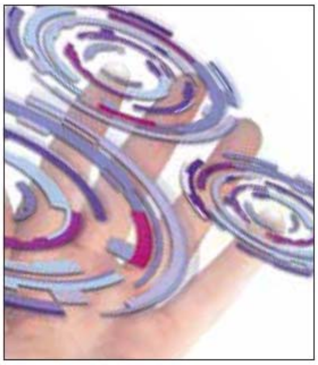
Mobile life, smart connections

Interim Report for the three months ended 1 April 2016

Key products

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Press Release – 4 May 2016

DIALOG SEMICONDUCTOR REPORTS FIRST QUARTER RESULTS ENDED 1 APRIL 2016

Company delivers first quarter revenue at the high-end of guidance

London, UK, 4 May 2016 - Dialog Semiconductor plc (FWB: DLG), a provider of highly integrated power management, AC/DC power conversion, solid state lighting and Bluetooth® Smart wireless technology, today reports results for the quarter ended 1 April 2016.

Q1 2016 financial highlights

- Revenue of $241.4 million, at the high-end of guidance
- Power Conversion revenue up 28% over Q1 2015 to $24.0 million
- Gross margin at 44.6%. Underlying gross margin at 45.5%, in line with guidance
- $137.3 million Atmel termination fee in other operating income
- Adjusted EBITDA (**) up 142% over Q1 2015 to $165.9 million or 69% of revenue. Underlying (*) adjusted EBITDA (**) down 49% over Q1 2015 to $41.0 million or 17% of revenue
- Operating profit up 172% over Q1 2015 to $151.2 million or 63% of revenue
- Basic and diluted EPS up 232% and 240% respectively over Q1 2015. Underlying (*) basic and diluted EPS down 64% and 61% respectively over Q1 2015
- $662 million of cash and cash equivalents

Q1 2016 operational highlights

- Continued design win momentum for Power Management with custom and standard products at leading smartphone and tablet OEMs
- Strengthened our leadership position in the mobile adapter rapid charge market
- LED Solid State Lighting portfolio expansion with new products launched
- New design wins for our Bluetooth® Smart SoC for watches, fitness bands and gaming
- Good momentum in China smartphone market with sub-PMIC ASSP through platform integration with MediaTek

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

"We have made encouraging progress at the start of 2016 in the context of the expected softening of the smartphone market, achieving revenue performance at the top end of our guidance range. I am particularly pleased with Power Conversion's strong progress, where we continue to build on our leadership position in the smartphone fast charging market.

Underpinning our mid-term organic growth opportunity, we have an increasing number of custom-designed (ASIC) opportunities for our core technologies with a variety of Tier 1 customers. In support of these opportunities, we are making focused investments in research and development and are expanding our technology portfolio for emerging high volume product areas. These investments will strengthen our competitive position, broaden our customer base and underpin our expectation of return to revenue growth in 2017 and beyond."

Outlook

Based on our current visibility, we anticipate revenue for Q2 2016 to improve sequentially from Q1 2016 and to be in the range of $240 to $260 million. On the basis of this revenue guidance, gross margin in Q2 2016 will be flat to marginally above Q1 2016.

In line with historic seasonality, we expect revenue performance for the full year to be strongly weighted towards the second half of the year. However, as a result of the continuing softness in smartphone market demand, we now anticipate revenue for the full year 2016 to decline high single digit percentage year-on-year. We expect growth momentum in our Connectivity and Power Conversion products to remain strong through 2016.

In line with the revenue performance, we expect underlying gross margin percentage for the full year to be slightly below the level achieved in 2015. The effect of the lower anticipated revenue in FY 2016 will be partially offset by rigorous control of operating expenses in the period.

Financial overview

IFRS	First Quarter		
US$ million	**2016**	2015	Var.
Revenue	**241.4**	311.2	-22%
Gross Margin	**44.6%**	46.0%	-140bps
R&D % (1)	**23.8%**	17.3%	+650bps
SG&A % (1)	**15.1%**	11.0%	+410bps
Other operating income % (2)	**56.9%**	-	nm
Operating profit	**151.2**	55.6	+172%
Operating margin	**62.6%**	17.9%	nm
Net income	**142.9**	38.8	+268%
Basic EPS $	**1.89**	0.57	+232%
Diluted EPS $	**1.80**	0.53	+240%
Cash flow from operating activities	**107.1**	119.6	-10%

Underlying	First Quarter		
US$ million	**2016**	2015	Var.
Revenue	**241.4**	311.2	-22%
Gross Margin	**45.5%**	46.6%	-110bps
R&D % (1)	**22.3%**	16.0%	+630bps
SG&A % (1)	**10.9%**	8.0%	+290bps
Adjusted EBITDA	**41.0**	80.2	-49%
Adjusted EBITDA %	**17.0%**	25.8%	-880bps
Operating profit	**29.9**	71.0	-58%
Operating margin	**12.4%**	22.8%	nm
Net income	**21.6**	55.5	-61%
Basic EPS $	**0.29**	0.81	-64%
Diluted EPS $	**0.28**	0.71	-61%

(1) R&D and SG&A as a percentage of revenue.

(2) Other operating income includes $137.3 million Atmel termination fee.

Revenue in Q1 2016 was down 22% to $241 million. The revenue performance was the result of the year-on-year revenue decline in Mobile Systems (-26%), Connectivity (-25%) and Automotive & Industrial (-32%), partially offset by 28% growth in Power Conversion.

Q1 2016 Underlying gross margin was 45.5%, 40bps below Q4 2015, in line with our March guidance. The anticipated decline was driven by the lower revenue in the quarter and the subsequent higher allocation per unit of the fixed component of Cost of Goods Sold.

Underlying (*) net OPEX (comprising SG&A and R&D expenses, and other operating income) in Q1 2016 was $80.0 million, or 33.1% of revenue. On a trailing twelve month basis, underlying net OPEX in Q1 2016 was 24.9% of revenue (Q1 2015: 24.4%).

On an underlying (*) basis, R&D expense was up 6.7% from Q4 2015. As a percentage of revenue, underlying R&D in Q1 2016 was up 630bps to 22.3% (Q1 2015: 16.0 %). This increase was predominantly the result of the lower revenue in Q1 2016 and the on-going investment in large customer opportunities. On a trailing twelve month basis, underlying R&D was 16.8% of revenue, broadly flat on Q1 2015 (Q1 2015: 16.7%).

Underlying (*) SG&A in Q1 2016 was 10.9% of revenue, 290bps above Q1 2015. This increase was predominantly due to the lower revenue in Q1 2016.

Other operating items include $137.3 million termination fee received upon termination of the merger agreement with Atmel.

In Q1 2016 we achieved IFRS and underlying (*) operating profit of $151.2 million and $29.9 million, respectively. Underlying operating profit in the quarter was down 58% over Q1 2015. This decrease was mainly the result of the year-on-year revenue decline and higher R&D expenses.

The underlying effective tax rate in Q1 2016 was 22%, 80bps lower than the Q1 2015 rate. The Company has obtained advice that the $137.3 million termination fee received upon the termination of the merger agreement with Atmel should not be taxable in the UK. The resulting IFRS effective tax rate in Q1 2016 was 2.7%.

In Q1 2016, underlying (*) net income decreased 61% over Q1 2015. Underlying diluted EPS in Q1 2016 was 61% lower than in the same quarter of 2015.

As indicated in March, at the end of Q1 2016, our total inventory level was up $18 million over the prior quarter to $153 million (or ~103 days), representing a 47 day increase in our days of inventory over the prior quarter. The increase in the inventory value was mostly due to the increase in raw materials in anticipation of a number of product launches starting in Q2 2016. During Q2 2016, we expect inventory value and inventory days to decrease from Q1 2016 as we serve our customers backlog.

At the end of Q1 2016, we had cash and cash equivalents balance of $662 million. In the first quarter we generated $110 million (Q1 2015: $98 million) of free cash flow (***).

(*) Underlying adjustments $000

Q1 2016	**IFRS**	Share-based comp. and related payroll taxes	Amortisation of acquired intangible assets	Aborted merger with Atmel	Effective interest	**Underlying**
Revenue	**241,408**	-	-	-	-	**241,408**
Gross profit	**107,661**	519	1,751	-	-	**109,931**
SG&A exp.	**(36,430)**	4,513	1,900	3,606	-	**(26,411)**
R&D exp.	**(57,524)**	3,743	-	-	-	**(53,781)**
Other op. income	**137,478**	-	-	(137,300)	-	**178**
Operating profit	**151,185**	8,775	3,651	(133,694)	-	**29,917**
Net finance exp.	**(4,279)**	-	-	1,913	153	**(2,213)**
Income tax exp.	**(4,015)**	(1,451)	(215)	(383)	(31)	**(6,095)**
Net income	**142,891**	7,324	3,436	(132,164)	122	**21,609**
Adjusted EBITDA	**165,931**	8,775	-	(133,694)	-	**41,012**

(**) Adjusted EBITDA in Q1 2016 is defined as net income excluding income tax expense (Q1 2016: US$4.0 million, Q1 2015: US$15.5 million), depreciation for property, plant and equipment (Q1 2016: US$6.4 million, Q1 2015: US$5.3 million), amortisation of intangible assets (Q1 2016: US$8.0 million, Q1 2015: US$7.5 million), losses on disposals and impairment of fixed assets (Q1 2016: US$0.3 million, Q1 2015: US$0.1 million) and excluding interest and foreign exchange movements (Q1 2016: US$4.3 million, Q1 2015: US$1.4 million).

(***) Free Cash Flow in Q1 2016 is defined as net income of US$142.9 million (Q1 2015: US$38.8 million), plus amortisation and depreciation (Q1 2016: US$14.5 million, Q1 2015: US$12.8 million), plus net interest expense (Q1 2016: US$1.6 million, Q1 2015: US$2.9 million), plus change in working capital (Q1 2016: (US$35.2 million), Q1 2015: US$57.8 million) and minus capital expenditure (Q1 2016: US$13.9 million, Q1 2015: US$14.3 million).

Operational overview

Our proven success with leading smartphone customers for custom power management IC's (PMICs) continued through Q1 2016 with new design wins.

During the quarter, we brought power conversion innovation into the market and strengthened our leadership position in the mobile adapter rapid charge market. Working closely with Qualcomm, and their Quick Charge™ standard, we have developed a new benchmark for system efficiency, performance, size and cost. The new chipset started volume production and is allowing our leading smartphone customers to upgrade quickly to this latest rapid charge specification. It builds upon Dialog's estimated 70% market share of the rapid charging adapter market for smartphones, tablets and other mobile devices.

Our growing range of Bluetooth® Smart products made progress in capturing the high-growth opportunity within IoT. SmartBond™ market-leading power efficiency and performance secured another major design win in the fast-growing wearables market with the Misfit Shine 2, a powerful new wearable device in Misfit's fitness tracking offering. Misfit merged with Fossil Group, a global design, marketing, and distribution company specializing in consumer lifestyle and fashion accessories in December 2015. According to analyst IHS, the market for wearables will be worth $32 billion by 2019[1] when 230 million of them will be sold.

The Bluetooth® Smart segment continues to gain traction in a number of growing market segments including smart watches and fitness bands, smart home applications, advanced TV remote controls and wireless gaming accessories.

As part of the on-going initiatives to expand our business footprint in Asia, our sub-PMIC partnership with MediaTek performed well during the quarter. In Q2 2016, the next generation sub-PMIC has started shipping to end customers who entered production status with their MediaTek based SoC solutions.

The expansion into the smart TV and set-top box (STB) market continues to gather momentum with a number of leading customers evaluating our recently released integrated power management IC (PMIC) for volume production in Q4 2016 and Q1 2017.

Additionally, we have an increasing number of application-specific IC (ASIC) and application-specific standard products (ASSP) opportunities for our core power, charging and audio technologies with multiple Tier 1 customers. These opportunities will support revenue growth in 2017 across a number of high-volume markets, such as computing systems, USB headsets and mid-market smartphones and phablets.

Innovation was also brought into the LED segment with two new driver controllers for high power commercial LED lighting applications up to 90W. In these applications flicker-free operation is essential to avoid eye stress, particularly where there is long-term exposure to the light source. Dialog patented Flickerless™ technology virtually eliminates flicker through digital control that achieves near-zero line frequency ripple. The iW3629 (non-dimmable) and iW3631 (dimmable) digital power controllers simplify the design of LED power supplies by replacing up to 45 discrete components.

[1] *IHS Technology: A Guide to the $32bn Wearables Market, estimated market size in 2019*

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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 Q1 2016 performance, as well as guidance for Q2 2016. Participants will need to register using the link below labelled 'Online Registration'. 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:

http://members.meetingzone.com/selfregistration/registration.aspx?booking=Rf1xrNlsiHW9N8QpnZPlhEsGIVFBE167GRbJqqzBcUk=&b=d58ae4ab-80e5-47f2-8295-e04d92bbba83

In parallel to the call, the analyst presentation will be webcasted on our website at
http://webcast.openbriefing.com/semiconductor_q1_results_040516/

A replay will be posted on the Dialog website four hours after the conclusion of the presentation and will be available at http://www.dialog-semiconductor.com/investor-relations

Full release including the Company's condensed consolidated income statement, consolidated balance sheet, consolidated statements of cash flows and selected notes for the quarter ended 1 April 2016 is available under the investor relations section of the Company's website at:
http://www.dialog-semiconductor.com/investor-relations

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Note to editors

Dialog Semiconductor 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® Smart, Rapid Charge™ AC/DC power conversion and multi-touch.

Dialog Semiconductor plc is headquartered in London with a global sales, R&D and marketing organisation. In 2015, it had $1.35 billion in revenue and was one of the fastest growing European public semiconductor companies. It currently has approximately 1,660 employees worldwide. The company is listed on the Frankfurt (FWB: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index.

Forward Looking Statements

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

Financial Review

Results of Operations
Q1 2016 compared with Q1 2015
Summary of segment results

	Revenue			Operating profit/(loss)	
US$ million	**Q1 2016**	Q1 2015	Change	**Q1 2016**	Q1 2015
Mobile Systems	**187.8**	254.6	-26%	**39.8**	74.1
Automotive & Industrial	**7.1**	10.4	-32%	**2.7**	2.9
Connectivity	**20.6**	27.4	-25%	**(3.4)**	1.2
Power Conversion	**24.0**	18.8	+28%	**(6.3)**	(6.0)
Corporate	**1.9**	-	>100%	**118.4**	(16.6)
Total	**241.4**	311.2	-22%	**151.2**	55.6

Mobile Systems segment revenue was $187.8 million in Q1 2016 compared with $254.6 million in Q1 2015, a decrease of 26%. Revenue declined principally due to reduced demand for our PMICs. Mobile Systems represented 77.8% of our revenue in Q1 2016 (Q1 2015: 81.8%).

Mobile Systems operating profit declined by 46% to $39.8 million in Q1 2016 (Q1 2015: $74.1 million). Operating profit declined in response to the reduction in revenue but also reflected the increase in our R&D activities compared with Q1 2015. Operating margin declined to 21.2% (Q1 2015: 29.1%), principally reflecting the lower absorption of fixed costs.

Mobile Systems underlying operating profit excludes payroll taxes of $1.2 million (Q1 2015: $2.5 million) arising on share-based compensation of its employees. Underlying operating profit declined by 46% to $41.0 million in Q1 2016 compared with $76.6 million in Q1 2015. Underlying operating margin was also lower at 21.8% in Q1 2016 (Q1 2015: 30.1%).

Automotive and Industrial segment revenue was $7.1 million in Q1 2016 compared with $10.4 million in Q1 2015, a decrease of 32%. Revenue declined primarily because of reduced demand for traditional industrial lighting and some automotive applications. Automotive & Industrial represented 3.0% of our revenue in Q1 2016 (Q1 2015: 3.4%).

Automotive & Industrial's operating profit declined by 7% to $2.7 million (Q1 2015: $2.9 million) largely due to the reduction in revenue but its operating margin increased to 38.0% (Q1 2015: 27.9%) reflecting our tight control over costs and more selective investment in R&D projects.

Automotive & Industrial's underlying operating profit excludes payroll taxes of $0.1 million (Q1 2015: $0.2 million) arising on share-based compensation of its employees. Underlying operating profit declined by 10% to $2.8 million in Q1 2016 compared with $3.1 million in Q1 2015. Underlying operating margin was higher at 39.4% in Q1 2016 (Q1 2015: 29.8%).

Connectivity segment revenue was $20.6 million in Q1 2016 compared with $27.4 million in Q1 2015, a decrease of 25%. Revenue declined principally due to the expected decline in the legacy (DECT) business, though this was partially offset by growth in Bluetooth ® Smart. Connectivity represented 8.5% of our revenue in Q1 2016 (Q1 2015: 8.8%).

Connectivity incurred an operating loss of $3.4 million in Q1 2016 compared with an operating profit of $1.2 million in Q1 2015, the deterioration due largely to the reduction in sales volumes.

Connectivity's underlying operating result excludes payroll taxes of $0.2 million (Q1 2015: $0.2 million) arising on share-based compensation of its employees and, in Q1 2015, the additional amortisation expense of $0.3 million that arose from the recognition at fair value of identifiable intangible assets acquired with Sitel BV in 2011. Connectivity incurred an underlying operating loss of $3.2 million in Q1 2016 compared with an underlying operating profit of $1.7 million in Q1 2015. Underlying operating margin was (15.5)% in Q1 2016 compared with 6.2% in Q1 2015.

Power Conversion segment revenue increased by 28% to $24.0 million in Q1 2016 compared with $18.8 million in Q1 2015 due to the successful roll out of our Rapid Charge™ solutions with several Asian OEMs. Power Conversion represented 9.9% of our revenue in Q1 2016 (Q1 2015: 6.0%).

Power Conversion's operating loss increased by 5% to $6.3 million in Q1 2016 (Q1 2015: loss of $6.0 million), largely due to our increased investment in R&D and manufacturing support activities in the second half of 2015 and higher inventory provisions in Q1 2016. Operating margin improved to (26.2)% in Q1 2016 compared with (31.9)% in Q1 2015.

Power Conversion's underlying operating loss excludes payroll taxes of $0.2 million (Q1 2015: $0.4 million) arising on share-based compensation of its employees, the additional amortisation expense of $3.4 million (Q1 2015: $3.4 million) that arose from the recognition at fair value of identifiable intangible assets acquired with iWatt in 2013 and, in Q1 2015, further costs of integrating that business of $0.4 million.

Power Conversion's underlying operating loss increased to $2.7 million in Q1 2016 compared with a loss of $1.8 million in Q1 2015. Underlying operating margin worsened to (11.3)% in Q1 2016 (Q1 2015: (9.6)%).

Underlying measures quoted in this Financial Review are non-IFRS measures. Reconciliations of the underlying measures to the nearest equivalent IFRS measures are presented in Section 3 of the Q1 2016 Interim Report.

Corporate activities include emerging market businesses (principally Dyna Image and those involved in the development of PMICs for TVs and set top boxes). Corporate's revenue of $1.9 million in Q1 2016 (Q1 2015: $nil) was attributable to Dyna Image, in which we invested in June 2015.

Corporate activities also include the costs of operating central corporate functions, and the share-based compensation expense and certain other unallocated costs. In Q1 2016, we recognised within corporate activities the fee of $137.3 million that we received on the termination of the proposed acquisition of Atmel in January 2016. For this reason, corporate activities reported an operating profit of $118.4 million in Q1 2016 compared with an operating loss of $16.6 million in Q1 2015.

Corporate's underlying operating result excludes the share-based compensation expense (which is not allocated to operating segments) of $7.1 million (Q1 2015: $4.5 million), payroll taxes arising on share-based compensation of its employees of $0.1 million (Q1 2015: $0.2 million) and, in Q1 2016, the additional amortisation expense of $0.3 million that arose from the recognition at fair value of identifiable intangible assets acquired with Dyna Image. Additionally, Corporate's underlying operating result excludes the Atmel termination fee of $137.3 million less residual aborted merger costs of $3.6 million and, in Q1 2015, excludes an expense of $3.4 million that arose on the remeasurement of the contingent consideration payable for the acquisition of iWatt (that was settled in May 2015).

Corporate's underlying operating loss was $7.9 million (Q1 2015: loss of $8.6 million), the decrease principally being due to lower business incubation expenses and a reduction in central corporate costs.

Analysis of the Group's results

Revenue was $241.4 million in Q1 2016 compared with $311.2 million in Q1 2015, a decrease of 22%. Revenue declined principally due to reduced demand for our PMICs in Mobile Systems and was largely unaffected by price movements.

Cost of sales was 20% lower at $133.7 million in Q1 2016 compared with $168.0 million in Q1 2015, principally reflecting lower sales volumes.

Gross profit was $107.7 million in Q1 2016 compared with $143.2 million in Q1 2015, a decrease of 25%.

Gross margin declined by 140 basis points to 44.6 % in Q1 2016 (Q1 2015: 46.0%). Gross margin held up reasonably well because improved margins on our more complex products partially offset the lower absorption of fixed costs due to reduced volumes. Reflecting these factors, underlying gross profit was 24% lower at $110.0 million in Q1 2016 (Q1 2015: $145.1 million) and the underlying gross margin declined by 110 basis points to 45.5% (Q1 2015: 46.6%).

Selling, general and administrative expenses (SG&A) totalled $36.4 million in Q1 2016 compared with $34.3 million in Q1 2015, an increase of 6%.

Selling and marketing expenses were unchanged compared with Q1 2015 at $15.4 million. We continued to invest in our sales and marketing efforts in our Connectivity and Power Conversion segments, but maintained tight control over our overall costs.

General and administrative expenses were $21.0 million in Q1 2016 compared with $18.9 million in Q1 2015, an increase of 11% that largely reflected the scaling up of our support functions during 2015.

Underlying SG&A expenses were $26.4 million in Q1 2016 compared with $24.9 million in Q1 2015, an increase of 6%. Underlying adjustments to SG&A expenses were broadly unchanged in Q1 2016 compared with Q1 2015. Underlying SG&A expenses increased as a percentage of revenue to 10.9% in Q1 2016 compared with 8.0% in Q1 2015.

R&D expenses were $57.5 million in Q1 2016 compared with $53.9 million in Q1 2015, an increase of 7%. R&D expenditure was $64.3 million in Q1 2016 (Q1 2015: $59.3 million), of which $5.7 million (Q1 2015: $5.4 million) was capitalised, and we recognised R&D expenditure credits of $1.1 million (Q1 2015: $nil).

Underlying R&D expenses were $53.8 million in Q1 2016 compared with $49.8 million in Q1 2015, an increase of 8%. Underlying adjustments to R&D expenses were broadly unchanged in Q1 2016 compared with Q1 2015. Underlying R&D expenses were 22.3% of revenue in Q1 2016 compared with 16.0% in Q1 2015.

Other operating income was $137.5 million in Q1 2016 compared with $0.6 million in Q1 2015. In Q1 2016, other operating income included the fee of $137.3 million paid to us on the termination of the proposed acquisition of Atmel in January 2016.

Operating profit was $151.2 million in Q1 2016 compared with $55.6 million in Q1 2015. Excluding the Atmel termination fee, operating profit was significantly lower at $13.9 million in Q1 2016 compared with $55.6 million in Q1 2015, principally due to the overall decline in sales volumes and the consequent reduction in gross profit by $35.5 million.

Underlying operating profit was also significantly lower at $29.9 million in Q1 2016 compared with $70.9 million in Q1 2015 and the underlying operating margin was 12.4% in Q1 2016 compared with 22.8% in Q1 2015.

Interest income increased to $0.8 million in Q1 2016 compared with $0.1 million in Q1 2015, reflecting an increase in market interest rates and higher cash balances.

Interest expense was $2.3 million in Q1 2016 compared with $3.1 million in Q1 2015. Although interest expense was reduced by $2.6 million in Q1 2016 as a result of the conversion of our $201 million Convertible Bonds in April 2015, this benefit was partially offset by commitment fees of $1.9 million that were incurred in relation to the borrowing facility that was arranged to finance the proposed acquisition of Atmel prior to the cancellation of the facility in January 2016.

We incurred interest of $0.4 million (Q1 2015: $0.5 million) in relation to amounts drawn under our receivables financing facilities, and hire purchase arrangements and finance leases.

Foreign currency translation gains (losses), net arise on monetary assets and liabilities that are denominated in currencies other than the functional currencies of the entities by which they are held and was a loss of $2.7 million in Q1 2016 compared with a gain of $1.6 million in Q1 2015.

Income tax expense was $4.0 million in Q1 2016 compared with $15.5 million in Q1 2015, which resulted in an effective tax rate of 2.7% (Q1 2015: 28.5%). Our income tax expense for the first quarter is calculated by applying the expected full year effective tax rate to the profit before tax for the period after adjusting for specific items that distort the rate including, in Q1 2016, the $137.3 million fee received upon the termination of the merger agreement with Atmel. We have obtained advice that the termination fee should not be taxable in the UK. We have therefore concluded that no tax liability should arise and have not recognised a tax expense in relation to the termination fee.

Our underlying income tax expense for Q1 2016 was $6.1 million (Q1 2015: $16.4 million), which resulted in an underlying effective tax rate of 22.0% (Q1 2015: 22.8%). The reduction in our underlying effective tax rate is driven by the ongoing exercise to align the ownership of the Group's Intellectual Property with its commercial structure. As a consequence, we have been able to recognise in full previously unrecognised UK trading loss carry forwards and to benefit from the favourable UK tax regime for technology companies.

Net income was $142.9 million (Q1 2015: $38.8 million), of which a loss of $0.8 million (Q1 2015: $nil) was attributable to the non-controlling interest in Dyna Image. Underlying net income was significantly lower at $21.6 million in Q1 2016 compared with $55.5 million in Q1 2015.

Basic earnings per share were $1.89 (Q1 2015: $0.57) based on the weighted average of 76.1 million shares (Q1 2015: 68.7 million shares) that were in issue during the period. Underlying basic earnings per share were $0.29 (Q1 2015: $0.81), a decline of 64% that principally reflected the reduction in sales in Q1 2016.

Diluted earnings per share were $1.80 (Q1 2015: $0.53). Diluted earnings per share additionally reflect the weighted average number of 3.7 million (Q1 2015: 9.9 million) dilutive employee share options and awards, and in Q1 2015, 6.8 million shares in relation to the $201 million Convertible Bonds that were converted in April 2015. Underlying diluted earnings per share were $0.28 (Q1 2015: $0.71).

Cash flows

Cash and cash equivalents increased by $95.4 million during Q1 2016 (Q1 2015: increased by $96.4 million). Cash flows may be summarised as follows:

US$ millions	**Q1 2016**	Q1 2015
Cash generated from operations	**135.1**	132.4
Interest paid, net	**(1.6)**	(0.1)
Income taxes paid, net	**(26.4)**	(12.7)
Cash flow from operating activities	**107.1**	119.6
Purchase of property, plant and equipment	**(5.7)**	(5.7)
Purchase of intangible assets	**(2.5)**	(3.2)
Capitalised development expenditure	**(5.7)**	(5.4)
Sale/(purchase) of Dialog shares by EBTs, net	**1.9**	(7.9)
Exchange and other movements	**0.3**	(1.0)
Increase in cash and cash equivalents	**95.4**	96.4

Cash flow from operating activities was $107.1 million in Q1 2016 compared with $119.6 million in Q1 2015, but was inflated in Q1 2016 by the receipt of the Atmel termination fee of $137.3 million. Excluding the termination fee, operating activities absorbed cash of $30.2 million in Q1 2016 as the effect on cash flow of our lower operating profit was compounded by a net working capital increase of $35.2 million.

As a fabless business, we commit to purchase inventory from our suppliers in advance in order to satisfy expected demand for our products. During Q1 2016, we built up inventory in relation to new product launches that will take place during Q2 2016. As a result, inventory increased overall by $18.5 million during Q1 2016. Payables were $49.5 million lower at the end of Q1 2016 compared with the end of 2015, principally because of lower overall inventory purchases. At the end of 2015, payables also included $16.7 million of professional fees and other costs payable in relation to the proposed acquisition of Atmel that were settled in Q1 2016. Trade and other receivables were $37.8 million lower at the end of Q1 2016 compared with the end of 2015, the reduction largely reflecting the decline in sales during Q1 2016.

Interest paid was $2.2 million in Q1 2016 compared with $0.2 million in Q1 2015, the increase being principally due to the payment in Q1 2016 of commitment fees on the borrowing facility that was arranged to finance the proposed acquisition of Atmel. Interest received was $0.6 million in Q1 2016 compared with $0.1 million in Q1 2015.

Income taxes paid were $13.7 million higher at $26.4 million in Q1 2016 compared with $12.7 million in Q1 2015. Tax payments comprise payments on account in respect of current year taxable profits and also final payments in respect of earlier years' profits. The increase in income taxes paid largely reflects the increase in our taxable profits in earlier years.

Cash used for investing activities was $13.9 million in Q1 2016 compared with $14.3 million in Q1 2015.

Purchases of property, plant and equipment were unchanged in Q1 2016 compared with Q1 2015 at $5.7 million and principally comprised tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment to support our R&D activities.

Purchases of intangible assets amounted to $2.5 million (Q1 2015: $3.2 million) and principally comprised spending on patent applications, purchased software and licences and software development for internal business applications.

Payments related to capitalised development expenditure amounted to $5.7 million in Q1 2016 compared with $5.4 million in Q1 2015, reflecting the number of products under development whose costs qualify for capitalisation.

Cash flow from (used for) financing activities during Q1 2016 arose only from the receipt by employee benefit trusts of proceeds of $1.9 million on the exercise of share options awarded under employee share schemes. During Q1 2015, the trusts received $6.1 million on the exercise of share options and bought 0.4 million of our shares in the market at a cost of $14.0 million.

Liquidity

At the end of Q1 2016, we had cash and cash equivalents of $662.2 million (end of 2015: $ 566.8 million), which comprised cash at bank and other short-term highly liquid investments with a maturity of three months or less.

We have no committed borrowing facilities, but we utilise receivables financing facilities provided by two institutions. During Q1 2016, the aggregate amount of these facilities was increased from $112.0 million at the end of 2015 to $187.0 million. At the end of Q1 2016, $43.5 million was drawn against the available balance (end of 2015: $40.4 million).

We are confident that the receivables financing facilities together with our significant cash balances and cash generation will be more than sufficient to satisfy our working capital requirements in the near to medium term.

Balance sheet

Non-current assets totalled $490.3 million at the end of Q1 2016, broadly unchanged compared with the end of 2015.

Current assets totalled $878.8 million at the end of Q1 2016 (end of 2015: $797.5 million), an increase of $81.3 million. Cash and cash equivalents increased by $95.4 million to $662.2 million. Other current assets decreased by $14.1 million to $216.6 million, principally due to a decrease of $37.8 million in trade and other receivables to $34.8 million that was partially offset by an increase of $18.5 million in inventories to $153.4 million. Both the lower receivables and the higher inventories reflected prevailing trading conditions.

Current liabilities totalled $176.1 million at the end of Q1 2016 (end of 2015: $253.7 million), a decrease of $77.6 million. Trade and other payables decreased by $49.5 million to $82.0 million due principally to lower inventory purchases and current tax payable was $19.2 million lower at $43.0 million due to the timing of tax payments to the relevant tax authorities.

Non-current liabilities totalled $8.8 million at the end of Q1 2016 (end of 2015: $9.2 million).

Total equity was $1,184.2 million at the end of Q1 2016 (end of 2015: $1,024.9 million), comprised of shareholders' equity of $1,177.2 million (end of 2015: $1,017.1 million) and non-controlling interests in Dyna Image of $7.0 million (end of 2015: $7.8 million). Dialog shares held by employee benefit trusts amounted to $23.4 million at the end of Q1 2016 (end of 2015: $24.6 million).

We monitor our capital by reference to the equity ratio (total equity divided by total assets). Whilst we generally seek to maintain a high capital ratio, we will fund our growth strategy using a mix of equity and debt after giving consideration to prevailing market conditions. At the end of Q1 2016, the equity ratio was 86.5% (end of 2015: 79.6%).

Other Information

Members of the Management and the Board of Directors
Management
Dr Jalal Bagherli, Chief Executive Officer; Andrew Austin, Senior Vice President, Corporate Projects (until 30 April 2016); Vivek Bhan, Senior Vice President, Engineering; Christophe Chene, Senior Vice President, Asia; Mohamed Djadoudi, Senior Vice President, Global Manufacturing Operations and Quality; Wissam Jabre, CFO, Senior Vice President Finance (joined Dialog in April 2016); Udo Kratz, Senior Vice President and General Manager, Mobile Systems Business Group; Davin Lee, Senior Vice President and General Manager Power Conversion Business Group; Sean McGrath, Senior Vice President and General Manager, Connectivity, Automotive and Industrial Business Group; Martin Powell, Senior Vice President, Human Resources; Tom Sandoval, Senior Vice President, Worldwide Sales; Colin Sturt, Senior Vice President, General Counsel; Mark Tyndall, Senior Vice President, Corporate Development and Strategy and General Manager Emerging Products Business Group, Emmanuel Walter, Interim CFO (joined Dialog in July 2015).

Board of Directors
Rich Beyer, Chairman; Dr Jalal Bagherli, Chief Executive Officer; Chris Burke; Alan Campbell; Mike Cannon; Aidan Hughes; Eamonn O'Hare; Russ Shaw.

Going concern
After making enquiries, the Directors have formed a judgement at the time of approving the interim condensed consolidated financial statements that there is a reasonable expectation that the Group has adequate resources to continue for the foreseeable future. At the end of Q1 2016, the Group held $662.2 million of cash and cash equivalents. The Group has no committed borrowing facilities, but it has access to receivables financing facilities totalling $187.0 million. The Group has profitable forecasts and longer-term plans. For these reasons, the Directors have adopted the going concern basis in preparing the interim condensed consolidated financial statements for the three months ended 1 April 2016.

Risks, risk management and opportunities
Risk management, our business risks and opportunities are described in our 2015 Annual Report – Strategic report: Managing risk and uncertainty. Compared with the risks and opportunities presented there, no significant additional opportunities and risks arose for the Company in the first three months of 2016. There are currently no identifiable risks that, individually or collectively, could endanger the continued existence of the Company.

Responsibility statement

We confirm that, to the best of our knowledge, the interim condensed consolidated financial statements 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 three months ended 1 April 2016, 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 financial year.

4 May 2016

Dr Jalal Bagherli	Wissam Jabre
CEO	CFO, Senior Vice President Finance

Independent Review Report to Dialog Semiconductor Plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the quarterly financial report for the three months ended 1 April 2016 which comprises the Interim condensed consolidated statement of income, the Interim condensed consolidated statement of comprehensive income, the Interim condensed consolidated balance sheet, the Interim condensed consolidated statements of cash flows, the Interim condensed consolidated statements of changes in equity and the related notes 1 to 9. We have read the other information contained in the quarterly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of 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 Auditing Practices Board. 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 quarterly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the quarterly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and the disclosure requirements of the German Securities Trading Act (WpHG).

As disclosed in note 2, 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 quarterly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the quarterly financial report for the three months ended 1 April 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and the disclosure requirements of the German Securities Trading Act (WpHG).

Deloitte LLP

Chartered Accountants and Statutory Auditor

Reading, UK

4 May 2016

Unaudited interim condensed consolidated statement of income

For the three months ended 1 April 2016

	Notes	**Three months ended 1 April 2016 US$000**	Three months ended 3 April 2015 US$000
Revenue	3	**241,408**	311,191
Cost of sales		**(133,747)**	(167,982)
Gross profit		**107,661**	143,209
Selling and marketing expenses		**(15,415)**	(15,369)
General and administrative expenses		**(21,015)**	(18,890)
Research and development expenses		**(57,524)**	(53,956)
Other operating income		**137,478**	640
Operating profit	3	**151,185**	55,634
Interest income		**756**	132
Interest expense		**(2,332)**	(3,058)
Other finance (expense)/income		**(2,703)**	1,571
Profit before income taxes	3	**146,906**	54,279
Income tax expense		**(4,015)**	(15,470)
Net income		**142,891**	38,809
Attributable to:			
- Shareholders in the Company		**143,736**	38,809
- Non-controlling interests		**(845)**	–
Net income		**142,891**	38,809

	Q1 2016	Q1 2015
Earnings per share (in US$)		
Basic	**1.89**	0.57
Diluted*)	**1.80**	0.53
Weighted average number of shares (in thousands)		
Basic	**76,148**	68,659
Diluted	**79,831**	78,557

*) Diluted EPS are based on profit attributable to shareholders in the Company. In Q1 2015, the interest expense of the dilutive Convertible bond was added back to the calculation of diluted EPS.

Unaudited interim condensed consolidated statement of comprehensive income

For the three months ended 1 April 2016

	Three months ended 1 April 2016 US$000	Three months ended 3 April 2015 US$000
Net income	**142,891**	38,809
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods		
Currency translation differences on foreign operations	**790**	(993)
Income tax relating to currency translation differences on foreign operations	**26**	(602)
Cash flow hedges	**5,923**	(11,734)
Income tax relating to cash flow hedges	**(1,383)**	3,156
Other comprehensive income (loss) for the year	**5,356**	(10,173)
Total comprehensive income for the year	**148,247**	28,636
Attributable to:		
- Shareholders in the Company	**149,004**	28,636
- Non-controlling interests	**(757)**	–
Total comprehensive income for the year	**148,247**	28,636

Unaudited interim condensed consolidated balance sheet

As at 1 April 2016

	Notes	**At 1 April 2016 US$000**	At 31 December 2015 US$000
Assets			
Cash and cash equivalents		**662,235**	566,809
Trade and other receivables		**34,819**	72,668
Other financial assets		**3,739**	2,086
Inventories	5	**153,441**	134,930
Income tax receivables		**136**	129
Other current assets		**24,458**	20,856
Total current assets		**878,828**	797,478
Goodwill		**251,227**	251,062
Other intangible assets	7	**137,821**	138,604
Property, plant and equipment	6	**67,417**	68,444
Other financial assets		**3,787**	3,758
Income tax receivables		**51**	51
Deferred tax assets		**30,038**	28,454
Total non-current assets		**490,341**	490,373
Total assets		**1,369,169**	1,287,851
Liabilities and equity			
Trade and other payables		**82,031**	131,553
Other financial liabilities		**5,615**	8,245
Provisions		**1,062**	1,861
Income taxes payable		**42,963**	62,181
Other current liabilities		**44,467**	49,884
Total current liabilities		**176,138**	253,724
Other financial liabilities		**4,236**	4,919
Provisions		**2,733**	2,725
Deferred tax liabilities		**1,859**	1,598
Total non-current liabilities		**8,828**	9,242
Ordinary shares		**14,402**	14,402
Additional paid-in capital		**464,412**	463,725
Retained earnings		**724,399**	571,510
Other reserves		**(2,655)**	(7,923)
Dialog shares held by employee benefit trust		**(23,399)**	(24,630)
Equity attributable to shareholders in the Company		**1,177,159**	1,017,084
Non-controlling interests		**7,044**	7,801
Total equity		**1,184,203**	1,024,885
Total liabilities and equity		**1,369,169**	1,287,851

Unaudited interim condensed consolidated statement of cash flows

For the three months ended 1 April 2016

	Three months ended 1 April 2016 US$000	Three months ended 3 April 2015 US$000
Cash flows from operating activities:		
Net income	**142,891**	38,809
Non-cash items within net profit:		
Depreciation of property, plant and equipment	**6,434**	5,324
Amortisation of intangible assets	**8,045**	7,483
Loss on disposals and impairment of fixed assets	**267**	110
Impairment of inventories	**(6)**	1,175
Share-based payments expense	**7,074**	4,463
Interest expense, net	**1,576**	2,926
Income tax expense	**4,015**	15,470
Cash generated from operations before changes in working capital	**170,296**	75,760
Changes in working capital:		
Trade accounts receivable and other receivables	**37,849**	60,454
Inventories	**(18,504)**	(7,071)
Prepaid expenses	**(2,756)**	(1,430)
Trade accounts payable	**(49,531)**	(2,820)
Provisions	**(791)**	3,855
Other assets and liabilities	**(1,486)**	3,652
Cash generated from operations	**135,077**	132,400
Interest paid	**(2,157)**	(194)
Interest received	**551**	129
Income taxes paid	**(26,394)**	(12,770)
Cash flow from operating activities	**107,077**	119,565
Cash flows from investing activities:		
Purchase of property, plant and equipment	**(5,668)**	(5,687)
Purchase of intangible assets	**(2,480)**	(3,232)
Payments for capitalised development costs	**(5,741)**	(5,454)
Change in other long term assets	**25**	100
Cash flow used for investing activities	**(13,864)**	(14,273)
Cash flows from financing activities:		
Purchase of Dialog shares by employee benefit trusts	**-**	(14,032)
Sale of Dialog shares by employee benefit trusts	**1,918**	6,151
Cash flow from (used for) financing activities	**1,918**	(7,881)
Net increase in cash and cash equivalents	**95,131**	97,411
Cash and cash equivalents at beginning of period	**566,809**	324,280
Currency translation differences	**295**	(989)
Cash and cash equivalents at end of period	**662,235**	420,702

Unaudited interim condensed consolidated statement of changes in equity

For the three months ended 1 April 2016

	Ordinary Shares US$000	Additional paid-in capital US$000	Retained earnings US$000	Other reserves Currency translation reserve US$000	Other reserves Hedging reserve US$000	Dialog shares held by employee benefit trusts US$000	Equity attributable to shareholders in the Company US$000	Non-controlling interests US$000	Total US$000
As at 1 January 2015	**13,353**	**274,517**	**366,650**	**(3,007)**	**(12,769)**	**(15,068)**	**623,676**	**–**	**623,676**
Net income	–	–	38,809	–	–	–	38,809	–	38,809
Other comprehensive income (loss)	–	–	–	(1,595)	(8,578)	–	(10,173)	–	(10,173)
Total comprehensive income (loss)	**–**	**–**	**38,809**	**(1,595)**	**(8,578)**	**–**	**28,636**	**–**	**28,636**
Other changes in equity:									
Purchase of Dialog shares by employee benefit trusts	–	–	–	–	–	(14,032)	(14,032)	–	(14,032)
Sale of Dialog shares by employee benefit trusts	–	3,701	–	–	–	2,450	6,151	–	6,151
Share-based payments, net of tax	–	–	12,091	–	–	–	12,091	–	12,091
As at 3 April 2015	**13,353**	**278,218**	**417,550**	**(4,602)**	**(21,347)**	**(26,650)**	**656,522**	**–**	**656,522**
As at 1 January 2016	**14,402**	**463,725**	**571,510**	**(4,480)**	**(3,443)**	**(24,630)**	**1,017,084**	**7,801**	**1,024,885**
Net income	–	–	143,736	–	–	–	143,736	(845)	142,891
Other comprehensive income	–	–	–	728	4,540	–	5,268	88	5,356
Total comprehensive income (loss)	**–**	**–**	**143,736**	**728**	**4,540**	**–**	**149,004**	**(757)**	**148,247**
Other changes in equity:									
Sale of Dialog shares by employee benefit trusts	–	687	–	–	–	1,231	1,918	–	1,918
Share-based payments, net of tax	–	–	9,153	–	–	–	9,153	–	9,153
As at 1 April 2016	**14,402**	**464,412**	**724,399**	**(3,752)**	**1,097**	**(23,399)**	**1,177,159**	**7,044**	**1,184,203**

Unaudited notes to the interim condensed consolidated financial statements

For the three months ended 1 April 2016

1. General

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

Description of Business
Dialog Semiconductor 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® Smart, Rapid Charge™ AC/DC power conversion and multi-touch.

Dialog Semiconductor plc is headquartered in London with a global sales, R&D and marketing organisation. In 2015, it had $1.35 billion in revenue and was one of the fastest growing European publicly quoted semiconductor companies. It currently has approximately 1,660 employees worldwide.

The company is listed on the Frankfurt (FWB: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index.

2. Summary of significant accounting policies

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The accompanying interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

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

The financial information contained in this interim statement does not amount to statutory financial statements within the meaning of section 435 of the Companies Act 2006. The interim financial information contained in this report is unaudited but has been reviewed by Deloitte LLP. The consolidated financial statements for the year ended 31 December 2015, from which information has been extracted, was prepared under IFRSs and has been delivered to the Registrar of Companies. The report of the auditors was unqualified in accordance with sections 495 to 497 of the Companies Act 2006 and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim condensed consolidated financial statements are presented in US dollars ("US$") and all values are rounded to the nearest thousand (US$000) except when otherwise stated. They are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. The accounting policies and methods of computation are consistent with those of the previous financial year.

Changes in accounting policies and disclosures
The accounting policies are consistent with those of the previous financial year.

Accounting standards issued but not adopted
Outlined below are new or amended accounting pronouncements that have been issued by the IASB during the first quarter of 2016 and are relevant to Dialog but had not yet been adopted by Dialog as at 1 April 2016:

IFRS 16 Leases
In January 2016, the IASB issued IFRS 16 Leases, which will change the way that lessees will recognise, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Dialogs Management has not yet completed its evaluation of the financial effect of this pronouncement.

IAS 7 Statement of Cash Flows
In January 2016, the IASB published amendments to IAS 7 Statement of Cash Flows that are intended to improve information provided to users of financial statements about an entity's financing activities. In particular, the amendments require that specific changes in liabilities arising from financial activities are disclosed and suggest that this requirement may be fulfilled by way of a reconciliation of the opening and closing balances of liabilities

2. Summary of significant accounting policies continued

arising from financing activities. The amendments are effective for annual periods beginning on or after 1 January 2017. The amendments will have an effect on the notes to the Statement of Cash Flows of Dialog.

Presentation of the interim condensed consolidated financial statements

The accompanying interim condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) which, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented. Operating results for the three months ended 1 April 2016 are not necessarily indicative of the results to be expected for the full year ending 31 December 2016.

Use of Estimates

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

Seasonality of operations

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

3. Segment reporting

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

The Group reports on four (2015: four) operating segments, which are independently managed by bodies responsible for the respective segments depending on the nature of products offered. The identification of Company components as operating segments is based in particular on the existence of business unit managers who report directly to the Board of Management of Dialog and who are responsible for the performance of the segment under their charge.

a) Operating segments

The Group's operating segments are:

Mobile Systems

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

Automotive and Industrial

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

Connectivity

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

Power conversion

This segment includes our AC/DC converter solutions for smaller, fast charging power adaptors for portable devices as well as our LED drivers for solid-state lighting products.

3. Segment reporting continued

	Three months ended 1 April 2016						Three months ended 3 April 2015					
	Mobile Systems	**Automotive/ Industrial**	**Connectivity**	**Power Conversion**	**Corporate**	**Total**	Mobile Systems	Automotive/ Industrial	Connectivity	Power Conversion	Corporate	Total
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	US$000	US$000	US$000	US$000	US$000	US$000
Revenues	**187,837**	**7,140**	**20,613**	**23,957**	**1,861**	**241,408**	254,611	10,435	27,390	18,755	-	311,191
Operating profit (loss)[1)]	**39,843**	**2,654**	**(3,363)**	**(6,306)**	**118,357**	**151,185**	74,075	2,955	1,180	(6,019)	(16,557)	55,634
Net finance expense	**(153)**	**-**	**-**	**-**	**(4,126)**	**(4,279)**	(206)	-	-	-	(1,149)	(1,355)
Profit (loss) before income taxes	**39,690**	**2,654**	**(3,363)**	**(6,306)**	**114,231**	**146,906**	73,869	2,955	1,180	(6,019)	(17,706)	54,279

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

b) Geographic information

	Three months ended 1 April 2016 US$000	Three months ended 3 April 2015 US$000
Revenues		
United Kingdom	**154**	318
Other European countries	**10,633**	16,038
China	**180,752**	254,128
Hong Kong	**39,746**	27,038
Other Asian countries	**7,355**	10,009
Other countries	**2,768**	3,660
Total revenues	**241,408**	311,191

	At 1 April 2016 US$000	At 31 December 2015 US$000
Non-current assets		
Germany	**44,902**	46,518
USA	**255,750**	257,424
United Kingdom	**89,070**	99,992
Netherlands	**48,844**	46,907
Japan	**1,047**	1,011
Other	**20,690**	10,067
Total non-current assets *)	**460,303**	461,919

*) Total non-current assets excluding deferred tax assets.

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

4. Share-based compensation

Stock option plan activity for the period ended 1 April 2016 was as follows:

	Three months ended 1 April 2016		Three months ended 3 April 2015	
	Options	Weighted average exercise price €	Options	Weighted average exercise price €
Outstanding at beginning of year	**4,710,245**	**4.53**	5,148,024	5.90
Granted	**747,489**	**0.09**	22,861	0.01
Exercised	**(364,883)**	**3.83**	(852,855)	5.59
Forfeited	**(281,223)**	**0.67**	(13,234)	3.49
Outstanding at end of period	**4,811,628**	**4.13**	4,304,796	5.93
Options exercisable at period end	**1,726,105**	**9.90**	1,660,263	9.26

The Company established an employee benefit trust and a non-executive Director benefit trust (the "Trusts"). The Trusts purchase shares in the Company for the benefit of employees and non-executive Directors under the Group's share option schemes. At 1 April 2016 the Trusts held 1,509,451 shares (at 3 April 2015: 2,322,726 shares).

5. Inventories

Inventories consisted of the following:

	At 1 April 2016 US$000	At 31 December 2015 US$000
Raw materials	**40,510**	23,651
Work-in-process	**44,192**	43,545
Finished goods	**68,491**	67,734
Deposits	**248**	–
Total	**153,441**	134,930

There was no significant impairment of inventories recognised as an expense during the three months ended 1 April 2016 (three months ended 3 April 2015: US$1,175,000). This expense is included in cost of sales in the income statement.

6. Property, plant and equipment

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

	At 1 April 2016 US$000	At 31 December 2015 US$000
Gross carrying amount	**232,401**	227,143
Accumulated depreciation	**(164,984)**	(158,699)
Net carrying amount	**67,417**	68,444

The Company has contractual commitments for the acquisition of property, plant and equipment of US$6,474,000 (Q1 2015: US$9,233,000).

7. Other intangible assets

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

	At 1 April 2016 US$000	At 31 December 2015 US$000
Gross carrying amount	**290,918**	283,688
Accumulated depreciation	**(153,097)**	(145,084)
Net carrying amount	**137,821**	138,604

The Company has contractual commitments for the acquisition of intangible assets of US$1,057,000 (Q1 2015: US$2,601,000).

8. Additional disclosures on financial instruments

Set out below is an overview of financial instruments held by the Group as at 1 April 2016:

		Amounts recognised in the statement of financial position according to IAS 39					
	Category in accordance with IAS 39	Carrying amount 1 April 2016 US$000	Amortised cost US$000	Fair value recognised in other comprehensive income US$000	Fair value recognised in profit or loss US$000	Fair-Value-Hierarchy	Fair value 1 April 2016 US$000
Assets							
Cash at bank and Short-term deposits	LaR	**662,235**	662,235	–	–	n/a	**662,235**
Trade accounts receivable and other receivable	LaR	**34,819**	34,819	–	–	n/a	**34,819**
Other non-derivative financial assets							
Derivative financial assets							
Derivatives without hedging relationship	FVTPL	**752**	–	–	752	Level 2	**752**
Derivatives with hedging relationship	FVTPL	**3,739**	–	3,739	–	Level 2	**3,739**
Investment in Arctic Sand	AfS	**1,446**	–	–	–	n/a	**1,446**
Liabilities							
Trade account payables	FLAC	**68,308**	68,308	–	–	n/a	**68,308**
Other payables	FLAC	**13,723**	13,723	–	–	n/a	**13,723**
Other financial liabilities	FLAC	**575**	575	–	–	n/a	**575**
Hire purchase agreements and finance lease obligations	FLAC	**6,898**	6,898	–	–	Level 2	**6,982**
Derivative financial liabilities							
Derivatives with hedging relationship	FVTPL	**2,378**	–	2,378	–	Level 2	**2,378**
Of which aggregated by category in accordance with IAS 39:							
Loans and receivables (LaR)		**697,054**	697,054	–	–	–	**697,054**
Available-for-sale financial assets (AfS)		**1,446**	–	–	–	–	**1,446**
Derivatives without hedging relationship (FVTPL)		**752**	–	–	752	–	**752**
Derivative financial assets with hedging relationship (FVTPL)		**3,739**	–	3,739	–	–	**3,739**
Derivative financial liabilities with hedging relationship (FVTPL)		**(2,378)**	–	(2,378)	–	–	**(2,378)**
Financial liabilities at amortised cost (FLAC)		**(89,504)**	(89,504)	–	–	–	**(89,588)**

The fair value of derivatives has been determined with reference to available market information (Level 2) applying mark-to-market method. The carrying amounts of the loans and receivables and financial liabilities approximate their fair values due to short-term maturities. Since the market conditions affecting the liability related to long-term finance lease contract have changed, the fair value at 1 April 2016 deviates from the carrying amount. Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. Due to the lack of a reliable measurement basis for the fair value of the equity investment this is held at cost of US$1.4 million. Instruments allocated to the column "fair value recognised in other comprehensive income" are derivative financial instruments designated as cash flow hedges. If the carrying amount does not approximate their fair values, the fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

8. Additional disclosures on financial instruments continued

Risk management activities

Cash flow hedges for currency risks

The main functional currency within the Group and the presentation currency for the consolidated financial statements is the US$. Accordingly, foreign exchange risks arise from transactions, and recognised assets and liabilities, the functional currency of which is not the US$. The currencies giving rise to these exposure risks are primarily the Euro and Pound Sterling. The majority of the Group's revenue and material expenses are denominated in US$. The majority of other operating expenses are denominated in Euros and Pounds Sterling. The Group has transactional currency exposures. Such exposure arises from the sales or purchases by an operating unit in currencies other than the unit's functional currency. In Q1 2016 and Q1 2015 nearly all the Group's sales were denominated in US$.

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

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

As at 1 April 2016 the following unrealized effects were recorded in other comprehensive income:

	Forward currency contracts				**Total**
	Euro US$000	GBP US$000	JPY US$000	CNY US$000	**At 1 April 2016** **US$000**
Gain	3,351	41	292	49	**3,733**
Loss	-	(2,378)	-	-	**(2,378)**
Unrealised net gain/(loss) before tax	**3,351**	**(2,337)**	**292**	**49**	**1,355**
Tax effect	(638)	444	(55)	(9)	**(258)**
Unrealised net gain/(loss) after tax	**2,713**	**(1,893)**	**237**	**40**	**1,097**

Valuation techniques

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

9. Transactions with related parties

As described in the Company's annual report 2015, note 30, the related parties of the Company are comprised of seven non-executive members of the Board of Directors and thirteen members of the executive management. Wissam Jabre joined the executive management team as CFO, Senior Vice President Finance in April 2016. Transactions with those related parties only comprise their compensation which did not significantly change compared to 2015.

Underlying measures

Use of underlying measures
Our use of underlying measures is explained on pages 149 to 154 of our 2015 Annual Report.

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

During the periods presented, we excluded from the underlying measures the following specific items of income and expense that were reported in accordance with IFRS:

- share-based compensation expense and related payroll taxes;
- the termination fee received and costs associated with the aborted merger with Atmel;
- the following items relating to the accounting for business combinations under IFRS:
  - o the additional amortisation expense arising from the recognition at fair value of identifiable intangible assets held by acquired businesses; and
  - o the remeasurement of contingent consideration payable;
- the costs of integrating acquired businesses;
- the difference between interest payable and the effective interest expense on financial liabilities; and
- related income tax effects.

Reconciliations of underlying measures to IFRS measures
Reconciliations of the measures of underlying profitability used by us to the equivalent IFRS measures for the three months ended 1 April, 2016 and 3 April, 2015 are presented in the following tables.

Three months ended 1 April 2016

US$000	IFRS basis	Share-based compensation and related payroll taxes	Amortisation of acquired intangible assets	Aborted merger with Atmel	Effective interest	Underlying basis
Revenue	**241,408**	**–**	**–**	**–**	**–**	**241,408**
Cost of sales	**(133,747)**	**519**	**1,751**	**–**	**–**	**(131,477)**
Gross profit	**107,661**	**519**	**1,751**	**–**	**–**	**109,931**
Gross margin	***44.6%***					***45.5%***
SG&A expenses	**(36,430)**	**4,513**	**1,900**	**3,606**	**–**	**(26,411)**
R&D expenses	**(57,524)**	**3,743**	**–**	**–**	**–**	**(53,781)**
Other operating income	**137,478**	**–**	**–**	**(137,300)**	**–**	**178**
Operating profit	**151,185**	**8,775**	**3,651**	**(133,694)**	**–**	**29,917**
Operating margin	***nm****					***12.4%***
Net finance expense	**(4,279)**	**–**	**–**	**1,913**	**153**	**(2,213)**
Profit before income taxes	**146,906**	**8,775**	**3,651**	**(131,781)**	**153**	**27,704**
Income tax expense	**(4,015)**	**(1,451)**	**(215)**	**(383)**	**(31)**	**(6,095)**
Net income(1)	**142,891**	**7,324**	**3,436**	**(132,164)**	**122**	**21,609**
Adjusted EBITDA(2)	**165,931**	**8,775**	**–**	**(133,694)**	**–**	**41,012**
Adjusted EBITDA margin	***nm****					***17.0%***

* Operating and adjusted EBITDA margins that are determined on an IFRS basis do not give a meaningful portrayal of our trading performance because they include the Atmel termination fee of $137.3 million that was received in Q1 2016.

Three months ended 3 April 2015

US$000	IFRS basis	Share-based compensation and related payroll taxes	Amortisation of acquired intangible assets	Change in estimate of contingent consideration	Acquisition related costs	Integration costs	Effective interest	Underlying basis
Revenue	311,191	–	–	–	–	–	–	311,191
Cost of sales	(167,982)	401	1,489	–	–	–	–	(166,092)
Gross profit	143,209	401	1,489	–	–	–	–	145,099
Gross margin	*46.0%*							*46.6%*
SG&A expenses	(34,259)	3,716	1,901	3,350	185	164	–	(24,943)
R&D expenses	(53,956)	3,853	267	–	–	–	–	(49,836)
Other operating income	640	–	–	–	–	–	–	640
Operating profit	55,634	7,970	3,657	3,350	185	164	–	70,960
Operating margin	*17.9%*							*22.8%*
Net finance (expense) income	(1,355)	–	–	–	–	–	2,316	961
Profit before income taxes	54,279	7,970	3,657	3,350	185	164	2,316	71,921
Income tax expense	(15,470)	(710)	(245)	-	-	–	–	(16,425)
Net income[(1)]	38,809	7,260	3,412	3,350	185	164	2,316	55,496
Adjusted EBITDA[(2)]	68,551	7,970	–	3,350	185	164	–	80,220
Adjusted EBITDA margin	*22.0%*							*25.8%*

Notes:

(1) Earnings per share

Earnings for calculating underlying basic and diluted EPS measures were calculated as follows:

	Q1 2016 US$000	Q1 2015 US$000
Underlying net income	**21,609**	55,496
Loss attributable to non-controlling interests	**717**	-
Earnings for calculating underlying basic EPS	**22,326**	55,496
Interest payable on Convertible Bonds	**-**	503
Earnings for calculating underlying diluted EPS	**22,326**	55,999

(2) Adjusted EBITDA

Adjusted EBITDA on an IFRS basis is calculated as follows:

	Q1 2016 US$000	Q1 2015 US$000
Net income	**142,891**	38,809
Net finance expense	**4,279**	1,355
Income tax expense	**4,015**	15,470
Depreciation expense	**6,434**	5,324
Amortisation expense	**8,045**	7,483
Loss on disposals	**267**	110
Adjusted EBITDA	**165,931**	68,551

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