Dialog Semiconductor Plc

Interim Report for the three and nine months ended 29 September 2017

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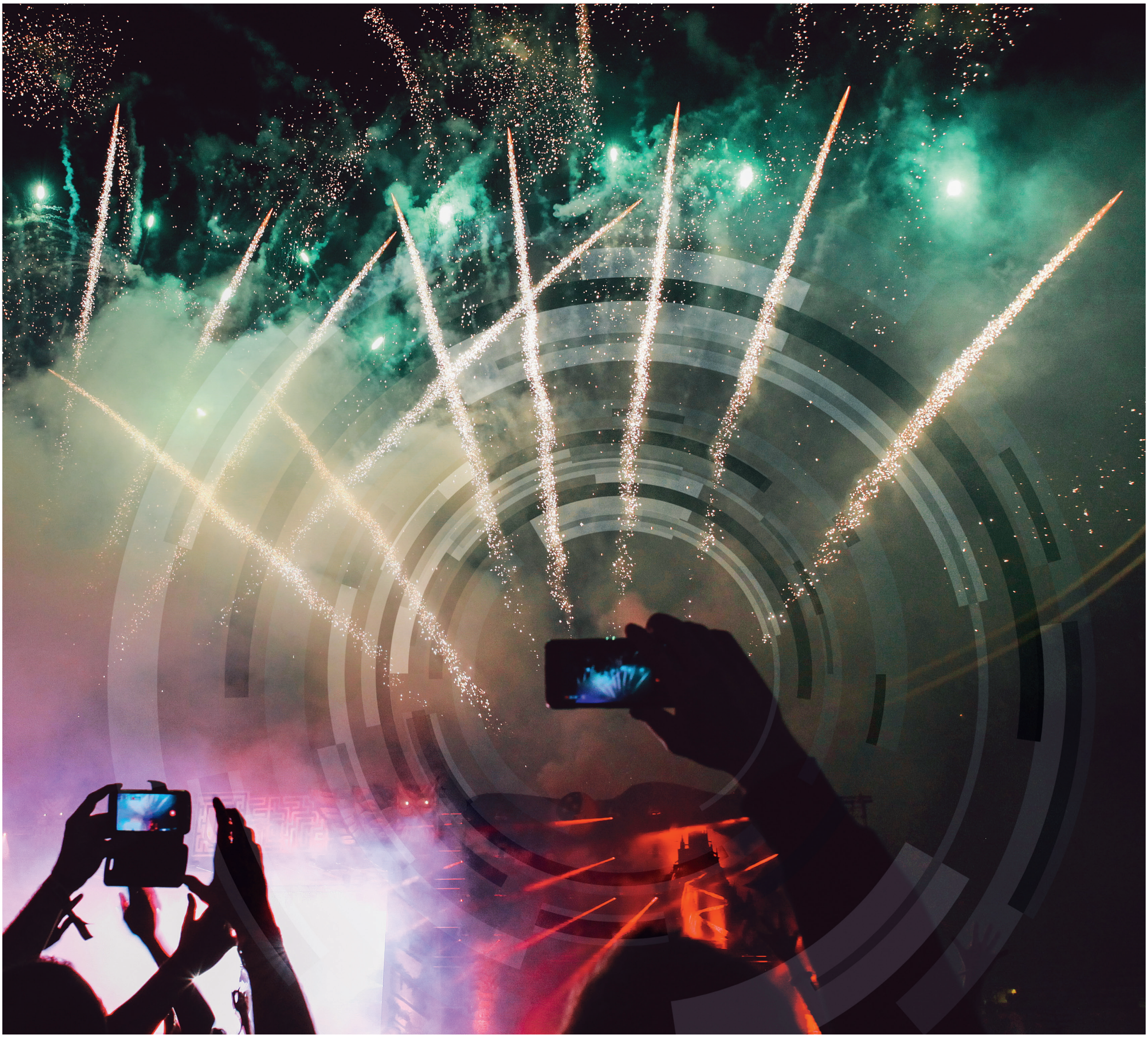

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Press release – 7 November 2017

DIALOG SEMICONDUCTOR REPORTS RESULTS FOR THE THIRD QUARTER ENDED 29 SEPTEMBER 2017

Q3 2017 revenue up 42% sequentially and Company guides to 19% year-on-year revenue growth in Q4 2017 at the mid-point of the guidance range

London, UK, 7 November 2017 - Dialog Semiconductor Plc (XETRA: DLG), a provider of highly integrated power management, AC/DC power conversion, charging and low power connectivity, today reports unaudited results for the third quarter ended 29 September 2017.

Q3 2017 financial highlights

- Revenue of US$363 million, a record Q3 revenue, up 5% year-on-year and 2% above the mid-point of the July guidance range.
- Mobile Systems revenue up 54% sequentially.
- Gross margin at 46.9% and underlying[1] gross margin at 47.5%, above the July guidance.
- Operating profit of US$62.6 million, 2% above Q3 2016. Underlying[1] operating profit of US$76.6 million, 4% above Q3 2016.
- All operational business segments were profitable on an underlying basis.
- Diluted EPS of US$0.62, up 5% over Q3 2016 and underlying[1] diluted EPS of US$0.81, up 14% over Q3 2016.
- Cash flow from operating activities of US$33.5 million (Q3 2016: US$39.3 million). US$636.2 million of cash and cash equivalents, US$12.4 million below 30 September 2016.

On 1 November 2017, the Company completed the acquisition of 100% of the voting equity interests in Silego Technology Inc., a leader in Configurable Mixed-Signal ICs (CMICs) for US$276.0 million, on a cash and debt-free basis, subject to adjustments for cash and working capital, and additional contingent consideration of up to $US30.4 million.

Q3 2017 operational highlights

- Continued momentum and design-in engagements for custom Power Management ICs (PMICs) at leading OEMs, for next generation smartphones, tablets, computing and wearable products.
- Rapid Charge™ AC/DC power conversion adapter products continue high-volume ramp at top Chinese smartphone OEMs.
- Dialog's Bluetooth® low energy products continue to be adopted across a wide range of applications, helping to deliver a record quarterly revenue for the Connectivity segment.
- Bluetooth® low energy market success extended to automotive tyre pressure monitoring system with first production shipments.
- Early success with first design win of new wireless audio IC for consumer headset application at Asian OEM.
- First GaN based WattUp™ RF based wireless charging reference designs, supporting higher power and efficiency, announced with strategic partner Energous.

1 Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see Section 3).

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

"Q3 2017 was a record Q3 quarter, with year-on-year revenue growth and gross margin ahead of our July guidance. Mobile Systems delivered robust sequential revenue growth and Connectivity posted record quarterly revenue, as we continue to capitalise on strong demand for power management and power efficient technologies.

With the acquisition of Silego Technology we now open a new business opportunity built on an innovative and differentiated technology platform. Together, we can increase the value we bring to our customers and establish a new leadership position in a high growth emerging market. Our deep and focused investment in R&D ensures we can establish a differentiated technology portfolio covering a range of markets and add to a strong pipeline of opportunities with Tier 1 customers. As a result, we remain confident in our growth prospects for next year and over the medium term."

Outlook

Based on our current visibility, we anticipate revenue for Q4 2017 to be in the range of US$415 -US$455 million. At the mid-point, this will result in full year 2017 revenue up 11% year-on-year to US$1,324 million. We have a robust order backlog and we expect demand for our new products to remain strong.

In line with the revenue performance, we now expect gross margin for the full year 2017 to be slightly above the full year 2016.

Financial overview

IFRS

US$ millions	**Q3 2017**	Q3 2016	Change	**9M 2017**	9M 2016	Change
Revenue	**362.8**	345.8	+5%	**889.3**	832.9	+7%
Gross margin	**46.9%**	46.0%	+90bps	**46.2%**	45.7%	+50bps
R&D %[2]	**19.9%**	18.6%	+130bps	**22.5%**	21.8%	+70bps
SG&A %[2]	**9.8%**	9.6%	+20bps	**11.2%**	12.1%	–90bps
Other operating income %[2 3]	**0.0%**	0.0%	0bps	**0.0%**	16.5%	nm
Operating profit	**62.6**	61.4	+2%	**111.6**	235.6	–53%
Operating margin	**17.3%**	17.8%	–50bps	**12.5%**	nm	nm
Net income	**47.3**	46.3	+2%	**87.5**	206.0	–58%
Basic EPS $	**0.65**	0.62	+5%	**1.19**	2.74	–57%
Diluted EPS $	**0.62**	0.59	+5%	**1.14**	2.61	–56%
Cash flow from operating activities	**33.5**	39.3	–15%	**153.9**	159.9	–4%

Underlying[1]

US$ millions	**Q3 2017**	Q3 2016	Change	**9M 2017**	9M 2016	Change
Revenue	**362.8**	345.8	+5%	**889.3**	832.9	+7%
Gross margin	**47.5%**	46.6%	+90bps	**47.0%**	46.5%	+50bps
R&D %[2]	**18.7%**	17.7%	+100bps	**21.1%**	20.6%	+50bps
SG&A %[2]	**7.6%**	7.7%	–10bps	**8.9%**	9.5%	–60bps
EBITDA	**90.5**	86.6	+5%	**192.7**	171.8	+12%
EBITDA %	**24.9%**	25.0%	–10bps	**21.7%**	20.6%	+110bps
Operating profit	**76.6**	73.4	+4%	**151.3**	136.6	+11%
Operating margin	**21.1%**	21.2%	–10bps	**17.0%**	16.4%	+60bps
Net income	**62.4**	55.5	+12%	**124.6**	103.8	+20%
Basic EPS $	**0.85**	0.74	+15%	**1.68**	1.39	+21%
Diluted EPS $	**0.81**	0.71	+14%	**1.60**	1.32	+21%

1 Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see Section 3).
2 R&D, SG&A and other operating income as a percentage of revenue.
3 Other operating income in 2016 includes US$137 million Atmel termination fee.

Revenue in Q3 2017 was up 5% year-on-year to US$362.8 million. On a sequential basis, revenue was up 42%. This was mostly driven by Mobile Systems which delivered record sequential Q3 revenue growth of 54%. Year-on-year, Mobile Systems was up 4% mostly due to higher sales volumes. Power Conversion was 1% below the previous year. Connectivity delivered record quarterly revenue of US$40.3 million, up 21% year-on-year on the solid performance of Bluetooth® low energy and the moderate growth in DECT products. Automotive & Industrial was up 13% year-on-year due to higher sales volumes.

Q3 2017 gross margin was 46.9%, 90bps above Q3 2016. Q3 2017 underlying[1] gross margin was 47.5%, above the July guidance and 90bps above Q3 2016. The year-on-year increase in gross margin was primarily due to cost saving initiatives and the higher fixed cost absorption resulting from the anticipated inventory build-up.

Operating expenses (OPEX), comprising SG&A and R&D expenses, in Q3 2017 was US$107.5 million, 10% higher than Q3 2016. As a percentage of revenue, OPEX in Q3 2017 was 29.7%, representing a year-on-year increase of 150bps. Underlying[1] OPEX, comprising underlying[1] SG&A and R&D expenses, in Q3 2017 was US$95.7 million, 9% above Q3 2016. As a percentage of revenue, underlying[1] OPEX was 26.3%, representing a year-on-year increase of 90bps. On a trailing twelve month basis, underlying[1] OPEX was 27.9% of revenue, 20bps above the previous quarter.

R&D expense in Q3 2017 was up 12% from Q3 2016. As a percentage of revenue, R&D in Q3 2017 was up 130bps year-on-year to 19.9%. On an underlying[1] basis, R&D expense was up 11% from Q3 2016. As a percentage of revenue, underlying[1] R&D in Q3 2017 was up 100bps year-on-year to 18.7%. The increase in R&D expense was predominantly driven by the on-going investment in large application-specific customer opportunities as well as in programmes supporting new growth areas and the diversification of the business. The year-on-year increase in R&D as a percentage of revenue was the result of the increase in the number of R&D projects.

SG&A expense in Q3 2017 was up 7% from Q3 2016. As a percentage of revenue, SG&A in Q3 2017 was up 20bps from Q3 2016. Underlying[1] SG&A expense in Q3 2017 was up 5% from Q3 2016. As a percentage of revenue, underlying[1] SG&A was down 10bps year-on-year at 7.6%. The increase in SG&A costs was mostly due to the expansion of our sales network.

Operating profit in Q3 2017 was US$62.6 million, up 2% year-on-year. This was due to the increase in revenue and gross margin, partially offset by higher R&D expenses. Operating profit margin in the quarter was 17.3%, 50bps below Q3 2016. Underlying[1] operating profit was US$76.6 million, an increase of 4% year-on-year. This was also the result of higher underlying[1] revenue and gross margin, partially offset by higher underlying[1] operating expenses. Underlying[1] operating margin in the quarter was 21.1%, broadly in line with Q3 2016. All four operational business segments were profitable on an underlying[1] basis.

The effective tax rate in 9M 2017 was 22.9% (FY2016: 15.4%). The low effective tax rate in 2016 reflected the tax treatment of the US$137.3 million Atmel termination fee. The effective tax rate in Q3 2017 was 22.6%, including the effect of a credit in respect of prior years of US$1.2 million resulting from the agreement of the Bilateral Advance Pricing Agreement and other prior year items with tax authorities. The underlying[1] effective tax rate in Q3 2017 was 20.5%. Excluding the effect of the US$1.2 million credit in respect of prior years in Q3 2017, the underlying[1] effective tax rate in Q3 2017 was 22.0%, down 200bps on the FY2016 underlying[1] effective tax rate of 24.0%.

In Q3 2017, net income was up 2% year-on-year due to the higher operating profit and the lower income tax expense, partially offset by higher other finance expense. Underlying[1] net income was up 12% year-on-year as a result of higher operating profit combined with higher interest income and the lower underlying[1] income tax expense. Underlying[1] diluted EPS in Q3 2017 was up 14% year-on-year, almost three times more than revenue growth.

In line with our expectations, the inventory value increased during Q3 2017 ahead of the ramp of new products in H2. At the end of Q3 2017, our total inventory was US$187.3 million, 25% above the previous quarter and representing 87 days of inventory, an 11-day decrease from the previous quarter. During Q4 2017, we expect inventory value and days of inventory to decrease from Q3 2017.

At the end of Q3 2017, we had a cash and cash equivalents balance of US$636.2 million. Free cash flow[4] in Q3 2017 was US$6.7 million (Q3 2016: US$28.3 million).

On 28 July 2017, the Company entered into a US$150 million 3-year revolving credit facility. No amounts have been drawn. The facility contains various provisions, covenants and representations commensurate with such financing, including certain financial covenants. Under certain conditions, the size of the facility can be increased by a further US$75 million, and its maturity can be extended by a further year on both the first and second anniversaries. The facility is committed and available for general corporate purposes.

4 Free cash flow, which is a non-IFRS measure, is defined as cash flow from operating activities less capital expenditure.

Subsequent to quarter end, on 1 November 2017, the company completed the acquisition of 100% of the voting equity interests in privately-held Silego Technology Inc., the leading provider of Configurable Mixed-signal ICs (CMICs). We acquired Silego for US$276.0 million, on a cash and debt-free basis, subject to adjustments for cash and working capital. Additional consideration of up to US$30.4 million, may be payable contingent on Silego's revenue for 2017 and 2018. Headquartered in Santa Clara, California with approximately 235 employees worldwide, Silego is the pioneer and market leader in CMICs which integrate multiple analog, logic, and discrete component functionality into a single chip. The acquisition of Silego Technology Inc. will complement Dialog's market leadership by increasing Dialog's content at existing customers and expanding its customer base. The breadth of the new product portfolio will strengthen the Company's presence in the IoT, computing and automotive markets.

Operational overview

During the quarter we successfully ramped the production of our latest generation of highly-integrated PMICs supporting recently launched trend setting smartphone models. Additionally, we made substantial progress on a number of PMIC designs now sampling to our top customers for products targeting production in H2 2018. These custom IC designs offer significant benefits in efficiency and power savings, encouraging a trend of increasing custom mixed signal power content across future platforms for mobile devices, computing and wearables.

Fast charging technology is a key differentiator in the highly competitive smartphone market. Dialog's Rapid Charge™ solutions for power adapters continue to be increasingly adopted by top Chinese smartphone OEMs. Dialog is leading the market with a range of AC/DC power conversion products that support most fast charging protocols. The combination of our USB-PD IC and market-leading AC/DC controller ICs create a unique complete adapter chipset solution for mobile devices.

Our Connectivity segment delivered a record quarterly revenue in Q3 2017. SmartBond™, our Bluetooth® low energy System-on-Chip (SoC) delivers one of the smallest, most power efficient Bluetooth® low energy solutions ("BLE") available in high volume production today. We continue to invest in BLE innovation to ensure our product portfolio expands and evolves with the market needs. This is helping to drive adoption of the technology across a wide range of new applications, including automotive where during the quarter we entered production with both a European and Chinese automotive OEM for Tyre Pressure Monitoring Systems (TPMS).

Our latest SmartBeat™ wireless Audio IC, DA14195, continues to gain attention in the market achieving the first major OEM design win for a consumer headset application during the quarter. This technology enables a new immersive headset experience and supports both wired USB 3.0 Type-C™ and Bluetooth® based consumer headsets. The DA14195 is being evaluated by a number of leading consumer brands for gaming and USB Type-C™ headsets.

During the quarter, the Company invested an additional US$15.0 million in Energous, a NASDAQ-listed wireless charging technology company. The total amount invested in Energous is now US$25.0 million. As part of the agreement signed in November 2016 with Energous, Dialog became the exclusive component supplier of their WattUp® RF wireless charging ICs with Energous leveraging Dialog's distribution channels and customer relations to accelerate market adoption. During Q3 2017, early customer engagements continued to progress towards commercial production starting next quarter. Additionally, we announced a GaN based reference design enabling increased efficiency and higher output power designs of up to 10 watts.

Dialog Semiconductor invites you today at 09.30 am (London) / 10.30 am (Frankfurt) to take part in a live conference call and to listen to management's discussion of the Company's Q3 2017 performance, as well as guidance for Q4 2017. 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=lrwa2Gl8udGxQZ4QmYLy3W6n7GLCzNKOwYJJNFZ3FSo=&b=d58ae4ab-80e5-47f2-8295-e04d92bbba83In parallel to the call, the presentation will be available at:

http://webcast.openbriefing.com/semiconductor_q3_results_071117/

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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. In 2016, it had US$1.2 billion in revenue and approximately 1,770 employees worldwide. The company is listed on the Frankfurt (XETRA: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index.

Forward Looking Statements

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

Financial review

For the three and nine months ended 29 September 2017

Background

Interim financial statements

The unaudited interim financial statements of Dialog Semiconductor Plc ("the Company") and its subsidiaries (together, "Dialog" or "the Group") for the three- and nine-month periods ended 29 September 2017 are set out in Section 2 of this Interim Report.

The Group's significant accounting policies are unchanged compared with the year ended 31 December 2016 (see pages 94 to 102 of our Annual Report and Accounts 2016).

New or revised accounting standards that have been issued by the International Accounting Standards Board and are relevant to us but that we have not yet adopted are set out in note 1 to the interim financial statements.

Acquisition of Silego

On 1 November 2017, we completed the acquisition of 100% of the equity interests in Silego Technology, Inc., the leading provider of Configurable Mixed-Signal ICs (CMICs).

We acquired Silego for US$276.0 million on a cash and debt-free basis, subject to adjustments for cash and working capital. Additional consideration of up to US$30.4 million may be payable contingent on Silego's revenues for 2017 and 2018.

We will present the provisional purchase price allocation with our full year 2017 results.

During Q3 2017, we incurred transaction costs of US$1.3 million in relation to the acquisition of Silego, which we have excluded in arriving at our underlying results for Q3 2017 and 9M 2017. We have incurred additional transaction costs during Q4 2017.

Disposal of investment in Arctic Sand

In March 2017, Peregrine Semiconductor Corporation, a subsidiary of Murata Manufacturing Co Ltd, agreed to acquire Arctic Sand Technologies, Inc. by way of a merger. Dialog held approximately 3.5% of the issued equity shares in Arctic Sand.

We have so far received proceeds of US$1.2 million on the sale of our shares and have recognised a loss on disposal of US$0.2 million in profit or loss (within other finance expense).

Additional investment in Energous

In November 2016, we entered into a strategic alliance with Energous Corporation, the developer of WattUp®, a wire-free charging technology, and purchased common shares and were granted an equivalent number of warrants over common shares in Energous.

On 5 July 2017, we subscribed for a further 976,139 common shares in Energous Corporation at a cost of US$15.0 million and were granted additional warrants to purchase up to 654,013 common shares in Energous that are exercisable in full or in part on a cashless basis at any time between January 2018 and July 2020.

We currently hold approximately 8% of Energous's outstanding common shares.

Analysis of results by operating segment

	Revenue			Operating profit	
US$ millions	**Q3 2017**	Q3 2016	Change	**Q3 2017**	Q3 2016
Q3 2017 compared with Q3 2016					
Mobile Systems	**280.1**	269.9	+4%	**76.3**	73.2
Automotive & Industrial	**8.1**	7.2	+13%	**3.1**	2.3
Connectivity	**40.3**	33.4	+21%	**5.8**	2.5
Power Conversion	**32.8**	33.2	−1%	**(0.8)**	1.1
Total segments	**361.3**	343.7	+5%	**84.4**	79.1
Corporate activities	**1.5**	2.1	−29%	**(21.8)**	(17.7)
Total Group	**362.8**	345.8	+5%	**62.6**	61.4

	Revenue			Operating profit	
US$ millions	**9M 2017**	9M 2016	Change	**9M 2017**	9M 2016
9M 2017 compared with 9M 2016					
Mobile Systems	**666.2**	635.3	+5%	**153.6**	148.8
Automotive & Industrial	**25.2**	22.4	+13%	**10.0**	7.2
Connectivity	**99.3**	82.5	+20%	**11.1**	2.2
Power Conversion	**92.7**	85.7	+8%	**(2.6)**	(6.5)
Total segments	**883.4**	825.9	+7%	**172.1**	151.7
Corporate activities	**5.9**	7.0	−16%	**(60.5)**	83.9
Total Group	**889.3**	832.9	+7%	**111.6**	235.6

Underlying measures of performance quoted in the Finance Review are non-IFRS measures. Reconciliations of these measures to the nearest equivalent IFRS measures on a consolidated basis are presented in Section 3 of this Interim Report.

Mobile Systems segment revenue was US$666.2 million in 9M 2017 compared with US$635.3 million in 9M 2016, an increase of 5%. Revenue increased principally due to higher demand for our custom PMICs. Mobile Systems represented 74.9% of the Group's revenue in 9M 2017 (9M 2016: 76.3%).

Mobile Systems' operating profit was US$153.6 million in 9M 2017 compared with US$148.8 million in 9M 2016, an increase of 3%. Operating profit improved in response to the increase in revenue but this was partially offset by higher R&D expenses. Operating margin declined slightly to 23.1% (9M 2016: 23.4%).

Mobile Systems' underlying operating profit was US$154.6 million in 9M 2017 compared with US$150.1 million in 9M 2016. Underlying operating margin was slightly lower at 23.2% (9M 2016: 23.6%).

Mobile Systems' underlying operating profit excludes payroll taxes arising on share-based compensation, which amounted to US$1.0 million in 9M 2017 (9M 2016: US$1.3 million).

Automotive & Industrial segment revenue was US$25.2 million in 9M 2017 compared with US$22.4 million in 9M 2016, an increase of 13%. Revenue increased primarily because of improved demand for traditional industrial lighting products. Automotive & Industrial represented 2.8% of the Group's revenue in 9M 2017 (9M 2016: 2.7%).

Automotive & Industrial's operating profit was US$10.0 million in 9M 2017 compared with US$7.2 million in 9M 2016, an increase of 39%. Operating margin improved to 39.7% (9M 2016: 32.1%) reflecting higher sales and lower R&D and operating expenses.

Automotive & Industrial's underlying operating profit was US$10.1 million in 9M 2017 compared with US$7.3 million in 9M 2016, an increase of 38%.

Automotive & Industrial's underlying operating profit excludes payroll taxes arising on share-based compensation, which amounted to US$0.1 million (9M 2016: US$0.1 million) .

Connectivity segment revenue was US$99.3 million in 9M 2017 compared with US$82.5 million in 9M 2016, an increase of 20%. Strong growth in Bluetooth® low energy was accompanied by higher demand for DECT-based products, in particular for cordless headsets and microphones. Connectivity represented 11.2% of the Group's revenue in 9M 2017 (9M 2016: 9.9%).

Connectivity's operating profit was significantly higher at US$11.1 million in 9M 2017 compared with US$2.2 million in 9M 2016, with the effect of higher sales and improved product margins being only partially offset by higher selling and marketing expenses.

Connectivity's underlying operating profit was US$11.2 million in 9M 2017 compared with US$2.4 million in 9M 2016. Underlying operating margin was 11.3% in 9M 2017 compared with 2.9% in 9M 2016.

Connectivity's underlying operating result excludes payroll taxes arising on share-based compensation, which amounted to US$0.1 million (9M 2016: US$0.2 million) .

Power Conversion segment revenue was US$92.7 million in 9M 2017 compared with US$85.7 million in 9M 2016, an increase of 8%. Revenue increased principally due to strong demand for our AC/DC solutions, with continued success in Rapid Charge™ for smartphone power adapters being accompanied by higher sales of 10W converters. We also saw higher sales of LED driver ICs for commercial and residential uses. Power Conversion represented 10.4% of the Group's revenue in 9M 2017 (9M 2016: 10.3%).

Power Conversion incurred an operating loss of US$2.6 million in 9M 2017 compared with an operating loss of US$6.5 million in 9M 2016. Power Conversion's improved operating result reflected higher sales and lower operating expenses. Operating margin improved to (2.8)% in 9M 2017 compared with (7.6)% in 9M 2016.

Power Conversion delivered an underlying operating profit of US$7.5 million in 9M 2017 compared with an underlying operating loss of US$3.7 million in 9M 2016. Underlying operating margin was 8.1% in 9M 2017 compared with (4.3)% in 9M 2016.

Power Conversion's underlying operating result excludes additional amortisation of US$10.0 million (9M 2016: US$10.1 million) on the fair value uplift of acquired intangible assets and payroll taxes arising on share-based compensation, which amounted to US$0.1 million (9M 2016: US$0.1 million) .

Corporate activities include emerging market businesses (principally Dyna Image and those involved in the development of low cost products for the Chinese consumer markets). Corporate's revenue of US$5.9 million (9M 2016: US$7.0 million) was mostly attributable to Dyna Image.

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

Corporate activities showed an operating loss of US$60.5 million in 9M 2017 compared with an operating profit of US$83.9 million in 9M 2016 (which included the Atmel termination fee received of US$137.3 million).

Corporate's underlying operating loss was US$32.1 million in 9M 2017 compared with US$26.9 million in 9M 2016, with the increase principally due to higher underlying R&D expenses which were only partially offset by a reduction in advisory fees.

Corporate's underlying operating result excludes the Group's share-based compensation expense of US$26.2 million (9M 2016: US$22.2 million) and payroll taxes arising on share-based compensation of Corporate employees of US$0.1 million (9M 2016: US$0.1 million), transaction costs of US$1.3 million (9M 2016: US$3.4 million), additional amortisation of US$0.8 million (9M 2016: US$0.8 million) on the fair value uplift of acquired intangible assets and, in 9M 2016, the Atmel termination fee received of US$137.3 million.

Analysis of the Group's results

Revenue was US$889.3 million in 9M 2017 compared with US$832.9 million in 9M 2016, an increase of 7%. Revenue increased principally due to higher demand for our PMICs in Mobile Systems, but we also experienced strong revenue growth in Connectivity and Power Conversion.

Cost of sales was US$478.0 million in 9M 2017 compared with US$452.6 million in 9M 2016, an increase of 6% that principally reflected higher sales volumes.

Gross profit was US$411.3 million in 9M 2017 compared with US$380.3 million in 9M 2016, an increase of 8%.

Gross margin was 50 basis points higher at 46.2% in 9M 2017 compared with 45.7% in 9M 2016. Gross margin improved largely due to a favourable change in product unit costs.

Underlying gross profit was US$418.0 million in 9M 2017 compared with US$386.9 million in 9M 2016, an increase of 8%. Underlying gross margin was 50 basis points higher at 47.0% in 9M 2017 compared with 46.5% in 9M 2016.

Financial review continued

For the three and nine months ended 29 September 2017

Selling and marketing expenses were US$48.5 million in 9M 2017 compared with US$45.6 million in 9M 2016. We further increased our sales and marketing efforts in our Connectivity segment, but maintained tight control over our overall costs.

Underlying selling and marketing expenses were US$40.2 million in 9M 2017 compared with US$37.2 million in 9M 2016, but were unchanged as a percentage of the Group's revenue at 4.5% in 9M 2017 and 9M 2016.

Underlying selling and marketing expenses exclude share-based compensation expenses and related payroll costs totaling US$2.8 million (9M 2016: US$2.8 million) and additional amortisation of US$5.5 million (9M 2016: US$5.6 million) on the fair value uplift of acquired intangible assets.

General and administrative expenses were lower at US$50.9 million in 9M 2017 compared with US$55.1 million in 9M 2016, due principally to lower advisory fees.

Underlying general and administrative expenses were US$38.9 million in 9M 2017 compared with US$41.7 million in 9M 2016, a reduction of 7%, and were also lower as a percentage of the Group's revenue at 4.4% in 9M 2017 compared with 5.0% in 9M 2016.

Underlying general and administrative expenses exclude share-based compensation and related payroll costs totaling US$10.7 million (9M 2016: US$10.0 million) and transaction costs of US$1.3 million (9M 2016: US$3.4 million).

R&D expenses were US$200.3 million in 9M 2017 compared with US$181.7 million in 9M 2016, an increase of 10%. R&D expenditure was US$219.7 million in 9M 2017 (9M 2016: US$196.8 million), of which US$14.7 million (9M 2016: US$11.7 million) was capitalised, and we recognised R&D expenditure credits of US$4.7 million (9M 2016: US$3.4 million).

We continue to invest heavily in product development and the increase in R&D expenditure reflects an increase in both the strength of our engineering teams and the number of ongoing development projects. Underlying R&D expenses were US$187.6 million in 9M 2017 compared with US$171.8 million in 9M 2016, an increase of 9%, and were also higher as a percentage of the Group's revenue at 21.1% in 9M 2017 compared with 20.6% and 9M 2016.

Underlying R&D expenses exclude share-based compensation expenses and related payroll costs totaling US$12.7 million (9M 2016: US$9.9 million).

Other operating income was less than US$0.1 million in 9M 2017 compared with US$137.7 million in 9M 2016 (which included the Atmel termination fee received of US$137.3 million).

Operating profit was US$111.6 million in 9M 2017 compared with US$235.6 million in 9M 2016 (which included the Atmel termination fee received of US$137.3 million).

Underlying operating profit was US$151.3 million in 9M 2017 compared with US$136.6 million in 9M 2016, an increase of 11%. Underlying operating profit improved because the effect of higher sales volumes significantly outweighed the increase in underlying R&D expenses.

Underlying operating margin was 60 basis points higher at 17.0% in 9M 2017 compared with 16.4% in 9M 2016.

Interest income was US$4.9 million in 9M 2017 compared with US$2.6 million in 9M 2016, the increase principally reflecting higher US dollar interest rates.

Interest expense was US$0.5 million in 9M 2017 compared with US$3.1 million in 9M 2016 (which included commitment fees of US$1.9 million incurred in relation to the Atmel borrowing facility).

Other finance expense was US$2.5 million in 9M 2017 compared with US$1.8 million in 9M 2016.

Other finance income/(expense) comprises foreign currency translation gains and losses that 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 fair value gains and losses recognised in relation to certain of our strategic investments.

We recognised a net currency translation gain of US$1.4 million in 9M 2017 compared with a net loss of US$1.8 million in 9M 2016.

During 9M 2017, we recognised a fair value loss of US$4.1 million on the warrants that we hold over shares in Energous Corporation but this was partially offset by amortisation of the gain on initial recognition of the second tranche of warrants amounting to US$0.4 million. We also recognised a loss of US$0.2 million on the disposal of our investment in Arctic Sand.

Income tax expense was US$26.0 million (9M 2016: US$27.3 million) on profit before tax of US$113.5 million (9M 2016: US$233.3 million), an effective tax rate for the period of 22.9% (9M 2016: 11.7%). Our income tax expense for 9M 2017 includes a credit in respect of prior years of US$1.8 million resulting from the agreement of the Bilateral Advance Pricing Agreement and other prior year items with tax authorities.

Our income tax expense for the first nine months is calculated by applying the expected effective tax rate for the full year to the profit before tax for the nine months after adjusting for specific items that distort the tax rate including, in 9M 2016, the Atmel termination fee received of US$137.3 million. We believe that the termination fee should not be taxable in the UK.

Our underlying income tax expense was US$32.8 million (9M 2016: US$32.8 million) on underlying profit before tax of US$157.3 million (9M 2016: US$136.6 million). Our underlying effective tax rate for 9M 2017 was therefore 20.8%. Excluding the credit in respect of prior years of US$1.8 million, our underlying effective tax rate for 9M 2017 was 22.0% which compares with 24.0% for the full year 2016.

The reduction in our underlying effective tax rate is a result of the ongoing exercise to realign the ownership of the Group's Intellectual Property, which is the subject of the Bilateral Advance Pricing Agreement.

Net income was US$87.5 million (9M 2016: US$206.0 million), including a loss of US$1.3 million (9M 2016: loss of US$2.4 million) that was attributable to the non-controlling interest in Dyna Image. Underlying net income was US$124.6 million compared with US$103.8 million in 9M 2016, an increase of 20%.

Basic earnings per share were US$1.19 (9M 2016: US$2.74) based on the weighted average of 74.6 million shares (9M 2016: 76.2 million shares) that were in issue during the period excluding 1.9 million shares (9M 2016: 1.4 million shares) held by employee benefit trusts and 1.8 million (9M 2016: 0.3 million) of our own shares held in treasury. Underlying basic earnings per share were US$1.68 (9M 2016: US$1.39).

Diluted earnings per share were US$1.14 (9M 2016: US$2.61). Diluted earnings per share additionally reflect the weighted average of 3.6 million (9M 2016: 3.8 million) dilutive employee share options. Underlying diluted earnings per share were US$1.60 (9M 2016: US$1.32).

Cash flow

Cash flow from operating activities was US$153.9 million in 9M 2017 compared with US$159.9 million in 9M 2016.

Cash generated from operations before changes in working capital was US$186.5 million in 9M 2017 compared with US$305.8 million in 9M 2016 (which included the Atmel termination fee received of US$137.3 million).

Net working capital decreased by US$47.5 million (9M 2016: increased by US$35.4 million).

Demand for our products is typically highest in the fourth quarter of the year and lower in the first and second quarters. During Q3 2017, we built up our inventory levels in anticipation of the ramp up of new product launches by our customers during Q4 2017.

Inventory levels increased during 9M 2017, absorbing cash of US$82.7 million. At the end of Q3 2017, inventories represented 87 days cost of sales in the preceding quarter (end of 2016: 48 days cost of sales).

Trade and other receivables declined slightly during 9M 2017, releasing cash of US$3.3 million. Gross receivables sold under our receivables financing facilities increased by US$67.3 million to stand at US$172.3 million at the end of Q3 2017 compared with US$105.0 million at the end of 2016. At the end of Q3 2017, trade and other receivables represented 19 days sales in the preceding quarter (end of 2016: 20 days sales).

Trade and other payables increased during 9M 2017, benefiting cash flow by US$33.5 million. Payables increased principally due to higher materials purchases as we built up inventory during Q3 2017.

Other working capital movements had the effect of absorbing cash of US$1.5 million during 9M 2017.

Interest paid was US$0.9 million in 9M 2017 compared with US$3.2 million in 9M 2016 (which included commitment fees of US$1.9 million incurred in relation to the Atmel borrowing facility).

Summary cash flow statement

US$ millions	**9M 2017**	9M 2016
Cash generated from operations	**139.1**	270.4
Interest received/(paid), net	**4.1**	(0.8)
Income taxes received/(paid)	**10.7**	(109.7)
Cash flow from operating activities	**153.9**	159.9
Purchase of property, plant and equipment	**(39.2)**	(18.2)
Purchase of intangible assets	**(6.6)**	(6.8)
Capitalised development expenditure	**(14.7)**	(11.7)
Additional investment in Energous	**(15.0)**	–
Purchase of own shares into treasury	**(125.0)**	(43.0)
Sale/(purchase) of Dialog shares by EBTs, net	**(17.6)**	2.9
Other cash flows, net	**3.2**	(1.6)
Net cash (outflow)/inflow during the period	**(61.0)**	81.5
Currency translation differences	**0.1**	0.3
(Decrease)/increase in cash and cash equivalents	**(60.9)**	81.8

Interest received was US$5.0 million in 9M 2017 compared with US$2.3 million in 9M 2016.

During 9M 2017, we had net income tax receipts of US$10.7 million compared with net tax payments of US$109.7 million in 9M 2016. Income tax cash flows comprise payments on account in respect of current year taxable profits and adjusting payments or receipts in respect of earlier years. During 9M 2017, we received repayments of income taxes overpaid in respect of earlier years totaling US$37.6 million.

Cash flow used for investing activities was US$74.6 million in 9M 2017 compared with US$37.1 million in 9M 2016.

Capital expenditure totalled US$60.5 million in 9M 2017 compared with US$36.7 million in 9M 2016, with the increase being principally due to the purchase of testing equipment and higher capitalised development costs.

During 9M 2017, we purchased additional shares in Energous Corporation at a cost of US$15.0 million and received US$1.3 million on the sale of our shareholding in Artic Sand.

Cash flow used for financing activities was US$140.3 million in 9M 2017 compared with US$41.2 million in 9M 2016, with the substantial change being due to purchases made under the Company's share buyback programme and significant purchases of the Company's shares by employee benefit trusts to satisfy the exercise of share options awarded under employee share schemes.

During 9M 2017, we completed the second tranche and initiated and completed the third tranche of the share buyback programme, purchasing 2,678,066 of the Company's shares at a cost of US$125.0 million (including related transaction costs of US$0.8 million). We also received US$1.2 million on settlement of hedges of the currency translation exposure on the share buyback obligation.

During 9M 2017, employee benefit trusts purchased the Company's shares in the market at a cost of US$24.3 million (9M 2016: US$3.1 million) and paid US$0.4 million on subscription for newly-issued shares. Employee benefit trusts received proceeds of US$6.7 million (9M 2016: US$6.1 million) on the exercise of share options.

During 9M 2017, we received the equivalent of US$1.1 million on the subscription for new shares in Dyna Image by one of its non-controlling shareholders.

Liquidity

At the end of Q3 2017, cash and cash equivalents amounted to US$636.2 million (end of 2016: US$697.2 million), which principally comprised short-term deposits with a maturity of three months or less.

We utilise uncommitted non-recourse receivables financing facilities provided by two financial institutions in an aggregate amount of US$240 million. At the end of Q3 2017, cash and cash equivalents included US$144.4 million (end of 2016: US$88.9 million) in relation to receivables sold under these facilities.

Financial review continued

For the three and nine months ended 29 September 2017

On 28 July 2017, the Company and certain of its subsidiaries, as guarantors, entered into a US$150 million three- year revolving credit facility provided by four financial institutions. The facility is committed and available for general corporate purposes. On the first and second anniversary of the facility, there is the option to extend the maturity date by a further year subject to the consent of the lenders. The Company has the option to increase the amount of the facility by US$75 million subject to certain conditions.

The credit agreement contains various provisions, covenants and representations that are customary for such a facility.

We have not yet drawn any amounts under the facility.

We are confident that we have access to sufficient resources to meet the Group's working capital requirements in the near to medium term.

Share buyback programme

During the first half of 2017, we completed the second tranche of our share buy-back programme and announced and completed the third tranche, purchasing a further 2,678,066 shares at a cost of €113.7 million (US$124.2 million). We incurred transaction costs of US$0.8 million in relation to these purchases.

At our AGM on 4 May 2017, the Directors were granted a new authority to purchase up to 7,808,280 of our ordinary shares by way of further tranches. Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2018, whichever is the earlier. We have not yet announced any tranches of purchases under the 2017 AGM authority.

Purchases made under the share buyback programme are off-market from the perspective of the Company. Purchases under the 2017 AGM authority will be effected by way of contingent forward purchase contracts entered into with Barclays, Goldman Sachs, HSBC or Merrill Lynch acting as brokers.

Since we initiated the programme in May 2016, we have purchased a total of 4,483,816 shares at a cost of US$186.5 million (including transaction costs of US$1.9 million). We initially held the purchased shares in treasury, but we cancelled them in June 2017.

Balance sheet

Non-current assets totalled US$499.7 million at the end of Q3 2017, broadly unchanged compared with US$496.2 million at the end of 2016.

Current assets totalled US$938.1 million at the end of Q3 2017 compared with US$934.3 million at the end of 2016, an increase of US$3.8 million. Cash and cash equivalents decreased by US$60.9 million to US$636.2 million. Other current assets increased to US$301.9 million reflecting the increase in inventories of US$82.0 million that was only partially offset by the decreases of US$22.8 million in income tax receivables and US$3.3 million in trade and other receivables.

Current liabilities totalled US$179.8 million at the end of Q3 2017 compared with US$224.1 million at the end of 2016, a decrease of US$44.3 million. Trade and other payables increased by US$32.5 million to US$122.1 million but other current liabilities decreased by US$76.7 million to US$57.7 million, principally due to the settlement and release of the share buyback obligation.

Non-current liabilities totalled US$14.3 million at the end of Q3 2017 (end of 2016: US$11.6 million).

Total equity was US$1,243.7 million at the end of Q3 2017 (end of 2016: US$1,194.9 million), comprised of shareholders' equity of US$1,239.3 million (end of 2016: US$1,189.8 million) and non-controlling interests in Dyna Image of US$4.5 million (end of 2016: US$5.1 million). At the end of Q3 2017, Dialog shares held by employee benefit trusts amounted to US$1.0 million (end of 2016: US$20.6 million). Following the cancellation of treasury shares in June 2017, there were no shares held in treasury at the end of Q3 2017 (end of 2016: US$61.5 million).

Consequences of Brexit

On 29 March 2017, the UK Government invoked Article 50 of the Lisbon Treaty and it is therefore now expected that the UK will leave the EU on or before 29 March 2019. On 19 June 2017, the UK commenced the negotiation of the terms of its exit from the EU. Considerable uncertainty exists as to the outcome of the negotiations and their effect on the UK's future relationships with the EU, with other multilateral organisations and with individual countries.

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

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

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

Other information

Members of the Management Team and the Board of Directors

Management Team

Dr Jalal Bagherli, *Chief Executive Officer*

Vivek Bhan, *Senior Vice President, Engineering*

Christophe Chene, *Senior Vice President, Asia*

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

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

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

Davin Lee, *Senior Vice President and General Manager Power Conversion Business Group*

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

Julie Pope, *Senior Vice President, Human Resources (appointed on 2 May 2017)*

Martin Powell, *Senior Vice President, Human Resources (retired on 31 May 2017)*

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.*

Board of Directors

Rich Beyer, *Chairman*

Dr Jalal Bagherli

Chris Burke

Alan Campbell

Mike Cannon

Mary Chan

Aidan Hughes

Eamonn O'Hare

Nick Jeffrey

Russ Shaw
(stepped down on 4 May 2017)

Going concern

After making enquiries, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future. As at 29 September 2017, the Group held cash and cash equivalents amounting to US$636.2 million and had an undrawn committed US$150 million revolving credit facility that matures in July 2020. Accordingly, the Directors have adopted the going concern basis in preparing the interim financial statements for the three- and nine-month periods ended 29 September 2017.

Principal risks and uncertainties

We describe the principal risks and uncertainties that could have a material adverse effect on the achievement of Dialog's three-year mid-range strategy on pages 52 to 56 of our Annual Report and Accounts 2016. In the opinion of the Directors, there has been no change in the principal risks and uncertainties affecting Dialog since the approval of the Annual Report and Accounts 2016.

Responsibility statement

We confirm that, to the best of our knowledge, the interim financial statements for the three- and nine-month periods ended 29 September 2017 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- and nine-month periods ended 29 September 2017, 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 2017.

Dr Jalal Bagherli	Wissam Jabre
Chief Executive Officer	*Chief Financial Officer, Senior Vice President, Finance*

7 November 2017

Independent review report to Dialog Semiconductor Plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim report for the three- and nine-month periods ended 29 September 2017, which comprises the condensed consolidated statement of income, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and the related notes 1 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the 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 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 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 issued by the International Accounting Standards Board and 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 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 interim report for the three- and nine-month periods ended 29 September 2017 is not prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board and 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

Statutory Auditor

Reading, UK

7 November 2017

Condensed consolidated statement of income

For the three and nine months ended 29 September 2017

	Note	Third quarter		First nine months	
		Three months ended 29 September 2017 US$000 (Unaudited)	Three months ended 30 September 2016 US$000 (Unaudited)	**Nine months ended 29 September 2017 US$000 (Unaudited)**	Nine months ended 30 September 2016 US$000 (Unaudited)
Revenue	4	**362,833**	345,751	**889,322**	832,906
Cost of sales		**(192,744)**	(186,838)	**(477,998)**	(452,595)
Gross profit		**170,089**	158,913	**411,324**	380,311
Selling and marketing expenses		**(16,914)**	(15,044)	**(48,477)**	(45,621)
General and administrative expenses		**(18,511)**	(18,031)	**(50,936)**	(55,063)
Research and development expenses		**(72,092)**	(64,407)	**(200,334)**	(181,747)
Other operating income		**–**	–	**50**	137,678
Operating profit	4	**62,572**	61,431	**111,627**	235,558
Interest income		**1,663**	884	**4,860**	2,628
Interest expense		**(222)**	(385)	**(479)**	(3,124)
Other finance expense		**(2,865)**	(986)	**(2,520)**	(1,773)
Profit before income taxes		**61,148**	60,944	**113,488**	233,289
Income tax expense		**(13,837)**	(14,648)	**(25,977)**	(27,316)
Net income		**47,311**	46,296	**87,511**	205,973
Attributable to:					
– Shareholders in the Company		**47,899**	47,030	**88,852**	208,335
– Non-controlling interests		**(588)**	(734)	**(1,341)**	(2,362)
Net income		**47,311**	46,296	**87,511**	205,973

	Note				
Earnings per share (US$)	5				
Basic		**0.65**	0.62	**1.19**	2.74
Diluted		**0.62**	0.59	**1.14**	2.61
Weighted average number of shares (in thousands)	5				
Basic		**73,846**	75,913	**74,641**	76,165
Diluted		**77,184**	79,498	**78,270**	79,990

Condensed consolidated statement of comprehensive income

For the three and nine months ended 29 September 2017

	Third quarter		First nine months	
	Three months ended 29 September 2017 US$000 (Unaudited)	Three months ended 30 September 2016 US$000 (Unaudited)	**Nine months ended 29 September 2017 US$000 (Unaudited)**	Nine months ended 30 September 2016 US$000 (Unaudited)
Net income	**47,311**	46,296	**87,511**	205,973
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods				
Currency translation differences on foreign operations	**114**	705	**1,237**	1,301
Income tax relating to currency translation differences on foreign operations	**16**	(13)	**128**	48
Fair value loss on available-for-sale investments	**(5,368)**	–	**(5,842)**	–
Income tax relating to available-for-sale investments	**(81)**	–	**–**	–
Cash flow hedges:				
– Fair value gain/(loss) recognised on effective hedges in the period	**4,440**	19	**14,744**	(1,548)
– Fair value (gain)/loss transferred to profit or loss	**(2,297)**	1,636	**2,848**	4,491
Income tax relating to cash flow hedges	**(412)**	(314)	**(3,457)**	(816)
Other comprehensive income/(loss) for the period	**(3,588)**	2,033	**9,658**	3,476
Total comprehensive income for the period	**43,723**	48,329	**97,169**	209,449
Attributable to:				
– Shareholders in the Company	**44,311**	49,101	**98,517**	211,759
– Non-controlling interests	**(588)**	(772)	**(1,348)**	(2,310)
Total comprehensive income for the period	**43,723**	48,329	**97,169**	209,449

Condensed consolidated balance sheet

As at 29 September 2017

	Note	As at 29 September 2017 US$000 (Unaudited)	As at 31 December 2016 US$000 (Audited)
Assets			
Cash and cash equivalents		**636,230**	697,167
Trade and other receivables		**77,492**	80,773
Other current financial assets		**8,530**	–
Inventories	6	**187,320**	105,303
Income tax receivables		**13,078**	35,878
Other current assets		**15,468**	15,211
Total current assets		**938,118**	934,332
Goodwill	7	**251,629**	251,208
Other intangible assets	7	**114,479**	125,619
Property, plant and equipment	8	**83,976**	69,668
Non-current financial assets	9	**31,128**	22,332
Other non-current assets		**583**	–
Deferred tax assets		**17,912**	27,379
Total non-current assets		**499,707**	496,206
Total assets		**1,437,825**	1,430,538
Liabilities and equity			
Trade and other payables		**122,126**	89,645
Other current financial liabilities		**2,823**	77,978
Provisions		**2,095**	1,477
Income taxes payable		**–**	528
Other current liabilities		**52,734**	54,444
Total current liabilities		**179,778**	224,072
Provisions		**3,277**	3,370
Deferred tax liabilities		**1,969**	1,970
Other non-current liabilities		**9,075**	6,220
Total non-current liabilities		**14,321**	11,560
Ordinary shares		**14,204**	14,402
Share premium account		**403,660**	403,687
Retained earnings		**821,253**	862,914
Other reserves		**1,142**	(70,566)
Dialog shares held by employee benefit trusts		**(1,008)**	(20,608)
Equity attributable to shareholders in the Company		**1,239,251**	1,189,829
Non-controlling interests		**4,475**	5,077
Total equity		**1,243,726**	1,194,906
Total liabilities and equity		**1,437,825**	1,430,538

Condensed consolidated statement of cash flows

For the three and nine months ended 29 September 2017

	Third quarter		First nine months	
	Three months ended 29 September 2017 US$000 (Unaudited)	Three months ended 30 September 2016 US$000 (Unaudited)	**Nine months ended 29 September 2017 US$000 (Unaudited)**	Nine months ended 30 September 2016 US$000 (Unaudited)
Cash flows from operating activities				
Net income	**47,311**	46,296	**87,511**	205,973
Non-cash items within net income:				
– Depreciation of property, plant and equipment	**7,796**	6,868	**22,803**	19,935
– Amortisation of intangible assets	**9,724**	9,905	**29,347**	26,257
– Addition to inventory reserve, net	**446**	1,250	**693**	2,689
– Share-based compensation expense	**8,685**	7,269	**26,138**	22,237
– Other non-cash items	**1,533**	721	**(1,559)**	918
Interest (income)/expense, net	**(1,440)**	(499)	**(4,381)**	496
Income tax expense	**13,837**	14,648	**25,977**	27,316
Cash generated from operations before changes in working capital	**87,892**	86,458	**186,529**	305,821
Changes in working capital:				
– Trade and other receivables	**(32,368)**	(19,687)	**3,282**	16,941
– Inventories	**(38,290)**	(3,635)	**(82,710)**	(14,336)
– Prepaid expenses	**(101)**	34	**(1,807)**	(1,926)
– Trade and other payables	**4,625**	(2,772)	**33,459**	(44,767)
– Provisions	**1,099**	382	**527**	(472)
– Other assets and liabilities	**7,292**	13,221	**(223)**	9,134
Cash generated from operations	**30,149**	74,001	**139,057**	270,395
Interest paid	**(818)**	(815)	**(867)**	(3,221)
Interest received	**2,025**	880	**4,999**	2,335
Income taxes received/(paid)	**2,109**	(34,785)	**10,734**	(109,652)
Cash flow from operating activities	**33,465**	39,281	**153,923**	159,857
Cash flows from investing activities				
Purchase of property, plant and equipment	**(21,863)**	(6,974)	**(39,203)**	(18,170)
Purchase of intangible assets	**(2,528)**	(2,156)	**(6,582)**	(6,775)
Purchase of Dyna Image net of acquired cash	**–**	–	**–**	(647)
Payments for capitalised development costs	**(2,418)**	(1,839)	**(14,661)**	(11,716)
Sale/(purchase) of other investments, net	**(15,000)**	–	**(13,737)**	–
Change in other long term assets	**340**	7	**(435)**	176
Cash flow used for investing activities	**(41,469)**	(10,962)	**(74,618)**	(37,132)
Cash flows from financing activities				
Purchase of shares by employee benefit trusts	**–**	–	**(24,301)**	(3,127)
Sale of shares by employee benefit trusts	**732**	3,464	**6,718**	6,075
Purchase of own shares into treasury	**(8)**	(42,276)	**(125,035)**	(42,997)
Issue of shares by a subsidiary to non-controlling interests	**–**	–	**1,107**	–
Currency hedges on share buyback obligation	**–**	(1,186)	**1,227**	(1,186)
Other changes in equity	**–**	–	**(27)**	–
Cash flow used for financing activities	**724**	(39,998)	**(140,311)**	(41,235)
Net (decrease)/increase in cash and cash equivalents	**(7,280)**	(11,679)	**(61,006)**	81,490
Cash and cash equivalents at beginning of period	**643,633**	660,093	**697,167**	566,809
Currency translation differences	**(123)**	217	**69**	332
Cash and cash equivalents at end of period	**636,230**	648,631	**636,230**	648,631

Condensed consolidated statement of changes in equity

For the nine months ended 29 September 2017

	Ordinary shares US$000	Share premium account* US$000	Retained earnings* US$000	Other reserves* (note 13) US$000	Dialog shares held by employee benefit trusts US$000	Equity attributable to shareholders in the Company US$000	Non-controlling interests US$000	Total US$000
Nine months ended 30 September 2016 (Unaudited)								
As at 1 January 2016 – reclassified	14,402	403,687	631,548	(7,923)	(24,630)	1,017,084	7,801	1,024,885
Net income	–	–	208,335	–	–	208,335	(2,362)	205,973
Other comprehensive income	–	–	–	3,424	–	3,424	52	3,476
Total comprehensive income/(loss)	–	–	208,335	3,424	–	211,759	(2,310)	209,449
Other changes in equity:								
– Purchase of own shares into treasury	–	–	(992)	(42,997)	–	(43,989)	–	(43,989)
– Purchase of shares by employee benefit trusts	–	–	–	–	(3,127)	(3,127)	–	(3,127)
– Sale of shares by employee benefit trusts	–	–	3,171	–	2,904	6,075	–	6,075
– Share-based compensation, net of tax	–	–	20,241	–	–	20,241	–	20,241
As at 30 September 2016	14,402	403,687	862,303	(47,496)	(24,853)	1,208,043	5,491	1,213,534
Nine months ended 29 September 2017 (Unaudited)								
As at 1 January 2017	**14,402**	**403,687**	**862,914**	**(70,566)**	**(20,608)**	**1,189,829**	**5,077**	**1,194,906**
Net income	**–**	**–**	**88,852**	**–**	**–**	**88,852**	**(1,341)**	**87,511**
Other comprehensive income/(loss)	**–**	**–**	**–**	**9,665**	**–**	**9,665**	**(7)**	**9,658**
Total comprehensive income/(loss)	**–**	**–**	**88,852**	**9,665**	**–**	**98,517**	**(1,348)**	**97,169**
Other changes in equity:								
– Shares issued to employee benefit trusts	**373**	**(27)**	**–**	**–**	**(373)**	**(27)**	**–**	**(27)**
– Purchase of own shares into treasury	**–**	**–**	**3,024**	**(125,050)**	**–**	**(122,026)**	**–**	**(122,026)**
– Share buyback obligation	**–**	**–**	**62,584**	**–**	**–**	**62,584**	**–**	**62,584**
– Cancellation of treasury shares	**(571)**	**–**	**(186,522)**	**187,093**	**–**	**–**	**–**	**–**
– Shares issued by a subsidiary	**–**	**–**	**361**	**–**	**–**	**361**	**746**	**1,107**
– Purchase of shares by employee benefit trusts	**–**	**–**	**–**	**–**	**(24,301)**	**(24,301)**	**–**	**(24,301)**
– Sale of shares by employee benefit trusts	**–**	**–**	**(37,556)**	**–**	**44,274**	**6,718**	**–**	**6,718**
– Share-based compensation, net of tax	**–**	**–**	**27,596**	**–**	**–**	**27,596**	**–**	**27,596**
As at 29 September 2017	**14,204**	**403,660**	**821,253**	**1,142**	**(1,008)**	**1,239,251**	**4,475**	**1,243,726**

* Comparative amounts reclassified – see note 13.

Notes to the condensed financial statements

For the three and nine months ended 29 September 2017

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 (Regulated Market, Prime Standard, FWB:DLG, ISIS GB0059822006) and it is a member of the TecDax index, which tracks the performance of the largest technology companies listed on the Frankfurt Stock Exchange.

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

Registered office

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

Statement of compliance

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

Review and approval of the interim financial statements

The interim financial statements are unaudited, but have been reviewed by the Company's auditors, Deloitte LLP, whose report can be found on page 13. The interim financial statements do not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. The Company's audited statutory accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies in England and Wales. The auditors' 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 7 November 2017.

Basis of preparation

The interim financial statements are for the three- and nine- month periods ended 29 September 2017 ('Q3 2017' and '9M 2017') with comparative information for the three- and nine- month periods ended 30 September 2016 ('Q3 2016' and '9M 2016').

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.

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.

Accounting policies

The interim financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments and derivative financial instruments are stated at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Information about assets and liabilities that are measured at fair value is presented in note 10.

The Group's significant accounting policies are unchanged compared with the year ended 31 December 2016.

During 2017, subject to its endorsement for use in the European Union, the Group will adopt Amendments to IAS 7 *Statement of Cash Flows* (issued January 2016) that will introduce new disclosures in the Group's annual financial statements in relation to changes in liabilities arising from financing activities.

Presentation currency

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

Notes to the condensed financial statements continued

For the three and nine months ended 29 September 2017

1. Background continued

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates and assumptions and affect the Group´s results in future periods.

Seasonality of operations

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

Accounting standards issued but not yet adopted

We outlined in note 1 to our consolidated financial statements for the year ended 31 December 2016, the following new or amended accounting standards that have been issued by the IASB and are relevant to us but we have not yet adopted:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 16 *Leases*
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

In June 2017, the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments,* which clarifies the application of the recognition and measurement requirements of IAS 12 *Income Taxes* where there is uncertainty over income tax treatments. Subject to its endorsement for use in the European Union, IFRIC 23 will be effective for annual periods beginning on or after 1 January 2019.

We have not yet completed our evaluation of the financial effect of these pronouncements.

2. Additional investment in Dyna Image

In January 2017, the Group participated in a new issue of shares by its subsidiary, Dyna Image Corporation. We invested the equivalent of US$1,893. As a result of the share issue, our shareholding in Dyna Image increased from 45.7% to 48.5%. We reflected the increase in our shareholding as a transfer of US$361 within equity from non-controlling interests to retained earnings.

We continue to hold a call option over the shares in Dyna Image that we do not already own that expires in June 2018.

3. Aborted merger with Atmel

In January 2016, Atmel Corporation Inc. ('Atmel') terminated the merger agreement that existed with Dialog. Under the terms of the agreement, Atmel paid us a termination fee of US$137,300. We recognised the termination fee as other operating income during Q1 2016.

Also during Q1 2016, we incurred residual transaction costs of US$3,606 (recognised within general and administrative expenses) and commitment fees of US$1,913 on the borrowing facility that was arranged to finance the transaction prior to the cancellation of the facility in January 2016 (recognised within interest expense).

4. Segment information

a) Analysis by operating segment

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

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

- Mobile Systems provides power management and audio chips designed to meet the needs of the wireless systems markets and a range of advanced driver technologies for low power display applications – from PMOLEDs to electronic paper and MEMS displays.
- Automotive & Industrial's products address the safety, management and control of electronic systems in cars and for industrial applications.
- Connectivity's products include short-range wireless, digital cordless, Bluetooth® and VoIP technology.
- Power Conversion's products include AC/DC converter solutions for smaller, fast charging power adaptors for portable devices as well as LED drivers for solid-state lighting products.

No operating segments have been aggregated in determining our reportable segments. Each operating segment has a manager who is responsible for its performance and is accountable to the Chief Executive Officer.

The Management Team uses operating profit as the principal measure of the profitability of each of the Group's operating segments. Operating profit is, therefore, the measure of segment profit presented in the Group's segment disclosures.

In addition to our reportable segments, we present information for Corporate activities. Corporate activities do not meet the definition of an operating segment. Corporate activities include emerging market businesses (comprising Dyna Image and those developing low cost ICs for the Chinese consumer market), together with central corporate costs, the share-based compensation expense and certain other unallocated costs. During 9M 2016, Corporate activities also included the termination fee of US$137,300 that was paid to us by Atmel.

Revenue and operating profit by segment were as follows:

Third quarter

	Revenue[1]		Operating profit	
	Three months ended 29 September 2017 US$000	Three months ended 30 September 2016 US$000	**Three months ended 29 September 2017 US$000**	Three months ended 30 September 2016 US$000
Mobile Systems	**280,073**	269,855	**76,345**	73,178
Automotive & Industrial	**8,142**	7,181	**3,108**	2,323
Connectivity	**40,332**	33,428	**5,773**	2,545
Power Conversion	**32,789**	33,163	**(848)**	1,135
Total segments	**361,336**	343,627	**84,378**	79,181
Corporate activities	**1,497**	2,124	**(21,806)**	(17,750)
Total Group	**362,833**	345,751	**62,572**	61,431
Interest income			**1,663**	884
Interest expense			**(222)**	(385)
Other finance expense			**(2,865)**	(986)
Profit before income taxes			**61,148**	60,944

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

Notes to the condensed financial statements continued

For the three and nine months ended 29 September 2017

4. Segment information continued

First nine months

	Revenue[1]		Operating profit	
	Nine months ended 29 September 2017 US$000	Nine months ended 30 September 2016 US$000	**Nine months ended 29 September 2017 US$000**	Nine months ended 30 September 2016 US$000
Mobile Systems	**666,188**	635,269	**153,633**	148,844
Automotive & Industrial	**25,222**	22,428	**10,000**	7,215
Connectivity	**99,320**	82,450	**11,087**	2,197
Power Conversion	**92,737**	85,741	**(2,578)**	(6,568)
Total segments	**883,467**	825,888	**172,142**	151,688
Corporate activities	**5,855**	7,018	**(60,515)**	83,870
Total Group	**889,322**	832,906	**111,627**	235,558
Interest income			**4,860**	2,628
Interest expense			**(479)**	(3,124)
Other finance expense			**(2,520)**	(1,773)
Profit before income taxes			**113,488**	233,289

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

b) Geographic information

	Third quarter		First nine months	
	Three months ended 29 September 2017 US$000	Three months ended 30 September 2016 US$000	**Nine months ended 29 September 2017 US$000**	Nine months ended 30 September 2016 US$000
Revenue by shipment destination				
United Kingdom	**136**	123	**377**	387
Other European countries	**10,395**	11,331	**34,171**	35,249
Mainland China	**278,396**	256,036	**659,188**	602,203
Hong Kong	**54,961**	61,454	**141,096**	155,065
Other Asian countries	**15,471**	14,142	**44,959**	30,962
Rest of the world	**3,474**	2,665	**9,531**	9,040
Total Group	**362,833**	345,751	**889,322**	832,906

	As at 29 September 2017 US$000	As at 31 December 2016 US$000
Non-current assets[1] by location		
United Kingdom	**104,095**	96,876
Germany	**59,234**	44,992
Netherlands	**52,017**	49,960
USA	**214,789**	236,075
Taiwan	**13,115**	13,146
Rest of the world	**7,417**	5,446
Total Group	**450,667**	446,495

1 Non-current assets excluding financial instruments and deferred tax assets.

5. Earnings per share

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

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

		Third quarter		First nine months	
		Three months ended 29 September 2017	Three months ended 30 September 2016	**Nine months ended 29 September 2017**	Nine months ended 30 September 2016
Profit attributable to shareholders in the Company (US$000)					
For calculating basic and diluted earnings per share	a	**47,899**	47,030	**88,852**	208,335
Weighted average number of ordinary shares					
Shares in issue at the beginning of the year		**77,865,955**	77,865,955	**77,865,955**	77,865,955
Effect on average number of shares during the period:					
– Shares issued to employee benefit trusts		**3,000,000**	–	**2,133,333**	–
– Cancellation of treasury shares		**(4,483,816)**	–	**(1,610,852)**	–
Average number of shares in issue during the period		**76,382,139**	77,865,955	**78,388,436**	77,865,955
Deduct:					
– Shares held by employee benefit trusts		**(2,536,626)**	(1,192,939)	**(1,943,135)**	(1,447,134)
– Treasury shares		**–**	(760,381)	**(1,803,854)**	(253,460)
For calculating basic earnings per share	b	**73,845,513**	75,912,635	**74,641,447**	76,165,361
Deduct:					
– Dilutive share options and awards		**3,338,312**	3,585,730	**3,628,386**	3,824,753
For calculating diluted earnings per share	c	**77,183,825**	79,498,365	**78,269,833**	79,990,114
Earnings per share (US$)					
Basic	a/b	**0.65**	0.62	**1.19**	2.74
Diluted	a/c	**0.62**	0.59	**1.14**	2.61

Notes to the condensed financial statements continued

For the three and nine months ended 29 September 2017

6. Inventories

Inventories were as follows:

	As at 29 September 2017 US$000	As at 31 December 2016 US$000
Raw materials	**5,799**	12,334
Work-in-process	**55,404**	29,337
Finished goods	**126,117**	63,632
Total	**187,320**	105,303

7. Goodwill and other intangible assets

Movements on goodwill and other intangible assets during 9M 2017 were as follows:

	Goodwill US$000	Other intangible assets US$000
Net book value		
As at 1 January 2017	**251,208**	**125,619**
Effect of movements in foreign currency	**421**	**252**
Additions	–	**18,701**
Amortisation charge for the period	–	**(29,933)**
Disposals	–	**(160)**
As at 29 September 2017	**251,629**	**114,479**

At the end of Q3 2017, the Group had contractual commitments for the acquisition of intangible assets of US$7,282 (end of 2016: US$922).

8. Property, plant and equipment

Movements on property, plant and equipment during 9M 2017 were as follows:

	US$000
Net book value	
As at 1 January 2017	**69,668**
Effect of movements in foreign currency	**498**
Additions	**37,717**
Depreciation charge for the period	**(22,803)**
Disposals	**(1,104)**
As at 29 September 2017	**83,976**

At the end of Q3 2017, the Group had contractual commitments for the acquisition of property, plant and equipment of US$6,388 (end of 2016: US$8,332).

9. Non-current financial assets

Non-current financial assets were as follows:

	As at 29 September 2017 US$000	As at 31 December 2016 US$000
Available-for-sale investments:		
– Energous shares	**22,024**	12,866
– Arctic Sand shares	–	1,446
Derivative financial instruments:		
– Energous warrants	**7,281**	6,624
– Dyna Image call option	**142**	142
Rental and other deposits	**1,681**	1,254
Total	**31,128**	22,332

Energous shares and warrants

In November 2016, we entered into a strategic alliance with Energous Corporation ('Energous'), the developer of WattUp®, a wire-free charging technology. At that time, we subscribed for 763,552 common shares in Energous and were granted warrants to purchase up to 763,552 common shares that are exercisable in full or in part on a cashless basis at any time between May 2017 and November 2019. We initially recognised the warrants at their grant date fair value of US$4,695 and an equivalent deferred credit within non-current liabilities. We will amortise the deferred credit to profit or loss in relation to the royalties that may be payable by us for the use of Energous's Intellectual Property over the initial seven-year term of the strategic alliance. Amortisation of the deferred credit has not yet commenced.

In July 2017, we subscribed for a further 976,139 common shares in Energous at a cost of US$15,000 and were granted a second tranche of warrants to purchase up to 654,013 common shares that are exercisable in full or in part on a cashless basis at any time between January 2018 and July 2020. We initially recognised the second tranche of the warrants at their grant date fair value of US$4,753 and an equivalent deferred credit within non-current liabilities. We are amortising the deferred credit to profit or loss over the three-year period from the grant date to the expiry of the warrants.

During 9M 2017, we recognised a fair value loss on the shares of US$5,842 in other comprehensive income. We also recognised a fair value loss of US$4,096 on the warrants and a credit of US$373 on the amortisation of the initial fair value of the second tranche of the warrants in profit or loss (as other finance expense).

Arctic Sand shares

In March 2017, Peregrine Semiconductor Corporation, a subsidiary of Murata Manufacturing Co Ltd, agreed to acquire Arctic Sand Technologies, Inc. by way of a merger. We held approximately 3.5% of the issued equity shares in Artic Sand. We previously classified the shares as available-for-sale but carried them at their cost of US$1,446 because we were unable to measure reliably their fair value.

We have so far received proceeds of US$1,269 on the sale of the shares and have recognised a loss on disposal of US$177 in profit or loss (within other finance expense). In due course, we may receive up to a further US$63 that is being held in escrow pending any indemnification claims.

Notes to the condensed financial statements continued

For the three and nine months ended 29 September 2017

10. 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 are analysed by class and category:

	As at 29 September 2017						
	Loans and receivables US$000	Available-for-sale investments US$000	At fair value through profit or loss US$000	Held in designated hedging relationships US$000	Liabilities at amortised cost US$000	Net book value US$000	Fair value US$000
Financial assets							
Cash and cash equivalents	636,230	–	–	–	–	636,230	636,230
Trade and other receivables	77,492	–	–	–	–	77,492	77,492
Investments:							
– Energous shares	–	22,024	–	–	–	22,024	22,024
Derivative financial instruments:							
– Currency forwards and swaps	–	–	–	8,530	–	8,530	8,530
– Energous warrants	–	–	7,281	–	–	7,281	7,281
– Dyna Image call option	–	–	142	–	–	142	142
Rental and other deposits	1,681	–	–	–	–	1,681	1,681
Other financial assets	1,681	22,024	7,423	8,530	–	39,658	
Total financial assets	715,403	22,024	7,423	8,530	–	753,380	
Financial liabilities							
Trade and other payables	–	–	–	–	(122,126)	(122,126)	(122,126)
Hire purchase and finance lease obligations	–	–	–	–	(2,451)	(2,451)	(2,451)
Derivative financial instruments:							
– Currency forwards and swaps	–	–	–	(372)	–	(372)	(372)
Other financial liabilities	–	–	–	(372)	(2,451)	(2,823)	
Total financial liabilities	–	–	–	(372)	(124,577)	(124,949)	

10. Additional disclosures on financial instruments continued

Fair value measurement

a) Financial instruments carried at fair value

We have not designated any financial instruments at fair value through profit or loss on initial recognition.

We measured the fair values of the strategic investments described in note 9 using the following methods and assumptions:

- Energous shares (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's common shares and other inputs such as implied share price volatility that is modelled based on historical price data for Energous's common shares.
- Dyna Image call option – measured using a Monte Carlo valuation model in which the most significant inputs are management's estimates of the future revenue and profitability of Dyna Image and share price volatility that is modelled based on historical price data for comparable listed securities.

We measure the fair value of currency forwards and swaps at 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 are carried at fair value 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

	As at 29 September 2017			
	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Financial assets carried at fair value				
Investments:				
– Energous shares	**22,024**	–	–	**22,024**
Derivative financial instruments:				
– Currency forwards and swaps	–	**8,530**	–	**8,530**
– Energous warrants	–	–	**7,281**	**7,281**
– Dyna Image call option	–	–	**142**	**142**
Total financial assets carried at fair value	**22,024**	**8,530**	**7,423**	**37,977**
Financial liabilities carried at fair value				
Derivative financial instruments:				
– Currency forwards and swaps	–	**(372)**	–	**(372)**
Total financial liabilities carried at fair value	–	**(372)**	–	**(372)**

During 9M 2017, there were no transfers between Level 1 and Level 2.

Notes to the condensed financial statements continued

For the three and nine months ended 29 September 2017

10. Additional disclosures on financial instruments continued

In the following table, we present a reconciliation of the changes in the Level 3 fair values:

	Nine months ended 29 September 2017 US$000	Nine months ended 30 September 2016 US$000
At the beginning of the period	**6,766**	873
Grant of additional Energous warrants	**4,753**	–
Unrealised fair value losses recognised in profit or loss (other finance expense)	**(4,096)**	–
At the end of the period	**7,423**	**873**

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. In measuring the fair value of the warrants as at 29 September 2017, we incorporated implied volatilities of 76.9% in respect of the first tranche that expires in November 2019 and 74.9% in respect of the second tranche that expires in July 2020.

We estimate that if the implied volatilities had been 10 percentage points higher, the fair value of the warrants would have been US$1,106 higher at US$8,388 and if the implied volatilities had been 10 percentage points lower, the fair value of the warrants would have been US$1,162 lower at US$6,119. 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

Hire purchase and finance lease obligations attract fixed interest rates that are implicit in the lease rentals. For disclosure purposes only, the fair value of these obligations has been calculated as the present value of the future contractual cash flows using observable yield curves (Level 2).

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

11. Share-based compensation

Development of plans

Stock option plan activity (including stock options granted under the LTIP and the EIP) during 9M 2017 was as follows:

	Options	Weighted average exercise price €
Outstanding at the beginning of the period	**4,469,977**	**2.91**
Granted	**678,343**	**0.10**
Exercised	**(1,086,977)**	**5.61**
Forfeited	**(201,679)**	**0.35**
Outstanding at the end of the period	**3,859,664**	**1.79**
Options exercisable at the end of the period	**1,205,155**	**5.46**

Shares held by employee benefit trusts

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 the end of Q3 2017, the Trusts held 2,944,048 shares (end of 2016: 574,600 shares) at a cost of US$1,008 (end of 2016: US$20,608).

12. Share buyback programme

Share buyback authority

At the Company's AGM on 28 April 2016, the Directors were granted an authority to purchase up to 7,786,595 ordinary shares in the capital of the Company. During 9M 2017, 2,678,066 ordinary shares were purchased under the 2016 AGM authority at a total cost of US$125,050 (including transaction costs of US$803). The 2016 AGM authority expired on 3 May 2017.

At our AGM on 4 May 2017, the Directors were granted a new authority to purchase up to 7,808,280 of our ordinary shares by way of in further tranches. Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2018, whichever is the earlier. We have not yet announced any tranches of purchases under the 2017 AGM authority.

Purchases made under the share buyback programme are off-market from the perspective of the Company. Purchases under the 2017 AGM authority will be effected by way of contingent forward purchase contracts entered into with Barclays, Goldman Sachs, HSBC or Merrill Lynch acting as brokers.

Shares purchased during 9M 2017

On 8 November 2016, the Company announced details of the second tranche of the share buyback programme under which it committed to purchase shares with a minimum cost of €56.25 million and a maximum cost of €75.0 million.

We completed the first intermediate settlement under the second tranche on 30 December 2016. As at 31 December 2016, we recognised a debit to equity amounting to US$63,077 in relation to the maximum remaining obligation to purchase shares under the second tranche of €57.55 million (US$62,759) and related transaction costs.

We made a further intermediate settlement of the second tranche on 9 February 2017 and final settlement and conclusion of the tranche took place on 17 February 2017. In these further settlements, we purchased 977,456 shares at a cost of €38.8 million (US$41,385) and incurred transaction costs of US$270. On conclusion of the second tranche, we credited back to retained earnings the remainder of the obligation to purchase shares initially recognised of US$19,961 and related transaction costs..

On 27 February 2017, the Company announced details of the third tranche of the share buyback programme under which it committed to purchase shares with a minimum cost of €56.25 million and a maximum cost of €75.0 million. We initially recognised a debit to retained earnings amounting to US$79,407, which comprised the maximum obligation to purchase shares of €75.0 million (US$79,012) and related transaction costs.

We made intermediate settlements of the third tranche on 25 April 2017 and 2 June 2017 and final settlement and conclusion of the tranche took place on 23 June 2017. We purchased 1,700,610 shares under the third tranche at a cost of €74.9 million (US$82,862) and incurred transaction costs amounting to US$533. On conclusion of the third tranche, we credited back to earnings the remainder of the obligation to purchase shares initially recognised of US$71 and related transaction costs.

During 9M 2017, we showed a credit to retained earnings of US$3,024, which mirrored the loss recognised in profit or loss on the translation into US dollars of the Euro-denominated liability that existed in relation to shares that were purchased during the period. 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$237 in profit or loss in relation to liabilities to purchase shares under the second and third tranches during 9M 2017.

Movements in equity during 9M 2017 in relation to the share buyback programme were as follows:

	Retained earnings		Other reserves
	Share buyback obligation US$000	Currency translation adjustments US$000	Treasury shares US$000
Second and final settlements of second tranche	42,567	(912)	(41,655)
Release of surplus second tranche obligation	19,961	–	–
Recognition of third tranche obligation	(79,012)	–	–
Settlements of third tranche	79,459	3,936	(83,395)
Release of surplus third tranche obligation	71	–	–
Transaction costs recognised during the period	(462)	–	–
Change in equity during the period	62,584	3,024	(125,050)

Notes to the condensed financial statements continued

For the three and nine months ended 29 September 2017

13. Share capital and reserves

Ordinary shares and share premium

On 20 March 2017, the Company issued 3,000,000 of its £0.10 ordinary shares at par to its sponsored employee benefit trusts for the purpose of satisfying its obligations under its employee share schemes.

On 23 June 2017, the Company cancelled all 4,483,816 of its ordinary shares that it held in treasury following completion of the third tranche of its share buyback programme. On cancellation of the treasury shares, the total cost of the treasury shares of US$186,522 was transferred from treasury shares and set against retained earnings and the nominal value of the shares cancelled of US$571 was transferred from share capital to a non-distributable capital redemption reserve.

At the end of Q3 2017, the Company had 76,382,139 ordinary shares in issue and held no shares in treasury. At the end of 2016, the Company had 77,865,955 ordinary shares in issue, of which 1,805,750 ordinary shares were held in treasury.

Reclassification of reserves

In preparing the Company's financial statements for the year ended 31 December 2016, the Directors decided to present the share premium account separately within reserves in order to show more clearly the Company's undistributable reserves. Previously, the share premium account was subsumed within additional paid-in capital, which also included gains recognised on the sale or transfer of shares held by employee benefit trusts and the equity component of the US$201 million 1% Convertible Bonds 2017 ('the Bonds') that were issued by the Company during 2012 and converted by the bondholders during 2015. As shown in the following table, comparative information for 9M 2016 has therefore been reclassified to reflect the following transfers from additional paid-in capital:

- to transfer to the share premium account the cumulative premium (net of issue costs) recognised on the issue of shares prior to 1 January 2016 of US$390,194;
- to transfer to retained earnings the cumulative gain of US$36,952 recognised on the sale or transfer of shares by employee benefit trusts prior to 1 January 2016 and the gain of US$3,171 on such sales or transfers during 9M 2016; and
- on conversion of the Bonds during 2015, to transfer to retained earnings an amount of US$23,086 representing the cumulative interest expense recognised in relation to the Bonds and to transfer the balance of the equity component amounting to US$13,493 to the share premium account.

	Additional paid-in capital US$000	Share premium account US$000	Retained earnings US$000
As at 1 January 2016 – as previously stated	463,725	–	571,510
Reclassifications:			
– Premium on the issue of shares (net of issue costs)	(390,194)	390,194	–
– Gain on sale of shares by employee benefit trusts	(36,952)	–	36,952
– Equity component of Convertible Bonds	(36,579)	13,493	23,086
As at 1 January 2016 – reclassified	–	403,687	631,548
Nine months ended 30 September 2016			
Movements – as previously stated	3,171	–	227,584
Reclassifications:			
– Gain on sale of shares by employee benefit trusts	(3,171)	–	3,171
As at 30 September 2016 – reclassified	–	403,687	862,303

13. Share capital and reserves continued

Other reserves

Movements on other reserves were as follows:

	Capital redemption reserve US$000	Currency translation reserve US$000	Available-for-sale securities US$000	Hedging reserve US$000	Treasury shares US$000	Total US$000
Nine months ended 30 September 2016						
As at 1 January 2016	–	(4,480)	–	(3,443)	–	(7,923)
Other comprehensive income/(loss):						
– Currency translation differences on foreign operations	–	1,249	–	–	–	1,249
– Cash flow hedges:						
Fair value loss recognised on effective hedges in the period	–	–	–	(1,548)	–	(1,548)
Fair value loss transferred to profit or loss	–	–	–	4,491	–	4,491
– Income tax credit/(expense)	–	48	–	(816)	–	(768)
Other changes in equity:						
– Purchase of own shares into treasury	–	–	–	–	(42,997)	(42,997)
As at 30 September 2016	–	(3,183)	–	(1,316)	(42,997)	(47,496)
Nine months ended 29 September 2017						
As at 1 January 2017	**–**	**(4,400)**	**2,866**	**(7,560)**	**(61,472)**	**(70,566)**
Other comprehensive income/(loss):						
– Currency translation differences on foreign operations	**–**	**1,244**	**–**	**–**	**–**	**1,244**
– Fair value loss on available-for-sale investments	**–**	**–**	**(5,842)**	**–**	**–**	**(5,842)**
– Cash flow hedges:						
Fair value gain recognised on effective hedges in the period	**–**	**–**	**–**	**14,744**	**–**	**14,744**
Fair value loss transferred to profit or loss	**–**	**–**	**–**	**2,848**	**–**	**2,848**
– Income tax credit/(expense)	**–**	**128**	**–**	**(3,457)**	**–**	**(3,329)**
Other changes in equity:						
– Purchase of own shares into treasury	**–**	**–**	**–**	**–**	**(125,050)**	**(125,050)**
– Cancellation of treasury shares	**571**	**–**	**–**	**–**	**186,522**	**187,093**
As at 29 September 2017	**571**	**(3,028)**	**(2,976)**	**6,575**	**–**	**1,142**

14. Transactions with related parties

Shares issued by Dyna Image

In January 2017, Lite-On Semiconductor Corp participated in a new issue of shares by Dyna Image Corporation. Dyna Image is an associate of Lite-On. Lite-On invested the equivalent of US$1,107, thereby increasing its shareholding in Dyna Image from 25.9% to 27.4%. Dialog's participation in the share issue is set out in note 2.

Key management personnel

The Group's key management personnel comprise the Management Team (which includes the Company's executive Director) and the Company's non-executive Directors. With the exception of their compensation, there were no transactions with key management personnel during 9M 2017. Compensation of key management personnel for the year ending 31 December 2017 will be disclosed in the 2017 Annual Report.

Notes to the condensed financial statements continued

For the three and nine months ended 29 September 2017

15. Subsequent event

Acquisition of Silego

On 1 November 2017, we completed the acquisition of 100% of the voting equity interests in Silego Technology, Inc., the leading provider of Configurable Mixed-Signal ICs (CMICs).

Silego's CMICs integrate multiple analog, logic and discrete component functionalities into a single chip. Silego's intuitive CMIC software interface allows customers to easily configure these functions and prototype a custom IC within hours and offers considerable flexibility in design. Silego's technology enables OEMs to reduce board space, simplify their supply chain and reduce time-to-market. Silego's solutions are increasingly being used across a broad range of new applications, with over three billion units sold. Dialog's acquisition of Silego will complement our business by increasing our content at existing customers and expanding our customer base. Silego's broad product portfolio will strengthen our presence in a number of markets, including the IoT, computing, industrial and automotive markets.

We acquired Silego for US$276.0 million on a cash and debt-free basis, subject to adjustments for cash and working capital. Additional consideration of up to US$30.4 million may be payable contingent on Silego's revenues for 2017 and 2018.

Since completion took place very recently, we have not yet completed the initial accounting for the acquisition. We are therefore unable to provide certain disclosures that would otherwise be required, including in relation to the contingent consideration, the fair value of the identifiable assets and liabilities acquired and the goodwill recognised at the acquisition date. We will present the provisional purchase price allocation with our full year 2017 results in February 2018.

During Q3 2017, we incurred transaction costs of US1.3 million in relation to the acquisition of Silego (included within general and administrative expenses). We have incurred additional transaction costs during Q4 2017.

Financial performance measures

Use of non-IFRS measures

Our use of non-IFRS measures is explained on pages 152 to 158 of our 2016 Annual Report.

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

Underlying measures of performance

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

- the share-based compensation expense and related payroll taxes;
- the amortisation of identifiable intangible assets that were recognised in business combinations;
- transaction costs incurred in relation to the acquisition of Silego;
- the termination fee received and the costs associated with the aborted merger with Atmel;
- the non-cash element of the interest expense recognised in relation to a patent licensing agreement that is accounted for as a finance lease within other intangible assets;
- the effect on profit or loss of the measurement at fair value of strategic investments (including, during 9M 2017, the loss recognised on our investment in Arctic Sand Technologies, Inc.); and
- the income tax effect of each of the above items, which is calculated by considering the specific tax treatment of each item and by applying the relevant statutory tax rate to those items that are taxable or deductible for tax purposes.

Reconciliation of underlying measures of performance to equivalent IFRS measures

Reconciliations of the underlying measures of performance that we use to the equivalent IFRS measures for the three- and nine- month periods ended 29 September 2017 and 30 September 2016 are presented in the following tables:

Three months ended 29 September 2017

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations[1]	Effective interest	Strategic investments	Underlying
Revenue	362,833	–	–	–	–	362,833
Cost of sales	(192,744)	422	1,775	–	–	(190,547)
Gross profit	170,089	422	1,775	–	–	172,286
Gross margin %	*46.9%*					*47.5%*
SG&A expenses	(35,425)	4,562	3,156	–	–	(27,707)
R&D expense	(72,092)	4,090	–	–	–	(68,002)
Operating profit	62,572	9,074	4,931	–	–	76,577
Operating margin	*17.3%*					*21.1%*
Other finance income/(expense)	(1,424)	–	–	65	3,194	1,835
Profit before income taxes	61,148	9,074	4,931	65	3,194	78,412
Income tax expense	(13,837)	(1,530)	(210)	(13)	(461)	(16,051)
Net income[2]	47,311	7,544	4,721	52	2,733	62,361
EBITDA[3]	n/a					90,498
EBITDA margin %	*n/a*					*24.9%*

Financial performance measures continued

Three months ended 30 September 2016

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations[1]	Aborted merger with Atmel	Effective interest	Underlying
Revenue	345,751	–	–	–	–	345,751
Cost of sales	(186,838)	473	1,762	–	–	(184,603)
Gross profit	158,913	473	1,762	–	–	161,148
Gross margin %	*46.0%*					*46.6%*
SG&A expenses	(33,075)	4,902	1,849	(201)	–	(26,525)
R&D expense	(64,407)	3,185	–	–	–	(61,222)
Operating profit	61,431	8,560	3,611	(201)	–	73,401
Operating margin	*17.8%*					*21.2%*
Other finance income/(expense)	(487)	–	–	–	125	(362)
Profit before income taxes	60,944	8,560	3,611	(201)	125	73,039
Income tax expense	(14,648)	(2,678)	(217)	–	(25)	(17,568)
Net income[2]	46,296	5,882	3,394	(201)	100	55,471
EBITDA[3]	n/a					86,563
EBITDA margin %	*n/a*					*25.0%*

Nine months ended 29 September 2017

US$000 unless stated otherwise	**IFRS basis**	**Share-based compensation and related payroll taxes**	**Accounting for business combinations[1]**	**Effective interest**	**Strategic investments**	**Underlying**
Revenue	**889,322**	**–**	**–**	**–**	**–**	**889,322**
Cost of sales	**(477,998)**	**1,352**	**5,316**	**–**	**–**	**(471,330)**
Gross profit	**411,324**	**1,352**	**5,316**	**–**	**–**	**417,992**
Gross margin %	***46.2%***					***47.0%***
SG&A expenses	**(99,413)**	**13,536**	**6,804**	**–**	**–**	**(79,073)**
R&D expense	**(200,334)**	**12,695**	**–**	**–**	**–**	**(187,639)**
Other operating income	**50**	**–**	**–**	**–**	**–**	**50**
Operating profit	**111,627**	**27,583**	**12,120**	**–**	**–**	**151,330**
Operating margin	***12.5%***					***17.0%***
Other finance income	**1,861**	**–**	**–**	**240**	**3,904**	**6,005**
Profit before income taxes	**113,488**	**27,583**	**12,120**	**240**	**3,904**	**157,335**
Income tax expense	**(25,977)**	**(5,474)**	**(630)**	**(46)**	**(633)**	**(32,760)**
Net income[2]	**87,511**	**22,109**	**11,490**	**194**	**3,271**	**124,575**
EBITDA[3]	**n/a**					**192,692**
EBITDA margin %	***n/a***					***21.7%***

Nine months ended 30 September 2016

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations[1]	Aborted merger with Atmel	Effective interest	Underlying
Revenue	832,906	–	–	–	–	832,906
Cost of sales	(452,595)	1,318	5,268	–	–	(446,009)
Gross profit	380,311	1,318	5,268	–	–	386,897
Gross margin %	*45.7%*					*46.5%*
SG&A expenses	(100,684)	12,753	5,649	3,390	–	(78,892)
R&D expense	(181,747)	9,924	–	–	–	(171,823)
Other operating income	137,678	–	–	(137,300)	–	378
Operating profit	235,558	23,995	10,917	(133,910)	–	136,560
Operating margin	*nm**					*16.4%*
Other finance income/(expense)	(2,269)	–	–	1,913	416	60
Profit before income taxes	233,289	23,995	10,917	(131,997)	416	136,620
Income tax expense	(27,316)	(4,379)	(649)	(383)	(83)	(32,810)
Net income[2]	205,973	19,616	10,268	(132,380)	333	103,810
EBITDA[3]	n/a					171,835
EBITDA margin %	*n/a*					*20.6%*

* Operating margin calculated on an IFRS basis did not give a meaningful portrayal of our trading performance in 9M 2016 because it included the Atmel termination fee of US$137,300.

Notes:

1 Accounting for business combinations

We excluded from underlying measures of profitability the following specific items in relation to accounting for business combinations under IFRS:

	Third quarter		First nine months	
	Three months ended 29 September 2017 US$000	Three months ended 30 September 2016 US$000	**Nine months ended 29 September 2017 US$000**	Nine months ended 30 September 2016 US$000
Acquisition-related costs	**1,332**	–	**1,332**	–
Amortisation of acquired intangible assets	**3,599**	3,611	**10,788**	10,917
Increase in profit before income taxes	**4,931**	3,611	**12,120**	10,917
Income tax credit	**(210)**	(217)	**(630)**	(649)
Increase in net income	**4,721**	3,394	**11,490**	10,268

2 Earnings per share

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

	Third quarter		First nine months	
	Three months ended 29 September 2017 US$000	Three months ended 30 September 2016 US$000	**Nine months ended 29 September 2017 US$000**	Nine months ended 30 September 2016 US$000
Underlying				
Net income	**62,361**	55,471	**124,575**	103,810
Loss attributable to non-controlling interests	**466**	601	**979**	1,971
Earnings for calculating underlying basic and diluted EPS	**62,827**	56,072	**125,554**	105,781

Financial performance measures continued

3 EBITDA

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

	Third quarter		First nine months	
	Three months ended 29 September 2017 US$000	Three months ended 30 September 2016 US$000	**Nine months ended 29 September 2017 US$000**	Nine months ended 30 September 2016 US$000
Net income	**47,311**	46,296	**87,511**	205,973
Net finance (income)/expense	**1,424**	487	**(1,861)**	2,269
Income tax expense	**13,837**	14,648	**25,977**	27,316
Depreciation expense	**7,796**	6,868	**22,803**	19,935
Amortisation expense	**9,724**	9,905	**29,347**	26,257
EBITDA	**80,092**	78,204	**163,777**	281,750
Adjustments:				
Share-based compensation and related payroll taxes	**9,074**	8,560	**27,583**	23,995
Acquisition-related costs	**1,332**	–	**1,332**	–
Merger termination fee	**–**	–	**–**	(137,300)
Aborted merger costs	**–**	(201)	**–**	3,390
Underlying EBITDA	**90,498**	86,563	**192,692**	171,835

Free cash flow

Free cash flow is a non-IFRS measure that represents cash flow from operating activities, less capital expenditure. Free cash flow is useful to investors because it provides a measure of the cash generated by our business that is available for expansion, to develop new products, to make strategic investments in, or acquire, other businesses and to fund share buybacks and other distributions to shareholders.

Free cash flow was calculated as follows:

	Third quarter		First nine months	
	Three months ended 29 September 2017 US$000	Three months ended 30 September 2016 US$000	**Nine months ended 29 September 2017 US$000**	Nine months ended 30 September 2016 US$000
Cash flow from operating activities	**33,465**	39,281	**153,923**	159,857
Purchase of property, plant and equipment	**(21,863)**	(6,974)	**(39,203)**	(18,170)
Purchase of intangible assets	**(2,528)**	(2,156)	**(6,582)**	(6,775)
Payments for capitalised development costs	**(2,418)**	(1,839)	**(14,661)**	(11,716)
Free cash flow	**6,656**	28,312	**93,477**	123,196

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