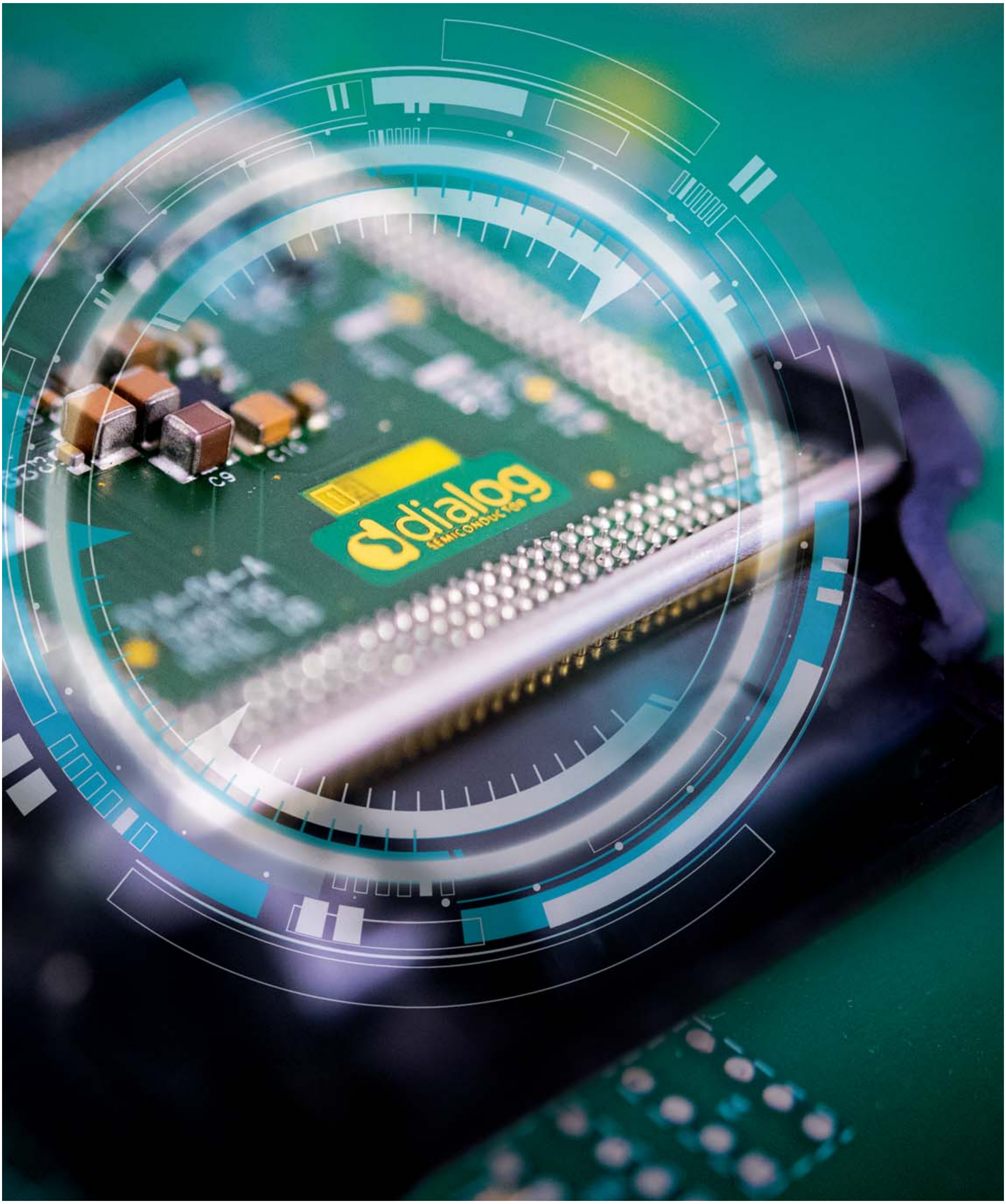
Dialog Semiconductor Plc
Annual report and accounts 2017

Focusing on the future



Powering the smart connected future

We are a fabless semiconductor company primarily focused on the development of highly-integrated mixed-signal products for consumer electronics.

Our passion for innovation and entrepreneurial spirit ensures we remain at the core of mobile computing and the Internet of Things (''IoT'').

We are a global technology company with a passion for innovation. Through our collaborative R&D approach and responsible supply chain management.

We develop and market highly-integrated power-efficient mixed-signal integrated circuits (''ICs'') for the leading companies in consumer electronics.

Our highly-skilled engineers, partnership approach, operational flexibility and the quality of our products are sources of competitive advantage for Dialog.

We measure our success through a balance of financial and non-financial KPIs, with the ultimate aim of delivering superior long-term growth.

Contents

Strategic report

Our technologies contribute to extending battery life in portable devices, charging batteries faster and safely, and providing efficient connectivity in IoT applications.

Our products enhance consumer experience and enable our customers to differentiate and move fast to market.

Everything we do is underpinned by a responsible approach and robust risk management process, ensuring the long-term viability of the Company.

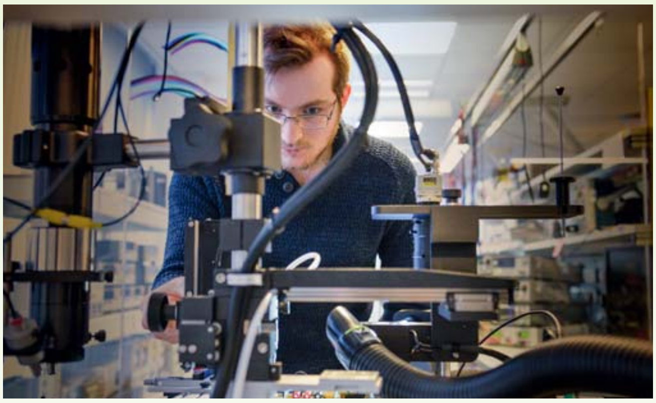
You can also read more about our corporate responsibility performance at www.dialog-semiconductor.com/company/corporate-social-responsibility

Why invest in Dialog?

A growing business built on innovation

Solid competitive positioning

- 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.



Expensed in R&D in 2017

US$279m

Number of employees in engineering functions in 2017*

1,418 KPI

Read more about how we are enhancing our competitive advantages on Pages 16-19

Structural growth

- Our technical competencies are aligned with secular trends in efficient power management and power-efficient technologies in mobility and connected ("Internet of Things") devices.

Year-on-year revenue growth in 2017

+13% KPI

Year-on-year revenue growth in Bluetooth® low energy

+24%

Read more about our market-led strategy on Page 23

* Excluding employees from Silego Technology Inc.

High returns, strong cash generation

- 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.

Free cash flow in 2017*

US$205m

KPI

2017	**205**
2016	195
2015	248

Read more about our business model on **Page 12**

Support organic and inorganic expansion

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

In 2017 we acquired Silego Technology Inc., the leading provider of Configurable Mixed-Signal ICs, and the LED backlighting technology from ams AG.

Read more about our segmental performance on **Pages 36-43**

* Free cash flow is not a non-IFRS measure. See "Financial performance measures" on page 161.

Financial highlights

In 2017, the business grew double-digit and increased underlying operating margin

All the business segments delivered year-on-year revenue growth. Gross margin increased from 2016 and cash flow generation remained strong. In line with our strategic objectives, we sustained a healthy level of R&D investment to generate future profitable growth.

Read about our KPIs in detail on **Page 34**

2017 Financial highlights

Year-on-year revenue growth (US$m)

+13%

Year	US$m
2017	1,353
2016	1,198
2015	1,355

Gross margin (%)

45.9%

2017	45.9
2016	45.7
2015	46.1

Cash flow from operating activities (US$m)

US$285m

Year	US$m
2017	285
2016	249
2015	318

Operating margin (%)

13.8%

2017	13.8
2016	25.9
2015	19.2

Diluted EPS (US$)

US$2.21

2017	2.21
2016	3.25
2015	2.29

Underlying year-on-year revenue growth (US$m)

+13%

Year	US$m
2017	1,353
2016	1,198
2015	1,355

Underlying gross margin (%)

46.7%

2017	46.7
2016	46.3
2015	46.7

Underlying operating margin (%)

19.2%

2017	19.2
2016	18.5
2015	23.4

Underlying diluted EPS (US$)

US$2.92

2017	2.92
2016	2.09
2015	3.02

Underlying measures of profitability 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. Underlying measures presented by Dialog may not be directly comparable with similarly-titled measures used by other companies.

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 each of the periods presented are set out in the section entitled "Financial performance measures" on pages 156 to 161.

Chairman's statement

Working to create long-term value for our stakeholders

"Our ambition is to power the smart connected future. We pursue this ambition in a responsible and sustainable manner, working to create long-term value for a wider range of stakeholders."

Richard Beyer
Chairman

Fellow shareholder,

In 2017 we made further progress towards our strategic objectives to broaden our customer base and expand our product portfolio with the acquisitions of Silego Technology Inc. and the LED backlighting technology from ams AG.

In parallel to the improvement in consumer demand in the high-end of the smartphone market and the fast development of the Internet of Things, the business delivered 13% revenue growth, increasing underlying profitability and strong cash flow generation. We continued to implement our share buyback programme in 2017 returning approximately US$125 million (2016: US$60 million) to shareholders.

Embedding our culture and values

As detailed previously in 2016, the Board and senior management placed great emphasis on articulating and embedding our corporate culture to ensure our values are embraced and permeate the entire organisation. During 2017, we have made further progress in embedding the "Spirit of Dialog" and communicating that to employees and other stakeholders.

As a publicly listed company, we aim to generate value for all our stakeholders: our people, customers, our partners and suppliers, our shareholders and the communities in which we operate. In order to promote the long-term success of our business, the Board is firmly aware of the importance of building and maintaining successful relationships with a wide range of stakeholders.

Engaging with our employees

The energy and commitment of our 2,071 colleagues is vital to our success. Talent retention and development is central to our relentless focus on innovation and our ability to create value. In 2017, there has been a significant focus on the Gender Pay Gap in large organisations. The Board is aware of the importance of this topic in the electronic engineering industry and we have published details of our Gender Pay Gap. Legislation encouraging greater diversity continues to evolve and the Board is committed to playing a positive role in promoting this important issue.

Our annual employee survey helps us understand what is important to our colleagues and where we, as a Board and senior management team, need to focus.

Read more about our employee survey in Engaging with our colleagues on **Page 16**

Working closely with our customers

We are fortunate to count many of the leading consumer electronics companies as our customers, which is reflective of our passion for innovation and the quality of our products. Customers are at the core of our DNA and the strength of our customer relationships is one of our key assets. Our partnership approach, operational flexibility and the quality of our products are key sources of value to our customers.

Read more about our customer relationships on **Page 18**

Engaging with our stakeholders

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, to create value for all our stakeholders.

Our people

Customers

Investors

Strategic partners and suppliers

Society/ Communities

Read more on **Page 15**

Chairman's statement continued

Building a constructive dialogue with our shareholders

The Board is committed to engaging in constructive dialogue with shareholders to enable a clear understanding of our strategy and to foster mutual understanding of what is important to the Board and shareholders. Every decision we make as a Board is intended to protect and enhance enterprise value and the capital entrusted to us by you as shareholders.

Read more about our investor relations in our Governance section on **Page 72**

Playing an active role in society and communities

Dialog has operations in a number of locations in 16 countries and we play an active role in the communities in which we operate.

As a thought leader in semiconductors and technology, we engage with universities and professional bodies to share our knowledge and contribute to the continuing development of students and professionals. Additionally, in 2017 we invested US$181,000 in local community projects across the world.

Our greatest impact comes from the quality and energy efficiency of our semiconductors and the contribution they make towards the reduction of power consumption in consumer electronics.

Working responsibly with our partners and suppliers

A key component of our fabless business model is the development of strong and responsible relationships with our foundry, test and packaging partners. Over time, our engagement with partners and suppliers has evolved into a close collaboration which, in turn, has led to clear technology leadership, product quality and on time delivery.

Annually, we undertake audits of all fabrication partners to ensure our relationships continue to operate effectively. While we have healthy and enduring relationships with all our partners and suppliers, we alone are responsible for the products provided to customers. This responsibility is taken seriously by the Board and management. We promote responsible business practices across the supply chain to protect our ability to create sustainable value for our shareholders.

Read more about our supply chain in our Annual Sustainability Report

Governance and the right balance of skills

Our ability to create value for our stakeholders is heavily linked to our commitment to high standards of corporate governance. The Board and I feel we have the right balance of skills, experience and backgrounds to oversee the evolution of our strategy and, when necessary, challenge the management team. In 2016, we added two new Directors to the Board and during 2017 Nick and Mary have developed a thorough understanding of our business and our key stakeholders, and they have already brought significant new insights to the Company's strategy and execution. In 2017, the Board also engaged an external effectiveness evaluation. We will continue to assess the composition and practices of the Board in 2018 to ensure they promote the long-term interests of the business.

Changes to the Board

I would like to recognise the contribution of Russ Shaw, who stepped down as Director in May 2017, and Chris Burke who will not stand for re-election at the next AGM. Russ and Chris played a key role in helping Dialog create value for our shareholders and other stakeholders, and we were fortunate to have their contribution for almost 11 years.

In 2018, we will continue to focus on differentiating Dialog through our relentless focus on innovation and strengthening the relationships with our main stakeholders. Our progress 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,

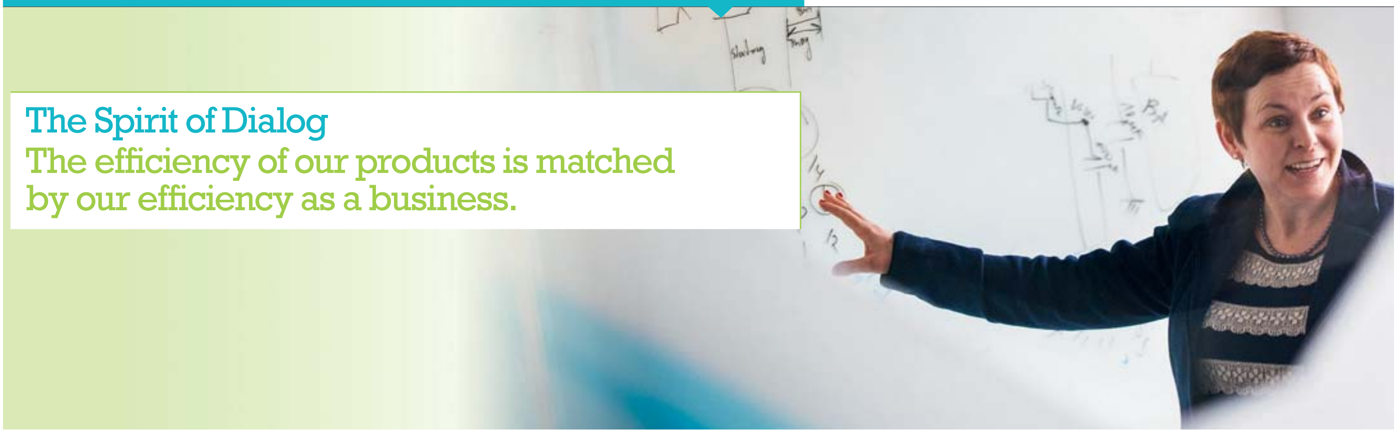
Richard M. Beyer
Chairman

Our culture and values

The power of our values sets us apart

Dialog's success is driven by innovative technology and fast time-to-market, which is achieved through our culture and values by our outstanding colleagues.

Highly-skilled engineers and IP	Strength of our customer relations	Robust and responsible supply chain	The strength of our balance sheet	**Our Company culture**



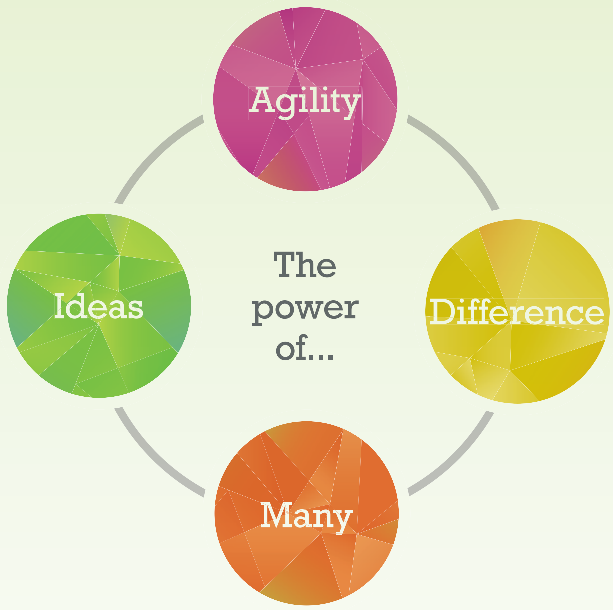
The Spirit of Dialog
The efficiency of our products is matched by our efficiency as a business.

The Spirit of Dialog in action

The "Spirit of Dialog" is more than just a set of worthy words; it genuinely drives and shapes the way we operate as an organisation. We track the impact of the "Spirit of Dialog" by ensuring that every Dialog employee has a culture objective as part of their annual appraisal. We also use our employee survey to hold leaders accountable to their behaviour according to these concepts. The "Spirit of Dialog" is also a crucial factor in our recruitment process. We seek to hire people who will help maintain and develop the culture we know we need for continued success. Throughout this report you will see references to the "Spirit of Dialog" and how it has driven success in the year.

Agility
We believe in being entrepreneurial, always moving and decisive: delivering excellence, and keeping things simple.

Difference
We care about our impact and know that we make a difference to our customers and their end consumers, to employees and to society.



Ideas
We have a passion for innovation and thrive on new ideas. This is about pushing boundaries and taking pride in new approaches.

Many
We are at our best when we work together, across geographic and cultural boundaries. This is about sharing ideas, challenging each other and building strong relationships with our customers, employees and suppliers.

Q&A with our CEO, Dr Jalal Bagherli

Dear shareholder

In 2017 the business delivered double-digit revenue growth and increasing underlying profitability. The acquisitions of Silego Technology Inc. and the LED backlighting business from ams AG will contribute to the diversification of our business and future revenue growth.

"Revenue outside Mobile Systems grew 13% year-on-year and Connectivity achieved double-digit operating margin."

Dr Jalal Bagherli
Chief Executive Officer

How would you describe Dialog's financial performance in 2017?

I am very pleased with the financial performance of the business in 2017. Revenue was up 13% and we delivered US$187 million operating profit, US$259 million on an underlying basis. Our three core business segments delivered 14% year-on-year revenue growth and were profitable on an underlying basis. Strong cash flow generation is a distinctive feature of our business, and 2017 was no exception with US$285 million cash flow from operating activities.

During 2017 consumer demand improved in the high-end smartphone segment. This, combined with the increasing value of our highly-integrated power management solutions, resulted in 13% year-on-year revenue growth in Mobile Systems.

As the Internet of Things continues to evolve and more devices get connected, the Bluetooth® low energy market also experienced strong growth during 2017. Building on the market growth and the quality of our products, Connectivity delivered a record 15% year-on-year revenue growth and higher operating margin.

The rapid charge segment continued to grow in volume during 2017, mostly in China. Dialog maintained a commanding position in this market, resulting in 4% year-on-year revenue growth in the former Power Conversion segment. In Q4 2017 we consolidated Power Conversion with the business from the acquisition of Silego Technology Inc., creating the Advanced Mixed Signal business segment.

Automotive and Industrial also did well in 2017, delivering 10% revenue growth and high operating margin.

At the AGM on 3 May 2017, we renewed the approval to continue the buyback programme. During 2017 we returned US$125 million to our shareholders. Since the beginning of the buyback programme in May 2016, we have purchased 4.48 million shares for a total of €169 million (US$185 million).

As mobile computing and the Internet of Things ("IoT") continue to evolve, how would you describe Dialog's competitive position?

Mobility or mobile computing is our major end market and our core technical competencies are aligned with secular trends in efficient power management and power-efficient technologies.

Our highly-integrated power management ICs contribute to improving the battery life of mobile devices. Our know-how and IP has been built over the years, working together with the leading consumer electronics companies. We have a number of initiatives aiming to generate new revenue growth opportunities, such as leveraging our existing technology into new applications, expanding our range of high-voltage chargers, and our collaboration with Spreadtrum.

Rapid charge technologies are gradually being adopted by more OEMs and during 2017 we welcomed new customers, particularly in China. New charging technologies, like USB PD Type C™ will become more prevalent during 2018.

Our presence in the IoT segment is built on the success and technical excellence of our Bluetooth® low energy ("BLE") products. Since its launch in late 2014, SmartBond™ has shipped well over 100 million units, offering low power consumption, small size and low system cost without compromise. The market continues to grow and we expect it to be at around 26% CAGR for the period 2016–2020.

In 2017, BLE grew 24% year-on-year, the third consecutive year of strong double-digit growth; a clear testament of the value it brings to customers.

A key initiative for Dialog is to establish strategic engagements in Asia. What progress has Dialog made on this front?

This year we announced the collaboration with Spreadtrum Communications, a fabless semiconductor company that develops mobile chipset platforms for smartphones, feature phones and other consumer electronics products. It embodies all of the characteristics of the mutually-beneficial partnerships we seek out. It gives us a strong footing in new markets in China, India and South East Asia, where Spreadtrum has built a powerful market share. This collaboration allows both companies to bring better, integrated LTE platforms to manufacturers and consumers, meeting the demands of next-generation smartphones and the next generation of global users. The first phase of our cooperation has resulted in Dialog's latest custom SC2705, which is included in one of Spreadtrum's LTE platforms.

How is the relationship with your largest customer?

Over the last decade we have built a strong relationship with our largest customer, Apple Inc. as its requirements have evolved and developed. Our revenue derived from this relationship in 2017 was US$1,043 million. This revenue is based on opportunities made available to us on a product by product basis and our ability to work to the highest technical standards, develop leading-edge technology and a commitment to provide high-quality products at appropriate price and volumes.

We recognise that Apple has the resources and capability to design a PMIC of its own. We will continue to support them as our relationship evolves and develops over time.

Last year you announced a partnership with Energous. How did it develop in 2017?

In November 2016 we announced our partnership with Energous Corporation with a US$10 million investment and entry into an exclusive component supplier agreement for Energous' WattUp ICs. Since then, we have launched DA4100, the world's first WattUp wireless power transmitter System-on-Chip ("SoC"). This SoC was integrated with Dialog's SmartBond™ Bluetooth® low energy technology to form the heart of the FCC-approved WattUp near-field transmitter system.

In June this year we announced a further US$15 million strategic investment, to show our continued belief in the success of this partnership. In December 2017, Energous gained FCC approval for the medium-field (up to three feet) technology which will allow for over-the-air wireless charging in a range of connected devices in the home, office, car and beyond.

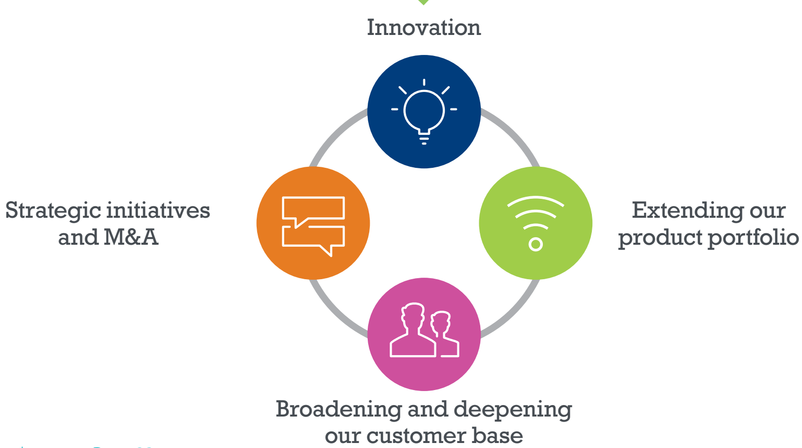
In October 2017 you announced the acquisition of Silego Technology Inc. What does it bring to Dialog?

The acquisition of Silego establishes Dialog as the number one player in the emerging and fast-growing Configurable Mixed-signal IC ("CMIC") market. Silego's intuitive CMIC software interface allows customers to easily configure multiple functions into one chip and create a prototype in hours with much greater design flexibility. This technology enables OEMs to reduce board space, simplify their supply chain, and accelerate time-to-market. Our entry to the CMIC market expands our current addressable market by over US$1.4 billion, solidifying Dialog's position in IoT, mobile computing and automotive markets. We expect to see the financial benefit from 2018 with accelerated revenue growth and higher underlying EPS.

Our strategy

We continued to make good progress on our corporate strategy.

Our framework incorporates a wider range of stakeholders and aims to drive our competitive advantages.



Read more on Page 23

What are the main sustainability priorities for Dialog?

In 2017 we reviewed our sustainability priorities through our bi-annual materiality assessment. The energy-efficiency of our products, our people and a responsible supply chain are our main sustainability priorities. We remain fully committed to playing an active role in promoting the high standards of responsible business across the supply chain and ensure we meet our customers' high standards.

It was very rewarding to see Dialog listed in the Carbon Clean 200 Index another year. A testimony of the role our technology plays in supporting the move to a cleaner and more energy-efficient economy.

Were there any changes to the management team during the year?

In May 2017 we welcomed Julie Pope as our new Senior Vice President of Human Resources. Julie joined Dialog in 2017 after working for American Express as Vice President of HR, Business Partner EMEA. She also has international experience from Australia and the USA for companies including IBM. I believe Julie's experience on the international stage complements Dialog's international footprint and I look forward to working with her in the future.

Julie replaces Martin Powell, who was with Dialog since 2010. I would like to thank Martin for his service to Dialog over the last seven years. During his time as SVP, Martin was instrumental in introducing our company values, "The Spirit of Dialog".

Is there anything else you would like to add?

I would like to thank our employees for their continued hard work and dedication. Together we are building a vibrant mixed signal company. We can be proud of our achievements this year and we look forward to what 2018 and beyond has to offer with confidence, thanks to the hard work of everyone in the Company.

Finally, I would like to thank our customers, partners and suppliers, and our shareholders for their continued support and trust in Dialog.

Dr Jalal Bagherli
CEO

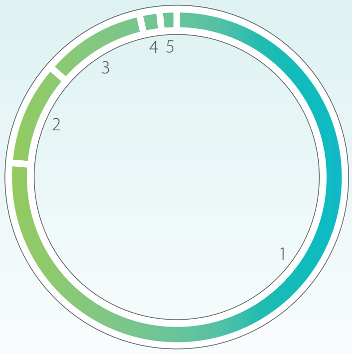
At a glance

Our power-efficient products are primarily focused on consumer applications, enabling people to be connected on the move. Our technologies enhance consumer experience by extending battery life and enabling faster and more efficient charging of their portable devices.

We have been at the centre of the mobile revolution since its inception and we are expanding our product portfolio through a combination of organic and inorganic initiatives.

In 2017, we grouped our Power Conversion segment and the business from the acquisition of Silego Technology Inc. into a new segment named Advanced Mixed Signal.

Read more on the markets in which we operate on **Page 20**



1. Mobile Systems	77%
2. Connectivity	10%
3. Advanced Mixed Signal	10%
4. Automotive & Industrial	2%
5. Corporate – Dyna Image	1%

Mobile Systems

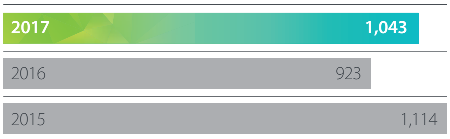
+13%

Year-on-year revenue growth

Our 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. High-quality efficient charging technologies have become increasingly important for our customers.

Revenue (US$m)

US$1,043m



Key products

- Power Management Integrated Circuits ("PMICs") for battery and tethered applications.
- Sub-PMICs for high performance multi-core System-on-Chip based systems.
- Charger ICs for smartphones and tablets.
- Automotive grade PMICs for in-vehicle infotainment and cluster systems.
- Audio CODECs for computing, portable media players and audio accessories.

Segment review on **Page 36**

Connectivity

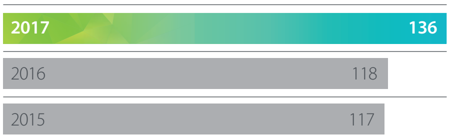
+15%

Year-on-year revenue growth

We provide short-range wireless connectivity solutions that deliver outstanding performance, flexibility and power efficiency. Our Bluetooth® low energy solutions enable the Internet of My Things. In 2017, we upgraded our Bluetooth® low energy products to support Bluetooth 5.0, the latest revision of the standard.

Revenue (US$m)

US$136m

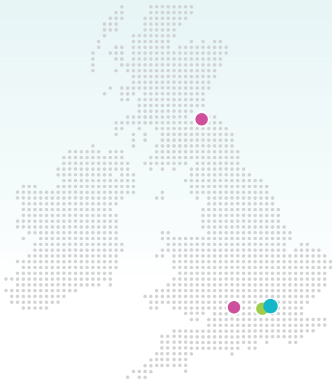


Key products

- Bluetooth® low energy ICs.
- Voice over DECT for cordless phones and professional audio applications.
- Digital audio and audio CODEC ICs for headsets and headphones.

Segment review on **Page 38**

Operations



16 countries

2,071 employees

33 locations

- Head offices
- Design and Manufacturing
- Sales offices

Advanced Mixed Signal

10% of total Group revenue in 2017

+14%

Year-on-year revenue growth

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

Revenue (US$m)

US$133m

2017	133
2016	117
2015	85

Key products

- AC/DC rapid charge adapters.
- AC/DC converters.
- AC/DC power adapters.
- AC/DC embedded networking converters.
- SSL LED and backlight drivers.
- Configurable mixed-signal ICs.

Segment review on Page 40

Automotive & Industrial

2% of total Group revenue in 2017

+10%

Year-on-year revenue growth

We produce custom motor control and power management ICs for the mid to high-end European automotive segment. We also design electronic ballasts for industrial lighting and energy-efficient controllers for LED lighting solutions.

Revenue (US$m)

US$33m

2017	33
2016	30
2015	34

Key products

- Motor control ICs.
- ASIC controllers for LED lighting.

Segment review on Page 42

Our business model

Our partnership approach, operational flexibility and the quality of our products are key sources of value to our customers.

How we monetise our business

We 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 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 fabless business model based on high 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.

Aligned interests

Dialog is committed to the continuing development of market-leading innovative products which we believe will 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. Dialog's remuneration policy is set out in greater detail within the Directors' remuneration policy report on pages 77 to 82.

1 Design cycle
6–18 months

A short and collaborative design cycle

We operate in a competitive and changing market and need to be able to respond quickly to evolving consumer requirements.

Creating value through innovation

Our passion for innovation is reflected in the commitment to our people, our products and IP.

2 Manufacturing cycle
3 months

Our high-touch, flexible fabless model

We outsource production to industry-leading wafer foundries, assembly and test partners.

3 Products cycle
1–5 years

Market-leading, quality products that make an impact

Our integrated design approach helps to reduce component size and number, which contributes to improving energy efficiency.

Our competitive advantage is built on:

Highly-skilled engineers and IP	Strength of our customer relations	Robust and responsible supply chain	The strength of our balance sheet	Our Company culture
Read more on **Page 16**	Read more on **Page 18**	Read more on **Page 19**	Read more on **Page 44**	Read more on **Page 7**

How do we create value?

1

We develop our products in short and collaborative design cycles

Design cycle
6–18 months

In the consumer electronics market, product development times are short due to rapidly evolving consumer requirements in a highly competitive market.

The design of our customised Application Specific ICs ("ASIC") is well embedded in our customers' design cycle. For the design of ASIC solutions, we engage with our customers as an "extended R&D team", delivering differentiation in short design cycles.

The reciprocal cooperation with customers and fabrication partners and decentralised R&D approach enhances our innovation capacity.

Our passion for innovation is reflected in the commitment to our people, our products and IP. Our ability to recruit, retain and develop new talent is vital to generate innovation. Our focus is to maintain a sustainable skills pipeline. We seek to ensure that our intellectual property ("IP") is adequately safeguarded.

Examples of a range of market-leading innovative products, launched in 2017, are set out in the segment review on **Pages 36 to 43**

2

We work closely with leading and responsible production partners – "High-touch fabless model"

Manufacturing cycle
3 months

We have developed a strong and responsible relationship with our foundry, test and packaging partners.

We outsource production to industry-leading wafer foundries such as TSMC, UMC and Global Foundries. This approach enables flexibility to deploy advanced production processes and maintain low capital intensity. Our Global Operations and Quality functions have teams based at our partners' manufacturing sites.

Our assembly and test partners are leading companies such as SPIL, ASE and UTAC. We maintain deep expertise on advanced processes, test and packaging development in our own teams. These areas of expertise support the development of products which are thin and light, features which consumers value highly in portable devices. 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 supply chain. Although fabless, we are responsible for delivering our products to customers. An efficient and responsible supply chain is important to us and our customers.

3

We focus on highly-integrated power management and power-efficient mixed-signal ICs for consumer electronics

Products cycle
1–5 years

Dialog's focus and expertise in power management and power-efficient semiconductors contributes to better energy efficiency and lower power consumption for a range of portable devices and applications in the consumer products market.

Our integrated design approach helps to reduce component size and number, meaning our customers can reduce materials consumption, costs, maximise performance and accelerate their go-to-market.

Our customers are attracted by the quality, performance and energy efficiency of our products and our focus on consumer devices.

Sustainability informs everything we do:

Find the 2017 Sustainability report at www.dialog-semiconductor.com/company/corporate-social-responsibility

Our people and IP are vital for our business and two of our key sustainability priorities.

Read more about our colleagues on **Page 16**

We promote responsible business practices internally and across our supply chain.

Read more about CSR on **Page 52**

Our power-efficient technologies extend battery life and reduce materials consumption.

Read more about our segments on **Page 36**

Engaging with our stakeholders to create a sustainable business model

Why we engage

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, to create value for all our 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.

+ Read more on our customers on **Page 18**

Over the years, we have built strong ties with the communities from which we operate.

We understand and care about our impact. As a company, we are proud of the energy efficiency of our semiconductors and its positive impact in helping reduce power consumption in consumer applications.

As a publicly listed company, we aim to generate value for our shareholders. In that process, we engage with a wider range of stakeholders and seek mutually beneficial relations which share the economic value created.

+ Read more about our value creation in our **2017 Sustainability Report** at **www.dialog-semiconductor.com/company/corporate-social-responsibility**

In 2017, retention, morale, engagement, and diversity and equality were promoted to our list of core sustainability issues.

+ Read more about our colleagues on **Page 16**

Corporate governance and legal compliance were merged into a single item, and remains a core sustainability priority for the Company and our stakeholders.

+ Read more about governance on **Page 61**

Our sustainability priorities

These are the issues that are most important to our business and key stakeholders. Although our sustainability activities cover a wider range of topics, our effort is focused on these.

The re-prioritisation of our core issues reflects our stakeholders' perception of their relative importance. It does not indicate a change in the Company's effort.

+ New material issue

= No change

↑ ↓ Re-prioritisation of material issues

Our material issues	Change from 2016	Mapping to business issue
→ Economic performance and impact	=	**People**
→ Technological innovation and agility	=	**Products**
→ Intellectual property	=	**Other**
→ Compliance with customer standards	=	**Products**
→ Product impacts	↑	**Products**
→ Labour rights and human rights (supply chain)	↑	**Supply Chain**
→ Employee development	↑	**People**
→ Retention, morale and engagement	+	**People**
→ Corporate governance and compliance	=	**Other**
→ Diversity and equality	+	**People**

+ Read more about our approach to sustainability in our **Sustainability Report** at **www.dialog-semiconductor.com/company/corporate-social-responsibility**

Who we engage with and why?

Our people

Our people drive the success of our business. We know the value a diverse workforce can bring in terms of creativity, dynamism and the sharing of new perspectives. Our culture supports an inclusive and collaborative workplace where everyone can achieve their full potential.

Talent retention and development are vital to generating innovation and the success of our business. High levels of engagement and job satisfaction contribute directly to the success of Dialog.

Our annual employee survey helps us understand what is important to our colleagues and where we need to focus.

Read more about our colleagues on **Page 16**

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 customer relations.

Customers are at the core of our DNA. Our passion for innovation and the quality of our products attract the leading consumer electronic brands.

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.

Read more about our customers on **Page 18**

Investors

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

Feedback from shareholders informs our Board discussions.

We engage with investors and other agents in the financial markets in order to provide open and transparent business information so they can make informed decisions.

Read more in Governance on **Page 72**

Partners and suppliers

As a fabless business model, 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.

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.

Read more about our supply chain on **Page 19**

Society/ Communities

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.

In 2017, we invested US$181,000 in local community projects across the world.

We aim to make a positive contribution to the communities in which we operate through technological advance and the enhancement of the local skills pool.

Read more in our Annual Sustainability Report

Engaging with our colleagues

We understand the value of an engaged and diverse workforce. Our culture and values encourage diversity and our programmes strive to ensure our employees remain engaged and motivated.

Highly-skilled engineers and IP | Strength of our customer relations | Robust and responsible supply chain | The strength of our balance sheet | Our Company culture

Building our competitive advantage

"Our ability to recruit, develop and retain top technical talent is vital to fostering innovation and to generate the unique IP that gives Dialog a competitive advantage."

Julie Pope
Senior Vice President, Human Resources

To help us manage our human resources, we monitor internal KPIs to check we are on track:

Engineering talent ratio (%)

74.7% KPI

New employees (net additions), **globally, in 2017**

305

2017 headcount

2,071

(2016: 1,766 +17.3%)

Our performance

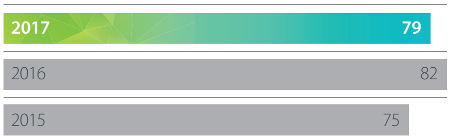
	2017	2016	2015
Voice of Dialog – Employee engagement % or Engagement Capital	**60**	65	59
Employee turnover (%)	**10.3**	7.9	6.9
Employee retention (%)			
Manager retention rate	**94.7**	93.0	95.0
Overall employee retention rate	**89.7**	92.1	93.1
Engineering talent ratio (%)	**74.7**	74.8	72.4
Diversity (%)			
Women overall	**16.8**	14.9	15.8
Part-time employees	**3.2**	3.2	3.5
Number of nationalities	**65**	65	62

Listening to our employees – the Voice of Dialog

Listening to and involving our people in shaping the business is key to the success of the Company.

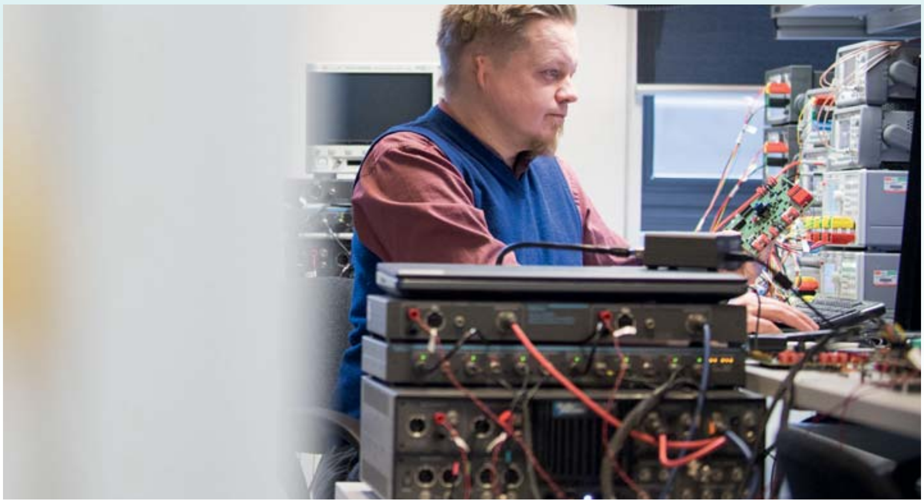
In 2017, we conducted our annual employee engagement survey, "The Voice of Dialog". 79% of our colleagues across Dialog shared their feedback and views. This is a small decrease from 2016 but it is still 3% higher than the global benchmark provided by our survey provider Gartner.

Participation in engagement survey %



As part of our work to ensure our employees are motivated and engaged, we track various measures across the survey. We analyse trends and we benchmark against industry standards. We also examine the highest scoring units within Dialog to identify what they do well, and share these internal best practices around the Company.

The level of engagement in 2017 was below 2016. As the competition in the industry is increasing our engagement scores have decreased. Alongside this we have experienced higher staff turnover in some locations and functions (although lower than the industry average), especially in countries and for jobs where the market is more competitive for talent. However, we have maintained high manager retention, and we are using our engagement survey to decide what actions we need to take.



We are an engineering-led organisation with 74.7% of employees in engineering functions. Our recruitment approach includes a combination of entry level graduate hiring and experienced engineers. This allows us to create a diverse workforce with a good combination of fresh thinking with deep experience.

In 2018 our key focus areas will be to improve manager capability, to identify and retain critical talent and to introduce a global flexible working policy. We will continue holding all employee meetings to help employees understand the connection between our strategy and their job.

Recruiting talent

In 2017, we added 125 new employees (net additions) across the world and in addition welcomed 180 new colleagues from Silego Technology Inc. We strive to recruit the most talented people globally to support the level of innovation required to succeed in a highly competitive industry. During 2017, we expanded our design centres in Europe, Asia and North America.

Our people represent one of our main sustainability priorities. Examples of initiatives and how we manage them are on **Page 52**

Recognising and rewarding our talent

We aim to maintain an engaged, healthy and motivated workforce that is aligned with and actively supports Dialog's values and business goals.

This includes market competitive pay and employee benefits, opportunities for individual and team recognition, and a supportive working environment. All of these seek to support long-term employee well-being and ongoing learning and career development opportunities.

By doing so, we believe we can engender employee motivation and performance, while also enhancing our ability to retain their valuable skills and experience.

We regularly benchmark our employees' pay and benefits against the employment markets in which we operate. This includes close analysis of packages offered by our competitors to ensure that our own offering remains attractive.

Passionate about developing employees

At Dialog we have a passion for innovation and to help new ideas flourish, we invest in the development of our people.

We ensure our employees have access to a variety of high-quality development opportunities that enhance their skills, expertise and knowledge. Our learning and development programmes enhance our internal pool of talented employees and encourage high achievers to build a long and successful career with us.

Coaching and developing each other is an important aspect of our culture. We utilise a 70/20/10 development split of "on the job" learning (70%), feedback & mentoring (20%) and classroom learning (10%). We have also responded to business demand by developing programmes for specific employee categories and career stages.

In 2017, development opportunities included, technical and professional training, and management and leadership training. In 2018 we will further develop key programmes which develop technical and non-technical skills required to support Dialog's growth.

Human and labour rights

Our Code of Business Conduct is directly informed by international, industry and customer standards. We are committed to protecting the rights of our people and we extend this commitment to our supply chain partners. Governments continue to legislate in this respect. 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, published in 2017, reflects our commitment to remain vigilant and improve our compliance monitoring and verification, especially in selecting new suppliers.

Read our modern slavery and human trafficking statement on our website at **www.dialog-semiconductor.com**

Encouraging diversity

We recognise the value a diverse workforce can bring in terms of creativity, dynamism and the sharing of new perspectives. Dialog is committed to employing and developing those people who have the necessary skills, experience and values to excel in their relevant role – irrespective of their gender, ethnicity, religion, disability or any other non-work related personal characteristic.

The globalised nature of our footprint and the nature of our sector mean that we benefit from a highly international workforce. We have a total of 65 nationalities represented within our business – as well as a senior executive team representing seven different nationalities.

The electronic engineering sector performs relatively poorly in terms of gender diversity. Growing focus is being placed on invisible, structural considerations that may induce a degree of self-deselection (i.e. rather than any conscious barriers on the part of the sector). Women are also under-represented in our workforce. Female representation on our Board of Directors is 11% (one of nine directors) (2016: 10% – one of ten directors) and on our Executive Team 8% (one of 11) (2016: 0%). Female representation on the rest of the organisation is 17% (348 of 2,059) (2016: 15% – 263 of 1,755).

We are keen to raise awareness amongst women, both inside and outside the Company, about the exciting potential careers available to them at Dialog and to encourage them to explore these opportunities with us.

In April 2017, the Gender Pay Gap Reporting came into effect in the UK. The difference in the median pay between all men and women in Dialog UK, is 23.8%. This gender pay gap is a reflection of the lower number of women in engineering and in senior roles, an important issue in the electronic engineering sector.

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

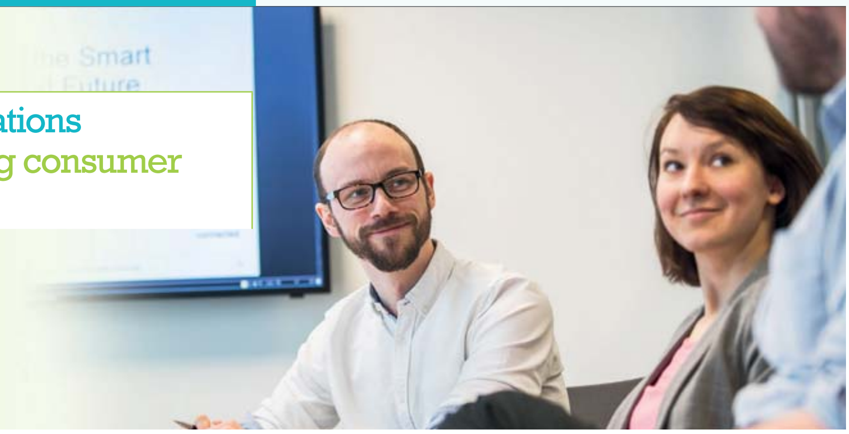
Julie Pope
Senior Vice President, Human Resources

Managing our resources and relationships continued

The strength of our customer relationships

Creating long-term customer relations

We work with many of the leading consumer electronics companies.



Customer concentration (%)

77%

KPI

(2016: 74%)

Read more on our KPIs on **Page 34**

Customer and industry standards

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.

For more information see our **2017 Sustainability Report**

A 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 all our major customers, adopting a true partnership approach.

Customers with a significant contribution to revenue include Apple, Panasonic, Samsung, Gigaset, and AVM.

These top five customers represented 82% of Dialog revenue in 2017 (2016: 92%). We recognise there is a risk associated with this level of customer concentration (see details on page 56 of the Risk section) and the revenue derived from our largest customer is shown on page 148, note 31c. We are delighted to have such a strong relationship and during 2017 we have broadened and deepened our interactions based upon our innovative products, excellent programme execution and product delivery. The diversification of our business is a key strategic objective. In 2017, we also welcomed new customers across multiple business segments.

How Dialog helps Plantronics lead in Audio quality

For more than a decade, Plantronics, a leader in audio communications in the enterprise, government and consumer spaces, has relied on Dialog Semiconductor to provide the audio and connectivity chipsets that underpin their industry-leading wireless audio products. Dialog now underpins the majority of Plantronics' DECT (Digital Enhanced Cordless Telecommunications) product lines, which is the standard used widely in most countries around the world.

A major underlying value-add of Plantronics' relationship with Dialog is that teams can work together in the product development phase to build chips that meet specific technological needs that existing solutions had not addressed. In some cases, these collaborations have led to the creation of chips that have eventually been replicated or used industry-wide.

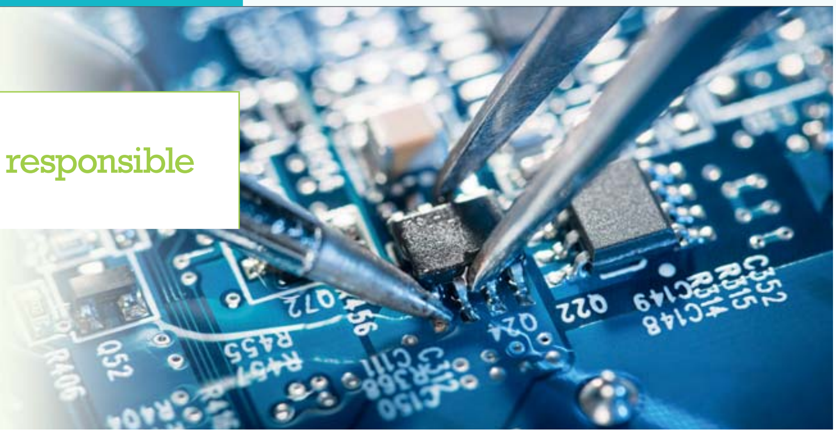
Several years ago, for example, Dialog created a chip variant for Plantronics that required a new metal mask – a variant of one of their existing chips. This was a special tweak for Plantronics that eventually benefited the larger headset market by becoming a standard design across the industry.

Managing our production partners and suppliers

Highly-skilled engineers and IP | Strength of our customer relations | **Robust and responsible supply chain** | The strength of our balance sheet | Our Company culture

Building an efficient supply chain

We work closely with leading and responsible production partners.



On Time Delivery performance (%)

99%

(2016: 99%)

About our Supplier Code of Conduct

We expect all of our major suppliers to comply with our Supplier Code of Conduct.

For more information see our **2017 Sustainability Report**

We operate a 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 a close R&D and supply chain collaboration.

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.

We outsource our wafer production to leading foundries like TSMC and Global Foundries, mostly in Taiwan and China. They provide high-quality products and have the ability to meet both our stringent qualification requirements and 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 130 nanometre BCD.

Since late 2016 we are pioneering the use of GaN semiconductors for consumer electronics, using TSMC's GaN 650 Volt GaN-on-Silicon technology.

The final assembly of our chips is outsourced to a number of qualified subcontractors in Asia.

Our test programmes, 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 in-house a prototype test facility, including physical analysis capabilities. This facilitates fast ramping to volume manufacturing at the foundry and at packaging and test sub-contractors, achieving 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.

Driving quality advances

Product testing is a manufacturing cost, so reducing test time and performing multi-site testing is a key target. Dramatic improvements are experienced between early batches, with yields rising from 75% to 98% or higher by the time the product is in volume production. The test time is dramatically reduced during this process and the cycle time to create this improvement can be as short as 1 to 3 weeks – an achievement that only comes as a result of investment in in-house facilities.

The opportunities in our markets

The major markets in which we operate are below.	Key Drivers

PMICs and Charger ICs

3%
2016-2020 CAGR

2020 US$5,499m
2016 US$4,941m

Source: Gartner 2017, IDC 2016, Dialog internal.

- Increasing daily use of mobile devices.
- Larger batteries and battery charge time reduction.
- Larger, higher resolution screens, higher rate of data transmission and multi-core application processors.
- Industry increase in "always-on" applications.
- Acceleration of mobile technology into the Automotive space.

Audio Codec

1%
2016-2020 CAGR

2020 US$537m
2016 US$518m

Source: Gartner 2017, IDC 2016, Dialog internal.

- More power-efficient audio solutions which help to extend battery life.
- High-quality audio technology capturing speech and audio.
- Industry increase in "always-on" applications.

Bluetooth® low energy

26%
2016-2020 CAGR

2020 US$674m
2016 US$268m

Source: IHS Technology Q3 2017 Report, 26 October 2017.

- 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.

Wireless, USB audio

30%
2016-2020 CAGR

2020 US$855m
2016 US$299m

Source: Future source (October 2017), Dialog internal.

- Increase in power-efficient, feature-rich wireless audio applications.
- Fast growing USB type-C Hi-res audio headsets for the mobile market.
- Fast growing semi-professional Unified Communication headsets with low-latency microphone features.

AC/DC converters

11%
2016-2020 CAGR

2020 US$1,025m
2016 US$684m

Source: Gartner 2017, IDC 2016, Dialog internal.

- 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 requires very efficient, higher power density AC/DC IC solutions.
- An expanding array of new rapid charging protocols, including the new USB Power Delivery 3.0 (USB-PD 3.0), Qualcomm® Quick Charge™ 4+ and other new proprietary OEM protocols.

LED SSL and LED Backlight

9%
2016-2020 CAGR

2020 US$582m
2016 US$406m

Source: Gartner 2017, IDC 2016, Dialog internal.

- Market shift from edge-lit design to multi-segment and direct backlighting to enable higher resolution and high dynamic range ("HDR") displays.

Key business segments

Mobile Systems
Connectivity
Advanced Mixed Signal

Automotive & Industrial

We are not exposed to the wider automotive and industrial markets. Our product portfolio focuses on two specific solutions: motor control ICs, which are part of a windscreen wiper motor solution and ASICs for conventional and LED light sources.

Power management: increasing data processing and more functionalities drive the need for more efficient power management

Our technical competencies are aligned with secular trends in efficient power management in mobility and connected ("IoT") devices.

Dialog's R&D investment in highly-integrated power management and charging products allows our Mobile Systems business to be well positioned for mid to high-end mobile devices. Our products enable our customers to produce lighter and thinner smart devices with higher power efficiency and longer battery life. The top five smartphone vendors as of the end of September 2017[1] were Samsung, Apple, Huawei, Oppo and Xiaomi.

Increasing processing capabilities in mobile devices coupled with more powerful telecommunications networks like 4G being rolled out across the world are enabling consumers to increase the intensity of use of their mobile devices and the volume of data processed. 4G smartphones surpassed the one billion mark in shipments as emerging markets play catch up. In parallel, the increase in internet usage time creates an increase in data processing with an energy cost. In this context, the need to increase the power efficiency of portable devices will continue to be at the core of consumer electronics.

Smartphones and smart vehicles

4.5bn

Wireless connections expected by 2020

50bn

Connectivity: the number of connected devices continues to increase

The number of smart connected devices continues to increase. In 2020, we expect to have 4.5 billion smartphones and smart vehicles, ten "appcessories" per person and 50 billion wireless connections. Smartphones and tablets are the central mobile gateways and all major computing platforms, iOS, Android and Windows 10, have adopted Bluetooth® low energy as a core connectivity technology. We anticipate Bluetooth® low energy will also have a key role in connecting IoT nodes into the cloud. The Bluetooth® low energy market is expected to grow at a 26% CAGR[2] in the period 2016–2020.

A key fast-growing market for semi-professional wireless headsets is Unified Communication ("UC"); new generation headsets supporting Hi-Fi audio music listening with low-latency microphone features. Dialog is a leading supplier into wired and wireless headsets in the UC market. The 1.9GHz wireless link is enabling high-density wireless networks in the enterprise environment without the risk of interference with the overcrowded 2.4GHz frequency space. Our products excel in audio performance, integrated power management and interfacing to various UC devices.

A new fast-growing market is for digital consumer headsets targeting the smartphone market. New smartphones have been introduced in the market in 2016 without a 3.5mm audio jack. This trend change will create new demand for headset and headphone products with a digital interface, wireless or via USB type C™. Smartbeat™, our audio chip-set solution, targets this market.

Bluetooth® low energy

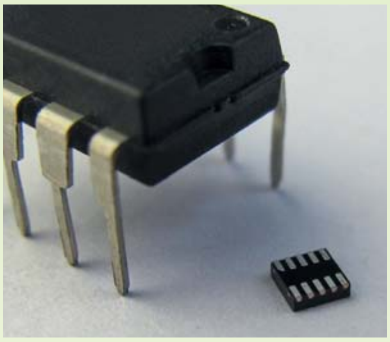
In 2017, we achieved the remarkable milestone of shipping over 100 million units of SmartBond™, our Bluetooth® low energy.

The Bluetooth® low energy market continued to grow in 2017 as more applications got connected.

Wearable devices, Smart Home applications, proximity tags and portable medical devices are some of the applications driving the growth in the market. The introduction of the 5.0 Bluetooth standard will contribute to the adoption of this technology in a wider range of applications, fuelling further growth in this market over the medium term.

1 IHS 9 November 2017, Q3 2017 smartphone market.
2 IHS Technology Q3 2017 Report, 26 October 2017.

Our markets and strategy continued



Configurable mixed-signal ICs

In 2017, we acquired Silego Technology Inc. This acquisition adds configurable mixed-signal ICs ("CMIC") to our product portfolio.

Silego is the pioneer and market leader in CMICs that integrate multiple analog, logic and discrete component functionality into a single chip. Silego's intuitive CMIC software interface allows customers to easily configure these functions and prototype a custom IC in hours with much greater design flexibility. This technology enables OEMs to reduce board space, simplify their supply chain, and accelerate time-to-market. Silego's solutions are increasingly being used across a broad range of new applications, with over three billion units sold.

The CMIC complements Dialog's market leadership by increasing the dollar content at existing customers and expanding our customer base. The breadth of the new product portfolio strengthens our presence in markets including IoT, computing and automotive.

Power Conversion: feature-rich devices and higher capacity batteries drive the need for rapid charge solutions.

One of the key features consumers want in their next device is faster charging. Yet, emerging feature-rich, large-screen mobile devices require higher capacity batteries, which necessitate higher power and longer charge times. These market dynamics continue to drive rapid charging as the fastest growing segment in the highest volume market – smartphones.

Dialog continues to lead the way in rapid charging with almost 60% market share and AC/DC adapter IC solutions that support virtually all fast charge protocols, including the new USB Power Delivery 3.0 specification, Qualcomm® Quick Charge™ 4+, MediaTek Pump Express™ Plus 2.0, Samsung Adaptive Fast Charging ("AFC"), Huawei SuperCharge™ technology and Fast Charger Protocol ("FCP"), and other proprietary OEM protocols. In fact, Dialog supports more rapid charge protocols than any other supplier.

Consumers want to charge their smartphones and mobile devices faster and they want very small form-factor travel adapters. This means OEMs need to pack more power into compact charger cases without incurring thermal issues, along with very low standby power to meet increasingly stringent government regulations to reduce global warming.

Addressing these market dynamics requires "high power density" AC/DC solutions with fewer and smaller components and very high efficiency. Our AC/DC RapidCharge™ chipsets offer efficiency as high as 90% and support output power up to 45W.

With improving performance and lower costs, solid state lighting ("SSL") lighting is becoming the preferred technology for new residential and commercial installations. Additionally, rising consumer awareness and global energy regulations, combined with improved performance and lower cost continue to drive the adoption of residential SSL retrofit bulbs.

Dialog addresses the SSL market with a broad range of high performance, low bill of materials ("BOM") cost LED driver ICs for a wide range of residential and commercial applications. We support both dimmable and non-dimmable applications, with continued investment in residential SSL applications and expanding our reach into commercial lighting. All of our SSL LED driver ICs are designed to give our customers the benefits of reduced system component count, very low standby power and the best combination of performance and price.

LED displays are moving from edge-lit to multi-segment (zone) backlighting technology to enable the dynamic visual experience of 4K, 8K and high dynamic range ("HDR") TVs, while light vectoring is enabling advances in computing and automotive displays, including driver/passenger split screen displays. These market trends play to our core BroadLED™ backlighting technology, which enables us to drive more LED zones from a single IC, improving display picture quality, reducing power dissipation and lowering the BOM cost.

Our strategy

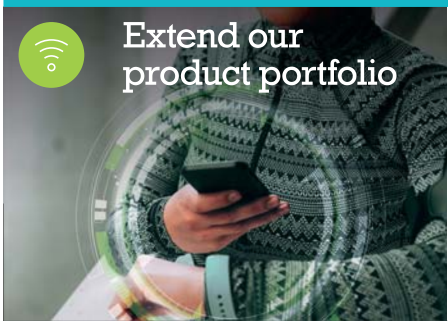
A path for future revenue growth

Our ambition is to power the smart connected future, enhancing the usability, effectiveness and sustainability of consumer electronic products.

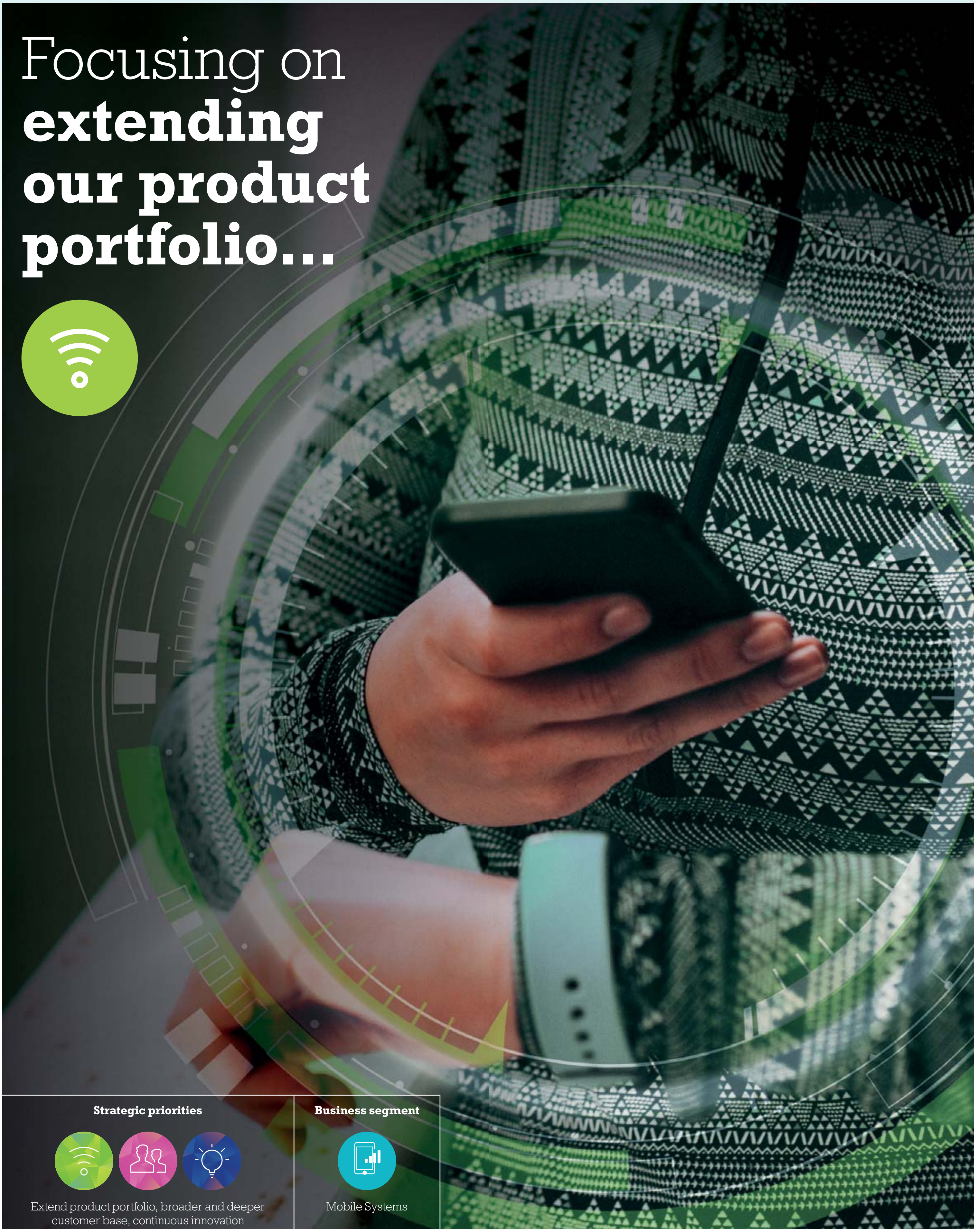
We made good progress in 2017, charging ahead with initiatives in each of our strategic priorities. Our goal is to generate sustainable long-term value for our customers, our shareholders, our employees and other stakeholders.

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 **Page 55**

Strategic priority	Why it is important	How we measure our progress
 Extend our product portfolio	We aim to continuously extend our product portfolio of highly-integrated mixed-signal, lower power products. This helps us to diversify, open up new addressable markets and stay ahead of the competition.	**39** New products introduced and sold in 2017 with revenues greater than US$200,000.
 Achieve a broader and deeper customer base	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.	**16** 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.
 Deliver continuous innovation	Innovation is at the core of our business. Our top talent and technology, paired with an innovative product development philosophy and sustained R&D investment, enables Dialog to deliver high value to our customers.	**US$279m** Expensed in R&D programmes during 2017, an increase of 16% compared with 2016.
 Strategic initiatives and M&A	We support the expansion of our business through a combination of regional partnerships, particularly in Greater China, investments in new technologies, and M&A.	**2** Businesses acquired in 2017: Silego Technology Inc. and the LED backlighting business from ams AG. **1** Partnership with Spreadtrum.

Our strategic priorities



Focusing on **extending our product portfolio...**

Strategic priorities

Extend product portfolio, broader and deeper customer base, continuous innovation

Business segment

Mobile Systems

Leveraging our power management technology into new markets.

In 2017 we launched the DA6102, a highly-integrated power management IC ("PMIC") for DSLR, mirrorless cameras and multi-cell Li-ion battery applications, delivering an impressive 50% space saving over competing solutions.

We also introduced the first nanopower PMICs, the DA9230 and DA9231, the smallest of their class on the market. The ultra-compact nanopower PMICs provide high efficiency and flexibility for wearables, smart door locks, portable medical devices and many other IoT applications.

Progress in 2017

- Availability of the DA4100 RF-transmit Integrated Circuit ("IC"). The new IC greatly simplifies the implementation of WattUp® wireless power transmitter systems making them smaller and more cost-effective.
- Next generation of our SmartBond™ family – DA14586. The all-new System-on-Chip ("SoC") is the Company's first standalone device that is qualified to support the latest Bluetooth 5.0 specification, delivering the lowest power consumption and unrivalled functionality for advanced use cases.
- Launched the DA6102, a highly-integrated power management IC ("PMIC") complete power supply solution for DSLR, mirrorless cameras and multi-cell Li-ion battery 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.

How we measure our progress

39

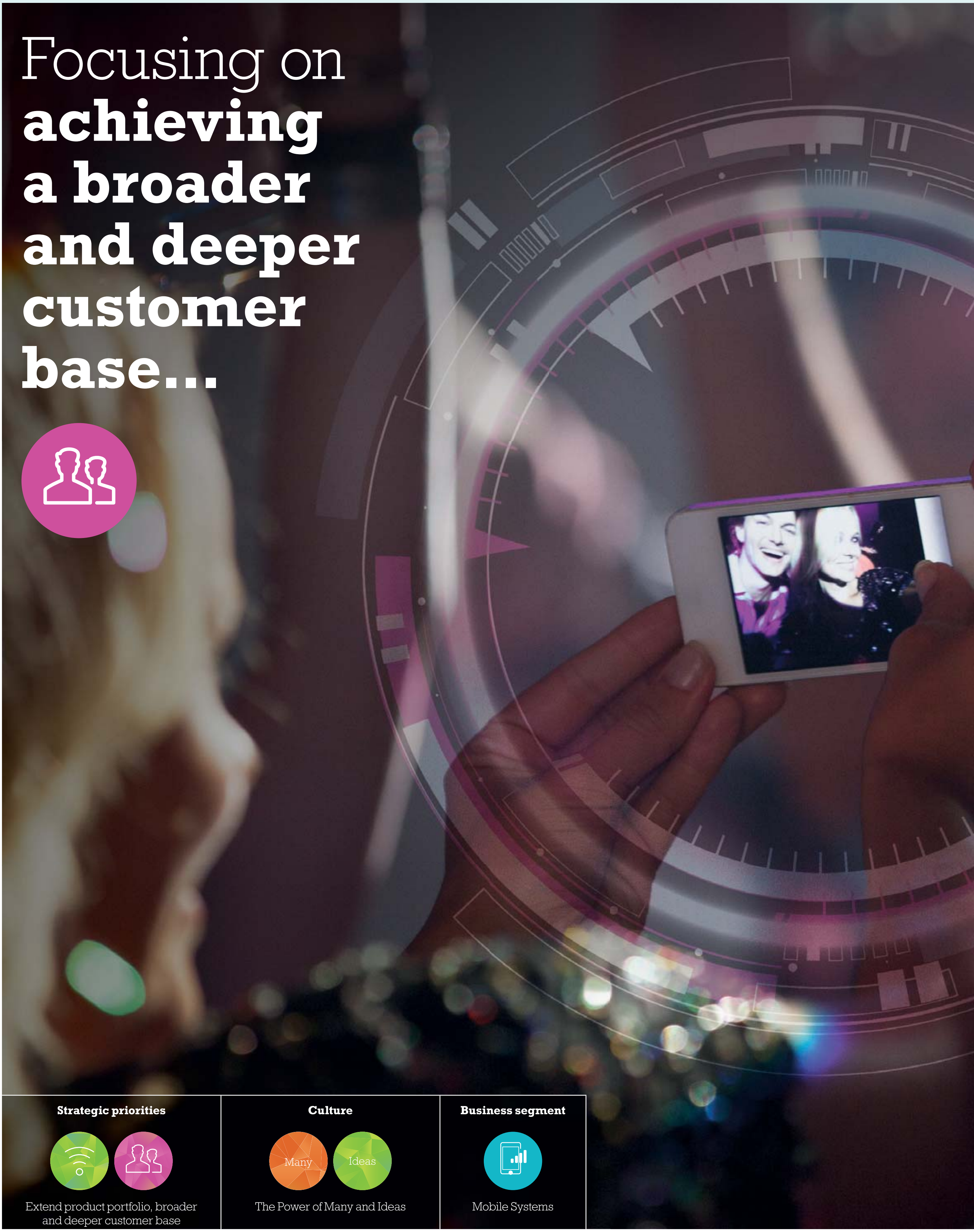
New products introduced and sold in 2017 with revenue greater than US$200,000.

29

New products in 2016.

Our strategic priorities continued

Focusing on **achieving a broader and deeper customer base...**



Strategic priorities	Culture	Business segment
Extend product portfolio, broader and deeper customer base	Many Ideas The Power of Many and Ideas	Mobile Systems

Demand for next-generation infotainment systems, connected car platforms and autonomous driving are on the rise.

In 2017 we launched our scalable power management solution for Renesas R-Car H3 automotive computing platform for driving support systems and in-vehicle infotainment systems.

The continued convergence of mobile technologies with vehicles, drives the increase in processing requirements for infotainment, navigation and always-on connectivity applications. Our energy-saving power management solutions are critical for leading technology partners such as Renesas to stay ahead of the competition. As end products continue to shrink in size and increase in complexity, system power efficiency is crucial for meeting end customers' needs. Dialog energy-saving power management solutions were adopted by Xilinx, a leading provider of FPGAs, SoCs and 3D ICs for next-generation sensor processing, networking and automotive applications. Dialog now offers a complete portfolio of power management solutions for Xilinx Zynq®-7000 SoC, Zynq UltraScale+™ MPSoC and Spartan®-7 FPGA platforms.

Progress in 2017

- → First shipments of SmartBond™ DA14585 Bluetooth® low energy ("BLE") System-on-Chip ("SoC") to two internationally-recognised suppliers to the automotive industry for use in tyre pressure monitoring system ("TPMS") sensors.
- → Launched the DA9210-A Power Management IC, a multiphase, automotive grade, 12A DC-DC buck converter that supplies the high current core rails of microprocessor devices, including those used in next-generation automotive infotainment systems.
- → Expanded our LED backlighting product range with the acquisition of the portfolio from ams AG.

Key risks

- → Dependency on key customers.
- → Dependency on mobile and consumer electronics.

How we measure our progress

16

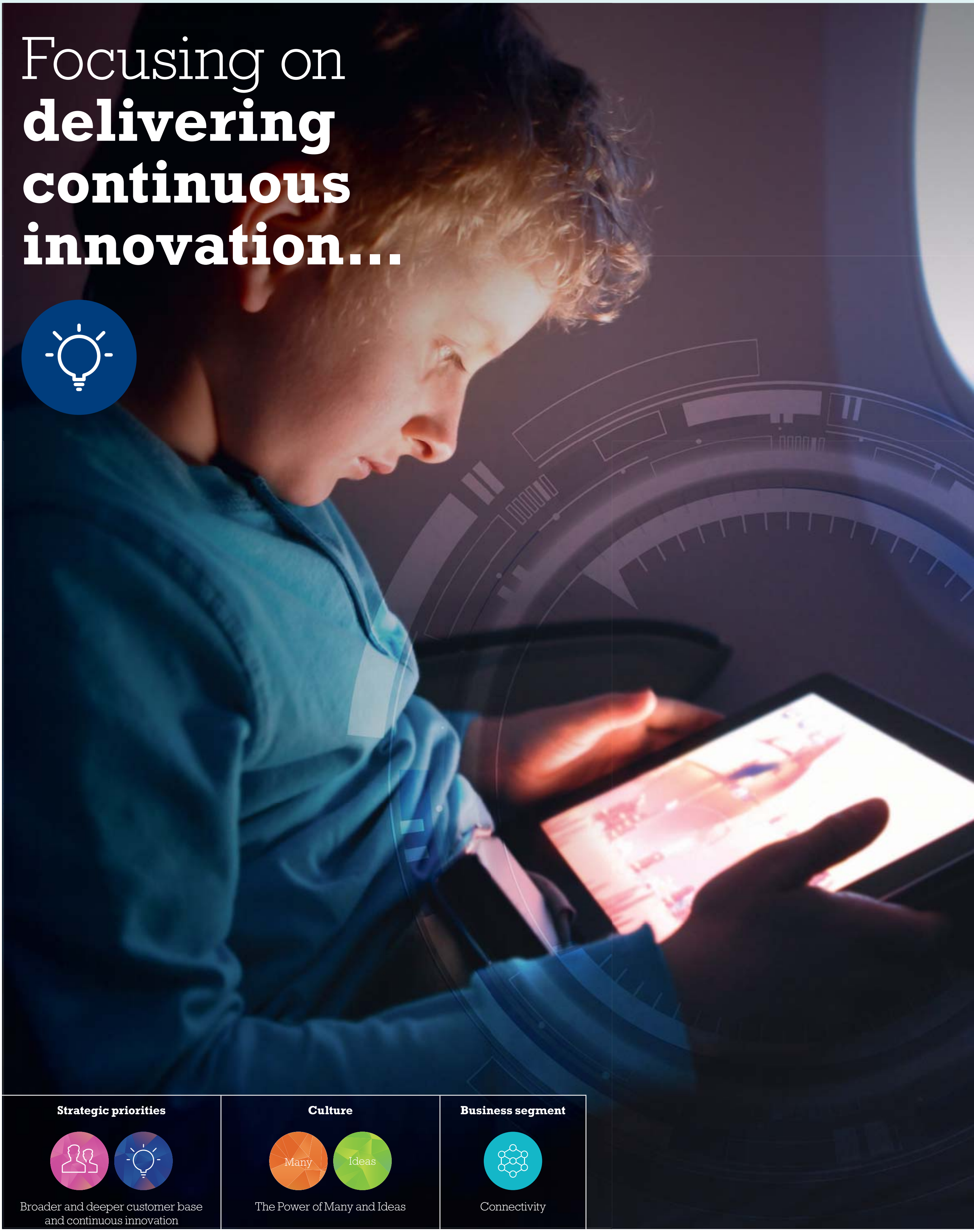
New customers welcomed to Dialog in 2017 with revenue greater than US$200,000. Additionally, we deepened our existing customer base with new ASIC and ASSP products.

5

New customers in 2016.

Our strategic priorities continued

Focusing on **delivering continuous innovation…**



Strategic priorities	Culture	Business segment
Broader and deeper customer base and continuous innovation	Many Ideas The Power of Many and Ideas	Connectivity

In 2017 we reached the remarkable milestone of shipping over 100 million SmartBond™ SoCs.

Without the extraordinary skill, dedication and perseverance of our team we would not have reached this point. Over 100 million devices all over the world are now supported by Dialog SmartBond™ products. The SmartBond™ SoC family delivers some of the smallest, most power-efficient Bluetooth® low energy solutions available and enables the lowest system costs. We are investing in the expansion of our Bluetooth® low energy portfolio to develop energy-efficient solutions which meet the evolving requirements of the Internet of Things.

Progress in 2017

- → The DA9318 series, the Company's latest power converter ICs-family of high efficiency charging products. The DA9318 delivers far greater fast charging efficiency, addressing the increasing demands on charging batteries for today's latest smartphones.
- → A new series of charging products and one of the world's most efficient switched capacitor DC-DC converters, the DA9313. It offers high peak efficiency and can power more than 50W in less than 10 mm^2 of board area, allowing developers to extend battery life and reduce charging time in direct charging and 2S lithium-ion ("Li-ion") systems such as notebook PCs, DSLR cameras and portable Bluetooth speakers.

Key risks

- → Dependency on mobile and consumer electronics.
- → IP protection.
- → IP infringement.

How we measure our progress

US$279m

Expensed in R&D programmes during 2017, an increase of 16% compared to 2016.

2017	**279m**
2016	241m
2015	223m

75%

KPI

Engineering talent ratio (2016: 75%)

Over 800

Inventions for which we are pursuing or have already obtained patent protection (2016: approximately 700)

Our strategic priorities continued

Focusing on **strategic initiatives and M&A...**

Strategic priorities	Culture	Business segment
Strategic initiatives and M&A	The Power of Many	Mobile Systems

Our Partnership with Spreadtrum will allow us to reach new customers and expand our presence in existing customers in Asia.

We are leveraging the combined smartphone expertise of both companies and Spreadtrum's strong customer relationships.

This partnership represents an exciting opportunity to expand market share for our power-saving technologies in mobility. It gives Dialog access to new markets in China and India and in other emerging economies, by targeting mid-tier smartphone OEMs.

The first IC resulting from the collaboration integrates haptics, display driver and battery charger. It contributes to reduce the overall system cost, simplifies the design and is ideal for next-generation LTE platforms.

Our collaboration with an innovator like Spreadtrum unlocks new possibilities for our business.

Progress in 2017

- In 2017 we announced the first product design out of our collaboration with Spreadtrum, a leading Chinese chipset vendor.
- With an additional investment of US$15 million, our investment in Energous reached US$25 million in 2017. The commercial agreement signed in November 2016 saw Dialog become the exclusive component supplier of WattUp ICs and allows Energous to leverage Dialog's broad sales and distribution channels to accelerate market adoption.

Key risks

- Human capital.
- Dependency on key customers.
- Dependency on mobile and consumer electronics.

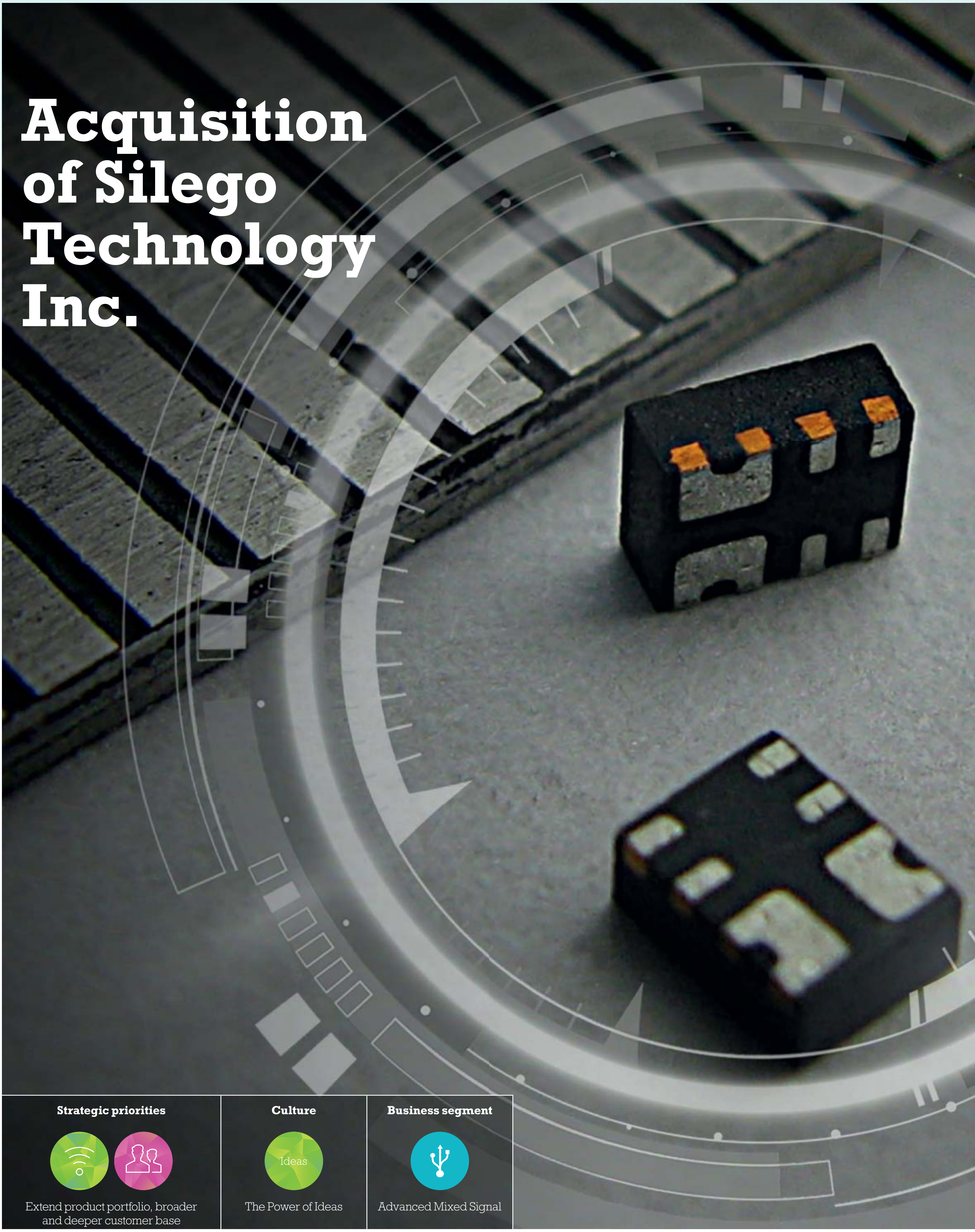
How we measure our progress

In addition to the ongoing work with our partner Spreadtrum, during 2017 we made two acquisitions: Silego Technology Inc. and the LED backlighting business from ams AG.

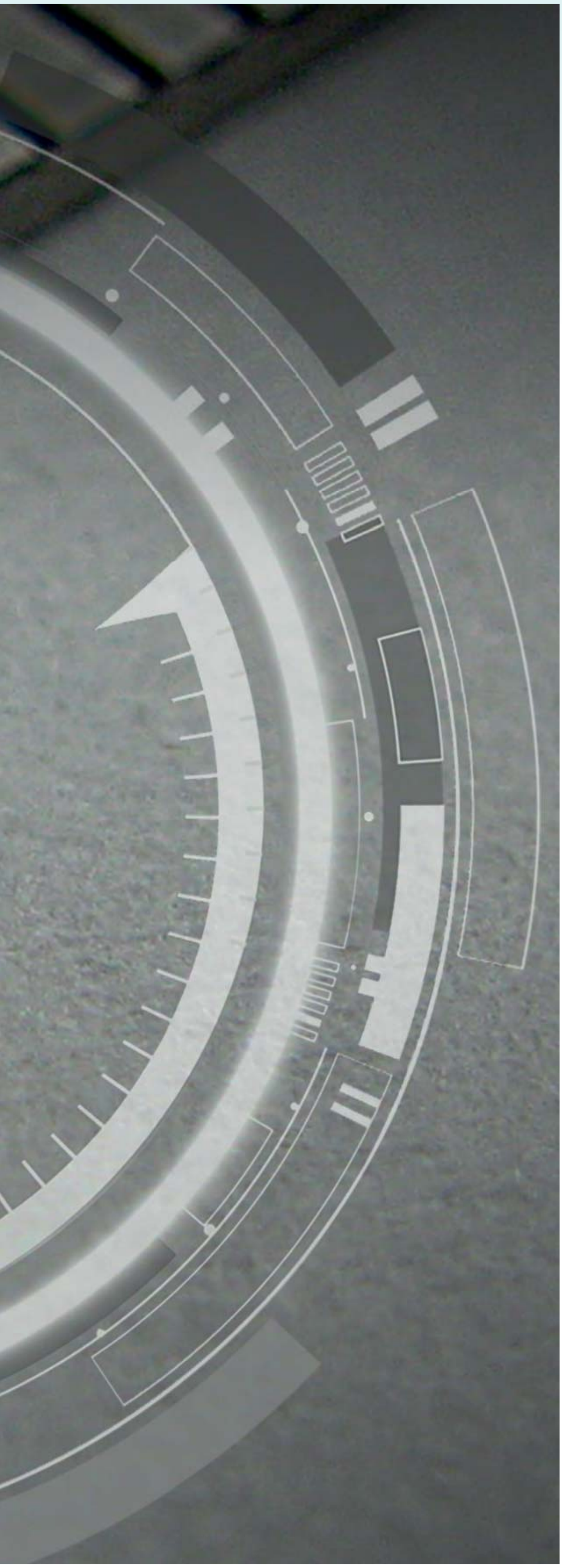
With effect 31 December 2017 we deconsolidated Dyna Image. For more information please see note 4 to the consolidated financial statements.

Our strategic priorities continued

Acquisition of Silego Technology Inc.



Strategic priorities	Culture	Business segment
Extend product portfolio, broader and deeper customer base	Ideas The Power of Ideas	Advanced Mixed Signal



In November 2017 we completed the acquisition of Silego Technology Inc., the pioneer and market leader in Configurable Mixed-Signal ICs ("CMIC").

CMICs enable customers to customise and integrate multiple analog, logic and discrete component functionality into a single chip which can be prototyped in hours. The technical advantages of the CMIC allows OEMs to reduce board space and accelerate time-to-market.

The acquisition of Silego will complement Dialog's market leadership by increasing our content at existing customers and contribute to expanding our customer base. Together, we can increase the value we bring to our customers by creating a better positioned and more-diversified mixed-signal offering.

The breadth of the new product portfolio will strengthen Dialog's presence in markets including: IoT, computing and automotive.

Key performance indicators "KPIs"

Our KPIs

We are a growing business built on innovation and our four strategic objectives support the ambition to power the smart connected future. Through our KPIs we monitor our pool of talent, vital to fostering innovation. Alongside, we remain focused on delivering a more diversified, cash-generative growth which will, in turn, support the expansion of our business.

The importance of the talent pool has been reflected in our KPIs, with the introduction of Engineering talent ratio. To monitor the success of our business diversification effort we introduced Number of sales opportunities and Customer concentration.

As a result of the 2017 review, we have also simplified those KPIs linked to profitability and introduced Free cash flow.

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.

Performance indicators	Definition and relevance	2017 performance

Employee turnover

2017
10.3%

2017	10.3%
2016	7.9%
2015	6.9%

Definition and relevance: Number of 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.

2017 performance: In 2017, employee turnover was above 2016 at 10.3%, a reflection of the increasing competition for talent in the market. Our ability to recruit and retain engineering professionals remained high and in 2017 we added 125 (net) new employees. Dialog has a performance management system to ensure we reward our best employees through appropriate mechanisms.

Engineering talent ratio

2017
75%

2017	75%
2016	75%
2015	72%

Definition and relevance: 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.

2017 performance: In 2017, the engineering talent ratio excluding employees from Silego Technology Inc. was 75%, in line with our target of 75%. In 2017 we hired more engineers and we welcomed 180 employees from Silego Technology Inc.

Number of sales opportunities

2017
1,038

2017	1,038
2016	823
2015	N/A

Definition and relevance: 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.

2017 performance: In 2017, the number of sales opportunities increased 26%. This is a reflection of the increasing number of revenue opportunities in our various business segments.

Customer concentration

2017
77%

2017	77%
2016	74%
2015	79%

Definition and relevance: Proportion of Group revenue from the single largest customer. Monitoring the risk associated with reliance on a single source of income.

2017 performance: In 2017, customer concentration was broadly in line with the previous year at 77%, three percentage points higher than in 2016. Revenue growth in 2017, excluding our largest customer was 13%.

Free cash flow

2017
US$205m

2017	US$205m
2016	US$195m
2015	US$248m

Definition and relevance: 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.

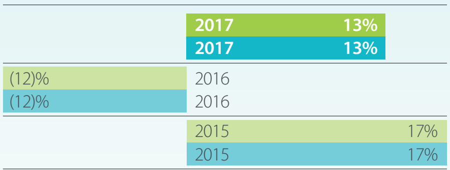
2017 performance: Free cash flow in 2017 was 5% above 2016. This was the result of the higher profitability in 2017 alongside the Company's ability to convert profit into cash. In 2017, we saw a net inflow from income taxes of US$8.3 million (2016: outflow US$136.8 million). 2016 was positively impacted by the Atmel termination fee.

Performance indicators | **Definition and relevance** | **2017 performance**

Revenue growth

IFRS 2017
13%

Underlying 2017
13%



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.

Revenue in 2017 was 13% above 2016. Excluding the contribution from the acquisition of Silego Technology Inc., year-on-year revenue growth was 12%. Every business segment contributed to the solid revenue performance in 2017: higher volumes and value of our power management products; a commanding market share in rapid charge solutions; and the solid performance of our connectivity technologies, in particular SmartBond™, our Bluetooth® low energy products.

Gross margin

IFRS 2017
45.9%

Underlying 2017
46.7%

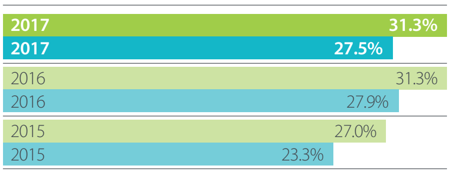
Actual and prior year's gross margin. Gross margin is gross profit expressed as a percentage of revenue and shows the value of the Group's products. Monitoring this trend provides a measure of our ability to obtain profit margin from our products and manage our manufacturing costs over a period of time.

Gross margin in 2017 (both IFRS and underlying) was above 2016. This increase was mainly the result of rigorous cost control partially offset by product mix.

Operating expenses as a percentage of revenue

IFRS 2017
31.3%

Underlying 2017
27.5%



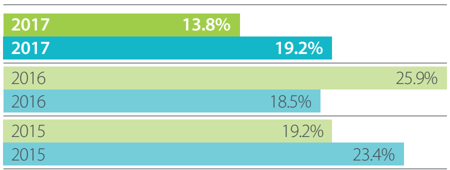
Actual and prior year's operating expenses ("OpEx") expressed as a percentage of revenue. OpEx % provides a measure of our effort in innovation and the efficiency of our operating structure over a period of time and it reflects the need for current returns as well as an investment in future revenue growth. 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.

OpEx % in 2017 was broadly in line with 2016. On an underlying basis, OPEX % was down 30bps from 2016. Underlying R&D % was up 20bps from 2016, a reflection of our commitment to innovation. SG&A % was down 50bps year-on-year. We made further investment in our sales network but G&A functions did not increase as much. It is important to note that our R&D effort is not directly linked to the revenue of the same period. It represents an investment in future revenue streams.

Operating margin

IFRS 2017
13.8%

Underlying 2017
19.2%



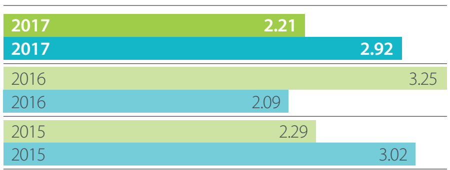
Actual and prior year's operating margin. Monitoring this trend provides a measure of our ability to increase the profitability of our operating activity over a period of time. Underlying operating margin provides a useful link to our ability to generate cash as we are a low capital intensity business.

Operating margin in 2017 was 12.1 percentage points below 2016, which includes the positive impact from the Atmel termination fee in 2016 alongside the acquisitions of Silego Technology Inc. and the ams AG LED backlighting business in 2017. On an underlying basis, operating margin was up 70bps year-on-year. This increase is the result of the improvement in gross margin and the decrease of SG&A expenses as a percentage of revenue.

Diluted EPS (US$)

IFRS 2017
2.21

Underlying 2017
2.92



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.

Diluted EPS was 32% below 2016 to US$2.21 in line with the movement in net income which includes the positive impact from the Atmel termination fee in 2016 alongside the acquisitions of Silego Technology Inc. and the ams AG LED backlighting business in 2017. Underlying diluted EPS was up 40% year-on-year, three times more than revenue growth. It reflects the Company's higher profitability and the lower underlying effective tax rate in 2017.

Mobile Systems
At the forefront of innovation

Energy efficiency is a key feature of our power management, charging and audio ICs. We have been at the centre of the mobile computing revolution since its early days and we are investing to leverage our expertise into new segments. Dialog is well positioned to deliver the next wave of innovation in smart power management.

Key facts

Revenue (US$m)

2017	**1,043**
2016	923
2015	1,114

US$271.8m
Underlying operating profit

Full reconciliation of non-IFRS on **Page 160**

US$169.4m
Expensed in underlying R&D

Highlights

- Designed new custom application specific ("ASICs") PMICs with increasing complexity and value for next-generation mobile devices.
- Expanded our product portfolio with two new high performance companion charger ICs : DA9313 and DA9318.
- Leveraged our power management technology into new markets such as DSLR cameras and automotive.

Our markets

- System and battery management ICs for large-screen smartphones and tablets (5"–11" category).
- High-efficiency battery chargers for smartphones, tablets, Ultrabooks™, convertible tablets and ultraslims.
- Audio CODECs for mobile computing and accessories.
- High-voltage power management for Ultrabooks™, convertible tablets and ultraslims.
- Automotive-grade PMICs for in-vehicle infotainment, electronic instrument cluster, and driver-assisted displays.
- Low-power and highly-integrated power management for smart wearable devices.
- Low quiescent, low-cost power management for Smart Home and other embedded IoT applications.

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 Power Management Integrated Circuits ("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. This year Dialog led the competition by announcing the DA9313 and DA9318 family of ultra-high efficiency companion chargers with the industry's highest charge current (10A) from an integrated device. The DA9313 was recognised by Design & Elektronik magazine readers as 2017 Innovation of the Year in the Analog Technology category.

The increasing electrification of the automobile is driving additional business potential for Dialog 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 AECQ100 Automotive qualified products have us perfectly positioned to respond to our customers' needs.

"Our track record of innovation in developing energy-saving power management solutions is what we bring to our collaboration with leading technology companies, like Spreadtrum, Renesas and Xilinx."

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

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.

Strategies to manage leakage and quiescent current are now evolving in parallel with new topologies to deliver higher power density to support the next level of "full power" benchmark performance.

Accommodating such diverse requirements while maintaining battery life is one reason why customers continue to turn to Dialog to support their next power challenge. With such powerful market dynamics at play in high-volume segments, the stage is set for the next wave of innovation in smart power management – Dialog is well positioned to deliver.

2017 progress

- Successful mass production release of industry-leading companion charger products: DA9313 and DA9318.
- Established a partnership with Spreadtrum, the leading Chinese semiconductor company, with an engagement for an LTE smartphone platform.
- Designed new custom application specific ("ASICs") PMICs with increasing complexity and value for next-generation mobile devices.
- Mass production of Audio codec product for leading computing platform.
- Automotive PMICs solution for Renesas R-Car H3 computing platform.
- Key power management partner to Xilinx for Spartan-7, Zync-7000 and Zynq Untrascale+ platforms.

Key drivers

- Battery charge time reduction.
- Increasing power density 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.

Leveraging our power technology into new markets

Our collaboration with Xilinx, a leading provider of FPGAs, SoCs and 3D ICs, will bring our extensive experience in developing efficient, scalable power management solutions for the next generation of sensor processing, networking and automotive applications. This initiative is part of our effort to bring innovative energy-saving power management solutions across multiple industries.

Forward focus areas for 2018

Extend product portfolio
- Diversify product portfolio with ultra-low standby power PMICs.
- Extend 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 in Greater China.

Connectivity
Making the connected future a reality

We are entering a new era of the Internet of Things with exciting new opportunities. More devices get connected and our low power connectivity technologies and audio ICs help our customers to succeed in highly-competitive consumer markets.

Key facts

Revenue (US$m)

2017	136
2016	118
2015	117

US$14.3m
Underlying operating profit
Full reconciliation of non-IFRS on **Page 160**

US$30.9m
Expensed in underlying R&D

Highlights

- Delivered strong revenue growth in Bluetooth® low energy.
- Added support for Bluetooth 5.0 to our SmartBond™ line of products.
- Continued to build a solid partner ecosystem.

Our markets

- Single chip transceivers for DECT-based cordless telephones, wireless microphones, headsets and gaming consoles.
- SmartBond™ single chip wireless ICs, certified to the Bluetooth® low energy standard, for enabling IoT node connectivity to the cloud.
- SmartBeat™ provides a platform for robust, low-power wireless audio over USB, Bluetooth® and DECT. This platform offers a highly-integrated solution for high quality and fixed low-latency wireless audio applications supporting sample frequencies up to 192kHz.

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™ DA14580 is still the market-leading low power, high integration Bluetooth® low energy SoC, covering a broad range of applications.

In 2017, we introduced the DA14585 and DA14586, two new devices that extend the range of this world-leading DA14580 architecture by adding support for Bluetooth 5.0. These latest additions to our portfolio enable increased security for IoT devices and new use cases such as Bluetooth mesh.

This is 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, as markets evolve.

The SmartBond™ DA14583 IoT Sensor Development Kit makes developing motion and environmental sensing applications easy. Merging cutting-edge Bluetooth® low energy hardware, sensors and sensor fusion software, it enables the world's lowest power 12 Degrees-of-Freedom ("DoF") wireless sensor module.

"In 2017 we reached the remarkable milestone of shipping over 100 million SmartBond™ SoCs."

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

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

SmartBeat™ products aim at new trends of connecting digital headsets with smartphones instead of the analog 3.5mm audio jack. The SmartBeat™ chip-set DA14195 audio processor and DA7217 ultra low power codec is aimed at Bluetooth® and USB type-C™ digital audio connections with smartphones.

2017 progress:

- Strong revenue growth in Bluetooth® low energy.
- Upgraded our Bluetooth® low energy products to support Bluetooth 5.0.
- Strengthened market position in the wearable segment with key design wins at multiple customers.
- Enabled smart home development platforms for major ecosystems: Apple HomeKit and Bluetooth mesh.
- Launched SmartBeat™ Audio IC platform for active headphones.

Key drivers

- Rapid market expansion of Bluetooth® low energy fuelled by connectivity needs of the Internet of Things.
- New market trend for digital headsets for smartphone aftermarket using the Bluetooth® and USB type-C™ audio interface.
- Focusing on the fast-growing Unified Communication products segment with 1.9GHz DECT audio and USB-audio headsets.
- Maturity of DECT handset market.

Expanding the SmartBond™ product line

The Bluetooth 5 standard was one of the most highly-anticipated developments in connectivity, and Dialog was amongst the first out of the gate to enable development on this standard with a qualified standalone System-on-Chip, the DA14586. It builds on the SmartBond™ tradition of flexibility and low power consumption, and opens the door to a new era of connected devices and applications.

Forward focus areas for 2018

Achieve a broader and deeper customer base

- Continue to invest in the Bluetooth® low energy platform and increase market footprint.
- Leverage distribution and Rep. network to expand our BLE business to a larger customer base.

Deliver continuous innovation

- Focus on wearables and smart home Bluetooth® low energy market segments.
- Expand our low latency wireless audio activity towards microphones and headset brands.

Advanced Mixed Signal
Enabling faster charging of portable devices

PrimAccurate™ digital control technology is at the heart of our success. Our AC/DC converters, solid state lighting LED ICs, and backlight driver ICs support energy-efficient solutions and help our customers meet ever increasing government standards and energy regulations.

At the end of 2017, we created the Advanced Mixed Signal segment. This new segment consolidates the Power Conversion segment and the business from the acquisition of Silego Technology Inc.

Key facts

Revenue (US$m)

2017	**133**
2016	117
2015	85

US$5.9m

Underlying operating profit

Full reconciliation of non-IFRS on **Page 160**

US$26.9m

Expensed in underlying R&D

Highlights

- We sustained our strong position in the fast charging smartphone market.
- Introduced the industry's first USB PD compliant interface IC.
- Acquisition of Silego Technology Inc.
- Acquisition of ams AG LED backlighting business.

Our markets

- AC/DC controller solutions for smartphones and mobile devices – digital intelligence for smaller, fast-charging, low standby power adapters in both rapid charge and non-rapid charge applications.
- LED drivers for solid state lighting – digital intelligence for stunning dimming performance, seamless dimmer compatibility and high quality of light in residential and commercial lighting applications.
- LED drivers for display backlighting – digital control for better picture quality, simpler design and lower BOM cost in TV, automotive and LED displays.
- Configurable Mixed-Signal ICs for IoT, mobile computing and automotive.

Our products

AC/DC Power Conversion:

Emerging feature-rich, large-screen mobile devices require higher capacity batteries, which take longer time to charge. One of the key features consumers want in their next device is faster charging. These market dynamics continue to drive rapid charging as the fastest growing segment in the highest volume market – smartphones.

In 2017, we sustained our leadership position in fast charging with close to 60% market share. Our AC/DC **RapidCharge™** adapter IC solutions support virtually every fast charge protocol, like the new USB Power Delivery 3.0 specification, Qualcomm® Quick Charge™ 4+, MediaTek Pump Express™ Plus 2.0, Samsung Adaptive Fast Charging ("AFC"), Huawei SuperCharge™ technology and Fast Charger Protocol ("FCP"). Dialog supports more rapid charge protocols than any other supplier.

We introduced the industry's first state machine based USB Power Delivery ("USB PD") interface IC designed specifically for the needs of smartphone and mobile device power supply rapid charging via USB Type-C™ standard cables. This solution uses far fewer components, simplifies design and lowers the cost versus conventional microcontroller-based approaches. We also debuted our second-generation chipset that supports the latest USB PD 3.0 protocol and expands the feature set.

Our AC/DC high power density **RapidCharge** chipsets and AC/DC converter ICs deliver efficiency as high as 90% and support output power up to 45W, using fewer and smaller components to minimise the overall size of smartphone adapters and power supplies.

LED Solid State Lighting ("SSL"):

Dialog offers the broadest range of SSL LED driver ICs, embedding our exclusive digital conversion technologies to enable high performance dimming, seamless dimmer compatibility and high quality of light, all with a low BOM cost. We support both dimmable and non-dimmable SSL and continue to invest in residential SSL applications, while also expanding our reach into commercial lighting.

Government regulations continually raise the bar on standby power and flicker. In response to this, in 2017, we introduced two new SSL LED drivers optimised for the performance needs of the dimmable, 0-10V commercial lighting market.

LED Backlight Drivers:

Manufacturers are transitioning LED displays from edge-lit design to multi-segment, direct backlighting to enable 4K, 8K and high dynamic range ("HDR") TVs and light vectoring for an enhanced visual experience in computing and automotive displays.

"In 2017, we introduced our USB Power Delivery 3.0 adapter chipset, enabling us to maintain a commanding market share in rapid charge."

Davin Lee
Senior Vice President and General Manager of Advanced Mixed Signal

Direct backlighting requires LED drivers that can drive many LED zones and plays to Dialog's core **BroadLED™** IP used in our new iW7038 LED backlight driver. This technology improves picture quality, reduces power dissipation and lowers the BOM cost.

In 2017, we also acquired LED backlight driver IP and products from ams AG, enabling us to expand our share of the large panel display market and target the automotive display market.

Configurable Mixed-Signal ICs:

CMICs integrate multiple analog, logic, and discrete component functionality into a single chip. Its software interface allows customers to easily configure these functions and prototype a custom IC in hours with much greater design flexibility. This technology enables OEMs to reduce board space, simplify their supply chain, and accelerate time-to-market.

2017 progress

- Maintained our dominant position in the mobile device rapid charging market with close to 60% market share.
- Delivered solutions in volume for virtually all fast charge protocols.
- Enhanced our position in commercial lighting with two new SSL LED drivers.
- Released a new LED backlight driver to address the performance and cost requirements for high resolution, 4K, 8K and HDR displays.
- Strengthened our LED backlight business with the acquisition of the ams AG business.
- Expanded our range of products with the acquisition of the leader in CMICs, Silego Technology Inc.

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 requiring very efficient, higher power density solutions.
- An expanding array of new rapid charging protocols.
- Stringent government regulations continue to raise the bar for efficiency and standby power.
- Regulations raising the bar on standby power and flicker for commercial lighting.
- Market shift from edge-lit design to multi-segment and direct backlighting to enable higher resolution and high dynamic range ("HDR") displays.
- Demand for increasing flexibility and shorter design cycles in IoT and mobile computing.

Industry first USB PD interface IC optimised for power supplies

Our new state machine based USB PD interface IC requires fewer components versus conventional MCU-based approaches, for simpler, smaller, higher power rapid charging adapter designs.

Forward focus areas for 2018

Extend product portfolio

- Continue to deliver next-generation **RapidCharge™** adapter solutions to meet emerging fast charging standards.
- Expand our SSL LED driver solutions for commercial and professional LED lighting.

Achieve a broader and deeper customer base

- Extend our **RapidCharge™** AC/DC USB PD power supply solutions to a broader customer base.
- Accelerate the market adoption of CMIC.
- Extend our core **BroadLED™** technology for performance innovations in the computing, automotive backlighting markets.

Deliver continuous innovation

- Develop complete GaN-based chipset solutions to enable the highest power density, smallest form-factor power supplies for mobile devices, notebooks and other electronic products.

Automotive & Industrial
Capitalising on our experience and mixed-signal expertise

Dialog continues to support its loyal customers in the mid to high-end European automotive segment and the industrial lighting segment through customer specific parts.

Key facts

Revenue (US$m)

2017	**33**
2016	30
2015	34

US$12.6m

Underlying operating profit

Full reconciliation of non-IFRS on **Page 160**

US$1.2m

Expensed in underlying R&D

Highlights

→ Continued to support our customers to remain competitive.

→ We played in this market with customer specific programmes.

Our markets

→ Custom motor control ICs for windscreen wipers.

→ Electronic ballasts for fluorescent or high-intensity industrial lighting and energy-efficient controllers for LED lighting solutions.

Our products

Dialog supplies motor control ICs to leading European automotive suppliers, who in turn delivers Dialog-based windscreen wiper motor products addressing mid to high-end European and Japanese cars.

These devices capitalise on Dialog's expertise and knowledge of technologies ranging from power management systems and mixed-signal design, to high-voltage circuits and embedded microprocessors on a single integrated circuit in an automotive-qualified CMOS process, including flash memory.

For the industrial market, Dialog develops innovative control ASICs for conventional light sources, such as fluorescent and for other industrial applications. Our future development focus is on energy-efficient controllers for LED lighting solutions. These devices seek to deliver optimal control and regulation of light sources, while maximising their service life. Through intelligent control, using advanced digital signal processing, these devices help to minimise energy consumption.

2017 progress

→ Successful ramp-up in new windscreen wiper products and new LED lighting solutions.

Key drivers

→ Increasing market for reverse wipers and LED lighting solutions.

"Our custom motor control ICs capitalise on our power management and mixed-signal expertise."

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

Our heritage in mixed-signal expertise

Over the years, we have built a wealth of mixed-signal expertise. We deploy this know-how to support our customers and to remain competitive and to play in this market through specific customer programmes.

Forward focus areas for 2018

Achieve a broader and deeper customer base

- Support our customers to remain competitive.
- Remain engaged in this market through specific customer programmes but with no additional R&D investment.
- Follow this market with appropriate investments.

A strong balance sheet provides a platform to invest for future growth

Highly-skilled engineers and IP | Strength of our customer relations | Robust and responsible supply chain | **The strength of our balance sheet** | Our Company culture

During 2017, we invested more than US$300 million in R&D, acquired Silego for an initial net cash outlay of US$258 million and returned the equivalent of US$125 million to our shareholders through our share buyback programme.

"Our robust cash generation allows us to grow both organically through focused R&D investment and through acquisition."

Wissam Jabre
Chief Financial Officer, Senior Vice President Finance

Year ended 31 December US$ millions unless stated otherwise	IFRS basis			Underlying basis[1]		
	2017	2016	Change	**2017**	2016	Change
Revenue[2]	**1,352.8**	1,197.6	+13%	**1,352.8**	1,197.6	+13%
Gross profit	**620.7**	546.7	+14%	**631.7**	554.9	+14%
Gross margin %[2]	**45.9%**	45.7%	+20bps	**46.7%**	46.3%	+40bps
R&D % of revenue	**20.6%**	20.2%	+40bps	**19.2%**	19.0%	+20bps
SG&A % of revenue	**10.7%**	11.1%	-40bps	**8.4%**	8.9%	-50bps
EBITDA[1]	**n/a**	n/a	n/a	**315.8**	269.7	+17%
EBITDA margin %[1]	**n/a**	n/a	n/a	**23.3%**	22.5%	+80bps
Operating profit	**187.0**	309.8	-40%	**259.5**	221.0	+17%
Operating margin %[2]	**13.8%**	25.9%	nm	**19.2%**	18.5%	+70bps
Profit before tax	**194.8**	305.2	-36%	**266.6**	217.6	+23%
Net income	**169.4**	258.1	-34%	**228.0**	165.4	+38%
Basic EPS (US$)	**2.34**	3.43	-32%	**3.08**	2.20	+40%
Diluted EPS (US$)[2]	**2.21**	3.25	-32%	**2.92**	2.09	+40%
Cash flow from operating activities	**284.7**	248.8	+14%	**n/a**	n/a	n/a
Free cash flow[2]	**n/a**	n/a	n/a	**205.3**	195.4	+5%

1 Non-IFRS measures (see explanations and reconciliations to the nearest equivalent IFRS measures in the section entitled "Financial performance measures" on pages 156 to 161).
2 Key performance indicators.

Basis of preparation

Accounting policies

The Group's 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 Group's financial statements also comply with IFRS as issued by the International Accounting Standards Board.

The Group's significant accounting policies were unchanged compared with 2016.

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

Critical accounting judgement and estimates

An explanation of the critical accounting judgements made in preparing the consolidated financial statements and key sources of estimation uncertainty that may affect the carrying amount of the Group's assets and liabilities within the next financial year is presented 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 these measures are non-IFRS measures because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS. All underlying measures of profitability 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 156 to 161.

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

Business combinations

Silego Technology Inc.

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

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

On completion, we paid initial consideration of US$290.5 million in cash, including US$22.5 million in respect of Silego's estimated cash, debt and working capital levels on completion. We expect to pay a purchase price adjustment of US$0.7 million reflecting Silego's actual cash, debt and working capital levels on completion.

All "in the money" outstanding, unvested employee options over Silego's common shares were converted into and became the right to receive cash payments 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$11.5 million, of which US$6.6 million represented deferred consideration.

We estimated that the acquisition date fair value of the contingent consideration attributable to the shares and vested options acquired was US$23.3 million (net of discounting of US$3.0 million).

Accordingly, the total purchase consideration recognised was US$321.1 million.

Silego's identifiable intangible assets on acquisition included customer relationships (US$91.4 million), developed technology and know-how (US$26.5 million) and the Green PAK™ trade name (US$4.0 million).

Silego's net assets on acquisition totalled US$130.3 million. We therefore recognised goodwill of US$190.8 million on the acquisition of Silego, which 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.

During 2017, we incurred transaction costs of US$4.4 million in relation to the acquisition of Silego and integration costs of US$2.3 million.

We added Silego to our Power Conversion operating segment and re-named it our Advanced Mixed Signal operating segment to reflect the nature of its expanded operations. Subsequent to its acquisition, Silego contributed US$11.4 million to the Group's revenue for 2017.

Further information is presented in note 3 to the consolidated financial statements.

LED backlight business

On 15 November 2017, we purchased ams AG's LED backlight technology and product portfolio for US$9.5 million in cash. We recognised goodwill of US$3.9 million on the purchase of the business.

Strategic investments

Additional investment in Energous

In November 2016, we entered into a strategic alliance with Energous Corporation ("Energous"), the developer of WattUp®, a wire-free charging technology, and purchased 763,552 common shares at a cost of US$10.0 million and were granted an equivalent number of warrants over common shares in Energous.

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

At the end of 2017, we held approximately 8% of Energous's outstanding common shares.

Disposal of investment in Arctic Sand

In March 2017, Peregrine Semiconductor Corporation, a subsidiary of Murata Manufacturing Co Ltd, agreed to acquire Arctic Sand Technologies, Inc. ("Arctic Sand") by way of a merger.

Dialog held approximately 3.5% of the issued equity shares in Arctic Sand.

We have so far received proceeds of US$1.3 million on the sale of our shares and have recognised a loss on disposal of US$0.2 million in profit or loss (within other finance expense).

Deconsolidation of Dyna Image

In January 2017, we participated in a new issue of shares by Dyna Image Corporation ("Dyna Image"). We invested the equivalent of US$1.9 million, thereby increasing our shareholding in the business from 45.7% to 48.5%.

We accounted for Dyna Image as a subsidiary because we considered that the call option that we hold over the non-controlling interests in Dyna Image gave us power to direct its relevant activities.

During 2017, Dyna Image's operating results fell considerably short of the level envisaged in its business 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$4.3 million in relation to the intangible assets and property, plant and equipment held by Dyna Image (within other operating expenses).

We also reviewed the call option over the non-controlling interests. 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 now exists an economic barrier to our exercising the option that is so great that the option no longer gives us power over Dyna Image. We therefore deconsolidated Dyna Image with effect from 31 December 2017 and recognised a loss of US$5.6 million on deconsolidation (within other operating expenses).

Further information is presented in note 4 to the consolidated financial statements.

Aborted merger with Atmel

In January 2016, Atmel Corporation terminated the merger agreement that existed with Dialog. Under the terms of the agreement, Atmel paid us a termination fee of US$137.3 million, which we recognised as other operating income in the first quarter of 2016.

During 2016, we incurred related transaction costs of US$3.5 million and related borrowing facility commitment fees of US$1.9 million.

Financial review continued

Results of operations

Analysis by operating segment

Mobile Systems segment revenue was US$1,042.9 million in 2017 compared with US$923.0 million in 2016, an increase of 13%. Revenue increased principally due to higher demand for our custom PMICs.

Mobile Systems' operating profit was $271.7 million in 2017 compared with $239.9 million in 2016, an increase of 13%. Operating profit improved in response to higher sales volumes but this was partially offset by higher R&D and operating expenses. Operating margin increased slightly to 26.1% (2016: 26.0%).

Mobile Systems' underlying operating profit was US$271.8 million in 2017 compared with US$241.5 million in 2016. Underlying operating margin was slightly lower at 26.1% (2016: 26.2%).

Mobile Systems' underlying operating profit excludes payroll taxes arising on share-based compensation of US$0.1 million in 2017 (2016: US$1.6 million).

Connectivity segment revenue was US$136.4 million in 2017 compared with US$118.3 million in 2016, an increase of 15%. Strong growth in Bluetooth® low energy was accompanied by higher demand for DECT-based products, in particular for cordless headsets and microphones.

Connectivity's operating profit was significantly higher at US$14.3 million in 2017 compared with US$5.3 million in 2016, with the effect of higher sales volumes and improved product margins being only partially offset by higher selling and marketing expenses. Operating margin improved to 10.5% (2016: 4.5%).

Connectivity's underlying operating profit was US$14.3 million in 2017 compared with US$5.6 million in 2016. Underlying operating margin was also higher at 10.5% (2016: 4.7%).

Connectivity's underlying operating profit excludes payroll taxes arising on share-based compensation of less than US$0.1 million in 2017 (2016: US$0.3 million).

Automotive & Industrial segment revenue was US$33.0 million in 2017 compared with US$30.0 million in 2016, an increase of 10%. Revenue increased primarily because of improved demand for traditional industrial lighting products.

Automotive & Industrial's operating profit was US$12.5 million in 2017 compared with US$10.1 million in 2016, an increase of 24%. Operating profit improved in response to higher sales volumes and lower R&D and other operating expenses. Operating margin increased to 38.2% (2016: 33.7%).

Automotive & Industrial's underlying operating profit was US$12.6 million in 2017 compared with US$10.2 million in 2016. Underlying operating margin was also higher at 38.2% (2016: 34.0%).

Automotive & Industrial's underlying operating profit excludes payroll taxes arising on share-based compensation of less than US$0.1 million in 2017 (2016: US$0.1 million).

Advanced Mixed Signal segment revenue was US$132.7 million in 2017 compared with US$116.8 million in 2016, an increase of 14% . Excluding Silego's contribution in 2017, revenue increased by 4%, principally due to higher sales of 10W converters and LED driver ICs for commercial and residential uses.

Advanced Mixed Signal incurred an operating loss of US$15.1 million in 2017 compared with an operating loss of US$7.5 million in 2016. Operating margin worsened to (11.4)% in 2017 compared with (6.5)% in 2016.

Excluding the effects of accounting for the acquisitions of Silego and the LED backlight business, however, Advanced Mixed Signal's operating loss was broadly unchanged compared with 2016 as the effect of higher sales was largely offset by higher R&D and operating expenses.

Advanced Mixed Signal delivered an underlying operating profit of US$5.9 million in 2017 compared with US$6.1 million in 2016. Underlying operating margin was 4.5% in 2017 compared with 5.2% in 2016.

Advanced Mixed Signal's underlying operating result excludes the increase in cost of sales of US$2.3 million arising from the fair value uplift on inventory acquired with Silego and the LED backlight business, amortisation of US$15.3 million (2016: US$13.4 million) on the fair value uplift of acquired intangible assets, Silego integration costs of US$2.0 million, deferred consideration payable for Silego treated as compensation expense of US$1.4 million and payroll taxes arising on share-based compensation of less than US$0.1 million (2016: US$0.2 million).

Corporate activities include emerging market businesses (principally Dyna Image and those involved in the development of low cost products for the Chinese consumer markets). Corporate's revenue of US$7.8 million (2016: US$9.5 million) was principally attributable to Dyna Image.

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

Corporate activities showed an operating loss of US$96.4 million in 2017 compared with an operating profit of US$62.0 million in 2016 (which included the Atmel termination fee received of US$137.3 million).

Corporate's underlying operating loss was US$45.2 million in 2017 compared with US$42.4 million in 2016, with the increase principally due to higher R&D expenses which were only partially offset by a reduction in advisory fees.

Corporate's underlying operating result excludes transaction and integration costs of US$4.8 million, amortisation of US$1.1 million (2016: US$1.1 million) on the fair value uplift of acquired intangible assets, the Group's share-based compensation expense of US$35.3 million (2016: US$28.2 million), payroll taxes arising on share-based compensation of Corporate employees of less than US$0.1 million (2016: US$0.1 million), losses totalling US$9.9 million on the impairment of assets held by Dyna Image and its subsequent deconsolidation and, in 2016, the Atmel termination fee received of US$137.3 million.

Results by operating segment

Year ended 31 December US$ millions	Revenue 2017	 2016	 Change	Operating profit/(loss) 2017	 2016
Mobile Systems	**1,042.9**	923.0	+13%	**271.7**	239.9
Connectivity	**136.4**	118.3	+15%	**14.3**	5.3
Automotive & Industrial	**33.0**	30.0	+10%	**12.5**	10.1
Advanced Mixed Signal	**132.7**	116.8	+14%	**(15.1)**	(7.5)
Total segments	**1,345.0**	1,188.1	+13%	**283.4**	247.8
Corporate activities	**7.8**	9.5	-18%	**(96.4)**	62.0
Total Group	**1,352.8**	1,197.6	+13%	**187.0**	309.8

Analysis of the Group's results

Revenue was US$1,352.8 million in 2017 compared with US$1,197.6 million in 2016, an increase of 13%. Revenue increased principally due to higher demand for our PMICs in Mobile Systems, but we also experienced strong revenue growth in Connectivity and Automotive & Industrial.

Dialog's revenue, particularly in its Mobile Systems segment, is dependent on the life cycle of its customers' products and the seasonal nature of the spending pattern in the consumer markets in which they operate. As a result, Dialog's business may fluctuate seasonally with lower revenue in the first half of the year, since many of its larger consumer-focused customers tend to have stronger sales later in the year as they prepare for the major holiday selling seasons.

Cost of sales was US$732.1 million in 2017 compared with US$650.9 million in 2016, an increase of 12% that principally reflected higher sales volumes.

Gross profit was US$620.7 million in 2017 compared with US$546.7 million in 2016, an increase of 14%.

Gross margin was 20 basis points higher at 45.9% in 2017 compared with 45.7% in 2016. Gross margin improved largely due to a favourable change in product unit costs.

Underlying gross profit was US$631.7 million in 2017 compared with US$554.9 million in 2016, an increase of 14%. Underlying gross margin was 40 basis points higher at 46.7% in 2017 compared with 46.3% in 2016.

Selling and marketing expenses were US$70.4 million in 2017 compared with US$62.3 million in 2016. We further increased our sales and marketing efforts in our Connectivity segment, but maintained tight control of our overall costs.

Underlying selling and marketing expenses increased to US$56.6 million in 2017 compared with US$51.4 million in 2016, but were slightly lower as a percentage of the Group's revenue at 4.2% in 2017 compared with 4.3% in 2016.

Underlying selling and marketing expenses exclude share-based compensation expenses and related payroll costs totalling US$4.1 million (2016: US$3.4 million), amortisation of US$9.3 million (2016: US$7.5 million) on the fair value uplift of acquired intangible assets and, in 2017, integration costs of US$0.4 million.

General and administrative expenses were US$74.9 million in 2017 compared with US$70.9 million in 2016, with the increase being due principally to transaction costs and integration costs.

Underlying general and administrative expenses were US$56.9 million in 2017 compared with US$55.1 million in 2016 but were lower as a percentage of the Group's revenue at 4.2% in 2017 compared with 4.6% in 2016.

Underlying general and administrative expenses exclude share-based compensation and related payroll costs totalling US$12.2 million (2016: US$12.3 million), transaction costs of US$4.5 million (2016: US$3.5 million) and, in 2017, integration costs of US$0.7 million.

R&D expenses were US$278.8 million in 2017 compared with US$241.3 million in 2016, an increase of 16%.

R&D costs totalled US$307.0 million in 2017 (2016: US$264.2million), of which US$21.0 million (2016: US$15.8 million) were capitalised, and we recognised R&D expenditure credits of US$7.2 million (2016: US$7.1 million).

Dialog has an extensive R&D engineering team focused on mixed-signal semiconductor power saving technologies. Dialog believes that its R&D activities are critical to support its strategy of growth and product diversification.

We continued to invest heavily in product development in 2017 and the increase in R&D expenditure reflects an increase in both the strength of our engineering team and the number of ongoing development projects.

Underlying R&D expenses were US$259.1 million in 2017 compared with US$227.8 million in 2016, an increase of 14%, and were slightly higher as a percentage of the Group's revenue at 19.2% in 2017 compared with 19.0% in 2016.

Underlying R&D expenses exclude share-based compensation expenses and related payroll costs totalling US$18.0 million (2016: US$13.6 million) and, in 2017, integration costs of US$1.2 million.

Other operating expense was US$9.6 million in 2017 with income from R&D contracts of US$0.3 million heavily outweighed by losses totalling US$9.9 million on the impairment of assets held by Dyna Image and its subsequent deconsolidation. In 2016, we recognised other operating income of US$137.7 million that was principally the Atmel termination fee of US$137.3 million.

Operating profit was US$187.0 million in 2017 compared with $309.8 million in 2016.

Underlying operating profit was US$259.5 million in 2017 compared with US$221.0 million in 2016, an increase of 17%. Underlying operating profit improved because the effect of higher sales volumes significantly outweighed the increase in underlying R&D expenses.

Underlying operating margin was 70 basis points higher at 19.2% in 2017 compared with 18.5% in 2016.

Interest income was US$6.0 million in 2017 compared with US$3.7 million in 2016, with the increase reflecting higher US dollar interest rates.

Interest expense was US$1.3 million in 2017 compared with US$3.4 million in 2016 (which included Atmel borrowing facility commitment fees of US$1.9 million).

Other finance income was US$3.1 million in 2017 compared with an expense of US$4.8 million in 2016.

Other finance income/(expense) comprises foreign currency translation gains and losses that arise on monetary assets and liabilities that are denominated in currencies other than the functional currencies of the entities by which they are held and fair value gains and losses recognised in relation to certain of our strategic investments.

We recognised a net currency translation gain of US$1.7 million in 2017 compared with a net loss of US$6.0 million in 2016.

During 2017, we recognised a fair value gain of US$0.9 million (2016: gain of US$1.9 million) on the warrants that we hold over shares in Energous and amortisation of the gain on initial recognition of the second tranche of warrants amounting to US$0.8 million.

During 2017, we also recognised within other finance expense a fair value loss of US$0.1 million (2016: loss of US$0.7 million) on our call option to acquire the non-controlling interests in Dyna Image and a loss of US$0.2 million on the disposal of our investment in Arctic Sand.

Income tax

Our approach to tax is to support our business strategy and the creation of long-term value for our shareholders by conducting the Group's affairs in a tax efficient manner whilst remaining in compliance with applicable laws and regulations. Our "Approach to Tax" can be found at www.dialog-semiconductor.com.

Income tax expense was US$25.4 million (2016: US$47.1 million) on profit before tax of US$194.8 million (2016: US$305.2 million), an effective tax rate for the year of 13.0% (2016: 15.4%).

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 restructuring 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.

A large proportion of Dialog's R&D activities are undertaken in the UK and we are therefore able to benefit from the UK tax regime that provides incentives for innovation.

Our income tax expense for 2017 includes a credit in respect of prior years of US$1.5 million resulting from the finalisation of the Bilateral Advance Pricing Agreement and other prior year tax items with tax authorities.

Financial review continued

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 reflects a non-cash deferred tax credit of US$6.7 million resulting from the remeasurement of US deferred tax balances at the lower tax rate.

During 2017, we also recognised a credit of US$9.7 million resulting from the utilisation of previously unrecognised deferred tax assets against taxable currency translation gains and a credit of US$9.6 million (2016: expense of US$3.0 million) arising from tax on translation differences between functional and tax currencies.

Our low effective tax rate for 2016 reflected the tax treatment of the Atmel termination fee of US$137.3 million. We obtained tax advice that the termination fee should not be taxable in the UK. We therefore concluded that no tax liability should arise and did not recognise a tax expense in relation to the termination fee.

We have excluded the non-recurring deferred tax credit resulting from US tax reform from our underlying income tax expense for 2017.

Underlying income tax expense was US$38.6 million (2016: US$52.2 million) on underlying profit before tax of US$266.6 million (2016: US$217.6 million). Our underlying effective tax rate for 2017 was therefore 14.5%, which compares with 24.0% for 2016.

Our underlying effective tax rate for 2017 was much lower than expected, principally because of the tax effects of unpredictable currency exchange rate movements.

Net income was US$169.4 million (2016: US$258.1 million), including a loss of US$4.5 million (2016: US$2.8 million) that was attributable to the non-controlling interest in Dyna Image. Underlying net income was US$228.0 million in 2017 compared with US$165.4 million in 2016, an increase of 38%.

Basic earnings per share were US$2.34 (2016: US$3.43) based on the weighted average of 74.5 million shares (2016: 76.0 million shares) that were in issue during the year excluding 2.1 million shares (2016: 1.3 million shares) held by employee benefit trusts and the weighted average of 1.4 million (2016: 0.5 million) of our own shares that were held in treasury. Underlying basic earnings per share were US$3.08 (2016: US$2.20).

Diluted earnings per share were US$2.21 (2016: US$3.25). Diluted earnings per share additionally reflect the weighted average of 4.1 million (2016: 4.4 million) dilutive employee share options. Underlying diluted earnings per share were US$2.92 (2016: US$2.09).

Summary cash flow statement

Year ended 31 December

US$ millions	2017	2016
Cash generated from operations	**270.6**	385.7
Interest received/(paid), net	**5.8**	(0.1)
Income taxes received/(paid)	**8.3**	(136.8)
Cash flow from operating activities	**284.7**	248.8
Purchase of property, plant and equipment	**(47.9)**	(25.6)
Purchase of intangible assets	**(6.2)**	(8.2)
Capitalised development expenditure	**(21.0)**	(15.8)
Finance lease and hire purchase capital payments	**(4.3)**	(3.8)
Free cash flow	**205.3**	195.4
Purchase of businesses, net	**(267.9)**	(0.6)
Purchase of other investments, net	**(13.7)**	(10.0)
Purchase of own shares into treasury	**(125.0)**	(61.5)
(Purchase)/sale of Dialog shares by EBTs, net	**(17.1)**	8.0
Other cash flows, net	**0.4**	(1.0)
Net cash (outflow)/inflow during the period	**(218.0)**	130.3
Currency translation differences	**0.2**	0.1
(Decrease)/increase in cash and cash equivalents	**(217.8)**	130.4

Cash flows

Cash flow from operating activities was US$284.7 million in 2017 compared with US$248.8 million in 2016.

Cash generated from operations before changes in working capital was US$301.5 million in 2017 compared with US$402.8 million in 2016 (which included the Atmel termination fee received of US$137.3 million).

Excluding the effect of acquisitions and the deconsolidation of Dyna Image, net working capital increased by US$30.9 million (2016: increased by US$17.1 million).

Demand for our products is typically higher in the fourth quarter of the year and lower in the first and second quarters. Inventory levels therefore usually decline between the end of the third quarter and the end of the year. In 2017, however, we maintained inventory levels in the fourth quarter to support expected sales of new customer products in the first quarter of 2018. Inventory levels were therefore significantly higher at the end of 2017 compared with the end of 2016, absorbing cash of US$54.4 million. At the end of 2017, inventories represented 60 days' cost of sales in the preceding quarter (end of 2016: 48 days' cost of sales).

Trade and other receivables were lower at the end of 2017 compared with the end of 2016, releasing cash of US$11.1 million. At the end of 2017, trade and other receivables represented 15 days' sales in the preceding quarter (end of 2016: 20 days' sales).

Trade and other payables were higher at the end of 2017 compared with the end of 2016 releasing cash of US$7.8 million, principally due to higher materials purchases in the fourth quarter of 2017 compared with 2016.

Movements on other working capital items had the effect of releasing cash of US$4.5 million during 2017.

Interest paid was US$0.4 million compared with US$3.4 million in 2016 (which included the payment of Atmel borrowing facility commitment fees of US$1.9 million).

Interest received was US$6.2 million in 2017 compared with US$3.3 million in 2016.

During 2017, we had net income tax receipts of US$8.3 million compared with net payments of US$136.8 million in 2016. Income tax cash flows comprise payments on account in respect of current year taxable profits and adjusting payments or receipts in respect of earlier years. During 2017, we received repayments of income taxes overpaid in respect of earlier years totalling US$38.1 million.

Capital expenditure totalled US$79.4 million in 2017 compared with US$53.4 million in 2016, with the increase being principally due to the purchase of test equipment and higher capitalised development costs.

Free cash flow was US$205.3 million in 2017 compared with US$195.4 million in 2016. Our robust free cash flow provides a basis for financing strategic investments and for making distributions to shareholders.

Cash outflow on the purchase of businesses was US$267.9 million in 2017 compared with US$0.6 million in 2016. During 2017, there was a cash outflow of US$258.4 million on the purchase of Silego (net of cash of US$32.4 million held by the business on acquisition) and we paid US$9.5 million in cash for ams's LED backlight business. During 2016, we paid the equivalent of US$0.6 million as deferred consideration for our initial investment in Dyna Image.

Cash outflow on other investments was US$13.7 million in 2017 compared with US$10.0 million in 2016. During 2017, we paid US$15.0 million on subscription for shares in Energous and received US$1.3 million on the sale of our shareholding in Arctic Sand. During 2016, we paid US$10.0 million on subscription for shares in Energous.

Net cash outflow on share purchases was US$142.1 million in 2017 compared with US$53.5 million in 2016.

Under our share buyback programme, we purchased 2,678,066 of the Company's ordinary shares (2016: 1,805,750 ordinary shares) for the equivalent of US$125.0 million (2016: US$61.5 million) including transaction costs.

Employee benefit trusts purchased the Company's ordinary shares in the market at a cost of US$24.3 million (2016: US$3.1 million) and received proceeds of US$7.2 million (2016: US$11.1 million) on the exercise of share options.

Liquidity and capital resources

Financial risk management

Dialog is exposed to financial risks including counterparty credit risk, liquidity risk and market risks, which include foreign exchange risk and interest rate risk. Disclosures about these risks and the ways in which we manage them are presented in note 32 to the consolidated financial statements.

Dialog has a centralised treasury function that is responsible for ensuring that adequate funding is available to meet the Group's requirements as they arise 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 in accordance with strict policies and guidelines that are approved by the Board.

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

Cash and cash equivalents

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

Credit risk is measured using counterparty credit ratings. As a minimum, a counterparty must have a long-term public rating of at least 'single A'.

Counterparty limits are based on a rating matrix and closely monitored. Credit risk is further limited by investing only in liquid instruments.

At the end of 2017, cash and cash equivalents amounted to US$479.3 million (end of 2016: US$697.2 million), which principally comprised short-term deposits with a maturity of three months or less.

Revolving credit facility

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

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

The facility remained undrawn at the end of 2017.

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

Receivables financing facilities

We utilise non-recourse receivables financing facilities provided by two financial institutions. We reviewed these facilities during 2016 and since November 2016 we have had two facilities in place for an aggregate amount of US$240 million. The principal facility is for US$220 million and matures on 30 April 2018.

Gross receivables sold under the facilities increased by US$66.3 million to stand at US$171.3 million at the end of 2017 compared with US$105.0 million at the end of 2016.

At the end of 2017, cash and cash equivalents included US$145.1 million (end of 2016: US$88.9 million) in relation to receivables sold under these facilities.

Currency hedging activities

Dialog uses 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, 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 successive tranches of 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 2017, currency derivatives held by the Group were represented by an asset of US$6.6 million (end of 2016: liability of US$12.5 million). All currency derivatives held to hedge forecast cash flows were designated as hedging instruments in cash flow hedge relationships. During 2017, a gain of US$16.4 million (2016: loss of US$13.3 million) was recognised in other comprehensive income representing the change during the year in the fair value of derivatives in effective hedging relationships and a cumulative fair value gain of US$0.4 million (2016: loss of US$8.4 million) was transferred from equity to profit or loss on the occurrence of the hedged cash flows.

After taking into account hedging, we recognised a net currency translation loss of US$0.2 million (2016: loss of US$0.6 million) in profit or loss in relation to liabilities to purchase shares under the Company's share buyback programme.

Share buyback programme

At the Company's 2016 AGM, the Directors were granted an authority to purchase up to 7,786,595 ordinary shares in the capital of the Company. During 2017, 2,678,066 ordinary shares were purchased under the 2016 AGM authority at a total cost of €113.7 million (US$124.4 million) and incurred transaction costs of US$0.8 million. Details of the purchases made during 2017 are set out in note 25 to the consolidated financial statements.

The 2016 AGM authority expired on 3 May 2017.

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

Purchases made under the share buyback programme are off-market and are effected by way of contingent forward purchase contracts entered into with brokers. Barclays, Goldman Sachs, HSBC or Merrill Lynch may be appointed as brokers for purchases under the 2017 AGM authority.

Since we initiated the share buyback programme in May 2016, we have purchased a total of 4,483,816 shares at a cost of €168.7 million (US$184.7 million) and incurred transaction costs of US$1.8 million. We initially held these shares in treasury, but we cancelled them in June 2017.

We will seek renewal of the share buyback authority at the Company's AGM on 3 May 2018.

Capital management

The Group's capital is represented by its total equity (shareholders' equity plus non-controlling interests).

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.

Financial review continued

Balance sheet

Summary balance sheet

As at 31 December US$ millions	2017	2016
Assets		
Cash and cash equivalents	**479.3**	697.2
Other current assets	**281.2**	237.1
Total current assets	**760.5**	934.3
Goodwill	**439.5**	251.2
Other intangible assets	**235.6**	125.6
Property, plant and equipment	**83.9**	69.7
Deferred tax assets	**7.5**	27.4
Other non-current assets	**49.8**	22.3
Total non-current assets	**816.3**	496.2
Total assets	**1,576.8**	1,430.5
Liabilities and equity		
Current liabilities	**199.7**	224.1
Deferred tax liabilities	**4.0**	2.0
Other non-current liabilities	**30.7**	9.5
Total liabilities	**234.4**	235.6
Shareholders' equity	**1,342.4**	1,189.8
Non-controlling interests	**–**	5.1
Total liabilities and equity	**1,576.8**	1,430.5

Goodwill

At the end of 2017, the carrying amount of goodwill was US$439.5 million (end of 2016: US$251.2 million). During 2017, we recognised goodwill of $194.6 million on the acquisition of Silego and ams's LED backlight business and goodwill was reduced by US$6.9 million on the deconsolidation of Dyna Image.

Goodwill impairment tests carried out during 2017 showed that the recoverable amount of each operating segment to which goodwill is allocated was comfortably in excess of its carrying amount and therefore no impairment was recognised.

Other intangible assets

At the end of 2017, the carrying amount of other intangible assets was US$235.6 million (end of 2016: US$125.6 million). During 2017, additions amounted to US$154.7 million, comprising identifiable intangible assets recognised on the acquisition of Silego and ams's LED backlight business of US$127.6 million, capitalised product development costs of US$21.0 million and purchased software, licences and patents totalling US$6.2 million. During 2017, the amortisation expense was US$42.0 million (2016: US$35.9 million) and there was an impairment loss of US$2.8 million on intangible assets attributable to Dyna Image.

Property, plant and equipment

Since Dialog operates a fabless business model, it does not have any manufacturing facilities but it does occupy R&D facilities and administrative offices. At the end of 2017, Dialog operated in 33 locations worldwide covering a total of 47,200 square metres. Dialog's facilities are all held under operating leases. Management believes that Dialog's facilities are adequate for its current requirements.

Property, plant and equipment principally comprises test equipment, office equipment and leasehold improvements. At the end of 2017, the carrying amount of property, plant and equipment was US$83.9 million (end of 2016: US$69.7 million). Additions during the year amounted to US$47.1 million, including assets with a fair value of US$1.5 million acquired with Silego. During 2017, the depreciation expense was US$30.8 million (2015: US$27.9 million) and there was an impairment loss of US$1.5 million on assets held by Dyna Image.

With the exception of assets held under finance leases, which are secured by a lessor's charge over the leased assets, the Group's property, plant and equipment is not subject to any encumbrances.

Other non-current assets

Other non-current assets increased by US$27.5 million to US$49.8 million (end of 2016: US$22.3 million), primarily due to our additional investment in Energous shares and warrants and the recognition of gains totalling US$6.9 million on the remeasurement of those investments.

Current assets

Current assets totalled US$760.5 million at the end of 2017 compared with US$934.3 million at the end of 2016, a decrease of US$173.8 million. Cash and cash equivalents decreased by US$217.9 million to US$479.3 million. Other current assets increased by US$44.0 million to US$281.2 million reflecting an increase in inventories of US$63.6 million that was partially offset by the decrease of US$23.1 million in income tax receivables.

Current liabilities

Current liabilities totalled US$199.7 million at the end of 2017 compared with US$224.1 million at the end of 2016, a decrease of US$24.4 million. Trade and other payables increased by US$17.6 million to US$107.2 million. Other current liabilities decreased by US$41.9 million to US$92.5 million, principally due to the settlement and release of the share buyback obligation of US$61.1 million held at the end of 2016 which was partially offset by the current portion of consideration payable for Silego totalling US$14.3 million at the end of 2017.

Income tax assets and liabilities

Due largely to the timing and amount of tax payments on account to the relevant tax authorities, at the end of 2017 the Group had net current tax payables of US$0.6 million (end of 2016: net current tax receivables of US$35.4 million).

At the end of 2017, the Group had net deferred tax assets of US$3.5 million (end of 2016: US$25.4 million), comprising deferred tax assets of US$7.5 million (end of 2016: US$27.4 million) and deferred tax liabilities of US$4.0 million (end of 2016: US$2.0 million). Net deferred tax assets decreased primarily as a consequence of the acquisition of Silego.

Other non-current liabilities

Other non-current liabilities increased by US$21.2 million to US$30.7 million (end of 2016: US$9.5 million), principally due to the non-current portion of consideration payable for Silego totalling US$17.4 million at the end of 2017.

Total equity

Total equity was US$1,342.4 million at the end of 2017 (end of 2016: US$1,194.9 million). At the end of 2017, Dialog shares held by employee benefit trusts amounted to US$0.9 million (end of 2016: US$20.6 million). Following the cancellation of treasury shares in June 2017, there were no shares held in treasury at the end of 2017 (end of 2016: US$61.5 million).

Going concern

For the reasons set out on page 66, the Directors continue to adopt the going concern basis in preparing the Group's and the Company's financial statements. We outline on pages 55 to 60 the principal risks and uncertainties that the Directors believe could adversely affect the Group's results, cash flows and financial position.

Accounting standards to be adopted in 2018

Revenue recognition

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

We have concluded that the recognition and measurement of the majority of the Group's revenue will be unaffected by the adoption of IFRS 15. Under our existing revenue recognition policy, however, some sales to distributors and related cost of sales are not recognised until the onward sale of the products by the distributor to end customers. Under IFRS 15, we will be required to recognise revenue on all sales to distributors when the products are physically transferred to the distributors, net of allowances for estimated rebates and returns.

We will apply IFRS 15 using the modified retrospective approach, whereby prior periods will not be restated but a cumulative effect adjustment will be made to the opening balance of retained earnings on 1 January 2018. We estimate that the cumulative effect adjustment will be a credit to retained earnings of US$1.5 million. An analysis of this adjustment is presented in note 1 to the consolidated financial statements.

As we progress through 2018, we will present in our financial statements an analysis of the effect of this change of accounting policy on our quarterly and year to date results.

Financial instruments

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

We do not expect the adoption of IFRS 9 will have a significant effect on the Group's results or financial position.

Further information is presented in note 1 to the consolidated financial statements.

Consequences of Brexit

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

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

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

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

Wissam Jabre
Chief Financial Officer,
Senior Vice President Finance

Our key sustainability priorities are our people, our products and a resilient supply chain

This section provides high-level analysis of our most material business sustainability issues, details on how we manage them and selected data on how we have performed. During 2017 we undertook our second full materiality assessment. The results of the materiality process are set out in the new matrix published below. This includes our most material issues, as well as a range of additional relevant issues that we are also proactively managing.

The outcome of our materiality assessment resulted in a number of areas grouped into single items, reducing the overall number from 23 to 20:

→ Recruitment of professionals and recruitment of graduates.

→ Corporate governance and general legal compliance.

→ Health and safety (supply chain) and labour and human rights (supply chain).

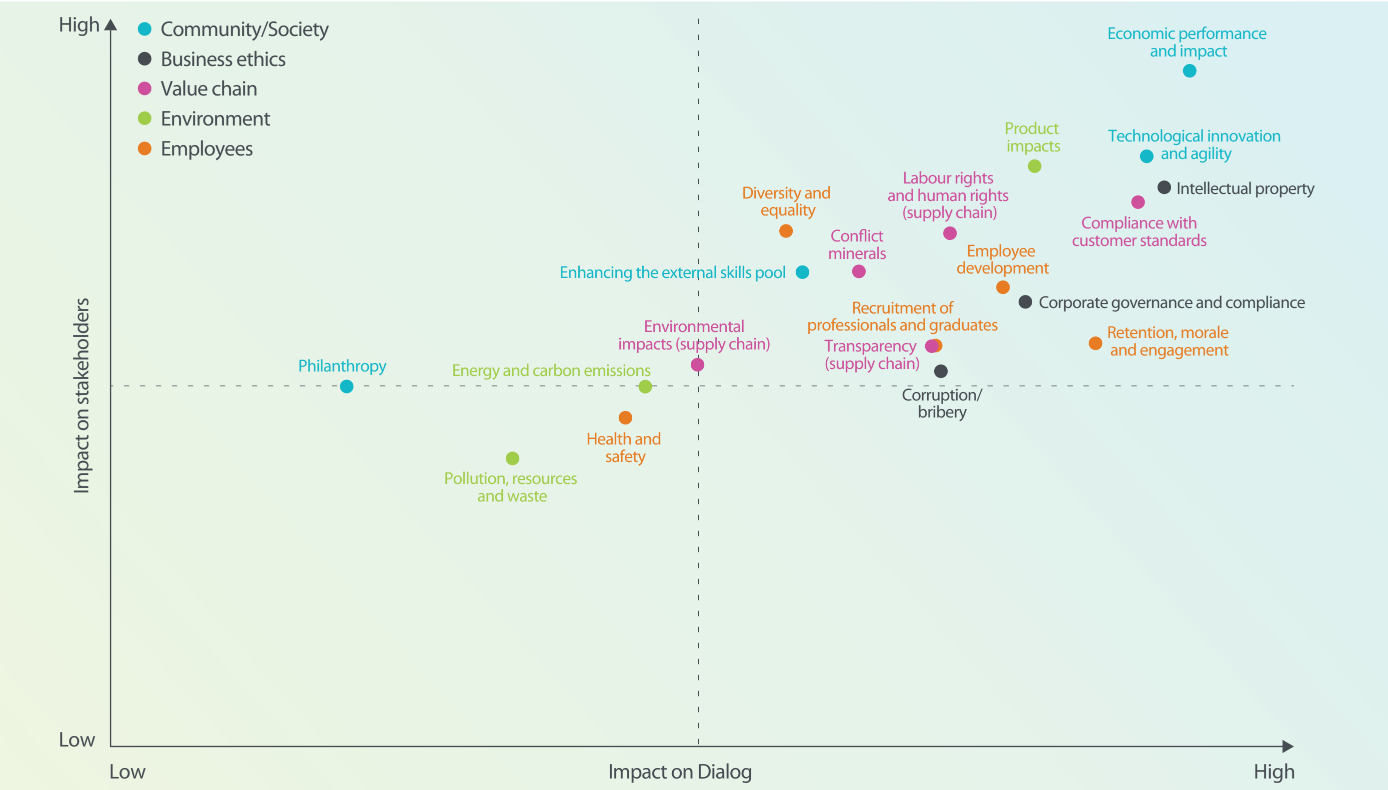
During the year we strengthened our audit verification process relating to human and labour rights, health and safety, and the environment. Further detail is available in our 2017 Sustainability Report and on our website.

www.dialog-semiconductor.com/sustainability

Our sustainability vision and applicable standards

Vision	Applicable external standards
To embed sustainable and responsible practices into the way we act internally and engage externally	→ United Nations Global Compact. → ISO14001 environmental management system standard. → ISO9001 quality management system standard. → ISO50001 energy management system standard. → Global Reporting Initiative and G4 Sustainability Reporting Guidelines.

Materiality matrix



Our people

Materiality

The nature of our business, which relies on the ongoing advancement of cutting-edge semiconductor technology, means we are highly reliant on our ability to recruit, retain and develop high-quality electronic engineering professionals, as well as leading management talent. This is particularly the case given:

- Strong, ongoing competition for skills within the sector.
- An ageing electronics engineering demographic.
- Declining number of students in electronics engineering degree programmes and taking STEM subjects at school required for entry into electronics engineering university programmes.
- Our commercial growth ambition.

In this context, we are focused on maintaining a sustainable skills pipeline – ranging from the identification, development (and ultimate 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 highly competitive financial rewards. We also aim to deliver the kind of lifestyle, working environment, development opportunities and inclusive culture that encourages people to choose to develop high-quality, long-term careers with us.

"Innovation in power management and power-efficient technologies is our DNA. Every year we launch new ICs which contribute to improving the energy efficiency of consumer electronic devices."

How we manage our people

We manage our people through:

- The application of national-level Human Resource Policies, tailored to reflect local legal requirements, business priorities and labour markets.
- The application of our corporate Code of Conduct, which sets out our minimum, business-wide requirements in relation to labour and human rights, health and safety and related issues.
- Ongoing talent planning and gap identification.
- Proactive engagement at university level to identify and recruit new talent.
- Ongoing identification and engagement of high-value professionals and leaders.

Responsibility for our performance sits with the Senior Vice President Human Resources who is supported in this role by dedicated regional Human Resource teams.

Relevant performance indicators in relation to our people can be found on page 16.

Our products

Materiality

Our products are based around a range of power-efficient IC solutions, and we aim to have a positive impact on the wider environment through the development and marketing of energy-saving technology.

Positive product impacts

The technology that we design, develop and market supports the wider provision (by our business partners) of advanced, affordable technology to consumers in a range of global mass-markets, including:

- Personal, portable handheld devices.
- LED solid state lighting and LED backlighting.
- IoT applications.

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:

- Mobile 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 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 when you consider that standby demand consumes more than 100 billion kilowatt-hours of electricity annually in the United States alone (enough to power more than nine million American households). Furthermore, our solid state lighting ("SSL") LED drivers support very high efficiency, long-lifespan SSL bulbs. It is estimated that the increased use of energy-efficient LED lighting of all kinds in the United States alone will save 300 terawatt hours by 2030 – equivalent to approximately 210 million tonnes of greenhouse gas emissions.
- Connectivity: Our Bluetooth® low energy, SmartBond™ System-On-Chip helps increase 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 is intended 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 in to which they are incorporated.

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

Corporate responsibility and sustainability continued

A resilient supply chain

Materiality

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.
- The environmental impacts of both our suppliers and the contents of our products.

This reflects:

- Evolving stakeholder expectations, which place ever-growing emphasis on the need for companies to identify, and use their legitimate influence to proactively manage, their indirect sustainability impacts.
- Dialog's duty to help protect its own customers from reputational, contractual or commercial harm.

How we manage our value chain

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.
- Screening of 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 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, OHSAS18001 and ISO9001, auditing covers a range of broader corporate social responsibility issues, including those drawn from the SA8000 social accountability standard. In 2017, we carried out 18 supplier audits on this basis.

Responsibility in this respect sits with the Senior Vice President Global Manufacturing Operations. He is supported in this role on a day-to-day basis by the Environmental Manager.

Proportion of major fabrication partners screened/audited for sustainability performance by issue type (new fabrication partners screened[1]/existing fabrication partners audited[2])

	2015	2016	**2017**
Health and safety (%)	100/100	100/100	**100/100**
Environment (%)	100/100	100/100	**100/100**
Labour rights (incl. human rights) (%)	100/100	100/100	**100/100**
Society (%)	100/100	100/100	**100/100**

Type and number of "major" negative audit findings[3]

	2015	2016	**2017[5]**
Health and safety	0	0	**6**
Environment	0	1[4]	**2**
Labour practices (incl. human rights)	0	0	**3**
Society	0	0	**0**

1 Screening activity is aimed at improving the performance of our fabrication partners where necessary, rather than their exclusion from our supply chain.
2 Includes both documentary auditing and on-site auditing. All our fabrication partners were subjected to auditing in 2017.
3 I.e. audit findings of sufficient seriousness that Dialog requires immediate correction on the part of the supplier.
4 Potential safety hazard identified for the control of chemicals.
5 In 2017 we strengthened our audit verification process. Further detail is available in our 2017 Sustainability report.

Environmental responsibility

Materiality

We operate responsible practices within our own business and promote them across our supply chain.

Our products themselves are based around a range of green 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 an ongoing effort to minimise our:

- Energy consumption and carbon emissions.
- Pollution and waste.
- Use of natural resources.

Management approach

Responsibility for environmental performance sits with our Senior Vice President Global Manufacturing Operations. We further 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. Furthermore, we are certified to the ISO14001 environmental management standard, and our Company Quality and Management Manual support our efforts to achieve continuous improvement. In 2016, we implemented a new energy management system in Germany, achieving ISO50001 certification.

Energy and carbon emissions

We are working across our offices to significantly reduce CO_2 emissions and minimise the carbon footprint of our business. This year, we have offset 100% of emissions from all air travel and the use of rental cars from our two main design centres – Nabern and Swindon. We work with Climate Care to offset CO_2 emissions through various renewable energy projects in Turkey, China and Taiwan.

	2017 Total	**2017 per employee**
Scope 1	92.5	0.05
Scope 2	1,651.5	0.86
Scope 3 (travel only)	5,210.2	2.71

Scope 1: Direct emissions from self-generation.

Scope 2: Indirect emissions from the consumption of purchased electricity, heat or steam.

Scope 1 and 2 emissions from our two largest design centres – Nabern and Swindon.

Scope 3: Other indirect emissions including those related to transport. Includes all air travel and car hire.

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 on one or more of the four strategic priorities.

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.

The Risk Management Office

The Risk Management Office ("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 the mitigation of risks 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.

Operational Management

The Management Team is responsible for managing risk within the business on a day-to-day basis. They set objectives, determine strategy to achieve those objectives 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 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 control issues identified to the Audit Committee and to Senior Management.

Managing risk and uncertainty continued

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: strategic, operational, financial, and legal and compliance.

Risk trend Key

Risk increasing | Risk stable | Risk decreasing

Strategic risks

Dialog management is focused on executing on its four strategic pillars in order to mitigate its dependencies on key markets and customers. As part of our review of risks, in 2017 return on R&D investment has been added to our strategic risks.

Dependency on mobile and consumer electronics	Mitigating actions (Risk stable)
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.	We engage with our customers to understand their requirements and tailor the products we design to their specifications. Dialog expensed US$279 million in R&D in 2017 to anticipate and respond to new product developments and market trends. The Company rapidly implements new designs to meet customer needs and to keep abreast of technological trends. Examples include continued development of quick charge AC/DC converters to meet evolving protocols, release of a new PMIC for the multi-cell computing market, and development of Bluetooth® related products for wearables and Smart Home applications.

Dependency on key customers	Mitigating actions (Risk increasing)
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. or of specific products sold to Apple, would have a material effect on revenue and profitability. Dialog's 2017 revenue derived from Apple Inc. was US$1,043 million. We recognise that it has the resources and capability to internally design a PMIC.	Dialog seeks to diversify its product offerings within its key accounts and to expand its relationships with more top tier global electronics companies. Dialog continues with its Greater China strategy and has also made significant progress with its highly differentiated AC/DC quick charging products. Dialog monitors and reviews acquisition opportunities to further diversify its product offering and customer base. During 2017 Dialog acquired Silego Technology Inc. which diversified our product offering, increased our content at existing customers and expanded our customer base. We also expanded our LED backlighting product range with the acquisition of a portfolio of products from ams AG.

Return on research and development investment	Mitigating actions
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.	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.

Human capital	Mitigating actions
In order to successfully execute its current and future business commitments, Dialog needs to continue to build its organisational capability in two key areas: continuous innovation in product development, manufacturing and packaging technologies; and leadership skills in an expanding and complex global operation. We continue to monitor the progress of Brexit discussions and any impact these may have on our ability to attract and retain key employees from the EU into the UK.	Dialog seeks to create a positive working environment that results in low levels of staff turnover. Dialog has developed an effective recruitment process to attract and retain high-calibre staff, while succession planning for senior management positions facilitates continuity of leadership. Dialog has dedicated human resource professionals working closely with the business to drive further development of its personnel and benchmark its employment terms to match industry top performers. Dialog has a decentralised approach to research & development with teams around the world. In a highly competitive talent market we believe this flexible approach is advantageous, allowing us to recruit talent where it resides and as a defence mechanism to stop large scale "poaching" by competitors. Emerging talent programmes continued successfully in 2017, with new graduates and interns entering the business – the majority within engineering functions.

Managing risk and uncertainty continued

Risk trend Key

Risk increasing | Risk stable | Risk decreasing

Operational risks

Dialog recognises that time-to-market is a critical factor for the success of its customers. The efficiency of its internal operation is a relevant factor to its performance. We run programmes to drive continuous improvement through all facets of the value chain from design to order fulfilment.

Supply chain interruption	Mitigating actions
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. For example, if increased demand for these suppliers' products exceeds their production capacity.	Dialog has forged close partnerships with its suppliers, which help capacity planning and management. Dialog's suppliers are mainly highly respected large-scale operations. Dialog strives to source its high volume components via a dual sourcing strategy where appropriate. Dialog works with a range of foundries and back-end vendors, mainly in Taiwan, China and Singapore, to mitigate the risk of supply chain disruption and constraints. The geographical spread of Dialog's suppliers also helps with disaster recovery planning. Dialog achieved a total company "On Time Delivery" performance of 99% in 2017, which measures performance against delivery dates confirmed by Dialog at date of order acceptance. Dialog continues to carry out supplier audits which cover a wide range of topics including compliance and product quality (ISO9000 and ISO14000) reviews. Dialog conducts regular business reviews with its suppliers to manage supplier performance and future capabilities.

Information technology and security	Mitigating actions
Dialog is heavily dependent upon the quality, resilience and security of its information systems, which support the engineering, manufacturing and enterprise aspects of the business. Risks relating to cyber security continue to grow, with consequent risks to assets, intellectual property and the data of the Company, its customers and its employees.	Dialog is continuously strengthening its internal monitoring and controls; applying best practice to ensure a robust and secure IT environment. Dialog's IT systems are managed on a global basis to ensure a unified approach, with IT operations being distributed between Europe, Asia and the USA. Engineering tools are being consolidated into regional data centres connected by an upgraded network to allow increased agility, reliability and scale. Joint roadmaps have been developed with the business to align and prioritise IT investment with evolving business needs and to maintain compliance and controls. IT policies and procedures have been reviewed and updated to reflect the changing regulatory environment, including GDPR in Europe.

Quality assurance	Mitigating actions
Given the timetables for some key product introductions, Dialog must ensure tight control over the new product introduction process and in particular quality assurance in high-volume product ramps. Dialog needs to avoid releasing faulty products which may cause delays in the assembly line of its customers and defects in their products.	Dialog operates a "high-touch" fabless model, with engineers working closely together with our foundry partners to optimise the manufacturing process. Dialog places a high importance on quality assurance, product validation prior to mass production, in line controls and monitoring of yields with real-time feed from manufacturing. Dialog works with key suppliers to achieve industry-leading yields based upon typical defect density limitation. To support this Dialog has engineers located at key vendors. Yield performance on key products is monitored during regular internal operational reviews.

Financial risks

Given the Company's sector and business model, Dialog tends to be cash generative, operating across the globe. This exposes the Company to several financial risks including fluctuations in interest and foreign exchange rates and 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, including investment in future growth. Through strong stewardship and financial discipline we are able to mitigate the impact of these risks on the financial performance of the Company.

Foreign currency	Mitigating actions
The majority of Dialog's revenue and expenses are denominated in US dollars. Some exposure exists to non-USD denominated operating expenditure, primarily Euro and Pound sterling, meaning exchange rate volatility could have an adverse impact on our financial statements. Please refer to note 32 on pages 146 to 149. Discrete foreign currency exposures are managed on a case by case basis, for example our share buyback programme. Please refer to note 25 on page 135 and note 32 to the consolidated financial statements.	Transactional currency exposures are managed using forward currency contracts, hedging no further than 12 months out on a layered approach. These are designated as cash flow hedges and at the year-end approximately US$159.7 million equivalent were outstanding. During the year, share buyback liabilities were hedged using forward currency contracts, forming an economic hedge but not designated for hedge accounting purposes. Please refer to notes 25 and 32 to the consolidated financial statements.

Counterparty risk	Mitigating actions
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.	The Company uses non-recourse receivables financing to help manage credit risk of selected customers. When executing financial transactions, Dialog only 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 the Manufacturing Review Board.

Funding and liquidity	Mitigating actions
The risk of being unable to continue to meet the financial obligations/requirements of our operations and provide resources for future growth.	The business has no 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 2017 was US$285 million. In addition the Company entered into a committed three-year US$150 million revolving credit facility in July 2017 which is available as required. See note 8b.

Managing risk and uncertainty continued

Risk trend Key

Risk increasing	Risk stable	Risk decreasing

Legal and compliance risks

As Dialog has an increasing global presence, it continues to update and enhance its policies, processes and procedures to ensure compliance 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, specifically our intellectual property rights.

Compliance with laws and regulations	Mitigating actions (Risk stable)
Dialog is subject to national and regional laws and regulations in such diverse areas as product safety, product claims, patents, copyright, trademarks, competition, employee health and safety, the environment, corporate governance, listing and disclosure, employment and taxes. Failure to comply with laws and regulations could expose Dialog to civil and/or criminal actions leading to damages, fines and criminal sanctions against us and/or our employees with possible consequences for our corporate reputation. Changes to laws and regulations could have a material impact on our cost of doing business. Tax, in particular, is a complex area where laws and their interpretation are changing regularly, leading to the risk of unexpected tax exposures.	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.

IP protection	Mitigating actions (Risk increasing)
As a highly innovative company Dialog has IP that is attractive to others. Dialog must ensure that this IP is sufficiently protected both legally (via patents) or physically (via security and IT processes). We seek to protect our current business and our IP from being copied or used by others through appropriate use of patents, copyrights and trademarks on a global basis.	Dialog has in excess of 800 patent families and continues an active patent registration programme overseen by its Patent Committee. Dialog has continued to make investments to improve the tools used to protect its IP. We have increased use of data leakage protection tools to monitor, restrict and alert if attempts are made to move IP outside of the Company. Engineering projects are segregated and access controlled via a tracked approval process.

IP infringement	Mitigating actions (Risk stable)
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.	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.

Strategic report approved on 28 February 2018

Dr Jalal Bagherli
Chief Executive Officer

Wissam Jabre
Chief Financial Officer,
Senior Vice President Finance

Introduction to governance

Dear shareholder,

I am pleased to present our 2017 corporate governance report. As Dialog is incorporated in the UK and listed in Frankfurt, we follow governance principles which have regard to the UK Corporate Governance Code and other best practice governance principles. The Board is committed to maintaining high standards of corporate governance and oversight at Dialog.

2017 developments

During 2017, there were a number of significant developments in UK Corporate Governance. While the revisions to legislation and the UK Code are yet to be finalised, the Board and its Committees have monitored these developments closely and assessed the potential impact for Dialog's corporate governance framework.

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

Culture and stakeholders

Dialog is a business built upon the values enshrined in "The Spirit of Dialog", the cornerstone of our corporate values. As detailed in the Chairman's statement, the Board and senior management team continued to work closely with our internal and external stakeholders to promote our culture and values. We believe this is an important factor in protecting and delivering sustainable long-term value for shareholders.

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 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

As part of its annual review in 2017, the Board specifically considered the independence of Chris Burke and Aidan Hughes given their tenure on the Board. The Board determined that Mr Burke was independent in character and judgement; however, as part of our ongoing programme of Board refreshment and renewal, Mr Burke, who has served the Board admirably for over 11 years will not be standing for re-election at the 2018 AGM . Aidan Hughes, who has been a key member of the Board and more specifically the Audit Committee since 2004, has been requested by the Board to remain a Director until the 2019 AGM. The Board is of the unanimous view, as evidenced by his continuing valuable contribution at Board and Audit Committee meetings, that his independence and objectivity has not been compromised by his length of tenure. In light of the level of refreshment of both the Board and Committees, it was determined that the staggered refreshment and orderly succession of the Board was in the best interests of shareholders, as it serves to ensure diverse and fresh perspectives are brought to the Board while preserving continuity and the knowledge and understanding of the Dialog business as a whole. As part of our ongoing programme of Board and Committee refreshment, prior to his departure, an additional independent non-executive Director will be appointed to the Audit Committee to ensure that 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 experience. 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, all of which provides the platform for fruitful discussion at Board level.

In 2017 we conducted an externally facilitated Board evaluation. Its findings were presented to the Board in February 2018. The outcome of the review was positive and confirmed that the Board and its committees operate to a high standard.

Senior Independent Director ("SID")

Our former Senior Independent Director, John McMonigall, retired from the Board in 2015. Following his retirement, and as set out in last year's Annual report, the Board, as a whole, carefully considered the role and responsibilities of a SID. Following consideration of the position, together with the role and contribution of the Senior Independent Director, and the fact that Rich Beyer is a Chairman who was wholly independent on appointment in 2013, the Board does not believe there is a necessity to appoint a new SID at this time. Rich is available to our major 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.

Non-executive Director positions

We have not set hard guidelines at Dialog but recognise the importance of ensuring Directors have sufficient time to discharge their obligations to Dialog and believe each of the Directors has demonstrated exceptional commitment to their roles for the past fiscal year, as exemplified by their meeting attendance on page 70.

Remuneration

The Director's remuneration report, together with an introductory letter from our Remuneration Committee Chairman, Mike Cannon, is set out on page 75. As set out in the letter and report, Dialog received shareholder approval of a remuneration policy at our 2016 AGM. As no changes are proposed we are not required to, and do not propose to, put forward a vote on the Directors' remuneration policy at the 2018 AGM.

Non-financial reporting directive

In 2017, the European Union Directive on disclosure of non-financial and diversity information (the "Non-Financial Reporting Directive") came into effect. We recognise the importance of providing investors with a clear and comprehensive understanding of Dialog's development, performance, and position. Since 2015 the Company has reported on sustainability matters in line with the "Core" requirements of the Global Reporting Initiative's G4 Sustainability Reporting Guidelines, placing significant focus on identifying, and reporting on, our core sustainability priorities. In our annual sustainability report, we provide disclosure on the impacts of 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 addition to ongoing meetings and consultation conducted throughout the year, all Directors are 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 Dialog currently comprises nine Directors. This includes one Executive Director, and eight independent non-executive Directors (including the Chairman).









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7	8	9

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 combines 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 as a whole.

Director biographies are set out below and further details on the composition of the Board, and the Board's committees, are detailed on pages 70 and 71.

Committee membership

A – Audit Committee
N – Nomination Committee
R – Remuneration Committee

Board experience

● – Technology
◆ – Telecommunications
■ – Finance
✚ – Governance

1. Rich Beyer

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 successive positions as CEO and Director of Intersil Corporation, Elantec Semiconductor 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 Boards of Micron Technology Inc. and Microsemi Corporation, and previously served on the Boards of Analog Devices, Credence Systems Corporation (now LTX-Credence), XCeive 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 Micron Technology Inc. and Microsemi Corporation.

Committee Membership:

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 that Jalal was the CEO of Alphamosaic, 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 the Far East, 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.

Committee Membership:

Board Experience: ● ✚

3. Chris Burke

Independent non-executive Director
Joined: July 2006

Chris has a career of 30 years in telecommunications and technology. Post his degree in Computer Science in 1982, he spent 15 years at Nortel Research and Development. He was then Chief Technology Officer at Energis Communications (at the time of IPO into the London Stock Exchange), then CTO at Vodafone UK Ltd. Post-Vodafone Chris has made over 20 technology investments from his own investment fund, founded/co-founded a number of start-up companies, and provides a strategy and technology advisory service.

External Appointments: Chris serves on the private company boards of CloudView, Dialogic Inc., Human Learning, Navmii Ltd, Opencell and Premium Credit Ltd.

Committee Membership: Nomination, Remuneration

Board Experience: ● ◆ ✚

4. Alan Campbell

Independent non-executive Director
Joined: April 2015

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. In 2004, he guided Freescale through its separation from Motorola and 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 Leverage 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)

Board Experience: ● ■ ✚

5. Mike Cannon

Independent non-executive Director
Joined: February 2013

Mike's career in the high-tech industry spans 30 years, including over ten years as CEO of two Fortune 500 companies. He was President, Global Operations of Dell from February 2007 until his retirement in 2009. Prior to joining Dell, Mike was the CEO of Solectron Corporation, an electronic manufacturing services company, which he joined as CEO in 2003. From 1996 until 2003, Mike was CEO of Maxtor Corporation. He 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 Lam Research Corporation on the Audit, Nominating, and Corporate Governance committees, and Seagate Technology as Chairman of the Corporate Governance and Nominating committees, member of the compensation committee, and Lead Independent Director.

Committee Membership: Remuneration (Chair), Nomination

Board Experience: ● ✚

6. 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 2009 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 US 4G LTE Wireless Networks business. Most recently at GM, Ms Chan served between 2012 and 2015 as President, Global Connected Consumers & OnStar Service USA. She holds both Bachelor and Master of Science degrees in Electrical Engineering from Columbia University.

External Appointments: Ms Chan is a managing partner at VectolQ, LLC., and currently serves as an Independent Director on the Boards of Magna International, Microelectronics Technology Inc, SBA Communications Corporation and WiTricity Corporation.

Committee Membership: Nomination, Remuneration

Board Experience: ● ◆

7. Aidan Hughes

Independent non-executive Director
Joined: October 2004

Aidan is a Fellow of the Institute of Chartered Accountants in England and Wales and qualified as a chartered accountant with PriceWaterhouse in the 1980s. He has held senior finance roles at Lex Service Plc and Carlton Communications Plc. He was a FTSE 100 finance Director, having held that position at the Sage Group Plc from 1993 to 2000. From December 2001 to August 2004 he was a Director of Communisis Plc.

External Appointments: Aidan is a non-executive Director and Chair of Audit Committee for Ceres Power Holdings PLC. He is also an investor and adviser to a number of international private technology companies.

Committee Membership: Audit

Board Experience: ● ■ ✚

8. Nick Jeffery

Independent non-executive Director
Joined: July 2016

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 (Mercury Communications) in 1991, he then founded and led Microfone 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, Nick is also a Board member at FairFX Plc.

Committee Membership: Nomination (Chair), Remuneration

Board Experience: ◆

9. Eamonn O'Hare

Independent non-executive Director
Joined: May 2014

Eamonn has spent over two decades as CFO of some of the world's fastest-growing consumer and technology businesses. From 2009 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 the Chairman and CEO of Zegona Communications Plc, and a Director of Tele2 AG.

Committee Membership: Audit

Board Experience: ◆ ■ ✚

Leadership – Management team



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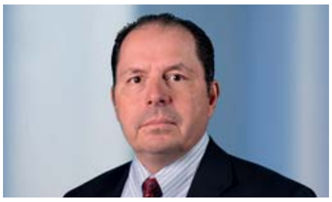
10	11	12









1. Dr Jalal Bagherli

Chief Executive Officer

Jalal joined Dialog 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 of Alphamosaic, 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 the Far East, 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, UK.

Tenure with Dialog: 12 years

2. Vivek Bhan

Senior Vice President, Engineering

Vivek joined Dialog in November 2013 and is responsible for the overall engineering and technology direction, including design and product development across the various business groups within Dialog. He brings a wealth of engineering leadership experience in the semiconductor industry including technology and products for advanced cellular systems, connectivity and medical applications within RF, mixed-signal and SOC 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: Four years

3. Christophe Chene

Senior Vice President, Asia

Christophe joined Dialog in November 2011 as Vice President, Asia and is based in Taiwan. He has over 20 years of experience in the semiconductor industry, focusing on building international businesses with a strong Asian footprint. Previously he served as Senior Vice President and General Manager of the TV Business Unit as well as Senior Vice President of worldwide sales for Trident Microsystems. Prior to that, Christophe served in various international executive and managerial positions at Texas Instruments, Sharp and Xilinx. Christophe holds an Electronics Engineering degree from INSA, Toulouse.

Tenure with Dialog: Six years

4. Mohamed Djadoudi

Senior Vice President, Global Manufacturing Operations & Quality

Mohamed joined Dialog in March 2007 and is responsible for product engineering, test and assembly development, data automation, software support, offshore manufacturing operations and quality. Mohamed has more than 25 years' experience in the field of semiconductor manufacturing operations, starting initially with IBM in France and the US. He was previously Senior Vice President and Chief Technology Officer of the Unisem group, an assembly and test subcontractor based in Malaysia and China. He also held the position of Vice President of Test Operations at ASAT (Atlantis Technology), based in Hong Kong, before becoming one of the original members of the management buy-out team of ASAT UK, where he served as the Technical Director. Mohamed holds an Electronic and Electrotechnic degree from the Paris University of Technology.

Tenure with Dialog: Ten years

5. 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 CFA © charterholder.

Tenure with Dialog: One year

6. Udo Kratz

Senior Vice President and General Manager, Mobile Systems Business Group

Udo joined Dialog in May 2006. He has over 20 years' experience in the semiconductor industry, gained in general management, senior marketing and engineering at Robert Bosch GmbH, Sony Semiconductor and Infineon Technologies.
Udo holds an Electronic Engineering degree from the University for Applied Sciences, Mannheim.

Tenure with Dialog: 11 years

7. Davin Lee

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

Davin joined Dialog in July 2014. He was previously CEO of Scintera Networks. Prior to that, Davin was the Vice-President and General Manager of the Consumer Business Unit at Intersil Corporation. Prior to that, Davin was Vice-President of Marketing at Xicor. He previously held senior positions within Altera and National Semiconductor. Davin holds a BSEE from The University of Texas at Austin and an MBA from Kellogg School of Management at Northwestern University.

Tenure with Dialog: Four years

8. Sean McGrath

Senior Vice President and General Manager, Connectivity, Automotive & Industrial 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 General Manager 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 Mikron Austria GmbH, focusing on the RFID 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: Five years

9. Julie Pope

Senior Vice President, Human Resources

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, 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: 0 years

10. Tom Sandoval

Senior Vice President, Worldwide Sales

Tom joined Dialog in September 2015 and is responsible for the worldwide sales organisation. 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 Calypto Design Systems. Tom holds a BS degree in Electrical Engineering from the University of Southern California.

Tenure with Dialog: Two years

11. 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 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

12. Mark Tyndall

Senior Vice President, Corporate Development & Strategy and General Manager, Emerging Products Business Group

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 Infineon 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: Nine years

Martin Powell – SVP, Human Resources, Tenure with Dialog: Seven years (Retired May 2017)

Name	Role Tenure with	Tenure with Dialog (years)
Dr Jalal Bagherli	Chief Executive Officer	12
Vivek Bhan	Senior Vice President, Engineering	4
Christophe Chene	Senior Vice President, Asia	6
Mohamed Djadoudi	Senior Vice President, Global Manufacturing Operations & Quality	10
Wissam Jabre	Chief Financial Officer, Senior Vice President, Finance	1
Udo Kratz	Senior Vice President and General Manager, Mobile Systems Business Group	11
Davin Lee	Senior Vice President and General Manager, Power Conversion Business Group	4
Sean McGrath	Senior Vice President and General Manager, Connectivity, Automotive & Industrial Business Group	5
Julie Pope	Senior Vice President, Human Resources	0
Tom Sandoval	Senior Vice President, Worldwide Sales	2
Colin Sturt	Senior Vice President, General Counsel	2
Mark Tyndall	Senior Vice President, Corporate Development & Strategy and General Manager Emerging Products Business Group	9

Directors' report

The Directors of Dialog Semiconductor Plc ("Dialog" or the "Company") present their Annual report and audited financial statements for the year ended 31 December 2017. 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 personal portable, low energy short-range wireless, LED solid state lighting and automotive applications. The Company provides customers with world-class innovation combined with flexible and dynamic support, and the assurance of dealing with an established business partner.

The Company is listed on the Frankfurt (FWB: DLG) Stock Exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index. The Company is registered in the UK and the registered number is 3505161. A full list of Company subsidiaries outside of the UK is detailed in Dialog's related undertakings set out on page 167.

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 treasury policies and objectives is included in note 32 to the consolidated financial statements.

Future developments

The Company's stated objective is to power the smart connected future by becoming the leading global supplier of highly-integrated, power management, AC/DC, 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 page 23.

Research and development R&D

The Company 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. To this end, the Company's management is committed to investing in R&D of new products and customising existing products.

To date, R&D projects have been in response to key customers' requests to assist in the development of new custom ASICs, and for the development of application-specific standard products ("ASSPs"). The Company does not expect any material change to this approach in the foreseeable future.

Greenhouse gases

Corporate responsibility and a commitment to sustainable business practices are important to Dialog's business model and a component of Dialog's strategy to deliver long-term profitable growth. Our commitment to environmentally oriented, sustainable business practices is evidenced in our commitment to continue to reduce CO_2 emissions and minimise the carbon footprint of our business. Further details on the Company's commitment to sustainable and environmentally friendly business practices are set out on pages 52 to 54.

Going concern

The Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue for the foreseeable future. The Company held US$479 million of cash and cash equivalents at the end of 2017 (2016: US$697 million) and has a US$150 million Revolving Credit Facility, with an initial three-year period to July 2020, which was undrawn at 31 December 2017. The Company expects to continue to deliver revenue and profit growth in the period ahead. For these reasons, the Directors have adopted the going concern basis in preparing the financial statements.

Dividends and share repurchases

The Company has historically been committed to reinvesting all profits into laying the framework for future growth. Accordingly, since its initial public offering in 1999, Dialog has not paid any cash dividend. Directors do not recommend the payment of a dividend for 2017 (2016: nil). At the 2018 Annual General Meeting, in line with the shareholder approvals obtained in 2016 and 2017, the Board will be asking shareholders for an authority to continue the share buyback programme.

The second intermediate and final settlements of the second tranche of the share buyback programme pursuant to the shareholder approval obtained at the Annual General Meeting on 28 April 2016 took place on 9 February 2017 and 17 February 2017. In these two settlements, the Company purchased 977,456 shares at a cost of €38.8 million.

The third tranche of the share buyback programme was announced by the Company on 27 February 2017. The first and second intermediate settlements took place on 25 April 2017 and 2 June 2017. The final settlement was concluded on 23 June 2017. Under the third tranche of the share buyback programme, a cumulative total of 1,700,610 ordinary shares were purchased by the Company at a total cost of €74.9 million. On 23 June 2017, all 4,483,816 shares held in treasury by the Company were cancelled.

It should be emphasised that, even if shareholder authority to continue the share buyback programme is granted, no decision has yet been made to implement such a programme and implementation will only occur if the Board considers this in the best interests of the Company depending on the prevailing circumstances.

Purchase of own shares by Employee Benefit Trust

The Company operates an Employee Benefit Trust, which purchases and sells shares in the Company for the benefit of employees under the Company's share option scheme, Long-Term Incentive Plan, Executive Incentive Plan and Employee Share Plan. Since the Company has de facto control of the assets and liabilities of the Trust, they are included in the Company and Group balance sheets. At 31 December 2017, the Trust held 2,791,027 shares, which represented 3.65% of the total called-up share capital, at a nominal value of £279,103.

Share capital

The Company's issued share capital comprised a single class of shares referred to as ordinary shares.

Details of the share capital are set out in note 24 to the consolidated financial statements.

Substantial shareholdings

Details of substantial shareholdings are on page 72.

Directors

The Directors, together with their biographies, are listed on pages 62 and 63.

Powers of Directors

The Directors are authorised to issue the nominal amount of securities representing the aggregate of approximately one third of the issued share capital of the Company; of that one third they can issue an amount equal to 5% of the issued share capital on a non-pre-emptive basis. The Directors have additional power to issue up to a further third of the issued share capital of the Company, provided it is only applied on the basis of a rights issue.

Directors' remuneration and interests

Directors' remuneration and interests are detailed in the Annual report on remuneration on pages 83 to 90 of this report. No Director had a material interest during the year ended 31 December 2017 in any contract of significance with any Group company.

Directors' third-party indemnity provisions

The Company has granted an indemnity to its Directors against proceedings brought against them by third parties, by reason of their being Directors of the Company, to the extent permitted by the Companies Act 2006. Such indemnity remains in force as at the date of approving the Directors' report.

Election and re-election of Directors

In accordance with the Company's Articles of Association, one third of the Directors have to stand for re-election at the Annual General Meeting. Any Director who has been on the Board for more than nine years is subject to annual re-election. The next Annual General Meeting will be held on 3 May 2018 at 9am at Tower Bridge House, St Katharine's Way, London E1W 1AA.

Corporate governance

The Company's Corporate governance statement is set out on pages 69 to 74 of this report. We also publish, on our website, our own corporate governance principles which have regard to the UK Corporate Governance Code and other best practice corporate governance policies.

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 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. A list of the principal risks and their management is set out on pages 55 to 60.

Financial instruments

The Group's financial risk management and policies, and exposure to risks, are set out on pages 55 to 60 of this report and on note 32 to the consolidated financial statements.

Employee policies

It is our policy to support our people through training, career development and opportunities for promotion. We operate an open management approach and consult with our staff on matters that are of concern to them. We share information with employees on the performance of the Company which, together with profit-related bonuses and stock option awards, encourage staff involvement.

Diversity and equal opportunity

In 2017, Dialog operated from 33 locations in 16 countries with a highly diverse workforce, incorporating employees from 65 nationalities.

Dialog takes equality and equal opportunity for all employees very seriously. We believe diversity among an employee base is an important attribute to a well-functioning business. Diversity spans a range of factors including diversity in terms of geographic origin, background, gender, race, faith, education, experience, viewpoint, interests and technical and interpersonal skills. We also ensure that we offer equal opportunities in all aspects of employment and advancement regardless of age, disability, gender, marital status, nationality, race, religious or political beliefs or sexual orientation.

Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or alternative position and to provide appropriate training to achieve this aim.

Gender diversity is of particular importance. Women comprise 16.8% of the overall workforce and further details are set out on page 17 of this report. Although this is in line with the industry average, the Company is supporting various initiatives in the areas of STEM education to encourage more women to pursue careers in engineering and electronic engineering.

Disabled persons

Our policy provides for disabled persons, whether registered or not, to be considered for employment, training and career development in accordance with their aptitudes and abilities. We offer equal opportunities in all aspects of employment and advancement regardless of any disability.

Statement on disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on pages 62 and 63 of this report. Each of the Directors affirms that:

- → So far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- → They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Directors' report continued

Capital structure

As at 31 December 2017, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the share capital can be found in note 24 to the consolidated financial statements. On a show of hands at a general meeting of the Company every holder of shares present in person and entitled to vote shall have one vote, and on a poll every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held.

The notice of the general meeting specifies deadlines for exercising voting rights either by proxy notice or by presence in person or by proxy in relation to resolutions to be passed at a general meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the Company's website after the meeting. There are no securities carrying special rights, nor are there any restrictions on voting rights attached to the ordinary shares.

There are no restrictions on the transfer of shares in the Company other than:

- Certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- Directors and senior management of the Company are not allowed to trade in shares or exercise options in certain close periods (such close periods normally start two weeks before the end of each quarter and end 48 hours after the release of the financial results).

Details of changes in share capital can be found in note 24 to the consolidated financial statements.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and for voting rights.

Dialog has an Employee Benefit Trust which holds Dialog shares for the benefit of employees, including for the purpose of satisfying awards made under the various employee and executive share plans. The trustee may vote the shares as it sees fit, and if there is an offer for the shares the trustee is not obliged to accept or reject the offer but will have regard to the interests of the employees and may otherwise take action with respect to the offer it thinks fair.

The agreement between the Company and its Directors for compensation for loss of office is given in the Director's remuneration policy report on pages 77 to 82 of this report.

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

Annual General Meeting

The notice convening the Annual General Meeting will be published separately and posted on the Company's website. The meeting will be held at Tower Bridge House, St Katharine's Way, London E1W 1AA on 3 May 2018 at 9am.

By order of the Board

Dr Jalal Bagherli
Director

28 February 2018

Corporate governance statement

The Board of Dialog Semiconductor is committed to maintaining high corporate governance standards to protect the interests of all stakeholders.

The Board of Dialog Semiconductor is committed to maintaining high corporate governance standards to protect the interests of all stakeholders.

These standards reflect a range of guidelines which apply to the Company given its status as a UK incorporated, Frankfurt Stock Exchange listed company. The Company has published on its website its Corporate Governance principles which have regard to the UK Corporate Governance Code and other best practice corporate governance policies.

Board of Directors – role and responsibilities

As Dialog is incorporated in the UK and follows governance principles which have regard to the UK Corporate Governance Code and other best practice governance principles, it maintains a single Board structure. 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 ("CEO"), who is accountable to the Board. The CEO executes this authority through an executive management team outlined on pages 64 and 65 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 both roles' responsibilities are clearly divided.

The Chairman, CEO and the Company Secretary work together in planning a forward programme of Board meetings and meeting agendas. As part of this process the Chairman ensures that the Board is supplied, in a timely manner, with information in a form and of a quality to enable it to discharge its duties. The Chairman encourages openness, debate and challenge at Board meetings. The Chairman holds a number of other directorships and the Board considers that these do not interfere with the discharge of his duties to the Company. The Chairman is available to meet shareholders on request.

Board composition

The Board currently comprises nine Directors who are listed below.

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 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 and expertise to drive the continuing 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 62 and 63.

Director	Status	Independent/non-independent	Tenure (years)	Concurrent tenure* (years)
Rich Beyer	Current	Independent (Chairman)	4	4
Dr Jalal Bagherli	Current	Non-independent (Executive)	12	N/A
Chris Burke	Current	Independent	11	11
Alan Campbell	Current	Independent	2	2
Mike Cannon	Current	Independent	4	4
Mary Chan	Current	Independent	1	1
Aidan Hughes	Current	Independent	13	12
Nick Jeffery	Current	Independent	1	1
Eamonn O'Hare	Current	Independent	3	3

* Note: Concurrent tenure means tenure on the Board concurrently with the Company's CEO.

Corporate governance statement continued

Board refreshment and renewal

The Board is committed to a policy of ongoing 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 62 and 63.

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 re-election at each Annual General Meeting.

Board size

At the end of 2017, the Board comprised nine Directors. A maximum of ten Directors is allowable under Dialog's Articles of Association. The nine members of the Dialog Board include one Executive Director and eight independent, non-executive Directors (including the Chairman). The Nomination Committee has reviewed the size and performance of the Board during the year. The Committee considered that the Board functions effectively; comprises the skills, knowledge and experience required by Dialog; is not so large as to be unwieldy; and meets corporate governance best practice guidelines on independence.

Board independence

Corporate governance best practice states that at least half the Board, excluding the Chairman, should comprise non-executive Directors determined by the Board to be independent.

The Company has determined that Chris Burke, Alan Campbell, Mike Cannon, Mary Chan, Aidan Hughes, Eamonn O'Hare, and Nick Jeffery are independent. The Chairman, Rich Beyer, was independent on his appointment to the Board. The Company's Chief Executive Officer, Dr Jalal Bagherli, is the only Executive Director on the Board.

Excluding the Chairman, the Board currently comprises seven independent non-executive Directors and one Executive Director and is, therefore, compliant with the principle that at least half the Board, excluding the Chairman, should comprise Directors determined by the Board to be independent.

As part of its annual review in 2017, the Board specifically considered the independence of Chris Burke and Aidan Hughes given their tenure on the Board. Each of these Directors has served concurrent tenure with the CEO of nine years or more. The Board determined that Mr Burke was independent in character and judgement; however, as part of our ongoing programme of Board refreshment and renewal, Mr Burke will not be standing for re-election at the 2018 AGM.

In relation to Mr Hughes, the Board's unanimous view is that his independence and objectivity, as evidenced by his continuing valuable contribution at Board meetings, has not been compromised by his length of tenure on the Board. The Board also believes that his industry experience and continuing contribution to the Audit Committee is of significant benefit to the Board. In addition, given the level of refreshment at Board level in recent years – with six new Directors, including the Chairman, having been appointed since 2013 – there is significant benefit to Dialog in having the tenure and expertise of Mr Hughes for a further year. It is proposed that Mr Hughes remains a Director until the 2019 AGM.

While the Board is satisfied that Mr Hughes is wholly independent, in line with the best-practice principles, as he has been on the Board for in excess of nine years, he is subject to annual re-election by shareholders. This offers shareholders the opportunity to express their view in the form of their vote at each and every AGM and to express their support (or any concern) in a transparent way.

At the time of the appointment of Alan Campbell, the Board considered the prior working relationship between Rich Beyer and Mr Campbell while both served at Freescale. Rich Beyer joined Freescale in March 2008 and held the position of Chairman and CEO through to June 2012. During this period, Alan held the position of Chief Financial Officer of Freescale reporting to Rich. The Board noted the three-year cooling off period between this prior working relationship and Alan's appointment to the Dialog Board. Having carefully considered all the factors, the Board concluded that Alan Campbell is wholly independent.

Senior Independent Director

John McMonigall stepped down from the Board as Senior Independent Director ("SID") during 2015. Having carefully considered the position and role of the SID, and the fact that Rich Beyer is a Chairman who was wholly independent on appointment, the Board does not believe there is a necessity to appoint a new 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.

Audit Committee financial and sector expertise

Dialog's Audit Committee is comprised of a number of Directors who have recent and relevant financial experience. In line with best practice, the Board has affirmed that members of the Audit Committee also have significant expertise in Dialog's business sector. Alan Campbell, Chairman of the Audit Committee, has long-standing experience as a CFO in the semiconductor industry. Eamonn O'Hare also has two decades' experience as CFO at some of the world's fastest-growing consumer and technology businesses. Aidan Hughes has experience as a senior accountant and Finance Director at a number of public and private companies, many of which are in the technology sector. Biographies are set out on pages 62 and 63.

2017 Board Committees

Director	Board	Audit	Remuneration	Nomination
Number of meetings in 2017	4	4	4	4
Meetings attended				
Richard Beyer	4			
Dr Jalal Bagherli	4			
Chris Burke	4		4	4
Alan Campbell	4	4		
Michael Cannon	3		3	3
Mary Chan	4		4	4
Aidan Hughes	4	4		
Nick Jeffery	4		4	4
Eamonn O'Hare	4	4		
Russ Shaw*	2		2	2

* Russ Shaw stepped down in May 2017.

Alan Campbell, Chairman of the Audit Committee, Nick Jeffery, Chairman of the Nomination Committee and Mike Cannon, Chairman of the Remuneration Committee, are also available to shareholders should they have specific concerns or issues relevant to their respective committees.

Company Secretary

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The Company Secretary seeks to ensure that the Board members receive appropriate induction and ongoing training and development to enable them to discharge their duties. The Company Secretary is also responsible for advising the Board on all Corporate Governance matters.

The appointment and removal of the Company Secretary is a matter for the Board.

Tim Anderson of Reynolds Porter Chamberlain LLP is the Company Secretary and has served in this role for over 17 years.

Board meetings

The Board holds at least four Board meetings each year. The Board may meet more frequently as required. The number of meetings of Board sub-committees each year varies by Committee. There were four Board meetings in 2017. The attendance at Board and Committee meetings by the Directors who held office in 2017 is set out on page 70. The Board places considerable importance on attendance at both scheduled Board and Committee meetings. During the year, no Director attended less than 75% of scheduled Board or Board 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 process, which commenced in 2015, is an annual process and occurred in February 2018.

The 2018 review will be held during the course of the calendar year.

Director induction and continuing development

Following appointment to the Board, new Directors are provided with induction materials and are briefed on the Company, its structure, strategy, technologies, operations, corporate governance practice, and their duties and responsibilities as a Director.

Briefings for all non-executive Directors are held with the executive management at 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.

Director training and development

The Board is committed to a programme of periodic training and development of its Directors. As part of this process, at least one Board meeting is held at the location of one of the Company's international offices each year. During 2017, Board meetings were held in the Netherlands and California. As part of the Board meeting in the Netherlands, the Board visited the Den-Bosch site, which is the main centre for the Connectivity business, and received presentations from local management.

In line with the commitment to develop Board members and ensure they represent shareholders in the most effective way, each Director has taken part in a range of training exercises in recent years.

Performance evaluation

The Board recognises the importance of continuing evaluation of the performance of the Board and its Committees and a review of the operation and performance of the Board and its Committees is undertaken annually. Such a review is normally conducted internally. However, in line with best practice, every three years there is an externally facilitated review.

In 2017, consistent with this best practice, the Board engaged an independent third party to conduct an evaluation. The evaluation in 2017 was conducted by Equity Communications Ltd, a company which has no other connection with Dialog.

The findings of the evaluation were presented to the Board in February 2018. The Board will consider a further third-party Board evaluation process in 2020.

External non-executive directorships

The Board believes that a broadening of the skills, knowledge and experience of non-executive Directors is of benefit to the Company. As such, the Company welcomes the participation of the non-executives on the Boards of other companies. To avoid potential conflicts of interest, non-executive Directors inform the Chairman of the Nomination Committee before taking up any external appointments. Details of the non-executive positions of each Director are set out under individual biographies, which are detailed on pages 62 and 63.

The Board has not established a hard guideline on the number of other executive or non-executive positions that a Director should hold but recognises the guidelines set out by a number of proxy advisers and other influential governance bodies.

Directors' fees

The annual fee for non-executive Directors in 2017 was £145,000. The annual fee for the Chairman was £200,000. The Chair of the Audit Committee, the Nomination Committee and the Remuneration Committee received an additional fee of £16,000, £5,000 and £12,000 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 89. Details of the activities of these Committees during 2017 are set out on pages 73 and 74.

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 pensionable 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 Director 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 Director's remuneration is inclusive of any Director's fee. Further details are set out in the Directors' remuneration report which begins on page 75.

Committee members

Audit Committee
Alan Campbell (Chair)
Aidan Hughes
Eamonn O'Hare
100% independent (3 of 3)

Nomination Committee
Nick Jeffery (Chair)
Chris Burke
Mike Cannon
Mary Chan
100% independent (4 of 4)

Remuneration Committee
Mike Cannon (Chair)
Chris Burke
Nick Jeffery
Mary Chan
100% independent (4 of 4)

Corporate governance statement continued

Share ownership and dealing

Details of Directors' shareholdings are set out on pages 84 and 86. The Company has a policy on dealing in shares that applies to all Directors and senior management. Under this policy, Directors are required to obtain clearance from the Chief Executive Officer (or in the case of 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 19 of MAR.

Loans to Directors or senior executives

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

Board Committees

The Board has established a number of Committees to assist in the execution of its responsibilities. During 2017, these were: Audit Committee, Nomination Committee and Remuneration Committee. Ad hoc committees are formed from time to time to deal with specific matters.

The composition of the Board Committees, as at 28 February 2018, is set out on page 71. Attendance at meetings held in 2017 is set out in the table on page 70.

Each of the permanent Board Committees has terms of reference under which authority is delegated to them by the Board. These terms of reference are available 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 73 and 74.

Relations with shareholders

The Company is committed to ongoing and active communication with its shareholders. Dialog has a Head of Investor Relations who manages communication between the Company, its shareholders and the broader financial community. The Company also retains independent advisers in the UK and Germany to help manage communication with both English and German speaking shareholders. Dialog prepares annual and quarterly consolidated financial statements in accordance with IFRS as adopted by the EU.

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 regular discussion between Company management and analysts, brokers and institutional shareholders, ensuring that the market is appropriately informed on business activities.

Dialog promptly discloses price-sensitive information to all market participants. Notifications are first sent to the Frankfurt Stock Exchange and the Federal Financial Supervisory Authority in Germany (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) and then published via an electronic information system.

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 ICVCs, the first threshold for disclosure is set at 5%, with the next level set at 10% and every percentage above 10%.

Once Dialog is notified, the Company must then notify BaFin and the Frankfurt Stock Exchange. Under S.15a of the German Securities Trading Act (Wertpapierhandelsgesetz) transactions in the Company's shares carried out by members of the Board of Directors and their family members are reported and published without delay.

Dialog's shares are listed with Clearstream Germany as legal owner. As far as the Company is aware, based on TR-1 notifications received, those holding a significant beneficial interest (i.e. greater than 3%) in the Company as of 31 December 2017 were:

9.01% – Tsinghua University
5.88% – BlackRock Inc.
3.01% – Black Creek Investment Management Inc.

The free-float includes the following shares held on behalf of discretionary clients as per the share register on 31 December 2017:

SIX SIS AG	8,298,342
Citigroup Global Markets	7,005,570
The Bank of New York Mellon	4,892,058
CACEIS Bank Deutschland GmbH	4,535,394
Chase Nominees Ltd.	2,939,737
State Street Bank & Trust Corp.	2,746,138

As of 9 February 2017, the Company was aware of the following holdings:

SIX SIS AG	8,319,967
Citigroup Global Markets	6,989,047
The Bank of New York Mellon	4,846,174
CACEIS Bank Deutschland GmbH	4,663,627
Chase Nominees Ltd.	3,374,478
RBC Investors Services Trust	2,588,976

Dialog's free-float is 73,591,112 or 96.3% of the outstanding shares. The free-float is calculated by excluding the 2,791,027 shares held in the Dialog Semiconductor Plc Employee Benefit Trust.

Internal control and risk management

In accordance with the EU Transparency Directive (DTR 7.2.5), the Board of Directors (following review and recommendation by the Audit Committee) acknowledge 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.

A detailed list of risks and their management is set out on pages 55 to 60.

The Company has an ongoing process of identifying, evaluating and managing risk. The process was in place during 2017 and up to the date of the approval of the 2017 Annual report and financial statements. The Board and Audit Committee can confirm that necessary actions are being undertaken to remedy any perceived failings or weakness identified from these ongoing process reviews.

Dialog Board Committees

As set out in the Corporate Governance report, the Board has established a number of committees to assist in the execution of its responsibilities. During 2017, these were: Audit Committee, Nomination Committee and Remuneration Committee. Reports on the activity of these committees during 2017 are set out on the following pages.

Audit Committee

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

During 2017, the Audit Committee comprised only independent non-executive Directors. Members at the end of 2017 were Alan Campbell (Chairman), Aidan Hughes and Eamonn O'Hare.

As set out on page 70, the Board has determined that Alan Campbell, Eamonn O'Hare and Aidan Hughes all have recent and relevant financial experience. Further, each of the three members of the Committee have relevant sector experience.

The Audit Committee meets a minimum of four times a year. In 2017, the Committee met four times. Attendance at meetings held is set out in the table on page 70. 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 supported 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 internal audit activity at each meeting, and monitors the status of findings or improvement actions.

The Audit Committee's main responsibilities include to:

- Review and advise the Board on the integrity of the financial statements of the Company, including the Annual report, quarterly financial statements 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; and
- 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 2017

The Audit Committee discharged its obligations during the year as follows:

- Reviewed the 2016 (issued in February 2017) and 2017 (issued in February 2018) full year results announcement;
- Reviewed the Annual report and financial statements – including the report of the external auditor – for the year ended 31 December 2016 (issued in April 2017) and for the year ended 31 December 2017 (to be issued in April 2018);
- Reviewed the quarterly financial statements issued in May, July and November 2017;
- Reviewed the external audit plan presented by the external auditor in advance of the audit for the year ended 31 December 2017;
- Reviewed the quarterly external audit reports covering each quarterly review and full year audit. This included discussion and review of key audit related matters and the auditor's response. As part of the latest requirement for enhanced auditor reporting we have included the audit matters reviewed. The key audit matters for the current year were: revenue growth assumptions used in the valuation of customer relationship intangible assets acquired in the acquisition of Silego Technology Inc.; revenue recognition; carrying value of goodwill and intangible assets held in Connectivity CGU; and capitalisation of development costs.
- Reviewed the risk register for updates to key risks and status; and
- Approved the annual internal audit plan and received and reviewed internal audit reports including the annual assessment and review of internal controls. This also includes monitoring the effective and timely remediation of any audit related actions.

The Company believes that an effective and robust system of internal control is essential to achieving reliable business performance. 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. Improvements continue to be made to the internal control over financial reporting by embedding the COSO framework of internal control, testing the operating effectiveness of internal controls and investing in skilled resources to improve financial processes including:

- Further development and implementation of policies and procedures;
- Enhancements to purchase requisition process and continued roll out of standardised business expenses process and control documentation tools;
- Strengthening IT security and monitoring of end-user access controls; and
- Training a cross section of employees.

The Committee is pleased with the progress achieved in 2017 and will continue to monitor the ongoing work in these areas in 2018.

Corporate governance statement continued

External Auditor | Role

The external auditor audits the Group's consolidated financial statements. 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 in the past year or which are contracted for the following year.

The external auditor has committed to inform the Chairman of the Audit Committee of any grounds for disqualification or impartiality of the auditor occurring during the audit, 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 come to light during the performance of the audit, including the Company's financial performance and compliance with the Company's Corporate Governance principles. The external auditor takes 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;
- Is remunerated through a "success fee" structure; and
- 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.

Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 7 to the consolidated financial statements. In line with EU regulations, the Audit Committee will ensure that, for the year ended 31 December 2020, 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 last three consecutive financial years.

Nomination Committee

The Board of Directors has established a Nomination Committee to review Board structure, size and composition and make recommendations to the Board, and to identify and nominate Board candidates for approval by the Board. The Committee is responsible for succession planning for Directors and ensuring there are appropriate succession plans in place for all key executive positions within the Company to minimise "key-man" risk.

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

At the end of 2017, the Nomination Committee comprised Nick Jeffery (Chair), Chris Burke, 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 is free to seek its own advice free from management as it deems appropriate.

During the year, the Committee used the services of an external search and recruitment agency to assist with the succession planning process. The firm, Russell Reynolds, is an independent third party and has no other connection with Dialog.

During the year, the Committee met formally on four occasions. Attendance at scheduled meetings is set out on page 70.

Activity in 2017

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

- Review the composition of the Board to ensure the Directors have the skills and expertise to effectively oversee the implementation of the Group's stated strategy; and
- Review succession arrangements for all key executive positions.

Remuneration Committee

The Board of Directors has established a Remuneration Committee to determine the salaries and incentive compensation of the officers of the Company and its subsidiaries, and provide recommendations for other employees and consultants as appropriate.

At the end of 2017, the Remuneration Committee comprised Mike Cannon (Chair), Chris Burke, Nick Jeffery and Mary Chan. The Committee comprised only independent non-executive Directors. 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 its own advice free from management as it deems appropriate.

During the year, the Committee sought and received general advice relating to remuneration from independent advisers New Bridge Street and Radford (both part of Aon plc). New Bridge Street is a signatory to the Remuneration Consultants Group Code of Conduct and any advice was provided in accordance with this code. New Bridge Street and Radford provided no other services to Dialog during 2017 and have no other connection with the Company other than as adviser on issues relating to remuneration.

In 2017, the Committee met formally on four occasions. Attendance at scheduled meetings is set out on page 70.

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 2017, is set out on page 90.

Tim Anderson
Company Secretary

Directors' remuneration report

Annual statement from Mike Cannon, Chairman of the Remuneration Committee

Dear shareholder,

I am pleased to present the Directors' remuneration report for 2017, which has been prepared by the Remuneration Committee and approved by the Board.

The report is in two parts: the Annual report on remuneration which sets out the details of and basis for remuneration during 2017, and the Directors' Remuneration Policy, which describes the policy for the remuneration of Executive and non-executive Directors. This year we have added a new "at-a-glance" section which summarises the remuneration outcomes for 2017 and explains how they link to our strategy.

Context of the Committee's decisions

Dialog is an international semiconductor company whose operations and competitors are largely based in the US. As a result, remuneration in Dialog's sector is heavily influenced by US practice, and this is reflected in some aspects of Dialog's Remuneration Policy. Dialog's Remuneration Policy has been designed so that the majority of remuneration is delivered through performance-based, long-term variable remuneration with significant 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.

Performance and remuneration for 2017

Share price performance in 2017 was disappointing, contributing to a significant reduction in the CEO's remuneration for 2017. Nonetheless, Dialog has delivered strong TSR of 1,401% over the last nine years and TSR of 3,717% since the CEO was appointed in 2005. In addition, during 2017, we continued to develop products, customer relationships and strong operating capability, in line with our strategic objectives. The CEO delivered 13% revenue growth, increasing underlying operating margin by 70bps year-on-year, and strong cash flow generation. This is reflected in the assessment of the Executive Director's annual bonus. Bonus performance outcomes against the targets that were set are detailed in the Annual report on remuneration on page 84.

Annual Bonus

As a result of the strong performance in 2017, an annual bonus award of 64.45% of maximum has been achieved by the CEO, compared with 34.62% for 2016 and 79.25% for 2015.

Long-term incentive

The 2015 award made under the Long-Term Incentive Plan ("LTIP") and the final bonus matching award made under the legacy Executive Incentive Plan ("EIP") vest in the first quarter of 2018. Both awards were subject to performance tests over the period 2015–17 and the LTIP and legacy EIP matching award are expected to achieve vesting levels of 34.44% and 44.88% respectively.

Base salary

The Committee reviewed the CEO's base salary in the first half of 2017 with reference to the salary increase range for other employees of the Company, his performance, and the positioning of his package compared to Dialog's peer group. As a result, the Committee awarded the CEO a base salary increase of 5%, which is within the range of base salary increases for other high-performing employees of the Company. His resulting base salary is £485,886 (US$656,399) which is below the market median for Dialog's peer group, based on the Company's size at the time of the July 2017 review.

Remuneration for 2018 and beyond

In 2018 the Committee does not intend to make any significant changes to how we apply our Directors' remuneration policy and no changes will be submitted for approval at the 2018 AGM. The CEO's base salary will continue to be reviewed mid-year, the annual bonus and LTIP award opportunities will also remain unchanged.

The current remuneration policy will expire at the 2019 AGM, at which point shareholders will be asked to approve a new policy. Our last substantive review of executive remuneration policy was in 2014 when we made a radical simplification of our policy and introduced a number of areas of best practice. A new policy resulting from that review was approved by shareholders at the 2015 AGM. In 2016, shareholders approved some minor changes to our policy on Directors' contracts, but the main features of the overall policy remained unchanged.

Since the substantive review in 2014, we have observed a significant increase in the levels of equity-based remuneration by over 40% (on a constant currency basis) at our direct competitors, which has resulted in the remuneration of our CEO falling substantially below market median. In an increasingly competitive environment, and in an industry heavily impacted by the quality of employee innovation, it is important that remuneration arrangements throughout Dialog remain competitive against our most direct semiconductor peers. Such a large discrepancy between the remuneration at Dialog and those of our peers could present a risk to the Company and our shareholders, and could impact Dialog's ability to recruit and retain external executive talent in the future. The Remuneration Committee will be conducting a full review of our remuneration policy during 2018 in preparation for the 2019 AGM.

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 have been pleased at previous AGMs to receive a positive response from shareholders to our remuneration approach. We hope you find the contents of this report informative. The Committee would welcome your support at our AGM on 3 May 2018 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 past year.

Mike Cannon
Chairman, Remuneration Committee
28 February 2018
Dialog Semiconductor Plc

Remuneration at a glance

Summary of our current Remuneration Policy and Structure for Financial Year 2017

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	→ 5% increase → Chief Executive Officer: £485,886. → 15% pension allowance
Annual Bonus – weightings: 20% Revenue 20% Underlying operating margin 20% Underlying gross margin 20% Diversified revenue 20% Organisational goals	→ Maximum potential 200% of base salary → Key financial, commercial and organisational goals → The portion of any award above 100% of salary is deferred into shares for three years	→ 64.45% of maximum bonus paid → CEO: £626,308 (128.9% of salary)
LTIP – weightings: 33.3% Revenue 33.3% Underlying operating margin 33.3% Relative Total Shareholder Return	→ Target award is capped at £2m → 2x multiplier for excellent performance → Goals focused on KPIs and long-term shareholder returns	→ Awards granted to the CEO in 2017 had a target value of £2 million at grant
Shareholding Requirements	→ CEO 300% 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	2017 Annual Bonus	LTIP	Rationale
Revenue	✓	✓	Measures top-line business growth
Underlying operating margin	✓	✓	Measures ability to increase the profitability of our operating activity
Underlying gross margin	✓		Provides a measure of ability to obtain profit margin from our products and manage our manufacturing costs
Relative Total Shareholder Return ("TSR")		✓	Measures the delivery of long-term sustainable value growth for shareholders
Commercial & organisational goals	✓		Focuses executives on the delivery of our strategic goals

How we performed

Revenue (US$m)

1,353

2017	**1,353**
2016	1,198

Operating margin, underlying (%)

19.2%

2017	**19.2**
2016	18.5

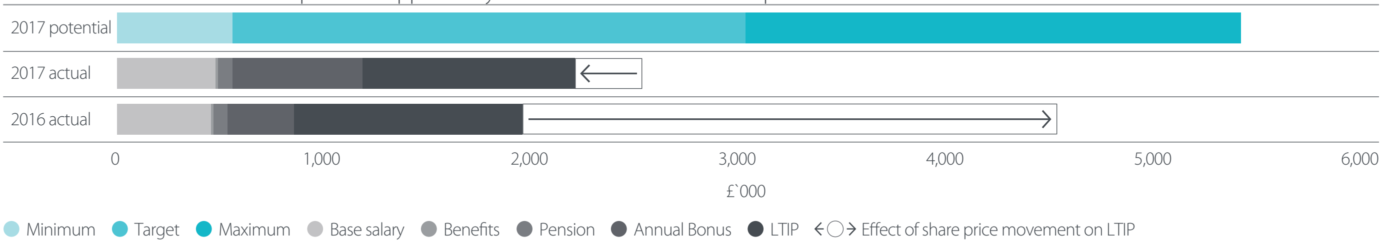
Gross margin, underlying (%)

46.7%

2017	**46.7**
2016	46.3

2017 Remuneration

The chart below shows the 2017 potential opportunity and actual achievement compared to 2016 actual achievement.



Maximum = Fixed pay, maximum annual bonus (200% of salary) and maximum value of the LTIP vesting.
Target = Fixed pay and on-target award for Annual Bonus (100% of salary) and 50% of the maximum value of the LTIP vesting.
Minimum = Fixed pay (base salary, benefits and pension).

The chart above does not include the 2014 EIP matching award vesting in 2017 as only the LTIP exists under the current policy.

The split of the LTIP bar shows the value lost or gained due to the effect of the share price. The arrow on the "2016 actual" LTIP outcome shows the value gained on the vested shares because of the increase in share price since grant. The arrow on the "2017 actual" LTIP outcome shows the value loss of the vested shares due to the decrease in share price since grant.

Directors' remuneration policy

Our policy on remuneration

Dialog's remuneration policy for Executive Directors is set by the Remuneration Committee. The Committee's primary objective is to ensure that remuneration is structured so as to attract and retain Executive Directors of a high calibre, with the skills and experience necessary to develop and grow the Company successfully. Executives should be rewarded in a way that aligns with shareholder interests and promotes the creation of sustained value for the Company's shareholders.

The Committee believes that a simple approach is most effective and the elements of executive remuneration are fixed pay (base salary, benefits and pensions), annual bonus and a long-term incentive. A significant portion of remuneration is linked to, and paid in, Company shares, which enables alignment with shareholder interests and reinforces our pay-for-performance philosophy. The Committee believes that executives should hold a meaningful number of shares personally. The individual remuneration elements operated for executives are described in more detail in the policy table below. Since there is currently only one Executive Director – the CEO – we refer to remuneration for the Executive Director, Executive Directors and the CEO interchangeably throughout this report.

The Committee reviews the CEO's remuneration package annually both in the context of Company performance and against a range of peer companies. In reviewing the CEO's pay arrangements the Committee takes into account:

→ The history and growth profile of the Company;

→ The Company's UK incorporation and associated corporate governance expectations;

→ The Company's international focus, operations and talent market;

→ The general external environment and the market context for executive pay; and

→ The pay and employment practices of Dialog employees generally.

Directors' remuneration policy table

The table below summarises Dialog's remuneration policy for Executive Directors and, where indicated, for non-executive Directors. The policy took formal effect from the 2016 AGM.

Base salary	**Executive Directors**
Purpose and link to strategy	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.
Maximum opportunity	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.
	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 since 2016	No change

Retirement benefits	**Executive Directors**
Purpose and link to strategy	Provide market competitive retirement benefits which help foster loyalty and retention.
Maximum opportunity	Employer contribution of 15% of base salary.
Operation	Executive Directors are provided with a defined contribution to pension or equivalent cash allowance arrangement.
Performance framework	n/a
Changes in policy since 2016	No change

Directors' remuneration policy continued

Other benefits	Executive Directors
Purpose and link to strategy	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.
Maximum opportunity	There is no maximum for benefits, but they represent a small percentage of remuneration. 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 since 2016	No change

Annual bonus plan	Executive Directors
Purpose and link to strategy	Motivate Executive Directors to achieve stretching financial and commercial objectives consistent with and supportive of Dialog's growth plans. Create a tangible link between annual performance and individual pay opportunity.
Maximum opportunity	Annual opportunity of up to 200% of base salary. The Committee retains discretion to adjust the overall bonus outcome to take account of performance outside the normal bounds. This discretion cannot be used to raise the bonus outcome above 200% of base salary.
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 since 2016	No change

Long-Term Incentive Plan ("LTIP")	Executive Directors
Purpose and link to strategy	Motivate Executive Directors to deliver sustainable long-term shareholder value through long-term profitability and share price growth.
Maximum opportunity	The maximum face value of an annual award is £4 million at the date of grant. This is equivalent to a target award of £2 million.
Operation	Annual award of performance shares (which may also be in the form of nominal/nil-cost options). Performance is measured over three years, based on performance metrics selected by the Remuneration Committee to support the Company's business strategy. Vesting is dependent on continued employment with the Company at the time of vesting. Dividend equivalents may be paid on any shares which vest. Certain "leaver" provisions apply and are described in the section headed "Termination arrangements" below. The Committee has the discretion in certain circumstances to settle an award in cash. In practice this will only be used in exceptional circumstances for Executive Directors.
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. 25% of the maximum award vests for threshold performance, 50% of the maximum award vests for target performance and 100% of the maximum 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 the median of the comparator group then 25% of the maximum award vests. If Dialog TSR is at the 60th percentile of the comparator group then 50% of the maximum award will vest. If Dialog TSR is at or above the 75th percentile of the comparator group then 100% of the maximum 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 50% of the maximum award, even if relative TSR is above 60th percentile. For the Company financial performance component, targets are normally set annually over the three-year performance period.
Changes since 2016	No change

Termination arrangements	Executive Directors
Purpose and link to strategy	To limit the Company's liability for payments in cases of termination, and to provide a fair and equitable settlement in line with market practice where appropriate.
Maximum opportunity	Notice periods from the Company do not exceed 12 months. **Termination not in connection with a change in control** In the case of the current Chief Executive 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 Chief Executive 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 time pro-rated for the period worked, and subject to performance.

Directors' remuneration policy continued

	Additional points:
	The above termination payments (both in connection with and not in connection with a change-in-control) would be reduced by the amount of any other contractual payments made to the Executive. Such payments could include a payment in lieu of notice, garden leave payment, and/or a payment in lieu of holiday accrual. Any payment in lieu of notice will be limited to the pro-rata value of base salary and the other benefits described under the retirement benefits and other benefits sections above. An Executive can also be placed on garden leave. A pre-defined "good reason" includes: material salary reduction (other than across-the-board reductions of up to 15%) or any reduction on change of control; company required relocation by 50 miles; or material diminution in duties, responsibilities or authority (but a change in reporting line alone does not constitute a good reason). In addition to the above termination payments, the Committee may pay reasonable outplacement and legal fees where considered appropriate and may pay any statutory entitlements or settle any compromise claims in connection with a termination of employment, where considered in the best interests of the Company. Termination provisions for the EIP and LTIP are as follows: **Termination not in connection with a change in control** If an Executive Director is not employed by the Company at the time of vesting, the award will lapse, except in certain circumstances as determined by the Board including death, disability, retirement and any other circumstance as decided by the Board. The portion of any award which vests will be determined by the Board based on a number of factors including performance against targets. Alternatively, the Board may decide that outstanding awards will vest in accordance with the normal vesting schedule. Unless the Board decides otherwise, in all cases the vesting level will be reduced in accordance with time proration. In the case that employment is terminated by the Company without cause or termination by the executive for a pre-defined good reason detailed above, then the outstanding awards will vest subject to time proration and performance against targets. **Termination in connection with a change in control** In the event of a change in control of the Company, any award will be rolled over into an award in the new entity but with the Company having discretion for time pro-rated vesting, subject to performance, with the balance rolled over. Performance-based awards, after application of performance test, will roll over into time-based awards. Any awards rolled over will ordinarily vest at the nominal vesting date. However, in the case that employment is terminated by the Company without cause, or termination by the executive for a pre-defined good reason detailed above in connection with a change in control, then outstanding awards will vest immediately without time proration.
Changes in policy since 2016	No change

Fees	**Non-executive Directors**
Purpose and link to strategy	Supports recruitment and retention of a non-executive Director with the experience and skills that will make a major contribution to the Dialog Board.
Maximum opportunity	Aggregate fees are subject to the limit set out in the Articles of Association or any such higher amount as determined by ordinary resolution.
Operation	Fees are normally reviewed annually. Fees may be paid in a combination of cash and shares subject to any requirements of the Articles of Association of the Company or shareholder resolution. Non-executive Directors' fees are not eligible for any incentive awards or share options. The Chairman's fee is determined by the Executive Directors with input from the Remuneration Committee. Other non-executive Directors may be reviewed annually by the Chairman and Executive Directors. Non-executive Directors may also receive tax advice. In addition to the fees referred to above, non-executive Directors are also reimbursed for the costs of travel relating to the performance of their duties, and these costs may be grossed-up if treated as a taxable benefit in the applicable jurisdiction.
Performance framework	Fee reviews take account of individual performance and contribution, company size, growth and complexity, level of experience and market profile and time committed.
Changes in policy since 2016	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	Approach in application to recruitment situations
Annual base salary or fee	The following factors will be taken into account when determining appropriate base salary/fee: → The candidate's existing salary/fee, location of employment, skills and experience and expected contribution to the new role; → The previous incumbent's salary/fee for the same role; → The current salaries/fees of other Dialog Directors; → Current relevant market pay data for the role; and → The value of other elements of remuneration to be provided and the combined value of the total package.
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 foregone 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 since 2016	No change

Directors' remuneration policy continued

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 clawback 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 was increased from 200% to 300% of base salary with effect from 2015. 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:

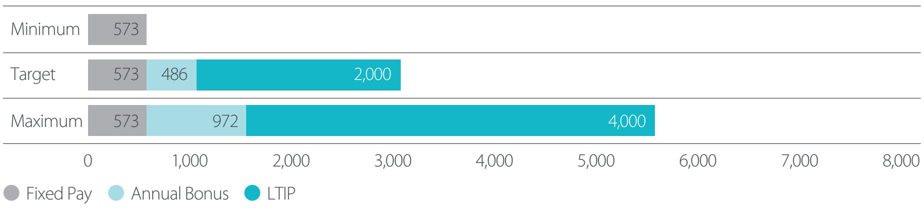
→ Annual bonus – All Dialog employees participate in annual bonus plans. The nature of those plans varies somewhat by location and employee category. Most employees participate in a profit-sharing plan; a smaller group participates in a plan based on performance against individual objectives.

→ LTIP – Participation in the LTIP is limited to employees in senior roles and executives, which currently comprise around 70 Dialog employees. This number may increase over time as the business grows.

→ Notice periods – Other UK employees' contracts of employment include three-month notice periods.

Remuneration scenarios for the CEO

The charts below represent for the 2018 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).



The scenarios shown above are based on the following assumptions:

→ Minimum performance: fixed pay only (base salary, benefits and pension);

→ Target performance: fixed pay, annual bonus (100% of salary) and 50% of the maximum value of the LTIP award vesting; and

→ Maximum performance: fixed pay, maximum annual bonus of 200% of salary and 100% of the maximum value of the LTIP award vesting.

We have assumed a target LTIP grant of £2 million, which is the limit under the policy. This could range up to £4 million for achievement of the maximum performance targets.

Stakeholder views

Shareholder proxy advisory groups are engaged when the Company is considering material changes to policy, including approval of any new share plans.

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 the Company's intranet-based feedback system SVP Blog and the annual Voice of Dialog employee survey.

Annual report on remuneration for the year ended 31 December 2017

1. Executive Director remuneration: Single Figure Table

The table below sets out the single figure the CEO:

Incumbent	Year	Total salary US$[2]	Benefits US$	Pension US$	Total fixed pay US$[3]	Annual bonus US$[4]	Long-term Incentive US$[5]	Total variable pay US$[6]	Total excluding LTI US$[7]	Total US$[8]
Dr Jalal Bagherli	2017	640,770	15,923	96,115	752,809	846,098	1,941,187	2,787,285	1,598,907	3,540,094
Dr Jalal Bagherli	2016	555,652	15,492	82,331	653,475	394,117	4,529,158	4,923,275	1,047,592	5,576,750

Notes:
1 Exchange rates used are: 2016: GBP 1 = USD 1.23005; EUR 1 = USD 1.05600; 2017: GBP 1 = USD 1.35093; EUR 1 = USD 1.19875.
2 Base salary earned during the financial year. The base salary is shown in USD in this table, but set and paid in GBP. The CEO's 2017 GBP base salary increase was 5%.
3 The sum of basic salary, benefits and pension.
4 Annual bonus cash element and deferred share element awarded in relation to the financial year ended 31 December.
5 Long-term Incentive reflects the gain on options and EIP awards which vested for the performance year. For the 2016 performance year, 85,540 EIP options vested. The value has been updated from the 2016 Annual report and is based on a price of €50.26 (share price on the date of vesting). For the 2017 performance year, 13,427 EIP options and 33,526 LTIP awards will vest. Value is based on a price of €34.63 (average share price over last three months in 2017). The EIP award is the final EIP matching award made in relation to the 2014 annual bonus prior to the introduction of the new policy.
6 The sum of annual bonus (cash and deferred share element) and long-term incentives.
7 The sum of basic salary, benefits, pension and annual bonus (cash and deferred share element).
8 The sum of basic salary, benefits, pension, annual bonus (cash and deferred share element) and long-term incentives which vested for performance to the end of the year.

2. Commentary on the Executive Director Single Figure Table

2.1 Base salary

The Remuneration Committee reviewed the CEO's base salary in July 2017 with reference to his performance, the scale of the Group, and the positioning of his package compared to Dialog's peer group. As a result of the review, the CEO was awarded a 5% increase in annual base salary with effect from 1 July 2017 which resulted in his base salary increasing from £462,749 to £485,886 (US$656,399). Note that this figure differs from the figure in the Single Figure table above as the review date is halfway through the financial year (July 2017).

2.2 Other benefits and Pension

The CEO received a cash allowance in lieu of a company car (US$13,780), medical insurance for himself and his spouse and Group life and income protection insurance. The total value of taxable benefits provided was US$15,923 equivalent to 2.43% of his current salary.

The CEO receives a pension allowance of 15% of base salary which is in line with policy. In 2017, the Company made pension allowance payments of £71,148 (US$96,115) to the CEO.

2.3 Determination of annual bonus outcome for the year ended 31 December 2017

For 2017, the CEO was eligible for an annual bonus of up to 200% 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 (80%) comprising revenue (20%), underlying gross margin (20%), underlying operating margin (20%), diversified revenue (20%); and

→ Commercial & organisational goals (20%).

The 2017 bonus was determined at 128.9% of target, reflecting performance as set out in the table below. Performance targets under these measures are considered by the Board to be commercially sensitive and will, where possible, be disclosed in a future Annual report when they are considered no longer to be commercially sensitive.

Annual report on remuneration for the year ended 31 December 2017 continued

2. Commentary on the Executive Director Single Figure Table continued

Performance measures 2017

Measure	Outcome	Below Threshold	Between Threshold and Target	On Target	Above Target
Revenue	$1,353m				✓
Underlying gross margin	46.7%				✓
Underlying operating margin	19.2%				✓
Diversified revenue	$321m		✓		
Commercial & organisational goals	See below				✓

Note: Revenue, underlying gross margin and underlying operating margin are measures of Dialog 2017 performance, including Silego Technology Inc.

The overall outcome for the Commercial & organisational goals was 125% of target. This reflects performance as set out in the table below:

Performance Measure	Outcome
Mergers and acquisitions	Successful completion and integration of Silego acquisition
Diversification	Executed successfully on milestones for long-term partnerships

Accordingly, the Committee determined that a bonus equivalent to 128.9% of base salary should be paid for the performance in the 2017 financial year. Of this, 28.9% (£140,421) will be deferred into shares for three years. The Remuneration Committee also considered the disclosure of the performance targets relating to the 2017 annual bonus. Having reviewed the targets, the Committee decided that the targets continued to be commercially sensitive and will be disclosed when appropriate.

2.4 LTIP vesting for the period 31 December 2017

Awards granted under the 2015 Long-term Incentive Plan ("LTIP") are capable of vesting in 2018 subject to the satisfaction of revenue, underlying operating margin and relative Total Shareholder Return ("TSR") performance measures. Following the completion of the final performance period in 2017, the Committee has assessed performance against the performance targets set over the performance period and has determined that 34.44% of the share options awarded will vest to participants. This vesting percentage was calculated as follows:

Disclosure of objectives relating to the 2015 LTIP award – vesting in 2018

Measure	Maximum capable of vesting (% of award)	Actual vesting outcome (% of award)
Revenue	33.3%	13.20%
Underlying operating margin	33.3%	21.24%
Relative TSR vs. peer group	33.3%	00.00%
Total	100.0%	34.44%

The Chief Executive was awarded a total of 97,329 LTIP share options in 2015. As a result of the actual vesting outcome, 33,526 of the total 97,329 LTIP share options awarded to the Chief Executive in 2015 (i.e. 34.44%) will vest in 2018. As the share price at the date of vesting for the 33,526 share options was not known at the date of publication, they have been valued for the purpose of the single figure using Dialog's average share price over October, November and December 2017 of Euro 34.63. This results in a value of US$1,385,727. This figure will be updated next year when the actual share price at the date of vesting is known.

2.5 Legacy EIP matching award vesting for the period 31 December 2017

Before the introduction of the LTIP in 2015, the CEO received Executive Incentive Plan ("EIP") matching awards in relation to his deferred annual bonus. The last of these EIP matching awards was of 29,913 EIP performance share options. This award was granted in 2015 in relation to the CEO's 2014 annual bonus, and is due to vest in early 2018. The award was subject to the satisfaction of revenue, underlying operating margin and share price performance measures. Following the completion of the final performance period in 2017, the Committee has assessed performance against the performance targets set over the performance period and has determined that 44.88% of the share options awarded will vest to the CEO. This will result in 13,427 shares vesting to the CEO in early 2018. The assessment of performance is set out in the table below:

Measure	Maximum capable of vesting (% of award)	Actual vesting outcome (% of award)
Revenue	37.5%	12.87%
Underlying operating margin	37.5%	23.68%
Share price	25.0%	8.33%
Total	100.0%	44.88%

As the share price at the date of vesting for the 13,427 share options was not known at the date of publication, they have been valued for the purpose of the single figure table using Dialog's average share price over October, November and December 2017 of Euro 34.63. This results in a value of US$555,460. This figure will be updated next year when the actual share price at the date of vesting is known.

2. Commentary on the Executive Director Single Figure Table continued

2.6 Share awards made during the year

In 2017 the CEO was granted a LTIP award with a target value of £2m (maximum value £4m) in line with the policy in force. As noted in the policy section, shares awarded are structured as nominal priced options, hence the reference to options throughout.

Awarded during the year	Date of award	Granted number	30-day average share price at date of grant in £	Value of award	% of award that will vest at threshold	Performance period
LTIP – performance shares	01/03/2017	103,788	£38.54	£3,999,990	25%	01/01/2017–31/12/2019

Note: The value is calculated as the number of shares, multiplied by the average closing Dialog Semiconductor share price over the 30 business days up to and including 1 March 2017 (€45.15). The sterling equivalent share price was £38.54, resulting in a maximum LTIP award value of £3,999,990 which equates to a target LTIP award of £1,999,995.

The LTIP performance shares set out in the table above will vest subject to performance against three performance metrics:

→ Dialog TSR performance over the three-year performance period relative to the constituents of the S&P 1500 Select Semiconductor index (one third);

→ Dialog revenue in each year of the three-year performance period (one third); and

→ Dialog underlying operating margin in each year of the three-year performance period (one third).

Revenue and underlying operating margin targets are set annually over the three-year performance period of the award. For each annual period a third of this part of the award is assessed on actual Dialog performance against targets set at the beginning of each year. Relative Total Shareholder Return is measured at the third anniversary date of the award over the three-year performance period. Shares accrued during the performance period are released to Executive Directors as soon as practicable after the third anniversary of the award.

2.7 Dilution

As disclosed in the 2012 Annual report, share dilution as a result of equity-based incentive awards to all Dialog employees is managed to an average 1% flow rate in order to ensure that it moves over time towards a rolling 10% in ten years.

3. Non-executive Directors' remuneration: Single Figure Table

Incumbent	Year	Fees US$	Taxable Benefits US$	Incentives (Annual) US$	Incentives (Long-term) US$	Other remuneration US$	Shares Vested US$	Total US$
Chris Burke	2017	196,942	2,048	–	–	–	–	198,990
Chris Burke	2016	143,608	2,050	–	–	–	–	145,659
Aidan Hughes	2017	206,693	5,976	–	–	–	–	212,669
Aidan Hughes	2016	143,301	7,623	–	–	–	–	150,924
Russ Shaw	2017	59,993	1,067	–	–	–	–	61,060
Russ Shaw	2016	151,296	2,539	–	–	–	–	153,835
Peter Weber	2017	–	–	–	–	–	–	–
Peter Weber	2016	–	569	–	–	–	–	569
Richard Beyer	2017	270,186	4,653	–	–	–	–	274,839
Richard Beyer	2016	190,658	5,529	–	–	–	–	196,187
Mike Cannon	2017	215,473	1,494	–	–	–	–	216,967
Mike Cannon	2016	153,449	5,075	–	–	–	–	158,524
Eamonn O'Hare	2017	201,268	1,698	–	–	–	–	202,966
Eamonn O'Hare	2016	143,301	3,157	–	–	–	–	146,458
Alan Campbell	2017	217,500	4,424	–	–	–	–	221,924
Alan Campbell	2016	179,853	5,019	–	–	–	–	184,872
Nick Jeffery	2017	210,918	4,324	–	–	–	–	215,242
Nick Jeffery	2016	94,406	1,701	–	–	–	–	96,107
Mary Chan	2017	207,954	3,870	–	–	–	–	211,824
Mary Chan	2016	14,863	1,322	–	–	–	–	16,185

Notes:
1 Exchange rate used 2016: GBP 1 = USD 1.23005; EUR 1 = USD 1.05600; 2017: GBP 1 = USD 1.35093; EUR 1 = USD 1.19875.
2 Nick Jeffery joined the Board on 1 July 2016.
3 Mary Chan joined the Board on 1 December 2016.
4 Russ Shaw retired from the Board on 4 May 2017.
5 Fees include fees paid in cash and shares.

Annual report on remuneration for the year ended 31 December 2017 continued

4. Directors' shareholdings at 31 December 2017

The CEO is expected to establish and hold a shareholding of at least 300% of salary. The CEO currently exceeds this requirement.

		Share Awards with Performance Conditions		Share Awards without Performance Conditions				
Number at 31 December 2017	10 pence ordinary shares	Performance shares (EIP & LTIP)	EIP – invested shares	Deferred shares	Share options (unvested)	Share options (vested & unexercised)	Options exercised in year	Total
Dr Jalal Bagherli	338,484	524,350	77,723	124,449	–	–	65,332	1,130,338
Chris Burke	2,395	–	–	–	–	–	–	2,395
Aidan Hughes	27,797	–	–	–	–	4,374	–	32,171
Russ Shaw	944	–	–	–	–	–	4,374	5,318
Richard Beyer	5,351	–	–	–	–	–	–	5,351
Mike Cannon	3,980	–	–	–	–	–	–	3,980
Eamonn O'Hare	7,345	–	–	–	–	–	–	7,345
Alan Campbell	3,919	–	–	–	–	–	–	3,919
Nick Jeffery	2,332	–	–	–	–	–	–	2,332
Mary Chan	2,342	–	–	–	–	–	–	2,342

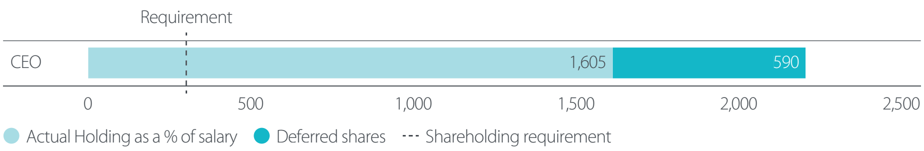
Further detail on the CEO's EIP, LTIP and deferred bonus share awards, is set out below.

Full Name	Share plan	Grant date	Final vesting date	Lapse date	Exercise price (EUR)	Holding at 31 Dec 2016	Granted	Exercised	Lapsed	Holding at 31 Dec 2017
Dr Jalal Bagherli	Executive incentive plan	16/02/2012	16/02/2015	16/02/2018	0.12	65,332	–	65,332	–	–
Dr Jalal Bagherli	Executive incentive plan	16/02/2013	16/02/2016	16/02/2019	0.12	79,735	–	–	–	79,735
Dr Jalal Bagherli	Deferred bonus plan	18/02/2013	18/02/2016	18/02/2020	0.01	42,611	–	–	–	42,611
Dr Jalal Bagherli	Executive incentive plan	18/02/2013	18/02/2016	18/02/2019	0.12	34,638	–	–	–	34,638
Dr Jalal Bagherli	Executive incentive plan	16/02/2014	16/02/2017	16/02/2020	0.12	85,590	–	–	24,740	60,850
Dr Jalal Bagherli	Deferred bonus plan	18/02/2014	18/02/2017	18/02/2021	0.01	40,153	–	–	–	40,153
Dr Jalal Bagherli	Executive incentive plan	18/02/2014	18/02/2017	18/02/2021	0.12	34,729	–	–	10,039	24,690
Dr Jalal Bagherli	Deferred bonus plan	12/02/2015	12/02/2018	12/02/2022	0.01	29,913	–	–	–	29,913
Dr Jalal Bagherli	Executive incentive plan	12/02/2015	12/02/2018	12/02/2022	0.12	25,873	–	–	7,478	18,395
Dr Jalal Bagherli	LTIP nominal cost option	01/05/2015	01/03/2018	01/03/2021	0.15	97,329	–	–	–	97,329
Dr Jalal Bagherli	Deferred bonus plan	03/03/2016	03/03/2019	03/03/2023	0.01	11,772	–	–	–	11,772
Dr Jalal Bagherli	LTIP nominal cost option	03/03/2016	01/03/2019	01/03/2022	0.15	182,648	–	–	–	182,648
Dr Jalal Bagherli	LTIP nominal cost option	01/03/2017	01/03/2020	01/03/2023	0.15	–	103,788	–	–	103,788

Further detail on the NEDs' remaining share awards is set out below.

Full Name	Share plan	Grant date	Final vesting date	Lapse date	Exercise price (EUR)	Holding at 31 Dec 2016	Granted	Exercised	Lapsed	Holding at 31 Dec 2017
Aidan Hughes	NED 2011 share option	21/07/2011	21/04/2014	01/05/2018	0.15	2,293	–	–	–	2,293
Aidan Hughes	NED 2011 share option	18/07/2012	21/04/2015	01/05/2019	0.15	2,081	–	–	–	2,081
Russ Shaw	NED 2011 share option	21/07/2011	21/04/2014	01/05/2018	0.15	2,293	–	2,293	–	–
Russ Shaw	NED 2011 share option	18/07/2012	21/04/2015	01/05/2019	0.15	2,081	–	2,081	–	–

The chart below shows the CEO shareholding as at 31 December 2017 against the shareholding requirement as a % of base salary.



5. Percentage change in CEO remuneration

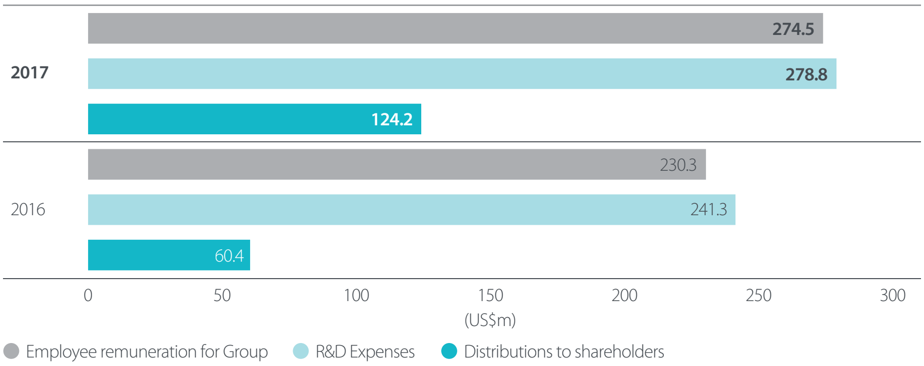
The table below compares the average change in base salary, benefits (excluding pension) and bonus awards for the CEO and for an average UK employee over the period 2016 to 2017. The salary increase shown for the CEO is in line with the average increase for UK employees.

	Percentage change from 2016 to 2017	
Measure	CEO	Average UK employee[2]
Base salary	5.0%	5.1%
Taxable benefits	-6.4%	23.0%
Annual bonus	95.5%	79.0%[3]
Total[1]	41.2%	9.40%

1 Represents the sum of base salary, taxable benefits and bonus.
2 The employee comparator group includes all UK-based Dialog employees employed during 2016 and 2017.
3 At the time of preparation for this report, annual bonuses for the Group had yet to be finalised and the numbers presented reflect expected payouts.

6. Relative importance of spend on pay

The chart below compares the amount spent on employee pay by Dialog to amounts spent by Dialog on research and development and distributions to shareholders.

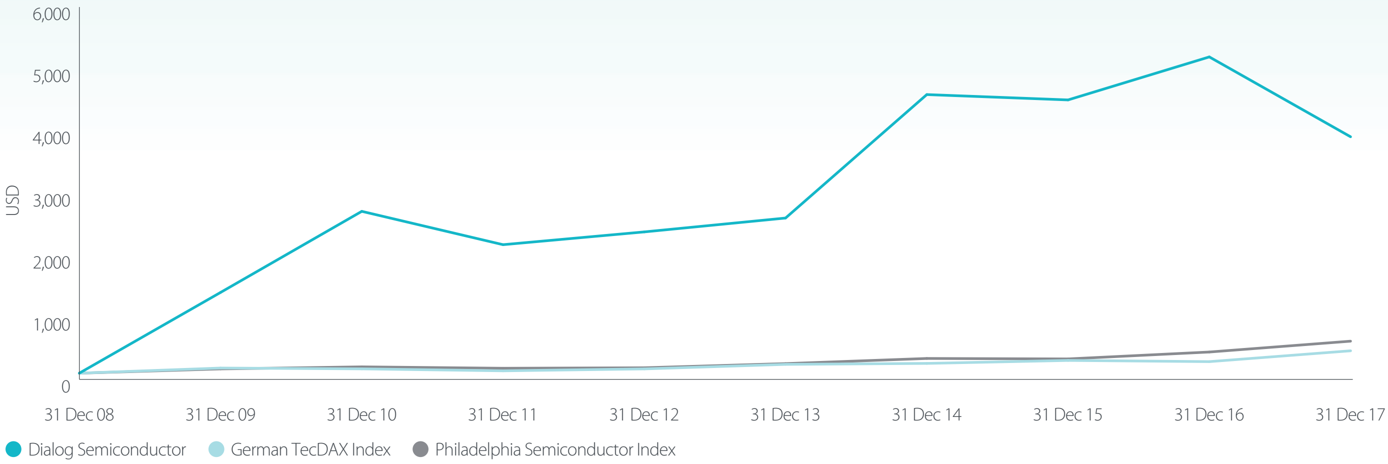


Annual report on remuneration for the year ended 31 December 2017 continued

7. Review of past performance

7.1 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 2017, of US$100 invested in Dialog Semiconductor Plc on 31 December 2008 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. Source: Datastream (Thomson Reuters).

7.2 Nine-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 nine-year period.

Financial year ending	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014	31 Dec 2015	31 Dec 2016	31 Dec 2017
Total remuneration including unrealised gains on options in $ (single figure basis)[1]	1,028,853	4,809,398	30,426,678	2,167,224	2,046,555	4,521,143	5,910,729	5,576,750	3,540,094
Annual bonus (% of maximum)[2]	N/A	N/A	N/A	100%	91.94%	89.12%	79.25%	34.62%	64.45%
Long-term variable pay (% of maximum)[3]	95%	100%	100%	100%	100%	78%	81.3%	61.49%	34.44%

1 The total remuneration for 2010 and 2011 includes awards made under the 2008 LTIP plan approved by shareholders at the 2008 AGM. The values vested to the CEO from this plan were US$3,593,299 (2010) and US$29,103,138 (2011), resulting from the exceptional performance and share price growth of the Company, as can be seen in the TSR performance chart above. 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 value presented does not therefore reflect exactly that received by the CEO.

2 No maximum bonus was defined prior to 2012.

3 The percentage shown for 2017 long-term variable pay is for the LTIP. The legacy EIP matching vesting percentage for 2017 was 44.88%.

8. Statement of implementation for the year ending 31 December 2018

8.1 Executive Director

In 2018, the remuneration policy for the CEO will be implemented along broadly similar lines to 2017.

Base salary:
The CEO's base salary will be subject to review in 2018 with any change being effective from 1 July 2018.

Benefits & pension
No change to benefits. Pension contribution remains at 15% of salary.

Annual Bonus for the year ending 31 December 2018
The maximum bonus potential will remain unchanged at 200% of base salary. The annual bonus will be based on similar metrics to last year. Weightings will be in line with the performance framework set out in the remuneration policy and aligned to the key strategic priorities for 2018. There will be a significant weighting on financial metrics supported by appropriate measures of operational and commercial performance.

LTIP for the year ending 31 December 2018
The value of this year's LTIP award granted to the Chief Executive in 2018 will be determined in accordance with the approved policy and 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 year of the three-year performance period; and
- Dialog underlying operating margin in each year of the three-year performance period.

8.2 Non-executive Directors

The following table sets out the fee rates for non-executive Directors, which have applied from 2016.

	2018		2017	
In thousands	Cash	Shares	Cash	Shares
Chairman fee	£80	£120	£80	£120
Base fee	£58	£87	£58	£87
Committee Chair fee				
Audit	£16	–	£16	–
Remuneration	£12	–	£12	–
Nominations	£5	–	£5	–
Committee membership fee				
Audit	£8	–	£8	–
Remuneration	£6	–	£6	–
Nominations	£2.5	–	£2.5	–

Annual report on remuneration for the year ended 31 December 2017 continued

9. Governance

9.1 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), Chris Burke, Mary Chan and Nick Jeffery. The Committee's 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 its own independent advice free from management as it deems appropriate.

During the year, the Committee sought and received general advice relating to remuneration from New Bridge Street and Radford (both part of Aon plc). The Committee is satisfied that the advice received from New Bridge Street and Radford is objective and independent and is not subject to any material conflict of interest. New Bridge Street and Radford are signatories to the UK Remuneration Consultants Group Code of Conduct and all advice received during the year was provided in accordance with this code. Fees paid to New Bridge Street and Radford during the year in respect of advice totalled £189,605.

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; and

→ 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.

9.2 Statement of Shareholder voting

At the 2017 AGM 97.18% of shareholders supported the advisory resolution to approve the Annual report on remuneration. The table below summarises the number of votes for and against Annual report on remuneration at the 2017 AGM, and also includes the number of abstentions (referred to as votes withheld).

	Votes for[1]		Votes against[1]		Votes withheld[2]	Total votes cast	% of voting capital instructed[3]
Resolution	No of shares	%	No of shares	%	No of shares	No of shares	
Approval of Directors' remuneration report	43,340,649	97.18%	1,259,902	2.82%	49,009	44,600,551	57.60%

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 Total number of shares in issue at 9:00 am BST (10:00 am CEST) on 2 May 2017 was 77,432,749 shares.

9.3 Stakeholder views

Shareholder proxy advisory groups are engaged when the Company is considering material changes to policy, including approval of any new share plans.

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 the Company's intranet-based feedback system SVP Blog and the annual Voice of Dialog employee survey.

Mike Cannon
Chairman, Remuneration Committee
28 February 2018

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 have elected to prepare the parent company financial statements on the same basis.

The Group and parent company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and the parent company and the financial performance and cash flows for that period; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of the Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- 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 performances;
- State whether they have been prepared in accordance with IFRS as adopted by the EU; and
- Make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records that 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 legislations in other jurisdictions.

Responsibility statement

The Directors confirm, to the best of their knowledge, that:

- The financial statements, prepared in accordance with IFRS as adopted by the European Union and IFRS as issued by the IASB, 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; and
- The Annual report and accounts 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, performance, business model and strategy.

The Annual report and accounts, taken as a whole, is in line with good corporate governance standards, provides the information necessary for shareholders to assess the Company's performance, business model and strategy and is fair, balanced and understandable.

Dr Jalal Bagherli
Chief Executive Officer

28 February 2018

Independent auditor's report

to the members of Dialog Semiconductor Plc

Report on the audit of the financial statements

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- The Group 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");
- The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice 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 of Dialog Semiconductor Plc (the "parent company") and its subsidiaries (the "Group") which comprise:

- The Consolidated statement of income;
- The Consolidated statement of comprehensive income;
- The Consolidated and parent company balance sheets;
- The Consolidated Statement of Cash Flows;
- The Consolidated and parent company statements of changes in equity; and
- The related notes 1 to 33.

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 and IFRSs as issued by the IASB. 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 Practice).

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 FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: → Revenue recognition (cut-off of "sell-in" revenue and manual adjustments to "sell-through" revenue); → Carrying value of goodwill and intangible assets held in the Connectivity CGU; → Capitalisation of development costs; → Revenue growth assumptions used in the valuation of customer relationship intangible assets acquired in the acquisition of Silego Technology Inc. ("Silego").
Materiality	We determined materiality for the Group to be $10.5 million which represents 5.4% of profit before tax.
Scoping	We conducted full scope audit procedures on the parent company as well as the four largest components, which represent 98% of the Group's revenue and 94% of the Group's profit before tax. We performed specific audit procedures on two further components, including Silego.
Significant changes in our approach	Our audit approach has been consistent with the previous year, other than additional audit procedures performed in relation to the newly acquired component, Silego.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- The Directors' use of the going concern basis of accounting in preparation of 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 12 months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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 directing the efforts of the engagement team.

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.

Revenue Recognition
Sales direct to customers ("sell-in" revenue): Cut-off based on contractual terms of sales
Sales to distributors ("sell-through" revenue): Manual adjustments at year end

Key audit matter description

Revenue is a key performance indicator for Dialog as detailed in the Strategic report on page 35, Dialog reported an increase of 13% in revenue, achieving total revenue of $1,353 million in the current year.

As detailed in the Significant accounting policies in note 2 to the consolidated financial statements, a significant proportion of the Group's revenue is direct to customers, and therefore recognised on a sell-in basis, where revenue recognition is driven by meeting specific contractual terms. There is a risk that the shipments could be incorrectly recognised as revenue at the period end date through applying incorrect contractual terms of sales.

We have also identified a risk in relation to the sell-through revenue in the US market . As reported in note 2 to the consolidated financial statements, sell-through revenue is recognised based on third-party distributors' confirmation of when the product has been delivered to the end customer. There is a risk that manual adjustments may be incorrectly or fraudulently made to revenue at year end.

How the scope of our audit responded to the key audit matter

We assessed the design and implementation ("D&I") of controls in respect of revenue cut-off. We also assessed the D&I of controls over manual adjustments to sell-through revenue.

For the cut-off of sell-in revenue, we:

- Extended our substantive sample of dispatch notes, covering dispatches pre and post year end for a period responsive to the risk; and
- Reviewed relevant customer contracts and other related agreements in relation to the product dispatches to assess whether revenue was recognised in the correct period in line with contractual terms.

For the manual adjustments to sell-through revenue at year end, we:

- Obtained third-party confirmations from distributors, and focused on identifying adjustments made that result in a difference between revenue recognised by the Group against that reported by the distributors; and
- Where applicable, investigated the business rationale and justification of such difference.

Key observations

Based on the audit procedures performed we did not find any material misstatements in relation to the cut-off of sales for sell-in transactions.

We did not identify any adjustments above our reporting threshold leading to a difference between revenue recognised by the Group to that reported by the distributors.

Carrying value of goodwill and intangibles held in the Connectivity CGU

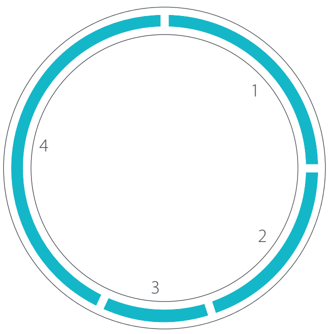
Key audit matter description

As detailed in Notes 14 and 15 to the financial statements, the Group holds $439.5 million of goodwill and $235.6 million of intangible assets at the balance sheet date, which, as detailed in note 2, are at least annually reviewed for impairment or when an impairment trigger is identified.

The impairment review involves a number of significant judgements in assessing the recoverable amount of each cash generating unit ("CGU"), which includes goodwill and intangible assets. These include the future cash flow forecasts, discount rates and long-term growth rates.

We have identified the risk of impairment to principally relate to the Connectivity CGU. The revenue growth rates assumed in the three-year cash-flow forecasts for Connectivity are higher than that assumed for other CGUs, and it is driven by new products in less mature end markets. The headroom of value in use over carrying value of CGU assets is also lower than that of the other CGUs. We have reviewed the Company's sensitivity analysis and performed our own analysis in concluding on the focus for our significant risk.

Given the impact on overall value in use of these high revenue growth rates, this is considered to be an area of significant audit risk.



1 Mobile Systems	25%
2 Connectivity	20%
3 Advanced Mixed-signal – Power conversion	12%
4 Advanced Mixed-signal – Silego	43%

Independent auditor's report

to the members of Dialog Semiconductor Plc continued

Carrying value of goodwill and intangibles held in the Connectivity CGU continued

How the scope of our audit responded to the key audit matter

We have assessed the D&I of controls in respect of management's identification of CGUs and impairment review.

With the support of our valuation experts, we reviewed and challenged the key assumptions used in the impairment model for the Connectivity CGU, checking the mechanical accuracy of the calculations, as well as focusing on the appropriateness of the revenue growth rates assumed in the three-year cash flow forecasts:

- → We agreed the forecasts used to the latest Board-approved forecasts as well as reviewing 2018 trading to date;
- → We assessed the historical accuracy of the Company's forecasts, acknowledging that the growth is driven by new opportunities without historical data available;
- → We enquired of management, including individuals outside of accounting or finance, to understand and challenge the assumptions in the revenue growth forecasts; and
- → We compared assumptions in the revenue growth rate to third-party and other market data where available, analyst and industry reports, and post year end order backlogs, as well as comparing against the CGUs long-term average growth rate.

Key observations

Based on the audit procedures performed we concur with management that an impairment is not required in the year ended 31 December 2017.

Capitalisation of development costs

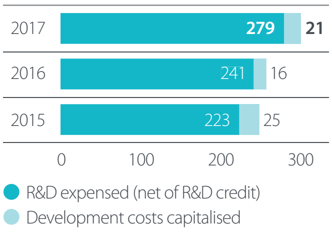
Key audit matter description

Research and development ("R&D") activity is an important part of the Group's business model to create value in the business, as detailed in the Strategic report on pages 28–29. The total R&D expenditure in 2017 was $307.0 million, of which $278.8 million was expensed (net of a $7.2 million R&D credit) and $21.0 million was capitalised.

In line with IAS 38 *Intangible Assets*, and as detailed in note 2, development expenditure is expensed until it can be demonstrated a new product is technically feasible, commercially viable and management intends to complete the development.

The point of commencement of capitalisation of such costs is an area of management judgement and there is a risk that costs are expensed, which should have been capitalised and vice versa. We note that this would be a method by which the profit for the year could be fraudulently misstated.

R&D costs capitalised and expensed



How the scope of our audit responded to the key audit matter

We assessed the D&I of controls in relation to the R&D process, in particular the tracking of the stage of completion of projects and the determination of the requirement to capitalise.

We focused our substantive testing on significant projects where there were indicators of potential manipulation. Where indicators were identified we challenged management regarding the reason for such variances, and we held inquiries with individuals in both finance and also the project management teams.

Evidence was obtained for all projects which commenced capitalisation during 2017 to support that the timing of the commencement of capitalisation was in accordance with the requirements of IAS 38.

A review for contradictory evidence was also performed in order to identify indicators that the stage of completion of a project differed from that reported. This included a review for inventory build-up or revenue in the period.

We also reviewed a sample of expensed project costs to determine if there was any indication that any of these should have been capitalised.

Key observations

Based on the audit procedures performed we did not identify any material misstatement or issues.

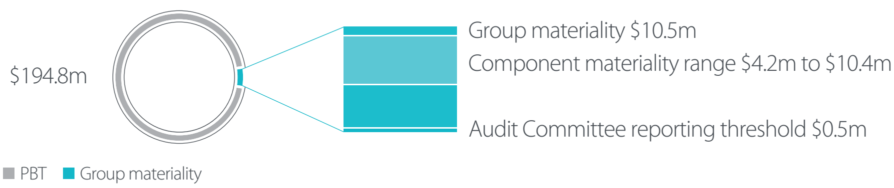
Revenue growth assumptions used in the valuation of customer relationship intangible assets acquired in the acquisition of Silego Technology, Inc ("Silego")	
Key audit matter description	As detailed on page 5 of the Strategic report, Dialog completed the acquisition of Silego in 2017 with the objective to broaden their product portfolio and positioning with customers. In line with the requirements of IFRS 3 *Business Combinations*, and as detailed in note 3 to the consolidated financial statements, the Company allocated the purchase consideration of $321.1 million based on the fair value of identified assets and liabilities acquired. There were two material intangible assets identified, namely customer relationships ($91.4 million) and developed technology ($26.5 million). The determination of fair value of these intangible assets requires significant management judgement. Having completed a sensitivity analysis of the key assumptions we identified the significant risk to be in relation to the customer relationship intangible asset, and specifically the expected revenue growth in the initial years post acquisition, the percentage of revenue growth achieved from existing customers, and the customer attrition rate.
How the scope of our audit responded to the key audit matter	We assessed the D&I of controls in relation to the acquisition process, in particular controls with regard to the inputs to the valuation model provided to management's expert and the output review controls. We have obtained the valuation performed by management's expert and, with the support of our own valuation experts, checked the valuation models for mechanical accuracy and appropriateness of valuation methodology applied. We also challenged the key input factors including the customer attrition rate and revenue growth assumptions. Our procedures included: → Comparing Silego's past revenue growth rate against revenue growth anticipated in 2018 and 2019 and assessed historical forecasting accuracy; → Comparing the growth assumed in the valuations and the source of revenue to the Board-approved deal valuation and other internal forecasts; → Enquiring of management and their expert to understand and challenge the revenue growth profile, the expected growth from existing customers and anticipated customer attrition rate; and → Considering any contradictory evidence available to challenge the valuation assumptions applied.
Key observations	Based on the audit procedures performed we did not identify any material misstatement or issues.

Our application of 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:

Group materiality	We determined materiality for the Group to be $10.5 million (2016: $8.6 million). The materiality for the audit of the parent company based on balance sheet measures would be in excess of Group materiality, therefore we capped the materiality at $10.4 million.
Basis for determining materiality	Our materiality represents 5.4% of pre-tax profit of $194.8 million. In 2016 our materiality was based on 5% of pre-tax profit of $305.2 million, adjusted to exclude the termination fee received from Atmel of $137.7 million.
Rationale for the benchmark applied	Our base for determining materiality is in line with prior year other than the one-off adjustment as detailed above. 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.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $525,000 (2016: $432,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report

to the members of Dialog Semiconductor Plc continued

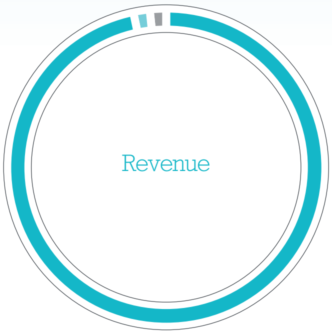
An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including an understanding of geographical positioning of accounting processing, management decision-making and risk of material misstatement at the Group level.

The Group is present in 16 countries across Europe, North America and Asia; however the actual transactional accounting processing as well as the consolidation is performed by the Group's shared service centre in Germany, which coordinates closely with the UK head office finance team. In addition, 90% of group revenue is generated through its German component.

Based on this assessment, we focused on the component located in Germany as well as the two located in the UK and one in the US, where we performed full scope audits, covering 98% of revenue, 94% of PBT and 96% of net assets.

For the other components, which included Silego, we performed specific audit procedures on defined balances and transactions, which increased our coverage as detailed below:



Full audit scope	98%
Specified audit procedures	1%
Review at Group level	1%

Full audit scope	94%
Specified audit procedures	6%
Review at Group level	0%

Full audit scope	96%
Specified audit procedures	4%
Review at Group level	0%

■ Full audit scope ■ Specified audit procedures ■ Review at Group level

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.

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 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.

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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the 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 Company's members those matters we are required to state to them 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

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 of 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.

Matters on which we are required to report by exception

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.

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.

Other matters

Auditor tenure
Following the recommendation of the Audit Committee, we were appointed by Dialog Semiconductor Plc on 25 January 2016 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ended 31 December 2015 to 31 December 2017.

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).

Alexander Butterworth ACA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, UK
28 February 2018

Consolidated statement of income

Year ended 31 December

	Note	**2017 US$000**	2016 US$000	2015 US$000
Revenue	5, 31	**1,352,841**	1,197,611	1,355,312
Cost of sales		**(732,188)**	(650,896)	(730,508)
Gross profit		**620,653**	546,715	624,804
Selling and marketing expenses		**(70,412)**	(62,331)	(62,157)
General and administrative expenses		**(74,850)**	(70,940)	(80,878)
Research and development expenses	31	**(278,796)**	(241,345)	(223,182)
Other operating (expense)/income	5	**(9,578)**	137,708	1,159
Operating profit	5, 31	**187,017**	309,807	259,746
Interest income	8	**5,995**	3,665	1,215
Interest expense	8	**(1,302)**	(3,447)	(6,411)
Other finance income/(expense)	8	**3,093**	(4,819)	289
Profit before income taxes		**194,803**	305,206	254,839
Income tax expense	9	**(25,369)**	(47,090)	(77,580)
Net income		**169,434**	258,116	177,259
Attributable to:				
– Shareholders in the Company		**173,916**	260,940	178,766
– Non-controlling interests	26	**(4,482)**	(2,824)	(1,507)
Net income		**169,434**	258,116	177,259

Earnings per share (US$)	10			
Basic		**2.34**	3.43	2.42
Diluted		**2.21**	3.25	2.29
Weighted average number of shares (in thousands)	10			
Basic		**74,472**	76,047	73,763
Diluted		**78,611**	80,398	79,660

Consolidated statement of comprehensive income

Year ended 31 December

	2017 US$000	2016 US$000	2015 US$000
Net income	**169,434**	258,116	177,259
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods			
Currency translation differences on foreign operations:			
– Gain/(loss) recognised in the year	**1,658**	227	(1,884)
– Gain transferred to profit or loss on deconsolidation of Dyna Image	**(1,144)**	–	–
Income tax relating to currency translation differences on foreign operations	**180**	(47)	(10)
Fair value gain on available-for-sale investments	**5,971**	2,866	–
Income tax relating to available-for-sale investments	**(1,015)**	–	–
Cash flow hedges:			
– Fair value gain/(loss) recognised on effective hedges in the year	**16,433**	(13,264)	(18,960)
– Fair value (gain)/loss transferred to profit or loss	**(441)**	8,382	31,980
Income tax relating to cash flow hedges	**(3,149)**	765	(3,694)
Other comprehensive income/(loss) for the year	**18,493**	(1,071)	7,432
Total comprehensive income for the year	**187,927**	257,045	184,691
Attributable to:			
– Shareholders in the Company	**192,416**	259,769	186,619
– Non-controlling interests	**(4,489)**	(2,724)	(1,928)
Total comprehensive income for the year	**187,927**	257,045	184,691

Consolidated balance sheet

As at 31 December

	Note	2017 US$000	2016 US$000
Assets			
Cash and cash equivalents	11	**479,295**	697,167
Trade and other receivables	12	**78,186**	80,773
Other current financial assets	18	**6,649**	–
Inventories	13	**168,947**	105,303
Income tax receivables		**12,739**	35,878
Other current assets	19	**14,656**	15,211
Total current assets		**760,472**	934,332
Goodwill	14	**439,508**	251,208
Other intangible assets	15	**235,637**	125,619
Property, plant and equipment	16	**83,870**	69,668
Investment in associate	17	**1,100**	–
Other investments	17	**46,155**	21,078
Other non-current financial assets	18	**2,090**	1,254
Other non-current assets	19	**503**	–
Deferred tax assets	9	**7,451**	27,379
Total non-current assets		**816,314**	496,206
Total assets		**1,576,786**	1,430,538
Liabilities and equity			
Trade and other payables	20	**107,195**	89,645
Other current financial liabilities	21	**16,041**	77,978
Provisions	22	**3,474**	1,477
Income taxes payable		**13,356**	528
Other current liabilities	23	**59,619**	54,444
Total current liabilities		**199,685**	224,072
Non-current financial liabilities	21	**17,378**	1,525
Provisions	22	**3,725**	3,370
Deferred tax liabilities	9	**4,017**	1,970
Other non-current liabilities	23	**9,560**	4,695
Total non-current liabilities		**34,680**	11,560
Ordinary shares		**14,204**	14,402
Share premium account		**403,660**	403,687
Retained earnings		**915,482**	862,914
Other reserves		**9,977**	(70,566)
Dialog shares held by employee benefit trusts		**(902)**	(20,608)
Equity attributable to shareholders in the Company		**1,342,421**	1,189,829
Non-controlling interests	26	**–**	5,077
Total equity	24	**1,342,421**	1,194,906
Total liabilities and equity		**1,576,786**	1,430,538

These financial statements were approved by the Board of Directors on 28 February 2018 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Consolidated statement of cash flows

Year ended 31 December

	Note	**2017 US$000**	2016* US$000	2015* US$000
Cash flows from operating activities				
Net income		**169,434**	258,116	177,259
Non-cash items within net income:				
– Depreciation of property, plant and equipment		**30,807**	27,219	24,010
– Amortisation of intangible assets		**41,969**	35,954	31,120
– Impairment of non-current assets		**4,327**	–	–
– Addition to inventory reserve, net		**1,288**	4,375	9,047
– Share-based compensation expense		**35,320**	28,167	19,215
– Loss on deconsolidation of Dyna Image	4	**5,597**	–	–
– Other non-cash items		**(7,904)**	2,118	1,751
Interest (income)/expense, net	8	**(4,693)**	(218)	5,196
Income tax expense	9	**25,369**	47,090	77,580
Cash generated from operations before changes in working capital		**301,514**	402,821	345,178
Changes in working capital:				
– Decrease/(increase) in trade and other receivables		**11,117**	(8,105)	29,737
– (Increase)/decrease in inventories		**(54,377)**	21,609	(42,624)
– Decrease/(increase) in prepaid expenses		**1,930**	(301)	(354)
– Increase/(decrease) in trade and other payables		**7,819**	(44,206)	34,448
– Increase in provisions		**2,136**	260	122
– Change in other assets and liabilities		**473**	13,601	(3,975)
Cash generated from operations		**270,612**	385,679	362,532
Interest paid		**(425)**	(3,434)	(3,602)
Interest received		**6,221**	3,314	1,107
Income taxes received/(paid)		**8,314**	(136,799)	(42,374)
Cash flow from operating activities		**284,722**	248,760	317,663
Cash flows from investing activities				
Purchase of property, plant and equipment		**(47,938)**	(25,553)	(32,757)
Purchase of intangible assets		**(6,196)**	(8,177)	(8,359)
Purchase of businesses, net of acquired cash	3	**(267,940)**	(647)	(2,636)
Cash held by Dyna Image on deconsolidation	4	**(420)**	–	–
Payments for capitalised development costs		**(20,988)**	(15,802)	(24,778)
(Purchase)/sale of other investments, net	17	**(13,738)**	(10,000)	68
(Increase)/decrease in other long-term assets		**(488)**	227	278
Cash flow used for investing activities		**(357,708)**	(59,952)	(68,184)
Cash flows from financing activities				
Purchase of own shares into treasury	25	**(125,035)**	(61,472)	–
Currency hedges on share buyback obligation		**1,227**	(1,186)	–
Capital element of finance lease and hire purchase payments		**(4,283)**	(3,834)	(3,517)
Purchase of shares by employee benefit trusts		**(24,301)**	(3,127)	(14,032)
Sale of shares by employee benefit trusts		**7,246**	11,083	11,589
Issue of shares by a subsidiary to non-controlling interests		**1,107**	–	–
Facility arrangement costs		**(988)**	–	–
Share issue costs		**(28)**	–	–
Cash flow used for financing activities		**(145,055)**	(58,536)	(5,960)
Net cash (outflow)/inflow during the period		**(218,041)**	130,272	243,519
Cash and cash equivalents at beginning of period		**697,167**	566,809	324,280
Currency translation differences		**169**	86	(990)
Cash and cash equivalents at end of period	11	**479,295**	697,167	566,809

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

An analysis of changes in liabilities arising from financing activities is presented in note 21.

Consolidated statement of changes in equity

Year ended 31 December

	Ordinary shares US$000	Share premium account US$000	Retained earnings US$000	Other reserves (note 24) US$000	Dialog shares held by employee benefit trusts US$000	Equity attributable to shareholders in the Company US$000	Non-controlling interests US$000	Total US$000
As at 1 January 2015	13,353	208,105	396,483	20,803	(15,068)	623,676	–	623,676
Net income	–	–	178,766	–	–	178,766	(1,507)	177,259
Other comprehensive income/(loss)	–	–	–	7,853	–	7,853	(421)	7,432
Total comprehensive income/(loss)	–	–	178,766	7,853	–	186,619	(1,928)	184,691
Other changes in equity:								
– Conversion of Convertible Bonds								
Issue of shares	1,049	182,089	–	–	–	183,138	–	183,138
Transfer of equity component	–	13,493	23,086	(36,579)	–	–	–	–
– Non-controlling interests on acquisition of Dyna Image	–	–	–	–	–	–	9,729	9,729
– Purchase of shares by employee benefit trusts	–	–	–	–	(14,032)	(14,032)	–	(14,032)
– Sale of shares by employee benefit trusts	–	–	7,119	–	4,470	11,589	–	11,589
– Share-based compensation, net of tax	–	–	26,094	–	–	26,094	–	26,094
As at 31 December 2015	14,402	403,687	631,548	(7,923)	(24,630)	1,017,084	7,801	1,024,885
Net income	–	–	260,940	–	–	260,940	(2,824)	258,116
Other comprehensive (loss)/income	–	–	–	(1,171)	–	(1,171)	100	(1,071)
Total comprehensive income/(loss)	–	–	260,940	(1,171)	–	259,769	(2,724)	257,045
Other changes in equity:								
– Purchase of own shares into treasury	–	–	(1,643)	(61,472)	–	(63,115)	–	(63,115)
– Share buyback obligation	–	–	(63,077)	–	–	(63,077)	–	(63,077)
– Purchase of shares by employee benefit trusts	–	–	–	–	(3,127)	(3,127)	–	(3,127)
– Sale of shares by employee benefit trusts	–	–	3,934	–	7,149	11,083	–	11,083
– Share-based compensation, net of tax	–	–	31,212	–	–	31,212	–	31,212
As at 31 December 2016	**14,402**	**403,687**	**862,914**	**(70,566)**	**(20,608)**	**1,189,829**	**5,077**	**1,194,906**
Net income	**–**	**–**	**173,916**	**–**	**–**	**173,916**	**(4,482)**	**169,434**
Other comprehensive income/(loss)	**–**	**–**	**–**	**18,500**	**–**	**18,500**	**(7)**	**18,493**
Total comprehensive income/(loss)	**–**	**–**	**173,916**	**18,500**	**–**	**192,416**	**(4,489)**	**187,927**
Other changes in equity:								
– Purchase of own shares into treasury	**–**	**–**	**3,024**	**(125,050)**	**–**	**(122,026)**	**–**	**(122,026)**
– Share buyback obligation	**–**	**–**	**62,584**	**–**	**–**	**62,584**	**–**	**62,584**
– Cancellation of treasury shares	**(571)**	**–**	**(186,522)**	**187,093**	**–**	**–**	**–**	**–**
– Shares issued by Dyna Image	**–**	**–**	**361**	**–**	**–**	**361**	**746**	**1,107**
– Deconsolidation of Dyna Image	**–**	**–**	**–**	**–**	**–**	**–**	**(1,334)**	**(1,334)**
– Shares issued to employee benefit trust	**373**	**(27)**	**–**	**–**	**(373)**	**(27)**	**–**	**(27)**
– Purchase of shares by employee benefit trusts	**–**	**–**	**–**	**–**	**(24,301)**	**(24,301)**	**–**	**(24,301)**
– Sale of shares by employee benefit trusts	**–**	**–**	**(37,134)**	**–**	**44,380**	**7,246**	**–**	**7,246**
– Share-based compensation, net of tax	**–**	**–**	**36,339**	**–**	**–**	**36,339**	**–**	**36,339**
As at 31 December 2017	**14,204**	**403,660**	**915,482**	**9,977**	**(902)**	**1,342,421**	**–**	**1,342,421**

Notes to the consolidated financial statements

For the year ended 31 December 2017

1. Background

Description of business

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

Dialog creates and markets highly-integrated, mixed-signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid state lighting and automotive applications. Dialog has four operating segments: Mobile Systems; Connectivity; Automotive & Industrial; and Advanced Mixed Signal (formerly Power Conversion). Segment information is presented in note 31.

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 98 to 149 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 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 and derivative financial instruments are stated at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Information about assets and liabilities that are measured at fair value is presented in note 29.

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 otherwise stated.

Approval of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 28 February 2018.

Company financial statements

Separate financial statements for the Company are set out on pages 150 to 155.

Accounting standards adopted during the year

During 2017, we adopted *Disclosure Initiatives (Amendments to IAS 7)*, which requires additional disclosures to enable users of financial statements to evaluate changes in liabilities arising from financing activities. We present the required disclosures in note 21.

Also during 2017, we adopted *Annual Improvements to IFRS 2014-2016 Cycle*, which clarified the scope of the disclosure requirements of *IFRS 12 Disclosure of Interests in Other Entities.*

Accounting standards issued but not adopted as at 31 December 2017

We outline below those accounting standards that have been issued by the IASB and are relevant to Dialog but that we had not adopted as at 31 December 2017.

Revenue Recognition
IFRS 15 *Revenue from Contracts with Customers* provides a single, principles-based five-step model to be applied to all contracts with customers. The five steps in the model are as follows: identify the contract with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

We have completed our assessment of the effects of IFRS 15 and have concluded that the recognition and measurement of the majority of the Group's revenue will be unaffected. Under our existing revenue recognition policy, however, some sales to distributors and related cost of sales are not recognised until the onward sale of the products by the distributor to end customers. Under IFRS 15, we will be required to recognise revenue on all sales to distributors when the products are physically transferred to the distributors, net of allowances for estimated rebates and returns.

Notes to the consolidated financial statements continued

1. Background continued

We will apply IFRS 15 using the modified retrospective approach, whereby prior periods will not be restated but a cumulative effect adjustment will be made to the opening balance of retained earnings on 1 January 2018. As at 31 December 2017, we recognised deferred revenue of US$8,578 and related cost of sales of US$2,738 in relation to products that had been shipped and invoiced to distributors but not yet sold on to end customers. We estimate that the cumulative effect adjustment will be a credit to retained earnings of US$1,541, which may be analysed as follows:

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

As we progress through 2018, we will present in our consolidated financial statements an analysis of the effect of this change of accounting policy on our quarterly and year to date results.

Leases

In January 2016, the IASB issued IFRS 16 *Leases,* that will change the way in which lessees will recognise, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases.* IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

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

Financial instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Classification and Measurement*. IFRS 9 introduces a new model for classification and measurement of financial assets and financial liabilities, a single, forward-looking "expected loss" model for measuring impairment of financial assets (including trade receivables) and a new approach to hedge accounting that is more closely aligned with an entity's risk management activities. We will adopt IFRS 9 for annual periods beginning on or after 1 January 2018.

We have completed our assessment of the effects of IFRS 9 and have concluded the following:

→ We do not expect there to be any change in the basis of measurement of the Group's financial assets and liabilities, although the fair value gains and losses in relation to the shares that we hold in Energous Corporation that are recognised in other comprehensive income will no longer be reclassified to profit or loss in the event that we sell some or all of those shares.

→ Given the nature of our customers and our historically low credit losses, we do not expect that the adoption of the "expected loss" model will cause an appreciable change in the amount of the allowances for doubtful debts that we recognise in relation to our trade receivables.

→ We expect to be able to continue to apply hedge accounting to our foreign currency hedging activities under the new hedge accounting rules and do not expect there to be an appreciable change in hedge effectiveness.

In summary, we do not expect the adoption of IFRS 9 to have a significant effect on the Group's results or financial position.

Other pronouncements

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
In June 2016, the IASB published amendments to IFRS 2 *Share-based Payments*, which, among other things, clarified the classification of share-based payment transactions with net settlement features for withholding tax obligations. The amendments are effective for annual periods beginning on or after 1 January 2018. We do not expect the amendments to have any effect on the Group's 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. IFRIC 23 specifically considers whether tax treatments should be considered collectively, assumptions with regard to the 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.

Subject to its endorsement for use in the European Union, IFRIC 23 is effective for annual periods beginning on or after 1 January 2019. We already account for income taxes on a basis consistent with IFRIC 23 and do not expect it to affect the Group's results or financial position.

2. Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the results, cash flows and assets and liabilities of the Company and its subsidiaries and sponsored employee benefit trusts.

A subsidiary is an entity that is controlled, either directly or indirectly, by the Company.

Control exists when the Company is 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 relevant activities of the entity. Generally, such power exists where the Company holds a majority of the voting rights of an entity. When the Company holds less than a majority of the voting rights of an entity, it considers all relevant facts and circumstances in assessing whether or not its voting rights are sufficient to give it power to direct the activities that significantly affect its returns from the entity, including: the size of the Company's holding of voting rights relative to the size and dispersion of the holdings of other vote holders; potential voting rights held by the Company, other vote holders or other parties; and rights arising from other contractual arrangements.

Details of the Company's subsidiaries as at 31 December 2017 are set out on page 167.

Consolidation of a subsidiary commences when the Company obtains control over the subsidiary and ceases at such time as control over the subsidiary is lost. Transactions and balances between members of the Group, and any unrealised profits or losses on such transactions, are eliminated on consolidation.

Non-controlling interests represent the equity in a subsidiary that is not attributable, directly or indirectly, to the Company. Where the equity in a subsidiary is not wholly-owned by the Company, the subsidiary's profit or loss and each component of its other comprehensive income are attributed to the Company and to the non-controlling interests in proportion to their ownership interests.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity.

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 shortfall, negative goodwill, is recognised immediately as a gain in profit or loss.

Consideration transferred 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 associates

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. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. 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.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

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.

The principal currency exchange rates used on consolidation were as follows:

	Exchange rate as at			Average exchange rate		
Currency	**31 December 2017 US$1 =**	31 December 2016 US$1 =	31 December 2015 US$1 =	**2017 US$1 =**	2016 US$1 =	2015 US$1 =
Pound sterling	**0.74**	0.81	0.67	**0.78**	0.74	0.65
Euro	**0.83**	0.95	0.92	**0.89**	0.90	0.90

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

Dialog generates revenue principally through the sale of its products. Relatively small amounts of revenue are generated from royalties for the use of Intellectual Property assets and from research and development contracts.

Sales of products are mostly made direct to end customers but there are some sales to distributors. Revenue from the sale of products is recognised when the significant risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably and it is probable that payment will be received. Generally, these conditions are satisfied when products are physically transferred to the customer but revenue from some sales to distributors and related cost of sales are not recognised until the onward sale of the products by the distributor to end customers.

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

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

Revenue from research and development contracts is recognised using the percentage of completion method with the stage of completion determined as the proportion that costs incurred for work performed to date bear to the estimated total contract costs. If it is probable that the contract will be loss-making, the expected loss is recognised immediately as an expense in profit or loss.

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 to be 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. A grant 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.

Goodwill

Goodwill acquired in a business combination is carried at cost as established at the acquisition date, less impairment losses, if any.

Internally generated goodwill is not recognised as an asset.

2. Significant accounting policies continued

Other intangible assets

Other intangible assets comprise identifiable intangibles acquired in business combinations (principally customer-related assets and developed technology), licences, computer software, patents and product development costs.

Other intangible assets held by the Group have finite useful lives and are therefore carried at cost less accumulated amortisation and impairment losses, if any. Cost comprises the purchase price of the asset (including non-refundable purchase taxes) and any costs directly attributable to preparing the asset for its intended use, or, in the case of an asset acquired in a business combination, is its fair value at the acquisition date.

Other intangible assets are amortised on a straight-line basis so as to charge their cost to profit or loss over their estimated useful lives as follows:

	Useful life
Customer-related assets	1.5 to 15 years
Software, licences and other	3 to 10 years
Patents	10 years
Product development assets	1 to 10 years

Patents are typically granted for a period of 20 years but they are amortised over the period during which the Group expects to benefit from them, which is typically ten years.

Estimated useful lives are regularly reviewed and the effect of any change in estimate is accounted for on a prospective basis.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price of the asset (including non-refundable purchase taxes) and any costs directly attributable to bringing the asset to the location and condition necessary to enable its intended use, or, in the case of an asset acquired in a business combination, is its fair value at the acquisition date. Leasehold improvements include the estimated cost of any obligation to restore the leased property to its original condition at the end of the lease.

Costs of replacing a significant part of an asset are included in the cost of the asset but routine repairs and maintenance costs are recognised in profit or loss when they are incurred.

Items of property, plant and equipment are depreciated on a straight-line basis so as to charge their cost, less their estimated residual value, if any, to profit or loss over their estimated useful lives as follows:

	Useful life
Test equipment	3 to 7 years
Leasehold improvements	Shorter of useful life or lease term
Office and other equipment	1.5 to 5 years
Office furniture and fittings	5 to 15 years

Estimated residual values and useful lives are regularly reviewed and the effect of any change in estimate is accounted for on a prospective basis.

Assets that are under construction and not ready for their intended use are not depreciated.

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 obtainable 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.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Financial instruments

(a) Trade and other receivables
Trade receivables represent the invoiced amount of sales of goods to customers for which payment has not been received, less an allowance for doubtful accounts where there is objective evidence that we may not be able to collect the amounts due. Such evidence may include the period outstanding, the payment history and financial condition of the customer, general economic conditions and other information. When a trade receivable is determined to be uncollectable it is written off, firstly against any allowance made and then directly to profit or loss. Subsequent recoveries are credited to profit or loss.

Trade receivables sold under receivables financing facilities are derecognised from the balance sheet because the financial institutions concerned assume the credit risk associated with them. Retentions held by the financial institutions are recognised as other receivables.

Long-term receivables are discounted where the effect is material.

(b) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, cash available on demand from receivables' financing facilities and cash deposits with an original maturity of three months or less.

Interest income on cash and cash equivalents is accrued on a time basis.

(c) Available-for-sale investments
Available-for-sale investments are initially measured at fair value plus transaction costs, if any. Such investments are subsequently measured at fair value and gains and losses are recognised in other comprehensive income, except for impairment losses arising from the significant or prolonged decline in fair value which are recognised in profit or loss.

Equity investments whose fair value cannot be reliably measured are measured at cost less any identified impairment losses.

(d) Trade and other payables
Trade payables represent the amount of invoices received from suppliers for purchases of goods and services for which payment has not been made. Long-term payables are discounted where the effect is material.

(e) Bank and other loans
Bank and other loans are initially measured at fair value plus transaction costs, if any. Such loans are subsequently measured at amortised cost using the effective interest method.

(f) Derivative financial instruments
We use derivative financial instruments to reduce the Group's exposure to currency exchange rate movements and hold equity options and warrants in relation to certain of its strategic investments. We do not hold or issue derivatives for speculative purposes.

All derivative financial instruments are recognised as assets and liabilities measured at fair value. Unless a derivative is in a designated and effective cash flow hedging relationship, 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.

(g) Compound financial instruments
At the time of issue, the proceeds from compound financial instruments are split into a liability component and an equity component. The liability component is subsequently measured at amortised cost using the effective interest method.

(h) Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount presented in the balance sheet where there is a currently enforceable legal right to offset the recognised amounts and management intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Inventories

Inventories comprise raw materials, work in progress and finished goods.

Inventories are stated at the lower of cost and net realisable value, with due allowance for any excess, defective or obsolete items.

Cost is determined using the first-in, first-out ("FIFO") method. Cost of finished goods and work in progress includes materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price, less estimated costs of completion and estimated selling, marketing and distribution costs.

Leases

Leases that confer rights and obligations similar to those that attach to owned assets are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are 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 is recognised. Subsequently, the assets are depreciated over the shorter of the expected useful life of the asset or the term of the lease. At inception of the lease, the lease payments are 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 is recognised as an expense in profit or loss while the capital element is applied to reduce the outstanding liability.

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

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 in other comprehensive income 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 profit.

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 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 for assessing tax, administrative guidance given by the tax authorities and court 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 onerous property leases.

Provisions are discounted where the effect is material.

Defined contribution pension plans

Contributions to defined contribution and state-funded pension plans are recognised in profit or loss in the period to which the contributions relate.

Share-based compensation

As described in note 28, 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. 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.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

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 the cancellation of an option or an award by the Company or by the participating employee, 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 awards.

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.

Business combinations

When the Company makes an investment in a business, management must make judgements as to whether the Company has obtained control over the business and the investment should therefore be accounted for as a business combination.

Accounting for business combinations requires management to make judgements with regard to the purchase price allocation, in particular with regard to the identification and measurement of intangible assets. Management is also required to make judgements in applying appropriate useful economic lives to acquired intangible assets.

When the amount of goodwill acquired in the business combination has been determined, management must exercise judgement to allocate the goodwill for the purpose of future impairment testing to those CGUs or groups of CGUs that it expects will benefit from the synergies of the business combination.

Deconsolidation of Dyna Image

Dialog has a 48.5% ownership interest in Dyna Image with equivalent shareholder voting rights and has a call option over the shares in Dyna Image that it does not already own.

Dyna Image was previously accounted for as a subsidiary even though the Company has neither a majority ownership interest nor a majority of the shareholder voting rights because management considered that the terms of the call option are such that it gave the Company the power to direct the activities of Dyna Image that will significantly affect its returns.

In December 2017, following a period of sustained operating losses, 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, management reviewed the call option over the non-controlling interests in Dyna Image and concluded that there now exists an economic barrier to our exercising the option that is so great that the option no longer gives us power over the relevant activities of Dyna Image. Management considered that this loss of control occurred during December 2017 and therefore we deconsolidated Dyna Image with effect from 31 December 2017.

Revenue recognition

Application of the Group's revenue recognition policy requires management to make judgements as to when the significant risks and rewards of ownership of products have been transferred to the customer, whether the amount of revenue can be measured reliably and whether it is probable that payment will be received. Particular judgement is required as to when the significant risks and rewards of ownership are transferred to distributors who may benefit from sales price allowances and return rights.

2. Significant accounting policies continued

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.

Income taxes
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 law 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.

Recoverability of deferred tax assets
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. Management is required to exercise its judgement in assessing the recoverability of deferred tax assets, in particular regarding the availability of future taxable profits in the same jurisdictions against which deferred tax assets relating to losses may be utilised.

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.

Impairment of tangible and intangible assets
Impairment tests require management to determine the value in use or fair value less costs to sell of an asset or of the CGU or group of CGUs to which the asset belongs.

Goodwill impairment tests conducted during 2017 were based on value in use. Expected future cash flows in the first three years were forecast based on the Group's medium range financial plan. Cash flows beyond the third year were estimated by applying a perpetuity growth factor to the forecast cash flow in the third year. 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 assets concerned.

Impairment losses may be recognised in the next financial year if actual cash flows in 2017 differ significantly from management's estimates and/or there is a significant reduction in forecast cash flows beyond 2017, or if market conditions were to cause a significant increase in the applicable discount rates.

As at 31 December 2017, the carrying amount of goodwill was US$439,508 (2016: US$251,208).

Other intangible assets with a carrying amount of US$235,637 as at 31 December 2017 (2016: US$125,619) and property, plant and equipment with a carrying amount of US$83,870 as at 31 December 2017 (2016: US$69,668) would be subject to impairment tests if there were any indicators that they had become impaired during the next financial year.

Contingent consideration
Contingent consideration of up to US$30,400 may be payable in relation to the acquisition of Silego Technology Inc. in two instalments: the first instalment of up to US$10,000 will be payable in March 2018 based on Silego's revenue for 2017 and the second instalment of up to US$20,400 will be payable in March 2019 based on Silego's revenue for 2018.

Silego's actual revenue for 2017 was such that the first instalment has accrued in full. As at 31 December 2017, management estimated that the fair value of the second instalment attributable to the shares and vested options acquired was US$14,872 (net of discounting of US$2,282). If Silego's actual revenue for 2018 differs significantly from management's estimate, a material fair value gain or loss may be recognised in profit or loss in 2018.

Notes to the consolidated financial statements continued

3. Business combinations

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 Technology Inc. ("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 may be 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$290,508 in cash, including US$22,527 in respect of Silego's estimated cash, debt and working capital levels on completion. We expect to pay a purchase price adjustment of US$692 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 is available to settle any valid claims that we may make in relation to the representations, warranties and indemnities that have been 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$11,545, of which US$6,655 was attributable to employee service rendered before the acquisition date and therefore represents deferred consideration. We are recognising the balance of US$4,890, 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 is payable in two instalments: the first instalment of up to US$10,000 will be payable in March 2018 based on Silego's revenue for 2017 and the second instalment of up to US$20,400 will be payable in March 2019 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).

Silego's actual revenue for 2017 confirmed that the first instalment has accrued in full and did not cause us to change our estimate of the second instalment. As at 31 December 2017, we estimated that the fair value of the contingent consideration attributable to the shares and vested options acquired was US$23,709 (net of discounting of US$2,538).

3. Business combinations continued

Assets acquired and liabilities assumed

We allocated the purchase consideration to the identifiable assets and liabilities of Silego and goodwill as follows:

	US$000
Assets acquired	
Cash and cash equivalents	32,439
Trade and other receivables	9,957
Inventories	13,866
Intangible assets	122,156
Property, plant and equipment	1,481
Deferred tax assets	12,907
Other assets	1,484
Total assets acquired	194,290
Liabilities assumed	
Trade and other payables	15,586
Other current liabilities	5,794
Provisions	157
Deferred tax liabilities	41,484
Other non-current liabilities	906
Total liabilities	63,927
Net identifiable assets acquired	130,363
Goodwill arising on acquisition	190,765
Consideration	321,128

Purchase consideration was satisfied by:	
Cash paid on completion	290,508
Purchase price adjustment	692
Initial consideration	291,200
Deferred consideration	6,655
Contingent consideration	23,273
Consideration	321,128

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.

During 2017, Silego contributed US$11,391 to the Group's revenue and a loss after tax of US$3,575. If Silego had been acquired on 1 January 2017, the Group's revenue would have been US$72,942 higher at US$1,425,783 but it is not practicable to estimate what the Group's profit after tax would have been because Silego did not previously prepare financial information in accordance with IFRS.

We incurred transaction costs of US$4,439 in relation to the acquisition of Silego (included within general and administrative expenses).

During 2017, we incurred integration costs amounting to US$2,305 in relation to Silego, which principally comprised employee severance costs.

Notes to the consolidated financial statements continued

3. Business combinations 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:

	US$000
Assets acquired	
Inventories	234
Intangible assets	5,400
Total identifiable assets acquired	5,634
Goodwill arising on acquisition	3,866
Consideration	9,500

Identifiable intangible assets acquired comprised customer relationships and developed technology.

None of the goodwill is deductible for tax purposes.

During 2017, costs of US$100 relating to the acquisition of this business were included in general and administrative expenses.

Year ended 31 December 2016

Aborted merger with Atmel Corporation

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

Also during 2016, we incurred residual transaction costs of US$3,485 (recognised within general and administrative expenses) and commitment fees of US$1,913 on the borrowing facility that was arranged to finance the transaction prior to the cancellation of the facility in January 2016 (recognised within interest expense).

Dyna Image Corporation

In June 2016, Dialog paid the equivalent of US$647 as deferred consideration in relation to its initial investment in Dyna Image Corporation ("Dyna Image").

Year ended 31 December 2015

Aborted merger with Atmel Corporation

During 2015, we incurred transaction costs of US$17,604 in relation to the proposed acquisition of Atmel (recognised within general and administrative expenses) and commitment fees of US$1,153 on the borrowing facility that was arranged to finance the transaction (recognised within interest expense).

Contingent consideration for the purchase of iWatt Inc.

We acquired 100% of the voting rights in iWatt Inc. in July 2013 for US$306,261 plus up to US$35,000 which was contingent on the achievement of revenue targets in two earn out periods. We initially recognised a provision of US$5,188 in relation to the contingent consideration but we subsequently released the provision because we considered that the revenue targets had not been met.

In April 2014, the former owners of iWatt Inc. commenced litigation against Dialog in the Court of Chancery in Delaware seeking damages for alleged breaches of the purchase agreement as it related to the contingent consideration. During the second quarter of 2015, a settlement agreement was reached pursuant to which Dialog paid US$3,375 to the former owners of iWatt Inc. in full and final settlement of the claim without admission of faults, wrong doing or liability by Dialog. We paid this amount in May 2015 and recognised the corresponding expense within general and administrative expenses.

Acquisition of Dyna Image Corporation

On 4 June 2015, we purchased a 45.7% shareholding in Dyna Image for the equivalent of US$13,601 in cash, of which US$12,921 was paid on completion and US$680 was deferred for 12 months. Prior to the acquisition, Dyna Image was a majority-owned subsidiary of the Lite-On group of companies. We purchased existing shares in Dyna Image from Lite-On and also subscribed for new shares.

Lite-On retained a shareholding in Dyna Image and the remaining shares are owned by the ShunSin Technology group of companies and directors and employees of Dyna Image. When we acquired our initial shareholding, we were granted a call option to acquire the outstanding shares in Dyna Image that we do not already own in one or more tranches at any time during the three years following the closing date. We considered that the call option gave us the power to direct the relevant activities of Dyna Image and therefore accounted for our initial investment as a business combination. At the acquisition date, the fair value of the call option was estimated to be US$992.

Dyna Image specialises in the design and manufacture of optical, inertia and environmental sensors for consumer electronics applications and its sensor technology was expected to be complementary to Dialog's power management, audio and Bluetooth® expertise in smartphone, IoT and smart lighting applications.

3. Business combinations continued

Assets acquired and liabilities assumed

We allocated the purchase consideration to the identifiable assets and liabilities of Dyna Image and goodwill as follows:

	US$000
Assets acquired	
Cash and cash equivalents	10,285
Trade and other receivables	1,836
Inventories	2,212
Other current assets	592
Other intangible assets	5,600
Property, plant and equipment	2,154
Investments	6
Deferred tax assets	859
Total assets acquired	23,544
Liabilities assumed	
Trade and other payables	6,205
Other current liabilities	648
Deferred tax liabilities	1,000
Total liabilities	7,853
Net identifiable assets acquired	15,691
Non-controlling interests	(9,729)
Goodwill arising on acquisition	6,647
Consideration	12,609

Purchase consideration was satisfied by:	
Cash paid on completion	12,921
Deferred consideration	680
Call option over non-controlling interests	(992)
Consideration	12,609

Identifiable intangible assets acquired comprised developed technology. Deferred tax assets recognised mainly represented tax loss carryforwards.

Non-controlling interests comprise Common Stock and Convertible Preferred Shares. We measured the non-controlling interests in the Common Stock at their proportionate share of the net identifiable assets acquired. Since the Convertible Preferred Shares are not entitled to a proportionate share of Dyna Image's net assets in the event of liquidation, the non-controlling interests in the Convertible Preferred Shares were measured at their fair value at the acquisition date.

Goodwill recognised on the acquisition of Dyna Image was allocated to the Mobile Systems, Connectivity and Advanced Mixed Signal (formerly Power Conversion) operating segments. None of the goodwill was deductible for tax purposes.

During 2015, acquisition-related costs of US$86 were included in general and administrative expenses.

Years ended 31 December 2017, 2016 and 2015

Net cash outflow on the purchase of businesses was as follows:

	2017 US$000	2016 US$000	2015 US$000
Initial consideration	**300,008**	–	12,921
Deferred consideration	**371**	647	–
Consideration paid	**300,379**	647	12,921
Cash and cash equivalents acquired	**(32,439)**	–	(10,285)
Cash outflow on purchase of businesses, net of cash acquired	**267,940**	647	2,636

Cash paid on settlement of the contingent consideration due in relation to the acquisition of iWatt was included in cash flows from operating activities.

Notes to the consolidated financial statements continued

4. 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 business combination because we were granted a call option to acquire the shares that we do 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 are 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 now exists an economic barrier to our exercising the option prior to its expiry in June 2018 that is so great that the option no longer gives us power over Dyna Image. We consider that this loss of control occurred during December 2017 and therefore we deconsolidated Dyna Image with effect from 31 December 2017.

We recognised a loss of US$5,597 on the deconsolidation of Dyna Image that was determined as follows:

	US$000
Assets derecognised	
Cash and cash equivalents	420
Trade and other receivables	1,428
Inventories	3,542
Other current assets	426
Goodwill	6,907
Total assets derecognised	**12,723**
Liabilities derecognised	
Trade and other payables	2,958
Other current liabilities	590
Total liabilities derecognised	**3,548**
Net assets derecognised	**9,175**
Currency translation gain transferred from equity	(1,144)
Non-controlling interests	(1,334)
Fair value of remaining interest	(1,100)
Loss on deconsolidation	**5,597**

We included the loss on deconsolidation of Dyna Image within other operating expenses.

5. Operating profit

a) Revenue

Revenue may be analysed as follows:

	2017 US$000	2016 US$000	2015 US$000
Sale of goods	**1,351,815**	1,196,528	1,353,936
Royalties	**1,026**	1,083	1,376
Total	**1,352,841**	1,197,611	1,355,312

b) Operating expenses

Operating profit is stated after charging/(crediting):

	2017 US$000	2016 US$000	2015 US$000
Cost of inventories included in cost of sales	**663,216**	592,527	664,355
Write-down of inventories	**1,288**	4,375	9,047
Research and development costs expensed as incurred	**285,984**	248,434	229,258
Government incentives (deducted from research and development expenses)	**(7,188)**	(7,089)	(6,076)
Depreciation of property, plant and equipment	**30,807**	27,868	24,010
Loss on disposal of fixed assets	**591**	1,569	1,751
Amortisation of intangible assets	**41,969**	35,949	31,120
Operating lease rentals	**10,153**	9,797	9,177
Integration costs	**2,305**	–	176
Acquisition-related costs	**4,539**	–	86
Aborted merger costs (note 3)	**–**	3,485	17,604
Settlement of iWatt contingent consideration (note 3)	**–**	–	3,375

Amortisation of intangible assets was allocated as follows:

	2017 US$000	2016 US$000	2015 US$000
Cost of sales	**22,973**	19,363	13,734
Selling and marketing expenses	**9,126**	7,779	7,847
General and administrative expenses	**2,170**	2,018	1,500
Research and development expenses	**7,700**	6,789	8,039
Total	**41,969**	35,949	31,120

c) Other operating (expense)/income

Other operating (expense)/income comprised:

	2017 US$000	2016 US$000	2015 US$000
Income from research and development contracts	**346**	408	1,159
Impairment of non-current assets held by Dyna Image (notes 15 & 16)	**(4,327)**	–	–
Loss on deconsolidation of Dyna Image (note 4)	**(5,597)**	–	–
Atmel termination fee (note 3)	**–**	137,300	–
Total	**(9,578)**	137,708	1,159

Notes to the consolidated financial statements continued

6. Employee information

Employment costs were as follows:

	2017 US$000	2016 US$000	2015 US$000
Wages and salaries	**200,222**	167,090	174,359
Social security costs	**26,457**	24,932	21,336
Share-based compensation	**36,728**	28,167	19,215
Pension costs from defined contribution plans	**11,058**	10,154	9,505
Total	**274,465**	230,343	224,415

Pension costs from defined contribution plans include costs for the state funded pension plan in Germany of US$3,599 (2016: US$3,400; 2015: US$3,104).

Compensation of key management personnel is set out in note 33.

The average number of persons employed by the Group (including the Executive Director) during the year, analysed by category, was as follows:

	2017	2016	2015
Research and development	**1,256**	1,130	964
Production	**172**	176	175
Sales and marketing	**239**	235	218
Administration	**185**	167	147
Information technology	**55**	46	42
Total	**1,907**	1,753	1,546

7. Auditor's remuneration

Fees payable to the Company's auditors, Deloitte LLP, were as follows:

	2017 US$000	2016 US$000	2015 US$000
Assurance services			
Audit of the parent company and consolidated financial statements	**560**	280	360
Audit of subsidiaries	**370**	320	390
Other assurance services	**202**	244	1,043
Other services			
Tax advisory services	**–**	–	48
Services related to corporate finance transactions	**478**	–	555
Total	**1,610**	844	2,396

8. Finance income/(expense)

a) Interest income

	2017 US$000	2016 US$000	2015 US$000
Interest on cash deposits	**5,979**	3,657	779
Other interest income	**16**	8	436
Total	**5,995**	3,665	1,215

b) Interest expense

	2017 US$000	2016 US$000	2015 US$000
Interest on receivables financing facilities	**–**	(850)	(815)
Interest on finance leases and hire purchase contracts	**(289)**	(560)	(885)
Facility commitment fees	**(194)**	(1,913)	(1,153)
Amortisation of deferred facility arrangement costs	**(151)**	–	–
Interest on Convertible Bonds	**–**	–	(3,482)
Unwinding of discount on provisions (note 22)	**(60)**	(110)	(39)
Unwinding of discount on contingent consideration (note 3)	**(436)**	–	–
Other interest expense	**(172)**	(14)	(37)
Total	**(1,302)**	(3,447)	(6,411)

During 2017, we incurred arrangement costs of US$988 in relation to the Group's US$150 million revolving credit facility and are amortising those costs over the initial three-year period to maturity of the facility in July 2020.

Facility commitment fees incurred during 2016 and 2015 related to the borrowing facility that was arranged to finance the proposed merger with Atmel prior to the cancellation of the facility in January 2016.

Interest on Convertible Bonds was incurred prior to their conversion into the Company's ordinary shares in April 2015.

c) Other finance income/(expense)

	2017 US$000	2016 US$000	2015 US$000
Currency translation gain/(loss), net	**1,695**	(6,017)	408
Fair value gain on Energous warrants (note 17)	**941**	1,929	–
Amortisation of gain on initial measurement of Energous warrants (note 17)	**776**	–	–
Fair value loss on Dyna call option (note 17)	**(142)**	(731)	(119)
Loss on sale of Arctic Sand shares (note 17)	**(177)**	–	–
Total	**3,093**	(4,819)	289

Notes to the consolidated financial statements continued

9. Income taxes

Income tax recognised in profit or loss

The components of the Group's income tax expense for the year were as follows:

	2017 US$000	2016 US$000	2015 US$000
Current tax			
United Kingdom	**379**	(10,171)	–
Foreign	**(33,884)**	(36,127)	(78,094)
Deferred tax			
United Kingdom	**1,315**	(549)	(10,976)
Foreign	**6,821**	(243)	11,490
Income tax expense	**(25,369)**	(47,090)	(77,580)

	2017 US$000	2016 US$000	2015 US$000
Current tax			
Current income tax charge	**(38,643)**	(46,993)	(77,862)
Adjustments in respect of prior years	**5,138**	695	(232)
Deferred tax	**–**		
Origination and reversal of temporary differences	**(6,353)**	(3,922)	(10,014)
Recognition of previously unrecognised deferred tax assets	**9,655**	–	8,105
Movement in deferred tax liabilities following intra-group reorganisation	**1,977**	808	1,292
Movement in deferred tax balances following US tax rate change	**6,658**	–	–
Adjustments in respect of prior years	**(3,801)**	2,322	1,131
Income tax expense	**(25,369)**	(47,090)	(77,580)

During 2014, we recognised a non-cash deferred tax credit of US$17,759 resulting from an intra-group reorganisation of certain Intellectual Property that was acquired with iWatt, Inc., which reduced the amount of the related deferred tax liabilities. We recognised further deferred tax credits of US$1,292 in 2015, US$808 in 2016 and US$1,977 in 2017 that related to the ongoing impact of the reorganisation on the deferred tax liabilities.

9. Income taxes continued

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 standard rate of corporation tax in the UK to the Group's profit before income taxes for the reasons shown in the following table:

	2017 US$000	2016 US$000	2015 US$000
Profit before income taxes	**194,803**	305,206	254,839
Income tax expense at UK corporation tax rate of 19.25% (2016: 20.0%; 2015: 20.25%)	**(37,500)**	(61,041)	(51,605)
Effect of different foreign tax rates	**(12,569)**	(15,434)	(18,131)
Non-taxable income:			
– Atmel termination fee	**–**	27,460	–
– Other non-taxable income	**–**	240	–
Non-deductible expenses:			
– Transaction costs	**–**	(697)	(3,798)
– Non-deductible portion of share-based compensation	**(9,396)**	(7,614)	(5,008)
– Other non-deductible expenses	**(2,764)**	(3,068)	(1,591)
Tax benefit from share-based compensation	**3,658**	4,871	2,509
Tax impact of deconsolidation of Dyna Image Corporation	**(1,938)**	–	–
Tax benefit from Intellectual Property and research and development incentives	**6,576**	8,728	4,342
Write-down of previously recognised deferred tax assets	**(543)**	–	–
Benefit from previously unrecognised deferred tax assets	**9,655**	–	8,105
Additional tax losses for which no deferred tax asset is recognised	**(568)**	(1,321)	(2,828)
Movement in deferred tax liabilities following intra-group reorganisation	**1,977**	808	1,292
Differences arising from different functional and tax currencies	**9,576**	(2,976)	(12,089)
Tax benefit from US tax rate change	**6,658**	–	–
Adjustments in respect of prior years	**1,337**	3,020	899
Other items	**472**	(66)	323
Income tax expense	**(25,369)**	(47,090)	(77,580)

The Group's income tax expense for 2017 was US$25,369 (2016: US$47,090; 2015: US$77,580), an effective tax rate for the year of 13.0% (2016: 15.4%; 2015: 30.4%).

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 the US. Our effective tax rate can also be affected by changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructuring 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 Dialog's research and development activities are undertaken in the UK and we are therefore able to benefit from the UK tax regime that provides incentives for innovation.

Our income tax expense for 2017 includes a credit in respect of prior years of US$1,465 resulting from the finalisation of the Bilateral Advance Pricing Agreement and other prior year tax items with tax authorities.

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 reflects a non-cash deferred tax credit of US$6,658 resulting from the remeasurement of US deferred tax balances at the lower tax rate.

During 2017, we also recognised a credit of US$9,655 resulting from the utilisation of previously unrecognised deferred tax assets against taxable currency translation gains and a credit of US$9,576 (2016: expense of US$2,967; 2015: expense of US$12,089) arising from tax on translation differences between functional and tax currencies.

Our low effective tax rate for 2016 reflects the tax treatment of the Atmel termination fee of US$137,300. We obtained tax advice that the termination fee should not be taxable in the UK. We therefore concluded that no tax liability should arise and did not recognise a tax expense in relation to the termination fee.

Notes to the consolidated financial statements continued

9. Income taxes continued

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 restructuring and the resolution of open issues with tax authorities. From 2018, the application to Dialog of the UK tax regime that provides incentives for innovation has changed, resulting in a limit to the benefits available by reference to the location of Dialog's research and development activities. Given the global nature of Dialog's research and development activities, this may also affect the Group's future tax expense.

The Group maintains 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.

International tax reform remains a key focus of attention, including the OECD's Base Erosion & Profit Shifting project, the EU's action plan for fair and efficient corporate taxation and US tax reform. We continually monitor developments and assess the potential impact for Dialog of such initiatives. We have concluded that current or announced future tax law changes as a result of such initiatives give rise to no changes to the principal risks for Dialog.

Income tax recognised outside profit or loss

Income tax recognised in other comprehensive income was as follows:

	2017 US$000	2016 US$000	2015 US$000
Items that may be reclassified to profit or loss			
Currency translation differences on foreign operations:			
– Current tax credit	**180**	–	–
– Deferred tax expense	**–**	(47)	(10)
Available-for-sale investments:			
– Deferred tax expense	**(1,015)**	–	–
Cash flow hedges:			
– Current tax (expense)/credit	**(3,149)**	1,890	–
– Deferred tax expense	**–**	(1,125)	(3,694)
Income tax credited/(charged) to other comprehensive income	**(3,984)**	718	(3,704)

Income tax recognised directly in equity was as follows:

	2017 US$000	2016 US$000	2015 US$000
Share-based compensation:			
– Current tax credit	**1,859**	2,544	–
– Deferred tax (expense)/credit	**(839)**	522	6,878
Total tax credited directly to equity	**1,020**	3,066	6,878

Deferred tax

Analysis of movement in the net deferred tax balance during the year:

	US$000
As at 1 January 2016	26,856
Exchange movements	(5)
Recognised in income	(792)
Recognised in other comprehensive income	(1,172)
Recognised in equity	522
As at 31 December 2016	25,409
Exchange movements	319
Recognised in income	8,136
Recognised in other comprehensive income	(1,015)
Recognised in equity	(839)
Acquisitions	(28,576)
As at 31 December 2017	**3,434**

9. Income taxes continued

Deferred income tax assets and liabilities, before offset of balances within countries, are as follows:

	Amount (charged)/credited to profit or loss		Net recognised deferred tax asset/(liability)	
	2017 US$000	2016 US$000	**As at 31 December 2017 US$000**	As at 31 December 2016 US$000
Temporary differences relating to intangible assets	**21,102**	2,058	**(26,585)**	(3,518)
Temporary differences relating to share-based compensation	**(4,539)**	382	**6,885**	12,263
Temporary differences relating to licence royalties	**3,312**	3,325	**–**	(3,325)
Other temporary differences	**4,583**	(4,096)	**(662)**	(6,699)
Deferred taxes in relation to tax credits	**1,733**	1,587	**10,331**	5,381
Net operating loss carryforwards	**(18,055)**	(4,048)	**13,465**	21,307
Total	**8,136**	(792)	**3,434**	25,409

Deferred tax assets and liabilities are analysed in the consolidated balance sheet, after offset of balances within countries, as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Deferred tax assets	**7,451**	27,379
Deferred tax liabilities	**(4,017)**	(1,970)
Recognised net deferred tax assets	**3,434**	25,409

Tax loss carryforwards, temporary differences and net deferred tax assets are summarised as follows:

	As at 31 December 2017			As at 31 December 2016		
	Tax loss carryforwards US$000	**Temporary differences US$000**	**Net deferred tax assets (liabilities) US$000**	Tax loss carryforwards US$000	Temporary differences US$000	Net deferred tax assets (liabilities) US$000
Germany	**–**	**4,768**	**1,353**	–	(6,930)	(1,967)
United Kingdom	**10,638**	**7,160**	**2,125**	61,416	38,716	7,289
Netherlands	**13,208**	**(272)**	**3,234**	15,597	(1,229)	3,592
USA	**48,229**	**(108,755)**	**673**	51,893	(13,598)	20,426
Other	**(8,940)**	**3,574**	**(3,951)**	10,354	3,043	(3,931)
Total	**63,135**	**(93,525)**	**3,434**	139,260	20,002	25,409

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 income, benefits that could be realised from available tax planning strategies and other positive and negative factors in making this assessment.

As at 31December 2017, deferred tax assets were not recognised for tax loss carryforwards of US$22,726 (2016: US$84,928), temporary differences of US$849 (2016: US$578) and tax credits of US$4,859 (2016: US$7,667) in respect of which there is expected to be insufficient future taxable profit and therefore utilisation is not probable. Unrecognised tax loss carryforwards and temporary differences of US$5,516 (2016: US$61,995) have no expiration date. Tax loss carryforwards in the US of US$4,665 (2016: US$4,665) expire between 2018 and 2025. Tax losses in Taiwan of US$13,394 (2016: US$18,846) expire between 2023 and 2027. The tax credits expire between 2021 and 2037.

Deferred tax liabilities have not been recognised in respect of undistributed earnings of subsidiaries because no liability is expected to arise on distribution under applicable tax legislation or because the Group 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.

Notes to the consolidated financial statements continued

10. 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:

		2017 US$000	2016 US$000	2015 US$000
Profit attributable to shareholders in the Company				
For calculating basic earnings per share	a	**173,916**	260,940	178,766
Add back:				
Interest expense on Convertible Bonds (net of tax)		**–**	–	3,483
For calculating diluted earnings per share	b	**173,916**	260,940	182,249
Weighted average number of ordinary shares				
Shares in issue at the beginning of the year		**77,865,955**	77,865,955	71,068,930
Effect on average number of shares during the year:				
– Conversion of Convertible Bonds		**–**	–	4,446,815
– Shares issued to employee benefit trust		**2,350,000**	–	–
– Cancellation of treasury shares		**(2,329,093)**	–	–
Average number of shares in issue during the period		**77,886,862**	77,865,955	75,515,745
Deduct:				
– Average number of shares held by employee benefit trusts		**(2,061,901)**	(1,296,216)	(1,753,204)
– Average number of treasury shares		**(1,352,891)**	(523,135)	–
For calculating basic earnings per share	c	**74,472,070**	76,046,604	73,762,541
Add:				
– Average number of dilutive share options and awards		**4,139,123**	4,351,328	3,537,414
– Dilutive effect of the Convertible Bonds		**–**	–	2,360,078
For calculating diluted earnings per share	d	**78,611,193**	80,397,932	79,660,033
Earnings per share (US$)				
Basic	a/c	**2.34**	3.43	2.42
Diluted	b/d	**2.21**	3.25	2.29

During 2017, the average number of anti-dilutive share options outstanding was 375,041 (2016: 423,760; 2015: 632,893).

11. Cash and cash equivalents

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Cash at bank	**7,794**	5,131
Cash held by employee benefit trusts	**1,151**	15,160
Cash available from receivables financing facilities	**145,100**	88,876
Short-term deposits	**325,250**	588,000
Total	**479,295**	697,167

Short-term deposits are made for varying periods of up to three months.

As at 31 December 2017 and 2016, no amounts had been drawn from the cash available from receivables financing facilities.

12. Trade and other receivables

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Trade accounts receivable	**51,959**	64,685
Retentions under receivables financing facilities	**26,227**	16,088
Total	**78,186**	80,773

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.

Trade accounts receivable may be analysed as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Amounts neither past due nor impaired	**50,025**	63,949
Amounts past due but not impaired:		
– Less than 30 days past due	**1,853**	575
– 30 to 59 days past due	**49**	161
– 60 to 89 days past due	**1**	–
– More than 90 days past due	**31**	–
	1,934	736
Amounts impaired:		
– Amounts that are impaired	**101**	118
– Allowance for doubtful accounts	**(101)**	(118)
Total	**51,959**	64,685

Movements on the allowance for doubtful accounts were as follows:

	2017 US$000	2016 US$000
At the beginning of the year	**118**	73
Allowances charged to profit or loss	**33**	45
Utilised for write-offs	**(11)**	–
Releases credited to profit or loss	**(39)**	–
At the end of the year	**101**	118

13. Inventories

Inventories were as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Raw materials	**12,301**	12,334
Work in progress	**59,704**	29,337
Finished goods	**96,942**	63,632
Total	**168,947**	105,303

Notes to the consolidated financial statements continued

14. Goodwill

Movements on goodwill during the years ended 31 December 2017 and 2016 were as follows:

	2017 US$000	2016 US$000
At the beginning of the period	251,208	251,062
Acquisition of Silego (note 3)	190,765	–
Acquisition of ams's LED backlight business (note 3)	3,866	–
Deconsolidation of Dyna Image (note 4)	(6,907)	–
Effect of movements in foreign currency	576	146
At the end of the period	**439,508**	251,208

Goodwill is monitored by management at the level of the Group's operating segments and is therefore allocated at that level. Goodwill was allocated to operating segments as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Mobile Systems	107,163	108,113
Connectivity	88,198	91,997
Advanced Mixed Signal (formerly Power Conversion)	244,147	51,098
Total	**439,508**	251,208

Goodwill recognised during 2017 on the acquisitions of Silego and ams's LED backlight business totalling US$194,631 was allocated to the Advanced Mixed Signal operating segment.

Goodwill derecognised on the deconsolidation of Dyna Image was allocated to operating segments as follows: Mobile Systems US$1,036; Connectivity US$4,144; and Advanced Mixed Signal US$1,727.

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 2017, 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 medium range financial plan. Cash flows beyond the third year were estimated by applying a perpetuity growth factor to the forecast cash flow in the third year.

We consider that the key assumptions used in determining value in use are the expected compound annual growth of revenue 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 2017 and 2016, which we consider 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: Mobile Systems 12.2% (2016: 12.9%); Connectivity 13.6% (2016: 14.3%); and Advanced Mixed Signal 11.0% (2016: 11.2%).

We did not recognise any goodwill impairment during 2017 and the recoverable amount of each operating segment to which goodwill is allocated was comfortably in excess of its carrying amount.

15. Other intangible assets

Movements on other intangible assets for the years ended 31 December 2017 and 2016 were as follows

	Acquired customer-related intangible assets US$000	Purchased software, licences and other US$000	Patents US$000	Product development assets US$000	Total US$000
Cost					
As at 1 January 2016	77,075	68,997	14,814	122,802	283,688
Additions	–	5,411	2,755	15,802	23,968
Reclassifications	–	(5)	5	–	–
Disposals	–	(1,726)	(64)	–	(1,790)
Effect of movements in foreign currency	–	2	–	122	124
As at 31 December 2016	77,075	72,679	17,510	138,726	305,990
Acquisition of businesses	**95,800**	**4,028**	**255**	**27,473**	**127,556**
Additions	**–**	**3,506**	**2,654**	**21,027**	**27,187**
Reclassifications	**–**	**(34)**	**34**	**–**	**–**
Disposals	**–**	**(182)**	**(12)**	**–**	**(194)**
Deconsolidation of assets held by Dyna Image (note 4)	**–**	**(243)**	**–**	**(5,819)**	**(6,062)**
Effect of movements in foreign currency	**–**	**35**	**–**	**486**	**521**
As at 31 December 2017	**172,875**	**79,789**	**20,441**	**181,893**	**454,998**
Amortisation and impairment losses					
As at 1 January 2016	(33,300)	(48,697)	(6,491)	(56,596)	(145,084)
Amortisation charge for the year	(7,296)	(8,673)	(1,509)	(18,471)	(35,949)
Disposals	–	662	9	–	671
Effect of movements in foreign currency	–	2	–	(11)	(9)
As at 31 December 2016	(40,596)	(56,706)	(7,991)	(75,078)	(180,371)
Amortisation charge for the year	**(8,856)**	**(8,410)**	**(1,819)**	**(22,884)**	**(41,969)**
Disposals	**–**	**22**	**7**	**–**	**29**
Impairment of assets held by Dyna Image (note 4)	**–**	**(100)**	**–**	**(2,690)**	**(2,790)**
Deconsolidation of Dyna Image (note 4)	**–**	**243**	**–**	**5,819**	**6,062**
Effect of movements in foreign currency	**–**	**(15)**	**–**	**(307)**	**(322)**
As at 31 December 2017	**(49,452)**	**(64,966)**	**(9,803)**	**(95,140)**	**(219,361)**
Net book value					
As at 31 December 2016	36,479	15,973	9,519	63,648	125,619
As at 31 December 2017	**123,423**	**14,823**	**10,638**	**86,753**	**235,637**

Impairment of assets held by Dyna Image

As explained in note 4, in December 2017, it was decided to wind down the operations of Dyna Image. As a consequence of this decision, the carrying amount of the intangible assets held by Dyna Image ceased to be recoverable. We therefore reduced the carrying amount of those assets to nil and recognised a corresponding impairment loss of US$2,790.

Assets held under hire purchase contracts

As at 31 December 2017, the carrying amount of intangible assets held under hire purchase contracts was US$1,840 (2016: US$5,967).

Notes to the consolidated financial statements continued

16. Property, plant and equipment

Movements on property, plant and equipment for the years ended 31 December 2017 and 2016 were as follows:

	Test equipment US$000	Leasehold improvements US$000	Office and other equipment US$000	Construction in progress US$000	Total US$000
Cost					
As at 1 January 2016	138,131	18,741	67,162	3,109	227,143
Additions	13,152	2,044	11,089	3,685	29,970
Reclassifications	1,096	1,276	2,866	(5,238)	–
Disposals	(2,370)	(123)	(1,503)	(259)	(4,255)
Effect of movements in foreign currency	(10)	(37)	(175)	7	(215)
As at 31 December 2016	149,999	21,901	79,439	1,304	252,643
Acquisition of businesses	**367**	**118**	**651**	**345**	**1,481**
Additions	**25,915**	**2,605**	**12,881**	**3,766**	**45,167**
Reclassifications	**63**	**172**	**393**	**(628)**	**–**
Disposals	**(1,566)**	**(1,343)**	**(1,365)**	**(59)**	**(4,333)**
Deconsolidation of assets held by Dyna Image (note 4)	**(2,709)**	**–**	**(113)**	**(160)**	**(2,982)**
Effect of movements in foreign currency	**417**	**174**	**571**	**11**	**1,173**
As at 31 December 2017	**172,486**	**23,627**	**92,457**	**4,579**	**293,149**
Depreciation and impairment losses					
As at 1 January 2016	(108,385)	(8,378)	(41,936)	–	(158,699)
Depreciation charge for the year	(12,927)	(3,333)	(11,608)	–	(27,868)
Disposals	2,366	72	990	–	3,428
Effect of movements in foreign currency	28	27	109	–	164
As at 31 December 2016	(118,918)	(11,612)	(52,445)	–	(182,975)
Depreciation charge for the year	**(14,614)**	**(4,064)**	**(12,129)**	**–**	**(30,807)**
Disposals	**1,560**	**1,198**	**868**	**–**	**3,626**
Impairment of assets held by Dyna Image (note 4)	**(1,347)**	**–**	**(30)**	**(160)**	**(1,537)**
Deconsolidation of Dyna Image (note 4)	**2,709**	**–**	**113**	**160**	**2,982**
Effect of movements in foreign currency	**(209)**	**(93)**	**(266)**	**–**	**(568)**
As at 31 December 2017	**(130,819)**	**(14,571)**	**(63,889)**	**–**	**(209,279)**
Net book value					
As at 31 December 2016	31,081	10,289	26,994	1,304	69,668
As at 31 December 2017	**41,667**	**9,056**	**28,568**	**4,579**	**83,870**

Impairment of assets held by Dyna Image

As explained in note 4, in December 2017, it was decided to wind down the operations of Dyna Image. As a consequence of this decision, the carrying amount of the property, plant and equipment held by Dyna Image ceased to be recoverable. We therefore reduced the carrying amount of those assets to nil and recognised a corresponding impairment loss of US$1,537.

Assets held under finance leases

As at 31 December 2017, the carrying amount of property, plant and equipment held under finance leases was US$nil (2016: US$4,186).

17. Investments

Investments were as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Investment in associate	**1,100**	–
Other investments		
Available-for-sale investments:		
– Energous shares	**33,837**	12,866
– Arctic Sand shares	**–**	1,446
Derivative financial instruments:		
– Energous warrants	**12,318**	6,624
– Dyna Image call option	**–**	142
Total other investments	**46,155**	21,078
Total investments	**47,255**	21,078

Investment in associate

As at 31 December 2017, the Group held a 48.5% ownership interest in Dyna Image Corporation, which is an entity whose principal place of business and country of incorporation is Taiwan. As explained in note 4, Dyna Image was formerly accounted for as a subsidiary but the Company lost the power to direct its relevant activities in December 2017 and it 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 is now accounted for as an associate using the equity method.

Other investments

Energous Corporation

Energous Corporation ("Energous") is the developer of WattUp®, a wire-free charging technology. In November 2016, we entered into a strategic alliance with Energous. At that time, we subscribed for 763,552 common shares in Energous and were granted warrants to purchase up to 763,552 common shares that are exercisable in full or in part on a cashless basis at any time between May 2017 and November 2019. We initially recognised the warrants at their grant date fair value of US$4,695 and an equivalent deferred credit within non-current liabilities. We will amortise the deferred credit to profit or loss in relation to the royalties that may be payable 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 2017, we recognised a fair value gain on the shares of US$5,971 (2016: gain of US$2,866) in other comprehensive income and recognised a fair value gain of US$941 (2016: gain of US$1,929) on the warrants in profit or loss (as other finance income). Also during 2017, we recognised a credit of 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).

Arctic Sand Technologies, Inc.

During 2012, we participated in the initial funding round of Arctic Sand Technologies, Inc. ("Arctic Sand"), an MIT spin-off commercialising an innovative new approach to Advanced Mixed Signal (formerly Power Conversion) for multiple markets, including smartphones, tablets, Ultrabooks™ and data centres. On 15 March 2017, Peregrine Semiconductor Corporation, a subsidiary of Murata Manufacturing Co Ltd, agreed to acquire Arctic Sand by way of a merger. We held approximately 3.5% of the issued equity shares in Arctic Sand. We previously classified the shares as available-for-sale but carried them at their cost of US$1,446 because we were unable to measure reliably their fair value.

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

Dyna Image Corporation

During 2017, the fair value of the call option held by the Company over the non-controlling interests in Dyna Image ceased to have any value and we recognised a fair value loss of US$142 (2016: loss of US$731) in profit or loss (as other finance expense).

Notes to the consolidated financial statements continued

18. Other financial assets

Other financial assets were as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Current		
Currency derivatives	**6,649**	–
Non-current		
Rental and other deposits	**2,090**	1,254
Total	**8,739**	1,254

19. Other assets

Other assets were as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Current		
Prepaid expenses	**6,810**	8,123
Other tax receivables	**3,904**	1,982
Deferred facility arrangement costs	**319**	–
Other assets	**3,623**	5,106
Total current	**14,656**	15,211
Non-current		
Deferred facility arrangement costs	**503**	–
Total	**15,159**	15,211

20. Trade and other payables

Trade and other payables were as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Trade accounts payable	**90,025**	79,242
Other payables	**17,170**	10,403
Total	**107,195**	89,645

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.

21. Other financial liabilities

Other financial liabilities were as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Current		
Finance lease and hire purchase obligations	**1,651**	4,409
Currency derivatives in designated hedging relationships	**97**	9,432
Currency derivatives hedging share buyback obligation	**–**	3,064
Deferred consideration	**5,456**	–
Contingent consideration	**8,837**	–
Share buyback obligation	**–**	61,073
Total current	**16,041**	77,978
Non-current		
Finance lease and hire purchase obligations	**–**	1,525
Deferred consideration	**2,506**	–
Contingent consideration	**14,872**	–
Total non-current	**17,378**	1,525
Total	**33,419**	79,503

Future minimum payments under finance leases and hire purchase obligations are as follows:

	Minimum payments	
	2017 US$000	2016 US$000
Within one year	**1,701**	4,573
Between one and two years	**–**	1,700
Total minimum payments	**1,701**	6,273
Less: future finance charges	**(50)**	(339)
Present value of minimum payments	**1,651**	5,934

Changes in liabilities arising from financing activities were as follows:

	Finance lease and hire purchase obligations US$000	Share buyback obligation US$000	Derivatives hedging share buyback obligation US$000	Total US$000
As at 1 January 2016	8,596	–	–	8,596
Additions	1,172	139,501	–	140,673
Releases	–	(15,313)	–	(15,313)
Changes in fair value	–	–	4,250	4,250
Changes in currency exchange rates	–	(1,643)	–	(1,643)
Changes from financing cash flows	(3,834)	(61,472)	(1,186)	(66,492)
As at 31 December 2016	5,934	61,073	3,064	70,071
Additions	**–**	**79,407**	**–**	**79,407**
Releases	**–**	**(18,469)**	**–**	**(18,469)**
Changes in fair value	**–**	**–**	**(4,291)**	**(4,291)**
Changes in currency exchange rates	**–**	**3,024**	**–**	**3,024**
Changes from financing cash flows	**(4,283)**	**(125,035)**	**1,227**	**(128,091)**
As at 31 December 2017	**1,651**	**–**	**–**	**1,651**

Notes to the consolidated financial statements continued

22. Provisions

Movements on provisions were as follows:

	Product warranties US$000	Leasehold property US$000	Legal claims US$000	Contractual severance US$000	Other provisions US$000	Total US$000
As at 1 January 2016	1,545	2,117	254	608	62	4,586
Additions charged to profit or loss	1,104	1,302	–	181	350	2,937
Utilised during the year	(1,545)	(622)	–	(26)	–	(2,193)
Releases credited to profit or loss	–	(158)	(254)	–	(40)	(452)
Unwinding of discount	–	110	–	–	–	110
Currency translation differences	–	(131)	–	(10)	–	(141)
As at 31 December 2016	1,104	2,618	–	753	372	4,847
Acquisition of businesses	**76**	**–**	**–**	**–**	**100**	**176**
Additions charged to profit or loss	**1,285**	**985**	**750**	**202**	**95**	**3,317**
Utilised during the year	**(1,011)**	**(159)**	**–**	**–**	**(220)**	**(1,390)**
Releases credited to profit or loss	**(9)**	**(59)**	**–**	**–**	**(23)**	**(91)**
Unwinding of discount	**–**	**60**	**–**	**–**	**–**	**60**
Currency translation differences	**–**	**180**	**–**	**99**	**1**	**280**
As at 31 December 2017	**1,445**	**3,625**	**750**	**1,054**	**325**	**7,199**

Provisions are presented in the Group's balance sheet as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Current liabilities	**3,474**	1,477
Non-current liabilities	**3,725**	3,370
Total	**7,199**	4,847

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 in Asia when they leave the Group's employment.

23. Other liabilities

Other liabilities were as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Current		
Obligations for personnel and social expenses	**41,462**	23,575
Advances received in relation to research and development contracts	**3,801**	2,701
Deferred income	**5,840**	16,854
Other liabilities	**8,516**	11,314
Total current	**59,619**	54,444
Non-current		
Deferred royalty credits	**4,695**	4,695
Deferred gain on initial measurement of warrants	**3,976**	–
Accrued expenses	**410**	–
Other liabilities	**479**	–
Total non-current	**9,560**	4,695
Total	**69,179**	59,139

24. Share capital and reserves

a) Ordinary shares

As at 31 December 2017, 2016 and 2015, 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:

	Number of shares	Nominal value US$000
As at 1 January 2015	71,068,930	13,353
Conversion of Convertible Bonds	6,797,025	1,049
As at 31 December 2015 and 2016	77,865,955	14,402
Shares issued to employee benefit trust	3,000,000	373
Cancellation of treasury shares	(4,483,816)	(571)
As at 31 December 2017	**76,382,139**	**14,204**

During 2012, the Company issued at par US$201 million 1% Convertible Bonds 2017 ("the Bonds") that were convertible into the Company's ordinary shares. On 16 March 2015, Dialog announced that it would exercise its option to redeem all of the outstanding Bonds on 5 May 2015. By 28 April 2015, all holders of the Bonds had exercised their conversion rights in respect of all outstanding Bonds. At the time of conversion, the carrying amount of the Bonds was US$183,138. Conversion of the Bonds resulted in the issue of 6,797,025 ordinary shares with a nominal value of US$1,049 and an increase in the share premium account of US$182,089.

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.

Available-for-sale reserve
The available-for-sale reserve represents the unrealised fair value gains less fair value losses that are not considered to represent an impairment recognised on the revaluation of available-for-sale investments since initial recognition.

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 were shares purchased under the Company's share buyback programme. Details of purchases made under the programme during 2017 and 2016 are set out in note 25.

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.

Notes to the consolidated financial statements continued

24. Share capital and reserves continued

Movements on other reserves were as follows:

	Capital redemption reserve US$000	Currency translation reserve US$000	Available-for-sale securities US$000	Hedging reserve US$000	Treasury shares US$000	Equity component of Convertible Bonds US$000	Total US$000
As at 1 January 2015	–	(3,007)	–	(12,769)	–	36,579	20,803
Other comprehensive income/(loss):							
– Currency translation differences on foreign operations	–	(1,463)	–	–	–	–	(1,463)
– Cash flow hedges:							
Fair value loss recognised on effective hedges	–	–	–	(18,960)	–	–	(18,960)
Fair value loss transferred to profit or loss	–	–	–	31,980	–	–	31,980
– Income tax credit/(expense)	–	(10)	–	(3,694)	–	–	(3,704)
Other changes in equity:							
– Conversion of Convertible Bonds	–	–	–	–	–	(36,579)	(36,579)
As at 31 December 2015	–	(4,480)	–	(3,443)	–	–	(7,923)
Other comprehensive income/(loss):							
– Currency translation differences on foreign operations	–	127	–	–	–	–	127
– Fair value loss on available-for-sale investments	–	–	2,866	–	–	–	2,866
– Cash flow hedges:							
Fair value loss recognised on effective hedges	–	–	–	(13,264)	–	–	(13,264)
Fair value loss transferred to profit or loss	–	–	–	8,382	–	–	8,382
– Income tax credit/(expense)	–	(47)	–	765	–	–	718
Other changes in equity:							
– Purchase of own shares into treasury	–	–	–	–	(61,472)	–	(61,472)
As at 31 December 2016	–	(4,400)	2,866	(7,560)	(61,472)	–	(70,566)
Other comprehensive income/(loss):							
– Currency translation differences on foreign operations	**–**	**1,665**	**–**	**–**	**–**	**–**	**1,665**
– Gain transferred to profit or loss on deconsolidation of Dyna Image	**–**	**(1,144)**	**–**	**–**	**–**	**–**	**(1,144)**
– Fair value loss on available-for-sale investments	**–**	**–**	**5,971**	**–**	**–**	**–**	**5,971**
– Cash flow hedges:							
Fair value gain recognised on effective hedges	**–**	**–**	**–**	**16,433**	**–**	**–**	**16,433**
Fair value loss transferred to profit or loss	**–**	**–**	**–**	**(441)**	**–**	**–**	**(441)**
– Income tax credit/(expense)	**–**	**180**	**(1,015)**	**(3,149)**	**–**	**–**	**(3,984)**
Other changes in equity:							
– Purchase of own shares into treasury	**–**	**–**	**–**	**–**	**(125,050)**	**–**	**(125,050)**
– Cancellation of treasury shares	**571**	**–**	**–**	**–**	**186,522**	**–**	**187,093**
As at 31 December 2017	**571**	**(3,699)**	**7,822**	**5,283**	**–**	**–**	**9,977**

25. Share buyback programme

Share buyback authority

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

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

Purchases made under the share buyback programme are off-market and are effected by way of contingent forward purchase contracts entered into with brokers. Barclays, Goldman Sachs, HSBC or Merrill Lynch may be appointed as brokers for purchases under the 2017 AGM authority.

Shares purchased during 2016

On 9 May 2016, the Company announced details of the first tranche of the share buyback programme pursuant to the 2016 AGM authority under which it committed to purchase shares with a minimum cost of €37.5 million and a maximum cost of €50 million. Final settlement and conclusion of the first tranche took place on 28 September 2016. We purchased a total of 1,332,158 shares under the first tranche at a cost of €37.5 million (US$42,024).

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

We completed the first intermediate settlement under the second tranche on 30 December 2016 purchasing 473,592 shares at an initial cost of €17.45 million (US$18,383). As at 31 December 2016, we held 1,805,750 shares purchased under the first and second tranches in treasury at a total cost of US$61,472 (including transaction costs of US$1,063).

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

Shares purchased during 2017

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

On 27 February 2017, the Company announced details of the third tranche of the share buyback programme pursuant to the 2016 AGM authority under which it committed to purchase shares with a minimum cost of €56.25 million and a maximum cost of €75.0 million. We initially recognised a debit to retained earnings amounting to US$79,407, which comprised the maximum obligation to purchase shares of €75.0 million (US$79,012) and related transaction costs.

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

During 2017, we showed a credit to retained earnings of US$3,024, which mirrored the loss recognised in profit or loss on the translation into US dollars of the Euro-denominated liability that existed in relation to shares that were purchased during the period. We hedge the currency translation exposure on outstanding liabilities to purchase shares using currency forwards and swaps. After taking into account hedging, we recognised a net currency translation loss of US$237 in profit or loss in relation to liabilities to purchase shares under the second and third tranches during 2017.

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

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

Notes to the consolidated financial statements continued

26. Non-controlling interests

We hold a 48.5% ownership interest in Dyna Image Corporation, which is an entity whose principal place of business and country of incorporation is Taiwan. As explained in note 4, Dyna Image was formerly accounted for as a subsidiary but the Company lost the power to direct its relevant activities in December 2017 and it 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 for periods before it ceased to be a subsidiary is presented below:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Summary balance sheet		
Total current assets	–	8,816
Total non-current assets	–	5,884
Total current liabilities	–	(4,702)
Total equity	–	9,998
Attributable to:		
– Shareholders in the Company	**–**	4,921
– Non-controlling interests	**–**	5,077
Total equity	**–**	9,998

	2017 US$000	2016 US$000	2015 US$000
Summary comprehensive (loss)/income			
Revenue	**5,474**	9,409	4,798
Expenses	**(17,870)**	(14,195)	(7,352)
Loss for the year	**(12,396)**	(4,786)	(2,554)
Loss attributable to owners of the Company	**(7,914)**	(1,962)	(1,047)
Loss attributable to the non-controlling interests	**(4,482)**	(2,824)	(1,507)
Loss for the year	**(12,396)**	(4,786)	(2,554)
Other comprehensive (loss)/income attributable to owners of the Company	**(7)**	69	(292)
Other comprehensive (loss)/income attributable to the non-controlling interests	**(7)**	100	(421)
Other comprehensive (loss)/income for the year	**(14)**	169	(713)
Total comprehensive loss attributable to owners of the Company	**(7,921)**	(1,893)	(1,339)
Total comprehensive loss attributable to the non-controlling interests	**(4,489)**	(2,724)	(1,928)
Total comprehensive loss for the year	**(12,410)**	(4,617)	(3,267)
Summary of cash flows			
Cash flow used for operating activities	**(4,769)**	(1,025)	(5,740)
Cash flow used for investing activities	**(47)**	(29)	(1,043)
Cash flow from financing activities	**3,000**	–	8,721
Net decrease in cash and cash equivalents	**(1,816)**	(1,054)	1,938

All other subsidiaries of the Company are wholly-owned.

27. Pension schemes

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$7,458 (2016: US$6,754; 2015: US$6,401). As at 31 December 2017, the Group had not paid over to the plans contributions due amounting to US$2,408 (2016: US$1,802; 2015: US$1,505). 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$3,599 (2016: US$3,400; 2015: US$3,104).

28. 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 2017, 2016 and 2015 and the principal assumptions made in measuring those fair values were as follows:

	Grant in 2017	Grant in 2016	Grant in 2015
Weighted average fair value	**€33.31**	€34.86	€33.38
Principal assumptions:			
– Share price on grant date	**€33.40**	€34.96	€39.22
– Exercise price	**€0.10**	€0.10	€0.12
– Expected volatility of the Company's shares	**42%**	41%	46%
– Expected option life	**3 – 6 years**	3 – 6 years	3 – 6 years
– Dividend yield on the Company's shares	**0%**	0%	0%
– Risk-free interest rate	**(0.3)%**	(0.3)%	0.1%

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.

Notes to the consolidated financial statements continued

28. 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 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) Share price increase
One quarter of each award accrues in equal annual instalments on the anniversary of grant date provided the market price of the Company's ordinary shares on the relevant anniversary date exceeds the higher of the market price of the shares on the grant date and on any preceding anniversary date.

Awards that have accrued vest and become exercisable on the third anniversary of the grant date.

b) Group performance conditions
Up to three-eighths of each award vests depending upon the compound annual growth of the Group's revenue over the vesting period. Up to three-eighths of each award vests depending on the compound annual growth of the Group's EBIT (operating profit) over the vesting period. Even if the revenue and EBIT targets are met, however, the number of awards that vest will be reduced by up to 20% if customer diversification targets are 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 TSR on the Company's ordinary shares relative to the TSR of the constituents of the S&P Select Semiconductor Index over the vesting 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 the whether the TSR on the Company's ordinary shares has exceeded the TSR of the constituents of the S&P Select Semiconductor Index.

b) Group Performance Conditions
Up to one third of each award vests depending upon the compound annual growth of the Group's revenue over the vesting period. Up to one third of each award vests depending on the compound annual growth of the Group's EBIT (operating profit) over the vesting period.

Notwithstanding the performance conditions, the Remuneration Committee may apply a downward adjustment to the number of awards that vest if it considers this to be necessary taking into account the Group's financial performance and overall financial health.

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 2017, 2016 and 2015 and the principal assumptions made in measuring those fair values were as follows:

	Grant in 2017	Grant in 2016	Grant in 2015
Weighted average fair value	**€44.86**	€29.26	€35.30
Principal assumptions:			
– Share price on grant date	**€50.32**	€33.41	€39.17
– Exercise price	**€0.10**	€0.10	€0.12
– Expected volatility of the Company's shares	**42%**	41%	46%
– Expected option life	**6 years**	6 years	6 years
– Dividend yield on the Company's shares	**0%**	0%	0%
– Risk-free interest rate	**(0.3)%**	(0.3)%	0.1%

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.

28. Share-based compensation continued

c) Share options

Movements in the total number of share options outstanding during the years ended 31 December 2017 and 2016 were as follows:

	2017		2016	
	Options	Weighted average exercise price €	Options	Weighted average exercise price €
Outstanding at the beginning of the year	4,469,977	2.90	4,710,245	4.53
Granted	1,345,455	0.10	1,432,827	0.10
Exercised	(1,240,297)	5.30	(1,304,595)	6.34
Forfeited	(271,940)	0.29	(368,500)	0.64
Outstanding at the end of the year	4,303,195	1.50	4,469,977	2.90
Options exercisable at the end of the year	1,302,600	4.71	1,483,001	8.12

When share options were exercised during 2017, the weighted average of the Company's share price was €45.50 (2016: €31.92).

The weighted average contractual life and exercise price of share options outstanding as at 31 December 2017 and 2016 were as follows:

	2017		2016	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (in years)	Number outstanding	Weighted average remaining contractual life (in years)
€0.0 – 1.00	3,883,067	4.58	3,556,032	4.63
€1.00 – 8.00	–	n/a	–	n/a
€8.00 – 16.85	420,128	1.60	913,945	2.28
€0.00 – 16.85	4,303,195	4.29	4,469,977	4.15

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 2017, the trusts held 2,791,027 ordinary shares (2016: 574,600 ordinary shares).

Movements in the number of shares held by the trusts during the years ended 31 December 2017 and 2016 were as follows:

	2017		2016	
	Number of shares	Cost US$000	Number of shares	Cost US$000
At the beginning of the year	574,600	20,608	1,879,195	24,630
Purchase of shares in the market	456,724	24,301	89,568	3,127
Subscription for newly-issued shares	3,000,000	373	–	–
Sale or transfer of shares	(1,240,297)	(44,380)	(1,394,163)	(7,149)
At the end of the year	2,791,027	902	574,600	20,608

Notes to the consolidated financial statements continued

29. Additional disclosures on financial instruments

Analysis by class and category

In the following tables, the carrying amounts of the financial assets and financial liabilities held by the Group as at 31 December 2017 and 2016 are analysed by class and category:

	As at 31 December 2017						
	Loans and receivables US$000	**Available-for-sale investments US$000**	**At fair value through profit or loss US$000**	**Held in designated hedging relationships US$000**	**Liabilities at amortised cost US$000**	**Net book value US$000**	**Fair value US$000**
Financial assets							
Cash and cash equivalents	**479,295**	**–**	**–**	**–**	**–**	**479,295**	**479,295**
Trade and other receivables	**78,186**	**–**	**–**	**–**	**–**	**78,186**	**78,186**
Energous shares	**–**	**33,837**	**–**	**–**	**–**	**33,837**	**33,837**
Energous warrants	**–**	**–**	**12,318**	**–**	**–**	**12,318**	**12,318**
Investments	**–**	**33,837**	**12,318**	**–**	**–**	**46,155**	
Currency derivatives	**–**	**–**	**–**	**6,649**	**–**	**6,649**	**6,649**
Rental and other deposits	**2,090**	**–**	**–**	**–**	**–**	**2,090**	**2,090**
Other financial assets	**2,090**	**–**	**–**	**6,649**	**–**	**8,739**	
Total financial assets	**559,571**	**33,837**	**12,318**	**6,649**	**–**	**612,375**	
Financial liabilities							
Trade and other payables	**–**	**–**	**–**	**–**	**(107,195)**	**(107,195)**	**(107,195)**
Hire purchase and finance lease obligations	**–**	**–**	**–**	**–**	**(1,651)**	**(1,651)**	**(1,651)**
Currency derivatives	**–**	**–**	**–**	**(97)**	**–**	**(97)**	**(97)**
Deferred consideration	**–**	**–**	**–**	**–**	**(7,962)**	**(7,962)**	**(7,962)**
Contingent consideration	**–**	**–**	**(23,709)**	**–**	**–**	**(23,709)**	**(23,709)**
Other financial liabilities	**–**	**–**	**(23,709)**	**(97)**	**(9,613)**	**(33,419)**	
Total financial liabilities	**–**	**–**	**(23,709)**	**(97)**	**(116,808)**	**(140,614)**	

	As at 31 December 2016						
	Loans and receivables US$000	Available-for-sale investments US$000	At fair value through profit or loss US$000	Held in designated hedging relationships US$000	Liabilities at amortised cost US$000	Net book value US$000	Fair value US$000
Financial assets							
Cash and cash equivalents	697,167	–	–	–	–	697,167	697,167
Trade and other receivables	80,773	–	–	–	–	80,773	80,773
Energous shares	–	12,866	–	–	–	12,866	12,866
Energous warrants	–	–	6,624	–	–	6,624	6,624
Arctic Sand shares	–	1,446	–	–	–	1,446	n/a
Dyna Image call option	–	–	142	–	–	142	142
Investments	–	14,312	6,766	–	–	21,078	
Rental and other deposits	1,254	–	–	–	–	1,254	1,254
Other financial assets	1,254	–	–	–	–	1,254	
Total financial assets	779,194	14,312	6,766	–	–	800,272	
Financial liabilities							
Trade and other payables	–	–	–	–	(89,645)	(89,645)	(89,645)
Hire purchase and finance lease obligations	–	–	–	–	(5,934)	(5,934)	(4,761)
Currency derivatives	–	–	(3,064)	(9,432)	–	(12,496)	(12,496)
Share buyback obligation	–	–	–	–	(61,073)	(61,073)	(61,073)
Other financial liabilities	–	–	(3,064)	(9,432)	(67,007)	(79,503)	
Total financial liabilities	–	–	(3,064)	(9,432)	(156,652)	(169,148)	

Currency derivatives that were not in designated hedging relationships were held to hedge the currency translation exposure on the Euro-denominated share buyback liability (note 25).

29. Additional disclosures on financial instruments continued

Fair value measurement

a) Financial instruments carried at fair value

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

Details of our investment in Energous shares, the Energous warrants and the Dyna Image call option are set out in note 17. We measured the fair value of these financial assets using the following methods and assumptions:

- Common shares in Energous (listed on NASDAQ) – measured at the quoted bid price at the close of business on the balance sheet date.
- Energous warrants – measured using a Black Scholes valuation model based on the quoted bid price of Energous' common shares and other inputs such as implied share price volatility that is modelled based on historical price data for Energous' common shares.
- Dyna Image call option – measured using a Monte Carlo valuation model in which the most significant inputs are management's estimates of the future revenue and profitability of Dyna Image and share price volatility that is modelled based on historical price data for comparable listed securities.
- Contingent consideration – measured based on the expected value of a range of possible outcomes of Silego's revenue for 2017 and 2018.

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.

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

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

	As at 31 December 2017				As at 31 December 2016			
	Level 1 US$000	**Level 2 US$000**	**Level 3 US$000**	**Total US$000**	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Financial assets carried at fair value								
Investments:								
– Energous shares	**33,837**	**–**	**–**	**33,837**	12,866	–	–	12,866
Derivative financial instruments:								
– Currency derivatives	**–**	**6,649**	**–**	**6,649**	–	–	–	–
– Energous warrants	**–**	**–**	**12,318**	**12,318**	–	–	6,624	6,624
– Dyna Image call option	**–**	**–**	**–**	**–**	–	–	142	142
Total financial assets carried at fair value	**33,837**	**6,649**	**12,318**	**52,804**	12,866	–	6,766	19,632
Financial liabilities carried at fair value								
Derivative financial instruments:								
– Currency derivatives	**–**	**(97)**	**–**	**(97)**	–	(12,496)	–	(12,496)
Contingent consideration	**–**	**–**	**(23,709)**	**(23,709)**	–	–	–	–
Total financial liabilities carried at fair value	**–**	**(97)**	**(23,709)**	**(23,806)**	–	(12,496)	–	(12,496)

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

Notes to the consolidated financial statements continued

29. Additional disclosures on financial instruments continued

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

	2017 US$000	2016 US$000	2015 US$000
Financial assets carried at fair value			
At the beginning of the year	**6,766**	873	–
Additions:			
– Dyna Image call option	**–**	–	992
– Energous warrants	**4,753**	4,695	–
Unrealised fair value gain/(loss) recognised in profit or loss (other finance income):			
– Energous warrants	**941**	1,929	–
– Dyna Image call option	**(142)**	(731)	(119)
At the end of the year	**12,318**	6,766	873
Financial liabilities carried at fair value			
At the beginning of the year	**–**	–	–
Contingent consideration:			
– Addition on acquisition of Silego	**(23,273)**	–	–
– Unwinding of discount recognised in profit or loss (interest expense)	**(436)**	–	–
At the end of the year	**(23,709)**	–	–

We estimate that if the implied volatility of 76.6% incorporated in the valuation of the first tranche of Energous warrants and that of 74.8% incorporated in the second tranche as at 31 December 2017 had been ten percentage points higher or lower, the fair value of the warrants would have been US$1,279 higher at US$13,597 or US$1,327 lower at US$10,991, respectively. In each case, the effect of the increase/(decrease) in fair value would have been recognised in profit or loss as other finance income/(expense).

We estimate that if the expected value of Silego's revenue for 2018 had been 10% higher or lower, the fair value of the contingent consideration payable for the purchase of Silego as at 31 December 2017 would have been US$1,238 higher at US$24,947 or US$7,460 lower at US$16,249, respectively. In each case, the effect of the increase/(decrease) in fair value would have been recognised in profit or loss as other operating income/(expense).

b) Financial instruments not carried at fair value
Finance lease and hire purchase obligations attract fixed interest rates that are implicit in the lease rentals. For disclosure purposes, the fair value of these obligations has been calculated as the present value of the future contractual cash flows using observable yield curves (Level 2).

Our investment in Arctic Sand was categorised as available-for-sale and would normally have been carried at fair value. However, we were unable to measure its fair value reliably because Arctic Sand is an unlisted entity in which we had only a small non-controlling interest. We therefore carried the investment at cost and did not disclose any estimate of its fair value (Level 3).

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

30. Commitments

Operating lease and software licence commitments

The Group rents all of its office and development facilities and some office and test equipment under operating leases. Future minimum lease payments under non-cancellable operating leases and software licences are as follows:

	Operating leases 2017 US$000	Software licences 2017 US$000	Operating leases 2016 US$000	Software licences 2016 US$000
Within one year	**12,600**	**15,286**	13,013	11,282
Between one and two years	**11,261**	**7,420**	8,206	2,608
Between two and three years	**9,711**	**5,669**	7,592	47
Between three and four years	**6,605**	**2,300**	7,077	32
Between four and five years	**4,902**	**2,385**	5,484	–
Thereafter	**10,247**	**–**	13,051	–
Total minimum payments	**55,326**	**33,060**	54,423	13,969

During 2017, the Group recognised in profit or loss an operating lease expense of US$10,153 (2016: US$9,797; 2015: US$9,177) and software licence fees of US$9,944 (2016: US$7,384; 2015: US$6,257).

Capital commitments

As at 31 December 2017, the Group has contractual commitments for the acquisition of property, plant and equipment of US$7,022 (2016: US$8,332) and for the acquisition of intangible assets of US$5,311 (2016: US$922).

31. Segment and geographic information

a) Analysis by operating segment

Segment information is presented in the financial statements on a basis consistent with the information presented to the Management Team (the "chief operating decision-maker") for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses. Members of the Management Team are identified on pages 64 and 65.

The Group's reportable segments are determined based on the nature of the products that they provide to our customers and are as follows: Mobile Systems; Automotive & Industrial; Connectivity; and Advanced Mixed Signal (formerly Power Conversion). When we acquired Silego Technology Inc. and ams AG's LED backlight business in November 2017, we added them to our Power Conversion segment and re-named it our Advanced Mixed Signal segment to reflect the nature of its expanded operations.

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

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

The Management Team uses operating profit as the principal measure of the profitability of each of the Group's operating segments. Operating profit is, therefore, the measure of segment profit presented in the Group's segment disclosures. Whilst the Management Team also uses underlying operating profit to measure segment profitability, this is used as a supplement to operating profit. In addition to our reportable segments, we present information for Corporate activities. Corporate activities do not meet the definition of an operating segment. Corporate activities include emerging market businesses (comprising Dyna Image and those developing low cost products for the Chinese consumer market), together with central corporate costs, the share-based compensation expense and certain other unallocated costs. In 2016, Corporate activities also included the termination fee of US$137,300 that was paid to us by Atmel.

Revenue and operating profit by segments are as follows:

	Revenue[1]			Operating profit		
	2017 US$000	2016 US$000	2015 US$000	**2017 US$000**	2016 US$000	2015 US$000
Mobile Systems	**1,042,908**	922,946	1,114,495	**271,716**	239,859	341,931
Connectivity	**136,443**	118,334	117,014	**14,276**	5,342	8,360
Automotive & Industrial	**32,975**	30,014	34,367	**12,575**	10,126	9,340
Advanced Mixed Signal	**132,714**	116,808	84,636	**(15,127)**	(7,535)	(20,675)
Total segments	**1,345,040**	1,188,102	1,350,512	**283,440**	247,792	338,956
Corporate activities	**7,801**	9,509	4,800	**(96,423)**	62,015	(79,210)
Total Group	**1,352,841**	1,197,611	1,355,312	**187,017**	309,807	259,746
Interest income				**5,995**	3,665	1,215
Interest expense				**(1,302)**	(3,447)	(6,411)
Other finance income/(expense)				**3,093**	(4,819)	289
Profit before income taxes				**194,803**	305,206	254,839

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

Notes to the consolidated financial statements continued

31. Segment and geographic information continued

Other segment information is as follows:

	Mobile Systems US$000	Connectivity US$000	Automotive & Industrial US$000	Advanced Mixed Signal US$000	Total segments US$000	Corporate activities US$000	Total Group US$000
Year ended 31 December 2017							
Research and development expenses	**169,413**	**30,897**	**1,217**	**28,628**	**230,155**	**48,641**	**278,796**
Write-down of inventories	**39**	**327**	**60**	**944**	**1,370**	**(82)**	**1,288**
Fixed assets[1]:							
– Additions[2]	**43,939**	**9,198**	**163**	**11,467**	**64,767**	**7,587**	**72,354**
– Depreciation/amortisation	**41,609**	**9,193**	**620**	**19,092**	**70,514**	**2,262**	**72,776**
– Loss on disposal	**414**	**2**	**3**	**–**	**419**	**172**	**591**
Impairment of non-current assets held by Dyna Image (notes 15 & 16)	**–**	**–**	**–**	**–**	**–**	**(4,327)**	**(4,327)**
Loss on deconsolidation of Dyna Image (note 4)	**–**	**–**	**–**	**–**	**–**	**(5,597)**	**(5,597)**
Acquisition-related costs	**–**	**–**	**–**	**–**	**–**	**4,539**	**4,539**
Integration costs	**–**	**–**	**–**	**–**	**–**	**2,305**	**2,305**
Year ended 31 December 2016							
Research and development expenses	151,842	29,497	1,154	22,527	205,020	36,325	241,345
Write-down of inventories	2,236	238	165	1,652	4,291	84	4,375
Fixed assets[1]:							
– Additions[2]	33,915	7,137	192	4,647	45,891	8,047	53,938
– Depreciation/amortisation	36,695	6,892	702	17,294	61,583	2,234	63,817
– Loss on disposal	305	–	–	145	450	1,119	1,569
Atmel termination fee (note 3)	–	–	–	–	–	137,300	137,300
Costs of aborted merger with Atmel (note 3)	–	–	–	–	–	3,485	3,485
Year ended 31 December 2015							
Research and development expenses	140,066	25,747	2,488	23,282	191,583	31,599	223,182
Write-down of inventories	7,192	394	202	1,309	9,097	(50)	9,047
Fixed assets[1]:							
– Additions[2]	50,938	7,585	446	5,875	64,844	8,403	73,247
– Depreciation/amortisation	31,010	6,467	719	15,754	53,950	1,327	55,277
– Loss on disposal	955	–	–	262	1,217	534	1,751
Costs of aborted merger with Atmel (note 3)	–	–	–	–	–	17,604	17,604
Integration costs	–	–	–	–	–	176	176
Increase in iWatt contingent consideration (note 3)	–	–	–	–	–	3,375	3,375

1 Non-current assets excluding investments and deferred tax assets.
2 Additions to fixed assets comprise the cost of items acquired separately and the fair value of items acquired in business combinations.

31. Segment and geographic information continued

b) Geographic information

	2017 US$000	2016 US$000	2015 US$000
Revenue by shipment destination			
United Kingdom	**529**	421	903
Other European countries	**46,432**	48,063	54,859
Mainland China	**1,034,847**	884,187	1,080,488
Hong Kong	**196,722**	212,261	165,645
Other Asian countries	**61,111**	41,013	42,849
Rest of the world	**13,200**	11,666	10,568
Total	**1,352,841**	1,197,611	1,355,312

	2017 US$000	2016 US$000	2015 US$000
Non-current assets[1] by location			
United Kingdom	**48,761**	96,890	99,992
Germany	**58,782**	44,992	46,518
Netherlands	**52,791**	49,982	46,907
USA	**589,753**	236,245	255,979
Taiwan	**2,222**	13,196	3,106
Rest of the world	**9,299**	6,444	7,098
Total	**761,608**	447,749	459,600

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

c) Information about major customers

During each of the years ended 31 December 2017, 2016 and 2015, there was only one customer, Apple Inc., that accounted for more than 10% of the Group's revenue. Revenue from Apple Inc. was US$1,042,669 in 2017, of which US$1,035,412 was recognised in the Mobile Systems segment and US$7,257 was recognised in the Advanced Mixed Signal segment. Revenue from Apple Inc. was US$889,904 in 2016 and US$1,077,701 in 2015, in both cases recognised wholly in the Mobile Systems segment.

Notes to the consolidated financial statements continued

32. 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.

The Group depends on a relatively small number of customers for a substantial part of its revenue. As at 31 December 2017, trade accounts receivable amounted to US$51,959 (2016: US$64,685), including US$34,038 (2016: US$45,845) due from our largest customer.

We utilise uncommitted non-recourse receivables financing facilities provided by two financial institutions in an aggregate amount of US$240 million. The principal facility is for US$220 million and matures on 30 April 2018.

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. As at 31 December 2017, cash and cash equivalents included a benefit of US$145,100 (2016: US$88,876) in relation to receivables sold under these facilities and trade and other receivables included US$26,227 (2016: US$16,088) retained by the financial institutions.

We transact with financial institutions subject to limits which are set based on a credit rating matrix in accordance with treasury policy. Cash is placed on deposit only with counterparties whose median credit rating is not less than A- (Standard & Poor's), A3 (Moody's) or A- (Fitch). 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 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 outflows on a rolling 12-month basis. As the timing of the forecast cash outflows draws nearer, the proportion of the currency risk that is hedged increases within set parameters.

32. Financial risk management continued

Forward currency contracts that are entered into for this purpose are designated as hedging instruments in cash flow hedge relationships. During 2017, a gain of US$16,433 (2016: loss of US$13,264; 2015: loss of US$18,960), was recognised in other comprehensive income representing the change in the fair value of currency derivatives in effective hedging relationships and a cumulative gain of US$441 (2016: loss of US$8,382; 2015: loss of US$31,980) was reclassified to profit or loss on the occurrence of the hedged cash flows.

Currency derivatives held to hedge forecast cash outflows were as follows:

		As at 31 December 2017 Net notional amount			
		Euro US$000	**Pound sterling US$000**	**Japanese Yen US$000**	**Chinese Renminbi US$000**
Maturity					
0–3 months		**33,500**	**11,650**	**185,000**	**16,000**
4–6 months		**27,500**	**10,000**	**120,000**	**9,000**
7–9 months		**20,000**	**6,500**	**135,000**	**13,000**
10–12 months		**11,000**	**4,000**	**60,000**	**6,000**
Total		**92,000**	**32,150**	**500,000**	**44,000**
Weighted average exchange rate	US$ =	**0.86**	**0.77**	**109.97**	**6.83**

		As at 31 December 2016 Net notional amount			
		Euro US$000	Pound sterling US$000	Japanese Yen US$000	Chinese Renminbi US$000
Maturity					
0–3 months		40,000	11,000	175,000	14,000
4–6 months		37,100	8,700	118,000	8,000
7–9 months		26,500	7,500	85,000	8,500
10–12 months		12,000	3,500	45,000	3,000
Total		115,600	30,700	423,000	33,500
Weighted average exchange rate	US$ =	0.90	0.75	106.31	6.79

If the US dollar was to depreciate or appreciate by 10% against each of the foreign currencies in respect of which there were effective cash flow hedges in place as at 31 December 2017, there would be an incremental fair value gain of US$18,367 (2016: US$23,395) or an incremental fair value loss of US$15,027 (2016: US$19,141), respectively, recognised in other comprehensive income that would be reclassified to profit or loss on the occurrence of the hedged cash flows.

Currency translation risk arises on financial assets and liabilities that are denominated in a currency other than the functional currency of the entity that holds them. The Group's policy allows for such exposures to be hedged using currency derivatives.

During 2017 and 2016, we used forward currency contracts and currency swaps to hedge the translation exposure on the Euro-denominated liabilities that arose in relation to successive tranches of the Company's share buyback programme. At the end of 2017, there were no such contracts outstanding because there were no uncompleted share buyback tranches.

After taking into account currency hedging activities, the currency profile of the Group's net financial assets/(liabilities) was as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
US dollar	**484,493**	626,958
Euro	**(10,637)**	6,810
Pound sterling	**(4,104)**	(2,780)
Taiwanese dollar	**186**	(665)
Other	**1,823**	801
Total	**471,761**	631,124

If the US dollar was to appreciate or depreciate by 10% against each of the foreign currencies in which financial assets and financial liabilities were denominated as at 31 December 2017, there would be an exchange gain of US$1,273 (2016: loss of US$417) or an exchange loss of US$1,273 (2016: gain of US$417), 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.

Notes to the consolidated financial statements continued

32. Financial risk management continued

b) Interest risk

The interest rate profile of the Group's financial assets and liabilities was as follows:

	As at 31 December 2017			
	Interest-bearing			
	Floating rate US$000	Fixed rate US$000	Non-interest bearing US$000	Total US$000
Financial assets				
Cash and cash equivalents	**334,195**	**–**	**145,100**	**479,295**
Trade and other receivables	**–**	**–**	**78,186**	**78,186**
Investments	**–**	**–**	**46,155**	**46,155**
Other financial assets	**–**	**–**	**8,739**	**8,739**
Total financial assets	**334,195**	**–**	**278,180**	**612,375**
Financial liabilities				
Trade and other payables	**–**	**–**	**(107,195)**	**(107,195)**
Other financial liabilities	**–**	**(1,651)**	**(31,768)**	**(33,419)**
Total financial liabilities	**–**	**(1,651)**	**(138,963)**	**(140,614)**

	As at 31 December 2016			
	Interest-bearing			
	Floating rate US$000	Fixed rate US$000	Non-interest bearing US$000	Total US$000
Financial assets				
Cash and cash equivalents	608,291	–	88,876	697,167
Trade and other receivables	–	–	80,773	80,773
Investments	–	–	21,078	21,078
Other financial assets	–	–	1,254	1,254
Total financial assets	608,291	–	191,981	800,272
Financial liabilities				
Trade and other payables	–	–	(89,645)	(89,645)
Other financial liabilities	–	(5,934)	(73,569)	(79,503)
Total financial liabilities	–	(5,934)	(163,214)	(169,148)

The Group's principal exposure to interest rate risk is in relation to interest income on short-term deposits, which attract US dollar interest rates.

When applied to the Group's floating interest rate exposures as at 31 December 2017, an increase of 50 basis points in market interest rates would increase the Group's profit before tax by US$1,645 (2016: US$3,041) and a decrease of 50 basis points would reduce the Group's profit before tax by US$1,645 (2016: US$2,940).

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 Energous Corporation ("Energous"). Energous' common shares are listed on NASDAQ. At the end of 2017, the fair value of the shares held was US$33,837 and the fair value of the warrants was US$12,318. 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 Energous' share price as at 31 December 2017 would be to increase the Group's profit before tax by US$2,079 (2016: US$994) and to increase other comprehensive income by US$3,384 (2016: US$1,287) and the effect of a 10% decrease in the share price would be to reduce the Group's profit before tax by US$1,998 (2016: US$960) and to reduce other comprehensive income by US$3,384 (2016: US$1,287).

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 2017, cash and cash equivalents amounted to US$479,295 (2016: US$697,167).

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

The facility remained undrawn as at 31 December 2017.

32. Financial risk management continued

Contractual undiscounted future cash flows related to the Group's financial liabilities were as follows:

	As at 31 December 2017			As at 31 December 2016		
	Within 3 months US$000	3 to 12 months US$000	1 to 5 years US$000	Within 3 months US$000	3 to 12 months US$000	1 to 5 years US$000
Trade and other payables	107,195	–	–	89,645	–	–
Finance lease and hire purchase obligations	834	817	–	732	3,677	1,525
Deferred consideration	3,144	2,312	2,506	–	–	–
Contingent consideration	9,343	–	17,626	–	–	–
Share buyback obligation	–	–	–	61,073	–	–
Other non-derivative liabilities	13,321	3,129	20,132	61,805	3,677	1,525
Cash flows on non-derivative liabilities	120,516	3,129	20,132	151,450	3,677	1,525
Cash flows on derivative liabilities						
– Payments	4,618	45,256	–	126,936	114,363	–
– Receipts	(4,552)	(44,882)	–	(120,043)	(108,338)	–
Cash flows on financial liabilities	120,582	3,503	20,132	158,343	9,702	1,525

Capital management

The Group's capital is represented by its total equity. As at 31 December 2017, the Group's total equity was US$1,342,421 (2016: US$1,194,906).

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.

During 2016, we initiated a share buyback programme as part of our strategy to deliver shareholder returns. Between May 2016 and June 2017, we returned €168.65 million (US$184,656) to shareholders under the first three tranches of the programme. We renewed the share buyback authority at the Company's AGM in May 2017. We have not yet announced any purchases under the 2017 AGM authority and will consider the continuation of the share buyback programme in parallel with our regular assessment of the Group's future growth opportunities and its strategic objectives.

33. 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:

	2017 US$000	2016 US$000	2015 US$000
Short-term employee benefits	6,712	7,278	6,055
Post-employment benefits	267	224	262
Share-based compensation	10,895	10,751	5,797
Total	17,874	18,253	12,114

Current members of the Company's Board are identified on pages 62 and 63 and current members of the Management Team are identified on pages 64 and 65.

Statutory information about Directors' remuneration is presented in the Directors' remuneration report on pages 75 to 90.

During 2017, the aggregate emoluments payable to Directors in respect of qualifying services to the Company amounted to US$3,370 (2016: US$2,262; 2015: US$2,726). Share options and awards granted to the Executive Director under long-term incentive plans that have vested or will vest based on the Group's and/or the Executive Director's performance over a period ending during the year had an estimated value on vesting of US$1,941 (2016: US$4,529; 2015: US$4,123).

Other related party transactions

During the years ended 31 December 2017, 2016 and 2015, there were no other related party transactions that are required to be reported in these consolidated financial statements.

Company balance sheet

As at 31 December

	Note	2017 US$000	2016 US$000
Assets			
Cash and cash equivalents		**326,543**	604,052
Other financial assets		**6,649**	–
Amounts owed by group undertakings		**179,618**	243,664
Other current assets		**723**	700
Total current assets		**513,533**	848,416
Investments in subsidiaries	4	**840,109**	632,125
Other investments	5	**47,034**	19,490
Intangible assets		**318**	456
Other non-current assets		**503**	–
Total non-current assets		**887,964**	652,071
Total assets		**1,401,497**	1,500,487
Liabilities and equity			
Amounts owed to group undertakings		**363,923**	625,668
Trade and other payables		**3,119**	1,209
Other financial liabilities		**97**	73,568
Income tax payable	6	**4,938**	–
Other payables		**124**	122
Total current liabilities		**372,201**	700,567
Non-current liabilities		**8,671**	4,695
Ordinary shares		**14,204**	14,402
Share premium account		**403,660**	403,687
Retained earnings		**595,270**	456,350
Other reserves		**8,393**	(58,606)
Dialog shares held by employee benefit trusts		**(902)**	(20,608)
Total equity	7	**1,020,625**	795,225
Total liabilities and equity		**1,401,497**	1,500,487

These financial statements were approved by the Board of Directors on 28 February 2018 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Company statement of changes in equity

Year ended 31 December

	Ordinary shares US$000	Share premium account US$000	Retained earnings US$000	Other reserves (note 7) US$000	Dialog shares held by employee benefit trusts US$000	Total US$000
As at 1 January 2016	14,402	403,687	416,284	–	(24,630)	809,743
Net income	–	–	100,852	–	–	100,852
Other comprehensive income	–	–	–	2,866	–	2,866
Total comprehensive income/(loss)	–	–	100,852	2,866	–	103,718
Other changes in equity:						
– Purchase of own shares into treasury	–	–	(1,643)	(61,472)	–	(63,115)
– Share buyback obligation	–	–	(63,077)	–	–	(63,077)
– Purchase of shares by employee benefit trusts	–	–	–	–	(3,127)	(3,127)
– Sale of shares by employee benefit trusts	–	–	3,934	–	7,149	11,083
As at 31 December 2016	14,402	403,687	456,350	(58,606)	(20,608)	795,225
Net income	**–**	**–**	**296,968**	**–**	**–**	**296,968**
Other comprehensive income/(loss)	**–**	**–**	**–**	**4,956**	**–**	**4,956**
Total comprehensive income/(loss)	**–**	**–**	**296,968**	**4,956**	**–**	**301,924**
Other changes in equity:						
– Shares issued to employee benefit trust	**373**	**(27)**	**–**	**–**	**(373)**	**(27)**
– Purchase of own shares into treasury	**–**	**–**	**3,024**	**(125,050)**	**–**	**(122,026)**
– Share buyback obligation	**–**	**–**	**62,584**	**–**	**–**	**62,584**
– Cancellation of treasury shares	**(571)**	**–**	**(186,522)**	**187,093**	**–**	**–**
– Purchase of shares by employee benefit trusts	**–**	**–**	**–**	**–**	**(24,301)**	**(24,301)**
– Sale of shares by employee benefit trusts	**–**	**–**	**(37,134)**	**–**	**44,380**	**7,246**
As at 31 December 2017	**14,204**	**403,660**	**595,270**	**8,393**	**(902)**	**1,020,625**

Notes to the Company financial statements

For the year ended 31 December 2017

1. Background

Description of business

Dialog Semiconductor Plc ("the Company") is a public limited company that is incorporated 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 and automotive applications.

Statement of compliance

The Company's separate financial statements on pages 150 to 155 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 IFRS 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.

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$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 IFRS 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 requirements) 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 79(a)(iv) of IAS 1 (reconciliation of the number of the Company's shares outstanding at the beginning and end of the period).

→ Paragraphs 10(d) (statement of cash flows), 16 (statement of compliance with IFRS), 38(A 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* (discussion of IFRSs issued by the IASB but not yet adopted by the Company).

→ 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 a subsidiary, provided the subsidiary is wholly-owned by the Company.

Approval of the financial statements

The Company's separate financial statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 28 February 2018.

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 is 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 and are stated at cost less provision for impairment.

Investments in associates

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.

Investments in associates are stated at cost less provision for impairment.

2. Significant accounting policies continued

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

(a) 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.

(b) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, and cash deposits with an original maturity of three months or less.

(c) Available-for-sale investments
Available-for-sale investments are initially measured at fair value plus transaction costs, if any. Such investments are subsequently measured at fair value and gains and losses are recognised in other comprehensive income, except for impairment losses arising from the significant or prolonged decline in fair value which are recognised in profit or loss.

(d) Derivative financial instruments
The Company holds derivative financial instruments that are used to reduce the exposure of its subsidiaries to currency exchange rate movements. The Company also holds 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.

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 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.

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. 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. 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. The Company's profit after tax was US$296,968 (2016: US$100,852).

During 2017, the Company had no employees (2016: none).

Directors' remuneration is set out in the Directors' remuneration report on pages 75 to 90.

Fees payable to the Company's auditors, Deloitte LLP, are set out in note 7 to the consolidated financial statements.

Notes to the Company financial statements continued

For the year ended 31 December 2017

4. Investments in subsidiaries

Movements in the carrying amount of subsidiaries owned directly by the Company were as follows:

	US$000
As at 1 January 2017	632,125
Additions	215,508
Impairment	(6,645)
Reclassification to investment in associate	(879)
As at 31 December 2017	**840,109**

Details of the Company's subsidiaries as at 31 December 2017 are set out on page 167.

As at 31 December 2016, the Company had an ownership interest of 45.7% in Dyna Image Corporation. As explained in note 4 to the consolidated financial statements, Dyna Image was formerly accounted for as a subsidiary but the Company lost the power to direct its relevant activities in December 2017 and it was reclassified as an associate.

In January 2017, the Company's direct ownership interest in Dyna Image decreased from 45.7% to 38.7% following an issue of new shares in Dyna Image. One of the Company's subsidiaries participated in the share issue with the effect that the Company's direct and indirect ownership interest in Dyna Image increased from 45.7% to 48.5%.

When Dyna Image was reclassified as an associate, the investment was written down to US$879 and the Company recognised a corresponding impairment loss of US$6,645.

5. Other investments

Other investments were as follows:

	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Investment in associate	**879**	–
Strategic investments		
Available-for-sale investments:		
– Energous shares	33,837	12,866
Derivative financial instruments:		
– Energous warrants	12,318	6,624
Total strategic investments	**46,155**	19,490
Total other investments	**47,034**	19,490

Investment in associate

As at 31 December 2017, the Company held a 38.7% ownership interest in Dyna Image Corporation. Details of the associate are set out on page 167.

Other investments

Energous Corporation

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 763,552 common shares that are exercisable in full or in part on a cashless basis at any time between May 2017 and November 2019. The Company initially recognised the warrants at their grant date fair value of US$4,695 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$4,753 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 2017, the Company recognised a fair value gain on the shares of US$5,971 (2016: gain of US$2,866) in other comprehensive income and a fair value gain of US$941 (2016: gain of US$1,929) on the warrants in profit or loss. Also during 2017, the Company recognised a credit of US$776 in profit or loss on the amortisation of the fair value on initial recognition of the second tranche of the warrants.

6. Income tax

During 2017, previously unrecognised deferred tax assets were utilised to reduce taxable profit. Due to recently enacted UK tax laws restricting the utilisation of tax loss carryforwards, however, the taxable profit was not fully offset. Consequently, there was current tax payable of US$4,938 as at 31 December 2017.

As at 31 December 2017, deferred tax assets were recognised for tax loss carryforwards of US$5,971 to offset deferred tax liabilities recognised in relation to remeasurement gains on available-for-sale investments. Deferred tax assets were not recognised for remaining loss carryforwards of US$3,783 and deductible temporary differences amounting to US$135 since it is not considered probable that taxable profits will be available in the future against which they can be utilised.

7. Share capital and reserves

a) Share capital and share premium account

Details of the Company's share capital are set out in note 24 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:

	Capital redemption reserve US$000	Available-for-sale securities US$000	Treasury shares US$000	Total US$000
As at 1 January 2016	–	–	–	–
Other comprehensive income/(loss):				
– Fair value gain on available-for-sale investments	–	2,866	–	2,866
Other changes in equity:				
– Purchase of own shares into treasury	–	–	(61,472)	(61,472)
As at 31 December 2016	–	2,866	(61,472)	(58,606)
Other comprehensive income/(loss):				
– Fair value loss on available-for-sale investments	**–**	**5,971**	**–**	**5,971**
– Income tax (expense)/credit	**–**	**(1,015)**	**–**	**(1,015)**
Other changes in equity:				
– Purchase of own shares into treasury	**–**	**–**	**(125,050)**	**(125,050)**
– Cancellation of treasury shares	**571**	**–**	**186,522**	**187,093**
As at 31 December 2017	**571**	**7,822**	**–**	**8,393**

Treasury shares were shares purchased under the Company's share buyback programme. Details of purchases made under the programme during 2016 and 2017 are set out in note 25 to the consolidated financial statements.

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.

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 2017 amounted to US$582,780 (2016: US$377,136).

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 2017, the trusts held 2,791,027 ordinary shares (2016: 574,600 ordinary shares). An analysis of movements in the number of shares held by the trusts is presented in note 28 to the consolidated financial statements.

8. 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 28 to the consolidated financial statements.

9. Guarantees

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 profit margin; diluted EPS and free cash flow. We monitor the profit or loss measures that are KPIs on both an IFRS basis and an underlying basis.

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

Underlying measures of performance

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 either from one period to another 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 and their related tax effects.

Share-based compensation

We exclude the share-based compensation expense recognised in relation to options and awards granted under the Company's share-based compensation plans because the awards are equity-settled and therefore have no immediate effect on shareholders' returns. 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 options and 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 deferred revenue and inventories of acquired businesses; the recognition of certain elements of the purchase price as a compensation expense; and the recognition of remeasurements of contingent consideration in profit or loss. We also exclude transaction costs and termination fees relating to business combinations that are not consummated. We excluded the following such items from our underlying results during the periods presented:

→ in 2017, transaction costs incurred on the acquisition of Silego and ams AG's LED backlight business;

→ in 2017, the recognition in cost of sales of the fair value uplift to inventory held by Silego and the LED backlight business at the acquisition date, the element of deferred amounts payable for Silego that is recognised as a compensation expense and the unwinding of the discount on the liability for contingent consideration payable for Silego;

→ in 2016, the termination fee received on the aborted merger with Atmel and, in 2016 and 2015, related transaction costs; and

→ in 2015, the adjustment made to the contingent consideration payable on the acquisition of iWatt.

We have also excluded 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 they are non-recurring costs that hinder the assessment of the financial performance of acquired businesses. In 2017, we incurred costs in relation to the integration of Silego, which principally comprised employee severance costs.

Effective interest on financial liabilities

We adjust our interest expense to exclude the non-cash element of the interest expense recognised in relation to a patent licensing agreement that is held under a hire purchase contract within other intangible assets and the liability component of the 1% Convertible Bonds 2017 prior to their early conversion in April 2015. We consider in each case that the cash interest payments are more indicative of the effect of these arrangements on shareholders' returns.

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 Energous, our call option over the non-controlling interests in Dyna Image and, until they were sold in May 2017, the shares that we held in Arctic Sand). We hold these instruments for strategic reasons linked to our commercial partnerships with these 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, the shareholders in Dyna Image decided that it should be gradually wound down in a way that would 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 and ceased to account for it as a subsidiary, recognising a loss of US$5,597 on deconsolidation. Since these are discrete non-recurring losses, we have excluded them from our underlying results.

Underlying measures of performance continued

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 reflects 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 is a discrete non-recurring benefit, we have 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 2017, 2016 and 2015 are presented in the following tables:

Year ended 31 December 2017

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Effective interest	Strategic investments	US tax reform	Underlying basis
Revenue	1,352,841	–	–	–	–	–	–	1,352,841
Cost of sales	(732,188)	1,219	9,844	–	–	–	–	(721,125)
Gross profit	620,653	1,219	9,844	–	–	–	–	631,716
Gross margin %	*45.9%*							*46.7%*
SG&A expenses	(145,262)	16,285	14,358	1,121	–	–	–	(113,498)
R&D expense	(278,796)	17,994	512	1,184	–	–	–	(259,106)
Other operating (expense)/income	(9,578)	–	–	–	–	9,924	–	346
Operating profit	187,017	35,498	24,714	2,305	–	9,924	–	259,458
Operating margin %	*13.8%*							*19.2%*
Other finance income	7,786	–	436	–	289	(1,398)	–	7,113
Profit before income taxes	194,803	35,498	25,150	2,305	289	8,526	–	266,571
Income tax expense	(25,369)	(3,476)	(4,187)	(701)	(56)	1,889	(6,658)	(38,558)
Net income	169,434	32,022	20,963	1,604	233	10,415	(6,658)	228,013
EBITDA	n/a							315,773
EBITDA margin %	*n/a*							*23.3%*

Year ended 31 December 2016

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Aborted merger with Atmel	Effective interest	Strategic investments	Underlying basis
Revenue	1,197,611	–	–	–	–	–	1,197,611
Cost of sales	(650,896)	1,120	7,029	–	–	–	(642,747)
Gross profit	546,715	1,120	7,029	–	–	–	554,864
Gross margin %	*45.7%*						*46.3%*
SG&A expenses	(133,271)	15,826	7,473	3,485	–	–	(106,487)
R&D expense	(241,345)	13,570	–	–	–	–	(227,775)
Other operating income	137,708	–	–	(137,300)	–	–	408
Operating profit	309,807	30,516	14,502	(133,815)	–	–	221,010
Operating margin %	*25.9%*						*18.5%*
Other finance expense	(4,601)	–	–	1,913	526	(1,199)	(3,361)
Profit before income taxes	305,206	30,516	14,502	(131,902)	526	(1,199)	217,649
Income tax expense	(47,090)	(4,686)	(351)	(383)	(105)	386	(52,229)
Net income	258,116	25,830	14,151	(132,285)	421	(813)	165,420
EBITDA	n/a						269,681
EBITDA margin %	*n/a*						*22.5%*

Financial performance measures continued

Reconciliation of underlying measures to equivalent IFRS measures continued

Year ended 31 December 2015

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Aborted merger with Atmel	Integration costs	Effective interest	Underlying basis
Revenue	1,355,312	–	–	–	–	–	1,355,312
Cost of sales	(730,508)	940	6,600		–	–	(722,968)
Gross profit	624,804	940	6,600	–	–	–	632,344
Gross margin %	*46.1%*						*46.7%*
SG&A expenses	(143,035)	10,287	11,061	17,604	176	–	(103,907)
R&D expense	(223,182)	10,418	824	–	–	–	(211,940)
Other operating income	1,159	–	–	–	–	–	1,159
Operating profit	259,746	21,645	18,485	17,604	176	–	317,656
Operating margin %	*19.2%*						*23.4%*
Other finance expense	(4,907)	–	–	1,153	–	3,724	(30)
Profit before income taxes	254,839	21,645	18,485	18,757	176	3,724	317,626
Income tax expense	(77,580)	(492)	(1,027)	–	–	(151)	(79,250)
Net income	177,259	21,153	17,458	18,757	176	3,573	238,376
EBITDA	n/a						357,762
EBITDA margin %	*n/a*						*26.4%*

Accounting for business combinations

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

US$000	**2017**	2016	2015
Acquisition-related costs	**4,539**	–	86
Fair value uplift of acquired inventory	**2,305**	–	–
Amortisation of acquired intangible assets	**16,461**	14,502	15,024
Consideration accounted for as compensation expense	**1,409**	–	–
Remeasurement of contingent consideration	**436**	–	3.375
Increase in profit before income taxes	**25,150**	14,502	18,485
Income tax credit	**(4,187)**	(351)	(1,027)
Increase in net income	**20,963**	14,151	17,458

Explanation of financial performance measures

Change in revenue

We monitor the change in revenue from one period to another and the trend in revenue over time because they are important measures of the growth in our business. During the periods presented, there were no differences between revenue determined in accordance with IFRS and on an underlying basis. During each period, the change in revenue was as follows:

US$000 unless stated otherwise	**2017**	2016	2015
IFRS and underlying measures			
Revenue in the period	**1,352,841**	1,197,611	1,355,312
Revenue in the comparative period	**1,197,611**	1,355,312	1,156,105
Increase/(decrease) in revenue	**13.0%**	(11.6)%	17.2%

Explanation of financial performance measures continued

Gross margin

Gross margin is gross profit expressed as a percentage of revenue. We monitor gross margin because we believe it provides a measure of the value that we add to our products. Gross margin determined in accordance with IFRS and on an underlying basis was as follows:

US$000 unless stated otherwise	**2017**	2016	2015
IFRS measures			
Revenue	**1,352,841**	1,197,611	1,355,312
Gross profit	**620,653**	546,715	624,804
Gross margin	**45.9%**	45.7%	46.1%
Underlying measures			
Revenue	**1,352,841**	1,197,611	1,355,312
Gross profit	**631,716**	554,864	632,344
Gross margin	**46.7%**	46.3%	46.7%

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:

US$000 unless stated otherwise	**2017**	2016	2015
IFRS measures			
Revenue	**1,352,841**	1,197,611	1,355,312
Operating expenses	**(424,058)**	(374,616)	(366,217)
Operating expenses as a percentage of revenue	**31.3%**	31.3%	27.0%
Underlying measures			
Revenue	**1,352,841**	1,197,611	1,355,312
Operating expenses	**(372,604)**	(334,262)	(315,847)
Operating expenses as a percentage of revenue	**27.5%**	27.9%	23.3%

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:

US$000 unless stated otherwise	**2017**	2016	2015
IFRS measures			
Operating profit in the period	**187,017**	309,807	259,746
Operating profit in the comparative period	**309,807**	259,746	185,902
(Decrease)/increase in operating profit	**(39.6)%**	19.3%	39.7%
Underlying measures			
Operating profit in the period	**259,458**	221,010	317,656
Operating profit in the comparative period	**221,010**	317,656	230,265
Increase/(decrease) in operating profit	**17.4%**	(30.4)%	38.0%

Financial performance measures continued

Explanation of financial performance measures continued

Operating profit margin

Operating profit margin is operating profit expressed as a percentage of revenue. We monitor operating profit margin because we believe it provides a measure of the overall profitability of our operations. Operating profit margin determined in accordance with IFRS and on an underlying basis was as follows:

US$000 unless stated otherwise	2017	2016	2015
IFRS measures			
Revenue	**1,352,841**	1,197,611	1,355,312
Operating profit	**187,017**	309,807	259,746
Operating profit margin	**13.8%**	25.9%	19.2%
Underlying measures			
Revenue	**1,352,841**	1,197,611	1,355,312
Operating profit	**259,458**	221,010	317,656
Operating profit margin	**19.2%**	18.5%	23.4%

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:

US$000	2017	2016	2015
Net income	**169,434**	258,116	177,259
Net finance (income)/expense	**(7,786)**	4,601	4,907
Income tax expense	**25,369**	47,090	77,580
Depreciation expense	**30,807**	27,219	24,010
Amortisation expense	**41,969**	35,954	31,120
EBITDA	**259,793**	372,980	314,876
Share-based compensation and related payroll taxes	**35,498**	30,516	21,645
Acquisition-related costs	**4,539**	–	86
Fair value uplift of acquired inventory	**2,305**	–	–
Consideration accounted for as compensation expense	**1,409**	–	–
Change in fair value of contingent consideration payable	**–**	–	3,375
Integration costs	**2,305**	–	176
Impairment of intangible assets	**2,790**	–	–
Impairment of property, plant and equipment	**1,537**	–	–
Loss on deconsolidation of Dyna Image	**5,597**	–	–
Merger termination fee	**–**	(137,300)	–
Aborted merger costs	**–**	3,485	17,604
Underlying EBITDA	**315,773**	269,681	357,762

Underlying EBITDA margin was as follows:

US$000 unless stated otherwise	2017	2016	2015
Underlying measures			
Revenue	**1,352,841**	1,197,611	1,355,312
EBITDA	**315,773**	269,681	357,762
EBITDA margin	**23.3%**	22.5%	26.4%

Explanation of financial performance measures continued

Earnings per share

We monitor basic and diluted earnings per share ("EPS") on an IFRS basis and on an underlying basis. We believe that underlying EPS measures are useful to investors in assessing our ability to generate earnings and provide a basis for assessing the value of the Company's shares (for example, by way of price earnings multiples). Earnings for calculating IFRS and underlying EPS measures were calculated as follows:

US$000 unless stated otherwise	2017	2016	2015
IFRS measures			
Net income	**169,434**	258,116	177,259
Loss attributable to non-controlling interests	**4,482**	2,824	1,507
Earnings for calculating basic EPS	**173,916**	260,940	178,766
Effective interest on Convertible Bonds	**–**	–	3,483
Earnings for calculating diluted EPS	**173,916**	260,940	182,249
Underlying measures			
Net income[1]	**228,013**	165,420	238,376
Loss attributable to non-controlling interests	**1,425**	2,299	1,507
Earnings for calculating basic EPS	**229,438**	167,719	239,883
Effective interest on Convertible Bonds	**–**	–	503
Earnings for calculating diluted EPS	**229,438**	167,719	240,386

1 Underlying net income is reconciled to net income determined in accordance with IFRS basis in the tables set out under the heading "Reconciliation of underlying measures to equivalent IFRS measures".

Underlying and diluted EPS measures are calculated using the weighted average number of shares that are used in calculating the equivalent measures under IFRS as presented in note 10 to the consolidated financial statements.

Basic and diluted EPS on an IFRS basis and on an underlying basis were as follows:

US$	2017	2016	2015
IFRS measures			
Basic EPS	**2.34**	3.43	2.42
Diluted EPS	**2.21**	3.25	2.29
Underlying measures			
Basic EPS	**3.08**	2.20	3.25
Diluted EPS	**2.92**	2.09	3.02

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:

US$000	2017	2016	2015
Cash flow from operating activities	**284,722**	248,760	317,663
Purchase of property, plant and equipment	**(47,938)**	(25,553)	(32,757)
Purchase of intangible assets	**(6,196)**	(8,177)	(8,359)
Payments for capitalised development costs	**(20,988)**	(15,802)	(24,778)
Capital element of finance lease and hire purchase payments	**(4,283)**	(3,834)	(3,517)
Free cash flow	**205,317**	195,394	248,252

Glossary of Terms – Technical

Technical glossary

Analog A type of signal in an electronic circuit that takes on a continuous range of values rather than only a few discrete values.

Appcessories A physical device and counterpart application for a mobile device typically controlled via Bluetooth®.

ASIC An Application Specific Integrated Circuit is an integrated chip, custom-designed for a specific application.

ASSP An Application Specific Standard Product is a semiconductor device integrated circuit ("IC") dedicated to a specific application and sold to more than one user.

Audio CODEC The interface between analog signals (such as the human voice) and the digital data processing inside a mobile phone, determining voice quality.

BCD process platform The incorporation of analog components ("Bipolar"), digital components ("CMOS") and high-voltage transistors ("DMOS") on the same die to reduce the number of components required in the bill of materials, minimise board space, costs and the parasitic losses in comparison to a non-integrated solution.

BOM Bill of materials

Bluetooth® Smart Bluetooth® Smart is a wireless personal area network technology designed and marketed by the Bluetooth Special Interest Group aimed at novel applications in the healthcare, fitness, beacons, security, and home entertainment industries.

Buck converter A DC-to-DC buck converter accepts a direct current input voltage and produces a direct current output voltage to a plurality of channels.

CAD Computer Aided Design usually refers to a software tool used for designing electronics hardware or software systems.

CDMA Code Division Multiple Access is an alternative to GSM technology for mobile wireless networks.

Chips Electronic integrated circuits.

CMOS Complementary Metal Oxide Semiconductor: the most popular class of semiconductor manufacturing technology.

CMIC Configurable Mixed-Signal IC A category of ICs comprising a matrix of analog and digital blocks which are configurable through a programmable ("OTP") non-volatile memory.

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 In 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.

GaN 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, including personal organisers, cellular handsets and notebook computers.

LTE Long-Term Evolution is a standard for wireless communication of high-speed data for mobile phones and data terminals.

Mixed-signal A combination of analog and digital signals being generated, controlled or modified on the same chip.

OEM An Original Equipment Manufacturer that builds products or components that are used in products sold by another company.

Original Design Manufacturer ("ODM") An original design manufacturer designs and produces products that are specified and then rebranded by OEMs.

PMIC Power Management IC.

Power Management The management of the power requirements of various subsystems, important in handheld and portable electronics equipment.

PrimAccurate™ Dialog's patented control technology that uses digital algorithms on the primary side of an isolated power supply eliminating the need for a secondary side regulator and optical feedback isolator to lower the total BOM cost, reduce the overall solution size and improve reliability.

Rapid Charge™ A Dialog product which enables substantially faster battery charging of portable devices via USB AC/DC power adapters.

Semiconductor A base material halfway between a conductor and an insulator, which can be physically altered by mixing in certain atoms. Semiconductors form the basis for present-day electronics.

Silicon A semi-metallic element used to create a wafer – and the most common semiconductor material – in about 95% of all manufactured chips.

SmartBond™ Dialog's SmartBond™ family is the simplest route to delivering the most power-friendly and flexible Bluetooth® Smart connected products to the market. Highly-integrated, SmartBond™ delivers the smallest, most power-efficient Bluetooth® Smart solutions available – and enables the lowest system costs.

SmartDefender™ Dialog's advanced cycle-by-cycle, hiccup mode technology that addresses soft short circuits in adapter cables and connectors helping to prevent excessive heat build-up and damage.

SmartMirror™ A technology patented by Dialog Semiconductor which simplifies circuit design and provides very low current consumption in Power Management circuits.

Smartphone A mobile phone offering advanced capabilities, often with pc-like functionality ("PC-mobile handset convergence"). A smartphone runs complete operating system software providing a standardised interface and platform for application developers.

SmartPulse™ A series of wireless sensors, actuators and base station devices enables the easy creation of wireless sensor networks for the home automation, security, healthcare and energy monitoring consumer markets.

SmarteXite™ Dialog's brand name for its intelligent LED lighting technology platform.

SmartXtend™ A technology patented by Dialog Semiconductor that extends the life and reduces power consumption of high-resolution, passive matrix OLED displays.

Solid State Lighting A type of lighting in which light-emitting diodes ("LEDs") replaces conventional incandescent and fluorescent lamp 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 can replace diodes to improve efficiency and power density in power conversion applications, such as power supplies.

SoC System on Chip An integrated circuit with all the necessary electronic circuits and parts for a given system.

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.

Ultrabook™ A higher-end, compact sub-notebook that is designed to be compact, thin and light without compromising performance and battery life. Ultrabooks™ typically feature low power processors and solid-state drives.

USB Universal Serial Bus: a universal interface standard to connect different electronics 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 mobile 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. The USB PD specification provides flexible power delivery and data transfer up to 100W.

USB Type-C™ cable and connector specification A universal cable and connector specification developed by the USB Implementers Forum that addresses new, smaller, thinner, lighter form factor computing platforms and devices. It provides for a slim, sleek and standard connector form-factor and high-power cable. Combined with the USB Power Delivery specification, USB Type-C enables a single USB cable/connector solution that can be used ubiquitously for power or charging across mobile 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.

Voice Over IP Our energy-efficient multicore VoIP processors interact with Bluetooth®, Wi-Fi and DECT to enable headset and handset connectivity while combining industry-leading power consumption with the flexibility and processing capacity to handle a wealth of enterprise VoIP applications.

Wafer A slice 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.

Glossary of Terms – Financial

Financial glossary

AGM Annual General Meeting of the Company's shareholders.

BaFin the Federal Financial Supervisory Authority in Germany (Bundesanstalt für Finanzdiensleistungsaufsicht).

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.

COSO 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 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.

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 our 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.

Prime 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 ASSPs.

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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Shares

Information on the Company's shares and on significant shareholdings can be found on page 72.

Registered office

Dialog Semiconductor Plc
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Website: www.dialog-semiconductor.com

Registered number

3505161

Financial calendar

Annual General Meeting	3 May 2018
Q1 2018 Results	9 May 2018
Q2 2018 Results	2 August 2018
Q3 2018 Results	31 October 2018
Preliminary results for 2018	February 2019

Company Registrar

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Group directory

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Email: dialog.korea@diasemi.com

Related undertakings

The Company's related undertakings as at 31 December 2017 were as follows:

Name	Registered Address	Country
Dialog Argo Holdings L.L.C.[1]	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Dialog Argo Holdings, Inc.	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Dialog Integrated Circuits (Tianjin) Limited[1]	Rooms 2701-2, No. 2 Building, TEDA Service Outsourcing Industrial Park, No. 19 XinHuanxi West Road, TEDA, Tianjin, 300457	China
Dialog Semiconductor (Italy) S.R.L.	Via Gaetano D'Alesio No.2, 57126, Livorno	Italy
Dialog Semiconductor (Shenzhen) Limited[1]	25F, Lifetech Scientific Building, South 12 Road, Southern District in High-tech Zone, Nan Shan District, Shenzhen	China
Dialog Semiconductor (UK) Limited	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom
Dialog Semiconductor Arastırma Gelistirme ve Ticaret Anonim Sirketi	Istanbul Technical University, Ayazaga Campus, ARI 6 Building, Maslak, Istanbul, 34469	Turkey
Dialog Semiconductor B.V.	Het Zuiderkruis 53, 5215 MV's-Hertogenbosch	Netherlands
Dialog Semiconductor Finance B.V.	Het Zuiderkruis 53, 5215 MV's-Hertogenbosch	Netherlands
Dialog Semiconductor GmbH	Neue Strasse 95, 73230 Kirchheim unter Teck-Nabern	Germany
Dialog Semiconductor Hellas Societe Anonyme of Integrated Circuits[1]	Megaro Xenia, Achilleos 8 & Lambrou Katsoni, Kallithea, Athens, 17674	Greece
Dialog Semiconductor Holdings 1 Limited	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom
Dialog Semiconductor Hong Kong Limited[1]	Units 515-517, 5/F., Building 12W, No.12, Science Park West Av., Phase 3, Hong Kong Science Park, Pak Shek Kok, N.T.	Hong Kong
Dialog Semiconductor Inc.[1]	Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Dialog Semiconductor K.K.	8F W-Building 1-8-15, Minato-ku, Tokyo 108-0075	Japan
Dialog Semiconductor Operations Services Limited[1]	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom
Dialog Semiconductor Trading (Shanghai) Limited[1]	Room 703, 7F Kehui Building, No.1188 North Quinzhou Road, Xuhui District, Shanghai 200231	China
Dyna Image Corporation[2]	8F., No.233-2, Baoqiao Rd., Xindian Dist., New Taipei City, 23145	Taiwan
IKOR Acquisition Corporation[1]	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
iWatt B.V.[1]	Het Zuiderkruis 53, 5215 MV's-Hertogenbosch	Netherlands
iWatt Cayman[1]	PO Box 309, Ugland House, Grand Cayman, KY1-1104	Cayman Islands
iWatt Coöperatief U.A.[1]	Het Zuiderkruis 53, 5215 MV's-Hertogenbosch	Netherlands
iWatt HK Limited[1]	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
iWatt L.L.C.[1]	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Powerventure Semiconductor Limited	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom
Silego Korea Inc.	#402 Dongmun Building, 10 Dogok-ro 2-gil, Gangnam-gu, Seoul 06258	Korea
Silego (Hefei) Technology, Inc.	Room 303, Building 2, No. 3 Tian Yuan Road, High-Tech Zone, Hefei, 230088	China
Silego Technology Japan, Inc.	8F W-Building 1-8-15 Konan, Minato-ku, Tokyo, 108-0075	Japan
Limited Liability Company Silego Technology (Ukraine)	Chervonoi Kalyny Ave., 62A, Lviv, 79049	Ukraine
Silego Technology Inc.	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, De 19801	United States

1 Held indirectly.

2 Dyna Image Corporation is an associate in which the Company has a direct ownership interest of 38.7% and an indirect ownership interest of 9.8% that is held by a wholly-owned subsidiary.

All subsidiaries are wholly-owned.

Branches and representative offices

Name	Entity Type	Registered Address	Country
Dialog Integrated Circuits (Tianjin) Limited, Beijing Branch	Branch Office	Room 902-904, Zhong Guan Cun Crowne Plaza Office Building, No. 106 ZhiChun Road, Haidian District, Beijing, 100086	China
Dialog Semiconductor (UK) Limited, Korea Branch	Branch Office	6 FL, Deokmyeong Building 625, Teheran-ro, Gangnam-gu, Seoul	Korea
Dialog Semiconductor GmbH Austria Branch	Branch Office	Kärntner Strasse 518, 8054 Graz-Seiersberg	Austria
Dialog Semiconductor GmbH Singapore Branch	Branch Office	51 Anson Road, #12-51 Anson Centre, Singapore 079904	Singapore
Dialog Semiconductor GmbH Taiwan Branch	Branch Office	7F., No.392, Ruiguang Rd., Neihu Dist., Taipei City 114	Taiwan
Dialog Semiconductor Operations Services Limited Korea Branch	Branch Office	6 FL, Deokmyeong Building 625, Teheran-ro, Gangnam-gu, Seoul	Korea
Dialog Semiconductor Operations Services Limited Thailand Representative Office	Representative Office	26th Floor, Sathorn City Tower, 175 South Sathorn Road, Thungmahamek, Sathorn,10120 Bangkok	Thailand
Dialog Semiconductor Operations Services Limited Taiwan Branch	Branch Office	7F., No.392, Ruiguang Rd., Neihu Dist., Taipei City 114	Taiwan
Powerventure Semiconductor Limited, Taiwan Branch	Branch Office	7F., No. 1, Taiyuan 1st St., Zhubei City, Hsinchu County 302	Taiwan
Silego Technology Inc., Shanghai Representative Office	Representative Office	2102 J, LT Square, 500 North Chengdu Rd., Juabngdu District, Shanghai	China
Silego Technology Inc., Taiwan Branch	Branch Office	9F., No. 10 Ln 321, Yanguang St., Neihu Dist., Taipei City 114	Taiwan

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