rate in Q2 2019 was 20.5%, down 50bps on the Q2 2018 underlying¹ effective tax rate of 21.0%.

In Q2 2019, net income was materially above Q2 2018 to US\$170.1 million (Q2 2018: US\$18.1 million). This increase was mostly due to the increase in operating profit. The higher interest income in the quarter of US\$6.5 million (Q2 2018: US\$2.3 million) reflects the higher average cash balance and higher US dollar interest rates. Interest expense of US\$3.1 million was also higher than in Q2 2018 (Q2 2018: US\$0.7 million) due to the interest on lease liabilities recognised under IFRS 16 and US\$1.8 million interest expense recognised in relation to the US\$300 million prepayment received from Apple. Other finance expense was US\$2.4 million, compared to an income of US\$0.3 million in Q2 2018. In Q2 2019, we recognised a net currency translation loss on monetary assets and liabilities of US\$1.7 million. Underlying¹ net income was up 89% year-on-year. The year-on-year increase in underlying¹ net income was mainly driven by the underlying¹ operating profit movement. Diluted EPS in Q2 2019 was materially up year-on-year to US\$2.20 (Q2 2018: US\$0.23). Underlying¹ diluted EPS in Q2 2019 was up 91% year-on-year.

At the end of Q2 2019, our total inventory level was US\$156 million, broadly in line with the previous quarter (or ~83 days), representing a 11-day decrease in our days of inventory from Q1 2019. This includes approximately US\$4 million of inventory from FCI. During Q3 2019, we expect inventory value to increase from Q2 2019 due to seasonality and days of inventory to be below Q2 2019.

On 31 May 2019, the settlement of the 2018 Share Buyback Programme took place. The Company purchased 3,941,852 ordinary shares at an average price of €25.37 for a total amount of €100 million (US\$112 million). On 5 June 2019, the Company announced a new tranche under the 2019 Share Buyback Programme for an amount between €125 million and €150 million and a latest maturity date of 5 December 2019.

At the end of Q2 2019, we had a cash and cash equivalents balance of US\$1,141 million. Cash flow from operating activities in Q2 2019 was US\$300.1 million, over five times higher than in Q2 2018 (Q2 2018: US\$55.6 million) mainly as a result of the closing of the Apple license agreement on 8 April 2019. Free cash flow in Q2 2019 was US\$290.3 million, almost eight times higher than Q2 2018 (Q2 2018: US\$36.5 million) mostly due to the higher cash flow from operating activities. Free cash flow margin (as a percentage of revenue) in Q2 2019 was above Q2 2018 at 60.2% (Q2 2018: 12.4%).

On 8 April 2019, the Company completed the agreement with Apple receiving US\$300 million in respect of the license arrangement and US\$300 million prepayment in relation to future purchase of products.

In support of our IoT connectivity strategy, on 31 May 2019, the Company completed the acquisition of Silicon Motion's mobile communications business ("FCI"). Dialog funded the US\$45 million purchase price in an all-cash transaction from its balance sheet.

1 Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see page 39).

Press release – 30 July 2019 continued

Operational overview

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

Custom Mixed Signal

During Q2 2019, revenue from the Custom Mixed Signal business segment was 13% above Q2 2018. This was due to higher content per device and volumes across multiple platforms being partially offset by the reduced share of volume from Apple for the main PMIC for the 2018 smartphone platform announced on 31 May 2018. In Q2 2019, revenue from those products not covered by the Apple license agreement trebled year-on-year to US\$64 million. We continue to receive a number of requests for quotes (RFQ) for new custom designs for 2021 and beyond in diverse areas of power, display and audio technologies.

On 8 April 2019, the Company closed the transaction with Apple to license certain power management technologies and transfer certain assets to Apple. Additionally, more than 300 Dialog professionals became Apple employees. According to the agreement signed in October 2018, Dialog received \$600 million in total, consisting of a payment from Apple of \$300 million in cash for the transaction and a prepayment of \$300 million for Dialog products to be delivered over the next three years. Dialog has also been awarded a broad range of new contracts from Apple for the development and supply of other mixed-signal integrated circuits. Revenue from the new contracts is expected to be realized over the course of the next three years.

In parallel, we continue to leverage our power management technology into new markets and geographies through the expansion of our platform reference designs. The collaborations with Renesas and Xilinx strengthen Dialog's presence in the automotive segment. There are currently over 40 automotive customer engagements in place which are expected to go into production over the next three years.

Advanced Mixed Signal

During Q2 2019, Advanced Mixed Signal revenue was 1% above Q2 2018, mainly as a result of lower demand for charging products due to softness in the Chinese smartphone market. This was partially offset by the good performance of our LED backlighting products.

We expect market adoption of new charging technologies, like USB PD Type-C, to continue during the next quarter. In Q2 2019, revenue from our AC/DC charging products grew 52% sequentially, led by growth in rapid charge. 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% share² of the rapid charge adapter market for smartphones at the end of 2018.

Our broad product portfolio, which includes LED backlighting and Solid-State Lighting (SSL) LED driver ICs, and proprietary digital control technology for power conversion, enable high quality solutions at a low cost. LED backlighting performed strongly during Q2 2019, contributing to the expansion of our customer base in the high-end TV market, as well as targeting the mobile and automotive display markets over the medium term. We have started our first engagement to develop a custom chip based on our LED backlight technology for an automotive tier 1 supplier as well complex LED drivers for notebook screens.

With over 4.0 billion CMICs having been shipped since launch, Dialog's configurable technology, including the highly successful GreenPAK™ product family, has become established as the leading choice in the market. Low power consumption and in-system programming enables customers to rapidly customise and integrate multiple analog, logic and discrete components into a single chip. In Q2 2019, we launched a new CMIC device with industry-leading LDO regulator with the lowest noise performance, ideal to power advanced camera and sensor systems. This new device is part of our strategic objective of bringing Dialog's low power IP into the CMIC, increasing its use cases and the value it brings to our customers. This product was sampled to major customers, and already has seven mobile phone sockets secured in Japan, Taiwan and the United States. We are looking to release to the broader market and customers in Q3 and expect further design-ins at high end DSLR Cameras as well as smartphones to follow in second half 2019. This technology will contribute to the expansion of our customer base and strengthen our presence in IoT, mobile computing and automotive.

Connectivity and Audio

During Q2 2019, the Connectivity & Audio segment was 25% above Q2 2018 due to strong performance of Bluetooth® low energy and the new audio products.

Revenue from our SmartBond™ System-on-Chip (SoC) was 26% above Q2 2018, due to the ramp of new products from customers in Korea and China. The DA1469x family, the latest addition to Dialog's SmartBond line, was adopted by Samsung's Galaxy Fit fitness tracker. Our most advanced SmartBond product enables the Galaxy Fit seamless smartphone connectivity while conserving energy to extend battery life. The Bluetooth® low energy market is estimated to grow at 19% CAGR over the 2018-2022 period³, a reflection of the continuing adoption of the technology across a wide range of applications. Our strategy remains focused on targeted verticals, like wearables, proximity tags, smart home, gaming accessories and connected health. Building on our success in fitness trackers, we are extending our market presence into new areas such as new digital watch designs in China incorporating our Bluetooth low energy solutions.

In support of our IoT connectivity strategy and following the closing of the acquisition of FCI we launched the first low-power Wi-Fi device in our new VirtualZero™ product line. The FC9000 complements our existing portfolio of leading Bluetooth low energy SoC's for connected devices and is the first in a series solving major pain points for both manufacturers and end-users around IoT network compatibility and power consumption. Venstar, a leading energy management system supplier and one of the largest global thermostat suppliers, is utilizing the FC9000 enabling its customers reliable Wi-Fi sensors and over a year of battery life.

New audio technology performed strongly during Q2 2019, delivering more than twice as much revenue as in Q2 2018. 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 Q2 2019, we announced the DA740x, a family of highly-integrated audio codec chips that deliver best-in-class active noise cancellation ("ANC"), providing optimal audio performance in any environment to the rapidly-growing wireless headphones market.

² Source: Company estimates.

³ Source: IHS Technology Q4 2018 Tracker and Company estimates.

On 22 July the Company published an update on organisational structure and segment information. On Table 1, the revenue figures for the year ended 31 December 2017 for Advanced Mixed Signal and Connectivity & Audio were incorrectly placed. Advanced Mixed Signal should have shown (in US\$000) US\$147,603 and Connectivity & Audio US\$137,834.

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 Q2 2019 performance, as well as guidance for Q3 2019. Participants will need to register using the link below. A full list of dial in numbers will also be available. To register for the webcast and receive dial in numbers, the conference PIN and a unique User ID please click on the link below:

<https://www.incommglobalevents.com/registration/client/1937/dialog-semiconductor-q2-results-2019/>

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

<http://webcast.openbriefing.com/dialogQ2-2019/>

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 June 2019 is available under the investor relations section of the Company's website at:

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

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Press release – 30 July 2019 continued

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

Forward Looking Statements

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 six-month periods ended 28 June 2019 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 14.

The Group’s significant accounting policies are unchanged compared with the year ended 31 December 2018 (see pages 101 to 107 of our Annual Report and Accounts 2018), except for the adoption of IFRS 16 *Leases* with effect from 1 January 2019.

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

Adoption of IFRS 16

IFRS 16 *Leases* provides a single lessee accounting model, requiring lessees to recognise a right-of-use asset and a lease liability for all leases, except those with a short lease term and/or involving an underlying asset of low value. In summary, for lessees, the distinction between an operating lease and a finance lease has disappeared and most operating leases are accounted for similarly to the way in which finance leases were accounted for under the predecessor accounting standard, IAS 17 *Leases*.

We adopted IFRS 16 using a modified retrospective approach whereby prior periods were not restated but cumulative effect adjustments were made to the opening consolidated balance sheet on the transition date, 1 January 2019. We recognised lease liabilities totalling US\$67.6 million on adoption of IFRS 16 and corresponding right-of-use assets totalling US\$66.4 million (after deducting existing net accrued lease rentals of US\$1.2 million).

During H1 2019, the effect of IFRS 16 was to increase operating profit by US\$0.8 million but to reduce net income by US\$0.6 million.

Details of the adoption of IFRS 16 and its financial effect are set out in note 18 to the interim financial statements.

Non-IFRS measures

Underlying measures of revenue, profitability and free cash flow quoted in the Financial 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.

Recent corporate transactions

Completion of agreements with Apple

Licensing and asset transfer agreement
On 11 October 2018, we announced that we had entered into an agreement with Apple Inc. (“Apple”) to license 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.

Following the receipt of the necessary regulatory approvals and satisfaction of the other closing conditions, the transaction closed on 8 April 2019. Apple paid Dialog US\$300.0 million in respect of the licensing arrangements and asset transfers.

Pursuant to the agreement, Dialog granted to Apple:

- a perpetual licence over Dialog’s Power Management IP as it existed at the closing date; and
- an effective licence over certain of Dialog’s IP as it existed at the closing date and is developed for a period of at least four years thereafter.

Contingent on closing of the licensing and asset transfer agreement, Apple made an interest-free prepayment to Dialog of US\$300.0 million. On initial recognition, we measured the prepayment at its fair value of US\$288.6 million. We considered that the resulting “below market element” of the prepayment of US\$11.4 million represented additional consideration in respect of the licensing arrangements and asset transfers.

We allocated the total consideration of US\$311.4 million in respect of the licensing arrangements and asset transfers as follows:

- US\$145.8 million to the perpetual IP licence;
- US\$136.4 million to the effective IP licence; and
- US\$29.2 million to the design centre businesses transferred.

We consider that the perpetual licence granted Apple a “right to use” the related IP and therefore recognised the related consideration as revenue on the closing date.

We consider that the effective licence granted Apple a “right to access” the related IP and are therefore recognising the related consideration as revenue over the four-year period following the closing date. We recognised revenue of US\$6.0 million in relation to the effective licence in Q2 2019.

We recognised a gain of US\$15.9 million on the transfer of the design centre businesses in Q2 2019 (within other operating income).

We incurred transaction costs totalling US\$18.5 million in relation to the agreement with Apple, of which US\$10.7 million was incurred during H1 2019 (within general and administrative expenses).

Further details of the transaction are set out in note 6 to the interim financial statements.

Prepayment from Apple

It is intended that the US\$300.0 million prepayment will be recouped by Apple against amounts payable to Dialog for the purchase of certain of our products over the three-year period ending on 31 March 2022.

Settlement of the prepayment is scheduled to take place in quarterly instalments in arrears such that US\$200.0 million is settled in the first year and US\$50.0 million is settled in each of the second and third years. During each quarter, Apple will settle our invoices on its normal payment terms. If there are insufficient invoices outstanding on a recoupment date, Apple may require us to settle the shortfall against the scheduled recoupment in cash.

We account for the prepayment as a financial liability measured at amortised cost. At the end of Q2 2019, the carrying amount of the liability was US\$290.3 million.

Acquisition of FCI

On 31 May 2019, we completed the acquisition of Silicon Motion Technology Corporation’s Mobile Communications product group, branded as FCI.

We acquired FCI for US\$45.0 million on a cash and debt-free basis. On completion, we paid consideration of US\$53.9 million in cash, including US\$8.9 million (net of US\$0.3 million transaction tax withheld) in respect of FCI’s estimated cash and working capital on completion that may be subject to adjustment once those amounts have been finalised.

FCI will be integrated into our Connectivity & Audio segment where we plan to use its technology to enhance our IoT offerings.

Due to the short time since completion, we have not yet finalised the purchase price allocation. At the end of Q2 2019, we recognised provisional goodwill of US\$13.7 million on the acquisition of FCI. Details are set out in note 7 to the interim financial statements.

During H1 2019, we incurred transaction costs of US\$1.7 million in relation to the acquisition of FCI (within general and administrative expenses).

Financial review continued

Acquisition of Silego

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

Contingent consideration of up to US\$30.4 million was payable for the acquisition of Silego dependent on Silego's revenue in 2017 and 2018.

Silego's revenue for 2018 was such that US\$17.9 million of the second instalment of up to US\$20.4 million was payable. In February 2019, we paid US\$16.7 million in settlement of the element of the second instalment that was attributable to the shares and vested options acquired and attributed the balance to deferred cash rights that are payable over the period to March 2021.

Disposal of Dyna Image

On 7 December 2018, we agreed to sell our shareholding in Dyna Image Corporation ("Dyna Image") for consideration of between US\$2.4 million and US\$5.0 million.

We have obtained the necessary regulatory approvals and are currently seeking to finalise the completion arrangements with a view to the transaction completing during the second half of 2019.

Results of operations

Segment reorganisation and measurement changes

With effect from the beginning of Q2 2019, the Group made a number of organisational changes. Details of the changes are set out in note 3 to the interim financial statements.

Following the changes, the Group has three reportable segments: Custom Mixed Signal; Connectivity & Audio; and Advanced Mixed Signal.

At the same time as effecting the organisational changes, the Management Team changed its focus from IFRS measures to underlying measures as the principal basis for allocating resources to and assessing the financial performance of the Group's businesses. Underlying revenue is therefore the measure of segment revenue and underlying operating profit/loss the measure of segment profit/loss that is now presented in the Group's segment disclosures.

In the analysis of the Group's results by reportable segment presented below, comparative information for H1 2018 has been restated to reflect these organisational and measurement changes.

Analysis by reportable segment

Custom Mixed Signal's underlying revenue was US\$430.9 million in H1 2019 compared with US\$439.9 million in H1 2018, a decrease of 2%. Revenue declined principally due to the effect of our reduced share of volume for the main PMIC on Apple's 2018 smartphone platform, though this was largely offset by higher demand for our custom PMICs on other products.

Revenue from products not covered by the perpetual IP licence granted to Apple increased to US\$110.0 million in H1 2019 compared with US\$44.6 million in H1 2018.

Custom Mixed Signal's underlying operating profit was US\$111.5 million compared with US\$98.1 million in H1 2018. Underlying operating profit increased principally due to the recognition in Q2 2019 of income of US\$12.5 million receivable from Apple for product development work. While underlying operating profit benefited from manufacturing cost savings, this was outweighed by the effect of overall lower sales volumes and higher operating expenses. Underlying operating margin was 25.9% compared with 22.3% in H1 2018.

Connectivity & Audio's underlying revenue was US\$79.3 million in H1 2019 compared with US\$70.3 million in H1 2018, an increase of 13%. Connectivity's revenue increased principally due to strong growth in demand for Bluetooth® low energy and new audio products.

Connectivity & Audio's underlying operating profit was higher at US\$11.8 million compared with US\$3.4 million in H1 2018, principally due to increased sales volumes with beneficial product mix and higher capitalisation of development costs. Underlying operating margin was significantly higher at 14.9% compared with 4.9% in H1 2018.

Advanced Mixed Signal's underlying revenue was US\$114.9 million in H1 2019 compared with US\$117.6 million in H1 2018, a decrease of 2%. Revenue declined principally due to lower sales of AC/DC charger ICs for smartphone power adaptors, though this was partially offset by growth in sales of CMICs and backlighting ICs.

Advanced Mixed Signal's underlying operating profit was US\$6.3 million compared with US\$11.2 million in H1 2018. While underlying operating profit benefited from favourable product mix, this was outweighed by the effect of overall lower sales volumes and higher operating expenses. Underlying operating margin declined to 5.5% compared with 9.5% in H1 2018.

Corporate and other unallocated items

comprise the costs of operating central corporate functions, the Group's share-based compensation expense and certain other unallocated items including, from Q2 2019, the revenue recognised in relation to the effective IP licence granted to Apple.

Corporate and other unallocated items represented an underlying operating loss of US\$0.3 million compared with US\$18.2 million in H1 2018, with the improvement being principally due to the recognition of effective IP licence revenue of US\$6.0 million in Q2 2019 and lower unallocated R&D expenses.

Results by reportable segment

US\$ millions	Underlying revenue			Underlying operating profit/(loss)	
	H1 2019	Restated* H1 2018	Change	H1 2019	Restated* H1 2018
H1 2019 compared with H1 2018					
Custom Mixed Signal	430.9	439.9	(2)%	111.5	98.1
Connectivity & Audio	79.3	70.3	13%	11.8	3.4
Advanced Mixed Signal	114.9	117.6	(2)%	6.3	11.2
Total segments	625.1	627.8	0%	129.6	112.7
Corporate and other unallocated items	6.0	–	nm	(0.3)	(18.2)
Total Group	631.1	627.8	1%	129.3	94.5

* Restated to reflect the segment reorganisation and measurement changes.

Analysis of the Group's results

Revenue was US\$776.9 million in H1 2019 compared with US\$627.8 million in H1 2018, with the substantial increase being principally due to the recognition of revenue of US\$151.8 million in relation to the licensing arrangements with Apple.

Excluding the perpetual IP licence fee of US\$145.8 million, underlying revenue was US\$631.1 million in H1 2019 compared with US\$627.8 million in H1 2018, an increase of 1%.

Underlying revenue increased principally due to the strong growth in volumes in Connectivity & Audio and the recognition of revenue of US\$6.0 million in relation to the effective IP licence granted to Apple, though these benefits were partially offset by overall lower sales volumes in both Custom Mixed Signal and Advanced Mixed Signal.

Cost of sales was US\$319.6 million in H1 2019 compared with US\$332.2 million in H1 2018, a decrease of 4% that principally reflected lower manufacturing costs.

Gross profit was US\$457.2 million in H1 2019 compared with US\$295.6 million in H1 2018, with the substantial increase being principally due to the recognition of the Apple licence fees in Q2 2019.

Gross margin was 58.9% compared with 47.1% in H1 2018. Gross margin was higher principally due to the recognition of the Apple licence fees but also improved due to favourable product mix and manufacturing cost savings.

Underlying gross profit was US\$313.2 million compared with US\$299.6 million in H1 2018, an increase of 5%. Underlying gross margin was 190 basis points higher at 49.6% compared with 47.7% in H1 2018.

Underlying gross profit excludes the perpetual IP licence fee of US\$145.8 million, share-based compensation expenses and related payroll taxes of US\$1.3 million (H1 2018: US\$1.1 million) and the consumption of the fair value uplift on acquired inventory of US\$0.4 million (H1 2018: US\$2.8 million).

Selling and marketing expenses increased slightly to US\$43.5 million in H1 2019 compared with US\$42.3 million in H1 2018.

Underlying selling and marketing expenses were also higher at US\$33.8 million compared with US\$32.9 million in H1 2018 and represented 5.4% of the Group's underlying revenue compared with 5.2% in H1 2018.

Underlying selling and marketing expenses exclude share-based compensation expenses and related payroll taxes totalling US\$2.2 million (H1 2018: US\$2.1 million), amortisation of US\$7.3 million (H1 2018: US\$7.0 million) on the fair value uplift of acquired intangible assets and deferred

consideration payable for Silego treated as compensation expense of US\$0.2 million (H1 2018: US\$0.3 million).

General and administrative expenses were US\$48.9 million in H1 2019 compared with US\$36.2 million in H1 2018, with the increase being largely due to acquisition-related and corporate transaction costs incurred in H1 2019.

Underlying general and administrative expenses decreased slightly to US\$28.1 million compared with US\$28.6 million in H1 2018 and represented 4.5% of the Group's underlying revenue compared with 4.6% in H1 2018.

Underlying general and administrative expenses exclude share-based compensation and related payroll taxes totalling US\$8.2 million (H1 2018: US\$5.8 million), acquisition-related and corporate transaction costs of US\$12.3 million (H1 2018: US\$0.8 million), deferred consideration payable for Silego treated as compensation expense of US\$0.1 million (H1 2018: US\$0.1 million) and integration costs of US\$0.2 million (H1 2018: US\$0.9 million).

R&D expenses were US\$156.2 million in H1 2019 compared with US\$159.2 million in H1 2018.

R&D costs totalled US\$167.7 million (H1 2018: US\$177.1 million), of which US\$8.6 million (H1 2018: US\$15.2 million) was capitalised and US\$2.9 million (H1 2018: US\$2.7 million) was offset by R&D expenditure credits. R&D costs were lower compared with H1 2018 principally due to the transfer of design centre businesses to Apple at the beginning of Q2 2019.

Underlying R&D expenses were US\$139.8 million in H1 2019 compared with US\$144.3 million in H1 2018 and represented 22.2% of the Group's underlying revenue compared with 23.0% in H1 2018.

Underlying R&D expenses exclude share-based compensation expenses and related payroll taxes totalling US\$11.6 million (H1 2018: US\$10.0 million), amortisation of US\$4.6 million (H1 2018: US\$4.4 million) on the fair value uplift of acquired technology, deferred consideration payable for Silego treated as compensation expense of US\$0.2 million (H1 2018: US\$0.3 million) and, in H1 2018, integration costs of US\$0.2 million.

Other operating income was substantially higher at US\$33.7 million in H1 2019 compared with US\$1.2 million in H1 2018, principally due to the recognition in Q2 2019 of the gain of US\$15.9 million on the transfer of design centre businesses to Apple and higher income from R&D contracts, in particular, US\$12.5 million receivable from Apple for product development costs incurred between October 2018 and April 2019.

Excluding the gain on the transfer of the design centre businesses, underlying other operating income was US\$17.7 million in H1 2019 compared with US\$0.8 million in H1 2018.

Operating profit was US\$242.3 million in H1 2019 compared with US\$59.1 million in H1 2018.

Underlying operating profit was US\$129.3 million compared with US\$94.5 million in H1 2018, an increase of 37%. Underlying operating profit increased principally due to the improvement in underlying gross profit, lower underlying R&D expenses and the income receivable from Apple for development work recognised in Q2 2019.

Underlying operating margin was consequently higher at 20.5% compared with 15.1% in H1 2018.

Interest income was US\$10.5 million in H1 2019 compared with US\$3.9 million in H1 2018, with the increase reflecting the higher average cash balance during H1 2019 and higher US dollar interest rates.

Interest expense was US\$4.6 million in H1 2019 compared with US\$1.7 million in H1 2018, with the increase reflecting the recognition of interest expense of US\$1.8 million on the prepayment from Apple and US\$1.5 million on lease liabilities following the adoption of IFRS 16.

Other finance expense was US\$3.8 million in H1 2019 compared with US\$4.8 million in H1 2018.

We recognised a net currency translation loss on monetary assets and liabilities of US\$3.5 million compared with a loss of US\$0.6 million in H1 2018.

We recognised a fair value loss of US\$1.1 million (H1 2018: loss of US\$5.0 million) on the warrants that we hold over shares in Energroup and a credit arising from the amortisation of the gain on initial recognition of the second tranche of warrants amounting to US\$0.8 million (H1 2018: US\$0.8 million).

Income tax expense was US\$55.9 million (H1 2018: US\$20.3 million) on profit before tax of US\$244.3 million (H1 2018: US\$56.6 million), an effective tax rate for the period of 22.9% (H1 2018: 35.9%).

Our income tax expense for the first half 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 relatively high effective tax rate for H1 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.

Financial review continued

Our underlying income tax expense was US\$27.0 million (H1 2018: US\$20.5 million) on underlying profit before tax of US\$132.0 million (H1 2018: US\$97.5 million). Our underlying effective tax rate for H1 2019 was therefore 20.5%, which compares with 21.0% for H1 2018.

Net income was US\$188.5 million in H1 2019 compared with US\$35.5 million in H1 2018. Underlying net income was US\$105.0 million compared with US\$76.2 million in H1 2018, an increase of 38%.

Basic earnings per share were US\$2.56 (H1 2018: US\$0.48) based on the weighted average of 73.5 million shares (H1 2018: 73.8 million shares) that were in issue during the period excluding the weighted average of 2.2 million shares (H1 2018: 2.6 million shares) held by employee benefit trusts and, in H1 2019, the weighted average of 0.7 million shares that were held in treasury. Underlying basic earnings per share were US\$1.43 (H1 2018: US\$1.03).

Diluted earnings per share were US\$2.42 (H1 2018: US\$0.46). Diluted earnings per share additionally reflect the weighted average of 4.5 million (H1 2018: 4.2 million) dilutive employee share options. Underlying diluted earnings per share were US\$1.35 (H1 2018: US\$0.98).

Cash flows

Cash inflow from operating activities was US\$341.7 million in H1 2019 compared with US\$105.3 million in H1 2018.

Cash generated from operations before changes in working capital was US\$423.2 million compared with US\$120.1 million in H1 2018, the increase being principally due to the receipt of consideration totalling US\$282.2 million in relation to the IP licensing arrangements with Apple. Excluding the cash inflow from the Apple licences, cash generated from operations before changes in working capital was US\$141.1 million compared with US\$120.1 million in H1 2018.

Net working capital increased by US\$62.4 million in H1 2019 but was broadly unchanged in H1 2018.

Demand for our products is typically higher in the fourth quarter of the year and lower in the first and second quarters. During the second quarter, we typically begin to build up inventory levels in anticipation of new product launches by our customers. Movements in working capital during H1 2019 were consistent with this pattern.

Inventory levels increased during H1 2019, absorbing cash of US\$9.8 million. At the end of Q2 2019, inventories represented 83 days' cost of sales in the preceding quarter (end of 2018: 61 days' cost of sales).

Summary cash flow statement

US\$ millions	H1 2019	H1 2018
Cash generated from operations	360.8	120.1
Interest received, net	7.3	2.8
Income taxes paid	(26.4)	(17.6)
Cash flow from operating activities	341.7	105.3
Purchase of property, plant and equipment	(7.0)	(16.8)
Purchase of intangible assets	(2.2)	(3.2)
Capitalised development expenditure	(8.6)	(15.2)
Capital element of lease payments	(5.7)	(1.7)
Free cash flow	318.2	68.4
Purchase of FCI, net of acquired cash	(44.3)	–
Payment of consideration for Silego	(18.0)	(11.6)
Proceeds from transfer of design centres, net of cash disposed	27.8	–
Receipt of prepayment from Apple	288.6	–
Sale of Dialog shares by EBTs	2.5	1.5
Purchase of own shares	(112.1)	–
Other cash flows, net	–	(0.1)
Net cash inflow during the period	462.7	58.2
Currency translation differences	0.6	–
Increase in cash and cash equivalents	463.3	58.2

Trade and other receivables increased during H1 2019, absorbing cash of US\$8.5 million. At the end of Q2 2019, trade and other receivables represented 33 days' sales in the preceding quarter (end of 2018: 24 days' sales) and reflected our use of receivables financing facilities.

Trade and other payables declined during H1 2019, absorbing cash of US\$29.7 million. At the end of Q2 2019, trade and other payables represented 51 days' cost of sales in the preceding quarter (end of 2018: 50 days' cost of sales).

Movements on other working capital items had the effect of absorbing cash of US\$14.3 million during H1 2019.

Net interest received was US\$7.3 million in H1 2019 compared with US\$2.8 million in H1 2018.

Net income tax payments were US\$26.4 million compared with US\$17.6 million in H1 2018. 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.

Cash outflow from investing activities was US\$52.3 million in H1 2019 compared with US\$46.9 million in H1 2018.

Capital expenditure comprising cash outflows in relation to the purchase of property, plant and equipment and intangible assets and capitalised development expenditure totalled US\$17.8 million compared with US\$35.2 million in H1 2018.

During H1 2019, there was a cash outflow of US\$44.3 million on the acquisition of FCI (net of cash of US\$9.6 million held by the business on the acquisition date).

During H1 2019, we paid US\$16.7 million (H1 2018: US\$9.1 million) in settlement of contingent consideration and US\$1.3 million (H1 2018: US\$1.8 million) in respect of deferred consideration payable for Silego. During H1 2018, we also 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.

During H1 2019, we received proceeds of US\$27.8 million on the transfer of design centre businesses to Apple (net of cash of US\$1.5 million held by the businesses on the transfer date).

Cash flow from financing activities was an inflow of US\$173.3 million in H1 2019 compared with an outflow of US\$0.2 million in H1 2018.

During H1 2019, we recognised the prepayment from Apple at its fair value of US\$288.6 million and there was a cash outflow of US\$112.1 million on the purchase of shares under the Company's share buyback programme.

During H1 2019, the cash outflow on the capital element of lease payments was \$5.7 million, higher compared with US\$1.7 million in H1 2018 due to the recognition of additional lease liabilities following the adoption of IFRS 16.

During H1 2019, employee benefit trusts received proceeds of US\$2.5 million (H1 2018: US\$1.5 million) on the exercise of share options.

Liquidity and capital resources

Cash and cash equivalents

At the end of Q2 2019, cash and cash equivalents amounted to US\$1,141.2 million (end of 2018: US\$677.8 million), which principally comprised investments in money market funds and bank deposits with a maturity of three months or less.

Prepayment from Apple

At the end of Q2 2019, the principal amount of the prepayment outstanding was US\$300.0 million, of which US\$200.0 million is expected to be settled by recoupment against invoices outstanding or in cash within 12 months.

We settled the first quarterly instalment of US\$50.0 million on 8 July 2019, of which US\$29.7 million was settled by recoupment against invoices outstanding and US\$20.3 million was settled in cash.

Revolving credit facility

Since July 2017, we have had a US\$150 million revolving credit facility provided by four financial institutions. The facility is committed and available for general corporate purposes. In June 2019, the full amount of the facility was extended for a further year and will now mature on 28 July 2022.

We retain the option to increase the amount of the facility by US\$75 million subject to certain conditions.

We have not made any drawings under the facility.

Receivables financing facilities

We utilise non-recourse receivables financing facilities provided by two financial institutions in an aggregate amount of US\$240 million. The principal facility of US\$220 million matures on 31 October 2019. We will seek to extend the maturity of this facility during Q3 2019.

Gross receivables sold under the facilities decreased by US\$39.1 million to US\$74.4 million at the end of Q2 2019 compared with US\$113.5 million at the end of 2018.

At the end of Q2 2019, cash and cash equivalents included US\$64.2 million (end of 2018: US\$96.1 million) in relation to receivables sold under these facilities.

Balance sheet

Summary balance sheet

US\$ millions	As at 28 June 2019	As at 31 December 2018
Assets		
Cash and cash equivalents	1,141.2	677.8
Other current assets	308.1	296.2
Total current assets	1,449.3	974.0
Goodwill	453.5	439.5
Other intangible assets	238.6	217.4
Property, plant and equipment – owned	56.4	66.4
Property, plant and equipment – leased	56.6	–
Deferred tax assets	7.1	6.0
Other non-current assets	10.6	13.8
Total non-current assets	822.8	743.1
Total assets	2,272.1	1,717.1
Liabilities and equity		
Current liabilities	598.2	393.9
Deferred tax liabilities	14.2	8.0
Other non-current liabilities	253.9	12.7
Total liabilities	866.3	414.6
Total equity	1,405.8	1,302.5
Total liabilities and equity	2,272.1	1,717.1

Share buyback programme

Since initiating the share buyback programme in May 2016, the Company has purchased 8,425,668 of its own ordinary shares and returned €268.7 million (US\$296.1 million) to shareholders.

On 6 November 2018, we announced details of the first tranche of the share buyback programme pursuant to an authority granted by shareholders at the Company's 2018 AGM, under which the Company committed to purchase shares with a minimum cost of €100.0 million and a maximum cost of €150.0 million.

We completed the first and final settlement of this tranche on 31 May 2019, purchasing 3,941,852 shares at a cost of €100.0 million (US\$111.5 million). We also incurred transaction costs of US\$0.6 million.

At the Company's AGM on 2 May 2019, the Directors were granted a new authority to purchase up to 11,457,321 of the Company's ordinary shares, representing approximately 15% of the issued ordinary share capital of the Company as at 27 March 2019. Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2020, whichever is the earlier.

On 5 June 2019, we announced details of the first tranche of purchases under the 2019 AGM authority, under which the Company committed to purchase shares with a minimum cost of €125.0 million and a maximum cost of €150.0 million. We have not yet made any intermediate settlements in relation to this tranche, under which the broker may continue to purchase shares until 5 December 2019.

Balance sheet

Non-current assets totalled US\$822.8 million at the end of Q2 2019 compared with US\$743.1 million at the end of 2018, an increase of US\$79.7 million. During H1 2019, we recognised preliminary goodwill and other intangible assets totalling US\$48.1 million on the acquisition of FCI and right-of-use assets totalling US\$66.4 million on the adoption of IFRS 16, the effect of which was partially offset by depreciation and amortisation totalling US\$44.8 million.

Current assets totalled US\$1,449.3 million at the end of Q2 2019 compared with US\$974.0 million at the end of 2018, an increase of US\$475.3 million.

Cash and cash equivalents increased by US\$463.4 million to US\$1,141.2 million. Other current assets increased by US\$11.9 million to US\$308.1 million.

Current liabilities totalled US\$598.2 million at the end of Q2 2019 compared with US\$393.9 million at the end of 2018, an increase of US\$204.3 million.

Trade and other payables decreased by US\$25.8 million to US\$96.3 million. Current financial liabilities increased by US\$183.3 million to US\$380.2 million, principally due to the addition of the current element of the prepayment from Apple of US\$193.6 million and current lease liabilities of US\$11.9 million following the adoption of IFRS 16.

Income taxes payable increased by US\$28.3 million to US\$36.5 million, reflecting the timing of tax payments.

Financial review continued

Other current liabilities increased by US\$22.2 million to US\$80.4 million, reflecting the addition of the current element of the deferred revenue relating to the effective IP licence granted to Apple of US\$30.3 million.

Non-current liabilities totalled US\$268.1 million at the end of Q2 2019 compared with US\$20.7 million at the end of 2018, an increase of US\$247.4 million.

Non-current financial liabilities increased by US\$142.3 million to US\$143.1 million, principally due to the addition of the non-current element of the prepayment from Apple of US\$96.7 million and non-current lease liabilities of US\$46.3 million following the adoption of IFRS 16.

Deferred tax liabilities increased by US\$6.2 million to US\$14.2 million principally due to the recognition of deferred tax liabilities on the identifiable intangible assets acquired with FCI.

Other non-current liabilities increased by US\$98.9 million to US\$107.8 million, reflecting the addition of the non-current element of the deferred revenue relating to the effective IP licence granted to Apple of US\$100.1 million.

Total equity was US\$1,405.8 million at the end of Q2 2019 compared with US\$1,302.5 million at the end of 2018. At the end of Q2 2019, Dialog shares held in treasury amounted to US\$112.1 million (end of 2018: \$nil) and Dialog shares held by employee benefit trusts amounted to US\$22.4 million (end of 2018: US\$22.5 million).

Consequences of Brexit

Considerable uncertainty exists as to the timing of the UK's exit from the EU, the terms of any withdrawal agreement between the UK and the EU and the effect of Brexit on the UK's future relationships with the EU, other multilateral organisations and individual countries outside the EU.

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 half 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 ourselves, our customers and other counterparties.

While the withdrawal negotiations are ongoing and during any subsequent transition period, we will operate on a business as usual basis within applicable regulations and our continuing focus will be on growing our business.

Wissam Jabre

Chief Financial Officer,
Senior Vice President Finance

Other information

Directors and Management Team

Board of Directors

Rich Beyer, Chairman
Dr Jalal Bagherli
Alan Campbell
Mike Cannon
Mary Chan
Nick Jeffery
Eamonn O'Hare

Management Team

Dr Jalal Bagherli, *Chief Executive Officer*
Vivek Bhan, *Senior Vice President, General Manager, Custom Mixed Signal*
Wissam Jabre, *Chief Financial Officer, Senior Vice President, Finance*
Davin Lee, *Senior Vice President, General Manager, Advanced Mixed Signal*
Alex McCann, *Senior Vice President, Global Operations*
Sean McGrath, *Senior Vice President, General Manager, Connectivity & Audio*
Julie Pope, *Senior Vice President, Human Resources*
Tom Sandoval, *Senior Vice President, Automotive*
Colin Sturt, *Senior Vice President, General Counsel*
John Teegan, *Senior Vice President, Worldwide Sales*
Mark Tyndall, *Senior Vice President, Corporate Development and Strategy*

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 June 2019, the Group held cash and cash equivalents amounting to US\$1,141.2 million and had an undrawn committed US\$150.0 million revolving credit facility that, when taken together, significantly exceeded the Group's obligations expected to fall due within the following 12 months. Accordingly, the Directors have adopted the going concern basis in preparing the interim financial statements for the three- and six-month periods ended 28 June 2019.

Principal risks and uncertainties

We describe the principal risks and uncertainties that could adversely impact the Group's ability to execute its strategic objectives on pages 52 to 56 of our Annual Report and Accounts 2018. 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 2018.

Responsibility statement

We confirm that, to the best of our knowledge, the interim financial statements for the three- and six-month periods ended 28 June 2019 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 2019.

Dr Jalal Bagherli

Chief Executive Officer

Wissam Jabre

Chief Financial Officer, Senior Vice President, Finance

30 July 2019

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 six-month periods ended 28 June 2019 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 18. 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 six-month periods ended 28 June 2019 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

30 July 2019

Condensed consolidated statement of income

For the three- and six-month periods ended 28 June 2019

	Note	Second quarter		First half	
		Three months ended 28 June 2019 US\$000 (Unaudited)	Three months ended 29 June 2018 US\$000 (Unaudited)	Six months ended 28 June 2019 US\$000 (Unaudited)	Six months ended 29 June 2018 US\$000 (Unaudited)
Revenue	2, 3	481,968	295,664	776,854	627,819
Cost of sales		(170,210)	(153,808)	(319,618)	(332,195)
Gross profit		311,758	141,856	457,236	295,624
Selling and marketing expenses		(22,283)	(20,695)	(43,493)	(42,307)
General and administrative expenses		(25,893)	(17,683)	(48,902)	(36,186)
Research and development expenses		(75,556)	(78,273)	(156,189)	(159,178)
Other operating income	4	28,936	1,022	33,651	1,157
Operating profit	3	216,962	26,227	242,303	59,110
Interest income		6,547	2,299	10,461	3,911
Interest expense		(3,087)	(698)	(4,577)	(1,658)
Other finance (expense)/income		(2,384)	296	(3,849)	(4,794)
Profit before income taxes		218,038	28,124	244,338	56,569
Income tax expense		(47,934)	(9,691)	(55,876)	(20,328)
Profit after income taxes		170,104	18,433	188,462	36,241
Share of loss of associate		–	(377)	–	(749)
Net income		170,104	18,056	188,462	35,492
Earnings per share (US\$)	5				
Basic		2.33	0.24	2.56	0.48
Diluted		2.20	0.23	2.42	0.46
Weighted average number of shares (in thousands)	5				
Basic		73,039	73,874	73,494	73,791
Diluted		77,277	77,941	77,957	77,970

Condensed consolidated statement of comprehensive income

For the three- and six-month periods ended 28 June 2019

	Second quarter		First half	
	Three months ended 28 June 2019 US\$000 (Unaudited)	Three months ended 29 June 2018 US\$000 (Unaudited)	Six months ended 28 June 2019 US\$000 (Unaudited)	Six months ended 29 June 2018 US\$000 (Unaudited)
Net income	170,104	18,056	188,462	35,492
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods				
Currency translation differences on foreign operations				
– Gain/(loss) recognised in the period	1,558	(297)	1,484	(189)
– Loss transferred to profit or loss on disposal of a subsidiary	309	–	309	–
Income tax relating to currency translation differences on foreign operations	(17)	(146)	(37)	(62)
Cash flow hedges:				
– Fair value loss recognised on effective hedges in the period	(601)	(8,771)	(2,606)	(4,428)
– Fair value loss/(gain) transferred to profit or loss	2,530	(1,732)	6,439	(6,963)
Income tax relating to cash flow hedges	(366)	1,996	(728)	2,181
	3,413	(8,950)	4,861	(9,461)
Items that will not be reclassified to profit or loss				
Fair value loss on equity investments	(3,427)	(2,105)	(2,470)	(8,055)
Income tax relating to equity investments	–	110	–	1,015
	(3,427)	(1,995)	(2,470)	(7,040)
Other comprehensive (loss)/income for the period	(14)	(10,945)	2,391	(16,501)
Total comprehensive income for the period	170,090	7,111	190,853	18,991

Condensed consolidated balance sheet

As at 28 June 2019

	Note	As at 28 June 2019 US\$000 (Unaudited)	As at 31 December 2018* US\$000 (Audited)
Assets			
Cash and cash equivalents	8	1,141,185	677,848
Trade and other receivables		124,896	114,514
Other current financial assets		1,430	202
Inventories	9	156,084	149,736
Income tax receivables		1,500	2,146
Other current assets		24,175	18,306
		1,449,270	962,752
Assets classified as held for sale	13	–	11,295
Total current assets		1,449,270	974,047
Goodwill	10	453,549	439,508
Other intangible assets	10	238,582	217,445
Property, plant and equipment – owned	11	56,376	66,359
Property, plant and equipment – leased	11	56,623	–
Other investments	12	7,924	11,538
Other non-current financial assets		2,167	1,807
Other non-current assets		463	398
Deferred tax assets		7,114	6,034
Total non-current assets		822,798	743,089
Total assets		2,272,068	1,717,136
Liabilities and equity			
Trade and other payables		96,323	122,140
Lease liabilities		11,931	–
Other current financial liabilities		368,304	196,890
Provisions		4,822	5,253
Income taxes payable		36,461	8,193
Other current liabilities		80,390	58,237
		598,231	390,713
Liabilities directly associated with assets held for sale	13	–	3,167
Total current liabilities		598,231	393,880
Lease liabilities		46,291	–
Other non-current financial liabilities		96,822	841
Provisions		2,933	3,078
Deferred tax liabilities		14,204	7,958
Other non-current liabilities		107,828	8,872
Total non-current liabilities		268,078	20,749
Ordinary shares		14,204	14,204
Share premium account		403,660	403,660
Retained earnings		1,143,452	930,576
Other reserves	16	(133,137)	(23,419)
Dialog shares held by employee benefit trusts		(22,420)	(22,514)
Total equity		1,405,759	1,302,507
Total liabilities and equity		2,272,068	1,717,136

* Extracted from the Company's audited consolidated financial statements for the year ended 31 December 2018.

Condensed consolidated statement of cash flows

For the three- and six-month periods ended 28 June 2019

	Note	Second quarter		First half	
		Three months ended 28 June 2019 US\$000 (Unaudited)	Three months ended 29 June 2018 US\$000 (Unaudited)	Six months ended 28 June 2019 US\$000 (Unaudited)	Six months ended 29 June 2018 US\$000 (Unaudited)
Cash flows from operating activities					
Net income		170,104	18,056	188,462	35,492
Non-cash items within net income:					
– Depreciation of property, plant and equipment		10,317	8,043	20,483	15,936
– Amortisation of intangible assets		12,637	12,239	24,353	24,025
– Addition to inventory reserve, net		4,232	1,265	7,450	2,168
– Share-based compensation expense		9,983	9,449	21,503	20,618
– Deferred licence revenue		(5,980)	–	(5,980)	–
– Other non-cash items		(4,923)	(50)	(3,564)	3,796
Effective IP licence fee received	6	136,400	–	136,400	–
Gain on transfer of design centre businesses	6	(15,898)	–	(15,898)	–
Interest income, net		(3,460)	(1,601)	(5,884)	(2,253)
Income tax expense		47,934	9,691	55,876	20,328
Cash generated from operations before changes in working capital		361,346	57,092	423,201	120,110
Changes in working capital:					
– (Increase)/decrease in trade and other receivables		(53,469)	(8,959)	(8,509)	3,220
– (Increase)/decrease in inventories		(1,051)	2,658	(9,846)	32,695
– Decrease/(increase) in prepaid expenses		788	(341)	(1,506)	(5,754)
– Increase/(decrease) in trade and other payables		2,894	3,639	(29,727)	(22,888)
– Decrease in provisions		(546)	(38)	(1,157)	(759)
– Change in other assets and liabilities		(3,591)	(932)	(11,610)	(6,521)
Cash generated from operations		306,371	53,119	360,846	120,103
Interest paid		(901)	(132)	(1,996)	(281)
Interest received		5,515	1,945	9,274	3,102
Income taxes (paid)/received		(10,856)	706	(26,423)	(17,637)
Cash inflow from operating activities		300,129	55,638	341,701	105,287
Cash flows from investing activities					
Purchase of property, plant and equipment		(2,024)	(7,729)	(6,985)	(16,783)
Purchase of intangible assets		(1,063)	(1,462)	(2,187)	(3,238)
Payments for capitalised development costs		(4,014)	(9,100)	(8,571)	(15,219)
Purchase of FCI, net of acquired cash	7	(44,322)	–	(44,322)	–
Payment of consideration for Silego	7	(457)	(607)	(18,032)	(11,611)
Proceeds from transfer of design centres, net of cash disposed	6	27,814	–	27,814	–
Increase in other long-term assets		–	(57)	–	(83)
Cash outflow from investing activities		(24,066)	(18,955)	(52,283)	(46,934)
Cash flows from financing activities					
Receipt of prepayment from Apple	6	288,584	–	288,584	–
Capital element of lease payments		(2,759)	(832)	(5,681)	(1,650)
Sale of shares by employee benefit trusts		1,199	207	2,482	1,486
Purchase of own shares into treasury		(112,095)	–	(112,095)	–
Cash inflow/(outflow) from financing activities		174,929	(625)	173,290	(164)
Net cash inflow during the period		450,992	36,058	462,708	58,189
Cash and cash equivalents at beginning of period		689,532	501,189	677,848	479,295
Currency translation differences		661	226	629	(11)
Cash and cash equivalents at end of period	8	1,141,185	537,473	1,141,185	537,473

Condensed consolidated statement of changes in equity

For the six-month period ended 28 June 2019

	Ordinary shares US\$000	Share premium account US\$000	Retained earnings US\$000	Other reserves (note 16) US\$000	Dialog shares held by employee benefit trusts US\$000	Total US\$000
Six months ended 28 June 2019 (Unaudited)						
As at 31 December 2018	14,204	403,660	930,576	(23,419)	(22,514)	1,302,507
Adjustment on initial application of IFRS 16 (note 18)	–	–	40	–	–	40
Adjusted balance as at 1 January 2019	14,204	403,660	930,616	(23,419)	(22,514)	1,302,547
Net income	–	–	188,462	–	–	188,462
Other comprehensive income	–	–	–	2,391	–	2,391
Total comprehensive income	–	–	188,462	2,391	–	190,853
Other changes in equity:						
– Purchase of own shares into treasury	–	–	(2,645)	(112,109)	–	(114,754)
– Share buyback obligation	–	–	1,062	–	–	1,062
– Sale of shares by employee benefit trusts	–	–	2,388	–	94	2,482
– Share-based compensation, net of tax	–	–	23,569	–	–	23,569
As at 28 June 2019	14,204	403,660	1,143,452	(133,137)	(22,420)	1,405,759
Six months ended 29 June 2018 (Unaudited)						
As at 31 December 2017	14,204	403,660	915,482	9,977	(902)	1,342,421
Adjustment on initial application of IFRS 15	–	–	1,541	–	–	1,541
Adjusted balance as at 1 January 2018	14,204	403,660	917,023	9,977	(902)	1,343,962
Net income	–	–	35,492	–	–	35,492
Other comprehensive loss	–	–	–	(16,501)	–	(16,501)
Total comprehensive income/(loss)	–	–	35,492	(16,501)	–	18,991
Other changes in equity:						
– Sale of shares by employee benefit trusts	–	–	1,399	–	87	1,486
– Share-based compensation, net of tax	–	–	19,858	–	–	19,858
As at 29 June 2018	14,204	403,660	973,772	(6,524)	(815)	1,384,297

Notes to the condensed consolidated financial statements

For the three- and six-month periods ended 28 June 2019

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. Following a segment reorganisation that became effective at the beginning of Q2 2019, Dialog has three reportable segments: Custom Mixed Signal; Connectivity & Audio; and Advanced Mixed Signal. Segment information is presented in note 3.

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 15 to 38 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 six-month periods ended 28 June 2019 ("Q2 2019" and "H1 2019") with comparative information for the three- and six-month periods ended 29 June 2018 ("Q2 2018" and "H1 2018").

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.

The Group's significant accounting policies are unchanged compared with the year ended 31 December 2018 (see pages 101 to 107 of our Annual Report and Accounts 2018), except for the adoption of IFRS 16 *Leases*. Information about the adoption of IFRS 16 and its impact on the Group's results and financial position is set out in note 18.

We also adopted IFRIC 23 *Uncertainty over Income Tax Treatments* and *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19) with effect from 1 January 2019. Neither pronouncement had any immediate impact on the Group's results or financial position.

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 Custom Mixed Signal 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 2018 the following relevant accounting pronouncements that have been issued by the IASB but have not yet been adopted by Dialog:

→ *Definition of a Business (Amendments to IFRS 3)*

→ *Definition of Material (Amendments to IAS 1 and IAS 8)*

Subject to their endorsement for use in the European Union, the amendments will be effective from 1 January 2020. We do not expect that the amendments will have an immediate impact on 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 14. 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 2018 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 30 July 2019.

2. Revenue

Revenue may be analysed as follows:

	Second quarter		First half	
	Three months ended 28 June 2019 US\$000	Three months ended 29 June 2018 US\$000	Six months ended 28 June 2019 US\$000	Six months ended 29 June 2018 US\$000
Sale of goods:				
– Sales direct to end customers	246,036	221,898	477,768	486,100
– Sales to distributors	83,944	73,498	146,834	141,212
Total sale of goods	329,980	295,396	624,602	627,312
Licensing agreements with Apple:				
– Perpetual licence fee	145,750	–	145,750	–
– Effective licence fee	5,980	–	5,980	–
Royalties	258	268	522	507
Total revenue	481,968	295,664	776,854	627,819

Revenue from research and development contracts of US\$12,490 in Q2 2019 (Q2 2018: US\$ 499) and US\$16,891 in H1 2019 (H1 2018: US\$ 792) is included in other operating income.

Notes to the condensed consolidated financial statements

continued

3. Segment information

Background

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 financial performance of the Group’s businesses. Members of the Management Team are identified on page 13.

The Group’s reportable segments are determined based on the nature of the products that they provide to our customers.

Organisational and measurement changes

With effect from the beginning of Q2 2019, the Group made a number of organisational changes. Prior to the changes, the Group had four operating segments: Mobile Systems; Connectivity; Automotive & Industrial; and Advanced Mixed Signal.

The following organisational changes were made:

- Mobile Systems’ standard PMICs and charging products were transferred to Advanced Mixed Signal and its standard audio products were transferred to Connectivity;
- Mobile Systems was re-named Custom Mixed Signal to reflect its new focus on custom products and Connectivity was re-named Connectivity & Audio;
- Automotive & Industrial ceased to exist as a segment as its custom automotive motor control ICs were transferred to Custom Mixed Signal and its industrial lighting products were transferred to Advanced Mixed Signal.

Following these changes, the Group has three reportable segments: Custom Mixed Signal; Connectivity & Audio; and Advanced Mixed Signal.

- Custom Mixed Signal provides custom PMICs designed to meet the needs of our customers in the mobile, automotive, computing and storage markets;
- Connectivity & Audio provides standard products incorporating short-range wireless, digital cordless, Bluetooth®, VoIP and low-power Wi-Fi technologies;
- Advanced Mixed Signal provides standard products including CMICs, AC/DC converter solutions for smaller, fast charging power adaptors for portable devices as well as LED drivers for backlighting and solid-state lighting products.

Each of the Group’s operating segments has a manager who is responsible for its performance and is accountable to the Chief Executive Officer. Custom Mixed Signal comprises our Custom Mixed Signal business group and our Automotive business unit, each of which meets the definition of an operating segment but have been aggregated because they have similar economic characteristics and both provide custom power management products to similar types of customers through similar distribution channels. Otherwise, we have not aggregated any operating segments in determining our reportable segments.

At the same time as effecting the organisational changes, the Management Team changed its focus from IFRS measures to underlying measures as the principal basis for allocating resources to and assessing the financial performance of the Group’s businesses. Underlying revenue is therefore the measure of segment revenue and underlying operating profit/loss the measure of segment profit/loss that is now presented in the Group’s segment disclosures.

Comparative information for Q2 2018 and H1 2018 has been restated to reflect these organisational and measurement changes.

Underlying performance measures

Underlying performance measures exclude specific items of income or expense that are recognised in profit or loss reported in accordance with IFRS that we consider hinder comparison of the financial performance of our businesses from one period to another, with each other or with other similar businesses.

Details of the items excluded from profit or loss reported under IFRS in arriving at the Group’s underlying profit or loss for each of the periods presented are set out in Section 3 of this Interim Report.

Segment revenue and results

Underlying revenue and underlying operating profit by reportable segment were as follows:

Second quarter

	Underlying revenue ⁽¹⁾		Underlying operating profit/(loss)	
	Three months ended 28 June 2019 US\$000	Restated Three months ended 29 June 2018 US\$000	Three months ended 28 June 2019 US\$000	Restated Three months ended 29 June 2018 US\$000
Custom Mixed Signal	219,264	194,538	66,563	37,558
Connectivity & Audio	46,933	37,467	6,796	4,081
Advanced Mixed Signal	64,041	63,651	5,297	8,175
Total segments	330,238	295,656	78,656	49,814
Corporate and other unallocated items	5,980	8	3,455	(7,740)
Total Group	336,218	295,664	82,111	42,074

3. Segment information continued

First half

	Underlying revenue ⁽¹⁾		Underlying operating profit/(loss)	
	Six months ended 28 June 2019 US\$000	Restated Six months ended 29 June 2018 US\$000	Six months ended 28 June 2019 US\$000	Restated Six months ended 29 June 2018 US\$000
Custom Mixed Signal	430,869	439,940	111,507	98,073
Connectivity & Audio	79,309	70,286	11,815	3,463
Advanced Mixed Signal	114,939	117,577	6,305	11,203
Total segments	625,117	627,803	129,627	112,739
Corporate and other unallocated items	5,987	16	(365)	(18,215)
Total Group	631,104	627,819	129,262	94,524

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

Reconciliation of underlying revenue to revenue reported under IFRS

	Second quarter		First half	
	Three months ended 28 June 2019 US\$000	Three months ended 29 June 2018 US\$000	Six months ended 28 June 2019 US\$000	Six months ended 29 June 2018 US\$000
Underlying revenue	336,218	295,664	631,104	627,819
Perpetual licence fee	145,750	–	145,750	–
Revenue reported under IFRS	481,968	295,664	776,854	627,819

Reconciliation of underlying operating profit to profit before income taxes reported under IFRS

	Second quarter		First half	
	Three months ended 28 June 2019 US\$000	Three months ended 29 June 2018 US\$000	Six months ended 28 June 2019 US\$000	Six months ended 29 June 2018 US\$000
Underlying operating profit	82,111	42,074	129,262	94,524
Licence and asset transfers to Apple:				
– Perpetual licence fee	145,750	–	145,750	–
– Gain on transfer of design centre businesses	15,898	–	15,898	–
Share-based compensation and related payroll taxes	(11,501)	(8,746)	(23,387)	(19,094)
Accounting for business combinations:				
– Acquisition-related costs	(777)	–	(1,675)	–
– Amortisation of acquired intangible assets	(6,103)	(5,657)	(11,760)	(11,314)
– Consumption of the fair value uplift of acquired inventory	(403)	(406)	(403)	(2,794)
– Consideration accounted for as compensation expense	(305)	(350)	(625)	(804)
– Forfeiture of deferred consideration	14	36	98	163
– Remeasurement of contingent consideration	–	523	–	365
Integration costs	(111)	(474)	(196)	(1,163)
Corporate transaction costs	(7,611)	(773)	(10,659)	(773)
Operating profit reported under IFRS	216,962	26,227	242,303	59,110
Interest income	6,547	2,299	10,461	3,911
Interest expense	(3,087)	(698)	(4,577)	(1,658)
Other finance (expense)/income	(2,384)	296	(3,849)	(4,794)
Profit before income taxes	218,038	28,124	244,338	56,569

Notes to the condensed consolidated financial statements continued

4. Other operating income

Other operating income comprised:

	Second quarter		First half	
	Three months ended 28 June 2019 US\$000	Three months ended 29 June 2018 US\$000	Six months ended 28 June 2019 US\$000	Six months ended 29 June 2018 US\$000
Revenue from research and development contracts	12,490	499	16,891	792
Gain on transfer of design centre businesses (note 6)	15,898	–	15,898	–
Change in estimate of contingent consideration	–	523	–	365
Other items	548	–	862	–
Total	28,936	1,022	33,651	1,157

During Q2 2019, revenue from research and development contracts comprised US\$12,490 receivable from Apple for product development costs incurred between October 2018 and April 2019.

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:

		Second quarter		First half	
		Three months ended 28 June 2019 US\$000	Three months ended 29 June 2018 US\$000	Six months ended 28 June 2019 US\$000	Six months ended 29 June 2018 US\$000
Profit attributable to shareholders in the Company					
For calculating basic and diluted earnings per share	a	170,104	18,056	188,462	35,492
Weighted average number of ordinary shares					
Average number of shares in issue during the period		76,382,139	76,382,139	76,382,139	76,382,139
Deduct:					
– Average number of shares held by employee benefit trusts		(2,028,718)	(2,507,733)	(2,230,877)	(2,591,453)
– Average number of treasury shares		(1,313,951)	–	(656,975)	–
For calculating basic earnings per share	b	73,039,470	73,874,406	73,494,287	73,790,686
Add:					
– Average number of dilutive share options and awards		4,237,801	4,066,258	4,462,395	4,179,666
For calculating diluted earnings per share	c	77,277,271	77,940,664	77,956,682	77,970,352
Earnings per share (US\$)					
Basic	a/b	2.33	0.24	2.56	0.48
Diluted	a/c	2.20	0.23	2.42	0.46

6. Licensing and asset transfer agreement with Apple

Summary of the transaction

On 11 October 2018, we announced that we had entered into an agreement with Apple Inc. (“Apple”) to license 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.

Following the receipt of the necessary regulatory approvals and satisfaction of the other closing conditions, the transaction closed on 8 April 2019. Apple paid us US\$300 million in respect of the licensing arrangements and asset transfers.

Pursuant to the agreement, Dialog granted to Apple:

- a perpetual licence over Dialog’s Power Management IP as it existed at the closing date; and
- an effective licence over certain of Dialog’s IP as it existed at the closing date and is developed for a period of at least four years thereafter.

Continuation of the effective licence beyond the initial four-year period is contingent on Apple’s purchases from Dialog exceeding a specified level in successive preceding twelve-month periods.

While there was no transfer of legal ownership of the licensed IP rights, a relatively small number of patents were included in the business assets transferred to Apple.

Contingent on closing of the licensing and asset transfer agreement, Apple made an interest-free prepayment to Dialog of US\$300 million. On initial recognition, we measured the prepayment at its fair value of US\$288,584. We considered that the resulting “below market element” of the prepayment of US\$11,416 represented additional consideration in respect of the licensing arrangements and asset transfers.

We allocated the consideration received in respect of the licensing and asset transfer arrangements as follows:

	US\$000
Fair value at closing date	
Licensing arrangements:	
– Perpetual IP licence	145,750
– Effective IP licence	136,400
Design centre businesses	29,266
Total fair value	311,416
Consideration	
Cash received	300,000
Below market element of prepayment	11,416
Total consideration	311,416

We incurred transaction costs totalling US\$18,446 in relation to the agreement with Apple, of which US\$10,659 was incurred during H1 2019 (within general and administrative expenses).

Notes to the condensed consolidated financial statements continued

6. Licensing and asset transfer agreement with Apple continued

Subsequent accounting for the transaction

Licensing arrangements

We consider that the perpetual IP licence granted Apple a “right to use” the related IP. We therefore recognised the consideration of US\$145,750 allocated to the perpetual licence as revenue on the closing date.

We consider that the effective IP licence granted Apple a “right to access” the related IP. We are therefore recognising the consideration of US\$136,400 allocated to the effective licence as revenue over the four-year period following the closing date. We are amortising the deferred revenue in proportion to the present value of the cash flows that supported the fair value of the effective licence at the closing date. During Q2 2019, we recognised revenue of US\$5,980 in relation to the effective licence.

Transfer of design centre businesses

We recognised a gain of US\$15,898 on the transfer of the design centre businesses (within other operating income) that was calculated as follows:

	US\$000
Carrying amount of assets transferred	
Cash and cash equivalents	1,452
Other current assets	292
Property, plant and equipment – owned	13,824
Property, plant and equipment – leased	4,287
Patents	224
Other non-current assets	77
Total assets transferred	20,156
Carrying amount of associated liabilities	
Trade and other payables	161
Income tax payables	119
Current lease liabilities	790
Other current liabilities	1,051
Non-current lease liabilities	3,650
Provisions	1,326
Total liabilities transferred	7,097
Net assets transferred	13,059
Currency translation loss transferred from equity	309
Gain on transfer of design centre businesses	15,898
Consideration received	29,266

Prepayment from Apple

It is intended that the US\$300 million prepayment will be recouped by Apple against amounts payable to Dialog for the purchase of certain of our products over the three-year period ending on 31 March 2022. Settlement of the prepayment is scheduled to take place in quarterly instalments in arrears such that US\$200 million is settled in the first year and US\$50 million is settled in each of the second and third years. During each quarter, Apple will settle our invoices on its normal payment terms. If, on a recoupment date, there is a shortfall of invoices outstanding against the scheduled recoupment amount, Apple may require us to settle the shortfall in cash or may permit us to carry forward the shortfall for recoupment in the subsequent quarter.

We account for the prepayment as a financial liability measured at amortised cost. At the end of Q2 2019, the carrying amount of the liability was US\$290,342. During Q2 2019, we recognised an interest expense of US\$1,758 in relation to the prepayment.

As a condition of the prepayment, we put in place a reducing letter of credit in favour of Apple for the outstanding principal amount. During Q2 2019, we incurred related commitment fees of US\$345 (within interest expense).

7. Business combinations

Acquisition of FCI

On 31 May 2019, we completed the acquisition of 100% of the equity interests in Silicon Motion Technology Corporation's Mobile Communications product group, branded as FCI.

FCI is based near Seoul, South Korea and is a leading supplier of Mobile TV SoCs and Low Power Wi-Fi SoCs. During the fourth quarter of 2018, FCI began ramping production of its first Ultra-Low- Power Wi-Fi SoC that is designed to meet the demands of battery powered IoT devices, providing direct internet connectivity. FCI will be integrated into our Connectivity & Audio operating segment where we plan to combine its Ultra-Low-Power WiFi technology with our own Bluetooth® low-energy chips and modules, principally to enhance our IoT offerings.

We acquired FCI for US\$45,000 on a cash and debt-free basis. On completion, we paid consideration of US\$53,884 in cash, including US\$8,884 (net of US\$271 transaction tax withheld) in respect of FCI's estimated cash and working capital levels on completion that may be subject to adjustment once those amounts have been finalised.

We paid US\$5,400 of the consideration into an escrow fund that is available to settle any valid claims that we may make in relation to the representations, warranties and indemnities that were provided to us by the sellers.

Due to the short time since completion, we have not yet finalised the purchase price allocation. Our provisional allocation of the purchase price to the identifiable assets and liabilities of FCI and goodwill is as follows:

	US\$000
Assets acquired	
Cash and cash equivalents	9,562
Trade and other receivables	1,791
Inventories	4,347
Other current assets	705
Intangible assets	34,396
Property, plant and equipment – owned	872
Property, plant and equipment – leased	762
Other non-current assets	395
Total assets acquired	52,830
Liabilities assumed	
Trade and other payables	2,385
Current lease liabilities	415
Other current liabilities	983
Non-current lease liabilities	284
Net defined benefit liability	771
Deferred tax liabilities	7,429
Other non-current liabilities	83
Total liabilities	12,350
Net identifiable assets acquired	40,480
Goodwill arising on acquisition	13,675
Consideration	54,155

Identifiable intangible assets acquired comprised developed technology and know-how, customer relationships, the FCI™ trade name and computer software and licences.

Goodwill recognised on the acquisition of FCI is principally attributable to the benefits expected to be derived from the development of new technology and product offerings by FCI in the future, the assembled workforce and the opportunities to cross-sell FCI's products to Dialog's customers.

None of the goodwill is deductible for tax purposes.

During H1 2019, FCI contributed US\$1,852 to the Group's revenue and a loss after tax of US\$1,200. If FCI had been acquired on 1 January 2019, the Group's revenue for H1 2019 would have been US\$10,397 higher at US\$787,251 and its net income US\$2,853 lower at US\$185,609.

During H1 2019, we incurred transaction costs of US\$1,675 in relation to the acquisition of FCI (included within general and administrative expenses).

Notes to the condensed consolidated financial statements continued

7. Business combinations continued

Consideration payable for Silego

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

Deferred consideration

On completion of the acquisition, unvested employee options were converted into deferred cash rights and the fair value of those rights was apportioned between a deferred consideration element and a future compensation element. During H1 2019, we paid US\$1,303 in settlement of vested deferred consideration and recognised a credit of US\$98 to profit or loss in respect of forfeitures. As at 28 June 2019, we held a liability of US\$1,774 in relation to the remaining deferred consideration that is payable over the period to March 2021.

Contingent consideration

Contingent consideration of up to US\$30,400 was payable for the acquisition of Silego in two instalments based on Silego's revenue for 2017 and 2018.

Silego's revenue for 2018 was such that US\$17,874 of the second instalment of up to US\$20,400 was payable. In February 2019, we paid US\$16,729 in settlement of the element of the second instalment that was attributable to the shares and vested options acquired and attributed the balance to the deferred cash rights.

Since the total contingent consideration paid was below our initial estimate at the time of the acquisition, the payments are shown within cash flows from investing activities.

8. Cash and cash equivalents

Cash and cash equivalents may be analysed as follows:

	As at 28 June 2019 US\$000	As at 31 December 2018 US\$000
Cash at bank	16,041	3,920
Cash held by employee benefit trusts	5,233	2,829
Cash available from receivables financing facilities	64,161	96,099
Bank deposits	402,500	325,000
Money market funds	653,250	250,000
Total	1,141,185	677,848

As at 28 June 2019 and 31 December 2018, no amounts had been drawn from the cash available from receivables financing facilities.

9. Inventories

Inventories were as follows:

	As at 28 June 2019 US\$000	As at 31 December 2018 US\$000
Raw materials	38,552	36,579
Work in progress	49,595	48,416
Finished goods	67,937	64,741
Total	156,084	149,736

10. Goodwill and other intangible assets

Movements on goodwill and other intangible assets during H1 2019 may be summarised as follows:

	Goodwill US\$000	Other intangible assets US\$000
Net book value		
As at 31 December 2018	439,508	217,445
Acquisition of FCI (note 7)	13,675	34,396
Additions	–	10,758
Amortisation charge for the period	–	(24,353)
Transfer to assets held for sale	–	(9)
Disposals	–	(586)
Effect of movements in foreign currency	366	931
As at 28 June 2019	453,549	238,582

11. Property, plant and equipment

Movements on property, plant and equipment during H1 2019 may be summarised as follows:

	Owned US\$000	Leased US\$000
Net book value		
As at 31 December 2018	66,359	–
Adjustment on initial application of IFRS 16 (note 18)	–	66,390
Adjusted balance as at 1 January 2019	66,359	66,390
Acquisition of FCI (note 7)	872	762
Additions	6,985	120
Depreciation charge for the period	(14,146)	(6,337)
Transfer to assets held for sale	(2,906)	(4,287)
Disposals	(823)	(53)
Effect of movements in foreign currency	35	28
As at 28 June 2019	56,376	56,623

12. Investments

Investments were as follows:

	As at 28 June 2019 US\$000	As at 31 December 2018 US\$000
Equity investments:		
– Energous shares	7,603	10,073
Derivative financial instruments:		
– Energous warrants	321	1,465
Total investments	7,924	11,538

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 June 2019, we held approximately 6.5% of the issued common shares in Energous.

During H1 2019, we recognised a fair value loss on the common shares of US\$2,470 (H1 2018: loss of US\$8,055) in other comprehensive income and recognised a fair value loss of US\$1,144 (H1 2018: loss of US\$5,037) on the warrants in profit or loss (as other finance expense). Also during H1 2019, we recognised a credit of US\$776 (H1 2018: credit of US\$781) 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).

Notes to the condensed consolidated financial statements continued

13. Assets classified as held for sale

Assets and associated liabilities transferred to Apple

On 11 October 2018, we entered into an agreement with Apple Inc. (“Apple”), inter alia, to transfer to Apple certain patents and design centre assets. Details of the agreement are set out in note 6.

As at 31 December 2018, the carrying amounts of the assets to be transferred and directly associated liabilities were as follows:

	As at 28 June 2019 US\$000	As at 31 December 2018 US\$000
Assets held for sale		
Other current assets	–	311
Other intangible assets	–	215
Property, plant and equipment – owned	–	10,769
Total	–	11,295
Liabilities directly associated with assets held for sale		
Trade and other payables	–	100
Income taxes payable	–	63
Other current liabilities	–	1,721
Provisions	–	1,283
Total	–	3,167

Completion of the transaction with Apple took place on 8 April 2019.

Investment in associate

On 7 December 2018, we agreed to sell our shareholding in Dyna Image Corporation (“Dyna Image”). We have obtained the necessary regulatory approvals and are currently seeking to finalise the completion arrangements with a view to the transaction completing during the second half of 2019. Accordingly, the Group’s investment in Dyna Image is classified as an asset held for sale at its carrying amount of nil.

We expect to receive consideration of between US\$2.4 million and US\$5.0 million in exchange for our shareholding in Dyna Image.

14. 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 June 2019 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	1,141,185	–	–	–	1,141,185	1,141,185
Trade and other receivables	124,896	–	–	–	124,896	124,896
Energous shares	–	–	–	7,603	7,603	7,603
Energous warrants	–	321	–	–	321	321
Other investments	–	321	–	7,603	7,924	
Currency derivatives	–	1,204	226	–	1,430	1,430
Rental and other deposits	2,167	–	–	–	2,167	2,167
Other financial assets	2,167	1,204	226	–	3,597	
Total financial assets	1,268,248	1,525	226	7,603	1,277,602	
Financial liabilities						
Trade and other payables	(96,323)	–	–	–	(96,323)	(96,323)
Lease liabilities	(58,222)	–	–	–	(58,222)	(61,120)
Prepayment from Apple	(290,342)	–	–	–	(290,342)	(291,320)
Currency derivatives	–	–	(2,272)	–	(2,272)	(2,272)
Share buyback obligation	(170,738)	–	–	–	(170,738)	(170,738)
Deferred consideration	(1,774)	–	–	–	(1,774)	(1,774)
Other financial liabilities	(462,854)	–	(2,272)	–	(465,126)	
Total financial liabilities	(617,399)	–	(2,272)	–	(619,671)	

Notes to the condensed consolidated financial statements continued

14. 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.

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 June 2019 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	7,603	–	–	7,603
Derivative financial instruments:				
– Currency derivatives	–	1,430	–	1,430
– Energous warrants	–	–	321	321
Total financial assets carried at fair value	7,603	1,430	321	9,354

Financial liabilities carried at fair value

Derivative financial instruments:

– Currency derivatives	–	(2,272)	–	(2,272)
Total financial liabilities carried at fair value	–	(2,272)	–	(2,272)

During H1 2019, there were no transfers between Level 1 and Level 2.

14. Additional disclosures on financial instruments continued

Changes in the Level 3 fair values during H1 2019 may be reconciled as follows:

Financial assets carried at fair value

	Energous warrants US\$000
As at 31 December 2018	1,465
Unrealised fair value loss recognised in profit or loss (other finance expense)	(1,144)
As at 28 June 2019	321

Financial liabilities carried at fair value

	Contingent consideration US\$000
As at 31 December 2018	(16,414)
Unwinding of discount recognised in profit or loss (interest expense)	(315)
Settlements	16,729
As at 28 June 2019	–

When measuring the fair value of the Energous warrants, the most significant unobservable 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 108.99% incorporated in the valuation of the first tranche of Energous warrants that expire in November 2019 and that of 114.93% 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 June 2019 would have been US\$117 higher at US\$438 or US\$99 lower at US\$222, 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).

b) Financial instruments not carried at fair value

We have calculated the fair value of the non-interest bearing prepayment from Apple by discounting the future scheduled recoupments based upon the observable yield curve at the balance sheet date for US dollar-denominated debt with an equivalent risk profile (Level 2).

We have calculated the fair value of lease liabilities by discounting the future lease payments at incremental borrowing rates based on observable yield curves at the balance sheet date and, where the lease payments are denominated in a foreign currency, by translating the resulting present values into US dollars using the relevant currency exchange rate at the balance sheet date (Level 2).

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

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15. 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 H1 2019 were as follows:

	Options	Weighted average exercise price €
Outstanding at the beginning of the period	5,472,635	0.65
Granted	944,623	0.08
Exercised	(724,781)	3.04
Forfeited	(764,310)	0.12
Outstanding at the end of the period	4,928,167	0.27
Options exercisable at the end of the period	964,400	1.01

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 June 2019, the trusts held 1,882,478 ordinary shares (as at 31 December 2018: 2,607,259 ordinary shares).

Movements in the number of shares held by the trusts during H1 2019 were as follows:

	Number of shares	Cost US\$000
At the beginning of the period	2,607,259	22,514
Sale or transfer of shares	(724,781)	(94)
At the end of the period	1,882,478	22,420

16. 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
Six months ended 28 June 2019						
As at 31 December 2018	571	(4,304)	(14,927)	(4,759)	–	(23,419)
Other comprehensive income/(loss):						
– Currency translation differences on foreign operations	–	1,793	–	–	–	1,793
– Fair value loss on equity investments	–	–	(2,470)	–	–	(2,470)
– Cash flow hedges:						
Fair value loss recognised on effective hedges	–	–	–	(2,606)	–	(2,606)
Fair value loss transferred to profit or loss	–	–	–	6,439	–	6,439
– Income tax expense	–	(37)	–	(728)	–	(765)
Other changes in equity:						
– Purchase of own shares into treasury	–	–	–	–	(112,109)	(112,109)
As at 28 June 2019	571	(2,548)	(17,397)	(1,654)	(112,109)	(133,137)

Six months ended 29 June 2018

As at 31 December 2017	571	(3,699)	7,822	5,283	–	9,977
Other comprehensive loss:						
– Currency translation differences on foreign operations	–	(189)	–	–	–	(189)
– Fair value loss on equity investments	–	–	(8,055)	–	–	(8,055)
– Cash flow hedges:						
Fair value loss recognised on effective hedges	–	–	–	(4,428)	–	(4,428)
Fair value gain transferred to profit or loss	–	–	–	(6,963)	–	(6,963)
– Income tax (expense)/credit	–	(62)	1,015	2,181	–	3,134
As at 29 June 2018	571	(3,950)	782	(3,927)	–	(6,524)

17. Share buyback programme

We initiated our share buyback programme in May 2016.

By the end of H1 2019, the Company had purchased 8,425,668 of its own ordinary shares at a total cost of US\$298,631 (including transaction costs of US\$2,507), of which 4,483,816 shares had been cancelled and 3,941,852 shares were held in treasury.

Shares purchased during the period

At the Company's 2018 AGM, the Directors were granted an authority to purchase up to 7,638,214 of the Company's ordinary shares. On 6 November 2018, the Company announced the sole tranche of the share buyback programme pursuant to the 2018 AGM authority under which it committed to purchase shares with a minimum cost of €100.0 million and a maximum cost of €150.0 million.

On inception of this tranche, we recognised a liability and a corresponding debit to retained earnings of €150.0 million (US\$171,173) in respect of the maximum obligation to purchase shares. We also debited transaction costs incurred of US\$14 to retained earnings.

We completed the first and final settlement of this tranche on 31 May 2019. We purchased 3,941,852 shares under this tranche at a cost of €100.0 million (US\$111,470) and incurred transaction costs amounting to US\$639. On conclusion of the tranche, we credited back to retained earnings the remainder of the obligation to purchase shares initially recognised of US\$55,847 and showed a debit to retained earnings of US\$2,645, which mirrored the gain recognised in profit or loss since inception of the tranche on the translation into US dollars of the Euro-denominated liability that existed in relation to the shares that were purchased during the period.

First tranche pursuant to the 2019 AGM authority

At the Company's 2019 AGM, the Directors were granted a new authority to purchase up to 11,457,321 of the Company's ordinary shares, representing approximately 15% of the issued ordinary share capital of the Company as at 27 March 2019. Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2020, whichever is the earlier.

Purchases made under the share buyback programme are off-market and are effected by way of contingent forward purchase contracts entered into with brokers. Barclays, Goldman Sachs, HSBC or Merrill Lynch may be appointed as brokers for purchases under the 2019 AGM authority.

On 5 June 2019, we announced details of the first tranche of the share purchases pursuant to the 2019 AGM authority under which the Company committed to purchase shares with a minimum cost of €125.0 million and a maximum cost of €150.0 million. On initiation of this tranche, we recognised a liability and a corresponding debit to retained earnings of €150.0 million (US\$168,915) in respect of the maximum obligation to purchase shares.

We have not yet been required by the appointed broker to make an intermediate settlement in relation to this tranche, under which the broker may continue to purchase shares until 5 December 2019.

We hedge the currency translation exposure on outstanding liabilities to purchase shares using currency forwards and swaps. After taking into account hedging, we recognised a net currency translation loss of US\$1,524 in profit or loss in relation to liabilities to purchase shares outstanding during H1 2019.

Notes to the condensed consolidated financial statements continued

18. Adoption of IFRS 16

Background

We adopted IFRS 16 *Leases* with effect from 1 January 2019. IFRS 16 replaced IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease* and other related interpretations. IFRS 16 changes the way in which lessees recognise, measure, present and disclose leases.

Under IAS 17, a lessee accounted for leases differently according to whether they were classified as a finance lease or an operating lease. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise a right-of-use asset and a lease liability for all leases, except, by election, those with a short lease term and/or involving an underlying asset of low value.

Previous accounting for leases under IAS 17

Under IAS 17, leases that confer rights and obligations similar to those that attach to owned assets were classified as finance leases. All other leases were classified as operating leases.

Assets held under finance leases were recognised as assets within property, plant and equipment, initially measured at the fair value of the leased asset or, if lower, the present value of the minimum lease payments, and a corresponding liability was recognised. Subsequently, the assets were depreciated over the shorter of the expected useful life of the asset or the term of the lease. At inception of the lease, the lease payments were apportioned between a capital element and an interest element so as to achieve a constant periodic rate of interest on the outstanding liability. Subsequently, the interest element was recognised as an expense in profit or loss while the capital element was applied to reduce the outstanding liability.

Operating lease payments, net of any incentives receivable, were recognised in profit or loss on a straight-line basis over the term of the lease.

New accounting for leases under IFRS 16

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control exists if, throughout the period of use, the lessee has the right to obtain substantially all of the benefits from the use of the asset and the right to direct the use of the asset.

Right-of-use asset

On the commencement date of a lease, the lessee recognises a right-of-use asset which comprises the amount of the initial measurement of the lease liability, and, where applicable, lease payments made at or before the commencement date, less any lease incentives received, initial direct costs incurred by the lessee and an estimate of any costs to be incurred by the lessee in restoring or removing the underlying asset, unless those costs are incurred to produce inventories.

After the commencement date, the right-of-use asset is measured at cost less accumulated depreciation and any accumulated impairment losses and is adjusted for any remeasurement of the lease liability.

Right-of-use assets are depreciated so as to charge their cost to profit or loss (in arriving at operating profit), usually over the period from the commencement date to the end of the lease term.

Lease liability

On the commencement date of a lease, the lessee recognises a lease liability measured at the present value of the future lease payments discounted using the interest rate implicit in the lease, if that rate can be readily determined, or using the lessee's incremental borrowing rate. Lease payments comprise fixed payments, less any lease incentives receivable, variable payments that depend on an index or rate and, where applicable, any amounts expected to be paid by the lessee under a residual value guarantee, purchase option or by way of termination penalties.

Variable lease payments that do not depend on an index or rate are recognised in profit or loss in the period in which the event that triggers those payments occurs.

After the commencement date, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect lease payments made and remeasuring the carrying amount to reflect certain changes in the lease payments or lease modifications.

Interest accrued on the lease liability in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability and is recognised in profit or loss (within interest expense).

Short-term leases and leases of low value assets

As permitted by IFRS 16, we have elected not to recognise right-of-use assets and lease liabilities in respect of short-term leases (leases that have a lease term of 12 months or less) and/or leases involving an underlying asset of low value (an asset with a value when new of less than US\$5,000 or foreign currency equivalent).

We recognise the lease payments for those leases as an expense in profit or loss (in arriving at operating profit) on a straight-line basis over the lease term.

18. Adoption of IFRS 16 continued

Transition to IFRS 16

As permitted by IFRS 16, we did not reassess whether any contract existing on the transition date was, or contained, a lease and applied IFRS 16 only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

We applied IFRS 16 using a modified retrospective approach whereby prior periods were not restated but we recognised cumulative effect adjustments to the opening consolidated balance sheet on 1 January 2019.

We recognised the following for each contract that is, or contains, a lease on the transition date:

- a lease liability measured at the present value of the remaining lease payments discounted at the lessee's incremental borrowing rate on the transition date; and
- a right-of-use asset measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments that was recognised as at 31 December 2018.

We also recognised related adjustments to deferred tax assets and liabilities.

We recognised an overall cumulative effect credit of US\$40 against the opening balance of retained earnings on 1 January 2019 that may be analysed as follows:

	US\$000
Right of use asset	66,390
Lease liability	(67,631)
Net accrued lease payments	1,241
	–
Income taxes	40
Increase in net assets	40

Financial effect of adopting IFRS 16

We summarise in the following tables the effect of adopting IFRS 16 on the consolidated statement of income for the three- and six-month periods ended 28 June 2019 and on the consolidated balance sheet as at 28 June 2019.

Consolidated statement of income for the three- and six-month periods ended 28 June 2019

	Three months ended 28 June 2019			Six months ended 28 June 2019		
	As reported under IFRS 16 US\$000	Adjustment for effect of IFRS 16 US\$000	Amounts under IAS 17 US\$000	As reported under IFRS 16 US\$000	Adjustment for effect of IFRS 16 US\$000	Amounts under IAS 17 US\$000
Revenue	481,968	–	481,968	776,854	–	776,854
Cost of sales	(170,210)	(31)	(170,241)	(319,618)	(86)	(319,704)
Gross profit	311,758	(31)	311,727	457,236	(86)	457,150
Operating expenses, net	(123,732)	(302)	(124,034)	(248,584)	(807)	(249,391)
Other operating income	28,936	139	29,075	33,651	139	33,790
Operating profit	216,962	(194)	216,768	242,303	(754)	241,549
Net finance income	1,076	721	1,797	2,035	1,503	3,538
Profit before income taxes	218,038	527	218,565	244,338	749	245,087
Income tax expense	(47,934)	(119)	(48,053)	(55,876)	(112)	(55,988)
Profit after income taxes	170,104	408	170,512	188,462	637	189,099
Net income	170,104	408	170,512	188,462	637	189,099
Earnings per share (US\$)						
Basic	2.33	–	2.33	2.56	0.01	2.57
Diluted	2.20	0.01	2.21	2.42	0.01	2.43

Notes to the condensed consolidated financial statements continued

18. Adoption of IFRS 16 continued

Consolidated balance sheet as at 28 June 2019

	As reported under IFRS 16 US\$000	Adjustment for effect of IFRS 16 US\$000	Amounts under IAS 17 US\$000
Assets			
Other current assets	24,175	250	24,425
Total current assets	1,449,270	250	1,449,520
Property, plant and equipment – leased	56,623	(56,623)	–
Deferred tax assets	7,114	(136)	6,978
Total non-current assets	822,798	(56,759)	766,039
Total assets	2,272,068	(56,509)	2,215,559
Liabilities and equity			
Lease liabilities	11,931	(11,931)	–
Total current liabilities	598,231	(11,931)	586,300
Lease liabilities	46,291	(46,291)	–
Other non-current liabilities	107,828	1,202	109,030
Total non-current liabilities	268,078	(45,089)	222,989
Retained earnings	1,143,452	535	1,143,987
Other reserves	(133,137)	(24)	(133,161)
Total equity	1,405,759	511	1,406,270
Total liabilities and equity	2,272,068	(56,509)	2,215,559

Six months ended 29 June 2018

US\$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Corporate transaction costs	Effective interest	Strategic investments	Underlying basis
Revenue	627,819	–	–	–	–	–	–	627,819
Cost of sales	(332,195)	1,148	2,794	13	–	–	–	(328,240)
Gross profit	295,624	1,148	2,794	13	–	–	–	299,579
<i>Gross margin %</i>	47.1%							47.7%
SG&A expenses	(78,493)	7,922	7,353	922	773	–	–	(61,523)
R&D expenses	(159,178)	10,024	4,601	228	–	–	–	(144,325)
Other operating income	1,157	–	(364)	–	–	–	–	793
Operating profit	59,110	19,094	14,384	1,163	773	–	–	94,524
<i>Operating margin %</i>	9.4%							15.1%
Net finance (expense)/income	(2,541)	–	1,171	–	–	50	4,256	2,936
Profit before income taxes	56,569	19,094	15,555	1,163	773	50	4,256	97,460
Income tax expense	(20,328)	1,958	(1,986)	(245)	(83)	(9)	206	(20,487)
Profit after income taxes	36,241	21,052	13,569	918	690	41	4,462	76,973
Share of loss of associate	(749)	–	–	–	–	–	–	(749)
Net income	35,492	21,052	13,569	918	690	41	4,462	76,224
EBITDA	n/a							123,171
<i>EBITDA margin %</i>	n/a							19.6%

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	Q2 2019	Q2 2018	H1 2019	H1 2018
Acquisition-related costs	777	–	1,675	–
Amortisation of acquired intangible assets	6,103	5,657	11,760	11,314
Consumption of the fair value uplift of acquired inventory	403	406	403	2,794
Consideration accounted for as compensation expense	305	350	625	804
Forfeiture of deferred consideration	(14)	(36)	(98)	(163)
Remeasurement of contingent consideration	–	(523)	–	(365)
Increase in operating profit	7,574	5,854	14,365	14,384
Unwinding of discount on contingent consideration	–	460	315	1,171
Increase in profit before income taxes	7,574	6,314	14,680	15,555
Income tax credit	(894)	(784)	(1,668)	(1,986)
Increase in net income	6,680	5,530	13,012	13,569

(ii) Underlying earnings per share

Earnings for calculating underlying EPS measures were as follows:

US\$000	Q2 2019	Q2 2018	H1 2019	H1 2018
Underlying measures				
Net income	66,675	35,300	104,954	76,224
Earnings for calculating basic and diluted EPS	66,675	35,300	104,954	76,224

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	Q2 2019	Q2 2018	H1 2019	H1 2018
Weighted average number of ordinary shares				
Basic	73,039,470	73,874,406	73,494,287	73,790,686
Diluted	77,277,271	77,940,664	77,956,682	77,970,352

Underlying earnings per share measures were therefore as follows:

US\$	Q2 2019	Q2 2018	H1 2019	H1 2018
Underlying earnings per share				
Basic	0.91	0.48	1.43	1.03
Diluted	0.86	0.45	1.35	0.98

Financial performance measures continued

(iii) Underlying EBITDA

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

US\$000	Q2 2019	Q2 2018	H1 2019	H1 2018
Net income	170,104	18,056	188,462	35,492
Net finance (income)/expense	(1,076)	(1,897)	(2,035)	2,541
Income tax expense	47,934	9,691	55,876	20,328
Depreciation expense	10,317	8,043	20,483	15,936
Amortisation expense	12,637	12,239	24,353	24,025
EBITDA	239,916	46,132	287,139	98,322
Licence and asset transfers to Apple	(161,648)	–	(161,648)	–
Share-based compensation and related payroll taxes	11,501	8,746	23,387	19,094
Acquisition-related costs	777	–	1,675	–
Consumption of the fair value uplift of acquired inventory	403	406	403	2,794
Consideration accounted for as compensation expense	305	350	625	804
Forfeiture of deferred consideration	(14)	(36)	(98)	(163)
Remeasurement of contingent consideration	–	(523)	–	(365)
Corporate transaction costs	7,611	773	10,659	773
Integration costs	111	474	196	1,163
Share of loss of associate	–	377	–	749
Underlying EBITDA	98,962	56,699	162,338	123,171

Free cash flow

Free cash flow was calculated as follows:

US\$000	Q2 2019	Q2 2018	H1 2019	H1 2018
Cash flow from operating activities	300,129	55,638	341,701	105,287
Purchase of property, plant and equipment	(2,024)	(7,729)	(6,985)	(16,783)
Purchase of intangible assets	(1,063)	(1,462)	(2,187)	(3,238)
Payments for capitalised development costs	(4,014)	(9,100)	(8,571)	(15,219)
Capital element of lease payments	(2,759)	(832)	(5,681)	(1,650)
Free cash flow	290,269	36,515	318,277	68,397



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