Building a power-efficient connected world
Our custom, configurable and standard products enhance consumer experience and enable our customers to differentiate and shorten their time-to-market.
Underlying measures of performance 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 Dialog may not be comparable with similarly-titled measures used by other companies.

Revenue
US$1,566m
+9% year-on-year (2018: US$1,442m)

Underlying revenue
US$1,420m
+2% year-on-year (2018: US$1,442m)

Gross margin
54.2%
(2018: 47.9%)

Underlying gross margin
49.8%
(2018: 48.3%)

Operating margin
24.3%
(2018: 13.6%)

Underlying operating margin
22.8%
(2018: 19.5%)

Diluted EPS
US$3.96
(2018: US$1.80)

Underlying diluted EPS
US$3.47
(2018: US$2.90)

Cash flow from operating activities
US$496.5m
(2018: US$266.6m)

Employees
2,036
(2018: 2,100)

Engineering talent ratio
77%
(2018: 76%)

Customer concentration
72%
(2018: 75%)

On Time Delivery performance
99.9%
(2018: 99.7%)
At a glance

Our power-efficient mixed-signal ICs are used in an increasing number of applications, enabling people to be connected on the move and live healthier lives.

Our position in the industry value chain

<table>
<thead>
<tr>
<th>IP vendors</th>
<th>Semiconductor IP, software and design tools</th>
<th>Foundries</th>
<th>Packaging and test</th>
<th>Customers (OEMs and ODMs)</th>
<th>End-consumer</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSIC</td>
<td>Semiconductor design vendors</td>
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<td>Customers (OEMs and ODMs)</td>
<td>End-consumer</td>
</tr>
</tbody>
</table>

Our segments

The Group’s organisational structure was updated in 2019. These changes align with our focused R&D approach and pursuit of business opportunities in high-growth segments of our target end-markets – IoT, mobile, automotive, computing and industrial.

We have reduced the number of reporting segments from four to three: Custom Mixed Signal (“CMIC”), Advanced Mixed Signal (“AMS”) and Connectivity & Audio (“C&A”); previously Mobile Systems, Advanced Mixed Signal, Connectivity and Automotive & Industrial.

In parallel, the Management Team changed its focus from IFRS measures to underlying measures as the principal basis for allocating resources to and assessing the financial performance of the Group’s businesses. Underlying revenue and underlying operating profit/loss are now the measures presented in the Group’s segment disclosures.

Underlying revenue by segment

Total Group underlying revenue

### Custom Mixed Signal

- **Percentage of total Group underlying revenue in 2019**: 68%
- **Year-on-year revenue decline**: (7)%

**Underlying revenue**: US$965m

**Description**

Our custom products replace discrete power management components with highly-integrated single-chip solutions that provide higher energy efficiency, design simplicity and lower costs for portable and mobile devices, automotive in-vehicle systems, solid state drives and gaming. High-quality efficient charging technologies extending battery life experience are critical for our customers. In October 2019, we acquired Creative Chips GmbH (“Creative Chips”), a provider of custom ICs for the industrial market.

**Key products**

- Power Management Integrated Circuits (“PMICs”) for battery and tethered applications.
- Sub-PMICs for high-performance multi-core System-on-Chip (“SoC”) based systems.
- Charger ICs for smartphones and tablets.
- Automotive grade PMICs for in-vehicle infotainment and cluster systems.
- Motor control ICs (automotive).
- Sub-PMICs for Digital Single Lens Reflex (“DSLR”) cameras.
- Solid State Drive ICs.
- Custom Ethernet ICs.

Read more in our segment review on page 56

### Advanced Mixed Signal

- **Percentage of total Group underlying revenue in 2019**: 18%
- **Year-on-year revenue growth**: +4% 

**Underlying revenue**: US$253m

**Description**

Configurable Mixed-signal ICs (“CMICs”) can integrate many system functions while minimising component count, board space and power consumption. We also provide AC/DC controller solutions which enable fast and efficient charging for portable applications and LED drivers for display backlighting and Solid State Lighting (“SSL”).

**Key products**

- CMICs.
- AC/DC power conversion ICs for mobile and embedded power applications.
- LED drivers for direct backlighting for TVs, monitors and automotive.
- S8L LED drivers, including ASIC controllers.
- PMICs for battery and tethered applications.
- Sub-PMICs for high-performance multi-core SoC based systems.

Read more in our segment review on page 58

### Connectivity & Audio

- **Percentage of total Group underlying revenue in 2019**: 13%
- **Year-on-year revenue growth**: +19%

**Underlying revenue**: US$184m

**Description**

We provide short-range wireless connectivity solutions that deliver outstanding performance and power efficiency. In 2019, we expanded our SmartBond™ Bluetooth® low energy (“BLE”) product family with the launch of the market-leading advanced BLE wireless microcontroller family as well as the best-in-class lowest power and smallest wireless BLE microcontroller.

Our Digital Enhanced Cordless Telecommunications (“DECT”) and audio products enable a range of professional audio applications and high-end consumer headsets.

In 2019, we acquired the Mobile Product division from Silicon Motion Technology Group, FCI, and along with it the VirtualZero™ product family of low power Wi-Fi SoCs targeting battery operating IoT applications.

**Key products**

- Bluetooth® low energy ICs.
- Low power Wi-Fi SoCs.
- Voice over DECT for cordless phones and professional audio applications.
- Digital audio and codec ICs for headsets and headphones.
- Audio CODECs for computing, portable media players and audio accessories.

Read more in our segment review on page 60

* Restated to reflect the segment reorganisation and measurement changes.
We outsource the production of our semiconductors to leading foundries. Our high-touch fabless model enables a low capital intensity business.

The combination of low capital intensity and rigorous working capital management results in strong cash flow generation.

Although reinvesting in the business is a priority, we seek to consistently return excess cash to shareholders through share buybacks.

Free cash flow in 2019
US$449m
Share buyback in 2019
US$252m

We reinvest our cash in organic and inorganic initiatives which aim to enhance our competitive advantage, expand our technology portfolio and our customer base.

Number of sales opportunities with a value higher than US$50k
1,049
Cash allocated to acquisitions in 2019
US$140m

Year-on-year growth in 2019 (excluding legacy licensed main PMIC products)
+38%

- Our low power and mixed-signal technical competencies are aligned with secular trends in efficient power management and power-efficient technologies in connected (“Internet of Things”) devices, mobile, automotive, computing and industrial.

- The quality of our products is rooted in deep and focused R&D investment and intellectual property.

- Our engineers deliver technical excellence and high level of integration through short design cycles.

- We outsource the production of our semiconductors to leading foundries. Our high-touch fabless model enables a low capital intensity business.

- The combination of low capital intensity and rigorous working capital management results in strong cash flow generation.

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Creating long-term value for all our stakeholders

Chairman’s statement

“We are successfully delivering against our strategic objectives. The strength of our core capabilities gives us confidence about the potential for further long-term value creation for our shareholders and other stakeholders.”

Fellow shareholder, 2019 was the first year of the new chapter in the Company’s history and its 20th anniversary as a listed company.

Our culture and employees

Our growth strategy is supported by our collaborative and entrepreneurial spirit, a passion for innovation, the impact of our actions, and the way we conduct business. The Board and our employees live by our four Company values, which are expressed as the values of Agility, Difference, Many and Ideas. This year the Board had the opportunity to meet and discuss our plans with employees during a visit to our design centre in Munich in late October. We held an open and lively discussion on topics such as Dialog’s long-term strategy, product diversification and commitment to environmental issues, which will contribute to shaping the business and ensure its long-term sustainable success.

The commitment and engagement of our 2,036 colleagues are vital to our success. The ability to retain and develop our talent is key to the successful execution of our strategy and the long-term sustainability of the business. For this purpose, our human resources effort is focused on these two areas.

As part of the refinement of our employee engagement processes, Nick Jeffery, chairman of our Nomination Committee, was appointed to oversee employee engagement in 2019.

Our responsibility extends to wider society, living by and promoting responsible business practices across our value chain. We audit our manufacturing partners annually and follow up the resolution on any findings while consistently increasing the level of scrutiny of our audits.

Our high integrated and power-efficient products contribute towards the reduction of power consumption and materials in consumer electronics. For example our CMICs can integrate more than 30 discrete components into a single chip, contributing to a significant reduction in the materials used. Integration is one of the many contributions of our technology to society.

Building a constructive dialogue with shareholders and investors

The Board is committed to engaging in constructive dialogue with shareholders. In 2019, I had the opportunity to meet with shareholders in London and Frankfurt to discuss our governance arrangements and remuneration policies. These meetings fostered mutual understanding of what is important to the Board and shareholders. Additionally, a notable minority of shareholders opposed the new remuneration policy at the 2019 AGM. Since then, we engaged with a majority of shareholders to follow up on their concerns in relation to the remuneration policy. We will continue to engage with shareholders on a range of issues, including remuneration, corporate governance, gender diversity and other social and environmental topics.

Relationships with customers, partners and communities

Strong and responsible relationships with customers, partners and communities are part of our DNA.

The licensing arrangement with Apple which was closed in April 2019, was a good example of how the Board considered and balanced the interests of employees and customers to ensure the long-term sustainability of our business. Our collaborative values extend to the way we engage with our stakeholders and have resulted in the development of leading technology, product quality and product excellence.

Our responsibility extends to wider society, living by and promoting responsible business practices across our value chain. We audit our manufacturing partners annually and follow up the resolution on any findings while consistently increasing the level of scrutiny of our audits.

As one of the leading European companies in analog mixed-signal semiconductors, we continuously engage with universities and professional bodies, sharing our knowledge and supporting the development of students and professionals. Additionally, in 2019 we contributed approximately $1.3 billion to a range of stakeholders, including employees, tax authorities and local community projects across the world.

Looking to refine our governance framework to reflect the updates to the 2018 UK Corporate Governance Code. As we move into 2020, we will continue to look to refine our governance framework to reflect the updates to the 2018 UK Corporate Governance Code.

Outlook

We are executing on our strategy, creating a more balanced business building on our strengths and generating value for shareholders and other stakeholders over the long term.

Our confidence in the future of our business would not be possible without the hard work and passion of all our colleagues, and the Board would like to express its sincere thanks for their efforts and commitment. Finally, I would also like to thank our shareholders and other stakeholders for their continued support.

Sincerely,

Richard M. Beyer
Chairman
**CEO Q&A**

**Executing our plan to build a diverse business**

Since the IPO in 1999, Dialog has developed leading mixed-signal technology through a collaborative approach. We work closely with customers, suppliers and other stakeholders. The length and quality of our customer relationships, the commitment of our employees and a strong collaboration with our foundry, test and packaging partners are a testimony of this approach. The Company values are lived daily by employees, management and the Board being open, entrepreneurial and collaborative, and understanding that together we make a contribution to society which goes beyond the generation of economic value.

During the last ten years we powered the mobile computing revolution; we are now building a power-efficient connected world.

**Q&A with Jalal**

**How do you see consumer Internet of Things (‘IoT’) and mobile computing evolving, and how would you describe Dialog’s competitive position in IoT and mobile computing?**

IoT and mobile computing are our main end-markets. Our deep expertise and IP in mixed-signal semiconductors are aligned with customer requirements for energy-efficient and configurable products. We have market leading positions in multiple market segments, including custom power management, AC/DC power conversion, CMIC, backlighting, Bluetooth® low energy and DECT.

Our highly-integrated power-efficient ICs contribute to improving the battery life of mobile and connected devices. Our know-how and IP have been built over the years, working together with the leading consumer electronics companies. We have a number of new products which will generate new revenue growth over the next three years, such as leveraging our power management technology into automotive and high-voltage chargers. We are seeing an increasing use of LED backlighting in smaller TV displays and automotive dashboards. Our technology meets today’s High Dynamic Range (“HDR”) requirements and is well placed to benefit from new opportunities in micro-LED displays. Rapid charge technologies continue to be adopted across Asian markets. During 2019, we saw the adoption of new technologies, such as USB PD Type-C™ and higher power adapters. With a commanding market share in rapid charge for smartphones we are well positioned to continue to benefit from these trends.

Our presence in the IoT segment is built on the success and quality of our Bluetooth® low energy (“BLE”) products, low power Wi-Fi, and increasingly our CMICs.

The market grew in 2019 and we expect it to grow at approximately 32% CAGR for the period 2019-2023.

In 2019, BLE grew 34% year-on-year, the fifth consecutive year of strong double-digit growth.

**What is the M&A opportunity for Dialog?**

In 2019 we made two acquisitions, targeting IoT and industrial. The first one, FCI, expanded our product portfolio in consumer IoT with low power Wi-Fi while the acquisition of Creative Chips has given us an entry into the industrial market. Both acquisitions brought complementary and differentiated IP, and contributed to the expansion of our customer base, particularly in the European industrial segment. We welcomed new employees based mainly in Germany and Korea and made excellent progress on their integration into Dialog.

**What are the main sustainability priorities for Dialog?**

As a participant in the United Nations’ Global Compact – to which we committed since 2012 – we continue to apply sustainability management standards in the pursuit of our business ambitions.

Our employees, innovative power-efficient products, and a responsible supply chain are our key sustainability priorities. These are vital for the long-term success of our business. We continue to work hard to ensure the ongoing development of our talented employees. This combined with our focused R&D approach results in a continuous cycle of innovation in power-efficient technologies. Lastly, our collaborative business approach and commitment ensures we play an active role in promoting high standards of business conduct across the value chain.

We recognise the value a diverse workforce can bring in terms of creativity, dynamism and the sharing of new perspectives. Dialog remains committed to promote STEM subjects, particularly amongst female students, and to inspire the future innovators.

**Dear shareholder, in 2019 we took the first steps on the successful execution of our plan towards building a more diverse mixed-signal business.**

**Underlying operating profit**

US$224m  
(Operating profit US$380m*)

**Underlying gross margin**

49.8%  
(Gross margin 54.2%)

**Year-on-year revenue growth excluding licensed PMIC products**

+38%

**How have we delivered results?**

Our talent, best-in-breed expertise and collaborative approach give me confidence in the future of our business. 2019 was the first year of our plan to become a more diverse mixed-signal business. We did so with confidence in the future, closing in early April the transaction with Apple announced in October 2018 and delivering an excellent financial performance. In November 2019, we upgraded our long-term financial targets published in November 2018, with increased targets for underlying gross margin and underlying operating margin, reflecting our confidence in the future of the business.

We have entered a new phase of revenue growth, building on our strong execution in power-efficient mixed-signal semiconductors, talented and committed colleagues, intellectual property and strong customer relationships. Dialog is focused on growing its market share in high-growth segments of Internet of Things (“IoT”), mobile, automotive, computing and industrial.

Total Group revenue in 2019 was US$1,566 million and operating margin was 24.3%. In 2019 the business delivered 38% year-on-year revenue growth excluding revenue from licensed main PMIC products and increased underlying operating margin. Total Group underlying revenue in 2019 was up 16% 2018. During the year we acquired FCI and Creative Chips. These two acquisitions have contributed to the expansion of our product portfolio in IoT and industrial applications.

* See full explanations and reconciliations on pages 183 to 189.

**In 2019, revenue from Bluetooth® low energy was up 34%, the fifth consecutive year of strong revenue growth**

We continue to work hard to bring new revenue growth opportunities in our target end-markets. Over the coming years M&A will contribute to enhance our competitive advantages, expand our product portfolio and addressable markets, and reduce customer concentration.
How we monetise our business

We typically invest in R&D up to 18 months ahead of product launch and we recover our investments through the sale of our semiconductors. Our customers’ product cycles typically range from one to five years. This, together with the strength of our customer relationships, means the Company typically has long-term visibility of business opportunities and revenue streams, a rare characteristic for semiconductor companies operating in consumer markets.

A tableless business model based on differentiated best-in-bred products and Tier 1 customer penetration results in high volumes, longer-term revenue streams and ultimately in strong cash generation. On the other hand, our relatively high customer concentration can lead to significant fluctuations in revenue based on customer success and sourcing strategies. Dialog seeks to minimise its environmental footprint.

Aligned interests

Dialog development of market-leading innovative products seeks to generate profitable revenue streams and create long-term value for our shareholders. We achieve this by setting stretching performance targets, which align with shareholders’ interests, and then motivating our executives and employees to achieve those targets with appropriate incentive arrangements. The remuneration policy is set out in greater detail within the Directors’ remuneration policy on pages 94 to 99.

1 Design cycle

The reciprocal cooperation with customers and fabrication partners and decentralised R&D approach enhances our innovation capacity. In the consumer electronics market, product development times are short due to rapidly evolving consumer requirements, which is composed of the leading foundries, assembly and test companies in the industry.

2 Manufacturing cycle

We have developed a strong and responsible relationship with our foundry, test and packaging partners. We outsource production to industry-leading water foundries such as TSMC, UNIQ and Global Foundries. This approach enables flexibility to deploy advanced production processes and maintain low capital intensity. Our assembly and test partners are leading companies such as SPL, ASE and UTAC. Although tableless, we are responsible for delivering our products to customers.

Our Global Operations and Quality functions have teams based at our partners’ manufacturing sites. We maintain deep expertise on advanced processes, test and packaging development in our own teams (‘high-touch’). In order to meet our stringent product quality and qualification requirements, all test programmes are developed and maintained by our Test and Product teams and deployed to our partners. This approach enables a continuous quality improvement process and delivers high levels of assurance to us and our customers regarding the potential risks they are exposed to through the supply chain.

We promote responsible business practices internally and across our value chain. An efficient and responsible supply chain is important to us and our customers.

3 Product cycle

Dialog’s focus and expertise in power management and power-efficient semiconductors contribute to better energy efficiency and lower power consumption for a range of applications in IoT, mobile and the Internet of Things. Our strategy is to focus on high-efficiency integration of power and analog functions in standard CMOS processes, thus reducing both components and power consumption which translates into lower system cost and higher system performance.

Our integrated design approach helps to reduce component size and number, which improves the energy efficiency of our customers’ products. We operate in a highly competitive and changing market and are able to respond quickly to evolving customer requirements.

Business process

1 Design cycle

6-18 months

We develop our products in short and collaborative design cycles. We operate in a competitive and changing market and are able to respond quickly to evolving customer requirements.

2 Manufacturing cycle

3 months

We work closely with leading and responsible production partners – ‘high-touch tableless model’. We outsource production to industry-leading water foundries, assembly and test partners.

3 Product cycle

1-5 years

We focus on highly-integrated power management and low-power mixed-signal ICs for our target end markets. Our integrated design approach helps to reduce component size and number, which improves the energy efficiency of our customers’ products.

Outputs

Financed flows

Investment phase

10.0%

Employee turnover in 2019

Highly engaged, motivated and diverse workforce

1,080

Inventions for which we are pursuing or have already obtained patent protection

Sustainable partner relationships

99.9%

On Time Delivery

Close and longstanding customer relationships

US$449m

Final cash flow generation in 2019

High returns and strong cash flow generation

Strategic growth initiatives including M&A

Reinvestment

1

See explanations and reconciliations to the nearest equivalent IFRS measures on pages 183 to 189.

Our business model is underpinned by our values. Read more on page 5.
Generating new revenue opportunities

Our ambition is to build a leading and vibrant mixed signal business, enhancing the usability, effectiveness and sustainability of a range of applications.

We made good progress in 2019, moving forward with initiatives in each of our strategic priorities. The strategic framework aims to give a comprehensive view of our business and the links between our strategy, risks and the progress made during the year.

Read about Managing risk and uncertainty on pages 72 to 77

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**Extend our product portfolio**

**Why it is important**

We aim to continuously extend our product portfolio of highly-integrated mixed-signal, power-efficient products. This helps us to diversify, open up new addressable markets, and stay ahead of the competition.

**How we measure our progress**

56

New products introduced and sold in 2019 with revenues greater than US$200,000.

Read more on this strategic priority in action on p14

---

**Achieve a broader and deeper customer base**

**Why it is important**

The quality of our products has attracted the leading brands in each of our markets. We want to maintain and grow those strong relationships while further diversifying our customer base by launching new products and opening up new addressable markets.

**How we measure our progress**

43

New customers welcomed to Dialog with revenues greater than US$200,000. Additionally, we deepened our existing customer base with new ASIC and ASSP products.

Read more on this strategic priority in action on p15

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**Deliver continuous innovation**

**Why it is important**

Innovation is at the core of our business. Our top talent and technology, paired with an innovative product development philosophy and focused R&D investment, enables Dialog to deliver high value to our customers.

**How we measure our progress**

US$314m

Expensed in R&D programmes during 2019, a decrease of 4% compared with 2018.

Read more on this strategic priority in action on p16

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**Strategic initiatives and M&A**

**Why it is important**

We support the expansion of our business through a combination of organic initiatives, such as investments in new technologies, establishing partnerships, and M&A.

**How we measure our progress**

In 2019, we extended our product portfolio in Connectivity IoT with the acquisition of FCI bringing low power Wi-Fi expertise in house. Additionally, we entered the industrial market with the acquisition of Creative Chips.

Read more on this strategic priority in action on p17

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Extending our product portfolio

Applying our mixed-signal expertise into the development of new products.

Dialog Semiconductor was first to market with an automotive grade CMIC.

The SLG46620-A is the first-to-market CMIC for the automotive industry, with unique GreenPAK™ customisable technology that enhances design flexibility and scalability for driving the automotive future.

This SLG46620-A addresses manufacturer requirements to implement the latest safety, comfort and self-driving features by bringing Dialog’s GreenPAK™ platform to the automotive space, providing lower project costs, and accelerated time-to-market.

Each automotive grade base CMIC can be programmed to include functionalities such as power sequencing, voltage monitoring, system reset, LED control, frequency detection and sensor interfacing.

Progress in 2019

We launched the latest addition to the SmartBond™ family, the DA1469x Bluetooth® low energy SoC, the market leading, feature-rich range of multi-core microcontroller units (MCUs) for wireless connectivity. The new product family builds on the success of the SmartBond™ products adding greater processing power, resources, range and battery life for a wide variety of IoT connected consumer applications.

Key risks:

– Human capital.
– Information technology and security.
– Dependency on mobile and consumer electronics.
– Supply chain interruption.
– Quality assurance.
– Return on research and development investment.

Achieving a broader and deeper customer base

A new family of audio CODECs delivering ground-breaking active noise cancellation.

The global market¹ for headphones is forecast to grow at a CAGR of 20% generating revenues of around $34 billion.

The new audio-codec DA740x family delivers superior active noise cancellation – no matter how noisy the environment – with twice the audio quality and half the power consumption of its competitors.

Dialog has specifically designed each chip to address different segments of the headphone market, providing customers with a one-stop shop for optimising their entire mid and high-end product range.


How we measure our progress

56

New products introduced and sold in 2019 with revenue greater than US$200,000

<table>
<thead>
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<th>2019</th>
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<td>48</td>
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43

New customers welcomed to Dialog in 2019 with revenue greater than US$200,000. Additionally, we deepened our existing customer base with new ASIC and ASSP products.

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<th>2019</th>
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<td>43</td>
<td>26</td>
<td>16</td>
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Delivering continuous innovation

New sub-PMIC family powers advanced multi-core mobile processors.

In 2019 we introduced a new power management product family of four new sub-PMICs, leveraging Dialog’s power conversion’s expertise, which offer best-in-class transient response and in-circuit digital programmability, in a smaller form factor than current market solutions.

The new family of high frequency, I2C controlled DC-DC Buck converters enables developers to fit power solutions into small spaces of devices spanning smartphones, tablets, notebooks, DSLR cameras and solid state drives. This in turn enables the devices to achieve higher efficiency without sacrificing functionality.

Progress in 2019

– The newest range in our SmartBond™ line is the latest family of BLE Wireless Multi-Core MCUs that has been designed to expand the range of applications that device manufacturers can create. The line offers advanced features including an integrated ARM Cortex M33 based dedicated application processors. The devices’ three integrated cores have each been carefully chosen for their capabilities to sense, process and communicate between connected devices.

– In 2019 we launched SmartBond TINY™, our smallest and most power-efficient Bluetooth 5.1 SoC. It enables a complete system cost reduction through a smaller footprint and size, while maintaining performance quality at a level unmatched by its competitors.

Key risks

– Dependency on mobile and consumer electronics.
– IP protection.
– IP infringement.

How we measure our progress

US$314m
Expensed in R&D programmes during 2019, a decrease of 4% compared to 2018.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
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<tr>
<td>2019</td>
<td>314m</td>
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<tr>
<td>2018</td>
<td>326m</td>
</tr>
<tr>
<td>2017</td>
<td>333m</td>
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77%
Engineering talent ratio
(2018: 76%; 2017: 75%)

1,080
Inventions for which we are pursuing or have already obtained patent protection (2018: approximately 800; 2017: approximately 800)

Focusing on strategic initiatives and M&A

Dialog Semiconductor accelerates IoT adoption with low power Wi-Fi SoC, following the acquisition of FOI, Silicon Motion’s Mobile Communications product line.

The FC9000 is targeted at battery-powered IoT devices such as smart locks, video monitoring systems, smart thermostats, and wireless sensors enabling direct connectivity to Wi-Fi networks.

This product complements our existing portfolio of leading Bluetooth® low energy SoCs for connected devices.

IoT network compatibility and power consumption is becoming increasingly important, and the FC9000’s proprietary power-saving algorithms sets a new industry benchmark which allows it to operate on just a few microwatts, increasing the overall battery life for end-devices.

As we move towards a Wi-Fi ubiquitous world, being first to market with this technology gives us a significant competitive advantage, enabling direct connectivity to the cloud for IoT devices and easy connection to existing Wi-Fi infrastructure for Industry IoT applications.

Progress in 2019

– Additionally in Q4 2019 we acquired Creative Chips, a prominent supplier of ICs to the Industrial Internet of Things (IIoT) market. Creative Chips is a fabless semiconductor company with a growing IC business supplying a broad portfolio of industrial Ethernet and other mixed-signal products to top-tier, blue-chip manufacturers of Industrial and building automation systems.

Key risks

– Human capital.
– Dependency on key customers.
– Dependency on mobile and consumer electronics.
– Mergers and acquisitions.
Industry drivers

Semiconductors are the centre of the connected world, from Smart Homes to industrial IoT.

Technological advancements in wireless communications, artificial intelligence ("AI"), automotive, industrial automation, and consumer electronics are creating new investment opportunities and growth.

 Longer battery life

Semiconductors are used extensively in all types of electronic devices. The ever-growing data processing brought by AI, increasing government regulation and consumer demand for long battery life will drive the need for more power-efficient semiconductors.

 IoT: Smart connected future

Semiconductors serve as the foundation for enabling a connected world. There will be a major focus on smaller chips that consume less power and provide better support for wireless connectivity. The number of businesses that use the IoT technologies has increased from 13% in 2014 to about 25% today. The worldwide number of IoT-connected devices is projected to increase to 43 billion by 2023, an almost threefold increase from 2018.1 Technological advances are enhancing connectivity, reducing power requirements, decreasing costs, and promoting the development of more integrated IoT solutions.

 Rise of artificial intelligence

AI is viewed as a source of differentiation by businesses. The next generation of AI is gradually being embedded in a wide range of applications such as self-driving cars, surgical robots, autonomous drones, and smartphones. Semiconductor chips consume a huge amount of power to do such AI-intensive tasks.

 Security

Data security of connected devices is an important area of focus for semiconductor companies. These include home automation systems, wearable devices, and industrial automation products. Semiconductor companies, especially those used in areas such as home security, connected health and industrial automation will need to focus on developing secure chips.

 Automotive industry

The pace of change in the automotive industry is accelerating and the number of connected and electric cars is growing. Manufacturers are required to implement the latest safety, comfort and self-driving features which demand an ever-growing number of ICs.

 Consolidation through M&A

As the semiconductor industry growth slows in certain segments, companies are increasingly turning towards M&A to sustain profitability, seek new sources of revenue, achieve greater economies of scale and reduce revenue volatility through a diversified portfolio of products.

 5G and AR/VR technologies

5G will enable an increasing number and range of machines to transmit and receive data. Major telecommunications companies, together with mobile phone device manufacturers, are releasing 5G capabilities. The US started the 5G roll-out in December 2018 and Korea in 2019. Bandwidth-intensive applications, such as high-resolution video streaming and AR/VR, accounts for 70% of broadband data usage; and that is expected to rise rapidly.

Industry dynamics

Top industry dynamics for the next three years

Diverse Customer Demands

Most OEMs offer a wide range of electronic applications to consumers, in some cases requiring a complete system approach to solve all semiconductor requirements.

Implications for Dialog
To meet this challenge, Dialog continues to broaden its product portfolio through a combination of organic development and M&A. Companies are seeing the opportunities to serve new sectors, applications and geographies.

Read more about our customers on pages 36 and 37

Increasing competition for talent

Electronic engineers are in high demand and companies outside of the semiconductor industry are now establishing internal teams to design some of their semiconductor requirements.

Implications for Dialog
For a number of years, Dialog has established policies, processes and a number of programmes to recruit, develop and retain talent globally.

Read more about our people on pages 32 to 35

Cross-border regulations

The global nature of the supply chain and the increasingly complex geopolitical environment are becoming a concern for our industry.

Implications for Dialog
Our latest operating model provides our business with the ability to adapt to different trading scenarios whenever they may arise.

Read more about our risks on pages 72 to 77

ASP* erosion

The semiconductor industry is highly competitive, and the price of ICs erodes every year.

Implications for Dialog
Dialog’s continuous innovation results in differentiated and innovative power-efficient products which create value for our customers. This helps to offset the price erosion which is intrinsic to our industry. Additionally, with higher volumes, we can negotiate lower prices from our fabrication partners.

Read more about our segmental review on pages 56 to 61

Increasing R&D costs

Semiconductor companies feel the pressure to innovate, with access to promising IP becoming the basis of competition.

Implications for Dialog
Dialog believes that its future competitive position will depend on its ability to respond to the rapidly changing needs of its customers by developing new designs in a timely and cost-effective manner.

Read more about our investment in R&D on pages 42 and 43

Opportunities in our markets

The major markets in which we operate are below* (market size in US$bn):

** Bluetooth® low energy**
- 2019: $1.80bn
- 2023: 32% CAGR 2019-2023
  - Key drivers:
    - Increase in the number of smart connected devices.
    - Very low power data transmission from peripherals to smartphones and tablets.
    - Solutions enabling customers a fast go-to-market.
    - Automotive qualified products from 2020.

** Custom Power Management**
- 2019: $2.77bn
- 2023: 3% CAGR 2019-2023
  - Key drivers:
    - Increase in the number of applications using more efficient power management.
    - Increasing daily use of mobile applications.
    - Larger batteries and battery charge time reduction.
    - Industry increase in “always-on” applications.
    - Acceleration of mobile technology into the automotive space.

** Automotive – Custom & Infotainment**
- 2019: $1.80bn
- 2023: 13% CAGR 2019-2023
  - Key drivers:
    - Increasing electrification of vehicles.
    - Higher levels of data processing requiring more complex and power-hungry technologies.
    - Adoption of latest safety features.

** Low Power Wi-Fi**
- 2019: $1.80bn
- 2023: 32% CAGR 2019-2022
  - Key drivers:
    - Increase in the number of smart connected devices.
    - Increasing number of battery operated devices which require Wi-Fi connection.
    - Solutions enabling customers a fast go-to-market.

** Configurable Mixed-signal ICs**
- 2019: $2.46bn
- 2023: 5% CAGR 2019-2023
  - Key drivers:
    - Consumer markets requiring reliable and cost sensitive products, as well as fast time-to-market.
    - Replacement of discrete components makes CMICs market agnostic.
    - Increasing integration to reduce board space and the number of components.

** Rapid Charge (AC/DC)**
- 2019: $0.28bn
- 2023: 8% CAGR 2019-2023
  - Key drivers:
    - Larger smartphone/mobile device batteries and higher power adapters needed to charge them.
    - Consumer demand for faster mobile device charging and smaller travel adapters/power supplies.

* IHS Technology October 2019 and Company estimates.
Powering the future: automotive

What’s next?
The increasing electrification of cars opens new opportunities for our business. Consumers demand a mobile phone-like user experience for Infotainment and Navigation systems with always-on connectivity, high-quality touch screens, multifunctionality, and fast response. Dialog’s power management, backlight drivers, Bluetooth low energy, and GreenPAK devices (“CMICs”) deliver differentiated value in ADAS, Infotainment, and specific wireless connectivity applications.

Infotainment Systems
Power management enables a mobile phone-like user experience in today’s high-performance Infotainment systems.

Chassis and safety
Our sophisticated PMICs power high-performance applications processors in Advanced Driver Assistance Systems (“ADAS”) where complex power delivery and thermal efficiency are key requirements.

Digital displays
Our high-channel count backlight drivers enable large, high dynamic range, cost effective in-cabin displays.

Body and security
Keyless Entry, Tire Pressure Monitoring Systems, and gateways are becoming standard features for security, safety, and convenience. Our highly-integrated Bluetooth low energy products enable these features.

Alignment to our goals

Learn more online, at dialog-semiconductor.com

* Mordor Intelligence, automotive infotainment systems market growth, trends and forecast (2020-2025).
Powering the future: wearables

SmartBond™
Our ICs help wearable devices deliver a new sense of freedom, enabling the design of compact, power-friendly and flexible solutions.

The first Bluetooth® low energy solution for wearables
The DA1468x family offers the processing power and strong data encryption needed for enhanced analysis and secure data delivery in next-generation devices.

At the cutting edge of wearable technology
Wearables are all about bridging the gap between people and electronics, in any environment. Our ICs provide the power efficiency and small form factor needed for the latest and greatest in wearables.

Many aspects come together to make an effective wearable device. Form factor, design and power efficiency are vital in making devices that are comfortable and easy to use, helping us to maintain a healthy lifestyle.

What’s next?
Wearables are increasingly interacting with other smart devices, such as clothing accessories, headphones and glasses incorporating miniaturised technology. All this data will enable us to understand activity patterns and make healthier lifestyle choices.

Samsung Galaxy Fit
In 2019, Samsung implemented the DA1697, making it one of the first wearables on the market utilizing this SoC, delivering a robust battery life. Samsung needed a power-efficient product that would ensure its wearable device could keep up with user expectations tracking sleep analysis, fitness activity and stress levels.

Learn more online, at dialog-semiconductor.com

Alignment to our goals

#1 in wearables

over 300m units sold since launch

#1 in wearables

Annual report and accounts 2019
Who we engage with and why?

We depend on a number of relationships and resources to succeed and deliver our long-term strategic objectives. Our culture promotes establishing mutually beneficial long-term relationships with our stakeholders, which support value creation.

**Government/Regulators**

Governments and regulators continue to introduce legislation seeking to improve energy consumption and product standards. We also engage with industry bodies and trade associations.

**Employees**

Our people drive the success of our business. We know the value a diverse workforce brings and our culture supports an inclusive, entrepreneurial, and collaborative environment where everyone can achieve their full potential.

**Customers**

We work with the leading consumer electronics companies. Our engagement goes beyond customer satisfaction. A closed R&D collaboration is at the heart of our customer relations.

**Community**

Our business is grounded in the communities it operates and serves. We work together with universities and professional bodies, as well as local and national organisations.

**Suppliers**

We have developed a strong and responsible relationship with our foundry, test and packaging partners. Over time, our engagement has evolved into a close R&D and supply chain collaboration.

**Investors**

Dialog Semiconductor is listed in the Frankfurt stock exchange and a constituent of the MDAX and TecDAX indices. We encourage a two-way communication with potential investors and shareholders.

**What do they care about?**

- Environmental regulations.
- Product standards.
- Sector wide issues.

**Form of engagement**

- Government consultations.
- Regulatory enquiries.
- Global Semiconductor Alliance.

**Frequency of engagement**

- Ad hoc.

**What do they care about?**

- Environmental regulations.
- Product standards.
- Sector wide issues.

**Form of engagement**

- Employee annual reviews.
- Employee survey.
- Confidential communications on company intranet.
- Global sustainability Group representatives from each office.
- Round table with the Board in our Germering office.

**Frequency of engagement**

- At least monthly.
- Quarterly Group conference calls.

**What do they care about?**

- Development.
- Technology and innovation.
- Terms of employment.

**Form of engagement**

- Customer service feedback.
- Customer audit activity.

**Frequency of engagement**

- Monthly to annual contact with local customers.

**What do they care about?**

- Product design.
- Product quality and price.
- Delivery schedules.

**Form of engagement**

- Annual report.
- Community projects.

**Frequency of engagement**

- At least daily with respect to major suppliers.

**What do they care about?**

- Competition for talent and diversity.
- Technological trends.
- Company performance.
- Corporate strategy and customer concentration.
- Supply chain management.
- ESG topics such as remuneration and gender diversity.
- Capital allocation.

**Form of engagement**

- Annual report.
- Investor roadshows and conferences.
- Ongoing investor relations engagement.
- Webcasts.
- Investors perception report.
- Chairman meetings with shareholders.

**Frequency of engagement**

- At least daily.
Corporate reporting in 2019

How the Board performed its duties under ss172 of the Companies Act

Maintaining our high standards of business conduct

While the UK Code does not apply to Dialog, the Company has always had regard for UK corporate governance best practices. In line with our commitment to maintaining high standards of corporate governance and oversight, the Board will follow the UK Code to the extent it considers it beneficial to the good governance of the Company.

Employees

The Company follows a structured approach to engage with employees, from email communications to on-site “all-hands” meetings where employees and senior management exchange views. In October 2019, we launched our refreshed Global Engagement Survey. In this survey, we achieved 85% employee participation, our highest ever. The overall employee engagement score also hit a record high globally with an average score of 72%. In 2019, Nokia Jefery became the designated Director to manage employee engagement in collaboration with our global HR teams.

Community and the environment

The Board recognises the importance of contributing to wider society. As a fabless mixed-signal semiconductor company, the Board encourages the Company and its employees to play a part in the communities in which it operates. This includes engaging in activities with a direct link to the economic activity of the business such as the promotion of engineering education as well as direct support for a wider range of local organisations.

Non-financial information statement

The table below outlines where the key contents requirements of the Non-Financial Statement can be found:

<table>
<thead>
<tr>
<th>Reporting requirements</th>
<th>Reference in 2019 Annual Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental matters</td>
<td>ISO14001, ISO50001, ISO14001</td>
</tr>
<tr>
<td>Employees</td>
<td>Code of Business Conduct</td>
</tr>
<tr>
<td>Human rights</td>
<td>Code of Business Conduct</td>
</tr>
<tr>
<td>Social matters</td>
<td>Community engagement and Corporate Giving Programme</td>
</tr>
<tr>
<td>Anti-corruption and anti-bribery</td>
<td>Code of Business Conduct</td>
</tr>
<tr>
<td>Business model</td>
<td>n/a</td>
</tr>
<tr>
<td>Principal risks and uncertainties</td>
<td>Risk Management Charter</td>
</tr>
<tr>
<td>Non-financial key performance indicators</td>
<td>KPIs pages 52 and 53</td>
</tr>
</tbody>
</table>

Following this, we established a comprehensive view of investor perceptions about the Company, its strategy, management and the way it conducts business. Following this, our Chairman met with shareholders in London and Frankfurt.

In addition, the Company consulted with top shareholders ahead of the publication of the new remuneration policy and after the AGM in May 2019.

Positive feedback was received from all these activities and the Board intends to continue similar activities at regular intervals.

Output

New IP and power-efficient differentiated mixed-signal ICs

Industry, innovation and infrastructure

Innovation is at the core of our business and we seek to sustain a healthy level of investment in the development of new products. Our focused R&D approach and close collaboration with leading customers ensures we remain at the forefront of mixed-signal semiconductor technology with differentiated, power-efficient mixed-signal products.

Climate action

Our power-efficient technology helps to extend the battery life of a billion consumer applications. Highly integrated designs reduce the number of components and materials consumption. All our processes, we seek to minimise our carbon footprint and offset all travel CO2 emissions.

Decent work and economic growth

As a business built on innovation, we recognise the importance of investing in the development of our employees. Dialog is committed to employing and developing those people who have the necessary skills, experience and values to excel in their role.

Dialog is also making efforts to develop the talent of the future and our Graduate and Early Careers Programme is key to this.

Output

Highly engaged, motivated and diverse workforce

Industry, innovation and infrastructure

As part of our strategic objectives, we reinvest cash in the organic development of new products and technologies. We seek to maintain a focused and sustained investment in the R&D of highly integrated power-efficient technologies which enhance energy efficiency and reduce the consumption of materials.

Output

Sustainable partner relationships

Decent work and economic growth

We are expecting all our major suppliers to comply with our Supplier Code of Conduct. Dialog is committed to fair wages, healthy and safe working conditions, respect for human and labour rights in all the markets and countries in which we operate. We have adopted the Responsible Business Alliance (“RBA”) standard as part of our own Supplier Code of Conduct to ensure that working conditions for both external suppliers and employees are safe and that all workers are treated with respect and dignity.

Good health and well-being

Dialog will continue to use its network of certified health and safety representatives to ensure best practice in creating a safe and healthy working environment for employees.
Managing our resources and relationships
to create a sustainable business model.

Management Approach
During 2019 we continued to integrate sustainability management into our business activities. Human Resources, Manufacturing, Business Development and Legal departments are responsible for the management of their respective sustainability issues – and are subject to the oversight of the Executive Committee. We believe this is a better way to fully embed sustainability into the responsibilities – and actions – of managers throughout the Company. The Sustainability Committee is comprised of a representative of engineering, human resources and investor relations – who coordinate these activities. Where sustainability management performance issues are of sufficient importance, responsible departments will report these directly to the Board on an ad hoc basis.

Our ongoing engagement with internal and external stakeholders helps us understand the impact of our activities and relationships on others – and how we can best manage these impacts in a responsible manner, as well as the potential risks and opportunities. This supports our ability to create value for all our stakeholders.

This section sets out high-level analysis of the most material sustainability issues for our business. It also provides details on how we manage these issues as well as selected data on how we have performed. In 2019, we carried out a full materiality assessment which resulted in no major changes. Our core material issues remained as in 2018. Nonetheless, feedback from stakeholders resulted in adjusted scores for the following three topics:

- Diversity and equality continues to be raised as an important topic for the technology industry, and we have seen a growing interest in understanding what role we play towards increasing the number of women in engineering.

- Transparency in the supply chain was also discussed, both as an increasingly important topic for our industry as well as in relation to our ambition to expand our product portfolio and customer base across automotive and industrial. Alongside continuing efforts from the electronics industry, we are consistently increasing the scope of our supplier audits; and

- Energy and carbon emissions moved up to the significant material issue quadrant of the matrix. Although as a fabless company, Dialog has a low carbon footprint, several external stakeholders raised the increasing importance of this area for the industry as a whole. In 2019, we took the first step towards the development of an integrated annual report. During the year, we continued to strengthen our audit verification process relating to human labour rights, health and safety, and the environment. These are the issues that are most important to our business and key stakeholders. Although our sustainability activities cover a wide range of topics, our efforts are primarily focused on these issues. In addition, external stakeholders raised the following two areas for further discussion:

- Product impacts: the importance of managing product impacts throughout the entire product cycle was raised by our external stakeholders on several occasions; and

- Corporate governance: a wide range of external stakeholders, and in particular investors, are placing further scrutiny on a number of ESG topics. Following the feedback of the investor perception study we undertook in early 2019, our Chairman met with shareholders in London and Frankfurt to discuss remuneration, long-term strategy, diversity and various other governance topics.

Our values define how we engage with stakeholders
At Dialog, we are a team. We work together with our internal and external stakeholders and we aim to build strong long-term relationships. This is an important element of our Company values. Close R&D collaboration is at the heart of our customer relations. We work with the leading consumer electronics companies. We engage with our customers to better understand their requirements and their perception of the quality of the products we design for them. This helps us increase the value we bring into our products and our performance.

Dialog 2019 Materiality Matrix

Our bi-annual in-depth materiality assessment did not result in any major changes to our core issues. During the interviews with our stakeholders the following three topics were raised as significant focus points:

- Diversity and equality; Supply chain transparency; and Energy and carbon emissions. Additionally, in 2019 we renamed “Economic performance and impact” as “Value generation and distribution” in order to reflect the holistic nature of our economic impact on a wide range of stakeholders.

Key
- Society
- Business ethics
- Value chain
- Environment
- Employees

Impact on Dialog

Value generation and distribution

Product impacts

Environmental impacts (supply chain)

Employee development

Corporate governance and compliance

Recruitment of professionals and graduates

Retention, morale and engagement

Technology innovation and agility

Value chain

Environment

Value chain

Environment

Corporate governance and compliance

Diversity and equality

Intellectual property

Customer standards

Intellectual property

Business ethics

Society

Society

Employees

Employees

Employees

Employees

Employees

Value chain

Value chain

New material issue

No change

Re-prioritisation of material issues
Managing our resources and relationships continued

“Our employees are a critical element of our competitive advantage, it is their expertise, experience and commitment that enables us to provide our customers with both world-class innovation, and flexible and dynamic support. To retain and motivate our valued employees, we provide a culture and environment that recognises each individual and gives them the best possible opportunity to have a productive and rewarding career.”

Julie Pope
Senior Vice President, Human Resources
Named as one of top 100 most Influential Women in Engineering, 2019

Context
As an engineering-led organisation, our business is strengthened by our ability to attract, retain and develop high-quality professionals.

2019 was a year of change for us with over 300 employees transferred to Apple as part of our 2018 Apple agreement and 185 added with the acquisitions of FCI and Creative Chips. Supporting our employees with leadership and resources so that they feel engaged and excited about our future remains a priority for us. In addition, our ongoing strategy to diversify our product offering requires a heightened level of change agility and collaboration. These competencies that we will be working with employees and leaders to grow and develop going forward.

Management approach
Responsibility for our people sits with the Senior Vice President, Human Resources. She is supported in this role by dedicated Human Resources teams who focus on:

- The application of human resource policies, tailored to reflect local legal requirements, business priorities and labour markets;
- A Code of Business Conduct, which sets out our minimum Group-wide requirements in relation to labour and human rights and health and safety;
- Ongoing talent planning, development and identification of skills gaps;
- Proactive engagement at university-level to identify and recruit emerging talent;
- Ongoing identification and engagement of high-value professionals and leaders;
- Diversity and inclusion to facilitate an environment in which different perspectives are valued;
- Delivering employee engagement and communication strategies to support business objectives; and
- Rewarding high performance through effective and targeted compensation and benefit programmes.

Employees in engineering functions
77.3%
New employees globally in 2019
459 (64 net reductions)

2019 headcount
2,036 (2018: 2,100)

We are focused on maintaining a sustainable skills pipeline – ranging from the identification and recruitment of high-potential undergraduates through to the attraction of experienced experts. We take a holistic view towards both recruitment and retention that looks beyond the provision of competitive financial rewards.

We aim to deliver the kind of working environment, development opportunities and inclusive culture that allow our people to develop high-quality, long-term careers with us. Our workplaces offer our employees the highest standard of safety, comfort, technology and accessibility.

Performance

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee turnover (%)</td>
<td>10.0</td>
<td>10.7</td>
</tr>
<tr>
<td>Manager retention rate</td>
<td>89.2</td>
<td>90.0</td>
</tr>
<tr>
<td>Overall employee retention (%)</td>
<td>76.1</td>
<td>77.3</td>
</tr>
<tr>
<td>Diversity (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women overall</td>
<td>17.6</td>
<td>15.1</td>
</tr>
<tr>
<td>Part-time employees</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Number of nationalities</td>
<td>66</td>
<td>66</td>
</tr>
</tbody>
</table>

Ratios of standard entry level wage by gender compared with local minimum wage at key operating sites

Geographic distribution of workforce

Overall workplace profile

Permanent employees
2,036

Female employees
358 (2018: 369)

Male employees
1,678 (2018: 1,731)

Temporary employees
42

Full-time employees
32 (2018: 31)

Part-time employees
10 (2018: 8)

Male temporary employees
24 (2018: 25)

Female temporary employees
18 (2018: 19)

The temporary employee category is made up of employees on fixed-term contracts. Please note that the gender ratios for the temporary employee category cover all workers who are legally recognised as self-employed.

Note: The standard entry level is the entry level for professionals after completed university education. Minimum wage figures used are the rates effective in January 2020. For the US the California minimum wage rate has been used, and for China the Shenzhen minimum wage rate.

As far as our recruitment and selection processes are concerned, and subject to any relevant regulatory restrictions, the national or sub-national origins of applicants is relevant.

Dialog Semiconductor Plc
Annual report and accounts 2019

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Managing our resources and relationships continued

Key issues and initiatives

Talent identification and recruitment

We have a proactive recruitment model that utilizes multiple channels to attract the best available talent. We run targeted recruitment campaigns to ensure we are attracting talent at all levels on a global scale. Key components of our recruitment approach include:

- Targeted student sponsorships and internships;
- Graduate recruitment from our partner universities;
- Proactive search methodology to approach and engage the most relevant talent; and
- "Always on" sourcing to ensure we are continually pipelining the most sought-after skills to support our business.

Our hiring programmes continued successfully in 2019, with 20 graduate new hires joining us globally. We continued our strategic partnership with University Technical College Swindon ("UTC Swindon") and were delighted to again partner with the Technical College Swindon ("UTC Swindon") in the United Kingdom supporting the Females in Engineering programmes.

Experienced hires

In 2019, we welcomed 458 new employees globally - 70% were individually integrated FG1 and Creative Chips employees into our teams in Korea, China, Taiwan, Japan, US and Germany. We are particularly proud that our efforts in relation to retention have resulted in an improvement in attrition from 10.7% to 10.1%.

Ongoing talent, development and succession planning

Dialog continues to invest heavily in the continuous development and career planning of our talent. Alongside our learning curriculum, 2019 saw the introduction of the "Emerging Leaders Programme" which brought together a cohort of our high potential managers, connecting them to the Executive Team and tailored personal development workshops to support their transition to leadership. We have also partnered with Mindtools, one of the world’s leading online professional resources which gives all our employees real-time access to best practice guides, coaching and supporting articles that enable their development.

Coaching and developing is an important aspect of employee life at Dialog. We offer employees a wide variety of development opportunities and encourage a 70/20/10 development split on the job learning (70%), feedback and mentoring (20%) and classroom learning (10%). To ensure our employees maintain leading-edge technical capabilities, we invest heavily in the development of Dialog’s engineering population. In 2019, we continued to deliver key technical leadership skills development workshops for our analog, digital and technical populations. Engineers are able to access development opportunities appropriate to their needs through internally run courses, cross-functional projects and mentoring.

We also recognise the value of an external perspective, and facilitate attendees at key external courses and conferences. We continually measure the impact of training by the percentage increase in competence. In addition to their accountabilities to our customers, our managers and leaders coach and mentor their own teams with technical skills and advice. In support of this critical population, we continue to expand the reach and scope of our manager development programmes. In 2019, the total number of training hours for our managers was 3,306, with an average of 13 training hours per person.

Diversity and inclusion

Diversity and inclusion are vital in maintaining a creative, dynamic and innovative business environment. We currently have operations in 15 countries, and we are proud that our employees represent 66 nationalities.

Our employment policy on the prevention of discrimination and harassment includes a right to work in an environment free of discrimination and harassment and the sharing of personal views. We are committed to providing a workplace that is free of discrimination and harassment.

Equal emphasis is placed on the recruitment, training and development of employees from a diverse range of backgrounds and skills. We provide opportunities for employees to attend events and conferences and to take courses, including academic courses.

We are committed to providing a workplace that is free of discrimination and harassment.

At this conference, it was announced that our SVM, Human Resources, Julie Pope, was named as one of the Top 100 Most Influential Women in the Engineering Sector. The list is produced by board appointments to firm Inclusive Boards in partnership with the Financial Times and recognises the actions we have taken at Dialog.

Our Senior Executive Team has visited different locations hosting Round Table Meetings to gather feedback and opinions on gender diversity at Dialog from our workforce. We aim to continue these discussions in 2020 with the focus on additional diversity topics. Equal pay is an area which we monitor closely and our salary systems, regular reviews and processes are designed to avoid any gender-based discrimination.

For the third year running we will be reporting our gender pay gap statistics, as they relate to our total UK population as at 5 April 2019. As required by the UK Equality Act 2010 ("Gender Pay Gap Information") Regulations 2017, we submit data to the UK government via their website.

Employee engagement and communication

Listening to our people is critical to our success as a company. This year we launched a new management tool to facilitate our employee engagement practice to the next level, moving away from the traditional annual survey model and into a platform that offers a continuous listening strategy.

In addition, in 2019, Nick Jeffery became the designated Director for overseeing employee engagement in collaboration with our global Human Resources teams and, in addition to reviewing our employee results, Nick and other members of the Board met with employees as an extension of one of the Board meetings.

We launched our refreshed 2019 Global engagement survey in October and were thrilled that 85% of our global workforce shared their feedback, our highest ever employee participation and 6% up on our last survey in 2017. Our overall employee engagement score, along with participation also hit a record high globally with an average score of 72%.

In our continued journey to enable our managers globally, we have approached active employee feedback by distributing accountability across our management and leadership teams. All managers received feedback specific to their team, all sites received feedback relevant to their location, and the Executive Team composed corporate level feedback.

Employee reward and recognition

We offer market-competitive pay and employee benefits, along with opportunities for personal and professional development, all within a supportive working environment.

We regularly benchmark our pay and benefits against the employment markets in which we operate. This includes in-depth analysis of total compensation offered by our direct competitors, both global and local, to ensure that our offering remains competitive.

Our compensation programmes include short and long-term share and cash-based bonus plans that allow us to differentiate levels of reward, recognising critical skills and high performance.

We encourage regular recognition and utilise a formal recognition programme which allows managers to recognise and reward those employees who have gone above and beyond.

Forward focus areas for 2020

- Enhancing change agility through manager development to ensure employees are supported and able to thrive in our dynamic and changing workplace.
- Addressing employee engagement opportunities, including taking steps to create an environment where employee flexibility is encouraged and enabled.
- Heightening our focus on diversity initiatives, specifically to address female representation in our organisation.

For further information read more about the gender pay gap on our website at www.dialog-semiconductor.com

Read more about the gender pay gap on our website at www.dialog-semiconductor.com

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Managing our resources and relationships continued

The strength of our customer relationship

“In line with our values, we seek to establish long-standing relationships with our customers. Our technical expertise, partnership approach, operational flexibility and the quality of our products are key sources of value to them.”

John Teegen
Senior Vice President, Worldwide Sales

Context
Close R&D collaboration with our customers enhances our innovation capacity and creates strong and long-lasting customer relations. Our customers want our focused innovation, technical expertise, high integration and fast product development and support. Given the speed of technological change in our markets, our focus is to develop and retain long-term relationships with our major customers, adopting a true partnership approach.

Management approach
Our corporate values support us in building strong relationships with our customers. We also invest significant time to get to know each other and seek to achieve mutual benefits on an ongoing basis.

Performance
Revenue from our top five customers represented 84% of the total Group revenue in 2019 (2018: 83%; 2017: 82%). We recognise there is a risk associated with this level of customer concentration, and the revenue derived from our largest customer (Apple Inc.) is shown on page 172, note 35c. See details of customer concentration in the Risk section on page 73.

During 2019, we closed the agreement with Apple Inc. announced in October 2018. Since closing the agreement with Apple, we were awarded several new designs in an expanded product area of focus for Dialog, which is a testament to the strength and quality of our mixed-signal technology and strong relationships. The addition of two acquisitions in 2019 (FCI and Creative Chips) is accelerating our expansion in our target end-markets.

Key issues and initiatives
As a supplier of semiconductors to manufacturers of sophisticated electronic goods, we are subject to a significant body of technical, legal, social responsibility, and quality control requirements defined by our customers.

In many cases, our compliance with these requirements is included as a condition of contract with our customers – making our strict adherence essential. This is particularly the case with respect to the technical specifications and quality of our highly sophisticated products. Any slight variation is not only likely to render them valueless from the perspective of our customers, but also has the potential to undermine our customers’ own products (and thus brands).

Because of this, we put a significant amount of energy into understanding our customers’ extensive requirements and applying comprehensive management systems to ensure that these are fully met by both the design of our products, as well as their production by our fabrication partners. This includes, for example:

- The testing of Dialog’s personnel at our fabrication partners’ sites to monitor production activities;
- An extensive range of operational quality control measures through which we assess our fabrication partners;
- Regular business reviews with our manufacturing partners to understand their performance and future capabilities; and
- Ongoing annual auditing of our manufacturing partners, including against the following management system standards as well as our Suppliers Control Plan:
  - ISO9001 (quality management);
  - IATF 16949 (quality management);
  - ISO14001 (environmental);
  - ISO45001 (health and safety);
  - ANSI/ESD S20.20 (electrostatic discharge control); and
  - Responsible Business Alliance Code of Conduct.

Our target end markets
We are focused on high-growth segments of our target end markets.

Further information on our supply chain auditing activity can be found on pages 44 to 47.

The performance of our suppliers against these is assessed by the following Dialog departments on an ongoing basis:

- Quality and Environmental; Quality engineering, physical laboratory, quality and environment system;
- Global Manufacturing Operations; Test development, offshore operations and assembly development; and
- Supply Chain and Value Management; Global procurement, supply chain and trade compliance, customs and foreign trade.

Similarly, our customers typically apply their own set of compliance measures to ensure we are meeting their requirements. This includes auditing of:

- Our management systems, processes and facility specifications;
- The communication of their own standards to our manufacturing partners and their application in practice;
- Product testing processes and documentation;
- Materials and product traceability; and
- Possible contamination of products by disallowed substances.

We evaluate customer satisfaction with the quality and specifications of our products on an ongoing basis, using:

- Individual reviews;
- Analysis of any customer complaints; and
- Customer surveys.

Forward focus areas in 2020
- Continue to broaden our customer base;
- Deliver best-in-class customer support;
- Undertaking targeted actions to address customer complaints and eliminate the recurrence of any issues;
- Adherence to technical, social responsibility and quality control requirements.
Managing our resources and relationships continued

“Although fabless, we seek to minimise the carbon footprint of our business activities. The Environmental Goals Programme sets our environmental objectives for the year, including clear actions and targets to ensure we can monitor our progress and stay on track.”

Alex McCann
Senior Vice President, Global Operations

Context
Our products themselves are based around a range of energy-efficient IC solutions, and we aim to have a positive impact on the wider environment through the development and marketing of energy-saving technology. We make ongoing efforts to minimise our:
- Energy consumption and carbon emissions.
- Pollution and waste.
- Use of natural resources.

Management approach
We operate responsible practices within our own business and promote them across our supply chain. Responsibility for environmental performance sits with our Senior Vice President, Global Manufacturing Operations. We govern our environmental responsibility through the application of the Dialog Code of Conduct, which addresses our emissions to air and water, resource use, management of hazardous substances and waste management.

We are certified to the ISO14001 environmental management standard, and our Company Quality and Management Manual supports our efforts to achieve continuous improvement. At our facilities in Germany we have implemented a new energy management system, achieving ISO50001 certification. This is a comprehensive tool to control energy efficiency within our internal facilities and equipment.

Each of our major sites systematically measures and records our carbon emissions, waste and recycling on a monthly basis. This reporting system is utilised to ensure that we closely monitor outputs from our major offices to minimise our environmental impact.

In 2019, we strengthened our Environmental and Energy Policy. Our management is committed to the prevention of pollution by volatile organic compounds.

Performance

Energy and carbon emissions
We are working across our offices to significantly reduce carbon emissions and minimise the carbon footprint of our business. This year, we have offset 100% of carbon emissions from all air travel and the use of rental cars from our two main technical competence centres – Nabern and Swindon. We work with Climate Care to offset carbon emissions through various renewable energy projects in Taiwan, Turkey and India.

<table>
<thead>
<tr>
<th>Scope 1*</th>
<th>Direct emissions from self-generation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Per employee</td>
</tr>
<tr>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>60,8</td>
<td>0.03</td>
</tr>
<tr>
<td>81.2</td>
<td>0.04</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scope 2*</th>
<th>Indirect emissions from the consumption of purchased electricity, heat or steam.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Per employee</td>
</tr>
<tr>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>1,011.3</td>
<td>0.50</td>
</tr>
<tr>
<td>1,170.3</td>
<td>0.56</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scope 3</th>
<th>Other indirect emissions including those related to transport. Includes all air travel and car hire.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Per employee</td>
</tr>
<tr>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>4,203.6</td>
<td>1.99</td>
</tr>
</tbody>
</table>

Key issues and initiatives

Pollution, resources and waste
The monitoring of hazardous substances used in our labs is one of the key objectives of our annual “Environment Goals Programme”. The programme sets our environmental objectives for the year and is approved by the CEO. Each objective includes a number of actions and targets which are regularly monitored.

Recycling
We recycle metals, such as gold, silver and copper, from waste and damaged products. Our major sites, such as our Swindon design centre, measure our recycling levels by type of waste, waste recovery levels and the level of waste sent to landfill sites. This allows us to calculate the percentage of recycling, the amount of energy recovered, and the number of trees we have saved on a monthly basis.

Use of natural resources
We understand that the scarcity of natural resources is an important consideration for our business and we aim to reduce or substitute their use in our operations wherever possible. Dialog continues to identify potential methods to improve existing technologies and to substitute gold for copper, to minimise our impact on the environment, and reduce costs without sacrificing quality and performance.

Forward focus areas in 2020
- Achieving the objectives of our 2020 Environmental Goals Programme.
- Continue our efforts to reduce carbon emissions, pollution and waste, and the use of natural resources.
- Continue our efforts to reduce carbon emissions, pollution and waste, and the use of natural resources.
Managing our resources and relationships continued

Societal benefits

“Supporting the development of our skills pool is vital to promote the next generation of innovators. Dialog is collaborating with universities, industry bodies and engineering organisations to promote the knowledge of engineering electronics in our local communities.”

Julie Pope
Senior Vice President, Human Resources
Named as one of top 100 most Influential Women in Engineering, 2019

Context
Like any business, we seek to generate profit for our shareholders. In pursuit of this aim, we also generate broader economic value, much of which is distributed to a wider set of stakeholders – including employees, suppliers, host governments and other beneficiaries. Our position at the forefront of semiconductor R&D means we are constantly helping to advance scientific knowledge in this area – laying the ground for future technological innovation, whether by ourselves or others. Likewise, the nature of our products means we play an integral role in helping millions of end-users access affordable and life-enhancing technology.

Management approach
We are committed to having a positive impact at a local level. Our most material issue in this respect is the enhancement of local skills pools. This not only benefits school and university students by enhancing their engineering capabilities, but also strengthens our own ability to recruit talented new graduates and support our long-term skills pipeline. We help promote electronic engineering skills in our local communities through a range of means, including:

- The provision of sponsorships and access bursaries to engineering students at the universities of Edinburgh, UK Electronic Skills Foundation (“UKESF”), and Women in Engineering Society;
- Key partnerships with University Technical College Swindon (“UTC Swindon”), including the provision of an enterprise adviser, in the United Kingdom and the UKESF;
- Industrial placements for undergraduate students in global offices; and
- Mentoring and support of school students.

Beyond this, we also carry out community engagement and investments, and philanthropy. Although these do not represent material issues, such activity is in line with our corporate values, the “Spirit of Dialog”, and our broader corporate values, and helps support our corporate reputation. Read more about our values on page 05

Responsibility for our direct and indirect performance sits with our Chief Executive Officer and Chief Financial Officer (with respect to our economic performance).

Performance

Direct impacts
Our most important means of distributing value are through:
- Payments to our employees and employed contractors (including both wages and benefits);
- Payments to other businesses, including our fabrication partners and other suppliers;
- Payments to government, including taxes;
- Community investment spending; and
- Payments to our providers of capital.

The table below shows how much value we generated over the last three years – and how it was distributed.

<table>
<thead>
<tr>
<th>Performance</th>
<th>Direct impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic value generated</td>
<td>1,566.2</td>
</tr>
<tr>
<td>Economic value distributed</td>
<td>1,520.8</td>
</tr>
<tr>
<td>Operating costs</td>
<td>881.3</td>
</tr>
<tr>
<td>Employee wages and benefits</td>
<td>274.5</td>
</tr>
<tr>
<td>Payments to providers of capital</td>
<td>3.1</td>
</tr>
<tr>
<td>Payments to government</td>
<td>25.8</td>
</tr>
<tr>
<td>Community Investments</td>
<td>0.2</td>
</tr>
<tr>
<td>Economic value retained</td>
<td>169.7</td>
</tr>
</tbody>
</table>

Indirect impacts
In addition to our direct economic impacts, we also generate a range of indirect economic impacts, including through:
- The application of our technology to improve the capabilities and portability of handheld electronic devices (amongst others). This enhances the ability of our customers to develop and market enhanced consumer products – as reflected in the recent boom in advanced mobile communications and wearable technology. In turn, this has helped support the creation and maintenance of jobs amongst suppliers and customers working in this exciting sector. Furthermore, it also supports the delivery of ever-more productive and portable communications and computing technology to end-users.
- The enhancement of skills and knowledge within the electronic engineering community through our range of pre-employment educational initiatives, our recruitment and development of high-quality graduate electronics engineers, the experience our senior engineers gain by working on cutting-edge products and our considerable investment in R&D.

Further details on how we manage our direct and indirect economic value generation and distribution, as well as our research and development activities, can be found throughout this report.

Forward focus areas in 2020
- Attracting female talent to STEM subjects and to our industry through our collaboration with universities, industry bodies and engineering organisations.
- Continue the development of community engagement activities.
Managing our resources and relationships continued

Our IP and products

“Dialog has been at the forefront of power-efficient mixed-signal technology since the beginning of the mobile computing revolution. Along the way we have amassed a rich IP portfolio of energy-saving technologies which meet the requirements of our customers and of end-users, making applications more energy-efficient.”

Mark Tyndall
Senior Vice President, Corporate Development and Strategy

Context

Our products are based around a range of power-efficient integrated circuit (“IC”) solutions, and we aim to have a positive impact on the wider environment through the development and marketing of energy-saving technology. The protection of intellectual property is vital for any business focused on the creation of innovative and high-value technological solutions. Any failure in this regard could have profound consequences for the value of our inventions, products and our Company. Furthermore, our semiconductors are specifically designed for integration as components into our customers’ own products. This means we necessarily access and work with customers’ intellectual property and/or commercial and technological secrets. This requires a high degree of trust on the part of our customers, whose business we would lose were this trust to be broken.

Management approach

We are advancing mixed-signal circuit technology in a range of areas, including:
- Mobile power management;
- Power conversion;
- Bluetooth® low energy connectivity; and
- Configurable mixed-signal ICs.

Given the rapid evolution of technology and fast-moving consumer demands, the sustainability of our business requires us to stay at the cutting edge of these technologies. As a result, we invest a significant amount into R&D. In 2019 we invested US$241 million on R&D activities or 20.5% of our total revenue (2018: US$226 million, 2017: US$203 million; 2016: 22.6% of revenue, 2017: 22.4%).

The Senior Vice President and General Manager of each business is responsible for technological innovation. We ensure that all intellectual property is safeguarded through the application of:
- A dedicated Intellectual Property Policy (as well as related Information Technology and Intellectual Property Security Policies). Together, these address issues such as data security, the regulation of external communications and incident management;
- Related restrictive provisions in both our Code of Business Conduct and our contracts of employment;
- Robust information technology systems to prevent data leakage; and
- Access controls to specific project data for employees and third parties.

Performance

Protecting intellectual property

In 2019 we had no complaints relating to breaches of customer privacy, losses of customer data or the misuse of customers’ intellectual property (2018: nil; 2017: nil).

Number of United States patents (registered and filed) in each given year (non-cumulative)

<table>
<thead>
<tr>
<th>Year</th>
<th>Registered</th>
<th>Filed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>94</td>
<td>112</td>
</tr>
<tr>
<td>2018</td>
<td>102</td>
<td>119</td>
</tr>
<tr>
<td>2019</td>
<td>128</td>
<td></td>
</tr>
</tbody>
</table>

As at 31 December 2019 we had approximately 1,080 inventions (2018: approximately 860; 2017: approximately 900) for which we are pursuing or have already obtained patent protection, 830 (2018: 673; 2017: 574) of which have already been granted in the United States. While intellectual property protection around this technology means it will not be shared in the short to medium term, in the long term it is technology that can be applied by anyone. As a result of this kind of investment, we produce original technological inventions on an ongoing basis. This not only helps underpin the future success of our business, but also increases the sum of our global technological knowledge.

Key issues and initiatives

Positive product impacts

The technology that we design, develop and market supports our business partners in the provision of advanced, affordable technology to consumers in a range of global mass-markets. This includes:
- Personal, portable computing devices;
- IoT applications;
- LED backlighting and solid state lighting;
- Automotive infotainment and ADAS; and
- Industrial ethernet.

In this context, our products offer a range of advantages to end-users (and, by extension, our customers who are selling to them). These include:
- Power management: Greater power efficiency, resulting in longer battery life and increased mobility. For example, typical usage tests suggest our Power Management Integrated Circuits decrease the power consumption of smartphones, tablets and Ultrabooks™ by up to 30%;
- Power conversion: Our high efficiency AC/DC power converters and LED backlight drivers help maximise power conversion efficiency using digital technology and fewer components. This includes converters that use little or no power while on standby – a particularly important aspect given that standby demand consumes more than 100 billion kilowatt-hours of electricity annually in the United States alone (enough to power more than one million American households); and
- Connectivity: Our Bluetooth® low energy, SmartBond™ SoCs, helps extend the battery life of relevant wireless products by up to 100%, reducing overall power usage and enhancing the mobility of connected products.

Minimisation of negative product impacts

The nature of our integrated circuits means that their actual and potential negative impacts are relatively limited. Nonetheless, we design our products in a way that helps to minimise any negative impacts they might have over their lifecycle. This includes efforts to reduce the size of our integrated circuits (thus reducing the amount of input materials required, as well as the amount of packaging used to protect and ship them). In addition, and as described above, we aim to make our integrated circuits as energy-efficient as possible – while also enhancing the energy efficiency of the larger products into which they are incorporated.

Given the important role our integrated circuits play in managing the power supply of more than a billion consumer and products, we place significant emphasis on ensuring they do not pose any health and safety risks to end-users.

Trademarks

With an expanded portfolio of patented technology, Dialog leverages years of research and development in digital, mixed-signal and analog circuits to bring innovative, power-efficient products to market.

GreenPak™ VirtualZero™
PrimAccurate™ AccuSwitch™
SmartBond™ SmarteXite™
SmartWave™ SmartBond™
AccuPWM® Fickerless™ BroadLED™
SmartIoT™ VirtuZero™
Dialog Semiconductor Plc
Annual report and accounts 2019

Forward focus areas in 2020

- The ongoing protection of our intellectual property.
- Management and rationalisation of our portfolio of patents and trademarks.
Managing our resources and relationships continued

Robust and responsible
supply chain

“Over the years, we have developed strong and sustainable relationships with our manufacturing partners. This approach is at the heart of our business and supports a continuous quality improvement process which is highly valued by our customers.”

Context

We operate a high-touch fabless business model and we have developed strong and responsible relationships with our foundry, test and packaging partners. Over time, our engagement has evolved into close R&D and supply chain collaboration.

Given the nature of our business model and our commercial relationships, value chain management is a particularly important issue for Dialog. This not only includes operational aspects (including the avoidance and mitigation of supply chain disruption and supply constraints), but also sustainability aspects such as:

- The impact of our business partners on human rights and labour rights;
- Health and safety performance amongst our suppliers; and
- The environmental impacts of both our suppliers and the contents of our products.

This reflects:

- Engaging stakeholder expectations, which place growing emphasis on the need for companies to identify, understand and report on material sustainability risks and impacts.

Management approach

Dialog employees are based in many of the premises of our partners. We undertake annual audits of our existing fabrication partners covering operational and sustainability aspects. In addition, we outsource our water production to leading foundries, mostly in Taiwan and China, such as TSMC and Global Foundries. They provide high-quality products and have the ability to meet both our stringent qualification requirements and our tight deadlines. Over the years, we have worked closely with TSMC to introduce new manufacturing technologies for our highly-integrated power management ICs, such as 100 nanometre Bipolar CMOS DMOS (‘BDC’).

The final assembly of our chips is outsourced to a number of qualified subcontractors in Asia. Our test programmes, which are based on our own and individual customers’ specifications, are developed by our test engineers in parallel with the design process.

Leveraging the outsourcing model to its fullest for volume manufacturing, we still retain an in-house prototype test facility, including physical analysis capabilities. This enables fast ramping to volume manufacturing at the foundry and all packaging and test sub-contractors. As a result, we can achieve best-in-class industry yields and extremely high-quality and reliable products. Equally important, it allows us to minimise the scope of tests required and the device test time, helping to reduce unit costs.

We manage our value chain through:

- A policy of only dealing with fabrication partners who are accredited to or are compliant with the ISO14001 (environment) and ISO9001 (quality) management standards;
- Screen all new fabrication partners against our Self-Audit Checklist (which covers labour and human rights, health and safety, the environment and business ethics), as well as undertaking pre-qualification audits prior to the integration of new fabrication partners into our supply chain;
- Annual auditing (by joint Dialog and third-party auditing teams) of all existing fabrication partners against our Supplier Audit Checklist and Corporate Social Responsibility Checklist. In addition to requirements relating to ISO14001, ISO9001 and ISO45001, auditing covers a range of broader corporate social responsibility issues, including those drawn from the SA8000 social accountability standard. In 2019, we carried out 31 supplier audits on this basis (2018: 22; 2017:18); and
- Regular business reviews, during which Dialog managers meet with our suppliers to discuss performance and future capabilities.

In addition, our customers carry out their own auditing both on Dialog and our suppliers. This is to ensure that:

- Dialog is effectively communicating customer standards to our suppliers – and has adequate systems in place to monitor their ongoing application in practice;
- Suppliers are achieving a level of performance that is in line with our customers’ requirements (including those around supplier environmental performance, for example); and
- The products supplied to customers meet any relevant sustainability criteria that the customer has committed itself to (including those relating to the type and source of input materials, for example).

In 2019, we continued with our main fabrication partners to apply tightened requirements and auditing criteria. A significant decrease in the number of major negative audit findings relative to 2018 shows that our suppliers have undergone successful continuous improvement programmes to address previous findings and are monitoring ongoing effectiveness. This strengthened audit process helps us manage the expansion of our business and the ability to integrate additional suppliers to the scope of our audits.

Our customers can be confident in the quality and sustainability of our supply chain.

Alex McCann
Senior Vice President, Global Operations

Key issues and initiatives

Transparency

Value chain transparency is vital for the maintenance of sustainable sourcing and marketing activities, as well as the avoidance and/or minimisation of any negative indirect impacts to which we might otherwise contribute. This includes impacts relating to human rights, labour rights, health and safety, and the environment.

This is a particularly important issue for Dialog, due to:

- Our fabless business model, which makes us highly reliant on the ability of our fabrication partners to meet the stringent quality requirements imposed on us by our customers;
- High levels of sensitivity amongst key consumer-facing electronics brands regarding their potential exposure to reputational risk via their supply chains; and
- Increasing stakeholder scrutiny of the electronics industry regarding indirect negative impacts taking place at lower, less visible tiers of the supply chain (including amongst sub-suppliers) – particularly in relation to mineral extraction, trading and processing.

In this context, we require our major suppliers to:

- Provide assurance regarding their compliance with our Supplier Code of Conduct through Self-Assessment Questionnaires, validation audits and the execution of the Responsible Business Alliance’s (“RBA”) online data management system (RBA-DN);
- Maintain membership of the Responsible Business Alliance’s (“RBA”) online data management system (RBA-DN);
- Complete and return information regarding the origin of potential conflict minerals integrated into parts supplied to Dialog.

In addition, we assign at least one Dialog representative to each of the fabrication plants producing integrated circuits for us. This allows us to clearly communicate our operational, quality control and sustainability requirements to our partners on an ongoing basis, while also identifying and in partnership with our fabrication partners proactively addressing any issues of potential concern.

Performance

Proportion of major fabrication partners screened/audited for sustainability performance by issue type (new fabrication partners screened/existing fabrication partners audited)

<table>
<thead>
<tr>
<th>Performance</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and safety</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Environment</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Labour rights (incl. human rights)</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Society</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

In 2019, neither of our significant operations nor any of our significant suppliers were found to pose a significant or material potential for conflict minerals. In 2019, as in previous years, we did not identify any cases where tungsten, tin, tantalum and gold (“3TG”) integrated into our products may have supported armed groups in the Democratic Republic of Congo (“DRC”) or adjoining countries.
Managing our resources and relationships continued

Our Supplier Code of Conduct

We expect all of our major suppliers to comply with our Supplier Code of Conduct, which incorporates the requirements of the RBA. This comprehensive document imposes minimum standards with respect to labour rights, health and safety, and environmental management.

Labour rights

Dialog’s suppliers must demonstrate a commitment to upholding workers’ human rights and to treating them with dignity and respect. In addition to key requirements around the International Labor Organization (“ILO”) core labour standards relating to forced labour, child labour, discrimination and freedom of association/collective bargaining, the Dialog Code of Conduct also incorporates the requirements of the following instruments and standards:

- Universal Declaration of Human Rights;
- EU Directive 2011/65/EU (Restriction of Hazardous Substances or “RoHS”); and
- EU Regulation (EC) 1907/2006 (Registration, Evaluation, Authorisation and Restriction of Chemicals or “REACH”).

Nonetheless, we work with our major suppliers to ensure that risks, wherever present, are minimised. In this context, the Dialog Code of Business Conduct and Supplier Code of Conduct (including the related RBA Code) require our suppliers, amongst other things, to:

- Minimise worker exposure to potential health and safety risks, including through the application of design, engineering and administrative controls (including safe work procedures, training and the encouragement of employees to raise related concerns); as well as the provision of protective equipment where necessary;
- Apply systems to prevent, manage, track and report health and safety incidents, including the proper recording of all cases of occupational injury and illness, the provision of medical treatment and the development and implementation of corrective action plans;
- Implement emergency planning and response measures, including evacuation procedures, the provision of fire detection and suppression equipment, the maintenance of adequate exits and recovery planning; and
- Control the exposure of workers to hazardous substances and to physically demanding tasks.

Health and safety

The highly regulated and automated nature of our fabrication partners’ plants, as well as the nature and scope of our health and safety management systems, means that their risk profile is relatively low compared with many assembly plants higher up the value chain (where chips are integrated into larger consumer products).

Nevertheless, we work with our major suppliers to ensure that risks, wherever present, are minimised. In this context, the Dialog Code of Business Conduct and Supplier Code of Conduct (including the related RBA Code) require our suppliers, amongst other things, to:

- Comply with relevant environmental laws and regulations;
- Minimise their use of resources (including water and energy) and their generation of solid waste and wastewater;
- Identify and manage hazardous materials. This includes the provision of relevant materials declarations under EU Directive 2011/65/EU (Restriction of Hazardous Substances or “RoHS”); and EU Regulation (EC) 1907/2006 (Registration, Evaluation, Authorisation and Restriction of Chemicals or “REACH”);
- Responsibly manage solid waste (including through recycling and wastewater (including through treatment prior to discharge, ongoing monitoring and the control of discharges to local water bodies);
- Responsibly manage emissions to air (including volatile organic chemicals, aerosols, corrosives, particulates, ozone depleting chemicals and combustion by-products) and minimise their greenhouse gas emissions; and
- Adhere to all applicable laws, regulations and customer requirements regarding the exclusion of specific substances in products and manufacturing.

Environmental management

In addition to key requirements around the International Labor Organization (“ILO”) core labour standards, working hours, wages and benefits, and the treatment of employees in the workplace.

Environmental management

It is important that our fabrication partners respect the environment. This is why we will only work with suppliers who are accredited to, or comply with, the ISO14001 environmental management system standard. This includes pollution prevention, reporting, hazardous substances, waste and wastewater management, and emissions to air.

Under our Supplier Code of Conduct (and related RBA Code), our major suppliers are required to:

- Comply with relevant environmental laws and regulations;
- Minimise their use of resources (including water and energy) and their generation of solid waste and wastewater;
- Identify and manage hazardous materials. This includes the provision of relevant materials declarations under EU Directive 2011/65/EU (Restriction of Hazardous Substances or “RoHS”); and EU Regulation (EC) 1907/2006 (Registration, Evaluation, Authorisation and Restriction of Chemicals or “REACH”);
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- Adhere to all applicable laws, regulations and customer requirements regarding the exclusion of specific substances in products and manufacturing.

By requiring its suppliers to comply with the RBA requirements, Dialog helps "cascade" good practice throughout its supplier base and minimise its indirect negative impacts. By doing so, it is not only protecting its own reputation, but also the reputation of its customers – some of whom are potentially vulnerable to consumer activism.

Environmental management

It is important that our fabrication partners respect the environment. This is why we will only work with suppliers who are accredited to, or comply with, the ISO14001 environmental management system standard. This includes pollution prevention, reporting, hazardous substances, waste and wastewater management, and emissions to air.

Under our Supplier Code of Conduct (and related RBA Code), our major suppliers are required to:

- Comply with relevant environmental laws and regulations;
- Minimise their use of resources (including water and energy) and their generation of solid waste and wastewater;
- Identify and manage hazardous materials. This includes the provision of relevant materials declarations under EU Directive 2011/65/EU (Restriction of Hazardous Substances or “RoHS”); and EU Regulation (EC) 1907/2006 (Registration, Evaluation, Authorisation and Restriction of Chemicals or “REACH”);
- Responsibly manage solid waste (including through recycling and wastewater (including through treatment prior to discharge, ongoing monitoring and the control of discharges to local water bodies);
- Responsibly manage emissions to air (including volatile organic chemicals, aerosols, corrosives, particulates, ozone depleting chemicals and combustion by-products) and minimise their greenhouse gas emissions; and
- Adhere to all applicable laws, regulations and customer requirements regarding the exclusion of specific substances in products and manufacturing.

Management systems

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Our Supplier Code of Conduct

Labour rights

Including the International Labour Organization (“ILO”) core labour standards, working hours, wages and benefits, and the treatment of employees in the workplace.

Health and safety

Including occupational health and safety, emergency preparedness, industrial hygiene, living conditions and physical safeguards.

Environmental management

Including pollution prevention, reporting, hazardous substances, waste and wastewater management, and emissions to air.

Ethics

Including business integrity, intellectual property, competition, whistleblowing and conflict minerals.

Management systems

Including policies, lines of accountability, compliance mechanisms, risk assessment, training, auditing and sub-suppliers.

Business ethics

Business ethics includes business integrity, intellectual property, competition, whistleblowing and conflict minerals.

Management systems

Including policies, lines of accountability, compliance mechanisms, risk assessment, training, auditing and sub-suppliers.

By requiring our suppliers to comply with the RBA requirements, Dialog helps "cascade" good practice throughout its supplier base and minimise its indirect negative impacts. By doing so, it is not only protecting its own reputation, but also the reputation of its customers – some of whom are potentially vulnerable to consumer activism.

As such, our Conflict Minerals Policy commits us to:

- Supporting the aims and objectives of those provisions of the US Dodd-Frank Act 2010 that relate to STG;
- Not knowingly procuring STG minerals from the DRC or adjoining countries that are not certified to be conflict-free;
- Asking our suppliers to undertake reasonable supply chain due diligence to ensure that they only use STG that is (1) sourced from outside the DRC or adjoining countries; or (2) sourced from within the DRC or adjoining countries and which is certified by an independent third party to be conflict-free;
- Provide reasonable assurance that the STG in the products they manufacture do not directly or indirectly finance or benefit armed groups that perpetrate serious human rights abuses in DRC or its adjoining countries; and
- Carry out due diligence on the source and chain of custody of their STG and make these due diligence measures available to customers when requested.

In addition, our Supplier Code of Conduct requires suppliers to complete and return information requests regarding the origin of any minerals that are supplied to Dialog. The Conflict Minerals Reporting Template (“CMRT”) is created by the Responsible Minerals Initiative (“RMI”) supporting companies to deliver accurate information to their customers about mineral chain of custody and smelters and refiners they use. Dialog Semiconductor requires from its suppliers to complete and return the latest CMRT 5.12 regarding the origin of any STG contained in products supplied to us. Our QA & Environmental Systems Lead Auditors frequently audit the suppliers on this topic and check their compliance.

If we do identify STG in our products that originate from the DRC or adjoining countries, and which may have financed or benefitted armed groups, we will carry out further due diligence. If this shows that the STG has financed or benefitted armed groups, it will be excluded from our supply chain.

Further up the supply chain, we have a policy relating to conflict minerals. We support international efforts to ensure that the mining and trading of its, tungsten, tantalum and tin (known as “3TG”) from high-risk locations does not contribute to conflict and/or serious human rights abuses in the Democratic Republic of the Congo (“DRC”) and the Great Lakes region of Africa or elsewhere.

Although we are not subject to the conflict minerals reporting requirements set out in Section 1502 of the US Dodd-Frank Act, many of our customers are. In this context, we are committed to providing our customers with assurance by:

- Identifying whether any STG in our products has originated from the DRC or adjoining countries; and
- If it has, understanding whether the STG in our products has financed or otherwise benefitted armed groups; and
- Disclosing the results of this process to our customers.
We strive to establish long-term relationships with our stakeholders, based on trust and adherence to our Code of Business Conduct. Maintaining our partners’ trust depends on:

- Our strict adherence to our customers’ exact technical, commercial and ethical requirements;
- The protection of both our own intellectual property and that of our business partners, which is fundamental given the technologically innovative nature of our business; and
- Our strict compliance with the laws of our host societies – including those relating to anti-bribery and corruption.

Any breach of this trust, or of our legal obligations, has the potential to seriously compromise our business – whether in terms of the loss of valuable commercial relationships, the undermining of our reputation or the application of official sanctions.

The application of our corporate Code of Business Conduct is directly informed by international, industry and customer standards. Given the highly specialised nature of our industry, we believe our supply chain has relatively low levels of slavery and human trafficking risk. Our Modern Slavery and Human Trafficking statement reflects our ongoing commitment to remain vigilant through compliance monitoring and verification, especially in selecting new suppliers.

In 2019, 99% of Dialog employees, excluding those who joined from the acquisitions of FCI and Creative Chips, had completed the online training covering our Code of Business Conduct. The following modules were also completed by most of our employees (93% to 97% completion):

- GDPR;
- Anti-bribery;
- Conflict of interest;
- Insider dealing;
- Privacy and information security; and
- Preventing harassment in the workplace.

Additionally, the Sales & Marketing team completed the online anti-trust training.

Forward focus areas in 2020

- ABC training for all new employees.
- Strict adherence with laws of all the countries where we operate.
As an engineering-led organisation, our business is strengthened by our ability to be able to attract, retain and develop high-quality professionals.

**Self-Guided Learning**
We continue to partner with Mindtools to support our employees with access to “in the moment” learning opportunities to suit their schedule.

**Dialog Award for Female Undergraduates**
We remain proud to support UKESF in launching the Dialog Award for Female Undergraduates. The Award is designed to proactively address the lack of women in engineering through encouragement from a young age and we look forward to continuing this for the long term.

**Technical Ladder**
The Technical Ladder is a career path for Dialog’s most innovative and experienced Engineers. It provides a creative and inspiring environment for our Members of Technical Staff to lead innovation, champion technical expertise, disseminate best practice/knowledge and represent Dialog to customers and industry partners.

**WES Partnership**
We partnered with the Women in Engineering Society (“WES”) to work towards increasing the number of women engineers in the Company.

**Early Careers**
Our Graduate & Early Careers Programme continues, providing opportunities for working students, internships and graduates to join our team.

**Leadership Development**
We invest significantly in the development of our leadership group. In 2019 we launched the global “Emerging leaders programme”. This two-year development plan for our global leaders, develops our management community and prepares them for leadership roles.

**Mentor Network**
We are proud of our Mentor Network, which provides invaluable coaching and support to our employees.

**Women in Engineering Leadership Conference**
In October 2019, a group of female leaders and HR representatives attended the 2019 Women in Engineering Leadership Conference. At this conference, it was announced that our SVP, Human Resources, Julie Pope, was named as one of the top 100 Most Influential Women in the Engineering Sector.
Our key performance indicators seek to ensure performance is aligned to strategy and stakeholders’ interests. Additionally, the Company works with a wide range of metrics covering different aspects of our business activities. Through our KPIs we monitor our sales and financial performance, as well as our pool of talent which is vital to fostering innovation. These KPIs allow us to track our performance against the four strategic objectives of our growth strategy, and our long-term financial targets. We remain focused on delivering a more diversified, cash-generative growth which will, in turn, support the expansion of our business.

Following the closing of the licensing agreement with our largest customer in 2019, we have introduced a new revenue KPI which excludes the revenue from licensed main PMIC products and the perpetual IP licence. This new KPI is in line with the metric we used to communicate our long-term revenue target.

We are a business built on innovation and deep mixed-signal semiconductor expertise, and our four strategic objectives support the ambition to build a diverse and vibrant mixed signal business.

### Key performance indicators “KPIs”

We are a business built on innovation and deep mixed-signal semiconductor expertise, and our four strategic objectives support the ambition to build a diverse and vibrant mixed signal business.

<table>
<thead>
<tr>
<th>Engineering talent ratio</th>
<th>Employee turnover</th>
<th>Number of sales opportunities</th>
<th>Customer concentration</th>
<th>Free cash flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>77%</td>
<td>10.0%</td>
<td>1,049</td>
<td>72%</td>
<td>US$449m</td>
</tr>
</tbody>
</table>

#### Definition and relevance

- **Engineering talent ratio**: Proportion of employees in engineering functions as a percentage of the total employee base. Monitoring the size of our engineering pool and our ability to generate innovation.
- **Employee turnover**: Number of voluntary leavers in the last 12 months divided by the average headcount during that period expressed as a percentage. Monitoring our ability to recruit and retain experienced engineering and commercial professionals is vital given the strong competition for skills in the sector, ageing population, and our business growth ambitions.
- **Number of sales opportunities**: Number of sales opportunities recorded in the pipeline in a given year, with a value higher than US$250k excluding cancelled, rejected, lost, and opportunities which reached their end of life.
- **Customer concentration**: Proportion of Group product revenue from the single largest customer. Monitoring the risk associated with reliance on a single source of income.
- **Free cash flow**: Free cash flow is a non-IFRS measure that represents cash flow from operating activities, less capital expenditure. It provides a measure of the cash available for expansion, to make strategic investments in, or acquire, other businesses, to repay borrowings and to fund distributions to shareholders.

#### 2019 performance

- **Engineering talent ratio**: In 2019, the engineering talent ratio was slightly above 2018 at 77%. In 2019, over 300 employees were transferred to Apple. Additionally, we welcomed new engineers from the acquisitions of FCI and Creative Chips GmbH.
- **Employee turnover**: In 2019, employee turnover was broadly stable at 10.0%. Our ability to recruit and retain engineering professionals remained high. In 2019 over 300 employees transferred to our largest customer as part of the licensing agreement. In addition, we welcomed new employees from the acquisitions of FCI and Creative Chips. Dialog has a performance management system to ensure we reward our best employees through appropriate mechanisms.
- **Number of sales opportunities**: In 2019, the number of sales opportunities with a value higher than US$250k was 4% above 2018. The number of opportunities with a value lower than US$250k increased at a similar pace. This is a reflection of the increasing number of revenue opportunities in our various business segments.
- **Customer concentration**: In 2019, customer concentration was 72%, three percentage points lower than in 2018. This excludes US$145.7 million from the perpetual IP licence. Excluding revenue from standard products, customer concentration was 66%, also four percentage points below 2018 (2018: 70%).
- **Free cash flow**: Free cash flow in 2019 was 95% above 2018. This was the result of the higher cash inflow from operating activities, less capital expenditure. It provides a measure of the cash available for expansion, to make strategic investments in, or acquire, other businesses, to repay borrowings and to fund distributions to shareholders.

See explanations and reconciliations to the nearest IFRS measure in the section entitled “Financial performance measures” on pages 183 to 189.
Revenue growth

<table>
<thead>
<tr>
<th></th>
<th>IFRS 2019</th>
<th>Underlying 2019</th>
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</thead>
<tbody>
<tr>
<td>Growth</td>
<td>+9%</td>
<td>(2)%</td>
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</table>

Gross margin

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<tr>
<th></th>
<th>IFRS 2019</th>
<th>IFRS 2018</th>
<th>Underlying 2019</th>
<th>Underlying 2018</th>
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</thead>
<tbody>
<tr>
<td>Margin</td>
<td>54.2%</td>
<td>49.8%</td>
<td>54.2%</td>
<td>49.8%</td>
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</table>

Operating expenses as a percentage of revenue

<table>
<thead>
<tr>
<th></th>
<th>IFRS 2019</th>
<th>IFRS 2018</th>
<th>Underlying 2019</th>
<th>Underlying 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>32.4%</td>
<td>28.6%</td>
<td>32.4%</td>
<td>28.6%</td>
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</table>

Operating margin

<table>
<thead>
<tr>
<th></th>
<th>IFRS 2019</th>
<th>IFRS 2018</th>
<th>Underlying 2019</th>
<th>Underlying 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Margin</td>
<td>24.3%</td>
<td>22.8%</td>
<td>24.3%</td>
<td>22.8%</td>
</tr>
</tbody>
</table>

Diluted EPS (US$)

<table>
<thead>
<tr>
<th></th>
<th>IFRS 2019</th>
<th>IFRS 2018</th>
<th>Underlying 2019</th>
<th>Underlying 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>3.96</td>
<td>3.47</td>
<td>3.96</td>
<td>3.47</td>
</tr>
</tbody>
</table>

Definition and relevance

Revenue growth

- Actual and prior year’s full-year revenue measured in our reporting currency, US dollars. Monitoring this revenue trend provides a measure of business growth.

- +9% (both IFRS and underlying) was above 2018. This increase was due to the positive impact from the revenue recognition of the effective IP licence granted to our largest customer together with savings in manufacturing costs.

Gross margin

- Actual and prior year’s gross margin. Gross margin is gross profit expressed as a percentage of revenue and shows the value of the Group’s products. Monitoring this trend provides a measure of our ability to obtain profit margin from our products and manage our manufacturing costs over a period of time.

- 54.2% (both IFRS and underlying) was above 2018. This increase was due to the positive impact from the revenue recognition of the effective IP licence granted to our largest customer together with savings in manufacturing costs.

Operating expenses as a percentage of revenue

- Actual and prior year’s operating expenses (OpEx%) expressed as a percentage of revenue. OpEx % provides a measure of our effort in innovation and the efficiency of our operating structure over a period of time and it reflects the need for current returns as well as an investment in future revenue growth. OpEx % and underlying OpEx % provide a useful reflection of the focus and efficiency of our operating structure. OpEx includes Selling & Marketing expenses, General & Administrative expenses and Research & Development expenses.

- 32.4% (both IFRS and underlying) was above 2018. This increase was due to the positive impact from the revenue recognition of the effective IP licence granted to our largest customer together with savings in manufacturing costs.

Operating margin

- Actual and prior year’s operating margin. Monitoring this trend provides a useful measure of our ability to increase the profitability of our operating activity over a period of time. Underlying operating margin provides a useful link to our ability to generate cash as we are a low capital intensity business.

- 24.3% (both IFRS and underlying) was significantly above 2018 mainly due to the higher revenue. On an underlying basis, operating margin was 330bps above 2018. This increase was the result of the improvement in underlying gross margin together with lower operating expenses.

Diluted EPS (US$)

- Actual and prior year’s diluted EPS. Monitoring this trend provides a useful measure of our ability to generate earnings and the inherent value of our business for our shareholders over a period of time. Underlying diluted EPS provides a useful reflection of the inherent value of the business.

- 3.96 (both IFRS and underlying) was significantly above 2018 at US$3.96 due to the increased net income together with the lower share count. Underlying diluted EPS was 30% above 2018, mainly driven by the increase in underlying net income together with the lower share count.
Leveraging our mixed-signal expertise to create the next wave of innovation and differentiation

Our ability to integrate combinations of complex mixed-signal IP in customer-specific products and reliably produce them in very high volumes has helped fuel the mobile computing revolution since its early days. As we are investing to leverage this expertise in other segments, Dialog is well positioned to create the next wave of innovation in smart power management, charging, gaming and other mixed signal areas.

Highlights

- In April 2019, we closed an agreement with Apple Inc. to license certain of our PMC technologies, and transfer certain assets and over 300 employees.
- Leveraged our power management technology into new markets such as gaming, solid state drives (“SSD”) and automotive.
- Secured a high-volume phone charger opportunity at a major Tier 1 customer, displacing the long-time incumbent supplier.
- Entered into new markets with production of custom application specific (“ASICs”), PMICs for solid state drives, gaming consoles and DSLR cameras.
- Began ramp the of our automotive PMICs solutions for Renesas R-Car H3, M3 and V3M computing platforms.

Key drivers

- Battery charge time reduction.
- Increasing efficiency requirements to address tightening thermal budgets.
- Industry increase in “always-on” applications requiring ultra-low power solutions to extend battery life.
- Broader adoption and reliance upon platform reference designs for lower customer development cost and faster time-to-market.
- Expansion of high-performance processors into automotive infotainment systems driving adoption of integrated power solutions.

2019 progress

- We closed the licensing agreement with Apple Inc. in April 2019.
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Our products

Dialog replaces discrete power management components with highly-integrated, single-chip solutions that reduce energy usage, provide design simplicity at a lower cost, and improve the overall power density of mobile products. Our PMICs are highly configurable. This allows them to be factory-tailored to meet the exact voltage and current needs of every component on a circuit board.

This flexibility is attractive to both platform vendors and customers. Platform vendors can validate one PMIC and use it in multiple platform variants, and end-customers who wish to differentiate from other platform customers can modify some peripheral functions.

Our leadership position in PMICs allows us to quickly address developing market trends and we continue to see significant focus on battery charging.

The increasing electrification of the automobile is driving additional business potential for our power management solutions. High resolution screens within the cabin for advanced infotainment systems and clusters, combined with always-on driver assistance features require high-performance processing solutions. Dialog’s experience in power management of multi-core processors and our AEGO100 Automotive qualified products enable us to be perfectly positioned for this new era of innovation – Dialog is well positioned to deliver.

More applications require effective power management solutions.

Always-on sensing combined with increased context awareness in a wide range of smart devices has the effect of exponentially increasing the number of use cases that customers wish to support.

Our comprehensive range of PMICs and Subsystem PMICs meet the demanding power management requirements and energy efficiency levels required in a growing number of applications, such as SSDs, IoT devices and automotive infotainment systems.

Underlying revenue

US$965m

Underlying operating profit

US$281.9m

Case study: PMICs

Our comprehensive range of PMICs and subsystem PMICs meet the demanding power management requirements and energy efficiency levels required in a growing number of applications, such as SSDs, IoT devices and automotive infotainment systems.

Forward focus areas for 2020

- Expand product portfolio
  - Expand our custom and semi-custom engagements through Dialog’s operational excellence and innovative, and differentiated products.
  - Expand our automotive PMIC portfolio.
- Deliver continuous innovation
  - Accelerate System-on-Chip partner collaboration.
  - Leverage Dialog internal synergies to provide signal chain solutions to our customers.
- Strategic initiatives and M&A
  - Deepen our collaboration with strategic partners.

Highlights

- System power and battery management
- ICs for large-screen smartphones and tablets.
- Power management ICs for wearables, watches, etc.
- High-efficiency battery chargers for smartphones and tablets.
- High-voltage power management for Chrombooks™, Ultrabooks™, and convertible tablets.
- Automotive-grade PMICs for in-vehicle infotainment, electronic instrument cluster, telematic systems and driver-assisted displays.
- Motor Driver ICs for applications such as cameras.
- Power management ICs for gaming, memory and SSDs.

Key drivers

- Battery charge time reduction.
- Increasing efficiency requirements to address tightening thermal budgets.
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  - Deepen our collaboration with strategic partners.
Advanced Mixed Signal

In 2019, our backlighting business almost doubled year-on-year. We also maintained our dominant position in the rapid charge market, leading the way with our USB PD chipset solutions shipping ‘in the box’ with major branded smartphones.”

Dave Lee
Senior Vice President and General Manager, Advanced Mixed Signal

Innovative and differentiated mixed signal technologies addressing customer requirements in our target end-markets

Configurable Mixed-signal ICs (“CMICs”) pioneer a new category of ICs which enable our customers to customise and integrate multiple analog, logic and discrete functions into a single chip. This can be prototyped in hours, accelerating time-to-market and reducing board space.

PrimAccurate™ digital control technology is at the heart of our AC/DC converters, backlight driver ICs and solid state lighting (“SSL”) LED driver ICs. It enables energy-efficient products and helps our customers meet stringent government standards and energy regulations for low power and high efficiency.

Highlights
- Our backlighting business almost doubled year-on-year.
- We were at the vanguard of USB PD adoption, with chargers using our USB PD chips shipping “in the box” with major branded smartphones in 2019.

Our markets
- CMICs for IoT, mobile computing and automotive.
- LED LCD drivers for direct backlighting in TV, automotive and LED monitor displays.
- AC/DC controller solutions for smartphones, tablets, appliances, industrial products – digital intelligence and state machine solutions for high power density rapid charge and non-rapid charge applications, and power supplies.
- SSL LED drivers for residential and commercial lighting applications.

2019 progress
- Launched the first automotive grade CMIC.
- Began the introduction of Dialog’s IP into the CMC platform with a low noise LED regulator.
- Our backlighting business almost doubled year-on-year.
- Led the way in USB PD adoption, with chargers using our USB PD chips shipping “in the box” with major branded smartphones.
- Delivered a high power density 65W adapter solution that lets OEs pack more power into compact adapter cases.

Key drivers
- Growing consumer demand for direct backlight 4K and 8K High Dynamic Range (“HDR”) TVs at low cost.
- Increasing adoption of direct backlighting for HDR in automotive display panels.
- Consumer demand for faster mobile device charging and smaller, higher power density adapters.
- Consumer applications have very short design cycles and demand low-power, low-cost small form factor ICs.
- Stringent government regulations for efficiency and standby power in electronic products.

Our products
- Configurable Mixed-signal ICs integrate analog mixed-signal functionality on an easily configurable software platform, using non-volatile memory to configure multiple analog, digital and power functions. This allows customers to easily replace standard analog, logic and discrete board components, enabling a fast go-to-market, and reduce board space and costs.
- In 2019, Dialog launched the first-to-market automotive grade CMIC with customisable technology that enhances design flexibility and scalability for the automotive future. Additionally, leveraging on Dialog’s power management IP, we introduced an industry-leading LDO regulator targeting high-end smartphone cameras.

LED Backlight Drivers
- When it comes to buying a new TV or monitor, many consumers want the absolute best picture quality for the price. That’s why manufacturers are racing to transition from edge-lit to multi-zone, direct backlight. HDR displays.
- HDR TVs use direct backlight, local dimming to achieve a vibrant visual experience. Local dimming technology dims the area of the screen that needs it, while keeping the bright parts of the display bright. It also increases the contrast ratio to render deeper blacks, intense bright highlights and life-like colours that allow exciting and truly immersive viewing.
- Local dimming requires direct backlighting with many active LED zones and thousands of LEDs. This place to Dialog’s core BroadLED™ LED driver IC, which is used in virtually all 4K and 8K HDR TVs to enable local dimming. Our BroadLED™ technology allows our customers to lower their direct backlighting solution cost, reduce power consumption and enhance thermal performance for longer lifetime with higher reliability.

AC/DC Power Conversion and Control
- Dialog’s AC/DC travel adapter IC solutions continue to support virtually all fast charge protocols, including USB Power Delivery, Qualcomm® Quick Charge™ 4+, Samsung Adaptive Fast Charging (“AFC”), Huawei SuperCharge™ technology and Fast Charger Protocol (“FCP”), as well as other proprietary OEM protocols.
- In 2019, we were on the vanguard of USB PD adoption, with chargers using our USB PD 3.0 chips shipping “in the box” with major branded smartphones.
- Our AC/DC high power density RapidCharge™ and DC/DC converter ICs deliver efficiency as high as 90% and support output power up to 65W, allowing OEMs to pack more power into compact charger and adapter cases with very low standby power.

LED Solid State Lighting
- With its energy savings, improved performance and lower costs, LED SSL is the preferred technology for new residential and commercial installations.
- Dialog addresses the SSL market with a broad range of high-performance, low BOM cost LED driver ICs. We support both dimmable and non-dimmable solutions, with ongoing investment in both commercial and residential SSL applications.

Case study: BroadLED™
- Dialog’s core BroadLED™ IP is used in virtually all 4K and 8K TVs to enable direct backlighting for the vibrant visual experience of HDR.

Forward focus areas for 2020
- Extend product portfolio
  - Increase the value of our configurable platform incorporating additional analog and power management IP
  - Extend our leadership in LED backlighting, delivering direct backlight ICs for next-generation Mini LED, Micro LED, and automotive HDR displays.
  - Continue to deliver next-generation RapidCharge™ adapter solutions, including USB PD high power density chipsets to meet fast charging standards.
  - Expand our SSL LED driver solutions for commercial and professional LED lighting.
- Achieve a broader and deeper customer base
  - Increase cross-selling of CMICs across our customer base, particularly in Asia.
  - Extend our core BroadLED™ backlighting technology for performance innovations in the automotive, TV and monitor HDR backlighting markets.
  - Extend our RapidCharge™ AC/DC USB PD power supply solutions to a broader customer base.
  - Leverage our AC/DC converter IP and ASSP technologies to address the appliances and smart meter markets.
Connectivity & Audio

Sean McGrath
Senior Vice President and General Manager, Connectivity & Audio

"2019 has been a strong year for the Group, with double digit revenue growth in the strategic areas of digital audio and Bluetooth® low energy. The successful acquisition of Silicon Motion’s low power Wi-Fi business significantly increases Dialog’s presence in the IoT Connectivity space, allowing for increased growth potential."

Everything is connected
As the internet of Things continues to develop and evolve, more and more applications are getting connected. Our low power connectivity technologies and audio ICs help our customers to succeed in these highly competitive markets.

Highlights
- Delivered strong revenue growth in Bluetooth® low energy ("BLE"), acquiring FCO’s industry-leading low power Wi-Fi SoC portfolio.
- Launched first generation VirtuZero™ low power Wi-Fi SoC.
- Launched the DA1469x, the world’s most advanced wireless BLE microcontroller supporting Bluetooth® 5.1.
- Launched the DA4531, the world’s smallest and lowest power wireless BLE microcontroller supporting Bluetooth® 5.1.

Our markets
- Single chip transceivers for DECT-based cordless telephones, wireless microphones, headphones and gaming accessories.
- SmartBond™ single chip wireless ICs certified to the Bluetooth® low energy standard, for enabling IoT node connectivity to the cloud.
- VirtuZero™ Highly integrated single chip low power Wi-Fi SoCs for enabling battery-powered node connectivity to Wi-Fi networks and cloud services.
- SmartBeat™ provides a platform for robust, low power wireless audio over USB, DECT, and as a Bluetooth® co-processor. This platform offers a highly-integrated solution for high-quality and fixed low latency wireless audio applications, supporting sample frequencies up to 192kHz.

2019 progress
- Strong revenue growth in Bluetooth® low energy.
- Launched SmartBond™ DA1469x supporting the latest Bluetooth® 5.1 and enabling novel high-end applications.
- Launched the DA14531, Smartbond Tiny™, supporting the latest Bluetooth® 5.1 standard and enabling connectivity in disposables.
- Launched the DA7402 family of smart CODECs for combining ultra-low power active noise cancellation with high-performance audio CODEC.
- Strengthened market position in the wearable segment with key design wins at multiple customers.
- Completed the acquisition of FCI, giving Dialog its first foray into low power Wi-Fi.

Key drivers
- Rapid market expansion of BLE fuelled by the connectivity needs of the Internet of Things.
- Growth of battery powered IoT and other devices that benefit from direct Wi-Fi and cloud connectivity.
- New market trend for digital headsets for smartphones aftermarket using Bluetooth®, with rapid market expansion for the new generations of True Wireless Stereo ("TWS") earbuds.
- Focusing on the fast-growing Unified Communication products segment with 1.9GHz DECT audio and USB-audio headsets.
- Maturity of DECT handset market.

Our products
Bluetooth® low energy is the gateway to personal connectivity and easy access to the cloud.

Dialog’s SmartBond™ family is the simplest route to delivering power-friendly and flexible Bluetooth® low energy connected products to the market. SmartBond™ devices are still market-leading in low power, high integration BLE and cover a broad range of applications. In 2019, we introduced two new products to our SmartBond™ portfolio. The DA1469x, is the world’s most advanced wireless microcontroller and introduces a new level of integration and performance enabling higher-end applications as well as novel applications such as positioning and audio. The second product, the DA4531 which is also known as SmartBond Tiny™ is the world’s lowest power, smallest size and lowest cost device enabling even disposables applications to become smart and connected.

By addressing both ends of the application spectrum, we have expanded our application space coverage, enabling new opportunities for our BLE products.

These products are all backed up by our powerful SmartSnippets™ software tooling and extensive applications support, making it easy for designers to get the most out of their system. Our innovation roadmap ensures designers will have the Bluetooth® solutions they need, when they need them.

SmartBond™ has a strong base for further growth, building on a solid partner ecosystem, an increasing portfolio of reference designs, and a growing online engineering community.

SmartBeat™ products support the trend to replace the analog 3.5mm audio jack headseat connection with digital alternatives. The SmartBeat™ chipset, DA14195 audio processor and DA7217 ultra-low power codec, is aimed at Bluetooth® and USB type-C™ digital audio connections with smartphones.

In 2019, Dialog launched a family of audio CODECs delivering groundbreaking active noise cancellation. The DA416x delivers superior active noise cancellation no matter how noisy the environment, with twice the audio quality and half the power consumption.

Low power Wi-Fi is the way that battery powered and other IoT devices can connect directly to Wi-Fi and cloud services without clumsy and expensive additional bridging equipment. Previously, Wi-Fi was considered too power hungry to successfully run simple batteries such as AAA, AA and small rechargeable packs, but Dialog’s new VirtualZero™ line of low power Wi-Fi SoCs breaks through that barrier, enabling a large array of battery-powered devices that benefit from Wi-Fi and cloud connectivity.

Soon after the closing of the acquisition of FCI, Dialog launched its first generation of VirtualZero™ low power Wi-Fi SoCs with the FCHO00. The FCHO00 is targeted at smart door locks, wireless sensors, thermostats, heating, ventilation and air conditioning equipment, Wi-Fi video cameras, doorbells, wearables, location tags, and many more applications in both commercial and consumer markets.

Case study: Converging towards shipments of 100 million units of SmartBond™ per year
In 2019, cumulative shipments of SmartBond™, our Bluetooth® low energy product exceeded 300 million units, bringing us closer to delivering 100 million units of devices per year.

Weary devices, Human Interface devices, Smart Home applications, proximity tags and portable medical devices are some of the applications driving the growth in the market.

The introduction of new Bluetooth® products, the DA1469x and the DA4531, enable the expansion of our addressable market and further growth in the medium term.

Forward focus areas for 2020
- Achieve a broader and deeper customer base
- Continue to invest in the BLE platform and increase market footprint
- Increase investment in the low power Wi-Fi platform, delivering follow-up SoCs and building design wins to increase market penetration.
- Leverage the combination of BLE and Wi-Fi through our distribution and Sales representative network to expand our customer base.
- Deliver continuous innovation
- BLE focus on wearables, smart home and connected health
- Expand our low latency wireless audio towards microphone and headset brands
- Expand our audio expertise for voice user interfaces and audio enhancements in consumer headsets.
In 2019, we made excellent progress towards our long-term objectives. We delivered solid financial performance, increased underlying operating margin and cash flow generation. We look forward to the future with confidence.

Wissam Jabre
Chief Financial Officer, Senior Vice President Finance

Summary
Our business and financial performance in 2019 was strong. We delivered record underlying gross margin, and increased underlying operating margin, while investing US$314 million in the development of new products. Free cash flow generation was a record US$314 million in the development of new products. We returned US$449 million, and we returned US$1.9 million but to reduce net income by US$0.8 million.

We report non-IFRS measures because they provide useful additional information about the performance of the Group’s businesses. We do not regard non-IFRS measures as a substitute for, or superior to, the equivalent IFRS measures. Non-IFRS measures presented by Dialog may not be directly comparable with similarly-titled measures presented by other companies.

Basis of preparation
Accounting policies
The consolidated financial statements of Dialog Semiconductor Plc (“the Company”) and its subsidiaries (together, “Dialog” or “the Group”) for the year ended 31 December 2019 are set out on pages 114 to 175.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted for use in the European Union and those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The consolidated financial statements also comply with IFRS as issued by the International Accounting Standards Board.

The Group’s significant accounting policies are unchanged compared with the year ended 31 December 2018, except to reflect the adoption of IFRS 16 Leases with effect from 1 January 2019.

Recent accounting pronouncements that are relevant to the Group are outlined in note 1 to the consolidated financial statements.

Adoption of IFRS 16
IFRS 16 Leases provides a single lessee accounting model, requiring lessees to recognise a right-of-use asset and a lease liability for all leases, except those with a short lease term and/or immaterial underlying asset of low value. In summary, for lessors, there is no longer a distinction between an operating lease and a finance lease and most leases are now recognised on the balance sheet similarly to the way in which finance leases were accounted for under the predecessor accounting standard, IAS 17 Leases.

We adopted IFRS 16 using a modified retrospective approach whereby prior periods were not restated but cumulative effect adjustments were made to the opening consolidated balance sheet on the transition date, 1 January 2019. We recognised lease liabilities totalling US$67.6 million and corresponding right-of-use assets totalling US$66.4 million (after deducting existing prepayment at its fair value of US$288.6 million). We considered that the prepayment at its fair value represented consideration in respect of the Group’s employees from our design centres in the UK, Germany and Italy.

During 2019, the effect of IFRS 16 was to increase operating profit by US$1.9 million but to reduce net income by US$0.8 million.

Details of the adoption of IFRS 16 and its financial effect are set out in note 37 to the consolidated financial statements.

Critical accounting judgements and estimates
Details of the critical accounting judgements made in preparing the consolidated financial statements and the key sources of estimation uncertainty that may affect the carrying amount of the Group’s assets and liabilities within the next financial year are set out in note 2 to the consolidated financial statements.

Non-IFRS measures
We assess the performance of the Group’s businesses using a number of measures. Certain of them 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. Underlying measures of profitability when referred to on a consolidated basis and free cash flow are non-IFRS measures.

An explanation of the adjustments made to the equivalent IFRS measures in calculating the non-IFRS measures and reconciliations of the non-IFRS measures to the equivalent IFRS measures for the periods presented are set out in the section entitled “Financial performance measures” on pages 163 to 169.

Recent corporate transactions
Completion of agreements with Apple
Licensing and asset transfer agreement On 11 October 2018, we announced that we had entered into an agreement with Apple Inc. (“Apple”) to license our power management technologies and to transfer to Apple certain assets and over 300 employees from our design centres in the UK, Germany and Italy.

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

Pursuant to the agreement, we granted to Apple:
– a perpetual licence over our Power Management IP as it existed at the closing date; and
– an effective licence over certain of our IP as it existed at the closing date and is developed for a period of at least four years thereafter.

On closing of the licensing and asset transfer agreement, Apple made an interest-free prepayment to Dialog of US$300.0 million. On initial recognition, we measured the prepayment at its fair value of US$288.6 million. We considered that the resulting “below market element” of the prepayment of US$11.4 million represented additional consideration in respect of the licensing arrangements and asset transfers.
If there are insufficient invoices outstanding on a recoupment date, Apple may require us to settle the shortfall against the scheduled recoupment in cash.

We account for the prepayment as a financial liability measured at amortised cost. At the end of 2019, the carrying amount of the liability was US$194.5 million.

Acquisition of Creative Chips
On 31 October 2019, we completed the acquisition of Creative Chips, a supplier of integrated circuits ("ICs") to the Industrial internet of Things ("IoT") market based in Germany.

We acquired Creative Chips for US$230.0 million on a cash- and debt-free basis. Additional consideration of up to US$23.0 million in cash may be payable contingent on Creative Chips' revenues for 2020 and 2021.

On completion, we paid consideration of US$230.7 million in cash, including US$3.7 million in respect of Creative Chips' estimated cash, debt and working capital levels on completion. In February 2020, we paid a purchase price adjustment of US$0.1 million to the sellers reflecting the actual amounts on completion.

We estimated that the acquisition date fair value of the contingent consideration was US$0.5 million (net of discounting of US$2.1 million).

Creative Chips' net assets on acquisition totalled US$232.2 million, including identifiable intangible assets in respect of customer relationships (US$42.6 million), developed technology (US$7.2 million) and trade name (US$1.3 million).

We therefore recognised goodwill of US$321.2 million in relation to Creative Chips. Details of the purchase price allocation are set out in note 4 to the consolidated financial statements.

During 2019, we incurred related transaction costs of US$1.8 million (in general and administrative expenses).

Acquisition of Silego
We completed the acquisition of Silego Technologies, Inc. ("Silego") in November 2017 for initial consideration of US$291.2 million. Contingent consideration of up to US$30.4 million was payable for Silego dependent on its revenues in 2017 and 2018. Silego's revenue for 2017 was such that the first instalment of US$10.0 million was payable in full. Silego's revenue for 2018 was such that US$12.1 million of the second instalment of up to US$30.4 million was payable. In February 2019, we paid US$16.7 million in relation to the element of the second instalment that was attributable to the shares and vested options acquired and attributed the balance to deferred cash rights that are payable over the period 2020 and 2021.

During 2019, we also paid deferred consideration of US$2.1 million in relation to the purchase of Silego, bringing the total deferred consideration paid to US$5.3 million with the remaining US$0.1 million expected to be payable by March 2021.

Disposal of Dyna Image
In December 2018, we agreed to sell our stakeholding in Dyna Image Corporation ("Dyna Image"). We obtained the necessary regulatory approvals but the purchaser was unable to complete the transaction and the sale arrangement was terminated in September 2019. We immediately entered into a new agreement to sell our stakeholding to another purchaser for a nominal amount.

As a result of the acquisition of Creative Chips and Silego and the completion of the sale of Dyna Image, we recognised a gain of US$15.9 million on the disposal of Dyna Image and an impairment of US$7.2 million on the acquisition of Creative Chips.

Conclusion of the evaluation of goodwill
We concluded that the effective licence consideration as revenue on the closing date.

IP and therefore recognised the related deferred revenue ("IP deferred revenue") of US$23.9 million in relation to the agreement to supply Audio ICs to Apple, as well as a consideration of US$2.1 million in relation to outstanding deals with certain of our products over the three-year period ending on 31 March 2022.

Further details of the transaction are set out in note 3 to the consolidated financial statements.

We therefore recognised goodwill of US$15.9 million on the disposal of Dyna Image ("Dyna Image disposal"). Details of the transaction are set out in note 3 to the consolidated financial statements.

Acquisition of FCI
On 31 May 2019, we completed the acquisition of Silicon Motion Technology Corporation's Mobile Communications product group, branded as FCI, based in South Korea.

We acquired FCI for US$45.0 million on a cash- and debt-free basis. We paid consideration of US$45.2 million in cash, including US$9.2 million in respect of FCI's cash, debt and estimated working capital on completion. We estimate that a purchase price adjustment of US$0.2 million will be payable by the seller, reflecting FCI's actual working capital on completion.

FCI's net assets on acquisition totalled US$44.0 million, including identifiable intangible assets in respect of customer relationships (US$13.4 million), developed technology (US$16.6 million) and trade name (US$1.1 million).

We therefore recognised goodwill of US$10.9 million in relation to FCI. Details of the purchase price allocation are set out in note 4 to the consolidated financial statements.

During 2019, we incurred related transaction costs of US$2.2 million (in general and administrative expenses).

Analysis by reporting segment
Custom Mixed Signal's revenue for 2019 compared with US$148.8 million in 2018, an increase of 4%. Revenue increased principally due to growth in sales of backlitting ICs and CMCs, though this was partially offset by lower sales of AD/DC charger ICs for smartphone power adaptors.

Advanced Mixed Signal's underlying operating profit was considerably lower than at US$15.2 million compared with US$26.8 million in 2018, while underlying operating profit benefited from favourable product mix, this was outweighed by higher R&D expenses. Underlying operating margin declined to 6.0% compared with 10.9% in 2018.

Connectivity & Audio’s underlying revenue was US$181.3 million in 2019 compared with US$195.0 million in 2018, an increase of 19%. Connectivity & Audio’s revenue increased principally due to strong growth in demand for Bluetooth® low energy and new audio products.

Connectivity & Audio’s underlying operating profit was significantly higher at US$21.6 million compared with US$13.6 million in 2018. Underlying operating profit increased due to higher sales volumes and favourable product mix but these benefits were partially offset by higher R&D expenses. Underlying operating margin was higher at 11.8% compared with 8.9% in 2018.

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

Corporate and other unallocated items represented an underlying operating profit of US$5.6 million compared with a loss of US$26.4 million in 2018, with the improvement being principally due to the recognition of effective IP licence revenue of US$18.5 million in 2019 and lower unallocated R&D expenses.

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Financial review continued

Analysis of the Group’s results

Revenue

was US$1,366.2 million in 2019 compared with US$1,442.1 million in 2018, with the substantial increase being due to the recognition of revenue of US$164.2 million in relation to the licensing arrangements with Apple.

Excluding the perpetual IP licence fee of US$45.7 million, underlying revenue was US$1,420.5 million in 2019 compared with US$1,442.1 million in 2018, a decrease of 2%.

Underlying revenue declined principally due to lower main R&D volumes in Custom. Mixed business, the underlying gross margin partially offset by volume growth in Connectivity & Audio and revenue of US$18.5 million recognised on the effective IP licence granted to Apple.

Cost of sales

was US$977.7 million in 2019 compared with US$971.1 million in 2018, with the reduction being principally due to lower overall sales volumes.

Gross profit

was US$488.5 million in 2019 compared with US$469.1 million in 2018, with the substantial increase being due to the recognition of licence fees and manufacturing cost savings. Gross margin was 54.2% in 2019 compared with 47.9% in 2018.

Underlying gross profit was US$706.7 million compared with US$696.0 million in 2018, an increase of 2%. The underlying gross margin was 50 basis points higher at 49.8% compared with 48.3% in 2018.

Underlying gross profit excludes the perpetual IP licence fee of US$45.7 million, share-based compensation and related expenses of US$2.2 million (2018: US$1.8 million) and consumption of the fair value uplift of US$2.2 million (2018: US$1.8 million) of the second tranche of warrants amounting to US$1.0 million in 2018.

Selling and marketing expenses increased slightly to US$650.1 million compared with US$674.7 million in 2018 and represented 4.2% of the Group’s underlying revenue compared with 4.0% in 2018.

Underlying general and administrative expenses increased slightly to US$805.1 million compared with US$797.4 million in 2018 and represented 4.2% of the Group’s underlying revenue compared with 4.0% in 2018.


R&D expenses

were US$333.5 million in 2019 compared with US$326.3 million in 2018.

R&D costs totalled US$334.6 million (2018: US$326.3 million), of which US$154.4 million (2018: US$245.8 million) was capitalised and US$180.7 million (2018: US$280.2 million) was offset by R&D expenditure credits. R&D costs were lower compared with 2018 principally due to the transfer of design centre businesses at the beginning of the second quarter of 2019.

Underlying R&D expenses were US$376.7 million in 2019 compared with US$394.2 million in 2018 and represented 29.5% of the Group’s underlying revenue compared with 26.4% in 2018.


Other operating income was significantly higher at US$39.1 million in 2019 compared with US$3.2 million in 2018, principally due to the recognition of the gain of US$19.0 million on the transfer of design centre businesses and higher customer contributions to the perpetual IP licence fee of US$5.5 million.

Operating profit

was US$739.7 million in 2019 compared with US$199.7 million in 2018.

Underlying operating profit was US$824.3 million compared with US$816.1 million in 2018, an increase of 1%. Underlying operating profit increased principally due to the various effects of the licensing and asset transfer agreement but also benefited from improved product margins. Underlying operating margin was higher at 22.0% compared with 19.5% in 2018.

Interest income was US$21.9 million in 2019 compared with US$29.9 million in 2018, with the increase reflecting the recognition of interest and asset transfer agreement but also benefited from improved product margins. Underlying operating margin was higher at 22.0% compared with 19.5% in 2018.

Interest expense

was US$113.3 million in 2019. Underlying interest expense was US$15.0 million in 2019 compared with US$5.5 million in 2018, the increase being principally due to the various effects of the licensing and asset transfer agreement but also benefited from improved product margins. Underlying operating margin was higher at 22.0% compared with 19.5% in 2018.

Net income

was US$301.5 million in 2019 compared with US$281.6 million in 2018.

Underlying net income was US$364.4 million compared with US$254.5 million in 2018, an increase of 44%.

Basic earnings per share were US$1.49 (2018: US$1.89) based on the weighted average of 171.9 million shares (2018: 74.0 million shares) that were in issue during the period excluding the weighted average of 1.8 million shares (2018: 2.4 million shares) held by employee benefit trusts and, in 2019, the weighted average of 2.7 million shares that were held in treasury. Underlying basic earnings per share were US$1.49 (2018: US$1.89).

Diluted earnings per share were US$3.93 (2018: US$3.93). Diluted earnings per share additionally reflect the weighted average of 4.3 million (2018: 3.7 million) dilutive employee share options and awards. Underlying diluted earnings per share were US$3.47 (2018: US$3.93).

Our effective tax rate is sensitive to the geographic mix of the Group’s profits, reflecting a combination of different tax rates in different countries, changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings, and to currency exchange rate movements, which give rise to tax effects where an entity’s functional currency differs from the currency in which it is required to calculate and pay income taxes.

We recognise a net currency translation loss on monetary assets and liabilities of US$5.7 million compared with a loss of US$3.9 million in 2018. We recognised a fair value loss on warrants of US$1.4 million (2018: loss of US$10.9 million) on the warrants that we hold over shares in Enerrgys and a credit arising from the amortisation of the gain on initial recognition of the fair value uplift of warrants amounting to US$1.6 million (2018: US$1.6 million).

Income tax expense was US$836.3 million in 2019 compared with US$850.9 million in 2018, an effective tax rate for the year of 21.7% (2018: 28.2%).

Summary cash flow statement

<table>
<thead>
<tr>
<th>US$ millions</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash generated from operations</td>
<td>549.7</td>
<td>321.6</td>
</tr>
<tr>
<td>Net income</td>
<td>17.3</td>
<td>8.2</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(70.5)</td>
<td>(88.1)</td>
</tr>
<tr>
<td>Cash inflow from operating activities</td>
<td>496.5</td>
<td>269.7</td>
</tr>
<tr>
<td>Purchases of property, plant and equipment</td>
<td>(12.1)</td>
<td>(28.1)</td>
</tr>
<tr>
<td>Purchases of intangible assets</td>
<td>(8.0)</td>
<td>(6.2)</td>
</tr>
<tr>
<td>Capitalised development expenditure</td>
<td>(15.4)</td>
<td>(24.9)</td>
</tr>
<tr>
<td>Capital element of lease payments</td>
<td>(11.1)</td>
<td>(7.7)</td>
</tr>
<tr>
<td>Net cash inflow during the period</td>
<td>435.6</td>
<td>198.9</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>1.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Increase in cash and cash equivalents</td>
<td>346.7</td>
<td>196.3</td>
</tr>
</tbody>
</table>

Cash flows

Cash inflow from operating activities was US$496.5 million in 2019 compared with US$289.8 million in 2018.

Cash generated from operations before changes in working capital was US$301.5 million in 2019 compared with US$223.2 million in 2018, the increase being principally due to the receipt of consideration totalling US$223.2 million in relation to the IP licensing arrangements with Apple. Excluding the cash inflow from the licences, cash generated from operations before changes in working capital was US$346.7 million in 2019.

Excluding the effect of acquisitions of businesses, net working capital increased by US$82.2 million in 2019 compared with an increase of US$7.0 million in 2018.

Inventory levels decreased during 2019, releasing cash of US$23.2 million, principally reflecting lower expected sales volumes in the first quarter of 2020 compared with the first quarter of 2019. At the end of 2019, inventories represented 58 days’ cost of sales in the preceding quarter (end of 2018: 61 days’ cost of sales). Internal operations increased during 2019, absorbing cash of US$10.5 million, and cash flow from operations was further reduced by US$79.7 million due to the settlement of the first and second quarterly instalments of the prepaid amount from Apple by recoupment against receivables. At the end of 2019, trade and other receivables represented 31 days’ sales in the preceding quarter (end of 2018: 24 days’ sales) after taking into account our use of receivables financing facilities.

Trade and other payables declined during 2019, absorbing cash of US$23.1 million. At the end of 2019, trade and other payables represented 30 days’ sales in the preceding quarter (end of 2018: 50 days’ sales).

Movements on other working capital items had the effect of releasing cash of US$12.9 million during 2019.

Net interest received was US$17.3 million in 2019 compared with US$31.4 million in 2018.

Net income tax payments were US$70.5 million in 2019 compared with US$41.1 million in 2018. Income tax cash flows comprise payments on account in respect of current year taxable profits and adjusting payments or receipts in respect of earlier years.
Financial review continued

Cash outflow from investing activities was US$347.9 million in 2019 compared with US$370.0 million in 2018.

Capital expenditure comprising cash outflows in relation to the purchase of property, plant and equipment and intangible assets and capitalised development expenditure totalled US$360.0 million compared with US$371.0 million in 2018. Capital expenditure declined principally due to the transfer of design centre businesses in April 2019.

Free cash flow was US$449.4 million in 2019 compared with US$329.9 million in 2018. Our robust free cash flow provides a basis for financing strategic investments and for making distributions to shareholders.

During 2019, there was a net cash outflow of US$139.8 million (2018: cash outflow of US$128.5 million) in relation to the acquisition of businesses.

In May 2019, there was a cash outflow of US$44.6 million on completion of the acquisition of FCI (net of cash of US$9.6 million held by the business on the acquisition date). In October 2019, there was a cash outflow of US$77.6 million on completion of the acquisition of Creative Chips (net of cash of US$73.0 million held by the business on the acquisition date).

During 2019, we paid US$176.1 million (2018: US$316.7 million) in settlement of long-term debt (2018: US$276.8 million in respect of deferred consideration payable for Silego’s share capital). Additionally, in February 2018, we paid a purchase price adjustment of US$0.7 million following agreement with the vendors of Silego’s cash, debt and working capital levels on completion.

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

Cash outflow from financing activities was US$30.0 million in 2019 compared with US$39.8 million in 2018.

During 2019, we recognised the receipt of the prepayment from Apple at its fair value of US$288.6 million. We subsequently paid US$20.3 million in cash in partial settlement of the first quarter installment of US$50.0 million in July 2019 but settled the second quarterly installment of US$50.0 million in October 2019 wholly by recoupment against receivables.

During 2019, there was a cash outflow of US$253.1 million (2018: US$42.7 million) on completion of the purchase of Silego’s business on the acquisition date).

During 2019, the cash outflow on the capital element of lease payments was US$11.1 million, higher compared with US$7.7 million in 2018 due to the recognition of additional lease liabilities following the adoption of IFRS 16.

During 2019, employee benefit trusts received proceeds of US$3.4 million (2018: US$3.6 million) on the exercise of share options. During 2019, the trusts made no purchases of the Company’s shares in the market since they held sufficient shares following purchases at a cost of US$21.8 million during 2018.

We use currency derivatives to manage currency risks and we hold certain equity instruments for strategic reasons. We do not hold derivative financial instruments for speculative purposes.

Cash and cash equivalents

Cash management is aligned with Treasury policy to ensure there is no significant concentration of credit risk in any one financial institution.

Credit risk is managed by reference to counterparty credit ratings. As a minimum, a counterparty must generally have a long-term public rating of at least ‘single A’ or equivalent.

Credit risk limits are based on a ratings matrix and are closely monitored. Credit risk is further limited by investing only in ‘investment grade’ rated instruments.

At the end of 2019, cash and cash equivalents amounted to US$1,245.4 million (2018: US$718.7 million) which principally comprised investments in money market funds and bank deposits with a maturity of more than three months or less.

Prepayment from Apple

At the end of 2019, the principal amount of the prepayment outstanding was US$220.0 million, which is scheduled to be settled in quarterly installments by recoupment against invoices or in cash totaling US$22.5 million in 2020, US$50.0 million in 2021 and the balance of US$250.0 million by April 2022.

We settled the third quarterly installment of US$80.0 million in January 2020 wholly by recoupment against invoices.

Receivables financing facilities

We utilise non-recourse receivables financing facilities provided by two financial institutions in an aggregate amount of US$240 million. In July 2019, the principal facility of US$220 million was extended for a further two years and will now mature on 31 October 2021.

Gross receivables sold under the facilities decreased by US$36.5 million to US$770.0 million at the end of 2019 compared with US$113.5 million at the end of 2018. At the end of 2019, cash and cash equivalents included US$0.4 million (end of 2018: US$0.1 million) in relation to receivables sold under these facilities.

CURRENCY HEDGING ACTIVITIES

We use forward currency contracts and currency swaps to manage the Group’s exposure to currency risk on highly probable forecast cash flows denominated in foreign currencies; principally employment costs, property rents and other contractual payments. We also use derivatives to hedge the currency translation exposure on the Euro-denominated liabilities that arise in relation to the Company’s share buyback programme.

Derivative financial instruments are measured at fair value that is determined based on market forward exchange rates at the balance sheet date. At the end of 2019, currency derivatives held by the Group were represented by a net liability of US$80.3 million (end of 2018: net liability of US$82.2 million). All currency derivatives held to hedge forecast cash flows were designated as hedging instruments in cash flow hedge relationships. During 2019, a loss of US$9.3 million (2018: loss of US$10.1 million) was recognised in other comprehensive income, representing the change during the year in the fair value of derivatives in effective hedge relationships, and a cumulative loss of US$9.5 million (2018: gain of US$2.3 million) was transferred from equity to profit or loss on occurrence of the hedged cash flows.

After taking into account hedging, we recognised a net currency translation loss of US$6.6 million (2018: net loss of US$0.9 million) in profit or loss in relation to liabilities to purchase shares under the Company’s share buyback programme.

Share buyback programme

Since initiating the share buyback programme in May 2016, the Company has purchased 11,560,563 of its own ordinary shares and returned €251.8 million (US$345.1 million) to shareholders. Details of the share purchases made during the last three years are set out in note 29 to the consolidated financial statements.

On 5 June 2019, we announced details of the first tranche of the share buyback programme pursuant to an authority granted by shareholders at the Company’s 2018 AGM, under which the Company committed to purchase shares with a minimum cost of €100.0 million and a maximum cost of €150.0 million.

We completed the third and final settlement of this tranche on 19 December 2019. We purchased a total of 3,154,895 shares under this tranche at a cost of €125.0 million (US$139.0 million). We also incurred transaction costs of US$0.7 million. We will seek renewal of the share buyback authority at the Company’s 2020 AGM and will consider initiating further tranches of share purchases in the context of our regular assessment of the Group’s future growth opportunities and its strategic objectives.

Capital management

The Group’s capital is represented by its total equity.

We seek to maintain a capital structure that supports the ongoing activities of our business and its strategic objectives in order to deliver long-term returns to shareholders. We allocate capital to support organic and inorganic growth, investing to support our research and development activities and our product pipeline.

We will fund our growth using a mix of equity and debt after giving consideration to prevailing market conditions.

Going concern

For the reasons set out on page 84, the Directors continue to adopt the going concern basis in preparing the Group’s and the Company’s financial statements.

We outline on pages 7 to 77 the principal risks and uncertainties that the Directors consider could adversely affect the Group’s results, cash flows and financial position.
Balance sheet

**Goodwill**
At the end of 2019, the carrying amount of goodwill was US$429.1 million compared with US$439.5 million at the end of 2018, an increase of US$10.4 million. During 2019, we recognised goodwill totalling US$420.2 million on the acquisitions of Creative Chips and FCI. Goodwill impairment tests carried out during 2019 showed that the recoverable amount of each operating segment to which goodwill is allocated exceeded its carrying amount and therefore no impairment was recognised. Details of the impairment tests performed are set out in note 15 to the consolidated financial statements.

**Other intangible assets**
At the end of 2019, the carrying amount of other intangible assets was US$272.1 million compared with US$217.4 million at the end of 2018, an increase of US$54.7 million. During 2019, additions totalling US$109.5 million, comprising identifiable intangible assets recognised on the acquisitions of Creative Chips and FCI of US$95.7 million, capitalised product development costs of US$15.4 million and purchased software, licences and patents totalling US$8.4 million. During 2019, the related amortisation expense was US$35.2 million (2018: US$35.1 million).

**Property, plant and equipment**
Since we operate a fabless business model, we do not have any manufacturing facilities but we occupy R&D facilities and administrative offices. With the exception of two properties that we acquired with Creative Chips, all of our facilities are leased. At the end of 2019, the Group operated in 30 locations worldwide in facilities covering a total of 55,825 square metres. Management considers that the Group’s facilities are adequate for its current requirements.

**Strong balance sheet continued**

**Balance sheet**

<table>
<thead>
<tr>
<th>Balance sheet</th>
<th>Summary balance sheet</th>
<th>As at 31 December 2019</th>
<th>As at 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US$ millions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td>1,694.5</td>
<td>1,573.8</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td>1,694.5</td>
<td>1,573.8</td>
</tr>
<tr>
<td>Other current assets</td>
<td></td>
<td>281.4</td>
<td>296.2</td>
</tr>
<tr>
<td>Total current assets</td>
<td></td>
<td>1,975.9</td>
<td>1,870.0</td>
</tr>
<tr>
<td>Goodwill</td>
<td></td>
<td>482.1</td>
<td>439.5</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td></td>
<td>272.1</td>
<td>271.2</td>
</tr>
<tr>
<td>Property, plant and equipment – owned</td>
<td></td>
<td>61.1</td>
<td>66.4</td>
</tr>
<tr>
<td>Property, plant and equipment – leased</td>
<td></td>
<td>41.4</td>
<td>—</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td></td>
<td>14.4</td>
<td>19.8</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td></td>
<td>871.3</td>
<td>743.3</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>2,177.0</td>
<td>1,613.3</td>
</tr>
<tr>
<td><strong>Liabilities and equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td>1,024.5</td>
<td>972.6</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td>252.6</td>
<td>270.1</td>
</tr>
<tr>
<td>Total liabilities</td>
<td></td>
<td>1,277.1</td>
<td>1,242.7</td>
</tr>
<tr>
<td>Total equity</td>
<td></td>
<td>1,126.7</td>
<td>1,370.6</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td></td>
<td>2,177.0</td>
<td>1,613.3</td>
</tr>
</tbody>
</table>

Leased property, plant and equipment comprises right-of-use assets. On adoption of IFRS 16 at the beginning of 2019, we recognised right-of-use assets totalling US$164.6 million. By the end of 2019, the carrying amount of right-of-use assets had declined to US$161.4 million, principally due to the effect of lease terminations totalling US$3.2 million and the depreciation expense of US$1.5 million recognised during 2019.

**Non-current liabilities**
Non-current liabilities amounted to US$231.0 million at the end of 2019 compared with US$158.4 million at the end of 2018, an increase of US$72.6 million. Non-current financial liabilities increased from US$8.9 million to US$11.0 million, principally due to the addition of the non-current element of the prepayment of Apple of US$7.3 million and non-current lease liabilities of US$3.4 million following the adoption of IFRS 16.

Deferred tax liabilities increased by US$15.1 million to US$23.1 million principally due to the recognition of deferred tax liabilities on the identifiable intangible assets acquired with Creative Chips and FCI.

Other non-current liabilities increased from US$9.1 million to US$9.2 million, principally due to the addition of the non-current element of the deferred revenue relating to the effective IP licence granted to Apple of US$0.2 million.

**Total equity**
Total equity was US$1,572.6 million at the end of 2019 compared with US$1,302.5 million at the end of 2018, an increase of US$270.1 million. At the end of 2019, Dialag shares held in treasury amounted to US$251.8 million (end of 2018: US$89.1 million) and Dialog shares held by employee benefit trusts amounted to US$221.6 million (end of 2018: US$225.5 million).

**Consequences of Brexit**
On 31 January 2020, the UK ceased to be a member of the EU and entered a transition period that is scheduled to end on 31 December 2020. During the transition period, the UK will continue to be subject to EU rules, will remain in the EU single market and customs union, freedom of movement will remain in place and UK and EU citizens’ rights will continue unaffected.

It is intended that the transition period will provide a period of stability during which the UK’s future trading relationship and security co-operation with the EU will be negotiated. Pending the negotiations, considerable uncertainty continues to exist as to the UK’s future relationship with the EU.

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

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

During the transition period, we will operate on a business as usual basis within applicable regulations and our continuing focus will be on growing our business.

**Subsequent event**
Proposed acquisition of Adesto
On 20 February 2020, we announced that Dialog has entered into a definitive agreement to acquire all of the outstanding shares in Adesto Technologies Corporation (“Adesto”).

Adesto (NASDAQ: IOTS) is a leading provider of innovative custom ICs and embedded systems for the IoT market. Headquartered in Santa Clara, California, Adesto has approximately 270 employees and an established portfolio of industrial solutions for smart building automation that complements Dialog’s range of manufacturing automation products. Adesto’s solutions are sold across the industrial, consumer, medical, and communications markets.

Dialog proposes to acquire Adesto for US$10.55 per share in cash, representing an enterprise value of approximately US$100 million, to be funded from our existing cash balances. The transaction is subject to certain regulatory approvals and customary closing conditions and is expected to close in the third quarter of 2020.

**Wissam Jabre**
Chief Financial Officer, Senior Vice President, Finance
Managing risk and uncertainty

This section sets out a description of the principal risks and uncertainties that could adversely impact the Company's financial situation or reputation and therefore its ability to execute its strategic objectives.

Our risk management framework

The Board and Audit Committee

The Board is responsible for approving the Company's strategic aims and objectives and for determining the nature and extent of the risks it is willing to take in achieving those objectives. The Board seeks to maintain sound risk management and internal control systems. It delegates responsibility for monitoring the effectiveness of these to the Audit Committee, which meets a minimum of four times per year. At least annually, the Audit Committee will review the effectiveness of the Group's risk and control processes.

Operational Management

The Management Team is responsible for managing risk within the business on a day-to-day basis. They set objectives, determine strategy, manage risk, and put in place processes to manage the attendant risks. The Management Team provides input to the Corporate Risk Register which is then reviewed by the Risk Management Office (“RMO”) and the Audit Committee.

Internal Audit

Internal Audit’s role is to provide independent assurance to the Audit Committee and the Management Team on the effectiveness of risk management and control. To ensure Internal Audit’s independence from line management, the Director of Internal Audit is accountable to the Audit Committee. The Internal Audit activities are governed by an Internal Audit plan, which is developed with reference to, amongst other things, the corporate risk register and the plan is approved by the Audit Committee. Based upon its activity, Internal Audit is responsible for reporting significant risk exposures and identified control issues to the Audit Committee and to Senior Management.

The Risk Management Office

The RMO meets quarterly. It is chaired by the Chief Financial Officer and is composed of the heads of the Legal and Risk Management functions, plus senior representation from across the business. The role of the RMO is to improve the identification and quantification of risks, to assign responsibility for risk mitigation and to monitor the progress being made in those activities. The RMO has accountability for reporting key risks and their status to the Management Team and the Audit Committee.

Emerging risks

New and emerging risks are identified and discussed as part of the Corporate Risk Register update process, with review by Operational Management, the RMO and Audit Committee. Over the last 12 months we have seen the continuing development of geopolitical risks to the business, whilst M&A risk has become more apparent as Dialog seeks further acquisitions.

Dialog’s supply chain partners and customers' contract manufacturing operations are predominantly located in China, Taiwan and South Korea. As such they are exposed to the current outbreak of COVID-19 respiratory illness which could have an adverse effect on business operations. Dialog has already seen customers' contract manufacturing operations operating at reduced capacity. These disruptions are likely to have some impact on sales and operating results. Viewed more broadly, should COVID-19 become pandemic and result in a widespread global health crisis, it could reduce demand for our end customers’ products.

Climate change

Although not currently believed to be material, Dialog is exposed to some extent to the regulatory and physical risks associated with climate change. The nature of our business as a fabless manufacturer, means that Dialog’s own operations are unlikely to face any specific material risks as a result of the physical impacts of climate change such as property damage due to extreme weather events. Dialog’s key assets are our employees, and our intellectual property both of which are mobile and no Dialog locations are prone to flood or windstorm.

Dialog’s manufacturing partners have implemented multiple initiatives to reduce their carbon footprint, review water and energy usage and to understand and manage the effects of climate change on their own operations. Regulations addressing greenhouse gas emissions are evolving in many markets which could impact our business indirectly. In the longer term, changes in these regulations could result in increased costs in our supply chain due to higher compliance, raw materials or energy costs to our suppliers. However, improving energy efficiency for end customers is a key element of many of Dialog’s products and this mitigates some of the risks associated with climate change as well as underlining the company’s commitment to being part of the solution to the challenge that climate change represents.

Our principal risks

The Company is affected by a number of risk factors, some of which, including macroeconomic and industry-specific cyclical risks, are outside Dialog’s control. The Company recognises four categories of risks:

1. Strategic
2. Operational
3. Financial
4. Legal and compliance

Strategic risks

Dialog management is focused on executing its strategic objectives in order to mitigate its dependencies on key markets and customers. As part of our 2019 review, a risk relating to mergers and acquisitions has been added to our strategic risks.

Dependency on mobile and consumer electronics

Dialog’s product portfolio is heavily focused upon the mobile and consumer electronics market. Dialog’s revenue is heavily reliant upon the commercial success of its customers’ end products, principally in the high-end mobile phone market. If the market for these products flattens or declines, Dialog’s revenue and profitability will be impacted. Furthermore, the consumer electronics market is characterised by short product cycles and rapid innovation which provide opportunities for customers to change suppliers for subsequent product generations based on competitive factors such as price, quality, technology or specific product specifications.

Mitigating actions

Dialog seeks to diversify its product offerings within its key accounts and to expand its relationships with more top tier global electronics companies. As a result of the IP licensing deal with Apple, Dialog expects to reduce its dependency on Apple over a three-to-five year period and diversify its future Apple revenue across a range of power management, audio, sub-systems, charging and other mixed signal products. Dialog monitors and reviews acquisition opportunities to further diversify its product offering and customer base as evidenced by the recent acquisitions of both FCI and Creative Chips.

Dependency on key customers

Dialog relies on a relatively small number of customers, within the mobile and consumer electronics market, for a substantial proportion of its revenue. The loss of our largest customer, Apple Inc. of specific products sold to Apple, would have a material effect on revenue and profitability. Dialog’s 2019 revenue derived from Apple Inc. is shown on page 172, note 35c. Apple’s capability to internally design PMICs has been enhanced through the transaction between Dialog and Apple completed in April 2019.

Mitigating actions

Dialog seeks to diversify its product offerings within its key accounts and to expand its relationships with more top tier global electronics companies. As a result of the IP licensing deal with Apple, Dialog expects to reduce its dependency on Apple over a three-to-five year period and diversify its future Apple revenue across a range of power management, audio, sub-systems, charging and other mixed signal products. Dialog monitors and reviews acquisition opportunities to further diversify its product offering and customer base as evidenced by the recent acquisitions of both FCI and Creative Chips.

Return on research and development investment

Dialog’s investments in research and development of products, technology and methodologies may not result in successful products or anticipated levels of revenue or profitability.

Mitigating actions

Dialog engages with key customers and market leaders to anticipate future product and technology requirements. Dialog’s ongoing product and technology development processes incorporate detailed business justifications and review of business cases. Dialog seeks to manage its technology and product research and development efficiently and effectively through rigorous project management and engineering controls.
Managing risk and uncertainty continued

1. Strategic risks continued
Dialog management is focused on executing its strategic objectives in order to mitigate its dependencies on key markets and customers. As part of our 2019 review, a risk relating to mergers and acquisitions has been added to our strategic risks.

2. Operational risks
Dialog recognises that quality, reliability and time-to-market for high volume supply of complex ICs is a critical factor for the success of its customers. Therefore, the effectiveness and efficiency of Dialog’s internal operations and management of its supplier relationships are significant factors contributing to its short-term and long-term performance. We run programmes to drive continuous improvement through all facets of the value chain from design to order fulfilment.

3. Supply chain interruption
Dialog runs a “high-touch” fabless business model and outsources the capital intensive production of silicon wafers, packaging and testing of integrated circuits to leading third-party suppliers, mainly in Asia. The manufacturing of products runs over multiple stages with multiple suppliers. The failure of any of these third-party vendors to deliver products or otherwise perform as required could damage relationships with our customers, decreasing our revenue and limiting our growth. Supplier delivery performance can be adversely affected by multiple issues such as fire, floods, earthquakes or pandemics.

4. Information technology and security
Dialog has a decentralised approach to research & development with processes benefit from the lessons learned through each acquisition.

5. Mergers & acquisitions
Dialog has acquired, and expects in the future to acquire, additional business that we believe will complement or augment Dialog’s products and those of our customers.

6. Human capital
In order to successfully execute its current and future business commitments, Dialog needs to continue to build its organisational capability in key areas. Continued innovation in product development, manufacturing and packaging technologies, and leadership skills in an expanding and complex global operation.

7. Geopolitical events
Increasing global trade tensions, including the introduction of tariffs and trade barriers between the US and China and the US and the EU could adversely impact global demand, for Dialog’s products.

8. Risk increasing
- No change
- Risk decreasing

9. Risk decreasing
- No change
- Risk increasing

10. Key to risk trends
- Risk increasing
- No change
- Risk decreasing
Managing risk and uncertainty continued

3 Financial risks
As is typical within the semiconductor sector, Dialog operates across the globe. This exposes the Company to several financial risks including fluctuations in interest and foreign exchange rates as well as credit risk relating to counterparties the Company transacts with. It also needs to ensure access to liquidity at all times to meet its financial obligations and investment in future growth. Through proactive stewardship and financial discipline, we seek to mitigate the impact of these risks on the financial performance of the Company.

3.1 Financial risks

<table>
<thead>
<tr>
<th>Financial risks</th>
<th>Mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>The majority of Dialog’s revenue and expenses are denominated in US dollars. Some exposure exists to non-US dollar denominated operating expenditure, primarily Euro and pound sterling, meaning exchange rate volatility could have an adverse impact on our financial results.</td>
<td>Discrete currency exposures are managed on a case-by-case basis. Transactional currency exposures are managed using forward currency contracts, hedging no further than 12 months out using a layered approach. These are designated as cash flow hedges and at the year-end approximately US$148 million equivalent were outstanding. During the year, Euro-denominated share buyback liabilities were also hedged using forward currency contracts, forming an economic hedge but not designated for hedge accounting purposes. Please refer to notes and to the consolidated financial statements.</td>
</tr>
</tbody>
</table>

3.2 Counterparty risk
Dialog is exposed to the potential default of banks, suppliers and customers. If their credit worthiness were to change, this could have an adverse effect on Dialog’s business and financial condition.

<table>
<thead>
<tr>
<th>Counterparty risk</th>
<th>Mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Company uses non-recourse receivables financing to help manage credit risk of selected customers. When executing financial transactions, Dialog deals with reputable financial institutions in accordance with Board approved policy. Financial stability is a key selection criteria for all suppliers. Annual performance reviews are carried out for key suppliers by Dialog’s Manufacturing Review Board.*</td>
<td>The business has no net debt and is cash generative. As such, the Company finances its operations from surplus cash, only raising debt when necessary. The policy is to maintain a sufficient level of liquidity appropriate to meet short-term liabilities and longer-term strategy. Cash flow from operating activities in 2019 was US$496 million. In addition the Company has a US$150 million revolving credit facility which remains undrawn.</td>
</tr>
</tbody>
</table>

* The Manufacturing Review Board is an internal management committee responsible for supplier lifecycle management, supplier performance, onboarding and phasing out of suppliers as required, according to Dialog’s manufacturing strategy.

3.3 Funding and liquidity
The risk of being unable to continue to meet the financial obligations/requirements of our operations and provide resources for future growth.

<table>
<thead>
<tr>
<th>Funding and liquidity</th>
<th>Mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

4 Legal and compliance risks
As Dialog has an increasingly global presence, it continues to update and enhance its policies, processes and procedures to comply with international and local requirements. Dialog recognises the importance of behaving as a good corporate citizen across the globe. In addition, the Company seeks to utilise the legal protection offered across the globe to protect our assets, including our intellectual property rights.

4.1 Legal and compliance risks

<table>
<thead>
<tr>
<th>Legal and compliance risks</th>
<th>Mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>As a highly innovative company Dialog has technology that is attractive to others. Dialog must ensure that this technology is sufficiently protected both legally (via patents) and physically (via security and IT processes). We seek to protect our current and future business and our Intellectual Property from being copied or used by others through appropriate use of patents, copyrights and trademarks on a global basis.</td>
<td>Dialog has in excess of 1,000 inventions for which we are pursuing or have already obtained patent protection, and we continue an active patent registration programme overseen by the Patent Committee. Dialog has continued to make investments to improve the tools used to protect its Intellectual Property. Engineering projects are segregated and access controlled via a tracked approval process.</td>
</tr>
</tbody>
</table>

Dialog monitors laws and legal and regulatory changes across the countries in which it operates and continues to update its policies, processes and compliance programmes. We audit our key suppliers to ensure their compliance with industry standards and legal requirements. We also continue to strengthen our system of internal controls, procedures and resources which reinforce compliance with various legal regimes.

4.2 Compliance with laws and regulations

<table>
<thead>
<tr>
<th>Compliance with laws and regulations</th>
<th>Mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dialog monitors laws and legal and regulatory changes across the countries in which it operates and continues to update its policies, processes and compliance programmes.</td>
<td>Dialog invests significantly in original research and development to address product requirements with innovative solutions. Furthermore, we have invested in a robust patent protection programme to deter frivolous infringement claims by competitors. Dialog also seeks indemnification for intellectual property infringement by its suppliers.</td>
</tr>
</tbody>
</table>

4.3 Intellectual property protection

<table>
<thead>
<tr>
<th>Intellectual property protection</th>
<th>Mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dialog has an increasingly global presence, it continues to update and enhance its policies, processes and procedures to comply with international and local requirements.</td>
<td></td>
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</tbody>
</table>

4.4 Intellectual property infringement

<table>
<thead>
<tr>
<th>Intellectual property infringement</th>
<th>Mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>The semiconductor industry is characterised by frequent litigation regarding intellectual property rights. We may be subject to claims by third parties who allege that our products infringe their patents or other intellectual property rights. Such claims against us or our customers could adversely affect our business and require us to pay royalties/damages or expend significant resources to modify or redesign our products.</td>
<td></td>
</tr>
</tbody>
</table>

Strategic report approved on 4 March 2020

Dr Jalal Bagherli
Chief Executive Officer

Wissam Jabre
Chief Financial Officer, Senior Vice President Finance

Key to risk trends

<table>
<thead>
<tr>
<th>Key to risk trends</th>
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</thead>
<tbody>
<tr>
<td>Risk increasing</td>
</tr>
<tr>
<td>No change</td>
</tr>
<tr>
<td>Risk decreasing</td>
</tr>
</tbody>
</table>

Risk increasing No change Risk decreasing
Dear shareholder,

I am pleased to present our 2019 corporate governance report.

As Dialog is incorporated in the UK and listed in Frankfurt, we are not required to follow, and report against, the UK Corporate Governance Code (“The Code”). However, in line with our commitment to maintaining high standards of corporate governance and oversight, the Board has decided to follow The Code to the extent it considers it beneficial to the good governance of the Company.

2019 developments

It has been a year of change for UK corporate governance. There is a renewed focus on corporate culture which is evidenced by the breadth of reporting requirements. The purpose of companies and their place in society is being redefined with a clear mandate for boards to be more transparent about how businesses operate, interact with their stakeholders, and take their views into consideration when formulating strategy. Updates to legislation also came into effect from 1 January 2019, which focused on stakeholder engagement and the ratio between pay for the CEO and the Company’s median employee. The Directors’ statement on section 172 of the companies act is disclosed on page 28 while the pay ratio of the CEO to median employee is detailed on page 103.

Additionally, we published our Gender Pay Gap report and our approach to tax.

Culture and stakeholders

Dialog is a business built upon the values embedded in “The Spirit of Dialog”, the cornerstone of our corporate values. Our corporate culture defines who we are, what we stand for and how we do business. Our reputation has been built on our resolve to maintain the highest ethical and professional standards at all times, underpinned by a well-defined and effective system of governance. Our people are our greatest asset and we recognise and understand the value of recruiting and developing the best. By living our values, our people differentiate us from our competitors, helping us to attract new business and retain our customers. It is therefore important that all of our people understand the importance of our values and the role they play in our distinctive, delivery focused culture.

Succession planning

Succession planning is an important element of good governance, ensuring that we are fully prepared for planned or sudden departures from key positions throughout the year. The Nomination Committee has reviewed the succession plans for the Board, the Management Team and of other key roles within the organisation. This review also provided visibility of Dialog’s talent pipeline to ensure we are maximising the potential of our people.

Board refreshment

Adam Hughes, stepped down at the 2019 AGM, and Joanne Cunin was appointed to the Board effective 1 August 2019 as a new independent non-executive Director. Mr. Cunin, was also appointed to the Audit Committee to ensure that the Committee’s composition remains aligned with best practice corporate governance.

Our Board continues to include an appropriate balance of longer serving and more recently appointed Directors, with diverse backgrounds and experiences. This serves to bring fresh thinking to the Board yet preserves the knowledge, experience and understanding of the evolution of the Dialog business within the Board as a whole, of all which provides the platform for fruitful discussion at Board level.

In 2019, we conducted an internal evaluation. The Directors found it helpful in promoting effectiveness at a Board level. The outcome of the review was positive and confirmed that the Board and its Committees operate to a high standard.

Senior Independent Director (“SID”)

Having carefully considered the role and responsibilities of a Senior Independent Director, and the fact that our Chairman, Rich Beyer, was wholly independent on appointment in 2013, the Board does not believe there is a necessity to appoint a SID at this time. Our Chairman Rich Beyer is available to shareholders as are all of the Directors, particularly the Chairs of each of the Board Committees. Furthermore, any concerns regarding the performance of the Chairman may be addressed to and will be managed by the Chair of the Nomination Committee. As such, the Board believes that its composition continues to ensure a proper division between management and non-executive oversight; nonetheless, we will review the potential for a new SID on an ongoing basis.

Remuneration

The Directors’ remuneration report, together with an introductory letter from our Remuneration Committee Chairman, Mike Cannon, is set out on page 92. During 2019, Mike and the Chairman conducted extensive engagement with a majority of our shareholders both in the lead-up to and following the 2019 AGM.

Understanding our stakeholders

As set out in the Chairman’s statement, the Board continues to take account of the impact of its decisions on all of our stakeholders. We have also begun to assess the engagement approach to ensure a meaningful level of engagement between the Board and the workforce. In 2019, I became the designated director of overseeing employee engagement in collaboration with our global HR teams. This engagement, amongst other things, will allow Directors to gauge how the Group’s new strategic initiatives are embedding within the organisation. In this role, I have reviewed the annual engagement results, the Voice of Dialog, and facilitated employee round table meetings as part of the Board visit to the design centre in Germany, Germany. The alignment of our strategy, corporate culture and corporate governance framework provides us with the foundation to ably meet any challenges that the business faces, and position us for long-term growth.

Since 2015, the Company has adopted the Global Reporting Initiative (“GRI”) framework for the purpose of identifying and reporting on our material sustainability topics. In 2018, we transitioned to the GRI Standards against which our annual report makes a “GRI-referenced” claim. In 2019, we took the first steps towards an integrated report, bringing into a single document all the information we previously published in the sustainability report, relating to our activities; our interaction with stakeholders; and, in respect of environmental, employee, social, human and labour rights, anti-corruption and anti-bribery matters.

Finally, as we have outlined before, as a Board, we recognise the importance of constructive dialogue between the Board and Dialog’s Investors, and we remain open to all feedback from shareholders. In October 2019, our Chairman met with shareholders in London and Frankfurt. In addition to ongoing meetings and consultation conducted throughout the year, all Directors are usually available at the Company’s AGM and we encourage you to take advantage of this opportunity should you wish to meet with and engage in discussion with any member of your Board.

Nick Jeffery
Chairman, Nomination Committee
Leadership – Board of Directors

The Board of Directors comprises a mix of the necessary skills, knowledge and experience required to provide leadership, control and oversight of the management of the Company and to contribute to the development and implementation of the Company’s strategy. In particular, the Board combines a group of Directors with diverse backgrounds within the technology sector, in both public and private companies, which combine to provide the expertise to drive the continuing development of Dialog, advance the Company’s commercial objectives and strategy, thus putting the Company in a strong position to maximise shareholder value. The Board also contains a number of longer serving Directors with more recently appointed Directors. This serves to bring fresh thinking to the Board yet preserves the knowledge, experience and understanding of the evolution of the Dialog business within the Board of Directors as a whole.

Further details on the composition of the Board, and the Board’s Committees, are detailed on page 16.

Board experience:
- Technology
- Telecommunications
- Finance
- Governance

1. Rich Bayer
Chairman
Joined: February 2013
Appointed Chairman in July 2013. Rich has a long-standing career in the technology sector. He was the Chairman and CEO of Freescale Semiconductor from 2008 to 2012. Prior to this, he held positions as CEO and Director of Intersil Corporation, Elantec Inc., and FVC.com. He has also held senior leadership positions at VLSI Technology and National Semiconductor Corporation. In 2012, he was Chairman of the Semiconductor Industry Association Board of Directors and served for three years as a member of the US Department of Commerce’s Manufacturing Council. He currently serves on the Board of Microchip Technology Inc. and previously served on the Boards of Analog Devices, Microsemi Corporation (now Microchip Technology), Credence Systems Corporation (now LTX-Credence), XDAvice Corporation and Signet Solar. Rich served three years as an officer in the United States Marine Corps. He earned Bachelor’s and Master’s degrees in Russian from Georgetown University, and an MBA in marketing and international business from Columbia University Graduate School of Business.

External Appointments: Rich currently serves on the Board of Microchip Technology Inc.
Board Experience: ⚫

2. Dr Jalal Bagherli
Executive Director (Chief Executive Officer)
Joined: September 2005
Jalal was previously Vice President and General Manager of the Mobile Multimedia business unit for Broadcom Corporation. Prior to this, he held various positions at Alphamass, a venture-funded silicon start-up company in Cambridge focusing on video processing chips for mobile applications. He has extensive experience in the semiconductor industry through his previous professional and executive positions at Sony Semiconductor and Texas Instruments, managing semiconductor product businesses and working with customers in Asia, Europe and North America. Jalal has a BSc (Hons) in Electronics Engineering from Essex University, and holds a PhD in Electronics from Kent University, UK.

External Appointments: Jalal has been a non-executive Director of Lime Microsystems Ltd since 2005 and was the Chairman of the Global Semiconductor Association Europe from 2011 to 2013.
Board Experience: ⚫

3. Alan Campbell
Independent non-executive Director
Joined: April 2013
Alan brings over 30 years of relevant business and financial expertise to Dialog Semiconductor, having extensive experience as a Chief Financial Officer in the semiconductor industry. He began his career in 1979 with Motorola and has spent over 12 years in Europe and 20 years in the USA. Alan has also successfully executed an initial public offering (“IPO”) that listed the company on the New York Stock Exchange (“NYSE”). In 2006, he was instrumental in the execution of a Leveraged Buy-Out (“LBO”) in one of the largest technology financial transactions at that time. In 2011, he successfully led the company back to the public market to be listed on the NYSE.

External Appointments: Alan is currently chairman of ON Semiconductor.
Committee Membership: Audit (Chair), Remuneration
Board Experience: ⚫

4. Miro Cannon
Independent non-executive Director
Joined: February 2017
Mike’s career in the high-tech industry spans 30 years. He was President, General Operations of Del from February 2007 until his retirement in 2009. Prior to joining Del, Mike was the CEO of Solectron Electronics Corporation, a leading supplier of electronics services company, which he joined as CEO in 1998. Mike was CEO of Maxtor Corporation, a disk drive and storage systems company, and successfully led the NASDAQ IPO of Maxtor in 1998. Mike previously held senior management positions at IBM and Control Data Corporation. Mike studied Mechanical Engineering at Michigan State University and completed the Advanced Management Program at Harvard Business School.

External Appointments: Mike currently serves on the Board of Seagate Technology, as the Lead Independent Director and Chair of the Nominating and Governance Committee and also serves on the Compensation Committee, and on the Lam Research Corporation Board on the Audit Committee and the Nominating and Corporate Governance Committee. Mike was previously on the Board of Directors of the USA – China Business Council.
Committee Membership: Remuneration (Chair), Nominations
Board Experience: ⚫

5. Mary Chan
Independent non-executive Director
Joined: December 2016
Mary’s career has spanned executive leadership roles at some of the world’s most successful international firms, including AT&T, Alcatel-Lucent, Dell Inc. and General Motors Corporation (“GM”). At Dell, between 2008 and 2012, Ms Chan led the Company’s Enterprise Mobility Solutions and Services business in the USA. Prior to this, at Alcatel-Lucent, Ms Chan served as Executive Vice President of the Company’s 4G LTE Wireless Networks business. Most recently at GM, Ms Chan served between 2012 and 2016 as President, Global Connected Consumers & OnStar Service. She holds both Bachelor and Master of Science degrees in Electrical Engineering from Columbia University.

External Appointments: Ms Chan is a managing partner at VectoIQ, LLC, and currently serves as an Independent Director on the Boards of Magna International, Micron Electronics Technology Inc., and SBA Communications Corporation.
Committee Membership: Nomination, Remuneration
Board Experience: ⚫

6. Jeanne Curing
Independent non-executive Director
Joined: August 2019
Joanne comes to Dialog with over 20 years of experience as a CFO and non-executive Director, with a deep background in finance and an international career spanning global large-scale public companies listed in the UK and Australia. In her previous roles as CFO across a wide array of markets and sectors, Joanne has been highly effective at initiating and leading strategic, operational and process changes that have delivered considerable shareholder value, and has successfully led a number of complex multi-billion dollar M&A transactions. Joanne has a bachelor’s degree in commerce from the University of Auckland and is a member of the Institute of Chartered Accountants in New Zealand.

External Appointments: Joanne is a founding Director of Stirling Industries Plc.
Committee Membership: Audit
Board Experience: ⚫

7. Nick Jeffery
Independent non-executive Director
Joined: March 2014
Nick has a career of over 20 years in the telecommunications industry. He has held a position on the Vodafone Executive Committee since 2013 and from 1 September 2016 became CEO of Vodafone UK Limited. He has undertaken numerous roles within Vodafone including CEO of the Group’s acquired Cable and Wireless Worldwide operations from 2012 to 2013, and CEO of Vodafone Group Enterprise from 2013 to 2016. Having begun his career at Cable & Wireless plc (Motorola Communications) in 1991, he then founded and led Microline Limited in 2001, whilst serving as Head of Worldwide Sales and Europe Managing Director at Ciena Inc. from 2002 until 2004.

External Appointments: CEO, Vodafone UK
Committee Membership: Nomination (Chair), Remuneration
Board Experience: ⚫

8. Eamonn O’Hare
Independent non-executive Director
Joined: March 2014
Eamonn has spent over two decades as CFO of some of the world’s fastest growing consumer and technology businesses. From 2000 to 2013, he was CFO and main board member of Virgin Media Inc. and led its successful sale to Liberty Global Inc. in 2013. From 2005 to 2009, he served as CFO of the UK operations at Tesco plc. Before joining Tesco, he was CFO and Board Director at Energis Communications and led the successful turnaround of this high profile UK telecoms company. Prior to this, Eamonn spent ten years at PepsiCo Inc. in a series of senior executive roles in Europe, Asia and the Middle East. Eamonn spent the early part of his career in the aerospace industry with companies that included Rolls-Royce PLC and BAE Systems PLC.

External Appointments: Eamonn is currently Founder, Chairman and CEO of the Board of Directors as a whole.

Committee Membership: Audit
Board Experience: ⚫

The Board of Directors currently comprises eight Directors. This includes our Chairman, one Executive Director, and six independent non-executive Directors.
1. **Dr. Jalal Bagherli**  
   **Chief Executive Officer**  
   Joined Dialog Semiconductor as CEO and an Executive Board Director in September 2005. He was previously Vice President & General Manager of the Mobile Multimedia business unit for Broadcom Corporation. Prior to that, Jalal was the CEO & President of the Consumer, a venture-funded silicon start-up company in Cambridge focusing on video processing chips for mobile applications. He has served within the semiconductor industry, through his previous professional and executive positions at Sony Semiconductor and Texas Instruments, managing semiconductor product businesses and working with customers in Asia, Europe and North America. Jalal is a non-executive Director of Lime Microsystems Ltd since 2005 and was the Chairman of Global Semiconductor Association Europe from 2011 to 2013. He has a BSc (Hons) in Electronics Engineering from Essex University, and holds a PhD in Electronics from Kent University.

   **Tenure with Dialog:** 14 years

2. **Vivek Bhan**  
   **Senior Vice President, and General Manager, Custom Mixed Signal Business Group**  
   Vivek joined Dialog in November 2013 and is responsible for the Custom Mixed Signal Business Segment. He brings a wealth of semiconductor leadership experience in the semiconductor industry including technology and products for advanced compute systems, connectivity and medical applications within RF, mixed-signal and SiOc space. He has held senior positions at Freescale, Fujitsu Semiconductor and Motorola. Vivek holds a MS in Electrical Engineering and MBA from Arizona State University.

   **Tenure with Dialog:** Six years

3. **Wissam Jabre**  
   **Chief Financial Officer, Senior Vice President, Finance**  
   Wissam joined Dialog in 2016 after serving as Corporate Vice President of Finance at Advanced Micro Devices (“AMD”) since 2014. Between 2003 and 2014, he held various executive positions at Freescale Semiconductor, including Vice President and Chief Procurement Officer, Vice President, Global Pricing, Chief Financial Officer of the Networking & Multimedia Solutions Group. Wissam began his career at Schlumberger, gaining international experience in the Middle East, Europe and North America, before joining Motorola. He holds a Bachelor of Electrical Engineering degree from the American University of Beirut and an MBA from Columbia Business School, New York. Wissam is a CPA* charteholder.

   **Tenure with Dialog:** Three years

4. **Davis Lee**  
   **Senior Vice President and General Manager, Mobile & Connectivity Business Group**  
   Davis joined Dialog in July 2014. He was previously CEO of Scinterra Networks. Prior to that, Davis was the Vice President and General Manager of the Customer Business Unit at Infinera Corporation. Prior to that, Davis was Vice President of Marketing at Xcera. He previously served within the semiconductor industry, including a role within Altera and National Semiconductor. Davis holds a BSEE from The University of Texas at Austin and an MBA from Kellogg School of Management at Northwestern University.

   **Tenure with Dialog:** Eight years

5. **Alex McCann**  
   **Senior Vice President Global Operations**  
   Alex joined Dialog Semiconductor in May 2019 and has more than 25 years of experience in Semiconductor Engineering and Operations. His most recent role prior to joining Dialog was as VP of Operations at Analog Devices, who in 2017 acquired Linear Technology, where Alex had previously served as Chief Operating Officer. Alex started his career with National Semiconductor, where he has held various progressive Engineering and Operations positions. Alex joined Analogics Inc in New Jersey, initially serving as the Director of Water Fab Operations and then as VP of Global Operations. Following his tenure at Analogics, Alex was the VP of Operations at Nano Opto Corp. In 2006 Alex started up Analogics with an MBA with distinction from the University of Glasgow and a BSc in Electrical and Electronic Engineering.

   **Tenure with Dialog:** Zero years

6. **Sean McGrath**  
   **Senior Vice President and General Manager, Connectivity & Audio Business Group**  
   Sean joined Dialog in November 2012. Sean has more than 15 years’ experience in RF semiconductor businesses, introducing innovative business models and leading organisations to rapid growth. Prior to Dialog, he was CTO and head of the Smart Home & Energy group at NXP and General Manager of the RF Power and Base Stations business at NXP Philips Semiconductors. He previously held senior roles at Philips Semiconductors and Mitron-Acoustics GmbH, focusing on the FRD and connectivity markets. Sean holds an honours degree in Geophysics and Geology from Harvard University and an MBA with distinction from INSEAD.

   **Tenure with Dialog:** Seven years

7. **Julie Pope**  
   **Senior Vice President, Human Resources**  
   Julie joined Dialog in May 2017. An experienced international HR executive, Julie began her career as a consultant at The Wyatt Company progressing to KPMG before joining IBM in 1998. With IBM, Julie spent time in New York and Paris. Julie joined American Express in New York in 2003 in International Benefits and moved to VP Global Mobility and HR Business Partner, Global Business Travel. She relocated to Sydney in 2011 as the VP HR Australia and New Zealand and then moved to the UK as VP HR Business Partner EMEA. During her career, Julie has gained extensive international experience in reward and benefits, global mobility, change management, talent planning and mergers and acquisition and global talent acquisition. Julie holds a Bachelor’s degree in Mathematics and Psychology from Lamar University in Beaumont, Texas and is an Associate of the Society of Actuaries.

   **Tenure with Dialog:** Two years

8. **Tom Sandovale**  
   **Senior Vice President, Automotive**  
   Tom joined Dialog in September 2015 holding initially the position of Senior Vice President worldwide Sales. He is now responsible for driving and growing the Automotive Business across Dialog. He has over 25 years of experience in the semiconductor industry and has held executive management positions in sales, marketing and engineering. Prior to joining Dialog, Tom served as Vice President of Sales for the Americas at Xilinx. He previously served as CEO of Calypso Design Systems. Tom holds a BS degree in Electrical Engineering from the University of Southern California.

   **Tenure with Dialog:** Four years

9. **Colin Sturt**  
   **Senior Vice President, General Counsel**  
   Colin Sturt joined Dialog Semiconductor in October 2015 as Senior Vice President, General Counsel. Prior to joining Dialog, Colin held the position of Vice President of Corporate Development, General Counsel and Corporate Secretary at Micrel, Incorporated. He was previously a corporate attorney with Davis Polk & Wardwell LLP. Earlier in his career, Colin served in operations, manufacturing management and operational and organisational improvement roles with National Semiconductor Corporation. He holds a Law degree from the Columbia University Law School and a Bachelor’s and two Master’s degrees from Brigham Young University.

   **Tenure with Dialog:** Two years

10. **Mark Tyndall**  
    **Senior Vice President, Corporate Development & Strategy**  
    Mark joined Dialog Semiconductor in September 2008. Prior to this, Mark was Vice President of Business Development and Corporate Relations at MIPS Technologies. From 1999 to 2006, he held the position of Vice President of Business Development at Infinion and has also served as a board director of a number of start-up companies, several of which were successfully acquired. Earlier in his career, Mark held management positions in marketing at Fujitsu Microelectronics and in design at Philips Semiconductors.

   **Tenure with Dialog:** 11 years
The Directors of Dialog Semiconductor Plc ("Dialog" or the "Company") present their Annual report and audited financial statements for the year ended 31 December 2019. These accounts have been prepared under IFRS and are available on the Company's website: www.dialog-semiconductor.com

Principal activities and review of the business
Dialog Semiconductor develops and distributes highly-integrated, mixed-signal ICs, optimised for portable personal, Configurable Mixed-signal IC, low energy short-range wireless, a backlighting and solid state lighting, and automotive applications. The Company provides customers with world-class integrated solutions combined with flexible and dynamic support. The Company is listed on the Frankfurt (XETRA: DLG), Luxembourg (DLG) and Prime Standard, ISIN: B0008208906) and is a member of the German MDAX and TecDax indices. The Company is headquartered in the UK and the registered number is 03050161.

Further information on the principal activities of the business and the factors affecting future developments are detailed in the Group's Strategic report. Information on policies and objectives is included in note 34 to the consolidated financial statements.

Future developments
The Company's stated objective is to build a power-efficient world by becoming the leading global supplier of highly-integrated mixed-signal technologies such as power management and DAC, LED backlighting and solid state lighting, and low energy short-range wireless connectivity. The key aspects of the Group's strategy are set out in the Strategic report on pages 12 and 13.

Subsequent events
Details of subsequent events are on note 38 to the consolidated financial statements.

Research and development R&D
The Company believes that its competitive position will depend on its ability to respond to the rapidly changing needs of its customers in a timely and cost-effective manner. To this end, the Company's management is committed to investing in R&D of new products and customising existing products.

Purchase of own shares by Employee Benefit Trust
The Directors acquired 3,014,601 shares from the Employee Benefit Trust, which purchases and transfers shares on behalf of other parties under the Company's share option scheme. In August 2019, the Board of for more than nine years is subject to annual re-election. The next Annual General Meeting will be held on 14 April 2020 at 9am at Tower Bridge House, St Katharine's Way, London, E1W 1A5.

Corporate governance
The Company's Corporate governance statement is set out on pages 86 to 91 of this report. The Board operates in accordance with the principle that the Board will apply to Dialog, in line with our commitment to maintaining high standards of corporate governance, that the Board's authority to implement the principles of the Code will be won back by the UK Code to the extent it considers it beneficial for the good governance of the Company.

Principal risks and uncertainties
The Company is exposed to a number of risks and uncertainties that could affect the performance of the Company and its prospects. The Board of Directors and the Audit Committee are responsible for the Company's process of internal control and risk management and for reviewing its continuing effectiveness. The Board ensures, to the best of its knowledge, that the system of internal procedures and controls is appropriate to the nature and scale of the Company. Procedures and controls are in place to effectively manage and mitigate strategic, operational and financial risks around the Company. A list of the principal risks and their management is set out on pages 72 to 77.

Financial instruments
The Group's financial risk management and policies, and the details of the accounting policies which apply, are set out on page 76 of this report and on note 34 to the consolidated financial statements.

Discretionary remuneration and interests
Details of discretionary engagement are set out on page 28.

Employee engagement
In 2019, Niels Jørgen became the designated director of overseeing employee engagement. The engagement, amongst other things, will allow Directors to gauge how the Group's new strategic initiatives are embedding within the Group and how well they are perceived by the Company's employees as described on page 28.

Employee share options
It is policy to support our people through training, career development and opportunities with a particular focus on an open management approach and closer relationships with our employees. This is to the benefit of both the Company and employees. We also encourage our people to share information with employees on the performance of the Company which will enable us to deliver long-term profitable growth.

Diversity and equal opportunity
In 2019, Dialog operated from 30 locations in 15 countries, 13% of employees are female, and 66 nationalities.

Good corporate governance
The Directors’ report on pages 12 and 13. Further information on the assurance on the Directors’ report. The notice concerning the Annual General Meeting will be published separately and posted on the Company’s website. The meeting will be held on 14 April 2020 at 9am at Tower Bridge House, St Katharine’s Way, London, E1W 1A5.

Encourage more women to pursue careers particularly in technology, and to encourage more women to pursue careers in engineering and electronic engineering. Diversity spans a range of factors including: diversity of gender, marital status, nationality, race, religious or political beliefs or sexual orientation.

Board structure and functions
The Board has four groups, which meet regularly, with the Third meetings being held on the second Tuesday of each month. The committees may only be amended by a special resolution at a general meeting of shareholders.
Corporate governance statement

The Board of Dialog Semiconductor is committed to maintaining high corporate governance standards to protect the interests of all stakeholders. While the UK Code does not apply to Dialog, the Company has always had regard for UK corporate governance best practice. In line with our commitment to maintain standards of corporate governance and oversight, the Board will follow the UK Code to the extent it considers beneficial to the good governance of the Company.

Board of Directors – role and responsibilities

The Board has overall responsibility for the leadership, control and oversight of the Company. The day-to-day responsibility for the management of the Company has been delegated by the Board to the Chief Executive Officer, who is accountable to the Board. The CEO executes this authority through an executive management team outlined on pages 80 and 81 of this report. In addition, a number of responsibilities of the Board are delegated to sub-committees of the Board; details of which are set out below.

Matters reserved for the Board

While the Board has delegated day-to-day responsibility for the management of the Company to the CEO, certain matters are formally reserved for the Board. The Board has overall responsibility for: Company objectives, strategy, annual budgets, risk management, acquisitions or major capital projects, remuneration policy, and Corporate Governance. It defines the roles and responsibilities of the Chairman, CEO, other Directors and the Board Committees. In addition, the Board approves the quarterly financial statements and reviews the Company’s systems of internal control. It approves all resolutions and related documentation put before shareholders at general meetings.

Chairman

Mr. Rich Beyer is Chairman of the Board. Rich was appointed to the Board in February 2013 and as Chairman in July 2013. Upon appointment, he was determined by the Board to be independent. The Chairman is responsible for the effective working of the Board and oversight of management while the CEO, together with the executive management team, is responsible for the day-to-day running of the Company. The functions of Chairman and CEO are not combined and the responsibilities of both roles are clearly divided.

The Board currently comprises eight Directors who are listed below.

The Board of Directors comprises a mix of the skills, knowledge and experience required to provide leadership, control and oversight of the management of Dialog and to contribute to the development and implementation of the Company’s strategy. In particular, the Board combines a group of Directors with diverse backgrounds within the technology sector, in both public and private companies, which combine to provide the Board with a rich resource of expertise to drive the continued development of Dialog and advance the Company’s commercial objectives. The Board also combines a number of longer serving Directors with Directors who have joined the Board more recently. This combination provides the Board with a fresh perspective while ensuring there is continuity and experience from Directors who have served during a period of rapid growth and development for the business. In addition, the geographic background of the Board is diverse and includes Directors who have international work experience. Director biographies are set out on pages 80 and 81.

Board refreshment and renewal

The Board is committed to a policy of regular Board refreshment and renewal. The Nomination Committee continually reviews the composition and diversity, including gender diversity, of the Board and the skills and experience of each of the Directors. The relevant skills and experience of each Director are set out under individual biographies, which are detailed on pages 80 and 81.

In 2019, the Board undertook a search to replace Aidan Hughes and priority was given to female candidates to improve the gender diversity on the Board. The Board was very pleased to appoint Joanne Curnin.

Subject to approval at the Annual General Meeting by shareholders, Directors are appointed for a term of three years. Any Director who has been on the Board for more than nine years is subject to annual re-election. The standard terms of the letter of appointment of non-executive Directors are available, on request, at the Annual General Meeting of shareholders.

Directors seeking re-election are subject to a performance appraisal, which is overseen by the Nomination Committee. In accordance with its Articles of Association a third of Directors stand for election at each Annual General Meeting.

Board size

At the end of 2019, the Board comprised eight Directors. A maximum of ten Directors is allowable under Dialog’s Articles of Association. The eight members of the Board include the Chairman, one Executive Director and six independent, non-executive Directors. The Nomination Committee has reviewed the size and performance of the Board during the year. The Board comprised nineteen Directors in 2011, reduced in 2012 to seventeen Directors, and reduced further in 2013 to fifteen Directors. The Board has seven independent Directors.

Senior Independent Director

Having considered the position and role of the SID, and the fact that Rich Beyer is a Director who is wholly independent on appointment, the Board does not believe there is a necessity to appoint a SID at this time. Comparable to the role of a SID at other companies, Rich Beyer is available to shareholders who have concerns for which contact through the normal channel of CEO has failed to resolve or is inappropriate. Furthermore, any concerns regarding the performance of the Chairman may be addressed to and will be managed by the Chair of the Nomination Committee.

The Board has established a number of Committees to assist in the execution of its responsibilities. During 2019, these were: Audit Committee, Remuneration Committee, Nomination Committee, and the Board Committees to which are appointed from time to time to deal with specific matters.

The composition of the Board Committees, as at 4 March 2019, is set out below. Attendance at meetings held in 2019 is set out in the table on page 88.

Each of the permanent Board Committees has terms of reference which are published on the Company’s website. The Chairman of each Committee attends the Annual General Meeting and is available to answer shareholder questions. The reports of each of the Board Committees are set out on pages 89 to 91.

Committee members

Audit Committee

Alan Campbell (Chair)
Joanne Curnin
Eamonn O’Hare
100% independent (3 of 3)

Nomination Committee

Nick Jeffery (Chair)
Mike Cannon
Mary Chan
100% independent (3 of 3)

In October 2019, our Board visited the design centre in Germering, Germany.
Board meetings
The Board holds at least four Board meetings each year, at which senior management and Directors meet more frequently as required. In addition, there are also Board calls, Board events and Board meetings of Board sub-committees which are held throughout the year and when necessary. The number of meetings of Board sub-committees each year varies depending on the requirements of the business. There were five Board meetings in 2019. The attendance at Board and Committee meetings by the Directors who held office in 2019 is set out above. The Board places considerable importance on attendance at scheduled Board and Committee meetings. During the year, no Director attended less than 75% of scheduled Board or Committee meetings to which they were entitled to attend. At scheduled Board meetings, the Board also meets without the Executive Director present.

In addition, the non-executive Directors meet annually to review the performance of the Chairman. This is an annual process and occurred in February 2019. The 2020 review will be held during the course of the calendar year.

Directors’ fees
Fees for all non-executive Directors are held with the executive Directors at management Board meetings. Throughout the year, Directors are also provided with detailed briefing materials on the performance of the Company and market analysis on the performance of, and prospects for, the business.

Directors’ fees
In 2019 the Remuneration Committee reviewed NED fees against Dialog’s closest comparators. As a result, it was decided to increase fees to the market lower quartile (see page 89). The annual fee for non-executive Directors, was £118,000. The annual fee for the Chairman was £235,000. The Chair of the Audit Committee, the Nomination Committee and the Remuneration Committee received an additional fee of £20,000, £6,000 and £16,000 respectively for their role on that Committee.

The other Committee members receive an additional fee for serving on those Committees as set out on page 105. Details of the activities of those Committees during 2019 are set out on pages 89 and 91. Directors’ fees were paid in cash and shares. Non-executive Directors are not eligible to participate in the Company’s bonus or share award schemes.

None of the remuneration of the non-executive Directors is performance related. Non-executive Directors’ fees are not correlated and non-executive Directors are not eligible to join any Company pension plans. Non-executive Directors are reimbursed for their reasonable travel and accommodation expenses incurred in connection with attending meetings of the Board or related committees.

The compensation of the Executive Directors comprises a base salary and variable components. Variable compensation includes an annual bonus linked to, and dependent on, certain business targets as well as long-term incentives. The Executive Directors’ remuneration is inclusive of any Directors’ fee. Further details are set out in the Directors’ remuneration report which begins on page 92.

Share ownership and dealing
Details of Directors’ shareholdings are set out on page 102. The Company has a policy on dealing in shares that applies to all directors. Board calls are held to consider breaches of this policy. Directors are required to obtain clearance from the Chief Executive Officer before disposing of any shares held in their capacity as a director. The Chief Executive Officer himself, from the Chairman, before dealing.

Directors and senior management are prohibited from dealing in the Company’s shares during designated close periods and at any other time when the individual is in possession of Inside Information as defined by Article 7 of Regulation (EU) No. 596/2014 of the European Parliament and the Council of 16 April 2014 (“MAR”). Transactions in securities of the Company’s own shares carried out by members of the Board of Directors and of their family members will be reported within three business days and published without delay, if the total value of such transactions in any one year exceeds £5,000, pursuant to and in accordance with Article 18 of MAR.

Loans to Directors or senior executives
The Company will not provide or guarantee any loans to Directors or senior executives.

Relations with shareholders
The Company is committed to ongoing and active communication with its shareholders. Dialogue is a Head of Investor Relations who manages communication between the Company, its shareholders and the broader financial community. This role includes retaining independent advisers in the UK and Germany to help manage communication with both English and German speaking shareholders. Dialogue prepares annual and quarterly consolidated financial statements in accordance with IFRS (as adopted by the EU) and FRRS by the IASB.

The Company maintains an investor relations section on its website: dialog-semiconductor.com/investor-relations. This contains copies of investor presentations and annual reports as well as providing other financial statements and corporate press releases. There is also a process in place to effectively manage and mitigate the risks facing the Company.

A detailed list of risks and their management is set out on pages 72 to 77.

The Board has an ongoing process of identifying and managing the key risks faced by the Company. The process was in place during 2019 and up to the date of the approval of the 2019 accounts. The Board and its Committees confirm that necessary actions are being taken to manage any perceived tailings or weakness identified from these ongoing process reviews.

Audit Committee
The Board of Directors has established an Audit Committee and has delegated authority to the Committee to consider matters related to the Company’s financial reporting, internal control and risk management procedures, and the work of the internal and external auditors.

During 2019, the Audit Committee comprised only independent non-executive Directors. Members of the Board at the end of the period were Alan Campbell (Chairman), Joanne Curin and Eamon O’Hare.

Internal control and risk management
In accordance with the EU Transparency Directive (2014/95/EU), the Board of Directors following review and recommendation by the Audit Committee acknowledges that they are responsible for the Company’s process of internal control and risk management. Such processes are designed to manage rather than eliminate the risk of failure and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board ensures, to the extent possible, that the system of internal procedures and controls is appropriate to the nature and scale of the Company’s activities and that appropriate processes and controls are in place to effectively manage and mitigate strategic, operational, financial and other risks facing the Company.

The Board and Audit Committee confirm that necessary actions are being taken to manage any perceived tailings or weakness identified from these ongoing process reviews.

Directors’ fees
In 2019, our Chairman met with shareholders in person and informed on business activities.

The Company maintains an investor relations team with active communication with its shareholders. As such, the Company welcomes copies of investor presentations and annual reports sent to the Frankfurt Stock Exchange and the Federal Financial Supervisory Authority in Germany (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) and their equivalents in other European countries.

Significant shareholders
The provisions of the UK Disclosure Rules and Transparency Rules (‘DTR’) require that any person or fund acquiring a direct or indirect interest of 3% or more of a class of shares issued by the Company – with voting rights at the Company’s general meeting – must inform the Company of its interest within two working days. If the 3% interest is exceeded, the shareholder must inform the Company of any increase or decrease of one percentage point in its interest.

In accordance with DTR 5.1.5 with respect to voting rights attached to shares held by investment managers (on behalf of clients), by scheme operators and KVCRs, the first threshold for disclosure is set at 5%, with the next level set at 10% and every percentage above 10%.

On 14 July 2019, the Company was notified by Hargreaves Lansdown plc, that their equity fund had acquired shares in the Company. When these shares were acquired, the aggregate interest in the Company was 3.87%.

On 15 September 2019, the Company was notified by Lloyds Bank plc, that their equity fund had acquired shares in the Company. When these shares were acquired, the aggregate interest in the Company was 4.29%.

On 15 September 2019, the Company was notified by HSBC Investor Relations, that their equity fund had acquired shares in the Company. When these shares were acquired, the aggregate interest in the Company was 13.7%.

The free float as at 31 December 2019 was 66,503,080 or 98.8% of the outstanding shares. This percentage is calculated by excluding the B10,712 shares held in the name of the Executive Director Employee Benefit Trust.

Dialog’s free float at 31 December 2019 was 66,503,080 or 98.8% of the outstanding shares. As such, the Company is excluded from the 10% threshold.
Dialog Semiconductor Plc
Annual report and accounts 2019

Corporate governance

Dialog’s Audit Committee has recent and relevant financial experience. In line with best practice, the Committee has members who are independent of Dialog’s business sector. Alan Campbell, Chairman of the Audit Committee, has long standing experience as a CFO in the high technology industry. Joanne Curin has experience as Finance Director at a number of public and private companies. Eammon O’Hara also has decades’ experience as a CFO at some of the rapid growth consumer and technology businesses. Biographies are set out on pages 80 and 81.

The Audit Committee meets a minimum of four times a year. In 2019, the Committee met four times. Attendance at meetings held is set out in the table on page 88. The Committee also meets privately with the internal and external auditors and separately with the executive management.

The internal audit function is appropriately resourced with the required skills and experience, and is assisted by specialist resources where required. The Director of Internal Audit is accountable to the Audit Committee and meets independently with the Committee Chairman regularly during the year. The Committee approves the internal audit plan and receives a report on the internal audit activity at each meeting, and monitors the status of key objectives or improvement actions.

The Audit Committee’s main responsibilities include to:

- Review and advise the Board on the integrity of the Group’s annual report, and quarterly financial statements, the Annual report, and other formal announcements relating to the Company’s financial performance;
- Review and advise the Board on the effectiveness of the Company’s internal controls;
- Make recommendations on the appointment and remuneration of external auditors and to monitor their performance and independence;
- Approve and monitor the policy for non-audit services provided by the external auditors to ensure that the independence and objectivity of the auditors is not compromised;
- In order to fulfil its duties, the Committee receives sufficient, reliable and timely information from the Dialog Management Team.

The full terms of reference of the Committee are available on our website under the Corporate Governance section of the Investor Relations section.

Activity in 2019

During the period since the last Annual report to the date of this report, the Audit Committee has:

- Reviewed the Annual report and accounts – including the report of the external auditor – for the year ended 31 December 2019;
- Reviewed the interim reports issued in May, July and October 2019;
- Reviewed and approved the external auditor’s audit plan for 2019, including the auditor’s proposed fee and statement of independence;
- Reviewed the appointment of new Audit partners in UK and Germany and considerations for Auditor independence;
- Reviewed non-audit fees paid to the external auditor in the year, which totalled US$255,000 and related to the financial due diligence procedures for acquisition of FCI;
- Reviewed and discussed with the external auditor reports setting out the auditor’s findings from each quarterly review and the full year audit;
- Assessed the effectiveness of the external audit through a combination of (a) private quarterly sessions to review interactions with management and key auditors understanding of the Company’s business risks and the consequential impact on the financial statements and (b) reviewing how the external auditors addressed the findings from the firm-wide audit quality inspection report published by the FRC in the context of the Dialog audit.
- The Committee is satisfied that the external audit was effective;
- Considered the appropriateness and disclosure of accounting policies, key judgements and estimates with a focus on the key audit matters: the carrying amount of goodwill, including the review of purchase price allocations for FCI and Creative Chips acquisitions; and revenue recognition, the identification and measurement of performance obligations within the licensing and asset transfer agreement with Apple;
- Monitored the progress of management’s implementation project of FRS16 Leases;
- Reviewed the risk register for updates to key risks and status;
- Approved the annual internal audit plan, received and reviewed internal audit reports, including a report on the audit of the implementation of FRS16 and the annual assessment and review of internal controls, and monitored the effective and timely remediation of any control weaknesses and; and
- Reviewed and updated the Committee’s terms of reference.

The Company believes that an effective and robust system of internal control is essential to achieving reliable financial results. The system of internal control is supported by a strong commitment by the Management Team, ongoing monitoring by the Audit Committee and a dedicated internal control function. The Committee focuses on the internal control over financial reporting using the COSO framework to design relevant and sustainable internal controls and test the operating effectiveness of internal controls.

The Committee is pleased with the progress achieved in 2019 and will continue to monitor the ongoing work in those areas in 2020.

Role of the external auditor

Deloitte were appointed auditors in 2015 and their appointment was subsequently confirmed at the 2016 Annual General Meeting. The Company, through the Audit Committee, has a policy of annual review of the external auditors. In compliance with European Union audit legislation, the audit engagement partner is rotated every five years, and the audit is put out to tender at least every ten years.

Prior to the Audit Committee proposing the appointment or reappointment of the external auditor, the proposed auditor provides details of any professional, financial and other relationship which may exist between the auditor and the Company that could call its independence into question. This includes the extent to which other (non-audit) services were performed for the Company by the auditor or which are contracted for the following year.

The external auditor has committed to informing the Chairman of the Audit Committee, and the Audit Committee, of any potential indications of lack of independence or impartiality of the auditor occurring during the audit period, unless such grounds are eliminated.

The external auditor has committed to report to the Audit Committee, without delay, on all facts and events of importance that should be brought to the attention of the Board of Directors, which core to light during the performance of the audit, including the Company’s financial performance. The external auditor will also part in Audit Committee meetings on the annual consolidated financial statements and reports on the essential results of its audit.

External auditor and non-audit work

The Company has a policy in place governing the conduct of non-audit work by the external auditor. Under this policy, the auditor is prohibited from performing services where the auditor:

- May be required to audit his/her own work;
- Would participate in activities that would normally be undertaken by management; or
- Is remunerated through a “success fee” structure;
- Acts in an advocacy role for the Company;
- Other than the above, the Company does not impose an automatic ban on the external auditor undertaking non-audit work. The external auditor is permitted to provide non-audit services that are not, or are not perceived to be, in conflict with auditor independence, provided it has the skill, competence and integrity to carry out the work and that such work does not conflict with EU regulations. Deloitte were chosen to provide the financial services in the interests of efficiency as they were also the auditors of the acquired FCI business.

Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 8 to the consolidated financial statements. In line with EU regulations, the Audit Committee will ensure that, for the year ended 31 December 2021, non-audit fees paid to the Company’s auditor will be capped at a maximum of 70% of the average audit fees paid in the preceding three financial years.

Nomination Committee

The Board of Directors has established a Nomination Committee to review and make recommendations to the Board in respect of the Company’s Corporate Governance, selection of Directors, the role of the Remunerations Committee and the requirements of the Code of Conduct.

The Nomination Committee comprises Nick Jeffery (Chair), Mary Chan and Mike Cannon. The Committee comprises only independent non-executive Directors. By invitation, other members of the Board may attend the Committee’s meetings.

The Committee provides recommendations on Directors’ recruitment and on the development of a diverse pipeline of candidates, and ensuring the Board is aware of the skills, expertise and experience to effectively oversee the implementation of the Group’s stated strategy.

Remuneration Committee

The Board of Directors has established a Remuneration Committee to review and make recommendations to the Board in respect of the Company’s Corporate Governance, selection of Directors, the role of the Nomination Committee and the requirements of the Code of Conduct.

The Remuneration Committee comprises Mike Cannon (Chair), Nick Jeffery and Mary Chan. The Committee comprises only independent non-executive Directors. By invitation, other members of the Board may attend the Committee’s meetings.

The Committee provides recommendations on Directors’ remuneration and on any advice was provided in accordance with the Company’s Code of Conduct and any advice was provided in accordance with this code. Aon provided no other services to Dialog during 2019 and has no other connection with the Company other than as adviser on issues relating to remuneration.

During the year, the Committee met formally on four occasions. Attendance at scheduled meetings is set out on page 88.

Activity in 2019

The key activities of the Nomination Committee during the year were to:

- Review the composition and diversity of the Board to ensure the Directors have the skills, expertise and experience to effectively oversee the implementation of the Group’s stated strategy;
- Appoint of Joanne Curin as a new Board member effective 1 August 2019;
- Review succession arrangements for all key executive positions; and
- Recommend a Board and Executive Team diversity strategy for Board approval.

The full terms of reference of the Committee are available on our website under the Corporate Governance section of the Investor Relations section.

A detailed report on the work of the Remuneration Committee during 2019, is set out on page 106.

Tim Anderson
Company Secretary

Corporation governance statement continued...
Dear shareholder,

I am pleased to present the Directors’ remuneration report for 2019, which has been prepared by the Remuneration Committee and approved by the Board.

This report is in two parts: the Directors’ remuneration report which describes the policy for the remuneration of Executive and non-executive Directors, and the Annual Report on remuneration which sets out the details of and basis for remuneration during 2019. At the 2020 AGM, a resolution to approve the Annual Report on remuneration will be submitted. The Directors’ remuneration policy will not be submitted for shareholder approval as it was approved at the 2019 AGM and will expire at the 2022 AGM.

Our remuneration philosophy

Dialog’s peers, with which the Company competes both for business and for talent, are predominantly US-listed semiconductor companies operating US-style executive compensation models. As a result, the remuneration in Dialog’s sector is heavily influenced by US practice, and this is reflected in certain aspects of Dialog’s remuneration policy. The remuneration policy has been designed so that the majority of remuneration is delivered through performance-based, long-term variable pay with a clear emphasis on equity. Variable remuneration is delivered through an annual bonus and long-term incentive, and performance measures are chosen to incentivise and reward the successful achievement of our strategic objectives in alignment with the interests of our shareholders.

Nonetheless, unlike our US peers, we have also implemented a range of UK and European best practice measures. The Committee is firmly of the belief that the current approach to remunerating Executive Directors, which balances structural best practices with a focus on variable and equity-based remuneration, has been central to driving performance and producing alignment between the interests of management and shareholders.

Performance and remuneration for 2019

Management’s strategic focus on high-growth segments of its target markets and operational excellence has delivered strong performance over 2019. Total group underlying revenue was down 3% from 2018, however both underlying operating margin and underlying gross margin have improved over 2018 levels, and cash generation has been strong. In addition, Dialog has gained a strong foothold in the growing industrial IoT market through the acquisition of Creative Chips. This has broadened Dialog’s customer base and opened up new opportunities to create long-term and sustainable value for shareholders. As a committee, we were satisfied that this strong financial and operational performance has been reflected in our share price which increased by +100% over 2019, and has also been reflected in the annual bonus and LTIP outcomes for 2019. Further detail on the annual bonus and LTIP outcomes and targets is provided on pages 100 and 101.

Base salary

As in prior years, the Committee conducted its normal annual review of the CEO’s base salary in the first half of 2019. The review considered the CEO’s and Dialog’s performance over the prior year, the range of salary increases for other employees and, as a final reference point, the positioning of the CEO’s base salary and total remuneration compared to Dialog’s peer group. Following the review, the Committee decided to increase the CEO’s base salary by 6%, which is equivalent to an annualised increase of 3% per annum since the last time an increase was made in 2017. This increase recognised the CEO’s and Dialog’s strong performance, and was in line with the increases for high performing employees. His base salary remains positioned around the lower quartile of the peer group with his total remuneration below the lower quartile.

Annual Bonus

As a result of the strong performance in 2019, an annual bonus award of 181.0% of target has been achieved by the CEO, compared with 115.3% for 2018. Bonus performance outcomes are detailed in the Annual Report on remuneration on pages 100 and 101.

Long-term incentive

The 2017 award made under the Long-Term Incentive Plan (“LTIP”) will vest in the first quarter of 2020. The LTIP is subject to a performance test over the period 2017-19 and 84.7% of the target number of shares are expected to vest (42.5% of the max number of shares).

Remuneration reforms

While the new UK Code does not apply to Dialog, we have endeavoured to comply with its provisions to the extent we consider it beneficial to the good governance of the Company.

Ensuring that pay arrangements are equitable and motivational across the organisation has always been a cornerstone of Dialog’s approach to remuneration, and the Committee will continue to consider wider remuneration as part of its annual agenda.

Non-executive Director fees

Non-executive fees were last increased at the 2016 AGM when they were brought closer to market median and were restructured so that fees were delivered mostly in shares vesting immediately when performance conditions are met. As part of this restructuring, the cash portion of fees was reduced. In 2019 the Committee reviewed NED fees against Dialog’s closest comparators. Since no increase has been applied since 2016, NED fees were found to have fallen behind market median and even below lower quartile. As a result, it was decided to increase fees to the market lower quartile. For the NED base fee, this represents an annualised increase of circa 5% per annum, which is in line with increase for UK employees over this period. Further information is set out later in this report.

Shareholder consultation regarding the outcome of the 2019 AGM

At Dialog’s AGM on 2 May 2019, a resolution to approve a new Directors’ remuneration policy was submitted to shareholders. In developing this policy, the Remuneration Committee undertook an extensive consultation with a majority of shareholders, resulting in the inclusion of enhanced disclosures of performance targets and the inclusion of a post-vesting holding period for long-term incentives. Although the policy was approved by shareholders at the 2019 AGM, 31% of shareholders voted against it. In line with our new UK Code, shareholders were consulted in 2019 on the new remuneration policy so that the Committee could better understand the reasons behind this voting outcome. The Committee is grateful to those shareholders who took the time to engage with us.

If you have any feedback on our remuneration arrangements, please pass those comments for my attention to our Company Secretary, Tim Anderson at RPC, Tower Bridge House, St Katharine’s Way, London E1W 1AA. We hope you find the contents of this report interesting and informative. The Committee would welcome your support at our AGM on 30 April 2020 for our advisory shareholder vote on the Annual report on remuneration.

Finally, I would like to thank my fellow Committee members as well as the internal and external teams who supported us with their contributions over the year.

Mike Cannon
Chairman, Remuneration Committee
4 March 2020
Dialog Semiconductor Plc

Summary of our current remuneration policy and structure for Financial Year 2019

Component Features How we implemented
Base Salary
Salary and benefits to facilitate recruitment and retention.
Fixed pay is restrained to emphasise performance-based remuneration and further align the interests of the CEO and shareholders.

Annual Bonus – weightings: 10% Revenue 10% Underlying gross margin 15% Underlying operating margin 20% Divesture 45% Commercial and Organisational goals
Salary and benefits to facilitate recruitment and retention.
Target potential 125% of base salary.
- Hay financial, commercial and organisational goals.
- The portion of any award above 100% of salary is deferred into shares for three years.

LTIP – weightings: 33.3% Revenue 33.3% Underlying operating margin 33.3% Relative Total Shareholder Return
Target award is capped at £3 million.
- 2x multiplier for excellent performance.
- Goals focused on KPIs and long-term shareholder returns.
- 2-year post-vesting holding period for awards granted after the 2019 AGM.

Shareholding Requirements
- CEO 400% of salary.
- CEO exceeds requirement.

How we measure performance and link to strategy

The table below links Dialog’s current performance measures to our strategy. The bonus metrics are reviewed annually and set appropriately for the strategy for the year.

Measure Annual Bonus LTIP Rationale and link to strategy
Revenue
Measures the delivery of long-term sustainable value for shareholders.
Underlying operating margin
Measures profitability of our operating activity.
Underlying gross margin
Provides a measure of ability to obtain profit margin from underlying revenue.
Relative Total Shareholder Return (“TSR”)
Measures the link to strategy performance and TSR.
Commercial and organisational goals
Focuses on deliver in the delivery of strategic goals.

How we performed

The chart below shows the 2019 potential opportunity and actual achievement compared to 2018 actual achievement.

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying revenue (£’000)</th>
<th>Operating margin, underlying (%)</th>
<th>Gross margin, underlying (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>1,452</td>
<td>23.3</td>
<td>49.8</td>
</tr>
<tr>
<td>2018</td>
<td>1,492</td>
<td>22.8</td>
<td>49.8</td>
</tr>
<tr>
<td>2017</td>
<td>1,555</td>
<td>22.8</td>
<td>49.8</td>
</tr>
<tr>
<td>2016</td>
<td>1,502</td>
<td>22.8</td>
<td>49.8</td>
</tr>
<tr>
<td>2015</td>
<td>1,429</td>
<td>22.8</td>
<td>49.8</td>
</tr>
</tbody>
</table>
The table below summarises Dialog’s remuneration policy for Executive Directors and, where indicated, for non-executive Directors. The policy

<table>
<thead>
<tr>
<th>Base salary</th>
<th>Executive Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose and link to strategy</td>
<td>Facilitate recruitment and retention of the best executive talent globally – executives with the experience and expertise to deliver our strategic objectives at an appropriate level of cost.</td>
</tr>
<tr>
<td>Maximum opportunity</td>
<td>Base salary increases will not ordinarily exceed the percentage increases awarded for other UK-based Dialog employees with comparable levels of individual performance and potential.</td>
</tr>
</tbody>
</table>

In cases where an Executive Director’s base salary lies materially below the appropriate market competitive level and where such positioning is not sustainable in the view of the Remuneration Committee, annual increases may exceed those for other employees described above. The rationale for any such increase will be described in the Annual report on remuneration for the relevant year.

**Operation**
- Salary is reviewed annually, with any increases normally taking effect in July. A number of factors are considered including, but not limited to, market pay levels among international industry peers of comparable size, and base salary increases for other Dialog employees.

**Performance framework**
- n/a

**Changes in policy at the 2019 AGM**
- No change

**Annual bonus plan**
- Executive Directors

<table>
<thead>
<tr>
<th>Purpose and link to strategy</th>
<th>Motivate Executive Directors to achieve stretching financial and commercial objectives consistent with and supportive of Dialog’s growth plans.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum opportunity</td>
<td>Target award of 150% of base salary. Award value can range between 0 and 2x target award level based on the performance condition.</td>
</tr>
</tbody>
</table>

The Committee retains discretion to adjust the overall bonus outcome to take account of performance outside the formal targets. This discretion cannot be used to raise the bonus outcome above 2x target bonus.

**Operation**
- The portion of any award up to 100% of base salary is paid in cash, and the portion of any award above 100% of base salary is awarded in deferred shares.

Deferred shares normally vest after three years, and are subject to the plan rules in the event of termination or change in control. Dividend equivalents may be paid on any shares which vest.

The Committee may vary the performance measures and mix used to adapt to changing Company circumstances. Financial measures will be a significant portion of the total scorecard.

**Performance framework**
- Performance metrics include:
  - Financial goals (which determine a significant portion of bonus every year);
  - Commercial goals; and
  - Organisational and employee-related goals.

For financial metrics, performance is set in line with the stretch annual budget.

**Changes in policy at the 2019 AGM**
- Increase in target bonus from 100% to 125% of salary.

**Other benefits**

<table>
<thead>
<tr>
<th>Purpose and link to strategy</th>
<th>Executive Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide market competitive benefits at an appropriate cost which help foster loyalty and retention. Relocation benefits may also be provided based on business need, individual circumstances and location of employment.</td>
<td></td>
</tr>
<tr>
<td>Maximum opportunity</td>
<td>There is no maximum for benefits, but they represent a small percentage of remuneration.</td>
</tr>
</tbody>
</table>

In the case of relocation, additional benefits may be provided including, but not limited to, the cost of relocation expenses, real estate fees, tax equalisation to home country and tax return filing assistance, temporary housing and schooling. The Remuneration Committee has discretion to determine the value of such benefits and details of any such benefits provided will be disclosed in the Annual report on remuneration covering the year in which they were provided.

**Operation**
- Executive Directors are eligible to receive benefits including, but not limited to, a cash allowance in lieu of a company car, medical insurance for the Executive Director and his/her immediate family members, life and disability insurance, holiday (25–30 days a year, based on length of service) and pay in lieu thereof where applicable, and services to assist with preparation of a tax return or returns where necessary due to the international nature of work completed.

Any reasonable business-related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit. Executive Directors are eligible for other benefits and all-employee share plans which are introduced for the wider workforce on broadly similar terms.

**Performance framework**
- n/a

**Changes in policy at the 2019 AGM**
- No change
## Directors’ remuneration policy continued

### Long-Term Incentive Plan (“LTIP”)

<table>
<thead>
<tr>
<th>Executive Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose and link to strategy</strong></td>
</tr>
<tr>
<td><strong>Maximum opportunity</strong></td>
</tr>
</tbody>
</table>

### Changes in policy at the 2019 AGM

- **Increase in target award from £2 million to £3 million.**

### Performance framework

- **Performance metrics** include suitable Company financial performance metrics and at least one third on a relative TSR condition measured versus a comparator group. The Committee reviews and selects appropriate measures and their weightings in advance of each award.

- **0.5x the target award vests for threshold performance, 1x the target award vests for target performance and 2x the target award vests for maximum performance as defined by the Remuneration Committee under the plan.**

- **For the relative TSR condition, Dialog Semiconductor TSR is measured over the three-year performance period and compared to the companies in the comparator group. If Dialog TSR is at or above the 75th percentile of the comparator group but below 100th percentile, 0.5x the target award will vest. If Dialog TSR is at or above the 100th percentile of the comparator group, then 1x the target award will vest. For performance in between these levels, vesting is determined on a straight-line basis.**

- **If Dialog TSR is negative over the three-year performance period, then the maximum number of shares which can vest subject to the relative TSR condition will be capped at 1x the target award, even if relative TSR is above 80th percentile.**

- **For the Company financial performance component, targets are normally set annually over the three-year performance period.**

### Changes in policy at the 2019 AGM

- **Increase in target award from £2 million to £3 million.**

### Termination arrangements

<table>
<thead>
<tr>
<th>Executive Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose and link to strategy</strong></td>
</tr>
<tr>
<td><strong>Maximum opportunity</strong></td>
</tr>
</tbody>
</table>

- **In the case of the current CEO, the notice period is 12 months.**

- **The maximum termination payment due in the case of termination of employment by the Company without “cause” or termination by the Executive for a pre-defined good reason (see definition below) is:**
  - 1x base salary;
  - 12 months’ continuation of pension and fringe benefits; and
  - Annual bonus pro-rated for the period worked only and subject to the normal performance test at year end. **Termination in connection with a change in control** |

- **In the case of the current CEO, the notice period from the employee or the Company is 12 months.**

- **The maximum payment due in the case of termination of employment by the Company without “cause” or termination by the Executive for a pre-defined good reason in connection with a change in control event is:**
  - 1x base salary;
  - 12 months’ continuation of pension and fringe benefits; and
  - Annual bonus pro-rated for the period worked, and subject to performance. **Changes in policy at the 2019 AGM** |

- **No change.**
Remuneration of Directors on recruitment and appointment

Dialog is an international company and competes for executive talent on a global basis. In order to recruit and retain Directors of the calibre needed to execute the Company’s growth objectives it may be necessary to provide remuneration and benefits taking account of practice among other global semiconductor companies.

The following principles apply in the case of the external recruitment of Directors and the appointment of internal candidates who may be promoted to the Board:

– As far as possible, the remuneration of new Directors will be set in accordance with the existing Directors’ remuneration policy described in this report;
– The Remuneration Committee will seek to pay no more than is necessary while ensuring that it can attract the best candidates on a global basis;
– The remuneration package provided will take account of a range of factors, including but not limited to, the calibre of a candidate, the level of existing remuneration, the jurisdiction the candidate is recruited from, and the individual’s skills and experience;
– The remuneration package will take account of internal relativities and appropriate international market comparisons;
– The Remuneration Committee has the discretion to determine the fixed elements of a remuneration package (comprising base salary, retirement and other benefits) as it deems necessary and in shareholders’ interests. Exercise of such discretion may be necessary, for example in the event of a new appointment to the Board following an acquisition or where commitments have been made as part of a transaction; and
– The Remuneration Committee will in all cases be guided by reasonable market practice and will take appropriate advice where necessary.

The table below outlines policy in respect of recruitment where it differs from that outlined above. Policy in respect of other components of pay is unchanged in recruitment situations from that outlined above. Note that only the references to fees apply to non-executive Directors.

### Pay component

#### Pay component

<table>
<thead>
<tr>
<th>Pay component</th>
<th>Approach in application to recruitment situations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual base salary or fee</td>
<td>The following factors will be taken into account when determining appropriate base salary/fee:</td>
</tr>
<tr>
<td>– The candidate’s existing salary/fee, location of employment, skills and experience and expected contribution to the new role;</td>
<td></td>
</tr>
<tr>
<td>– The previous incumbent’s salary/fee for the same role;</td>
<td></td>
</tr>
<tr>
<td>– The current salaries/fees of other Dialog Directors;</td>
<td></td>
</tr>
<tr>
<td>– Current relevant market pay data for the role; and</td>
<td></td>
</tr>
<tr>
<td>– The value of other elements of remuneration to be provided and the combined value of the total package.</td>
<td></td>
</tr>
</tbody>
</table>

#### Other benefits

The Company recruits executives on a global basis and recruitment is a case in which the Remuneration Committee may choose to exercise the discretion described in the policy table above to provide relocation benefits. In cases where the Committee believes that the Company and its shareholders’ interests will be served best by provision of relocation benefits, the Committee will seek to limit these benefits both in terms of their value and the period over which they are provided. Benefits provided may include relocation allowances and global mobility benefits such as housing or schooling as described in the policy table, which may be provided on consideration of family size and business need.

#### Long-term incentive

The Committee has discretion to provide awards under the LTIP which exceed the maximum outlined in the policy table above in cases where it considers it necessary in order to facilitate recruitment of high calibre executives. Such awards may be provided as compensation for remuneration forgone at a previous employer as described in the row below. The Committee also has discretion to provide such awards in other circumstances where it considers them necessary to secure an executive’s appointment. In cases other than compensation for or “buy-out” of previous awards, LTIP target awards in addition to normal policy levels will be limited to 100% of a target executive’s Dialog salary.

#### Compensation for forfeited remuneration

The Committee may choose to compensate for forfeited remuneration when recruiting an external candidate by providing replacement awards. Where a replacement award is deemed to be necessary, the structure and level will be carefully designed in accordance with the recruitment principles above. Such awards would be designed to take account of the vesting period and where applicable, the performance conditions of the awards they replace. They may include “clawback” provisions. An explanation of the basis of any “buy-out” will be provided as soon as practicably possible after appointment.

#### Service contracts

Notice periods offered to new Executive Directors will not normally exceed 12 months. However, if it is necessary to offer an Executive Director a longer notice period at recruitment, then the length of the notice period will reduce on a rolling basis until it is no greater than 12 months.

Changes in policy at the 2019 AGM

No change

### Clawback and malus policy

#### Under the rules of the deferred bonus plan, the LTIP and the previous EIP, the Remuneration Committee is entitled to cancel or claw back some or all of a participant’s awards in the event that the Audit Committee of the Company determines that the financial accounts of the Company were misstated to a material extent (such determination must be made within two years of the award date or six years if in relation to fraud or reckless behaviour by an executive). Such clawback may be applied through direct repayment or a reduction in unvested awards or future grants, or a reduction in such other payments as might otherwise be due from the Company to the individual.

#### Shareholding requirement

The Committee will set a shareholding requirement for Executive Directors. The requirement for the current CEO is 400% of base salary. The Committee reviews the level of shareholding requirement from time to time and has authority to amend it as necessary.

#### Share options for non-executive Directors

Until 2012, non-executive Directors received part of their fees in the form of options over Dialog shares. This practice was felt to align their interests with those of shareholders. Use of options was stopped ahead of the 2013 financial year and the last awards made in 2012 vested in 2015. No further options have been awarded since 2012 and none will be awarded in future years. Provision of share options is not included in the policy table above as options are not part of the Company’s forward-looking remuneration policy. According to UK regulations however, reference to options must be made in the policy section of the Directors’ remuneration report, in order to permit payments under outstanding awards, hence the inclusion of this section here.

#### Remuneration policy for Executive Directors compared to that for other employees

The Company’s remuneration policy for Executive Directors is similar to that for all other Dialog employees. Differences in policy are outlined below.

Annual bonus – All Dialog employees participate in annual bonus plans. The nature of those plans varies somewhat by location and employee category. Most employees participate in a profit-sharing plan; a smaller group participates in a plan based on performance against individual objectives.

#### LTIP

– Participation in the LTIP is limited to employees in senior roles and executives, which currently comprise around 50 Dialog employees. This number may increase over time as the business grows. Different conditions to those attaching to awards made to Executive Directors may apply; and
– Notice periods – Other UK employees’ contracts of employment include three-month notice periods.

#### Remuneration scenarios for the CEO

The charts below illustrate for the 2020 year the pay mix between the different elements of remuneration for the CEO, assuming threshold, target and maximum performance. Amounts are shown in GBP (000s).

<table>
<thead>
<tr>
<th>Remuneration (GBP000s)</th>
<th>Fixed Pay</th>
<th>Annual Bonus</th>
<th>LTIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1,000</td>
<td>2,000</td>
<td>5,000</td>
</tr>
<tr>
<td>1,000</td>
<td>4,000</td>
<td>5,000</td>
<td>8,000</td>
</tr>
<tr>
<td>2,000</td>
<td>6,000</td>
<td>8,000</td>
<td>12,000</td>
</tr>
<tr>
<td>5,000</td>
<td>10,000</td>
<td>12,000</td>
<td>15,000</td>
</tr>
</tbody>
</table>

The scenarios shown above are based on the following assumptions:

– Minimum performance: fixed pay only (base salary, benefits and pension);
– Threshold performance: fixed pay, annual bonus (62.5% of salary) and 0.5x target value of the LTIP award vesting;
– Target performance: fixed pay, annual bonus (125% of salary) and 1x target value of the LTIP award vesting;
– Maximum performance: fixed pay, maximum annual bonus of 250% of salary and 2x target value of the LTIP award vesting; and
– Maximum performance with share price appreciation. Same assumptions as for the maximum performance scenario, but assumes that the value of LTIP shares increases by +50% over the performance period.

Where applicable, such clawback may be applied through direct repayment or a reduction in such payments as might otherwise be due from the Company to the individual.

We have assumed a target LTIP grant of £3 million, which is the limit for the policy.
### 1. Executive Director remuneration: Single Figure Table (audited)

<table>
<thead>
<tr>
<th>Incumbent</th>
<th>Year</th>
<th>Total fixed remuneration $</th>
<th>Benefits $</th>
<th>Pension $</th>
<th>Total excluding LT $</th>
<th>Total LT $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Jalal Bagherli</td>
<td>2019</td>
<td>661,112</td>
<td>663,422</td>
<td>98,685</td>
<td>2,042,952</td>
<td>1,309,194</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>630,379</td>
<td>23,927</td>
<td>93,057</td>
<td>715,298</td>
<td>1,309,796</td>
</tr>
</tbody>
</table>

Notes:
1. Exchange rates used are 2019: GBP 1 = USD 1.2768; EUR 1 = USD 1.1451; 2018: GBP 1 = 1.3016; EUR 1 = 1.1228.
2. Basic salary is adjusted upward for the financial year. Base salary is shown in USD in this table but set and paid in GBP. The CEO's 2018 GBP base salary increase was 6%. Core CEO benefits were not changed in 2019. The increase in value of Benefits is due to the inclusion of a bonus relating to gross up of personal pension contributions.
3. Performance shares accrued in 2019 are not shown as they are deemed commercially sensitive.
4. The vesting date of the 2019 LTIP is 2022.
5. The sum of annual bonus (cash and deferred share element) and long term incentives.
6. The CEO receiving a pension allowance of 15% of base salary, in line with policy. In 2019, the Company made pension allowance payments of £74,705 (US$98,685) to the CEO. The CEO receives a pension allowance of 15% of base salary which is in line with policy. In 2019, the Company made pension allowance payments of £74,705 (US$98,685). This level of base salary increase is equivalent to an annualised increase of 3% per annum since 2017, and in line with the range of base salary increases for other employees at Dialog and results in a market positioning around the lower quartile of our peers.

### 2. Commentary on the Executive Director Single Figure Table

**2.1 Base salary**

The Remuneration Committee reviewed the CEO's base salary in July 2019 with reference to his performance, the scale of the Group, and the positioning of his package compared to Dialog's peer group. Given the strong performance since 2018 and the base salary freeze in 2018, the CEO was awarded a 6% increase in annual base salary with effect from 1 July 2019 which resulted in his base salary increasing to €1,051,440 ($1,403,619). This level of base salary is in line with market positioning around the lower quartile of our peers.

**2.2 Other benefits and Pension**

The CEO received a cash allowance in lieu of company car £10,200 (US$13,474), medical insurance for himself and his spouse and Group life and income protection insurance.

Advances are made to the Executive Director by foreign subsidiaries against foreign taxes as a result of business travel that are repaid and when the relevant tax credits are received. During 2019, the average amount outstanding was €314,780 (2018: €313,265). No interest is charged on the advances which are treated as a taxable benefit.

In late 2019, the Company identified that the application of cross jurisdiction tax rules for specific employees related to stock options, was impacted employees, including the CEO, and will make steps to minimise employee exposure in the future. Included in benefits for the CEO is an LTIP – performance shares valued for the purpose of the single figure table.

**2.3 Annual bonus disclosure**

For 2019, the CEO was eligible for a target annual bonus of 120% of base salary, which could range up to 250% of base salary for maximum performance. The portion of any bonus awarded above 100% of base salary is deferred into shares which vest after three years.

Performance measures used were:
- Financial goals (60%) comprising revenue (15%), underlying gross margin (10%), EBIT (15%), diluted revenue (20%) and Commercial & organisational goals (40%).

The 2019 bonus was determined at 181.0% of target, reflecting performance as set out in the table below. The targets and outcomes for these measures are disclosed in a future Annual Report when they are considered no longer to be commercially sensitive.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Target award level (% of target award)</th>
<th>Performance Needed for Maximum Award</th>
<th>Actuarial outcome % of target award</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>73.3%</td>
<td>$4.73bn</td>
<td>51.64%</td>
</tr>
<tr>
<td>Underlying operating margin</td>
<td>33.3%</td>
<td>Dialog LTIP over the 3-year performance period was below the median of the peer group, i.e. the constituents of the S&amp;P Select Semiconductor Index. For maximum payout, upper quartile performance would have been needed.</td>
<td></td>
</tr>
</tbody>
</table>

### 2.4 LTIP disclosure

Awards granted under the 2017 Long Term Incentive Plan ("LTIP") are capable of vesting in 2020 subject to the achievement of revenue, underlying operating margin and total Shareholder Return ("TSR") performance targets. Following the completion of the final performance period in 2019, the Committee has assessed performance against the performance targets set over the performance period and has determined that 84.74% of the target number of share options awarded will vest to participants which is equivalent to 42.37% of maximum.

#### Notes
1. Exchange rates used are 2019: GBP 1 = USD 1.2768; EUR 1 = USD 1.1451; 2018: GBP 1 = 1.3016; EUR 1 = 1.1228.
2. Performance share awards are made subject to the achievement of revenue, underlying operating margin and total Shareholder Return ("TSR") performance targets. The percentage of the target number of share options awarded will vest to participants which is equivalent to 42.37% of maximum.

#### 3. Bonus award made shares

In 2019, the CEO was granted LTIP awards which totalled a target value of £3 million in line with the policy section. As noted in the policy section, shares awarded are structured as nominal shares with the reference to options throughout.
## 4. Directors' shareholdings at 31 December 2019 (audited) continued

### Further detail on the CEO's EIP, LTP and deferred bonus share awards, is set out below.

<table>
<thead>
<tr>
<th>Full Name</th>
<th>Share plan</th>
<th>Grant date</th>
<th>Final vesting date</th>
<th>Exercise price (£)</th>
<th>Holding at 31 Dec 2019</th>
<th>Granted</th>
<th>Exercised</th>
<th>Lapsed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Jalal Bagheri</td>
<td>Deferred bonus plan</td>
<td>19/02/2013</td>
<td>19/02/2016</td>
<td>0.01</td>
<td>42,611 -</td>
<td>42,611</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Executive incentive plan</td>
<td>16/02/2014</td>
<td>16/02/2017</td>
<td>0.12</td>
<td>60,850 -</td>
<td>60,850</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deferred bonus plan</td>
<td>16/02/2014</td>
<td>16/02/2017</td>
<td>0.01</td>
<td>40,153 -</td>
<td>40,153</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Executive incentive plan</td>
<td>16/02/2014</td>
<td>16/02/2017</td>
<td>0.12</td>
<td>24,930 -</td>
<td>24,930</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dr Jalal Bagheri</td>
<td>Deferred bonus plan</td>
<td>12/02/2015</td>
<td>12/02/2018</td>
<td>0.01</td>
<td>29,913 -</td>
<td>29,913</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Executive incentive plan</td>
<td>12/02/2015</td>
<td>12/02/2018</td>
<td>0.12</td>
<td>13,427 -</td>
<td>13,427</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LTIP nominal option</td>
<td>01/03/2015</td>
<td>01/03/2018</td>
<td>0.15</td>
<td>53,526 -</td>
<td>53,526</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LTIP nominal option</td>
<td>03/03/2016</td>
<td>03/03/2019</td>
<td>0.01</td>
<td>11,727 -</td>
<td>11,727</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LTIP nominal option</td>
<td>01/03/2016</td>
<td>01/03/2019</td>
<td>0.15</td>
<td>162,648 -</td>
<td>139,647</td>
<td>43,011</td>
<td></td>
</tr>
<tr>
<td></td>
<td>LTIP nominal option</td>
<td>01/03/2016</td>
<td>01/03/2019</td>
<td>0.15</td>
<td>103,189 -</td>
<td>103,189</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LTIP nominal option</td>
<td>05/10/2015</td>
<td>05/10/2018</td>
<td>0.01</td>
<td>8,514 -</td>
<td>8,514</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LTIP nominal option</td>
<td>05/03/2016</td>
<td>05/03/2019</td>
<td>0.15</td>
<td>185,550 -</td>
<td>185,550</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LTIP nominal option</td>
<td>08/03/2016</td>
<td>08/03/2019</td>
<td>0.15</td>
<td>25,481 -</td>
<td>25,481</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LTIP nominal option</td>
<td>13/05/2016</td>
<td>13/05/2019</td>
<td>0.15</td>
<td>177,518 -</td>
<td>177,518</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Further detail on the NEDs' remaining share awards is set out below.

<table>
<thead>
<tr>
<th>Full Name</th>
<th>Share plan</th>
<th>Grant date</th>
<th>Final vesting date</th>
<th>Exercise price (£)</th>
<th>Holding at 31 Dec 2019</th>
<th>Granted</th>
<th>Exercised</th>
<th>Lapsed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Jalal Bagheri</td>
<td>LTIP nominal option</td>
<td>05/10/2015</td>
<td>05/10/2018</td>
<td>0.01</td>
<td>8,514 -</td>
<td>8,514</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dr Jalal Bagheri</td>
<td>LTIP nominal option</td>
<td>08/03/2016</td>
<td>08/03/2019</td>
<td>0.15</td>
<td>25,481 -</td>
<td>25,481</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dr Jalal Bagheri</td>
<td>LTIP nominal option</td>
<td>13/05/2016</td>
<td>13/05/2019</td>
<td>0.15</td>
<td>177,518 -</td>
<td>177,518</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The chart below shows the CEO shareholding as at 31 December 2019 against the shareholding requirement as a % of base salary.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>CEO</th>
<th>103.6%</th>
<th>8.7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Holding as a % of salary</td>
<td>Deferred shares</td>
<td>Shareholding requirement</td>
<td></td>
</tr>
<tr>
<td>CEO</td>
<td>0</td>
<td>1,500</td>
<td>3,500</td>
</tr>
</tbody>
</table>

5. Percentage change in CEO remuneration

The table below compares the average change in base salary, benefits (excluding pension) and bonus awards for the CEO and for an average UK employee over the period 2018 to 2019.

<table>
<thead>
<tr>
<th>Measure</th>
<th>CEO</th>
<th>Average UK employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Taxable benefits</td>
<td>2.5%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Annual bonus</td>
<td>33.6%</td>
<td>38.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage change from 2018 to 2019</th>
<th>CEO</th>
<th>Average UK employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 to 2019 base salary increase</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>2018 to 2019 taxable benefits increase</td>
<td>2.5%</td>
<td>5.3%</td>
</tr>
<tr>
<td>2018 to 2019 annual bonus increase</td>
<td>33.6%</td>
<td>38.9%</td>
</tr>
</tbody>
</table>

6. CEO pay ratio

The following table shows the ratio between the total remuneration of the CEO and the median total remuneration of our UK employees.

<table>
<thead>
<tr>
<th>Financial year ending</th>
<th>Methodology</th>
<th>25th percentile pay ratio</th>
<th>50th percentile pay ratio</th>
<th>75th percentile pay ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>Option A</td>
<td>60:1</td>
<td>44:1</td>
<td>27:1</td>
</tr>
</tbody>
</table>

The above ratios have been calculated using the single figure for the CEO and the following statistics for our UK employees:

<table>
<thead>
<tr>
<th>UK employees</th>
<th>CEO</th>
<th>25th percentile</th>
<th>50th percentile</th>
<th>75th percentile</th>
<th>Total salary</th>
<th>Total remuneration (single figure)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average of employees</td>
<td>60:1</td>
<td>68:1</td>
<td>72:1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The CEO pay ratio has been calculated as at 31 December 2019 using Option A as defined in the relevant regulations. This method was chosen as it is the preference of investors and provides a robust analysis. The calculation compares employees on a like for like basis to the CEO; it includes employees employed throughout the year, payments were adjusted to reflect full time values by dividing values by hours worked and multiplying by standard UK full time hours, and Bonus and Long-Term Incentives were valued based on 2019 performance, and where an employee has received a maternity payment this has been excluded as the salary has been adjusted to a full time basis. The company believes the median pay ratio for the 2019 financial year is consistent with the pay, reward and progression policies for the company’s UK employees taken as a whole.
### 8. Review of past performance

#### 8.1 TSR Chart

The following graph compares Dialog Semiconductor’s TSR performance to that of the same investment in the German TecDAX Index. This comparison has been chosen because it reflects the local market and industry in which Dialog is listed. We also show a comparison to the Philadelphia SE Semiconductor Sector Index (Price return) as an additional industry comparator, recognising that Dialog competes with companies on an international basis. TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and – where relevant – assuming reinvestment of dividends. Data is averaged over 30 days at the end of each financial year.

This graph shows the value, by 31 December 2019, of US$100 invested in Dialog Semiconductor Plc on 31 December 2009 compared with the value of US$100 invested in the German TecDAX Index on the same date. Also plotted is the price index for the Philadelphia Semiconductor Sector Index (rebased to 100). Data has been averaged over 30 days at the end of each financial year.

#### 8.2 Ten-year Chief Executive single figure remuneration

The table below sets out the annual change in the single figure total remuneration provided to the CEO over the previous ten-year period.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total remuneration (US$m)</td>
<td>318.8</td>
<td>313.6</td>
<td>250.4</td>
<td>172.6</td>
<td>97.9</td>
<td>44.3</td>
<td>104.0</td>
<td>91.4</td>
<td>87.9</td>
<td>3,593.3</td>
</tr>
</tbody>
</table>

#### Share Ownership Guidelines

Share Ownership Guidelines are required to build and retain a shareholding in Dialog’s shares. The CEO is required to hold the equivalent of 400% of base salary in shares.

### Holding Period

A post-vesting holding period of two years will apply to the 2020 LTIP award.

#### 9. Statement of implementation for the year ending 31 December 2020

9.1 Executive Director

This section details how remuneration will be implemented for the CEO in line with the remuneration policy that was approved at the 2019 AGM.

**Base salary**

The CEO’s base salary will be subject to review in 2020 with any change being effective from 1 July 2020.

**Benefits & pension**

No change to benefits. Pension contribution remains at 15% of salary.

**Annual Bonus for the year ending 31 December 2019**

The maximum bonus potential will continue to be 2x target bonus, and the target bonus will continue to be 125% of base salary.

**LTIP for the year ending 31 December 2019**

The target LTIP award will continue to be US$3 million in line with the current policy.

As in prior years, the LTIP award will vest after three years subject to the satisfaction of three performance metrics:

- Dialog TSR performance over the three-year performance period relative to the constituents of the S&P 1500 Select Semiconductor index;
- Dialog revenue in each of the three-year performance period; and
- Dialog underlying operating margin in each of the three-year performance period.

Financial targets will be disclosed retrospectively in the year of vesting.

For the relative TSR condition of the 2020 LTIP award, Dialog Semiconductor TSR is measured over the three-year performance period and compared to the companies in the comparator group. If Dialog TSR is at the median of the comparator group then 0.5x the target award vests. If Dialog TSR is at the 60th percentile of the comparator group then 1x the target award will vest. If Dialog TSR is at or above the 75th percentile of the comparator group then 2x the target award will vest. For performance in between these levels, vesting is determined on a straight-line basis.

**Share Ownership Guidelines**

Share Ownership Guidelines are required to build and retain a shareholding in Dialog’s shares. The CEO is required to hold the equivalent of 400% of base salary in shares.

#### Corporate governance

- **Chairman fee**: £94, £141, £80, £120
- **Base fee**: £68, £102, £58, £87
- **Audit**: £10, £8
- **Remuneration**: £16, £16
- **Nomination**: £6, £6
- **Committee Chair fee**: £20, £16
- **Committee membership fees**: £10, £10

#### Annual report and accounts 2019

<table>
<thead>
<tr>
<th>In thousands</th>
<th>Cash</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman fee</td>
<td>£94</td>
<td>£141</td>
</tr>
<tr>
<td>Base fee</td>
<td>£68</td>
<td>£102</td>
</tr>
<tr>
<td>Committee Chair fee</td>
<td>£20</td>
<td>£16</td>
</tr>
<tr>
<td>Remuneration</td>
<td>£16</td>
<td>£16</td>
</tr>
<tr>
<td>Nomination</td>
<td>£6</td>
<td>£6</td>
</tr>
<tr>
<td>Committee membership fees</td>
<td>£10</td>
<td>£10</td>
</tr>
</tbody>
</table>

1. The total remuneration for 2010 and 2011 includes awards made under the 2009 LTIP plan approved by shareholders at the 2009 AGM. The values vested to the CEO from this plan were US$833,333 (2011) and US$833,333 (2011), resulting from the exceptional performance and share price growth of the Company, as can be seen in the TSR performance chart above.

2. There are no further awards under this plan. Total remuneration includes the value of long-term incentive awards at the time they vest, as required by UK reporting regulations. The actual value realised by the CEO is based on the market value on the date they are permitted (under Directors’ trading restrictions) and/or choose to exercise options or sell shares. The values presented do not therefore reflect exactly that received by the CEO.

3. The percentage shown for 2017, 2018 and 2019 long-term variable pay are for the LTIP. In 2017, there was a legacy EIP award with a vesting percentage of 44.68%.
Annual report on remuneration for the year ended 31 December 2019 continued

10. Governance

10.1 The Remuneration Committee

The Board as a whole is responsible for setting the Company’s policy on Directors’ remuneration. The Board of Directors has established a Remuneration Committee (the “Committee”) and has delegated authority to this Committee to review and recommend to the Board: the salaries and incentive compensation of the Company’s officers and its subsidiaries; and provide recommendations for other employees and consultants as appropriate.

The Committee comprises independent, non-executive Directors. The members are currently Mike Cannon (Chair), Mary Chan and Nick Jeffery. The Committee members have no financial interest in the Company other than as shareholders and through the remuneration paid to them by the Company.

By invitation, other members of the Board may attend the Committee’s meetings. The CEO and the Senior Vice President, Human Resources may also attend by invitation but take no part in discussions or decisions on matters relating to their own remuneration. The Committee is free to seek independent advice free from management as it deems appropriate.

During the year, the Committee sought and received general advice related to remuneration from Aon plc. The Committee is satisfied that the advice received from Aon is objective and independent and is not subject to any material conflict of interest. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct; all advice received during the year was provided in accordance with this code. Fees charged by Aon for advice provided to the Committee for 2019 amounted to £162,214.

The Committee also received advice from the Senior Vice President, Human Resources and the Company Secretary. During the year, the Committee met formally on four occasions; in addition, the Committee Chairman held a number of meetings with advisers.

Responsibilities

The Remuneration Committee’s main responsibilities are to:

- Review and recommend to the Board the salaries and incentive compensation of the Company’s CEO and executive management;
- Provide recommendations for other employees and consultants as appropriate;
- Administer the Company’s compensation, stock and benefits plan.

The key activities of the Committee during the year were to:

- Review, plan and recommend to the Board CEO and executive management remuneration;
- Review and address Annual General Meeting outcomes;
- Consider market trends; and
- Review the long-term incentive and the structure of the CEO’s remuneration package.

10.2 Statement of Shareholder voting

At the 2019 AGM, 99.68% of shareholders supported the advisory resolution to approve the Directors’ remuneration policy. The table below summarises the number of votes for and against the Annual report on remuneration and the Directors’ remuneration policy at the 2019 AGM, and also includes the number of abstentions (referred to as votes withheld).

<table>
<thead>
<tr>
<th>Resolution</th>
<th>No. of votes for</th>
<th>% of voting capital instructed</th>
<th>No. of votes against</th>
<th>% of voting capital instructed</th>
<th>No. of votes withheld</th>
<th>% of voting capital instructed</th>
<th>No. of total votes cast</th>
<th>% of voting capital instructed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval of Directors’ remuneration report (excluding the Directors’ remuneration policy)</td>
<td>30,539,759</td>
<td>99.68%</td>
<td>98,759</td>
<td>0.32%</td>
<td>2,373,215</td>
<td>7.78%</td>
<td>30,638,518</td>
<td>100.00%</td>
</tr>
<tr>
<td>Approval of Directors’ remuneration policy</td>
<td>21,045,922</td>
<td>68.69%</td>
<td>5,593,976</td>
<td>31.31%</td>
<td>2,377,835</td>
<td>11.20%</td>
<td>30,669,898</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

1. Votes “For” and “Against” are expressed as a percentage of votes received.
2. A “Vote withheld” is not a vote in law and is not counted in the calculation of the votes “For” or “Against” a resolution.
3. The number of voting shares is stated at December (31 December 2019: 76,382,534 shares).

10.3 How shareholder views are taken into account

Shareholder and proxy advisory groups are engaged when the Company is considering material changes to policy, including approval of any new share plans. In addition, as the Company has decided to follow the UK Corporate Governance Code, shareholders are also engaged when an AGM resolution receives support from fewer than 80% of votes cast. There is no formal engagement with employees on matters of executive remuneration but employees are encouraged to provide their view on any aspect of the Company’s operations through meetings with executives and the annual Voice of Dialog employee survey.

10.4 Consultation following the 2019 AGM

At the Company’s AGM, held on 2 May 2019, approximately 31.3% of shares cast were voted against the resolution to approve the Directors’ remuneration policy (“DRP”). As announced at the time of issuing the AGM voting results, the Company’s Remuneration Committee had undertaken an extensive consultation with a majority of shareholders in advance of the AGM, most of whom were supportive of proposed changes under the DRP. In advance of the AGM, the Company incorporated changes to the DRP based on shareholder feedback from the consultation process. In light of the voting outcome at the AGM, the Company again consulted a majority of shareholders and the Chairman conducted additional one-to-one meetings or calls with shareholders to understand concerns, and no new concerns were raised by Shareholders. The Company will continue to correspond with Shareholders to ensure we understand and address concerns.

Mike Cannon
Chairman, Remuneration Committee
4 March 2020

Statement of Directors’ responsibilities

The Directors are responsible for preparing the Annual report and the Group and parent company financial statements in accordance with the applicable law and regulations.

UK company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under the law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under UK company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Group financial statements, International Accounting Standard 1 (IAS 1) requires that the Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance; and
- Make an assessment of the Company’s ability to continue as a going concern.

In preparing the parent company financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether Financial Reporting Standard 101 (Reduced Disclosure Framework) has been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company’s transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation.

They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors’ report and Directors’ remuneration report that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant accounting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company’s position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 4 March 2020 and is signed on its behalf by:

Dr Jalal Bagherli
Chief Executive Officer
Independent auditor’s report

to the members of Dialog Semiconductor Plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

– the financial statements of Dialog Semiconductor plc (the ‘Parent Company’) and its subsidiaries (the ‘Group’) give a true and fair view of the state of the Group’s and of the Parent Company’s affairs at 31 December 2019 and 31 December 2018, and of the Group’s and of the Parent Company’s profit for the years then ended; and

– the financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and

– the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practices, including Financial Reporting Standard 101 “Reduced Disclosure Framework” and the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

– the Consolidated statement of income;
– the Consolidated statement of comprehensive income;
– the Consolidated and Parent Company balance sheets;
– the Consolidated and Parent Company statements of changes in equity; and
– the related Consolidated notes 1 to 18 and the Parent Company notes 1 to 18.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 “Reduced Disclosure Framework” United Kingdom Generally Accepted Accounting Practices.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with those requirements. The non-audit services provided to the Group and Parent Company by us during the year are disclosed in note 8 to the consolidated financial statements. We confirm that the non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

– Carrying amount of goodwill – revenue growth forecasts used for new and unaunched product lines; and
– Revenue recognition – the identification and measurement of performance obligations within the licensing and asset transfer agreement with Apple.

Within this report, key audit matters are identified as follows:

- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

Materiality

We determined materiality for the Group financial statements to be USD11.2 million, which represents 5.0% of Group and Parent Company net assets and 9.0% of Group and Parent Company revenue. We determined materiality for the Group financial statements to be USD11.2 million, which represents 5.0% of Group net assets and 9.0% of Group revenue. Our overall audit approach was influenced by the level of risk materiality.

Scoping

We conducted full scope audit procedures on the Parent Company as well as the three largest components, which represent 99% of the Group’s revenue, 80% of the Group’s pre-tax profit and 98% of Group’s net assets. We set the scope of our audit procedures on these additional components.

Significant changes in our approach

We highlight the following changes to our key audit matters from the prior year:

– Revenue recognition – the identification and measurement of performance obligations within the licensing and asset transfer agreement with Apple.

The Group entered into a significant licensing and asset transfer agreement with Apple during the year which had a significant revenue impact in 2019. We consider the identification and valuation of the performance obligations within the licensing and asset transfer agreement to be a key audit matter relating to revenue recognition.

– Capitalisation of development costs

The level of capitalised development costs has reduced from USD24.9 million in 2018 to USD15.4 million in 2019 primarily as a result of a reduction in R&D spend following the licensing and asset transfer agreement with Apple during the year. Consequently, we have determined that this no longer represents a key audit matter.

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters:

– the Directors’ use of the going concern basis of accounting in preparing the financial statements is not appropriate; or

– the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group’s or the Parent Company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and the nature and extent of the other audit work.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We note the below key audit matters are also referenced as an area of focus of the Audit Committee on page 90 of the annual report.

5.1 Carrying amount of goodwill – revenue growth projections used for new and unaunched product lines – Refer to Note 22 to the consolidated financial statements

Key audit matter description

The Group’s annual evaluation of goodwill for impairment involves the comparison of the recoverable amount of each operating segment to which goodwill is allocated to its carrying amount. Recoverable amount represents the higher of fair value less costs to sell and value in use. The Group used a discounted cash flow model to estimate value in use, which requires significant estimates and assumptions related to forecasts of future revenues. Changes in these assumptions could have a significant impact on the value in use, the amount of any goodwill impairment charge, or both. The goodwill balance of USD451.1 million as at 31 December 2019 was allocated to operating segments as set out in note 15 to the consolidated financial statements. We note that the value in use of the operating segments exceeded the carrying amount as of the measurement date for all of the operating segments and, therefore, no impairment has been a key audit matter in respect of new and unaunched product lines within three of the operating segments based on the sensitivity of the value in use to changes in revenue forecasts for these products.

For Advanced Mix Signal, revenue growth is specifically driven by the backlighting integrated circuits (“ICs”) and configurable mix-signal integrated circuits (“CMICs”) product lines.

For Connectivity & Audio, revenue growth is specifically driven by Bluetooth® Low Energy (“BLE”) with the majority of the growth in BLE being from new products.

For Custom Mix Signal business group, revenue growth is driven by custom power management integrated circuits (“PMICs”) forecast to be sold to existing customers.

For Industrial Mix Signal business group, revenue growth is driven by custom power management integrated circuits (“PMICs”) forecast to be sold to existing customers.

How the scope of our audit related to the key audit matter

Our audit procedures related to the impairment review focused on the appropriateness of the revenues assumed in the cash flow forecasts of the above mentioned product lines. The procedures performed included the following:

– We obtained an understanding of internal controls in relation to the annual impairment evaluation process, in particular the key controls that ensure the reasonableness of the Board-approved three-year Strategic Plan and the forecasts used in the value in use model, and the preparation and review of the impairment assessment.

– We challenged management’s ability to accurately forecast future revenues by comparing prior year forecast revenues to actual performance to assess historical accuracy of forecasting, with particular focus on assessing the performance of products previously categorised as new products which have now launched. We also tested the mathematical accuracy of the value in use model.

– We obtained third party analyst and industry reports in order to challenge the reasonableness of the growth rates assumed by management in the value in use models.

– We enquired of management, including individuals outside of finance, to understand and challenge the assumptions in the revenue forecasts with focus on the above mentioned products identified in our sensitivity analysis that have the most significant impact on future performance.

– We challenged the impact of differences between management’s Annual Operating Plan for 2020 and the Strategic Plan used in the annual impairment evaluation as at 27 September 2019, and the year end update as at 31 December 2019, as well as reviewing 2020 trading to date and obtaining evidence of post-year end order backlogs for new products launched in 2020.

Key observations

Our audit procedures did not identify any impairment of goodwill and we are satisfied that the impairment assessment is reasonable and in accordance with IFRS. We are satisfied that the sales forecasts supporting management’s impairment review are within an acceptable range of values.

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Financial statements

Dialog Semiconductor Plc

Independent auditor's report

to the members of Dialog Semiconductor Plc continued

5.2 Revenue recognition – the identification and measurement of performance obligations within the licensing and asset transfer agreement with Apple – Refer to Note 3 to the consolidated financial statements

Key audit matter
description

The completion of the licensing and asset transfer agreement with Apple in April 2019 represented a new revenue contract that significantly affected current year financial performance. The Group granted the use of specified intellectual property to Apple in the form of a perpetual licence for a fee of US$45.8 million, which was fully recognised as revenue in 2019, and an effective four-year licence of US$18.4 million recognised as deferred revenue, of which US$18.4 million was recognised as revenue in 2019. In addition, Apple made an interest-free prepayment to Dialog of US$300.0 million that included a "Hello market element" of US$11.4 million, which management considered to represent additional consideration in respect of the licensing and asset transfer agreement.

The identification and measurement of performance obligations within the licensing agreement and the associated allocation of the consideration to those performance obligations, particularly the royalty rates used in determining the standalone selling price of the effective licence, required significant management judgement which could be subject to potential bias.

How the scope of our audit responded to the key audit matter

Our audit procedures relating to the licensing and asset transfer agreement was focused on challenging the appropriateness of the judgements made by management and the application of those judgements in recognising revenue during 2019.

- We obtained an understanding of internal controls in relation to management’s identification and valuation of performance obligations in the licensing and asset transfer agreement.
- We evaluated management’s application of the accounting standards and the methodology used in accounting for the licensing and asset transfer agreement with the assistance of our internal accounting specialists. We evaluated the basis of recognition and measurement of revenue recognised under the associated licensing agreements to ascertain that it was recognised in accordance with IFRS 15 Revenue from Contracts with Customers.
- We engaged our internal valuation specialists in order to challenge the appropriateness of management’s assumptions and the methodology of the models used in determining the fair value of the performance obligations specific to the licensing and asset transfer agreement which drives the basis of and point of recognition of revenue.

Key observations

Our audit procedures did not identify any material misstatement in management’s revenue recognition for significant new and/or modified revenue contracts.

We note that the royalty rate applied to revenue projections in the valuation of the effective licence is at the higher end of the acceptable range. We are satisfied with the appropriateness of the performance obligations determined by management related to the licensing and asset transfer agreement and the associated revenue recognised during the year.

6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<table>
<thead>
<tr>
<th>Materiality</th>
<th>Group financial statements</th>
<th>Parent Company financial statements</th>
</tr>
</thead>
</table>

We have based materiality on pre-tax profit adjusted for the non-recurring profits associated with the licensing and asset transfer agreement with Apple in the current year.

We consider pre-tax profit to be a key benchmark for users of the financial statements, including customers, suppliers and other parties such as tax authorities and therefore the above mentioned adjustment in the current year is to maintain a level of materiality comparable with the prior year.

Rationale for the benchmark applied

We have based materiality on pre-tax profit adjusted for the non-recurring profits associated with the licensing and asset transfer agreement with Apple in the current year.

Our base for determining materiality is in line with the prior year.

We consider pre-tax profit to be a key benchmark for users of the financial statements, including customers, suppliers and other parties such as tax authorities.

7. Working with other auditors

We engaged our German member firm to perform the audit of the components subject to the Group’s finance function based in Nabern, Germany. This included both full scope and specified audit balance testing supporting the Group audit opinion. The Group audit team was in active dialogue throughout the audit with the component audit team responsible for the audit work under the direction and supervision of the Group audit team. This included determining whether the work was planned and performed in accordance with the overall Group audit strategy and the requirements of our Group audit instructions to the component audit team.

As part of supervising the work of the component audit team, the Group audit team visited Germany at the planning, interim and year-end stages of the audit.

8. Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.
9. Responsibilities of directors

As explained more fully in the directors’ responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the Group’s and the Parent Company’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management intends to sell the entire business within the year or within a short period thereafter. The Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

– the nature of the industry and sector, control environment and business performance including the design of the Group’s remuneration policies, key drivers for directors’ remuneration, bonus levels and performance targets;
– assessment of risks of fraud and non-compliance with laws and regulations described as having a direct effect on the financial statements;
– any matters we identified having obtained and reviewed the Group’s documentation of their policies and procedures relating to:
  – detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  – the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
  – the matters discussed among the audit engagement team including the component audit team and involving relevant internal specialists, including tax, valuations and information technology specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: management override of controls and the identification and interpretation of the contractual terms of significant new and/or updated revenue contracts.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included among others, the UK Companies Act, German listing rules and tax legislation (UK, USA and Germany).

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group’s ability to operate or to avoid a material penalty.

11.2 Audit response to risks identified

As a result of performing the above, we identified Revenue recognition – the identification and measurement of performance obligations within the licensing and asset transfer agreement with Apple as the key audit matter related to the potential risk of fraud. The key audit matters section of our report explains this matter in more detail and also describes the specific procedures we performed in response to the key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

– reviewing the financial statements and testing documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
– enquiring of management, the Audit Committee and in-house as well as external legal counsel concerning actual and potential litigation and claims;
– performing analytical procedures to identify any unusual or unexpected relationships which may indicate risks of material misstatement due to fraud;

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and the component audit team, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors’ remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

– the information given in the strategic report and the directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
– the strategic report and the directors’ report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors’ report.

13. Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if in our opinion:

– we have not received all the information and explanations we require for our audit; or
– adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
– the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2 Directors’ remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors’ remuneration have not been made or the part of the directors’ remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. Other matters

14.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the directors of Dialog Semiconductor Plc on 25 January 2016 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ended 31 December 2015 to 31 December 2019.

14.2 Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the Parent Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company’s members those matters we are required to state in an auditor’s 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 Parent Company and the Parent Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Alexander Butterworth ACA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, UK
4 March 2020
### Consolidated statement of income

**Year ended 31 December**

<table>
<thead>
<tr>
<th>Note</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$000</td>
<td>US$000</td>
<td>US$000</td>
</tr>
<tr>
<td>Revenue</td>
<td>1,566,239</td>
<td>1,442,138</td>
<td>1,352,841</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(717,703)</td>
<td>(701,071)</td>
<td>(707,971)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>848,536</td>
<td>741,067</td>
<td>644,870</td>
</tr>
<tr>
<td>Selling and marketing expenses</td>
<td>(92,951)</td>
<td>(83,877)</td>
<td>(70,412)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>(101,587)</td>
<td>(94,320)</td>
<td>(74,952)</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>(313,550)</td>
<td>(326,309)</td>
<td>(303,012)</td>
</tr>
<tr>
<td>Other operating income/(expense)</td>
<td>6</td>
<td>39,405</td>
<td>3,176</td>
</tr>
<tr>
<td>Operating profit</td>
<td>379,853</td>
<td>199,707</td>
<td>187,017</td>
</tr>
<tr>
<td>Interest income</td>
<td>21,950</td>
<td>9,883</td>
<td>5,995</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(11,309)</td>
<td>(3,134)</td>
<td>(1,302)</td>
</tr>
<tr>
<td>Other finance expenses/income</td>
<td>(3,941)</td>
<td>(10,263)</td>
<td>(6,093)</td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>385,038</td>
<td>196,193</td>
<td>194,803</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(83,586)</td>
<td>(55,281)</td>
<td>(25,369)</td>
</tr>
<tr>
<td>Profit after income taxes</td>
<td>301,452</td>
<td>140,912</td>
<td>169,434</td>
</tr>
<tr>
<td>Share of loss of associate</td>
<td>(1,113)</td>
<td>(1,113)</td>
<td>(1,113)</td>
</tr>
<tr>
<td>Net income</td>
<td>301,452</td>
<td>139,799</td>
<td>168,321</td>
</tr>
</tbody>
</table>

#### Earnings per share (US$)

<table>
<thead>
<tr>
<th>Note</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>4.19</td>
<td>1.89</td>
<td>2.34</td>
</tr>
<tr>
<td>Diluted</td>
<td>3.96</td>
<td>1.80</td>
<td>2.21</td>
</tr>
</tbody>
</table>

#### Weighted average number of ordinary shares (in thousands)

<table>
<thead>
<tr>
<th>Note</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>71,896</td>
<td>73,009</td>
<td>74,472</td>
</tr>
<tr>
<td>Diluted</td>
<td>76,181</td>
<td>77,615</td>
<td>78,611</td>
</tr>
</tbody>
</table>

### Consolidated statement of comprehensive income

**Year ended 31 December**

<table>
<thead>
<tr>
<th>Note</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$000</td>
<td>US$000</td>
<td>US$000</td>
</tr>
<tr>
<td>Net income</td>
<td>301,452</td>
<td>139,799</td>
<td>168,321</td>
</tr>
</tbody>
</table>

#### Other comprehensive income/(expense)

**Items that may be reclassified to profit or loss in subsequent periods**

<table>
<thead>
<tr>
<th>Note</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain/(loss) recognised in the year</td>
<td>3,166</td>
<td>(20)</td>
<td>1,560</td>
</tr>
<tr>
<td>Gain transferred to profit or loss on disposal of a subsidiary</td>
<td>3</td>
<td>309</td>
<td>2</td>
</tr>
<tr>
<td>Gain transferred to profit or loss on deconsolidation of Dyna Image</td>
<td>5</td>
<td>0</td>
<td>(1,144)</td>
</tr>
<tr>
<td>Related income tax (expense)/credit</td>
<td>(91)</td>
<td>180</td>
<td>(190)</td>
</tr>
<tr>
<td>Fair value gain in the year</td>
<td>19</td>
<td>0</td>
<td>5,971</td>
</tr>
<tr>
<td>Fair value loss/(gain) transferred to profit or loss in the year</td>
<td>9,549</td>
<td>(2,343)</td>
<td>(441)</td>
</tr>
<tr>
<td>Related income tax expense</td>
<td>0</td>
<td>1,015</td>
<td>(1,015)</td>
</tr>
<tr>
<td>Fair value (loss)/gain recognised on effective hedges in the year</td>
<td>(3,941)</td>
<td>(10,075)</td>
<td>16,433</td>
</tr>
<tr>
<td>Fair value loss/(gain) transferred to profit or loss in the year</td>
<td>9,549</td>
<td>(2,343)</td>
<td>(441)</td>
</tr>
<tr>
<td>Related income tax (expense)/credit</td>
<td>(1,065)</td>
<td>2,376</td>
<td>(3,149)</td>
</tr>
<tr>
<td>Equity investments:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value loss in the year</td>
<td>(6,994)</td>
<td>(23,764)</td>
<td>(7,514)</td>
</tr>
<tr>
<td>Related income tax credit</td>
<td>0</td>
<td>1,015</td>
<td>(1,015)</td>
</tr>
<tr>
<td>Remeasurements of net defined benefit liability:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remeasurements recognised in the year</td>
<td>(666)</td>
<td>0</td>
<td>(7,514)</td>
</tr>
<tr>
<td>Related income tax credit</td>
<td>0</td>
<td>2,376</td>
<td>(3,149)</td>
</tr>
<tr>
<td>Total comprehensive (loss)/income for the year</td>
<td>(43)</td>
<td>(33,306)</td>
<td>18,493</td>
</tr>
</tbody>
</table>

#### Total comprehensive income for the year

<table>
<thead>
<tr>
<th>Note</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attributable to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders in the Company</td>
<td>301,452</td>
<td>139,799</td>
<td>168,321</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>0</td>
<td>0</td>
<td>(4,498)</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>301,452</td>
<td>139,799</td>
<td>168,321</td>
</tr>
</tbody>
</table>

#### Financial statements

**Dialog Semiconductor Plc**

**Annual report and accounts 2019**
## Consolidated balance sheet

As at 31 December

<table>
<thead>
<tr>
<th>Note</th>
<th>2019 US$000</th>
<th>2018 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>12</td>
<td>1,024,544</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>13</td>
<td>134,079</td>
</tr>
<tr>
<td>Other current financial assets</td>
<td>20</td>
<td>1,056</td>
</tr>
<tr>
<td>Inventories</td>
<td>14</td>
<td>122,624</td>
</tr>
<tr>
<td>Income tax receivables</td>
<td></td>
<td>1,062</td>
</tr>
<tr>
<td>Other current assets</td>
<td>21</td>
<td>22,532</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td>1,305,887</td>
</tr>
<tr>
<td>Other non-current financial assets</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>19</td>
<td>3,110</td>
</tr>
<tr>
<td>Property, plant and equipment – owned</td>
<td>17</td>
<td>61,136</td>
</tr>
<tr>
<td>Property, plant and equipment – leased</td>
<td>18</td>
<td>41,423</td>
</tr>
<tr>
<td>Investments</td>
<td>19</td>
<td>3,110</td>
</tr>
<tr>
<td>Other non-current financial assets</td>
<td>20</td>
<td>2,202</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>21</td>
<td>790</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td></td>
<td>2,202</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>1,305,887</td>
</tr>
<tr>
<td><strong>Liabilities and equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>22</td>
<td>10,042</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td></td>
<td>8,242</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td></td>
<td>871,097</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>23</td>
<td>104,620</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>18</td>
<td>8,972</td>
</tr>
<tr>
<td>Other current financial liabilities</td>
<td>24</td>
<td>124,373</td>
</tr>
<tr>
<td>Proceeds</td>
<td>25</td>
<td>4,162</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>26</td>
<td>18,491</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>27</td>
<td>112,804</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td></td>
<td>373,422</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td>1,305,887</td>
</tr>
<tr>
<td>Common equity</td>
<td>28</td>
<td>403,660</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td></td>
<td>1,709,547</td>
</tr>
</tbody>
</table>

An analysis of changes in liabilities arising from financing activities is presented in note 24.
Consolidated statement of changes in equity

Year ended 31 December

<table>
<thead>
<tr>
<th>Ordinary shares US$000</th>
<th>Share premium account US$000</th>
<th>Retained earnings US$000</th>
<th>Dialogue shares held by employees US$000</th>
<th>Other reserves (note 26) US$000</th>
<th>Equity attributable to shareholders of the Company US$000</th>
<th>Non-controlling interests US$000</th>
<th>Total US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 31 December 2016</td>
<td>14,402</td>
<td>403,687</td>
<td>892,914 (70,566)</td>
<td>20,608</td>
<td>1,199,829</td>
<td>5,077</td>
<td>1,594,906</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
<td>-</td>
<td>173,916</td>
<td>-</td>
<td>1,373,736</td>
<td>169,434</td>
<td>1,543,170</td>
</tr>
<tr>
<td>Other comprehensive income/(loss)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Purchase of own shares into treasury</td>
<td>-</td>
<td>-</td>
<td>3,024 (125,050)</td>
<td>-</td>
<td>(122,026)</td>
<td>-</td>
<td>(122,026)</td>
</tr>
<tr>
<td>Share buyback obligation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cancellation of treasury shares</td>
<td>(571)</td>
<td>-</td>
<td>(186,522)</td>
<td>187,093</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Shares issued by Dyna Image</td>
<td>-</td>
<td>-</td>
<td>361</td>
<td>-</td>
<td>361</td>
<td>746</td>
<td>1,107</td>
</tr>
<tr>
<td>Deconsolidation of Dyna Image</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,334</td>
<td>1,334</td>
</tr>
<tr>
<td>Shares issued to employee benefit trusts</td>
<td>373</td>
<td>-</td>
<td>24,301</td>
<td>-</td>
<td>24,301</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sale of shares by employee benefit trusts</td>
<td>-</td>
<td>-</td>
<td>(37,534)</td>
<td>44,380</td>
<td>7,246</td>
<td>7,246</td>
<td>-</td>
</tr>
<tr>
<td>Share-based compensation, net of tax</td>
<td>36,339</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>As at 31 December 2017</td>
<td>14,204</td>
<td>403,660</td>
<td>915,482 (9,977) (62)</td>
<td>1,343,962</td>
<td>1,343,962</td>
<td>-</td>
<td>1,343,962</td>
</tr>
<tr>
<td>Adjustment on initial application of IFRS 15</td>
<td>-</td>
<td>-</td>
<td>1,541</td>
<td>-</td>
<td>1,541</td>
<td>-</td>
<td>1,541</td>
</tr>
<tr>
<td>Adjusted balance as at 1 January 2018</td>
<td>14,204</td>
<td>403,660</td>
<td>917,023 (9,977) (62)</td>
<td>1,343,962</td>
<td>1,343,962</td>
<td>-</td>
<td>1,343,962</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
<td>-</td>
<td>139,799</td>
<td>-</td>
<td>139,799</td>
<td>-</td>
<td>139,799</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>(33,396)</td>
<td>-</td>
<td>(33,396)</td>
<td>-</td>
<td>(33,396)</td>
</tr>
<tr>
<td>Total comprehensive income/(loss)</td>
<td>-</td>
<td>-</td>
<td>106,403</td>
<td>-</td>
<td>106,403</td>
<td>-</td>
<td>106,403</td>
</tr>
<tr>
<td>As at 1 January 2019</td>
<td>14,204</td>
<td>403,660</td>
<td>930,916 (23,419) (22,514)</td>
<td>1,302,547</td>
<td>1,302,547</td>
<td>-</td>
<td>1,302,547</td>
</tr>
<tr>
<td>Adjustment on initial application of IFRS 16 (note 37)</td>
<td>-</td>
<td>-</td>
<td>40</td>
<td>-</td>
<td>40</td>
<td>-</td>
<td>40</td>
</tr>
<tr>
<td>Adjusted balance as at 1 January 2019</td>
<td>14,204</td>
<td>403,660</td>
<td>930,916 (23,419) (22,514)</td>
<td>1,302,547</td>
<td>1,302,547</td>
<td>-</td>
<td>1,302,547</td>
</tr>
<tr>
<td>Net income</td>
<td>-</td>
<td>-</td>
<td>301,452</td>
<td>-</td>
<td>301,452</td>
<td>-</td>
<td>301,452</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>-</td>
<td>-</td>
<td>(620)</td>
<td>477</td>
<td>-</td>
<td>-</td>
<td>(620)</td>
</tr>
<tr>
<td>Total comprehensive income/(loss)</td>
<td>-</td>
<td>-</td>
<td>300,932</td>
<td>477</td>
<td>-</td>
<td>301,409</td>
<td>301,409</td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td>14,204</td>
<td>403,660</td>
<td>1,451,582 (274,729) (22,133)</td>
<td>1,572,584</td>
<td>1,572,584</td>
<td>-</td>
<td>1,572,584</td>
</tr>
</tbody>
</table>

Notes to the consolidated financial statements
For the year ended 31 December 2019

1. Background

Description of business

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

Dialog creates and markets highly integrated, mixed-signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid state lighting, industrial and automotive applications. Following a segment reorganisation that became effective at the beginning of the second quarter of 2019, Dialog has three reporting segments: Custom Mixed Signal; Advanced Mixed Signal; and Connectivity & Audio. Segment information is presented in note 35.

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 consolidated financial statements of the Company and its subsidiaries (together, "Dialog" or "the Group") set out on pages 114 to 175 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union, the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, the disclosure requirements of the German Securities Trading Act (WpHG) and those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS and therefore comply with Article 4 of the IAS Regulation. The consolidated financial statements also comply with IFRS as issued by the International Accounting Standards Board ("IASB").

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments, derivative financial instruments and contingent consideration are stated at 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 33.

The Group’s significant accounting policies are set out in note 2.

Presentation currency

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

Approval of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 4 March 2020.

Company financial statements

Separate financial statements for the Company are set out on pages 176 to 182.

Relevant accounting standards adopted during the year

IFRS 16 Leases

We adopted IFRS 16 with effect from 1 January 2019. We adopted IFRS 16 using the modified retrospective approach, whereby information presented for prior periods has not been restated. An explanation of the changes introduced by IFRS 16 and their impact on the Group’s results and financial position are set out in note 37. On adoption of IFRS 16, the Group recognised a cumulative effect credit of US$440 to retained earnings. During 2019, the Group’s operating profit was US$1,933 higher and its net income US$790 lower than it would have been under the predecessor accounting standard, IAS 17 Leases.

IFRIC 23 Uncertainty over Income Tax Treatments

With effect from 1 January 2019, we adopted IFRIC 23 which clarified the application of the recognition and measurement requirements of IAS 12 Income Taxes where there is uncertainty over income tax treatments. IFRIC 23 specifically considers whether tax treatments should be considered collectively, assumptions with regard to examinations by tax authorities, the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and the effect of changes in facts and circumstances.

Since we already accounted for income taxes on a basis consistent with IFRIC 23, its adoption had no impact on the Group’s results or financial position.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

In February 2018, the IASB published amendments to IAS 19 Employee Benefits which, among other things, require that if an amendment, curtailment or settlement of a defined benefit plan occurs, the current service cost and the net interest for the period after the remeasurement must be determined using the assumptions used for the remeasurement.

The amendments became effective for annual periods beginning on or after 1 January 2019. Prior to the acquisition of FCI in May 2019, the Group had no defined benefit plans and the amendments were therefore not relevant to us. We therefore effectively adopted the amendments on the acquisition of FCI.
1. Background continued

Relevant accounting standards issued by the IASB but not yet adopted

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB published amendments to IFRS 3, Business Combinations aimed at resolving the difficulties that can arise when an entity determines whether it has acquired a business or a group of assets. In summary, the amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs and narrow the definition of outputs by focusing on goods and services provided to customers.

We will apply the amendments in the future if there is ambiguity as to whether we have acquired a business or a group of assets.

Subject to endorsement for use in the European Union, the amendments will be effective for business combinations with an acquisition date on or after 1 January 2020.

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

In October 2018, the IASB published amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to clarify the definition of material in those standards and align with the definition used in the Conceptual Framework.

The amendments are effective for annual periods beginning on or after 1 January 2020. We do not expect that the amendments will cause us to reach a different conclusion as to whether an item is or is not material.

Interest Rate Benchmark Reform (Amendments to IFRS 9 and IFRS 7)

Interbank offered rates (IBORs) are benchmark interest rates, such as LIBOR, and EURIBOR, that represent the cost of obtaining unsecured funding, in a particular combination of currency and maturity and in a particular interbank term lending market. Work is underway in multiple jurisdictions to transition to alternative benchmark interest rates.

In September 2019, the IASB published amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures to clarify that during the transition period, entities should continue to apply current hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

The amendments are effective for annual periods beginning on or after 1 January 2020. We will make reference to the amendments in the future if we engage in interest rate hedging activities in a market in which existing benchmark interest rates have not been replaced.

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

In January 2020, the IASB published amendments to IAS 1 Presentation of Financial Statements to clarify that the classification of liabilities with an uncertain settlement date as current or non-current is based on rights that exist at the end of the reporting period.

Subject to endorsement for use in the European Union, the amendments will be effective for annual periods beginning on or after 1 January 2022. We do not consider that the amendments would have changed the classification of any liabilities that were recognised as at 31 December 2019.

2. Significant accounting policies continued

Business combinations

A business combination is a transaction or other event in which the Company obtains control over a business. Business combinations are accounted for using the acquisition method.

Goodwill acquired in a business combination is recognised as an intangible asset and represents the excess of the aggregate of the consideration transferred, including contingent consideration, and the amount of any non-controlling interests in the acquired business over the net total of the identifiable assets and liabilities of the acquired business at the acquisition date. Any short-term, negative goodwill, is recognised immediately as a gain in profit or loss.

Contingent consideration represents the sum of the fair values at the acquisition date of the assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control over the acquired business.

Acquisition-related costs are charged to profit or loss in the period in which they are incurred.

Identifiable assets and liabilities of the acquired business are measured at their fair value at the acquisition date, except for certain items that are measured in accordance with the relevant Group accounting policy, such as replacement equity-settled share-based compensation awards and deferred tax assets and liabilities.

Non-controlling interests that entitle their holders to a proportionate share of the net assets of the acquired business in the event of a liquidation are measured either at fair value or at the non-controlling interest’s proportionate share of the identifiable assets and liabilities of the business. Other non-controlling interests are measured at fair value.

Contingent consideration is subsequently measured at fair value unless it is classified as equity. Changes in the fair-value of contingent consideration that result from events after the acquisition date are recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Investment in associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in financial and operating policy decisions but not to control or jointly control them. Significant influence generally exists where the Company holds, directly or indirectly through one or more of its subsidiaries, more than 20% and less than 50% of the shareholders’ voting rights.

Associates are accounted for using the equity method, whereby the Group’s investment is initially recognised at cost and the carrying amount is increased or decreased to reflect the Group’s share of the profit or loss of the associate. Losses of an associate in excess of the Group’s interest in the entity are not recognised, except to the extent that the Group has incurred obligations or made payments on behalf of the associate.

Foreign currency translation

Each entity within the Group has a functional currency, which is normally the currency in which the entity primarily generates and expends cash. The functional currency of the Company and its principal subsidiaries is the US dollar.

At entity level, a foreign currency is a currency other than the entity’s functional currency. Sales, purchases and other transactions denominated in foreign currencies are recorded in the entity’s functional currency at the exchange rate ruling at the date of the transaction. Currency translation differences arising at entity level are recognised in profit or loss.

The Group’s presentation currency is the US dollar. Foreign operations are therefore those of the Company’s subsidiaries and associates whose functional currency is not the US dollar.

On consolidation, the results of foreign operations are translated into US dollars at the average exchange rate for the period and their assets and liabilities are translated into US dollars at the exchange rate ruling at the balance sheet date.

Currency translation differences arising on consolidation are recognised in other comprehensive income and taken to the currency translation reserve. In the event that a foreign operation is sold, the related cumulative currency translation difference recognised in other comprehensive income is reclassified from equity to profit or loss and is included in calculating the gain or loss on disposal of the foreign operation.
**Revenue recognition**

We generate revenue principally through the sale of our products. Revenue is also generated from licence fees and royalties for the use of intellectual property and from research and development contracts.

**Sales of products**

Sales of products are mostly made direct to end-customers but we also sell to distributors. Revenue from the sale of products is recognised when the customer obtains control of the products. We consider that control passes when the products are delivered to the customer. According to where products are sold on "ship and debit" terms, revenue is recognised when the products are released for collection by the customer. Otherwise, revenue is recognised when the products are delivered to the customer. 

Where products are supplied on a consignment basis, delivery takes place and revenue is recognised when the products are taken out of the consignment by the customer.

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

Prior to adopting FRS 15 Revenue from Contracts with Customers on 1 January 2018, we recognised revenue from sales to distributors on ship and debit terms when the products were sold by the distributor to end-customers by which time the amount of the rebate due to the distributor was known.

Most of our distributor customers are entitled to limited rights of return, referred to as stock rotation rights. Typically, returns are allowed twice-yearly for a credit of up to a percentage of the value of products shipped by us to the distributor during the preceding six-month period. Revenue on sales to distributors is recognised after making an allowance for stock rotation claims that is estimated based on stock rotation credits granted at the distributor level during the preceding six-month period.

As permitted by FRS 15, we do not capitalise the incremental costs of obtaining contracts (such as sales representatives’ commissions) because the amortisation period of such costs would be one year or less.

**Lacensed intellectual property**

Where a licence provides the customer with the “right to use” the related IP as it exists at a point in time, the licence revenue is recognised when the licence is granted. Where a licence provides the customer with a “right to access” the related IP as it develops during the licence period, the licence revenue is recognised over the licence period.

Sales or usage-based royalties are recognised when the subsequent sale or usage occurs.

**Research and development contracts**

Revenue from research and development contracts typically arises when a counterparty contributes to the cost of researching, designing, developing and testing a new product or product enhancement.

Revenue from research and development contracts is recognised when we have the right to invoice the counterparty but only to the extent that cumulative amount invoiced does not exceed the value of the work completed to date.

Where research and development contracts do not involve the transfer of goods or services to the counterparty, the revenue recognised in relation to them is presented as other operating income.

**Research and development expenditure**

All research expenditure is expensed as it is incurred. Development expenditure is also expensed as it is incurred until such time as it can be demonstrated that the product is both technically feasible and commercially viable and that management intends to complete the development of the product and sell it to customers.

Development expenditure incurred after that time and before the developed product is available for sale is put into full production is capitalised. Generally, development expenditure is expensed until relatively late in the development process when prototypes are available for quality and other tests.

**Government grants**

Government grants are not recognised until there is reasonable assurance that Dialog will comply with the conditions attaching to them and that the grants will be received.

A grant that is receivable as compensation for expenses incurred is recognised in profit or loss in the period in which it becomes receivable and is deducted from the related expense. An agreement whose primary condition is that Dialog should purchase, construct or otherwise acquire a non-current asset is recognised as deferred revenue and transferred to profit or loss on a straight-line basis over the useful life of the related asset.
Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Property, plant and equipment – leased

Property, plant and equipment that we control as lessor is represented by a right-of-use asset and an associated lease liability except where the lease is short-term or the underlying asset is of low value.

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

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

After the commencement date, the carrying amount of the lease liability is increased to reflect interest on the lease liability, reduced to reflect lease payments made and remeasured to reflect reassessments of the future lease payments or certain lease modifications.

Interest on the lease liability is recognised in profit or loss (within interest expense).

On the commencement date of a lease, the right-of-use asset is measured at cost which comprises the initial amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, and any initial direct costs that we incur in relation to the lease.

After the commencement date, the right-of-use asset is measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated so as to charge their cost to profit or loss (in arriving at operating profit), usually on a straight-line basis over the lease term.

As permitted by IFRS 16, we elected not to recognise right-of-use assets and lease liabilities in respect of short-term leases (leases that have a lease term of 12 months or less) or leases involving an underlying asset of low value (an asset with a value when new of less than US$5 or foreign currency equivalent). We recognised the lease payments for those leases as an expense in profit or loss (in arriving at operating profit) on a straight-line basis over the lease term.

Prior to adopting IFRS 16 on 1 January 2019, leases that confer rights and obligations similar to those that attach to owned assets were classified as finance leases. All other leases were classified as operating leases.

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

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

Impairment of tangible and intangible assets

Goodwill, other intangible assets and property, plant and equipment are tested for impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. Additionally, goodwill and intangible assets still under development are subject to an annual impairment test.

An asset is impaired to the extent that its carrying amount exceeds its recoverable amount. An asset’s recoverable amount represents the higher of the asset’s value in use and its fair value less costs to sell. An asset’s value in use represents the present value of the future cash flows expected to be derived from the asset in its current use and condition. Fair value less cost to sell is the amount expected to be obtained from the sale of the asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount is determined for the cash-generating unit (“CGU”) to which the asset belongs. An asset’s CGU is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill does not generate cash flows independently of other assets and is, therefore, tested for impairment at the level of the CGU or group of CGUs that are expected to benefit from the synergies of the related business combination.

Value in use is based on estimates of pre-tax cash flows in the periods covered by budgets and/or plans that have been approved by the Board. Such cash flow estimates are discounted at a pre-tax discount rate that reflects the risks specific to the asset or the CGU or group of CGUs to which the asset belongs.

Impairment losses are recognised in profit or loss.

Impairment losses recognised in previous periods for assets other than goodwill are reversed if there has been a change in the estimates used to determine the asset’s recoverable amount, but only to the extent that the carrying amount of the asset does not exceed its carrying amount had no impairment been recognised in previous periods. Impairment losses in respect of goodwill are not reversed.
2. Significant accounting policies continued

Hedge accounting

The Group uses forward currency contracts to hedge its exposure to exchange rate movements on forecast operating expenses denominated in foreign currencies principally the Euro and the pound sterling. Where possible, these contracts are designated as hedging instruments in cash flow hedge relationships. Changes in the fair value of such hedging instruments are recognised in other comprehensive income to the extent that the hedges are effective. Ineffective portions are recognised in profit or loss immediately. Cumulative fair value gains and losses recognised on the hedging instruments are reclassified from equity to profit or loss when the forecast cash flow occurs.

Hedge accounting is discontinued if we revoke the hedge relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. If the hedging instrument expires or is sold, terminated or exercised, or if the hedge relationship no longer meets the conditions for hedge accounting, the cumulative fair value gain or loss remains in equity until the forecast cash flow occurs. If the hedged forecast cash flow is no longer expected to occur, the cumulative fair value gain or loss is reclassified from equity to profit or loss immediately.

Income taxes

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period. Taxable profit differs from accounting profit because it excludes income or expenses that are recognised in the period for accounting purposes but are either not taxable or not deductible for tax purposes or are taxable or deductible in earlier or subsequent periods. Current tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is tax expected to be payable or recoverable on temporary differences between the carrying amount of an asset or liability in the financial statements and its tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available in the future against which they can be utilised.

Deferred tax assets and liabilities are not recognised in respect of temporary differences arising from the initial recognition of goodwill or from the initial recognition of other assets or liabilities in a transaction other than a business combination that affects neither accounting profit nor taxable profits.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply when the asset is realised or the liability is settled, based on enacted tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Where there is uncertainty concerning the tax treatment of an item or group of items, the amount of current and deferred tax recognised is based on management’s expectation of the likely outcome of the examination of the uncertain tax treatment by the relevant tax authorities. Uncertain tax treatments are reviewed regularly and current and deferred tax amounts are adjusted to reflect changes in facts and circumstances, such as the expiry of limitation periods or assessing tax administrative appeal decisions.

Current tax assets and liabilities are offset when there is a legally enforceable right to set off the amounts and management intends to settle on a net basis. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current tax and deferred tax is recognised in profit or loss unless it relates to an item that is recognised in the same or a different period outside profit or loss, in which case the related tax is also recognised outside profit or loss, either in other comprehensive income or directly in equity.

Provisions

Provisions for product warranty claims are established based on historical trends of warranty costs as a percentage of sales.

Dilapidation provisions are established for the cost of restoring leasehold property to its original condition at the end of the lease. Provisions are also established for surplus leasehold property or otherwise unoccupied property leases.

Post-retirement benefit plans

Defined contribution plans

Contributions to defined contribution and state-funded pension plans are recognised in profit or loss in the period to which the contributions relate.

Defined benefit plan

As described in note 26, the Group has one defined benefit pension plan in South Korea. A defined net benefit liability is recognised in respect of the plan that represents the excess of the present value of the benefit obligation over the fair value of the plan assets. The benefit obligation is measured on an actuarial basis using the projected unit credit method and is discounted using a discount rate derived from high-quality corporate bonds with a similar duration as the benefit obligation. The plan assets are measured at their fair value.

We recognise the current service cost and net interest on the net defined benefit liability in profit or loss. The current service cost represents the increase in present value of the benefit obligation resulting from employee service in the period. Net interest on the net defined benefit liability is determined by multiplying the net defined benefit liability by the discount rate applied to the benefit obligation, both as determined at the beginning of each year, but taking into account contributions and benefit payments during the period.

We recognise the effect of remeasurements of the net defined benefit liability in other comprehensive income. Remeasurements comprise actuarial gains and losses arising due to changes in actuarial assumptions and experience adjustments and the difference between the return on plan assets and the component of the net interest on the net defined benefit liability recognised in profit or loss that is attributable to the plan assets.

2. Significant accounting policies continued

Share-based compensation

As described in note 31, the Company operates share-based compensation plans under which it grants options and other awards to its ordinary shares to employees of its subsidiaries. Awards granted under the existing plans are classified as equity-settled awards.

We recognise a compensation expense that is based on the fair value of the awards measured at the grant date using the Black-Scholes option pricing formula or a Monte Carlo valuation model. Fair value is not subsequently remeasured unless relevant conditions attaching to the awards are modified.

Fair value reflects any market performance conditions and all non-vesting conditions. Adjustments are made to the compensation expense to reflect actual and expected forfeitures due to failure to satisfy service conditions or non-market performance conditions.

We recognise the resulting compensation expense on a systematic basis over the vesting period and a corresponding credit is recognised in equity. In the event of early exercise or cancellation of the awards by the Company or by the participant prior to an award being exercised, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in profit or loss.

Payroll taxes are payable in the UK and in certain other jurisdictions on the exercise or vesting of awards. Provision is made for such taxes based on the intrinsic value of the relevant awards at the balance sheet date so as to accrue for the taxes payable over the vesting period of the award.

Shares held by employee benefit trusts

The Group provides finance to two trusts to purchase the Company’s ordinary shares in order to meet its obligations under its share-based compensation plans. When the trusts purchase such shares, the cost of the shares is debited to equity and subsequent sales or transfers of the shares by the trusts are accounted for within equity.

Treasury shares

Treasury shares comprise the Company’s ordinary shares that have been purchased under the Company’s share buyback programme and have not been subsequently sold, transferred or cancelled. Purchases made under the programme are off-market and are effected by way of contingent forward share purchase contracts with third-party brokers. On inception of each tranche, a liability is recognised for the maximum cost of the shares to be purchased under the tranche and there is a corresponding debit to retained earnings. On intermediate and final settlement of purchases with the broker, the cost of the shares purchased is credited to retained earnings and debited to treasury shares within equity. On final settlement, any remaining balance of the liability is credited back to retained earnings.

Subsequent sales, transfers or cancellations of treasury shares by the Company are accounted for within equity.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements and estimates that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period.

Critical judgements in applying accounting policies

Critical judgements are the judgements, apart from those involving estimations, that management has made that have had the most significant effect on amounts included in the consolidated financial statements.

Product development costs

Product development costs are capitalised from the time when the technical feasibility and commercial viability of the product can be demonstrated. Management is therefore required to make judgements about the technical feasibility of the product based on engineering studies and the commercial viability of the product based on expectations concerning the marketability of the product, the product’s useful life and the extent of future demand from customers.

Uncertain tax treatments

Uncertainty may exist concerning the tax treatment of a specific item or group of items because of, for example, uncertainty as to the meaning of tax laws or to the applicability of tax law to a particular transaction or circumstance, the determination of appropriate arm’s length pricing in accordance with OECD transfer pricing principles or because the amount of current and deferred tax depends on the results of an ongoing or future examination of previously filed tax returns by the tax authorities.

Where such an uncertainty exists, management is required to exercise its judgement in forming its expectation as to the likely outcome of the examination of the uncertain tax treatment by the relevant tax authorities. Due to the complexity of tax laws and their interpretation, the amount ultimately agreed with the tax authorities may differ materially from the amount of current and deferred tax recognised in the consolidated financial statements. Accordingly, the resolution of uncertain tax treatments in future periods may give rise to adjustments to the amounts of current and deferred tax assets and liabilities that may have a material consequential effect on the income tax expense recognised in future periods.

Key sources of estimation uncertainty

Key sources of estimation uncertainty are those that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Management considers that there are no key sources of estimation uncertainty underlying the measurement of the carrying amount of assets and liabilities recognised as at 31 December 2019.
3. Licensing and asset transfer agreement

Summary of the transaction
On 11 October 2018, we announced that we had entered into an agreement with Apple Inc. ("Apple") to license our power management technologies and to transfer to Apple certain assets and over 300 employees from our design centres in the UK, Germany and Italy.

Following receipt of the necessary regulatory approvals and satisfaction of the other closing conditions, the transaction closed on 8 April 2019. Apple paid Dialog US$300,000 in respect of the licensing arrangements and asset transfers.

Pursuant to the agreement, Dialog granted to Apple:

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

Continuation of the effective licence beyond the initial four-year period is contingent on Apple’s purchases from Dialog exceeding a specified level in successive preceding 12-month periods.

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

Following completion of the licensing and asset transfer agreement, Apple made an interest-free prepayment to Dialog of US$300,000.

On initial recognition, we measured the prepayment at its fair value of US$281,684. We considered that the resulting “below market element” of the prepayment of US$11,416 represented additional consideration in respect of the licensing arrangements and asset transfers.

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

<table>
<thead>
<tr>
<th>Consideration</th>
<th>US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash received</td>
<td>300,000</td>
</tr>
<tr>
<td>Below market element of prepayment</td>
<td>11,416</td>
</tr>
<tr>
<td>Total consideration</td>
<td>311,416</td>
</tr>
</tbody>
</table>

We measured the fair value of the perpetual IP licence using the excess earnings method, whereby it represented the present value of the estimated future profits that were foregone by Dialog’s Power Management IP.

We measured the fair value of the effective IP licence using the relief from royalty method, whereby it represented the present value of the estimated royalties that would have been payable by Apple over the term of the licence for the use of Dialog’s IP in developing future generations of their products.

We measured the fair value of the design centre businesses as the present value of their estimated future cash flows based on applicable transfer prices.

We incurred transaction costs totalling US$23,851 in relation to the agreement with Apple, of which US$16,064 was incurred during 2019 (within general and administrative expenses).

Subsequent accounting for the transaction

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

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

During 2019, we recognised revenue of US$30,000 in respect of the licensing arrangements.

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

<table>
<thead>
<tr>
<th>Carrying amount of assets transferred</th>
<th>US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>1,452</td>
</tr>
<tr>
<td>Property, plant and equipment – owned</td>
<td>13,824</td>
</tr>
<tr>
<td>Property, plant and equipment – leased</td>
<td>4,287</td>
</tr>
<tr>
<td>Patents</td>
<td>224</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,699</td>
</tr>
<tr>
<td>Total assets transferred</td>
<td>20,156</td>
</tr>
</tbody>
</table>

We recognised a gain on the transfer of design centre businesses of US$15,898.

Consideration received
We recognised related commitment fees of US$1,070 (within interest expense).
Notes to the consolidated financial statements continued

4. Business combinations continued

Year ended 31 December 2019

Acquisition of Creative Chips GmbH

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

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

We paid US$15,070 of the initial consideration into an escrow fund that was available to settle any valid claims that we may have made in relation to the representations, warranties and indemnities that were provided to us by the sellers.

Contingent consideration is payable in two instalments: the first instalment of up to US$11,500 may be payable in early 2021 based on Creative Chips’ revenue for 2020 and the second instalment of up to US$11,500 may be payable in early 2022 based on Creative Chips’ revenue for 2021. At the acquisition date, we estimated that the amount of the first instalment will be in the range US$0 to US$10,210 and that the amount of the second instalment will be in the range US$0 to US$7,475. Using the expected value method, we estimated that the fair value of the contingent consideration at the acquisition date was US$8,517 net of discounting of US$2,163.

We recognised goodwill of US$32,524 on the acquisition of Creative Chips that is principally attributable to the benefits expected to be derived from the growth potential of the IIoT market, the assembled workforce and the broadening of Dialog’s customer base for its own mixed-signal business. None of the goodwill is deductible for tax purposes.

At the acquisition date, we estimated that the amount of the first instalment will be in the range US$0 to US$10,210 and that the amount of the second instalment will be in the range US$0 to US$7,475. Using the expected value method, we estimated that the fair value of the contingent consideration at the acquisition date was US$8,517 net of discounting of US$2,163.

We recognised goodwill of US$32,524 on the acquisition of Creative Chips that is principally attributable to the benefits expected to be derived from the growth potential of the IIoT market, the assembled workforce and the broadening of Dialog’s customer base for its own mixed-signal business. None of the goodwill is deductible for tax purposes.

Acquisition of FCI Inc.

On 31 October 2019, we completed the acquisition of 100% of the equity interests in Creative Chips GmbH, a supplier of integrated circuits (“ICs”) to the Industrial Internet of Things (“IIoT”) market.

Headquartered near Frankfurt, Germany, with an additional design centre in Dresden, Germany, Creative Chips has a growing IC business supplying a broad portfolio of industrial Ethernet and other mixed-signal products to manufacturers of industrial and building automation systems. Creative Chips has also developed a range of highly complementary standard IO-Link IC products, driving broader connectivity in the Industry 4.0 revolution.

We acquired Creative Chips for US$880,000 on a cash- and debt-free basis. Additional consideration of up to US$23,000 may be payable contingent on Creative Chips’ performance against revenue targets for 2020 and 2021.

On completion, we paid initial consideration of US$883,722 in cash, including US$3,722 in respect of Creative Chips’ estimated cash, debt and working capital levels on completion. In February 2020, we paid a purchase price adjustment of US$84 to the sellers reflecting Creative Chips’ actual cash, debt and working capital levels on completion.

We paid US$15,070 of the initial consideration into an escrow fund that was available to settle any valid claims that we may have made in relation to the representations, warranties and indemnities that were provided to us by the sellers.

Contingent consideration is payable in two instalments: the first instalment of up to US$11,500 may be payable in early 2021 based on Creative Chips’ revenue for 2020 and the second instalment of up to US$11,500 may be payable in early 2022 based on Creative Chips’ revenue for 2021. At the acquisition date, we estimated that the amount of the first instalment will be in the range US$0 to US$10,210 and that the amount of the second instalment will be in the range US$0 to US$7,475. Using the expected value method, we estimated that the fair value of the contingent consideration at the acquisition date was US$8,517 net of discounting of US$2,163.

We recognised goodwill of US$32,524 on the acquisition of Creative Chips that is principally attributable to the benefits expected to be derived from the growth potential of the IIoT market, the assembled workforce and the broadening of Dialog’s customer base for its own mixed-signal business. None of the goodwill is deductible for tax purposes.

4. Business combinations continued

Year ended 31 December 2019 continued

Assets acquired and liabilities assumed

We have allocated the purchase consideration to the identifiable assets and liabilities of Creative Chips and FCI and goodwill as follows:

<table>
<thead>
<tr>
<th></th>
<th>Creative Chips</th>
<th>FCI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets acquired</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>7,328</td>
<td>9,562</td>
<td>16,890</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>2,235</td>
<td>1,791</td>
<td>4,026</td>
</tr>
<tr>
<td>Inventories</td>
<td>4,678</td>
<td>4,347</td>
<td>8,825</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>51,278</td>
<td>34,396</td>
<td>85,674</td>
</tr>
<tr>
<td>Property, plant and equipment - owned</td>
<td>11,993</td>
<td>872</td>
<td>12,865</td>
</tr>
<tr>
<td>Property, plant and equipment - leased</td>
<td>–</td>
<td>762</td>
<td>762</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,058</td>
<td>1,098</td>
<td>2,156</td>
</tr>
<tr>
<td><strong>Total assets acquired</strong></td>
<td>83,722</td>
<td>54,155</td>
<td>137,877</td>
</tr>
<tr>
<td><strong>Liabilities assumed</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>1,260</td>
<td>2,385</td>
<td>3,645</td>
</tr>
<tr>
<td>Net defined benefit liability</td>
<td>–</td>
<td>771</td>
<td>771</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>15,974</td>
<td>3,997</td>
<td>19,971</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>3,037</td>
<td>2,052</td>
<td>5,089</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>20,271</td>
<td>8,805</td>
<td>29,076</td>
</tr>
<tr>
<td><strong>Net identifiable assets acquired</strong></td>
<td>58,199</td>
<td>44,023</td>
<td>102,222</td>
</tr>
<tr>
<td>Goodwill arising on acquisition</td>
<td>32,124</td>
<td>9,029</td>
<td>41,153</td>
</tr>
<tr>
<td><strong>Consideration</strong></td>
<td>90,323</td>
<td>53,952</td>
<td>144,275</td>
</tr>
</tbody>
</table>

Purchase consideration was satisfied by:

<table>
<thead>
<tr>
<th></th>
<th>Creative Chips</th>
<th>FCI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid on completion</td>
<td>83,722</td>
<td>54,155</td>
<td>137,877</td>
</tr>
<tr>
<td>Purchase price adjustment</td>
<td>84</td>
<td>(203)</td>
<td>(119)</td>
</tr>
<tr>
<td><strong>Initial consideration</strong></td>
<td>83,806</td>
<td>53,952</td>
<td>137,758</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>6,517</td>
<td>–</td>
<td>6,517</td>
</tr>
<tr>
<td><strong>Consideration</strong></td>
<td>90,323</td>
<td>53,952</td>
<td>144,275</td>
</tr>
</tbody>
</table>

Trade and other receivables were expected to be collected at their gross contractual amounts.

Identifiable intangible assets acquired comprised customer relationships, developed technology and know-how and trade names.

During 2019, Creative Chips contributed US$2,312 to the Group’s revenue and a loss after tax of US$212 and FCI contributed US$10,495 to the Group’s revenue and a loss after tax of US$3,116. If these businesses had been acquired on 1 January 2019, we estimate that the Group’s revenue for 2019 would have been US$26,428 higher at US$1,592,667 and its net income US$2,051 lower at US$219,401.

During 2019, we incurred transaction costs of US$4,040 in relation to the acquisition of Creative Chips and FCI (included within general and administrative expenses).

Consideration payable for Slioge Technology Inc.

We acquired Slioge in November 2017.

Deferred consideration

On completion of the acquisition, unvested employee options were converted into deferred cash rights and the fair value of those rights was apportioned between a deferred consideration element and a future compensation element. During 2019, we paid US$82,089 in settlement of vested deferred consideration and recognised a credit of US$116 to profit or loss in respect of forippi. As at 31 December 2019, we held a liability of US$979 in relation to the remaining deferred consideration that is payable over the period to March 2021.

Contingent consideration

Contingent consideration of up to US$10,400 was payable for the acquisition of Slioge in two instalments based on Slioge’s revenues for 2017 and 2018.

In February 2019, we paid US$16,729 in settlement of the amount of the second instalment that was attributable to the shares and vested options acquired and attributed the balance of the first instalment of US$1,144 to the deferred cash rights.
4. Business combinations continued

Year ended 31 December 2018

Consideration payable for Silego Technology Inc.

Purchase price adjustment
During 2018, we paid a purchase price adjustment of US$92, following the agreement with the vendors of Silego’s cash, debt and working capital levels on completion.

Deferred consideration
During 2018, we paid US$2,788 in settlement of vested deferred consideration and recognised a credit of US$204 to profit or loss in respect of forfeitures.

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

Silego’s actual revenue for 2017 confirmed that the first instalment of the contingent consideration of US$10,000 was payable in full. In February 2018, we paid US$9,360 in settlement of the amount of the first instalment that was attributable to the shares and vested options acquired and attributed the balance of the first instalment of US$6,400 to the deferred cash rights.

Silego’s actual revenue for 2018 showed that US$17,874 was payable in settlement of the second instalment. Since Silego’s actual revenue for 2018 was lower than our initial estimates, we recognised a credit of US$878 to profit or loss on remeasurement of the fair value of the contingent consideration.

Year ended 31 December 2017

Acquisition of Silego Technology Inc.

On 1 November 2017, we completed the acquisition of 100% of the voting equity interests in Silego, 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 manufacturers to reduce board space, simplify their supply chain and reduce time-to-market.

Our 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$276,000 on a cash- and debt-free basis, subject to adjustments for cash, debt and working capital.

Additional consideration of up to US$30,400 was payable contingent on Silego’s revenues for 2017 and 2018.

We acquired all of Silego’s outstanding common and preferred shares, all “in-the-money” vested, outstanding, unexercised employee options over common shares and all “in-the-money” outstanding preferred share warrants. On completion, we paid initial consideration of US$290,938 in cash, including US$22,527 in respect of Silego’s estimated cash, debt and working capital levels on completion. We estimated that we would pay a purchase price adjustment of US$80,938 reflecting Silego’s actual cash, debt and working capital levels on completion.

We paid US$34,500 of the initial consideration into an escrow fund that was available to settle any valid claims that we may have made in relation to the representations, warranties and indemnities that were provided to us by the sellers.

On completion, all “in the money” outstanding, unvested employee options over common shares were converted into and became the right to receive cash payments comprising a pro-rata share of the initial purchase price less their respective exercise prices, purchase price adjustments and any payments of contingent consideration. Such rights are subject to the vesting schedule and other terms (including a service condition) that governed the options that they replaced. We estimated that the acquisition date fair value of the rights was US$11,245, of which US$9,055 was attributable to employee service rendered before the acquisition date and therefore represents deferred consideration. We are recognising the balance of US$2,190, less an allowance for expected and actual forfeitures, as compensation expense on a straight-line basis over the remaining vesting period of the rights.

In November 2017, we paid US$371 in relation to the accelerated vesting of the deferred cash rights in accordance with employee change of control arrangements.

Contingent consideration was payable in two instalments: the first instalment of up to US$10,000 based on Silego’s revenue for 2017 and the second instalment of up to US$20,400 based on Silego’s revenue for 2018. At the acquisition date, we expected that the first instalment would accrue in full and that the amount of the second instalment would be in the range US$11,652 to US$20,400. Using the expected value method, we estimated that the acquisition date fair value of the contingent consideration attributable to the shares and vested options acquired was US$23,273 (net of discounting of US$2,974).

We incurred transaction costs of US$4,439 in relation to the acquisition of Silego (included within general and administrative expenses).

4. Business combinations continued

Year ended 31 December 2017 continued

Assets acquired and liabilities assumed
We allocated the purchase consideration to the identifiable assets and liabilities of Silego and goodwill as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets acquired</td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>122,156</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>41,484</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>15,586</td>
</tr>
<tr>
<td>Inventories</td>
<td>4,890</td>
</tr>
<tr>
<td>Property, plant and equipment – owned</td>
<td>1,481</td>
</tr>
<tr>
<td>Liabilities assumed</td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>6,700</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>700</td>
</tr>
<tr>
<td>Goodwill arising on acquisition</td>
<td>190,765</td>
</tr>
<tr>
<td>Consideration</td>
<td>321,528</td>
</tr>
<tr>
<td>Total assets acquired</td>
<td></td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>23,273</td>
</tr>
</tbody>
</table>

Purchase consideration was satisfied by:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid on completion</td>
<td>290,938</td>
</tr>
<tr>
<td>Purchase price adjustment</td>
<td>8,655</td>
</tr>
<tr>
<td>Initial consideration</td>
<td>291,200</td>
</tr>
<tr>
<td>Deferred consideration</td>
<td>6,400</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>23,273</td>
</tr>
<tr>
<td>Consideration</td>
<td>321,528</td>
</tr>
</tbody>
</table>

Trade and other receivables were expected to be collected at their gross contractual amounts.

Identifiable intangible assets acquired comprised customer relationships, developed technology and know-how and the GreenPAK™ trade name.

Deferred tax assets recognised mainly represented tax loss carryforwards.

Goodwill recognised on the acquisition of Silego is attributable to the further development of technology and know-how by the business in the future, the assembled workforce and future sales to new customers for its products.

None of the goodwill is deductible for tax purposes.

Deferred tax assets recognised mainly represented tax loss carryforwards.

Goodwill recognised on the acquisition of Silego is attributable to the further development of technology and know-how by the business in the future, the assembled workforce and future sales to new customers for its products.

None of the goodwill is deductible for tax purposes.

We incurred transaction costs of US$4,439 in relation to the acquisition of Silego (included within general and administrative expenses).
4. Business combinations continued

Year ended 31 December 2017 continued

LED backlight business

On 15 November 2017, we purchased ams AG’s LED backlight technology and product portfolio for US$9,500 in cash. As part of the transaction, we also acquired related intellectual property rights.

Assets acquired

We allocated the purchase consideration to the identifiable assets of the business and goodwill as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Initial Consideration</th>
<th>Purchase Price Adjustment</th>
<th>Deferred Consideration</th>
<th>Contingent Consideration</th>
<th>Consideration paid</th>
<th>Cash outflow on purchase of businesses, net of cash acquired</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>137,877</td>
<td>0</td>
<td>2,089</td>
<td>16,730</td>
<td>156,696</td>
<td>139,806</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>2,788</td>
<td>692</td>
<td>2,788</td>
<td>9,360</td>
<td>3,866</td>
<td></td>
</tr>
<tr>
<td>Goodwill arising on acquisition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consideration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets acquired</td>
<td>197,665</td>
<td>794</td>
<td>4,857</td>
<td>26,090</td>
<td>160,562</td>
<td>143,166</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>3,542</td>
<td>692</td>
<td>2,788</td>
<td>9,360</td>
<td>3,866</td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>6,907</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Identifiable intangible assets acquired comprised customer relationships and developed technology.

None of the goodwill is deductible for tax purposes.

We incurred transaction costs of US$100 in relation to the acquisition of this business (included in general and administrative expenses).

Cash flows in relation to business combinations

During the years ended 31 December 2019, 2018 and 2017, the net cash outflow on the purchase of businesses was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>2019 US$000</th>
<th>2018 US$000</th>
<th>2017 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial consideration</td>
<td>197,665</td>
<td>197,665</td>
<td>197,665</td>
</tr>
<tr>
<td>Purchase price adjustment</td>
<td>-</td>
<td>692</td>
<td>-</td>
</tr>
<tr>
<td>Deferred consideration</td>
<td>2,089</td>
<td>2,788</td>
<td>2,788</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>16,730</td>
<td>9,360</td>
<td>-</td>
</tr>
<tr>
<td>Consideration paid</td>
<td>156,696</td>
<td>12,840</td>
<td>300,379</td>
</tr>
<tr>
<td>Cash and cash equivalents acquired</td>
<td>(16,890)</td>
<td>-</td>
<td>52,435</td>
</tr>
<tr>
<td>Cash outflow on purchase of businesses, net of cash acquired</td>
<td>139,806</td>
<td>12,840</td>
<td>267,940</td>
</tr>
</tbody>
</table>

Contingent consideration paid in 2019 and 2018 in relation to the acquisition of Silego was below our estimate at the acquisition date and is therefore included within cash flows from investing activities.

5. Deconsolidation of Dyna Image Corporation

We acquired a 45.7% interest in Dyna Image Corporation ("Dyna Image") in June 2015. We accounted for the investment as a subsidiary because we were granted a call option to acquire the shares that we did not already own in Dyna Image that we considered gave us the power to direct the activities of the entity that will significantly affect its returns.

Subsequent to our initial investment, Dyna Image suffered quality problems that resulted in the loss of a major customer and gave rise to sustained operating losses. By the end of 2016, Dyna Image was in need of additional funding to enable it to pursue its recovery plan. We agreed with our fellow shareholders to seek a new investor in the business and, in the meantime, that certain of the existing shareholders would inject new capital into the business.

In January 2017, we participated in a new issue of shares by Dyna Image. 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.

During 2017, Dyna Image continued to seek new investment but its operating results fell considerably short of the level envisaged in its recovery plan. In December 2017, negotiations with a potential investor were terminated and the shareholders in Dyna Image decided that it should be gradually wound down in a way that will safeguard the interests of its creditors.

As a consequence of this decision, we recognised impairment losses totalling US$4,327 in relation to the intangible assets and property, plant and equipment held by Dyna Image (within other operating expenses). We also derecognised deferred tax assets of US$543 that were no longer considered to be recoverable. We did not consider that the carrying amount of the goodwill attributable to Dyna Image was impaired because it was covered by the recoverable amounts of the operating segments to which it had been allocated on acquisition.

We also reviewed the call option over the non-controlling interests in Dyna Image. We observed that the fair value of each share in Dyna Image has fallen significantly and irretrievably below the minimum exercise price of the option. We concluded that there existed an economic barrier to our exercising the option prior to its expiry in June 2018 that was so great that the option no longer gives us power over Dyna Image. We considered that this loss of control occurred during December 2017 and therefore we deconsolidated Dyna Image with effect from 31 December 2017.

At the end of 2017, we recognised a loss of US$5,597 on the deconsolidation of Dyna Image that was determined as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets derecognised</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>420</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>1,428</td>
</tr>
<tr>
<td>Inventories</td>
<td>3,542</td>
</tr>
<tr>
<td>Other current assets</td>
<td>420</td>
</tr>
<tr>
<td>Goodwill</td>
<td>6,907</td>
</tr>
<tr>
<td>Total assets derecognised</td>
<td>12,723</td>
</tr>
<tr>
<td>Liabilities derecognised</td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>2,958</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>590</td>
</tr>
<tr>
<td>Total liabilities derecognised</td>
<td>3,548</td>
</tr>
<tr>
<td>Net assets derecognised</td>
<td>9,175</td>
</tr>
<tr>
<td>Currency translation gain transferred from equity</td>
<td>(1,144)</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>(1,254)</td>
</tr>
<tr>
<td>Fair value of remaining interest</td>
<td>(1,106)</td>
</tr>
<tr>
<td>Loss on deconsolidation</td>
<td>5,597</td>
</tr>
</tbody>
</table>

We included the loss on deconsolidation of Dyna Image within other operating expenses.

As explained in note 22, we sold our shareholding in Dyna Image in November 2019.
6. Operating profit

a) Revenue

Revenue may be analysed as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of products:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Sales direct to end-customers</td>
<td>1,045,774</td>
<td>1,144,371</td>
<td>1,166,451</td>
</tr>
<tr>
<td>- Sales to distributors</td>
<td>355,348</td>
<td>298,598</td>
<td>196,564</td>
</tr>
<tr>
<td>Total sale of products</td>
<td>1,401,122</td>
<td>1,443,969</td>
<td>1,363,015</td>
</tr>
<tr>
<td>Licensing agreements with Apple:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Perpetual licence fee</td>
<td>145,750</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Effective licence fee</td>
<td>18,484</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royalties</td>
<td>883</td>
<td>1,169</td>
<td>1,026</td>
</tr>
<tr>
<td>Total revenue</td>
<td>1,566,239</td>
<td>1,442,138</td>
<td>1,362,841</td>
</tr>
</tbody>
</table>

b) Operating expenses

Operating profit is stated after charging/(crediting):

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of inventories included in cost of sales</td>
<td>675,713</td>
<td>702,078</td>
<td>663,216</td>
</tr>
<tr>
<td>Write-down of inventories</td>
<td>11,133</td>
<td>5,643</td>
<td>1,288</td>
</tr>
<tr>
<td>Research and development costs expensed as incurred</td>
<td>320,127</td>
<td>331,550</td>
<td>310,201</td>
</tr>
<tr>
<td>Government incentives deducted from research and development expenses</td>
<td>(6,577)</td>
<td>(8,349)</td>
<td>(7,934)</td>
</tr>
<tr>
<td>Depreciation of property, plant and equipment – owned</td>
<td>27,155</td>
<td>31,455</td>
<td>30,807</td>
</tr>
<tr>
<td>Depreciation of property, plant and equipment – leased</td>
<td>12,456</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>4,444</td>
<td>923</td>
<td>599</td>
</tr>
<tr>
<td>Amortisation of intangible assets</td>
<td>52,233</td>
<td>48,132</td>
<td>41,968</td>
</tr>
<tr>
<td>Impairment of intangible assets</td>
<td>3,130</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease rentals</td>
<td>993</td>
<td>12,450</td>
<td>10,153</td>
</tr>
<tr>
<td>Integration costs</td>
<td>2,434</td>
<td>2,765</td>
<td>2,305</td>
</tr>
<tr>
<td>Acquisition-related costs</td>
<td>4,040</td>
<td></td>
<td>4,039</td>
</tr>
<tr>
<td>Corporate transaction costs</td>
<td>16,064</td>
<td>11,346</td>
<td></td>
</tr>
<tr>
<td>Amortisation of intangible assets was allocated as follows:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2019</td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>550</td>
<td>592</td>
<td>707</td>
</tr>
<tr>
<td>Selling and marketing expenses</td>
<td>16,226</td>
<td>14,231</td>
<td>9,126</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>2,377</td>
<td>2,248</td>
<td>2,170</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>33,080</td>
<td>31,959</td>
<td>29,972</td>
</tr>
<tr>
<td>Total</td>
<td>52,333</td>
<td>48,130</td>
<td>41,968</td>
</tr>
</tbody>
</table>

\[6. Operating profit continued\]

c) Other operating income/(expense)

Other operating income/(expense) comprised:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from research and development contracts</td>
<td>21,872</td>
<td>2,298</td>
<td>346</td>
</tr>
<tr>
<td>Gain on transfer of design centre businesses (note 3)</td>
<td>15,898</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental and other income</td>
<td>1,635</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in estimate of contingent consideration</td>
<td></td>
<td>878</td>
<td></td>
</tr>
<tr>
<td>Impairment of non-current assets held by Dyna Image</td>
<td></td>
<td>(4,327)</td>
<td></td>
</tr>
<tr>
<td>Loss on deconsolidation of Dyna Image</td>
<td></td>
<td>(5,597)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>39,405</td>
<td>3,176</td>
<td>(9,578)</td>
</tr>
</tbody>
</table>

7. Employee information

Employment costs were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>226,428</td>
<td>234,908</td>
<td>200,222</td>
</tr>
<tr>
<td>Social security costs</td>
<td>32,573</td>
<td>31,051</td>
<td>26,457</td>
</tr>
<tr>
<td>Share-based compensation</td>
<td>46,539</td>
<td>41,153</td>
<td>35,319</td>
</tr>
<tr>
<td>Compensation element of deferred cash rights</td>
<td>1,204</td>
<td>1,481</td>
<td>1,409</td>
</tr>
<tr>
<td>Defined contribution pension costs</td>
<td>11,529</td>
<td>12,609</td>
<td>11,058</td>
</tr>
<tr>
<td>Defined benefit pension costs</td>
<td>369</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>318,642</td>
<td>311,202</td>
<td>274,465</td>
</tr>
</tbody>
</table>

Pension costs from defined contribution plans include costs for the state funded pension plan in Germany of US$2,819 (2018: US$3,853; 2017: US$3,599).

Compensation of key management personnel is set out in note 36.

The average number of persons employed by the Group (including the Executive Director) during the year, analysed by category, was as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and development</td>
<td>1,211</td>
<td>1,371</td>
<td>1,256</td>
</tr>
<tr>
<td>Production</td>
<td>211</td>
<td>184</td>
<td>172</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>296</td>
<td>272</td>
<td>239</td>
</tr>
<tr>
<td>Administration</td>
<td>203</td>
<td>200</td>
<td>180</td>
</tr>
<tr>
<td>Information technology</td>
<td>60</td>
<td>59</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>1,551</td>
<td>1,572</td>
<td>1,527</td>
</tr>
</tbody>
</table>

8. Auditor’s remuneration

Fees payable to the Company’s auditor, Deloitte LLP, were as follows:

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance services</td>
<td>775</td>
<td>629</td>
</tr>
<tr>
<td>Audit of the parent company and consolidated financial statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit of subsidiaries</td>
<td>530</td>
<td>423</td>
</tr>
<tr>
<td>Other assurance services</td>
<td>168</td>
<td>150</td>
</tr>
<tr>
<td>Other services</td>
<td>225</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,668</td>
<td>1,202</td>
</tr>
</tbody>
</table>
9. Finance income/(expense)

a) Interest income

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$000</td>
<td>US$000</td>
<td>US$000</td>
</tr>
<tr>
<td>Interest on bank deposits</td>
<td>9,919</td>
<td>5,619</td>
</tr>
<tr>
<td>Interest on money market funds</td>
<td>11,010</td>
<td>4,189</td>
</tr>
<tr>
<td>Other interest income</td>
<td>121</td>
<td>75</td>
</tr>
<tr>
<td>Total interest income</td>
<td>21,950</td>
<td>9,993</td>
</tr>
</tbody>
</table>

b) Interest expense

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$000</td>
<td>US$000</td>
<td>US$000</td>
</tr>
<tr>
<td>Interest on lease liabilities</td>
<td>(2,956)</td>
<td>—</td>
</tr>
<tr>
<td>Interest on finance lease and hire purchase obligations</td>
<td>(5)</td>
<td>(5)</td>
</tr>
<tr>
<td>Facility commitment fees</td>
<td>(1,506)</td>
<td>(450)</td>
</tr>
<tr>
<td>Amortisation of deferred facility arrangement costs</td>
<td>(295)</td>
<td>(315)</td>
</tr>
<tr>
<td>Unwinding of discount on prepayment received (note 3)</td>
<td>(5,884)</td>
<td>—</td>
</tr>
<tr>
<td>Unwinding of discount on contingent consideration (note 4)</td>
<td>(464)</td>
<td>(2,220)</td>
</tr>
<tr>
<td>Unwinding of discount on provisions (note 26)</td>
<td>(60)</td>
<td>(70)</td>
</tr>
<tr>
<td>Other interest expense</td>
<td>(144)</td>
<td>(27)</td>
</tr>
<tr>
<td>Total interest expense</td>
<td>(11,309)</td>
<td>(3,134)</td>
</tr>
</tbody>
</table>

c) Other finance (expense)/income

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$000</td>
<td>US$000</td>
<td>US$000</td>
</tr>
<tr>
<td>Currency translation (loss)/gain, net</td>
<td>(1,055)</td>
<td>(994)</td>
</tr>
<tr>
<td>Fair value (loss)/gain on Energous warrants (note 19)</td>
<td>(1,434)</td>
<td>10,853</td>
</tr>
<tr>
<td>Amortisation of gain on initial measurement of Energous warrants (note 19)</td>
<td>1,584</td>
<td>1,584</td>
</tr>
<tr>
<td>Net interest expense on the net defined benefit liability (note 26)</td>
<td>—</td>
<td>(14)</td>
</tr>
<tr>
<td>Proceeds from sale of Arctic Sand shares</td>
<td>63</td>
<td>—</td>
</tr>
<tr>
<td>Fair value loss on Dyna Image call option</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total other finance (expense)/income</td>
<td>(5,456)</td>
<td>(10,263)</td>
</tr>
</tbody>
</table>

10. Income taxes

Income tax recognised in profit or loss

The components of the Group’s income tax expense for the year were as follows:

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$000</td>
<td>US$000</td>
<td>US$000</td>
</tr>
<tr>
<td>Current tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>(41,617)</td>
<td>(15,896)</td>
</tr>
<tr>
<td>Foreign</td>
<td>(45,523)</td>
<td>(33,633)</td>
</tr>
<tr>
<td>Deferred tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>(96)</td>
<td>(221)</td>
</tr>
<tr>
<td>Foreign</td>
<td>3,644</td>
<td>(6,431)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(83,586)</td>
<td>(55,281)</td>
</tr>
<tr>
<td>c) Other items</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(327)</td>
<td>(162)</td>
<td>472</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(83,586)</td>
<td>(55,281)</td>
</tr>
</tbody>
</table>

Factors affecting the income tax expense for the year

The Group’s income tax expense differed from the amount that would have resulted from applying the statutory rate of corporation tax in the UK to the Group’s profit before income taxes for the reasons shown in the following table:

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$000</td>
<td>US$000</td>
<td>US$000</td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>385,038</td>
<td>194,803</td>
</tr>
<tr>
<td>Income tax expense at UK corporation tax rate of 19.0% (2018: 19.0%; 2017: 19.25%)</td>
<td>(73,557)</td>
<td>(47,071)</td>
</tr>
<tr>
<td>Effect of different foreign tax rates</td>
<td>(10,955)</td>
<td>(6,056)</td>
</tr>
<tr>
<td>Non-taxable income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Other non-taxable income</td>
<td>2,493</td>
<td>39</td>
</tr>
<tr>
<td>Non-deductible expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Transaction costs</td>
<td>(2,396)</td>
<td>(1,131)</td>
</tr>
<tr>
<td>- Non-deductible portion of share-based compensation</td>
<td>(10,559)</td>
<td>(9,336)</td>
</tr>
<tr>
<td>- Other non-deductible expenses</td>
<td>(2,996)</td>
<td>(2,323)</td>
</tr>
<tr>
<td>Tax benefit from share-based compensation</td>
<td>6,984</td>
<td>1,997</td>
</tr>
<tr>
<td>Tax impact of deconsolidation of Dyna Image Corporation</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Tax benefit from Intellectual Property and research and development incentives</td>
<td>10,323</td>
<td>6,633</td>
</tr>
<tr>
<td>Write-down of previously recognised deferred tax assets</td>
<td>—</td>
<td>(1,015)</td>
</tr>
<tr>
<td>Benefit from previously unrecognised deferred tax assets</td>
<td>82</td>
<td>70</td>
</tr>
<tr>
<td>Additional tax losses for which no deferred tax asset is recognised</td>
<td>(127)</td>
<td>(117)</td>
</tr>
<tr>
<td>Movement in deferred tax balances following intra-group reorganisation</td>
<td>(1,921)</td>
<td>(1,020)</td>
</tr>
<tr>
<td>Differences arising from different functional and tax jurisdictions</td>
<td>(2,536)</td>
<td>(2,065)</td>
</tr>
<tr>
<td>Tax benefit from UK tax rate change</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Adjustments in respect of prior years</td>
<td>1,635</td>
<td>(3,111)</td>
</tr>
<tr>
<td>Other items</td>
<td>(327)</td>
<td>(162)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(83,586)</td>
<td>(55,281)</td>
</tr>
</tbody>
</table>
### 10. Income taxes continued

#### Deferred tax

Analysis of movement in the net deferred tax balance during the year:

<table>
<thead>
<tr>
<th>Temporary differences relating to intangible assets</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added tax liability</td>
<td>3,668</td>
<td>3,388</td>
<td>43,507</td>
</tr>
<tr>
<td>Temporarily deferred to share-based compensation</td>
<td>1,626</td>
<td>1,090</td>
<td>11,262</td>
</tr>
<tr>
<td>Other temporary differences</td>
<td>636</td>
<td>1,077</td>
<td>1,276</td>
</tr>
<tr>
<td>Deferred tax in relation to credits</td>
<td>532</td>
<td>1,899</td>
<td>13,893</td>
</tr>
<tr>
<td>Net operating loss carryforwards</td>
<td>(2,906)</td>
<td>(3,382)</td>
<td>2,258</td>
</tr>
<tr>
<td>Total</td>
<td>3,554</td>
<td>(5,752)</td>
<td>(14,828)</td>
</tr>
</tbody>
</table>

#### Deferred tax assets and liabilities, before offset of balances within countries, are as follows:

<table>
<thead>
<tr>
<th>Temporary differences relating to intangible assets</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net recognized deferred tax liability/asset</td>
<td>2,988</td>
<td>1,942</td>
<td>5,176</td>
</tr>
</tbody>
</table>

Deferred tax assets and liabilities are analysed in the consolidated balance sheet, after offset of balances within countries, as follows:

<table>
<thead>
<tr>
<th>Temporary differences relating to intangible assets</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax loss carryforwards</td>
<td>2,988</td>
<td>1,942</td>
<td>5,176</td>
</tr>
</tbody>
</table>

In assessing whether the deferred tax assets can be used, management considers the probability that some, or all, of the deferred tax assets will not be realised. The utilisation of deferred tax assets depends upon generating taxable profit during the periods in which those temporary differences become deductible or tax loss carryforwards can be utilised. Management considers the reversal of deferred tax liabilities, projected future taxable incomes, benefits that could be realised from available tax planning strategies and other positive and negative factors in making this assessment.

### 10. Income taxes continued

Factors affecting the income tax expense for the year continued


Our effective tax rate is sensitive to the geographic mix of the Group’s profits and reflects a combination of different tax rates in different countries, in particular higher tax rates in Germany and, in 2017, in the US. Our effective tax rate can also be affected by changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings and currency exchange rate movements, which give rise to tax effects where an entity’s functional currency differs from the currency in which it is required to calculate and pay income taxes.

Our effective tax rate is reduced because a large proportion of the Group’s research and development activities are undertaken in the UK and the Netherlands and we are therefore able to benefit from the UK and Netherlands tax regimes that provide incentives for innovation.

Factors affecting the income tax expense in future years

Factors that may affect the Group’s future tax expense include foreign exchange rate movements, changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings and the resolution of open issues with tax authorities. Incentives for innovation available under the UK and Netherlands tax regimes are limited by reference to the location of the Group’s research and development activities.

Given the global nature of the Group’s research and development activities, this may also affect the Group’s future tax expense.

We maintain provisions for potential tax liabilities where uncertainty exists concerning the amount of current or deferred tax recognised. Due to the complexity of tax laws and their interpretation, the amounts ultimately agreed with tax authorities in respect of these uncertainties may differ materially from the amounts provided and may therefore affect the Group’s income tax expense in future periods. In January 2016, we received a termination fee of US$137,300 from Atmel Corporation, Inc. following their termination of the merger agreement that existed between us. We obtained tax advice that the termination fee should not be taxable in the UK and therefore did not recognise a tax expense in relation to the termination fee. Examination of the tax treatment of the termination fee by the UK tax authority is ongoing. We maintain our position that no tax liability should arise in respect of the termination fee.

International tax reform remains a key focus of attention, including the OECD’s Base Erosion & Profit Shifting project, the EU’s action plan for Action 13 to prevent the abuse of IP and tax havens and the introduction of the anti-abuse minimum tax rate, which was agreed by the US on 18 December 2021. The US Congress has not yet confirmed the details of the legislation. The Group is also subject to the action plan of the EU’s Action 15, which involves the introduction of a minimum corporate tax rate of 15%.

The Group continues to monitor the impact of these new rules on the tax liabilities of the Group’s global operations, including the potential for global minimum tax rates to be imposed. The impact of these changes could have a material impact on the Group’s future income tax expense.

In December 2019, the Group also implemented the new lease accounting and income tax standards. The calculation of the tax asset and liabilities in relation to the Group’s leases follows the same methodology currently applied to its business combinations.

Factors affecting the income tax expense in future years

Factors affecting the income tax expense in future years include foreign exchange rate movements, changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings and currency exchange rate movements, which give rise to tax effects where an entity’s functional currency differs from the currency in which it is required to calculate and pay income taxes.

Our effective tax rate is reduced because a large proportion of the Group’s research and development activities are undertaken in the UK and the Netherlands and we are therefore able to benefit from the UK and Netherlands tax regimes that provide incentives for innovation.

Factors affecting the income tax expense in future years

Factors that may affect the Group’s future tax expense include foreign exchange rate movements, changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings and the resolution of open issues with tax authorities. Incentives for innovation available under the UK and Netherlands tax regimes are limited by reference to the location of the Group’s research and development activities.

As at 31 December 2019 (14,828)

<table>
<thead>
<tr>
<th>Temporary differences relating to intangible assets</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net recognized deferred tax liability/asset</td>
<td>2,988</td>
<td>1,942</td>
<td>5,176</td>
</tr>
</tbody>
</table>

Deferred tax assets and liabilities, before offset of balances within countries, are as follows:

<table>
<thead>
<tr>
<th>Temporary differences relating to intangible assets</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax loss carryforwards</td>
<td>2,988</td>
<td>1,942</td>
<td>5,176</td>
</tr>
</tbody>
</table>

Deferred tax assets and liabilities are analysed in the consolidated balance sheet, after offset of balances within countries, as follows:

<table>
<thead>
<tr>
<th>Temporary differences relating to intangible assets</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax loss carryforwards</td>
<td>2,988</td>
<td>1,942</td>
<td>5,176</td>
</tr>
</tbody>
</table>

In assessing whether the deferred tax assets can be used, management considers the probability that some, or all, of the deferred tax assets will not be realised. The utilisation of deferred tax assets depends upon generating taxable profit during the periods in which those temporary differences become deductible or tax loss carryforwards can be utilised. Management considers the reversal of deferred tax liabilities, projected future taxable incomes, benefits that could be realised from available tax planning strategies and other positive and negative factors in making this assessment.
10. Income taxes continued

Deferred tax continued


As at 31 December 2019, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was US$11,542 (2018: US$62,703). We do not expect a liability to arise in respect of these differences because the Company is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

11. Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the profit attributable to holders of ordinary shares in the Company by the weighted average number of ordinary shares outstanding during the year 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:

<table>
<thead>
<tr>
<th>Year</th>
<th>2019 US$000</th>
<th>2018 US$000</th>
<th>2017 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>11,786,049</td>
<td>11,622,311</td>
<td>10,094,682</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares</td>
<td>76,382,139</td>
<td>76,382,139</td>
<td>77,865,967</td>
</tr>
<tr>
<td>Shares in issue at the beginning of the period</td>
<td>76,382,139</td>
<td>76,382,139</td>
<td>77,865,967</td>
</tr>
<tr>
<td>Effect on average number of shares during the period:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Shares issued to employee benefit trust</td>
<td>-</td>
<td>-</td>
<td>2,350,000</td>
</tr>
<tr>
<td>- Cancellation of treasury shares</td>
<td>-</td>
<td>-</td>
<td>(2,061,901)</td>
</tr>
<tr>
<td>Average number of shares in issue during the period</td>
<td>76,382,139</td>
<td>76,382,139</td>
<td>77,865,967</td>
</tr>
<tr>
<td>Deduct:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Average number of shares held by employee benefit trusts</td>
<td>(1,599,457)</td>
<td>(2,422,787)</td>
<td>(2,061,901)</td>
</tr>
<tr>
<td>- Average number of treasury shares</td>
<td>(2,726,643)</td>
<td>-</td>
<td>(1,352,899)</td>
</tr>
<tr>
<td>For calculating basic earnings per share</td>
<td>71,096,039</td>
<td>73,959,832</td>
<td>74,472,070</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Average number of diluted share options and awards</td>
<td>4,284,926</td>
<td>3,695,214</td>
<td>4,139,123</td>
</tr>
<tr>
<td>For calculating diluted earnings per share</td>
<td>75,180,965</td>
<td>77,654,046</td>
<td>78,611,193</td>
</tr>
<tr>
<td>Earnings per share (US$)</td>
<td>3.96</td>
<td>3.34</td>
<td>3.21</td>
</tr>
</tbody>
</table>

During 2019, the average number of anti-dilutive share options outstanding was 486,253 (2018: 830,300; 2017: 375,041).

12. Cash and cash equivalents

Cash and cash equivalents were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>As at 31 December 2019 US$000</th>
<th>As at 31 December 2018 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at bank</td>
<td>21,056</td>
<td>3,920</td>
</tr>
<tr>
<td>Cash held by employee benefit trusts</td>
<td>6,049</td>
<td>2,829</td>
</tr>
<tr>
<td>Cash available from receivables financing facilities</td>
<td>65,439</td>
<td>96,099</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>390,000</td>
<td>325,000</td>
</tr>
<tr>
<td>Money market funds</td>
<td>582,000</td>
<td>252,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,024,544</td>
<td>677,848</td>
</tr>
</tbody>
</table>

Short-term deposits are made for varying periods of up to three months.

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

13. Trade and other receivables

Trade and other receivables were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>As at 31 December 2019 US$000</th>
<th>As at 31 December 2018 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts receivable</td>
<td>122,528</td>
<td>98,234</td>
</tr>
<tr>
<td>Retentions under receivables financing facilities</td>
<td>11,561</td>
<td>16,290</td>
</tr>
<tr>
<td>Total</td>
<td>134,079</td>
<td>114,514</td>
</tr>
</tbody>
</table>

Trade accounts receivable are generally on 30 to 60-day credit terms. Trade accounts receivable are regularly reviewed for collectability and an allowance is established for doubtful accounts against which receivables are written-off when they are no longer considered to be collectable.

Movements on the allowance for doubtful accounts were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>2019 US$000</th>
<th>2018 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At the beginning of the year</td>
<td>21</td>
<td>101</td>
</tr>
<tr>
<td>Acquisition of businesses</td>
<td>18</td>
<td>-</td>
</tr>
<tr>
<td>Allowances charged to profit or loss</td>
<td>40</td>
<td>-</td>
</tr>
<tr>
<td>Utilised for write-offs</td>
<td>-</td>
<td>(81)</td>
</tr>
<tr>
<td>Releases credited to profit or loss</td>
<td>-</td>
<td>(15)</td>
</tr>
<tr>
<td>Total</td>
<td>79</td>
<td>21</td>
</tr>
</tbody>
</table>

14. Inventories

Inventories were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>As at 31 December 2019 US$000</th>
<th>As at 31 December 2018 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>31,938</td>
<td>36,379</td>
</tr>
<tr>
<td>Work in progress</td>
<td>44,097</td>
<td>48,416</td>
</tr>
<tr>
<td>Finished goods</td>
<td>46,589</td>
<td>64,099</td>
</tr>
<tr>
<td>Total</td>
<td>122,624</td>
<td>149,916</td>
</tr>
</tbody>
</table>
Goodwill is monitored by management at the level of the Group’s operating segments and is therefore allocated at that level. As explained in note 35, the Group made a number of organisational changes with effect from the beginning of the second quarter of 2019. Management concluded that these changes did not cause any reallocation of goodwill between operating segments. Immediately following the reorganisation, therefore, goodwill continued to be allocated to the Custom Mixed Signal business group (formerly Mobile Systems), Advanced Mixed Signal and Connectivity & Audio.

Goodwill of US$9,093 recognised on the acquisition of FCI in May 2019 was allocated to Connectivity & Audio. We acquired Creative Chips in October 2019. Creative Chips was designated as our new Industrial Mixed Signal business unit to which the goodwill of US$32,124 recognised on the acquisition is allocated.

As at 31 December 2019 and 2018, goodwill was allocated to operating segments as follows:

<table>
<thead>
<tr>
<th>Operating segment</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced Mixed Signal</td>
<td>US$244,147</td>
<td>US$238,880</td>
</tr>
<tr>
<td>Industrial Mixed Signal</td>
<td>US$32,449</td>
<td>US$38,880</td>
</tr>
<tr>
<td>Connectivity &amp; Audio</td>
<td>US$9,929</td>
<td>US$10,800</td>
</tr>
<tr>
<td>Total</td>
<td>US$286,526</td>
<td>US$288,540</td>
</tr>
</tbody>
</table>

Impairment tests carried out during the year

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Goodwill is tested for impairment at the level of the operating segments to which it is allocated. Goodwill is impaired if the carrying amount of the operating segment to which it is allocated exceeds its recoverable amount. In conducting impairment tests of goodwill during 2019, we measured the recoverable amount of each operating segment to which goodwill is allocated on a value in use basis. Value in use represents the present value of the future cash flows that we estimate will be generated by the assets allocated to each operating segment in their current use and condition.

Expected future cash flows in the first three years were forecast based on the Group’s Strategic Plan 2020-2022. Except in the case of the Industrial Mixed Signal business unit, cash flows beyond the third year were estimated by applying a perpetuity growth factor to the forecast cash flow in the third year. We expect that the strong growth potential of the Industrial Mixed Signal business unit will take considerably longer than three years to be fully realised. We therefore based its expected future cash flows beyond the third year on profit forecasts for a further seven years made at the time of the acquisition of Creative Chips and applied a perpetuity growth factor to the forecast cash flow in the tenth year.

We consider that the key assumptions used in determining value in use are the expected compound annual growth of revenue (“revenue CAGR”) during the forecast period, the perpetuity growth rate and the discount rate.

Expected future revenue of each operating segment is based on external forecasts of the future volume of the end-markets for the operating segment’s products adjusted to reflect factors specific to the operating segment such as its customer base and available distribution channels, the possibility of new entrants to the market and future technological developments. Cash flows during the forecast period also reflect the cost of materials and other direct costs, research and development expenditure and selling, general and administrative expenses. We estimated the cost of materials and other direct and indirect costs based on current prices and market expectations of future price changes. We applied a perpetuity growth rate of 2% per annum in estimating the future cash flows of each operating segment in both 2019 and 2018, which we considered to be the long-term growth rate in the demand for the products of each operating segment in its end-markets.

Discount rates applied to the cash flow projections were determined using a capital asset pricing model and reflected current market interest rates, relevant equity and size risk premiums and the risks specific to the operating segment concerned. Pre-tax discount rates used were as follows:

<table>
<thead>
<tr>
<th>Operating segment</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom Mixed Signal business group</td>
<td>13.1%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Industrial Mixed Signal business unit</td>
<td>18.1%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Advanced Mixed Signal</td>
<td>13.7%</td>
<td>13.5%</td>
</tr>
<tr>
<td>Connectivity &amp; Audio</td>
<td>13.9%</td>
<td>14.2%</td>
</tr>
</tbody>
</table>

Financial statements

Annual report and accounts 2019

Notes to the consolidated financial statements continued
17. Property, plant and equipment – owned

Movements on owned property, plant and equipment during the years ended 31 December 2019 and 2018 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Buildings US$000</th>
<th>Test equipment US$000</th>
<th>Leasehold improvements US$000</th>
<th>Office and other equipment US$000</th>
<th>Construction in progress US$000</th>
<th>Total US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 31 December 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reclassifications</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to assets held for sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency translation differences</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 31 December 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of businesses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reclassifications</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency translation differences</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td>6,431</td>
<td>182,186</td>
<td>23,811</td>
<td>97,361</td>
<td>1,161</td>
<td>310,950</td>
</tr>
<tr>
<td>Depreciation and impairment losses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 31 December 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation charge for the period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to assets held for sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency translation differences</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 31 December 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation charge for the period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency translation differences</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td>6,386</td>
<td>29,453</td>
<td>4,322</td>
<td>19,816</td>
<td>1,161</td>
<td>61,338</td>
</tr>
<tr>
<td>Carrying amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 31 December 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

18. Property, plant and equipment – leased

Background

With the exception of two properties recently acquired with Creative Chips, the Group leases all of its product development and office facilities in the various countries in which it operates.

Property leases that have been entered into by the Group contain varied terms and conditions reflecting its business requirements and local market practices. Property leases are typically for a fixed term of approximately five years but may include extension or early termination options to provide operational flexibility. Property rentals are typically fixed on inception of the lease but may be subject to review to reflect changes in market rental rates.

The Group also leases product testing and office equipment.

At the beginning of 2019, the Group had a contract with a supplier that contained an embedded lease over certain production equipment. During 2019, the contract was terminated by mutual agreement. At the time of termination, the carrying amount of the related right-of-use asset was US$9,956 and the lease liability was US$10,851. Accordingly, the Group recognised a gain on termination of US$895 in profit or loss.

Right-of-use assets

Movements on right-of-use assets in relation to leased property, plant and equipment during the year ended 31 December 2019 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Buildings US$000</th>
<th>Office and other equipment US$000</th>
<th>Total US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 31 December 2018</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment on initial application of IFRS 16 (note 37)</td>
<td>52,873</td>
<td>13,517</td>
<td>66,390</td>
</tr>
<tr>
<td>Adjusted balance as at 1 January 2019</td>
<td>52,873</td>
<td>13,517</td>
<td>66,390</td>
</tr>
<tr>
<td>Acquisition of businesses</td>
<td>6,356</td>
<td>5</td>
<td>6,361</td>
</tr>
<tr>
<td>Additions</td>
<td>5,660</td>
<td>1,983</td>
<td>7,643</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>40</td>
<td>134</td>
<td>174</td>
</tr>
<tr>
<td>Disposals</td>
<td>(4,061)</td>
<td>(6,371)</td>
<td>(10,432)</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>(285)</td>
<td>0</td>
<td>(285)</td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td>50,020</td>
<td>810</td>
<td>50,830</td>
</tr>
</tbody>
</table>

Depreciation and impairment losses

Movements on right-of-use assets in relation to leased property, plant and equipment during the year ended 31 December 2019 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Buildings US$000</th>
<th>Office and other equipment US$000</th>
<th>Total US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 31 December 2018</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation charge for the period</td>
<td>(130,819)</td>
<td>(14,571)</td>
<td>(145,390)</td>
</tr>
<tr>
<td>Transfer to assets held for sale</td>
<td>102</td>
<td>1,232</td>
<td>1,334</td>
</tr>
<tr>
<td>Disposals</td>
<td>577</td>
<td>1,000</td>
<td>1,577</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>127</td>
<td>42</td>
<td>130</td>
</tr>
<tr>
<td>As at 31 December 2018</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation charge for the period</td>
<td>(144,081)</td>
<td>(16,290)</td>
<td>(160,371)</td>
</tr>
<tr>
<td>Disposals</td>
<td>577</td>
<td>1,000</td>
<td>1,577</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>127</td>
<td>42</td>
<td>130</td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td>6,431</td>
<td>182,186</td>
<td>188,617</td>
</tr>
</tbody>
</table>

Carrying amount

<table>
<thead>
<tr>
<th></th>
<th>Buildings US$000</th>
<th>Office and other equipment US$000</th>
<th>Total US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 31 December 2018</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes to the consolidated financial statements continued
18. Property, plant and equipment – leased continued

Lease liabilities

Movements on the lease liabilities recognised in relation to leased property, plant and equipment during the year ended 31 December 2019 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustment on initial application of IFRS 16 (note 37)</td>
<td>67,631</td>
<td>—</td>
</tr>
<tr>
<td>Adjusted balance as at 1 January 2019</td>
<td>67,631</td>
<td>67,631</td>
</tr>
<tr>
<td>Acquisition of businesses</td>
<td>699</td>
<td>—</td>
</tr>
<tr>
<td>Additions</td>
<td>1,411</td>
<td>4,440</td>
</tr>
<tr>
<td>Terminations</td>
<td>(10,845)</td>
<td>(280)</td>
</tr>
<tr>
<td>Other changes in lease payments</td>
<td>(14,042)</td>
<td>2,056</td>
</tr>
<tr>
<td>Lease payments during the period</td>
<td>5,455</td>
<td>(46)</td>
</tr>
<tr>
<td>Interest expense for the period</td>
<td>1,356</td>
<td>280</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>710</td>
<td>566</td>
</tr>
<tr>
<td>Adjusted balance as at 1 January 2019</td>
<td>67,631</td>
<td>67,631</td>
</tr>
<tr>
<td>Lease liabilities as at 31 December 2019</td>
<td>43,044</td>
<td>34,072</td>
</tr>
<tr>
<td>Current portion</td>
<td>8,972</td>
<td>34,072</td>
</tr>
<tr>
<td>Non-current portion</td>
<td>34,072</td>
<td>—</td>
</tr>
<tr>
<td>Total lease liabilities</td>
<td>43,044</td>
<td>34,072</td>
</tr>
</tbody>
</table>

During 2019, expenses recognised in relation to lease payments that were not included in the measurement of lease liabilities were as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense relating to short-term leases</td>
<td>167</td>
<td>936</td>
</tr>
<tr>
<td>Expense relating to leases of low value assets</td>
<td>180</td>
<td>1,224</td>
</tr>
<tr>
<td>Expense relating to variable lease payments not included in lease liabilities</td>
<td>343</td>
<td>—</td>
</tr>
<tr>
<td>Total expense not included in lease liabilities</td>
<td>590</td>
<td>2,784</td>
</tr>
</tbody>
</table>

19. Investments

Investments were as follows:

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2019</th>
<th>As at 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Energous shares</td>
<td>3,079</td>
<td>10,073</td>
</tr>
<tr>
<td>Derivative financial instruments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Energous warrants</td>
<td>31</td>
<td>1,465</td>
</tr>
<tr>
<td>Total investments</td>
<td>3,110</td>
<td>11,538</td>
</tr>
</tbody>
</table>

In November 2016, we entered into a strategic alliance with Energous Corporation (“Energous”) the developer of WattUp®, a wireless 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 were 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 for the use of Energous’ Intellectual Property over the initial seven-year term of the strategic alliance. Amortisation of the deferred credit has not yet commenced.

On 5 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 2019, we recognised a fair value loss on the shares of US$6,994 (2018: loss of US$23,764; 2017: gain of US$5,971) in other comprehensive income and recognised a fair value loss of US$1,434 (2018: loss of US$10,853; 2017: gain of US$941) on the warrants in profit or loss (as other finance (expense)/income). Also during 2019, we recognised a credit of US$1,584 (2018: US$1,584; 2017: US$776) in profit or loss on the amortisation of the fair value on initial recognition of the second tranche of the warrants (as other finance income).

20. Other financial assets

Other financial assets were as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current portion</td>
<td>1,056</td>
<td>202</td>
</tr>
<tr>
<td>Non-current portion</td>
<td>3,258</td>
<td>2,020</td>
</tr>
<tr>
<td>Total</td>
<td>4,314</td>
<td>2,224</td>
</tr>
</tbody>
</table>

21. Other assets

Other assets were as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current portion</td>
<td>23,312</td>
<td>18,204</td>
</tr>
<tr>
<td>Non-current portion</td>
<td>23,312</td>
<td>18,204</td>
</tr>
</tbody>
</table>

Other assets were as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid expenses</td>
<td>7,775</td>
<td>6,720</td>
</tr>
<tr>
<td>Other tax receivables</td>
<td>3,369</td>
<td>1,797</td>
</tr>
<tr>
<td>Deferred facility arrangement costs</td>
<td>231</td>
<td>550</td>
</tr>
<tr>
<td>Other assets</td>
<td>11,157</td>
<td>9,549</td>
</tr>
<tr>
<td>Total current</td>
<td>22,532</td>
<td>18,306</td>
</tr>
<tr>
<td>Non-current portion</td>
<td>22,532</td>
<td>18,306</td>
</tr>
<tr>
<td>Deferred facility arrangement costs</td>
<td>11,157</td>
<td>9,549</td>
</tr>
<tr>
<td>Total</td>
<td>33,684</td>
<td>37,854</td>
</tr>
</tbody>
</table>
22. Assets classified as held for sale
Assets and associated liabilities transferred to Apple
On 11 October 2018, we entered into an agreement with Apple Inc. ("Apple"), inter alia, to transfer to Apple certain patents and design centre assets. Details of the agreement are set out in note 3.

On entering into the agreement, we reclassified as held for sale the assets that were to be transferred to Apple and the liabilities that were directly associated with them. As at 31 December 2018, the carrying amounts of the assets held for sale and directly associated liabilities were as follows:

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2018</th>
<th>As at 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets held for sale</td>
<td>US$000</td>
<td>US$000</td>
</tr>
<tr>
<td>Other current assets</td>
<td>= 317</td>
<td>= 215</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>= 11,697</td>
<td>= 10,769</td>
</tr>
<tr>
<td>Property, plant and equipment - owned</td>
<td>= 105,039</td>
<td>= 122,140</td>
</tr>
<tr>
<td>Total assets</td>
<td>= 122,140</td>
<td>= 122,140</td>
</tr>
<tr>
<td>Liabilities directly associated with assets held for sale</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>= 88,148</td>
<td>= 105,039</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>= 63</td>
<td></td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>= 1,721</td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>= 1,282</td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>= 3,937</td>
<td></td>
</tr>
</tbody>
</table>

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

Investment in associate
As at 31 December 2018, the Group held a 48.5% interest in Dyna Image Corporation ("Dyna Image"). As explained in note 5, Dyna Image was formerly accounted for as a subsidiary but was deconsolidated with effect from 31 December 2017. On deconsolidation, the Group’s investment in Dyna Image was measured at its fair value of US$1,100, which equated to the Group’s share of the carrying amount of Dyna Image’s net assets. Dyna Image was thereafter accounted for as an Associate using the equity method.

During 2018, Dyna Image continued to make losses. We recognised our share of those losses in profit or loss until the carrying amount of our investment was reduced to nil during the fourth quarter of 2018.

On 7 December 2018, we entered into an agreement to dispose of our shareholding in Dyna Image and reclassified our investment in Dyna Image’s net assets. Dyna Image was thereafter accounted for as an associate using the equity method.

On entering into the agreement, we reclassified as held for sale the assets that were to be transferred to Apple and the liabilities that were directly associated with them. As at 31 December 2018, the carrying amounts of the assets held for sale and directly associated liabilities were as follows:

23. Trade and other payables
Trade and other payables were as follows:

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2018</th>
<th>As at 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade accounts payable</td>
<td>US$000</td>
<td>US$000</td>
</tr>
<tr>
<td>Other payables</td>
<td>= 15,472</td>
<td>= 17,101</td>
</tr>
<tr>
<td>Total</td>
<td>= 104,620</td>
<td>= 122,140</td>
</tr>
</tbody>
</table>

Trade accounts payable are non-interest bearing and are normally settled on 30 to 60-day terms. Other payables are non-interest bearing and have a term of less than three months.

24. Other financial liabilities
Other financial liabilities were as follows:

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2019</th>
<th>As at 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$000</td>
<td>US$000</td>
</tr>
<tr>
<td>Currency derivatives in designated hedging relationships</td>
<td>1,324</td>
<td>6,080</td>
</tr>
<tr>
<td>Currency derivatives hedging share buy-back obligation</td>
<td>= 301</td>
<td>= 301</td>
</tr>
<tr>
<td>Prepayment from Apple</td>
<td>121,217</td>
<td>794</td>
</tr>
<tr>
<td>Deferred consideration</td>
<td>1,038</td>
<td>2,332</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>= 16,404</td>
<td>= 17,763</td>
</tr>
<tr>
<td>Share buy-back obligation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current</td>
<td>124,373</td>
<td>99,529</td>
</tr>
<tr>
<td>Total non-current</td>
<td>80,963</td>
<td>541</td>
</tr>
<tr>
<td>Total</td>
<td>205,336</td>
<td>199,731</td>
</tr>
</tbody>
</table>

Changes in liabilities arising from financing activities were as follows:

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2018</th>
<th>As at 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$000</td>
<td>US$000</td>
</tr>
<tr>
<td>Prepayment from Apple</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share buy-back obligation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives hedging share buy-back</td>
<td></td>
<td></td>
</tr>
<tr>
<td>obligation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes to the consolidated financial statements continued
Notes to the consolidated financial statements


Movements on provisions were as follows:

<table>
<thead>
<tr>
<th>Product warranties US$000</th>
<th>Leasehold property US$000</th>
<th>Legal claims US$000</th>
<th>Contractual severance US$000</th>
<th>Other provisions US$000</th>
<th>Total US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 31 December 2017</td>
<td>1,446</td>
<td>3,625</td>
<td>750</td>
<td>1,054</td>
<td>325</td>
</tr>
</tbody>
</table>

Additions charged to profit or loss

2,609 462 394 1,085 – 5,470

Utilised during the year

(3,367) (808) (223) (107) (308) (2,804)

Releases credited to profit or loss

– (121) (303) – – (155)

Unwinding of discount

– 70 – – – 70

Transfer to held for sale

– – – (1,283) – (1,283)

Currency translation differences

– (106) – (47) (17) (170)

– (263) (850) – – (1,113)

Releases credited to profit or loss

– – (263) (950) – – (1,113)

Unwinding of discount

– 60 – – – 60

Currency translation differences

– 10 – (36) – (26)

As at 31 December 2019 1,259 3,157 600 2,248 – 7,264

Provisions are presented in the Group’s balance sheet as follows:

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 31 December US$000</td>
<td>As at 31 December US$000</td>
</tr>
</tbody>
</table>

Currency liabilities 4,162 5,263

Non-current liabilities 3,102 3,078

Total 7,264 8,331

Product warranties

Dialog provides contractual product warranties under which it guarantees the performance of its products. Product warranty provisions are based on historical warranty data and are expected to be utilised within one year of the balance sheet date.

Leasehold property

Leasehold property provisions include dilapidation provisions for the costs of restoring leasehold properties to their original condition at the end of the lease and provisions for onerous leases. Leasehold property provisions will be utilised over the remaining terms of the relevant leases, which expire up to five years from the balance sheet date.

Contractual severance

Provision is made for contractual severance payments that are payable to employees in certain countries when they leave the Group’s employment.

26. Pension schemes

a) Defined contribution plans

The Group operates defined contribution pension schemes in most of the countries in which it operates. Contributions payable by the Group to the plans amounted to US$6,710 (2018: US$6,710), US$8,756, 2017: US$7,459. As at 31 December 2019, the Group had not paid over to the plans contributions due amounting to US$1,567 (2018: US$1,596; 2017: US$2,409). All contributions due for the period were paid over subsequent to the balance sheet date. Pension costs also include payments to the state funded pension plan in Germany in the amount of US$2,819 (2018: US$3,853; 2017: US$3,599).

b) Defined benefit plan

Prior to the acquisition of FCI in May 2019, the Group had no defined benefit plans. FCI operates a funded defined benefit pension plan in South Korea, that provides participating employees with a lump sum benefit on retirement that is based on the individual’s career average salary, annual bonus and average allowance and length of service. The net defined benefit liability recognised in the Group’s balance sheet is based on an actuarial valuation of the plan that was carried out by an independent qualified actuary as at 31 December 2019.

Analysis of the net defined benefit liability recognised in the balance sheet:

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
</table>

Present value of benefit obligation (4,601) –

Fair value of plan assets 2,874 –

Net defined benefit liability (1,727) –

Amounts recognised in profit or loss and other comprehensive income:

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
</table>

Amounts recognised in profit or loss (369) –

Actuarial gains: (506) –

– Changes in demographic assumptions – –

– Changes in financial assumptions (54) –

– Experience adjustments (56) –

Return on plan assets lower than interest income (51) –

Net measurement expense in other comprehensive income (566) –

Changes in the benefit obligation and the plan assets during 2019 were as follows:

<table>
<thead>
<tr>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
</table>

Benefit obligation

Present value US$000 912 (912)

Plan assets

Fair value US$000 (4,452) 3,681

As at 31 December 2018 – –

Acquisition of FCI (note 4) 912 (912)

Current service cost (369) –

Interest expense/Income (85) 56

Benefits paid out 126 7

Actuarial losses (81) (51)

Currency translation differences 81 81

As at 31 December 2019 (4,601) 2,874

152
26. Pension schemes continued

b) Defined benefit plan continued

As at 31 December 2019, the weighted-average duration of the defined benefit obligation was 8.48 years.

The principal financial assumptions used in measuring the defined benefit obligation were as follows:

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>2.6%</td>
</tr>
<tr>
<td>Rate of increase in salaries</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

Mortality and leaver assumptions are based on tables published by the Korea Insurance Development Institute in April 2019.

The fair value of the plan assets may be analysed as follows:

<table>
<thead>
<tr>
<th>Plan assets</th>
<th>US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and term deposits</td>
<td>2,780</td>
</tr>
<tr>
<td>Equity-linked bonds</td>
<td>94</td>
</tr>
<tr>
<td>Total</td>
<td>2,874</td>
</tr>
</tbody>
</table>

27. Other liabilities

Other liabilities were as follows:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>As at 31 December 2019</th>
<th>As at 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obligations for personnel and social expenses</td>
<td>46,805</td>
<td>33,291</td>
</tr>
<tr>
<td>Advances received in relation to research and development contracts</td>
<td>301</td>
<td>2,801</td>
</tr>
<tr>
<td>Deferred income</td>
<td>14,004</td>
<td>17,524</td>
</tr>
<tr>
<td>Deferred IP revenue</td>
<td>35,708</td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>15,066</td>
<td>5,087</td>
</tr>
<tr>
<td>Total current</td>
<td>112,804</td>
<td>58,237</td>
</tr>
</tbody>
</table>

Non-current

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>As at 31 December 2019</th>
<th>As at 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred royalty credits (note 19)</td>
<td>4,695</td>
<td>4,695</td>
</tr>
<tr>
<td>Deferred gain on initial measurement of warrants (note 19)</td>
<td>609</td>
<td>2,392</td>
</tr>
<tr>
<td>Deferred IP revenue</td>
<td>82,209</td>
<td></td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>100</td>
<td>207</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>231</td>
<td>1,578</td>
</tr>
<tr>
<td>Total non-current</td>
<td>88,044</td>
<td>8,872</td>
</tr>
<tr>
<td>Total</td>
<td>200,848</td>
<td>67,109</td>
</tr>
</tbody>
</table>

28. Share capital and reserves

a) Ordinary shares

As at 31 December 2019, 2018 and 2017, the authorised share capital of the Company comprised 104,311,860 ordinary shares with a nominal value of 0.10 per share.

The number of allotted and fully paid ordinary shares was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of shares</th>
<th>Nominal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>77,865,955</td>
<td>14,402</td>
</tr>
<tr>
<td>2018</td>
<td>3,000,000</td>
<td>372</td>
</tr>
<tr>
<td>2019</td>
<td>4,463,816</td>
<td>271</td>
</tr>
<tr>
<td>Total</td>
<td>76,382,139</td>
<td>14,204</td>
</tr>
</tbody>
</table>

Ordinary shareholders have no entitlement to share in the profits of the Company except for dividends that may be declared and in the event of the Company’s liquidation.

Ordinary shareholders have the right to attend, and vote at, general meetings of the Company or to appoint a proxy to attend and vote at such meetings on their behalf. Ordinary shareholders have one vote for every share held.

b) Share premium account

The share premium account represents the difference between the nominal value of shares issued and the fair value of the consideration received. The share premium account is not distributable but may be used for certain purposes specified by United Kingdom law, including to write off expenses on any issue of shares and to pay up fully paid bonus shares.

c) Other reserves

Currency translation reserve

The currency translation reserve represents the cumulative gains and losses recognised on the translation into US dollars of the Group’s net investments in foreign operations.

Fair value reserve

The fair value reserve comprises gains and losses recognised on equity investments that are measured at fair value through other comprehensive income.

Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative gains and losses on effective cash flow hedging instruments that will be recycled to profit or loss on the occurrence of the hedged cash flows.

Treasury shares

Treasury shares are shares purchased under the Company’s share buyback programme. During 2019, the Company purchased 7,076,747 of its ordinary shares with an aggregate nominal value of 7,076,747, representing 9.3% of the Company’s issued share capital as 31 December 2019. Details of the purchases made under the programme are set out in note 29.

Capital redemption reserve

On 23 June 2017, the Company cancelled all of the treasury shares that it held following completion of the third tranche of the share buyback programme. On cancellation, the total cost of the treasury shares 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.
Financial statements

Notes to the consolidated financial statements

28. Share capital and reserves

As at 31 December 2019

- Income tax expense
- Purchase of own shares into treasury
- Currency translation differences on foreign operations

As at 31 December 2018

- Income tax credit/(expense)
- Other comprehensive income/(expense)

Other changes in equity:
- Purchase of own shares into treasury
- Currency translation differences on foreign operations

Other comprehensive income/(expense):
- Income tax credit/(expense)
- Other changes in equity:
- Purchase of own shares into treasury

Fair value loss transferred to profit or loss
- - - 9,549 - 9,549

Fair value gain transferred to profit or loss
- - - - (2,343) - (2,343)

Fair value gain recognised on effective hedges
- - - 16,433 - 16,433

Fair value loss transferred to profit or loss
- - - - (441) - (441)

Other reserves

Other changes in equity:
- Purchase of own shares into treasury
- Currency translation differences on foreign operations

- 3,019 - - - 3,019

- 3,941 - - - 3,941

- (91) - - (1,065) - (1,156)

- - - (251,787) - (251,787)

As at 31 December 2018

As at 31 December 2019

Share buyback programme

Background

We initiated our share buyback programme in May 2016.

By the end of 2019, the Company had purchased 11,560,563 of its own ordinary shares at a total cost of US$438,309 (including transaction costs of US$39,019), of which 4,483,816 shares had been cancelled and 7,076,747 shares were held in treasury.

Shareholder authority for a share buyback programme was first granted to the Directors at the Company's 2016 AGM and has been renewed at each subsequent AGM. At the Company's 2019 AGM, the Directors were granted a new authority to purchase up to 11,457,321 of the Company's ordinary shares, representing approximately 15% of the issued ordinary share capital of the Company, as at 27 March 2019. Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2020, whichever is earlier.

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

Shares purchased during the period

Year ended 31 December 2017

On 8 November 2016, the Company announced details of the second tranche of the 2016 Buyback Programme under which it committed to purchase shares with a minimum cost of €66.25 million and a maximum cost of €75.0 million. We completed the first intermediate settlement of the second tranche on 30 December 2016. We completed the second intermediate settlement on 9 February 2017 and final settlement and conclusion of the tranche took place on 17 February 2017. In the second and final settlements, we purchased 977,456 shares at a cost of €38.8 million (US$41,285) and incurred transaction costs of US$720. On conclusion of the tranche, we credited back to retained earnings the remaining US$82,862 and of the obligation to purchase shares initially recognised and related transaction costs.

On 27 February 2017, the Company announced details of the third tranche of the 2016 Buyback Programme under which it committed to purchase shares with a minimum cost of €66.25 million and a maximum cost of €75.0 million. We recognised a debit to retained earnings amounting to US$79,407, which comprised the maximum obligation to purchase shares of €75.0 million (US$87,912) 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$82,962) and incurred transaction costs of US$533. On conclusion of the third tranche, we credited back to earnings the remaining US$871 of the obligation to purchase shares initially recognised and related transaction costs.

During 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$337 in profit or loss in relation to liabilities to purchase shares outstanding during 2017.

Year ended 31 December 2018

On 6 November 2018, the Company announced details of the first tranche of the 2018 Buyback Programme under which it committed to purchase shares with a minimum cost of €60.00 million and a maximum cost of €70.00 million. On initiation of this tranche, we recognised a liability and a corresponding debit to retained earnings of €60.00 million (US$68,917,170) in respect of the maximum obligation to purchase shares. We made immediate settlements of this tranche on 19 September 2018 and 31 October 2018 and final settlement and conclusion of the tranche took place on 16 December 2018. We purchased 2,634,022 shares at a cost of €70.5 million (US$78,378,930) and incurred transaction costs of US$270. On conclusion of the tranche, we credited back to retained earnings the remaining US$19,961 of the obligation to purchase shares initially recognised and related transaction costs.

Year ended 31 December 2019

On 31 May 2019, we completed the first and final settlement of the outstanding tranche of the 2018 Buyback Programmes. We purchased 3,941,852 shares at a cost of €106.00 million (US$111,470) and incurred transaction costs of US$365. On conclusion of the tranche, we credited back to retained earnings the remaining US$55,647 of the obligation to purchase shares initially recognised.

No further tranches were initiated under the 2018 Buyback Programmes.

On 5 June 2019, we announced details of the first tranche of the 2019 Buyback Programme under which the Company committed to purchase shares with a minimum cost of €125.0 million and a maximum cost of €150.0 million. On initiation of this tranche, we recognised a liability and a corresponding debit to retained earnings of €150.0 million (US$168,917,170) in respect of the maximum obligation to purchase shares. We made intermediate settlements of this tranche on 19 September 2019 and 31 October 2019 and final settlement and conclusion of the tranche took place on 19 December 2019. We purchased 3,134,995 shares at a cost of €125.0 million (US$138,975) and incurred transaction costs of US$703. On conclusion of the tranche, we credited back to earnings the remaining US$72,679 of the obligation to purchase shares initially recognised.

During 2019, we showed a debit to retained earnings of US$4,431, which mirrored the gain 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.

After taking into account hedging, we recognised a net currency translation loss of US$4,616 in profit or loss in relation to liabilities to purchase shares outstanding during 2019.
29. Share buyback programme continued

Movements on reserves

 Movements on reserves shown in the statement of changes in equity in relation to the share buyback programme are derived as follows:

<table>
<thead>
<tr>
<th></th>
<th>Retained earnings</th>
<th>Treasury shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Share buyback</td>
<td>Treasury share</td>
</tr>
<tr>
<td>obligation US$000</td>
<td>translation</td>
<td>US$000</td>
</tr>
<tr>
<td></td>
<td>difference</td>
<td>Purchase of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>shares into</td>
</tr>
<tr>
<td></td>
<td></td>
<td>treasury US$000</td>
</tr>
<tr>
<td>Year ended 31 December 2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligation recognised</td>
<td>(79,407)</td>
<td>–</td>
</tr>
<tr>
<td>Settlements</td>
<td>121,223</td>
<td>3,024</td>
</tr>
<tr>
<td>Transaction costs</td>
<td>803</td>
<td>–</td>
</tr>
<tr>
<td>Release of surplus obligations</td>
<td>19,065</td>
<td>–</td>
</tr>
<tr>
<td>Increase/(decrease) in equity</td>
<td>62,054</td>
<td>3,024</td>
</tr>
<tr>
<td>Year ended 31 December 2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligation recognised</td>
<td>(171,187)</td>
<td>–</td>
</tr>
<tr>
<td>Decrease in equity</td>
<td>(171,187)</td>
<td>–</td>
</tr>
<tr>
<td>Year ended 31 December 2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligation recognised</td>
<td>(170,243)</td>
<td>–</td>
</tr>
<tr>
<td>Settlements</td>
<td>254,576</td>
<td>(4,431)</td>
</tr>
<tr>
<td>Transaction costs</td>
<td>1,342</td>
<td>–</td>
</tr>
<tr>
<td>Release of surplus obligations</td>
<td>83,530</td>
<td>–</td>
</tr>
<tr>
<td>Increase/(decrease) in equity</td>
<td>169,005</td>
<td>(4,431)</td>
</tr>
</tbody>
</table>

30. Non-controlling interests

Non-controlling interests related to Dyna Image Corporation ("Dyna Image"). As explained in note 5, Dyna Image was formerly accounted for as a subsidiary but was deconsolidated with effect from 31 December 2017.

In January 2017, the Group’s ownership interest in Dyna Image increased from 45.7% to 48.5% and there was a corresponding decrease from 54.7% to 51.5% in the ownership interests held by non-controlling interests.

Summarised financial information about Dyna Image before it ceased to be a subsidiary is presented below:

<table>
<thead>
<tr>
<th></th>
<th>2019 US$000</th>
<th>2018 US$000</th>
<th>2017 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary comprehensive loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>–</td>
<td>–</td>
<td>5,474</td>
</tr>
<tr>
<td>Expenses</td>
<td>–</td>
<td>–</td>
<td>(173,911)</td>
</tr>
<tr>
<td>Loss for the year</td>
<td>–</td>
<td>–</td>
<td>(12,539)</td>
</tr>
<tr>
<td>Loss attributable to owners of the Company</td>
<td>–</td>
<td>–</td>
<td>(7,934)</td>
</tr>
<tr>
<td>Loss attributable to the non-controlling interests</td>
<td>–</td>
<td>–</td>
<td>(4,605)</td>
</tr>
<tr>
<td>Loss for the year</td>
<td>–</td>
<td>–</td>
<td>(12,539)</td>
</tr>
<tr>
<td>Other comprehensive loss attributable to owners of the Company</td>
<td>–</td>
<td>–</td>
<td>(11)</td>
</tr>
<tr>
<td>Other comprehensive loss attributable to the non-controlling interests</td>
<td>–</td>
<td>–</td>
<td>(7)</td>
</tr>
<tr>
<td>Other comprehensive loss for the year</td>
<td>–</td>
<td>–</td>
<td>(14)</td>
</tr>
<tr>
<td>Total comprehensive loss attributable to owners of the Company</td>
<td>–</td>
<td>–</td>
<td>(7,945)</td>
</tr>
<tr>
<td>Total comprehensive loss attributable to the non-controlling interests</td>
<td>–</td>
<td>–</td>
<td>(4,612)</td>
</tr>
<tr>
<td>Total comprehensive loss for the year</td>
<td>–</td>
<td>–</td>
<td>(12,557)</td>
</tr>
<tr>
<td>Summary of cash flows</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow used for operating activities</td>
<td>–</td>
<td>–</td>
<td>(4,769)</td>
</tr>
<tr>
<td>Cash flow used for investing activities</td>
<td>–</td>
<td>–</td>
<td>(67)</td>
</tr>
<tr>
<td>Cash flow from financing activities</td>
<td>–</td>
<td>–</td>
<td>(3,000)</td>
</tr>
<tr>
<td>Net decrease in cash and cash equivalents</td>
<td>–</td>
<td>–</td>
<td>(1,818)</td>
</tr>
</tbody>
</table>

31. Share-based compensation

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

a) Plans without performance conditions

Stock Option Plan

Shareholders approved the Stock Option Plan ("SOP") at the Company’s 1998 AGM.

Options granted under the SOP before 31 October 2006 vested over periods of one or five years from the grant date provided the participant remained in employment by the Group at the vesting date and, if unexercised, expired on the tenth anniversary of the grant date.

Options granted after 31 October 2006 vest monthly over four years provided the participant remains in employment by the Group at the vesting date but may not be exercised until the first anniversary of the grant date and, if unexercised, expire on the seventh anniversary of the grant date.

Unless otherwise determined by the Remuneration Committee, options granted under the SOP have an exercise price not less than the market price of the Company’s ordinary shares on the grant date.

Employee Share Plan

Shareholders approved the Employee Share Plan ("ESP") at the Company’s 2013 AGM. The ESP operates alongside the SOP.

Options granted under the ESP vest over a three-year period with one third of each award vesting on the first, second and third anniversary of the grant date provided the participant remains in employment by the Group at the vesting date and, if unexercised, expire on the seventh anniversary of the grant date.

Options granted under the ESP have a nominal exercise price.

Fair value of awards

The fair value of options granted under the ESP was measured using the Black-Scholes option pricing model. The weighted average fair value of options granted during the years ended 31 December 2019, 2018 and 2017 and the principal assumptions made in measuring those fair values were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Grant in 2019</th>
<th>Grant in 2018</th>
<th>Grant in 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average fair value</td>
<td>€41.63</td>
<td>€21.09</td>
<td>€33.37</td>
</tr>
<tr>
<td>Principal assumptions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share price on grant date</td>
<td>€41.71</td>
<td>€32.98</td>
<td>€33.40</td>
</tr>
<tr>
<td>Exercise price</td>
<td>€0.11</td>
<td>€0.10</td>
<td>€0.10</td>
</tr>
<tr>
<td>Expected volatility of the Company’s shares</td>
<td>45%</td>
<td>44%</td>
<td>42%</td>
</tr>
<tr>
<td>Expected option life</td>
<td>3 – 6 years</td>
<td>3 – 6 years</td>
<td>3 – 6 years</td>
</tr>
<tr>
<td>Dividend yield on the Company’s shares</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>(0.5)%</td>
<td>(0.2)%</td>
<td>(0.2)%</td>
</tr>
</tbody>
</table>

Expected volatility was determined based on the historical volatility of the market price of the Company’s ordinary shares over the expected life of the options.
31. Share-based compensation continued

b) Performance-based plans

Executive Incentive Plan
Shareholders approved the Executive Incentive Plan ("EIP") at the Company’s 2010 AGM. Awards under the EIP vested three years from the grant date provided certain performance conditions were satisfied and the participant remained in employment by the Group at the end of the vesting period.

a) Share price increase
One quarter of each award accrued in equal annual installments on the anniversary of grant date provided the market price of the Company’s ordinary shares on the relevant anniversary date exceeded the higher of the market price of the shares on the grant date and on any preceding anniversary date.

b) Share price increase
Awards that had accrued vested and became exercisable on the third anniversary of the grant date.

c) Performance-based plans

Group performance conditions
Up to three-eighths of each award vested depending upon the compound annual growth of the Group’s revenue over the three-year performance period. Up to three-eighths of each award vested depending on the compound annual growth of the Group’s EBIT (operating profit) over the three-year performance period. Even if the revenue and EBIT targets were met, however, the number of awards that vested was reduced by up to 20% if customer diversification targets were not also met.

The EIP expired for the purpose of new awards in May 2015.

Long-Term Incentive Plan
Shareholders approved the Long-Term Incentive Plan ("LTIP") at the Company’s 2015 AGM. The LTIP replaced the EIP: All employees are eligible to participate in the plan but in practice awards will be targeted at the Executive Director level and others in senior roles. Awards granted under the LTIP take the form of either a nil or nominal cost share option, a conditional share award, a market price share option or, in jurisdictions where it is not feasible to deliver shares to employees, a cash-settled award linked to the market value of the Company’s shares.

Awards under the LTIP generally vest three years from the grant date provided certain performance conditions are satisfied and the participant remains in employment by the Group at the end of the vesting period.

a) Total shareholder return ("TSR")
Up to one third of each award vests depending on the TSR on the Company’s ordinary shares relative to the TSR of the constituents of the S&P 1500 Select Semiconductor Index over the three-year performance period. If the TSR on the Company’s ordinary shares is negative over the vesting period, vesting is capped at one half of this element of the award irrespective of whether the TSR on the Company’s ordinary shares has exceeded the TSR of the constituents of the S&P 1500 Select Semiconductor Index.

b) Performance Conditions
Up to one half of each award vests depending upon the Group’s revenue in each year of the three-year performance period. Up to one half of each award vests depending on the Group’s underlying operating margin in each year of the three-year performance period.

Notwithstanding the performance conditions, the Remuneration Committee may apply a downward adjustment to the number of awards of each award vests depending on the Group’s underlying operating margin in each year of the three-year performance period. Up to one third of each award vests depending on the TSR on the Company’s ordinary shares relative to the TSR of the constituents of the S&P 1500 Select Semiconductor Index over the three-year performance period.

If the TSR on the Company’s ordinary shares is negative over the three-year performance period, vesting is capped at one half of this element of the award irrespective of whether the TSR on the Company’s ordinary shares.

Fair value of awards
The fair value of awards made under the EIP and the LTIP was measured using a variant of the Monte Carlo valuation model. The weighted average fair value of options granted during the years ended 31 December 2019, 2018 and 2017 and the principal assumptions made in measuring those fair values were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Weighted average fair value</th>
<th>Principal assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$24.56</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>$23.33</td>
<td>$44.86</td>
</tr>
</tbody>
</table>

- Share price increase (0.3)%
- Exercise price (0.3)
- Expected volatility of the Company’s shares 45% (0.3)
- Dividend yield on the Company’s shares 0% (0.3)
- Risk-free interest rate 0.5% (0.3)

Expected volatility was determined based on the historical volatility of the market price of the Company’s ordinary shares over the expected life of the awards.

Notes to the consolidated financial statements continued

31. Share-based compensation continued

c) Share options

Movements in the total number of share options outstanding during the years ended 31 December 2019 and 2018 were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Options outstanding</th>
<th>Weighted average remaining contractual life (in years)</th>
<th>Weighted average exercise price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>4,342,689</td>
<td>0.13</td>
<td>5,472,635</td>
</tr>
<tr>
<td>2018</td>
<td>5,304,024</td>
<td>0.13</td>
<td>4,342,689</td>
</tr>
</tbody>
</table>

When share options were exercised during 2019, the weighted average of the Company’s share price was €36.97 (2018: €32.71).

The weighted average contractual life and exercise price of share options outstanding as at 31 December 2019 and 2018 were as follows:

<table>
<thead>
<tr>
<th>Range of exercise prices</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5.00 – 8.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$8.00 – 16.85</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$16.85 – 25.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$25.00 – 33.85</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

d) Dialog shares held by employee benefit trusts
The Company provides finance to two trusts to purchase its ordinary shares in order to meet its obligations under its share-based compensation plans. As at 31 December 2019, the trusts held 804,712 ordinary shares (2018: 2,607,259 ordinary shares).

Movements in the number of shares held by the trusts during the years ended 31 December 2019 and 2018 were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of shares</th>
<th>Cost</th>
<th>Number of shares</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>804,712</td>
<td>22,133</td>
<td>2,607,259</td>
<td>902</td>
</tr>
<tr>
<td>2018</td>
<td>2,607,259</td>
<td>902</td>
<td>804,712</td>
<td>22,133</td>
</tr>
</tbody>
</table>
## 32. Commitments

### Software licence commitments

Future minimum payments under software licences were as follows:

<table>
<thead>
<tr>
<th>Period</th>
<th>2019 US$000</th>
<th>2018 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>20,761</td>
<td>20,016</td>
</tr>
<tr>
<td>Between one and two years</td>
<td>6,018</td>
<td>15,158</td>
</tr>
<tr>
<td>Between two and three years</td>
<td>3,299</td>
<td>3,902</td>
</tr>
<tr>
<td>Between three and four years</td>
<td>73</td>
<td>2,562</td>
</tr>
<tr>
<td>Between four and five years</td>
<td>16</td>
<td>75</td>
</tr>
<tr>
<td>Total minimum payments</td>
<td>30,166</td>
<td>47,301</td>
</tr>
</tbody>
</table>


### Capital commitments

As at 31 December 2019, the Group has contractual commitments for the acquisition of property, plant and equipment of US$3,863 (2018: US$3,863) and for the acquisition of intangible assets of US$1,538 (2018: US$1,289).

## 33. Additional disclosures on financial instruments

### Analysis by class and category

In the following table, the carrying amounts of the financial assets and financial liabilities held by the Group as at 31 December 2019 and 2018 are analysed by class and category:

<table>
<thead>
<tr>
<th>As at 31 December 2019</th>
<th>Amortised cost US$000</th>
<th>At fair value through profit or loss US$000</th>
<th>At fair value in designated hedges US$000</th>
<th>At fair value through other comprehensive income US$000</th>
<th>Net book value US$000</th>
<th>Fair value US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,024,544</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,024,544</td>
<td>1,024,544</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>134,079</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>134,079</td>
<td>134,079</td>
</tr>
<tr>
<td>Energous shares</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10,073</td>
</tr>
<tr>
<td>Energous warrants</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,465</td>
</tr>
<tr>
<td>Other investments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,465</td>
</tr>
<tr>
<td>Other receivables</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Diamond derivatives</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,324</td>
</tr>
<tr>
<td>Rental and other debts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total financial assets</td>
<td>1,160,625</td>
<td>31</td>
<td>1,056</td>
<td>3,079</td>
<td>1,164,991</td>
<td></td>
</tr>
<tr>
<td><strong>Financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(104,620)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(104,620)</td>
<td>(104,620)</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>(43,044)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(43,044)</td>
<td>(45,926)</td>
</tr>
<tr>
<td>Prepayment from Apple</td>
<td>(194,467)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(194,467)</td>
<td>(196,278)</td>
</tr>
<tr>
<td>Banks loans</td>
<td>(1,816)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,816)</td>
<td>(1,816)</td>
</tr>
<tr>
<td>Currency derivatives</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,324)</td>
</tr>
<tr>
<td>Deferred consideration</td>
<td>(1,065)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,065)</td>
<td>(1,065)</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>(6,666)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(6,666)</td>
<td>(6,666)</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>(197,346)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(205,336)</td>
<td></td>
</tr>
<tr>
<td>Total financial liabilities</td>
<td>(345,010)</td>
<td>(6,666)</td>
<td>(1,324)</td>
<td>-</td>
<td>(353,000)</td>
<td></td>
</tr>
</tbody>
</table>

Currency derivatives that are not in designated hedging relationships were held to hedge the currency translation exposure on the Euro-denominated share buyback liability (note 29).

### Additional disclosures on financial instruments

#### Analysis by class and category

<table>
<thead>
<tr>
<th>As at 31 December 2018</th>
<th>Amortised cost US$000</th>
<th>At fair value through profit or loss US$000</th>
<th>At fair value in designated hedges US$000</th>
<th>At fair value through other comprehensive income US$000</th>
<th>Net book value US$000</th>
<th>Fair value US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>677,848</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>677,848</td>
<td>677,848</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>114,514</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>114,514</td>
<td>114,514</td>
</tr>
<tr>
<td>Energous shares</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10,073</td>
<td>10,073</td>
</tr>
<tr>
<td>Energous warrants</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,465</td>
<td>1,465</td>
<td></td>
</tr>
<tr>
<td>Other investments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other receivables</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total financial assets</td>
<td>794,163</td>
<td>1,465</td>
<td>102,073</td>
<td>31</td>
<td>805,909</td>
<td></td>
</tr>
<tr>
<td><strong>Financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(122,149)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(122,149)</td>
<td>(122,149)</td>
</tr>
<tr>
<td>Share buyback obligation</td>
<td>(71,703)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(71,703)</td>
<td>(71,703)</td>
</tr>
<tr>
<td>Deferred consideration</td>
<td>(3,173)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(3,173)</td>
<td>(3,173)</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>(6,666)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(6,666)</td>
<td>(6,666)</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>(174,936)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(197,731)</td>
<td></td>
</tr>
<tr>
<td>Total financial liabilities</td>
<td>(297,076)</td>
<td>(6,666)</td>
<td>(6,060)</td>
<td>-</td>
<td>(319,782)</td>
<td></td>
</tr>
</tbody>
</table>

#### Fair value measurement

**a) Financial instruments carried at fair value**

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

Details of our investment in the Energous shares and warrants are set out in note 19. We measured the fair value of these financial assets 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; and
- Energous warrants – measured using a Black-Scholes valuation model based on the quoted bid price of Energous’ common shares and other inputs such as implied share price volatility that is modelled based on historical price data for Energous’ common shares.

Fair value of currency derivatives represents 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.

Contingent consideration in respect of the recent acquisitions depends on the achievement of revenue targets. At the end of 2019, we measured the fair value of the contingent consideration payable for Creative Chips based on the expected value of a range of possible Creative Chips’ reserves for 2020 and 2021. At the end of 2018, we measured the fair value of the contingent consideration payable for Silego based on Silego’s actual revenues for 2017 and 2018.

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); and
- Level 3 – Unobservable inputs, such as those derived from internal models or using other valuation methods.
Notes to the consolidated financial statements continued

33. Additional disclosures on financial instruments continued

Fair value measurement continued

<table>
<thead>
<tr>
<th>Financial assets carried at fair value</th>
<th>As at 31 December 2019</th>
<th>As at 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
</tr>
<tr>
<td>Investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Energous shares</td>
<td>3,079</td>
<td>–</td>
</tr>
<tr>
<td>Derivative financial instruments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Currency derivatives</td>
<td>–</td>
<td>1,056</td>
</tr>
<tr>
<td>– Energous warrants</td>
<td>–</td>
<td>31</td>
</tr>
<tr>
<td>Total financial assets carried at fair value</td>
<td>3,079</td>
<td>1,056</td>
</tr>
<tr>
<td>Financial liabilities carried at fair value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative financial instruments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Currency derivatives</td>
<td>– (1,324)</td>
<td>– (1,324)</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>– – (6,666)</td>
<td>– (6,666)</td>
</tr>
<tr>
<td>Total financial liabilities carried at fair value</td>
<td>– (1,324)</td>
<td>– (6,666)</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$000</td>
<td>US$000</td>
<td>US$000</td>
<td>US$000</td>
</tr>
<tr>
<td>Total financial assets carried at fair value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the beginning of the year</td>
<td>1,465</td>
<td>12,318</td>
<td>6,766</td>
</tr>
<tr>
<td>Additions</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>– Energous warrants</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Unrealised fair value (loss)/gain recognised in profit or loss (other finance (expense)/income)</td>
<td>(4,753)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Energous warrants</td>
<td>(1,434)</td>
<td>(10,853)</td>
<td>941</td>
</tr>
<tr>
<td>– Dyna Image call option</td>
<td>–</td>
<td>–</td>
<td>(142)</td>
</tr>
<tr>
<td>At the end of the year</td>
<td>31</td>
<td>1,465</td>
<td>12,318</td>
</tr>
<tr>
<td>Total financial liabilities carried at fair value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the beginning of the year</td>
<td>(16,414)</td>
<td>(23,709)</td>
<td></td>
</tr>
<tr>
<td>Contingent consideration:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Additions</td>
<td>(6,917)</td>
<td>(650)</td>
<td>(23,272)</td>
</tr>
<tr>
<td>– Change in estimate (other operating income)</td>
<td>–</td>
<td>–</td>
<td>956</td>
</tr>
<tr>
<td>– Unwinding of discount recognised in profit or loss (interest expense)</td>
<td>(464)</td>
<td>(2,235)</td>
<td>(639)</td>
</tr>
<tr>
<td>– Settlement</td>
<td>16,729</td>
<td>9,360</td>
<td></td>
</tr>
<tr>
<td>At the end of the year</td>
<td>(6,666)</td>
<td>(16,414)</td>
<td>(23,709)</td>
</tr>
</tbody>
</table>

We estimate that if the expected values of Creative Chips’ revenues for 2020 and 2021 had been 10% higher or 10% lower, the fair value of the contingent consideration payable for Creative Chips at the end of 2019 would have been US$5,111 higher at US$11,777 or US$5,781 lower at US$5,781.

We have calculated the fair value of lease liabilities by discounting the future lease payments at the relevant lessee’s incremental borrowing rate upon the observable yield curve at the balance sheet date for US dollar-denominated debt with an equivalent risk profile (Level 2).

b) Financial instruments not carried at fair value

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

We have calculated the fair value of lease liabilities by discounting the future lease payments at the relevant lessee’s incremental borrowing rate based on observable yield curves at the balance sheet date (Level 2).

We have calculated the fair value of the bank loans acquired with Creative Chips by discounting the future principal repayments based on the observable yield curve at the balance sheet date for Euro-denominated debt with an equivalent risk profile (Level 2).

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

34. Financial risk management

Background

The Group’s central treasury function is responsible for ensuring that adequate funding is available to meet the Group’s requirements and for maintaining an efficient capital structure, together with managing the Group’s counterparty credit risk, foreign currency and interest rate exposures. All treasury operations are conducted within strict policies and guidelines that are approved by the Board.

We use currency derivatives to manage currency risk and we hold certain equity options and warrants for strategic reasons. We do not hold or issue derivative financial instruments for speculative purposes.

Credit risk

Credit risk is the risk that a customer or a counterparty financial institution fails to meet its contractual obligations as they fall due causing the Group to incur a financial loss. The Group is exposed to credit risk in relation to receivables from its customers and cash and cash equivalents and other financial assets held with financial institutions.

Before accepting a new customer, we assess the potential customer’s credit quality and establish a credit limit. Credit quality is assessed using data maintained by reputable credit agencies, by checking references included in credit applications, and, where they are available, by reviewing the customer’s recent financial statements. Credit limits are subject to multiple levels of authorisation and are reviewed on a regular basis. We make an allowance for lifetime expected credit losses on receivables that is regularly reviewed and, if necessary, adjusted on the basis of current information about the customer’s creditworthiness.


We utilise non-recourse receivables financing facilities provided by two financial institutions in an aggregate amount of US$240 million. In July 2019, the principal facility of US$220 million was extended for a further two years and will now mature on 31 October 2021.

Receivables sold under these facilities are derecognised from the Group’s balance sheet because the financial institutions concerned assume all credit risk associated with them. When a receivable is sold, the Group is credited with the majority of the invoice amount with the balance credited on the earlier of the date on which the customer pays the amount due or 120 days after the receivable becomes due for payment.


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

Market risk

Market risk is the risk that the fair value of, or cash flows associated with, a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk (due to changes in currency exchange rates), interest rate risk (due to changes in market interest rates) and other price risk.

a) Currency risk

The US dollar is the functional currency of the Company and its principal subsidiaries. Currency risk arises on transactions that are denominated in a currency other than the functional currency of the entity that enters into them. Nearly all of the Group’s sales and cost of materials are denominated in US dollars but certain operating expenses and tax cash flows are denominated in currencies other than the US dollar, in particular the Euro and the pound sterling. It is the Group’s policy to hedge a proportion of the currency risk associated with highly probable forecast cash flows on a rolling 12-month basis. As the timing of the forecast cash flows draws nearer, the proportion of the currency risk that is hedged increases within set parameters.

Where possible, forward currency contracts that are entered into hedge forecast cash flows are designated as hedging instruments in cash flow hedge relationships. During 2019, a loss of US$3,941 (2018: a loss of US$10,075; 2017: gain of US$16,433), was recognised in other comprehensive income representing the change in the fair value of currency derivatives in effective hedging relationships and a cumulative loss of US$9,549 (2018: gain of US$2,343; 2017: gain of US$441) was reclassified to profit or loss on the occurrence of the hedged cash flows.
Notes to the consolidated financial statements continued

34. Financial risk management continued

Market risk continued

Currency derivatives held to hedge forecast cash outflows were as follows:

<table>
<thead>
<tr>
<th>Maturity</th>
<th>As at 31 December 2019</th>
<th>Weighted average exchange rate US$ =</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Euro 000</td>
<td>Pound sterling 000</td>
</tr>
<tr>
<td>0 – 3 months</td>
<td>28,250</td>
<td>13,500</td>
</tr>
<tr>
<td>4 – 6 months</td>
<td>21,250</td>
<td>13,250</td>
</tr>
<tr>
<td>7 – 9 months</td>
<td>20,250</td>
<td>7,250</td>
</tr>
<tr>
<td>10 – 12 months</td>
<td>10,500</td>
<td>1,750</td>
</tr>
<tr>
<td>Total</td>
<td>80,250</td>
<td>35,750</td>
</tr>
<tr>
<td>Weighted average exchange rate US$ =</td>
<td>0.87</td>
<td>0.76</td>
</tr>
</tbody>
</table>

34. Financial risk management continued

Market risk continued

During 2019 and 2018, we used forward currency contracts and currency swaps to hedge the translation exposure on the Euro-denominated liabilities that arise in relation to tranches of the Company’s share buyback programmes. At the end of 2019, there were no outstanding contracts. At the end of 2018, we held outstanding contracts to purchase £150.0 million at an average rate of US$1 = €0.84 as a hedge of the maximum obligation that was outstanding in relation to an uncompleted tranche of share purchases.

After taking into account currency hedging activities, the currency profile of the Group’s net financial assets/(liabilities) was as follows:

<table>
<thead>
<tr>
<th>Maturity</th>
<th>As at 31 December 2019</th>
<th>As at 31 December 2018</th>
<th>Weighted average exchange rate US$ =</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Euro 000</td>
<td>Pound sterling 000</td>
<td>Japanese Yen 000</td>
</tr>
<tr>
<td>0 – 3 months</td>
<td>832,092</td>
<td>482,532</td>
<td>7,420</td>
</tr>
<tr>
<td>4 – 6 months</td>
<td>(10,364)</td>
<td>6,424</td>
<td></td>
</tr>
<tr>
<td>7 – 9 months</td>
<td>7,918</td>
<td>7,420</td>
<td></td>
</tr>
<tr>
<td>10 – 12 months</td>
<td>405</td>
<td>768</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>811,991</td>
<td>496,025</td>
<td></td>
</tr>
</tbody>
</table>

If the US dollar was to depreciate or appreciate by 10% against each of the foreign currencies in respect of which there were effective forward currency contracts, the US dollar was to depreciate or appreciate by 10% against each of the foreign currencies in respect of which there were effective forward currency contracts, there would be an exchange gain of US$2,093 (2018: loss of US$2,093) or an exchange loss of US$2,093 (2018: gain of US$2,093), respectively, recognised in arriving at the Group’s profit before tax.

Currency translation risk also arises on consolidation in relation to the translation into US dollars of net investments in foreign operations but the exposure is not significant because the US dollar is the functional currency of the Company and each of its principal subsidiaries.

b) Interest risk

The interest rate profile of the Group’s financial assets and liabilities was as follows:

<table>
<thead>
<tr>
<th>Maturity</th>
<th>As at 31 December 2019</th>
<th>As at 31 December 2018</th>
<th>Weighted average exchange rate US$ =</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Euro 000</td>
<td>Pound sterling 000</td>
<td>Japanese Yen 000</td>
</tr>
<tr>
<td>0 – 3 months</td>
<td>832,092</td>
<td>482,532</td>
<td>7,420</td>
</tr>
<tr>
<td>4 – 6 months</td>
<td>(10,364)</td>
<td>6,424</td>
<td></td>
</tr>
<tr>
<td>7 – 9 months</td>
<td>7,918</td>
<td>7,420</td>
<td></td>
</tr>
<tr>
<td>10 – 12 months</td>
<td>405</td>
<td>768</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>811,991</td>
<td>496,025</td>
<td></td>
</tr>
</tbody>
</table>

During 2019, the following amounts were recognised in profit or loss in relation to forward currency contracts in cash flow hedge relationships:

<table>
<thead>
<tr>
<th>Year</th>
<th>2019 US$000</th>
<th>2018 US$000</th>
<th>2017 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain/(loss) reclassified from hedging reserve</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedged item affected profit or loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Cost of sales</td>
<td>(876)</td>
<td>436</td>
<td>77</td>
</tr>
<tr>
<td>– Selling and marketing expenses</td>
<td>(290)</td>
<td>47</td>
<td>6</td>
</tr>
<tr>
<td>– General and administrative expenses</td>
<td>(1,191)</td>
<td>96</td>
<td>96</td>
</tr>
<tr>
<td>– Research and development expenses</td>
<td>(5,352)</td>
<td>1,422</td>
<td>124</td>
</tr>
<tr>
<td>– Income tax expense</td>
<td>(2,040)</td>
<td>342</td>
<td>743</td>
</tr>
<tr>
<td>Cash flow no longer expected to occur</td>
<td>–</td>
<td>–</td>
<td>(29)</td>
</tr>
<tr>
<td>– Other finance expense</td>
<td>(6,949)</td>
<td>2,243</td>
<td>441</td>
</tr>
<tr>
<td>Hedge ineffectiveness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other finance income/(expenses)</td>
<td>1</td>
<td>(18)</td>
<td>24</td>
</tr>
</tbody>
</table>

During the year, the following amounts were recognised in profit or loss in relation to forward currency contracts in cash flow hedge relationships:

<table>
<thead>
<tr>
<th>Year</th>
<th>2019 US$000</th>
<th>2018 US$000</th>
<th>2017 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain/(loss) reclassified from hedging reserve</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedged item affected profit or loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Cost of sales</td>
<td>(876)</td>
<td>436</td>
<td>77</td>
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<td>47</td>
<td>6</td>
</tr>
<tr>
<td>– General and administrative expenses</td>
<td>(1,191)</td>
<td>96</td>
<td>96</td>
</tr>
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<td>124</td>
</tr>
<tr>
<td>– Income tax expense</td>
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<td>342</td>
<td>743</td>
</tr>
<tr>
<td>Cash flow no longer expected to occur</td>
<td>–</td>
<td>–</td>
<td>(29)</td>
</tr>
<tr>
<td>– Other finance expense</td>
<td>(6,949)</td>
<td>2,243</td>
<td>441</td>
</tr>
</tbody>
</table>

Hedge ineffectiveness was determined as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>2019 US$000</th>
<th>2018 US$000</th>
<th>2017 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in fair value of designated hedging instruments</td>
<td>5,609</td>
<td>(12,431)</td>
<td>16,006</td>
</tr>
<tr>
<td>Change in value of hedged item used to determine hedge ineffectiveness</td>
<td>(5,609)</td>
<td>12,418</td>
<td>(15,006)</td>
</tr>
<tr>
<td>Hedge ineffectiveness recognised in profit or loss</td>
<td>1</td>
<td>(18)</td>
<td>24</td>
</tr>
</tbody>
</table>

If the US dollar was to depreciate or appreciate by 10% against each of the foreign currencies in respect of which there were effective forward currency contracts, the US dollar was to depreciate or appreciate by 10% against each of the foreign currencies in respect of which there were effective forward currency contracts, there would be an exchange gain of US$2,093 (2018: loss of US$2,093) or an exchange loss of US$2,093 (2018: gain of US$2,093), respectively, recognised in arriving at the Group’s profit before tax.

Currency translation risk also arises on consolidation in relation to the translation into US dollars of net investments in foreign operations but the exposure is not significant because the US dollar is the functional currency of the Company and each of its principal subsidiaries.

b) Interest risk

The interest rate profile of the Group’s financial assets and liabilities was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>2019 US$000</th>
<th>2018 US$000</th>
<th>2017 US$000</th>
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<tbody>
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<td>77</td>
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<td>–</td>
<td>(29)</td>
</tr>
<tr>
<td>– Other finance expense</td>
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<td>2,243</td>
<td>441</td>
</tr>
<tr>
<td>Hedge ineffectiveness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other finance income/(expenses)</td>
<td>1</td>
<td>(18)</td>
<td>24</td>
</tr>
</tbody>
</table>

During the year, the following amounts were recognised in profit or loss in relation to forward currency contracts in cash flow hedge relationships:

<table>
<thead>
<tr>
<th>Year</th>
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Currency translation risk also arises on consolidation in relation to the translation into US dollars of net investments in foreign operations but the exposure is not significant because the US dollar is the functional currency of the Company and each of its principal subsidiaries.
### 34. Financial risk management continued

#### Market risk continued

The Group’s principal exposure to interest rate risk is in relation to interest income on investments in money market funds and short-term deposits, which attracts USD interest rates. When applied to the Group’s floating interest rate exposures as at 31 December 2019, an increase or decrease of 50 basis points in market interest rates would increase or decrease the Group’s profit before tax by US$4,705 (2018: US$2,870), respectively.

c) Other price risk

In November 2016 and July 2017, the Company subscribed for common shares and was granted warrants to purchase common shares in Enervous Corporation (“Enervous”). Enervous’ common shares are listed on NASDAQ. At the end of 2019, the fair value of the shares held was US$3,079 and the fair value of the warrants was US$301. Changes in the fair value of the shares are recognised in other comprehensive income and changes in the fair value of the warrants are recognised in profit or loss.

Assuming all other factors remain constant, the effect of a 10% increase in Enervous’ share price as at 31 December 2019 would be to increase the Group’s profit before tax by US$59 (2018: US$341) and other comprehensive income by US$2,099 (2018: US$7,070).

#### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities.

We regularly monitor cash flows at both Group and entity level. As at 31 December 2019, cash and cash equivalents amounted to US$1,024,544 (2018: US$677,848).

In July 2017, the Company and certain of its subsidiaries, as guarantors, entered into a US$150 million three-year revolving credit facility with four financial institutions. The facility is committed and is available for general corporate purposes. In June 2018, the facility was extended from July 2020 to July 2022 with no reduction in the amount of the facility.

#### Capital management

The Group’s capital is represented by its total equity. As at 31 December 2019, the Group’s total equity was US$1,572,584 (2018: US$1,202,007).

We seek to maintain a capital structure that supports the ongoing activities of our business and its strategic objectives in order to deliver long-term returns to shareholders. We allocate capital to support organic and inorganic growth, investing to support research and development and our product pipeline. We will fund our growth strategy using a mix of equity and debt after giving consideration to prevailing market conditions.

In May 2016, we initiated a share buyback programme as part of our strategy to deliver shareholder returns. Since then, we have returned €393.7 million (US$435,100) to shareholders through five tranches of the programme. We will seek renewal of the share buyback authority at the Company’s 2020 AGM and will consider initiating further tranches of share purchases in the context of our regular assessment of the Group’s future growth opportunities and its strategic objectives.

#### 35. Segment and geographic information

**a) Analysis by reporting segment**

Segment information is presented in the financial statements on a basic 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. Members of the Management Team are identified on pages 92 and 93.

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

Organisational and measurement changes

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

The following organisational changes were made:

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

We subsequently acquired Creative Chips and designated it as our new Industrial Mixed Signal business unit within Custom Mixed Signal.

The Group now has three reporting segments: Custom Mixed Signal, Advanced Mixed Signal, and Connectivity & Audio:

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

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

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

Comparative information for 2018 and 2017 has been restated to reflect these organisational and measurement changes.

### Financial statements

#### Notes to the consolidated financial statements continued
Notes to the consolidated financial statements continued

35. Segment and geographic information continued

a) Analysis by reporting segment continued

Segment revenue and profit or loss

Underlying performance measures exclude specific items of income or expense that are recognised in profit or loss reported in accordance with IFRS that we consider hinder comparison of the performance of our businesses from one period to another, with each other or with other similar businesses. Details of the items excluded from profit or loss reported under IFRS in arriving at the Group’s underlying profit or loss for each of the periods presented are set out in the section entitled “Financial performance measures” on pages 183 to 189.

Segment revenue and operating profit/(loss) were as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom Mixed Signal</td>
<td>964,758</td>
<td>1,042,320</td>
<td>1,059,603</td>
<td>281,941</td>
<td>267,569</td>
<td>296,298</td>
</tr>
<tr>
<td>Advanced Mixed Signal</td>
<td>253,415</td>
<td>244,036</td>
<td>147,603</td>
<td>15,209</td>
<td>26,704</td>
<td>1,329</td>
</tr>
<tr>
<td>Connectivity &amp; Audio</td>
<td>183,781</td>
<td>154,004</td>
<td>137,834</td>
<td>21,607</td>
<td>13,036</td>
<td>9,782</td>
</tr>
<tr>
<td>Total segments</td>
<td>1,401,984</td>
<td>1,442,138</td>
<td>1,352,841</td>
<td>324,349</td>
<td>304,650</td>
<td>299,658</td>
</tr>
<tr>
<td>Corporate and other unallocated items</td>
<td>196,193</td>
<td>194,803</td>
<td>878</td>
<td>878</td>
<td>926</td>
<td>926</td>
</tr>
<tr>
<td>Total Group</td>
<td>1,278,791</td>
<td>1,258,035</td>
<td>1,254,763</td>
<td>318,784</td>
<td>290,884</td>
<td>290,732</td>
</tr>
</tbody>
</table>

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

Reconciliation of underlying revenue to revenue reported under IFRS

<table>
<thead>
<tr>
<th>Segment</th>
<th>2019 Restated</th>
<th>2018 Restated</th>
<th>2017 Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying revenue</td>
<td>1,420,489</td>
<td>1,442,138</td>
<td>1,352,841</td>
</tr>
<tr>
<td>Perpetual licence fee</td>
<td>145,750</td>
<td>145,750</td>
<td>145,750</td>
</tr>
<tr>
<td>Revenue reported under IFRS</td>
<td>1,566,239</td>
<td>1,587,888</td>
<td>1,498,591</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Segment</th>
<th>2019 Restated</th>
<th>2018 Restated</th>
<th>2017 Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>324,349</td>
<td>304,650</td>
<td>299,658</td>
</tr>
<tr>
<td>Licence and asset transfers to Apple:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Perpetual licence fee</td>
<td>145,750</td>
<td>145,750</td>
<td>145,750</td>
</tr>
<tr>
<td>- Gain on transfer of design centre businesses</td>
<td>16,898</td>
<td>16,898</td>
<td>16,898</td>
</tr>
<tr>
<td>- Share-based compensation and related expenses</td>
<td>(54,656)</td>
<td>(65,165)</td>
<td>(65,498)</td>
</tr>
<tr>
<td>Accounting for business combinations:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Acquisition related costs</td>
<td>(4,040)</td>
<td>(4,539)</td>
<td>(4,327)</td>
</tr>
<tr>
<td>- Amortisation of acquired intangible assets</td>
<td>(26,113)</td>
<td>(22,629)</td>
<td>(16,461)</td>
</tr>
<tr>
<td>- Consumption of the fair value uplift of acquired inventory</td>
<td>(1,749)</td>
<td>(3,123)</td>
<td>(2,305)</td>
</tr>
<tr>
<td>- Consideration accounted for as compensation expense</td>
<td>(1,204)</td>
<td>(1,481)</td>
<td>(1,409)</td>
</tr>
<tr>
<td>- Fortuitous deferred consideration</td>
<td>116</td>
<td>204</td>
<td>204</td>
</tr>
<tr>
<td>- Re-measurement of contingent consideration</td>
<td>-</td>
<td>878</td>
<td>878</td>
</tr>
<tr>
<td>Integration costs</td>
<td>(2,434)</td>
<td>(2,765)</td>
<td>(2,305)</td>
</tr>
<tr>
<td>Corporate transaction costs</td>
<td>(16,064)</td>
<td>(11,346)</td>
<td>(11,346)</td>
</tr>
<tr>
<td>Strategic investments:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Impairment of non-current assets held by Dyna Image</td>
<td>-</td>
<td>-</td>
<td>(4,327)</td>
</tr>
<tr>
<td>- Loss on deconsolidation of Dyna Image</td>
<td>-</td>
<td>-</td>
<td>(5,591)</td>
</tr>
<tr>
<td>Operating profit reported under IFRS</td>
<td>379,853</td>
<td>360,986</td>
<td>362,017</td>
</tr>
<tr>
<td>Interest income</td>
<td>21,950</td>
<td>8,982</td>
<td>5,995</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(11,309)</td>
<td>(3,134)</td>
<td>(3,302)</td>
</tr>
<tr>
<td>Other finance expense</td>
<td>(5,456)</td>
<td>(10,263)</td>
<td>(3,093)</td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>385,038</td>
<td>365,955</td>
<td>358,021</td>
</tr>
</tbody>
</table>

Underlying performance measures exclude specific items of income or expense that are recognised in profit or loss reported in accordance with IFRS that we consider hinder comparison of the performance of our businesses from one period to another, with each other or with other similar businesses. Details of the items excluded from profit or loss reported under IFRS in arriving at the Group’s underlying profit or loss for each of the periods presented are set out in the section entitled “Financial performance measures” on pages 183 to 189.

Segment revenue and operating profit/(loss) were as follows:

<table>
<thead>
<tr>
<th>Segment</th>
<th>2019 Restated</th>
<th>2018 Restated</th>
<th>2017 Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom Mixed Signal</td>
<td>964,758</td>
<td>1,042,320</td>
<td>1,059,603</td>
</tr>
<tr>
<td>Advanced Mixed Signal</td>
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<td>244,036</td>
<td>147,603</td>
</tr>
<tr>
<td>Connectivity &amp; Audio</td>
<td>183,781</td>
<td>154,004</td>
<td>137,834</td>
</tr>
<tr>
<td>Total segments</td>
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<td>1,442,138</td>
<td>1,352,841</td>
</tr>
<tr>
<td>Corporate and other unallocated items</td>
<td>196,193</td>
<td>194,803</td>
<td>878</td>
</tr>
<tr>
<td>Total Group</td>
<td>1,278,791</td>
<td>1,258,035</td>
<td>1,254,763</td>
</tr>
</tbody>
</table>

b) Geographic information

Revenue by destination

<table>
<thead>
<tr>
<th>Region</th>
<th>2019 Restated</th>
<th>2018 Restated</th>
<th>2017 Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>281,364</td>
<td>309,040</td>
<td>296,432</td>
</tr>
<tr>
<td>Other European countries</td>
<td>38,564</td>
<td>40,816</td>
<td>46,432</td>
</tr>
<tr>
<td>Mainland China</td>
<td>926,625</td>
<td>1,007,791</td>
<td>1,034,847</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>318,850</td>
<td>296,838</td>
<td>190,122</td>
</tr>
<tr>
<td>Other Asian countries</td>
<td>152,041</td>
<td>72,642</td>
<td>61,111</td>
</tr>
<tr>
<td>USA</td>
<td>173,450</td>
<td>61,716</td>
<td>8,300</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>6,328</td>
<td>5,067</td>
<td>4,300</td>
</tr>
<tr>
<td>Total</td>
<td>1,278,791</td>
<td>1,258,035</td>
<td>1,254,763</td>
</tr>
</tbody>
</table>
35. Segment and geographic information continued

b) Geographic information continued

<table>
<thead>
<tr>
<th>Non-current assets⁽¹⁾ by location</th>
<th>As at 31 December 2019</th>
<th>As at 31 December 2018</th>
<th>As at 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>40,830</td>
<td>47,609</td>
<td>48,761</td>
</tr>
<tr>
<td>Germany</td>
<td>131,739</td>
<td>43,011</td>
<td>58,792</td>
</tr>
<tr>
<td>Netherlands</td>
<td>62,771</td>
<td>59,507</td>
<td>52,799</td>
</tr>
<tr>
<td>USA</td>
<td>563,419</td>
<td>586,756</td>
<td>589,753</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2,546</td>
<td>1,507</td>
<td>2,252</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>58,440</td>
<td>7,734</td>
<td>9,250</td>
</tr>
<tr>
<td>Total</td>
<td>859,745</td>
<td>728,917</td>
<td>761,608</td>
</tr>
</tbody>
</table>

⁽¹⁾ Non-current assets excluding investments and defined benefit assets.

36. Transactions with related parties

Key management personnel

For the purpose of these disclosures, the Group’s key management personnel comprise the Management Team (which includes the Company’s Executive Director) and the Company’s non-executive Directors.

Compensation of the Group’s key management personnel was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term employee benefits</td>
<td>9,148</td>
<td>9,196</td>
<td>6,782</td>
</tr>
<tr>
<td>Post-employment benefits</td>
<td>310</td>
<td>237</td>
<td>267</td>
</tr>
<tr>
<td>Share-based compensation</td>
<td>11,630</td>
<td>11,952</td>
<td>10,895</td>
</tr>
<tr>
<td>Total</td>
<td>21,088</td>
<td>21,285</td>
<td>17,874</td>
</tr>
</tbody>
</table>

Current members of the Company’s Board are identified on pages 80 and 81 and current members of the Management Team are identified on pages 82 and 83.

Statutory information about Directors’ remuneration is presented in the Directors’ remuneration report on pages 92 to 106.

During 2019, the aggregate emoluments payable to Directors in respect of qualifying services to the Company amounted to US$1,668,568, including licence fees totalling US$164,234 of which US$1,098,636 was recognised in Custom Mixed Signal, US$63,448 was recognised in Advanced Mixed Signal and US$16,484 was recognised in Corporate.

During 2019, revenue from that customer was US$51,015,630, of which US$1,098,636 was recognised in Custom Mixed Signal and US$65,902 was recognised in Advanced Mixed Signal. During 2017, revenue from that customer was US$47,909,484, of which US$1,098,636 was recognised in Custom Mixed Signal and US$65,902 was recognised in Advanced Mixed Signal.

37. Adoption of IFRS 16

Background

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

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

Previous accounting for leases under IAS 17

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

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

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

New accounting for leases under IFRS 16

Definition of a lease

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

Lease liability

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

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

After the commencement date, the carrying amount of the lease liability is increased to reflect interest on the lease liability, reduced to reflect lease payments made and remeasured to reflect reassessments of the future lease payments or certain lease modifications.

Interest on the lease liability is recognised in profit or loss (within interest expense).

Right-of-use asset

On the commencement date of a lease, the right-of-use asset is measured at cost which comprises the initial amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, and any initial direct costs that we incur in relation to the lease.

After the commencement date, the right-of-use asset is measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated so as to charge their cost to profit or loss (in arriving at operating profit), usually on a straight-line basis over the lease term.

Short-term leases and leases of low value assets

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

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

37. Adoption of IFRS 16 continued

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

We applied IFRS 16 using a modified retrospective approach whereby prior periods were not restated but we recognised cumulative effect adjustments to the opening consolidated balance sheet on 1 January 2019. We recognised the following for each contract that is, or contains, a lease on the transition date:

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>US$000</th>
<th></th>
<th>US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right-of-use asset</td>
<td>66,390</td>
<td>Lease liabilities</td>
<td>87,031</td>
</tr>
<tr>
<td>Net accrued lease payments</td>
<td>1,241</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net deferred tax credit</td>
<td>40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in net assets</td>
<td>40</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Prior to adopting IFRS 16, we disclosed commitments for future lease payments under non-cancellable operating leases. We reconcile below the future lease payments at the end of 2018 discounted at a weighted-average incremental borrowing rate of 5.2% to the lease liabilities recognised on adoption of IFRS 16.

We summarise below the effect of IFRS 16 on the Group’s results for 2019 and on its financial position at the end of 2019.

Financial effect of IFRS 16
We summarise below the effect of IFRS 16 on the Group’s results for 2019 and on its financial position at the end of 2019.

### Consolidated statement of income for year ended 31 December 2019

<table>
<thead>
<tr>
<th></th>
<th>As reported under IFRS 16 US$000</th>
<th>Adjustment for effect of IFRS 16 US$000</th>
<th>Amounts under IAS 17 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,066,239</td>
<td>0</td>
<td>1,066,239</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(717,703)</td>
<td>(197)</td>
<td>(717,899)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>848,536</td>
<td>848,539</td>
<td></td>
</tr>
<tr>
<td>Operating expenses, net</td>
<td>(908,088)</td>
<td>(1,860)</td>
<td>(909,948)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>39,405</td>
<td>39,405</td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>378,853</td>
<td>378,853</td>
<td></td>
</tr>
<tr>
<td>Net finance income</td>
<td>5,185</td>
<td>5,185</td>
<td></td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>385,038</td>
<td>385,038</td>
<td></td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(83,386)</td>
<td>(83,386)</td>
<td></td>
</tr>
<tr>
<td>Profit after income taxes</td>
<td>301,652</td>
<td>301,652</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>301,652</td>
<td>301,652</td>
<td></td>
</tr>
<tr>
<td>Earnings per share (US$)</td>
<td>4.19</td>
<td>4.20</td>
<td>0.00</td>
</tr>
<tr>
<td>Diluted</td>
<td>3.96</td>
<td>3.97</td>
<td></td>
</tr>
</tbody>
</table>

### Consolidated balance sheet as at 31 December 2019

<table>
<thead>
<tr>
<th></th>
<th>As reported under IFRS 16 US$000</th>
<th>Adjustment for effect of IFRS 16 US$000</th>
<th>Amounts under IAS 17 US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other current assets</td>
<td>22,532</td>
<td>214</td>
<td>22,746</td>
</tr>
<tr>
<td>Total current assets</td>
<td>1,305,887</td>
<td>214</td>
<td>1,306,101</td>
</tr>
<tr>
<td>Property, plant and equipment – leased</td>
<td>41,423</td>
<td></td>
<td>41,423</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>8,242</td>
<td>(237)</td>
<td>8,005</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>871,097</td>
<td>(41,666)</td>
<td>829,431</td>
</tr>
<tr>
<td>Total assets</td>
<td>2,176,984</td>
<td>(41,446)</td>
<td>2,135,538</td>
</tr>
<tr>
<td>Liabilities and equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>8,972</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>373,422</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>34,072</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>94,044</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>230,978</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,451,582</td>
<td>617</td>
<td>1,452,199</td>
</tr>
<tr>
<td>Other reserves</td>
<td>(274,729)</td>
<td>360</td>
<td>(274,369)</td>
</tr>
<tr>
<td>Total equity</td>
<td>1,176,854</td>
<td>653</td>
<td>1,177,507</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>2,176,984</td>
<td>(41,446)</td>
<td>2,135,538</td>
</tr>
</tbody>
</table>

38. Subsequent event

### Proposed acquisition of Adesto
On 20 February 2020, we announced that Dialog has entered into a definitive agreement to acquire all of the outstanding shares in Adesto Technologies Corporation ("Adesto"). Adesto (NASDAQ: IOTS) is a leading provider of innovative custom ICs and embedded systems for the IIoT market. Headquartered in Santa Clara, California, Adesto has approximately 270 employees and an established portfolio of industrial solutions for smart building automation that complements Dialog’s range of manufacturing automation products. Adesto’s solutions are sold across the industrial, consumer, medical, and communications markets.

Dialog proposes to acquire Adesto for US$12.55 per share in cash, representing an enterprise value of approximately US$500 million, to be funded from our existing cash balances. The transaction is subject to certain regulatory approvals and customary closing conditions and is expected to close in the third quarter of 2020.
Ordinary shares US$000
Share premium account US$000
Retained earnings US$000
Other reserves (note 8) US$000
Dialog shares held by employee benefit trusts US$000
Total US$000
As at 31 December 2017 14,204 403,660 595,270 8,393 (902) 1,020,625
Net income – – 108,582 – – 108,582
Other comprehensive income – – – (22,749) – (22,749)
Total comprehensive income/(expense) – – 108,582 (22,749) – 85,833
Other changes in equity:
– Share buyback obligation – – (171,187) – – (171,187)
– Sale of shares by employee benefit trusts – – – (21,786) – (21,786)
As at 31 December 2018 14,204 403,660 536,108 (14,356) (22,514) 917,102
Net income – – 96,466 – – 96,466
Other comprehensive loss – – – (6,994) – (6,994)
Total comprehensive income/(expense) – – 96,466 (6,994) – 89,472
Other changes in equity:
– Purchase of own shares into treasury – – (4,431) (251,787) – (256,218)
– Share buyback obligation – – 169,505 – – 169,505
– Sale of shares by employee benefit trusts – – – – – –
– Share-based compensation, net of tax – – 5 – – 5
As at 31 December 2019 14,204 403,660 800,634 (273,137) (22,133) 923,228
Notes to the Company financial statements

For the year ended 31 December 2019

1. Background
Description of business
Dialog Semiconductor Plc ("the Company") is a public limited company that is incorporated in England and Wales and domiciled in the United Kingdom. The Company’s ordinary shares are listed on the Frankfurt Stock Exchange. The Company is the ultimate parent of a group of companies that 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, industrial and automotive applications.

Statement of compliance
The Company’s separate financial statements on pages 176 to 182 have been prepared in accordance with FRS 101 Reduced Disclosure Framework and those parts of the Companies Act 2006 that are applicable to companies reporting under FRS 101. Accordingly, the Company’s separate financial statements comply with the recognition and measurement requirements of FRS 101 as adopted for use in the European Union but they exclude certain disclosures that would otherwise be required under that body of accounting standards.

Basis of preparation
The Company’s separate financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments and derivative financial instruments are stated at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company’s significant accounting policies are set out in note 2.

Presentation currency
The Company’s separate financial statements are presented in US dollars ("US$"), which is the Company’s functional currency. All US dollar amounts are rounded to the nearest thousand ("US$1,000"), except where otherwise stated.

Disclosure exemptions utilised under FRS 101
In preparing the Company’s separate financial statements, the Directors utilised the following exemptions from the disclosure requirements of FRS adopted for use in the European Union that are available to them under FRS 101:
- Paragraphs 45(b) (number and weighted average exercise prices of share options) and 46 to 52 (determination of fair value of options and awards granted and financial effect of share-based compensation) of IFRS 2 Share-based Payment;
- IFRS 7 Financial Instruments – Disclosures;
- Paragraphs 91 to 99 (disclosure requirement) of IFRS 13 Fair Value Measurement;
- Paragraph 38 of IAS 1 (Presentation of Financial Statements with regard to comparative information requirements in respect of paragraph 79a) (reconciliation of the number of the Company’s shares outstanding at the beginning and end of the period);
- Paragraph 100 (statement of cash flows), 16 (statement of compliance with IFRS), 38A to D (comparative information), 111 (statement of cash flows) and 134 to 136 (disclosures about capital) of IAS 1 Presentation of Financial Statements;
- IAS 7 Statement of Cash Flows;
- Paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (disclosure of IFRSs issued by the IASB but not yet adopted by the Company); and
- Paragraph 17 of IAS 24 Related Party Disclosures (compensation of key management personnel) and the further requirement in IAS 24 to disclose related party transactions entered into with subsidiaries that are wholly-owned by the Company.

Approval of the financial statements
The Company’s separate financial statements for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 4 March 2020.

Accounting standards adopted during the year
IFRS 16 Leases
The Company adopted IFRS 16 with effect from 1 January 2019. Since the Company is not party to any lease contracts, the adoption of IFRS 16 had no impact on its results or financial position.

IFRIC 23 Uncertainty over Income Tax Treatments
IFRIC 23 clarifies the application of the recognition and measurement requirements of IAS 12 Income Taxes where there is uncertainty over income tax treatments. Since the Company already accounted for income taxes on a basis consistent with IFRIC 23, its adoption had no impact on the Company’s results or financial position.

2. Significant accounting policies

Investments in subsidiaries
A subsidiary is an entity that is controlled, either directly or indirectly, by the Company. Control exists when the Company has exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity that significantly affect its returns.

Investments in subsidiaries represent interests in the Company’s subsidiaries that are directly owned by the Company. Unless classified as held for sale, investments in subsidiaries are stated at cost less provision for impairment.

Investment in associate
An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in financial and operating policy decisions but not to control or jointly control them. Significant influence generally exists where the Company holds, directly or indirectly through one or more of its subsidiaries, more than 20% but less than 50% of the shareholders’ voting rights. Unless classified as held for sale, investments in associates are stated at cost less provision for impairment.

Foreign currency translation
Transactions denominated in foreign currencies are recorded in US dollars at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date.

Currency translation differences are recognised in profit or loss.

Financial instruments

Amounts owed by/to Group undertakings
Amounts owed by/to Group undertakings are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents
Cash and cash equivalents include cash at bank and in hand, investments in money market funds and short-term deposits with an original maturity of three months or less.

Equity investments
Equity investments are initially measured at fair value plus transaction costs, if any. Equity investments are subsequently measured at fair value with resulting gains and losses recognised in profit or loss unless the Company irrevocably elects on initial recognition for such gains and losses to be recognised in other comprehensive income. The Company has made this election in respect of its investment in the common shares of Energous Corporation.

Derivative financial instruments
The Company holds derivative financial instruments that are used to reduce its exposure or that of its subsidiaries to currency exchange rate movements. The Company may also hold equity options and warrants in relation to certain of its strategic investments. The Company does not hold or issue derivatives for speculative purposes.

All derivative financial instruments held by the Company are measured at fair value. All fair value gains and losses are recognised in profit or loss. Where the fair value of a derivative on initial recognition differs from the transaction price, if any, the difference is recognised immediately in profit or loss only if the fair value is evidenced by a quoted price in an active market or is based on a valuation technique that uses only data from observable markets.

Assets classified as held for sale
An asset is classified as held for sale if its carrying amount will be recovered by sale, it is available for immediate sale in its present condition and management has committed to, and has initiated, a plan to sell the asset which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are measured at the lower of their carrying amount when classified as held for sale and fair value less costs to sell.

Dialog Semiconductor Plc
Annual report and accounts 2019
Notes to the Company financial statements continued

2. Significant accounting policies continued

Income taxes
Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period.
Deferred tax is expected to be payable or recoverable on temporary differences between the carrying amount of an asset or liability in the financial statements and its tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all deductible temporary differences and deferred tax assets are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available in the future against which they can be utilised.

Where there is uncertainty concerning the tax treatment of an item or a group of items, the amount of current and deferred tax recognised is based on management’s expectation of the likely outcome of the examination of the uncertain tax treatment by the relevant tax authorities.

Current tax and deferred tax is recognised in profit or loss unless it relates to an item that is recognised in the same or a different period outside profit or loss, in which case the related tax is also recognised outside profit or loss, either in other comprehensive income or directly in equity.

Share-based compensation
The Company operates share-based compensation plans under which it grants options and other awards over its ordinary shares to employees of its subsidiaries. Awards granted under the existing plans are classified as equity-settled awards.
The Company recognises a compensation expense that is based on the fair value of the awards measured at the grant date using the Black-Scholes option pricing formula or a Monte Carlo valuation model.

Shares held by employee benefit trusts
The Company provides finance to two trusts to purchase the Company’s ordinary shares in order to meet its obligations under its share-based compensation plans.
The Company recognises a compensation expense that is based on the fair value of the awards measured at the grant date using the Black-Scholes option pricing formula or a Monte Carlo valuation model.

Treasury shares
Treasury shares comprise the Company’s ordinary shares that have been purchased under the Company’s share buyback programme. Purchases made under the programme are off-market and are effected by way of contingent forward share purchase contracts with third-party brokers. Subsequent sales, transfers or cancellations of treasury shares held by the Company are accounted for within equity.

3. Income statement
As permitted by section 408 of the Companies Act 2006, the Company’s income statement has not been included in these financial statements.
During 2019, the Company had no employees (2018: none).
Advances are made by foreign subsidiaries to the Executive Director against foreign taxes arising as a result of business travel and are repaid as and when the relevant tax credits are received. Directors’ remuneration and details of the advances made to the Executive Director are set out in the Directors’ remuneration report on pages 92 to 106.
Fees payable to the Company’s auditors, Deloitte LLP, are set out in note 8 to the consolidated financial statements.

4. Investments in subsidiaries
Movements in the carrying amount of subsidiaries owned directly by the Company were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 31 December 2018</td>
<td>855,299</td>
</tr>
<tr>
<td>Additions</td>
<td>58,448</td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td>1,013,745</td>
</tr>
</tbody>
</table>

Details of the Company’s subsidiaries as at 31 December 2019 are set out on page 197.

5. Other investments

Other investments were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
</tr>
<tr>
<td>Equity investments:</td>
<td></td>
</tr>
<tr>
<td>- Energous shares</td>
<td>3,079</td>
</tr>
<tr>
<td>- Derivative financial instruments:</td>
<td></td>
</tr>
<tr>
<td>- Energous warrants</td>
<td>1,465</td>
</tr>
<tr>
<td>Total other investments</td>
<td>3,110</td>
</tr>
</tbody>
</table>

In November 2016, the Company entered into a strategic alliance with Energous Corporation (“Energous”), the developer of WattUp®, a wire-free charging technology. At that time, the Company subscribed for 763,552 common shares in Energous and was granted warrants to purchase up to 1,931 common shares that were exercisable in full or in part on a cashless basis at any time between May 2017 and November 2019. The Company initially recognised the warrants at their grant date fair value of US$4,656 and an equivalent deferred credit within non-current liabilities. The Company will amortise the deferred credit to profit or loss in relation to the royalties that may be payable for the use of Energous’ Intellectual Property over the initial seven-year term of the strategic alliance. Amortisation of the deferred credit has not yet commenced.
On 5 July 2017, the Company subscribed for a further 976,139 common shares in Energous at a cost of US$15,000 and was 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. The Company initially recognised the second tranche of the warrants at their grant date fair value of US$7,573 and an equivalent deferred credit within non-current liabilities. The Company is amortising the deferred credit to profit or loss over the three-year period from the grant date to the expiry of the warrants.
During 2019, the Company recognised a fair value loss on the shares of US$6,994 (2018: loss of US$23,764) in other comprehensive income and a fair value loss of US$1,434 (2018: loss of US$10,853) on the warrants in profit or loss. Also during 2019, the Company recognised a credit of US$1,584 (2018: credit of US$1,584) in profit or loss on the amortisation of the fair value on initial recognition of the second tranche of the warrants.

6. Assets classified as held for sale

Investment in subsidiary
On 11 October 2018, the Company entered into an asset transfer agreement with Apple Inc. (“Apple”), pursuant to which it will sell to Apple its shareholding in its wholly-owned subsidiary, Dialog Semiconductor (Italy) S.R.L. At that time, the Company reclassified its investment as an asset held for sale at its carrying amount of US$13. On completion of the sale in April 2019, the Company received proceeds of US$4,200 and recognised a gain of US$4,200 in profit or loss.

Investment in associates
On 7 December 2018, the Company entered into an agreement to dispose of its 38.7% ownership interest in Dyna Image Corporation ("Dyna Image") for which it expected to receive consideration of between US$1.9 million and US$2.4 million. On entering into the sale agreement, the carrying amount of the investment was revalued with the effect that US$1,002 of the impairment loss recognised on the investment in previous years was reversed as a credit to profit or loss and the Company reclassified its investment in Dyna Image as an asset held for sale at its carrying amount of US$1,931.

We obtained the necessary regulatory approvals but the purchaser was unable to complete the transaction and the sale agreement was terminated on 2 September 2019. The Company immediately entered into a new agreement to sell its shareholding to another purchaser for a nominal amount. As a result, the carrying amount of the investment is written off and an impairment loss of US$1,931 was recognised in profit or loss. The sale of the Company’s shareholding in Dyna Image was completed in November 2019.

7. Income tax

As at 31 December 2019, there was current tax receivable of US$537 (2018: US$612) representing tax overpaid.
Notes to the Company financial statements continued

8. Share capital and reserves

a) Share capital and share premium account

Details of the Company’s share capital are set out in note 28 to the consolidated financial statements.

The share premium account represents the difference between the nominal value of shares issued and the fair value of the consideration received. The share premium account is not distributable but may be used for certain purposes specified by United Kingdom law, including to write off expenses on any issue of shares and to pay up fully paid bonus shares.

b) Other reserves

Movements on other reserves were as follows:

<table>
<thead>
<tr>
<th>Credit/(debit) to reserves</th>
<th>Fair value reserve US$000</th>
<th>Treasury shares US$000</th>
<th>Total US$000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2017</td>
<td>571</td>
<td>7,622</td>
<td>8,193</td>
</tr>
<tr>
<td>Other comprehensive income/expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Fair value loss on available-for-sale investments</td>
<td>–</td>
<td>(23,766)</td>
<td>(23,766)</td>
</tr>
<tr>
<td>+ Income tax expense</td>
<td>1,015</td>
<td>–</td>
<td>1,015</td>
</tr>
<tr>
<td>As at 31 December 2018</td>
<td>571</td>
<td>(14,957)</td>
<td>(14,386)</td>
</tr>
<tr>
<td>Other comprehensive income/expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Fair value loss on equity investments</td>
<td>–</td>
<td>(6,994)</td>
<td>(6,994)</td>
</tr>
<tr>
<td>Other changes in equity:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Purchase of own shares into treasury</td>
<td>–</td>
<td>(251,787)</td>
<td>(251,787)</td>
</tr>
<tr>
<td>As at 31 December 2019</td>
<td>571</td>
<td>(21,922)</td>
<td>(251,787)</td>
</tr>
</tbody>
</table>

Treasury shares are shares purchased under the Company’s share buyback programme that have not been cancelled. Details of purchases made under the Company’s share buyback programme are set out in note 29 to the consolidated financial statements.

The capital redemption reserve represents the nominal value of treasury shares that were cancelled in previous periods and is non-distributable.

The fair value reserve comprises gains and losses recognised on equity investments that are measured at fair value through other comprehensive income.

c) Distributable profits

Profits available for distribution by the Company comprise its accumulated realised profits less its accumulated realised losses, subject to the restriction that a distribution may not reduce the Company’s net assets below the aggregate of its called up share capital and its undistributable reserves.

The Directors consider that the Company’s distributable profits as at 31 December 2019 amounted to US$504,793 (2018: US$670,430).

d) Dialog shares held by employee benefit trusts

The Company provides finance to two trusts to purchase its ordinary shares in order to meet its obligations under its share-based compensation plans. As at 31 December 2019, the trusts held 804,712 ordinary shares (2018: 2,607,259 ordinary shares). An analysis of movements in the number of shares held by the trusts is presented in note 31 to the consolidated financial statements.

9. Share-based compensation

A description of the share-based compensation plans operated by the Company, together with information about share options exercised and outstanding is presented in note 31 to the consolidated financial statements.

10. Guarantees

As described in note 3 to the consolidated financial statements, Apple made an interest-free prepayment of US$300,000 to Dialog following completion of the licensing and asset transfer agreement between us. The Company and certain of its subsidiaries have jointly and severally guaranteed the reducing letter of credit that was put in place in favour of Apple in relation to the outstanding principal amount of the prepayment. As at 31 December 2019, the amount available to be drawn under the letter of credit was US$250,300 and was reduced to US$200,000 following the scheduled quarterly recoupment of the prepayment in January 2020.

General guarantees have been issued by the Company under Article 403, Book 2 of the Dutch Civil Code in respect of its Dutch subsidiaries, in order that they do not have to file annual accounts in the Netherlands.

Financial performance measures

Use of non-IFRS measures

We use a number of measures to assess our financial performance, to ensure our performance is aligned to strategy and continued alignment with shareholders’ interests. We consider certain of these measures to be particularly important and identify them as “key performance indicators” (KPIs). We have identified the following financial measures as KPIs: revenue growth; gross margin; operating expenses as a percentage of revenue; operating margin; diluted EPS and free cash flow. We monitor the profit or loss that are KPIs on both an IFRS basis and an underlying basis.

Underlying measures of performance

We report underlying measures of performance because we believe they provide both management and investors with useful additional information about the financial performance of our businesses. Underlying measures of performance represent the equivalent IFRS measures adjusted for specific items that are considered by us to hinder comparison of the financial performance of our businesses from one period to another, with each other or with other similar businesses.

Underlying measures of performance exclude items that can have a significant effect on the Group’s profit or loss. We compensate for these limitations by monitoring separately the items that are excluded from the equivalent IFRS measures in calculating the underlying measures.

We outline below the specific items of income and expense that are recognised in profit or loss in accordance with IFRS but are excluded from our underlying results.

Licence and asset transfers to Apple

We excluded from our underlying results the following discrete benefits that were recognised on completion of the licensing and asset transfer agreement with Apple in April 2019:

- the revenue attributed to the perpetual licence over our existing Power Management IP; and
- the gain on the transfer of design centre businesses.

Share-based compensation and related expenses

We exclude the share-based compensation expense recognised in relation to options and other awards granted under the Company’s share-based compensation plans because the awards are equity-settled and their effect on shareholders’ returns is already reflected in diluted earnings per share measures. In 2019, we also excluded discrete compensation payments to certain US persons following the modification of options exercised by them. We additionally exclude the effect on profit or loss of changes in the accrual for payroll taxes payable on the exercise or vesting of such awards because the accrual fluctuates with the Company’s share price and the effect on profit or loss is therefore not necessarily indicative of our trading performance.

Business combinations

We exclude those effects of applying the acquisition method of accounting under IFRS that we consider are not indicative of the Group’s trading performance, including the accounting for transaction costs; the fair value adjustment to inventories of acquired businesses; the recognition of certain elements of the purchase price as compensation expense; and the recognition of remeasurements of contingent consideration.

During the periods under review, we excluded from our underlying results the following items in relation to the accounting for business combinations:

- acquisition-related costs;
- the recognition in cost of sales of the fair value uplift to inventory held by the acquired businesses at the acquisition date;
- the element of deferred amounts payable for Silego that is recognised as compensation expense;
- credits recognised on the forfeiture of deferred consideration payable for Silego;
- the effect of changes in estimates of contingent consideration; and
- the interest expense recognised on the unwinding of the discount on liabilities for contingent consideration.

We also exclude from our underlying results the amortisation of identifiable intangible assets that are recognised in business combinations in order that the performance of those businesses that we have acquired may be compared fairly with those businesses that we have developed on an organic basis.

Integration costs

We exclude the costs of integrating acquired businesses because we consider that they hinder the assessment of the financial performance of those businesses. In 2019, we excluded integration costs incurred in relation to FCI and Creative Chips. In 2018 and 2017, we excluded integration costs incurred in relation to Silego.

Use of non-IFRS measures

We use a number of measures to assess our financial performance, to ensure our performance is aligned to strategy and continued alignment with shareholders’ interests. We consider certain of these measures to be particularly important and identify them as “key performance indicators” (KPIs). We have identified the following financial measures as KPIs: revenue growth; gross margin; operating expenses as a percentage of revenue; operating margin; diluted EPS and free cash flow. We monitor the profit or loss that are KPIs on both an IFRS basis and an underlying basis.

Underlying measures of performance

We report underlying measures of performance because we believe they provide both management and investors with useful additional information about the financial performance of our businesses. Underlying measures of performance represent the equivalent IFRS measures adjusted for specific items that are considered by us to hinder comparison of the financial performance of our businesses from one period to another, with each other or with other similar businesses.

Underlying measures of performance exclude items that can have a significant effect on the Group’s profit or loss. We compensate for these limitations by monitoring separately the items that are excluded from the equivalent IFRS measures in calculating the underlying measures.

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- the revenue attributed to the perpetual licence over our existing Power Management IP; and
- the gain on the transfer of design centre businesses.

Share-based compensation and related expenses

We exclude the share-based compensation expense recognised in relation to options and other awards granted under the Company’s share-based compensation plans because the awards are equity-settled and their effect on shareholders’ returns is already reflected in diluted earnings per share measures. In 2019, we also excluded discrete compensation payments to certain US persons following the modification of options exercised by them. We additionally exclude the effect on profit or loss of changes in the accrual for payroll taxes payable on the exercise or vesting of such awards because the accrual fluctuates with the Company’s share price and the effect on profit or loss is therefore not necessarily indicative of our trading performance.

Business combinations

We exclude those effects of applying the acquisition method of accounting under IFRS that we consider are not indicative of the Group’s trading performance, including the accounting for transaction costs; the fair value adjustment to inventories of acquired businesses; the recognition of certain elements of the purchase price as compensation expense; and the recognition of remeasurements of contingent consideration.

During the periods under review, we excluded from our underlying results the following items in relation to the accounting for business combinations:

- acquisition-related costs;
- the recognition in cost of sales of the fair value uplift to inventory held by the acquired businesses at the acquisition date;
- the element of deferred amounts payable for Silego that is recognised as compensation expense;
- credits recognised on the forfeiture of deferred consideration payable for Silego;
- the effect of changes in estimates of contingent consideration; and
- the interest expense recognised on the unwinding of the discount on liabilities for contingent consideration.

We also exclude from our underlying results the amortisation of identifiable intangible assets that are recognised in business combinations in order that the performance of those businesses that we have acquired may be compared fairly with those businesses that we have developed on an organic basis.

Integration costs

We exclude the costs of integrating acquired businesses because we consider that they hinder the assessment of the financial performance of those businesses. In 2019, we excluded integration costs incurred in relation to FCI and Creative Chips. In 2018 and 2017, we excluded integration costs incurred in relation to Silego.
Underlying measures of performance continued

Corporate transaction costs

We exclude significant transaction costs and other discrete items recognised in relation to corporate transactions other than business combinations. In 2019 and 2018, we excluded transaction costs incurred in relation to the licensing and asset transfer agreement with Apple. In 2018, we also excluded the costs incurred in relation to the acquisition discussions that we held with Synaptics Incorporated.

Strategic investments

We exclude the effect on profit or loss of the measurement at fair value of our strategic investments (comprising the shares and the warrants that we hold in En egregious, the call option that we held over the shares that we did not own in Dyna Image prior to its expiry in June 2016 and, until they were sold in May 2017, the shares that we held in Arctic Sand). We hold such instruments for strategic reasons linked to our commercial partnerships with the relevant companies. Since we do not hold these instruments for trading purposes, we exclude fluctuations in their fair values when assessing our trading performance.

In December 2017, we recognised impairment losses totalling US$342 in relation to the intangible assets and property, plant and equipment held by Dyna Image and ceased to account for it as a subsidiary, recognising a loss of US$5,597 on deconsolidation. Since these were significant discrete items, we excluded them from our underlying results.

Effective interest on financial liabilities

We adjusted profit or loss to exclude the non-cash element of the interest expense recognised in relation to a patent licensing agreement that was accounted for as a hire purchase contract prior to its expiry during 2018. We considered that the cash interest payments were more indicative of the effect of this arrangement on shareholders’ returns.

Income tax effect of underlying adjustments

We calculate the income tax effect of underlying adjustments 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.

US tax reform

In December 2017, the US President signed into law significant reforms of the US tax system, including a reduction of the Federal corporate income tax rate from 35% to 21%. Our income tax expense for 2017 reflected a non-cash deferred tax credit of US$6,658 resulting from the remeasurement of US deferred tax balances at the lower tax rate. Since this was a discrete benefit, we excluded it from our underlying results.

Reconciliation of underlying measures to equivalent IFRS measures

Reconciliations of the underlying measures of performance to the equivalent IFRS measures for the years ended 31 December 2019, 2018 and 2017 are presented in the following tables:

<table>
<thead>
<tr>
<th>Year ended 31 December 2019</th>
<th>IFRS basis</th>
<th>Share-based compensation and related expenses</th>
<th>Accounting for business combinations</th>
<th>Integration costs</th>
<th>Corporate transaction costs</th>
<th>Strategic investments</th>
<th>Underlying basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue 1,442,138</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,442,138</td>
</tr>
<tr>
<td>Cost of sales (701,074)</td>
<td>1,791</td>
<td>3,129</td>
<td>13</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(701,074)</td>
</tr>
<tr>
<td>Gross profit 691,068</td>
<td>1,791</td>
<td>3,129</td>
<td>13</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>691,068</td>
</tr>
<tr>
<td>Gross margin%</td>
<td>47.9%</td>
<td>49.8%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>49.8%</td>
</tr>
<tr>
<td>SG&amp;A expenses (168,228)</td>
<td>17,563</td>
<td>14,757</td>
<td>2,024</td>
<td>11,346</td>
<td>–</td>
<td>–</td>
<td>(122,438)</td>
</tr>
<tr>
<td>R&amp;D expenses (526,208)</td>
<td>23,699</td>
<td>9,148</td>
<td>228</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(294,234)</td>
</tr>
<tr>
<td>Other operating income 411</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Operating profit 199,707</td>
<td>41,653</td>
<td>26,257</td>
<td>2,656</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>281,628</td>
</tr>
<tr>
<td>Operating margin%</td>
<td>12.6%</td>
<td>19.2%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>23.3%</td>
</tr>
<tr>
<td>Net finance (expense)/income (3,514)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(3,514)</td>
</tr>
<tr>
<td>Profit before income taxes 196,193</td>
<td>41,653</td>
<td>26,257</td>
<td>2,656</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>281,628</td>
</tr>
<tr>
<td>Income tax expense (55,281)</td>
<td>22,699</td>
<td>9,148</td>
<td>228</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(294,234)</td>
</tr>
<tr>
<td>Net income 139,799</td>
<td>39,545</td>
<td>24,929</td>
<td>2,210</td>
<td>10,322</td>
<td>41</td>
<td>8,023</td>
<td>228,013</td>
</tr>
<tr>
<td>Income tax effect of underlying adjustments (9,578)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Effective interest on financial liabilities –</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Strategic investments –</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Operating margin%</td>
<td>19.2%</td>
<td>23.3%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>23.3%</td>
</tr>
<tr>
<td>EBITDA 153,013</td>
<td>17,944</td>
<td>8,050</td>
<td>1,184</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>203,258</td>
</tr>
<tr>
<td>EBITDA margin%</td>
<td>11.8%</td>
<td>19.2%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>23.3%</td>
</tr>
</tbody>
</table>
Explanation of financial performance measures continued

Operating expenses as a percentage of revenue
We monitor operating expenses as a percentage of revenue because we believe it provides a measure of our effort in innovation and the efficiency of our operating structure. Operating expenses comprise selling, general and administrative (“SG&A”) expenses and research and development (“R&D”) expenses. Operating expenses as a percentage of revenue determined in accordance with IFRS and on an underlying basis was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS measures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>1,566,239</td>
<td>1,442,138</td>
<td>1,352,841</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(508,088)</td>
<td>(494,537)</td>
<td>(448,275)</td>
</tr>
<tr>
<td>Operating expenses as a percentage of revenue</td>
<td>32.4%</td>
<td>34.3%</td>
<td>33.1%</td>
</tr>
<tr>
<td>Underlying measures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>1,420,489</td>
<td>1,442,138</td>
<td>1,352,841</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(405,906)</td>
<td>(416,672)</td>
<td>(389,283)</td>
</tr>
<tr>
<td>Operating expenses as a percentage of revenue</td>
<td>28.6%</td>
<td>28.9%</td>
<td>28.8%</td>
</tr>
</tbody>
</table>

Change in operating profit
We monitor the change in operating profit from one period to another and the trend in operating profit over time because we believe they are important measures of the performance of our operations. Operating profit growth determined in accordance with IFRS and on an underlying basis was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS measures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit in the period</td>
<td>379,853</td>
<td>199,707</td>
<td>187,017</td>
</tr>
<tr>
<td>Operating profit in the comparative period</td>
<td>199,707</td>
<td>187,017</td>
<td>309,807</td>
</tr>
<tr>
<td>Increase/(decrease) in operating profit</td>
<td>90.2%</td>
<td>6.8%</td>
<td>(39.6)%</td>
</tr>
<tr>
<td>Underlying measures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit in the period</td>
<td>324,349</td>
<td>281,628</td>
<td>259,458</td>
</tr>
<tr>
<td>Operating profit in the comparative period</td>
<td>281,628</td>
<td>259,458</td>
<td>221,010</td>
</tr>
<tr>
<td>Increase in operating profit</td>
<td>15.2%</td>
<td>8.5%</td>
<td>17.4%</td>
</tr>
</tbody>
</table>

Operating margin
Operating margin is operating profit or loss expressed as a percentage of revenue. We monitor operating margin because we believe it provides a measure of the overall profitability of our operations. Operating margin determined in accordance with IFRS and on an underlying basis was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS measures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>1,566,239</td>
<td>1,442,138</td>
<td>1,352,841</td>
</tr>
<tr>
<td>Gross profit</td>
<td>846,536</td>
<td>691,068</td>
<td>644,870</td>
</tr>
<tr>
<td>Gross margin</td>
<td>54.2%</td>
<td>47.9%</td>
<td>47.7%</td>
</tr>
<tr>
<td>Underlying measures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>1,420,489</td>
<td>1,442,138</td>
<td>1,352,841</td>
</tr>
<tr>
<td>Gross profit</td>
<td>706,748</td>
<td>696,001</td>
<td>648,395</td>
</tr>
<tr>
<td>Gross margin</td>
<td>49.3%</td>
<td>48.3%</td>
<td>47.3%</td>
</tr>
</tbody>
</table>
Explanation of financial performance measures continued

**Underlying EBITDA and EBITDA margin**

Underlying EBITDA is a non-IFRS measure that we define as underlying net income before net finance expense, income tax expense and depreciation and amortisation expenses. Underlying EBITDA margin is a non-IFRS measure that represents underlying EBITDA expressed as a percentage of revenue. We present underlying EBITDA and underlying EBITDA margin because we believe these measures are useful to investors and other users of our financial information in evaluating the sensitivity of our underlying trading performance to changes in variable operating expenses. Underlying EBITDA may be reconciled to net income determined in accordance with IFRS as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>301,452</td>
<td>139,799</td>
<td>169,434</td>
</tr>
<tr>
<td>Net finance (income)/expense</td>
<td>(5,185)</td>
<td>3,514</td>
<td>(7,786)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>83,586</td>
<td>56,281</td>
<td>26,369</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>39,611</td>
<td>31,456</td>
<td>30,807</td>
</tr>
<tr>
<td>Amortisation expense</td>
<td>52,233</td>
<td>49,130</td>
<td>41,969</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>471,697</td>
<td>270,179</td>
<td>259,793</td>
</tr>
</tbody>
</table>

**Earnings for calculating basic and diluted EPS**

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>1,420,489</td>
<td>1,442,138</td>
<td>1,352,841</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>390,081</td>
<td>339,584</td>
<td>315,773</td>
</tr>
<tr>
<td><strong>EBITDA margin</strong></td>
<td>27.5%</td>
<td>23.0%</td>
<td>23.3%</td>
</tr>
</tbody>
</table>

Underlying EBITDA margin was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying EBITDA</td>
<td>390,081</td>
<td>339,584</td>
<td>315,773</td>
</tr>
</tbody>
</table>

**Free cash flow**

Free cash flow is a non-IFRS measure that represents cash flow from operating activities less capital expenditure. We believe that 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 make strategic investments in, or acquire, other businesses, to repay borrowings and to fund distributions to shareholders.

Free cash flow was calculated as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>1,420,489</td>
<td>1,442,138</td>
<td>1,352,841</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>390,081</td>
<td>339,584</td>
<td>315,773</td>
</tr>
<tr>
<td><strong>EBITDA margin</strong></td>
<td>27.5%</td>
<td>23.0%</td>
<td>23.3%</td>
</tr>
</tbody>
</table>
Appendix

External review of reporting on sustainability

Verisk Maplecroft was commissioned by Dialog Semiconductor Plc (“Dialog Semiconductor”) to help advance its sustainability reporting. 

This included guidance with respect to reporting strategy, materiality, selected content and reporting best practice. This statement is made in our capacity as a service provider to Dialog Semiconductor on this assignment. Verisk Maplecroft did not verify the data contained in this annual report.

Approach

Verisk Maplecroft was involved in the following activities between mid-2019 and early 2020:

- Gap analysis: To identify and, where feasible, help address gaps in Dialog Semiconductor’s existing reporting practices against the relevant reporting standards;
- Engagement: Including both remote and face-to-face engagement with Dialog Semiconductor managers as well as external stakeholders;
- Materiality process: Implementation, with Dialog Semiconductor, of an interim review of our materiality assessment which was aligned with the GRI Standards; and
- Performance enhancement: The outcomes from the above processes were used, where possible, to enhance Dialog Semiconductor’s level of reporting and to support its closer alignment with the GRI Standards reporting requirements.

Sam Rogers and Sarah Sinjab

4 March 2020

Verisk Maplecroft, 1 Henry Street, Bath BA1 1JS, United Kingdom

www.maplecroft.com

info@maplecroft.com

GRI Standards Material Topics

GRI Standard Material Sustainability Topic Page
GRI 100 Series: General
101: Foundation Y 28-31, 70-75, GRI table
102: General disclosures Y Throughout the report
103: Management approach disclosures Y Throughout the report
GRI 200 Series: Economic
201: Economic performance Y Value generation and distribution 40-41, 54-55, 62-69, GRI table
202: Market presence Y Throughout the report
203: Indirect economic impact Y Value generation and distribution 41
204: Procurement practices Y Throughout the report
205: Anti-corruption Y Corruption/bribery 48-49, GRI table
207: Tax Y Corporate governance and compliance 65-67, 71, 74, GRI table
GRI 300 Series: Environmental
301: Materials Product impacts 38-35, 43, 44-47, GRI table
302: Energy Compliance with customer standards Compliance with customer standards
303: Water and effluents
304: Biodiversity
305: Emissions
306: Effluents and waste
307: Environmental compliance Y Corporate governance and compliance 6-7, 38-35, 43, 44-47, GRI table
309: Supplier environmental assessment Y Corporate governance and compliance 44-47, GRI table

UN Global Compact reference table

Category Principle Page
Human rights 1 Businesses should support and respect the protection of internationally proclaimed human rights 28, 30-31, 38-39, 42-43, 44-49, GRI table
Human rights 2 Businesses should make sure that they are not complicit in human rights abuses 28, 30-31, 38-39, 42-43, 44-49, GRI table
Labour 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining 28, 30-31, 38-39, 42-43, 44-49, GRI table
Labour 4 Businesses should uphold the elimination of all forms of forced and compulsory labour 28, 30-31, 32-35, 38-39, 42-43, 44-49, GRI table
Labour 5 Businesses should uphold the effective abolition of child labour 28, 30-31, 32-35, 38-39, 42-43, 44-49, GRI table
Labour 6 Businesses should uphold the elimination of discrimination in respect of employment and occupation 28, 30-31, 32-35, 38-39, 42-43, 44-47, GRI table
Environment 7 Businesses should support a precautionary approach to environmental challenges 28, 30-31, 38-39, 40-47, GRI table
Environment 8 Businesses should undertake initiatives to promote greater environmental responsibility 07, 22, 24-27, 39-31, GRI table
Environment 9 Businesses should encourage the development and diffusion of environmentally friendly technologies CO-03, 10-11, 41-43, 56-61, GRI table
Anti-corruption 10 Businesses should work against corruption in all its forms, including extortion and bribery 28, 30-31, 38-39, 42-43, 44-49, GRI table

GRI 400 Series: Social
401: Employment Y Recruitment of professionals and graduates 38-35, GRI table
402: Labor-management relations Y Retention, morale and engagement 32, 34, 40, GRI table
403: Occupational health and safety Y Diversity and equality 34-35, 46, 48
404: Training and education Y Retention, morale and engagement 32, 34, 40, GRI table
405: Diversity and equal opportunity Y Diversity and equality 34-35, 46, 48
406: Non discrimination Y Diversity and equality 34-35, 46, 48
407: Freedom of association and collective bargaining Y Labour rights and human rights (supply chain) 34-35, 46, GRI table
408: Child labour Y Labour rights and human rights (supply chain) 46, GRI table
409: Forced or compulsory labour Y Labour rights and human rights (supply chain) 46, GRI table
410: Security practices
411: Rights of indigenous peoples
412: Human rights assessment Y Corporate governance and compliance 44-48, GRI table
413: Local communities
414: Supplier social assessment Y Corporate governance and compliance 44-47, GRI table
416: Customer health and safety Y Corporate governance and compliance 36-37, GRI table
417: Marketing and labelling Y Corporate governance and compliance 36-37, GRI table
418: Customer privacy Y Corporate governance and compliance 36-37, GRI table
419: Socioeconomic compliance Y Corporate governance and compliance 36-37, GRI table

* Applicable to the material topics identified by Dialog in 2019
Digital A type of signal used to transmit information that has only discrete levels of some parameter (usually voltage).

Digital Enhanced Cordless Telecommunications (DECT) is a wireless connectivity standard–technology originated in Europe for cordless telephony.

Fabless A company that designs and delivers semiconductors by outsourcing the fabrication (“manufacturing”) process.

FET A Field Effect Transistor uses an electric field to control the shape and hence the conductivity of a channel of one type of charge carrier in a semiconductor material.

Foundry A manufacturing plant where silicon wafers are produced.

Hi-Fi High-Fidelity is the reproduction of sound with little or no distortion.

High power density The context of travel adapters, chargers and power supplies, high power density is the ability to put higher power AC/DC conversion capability inside smaller form factor adapter cases and power supply housings while avoiding thermal issues that can occur when operating high power electronics in confined, small spaces. High power density is achieved by enabling the use of smaller components that are also more highly efficient.

Gallium Nitride

IC Integrated Circuit An electronic device with numerous components on a single chip.

FPGA A Field-programmable gate array is an integrated circuit designed to be configured by a customer or a designer after manufacturing.

Imaging The capture and processing of images via an image sensor for use by an electronic device to send to a display for viewing by a user.

Internet of Things (IoT) The Internet of Things is an environment where everyday items, such as smartphones, wearable health meters, light bulbs, and lighting, security and HVAC systems, are all connected via the Internet, allowing them to send and receive data and be controlled wirelessly.

Internet of My Things It refers to the consumer segment of the Internet of Things.

LDO Low dropout voltage regulators are used in battery operated systems, where the output voltage is typically lower than the input voltage.

LED A Light Emitting Diode is a semiconductor device that emits light when charged with electricity, often used for LCD display backlights.

Liquid Crystal Display (“LCD”) A display technology found in many portable electronics products, involving low energy consuming, small size, lightweight and low power electronics.

MOSFET A Metal Oxide Semiconductor Field Effect Transistor. It is a switch that allows or prevents the flow of electricity.

PMIC Power Management IC.

SoC System on Chip An integrated circuit with all the necessary electronic circuits and parts for a given system.

Solid State Lighting A type of lighting in which light-emitting diodes (“LEDs”) replaces conventional incandescent and fluorescent lamps for general lighting purposes.

Subcontractor A business that signs a contract to perform part or all of the obligations of another’s contract.

Synchronous Rectifier An integrated circuit that replaces diodes to improve efficiency and power density in power conversion applications, such as power supplies.

System-on-Chip An IC that integrates all components of a computer or other electronic system into a single chip. It may contain digital, analog, mixed-signal, and often radio-frequency functions – all on a single chip substrate.

Tablet PC A tablet PC refers to a slate- or tablet-shaped mobile computer device, equipped with a touchscreen or stylus.

TAM Total addressable market, TAM measures the potential market for your product – and your product only – assuming you could reach 100% of your customers.

USB Universal Serial Bus: a universal interface standard to connect different electronic devices.

USB Power Delivery (USB PD) A communication protocol developed by the USB Implementers Forum. The USB PD protocol is added on top of the USB Type-C™ connector specification to enable a single USB cable/connector solution that can be used ubiquitously for power or charging across multiple devices, tablets, laptops, and even power tools, networking devices, and USB wall receptacles. The specification supports scalable power and performance for new and emerging electronic products.

Virtual reality

Water A drop of silicon from a 4, 5, 6 or 8 inch diameter silicon bar and used as the foundation on which to build semiconductor products. 4G Wireless broadband standard.
Financial glossary

AGM Annual General Meeting of the Company’s shareholders.
BaFin the Federal Financial Supervisory Authority in Germany (Bundesanstalt für Finanzdienstleistungsaufsicht).
Basis point or bp one hundredth of one percentage point.
CAGR Compound Annual Growth Rate, a method of assessing the average growth of a value over time.
CEO Chief Executive Officer.
CFO Chief Financial Officer.
the Companies Act 2006 the Companies Act 2006 of England and Wales, as amended.
the Company Dialog Semiconductor Plc.
CGSO Committee of Sponsoring Organizations, whose mission is to provide thought leadership on risk management, internal control and fraud deterrence to improve organisational performance and governance.
Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs (including share-based compensation), applicable overhead and depreciation of test and other equipment.
Dialog Semiconductor, Dialog both used for convenience to refer to the Company and its subsidiaries, unless the context requires otherwise.
the DTRs the Disclosure & Transparency Rules of the UKLA.
EBIT Earnings before interest and taxes (also known as operating profit).
EBITDA Earnings before depreciation, amortisation, interest and taxes.
ESG Environmental Social and Governance.
the EU the European Union.
Euro (€) the common currency used in the majority of member countries of the EU.
the Frankfurt Stock Exchange the largest of the seven regional securities exchanges in Germany.
Free-float the proportion of an issuer’s share capital that is available for purchase in the public equity markets by investors.
General and administrative expenses consist primarily of personnel costs (including share-based compensation) and costs for finance, human resources and other business support functions.
the Group the Company and its subsidiaries.
the IASB the International Accounting Standards Board.
IFRS International Financial Reporting Standards, comprising accounting standards issued by the IASB.
KPIs Key Performance Indicators, a range of indicators to assess performance, to ensure performance is aligned to strategy, and to ensure continued alignment with shareholder interests.
LTIP Long Term Incentive Plan.
NASDAQ the National Association of Securities Dealers and Automated Quotations.
OECD Organisation for Economic Co-operation and Development.
Other operating income consists of income from customer-specific R&D contracts and other income that is not classified as revenue, less other operating expenses.
Pound sterling (£) the currency of the UK.
Prima Standard a market segment of the Frankfurt Stock Exchange that lists companies which comply with international transparency standards, including periodic reporting in German and English, application of international accounting standards, publication of a financial calendar, staging of at least one analyst conference a year and ad hoc disclosure also in German and English.
R&D research and development.
R&D expenses consist principally of personnel costs (including share-based compensation) and other design and engineering-related costs associated with the development of new ASICS and ASSIPs.
Selling and marketing expenses consist primarily of personnel costs (including share-based compensation), travel expenses, sales commissions, advertising and other marketing costs; together with amortisation expenses in relation to identifiable intangible assets such as customer relationships, key customers and order backlog acquired in business combinations.
SG&A selling, general and administrative.
the TecDAX stock index that tracks the performance of the 30 largest companies by market capitalisation from the technology sector that are listed on the Frankfurt Stock Exchange.
UK the United Kingdom of Great Britain and Northern Ireland.
the UKLA the UK Listing Authority.
US the United States of America.
US dollar (US$) the currency of the US.

Advisers and corporate information

Advisers and corporate information

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Aldersgate Street
London EC1A 4HD
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Bockenheimer Anlage 44
60322 Frankfurt am Main
Germany
Legal adviser
Reynolds Porter Chamberlain LLP
Tower Bridge House
St Katherine’s Way
London E1W 1AA
UK
Auditors
Deloitte LLP
Abbotts House
Avenue Street
Reading
RG1 3BD
UK
Principal bankers
HSBC Bank Plc
Large Corporates, South Region
Thames Tower
Station Road
Reading
Berkshire RG1 1LX
UK
Designated sponsors
Oddo Skeyrler
Schillerstrasse 27-29
60313 Frankfurt am Main
Germany
Kepler Cheuvreux
Taunusanlage 19
60325 Frankfurt am Main
Germany
Shares
Information on the Company’s shares and on significant shareholdings can be found on page 89.
### Group directory

#### Germany
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  - 72330 Kirchheim/Teck-Nabern, Germany
  - Phone: (+49) 7021 805-0
  - Fax: (+49) 7021 805-100
  - Email: sales@diasemi.com

#### United Kingdom
- **Dialog Semiconductor (UK) Limited**
  - Delta 200
  - Delta Business Park
  - Welton Road
  - Swindon
  - Wiltshire SN5 7EB, United Kingdom
  - Phone: (+44) 1793 757700
  - Fax: (+44) 1793 757800
  - Email: info@swindon@diasemi.com

#### The Netherlands
- **Dialog Semiconductor B.V.**
  - Het Zuidkruis 53, 5215 MV's-Hertogenbosch, Netherlands
  - Phone: (+31) 73 640 88 22
  - Fax: (+31) 73 640 88 23
  - Email: info@diasemi.com

#### North America
- **Dialog Semiconductor Inc.**
  - 675 Campbell Technology Parkway, Suite 150
  - Campbell
  - California 95008, USA

#### Taiwan
- **Dialog Semiconductor GmbH**
  - Taipei City 11493, Taiwan, P.O.C.
  - Phone: (+886) 281 780 222
  - Fax: (+886) 281 780 220
  - Email: dial.taiwan@diasemi.com

#### Korea
- **Dialog Semiconductor Operations Services Limited**
  - Korea Branch
  - 6FL, Decklemyeon Building
  - Teheran-ro 625
  - Gangnam-gu
  - Seoul, 06173, Korea
  - Phone: (+82) 2 3469 8200
  - Fax: (+82) 2 3469 8291
  - Email: dial.korea@diasemi.com

## Annual report and accounts 2019

### Related undertakings

The Company’s related undertakings as at 31 December 2019 were as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Registered Address</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Chips GmbH</td>
<td>Im Bubantrag 1, 55411 Bingen-Budenheim, Germany</td>
<td></td>
</tr>
<tr>
<td>Creative Chips Dresden GmbH</td>
<td>Abrahamse 4, 12117 Dresden, Germany</td>
<td></td>
</tr>
<tr>
<td>Dialog Argo Holdings, Inc.</td>
<td>Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801, United States</td>
<td></td>
</tr>
<tr>
<td>Dialog Integrated Circuits (Taiwan Limited)</td>
<td>Rooms 2067-03, No. 21 Building, TEDA Service Outsourcing Industrial Park, No. 19 Xinhuai West Road, TEDA, Tianjin, 300457, China</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor (Shanghai) Limited</td>
<td>25F, Litech Scientific Building, South 12 Road, Southern District in High tech Zone, Nan Shan District, Shenzhen, 518057, China</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor (UK) Limited</td>
<td>Tower Bridge House, St Katharine’s Way, London E1W 1AA, United Kingdom</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor Anahitama</td>
<td>Istanbul Technical University, Ayazaga Campus, APR 6 Building, Maslak, Istanbul, 34469, Turkey</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor Finance B.V.</td>
<td>Het Zuidkruis 53, 5215 MV's-Hertogenbosch, Netherlands</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor Finance B.V.</td>
<td>Het Zuidkruis 53, 5215 MV's-Hertogenbosch, Netherlands</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor (Shenzhen) Limited</td>
<td>Near Shenzhen, 72330 Kirkheim unter Teck-Nabern, Germany</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor Hellas Societe Anonyme of Integrated Circuits</td>
<td>Megaro Axis, Achilleos 8 &amp; Lambros Kallos, Kallithea, Athens, 17674, Greece</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor Holdings Limited</td>
<td>Tower Bridge House, St Katharine’s Way, London E1W 1AA, United Kingdom</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor (UK) Limited</td>
<td>Units 515-517, 5/F., Building 12W, No.12, Science Park West Avenue, Phase Three, Hong Kong Science Park, Pak Shek Kok, N.T., Hong Kong</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor Inc.</td>
<td>Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, DE 19801, United States</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor K.K.</td>
<td>18F, W Building 1-8-15, Minato-ku, Tokyo 108-0075, Japan</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor Korea Inc. (formerly FCIC Inc.)</td>
<td>7F, Bld B, Silicon Park, 35, Fangyou-ro 255 boon-gil (Sampyeong-dong), Bundang-gu, Seongnam-si, Gyeonggi-do, 13446, Korea</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor Operations Services Limited</td>
<td>Tower Bridge House, St Katharine’s Way, London E1W 1AA, United Kingdom</td>
<td></td>
</tr>
<tr>
<td>Dialog Semiconductor Trading (Shanghai) Ltd</td>
<td>Room 703, 7F, Kehui Building, No.1188 North Quinzhou Road, Xuhui District, Shanghai 200231, China</td>
<td></td>
</tr>
<tr>
<td>Dub payout B.V.</td>
<td>P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands</td>
<td></td>
</tr>
<tr>
<td>Dub payout B.V.</td>
<td>Het Zuidkruis 53, 5215 MV’s-Hertogenbosch, Netherlands</td>
<td></td>
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<tr>
<td>Dub payout B.V.</td>
<td>Het Zuidkruis 53, 5215 MV’s-Hertogenbosch, Netherlands</td>
<td></td>
</tr>
<tr>
<td>Dub HK Limited</td>
<td>Units 515-517, 5/F., Building 12W, No.12, Science Park West Avenue, Phase Three, Hong Kong Science Park, Pak Shek Kok, N.T., Hong Kong</td>
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<td>Dub LLC</td>
<td>Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801, United States</td>
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<tr>
<td>Dialog Semiconductor Plc</td>
<td>Annual report and accounts 2019</td>
<td></td>
</tr>
</tbody>
</table>
## Branches and representive offices

<table>
<thead>
<tr>
<th>Name</th>
<th>Entity Type</th>
<th>Registered Address</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Chips GmbH</td>
<td>Japan Branch</td>
<td>Branch Office</td>
<td>1-16-12 Nishi-Shinbash, #1104, Minato-ku, Tokyo 105-003</td>
</tr>
<tr>
<td>Dialog Integrated Circuits (Tianjin) Limited Beijing Branch</td>
<td>Branch Office</td>
<td></td>
<td>Room 902-904, Zhong Guan Cun Crowne Plaza Office Building, No. 106 Zhichun Road, Haidian District, Beijing, 100088</td>
</tr>
<tr>
<td>Dialog Semiconductor (UK) Limited, Korea Branch</td>
<td>Branch Office</td>
<td>6FL, Deokmyeong Building, Teheran-ro 625, Gangnam-gu, Seoul, 06173</td>
<td>Korea</td>
</tr>
<tr>
<td>Dialog Semiconductor GmbH Austria Branch</td>
<td>Branch Office</td>
<td></td>
<td>Kärtner Strasse 518, 8034 Graz-Selaersberg</td>
</tr>
<tr>
<td>Dialog Semiconductor GmbH Singapore Branch</td>
<td>Branch Office</td>
<td></td>
<td>51 Anson Road, #12-51 Anson Centre, Singapore 079904</td>
</tr>
<tr>
<td>Dialog Semiconductor GmbH Taiwan Branch</td>
<td>Branch Office</td>
<td>7F., No.390, Ruiguang Rd., Neihu Dist., Taipei City 114</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Dialog Semiconductor Operations Services Limited Korea Branch</td>
<td>Branch Office</td>
<td>6FL, Deokmyeong Building, Teheran-ro 625, Gangnam-gu, Seoul, 06173</td>
<td>Korea</td>
</tr>
<tr>
<td>Dialog Semiconductor Operations Services Limited Thailand Representative Office</td>
<td>Representative Office</td>
<td>26th Fioo, Sathorn City Tower, 179 South Sathorn Road, Thungmahamek, Sathorn, 10120 Bangkok</td>
<td>Thailand</td>
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<tr>
<td>Dialog Semiconductor Operations Services Limited Taiwan Branch</td>
<td>Branch Office</td>
<td>7F., No.350, Ruiguang Rd., Neihu Dist., Taipei City 114</td>
<td>Taiwan</td>
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<tr>
<td>Powerventure Semiconductor Limited, Taiwan Branch</td>
<td>Branch Office</td>
<td>7F., No. 1, Taoyuan 1st St., Zhubei City, Hsinchu County 302</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Silage Technology Inc., Shanghai Representative Office</td>
<td>Representative Office</td>
<td>Room 2102 J, Building 21, No. 500 North Chengdu Rd., Jianguo District, Shanghai</td>
<td>China</td>
</tr>
<tr>
<td>Silage Technology Inc., Taiwan Branch</td>
<td>Branch Office</td>
<td>7F., No. 350, Ruiguang Rd., Neihu Dist., Taipei City 114</td>
<td>Taiwan</td>
</tr>
</tbody>
</table>

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