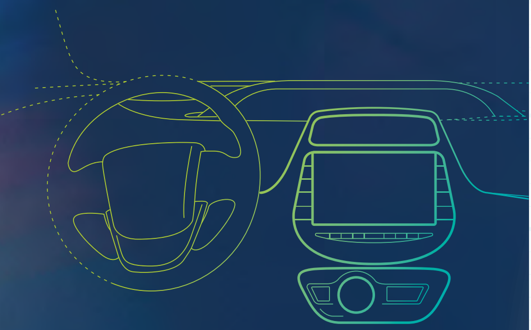
Building a power-efficient connected world

Dialog Semiconductor Plc
Annual report and accounts 2019

Powering what's next

Our custom, configurable and standard products enhance consumer experience and enable our customers to differentiate and shorten their time-to-market.

Powering what's next in



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Who we are

SUSTAINABLE DEVELOPMENT GOALS

The 17 UN Sustainable Development Goals ("SDGs") promote sustained and inclusive economic growth, social development and environmental protection in the interest of creating a world that is just, equitable and inclusive.

Dialog supports the SDGs with our existing programmes. In this report we have mapped the outputs of our business model and our activities to the SDGs.

These goals are referenced throughout this report:

Building a power-efficient connected world.

We are a fabless semiconductor company primarily focused on the development of highly-integrated and power-efficient mixed-signal Integrated Circuits ("ICs") for consumer electronics and high-growth segments of automotive and industrial end-markets.

Our passion for innovation and entrepreneurial spirit ensures we remain at the forefront of power-efficient semiconductor technology for the Internet of Things ("IoT"), mobile computing and automotive.

Learn more about Dialog Semiconductor online at
www.dialog-semiconductor.com

Highlights

Financial highlights 2019

Revenue
US$1,566m

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

Underlying revenue
US$1,420m

(2)% year-on-year (2018: US$1,442m)

See more about our investment case and how we performed against our long-term financial targets on page 05.

Revenue excluding licensed main PMIC products
US$794m

+38% year-on-year (2018: US$575m)

Gross margin
54.2%

(2018: 47.9%)

Underlying gross margin
49.8%

(2018: 48.3%)

Operating margin
24.3%

(2018: 13.8%)

Underlying operating margin
22.8%

(2018: 19.5%)

Diluted EPS
US$3.96

(2018: US$1.80)

Underlying diluted EPS
US$3.47

(2018: US$2.90)

Cash flow from operating activities
US$496.5m

(2018: US$288.6m)

Operational highlights 2019

Employees
2,036

(2018: 2,100)

Engineering talent ratio
77%

(2018: 76%)

Customer concentration
72%

(2018: 75%)

On Time Delivery performance
99.9%

(2018: 99.7%)

Underlying measures of performance are non-IFRS measures because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS or are calculated using financial measures that are not calculated in accordance with IFRS. We do not regard non-IFRS measures as a substitute for, or superior to, the equivalent IFRS measures. Non-IFRS measures presented by Dialog may not be 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 183 to 189.

At a glance

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

Our position in the industry value chain

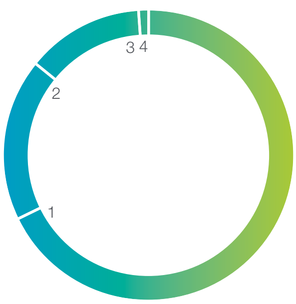
Our segments

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

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

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

Underlying revenue by segment



Total Group underlying revenue

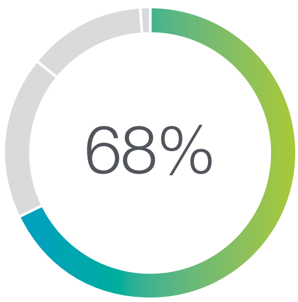
US$1,420m

1	Custom mixed signal	68%
2	Advanced mixed signal	18%
3	Connectivity & audio	13%
4	Corporate and other	1%

Total Group revenue was US$1,566 million. See explanations and reconciliations to the nearest equivalent IFRS measures in the section entitled "Financial performance measures" on pages 183 to 189.

Custom Mixed Signal

Percentage of total Group underlying revenue in 2019



Year-on-year revenue decline

(7)%

Underlying revenue
(US$m)

US$965m

2019	965
2018*	1,042
2017*	1,060

Description

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

Key products

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

Read more in our segment review on page 56

* Restated to reflect the segment reorganisation and measurement changes.

Our operations

Global

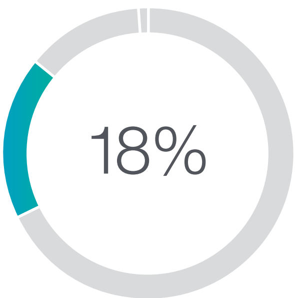
2,036
Employees

30
Locations

15
Countries

Advanced Mixed Signal

Percentage of total Group underlying revenue in 2019

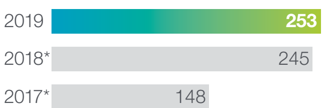


Year-on-year revenue growth

+4%

Underlying revenue (US$m)

US$253m



Description

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

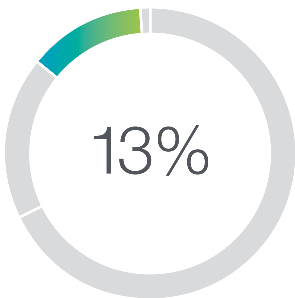
Key products

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

Read more in our segment review on page 58

Connectivity & Audio

Percentage of total Group underlying revenue in 2019

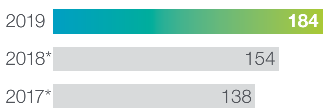


Year-on-year revenue growth

+19%

Underlying revenue (US$m)

US$184m



Description

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

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

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

Key products

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

Read more in our segment review on page 60

* Restated to reflect the segment reorganisation and measurement changes.

Investment case

A growing business built on innovation

Structural growth

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

Read more about our industry drivers on pages 18 and 19

Year-on-year revenue growth in 2019 (excluding legacy licensed main PMIC products)

+38%

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.

Read more about how we are enhancing our competitive advantages on pages 10 and 11

Expensed in R&D in 2019

US$314m

Number of employees in engineering functions in 2019

1,573

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

Read more about cash flow on page 67

Free cash flow in 2019*

US$449m

Share buyback in 2019

US$252m

Support organic and inorganic expansion

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

Read more about our KPIs on pages 52 to 55

Number of sales opportunities with a value higher than US$250k

1,049

Cash allocated to acquisitions in 2019

US$140m

* Free cash flow is a non-IFRS measure. See "Financial performance measures" on pages 183 to 189.

Our entrepreneurial and collaborative values support the success of our business

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 society.

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.

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

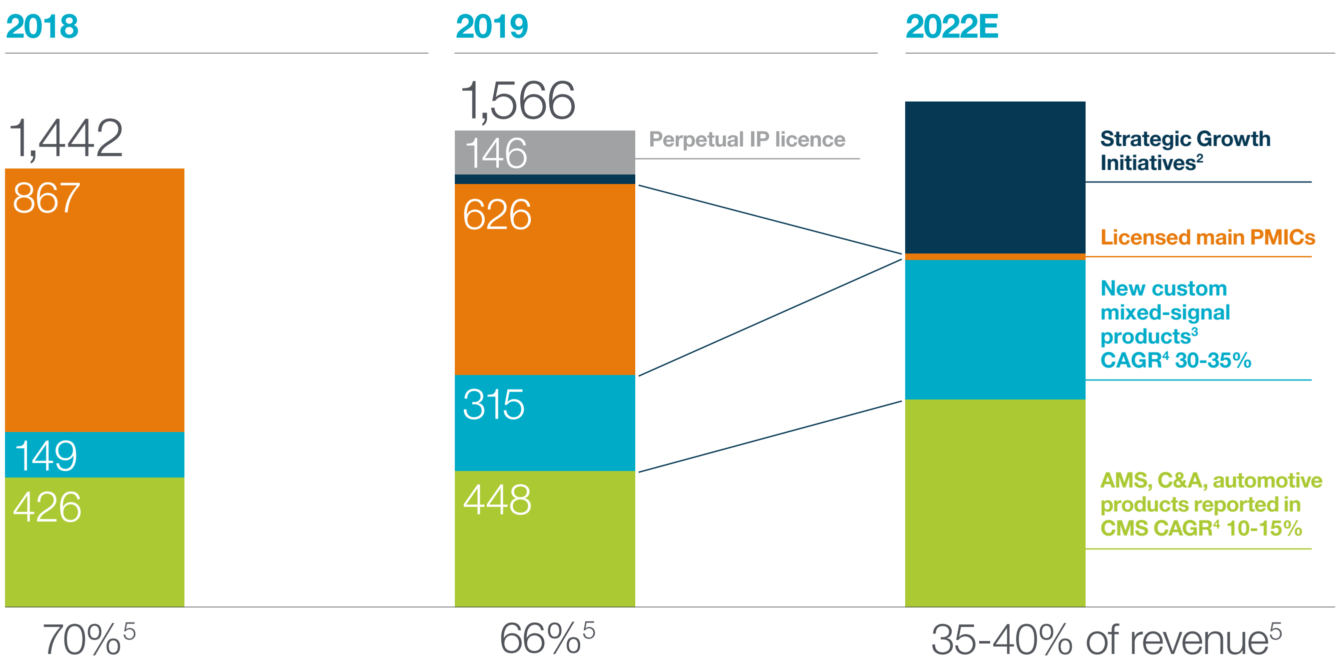
In November 2019 we updated the long-term financial targets we communicated in 2018, increasing underlying gross margin and underlying operating margin

	2019	Long-term financial targets	
Revenue growth (excluding licensed business)	+38%	Mid-teens %	Multiple long-term growth drivers in target markets
Underlying gross margin	**49.8%**	**50% to 53%**	**Expanding gross margin**
Underlying R&D%	**19.5%**	**18% to 20%**	**Focused R&D investment in target markets**
Underlying SG&A%	9.1%	8% to 10%	Expanding global sales and distribution
Underlying operating margin	**22.8%**	**20% to 25%**	**Target margin expansion**
Underlying effective tax rate	19.8%	19% to 20%	Gradual reduction

We are building a diverse mixed-signal business

Following the closing of the licensing arrangement with our largest customer, we aim to reduce customer concentration and rebalance the end-market exposure of our business.

Long-Term Revenue Profile[1] (US$m)



1 Chart not drawn to scale.
2 Includes inorganic growth and ongoing licence revenue.
3 Includes in-device charging, audio signal chain, new display and power management.
4 Revenue CAGR from 2018E through 2022E based on company projections.
5 Revenue from Apple recognised in Custom Mixed Signal as a percentage of total Group revenue.

Chairman's statement

Creating long-term value for all our stakeholders

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

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

Our focused R&D approach in high-growth segments of our target end-markets and operational excellence resulted in increasing underlying profitability and strong cash flow generation. Excluding the revenue from licensed main PMICs, the business grew 38%, despite some softness in consumer demand during the first half of the year. In 2019, we returned US$252 million to shareholders through our share buyback programme.

The Directors of Dialog Semiconductor and its subsidiaries act in accordance with a set of general duties detailed in the UK Companies Act. These include a duty to promote the success of the Company.

s172 of the UK Companies Act

A director of a company must act in the way he considers, in good faith, would most likely promote the long-term success of the company for the benefit of its shareholders. In doing so, the directors must have regard, amongst other matters, to the:

- likely consequences of its decisions in the long term;
- interests of the company's employees;
- need to foster business relationships with customers, suppliers and other stakeholders;
- impact of the company's operations in the community and the environment;
- need to maintain a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

Read more on how the Board engaged with a wide range of stakeholders on page 28

Our culture and employees

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

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

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

Read more about our employees on pages 32 to 35

Relationships with customers, partners and communities

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

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

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

Read more about our value chain on pages 44 to 47

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

Read more about our societal benefits on pages 40 and 41

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

Building a constructive dialogue with shareholders and investors

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

Read more about our relations with shareholders in our Governance section on page 89

Governance and oversight

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 challenge the Management Team.

During the year we welcomed Joanne Curin to the Board. This appointment has broadened the diversity of skills on the Board, with Joanne bringing a wealth of experience and knowledge on capital markets, M&A and finance which will be especially valuable to Dialog.

The Board is aware that our approach to governance can only be evaluated if we provide high levels of transparency. To enhance our disclosure and levels of accountability, in this year's report we are taking the first step towards integrated reporting, providing a single simplified message to our stakeholders of all the sources of value creation and preservation.

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

Outlook

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

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

Sincerely,

Richard M. Beyer
Chairman

CEO Q&A

Executing our plan to build a diverse business

Underlying operating profit

US$324m

(Operating profit US$380m*)

Underlying gross margin

49.8%

(Gross margin 54.2%*)

Year-on-year revenue growth excluding licensed PMIC products

+38%

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

Our talent, best-in-breed expertise and collaborative approach give me confidence in the future of our business.

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

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

Total Group revenue in 2019 was US$1,566 million and operating margin was 24.3%. In 2019 the business delivered 38% year-on-year revenue growth excluding revenue from licensed main PMIC products and increased underlying operating margin. Total Group underlying revenue in 2019 was 2% below 2018. During the year, we acquired FCI and Creative Chips. These two acquisitions have contributed to the expansion of our product portfolio in IoT and industrial applications.

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

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

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

Q&A with Jalal

Q How would you describe Dialog's financial performance in 2019?

I am very pleased with the financial performance of the business in 2019. Underlying revenue for the Group was down 2% but excluding the revenue from licensed main PMIC products revenue was up 38%. During the year we delivered almost US$380 million operating profit, US$324 million on an underlying basis. In addition, the business delivered US$496 million cash flow from operating activities.

We are rebalancing the end-market profile of the business, reducing its exposure to the smartphone market. Consumer demand in the high-end smartphone segment remained relatively stable during the year. Custom Mixed Signal revenue in 2019 was 7% below 2018 due to the licensing arrangement with Apple.

The number of connected devices continued to increase, resulting in the expansion of the Bluetooth® low energy market in 2019. Building on the quality of our products and market growth, Connectivity & Audio delivered 19% year-on-year growth in both underlying revenue and operating profit.

Across a range of end-markets, customers value the benefits of our Configurable Mixed-signal ICs, which delivered 5% year-on-year underlying revenue growth. The adoption of LED backlighting gathered momentum during 2019, and revenue from backlight drivers almost doubled year-on-year. Revenue from Advanced Mixed Signal grew 4% year-on-year while we expanded the product pipeline to support future revenue growth.

Q How do you see consumer Internet of Things ("IoT") and mobile computing evolving, and how would you describe Dialog's competitive position?

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

Our highly-integrated power-efficient ICs contribute to improving the battery life of mobile and connected devices. Our know-how and IP have been built over the years, working together with the leading consumer electronics companies. We have a number of new products which will generate new revenue growth over the next three years, such as leveraging our power management technology into automotive and high-voltage chargers.

We are seeing an increasing use of LED backlighting in smaller TV displays and automotive dashboards. Our technology meets today's High Dynamic Range ("HDR") requirements and is well placed to benefit from new opportunities in micro-LED displays. Rapid charge technologies continue to be adopted across Asian markets. During 2019, we saw the adoption of new technologies, such as USB PD Type C™ and higher power adapters. With a commanding market share in rapid charge for smartphones we are well positioned to continue to benefit from these trends.

Our presence in the IoT segment is built on the success and quality of our Bluetooth® low energy ("BLE") products, low power Wi-Fi, and increasingly our CMICs. The market grew in 2019 and we expect it to grow at approximately 32% CAGR for the period 2019-2023[1].

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

Q What is the M&A opportunity for Dialog?

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

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

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

Q What are the main sustainability priorities for Dialog?

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

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

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

Q Is there anything else you would like to add?

I would like to thank all our employees for their commitment and dedication. We have taken the first successful steps in building a more diverse, vibrant and ambitious mixed-signal business which will continue to create long-term sustainable value for our shareholders and other stakeholders.

I look forward to the future with confidence, together with our colleagues, customers, partners and suppliers, and our shareholders.

Dr Jalal Bagherli
Chief Executive Officer

1 Source: IHS Technology October 2019 and Company estimates.

Our business model

How we monetise our business

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

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

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

1 Design cycle

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

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

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

2 Manufacturing cycle

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 assembly and test partners are leading companies such as SPIL, ASE and UTAC. Although fabless, we are responsible for delivering our products to customers.

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

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

3 Product cycle

Dialog's focus and expertise in power management and power-efficient semiconductors contributes to better energy efficiency and lower power consumption for a range of applications in IoT, mobile and increasingly in automotive, computing and industrial.

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

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

Inputs

Our people and culture. Highly skilled engineers and talented employees supported by entrepreneurial values.

Products, IP and know-how. We invest in new product development and seek to ensure that our intellectual property ("IP") is adequately safeguarded.

Robust and responsible value chain. We promote responsible practices internally and across our value chain, which is composed of the leading foundries, assembly and test companies in the industry.

Customer relationships. A close R&D collaboration with the leading electronics companies is at the heart of what we do.

Strong balance sheet. A strong balance sheet and cash flow generation gives us the flexibility to pursue our growth strategy.

Business process

Financial flows

1 Design cycle

6-18 months

We develop our products in short and collaborative design cycles.

We operate in a competitive and changing market and are able to respond quickly to evolving customer requirements.

Investment phase

- Short development times.
- Focused R&D* investment in target markets 18% – 20% of revenue.

2 Manufacturing cycle

3 months

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

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

Investment phase

- Low capital intensity.
- Variable cost of goods sold Underlying gross margins* 50% – 53%.

3 Product cycle

1-5 years

We focus on highly-integrated power management and low-power mixed-signal ICs for our target end-markets.

Our integrated design approach helps to reduce component size and number, which improves the energy efficiency of our customers' products.

Revenue generation

- Long-term visibility.
- Long-term revenue target of mid-teens percentage growth excluding revenue from licensed main PMIC products.

Reinvestment

Strategic growth initiatives including M&A

Outputs

Highly engaged, motivated and diverse workforce

10.0%

Employee turnover in 2019

Read more about our KPIs on pages 52 to 55

New IP and power-efficient differentiated mixed-signal ICs

1,080

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

Read more on pages 42 and 43

Sustainable partner relationships

99.9%

On Time Delivery

Read more on pages 44 to 47

Close and longstanding customer relationships

72%

Customer concentration

Read more on pages 36 and 37

High returns and strong cash flow generation

US$449m

Free cash flow generation in 2019

Read more about our KPIs on pages 52 to 55

Our business model is underpinned by our values. Read more on page 05

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

Our growth strategy

Generating new revenue opportunities

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

We made good progress in 2019, moving forward with initiatives in each of our strategic priorities.

The strategic framework aims to give a comprehensive view of our business and the links between our strategy, risks and the progress made during the year.

Read about Managing risk and uncertainty on pages 72 to 77

Building a power-efficient connected world.

Our growth strategy is built on innovation, expanding our product portfolio and broadening our customer base. We strengthen our organic effort with inorganic opportunities.

We design and market power-efficient mixed-signal semiconductors.

Our values inform the way we conduct internally and how we engage with external stakeholders. It is based on collaboration, an entrepreneurial spirit, openness and an awareness of our impact in society and the environment.

Extend our product portfolio

Why it is important

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

How we measure our progress

56

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

Read more on this strategic priority in action on p14

Achieve a broader and deeper customer base

Why it is important

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

How we measure our progress

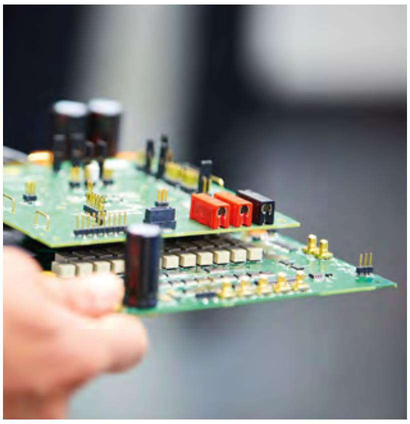
43

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

Read more on this strategic priority in action on

p15

Deliver continuous innovation



Why it is important

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

How we measure our progress

US$314m

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

Read more on this strategic priority in action on

p16

Strategic initiatives and M&A

Why it is important

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

How we measure our progress

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

Additionally we entered the industrial market with the acquisition of Creative Chips.

Read more on this strategic priority in action on

p17

Our strategic priorities

Extending our product portfolio

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

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

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

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

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

Progress in 2019

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

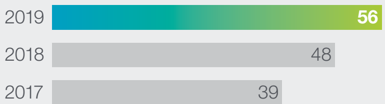
Key risks

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

How we measure our progress

56

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



Achieving a broader and deeper customer base

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

The global market[1] for headphones is forecast to grow at a CAGR of 20% generating revenues of around $34 billion.

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

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

1 Wireless Headphones Market – Global Outlook and Forecast 2019-2024 by Aritzon.

Progress in 2019

- Samsung implemented Dialog's latest family of Bluetooth® low energy wireless multicore microcontroller unit (MCU) in the latest Galaxy Fit. Samsung selected the DA14697 that supports seamless smartphone connectivity while conserving energy to extend battery life.
- Dialog's audio ICs and CMICs were adopted by Huawei for their HONOR FlyPods True Wireless Stereo ("TWS") earbuds. The DA14195 open audio platform IC is designed for active headphone type applications and combines extremely low power consumption with impressive processing performance.

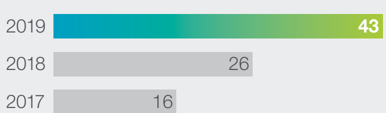
Key risks

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

How we measure our progress

43

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



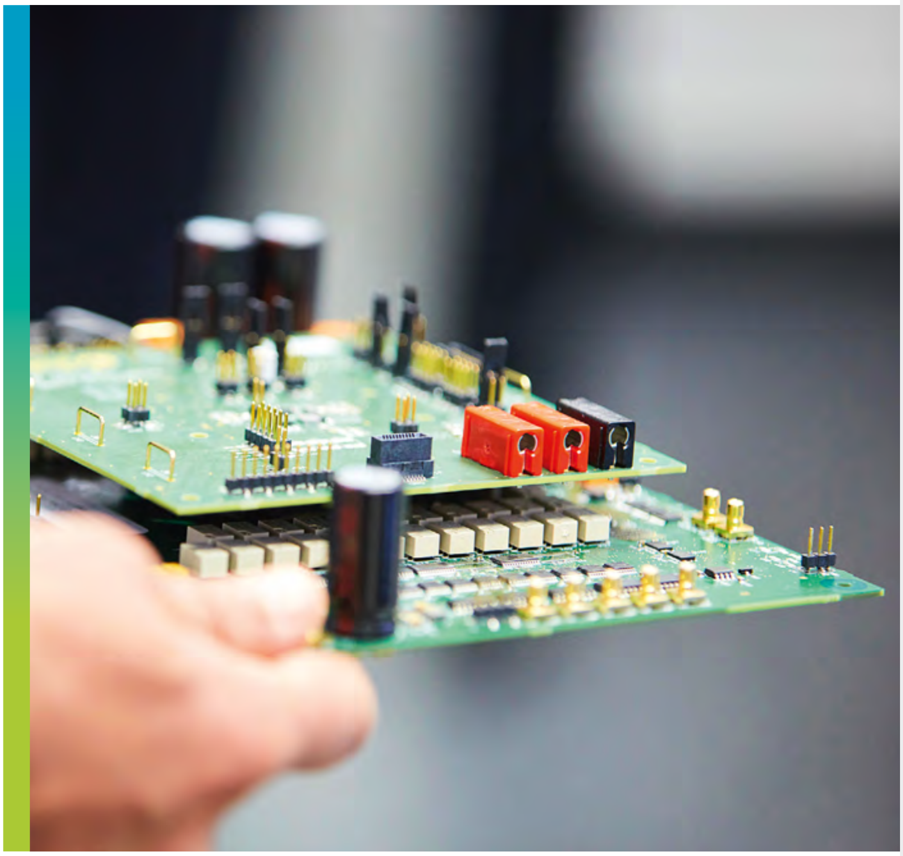
Our strategic priorities continued

Delivering continuous innovation

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

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

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



Progress in 2019

- The newest range in our SmartBond™ line is the latest family of BLE Wireless Multi-Core MCUs that has been designed to expand the range of applications that device manufacturers can create. The line offers advanced features including an integrated ARM Cortex-M33 based dedicated application processors. The devices' three integrated cores have each been carefully chosen for their capabilities to sense, process and communicate between connected devices.
- In 2019 we launched SmartBond TINY™, our smallest and most power-efficient Bluetooth 5.1 SoC. It enables a complete system cost reduction through a smaller footprint and size, while maintaining performance quality at a level unmatched by its competitors.

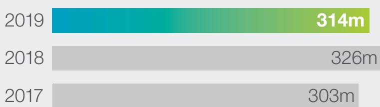
Key risks

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

How we measure our progress

US$314m

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



77%

Engineering talent ratio
(2018: 76%; 2017: 75%)

1,080

Inventions for which we are pursuing or have already obtained patent protection
(2018: approximately 860; 2017: approximately 800)

Focusing on strategic initiatives and M&A

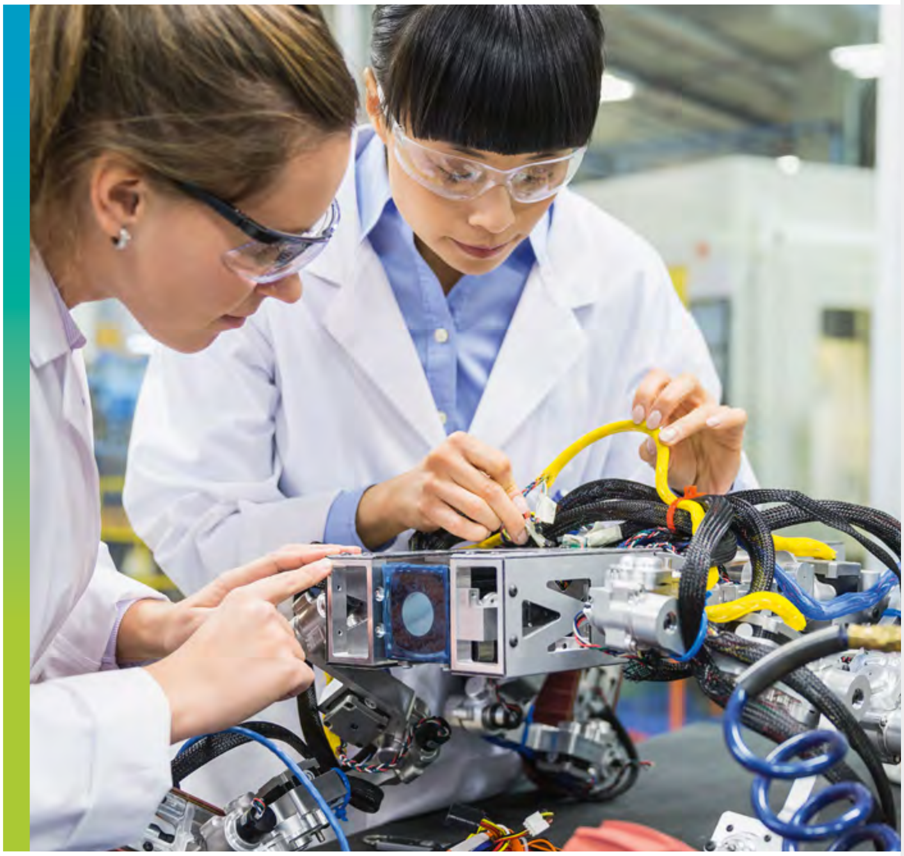
Dialog Semiconductor accelerates IoT adoption with low power Wi-Fi SoC, following the acquisition of FCI, Silicon Motion's Mobile Communications product line.

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

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

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

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



Progress in 2019

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

Key risks

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

Industry drivers

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

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

Longer battery life

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

IoT: Smart connected future

Semiconductors serve as the foundation for enabling a connected world. There will be a major focus on smaller chips that consume less power and provide better support for wireless connectivity.

The number of businesses that use the IoT technologies has increased from 13% in 2014 to about 25% today. The worldwide number of IoT-connected devices is projected to increase to 43 billion by 2023, an almost threefold increase from 2018.[1]

Technological advances are enhancing connectivity, reducing power requirements, decreasing costs, and promoting the development of more integrated IoT solutions.

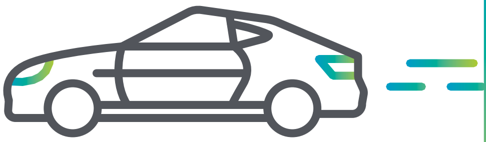
1 McKinsey & Company, "Growing opportunities in the Internet of Things", July 2019.

Rise of artificial intelligence

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

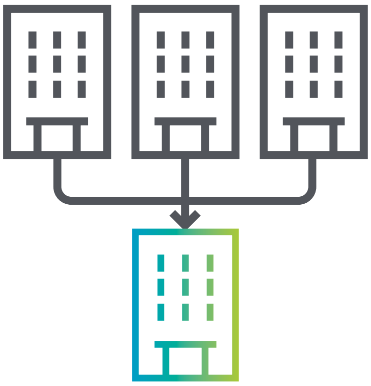
Security

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



Automotive industry

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

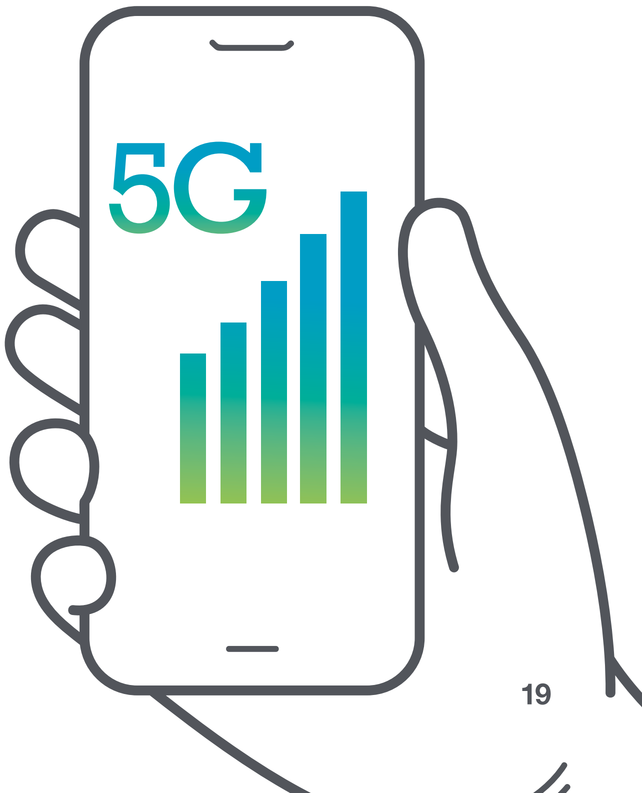


Consolidation through M&A

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

5G and AR/VR technologies

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



Industry dynamics

Top industry dynamics for the next three years

Diverse Customer Demands

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

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

Read more about our customers on pages 36 and 37

Increasing competition for talent

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

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

Read more about our people on pages 32 to 35

Cross-border regulations

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

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

Read more about our risks on pages 72 to 77

ASP* erosion

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

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

Read more about our segmental review on pages 56 to 61

* Average Selling Price.

Increasing R&D costs

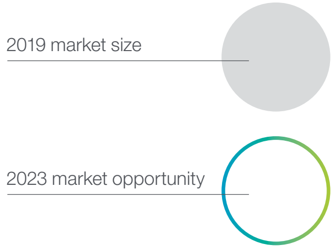
Semiconductor companies feel the pressure to innovate, with access to promising IP becoming the basis of competition.

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

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

Opportunities in our markets

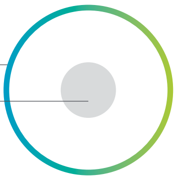
The major markets in which we operate are below* (market size in US$bn)



Bluetooth® low energy

2023
$5.52bn

2019
$1.80bn



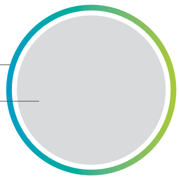
32% **CAGR 2019-2023**

Key drivers
- Increase in the number of smart connected devices.
- Very low power data transmission from peripherals to smartphones and tablets.
- Solutions enabling customers a fast go-to-market.
- Automotive qualified products from 2020.

Custom Power Management

2023
$3.16bn

2019
$2.77bn



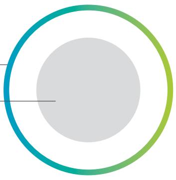
3% **CAGR 2019-2023**

Key drivers
- Increase in the number of applications using more efficient power management.
- Increasing daily use of mobile applications.
- Larger batteries and battery charge time reduction.
- Industry increase in "always-on" applications.
- Acceleration of mobile technology into the automotive space.

Automotive – Custom & Infotainment

2023
$2.67bn

2019
$1.64bn



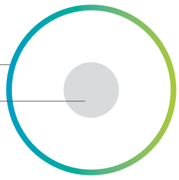
13% **CAGR 2019-2023**

Key drivers
- Increasing electrification of vehicles.
- Higher levels of data processing requiring more complex and power-hungry technologies.
- Adoption of latest safety features.

Low Power Wi-Fi

2023
$5.52bn

2019
$1.80bn



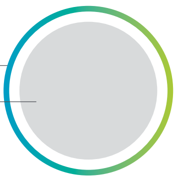
32% **CAGR 2019-2022**

Key drivers
- Increase in the number of smart connected devices.
- Increasing number of battery operated devices which require Wi-Fi connection.
- Solutions enabling customers a fast go-to-market.

Configurable Mixed-signal ICs

2023
$5.49bn

2019
$4.46bn



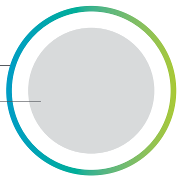
5% **CAGR 2019-2023**

Key drivers
- Consumer markets requiring reliable and cost sensitive products, as well as fast time-to-market.
- Replacement of discrete components makes CMICs market agnostic.
- Increasing integration to reduce board space and the number of components.

Rapid Charge (AC/DC)

2023
$0.38bn

2019
$0.28bn



8% **CAGR 2019-2023**

Key drivers
- Larger smartphone/mobile device batteries and higher power adapters needed to charge them.
- Consumer demand for faster mobile device charging and smaller travel adapters/power supplies.

* IHS Technology October 2019 and Company estimates.

Powering the future: automotive

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

Dialog Semiconductor has a long-established position as a premium supplier of automotive integrated circuits ("ICs"). Originally formed as a spin-out of Daimler-Benz, Dialog supplies a broad range of ICs to the automotive industry and is a qualified supplier to leading OEMs in Europe and Asia Pacific.

Learn more online, at
dialog-semiconductor.com

Alignment to our goals

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

What's next?

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

Chassis and safety

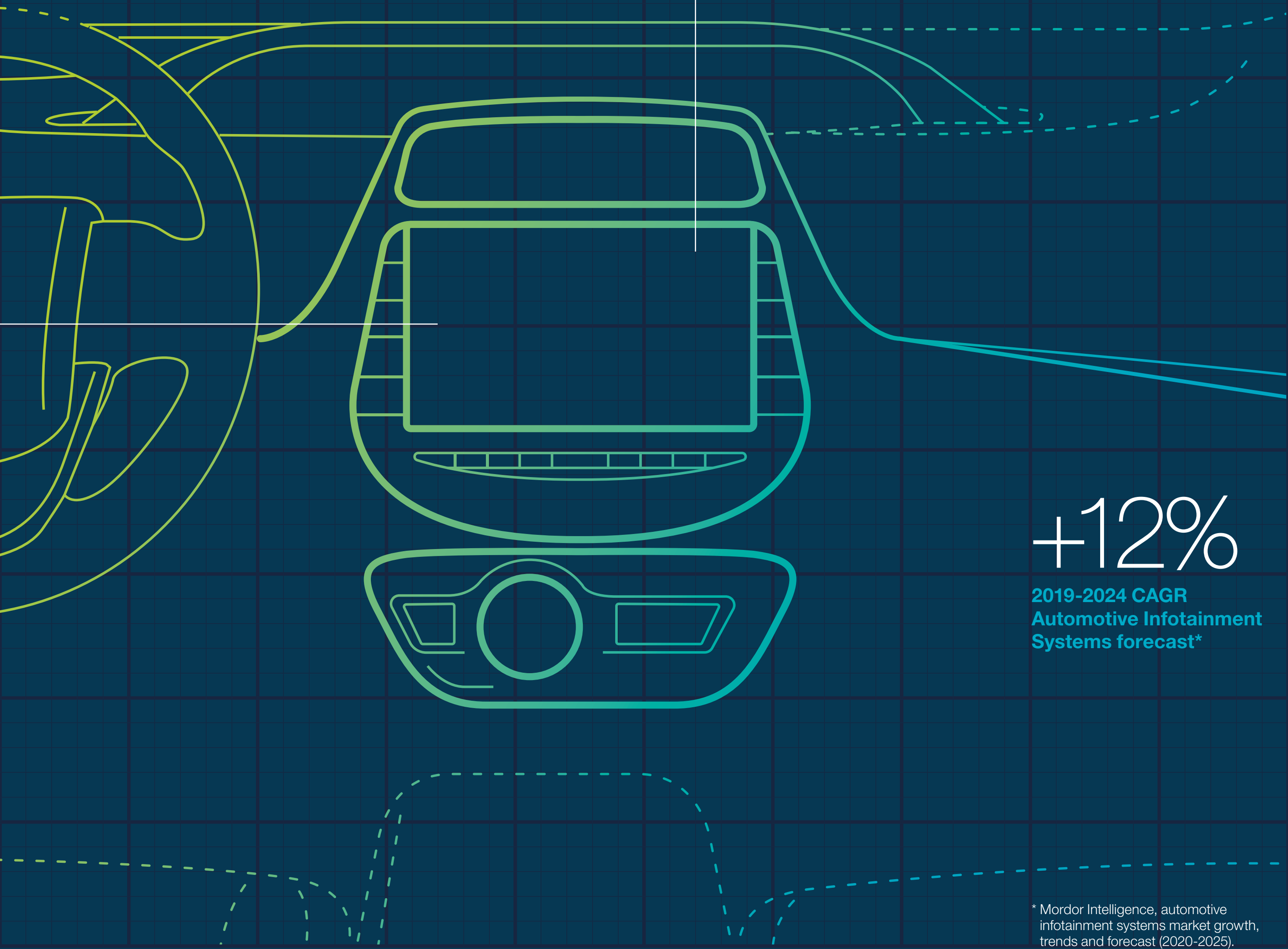
Our sophisticated PMICs power high-performance applications processors in Advanced Driver Assistance Systems (“ADAS”) where complex power delivery and thermal efficiency are key requirements.

Digital displays

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

Body and security

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



+12%

2019-2024 CAGR Automotive Infotainment Systems forecast*

* Mordor Intelligence, automotive infotainment systems market growth, trends and forecast (2020-2025).

Powering the future: wearables

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

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

Learn more online, at
dialog-semiconductor.com

What's next?

Wearables are increasingly interacting with other smart devices, such as clothing accessories, headphones and glasses incorporating miniaturised technology.

All this data will enable us to understand activity patterns and make healthier lifestyle choices.

#1
in wearables

over 300m
units sold since launch

Alignment to our goals

3 GOOD HEALTH AND WELL-BEING

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

The first Bluetooth® low energy solution for wearables

The DA1468x family offers the processing power and strong data encryption needed for enhanced analysis and secure data delivery in next-generation devices.

At the cutting edge of wearable technology

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

Samsung Galaxy Fit

In 2019, Samsung implemented the DA1697, making it one of the first wearables on the market utilising this SoC, delivering a robust battery life.

Samsung needed a power-efficient product that would ensure its wearable device could keep up with user expectations tracking sleep analysis, fitness activity and stress levels.

Who we engage with and why?

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

Government/ Regulators

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

Form of engagement
- Government consultations.
- Regulatory enquiries.
- Global Semiconductor Alliance.

Frequency of engagement
- Ad hoc.

What do they care about?
- Environmental regulations.
- Product standards.
- Sector wide issues.

Read more on pages 40 and 41

Employees

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

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.

Form of engagement
- Employee annual reviews.
- Employee survey.
- Regular communications on Company intranet.
- Global sustainability Group representatives from each office.
- Round table with the Board in our Germering office.

Frequency of engagement
- At least monthly.
- Quarterly Group conference calls.

What do they care about?
- Company strategy.
- Employee turnover.
- Learning and development.
- Terms of employment.
- Involvement in sustainability activities.

Read more on pages 32 to 35

Customers

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

Our passion for innovation and the quality of our products are a source of value to our customers.

Customer engagement helps us increase the value we bring into our products and our performance.

Form of engagement
- Customer service feedback.
- Customer audit activity.

Frequency of engagement
- Monthly to annual contact with key customers.

What do they care about?
- Product design.
- Product quality and price.
- Delivery schedules.

Read more on pages 36 and 37

Community

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

In 2019, we invested US$101,000 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.

Form of engagement
- Annual report.
- Community projects.

Frequency of engagement
- Monthly to annual contact with local communities.

What do they care about?
- Donations and in-kind support.
- Sponsorship of female engineering students.
- Collaboration with UKESF.

Read more on pages 40 and 41

Suppliers

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

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.

Form of engagement
- Procurement contract tenders.
- Supply chain audits.
- On-site presence at fabrication plants.
- Performance reviews.

Frequency of engagement
- At least daily with respect to major suppliers.

What do they care about?
- Product quality and price.
- Delivery schedules.
- Management of identified issues in the 2019 audit process.
- Implementation of the 2020 auditing process.

Read more on pages 44 to 47

Investors

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

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.

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

Frequency of engagement
- At least daily.

What do they care about?
- Competition for talent and diversity.
- Technological trends.
- Company performance.
- Business strategy and customer concentration.
- Supply chain management.
- ESG topics such as remuneration and gender diversity.
- Capital allocation.

Read more on page 89

Corporate reporting in 2019

How the Board performed its duties under s172 of the Companies Act

Maintaining our high standards of business conduct

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

See our corporate governance statement on pages 86 to 91

Shareholders

All our Board members attended the Annual General Meeting in May 2019, and were available to meet shareholders.

At the Board meeting in February 2019, a third-party independent adviser presented the outcome of an investor perception study. The study covered a wide range of areas and aimed to provide a comprehensive view of investor perceptions about the Company, its strategy, management and the way it conducts business. Following this, our Chairman met with shareholders in London and Frankfurt.

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

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

Employees

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

Additionally, the October Board meeting was held in Germering, Germany. This provided an opportunity for Board members to visit our design centre, engage directly with employees and experience first-hand how the Company culture and values are embedded in the organisation.

Customers

The CEO, as well as the General Managers and Senior Vice Presidents of each business segments, are in frequent contact with our main customers.

Close R&D collaboration with many of our customers sits at the heart of our business model and helps us to create value.

Therefore, customer engagement takes place at multiple levels through our R&D and Sales functions, and their views are embedded in the business plans and proposals presented to the Board.

Suppliers

Our culture promotes long standing and close collaboration with our key suppliers and partners. In 2019 our CEO met with the CEO of TSMC, our largest foundry partner.

The views of partners and suppliers, particularly on the manufacturing side, are embedded in the business plans and proposals presented to the Board.

In the UK, every six months we report on our payment policies, practices and performance. See our latest reported data at https://check-payment-practices.service.gov.uk/search

Community and the environment

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

See more on pages 50 and 51

Non-financial information statement

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

Reporting requirements	Policies and standards which govern and inform our approach	Reference in 2019 Annual Report
Environmental matters	– ISO9001, ISO50001, ISO14001 – Quality, Environmental and Energy Policy	Environmental responsibilities pages 38 and 39
Employees	– Code of Business Conduct – Country specific HR policies	Our people and culture pages 32 to 35
Human rights	– Code of Business Conduct – Supplier Code of Conduct – Global Data Privacy Policy – Conflict Minerals Policy	Robust and responsible supply chain pages 44 to 47
Social matters	– Community engagement and Corporate Giving Programme	Societal benefits pages 40 and 41
Anti-corruption and anti-bribery	– Code of Business Conduct – Modern Slavery and Human Trafficking Statement – Code of Dealing	Business ethics pages 48 and 49
Business model	– n/a	Business model pages 10 and 11
Principal risks and uncertainties	– Risk Management Charter – Confidential Information and Intellectual Property Policy	Principal risks and uncertainties pages 72 to 77
Non-financial key performance indicators	– n/a	KPIs pages 52 and 53

Reporting scope and the boundary

The 2019 Annual report and accounts incorporates the strategic report and the consolidated Group financial statements, both of which have been approved by the Board of Directors ("the Board"). The strategic report represents our first steps towards aligning our reporting practices with the International Integrated Reporting ("IR") Framework.

The materiality assessment process (undertaken in conjunction with a third party), and the list of material issues arising from stakeholder engagement and analysis of the external environment, are disclosed on pages 30 and 31 of this report.

The contents of this report are guided by the provisions of the Companies Act 2006, the UK Corporate Governance Code, and the Disclosure Guidance and Transparency Rules. The report also applies the Global Reporting Initiative ("GRI") Standards and makes a "GRI-referenced" claim, whereby the list of GRI Standards referenced in this report are available in the GRI Table on pages 190 and 191. Furthermore, we have mapped for the first time our business outputs to the United Nations Sustainable Development Goals ("UN SDGs"), and aim to continue to focus our efforts on those goals where we can make the most meaningful contribution. Our approach to SDG mapping is set out below.

Finally, this report also represents our "Communication on Progress" against the United Nations Global Compact ("UNGC") ten principles, to which we have been fully committed since 2012.

United Nations Sustainable Development Goals ("UN SDGs")

Dialog supports the UN SDGs with our existing programmes and technology that contribute to progress against six of the 17 SDG goals. The section below explains how the outputs of our business contribute towards these six SDG goals:

Output
Highly engaged, motivated and diverse workforce:

Quality education

Dialog inspires the innovators of the future through our support for science, technology, engineering and maths ("STEM") subjects, particularly amongst female students. This includes our community engagement activities; student sponsorships; collaboration with universities; our support for the Women in Engineering Society and the UK Electronics Skills Foundation; as well as employee volunteering.

Gender equality

Dialog takes equality and equal opportunity for all employees very seriously. In line with our corporate values we conduct business ethically, honestly, and in full compliance with applicable laws and regulations. This applies to every business decision in every area of Dialog worldwide. The principles enshrined in our Code of Business Conduct promote openness, integrity and high ethical standards in all business dealings.

We are making efforts to raise awareness amongst women, both inside and outside the Company, of the exciting careers in engineering.

See more on pages 50 and 51

Decent work and economic growth

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

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

Output
High returns and strong cash flow generation

Industry, innovation and infrastructure

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

Read more about our long-term financial targets on page 05

Output
New IP and power-efficient differentiated mixed-signal ICs

Good health and well-being

Dialog is increasingly engaged in the connected health segment with our short range connectivity technology. We are working with leading pharmaceutical and medical equipment companies to develop next generation connected medical devices that improve people's lives.

See more on pages 24 and 25

Industry, innovation and infrastructure

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

See more on pages 42 and 43

In April 2019, one of the leading consumer electronics OEMs in the industry licensed certain of our main power management technologies.

Climate action

Our power-efficient technology helps to extend the battery life of over a billion consumer applications. Highly integrated designs reduce the number of components and materials consumption.

Although fabless, we seek to minimise our carbon footprint and offset all travel CO_2 emissions.

Output
Sustainable partner relationships

Decent work and economic growth

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

Dialog is committed to fair wages, healthy and safe working conditions, respect for human and labour rights, and honest relationships. We have adopted the Responsible Business Alliance ("RBA") standard as part of our own Supplier Code of Conduct to ensure that working conditions for both external suppliers and employees are safe and that all workers are treated with respect and dignity.

Read more on our supply chain on pages 44 to 47

This is in addition to adopting principles from the International Labour Organisation Standards ("ILO"), Universal Declaration of Human Rights ("UDHR"), Social Accountability International ("SAI"), and the Ethical Trading Initiative ("ETI").

Managing our resources and relationships

Managing our resources and relationships to create a sustainable business model.

Vision

To embed sustainable and responsible practices into the way we act internally and engage externally in order to preserve and create long-term value for a wide range of stakeholders.

Applicable external standards

- United Nations Global Compact (since 2012).
- ISO14001 environmental management system standard.
- ISO9001 quality management system standard.
- ISO50001 energy management system standard.
- Global Reporting Initiative Standards (GRI Standards).

Management Approach

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

Where sustainability management performance issues are of sufficient importance, responsible departments will report these directly to the Board on an ad hoc basis.

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

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

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

Read more on pages 50 and 51

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

Dialog 2019 Materiality Matrix

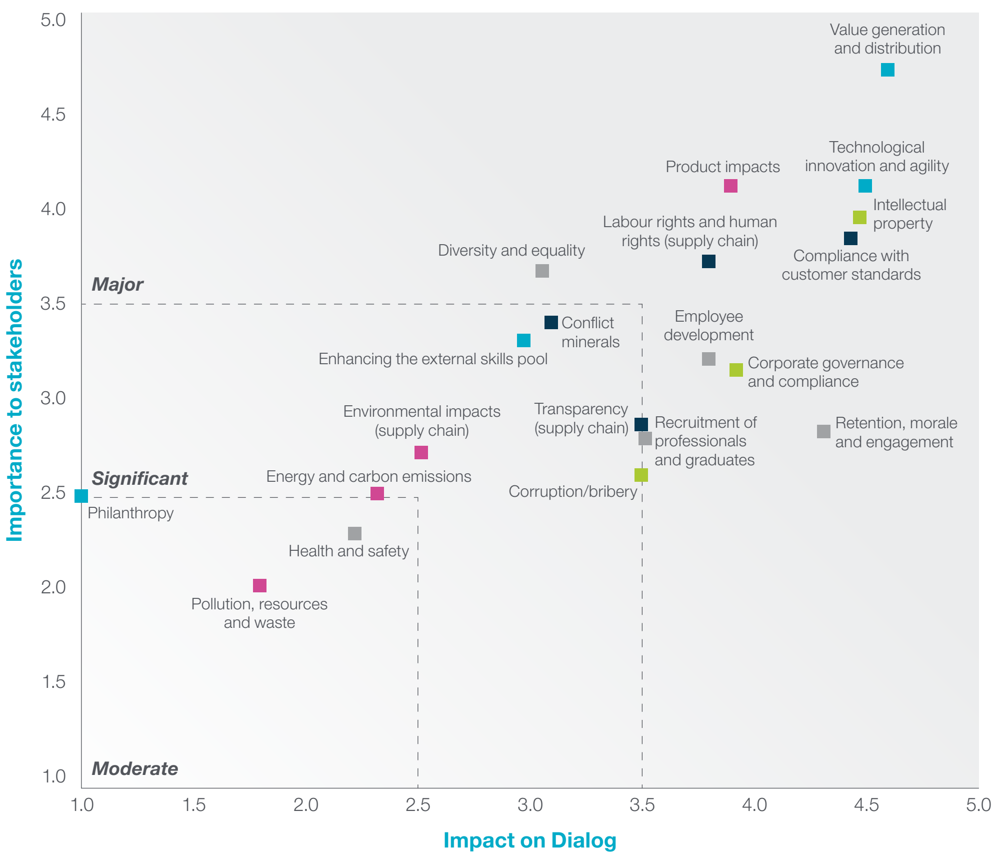
Our bi-annual in-depth materiality assessment did not result in any major changes to our core issues. During the interviews with our stakeholders the following three topics were raised as significant focus points:

- Diversity and equality;
- Supply chain transparency; and
- Energy and carbon emissions.

Additionally, in 2019 we renamed "Economic performance and impact" as "Value generation and distribution" in order to reflect the holistic nature of our economic impact on a wide range of stakeholders.

Key

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



– Energy and carbon emissions moved up to the significant material issue quadrant of the matrix. Although as a fabless company, Dialog has a low carbon footprint, several external stakeholders raised the increasing importance of this area for the industry as a whole.

In 2019, we took the first step towards the development of an integrated annual report.

During the year, we continued to strengthen our audit verification process relating to human and labour rights, health and safety, and the environment.

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

In addition, external stakeholders raised the following two areas for further discussion:

– Product impacts: the importance of managing product impacts throughout the entire product cycle was raised by our external stakeholders on several occasions; and
– Corporate governance: a wide range of external stakeholders, and in particular investors, are placing further scrutiny on a number of ESG topics. Following the feedback of the investor perception study we undertook in early 2019, our Chairman met with shareholders in London and Frankfurt to discuss remuneration, long-term strategy, diversity and various other governance topics.

Our values define how we engage with stakeholders

At Dialog, we are a team. We work together with our internal and external stakeholders and we aim to build strong long-term relationships. This is an important element of our Company values.

Close R&D collaboration is at the heart of our customer relations. We work with the leading consumer electronics companies. We engage with our customers to better understand their requirements and their perception of the quality of the products we design for them. This helps us increase the value we bring into our products and our performance.

Read more about our customers on pages 36 and 37

Over the years, we have built strong and responsible relationships with our foundry, test, and packaging partners, as well as the communities within which we operate. Over time, our engagement has evolved into a close collaboration.

Dialog employees are based in many of the premises of our partners, further strengthening these relationships. We undertake annual audits of our existing fabrication partners covering operational and sustainability aspects to help ensure these align to our expectations and performance standards.

Read more about our fabrication partners on pages 44 to 47

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 and seek mutually beneficial relations with a wide range of stakeholders who share the economic value created.

Read more about governance on pages 78 to 91

Our core material issues in 2019

Core material issues	Change from 2018	Mapping to business issue
Value generation and distribution	No change	Society
Technological innovation and agility	No change	Society
Intellectual property	No change	Business ethics
Compliance with customer standards	No change	Value chain
Product impacts	No change	Environment
Labour rights and human rights (supply chain)	No change	Value chain
Retention, morale and engagement	No change	Employees
Employee development	No change	Employees
Corporate governance and compliance	No change	Business ethics
Diversity and equality	No change	Employees

New material issue   No change   Re-prioritisation of material issues

Managing our resources and relationships continued

Our people and culture

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

Julie Pope
Senior Vice President, Human Resources

Named as one of top 100 most influential Women in Engineering, 2019

Context

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

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

Management approach

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

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

Employees in engineering functions

77.3%

New employees globally in 2019

459 (64 net reductions)

2019 headcount

2,036 (2018: 2,100)

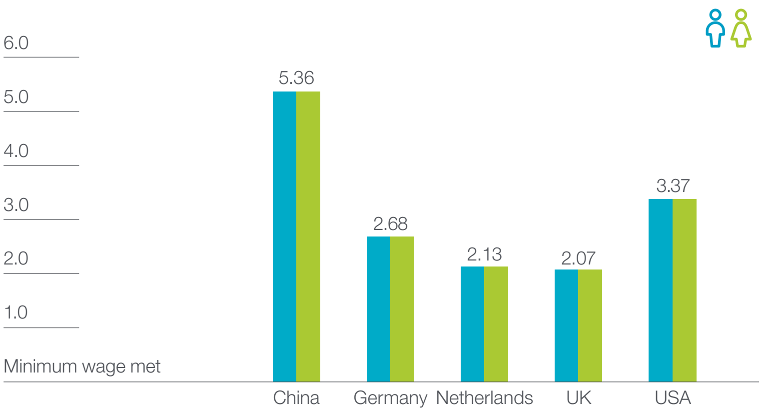
We are focused on maintaining a sustainable skills pipeline – ranging from the identification and recruitment of high-potential undergraduates through to the attraction of experienced experts. We take a holistic view towards both recruitment and retention that looks beyond the provision of competitive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

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

Performance

	2019	2018
Employee turnover (%)	**10.0**	10.7
Employee retention (%)		
Manager retention rate	**95.6**	91.0
Overall employee retention rate	**90.0**	89.3
Engineering talent ratio (%)	**77.3**	76.1
Diversity (%)		
Women overall	**19.1**	17.6
Part-time employees	**3.3**	3.4
Number of nationalities	**66**	69

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

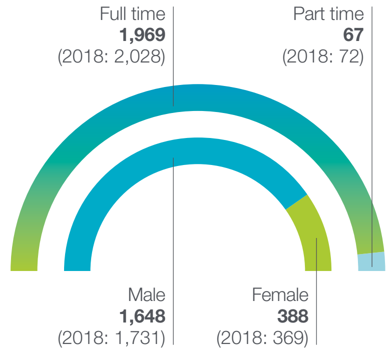


Note: The standard entry level is the entry level for professionals after completed university education. Minimum wage figures used are the rates effective in January 2020. For the US the California minimum wage rate has been used, and for China the Shenzhen minimum wage rate.

Overall workplace profile[1]

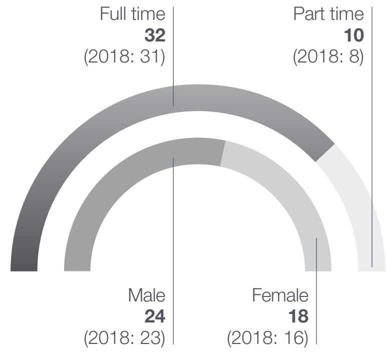
Permanent employees

2,036



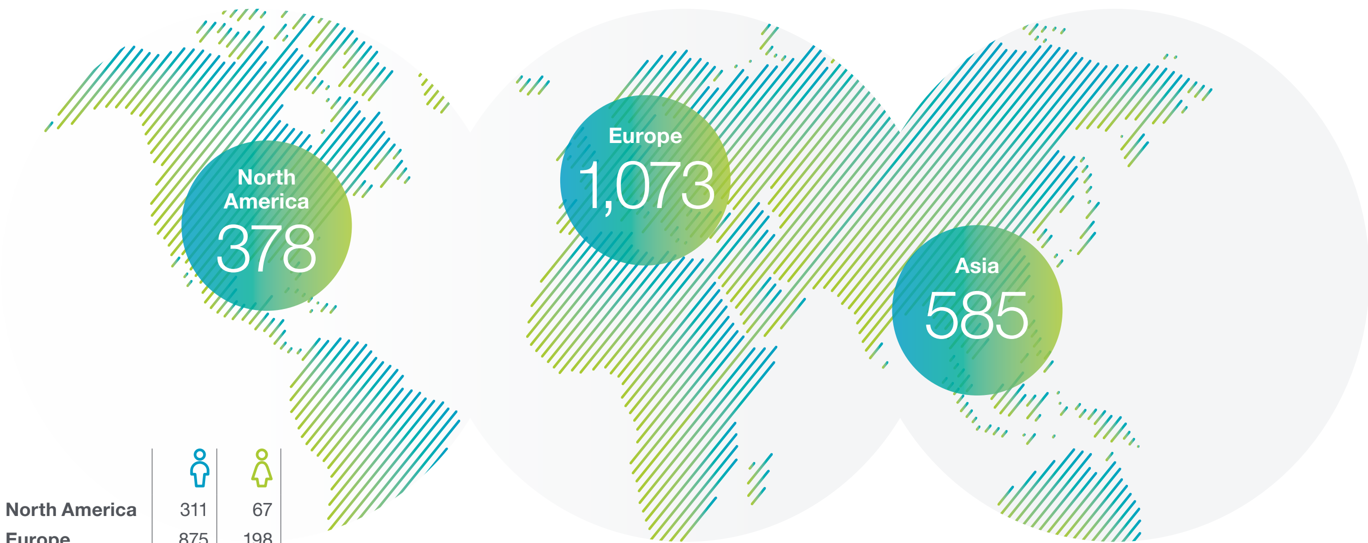
Temporary employees

42



1 The temporary employee category is made up of employees on fixed-term contracts. Please note that we do not make material use of workers who are legally recognised as self-employed.

Geographic distribution of workforce



	Male	Female
North America	311	67
Europe	875	198
Asia	462	123

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

Managing our resources and relationships continued

Our people and culture continued

Key issues and initiatives

Talent identification and recruitment

We have a proactive recruitment model that utilises multiple channels to attract the best available talent.

We run targeted recruitment campaigns to ensure we are attracting talent at all levels on a global scale.

Key components of our recruitment approach include:

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

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

Experienced hires

In 2019, we welcomed 459 new employees globally and successfully integrated FCI and Creative Chips employees into our teams in Korea, China, Taiwan, Japan, US and Germany.

We are particularly proud that our efforts in relation to retention have resulted in an improvement in attrition from 10.7% to 10.0%.

Ongoing talent, development and succession planning

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

Coaching and developing is an important aspect of employee life at Dialog. We offer employees a wide variety of development opportunities and encourage a 70/20/10 development split of on the job learning (70%), feedback and mentoring (20%) and classroom learning (10%).

To ensure our employees maintain leading-edge technical capabilities, we invest heavily in the development of Dialog's engineering population. In 2019, we continued to deliver key technical leadership skills development workshops for our analog, digital and technical populations. Engineers are able to access development opportunities appropriate to their needs through internally run courses, cross-functional projects and mentoring.

We also recognise the value of an external perspective, and facilitate attendance at key external courses and conferences. We continually measure the impact of training by the percentage increase in competence.

In addition to their accountabilities to our customers, our managers and leaders coach and mentor their own teams with technical skills and advice. In support of this critical population, we continue to expand the reach and scope of our manager development programmes. In 2019, the total number of training hours for our managers was 3,306, with an average of 13 training hours per person.

Diversity and inclusion

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

We recognise the value a diverse workforce can bring in terms of creativity, innovation 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 roles – irrespective of their gender, ethnicity, religion, disability or any other non-work related personal characteristic. In 2019, there were no allegations of discrimination made with respect to our employees.

There is a small population of women in engineering and the electronic engineering sector performs even lower in terms of gender diversity. Reflecting this external position, women are also under-represented in our workforce. Female representation on our Board of Directors is 25%, and within our Executive Team and their direct reports is 18%.

We acknowledge and respect differences between and within cultures and are committed to promoting respect, fairness and equal opportunity for all employees, irrespective of their gender, race, ethnicity, beliefs, sexual orientation, disability as well as diversity of thought and experience.

In 2019, our global gender balance was 80.9% men to 19.1% women, a 1.5% increase in female representation from 2018. Skills and professional expertise form the basis of Dialog's recruitment processes, and our job offers are gender-neutral, ensuring a bias-free selection. We remain committed to encouraging more women to apply for roles within Dialog and participate in several initiatives that support women in engineering.

In 2018 we began the Female at Dialog awards with UK Electronics Skills Foundation ("UKESF"), which included two engineers completing an internship during their first university summer break in 2019. We are continuing with this in 2020 with additional students with the aim to hire into graduate roles.

In 2019, we partnered with the Women in Engineering Society ("WES") to work towards increasing the number of women engineers in the Company. Being partnered with WES has allowed our female employees to gain free membership and access to WES events.

We know the importance of attending external diversity events and we encourage our employees to attend events to learn from the market. In 2019 female engineering managers and members of the HR team attended the 2019 Women in Engineering Leadership Conference to further their understanding of best practice in this area.

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

Our Senior Executive Team has visited different locations hosting Round Table Meetings to gather feedback and opinions on gender diversity at Dialog from our workforce. We aim to continue these discussions in 2020 with the focus on additional diversity topics.

Equal pay is an area which we monitor closely and our salary systems, regular reviews and processes are designed to avoid any gender-based discrimination.

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

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

We will continue to focus on how we can improve diversity within Dialog and to further our efforts we have appointed a Diversity and Inclusion lead within our HR department to work across the organisation and build a channel for listening to our diverse population and implementing changes.

Since this appointment some of the actions have included:

- Defined an annual calendar of events to celebrate and raise awareness of diversity globally.
- Enhanced our recruitment efforts in the area of diversity including, a commitment to continue to work with our university partners to increase the pipeline of female engineers in Dialog. We are keen to continue to raise awareness of our exciting career opportunities amongst women, both inside and outside the Company.
- Improved our parental leave policies in the UK, with the intention to extend this globally in further support of a diverse and inclusive working culture.

Employee engagement and communication

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

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

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

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

Employee reward and recognition

We offer market-competitive pay and employee benefits, along with opportunities for individual and team recognition, all within a supportive working environment.

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

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

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

Forward focus areas for 2020

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

Managing our resources and relationships continued

The strength of our customer relationship

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

John Teegen
Senior Vice President, Worldwide Sales

Context

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

Management approach

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

Read more about our values on page 05

The Dialog Management Team cultivates key relationships with all our top customers. We build those relationships on the solid foundations of the tangible benefits our technology brings (such as a low power configurable or customised silicon coupled with a fast time-to-market) and excellent customer support.

Our top five customers in 2019 were, Apple, Samsung, Xiaomi, Panasonic, and Vivo. These are multi-year relationships, and in some cases, they extend over ten years. We supply a diverse and expanding range of products to most of our largest customers. Our aim, aligned with our corporate values, is to become a strategic supplier and ensure a mutually beneficial relationship. The value we bring is built on a combination of leading-edge products and excellent support.

Performance

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

See details of customer concentration in the Risk section on page 73.

During 2019, we closed the agreement with Apple Inc. announced in October 2018. Since closing the agreement with Apple, we were awarded several new designs in an expanded product area of focus for Dialog, which is a testament to the strength and quality of our mixed-signal technology, and strong relationship. The addition of two acquisitions in 2019 (FCI and Creative Chips) is accelerating our expansion in our target end-markets. In addition, the widening Dialog product portfolio allows us to not only address a larger customer base but deepen our penetration in our current key customers.

Key issues and initiatives

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

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

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

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

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

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

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

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

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

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

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

Forward focus areas in 2020

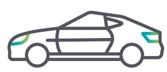
- Continue to broaden our customer base.
- Deliver best-in-class customer support.
- Undertaking targeted actions to address customer complaints and eliminate the recurrence of any issues.
- Adherence to technical, social responsibility and quality control requirements.

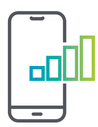
Our target end markets

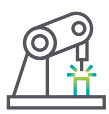
We are focused on high-growth segments of our target end markets.


Internet of Things


Computing & storage


Automotive


Mobile


Industrial

Managing our resources and relationships continued

Environmental responsibility

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

Alex McCann
Senior Vice President, Global Operations

Context

Our products themselves are based around a range of energy-efficient IC solutions, and we aim to have a positive impact on the wider environment through the development and marketing of energy-saving technology. We make ongoing efforts to minimise our:

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

Management approach

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

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

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

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

Performance

Energy and carbon emissions

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

Scope 1*
Direct emissions from self-generation.

	Total	Per employee
2019	60.8	0.03
2018	81.2	0.04

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

	Total	Per employee
2019	1,011.3	0.50
2018	1,170.3	0.56

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

	Total	Per employee
2019	3,709.6	1.82
2018	4,203.6	1.99

* Emissions from our two largest technical competence centres – Nabern and Swindon.

Key issues and initiatives

Pollution, resources and waste

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

Recycling

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

Use of natural resources

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

Forward focus areas in 2020

- Achieving the objectives of our 2020 Environmental Goals Programme.
- Continue our efforts to reduce carbon emissions, pollution and waste, and the use of natural resources.
- Continue our efforts to reduce carbon emissions, pollution and waste, and the use of natural resources.

Managing our resources and relationships continued

Societal benefits

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

Julie Pope
Senior Vice President, Human Resources

Named as one of top 100 most influential Women in Engineering, 2019

Context

Like any business, we seek to generate profit for our shareholders. In pursuit of this aim, we also generate broader economic value, much of which is distributed to a wider set of stakeholders – including employees, suppliers, host governments and other beneficiaries.

Our position at the forefront of semiconductor R&D means we are constantly helping to advance scientific knowledge in this area – laying the ground for future technological innovation, whether by ourselves or others. Likewise, the nature of our products means we play an integral role in helping millions of end-users access affordable and life-enhancing technology.

Management approach

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

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

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

Read more about our values on page 05

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

Performance

Direct impacts

Our most important means of distributing value are through:

- Payments to our employees and employed contractors (including both wages and benefits);
- Payments to other businesses, including our fabrication partners and other suppliers;
- Payments to government, including taxes;
- Community investment spending; and
- Payments to our providers of capital.

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

Community engagement and corporate giving

Dialog has an active community engagement and community investment programme, and in 2019 we invested approximately US$101,000 to various causes aligned with our business objectives (2018: US$154,000). The Corporate Giving Policy encourages employees to engage with the communities in which they work. The policy places a stronger emphasis on activities to which we can bring additional value through our expertise and business activities.

Given the ongoing opportunities for the expansion of our business, as well as the ever increasing demand for advanced semiconductor technology, this positive impact is expected to grow.

Indirect impacts

In addition to our direct economic impacts, we also generate a range of indirect economic impacts, including through:

- The application of our technology to improve the capabilities and portability of handheld electronic devices (amongst others). This enhances the ability of our customers to develop and market enhanced consumer products – as reflected in the recent boom in advanced mobile communications and wearable technology. In turn, this has helped support the creation and maintenance of jobs amongst suppliers and customers working in this exciting sector. Furthermore, it also supports the delivery of ever-more productive and portable communications and computing technology to end-users. In 2019, for example, we shipped in excess of 2.5 billion integrated circuits; and
- The enhancement of skills and knowledge within the electronic engineering community through our range of pre-employment educational initiatives, our recruitment and development of high-quality graduate electronics engineers, the experience our senior engineers gain by working on cutting-edge products and our considerable investment in R&D.

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

Forward focus areas in 2020

- Attracting female talent to STEM subjects and to our industry through our collaboration with universities, industry bodies and engineering organisations.
- Continue the development of community engagement activities.

Total value generation and distribution by type (US$ millions)	2017	2018	2019
Economic value generated	1,352.8	1,442.1	**1,566.2**
Economic value distributed	1,183.1	1,304.2	**1,320.8**
Operating costs[1]	881.3	933.7	**906.6**
Employee wages and benefits[2]	274.5	311.2	**318.6**
Payments to providers of capital	1.3	3.1	**11.3**
Payments to government	25.8	56.0	**84.1**
Community investments	0.2	0.2	**0.1**
Economic value retained	169.7	137.9	**245.5**

1 Excluding employee wages and benefits and property tax.
2 Including share-based payments.

Managing our resources and relationships continued

Our IP and products

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

Mark Tyndall
Senior Vice President, Corporate Development and Strategy

Context

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

The protection of intellectual property is vital for any business focused on the creation of innovative and high-value technological solutions. Any failure in this regard could have profound consequences for the value of our inventions, products and our Company. Furthermore, our semiconductors are specifically designed for integration as components into our customers' own products. This means we necessarily access and work with customers' intellectual property and/or commercial and technological secrets. This requires a high degree of trust on the part of our customers, whose business we would lose were this trust to be broken.

Management approach

We are advancing mixed-signal circuit technology in a range of areas, including:

- Mobile power management;
- Power conversion;
- Bluetooth® low energy connectivity; and
- Configurable mixed-signal ICs.

Given the rapid evolution of technology and fast-moving consumer demands, the sustainability of our business requires us to stay at the cutting edge of these technologies. As a result, we invest a significant amount into R&D. In 2019 we invested US$314 million on R&D activities or 20.0% of our total revenue (2018: US$326 million, 2017: US$303 million; 2018: 22.6% of revenue, 2017: 22.4%).

The Senior Vice President and General Manager of each business is responsible for technological innovation.

We ensure that all intellectual property is safeguarded through the application of:

- A dedicated Intellectual Property Policy (as well as related Information Technology and Intellectual Property Security Policies). Together, these address issues such as data security, the regulation of external communications and incident management;
- Related restrictive provisions in both our Code of Business Conduct and our contracts of employment;
- Robust information technology systems to prevent data leakage; and
- Access controls to specific project data for employees and third parties.

Performance

Protecting intellectual property

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

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

	2017	2018	**2019**
Registered	94	102	**128**
Filed	112	119	**119**

As at 31 December 2019 we had approximately 1,080 inventions (2018: approximately 860; 2017: approximately 800) for which we are pursuing or have already obtained patent protection, 830 (2018: 673; 2017: 574) of which have already been granted in the United States. While intellectual property protection around this technology means it will not be shared in the short to medium term, in the long term it is technology that can be applied by anyone. As a result of this kind of investment, we produce original technological inventions on an ongoing basis. This not only helps underpin the future success of our business, but also increases the sum of our global technological knowledge.

Key issues and initiatives

Positive product impacts

The technology that we design, develop and market supports our business partners in the provision of advanced, affordable technology to consumers in a range of global mass-markets. This includes:

- Personal, portable computing devices;
- IoT applications;
- LED backlighting and solid state lighting;
- Automotive infotainment and ADAS; and
- Industrial ethernet.

In this context, our products offer a range of advantages to end-users (and, by extension, our customers who are selling to them). These include:

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

Minimisation of negative product impacts

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

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

Trademarks

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

GreenPak™	SmartBeat™
PrimAccurate™	SmartPulse™
SmartBond™	SmartWave™
Flickerless™	BroadLED™
AccuSwitch™	SmarteXite™
VirtualZero™	SmartBond TINY™

Forward focus areas in 2020

- The ongoing protection of our intellectual property.
- Management and rationalisation of our portfolio of patents and trademarks.

Managing our resources and relationships continued

Robust and responsible supply chain

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

Alex McCann
Senior Vice President, Global Operations

Context

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

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

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

This reflects:
- 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; and
- Dialog's duty to help protect its own customers from reputational, contractual or commercial harm.

Management approach

Dialog employees are based in many of the premises of our partners. We undertake annual audits of our existing fabrication partners covering operational and sustainability aspects.

In addition, we outsource our wafer production to leading foundries, mostly in Taiwan and China, such as TSMC and Global Foundries. They provide high-quality products and have the ability to meet both our stringent qualification requirements and our tight deadlines. Over the years, we have worked closely with TSMC to introduce new manufacturing technologies for our highly-integrated power management ICs, such as 130 nanometre Bipolar CMOS DMOS ("BCD").

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

Our test programmes, which are based on our own and individual customers' specifications, are developed by our test engineers in parallel with the design process. Leveraging the outsourcing model to its fullest for volume manufacturing, we still retain an in-house prototype test facility, including physical analysis capabilities. This enables fast ramping to volume manufacturing at the foundry and at packaging and test sub-contractors. As a result, we can achieve best-in-class industry yields and extremely high-quality and reliable products. Equally important, it allows us to minimise the scope of tests required and the device test time, helping to reduce unit costs.

We manage our value chain through:

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

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

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

Performance

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

	Health and safety	Environment	Labour rights	Society
2019	100%	100%	100%	100%
2018	100%	100%	100%	100%
2017	100%	100%	100%	100%

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

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

Type and number of "major" negative audit findings[3]	2017	2018	2019[5]
Health and safety	6	7	**2**[6]
Environment	2	5	**3**[4]
Labour rights (incl. human rights)	3	20	**2**[7]
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 2019.
3 i.e. audit findings of sufficient seriousness that Dialog requires immediate correction on the part of the supplier.
4 Such as: application of customer specific testing criteria on boundary noise, stormwater and chemical materials more strict than international standards.
5 Decreased numbers reflect successful improvements due to the strengthening of our audit process throughout the past two years.
6 Such as: requirements of Personal Protective Equipment in hazardous waste handling.
7 Such as: working hours management and regulations on dormitory leaving.

Examples of negative audit findings in 2019

Health and safety	Insufficient signage of some hazardous waste areas
Environment	Stormwater management
Labour rights (incl. human rights)	Too strict regulations on dormitory leaving
Society	None

In 2019, neither our own operations nor any of our significant suppliers were found to pose a significant social or environmental risk (2018: nil; 2017: nil).

In 2019, as in previous years, we did not identify any cases where tungsten, tin, tantalum and gold ("3TG") integrated into our products may have supported armed groups in the Democratic Republic of Congo ("DRC") or adjoining countries.

Key issues and initiatives

Transparency

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

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

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

In this context, we require our major suppliers to:

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

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

Managing our resources and relationships continued

Robust and responsible supply chain continued

Our Supplier Code of Conduct

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

Labour rights

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

- Follow relevant national law with respect to working hours, holiday entitlements and the outsourcing of labour; and
- Ensure workers are not subject to physical or verbal abuse, bullying, or any form of unlawful harassment and intimidation.

The Dialog Code of Business Conduct is directly informed in this respect by the following instruments and standards:

- Universal Declaration of Human Rights;
- ILO International Labour Standards;
- UN Global Compact;
- RBA Code of Conduct; and
- SA8000 Social Accountability Standard.

Dialog Code of Business Conduct

https://www.dialog-semiconductor.com/sites/default/files/csr-aa-001_dialog_code_of_business_conduct_-_v5_august_2019_final.pdf

Health and safety

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

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

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

Environmental management

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

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

- Comply with relevant environmental laws and regulations;
- Minimise their use of resources (including water and energy) and their generation of solid waste and wastewater;
- Identify and safely manage hazardous materials. This includes the provision of relevant materials declarations under EU Directive 2011/65/EU (Restriction of Hazardous Substances or "RoHS3") and EU Regulation (EC) 1907/2006 (Registration, Evaluation, Authorisation and Restriction of Chemicals or "REACH");
- Responsibly manage solid waste (including through recycling) and wastewater (including through treatment prior to discharge, ongoing monitoring and the control of discharges to local water bodies);
- Responsibly manage emissions to air (including volatile organic chemicals, aerosols, corrosives, particulates, ozone depleting chemicals and combustion by-products) and minimise their greenhouse gas emissions; and
- Adhere to all applicable laws, regulations and customer requirements regarding the exclusion of specific substances in products and manufacturing.
  We are continuing to work with our major suppliers to develop recovery processes, and resource substitution technologies and other methods to reduce greenhouse gas emissions throughout the supply chain.

Our Supplier Code of Conduct

Labour rights

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

Health and safety

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

Environmental management

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

Ethics

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

Management systems

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

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

Business ethics

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

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

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

www.responsiblebusiness.org/standards/code-of-conduct

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.

Conflict minerals

Further up the supply chain, we have a policy relating to conflict materials.

We support international efforts to ensure that the mining and trading of tin, tungsten, tantalum and gold (known as "3TG") from high-risk locations does not contribute to conflict and/or serious human rights abuses in the Democratic Republic of the Congo ("DRC") and the Great Lakes region of Africa (or elsewhere).

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

- Identifying whether any 3TG in our products has originated from the DRC or adjoining countries;
- (If it has), understanding whether the 3TG in our products has financed or otherwise benefited armed groups; and
- Disclosing the results of this process to our customers.

As such, our Conflict Minerals Policy commits us to:

- Supporting the aims and objectives of those provisions of the US Dodd-Frank Act 2010 that relate to 3TG;
- Not knowingly procuring 3TG minerals from the DRC or adjoining countries that are not certified to be "conflict free";
- Asking our suppliers to undertake reasonable supply chain due diligence to ensure that they only use 3TG that is: (1) sourced from outside the DRC or adjoining countries; or (2) sourced from within the DRC or adjoining countries and which is certified by an independent third party to be "conflict free";
- Provide reasonable assurance that the 3TG in the products they manufacture do not directly or indirectly finance or benefit armed groups that perpetrate serious human rights abuses in DRC or its adjoining countries; and
- Carry out due diligence on the source and chain of custody of their 3TG and make these due diligence measures available to customers when requested.

In addition, our Supplier Code of Conduct requires suppliers to complete and return information requests regarding the origin of any 3TG contained in products supplied to Dialog. The Conflict Minerals Reporting Template ("CMRT") is created by the Responsible Minerals Initiative ("RMI") supporting companies to deliver accurate information to their customers about mineral country of origin and the smelters and refiners they use. Dialog Semiconductor requires from its suppliers to complete and return the latest CMRT 5.12 regarding the origin of any 3TG contained in products supplied to us. Our QA & Environmental Systems Lead Auditors frequently audit the suppliers on this topic and check their compliance.

If we do identify 3TG in our products that originate from the DRC or adjoining countries, and which may have financed or benefited armed groups, we will carry out further due diligence. If this shows that the 3TG has financed or benefited armed groups, it will be excluded from our supply chain.

Managing our resources and relationships continued

Business ethics

"Our Code of Business Conduct reflects the values of our business. Employees, partners, consultants, and others who do business with Dialog are expected to apply our four main principles: honesty, respect, confidentiality and compliance."

Colin Sturt
Senior Vice President, General Counsel

Context

We strive to establish long-term relationships with our stakeholders, based on trust and adherence to our Code of Business Conduct.

Maintaining our partners' trust depends on:

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

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

Management approach

We manage business ethics through the application of the Dialog Code of Business Conduct, which addresses a broad range of issues including:

- Conflicts of interest;
- Discrimination;
- Trading in Dialog shares;
- Protection of intellectual property and confidentiality;
- Competition, trade restrictions and export controls; and
- Accuracy of records, data privacy and reporting of infractions.

The Code of Business Conduct is applicable to all Dialog employees, consultants and contractors, and includes:

- A range of specific policies addressing issues such as bribery and corruption, fraud, money laundering, financial dealings and whistleblower protection; and
- Mandatory training on specific topics such as bribery and corruption, conflicts of interest, preventing harassment and insider dealing.

The application of our corporate Code of Business Conduct

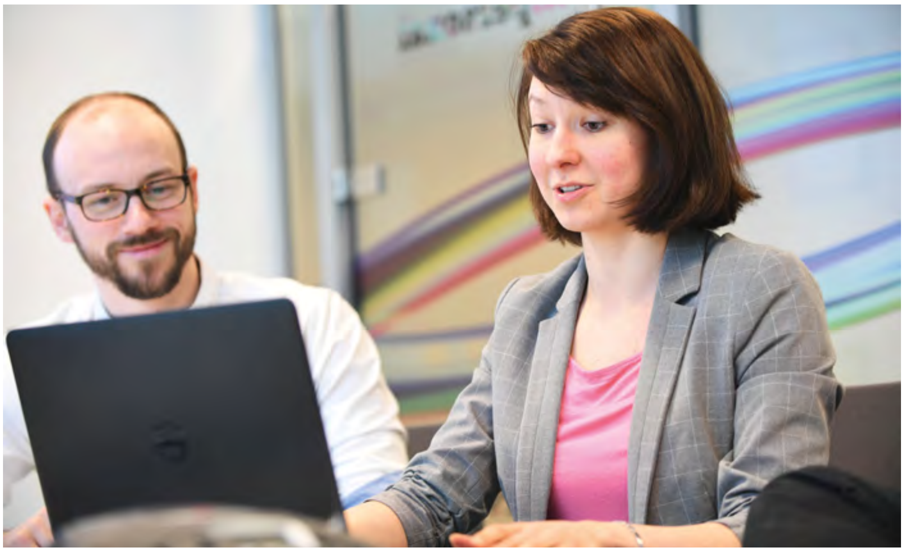
Human and labour rights

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

For more information see our website https://www.dialog-semiconductor.com/sites/default/files/2019-12-31_modern_slavery_statement_signed.pdf

Anti-bribery and corruption

Compliance with global anti-bribery and corruption ("ABC") legislation is vital in our approach to business dealings, and it is compulsory for all employees to complete online ABC training when they first join the Company and at regular intervals thereafter.



Performance

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

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

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

For more information see our website https://www.dialog-semiconductor.com/investor-relations/corporate-governance/our-code-business-conduct

Responsibility for this framework sits with our Senior Vice President General Counsel. He is supported in this role on a day-to-day basis by the Assistant Company Secretary.

Forward focus areas in 2020

- ABC training for all new employees.
- Strict adherence with laws of all the countries where we operate.

Our people and culture: Fostering innovation

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

Self-Guided Learning

We continue to partner with Mindtools to support our employees with access to "in the moment" learning opportunities to suit their schedule.

Dialog Award for Female Undergraduates

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

Technical Ladder

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

WES Partnership

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

Early Careers

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

Leadership Development

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

Mentor Network

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

Women in Engineering Leadership Conference

In October 2019, a group of female leaders and HR representatives attended the 2019 Women in Engineering Leadership Conference. At this conference, it was announced that our SVP, Human Resources, Julie Pope, was named as one of the top 100 Most Influential Women in the Engineering Sector.

Key performance indicators "KPIs"

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

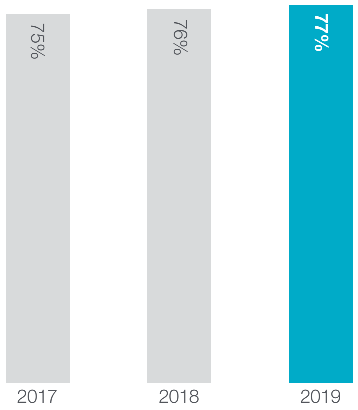
Our key performance indicators seek to ensure performance is aligned to strategy and stakeholders' interests. Additionally, the Company works with a wide range of metrics covering different aspects of our business activities.

Through our KPIs we monitor our sales and financial performance, as well as our pool of talent which is vital to fostering innovation. These KPIs allow us to track our performance against the four strategic objectives of our growth strategy, and our long-term financial targets. We remain focused on delivering a more diversified, cash-generative growth which will, in turn, support the expansion of our business.

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

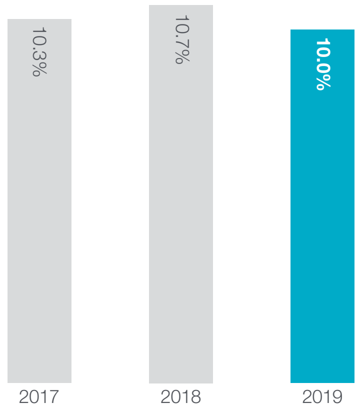
Engineering talent ratio

77%



Employee turnover

10.0%



Definition and relevance

Engineering talent ratio: Proportion of employees in engineering functions as a percentage of the total employee base. Monitoring the size of our engineering pool and our ability to generate innovation.

Employee turnover: Number of voluntary leavers in the last 12 months divided by the average headcount during that period expressed as a percentage. Monitoring our ability to recruit and retain experienced engineering and commercial professionals is vital given the strong competition for skills in the sector, ageing population, and our business growth ambitions.

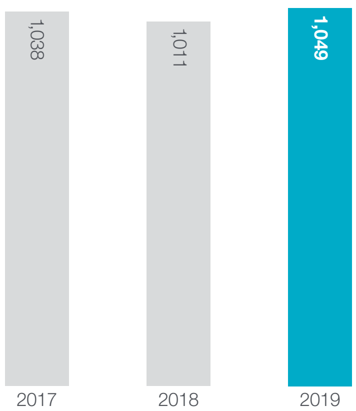
2019 performance

In 2019, the engineering talent ratio was slightly above 2018 at 77%. In 2019, over 300 employees were transferred to Apple. Additionally, we welcomed new engineers from the acquisitions of FCI and Creative Chips GmbH.

In 2019, employee turnover was broadly stable at 10.0%. Our ability to recruit and retain engineering professionals remained high. In 2019 over 300 employees transferred to our largest customer as part of the licensing agreement. In addition, we welcomed new employees from the acquisitions of FCI and Creative Chips. Dialog has a performance management system to ensure we reward our best employees through appropriate mechanisms.

Number of sales opportunities

1,049



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.

In 2019, the number of sales opportunities with a value higher than US$250k was 4% above 2018. The number of opportunities with a value lower than US$250k increased at a similar pace. This is a reflection of the increasing number of revenue opportunities in our various business segments.

Customer concentration

72%

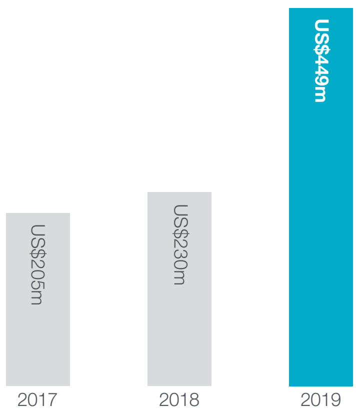
Proportion of Group product revenue from the single largest customer. Monitoring the risk associated with reliance on a single source of income.

In 2019, customer concentration was 72%, three percentage points lower than in 2018. This excludes US$145.7 million from the perpetual IP licence.

Excluding revenue from standard products, customer concentration was 66%, also four percentage points below 2018 (2018: 70%).

Free cash flow

US$449m



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.

Free cash flow in 2019 was 95% above 2018. This was the result of the higher cash inflow from operating activities alongside the Company's ability to convert profit into cash.

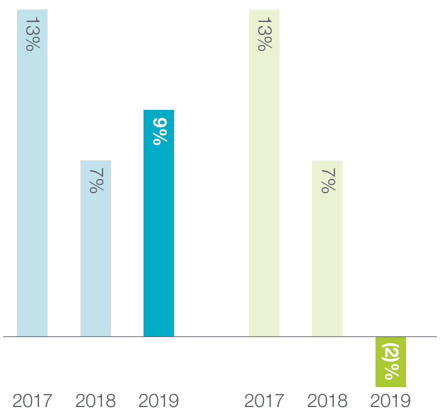
See explanations and reconciliations to the nearest IFRS measure in the section entitled "Financial performance measures" on pages 183 to 189.

Key performance indicators "KPIs" continued

Revenue growth

+9% (2)%

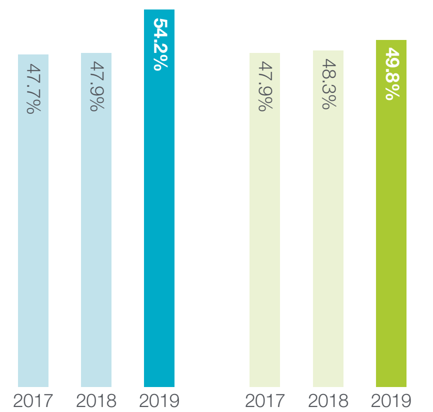
IFRS Underlying



Gross margin

54.2% 49.8%

IFRS Underlying



Definition and relevance

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.

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.

2019 performance

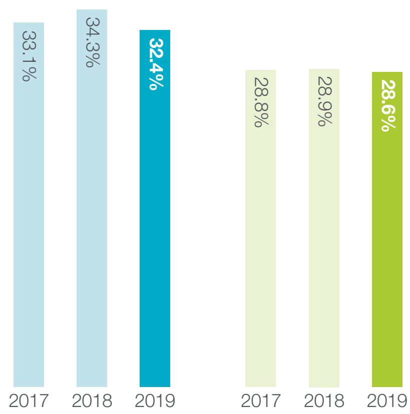
Revenue in 2019 was US$1,566 million, which included the perpetual IP licence fee of US$146 million in relation to the licensing arrangement with our largest customer which closed in April 2019. Total Group underlying revenue was 2% below year-on-year. This was due to the anticipated decline in revenue from licensed main PMICs (FY 2019: US$626 million; FY 2018: US$867 million) offsetting the strong performance in the rest of the business.

Gross margin in 2019 (both IFRS and underlying) was above 2018. This increase was due to the positive impact from the revenue recognition of the effective IP licence granted to our largest customer together with savings in manufacturing costs.

Operating expenses as a percentage of revenue

32.4% 28.6%

■ IFRS ■ Underlying



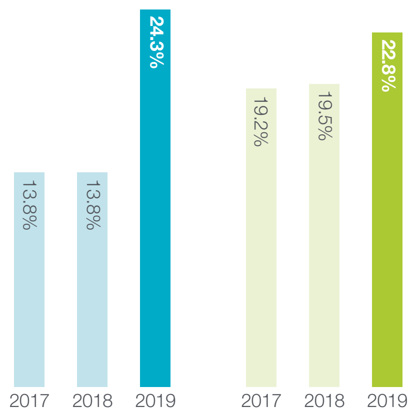
Actual and prior year's operating expenses ("OpEx") expressed as a percentage of revenue. OpEx % provides a measure of our effort in innovation and the efficiency of our operating structure over a period of time and it reflects the need for current returns as well as an investment in future revenue growth. 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 2019 was 190bps below 2018 mainly due to the higher revenue and lower R&D expenses resulting from the transfer of over 300 employees to our largest customer, partially offset by the costs from the acquisitions of FCI and Creative Chips. On an underlying basis, OPEX % was 30bps below 2018. Underlying R&D % was 90bps below 2018 while SG&A % was 60bps above 2018. 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

24.3% 22.8%

■ IFRS ■ Underlying



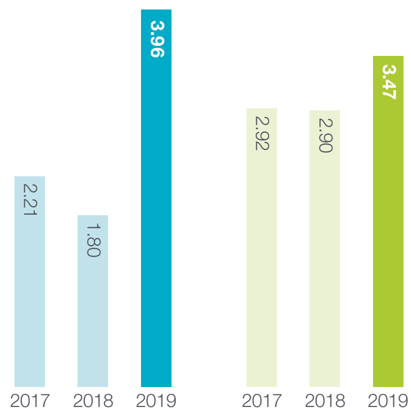
Actual and prior year's operating margin. Monitoring this trend provides a measure of our ability to increase the profitability of our operating activity over a period of time. Underlying operating margin provides a useful link to our ability to generate cash as we are a low capital intensity business.

Operating margin in 2019 was significantly above 2018 mainly due to the higher revenue. On an underlying basis, operating margin was 330bps above 2018. This increase was the result of the improvement in underlying gross margin together with lower operating expenses.

Diluted EPS (US$)

3.96 3.47

■ IFRS ■ Underlying



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 significantly above 2018 at US$3.96 due to the increased net income together with the lower share count. Underlying diluted EPS was 20% above 2018, mainly driven by the increase in underlying net income together with the lower share count.

Segmental Review

Custom Mixed Signal

Vivek Bhan
Senior Vice President and General Manager, Custom Mixed Signal

"As consumer demands continue to strive for better user experience, Dialog's expertise and IP contribute to solving the complex challenge of extending battery life while adding new features, all in a small form factor."

Underlying revenue
(US$m)

US$965m

Underlying operating profit
(US$m)

US$281.9m

See explanations and reconciliations to the nearest IFRS measure in the section entitled "Financial performance measures" on pages 183 to 189

Leveraging our mixed-signal expertise to create the next wave of innovation and differentiation

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

Highlights

- In April 2019, we closed an agreement with Apple Inc. to licence certain of our PMIC technologies, and transfer certain assets and over 300 employees.
- Leveraged our power management technology into new markets such as gaming, solid state drives ("SSD") and automotive.
- Secured a high-volume phone charger opportunity at a Tier 1 customer.

Our markets

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

2019 progress

- We closed the licensing agreement with Apple Inc. in April 2019.
- Secured a high-volume phone charger opportunity at a major Tier 1 customer, displacing the long-time incumbent supplier.
- Entered into new markets with production of custom application specific ("ASICs") PMICs for solid state drives, gaming consoles and DSLR cameras.
- Began the ramp of our automotive PMICs solutions for Renesas R-Car H3, M3 and V3M computing platforms.

Key drivers

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

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

Our products

Dialog replaces discrete power management components with highly-integrated, single-chip solutions that reduce energy usage, provide design simplicity at a lower cost and improve the overall power density of mobile products.

Our PMICs are highly configurable. This allows them to be factory-tailored to meet the exact voltage and current needs of every component on a circuit board.

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

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

The increasing electrification of the automobile is driving additional business potential for our power management solutions. High resolution screens within the cabin for advanced infotainment systems and clusters, combined with always-on driver assistance features require high-performance processing solutions. Dialog's experience in power management of multi-core processors and our AECQ100 Automotive qualified products enable us to be perfectly positioned to respond to our customers' needs.

More applications require effective power management solutions.

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

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.

Forward focus areas for 2020

Extend product portfolio
- Expand our custom and semi-custom engagements through Dialog's operational excellence and innovative, and differentiated products.
- Extend our automotive PMIC portfolio.
- Expanding our engagement in gaming and SSDs PMIC and other mixed signal applications.

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.

Segmental Review continued

Advanced Mixed Signal

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

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

Underlying revenue
(US$m)

US$253m

Underlying operating profit
(US$m)

US$15.2m

Underlying operating profit reconciliation on pages 183 to 189

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

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

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

Highlights

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

Our markets

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

2019 progress

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

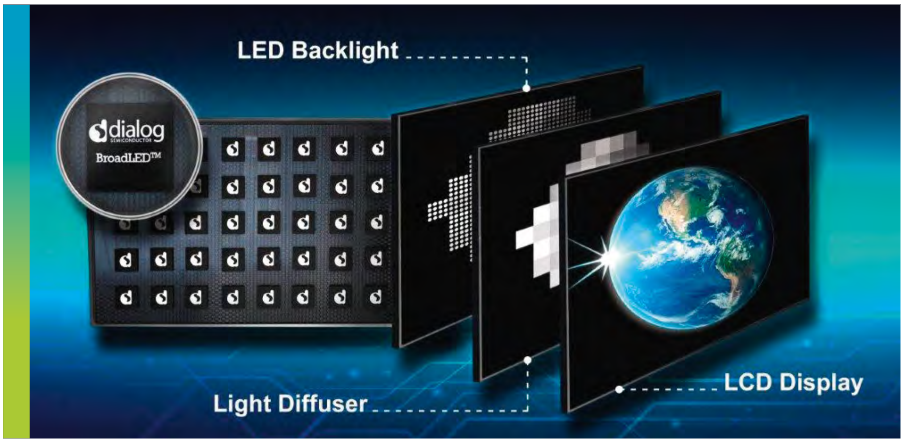
Key drivers

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

Our products

Configurable Mixed-signal IC
CMICs integrate analog mixed-signal functionality on an easily configurable software platform, using non-volatile memory to configure multiple analog, digital and power functions. This allows customers to easily replace standard analog, logic and discrete board components, enabling a fast go-to-market, and reduce board space and costs.

In 2019, Dialog launched the first-to-market automotive grade CMIC with customisable technology that enhances design flexibility and scalability for driving the automotive future. Additionally, leveraging on Dialog's



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

power management IP, we introduced an industry-leading LDO regulator targeting high-end smartphone cameras.

LED Backlight Drivers
When it comes to buying a new TV or monitor, many consumers want the absolute best picture quality for the price. That's why manufacturers are now transitioning from edge-lit to multi-zone, direct backlight HDR displays.

HDR TVs use direct backlight, local dimming to achieve a vibrant visual experience. Local dimming technology dims the area of the screen that needs it, while keeping the bright parts of the display bright. It also increases the contrast ratio to render deeper blacks, intense bright highlights and life like colours that allow exciting and truly immersive viewing.

Local dimming requires direct backlighting with many active LED zones and thousands of LEDs. This plays to Dialog's core **BroadLED™** LED driver IP, which is used in virtually all leading 4K and 8K HDR TVs to enable local dimming. Our **BroadLED™** technology allows our customers to lower their direct backlighting solution cost, reduce power consumption and enhance thermal performance for longer lifetime with higher reliability.

In 2019, our backlighting business almost doubled year-on-year. We anticipate future backlighting growth will be fuelled by increased consumer demand for HDR TVs, along with the adoption of direct backlight, local dimming in automotive displays, where we are well positioned at major panel vendors and suppliers.

In the near future, Mini LED backlight TVs hold the promise of stunning visual quality equivalent to OLED displays at lower cost. This will likely expand the demand for multi-channel direct backlight LED drivers, with Mini LED TVs benefiting from the cost savings and performance benefits of Dialog's **BroadLED™** technology.

AC/DC Power Conversion and Control
Dialog's AC/DC travel adapter IC solutions continue to support virtually all fast charge protocols, including USB Power Delivery, Qualcomm® Quick Charge™ 4+; Samsung Adaptive Fast Charging ("AFC"); Huawei SuperCharge™ technology and Fast Charger Protocol ("FCP"), as well as other proprietary OEM protocols.

In 2019, we were on the vanguard of USB PD adoption, with chargers using our USB PD 3.0 chipsets shipping "in the box" with major branded smartphones.

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 65W, using fewer and smaller components. Our 65W high power density **RapidCharge**™ solution reduces heat dissipation and enables low system cost, allowing OEMs to pack more power into compact charger and adapter cases with very low standby power.

LED Solid State Lighting
With its energy savings, improved performance and lower costs, LED SSL is the preferred technology for new residential and commercial installations.

Dialog addresses the SSL market with a broad range of high-performance, low BOM cost LED driver ICs. We support both dimmable and non-dimmable solutions, with ongoing investment in both commercial and residential SSL applications.

Forward focus areas for 2020

Extend product portfolio
– Increase the value of our configurable platform incorporating additional analog and power management IP.
– Extend our leadership in LED backlighting, delivering direct backlight ICs for next-generation Mini LED, Micro LED, and automotive HDR displays.
– Continue to deliver next-generation **RapidCharge**™ adapter solutions, including USB PD high power density chipsets to meet fast charging standards.
– Expand our SSL LED driver solutions for commercial and professional LED lighting.

Achieve a broader and deeper customer base
– Increase cross-selling of CMICs across our customer base, particularly in Asia.
– Extend our core **BroadLED**™ backlighting technology for performance innovations in the automotive, TV and monitor HDR backlighting markets.
– Extend our **RapidCharge**™ AC/DC USB PD power supply solutions to a broader customer base.
– Leverage our AC/DC converter IP and ASSP technologies to address the appliances and smart meter markets.

Segmental Review continued

Connectivity & Audio

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

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

Underlying revenue
(US$m)

US$184m

Underlying operating profit
(US$m)

US$21.6m

Underlying operating profit reconciliation on pages 183 to 189

Everything is connected

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

Highlights

- Delivered strong revenue growth in Bluetooth®* low energy ("BLE").
- Acquired FCI's industry-leading low power Wi-Fi SoC portfolio.
- Launched first generation VirtualZero™ low power Wi-Fi SoC.
- Launched the DA1469x, the world's most advanced wireless BLE microcontroller supporting Bluetooth® 5.1.
- Launched the DA14531, the world's smallest and lowest power wireless BLE microcontroller supporting Bluetooth® 5.1.

Our markets

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

2019 progress

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

Key drivers

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

* The Bluetooth® word mark and logos are registered trademarks owned by Bluetooth SIG, Inc. and any use of such marks by Dialog Semiconductor B.V. is under licence. Other trademarks and trade names are those of their respective owners.

Case study: Converging towards shipments of 100 million units of SmartBond™ per year

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

Wearable devices, Human Interface devices, Smart Home applications, proximity tags and portable medical devices are some of the applications driving the growth in the market. The introduction of our new Bluetooth® products, the DA1469x and the DA14531, enable the expansion of our addressable market and fuel further growth in the medium term.

Our products

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

Dialog's SmartBond™ family is the simplest route to delivering power-friendly and flexible Bluetooth® low energy connected products to the market. SmartBond™ devices are still market-leading in low power, high integration BLE and cover a broad range of applications.

In 2019, we introduced two new products to our Smartbond™ portfolio. The DA1469x, is the world's most advanced wireless microcontroller and introduces a new level of integration and performance enabling higher-end applications as well as novel applications such as positioning and audio. The second product, the DA14531 which is also known as Smartbond TINY™, is the world's lowest power, smallest size and lowest cost device enabling even disposable applications to become smart and connected.
By addressing both ends of the application spectrum, we have expanded our application space coverage, enabling new opportunities for our BLE products.

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

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

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

In 2019, Dialog launched a family of audio CODECs delivering groundbreaking active noise cancellation. The DA740x delivers superior active noise cancellation no matter how noisy the environment with twice the audio quality and half the power consumption.

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

Soon after the closing of the acquisition of FCI, Dialog launched its first generation of VirtualZero™ low power Wi-Fi SoCs with the FC9000. The FC9000 is targeted at smart door locks, wireless sensors, thermostats, heating, ventilation and air conditioning equipment, Wi-Fi video cameras, doorbells, wearables, location tags, and many more applications in both commercial and consumer markets.

Forward focus areas for 2020

Achieve a broader and deeper customer base

- Continue to invest in the BLE platform and increase market footprint.
- Increase investment in the low power Wi-Fi portfolio, delivering follow-up SoCs and building design wins to increase market penetration.
- Leverage the combination of BLE and Wi-Fi through our distribution and Sales representative network to expand our customer base.

Deliver continuous innovation

- BLE focus on wearables, smart home and connected health.
- Expand our low latency wireless audio towards microphone and headset brands.
- Expand our audio expertise for voice user interfaces and audio enhancements in consumer headsets.

Financial review

Strong balance sheet

In 2019, we made excellent progress towards our long-term objectives. We delivered solid financial performance, increased underlying operating margin and cash flow generation. We look forward to the future with confidence.

Wissam Jabre
Chief Financial Officer, Senior Vice President Finance

Summary

Our business and financial performance in 2019 was strong. We delivered record underlying gross margin, and increased underlying operating margin, while investing US$314 million in the development of new products. Free cash flow generation was a record US$449 million, and we returned US$252 million to shareholders through the share buyback.

In addition, we invested in the inorganic expansion of our business with the acquisitions of FCI and Creative Chips, strengthening our presence in IoT and Industrial markets.

Winner of the GSA 2019 award for best financially managed public semiconductor company

Year ended 31 December US$ millions unless stated otherwise	IFRS basis **2019**	 2018	Underlying basis[1] **2019**	 2018	 Change
Revenue[2]	**1,566.2**	1,442.1	**1,420.5**	1,442.1	(2)%
Gross profit	**848.5**	691.1	**706.7**	696.0	2%
Gross margin %[2]	**54.2%**	47.9%	**49.8%**	48.3%	150bps
R&D % of revenue	**20.0%**	22.6%	**19.5%**	20.4%	(90)bps
SG&A % of revenue	**12.4%**	11.7%	**9.1%**	8.5%	60bps
EBITDA[1]	**n/a**	n/a	**390.1**	339.6	15%
EBITDA margin %[1]	**n/a**	n/a	**27.5%**	23.5%	400bps
Operating profit	**379.9**	199.7	**324.3**	281.6	15%
Operating margin %[2]	**24.3%**	13.8%	**22.8%**	19.5%	330bps
Profit before tax	**385.0**	196.2	**329.8**	289.7	14%
Net income	**301.5**	139.8	**264.4**	225.4	17%
Basic EPS (US$)	**4.19**	1.89	**3.68**	3.05	21%
Diluted EPS (US$)[2]	**3.96**	1.80	**3.47**	2.90	20%
Cash flow from operating activities	**496.5**	288.6	**n/a**	n/a	n/a
Free cash flow[1, 2]	**n/a**	n/a	**449.4**	229.9	95%

1 Non-IFRS measures (see explanations and reconciliations to the nearest equivalent IFRS measures in the section entitled "Financial performance measures" on pages 183 to 189).
2 Key performance indicators.

Basis of preparation

Accounting policies

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

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

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

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

Adoption of IFRS 16

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

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

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

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

Critical accounting judgements and estimates

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

Non-IFRS measures

We assess the performance of the Group's businesses using a number of measures. Certain of them are non-IFRS measures because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS. Underlying measures of profitability when referred to on a consolidated basis and free cash flow are non-IFRS measures.

An explanation of the adjustments made to the equivalent IFRS measures in calculating the non-IFRS measures and reconciliations of the non-IFRS measures to the equivalent IFRS measures for the periods presented are set out in the section entitled "Financial performance measures" on pages 183 to 189.

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

Recent corporate transactions

Completion of agreements with Apple

Licensing and asset transfer agreement

On 11 October 2018, we announced that we had entered into an agreement with Apple Inc. ("Apple") to license our power management technologies and to transfer to Apple certain assets and over 300 employees from our design centres in the UK, Germany and Italy.

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

Pursuant to the agreement, we granted to Apple:

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

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

Financial review continued

Strong balance sheet continued

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

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

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

We consider that the effective licence granted Apple a "right to access" the related IP and are therefore recognising the related consideration as revenue over the four-year period following the closing date. We recognised revenue of US$18.5 million in relation to the effective licence in 2019.

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

We incurred transaction costs totalling US$23.9 million in relation to the agreement with Apple, of which US$16.1 million was incurred during 2019 (within general and administrative expenses).

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

Prepayment agreement

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

Settlement of the prepayment is scheduled to take place in quarterly instalments in arrears such that US$200.0 million is settled in the first year and US$50.0 million is settled in each of the second and third years. During each quarter, Apple will settle our invoices on their normal payment terms.

If there are insufficient invoices outstanding on a recoupment date, Apple may require us to settle the shortfall against the scheduled recoupment in cash.

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

Acquisition of Creative Chips

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

We acquired Creative Chips for US$80.0 million on a cash- and debt-free basis. Additional consideration of up to US$23.0 million in cash may be payable contingent on Creative Chips' revenues for 2020 and 2021.

On completion, we paid consideration of US$83.7 million in cash, including US$3.7 million in respect of Creative Chips' estimated cash, debt and working capital levels on completion. In February 2020, we paid a purchase price adjustment of US$0.1 million to the sellers reflecting the actual amounts on completion.

We estimated that the acquisition date fair value of the contingent consideration was US$6.5 million (net of discounting of US$2.1 million).

Creative Chips' net assets on acquisition totalled US$58.2 million, including identifiable intangible assets in respect of customer relationships (US$42.6 million), developed technology (US$7.2 million) and trade name (US$1.3 million).

We therefore recognised goodwill of US$32.1 million in relation to Creative Chips. Details of the purchase price allocation are set out in note 4 to the consolidated financial statements.

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

Creative Chips represents our new Industrial Mixed Signal business unit, an operating segment that is included in our Custom Mixed Signal reporting segment. Subsequent to its acquisition, Creative Chips contributed US$2.3 million to the Group's revenue for 2019.

Acquisition of FCI

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

We acquired FCI for US$45.0 million on a cash- and debt-free basis. We paid consideration of US$54.2 million in cash, including US$9.2 million in respect of FCI's cash, debt and estimated working capital on completion. We estimate that a purchase price adjustment of US$0.2 million will be payable by the seller, reflecting FCI's actual working capital on completion.

FCI's net assets on acquisition totalled US$44.0 million, including identifiable intangible assets in respect of customer relationships (US$13.4 million), developed technology (US$18.6 million) and trade name (US$1.1 million).

We therefore recognised goodwill of US$9.9 million in relation to FCI. Details of the purchase price allocation are set out in note 4 to the consolidated financial statements.

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

FCI is included in our Connectivity & Audio reporting segment where we will use its technology to enhance our IoT offerings. Subsequent to its acquisition, FCI contributed US$10.5 million to the Group's revenue for 2019.

Results by reporting segment

Year ended 31 December	Underlying revenue			Underlying operating profit/(loss)	
US$ millions	**2019**	Restated* 2018	Change	**2019**	Restated* 2018
2019 compared with 2018					
Custom Mixed Signal	**964.8**	1,042.3	(7)%	**281.9**	267.6
Advanced Mixed Signal	**253.4**	244.5	4%	**15.2**	26.8
Connectivity & Audio	**183.8**	154.0	19%	**21.6**	13.6
Total segments	**1,402.0**	1,440.8	(3)%	**318.7**	308.0
Corporate and other unallocated items	**18.5**	1.3	nm	**5.6**	(26.4)
Total Group	**1,420.5**	1,442.1	(2)%	**324.3**	281.6

* Restated to reflect the segment reorganisation and measurement changes.

Acquisition of Silego

We completed the acquisition of Silego Technology Inc. ("Silego") in November 2017 for initial consideration of US$291.2 million.

Contingent consideration of up to US$30.4 million was payable for Silego dependent on its revenues in 2017 and 2018. Silego's revenue for 2017 was such that the first instalment of US$10.0 million was payable in full. Silego's revenue for 2018 was such that US$17.9 million of the second instalment of up to US$20.4 million was payable. In February 2019, we paid US$16.7 million in settlement of the element of the second instalment that was attributable to the shares and vested options acquired and attributed the balance to deferred cash rights that are payable over the period to March 2021.

During 2019, we also paid deferred consideration of US$2.1 million in relation to the purchase of Silego, bringing the total deferred consideration paid to US$5.3 million with the remaining US$1.0 million expected to be payable by March 2021.

Disposal of Dyna Image

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

Since the carrying amount of the Group's investment in Dyna Image had already been reduced to nil, no additional loss was recognised on completion of the sale in November 2019.

Our approach to 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 tax affairs in a tax efficient manner whilst remaining in compliance with applicable tax laws and regulations. Our "Approach to Tax" can be found on our website at www.dialog-semiconductor.com.

Results of operations

Segment reorganisation and measurement changes

With effect from the beginning of the second quarter of 2019, the Group made a number of organisational changes. Details of the changes are set out in note 35 to the consolidated financial statements.

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

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

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

Analysis by reporting segment

Custom Mixed Signal's underlying revenue was US$964.8 million in 2019 compared with US$1,042.3 million in 2018, a decrease of 7%. Revenue declined principally due to our reduced share of volume for the main PMIC on our largest customer's 2018 smartphone platform and, in the second half of 2019, the initial effect of the licensing agreement on our supply of main PMICs for their next generation products.

Revenue from our largest customer for products not covered by the licensing agreement increased to US$315.1 million in 2019 compared with US$148.8 million in 2018, principally due to higher demand for our custom PMICs for accessories for mobile devices.

Custom Mixed Signal's underlying operating profit was US$281.9 million compared with US$267.6 million in 2018. Underlying operating profit increased principally due to income of US$12.5 million received from Apple for product development work and the reduction in R&D expenses following the transfer of the design centre businesses in April 2019. Underlying operating margin was 29.2% compared with 25.7% in 2018.

Advanced Mixed Signal's underlying revenue was US$253.4 million in 2019 compared with US$244.5 million in 2018, an increase of 4%. Revenue increased principally due to growth in sales of backlighting ICs and CMICs, though this was partially offset by lower sales of AC/DC charger ICs for smartphone power adaptors.

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

Connectivity & Audio's underlying revenue was US$183.8 million in 2019 compared with US$154.0 million in 2018, an increase of 19%. Connectivity & Audio's revenue increased principally due to strong growth in demand for Bluetooth® low energy and new audio products.

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

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

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

Financial review continued

Strong balance sheet continued

Analysis of the Group's results

Revenue was US$1,566.2 million in 2019 compared with US$1.442.1 million in 2018, with the substantial increase being due to the recognition of revenue of US$164.2 million in relation to the licensing arrangements with Apple.

Excluding the perpetual IP licence fee of US$145.7 million, underlying revenue was US$1,420.5 million in 2019 compared with US$1,442.1 million in 2018, a decrease of 2%.

Underlying revenue declined principally due to lower main PMIC volumes in Custom Mixed Signal, the effect of which was partially offset by volume growth in Connectivity & Audio and revenue of US$18.5 million recognised on the effective IP licence granted to Apple.

Cost of sales was US$717.7 million in 2019 compared with US$751.1 million in 2018, with the reduction being principally due to lower overall sales volumes.

Gross profit was US$848.5 million in 2019 compared with US$691.1 million in 2018, with the substantial increase being due to the recognition of licence fees and manufacturing cost savings. Gross margin was 54.2% in 2019 compared with 47.9% in 2018.

Underlying gross profit was US$706.7 million compared with US$696.0 million in 2018, an increase of 2%. Underlying gross margin was 150 basis points higher at 49.8% compared with 48.3% in 2018.

Underlying gross profit excludes the perpetual IP licence fee of US$145.7 million, share-based compensation and related expenses of US$2.2 million (2018: US$1.8 million) and consumption of the fair value uplift on acquired inventory of US$1.7 million (2018: US$3.1 million).

Selling and marketing expenses increased to US$92.9 million in 2019 compared with US$83.9 million in 2018.

Underlying selling and marketing expenses were also higher at US$69.4 million compared with US$65.0 million in 2018 and represented 4.9% of the Group's underlying revenue compared with 4.5% in 2018.

Underlying selling and marketing expenses exclude share-based compensation and related expenses totalling US$6.3 million (2018: US$4.4 million), amortisation of acquired intangible assets of US$16.0 million (2018: US$14.0 million), deferred consideration payable for Silego treated as compensation expense of US$0.4 million (2018: US$0.5 million) and, in 2019, integration costs of US$0.8 million.

General and administrative expenses were US$101.6 million in 2019 compared with US$84.4 million in 2018, with the increase being principally due to acquisition-related and corporate transaction costs incurred in 2019.

Underlying general and administrative expenses increased slightly to US$60.1 million compared with US$57.4 million in 2018 and represented 4.2% of the Group's underlying revenue compared with 4.0% in 2018.

Underlying general and administrative expenses exclude share-based compensation and related expenses totalling US$19.9 million (2018: US$12.8 million), acquisition-related and corporate transaction costs of US$20.1 million (2018: US$11.3 million), deferred consideration payable for Silego treated as compensation expense of US$0.2 million (2018: US$0.3 million) and integration costs of US$1.3 million (2018: US$2.5 million).

R&D expenses were US$313.5 million in 2019 compared with US$326.3 million in 2018.

R&D costs totalled US$334.6 million (2018: US$356.3 million), of which US$15.4 million (2018: US$24.8 million) was capitalised and US$5.7 million (2018: US$5.2 million) was offset by R&D expenditure credits. R&D costs were lower compared with 2018 principally due to the transfer of design centre businesses at the beginning of the second quarter of 2019.

Underlying R&D expenses were US$276.4 million in 2019 compared with US$294.2 million in 2018 and represented 19.5% of the Group's underlying revenue compared with 20.4% in 2018.

Underlying R&D expenses exclude share-based compensation and related expenses totalling US$26.2 million (2018: US$22.7 million), amortisation of acquired intangible assets of US$10.1 million (2018: US$8.6 million), deferred consideration payable for Silego treated as compensation expense of US$0.5 million (2018: US$0.6 million) and integration costs of US$0.3 million (2018: US$0.2 million).

Other operating income was significantly higher at US$39.4 million in 2019 compared with US$3.2 million in 2018, principally due to the recognition of the gain of US$15.9 million on the transfer of design centre businesses and higher customer contributions to product development costs, including US$12.5 million received from Apple for work performed between October 2018 and April 2019.

Excluding the gain on the transfer of the design centre businesses, underlying other operating income was US$23.5 million in 2019 compared with US$2.3 million in 2018.

Operating profit was US$379.9 million in 2019 compared with US$199.7 million in 2018.

Underlying operating profit was US$324.3 million compared with US$281.6 million in 2018, an increase of 15%. Underlying operating profit increased principally due to the various effects of the licensing and asset transfer agreement but also benefited from improved product margins. Underlying operating margin was higher at 22.8% compared with 19.5% in 2018.

Interest income was US$21.9 million in 2019 compared with US$9.9 million in 2018, with the increase reflecting the higher average cash balance during 2019.

Interest expense was US$11.3 million in 2019 compared with US$3.1 million in 2018, with the increase reflecting the recognition of interest expense of US$5.9 million on the prepayment from Apple and US$3.0 million on lease liabilities following the adoption of IFRS 16.

Other finance expense was US$5.5 million in 2019 compared with US$10.3 million in 2018.

We recognised a net currency translation loss on monetary assets and liabilities of US$5.7 million compared with a loss of US$1.0 million in 2018.

We recognised a fair value loss of US$1.4 million (2018: loss of US$10.9 million) on the warrants that we hold over shares in Energous and a credit arising from the amortisation of the gain on initial recognition of the second tranche of warrants amounting to US$1.6 million (2018: US$1.6 million).

Income tax expense was US$83.6 million (2018: US$55.3 million) on profit before tax of US$385.0 million (2018: US$196.2 million), an effective tax rate for the year of 21.7% (2018: 28.2%).

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

Our relatively high effective tax rate for 2018 was principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation, business combinations and certain of our strategic investments.

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

Our underlying income tax expense was US$65.4 million (2018: US$63.2 million) on underlying profit before tax of US$329.8 million (2018: US$289.7 million). Our underlying effective tax rate for 2019 was therefore 19.8%, which compares with 21.8% for 2018.

Net income was US$301.5 million in 2019 compared with US$139.8 million in 2018. Underlying net income was US$264.4 million compared with US$225.4 million in 2018, an increase of 17%.

Basic earnings per share were US$4.19 (2018: US$1.89) based on the weighted average of 71.9 million shares (2018: 74.0 million shares) that were in issue during the period excluding the weighted average of 1.8 million shares (2018: 2.4 million shares) held by employee benefit trusts and, in 2019, the weighted average of 2.7 million shares that were held in treasury. Underlying basic earnings per share were US$3.68 (2018: US$3.05).

Diluted earnings per share were US$3.96 (2018: US$1.80). Diluted earnings per share additionally reflect the weighted average of 4.3 million (2018: 3.7 million) dilutive employee share options and awards. Underlying diluted earnings per share were US$3.47 (2018: US$2.90).

Summary cash flow statement

US$ millions	2019	2018
Cash generated from operations	**549.7**	321.6
Interest received, net	**17.3**	8.2
Income taxes paid	**(70.5)**	(41.1)
Cash inflow from operating activities	**496.5**	288.7
Purchase of property, plant and equipment	**(12.1)**	(26.1)
Purchase of intangible assets	**(8.5)**	(6.2)
Capitalised development expenditure	**(15.4)**	(24.8)
Capital element of lease payments	**(11.1)**	(1.7)
Free cash flow	**449.4**	229.9
Purchase of businesses, net of acquired cash	**(139.8)**	(12.9)
Proceeds from transfer of design centres, net of cash disposed	**27.8**	–
Receipt of prepayment from Apple	**288.6**	–
Cash settlement of prepayment from Apple	**(20.3)**	–
Sale/(purchase) of Dialog shares by EBTs, net	**3.4**	(18.2)
Purchase of own shares	**(251.8)**	–
Other cash flows, net	**(11.8)**	0.1
Net cash inflow during the period	**345.5**	198.9
Currency translation differences	**1.2**	(0.3)
Increase in cash and cash equivalents	**346.7**	198.6

Cash flows

Cash inflow from operating activities was US$496.5 million in 2019 compared with US$288.7 million in 2018.

Cash generated from operations before changes in working capital was US$631.9 million compared with US$322.3 million in 2018, the increase being principally due to the receipt of consideration totalling US$282.2 million in relation to the IP licensing arrangements with Apple. Excluding the cash inflow from the licences, cash generated from operations before changes in working capital was US$349.7 million in 2019.

Excluding the effect of acquisitions and disposals of businesses, net working capital increased by US$82.2 million in 2019 compared with an increase of US$0.7 million in 2018.

Inventory levels decreased during 2019, releasing cash of US$23.2 million, principally reflecting lower expected sales volumes in the first quarter of 2020 compared with the first quarter of 2019. At the end of 2019, inventories represented 58 days' cost of sales in the preceding quarter (end of 2018: 61 days' cost of sales).

Trade and other receivables increased during 2019, absorbing cash of US$15.5 million, and cash flow from operations was further reduced by US$79.7 million due to the settlement of the first and second quarterly instalments of the prepayment from Apple by recoupment against receivables. At the end of 2019, trade and other receivables represented 31 days' sales in the preceding quarter (end of 2018: 24 days' sales) after taking into account our use of receivables financing facilities.

Trade and other payables declined during 2019, absorbing cash of US$23.1 million. At the end of 2019, trade and other payables represented 49 days' cost of sales in the preceding quarter (end of 2018: 50 days' cost of sales).

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

Net interest received was US$17.3 million in 2019 compared with US$8.2 million in 2018.

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

Financial review continued

Strong balance sheet continued

Cash outflow from investing activities was US$147.9 million in 2019 compared with US$70.0 million in 2018.

Capital expenditure comprising cash outflows in relation to the purchase of property, plant and equipment and intangible assets and capitalised development expenditure totalled US$36.0 million compared with US$57.1 million in 2018. Capital expenditure declined principally due to the transfer of design centre businesses in April 2019.

Free cash flow was US$449.4 million in 2019 compared with US$229.9 million in 2018. Our robust free cash flow provides a basis for financing strategic investments and for making distributions to shareholders.

During 2019, there was a net cash outflow of US$139.8 million (2018: cash outflow of US$12.8 million) in relation to the acquisition of businesses.

In May 2019, there was a cash outflow of US$44.6 million on completion of the acquisition of FCI (net of cash of US$9.6 million held by the business on the acquisition date). In October 2019, there was a cash outflow of US$76.4 million on completion of the acquisition of Creative Chips (net of cash of US$7.3 million held by the business on the acquisition date).

During 2019, we paid US$16.7 million (2018: US$9.4 million) in settlement of contingent consideration and US$2.1 million (2018: US$2.8 million) in respect of deferred consideration payable for Silego. Additionally, in February 2018, we paid a purchase price adjustment of US$0.7 million following agreement with the vendors of Silego's cash, debt and working capital levels on completion.

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

Cash outflow from financing activities was US$3.0 million in 2019 compared with US$19.8 million in 2018.

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

During 2019, there was a cash outflow of US$251.8 million (2018: $nil) on the purchase of shares under the Company's share buyback programme (including transaction costs of US$1.3 million) and we paid US$11.6 million on the settlement of currency hedges of share buyback liabilities.

During 2019, the cash outflow on the capital element of lease payments was US$11.1 million, higher compared with US$1.7 million in 2018 due to the recognition of additional lease liabilities following the adoption of IFRS 16.

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

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 34 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 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 managed by reference to counterparty credit ratings. As a minimum, a counterparty must generally have a long-term public rating of at least 'single A' or equivalent.

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

At the end of 2019, cash and cash equivalents amounted to US$1,024.5 million (end of 2018: US$677.8 million), which principally comprised investments in money market funds and bank deposits with a maturity of three months or less.

Prepayment from Apple

At the end of 2019, the principal amount of the prepayment outstanding was US$200.0 million, which is scheduled to be settled in quarterly instalments by recoupment against invoices or in cash totalling US$125.0 million in 2020, US$50.0 million in 2021 and the balance of US$25.0 million by April 2022.

We settled the third quarterly instalment of US$50.0 million in January 2020 wholly by recoupment against invoices.

Revolving credit facility

Since July 2017, we have had a committed US$150 million revolving credit facility provided by four financial institutions. The facility is available for general corporate purposes. In June 2019, the facility was extended for a further year and will now mature on 28 July 2022. We retain the option to increase the amount of the facility by US$75 million subject to certain conditions.

We have not made any drawings under the facility.

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

Receivables financing facilities

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

Gross receivables sold under the facilities decreased by US$36.5 million to US$77.0 million at the end of 2019 compared with US$113.5 million at the end of 2018.

At the end of 2019, cash and cash equivalents included US$65.4 million (end of 2018: US$96.1 million) in relation to receivables sold under these facilities.

Currency hedging activities

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

Derivative financial instruments are measured at fair value that is determined based on market forward exchange rates at the balance sheet date. At the end of 2019, currency derivatives held by the Group were represented by a net liability of US$0.3 million (end of 2018: net liability of US$6.2 million).

All currency derivatives held to hedge forecast cash flows were designated as hedging instruments in cash flow hedge relationships. During 2019, a loss of US$3.9 million (2018: loss of US$10.1 million) was recognised in other comprehensive income, representing the change during the year in the fair value of derivatives in effective hedging relationships, and a cumulative loss of US$9.5 million (2018: gain of US$2.3 million) was transferred from equity to profit or loss on the occurrence of the hedged cash flows.

After taking into account hedging, we recognised a net currency translation loss of US$4.6 million (2018: net loss of US$0.9 million) in profit or loss in relation to liabilities to purchase shares under the Company's share buyback programme.

Share buyback programme

Since initiating the share buyback programme in May 2016, the Company has purchased 11,560,563 of its own ordinary shares and returned €393.7 million (US$435.1 million) to shareholders. Details of the share purchases made during the last three years are set out in note 29 to the consolidated financial statements.

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

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

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

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

On 5 June 2019, we announced details of the first tranche of purchases under the 2019 AGM authority, under which the Company committed to purchase shares with a minimum cost of €125.0 million and a maximum cost of €150.0 million.

We completed the third and final settlement of this tranche on 19 December 2019. We purchased a total of 3,134,895 shares under this tranche at a cost of €125.0 million (US$139.0 million). We also incurred transaction costs of US$0.7 million.

We will seek renewal of the share buyback authority at the Company's 2020 AGM and will consider initiating further tranches of share purchases in the context of our regular assessment of the Group's future growth opportunities and its strategic objectives.

Capital management

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

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

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

Going concern

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

We outline on pages 72 to 77 the principal risks and uncertainties that the Directors consider could adversely affect the Group's results, cash flows and financial position.

Financial review continued

Strong balance sheet continued

Balance sheet

Goodwill

At the end of 2019, the carrying amount of goodwill was US$482.1 million compared with US$439.5 million at the end of 2018, an increase of US$42.6 million. During 2019, we recognised goodwill totalling US$42.0 million on the acquisitions of Creative Chips and FCI.

Goodwill impairment tests carried out during 2019 showed that the recoverable amount of each operating segment to which goodwill is allocated exceeded its carrying amount and therefore no impairment was recognised. Details of the impairment tests performed are set out in note 15 to the consolidated financial statements.

Other intangible assets

At the end of 2019, the carrying amount of other intangible assets was US$272.1 million compared with US$217.4 million at the end of 2018, an increase of US$54.7 million. During 2019, additions totalled US$109.5 million, comprising identifiable intangible assets recognised on the acquisitions of Creative Chips and FCI of US$85.7 million, capitalised product development costs of US$15.4 million and purchased software, licences and patents totalling US$8.4 million. During 2019, the related amortisation expense was US$52.2 million (2018: US$49.1 million).

Property, plant and equipment

Since we operate a fabless business model, we do not have any manufacturing facilities but we occupy R&D facilities and administrative offices. With the exception of two properties that we acquired with Creative Chips, all of our facilities are leased.

At the end of 2019, the Group operated in 30 locations worldwide in facilities covering a total of 55,625 square metres. Management considers that the Group's facilities are adequate for its current requirements.

Owned property, plant and equipment principally comprises test equipment, office equipment and leasehold improvements. At the end of 2019, the carrying amount of those assets was US$61.1 million (end of 2018: US$66.4 million). Additions during 2019 totalled US$27.0 million, including assets with a fair value of US$12.9 million acquired with Creative Chips and FCI. During 2019, the related depreciation expense was US$27.2 million (2018: US$31.5 million).

Balance sheet

Summary balance sheet

US$ millions	**As at 31 December 2019**	As at 31 December 2018
Assets		
Cash and cash equivalents	**1,024.5**	677.8
Other current assets	**281.4**	296.2
Total current assets	**1,305.9**	974.0
Goodwill	**482.1**	439.5
Other intangible assets	**272.1**	217.4
Property, plant and equipment – owned	**61.1**	66.4
Property, plant and equipment – leased	**41.4**	–
Other non-current assets	**14.4**	19.8
Total non-current assets	**871.1**	743.1
Total assets	**2,177.0**	1,717.1
Liabilities and equity		
Current liabilities	**373.4**	393.9
Non-current liabilities	**231.0**	20.7
Total liabilities	**604.4**	414.6
Total equity	**1,572.6**	1,302.5
Total liabilities and equity	**2,177.0**	1,717.1

Leased property, plant and equipment comprises right-of-use assets. On adoption of IFRS 16 at the beginning of 2019, we recognised right-of-use assets totalling US$66.4 million. By the end of 2019, the carrying amount of right-of-use assets had declined to US$41.4 million, principally due to the effect of lease terminations totalling US$10.2 million and the depreciation expense of US$12.5 million recognised during 2019.

Other non-current assets

Other non-current assets totalled US$14.4 million at the end of 2019 compared with US$19.8 million at the end of 2018, a decrease of US$5.4 million that principally reflected the recognition of further losses on the remeasurement of our investments in Energous shares and warrants.

Current assets

Current assets were US$1,305.9 million at the end of 2019 compared with US$974.0 million at the end of 2018, an increase of US$331.9 million.

Cash and cash equivalents increased by US$346.7 million to US$1,024.5 million. Other current assets decreased by US$14.8 million to US$281.4 million.

Current liabilities

Current liabilities were US$373.4 million at the end of 2019 compared with US$393.9 million at the end of 2018, a decrease of US$20.5 million.

Trade and other payables decreased by US$17.5 million to US$104.6 million. Other current financial liabilities decreased by US$63.6 million to US$133.3 million. Although there was no share buyback liability at the end of 2019 (end of 2018: US$171.8 million), this reduction was partially offset by the addition of the current element of the prepayment from Apple of US$121.2 million and current lease liabilities of US$9.0 million following the adoption of IFRS 16.

Income taxes payable increased by US$10.3 million to US$18.5 million, reflecting higher taxable profits and the timing of tax payments.

Other current liabilities increased by US$53.5 million to US$117.0 million, principally due to the addition of the current element of the deferred revenue relating to the effective IP licence granted to Apple of US$35.7 million.

Non-current liabilities

Non-current liabilities amounted to US$231.0 million at the end of 2019 compared with US$20.7 million at the end of 2018, an increase of US$210.3 million.

Non-current financial liabilities increased from US$0.8 million to US$115.0 million, principally due to the addition of the non-current element of the prepayment from Apple of US$73.2 million and non-current lease liabilities of US$34.1 million following the adoption of IFRS 16.

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

Other non-current liabilities increased from US$11.9 million to US$92.9 million, principally due to the addition of the non-current element of the deferred revenue relating to the effective IP licence granted to Apple of US$82.2 million.

Total equity

Total equity was US$1,572.6 million at the end of 2019 compared with US$1,302.5 million at the end of 2018, an increase of US$270.1 million.

At the end of 2019, Dialog shares held in treasury amounted to US$251.8 million (end of 2018: US$nil) and Dialog shares held by employee benefit trusts amounted to US$22.1 million (end of 2018: US$22.5 million).

Consequences of Brexit

On 31 January 2020, the UK ceased to be a member of the EU and entered a transition period that is scheduled to end on 31 December 2020.

During the transition period, the UK will continue to be subject to EU rules, will remain in the EU single market and customs union, freedom of movement will remain in place and UK and EU citizens' rights will continue unaffected.

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

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

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

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

Subsequent event

Proposed acquisition of Adesto

On 20 February 2020, we announced that Dialog has entered into a definitive agreement to acquire all of the outstanding shares in Adesto Technologies Corporation ("Adesto").

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

Dialog proposes to acquire Adesto for US$12.55 per share in cash, representing an enterprise value of approximately US$500 million, to be funded from our existing cash balances. The transaction is subject to certain regulatory approvals and customary closing conditions and is expected to close in the third quarter of 2020.

Wissam Jabre
Chief Financial Officer,
Senior Vice President, Finance

Managing risk and uncertainty

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

Our risk management framework

The Board and Audit Committee

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

Operational Management

The Management Team is responsible for managing risk within the business on a day-to-day basis. They set objectives, determine strategy 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 Risk Management Office ("RMO") and the Audit Committee.

Internal Audit

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

The Risk Management Office

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

Emerging risks

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

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

Climate change

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

Dialog's manufacturing partners have implemented multiple initiatives to reduce their carbon footprint, review water and energy usage and to understand and manage the effects of climate change on their own operations.

Regulations addressing greenhouse gas emissions are evolving in many markets which could impact our business indirectly. In the longer term, changes in these regulations could result in increased costs in our supply chain due to higher compliance, raw materials or energy costs to our suppliers. However, improving energy efficiency for end customers is a key element of many of Dialog's products and this mitigates some of the risks associated with climate change as well as underlining the company's commitment to being part of the solution to the challenge that climate change represents.

Key to risk trends

Risk increasing · No change · Risk decreasing

Our principal risks

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

1 Strategic
2 Operational
3 Financial
4 Legal and compliance

1 Strategic risks

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

Dependency on mobile and consumer electronics (No change)	Mitigating actions
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$314 million in R&D in 2019 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 automotive grade Configurable Mixed-signal ICs, low power Wi-Fi for portable IoT applications and custom ICs for industrial ethernet. Dialog also looks for technology and product acquisitions where appropriate. Examples include the acquisitions of FCI and its low power Wi-Fi technology and Creative Chips and their custom industrial ethernet technologies.

Dependency on key customers (Risk decreasing)	Mitigating actions
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 2019 revenue derived from Apple Inc. is shown on page 172, note 35c. Apple's capability to internally design PMICs has been enhanced through the transaction between Dialog and Apple completed in April 2019.	Dialog seeks to diversify its product offerings within its key accounts and to expand its relationships with more top tier global electronics companies. As a result of the IP licensing deal with Apple, Dialog expects to reduce its dependency on Apple over a three-to five-year term and diversify its future Apple revenue across a range of power management, audio subsystem, charging and other mixed signal products. Dialog monitors and reviews acquisition opportunities to further diversify its product offering and customer base as evidenced by the recent acquisitions of both FCI and Creative Chips.

Return on research and development investment (No change)	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.

Managing risk and uncertainty continued

1 Strategic risks continued

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

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.	Dialog seeks to create a positive working environment that results in low levels of staff turnover. Over the years, it 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 2019, with new graduates and interns entering the business – the majority within engineering functions. Dialog continues 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.

Geopolitical events	Mitigating actions
Increasing global trade tensions, including the introduction of tariffs and trade barriers between the US and China and the US and the EU could adversely impact global demand, for Dialog's products and those of our customers. Uncertainty about rules after the UK's withdrawal from the EU may adversely affect economic conditions in the UK, the EU and elsewhere. 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, approximately two thirds of our workforce is based in the EU and our teams are typically comprised of several nationalities. We have not yet experienced any material negative impact from Brexit, but we cannot predict its future implications. Tensions exist between Ukraine and Russia which, if escalated further, could potentially affect Dialog's continuing operations in Western Ukraine.	Dialog continues to monitor the global trade situation closely. Supply Chain options are constantly under review to ensure the most efficient arrangements are in place. Trade friction between US and China can result in fewer US goods being purchased in China, and there could be repercussions throughout the industry. Dialog will continue to monitor very closely any proposed changes to the current regulations in respect of the rights of EU and other nationals to work in the UK, and vice versa. Dialog will continue to monitor events in the Ukraine. Our IT infrastructure ensures that projects could continue at multiple locations should operations in Ukraine become too difficult to maintain.

Mergers & acquisitions	Mitigating actions
Dialog has acquired, and expects in the future to acquire, additional business that we believe will complement or augment our existing businesses. There is risk that an acquisition could prove more difficult to integrate than anticipated and that expected synergies are not fully achieved. We may have difficulty in developing and marketing the products of a newly acquired company, or in growing the business at the rate we anticipate. We may also suffer loss of key employees, customers and strategic partners of acquired companies and it may be difficult to implement our corporate culture at acquired companies. This could mean a consequent failure to realise the expected value from an acquisition.	Dialog has an experienced corporate development team responsible for coordinating our acquisition identification, execution and integration activities. Dialog has significant recent experience in successfully, acquiring and integrating new businesses, including Silego in 2018 and both FCI and Creative Chips in 2019. Dialog's processes for acquisitions include: disciplined target identification, in-depth due diligence, synergy analysis and business modelling, integration planning and detailed execution, which processes benefit from the lessons learned through each acquisition.

Key to risk trends

Risk increasing · No change · Risk decreasing

2 Operational risks

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

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 such as fire, floods, earthquakes or pandemics.	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 offshore assembly and test ("OSAT") vendors, mainly in Taiwan, China and the Philippines, 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 99.9% in 2019, 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, amongst others, compliance with quality, environmental and health and safety standards. 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 maintain 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, procedures and cyber security initiatives are reviewed and updated regularly by the RMO to address the changing regulatory environment, including data privacy regulations and to mitigate the evolving cyber security threat.

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. Delivering faulty products may cause delays in the assembly line of Dialog's customers and defects in their products, with consequent contractual liabilities and risks to the customer relationship.	Dialog operates a "high-touch" fabless model, with engineers working closely together with our foundry partners to optimise the manufacturing process. Dialog emphasises quality assurance through product validation prior to mass production, in-line controls and monitoring of yields with real-time information feeds from manufacturing facilities. Dialog works with key suppliers to achieve industry-leading yields based upon typical defect density limitations. To support this, Dialog has engineers located at key supplier sites. Yield performance on key products is monitored during regular internal operational reviews.

Managing risk and uncertainty continued

3 Financial risks

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

Foreign currency

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 results.

Mitigating actions

Discrete currency exposures are managed on a case-by-case basis. Transactional currency exposures are managed using forward currency contracts, hedging no further than 12 months out using a layered approach. These are designated as cash flow hedges and at the year-end approximately US$148 million equivalent were outstanding.

During the year, Euro-denominated share buyback liabilities were also hedged using forward currency contracts, forming an economic hedge but not designated for hedge accounting purposes. Please refer to notes and to the consolidated financial statements.

Counterparty risk

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

Mitigating actions

The Company uses non-recourse receivables financing to help manage credit risk of selected customers. When executing financial transactions, Dialog deals with reputable financial institutions in accordance with Board approved policy.

Financial stability is a key selection criteria for all suppliers. Annual performance reviews are carried out for key suppliers by Dialog's Manufacturing Review Board.*

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

Funding and liquidity

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

Mitigating actions

The business has no net debt and is cash generative. As such, the Company finances its operations from surplus cash, only raising debt when necessary. The policy is to maintain a sufficient level of liquidity appropriate to meet short-term liabilities and longer-term strategy. Cash flow from operating activities in 2019 was US$496 million. In addition the Company has a US$150 million revolving credit facility which remains undrawn.

Key to risk trends

Risk increasing | No change | Risk decreasing

4 Legal and compliance risks

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

Compliance with laws and regulations	Mitigating actions
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, share listing and related 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 financial results and 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.

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

Intellectual property infringement	Mitigating actions
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 4 March 2020

Dr Jalal Bagherli
Chief Executive Officer

Wissam Jabre
Chief Financial Officer, Senior Vice President Finance

Our corporate governance framework

Management Team
Finance
Internal Audit
Risk Management Office

Audit Committee

- Comprised of non-executive Directors.
- Oversees the Company's financial reporting, internal control and risk management procedures, and the work of the internal and external auditors.

Company Secretary
Human Resources

Remuneration Committee

- Comprised of non-executive Directors.
- Reviews and makes recommendations in respect of salaries and incentive compensation of the officers of the Company and its subsidiaries.
- Provides recommendations to the Management Team for other employees and consultants as appropriate.

Board of Directors

Comprised of the Chairman, Executive and non-executive Directors.

Has overall responsibility for the leadership, control and oversight of the Company.

Nomination Committee

- Comprised of non-executive Directors.
- Reviews Board structure, size and composition.
- Responsible for succession planning for Directors.
- Diversity strategy and the development of a diverse pipeline of candidates.
- Identifies and nominates Board candidates for approval by the Board.

Human Resources
Company Secretary

Executive Directors

- The Board has delegated the day-to-day management of the Company to the CEO who is accountable to the Board.

Introduction to governance

Dear shareholder, I am pleased to present our 2019 corporate governance report.

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

2019 developments

It has been a year of change for UK corporate governance. There is a renewed focus on corporate culture which is evidenced by the breadth of reporting requirements. The purpose of companies and their place in society is being redefined with a clear mandate for boards to be more transparent about how businesses operate; interact with their stakeholders; and take their views into consideration when formulating strategy.

Updates to legislation also came into effect from 1 January 2019, which focused on stakeholder engagement and the ratio between pay for the CEO and the Company's median employee. The Directors' statement on section 172 of the companies act is disclosed on page 28 while the pay ratio of the CEO to median employee is detailed on page 103.

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

Culture and stakeholders

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

Succession planning

Succession planning is an important element of good governance, ensuring that we are fully prepared for planned or sudden departures from key positions throughout the year. The Nomination Committee has reviewed the succession plans for the Board, the Management Team and 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

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

Our Board continues to include an appropriate balance of longer serving and more recently appointed Directors, with diverse backgrounds and 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 2019, we conducted an internal evaluation. The Directors found it helpful in promoting effectiveness at a Board level. The outcome of the review was positive and confirmed that the Board and its Committees operate to a high standard.

Senior Independent Director ("SID")

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

Remuneration

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

Understanding our stakeholders

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

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

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

Nick Jeffery
Chairman, Nomination Committee

Leadership – Board of Directors

The Board of Dialog currently comprises eight Directors. This includes our Chairman, one Executive Director, and six independent non-executive Directors.

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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.

Further details on the composition of the Board, and the Board's Committees, are detailed on page 87.

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 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 Board of Micron Technology Inc. and previously served on the Boards of Analog Devices, Microsemi Corporation (now Microchip Technology), 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.

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 Asia, Europe and North America. Jalal has a BSc (Hons) in Electronics Engineering from Essex University, and holds a PhD in Electronics from Kent University, UK.

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

Board Experience: ● ✚

3. Alan Campbell
Independent non-executive Director
Joined: April 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: ● ■ ✚

4. Mike Cannon
Independent non-executive Director
Joined: February 2013

Mike's career in the high-tech industry spans 30 years. 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, a disk drive and storage systems company, and successfully led the NASDAQ IPO of Maxtor in 1998. Mike previously held senior management positions at IBM and Control Data Corporation. Mike studied Mechanical Engineering at Michigan State University and completed the Advanced Management Program at Harvard Business School.

External Appointments: Mike currently serves on the Boards of Seagate Technology as the Lead Independent Director and Chairman of the Nominating and Governance Committee and also serves on the Compensation Committee, and on the Lam Research Corporation Board on the Audit Committee and the Nominating and Corporate Governance Committee. Mike was previously on the Board of Directors of the US – China Business Council.

Committee Membership: Remuneration (Chair), Nomination

Board Experience: ● ✚

5. Mary Chan
Independent non-executive Director
Joined: December 2016

Mary's career has spanned executive leadership roles at some of the world's most successful international firms, including AT&T, Alcatel Lucent, Dell Inc. and General Motors Corporation ("GM"). At Dell, between 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 4G LTE Wireless Networks business. Most recently at GM, Ms Chan served between 2012 and 2015 as President, Global Connected Consumers & OnStar Service. She holds both Bachelor and Master of Science degrees in Electrical Engineering from Columbia University.

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

Committee Membership: Nomination, Remuneration

Board Experience: ● ◆

6. Joanne Curin
Independent non-executive Director
Joined: August 2019

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

External Appointments: Joanne is a founding Director of Stirling Industries Plc.

Committee Membership: Audit

Board Experience: ■ ✚

7. Nick Jeffery
Independent non-executive Director
Joined: 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.

Committee Membership: Nomination (Chair), Remuneration

Board Experience: ◆

8. Eamonn O'Hare
Independent non-executive Director
Joined: March 2014

Eamonn has spent over two decades as CFO of some of the world's fastest-growing consumer and technology businesses. From 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 currently Founder, Chairman and CEO of Zegona Communications Plc, and a Director of Euskaltel, S.A.

Committee Membership: Audit

Board Experience: ◆ ■ ✚

Leadership – Management Team

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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 Asia, Europe and North America. Jalal is a non-executive Director of Lime Microsystems Ltd since 2005 and was the Chairman of Global Semiconductor Association Europe from 2011 to 2013. He has a BSc (Hons) in Electronics Engineering from Essex University, and holds a PhD in Electronics from Kent University, UK.

Tenure with Dialog: 14 years

2. Vivek Bhan

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

Vivek joined Dialog in November 2013 and is responsible for the Custom Mixed Signal Business Segment. He brings a wealth of 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: Six years

3. Wissam Jabre

Chief Financial Officer, Senior Vice President, Finance

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

Tenure with Dialog: Three years

4. 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: Six years

5. Alex McCann

Senior Vice President Global Operations

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

Tenure with Dialog: Zero years

6. Sean McGrath

Senior Vice President and General Manager, Connectivity & Audio Business Group

Sean joined Dialog in November 2012. Sean has more than 15 years' experience in RF semiconductor businesses, introducing innovative business models and leading organisations to rapid growth. Prior to Dialog, he was 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: Seven years

7. Julie Pope

Senior Vice President, Human Resources

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

Tenure with Dialog: Two years

8. Tom Sandoval

Senior Vice President, Automotive

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

Tenure with Dialog: Four years

9. Colin Sturt

Senior Vice President, General Counsel

Colin Sturt joined Dialog Semiconductor in October 2015 as Senior Vice President, General Counsel. Prior to joining Dialog, Colin held the position of Vice President of Corporate Development, General Counsel and Corporate Secretary at Micrel, Incorporated. He was previously a corporate attorney with Davis Polk & Wardwell LLP. Earlier in his career, Colin served in 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: Four years

10. John Teegen

Senior Vice President, Worldwide Sales

John joined Dialog in November 2017 with the Dialog acquisition of Silego Technology, where he was CEO. He is responsible for worldwide sales and previously he was VP and GM of the Configurable Mixed-signal Business Unit at Dialog. He has more than 30 years of experience in the semiconductor industry and has held executive management positions at Kovio, NeoPhotonics, MMC Networks and VLSI Technology. John has a BS degree in Electrical Engineering from the University of Florida.

Tenure with Dialog: Two years

11. Mark Tyndall

Senior Vice President, Corporate Development & Strategy

Mark joined Dialog Semiconductor in September 2008. Prior to this, Mark was Vice President of Business Development and Corporate Relations at MIPS Technologies. From 1999 to 2006, he held the position of Vice President of Business Development at 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: 11 years

Name	Role Tenure with	Tenure with Dialog (years)
Dr Jalal Bagherli	Chief Executive Officer	14
Vivek Bhan	Senior Vice President and General Manager, Custom Mixed Signal Business Group	6
Wissam Jabre	Chief Financial Officer, Senior Vice President, Finance	3
Davin Lee	Senior Vice President and General Manager, Advanced Mixed Signal Business Group	6
Alex McCann	Senior Vice President Global Operations	0
Sean McGrath	Senior Vice President and General Manager, Connectivity, & Audio Business Group	7
Julie Pope	Senior Vice President, Human Resources	2
Tom Sandoval	Senior Vice President, Automotive	4
Colin Sturt	Senior Vice President, General Counsel	4
John Teegen*	Senior Vice President, Worldwide Sales	2
Mark Tyndall	Senior Vice President, Corporate Development & Strategy and General Manager Emerging Products Business Group	11

* Note: John Teegen became Senior Vice President, Worldwide Sales in March 2019.

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 2019. These accounts have been prepared under IFRS and are available on the Company's website: www.dialog-semiconductor.com

Principal activities and review of the business

Dialog Semiconductor develops and distributes highly-integrated, mixed-signal ICs, optimised for personal portable, Configurable Mixed-signal IC, low energy short-range wireless, LED backlighting and solid state lighting, and automotive applications. The Company provides customers with world-class innovation combined with flexible and dynamic support.

The Company is listed on the Frankfurt (XTRA: DLG) Stock Exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German MDAX and TecDax indices. The Company is incorporated in the UK and the registered number is 03505161. A full list of Company subsidiaries outside of the UK is detailed in Dialog's related undertakings set out on page 197.

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 34 to the consolidated financial statements.

Future developments

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

Subsequent events

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

Research and development R&D

The Company believes that its 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 continually 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 38 and 39.

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$1,025 million of cash and cash equivalents at the end of 2019 (2018: US$678 million) and has a US$150 million Revolving Credit Facility, with a three-year period extended to July 2022, which was undrawn at 31 December 2019. 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 2019 (2018: nil). At the 2020 Annual General Meeting, in line with the shareholder approvals obtained in 2018 and 2019, the Board will be asking shareholders for an authority to continue the share buyback programme.

In May 2019, we completed the share buyback programme corresponding to the 2018 Authorisation, for an amount of €100 million (US$111 million). In December 2019, we completed the first tranche of the share buyback programme corresponding to the 2019 Authorisation for an amount of €125 million (US$141 million). 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 transfers 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 2019, the Trust held 804,712 shares, which represented 1.2% of the total called-up share capital, at a nominal value of £80,471.

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 28 to the consolidated financial statements.

Substantial shareholdings

Details of substantial shareholdings are on page 89.

Directors

The Directors, together with their biographies, are listed on pages 80 and 81.

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 generally and a further 5% on a non-pre-emptive basis in certain limited circumstances related to the financing of a transaction. 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 100 to 106 of this report. No Director had a material interest during the year ended 31 December 2019 in any contract of significance with any Group company.

The agreement between the Company and its Directors for compensation for loss of office is given in the Directors' remuneration policy report on pages 94 to 99 of this report.

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 30 April 2020 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 86 to 91 of this report. While the UK Code does not apply to Dialog, in line with our commitment to maintaining high standards of corporate governance and oversight, the Board will follow the UK Code to the extent it considers it beneficial to the good governance of the Company.

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 72 to 77.

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

Stakeholders engagement
Details of stakeholders engagement are set out on page 28.

Employee engagement
In 2019, Nick Jeffery became the designated director of overseeing employee engagement This engagement, amongst other things, will allow Directors to gauge how the Group's new strategic initiatives are embedding within the organisation. Further details on the Company's engagement with its employees can be found on page 28.

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 2019, Dialog operated from 30 locations in 15 countries with a highly diverse workforce, incorporating employees from 66 nationalities.

Dialog takes equality and equal opportunity for all employees very seriously. We believe diversity among our 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, 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 19% of the overall workforce and further details are set out on pages 34 and 35 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 80 and 81 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.

Capital structure
As at 31 December 2019, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the share capital, and changes in share capital, can be found in note 28 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 financial quarter and end 48 hours after the release of the financial results).

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 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 30 April 2020 at 9am.

Approved by the Board of Directors and signed on its behalf by

Dr Jalal Bagherli
Director

4 March 2020

Corporate governance statement

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

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

Board of Directors – role and responsibilities

The Board has overall responsibility for the leadership, control and oversight of the Company. The day-to-day responsibility for the management of the Company has been delegated by the Board to the Chief Executive Officer ("CEO"), who is accountable to the Board. The CEO executes this authority through an executive management team outlined on pages 82 and 83 of this report. In addition, a number of responsibilities of the Board are delegated to sub-committees of the Board; details of which are set out below.

Matters reserved for the Board

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

Chairman

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

The 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 eight Directors who are listed below.

The Board of Directors comprises a mix of the skills, knowledge and experience required to provide leadership, control and oversight of the management of Dialog and to contribute to the development and implementation of the Company's strategy. In particular, the Board combines a group of Directors with diverse backgrounds within the technology sector, in both public and private companies, which combine to provide the Board with a rich resource 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 80 and 81.

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 80 and 81.

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

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 2019, the Board comprised eight Directors. A maximum of ten Directors is allowable under Dialog's Articles of Association. The eight members of the Dialog Board include the Chairman, one Executive Director and six independent, non-executive Directors. The Nomination Committee has reviewed the size and performance of the Board during the year. The 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 Board has determined that Alan Campbell, Mike Cannon, Mary Chan, Joanne Curin, Eamonn O'Hare, and Nick Jeffery are independent. The Chairman, Rich Beyer, was independent on his

Director	Status	Independent/non-independent	Tenure (years)	Concurrent tenure* (years)
Rich Beyer	Current	(Chairman)	6	6
Dr Jalal Bagherli	Current	Non-independent (Executive)	14	N/A
Alan Campbell	Current	Independent	4	4
Mike Cannon	Current	Independent	6	6
Mary Chan	Current	Independent	3	3
Joanne Curin	Current	Independent	0	0
Nick Jeffery	Current	Independent	3	3
Eamonn O'Hare	Current	Independent	5	5

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

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 six independent non-executive and one Executive Director and is, therefore, compliant with provision 11 of the UK Code that at least half the Board, excluding the Chairman, should comprise Directors determined by the Board to be independent.

At the time of the appointment of Alan Campbell, the Board considered the prior working relationship between Rich Beyer and Alan Campbell who 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 Campbell 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

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 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.

Board Committees

The Board has established a number of Committees to assist in the execution of its responsibilities. During 2019, 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 4 March 2020, is set out below. Attendance at meetings held in 2019 is set out in the table on page 88.

Each of the permanent Board Committees has terms of reference 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 89 to 91.

Committee members

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

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

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

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 18 years.

In October 2019, our Board visited the design centre in Germering, Germany.

In October 2019, our Board had the opportunity to visit the design centre in Germering, Germany. During the visit, the Board had an open and lively discussion on topics such as, Dialog's long-term strategy, product diversification, and our commitment to environmental issues.

In 2019, Nick Jeffery, Chairman of our Nomination Committee, was appointed to oversee employee engagement in collaboration with our global HR teams.

Corporate governance statement continued

Board meetings

The Board holds at least four Board meetings each year. The Board may meet more frequently as required. In addition, there are ad hoc Board calls through the year and when necessary. The number of meetings of Board sub-committees each year varies by Committee. There were five Board meetings in 2019. The attendance at Board and Committee meetings by the Directors who held office in 2019 is set out above. The Board places considerable importance on attendance at 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 is an annual process and occurred in February 2019.

The 2020 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. The induction is usually conducted at a Dialog office, with a full day of meetings with Executives and employees.

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. At the April 2019 Board meeting, Scott Petty, Chief Technology Officer UK, Vodafone, delivered a session on 5G and narrowband IoT. In addition, the October 2019 Board meeting was held in Germering, Munich. As part of the meeting the Board received a presentation from local management and had the opportunity to visit our design centre.

Director	Board	Audit	Remuneration	Nomination
Number of meetings in 2019	5	4	4	4
Meetings attended				
Richard Beyer	5			
Dr Jalal Bagherli	5			
Alan Campbell	5	4		
Michael Cannon	5		4	4
Mary Chan	5		4	4
Joanne Curin*	2			
Aidan Hughes**	2	2		
Nick Jeffery	5		4	4
Eamonn O'Hare	5	4		

* Joanne Curin joined the Board on 1 August 2019.
** Aidan Hughes stepped down at the May 2019 AGM.

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.

In 2019, an internally conducted review was undertaken, the results of which were presented to the Board in February 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, and to ensure non-executive Directors continue to have sufficient time to discharge their responsibilities, 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 80 and 81.

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

In 2019 the Remuneration Committee reviewed NED fees against Dialog's closest comparators. As a result, it was decided to increase fees to the market lower quartile (see page 92). The annual fee for non-executive Directors, was £178,000. The annual fee for the Chairman was £235,000. The Chair of the Audit Committee, the Nomination Committee and the Remuneration Committee received an additional fee of £20,000, £6,000 and £16,000 respectively for their role on that Committee.

The other Committee members receive an additional fee for serving on those Committees as set out on page 105. Details of the activities of these Committees during 2019 are set out on pages 89 to 91.

Directors' fees were paid in cash and shares. Non-executive Directors are not eligible to participate in the Company's bonus or share award schemes.

None of the remuneration of the non-executive Directors is performance related. Non-executive Directors' fees are not 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 92.

Share ownership and dealing

Details of Directors' shareholdings are set out on pages 102 and 103. 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.

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, and IFRS issued by the IASB.

The Company maintains an investor relations section on its website: dialog-semiconductor.com/investor-relations. This contains copies of investor presentations and annual reports as well as providing other financial statements and corporate press releases.

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

In 2019, our Chairman met with shareholders in London and Frankfurt.

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.

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 2019 were:

4.02% – Norges Bank

The free-float includes the following shares held on behalf of discretionary clients as per the share register on 31 December 2019:

The Bank of New York Mellon	10,507,400
Citigroup Global Markets	7,245,593
State Street Bank & Trust Corp.	4,252,280
SIX SIS AG Legitimationsaktionar	3,126,367
Chase Nominees LTD	2,992,940

As of 20 February 2020, the Company was aware of the following holdings:

The Bank of New York Mellon	10,709,625
Citigroup Global Markets	7,510,477
State Street Bank & Trust Corp.	4,270,646
Chase Nominees LTD	3,160,018
BNP Paribas Securities Services	2,508,597

Dialog's free-float at 31 December 2019 was 68,500,680 or 98.8% of the outstanding shares. The free-float is calculated by excluding the 804,712 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 72 to 77.

The Company has an ongoing process of identifying, evaluating and managing risk. The process was in place during 2019 and up to the date of the approval of the 2019 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.

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

Corporate governance statement continued

Dialog's Audit Committee has 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. Joanne Curin has experience as Finance Director at a number of public and private companies. Eamonn O'Hare also has two decades' experience as CFO at some of the rapid growth consumer and technology businesses. Biographies are set out on pages 80 and 81.

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

The internal audit function is appropriately resourced with the required skills and experience, and is 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 Company's annual and quarterly financial statements, the Annual report, and other formal announcements relating to the Company's financial performance;
- Review and advise the Board on the effectiveness of the Company's internal controls;
- Make recommendations on the appointment and remuneration of external auditors and to monitor their performance and independence; 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 2019

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

- Reviewed the Annual report and accounts – including the report of the external auditor – for the year ended 31 December 2019;
- Reviewed the interim reports issued in May, July and October 2019;
- Reviewed and approved the external auditor's audit plan for 2019, including the auditor's proposed fee and statement of independence;
- Reviewed the appointment of new Audit partners in UK and Germany and considerations for Auditor independence;
- Reviewed non-audit fees paid to the external auditor in the year, which totalled US$225,000 and related to the financial due diligence procedures for acquisition of FCI;
- Received and discussed with the external auditor reports setting out the auditor's findings from each quarterly review and the full year audit;
- Assessed the effectiveness of the external audit through a combination of (a) quarterly private sessions to review interactions with management and the auditors understanding of the Company's business risks and the consequential impact on the financial statements and (b) reviewing how the external auditors addressed the findings from the firm-wide audit quality inspection report published by the FRC in the context of the Dialog audit. The Committee is satisfied that the external audit was effective;
- Considered the appropriateness and disclosure of accounting policies, key judgements and estimates with a focus on the key audit matters: the carrying amount of goodwill, including the review of purchase price allocations for FCI and Creative Chips acquisitions; and revenue recognition, the identification and measurement of performance obligations within the licensing and asset transfer agreement with Apple;
- Monitored the progress of management's implementation project of IFRS 16 *Leases*;
- Reviewed the risk register for updates to key risks and status;
- Approved the annual internal audit plan, received and reviewed internal audit reports, including a report on the audit of the implementation of IFRS 16 and the annual assessment and review of internal controls, and monitored the effective and timely remediation of any control weaknesses; and
- Reviewed and updated the Committee's terms of reference.

The Company believes that an effective and robust system of internal control is essential to achieving reliable 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. There continues to be ongoing focus on the internal control over financial reporting using the COSO framework to design relevant and sustainable internal controls and test the operating effectiveness of internal controls.

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

Role of the external auditor

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

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

The external auditor has committed to informing 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. 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. Deloitte were chosen to provide the financial due diligence for reasons of efficiency as they were also the auditors of the acquired FCI business.

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

Nomination Committee

The Board of Directors has established a Nomination Committee to review 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, including the development of a diverse pipeline of candidates, 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 2019, the Nomination Committee comprised Nick Jeffery (Chair), Mary Chan and Mike Cannon. The Committee comprises only independent non-executive Directors. By invitation, other members of the Board may attend the Committee's meetings. The Committee 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 non-executive recruitment. The firm, Egon Zehnder, 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 88.

Activity in 2019

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

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

Remuneration Committee

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

At the end of 2019, the Remuneration Committee comprised Mike Cannon (Chair), 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 adviser Aon Plc. Aon is a signatory to the Remuneration Consultants Group Code of Conduct and any advice was provided in accordance with this code. Aon provided no other services to Dialog during 2019 and has no other connection with the Company other than as adviser on issues relating to remuneration.

In 2019, the Committee met formally on four occasions. Attendance at scheduled meetings is set out on page 88.

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

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

Tim Anderson
Company Secretary

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 2019, which has been prepared by the Remuneration Committee and approved by the Board.

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

Our remuneration philosophy

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

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

Performance and remuneration for 2019

Management's strategic focus on high-growth segments of its target markets and operational excellence has delivered strong performance over 2019. Total group underlying revenue was down 2% from 2018, however both underlying operating margin and underlying gross margin have improved over 2018 levels, and cash generation has been strong. In addition, Dialog has gained a strong foothold in the growing industrial IoT market through the acquisition of Creative Chips. This has broadened Dialog's customer base and opened up new opportunities to create long-term and sustainable value for shareholders. As a committee, we were satisfied that this strong financial and operational performance has been reflected in our share price which increased by +100% over 2019, and has also been reflected in the annual bonus and LTIP outcomes for 2019. Further detail on the annual bonus and LTIP outcomes and targets is provided on pages 100 and 101.

Base salary

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

Annual Bonus

As a result of the strong performance in 2019, an annual bonus award of 181.0% of target has been achieved by the CEO, compared with 115.3% for 2018.

Bonus performance outcomes are detailed in the Annual report on remuneration on pages 100 and 101.

Long-term incentive

The 2017 award made under the Long-Term Incentive Plan ("LTIP") will vest in the first quarter of 2020. The LTIP is subject to a performance test over the period 2017-19 and 84.7% of the target number of shares are expected to vest (42.4% of the max number of shares).

Remuneration reforms

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

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

Non-executive Director fees

Non-executive fees were last increased at the 2016 AGM when they were brought closer to market median and were restructured so that fees were delivered mostly in shares vesting immediately without performance conditions. As part of this restructuring, the cash portion of fees was reduced.

In 2019 the Committee reviewed NED fees against Dialog's closest comparators. Since no increase has been applied since 2016, NED fees were found to have fallen behind market median and even behind lower quartile. As a result, it was decided to increase fees to the market lower quartile. For the NED base fee, this represents an annualised increase of circa 5% per annum, which is in line with increase for UK employees over this period. Further information is set out later in this report.

Shareholder consultation regarding the outcome of the 2019 AGM

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

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

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

Mike Cannon
Chairman, Remuneration Committee

4 March 2020

Dialog Semiconductor Plc

Remuneration at a glance

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

Component	Features	How we implemented
Base Salary	– Salary and benefits to facilitate recruitment and retention. – Fixed pay is restrained to emphasise performance-based remuneration and further align the interests of the CEO and shareholders.	– 6% increase (0% increase in 2018). – Chief Executive Officer: £515,040. – 15% pension allowance.
Annual Bonus – weightings: 15% Revenue 10% Underlying gross margin 15% Underlying operating margin 20% Diversification 40% Commercial and Organisational goals	– Target potential 125% 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.	– 181.0% of target bonus paid. – CEO: £1,165,278.
LTIP – weightings: 33.3% Revenue 33.3% Underlying operating margin 33.3% Relative Total Shareholder Return	– Target award is capped at £3 million. – 2x multiplier for excellent performance. – Goals focused on KPIs and long-term shareholder returns. – 2-year post-vesting holding period for awards granted after the 2019 AGM.	– Awards granted to the CEO in 2019 had a target value of £3 million at grant.
Shareholding Requirements	– CEO 400% of salary.	– CEO exceeds requirement.

How we measure performance and link to strategy

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

Measure	2019 Annual Bonus	LTIP	Rationale and link to strategy
Revenue	✓	✓	Measures top-line business growth
Underlying operating margin	✓	✓	Measures 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 and organisational goals	✓		Focuses executives on the delivery of our strategic goals

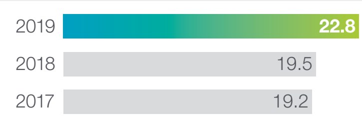
How we performed

Underlying revenue (US$m)

US$1,420m

Operating margin, underlying (%)

22.8%

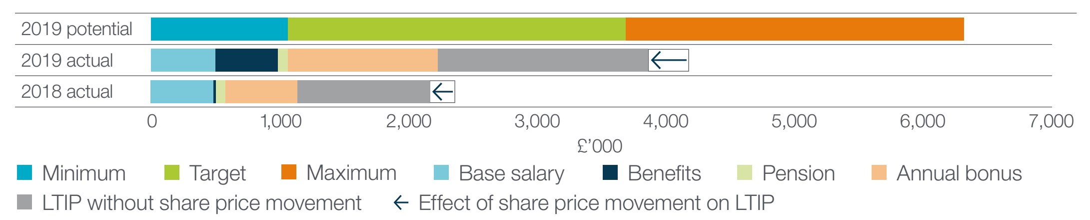


Gross margin, underlying (%)

49.8%

2019 Remuneration

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



Maximum Fixed pay, maximum annual bonus (250% of salary for 2019 and 200% of salary for 2018) and maximum value of the LTIP vesting.
Target Fixed pay and on-target award for Annual Bonus (125% of salary for 2019 and 100% of salary for 2018) and 1x target value of the LTIP vesting.
Minimum Fixed pay (base salary, benefits and pension).

The split of the LTIP bar shows the value lost or gained due to the effect of the share price. The arrow on the "2018 actual" and "2019 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. Dialog's 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 Executive Directors should hold a meaningful number of shares personally. The individual remuneration elements operated for Executive Directors 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;
- The competitive international market for senior executives in the semiconductor industry; 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 when approved at the 2019 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 at the 2019 AGM	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 at the 2019 AGM	No change

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 at the 2019 AGM	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	Target award of 125% of base salary. Award value can range between 0 and 2x target award level based on the performance condition. 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 2x target bonus.
Operation	The portion of any award up to 100% of base salary is paid in cash, and the portion of any award above 100% of base salary is awarded in deferred shares. Deferred shares normally vest after three years, and are subject to the plan rules in the event of termination or change in control. Dividend equivalents may be paid on any shares which vest. The Committee may vary the performance measures and mix used to adapt to changing Company circumstances. Financial measures will be a significant portion of the total scorecard.
Performance framework	Performance metrics include: – Financial goals (which determine a significant portion of bonus every year); – Commercial goals; and – Organisational and employee-related goals. For financial metrics, performance is set in line with the stretch annual budget.
Changes in policy at the 2019 AGM	Increase in target bonus from 100% to 125% of salary.

Directors' remuneration policy continued

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	Target award of £3 million. Maximum award at date of grant is 2x target award level based on the performance condition.
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. A holding period of two years will normally apply to any vesting awards. The Committee has the discretion in certain circumstances to settle an award in cash. In practice this will only be used either to cover the settlement of tax on vesting or 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. 0.5x the target award vests for threshold performance, 1x the target award vests for target performance and 2x the target award vests for maximum performance as defined by the Remuneration Committee under the plan. For the relative TSR condition, Dialog Semiconductor TSR is measured over the three-year performance period and compared to the companies in the comparator group. If Dialog TSR is at the median of the comparator group then 0.5x the target award vests. If Dialog TSR is at the 60th percentile of the comparator group then 1x the target award will vest. If Dialog TSR is at or above the 75th percentile of the comparator group then 2x the target award will vest. For performance in between these levels, vesting is determined on a straight-line basis. If Dialog TSR is negative over the three-year performance period, then the maximum number of shares which can vest subject to the relative TSR condition will be capped at 1x the target award, even if relative TSR is above 60th percentile. For the Company financial performance component, targets are normally set annually over the three-year performance period.
Changes in policy at the 2019 AGM	Increase in target award from £2 million to £3 million.

Termination arrangements	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 CEO, the notice period is 12 months. The maximum termination payment due in the case of termination of employment by the Company without "cause" or termination by the Executive for a pre-defined good reason (see definition below) is: – 1x base salary; – 12 months' continuation of pension and fringe benefits; and – Annual bonus pro-rated for the period worked only and subject to the normal performance test at year end. **Termination in connection with a change in control** In the case of the current CEO, the notice period from the employee or the Company is 12 months. The maximum payment due in the case of termination of employment by the Company without "cause" or termination by the Executive for a pre-defined good reason in connection with a change in control event is: – 1x base salary; – 12 months' continuation of pension and fringe benefits; and – Annual bonus time pro-rated for the period worked, and subject to performance.

	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 10%) or any reduction on change of control; company required relocation by 30 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 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 any 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 at the 2019 AGM	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 and other non-executive Director fees are determined by the Board following a review and recommendation by the Remuneration Committee. 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 at the 2019 AGM	No change

Directors' remuneration policy continued

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 at the 2019 AGM	No change

Clawback and malus policy

Under the rules of the deferred bonus plan, the LTIP and the previous EIP, the Remuneration Committee is entitled to cancel or claw back some or all of a participant's awards in the event that the Audit Committee of the Company determines that the financial accounts of the Company were misstated to a material extent (such determination must be made within two years of the award date or six years if in relation to fraud or reckless behaviour by an executive). Such clawback may be applied through direct repayment or a reduction in unvested awards or future grants, or a reduction in such other payments as might otherwise be due from the Company to the individual.

Shareholding requirement

The Committee will set a shareholding requirement for Executive Directors. The requirement for the current CEO is 400% of base salary. The Committee reviews the level of shareholding requirement from time to time and has authority to amend it as necessary.

Share options for non-executive Directors

Until 2012, non-executive Directors received part of their fees in the form of options over Dialog shares. This practice was felt to align their interests with those of shareholders. Use of options was stopped ahead of the 2013 financial year and the last awards made (in 2012) vested in 2015. No further options have been awarded since 2012 and none will be awarded in future years. Provision of share options is not included in the policy table above as options are not part of the Company's forward-looking remuneration policy. According to UK regulations however, reference to options must be made in the policy section of the Directors' remuneration report, in order to permit payments under outstanding awards, hence the inclusion of this section here.

Remuneration policy for Executive Directors compared to that for other employees

The Company's remuneration policy for Executive Directors is similar to that for all other Dialog employees. Differences in policy are outlined below:

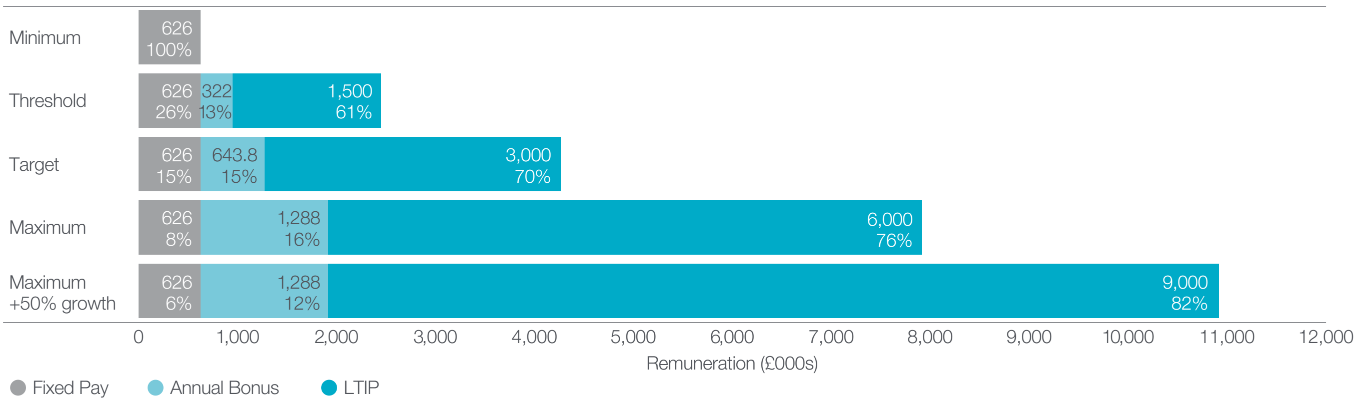
Annual bonus – All Dialog employees participate in annual bonus plans. The nature of those plans varies somewhat by location and employee category. Most employees participate in a profit-sharing plan; a smaller group participates in a plan based on performance against individual objectives;

LTIP – Participation in the LTIP is limited to employees in senior roles and executives, which currently comprise around 50 Dialog employees. This number may increase over time as the business grows. Different conditions to those attaching to awards made to Executive Directors may apply; and

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

Remuneration scenarios for the CEO

The charts below illustrate for the 2020 year the pay mix between the different elements of remuneration for the CEO, assuming threshold, target and maximum performance. Amounts are shown in GBP (000s).



The scenarios shown above are based on the following assumptions:

- Minimum performance: fixed pay only (base salary, benefits and pension);
- Threshold performance: fixed pay, annual bonus (62.5% of salary) and 0.5x target value of the LTIP award vesting;
- Target performance: fixed pay, annual bonus (125% of salary) and 1x target value of the LTIP award vesting;
- Maximum performance: fixed pay, maximum annual bonus of 250% of salary and 2x target value of the LTIP award vesting; and
- Maximum performance with share price appreciation: Same assumptions as for the maximum performance scenario, but assumes that the value of LTIP shares increases by +50% over the performance period.

We have assumed a target LTIP grant of £3 million, which is the limit for the policy.

Annual report on remuneration for the year ended 31 December 2019

1. Executive Director remuneration: Single Figure Table (audited)

The table below sets out the single figure for the CEO:

Incumbent	Year	Total salary US$	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	2019[1,2]	661,112	643,822	98,685	1,403,619	1,539,332	2,159,914	3,699,246	2,942,952	5,102,866
Dr Jalal Bagherli	2018[1,2]	620,379	23,927	93,057	737,363	715,298	1,309,796	2,025,094	1,452,661	2,762,457

Notes:
1 Exchange rates used are: 2018: GBP 1 = USD 1.2768; EUR 1 = USD 1.1451; 2019: GBP 1 = USD 1.3210; EUR 1 = USD 1.1228.
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 2019 GBP base salary increase was 6%. Core CEO benefits were not changed in 2019. The increase in value of Benefits is due to the inclusion of an amount relating to grossed up tax penalties, further information on which is contained in section 2.2.
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 Over the vesting period of the 2016 LTIP, the share price changed from €33.35 at grant to €26.75 at vesting. This resulted in a reduction of value of the LTIP award of €283,807.
Over the vesting period of the 2017 LTIP, the share price changed from €50.19 at grant to €43.89 (average share price over the last three months in 2019). This resulted in a reduction of value of the LTIP award of €277,074.
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 2019 with reference to his performance, the scale of the Group, and the positioning of his package compared to Dialog's peer group. Given the strong performance since 2018 and the base salary freeze in 2018, the CEO was awarded a 6% increase in annual base salary with effect from 1 July 2019 which resulted in his base salary increasing to £515,040 (US$680,368). This level of base salary increase is equivalent to an annualised increase of 3% per annum since 2017, and in line with the range of base salary increases for other employees at Dialog and results in a market positioning around the lower quartile of our peers.

2.2 Other benefits and Pension

The CEO received a cash allowance in lieu of a company car £10,200 (US$13,474), medical insurance for himself and his spouse and Group life and income protection insurance.

Advances are made to the Executive Director by foreign subsidiaries against foreign taxes as a result of business travel that are repaid as and when the relevant tax credits are received. During 2019, the average amount outstanding was £314,780 (2018: £53,265). No interest is charged on the advances which are treated as a taxable benefit.

In late 2019, the Company identified that the application of cross jurisdiction tax rules for specific employees related to stock options, was incomplete, a number of employees had become subject to US tax penalties. The Company agreed to pay specified penalties on behalf of all impacted employees, including the CEO, and will make steps to minimize employee exposure in the future. Included in benefits for the CEO is an amount of £453,865 (US$599,555) which relates to penalties and gross up of amounts due in relation to the following US tax years 2016, 2017, 2018 and 2019.

The total value of taxable benefits provided was £487,375 (US$643,822) equivalent to 94.6% of his current salary. This number is artificially high in 2019 due to the tax misinterpretation described above.

The CEO receives a pension allowance of 15% of base salary which is in line with policy. In 2019, the Company made pension allowance payments of £74,705 (US$98,685) to the CEO.

2.3 Annual bonus disclosure

For 2019, the CEO was eligible for a target annual bonus of 125% of base salary, which could range up to 250% of base salary for maximum performance. The portion of any bonus awarded above 100% of base salary is deferred into shares which vest after three years. Performance measures used were:

- Financial goals (60%) comprising revenue (15%), underlying gross margin (10%), EBIT (15%), diversified revenue (20%); and
- Commercial & organisational goals (40%).

The 2019 bonus was determined at 181.0% of target, reflecting performance as set out in the table below. The targets and outcomes for bonus determination are based on financial measures which excluded the effects of specific R&D projects and acquisitions during the course of 2019 and therefore do not match the full company results. 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.

Measure		**Outcome**	**Below Threshold**	**Between Threshold and Target**	**On Target**	**Above Target**
Financial	Revenue	$1,408m				✓
	Underlying gross margin	49.8%				✓
	Underlying operating margin	24.4%				✓
Diversification	Diversified Revenue	The outcomes of the goals in this category were above target overall. Exact figures are not shown as they are deemed commercially sensitive.				
Commercial & organisational goals		See below				✓

2. Commentary on the Executive Director Single Figure Table continued

2.3 Annual bonus disclosure continued

The overall outcome for the commercial goals was above target. This reflects performance as set out in the table below:

Performance Measure	Outcome
Organisational Goals and M&A	Above target performance on this measure to recognise the close of the landmark deal with Apple Inc, two completed acquisitions with FCI and Creative Chips and a company reorganisation.

Accordingly, the Committee determined that a bonus equivalent to 226.3% of base salary should be paid for the performance in the 2019 financial year. Of this, 126.3% (£650,238) will be deferred into shares for three years.

The Committee also considered the disclosure of the performance targets relating to the 2019 annual bonus. Having reviewed the targets, the Committee decided that the targets continued to be commercially sensitive if disclosed at the same time as the bonus is paid. In response to the request for additional disclosure around performance goals, the Board has reviewed the targets for the 2018 annual bonus and considered these to be no longer commercially sensitive. In line with the commitments set out in the 2018 Annual Report, we intend to disclose the 2019 bonus targets in next year's Remuneration Report. The 2018 targets are set out below:

							Bonus payable (% of salary)			
Performance Measure		Weighting	Threshold	Target	Maximum	Outcome	Threshold	Target	Maximum	Bonus payable
Financial	Revenue	15%	$1,437m	$1,597m	$1,757m	$1,442m	9.375%	18.75%	37.5%	7.7%
	Underlying gross margin	15%	46.4%	47.8%	50.30%	48.3%	9.375%	18.75%	37.5%	18.0%
	Underlying operating margin	15%	18.2%	20.2%	22.2%	19.5%	9.375%	18.75%	37.5%	12.4%
Diversification		25%	The outcome of $531 was just above target overall.							27.2%
Commercial goals (Carve-out/M&A)		30%	Above-target performance on this measure in recognition of the landmark agreement with Apple Inc. which clarified our long-term business relationship and monetised our unique IP.							50.0%
Total										**115.3%**

2.4 LTIP disclosure

Awards granted under the 2017 Long-Term Incentive Plan ("LTIP") are capable of vesting in 2020 subject to the achievement of revenue, underlying operating margin and relative Total Shareholder Return ("TSR") performance targets. Following the completion of the final performance period in 2019, the Committee has assessed performance against the performance targets set over the performance period and has determined that 84.74% of the target number of share options awarded will vest to participants which is equivalent 42.37% of maximum.

Measure	Target award level (% of target award)	Performance Needed for Maximum Vesting	Outcome	Actual vesting outcome (% of target award)
Revenue	33.3%	$4.73bn	$4.20bn	33.10%
Underlying operating margin	33.3%	21.9%	20.9%	51.64%
Relative TSR vs. peer group	33.3%	Dialog TSR over the 3-year performance period was below the median of the peer group, i.e. the constituents of the S&P Select Semiconductor Index. For maximum payout, upper quartile performance would have been needed.		0%
Total	100.0%			84.74%

The Chief Executive was awarded a target number of 51,894 LTIP share options in 2017 (which is equivalent to a maximum number of 103,788 share options if all the maximum performance targets are met). As a result of the actual vesting outcome, 43,980 of the target number of LTIP share options awarded to the Chief Executive in 2017 (i.e. 84.74% of target or 42.37% of maximum) will vest in 2020. As the share price at the date of vesting for the 43,980 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 2019 of Euro 43.89. This results in a value of US$2,159,914. This figure will be updated next year when the actual share price at the date of vesting is known.

2.5 Share awards made during the year

In 2019, the CEO was granted LTIP awards which totalled a target value of £3 million 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.

		Granted number		30-day average share price at date of grant in £	Value of award		% of max award that will vest at threshold	
Awarded during the year	Date of award	Target	Max		Target	Max		Performance period
LTIP – performance shares[1]	08/03/2019	88,563	177,126	£22.5826	£1,999,984	£3,999,967	25%	01/01/2019–31/12/2021
LTIP – performance shares[2,3]	13/05/2019	36,627	73,254	£27.3017	£999,979	£1,999,959	25%	01/01/2019–31/12/2021

Notes:
1 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 8 March 2019 (€25.97). The sterling equivalent share price was £22.5826, resulting in a maximum LTIP award value of £3,999,967 which equates to a target LTIP award of £1,999,984.
2 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 13 May 2019 (€31.67). The sterling equivalent share price was £27.3017, resulting in a maximum LTIP award value of £1,999,959 which equates to a target LTIP award of £999,979.
3 A further LTIP award of £1 million (target) was granted to the CEO on 13 May 2019 after the initial award granted on 8 March 2019, as a change to policy to increase the target value was approved at the AGM which was after the date the initial 2019 LTIP grant was awarded.

Annual report on remuneration for the year ended 31 December 2019 continued

2. Commentary on the Executive Director Single Figure Table continued

2.5 Share awards made during the year continued

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.

2.6 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 move over time towards a rolling 10% in ten years.

3. Non-executive Directors' remuneration: Single Figure Table (audited)

Incumbent	Year	Fees US$[4]	Taxable Benefits US$	Incentives (Annual) US$	Incentives (Long-term) US$	Other remuneration US$	Shares Vested US$	Total US$
Aidan Hughes[2]	2019[1]	68,296	4,413	–	–	–	–	72,709
Aidan Hughes[2]	2018[1]	195,350	11,092	–	–	–	–	206,442
Richard Beyer	2019[1]	287,318	6,507	–	–	–	–	293,825
Richard Beyer	2018[1]	255,360	10,528	–	–	–	–	265,888
Mike Cannon	2019[1]	230,184	4,766	–	–	–	–	234,950
Mike Cannon	2018[1]	203,650	5,831	–	–	–	–	209,481
Eamonn O'Hare	2019[1]	219,947	1,936	–	–	–	–	221,883
Eamonn O'Hare	2018[1]	195,350	2,404	–	–	–	–	197,754
Alan Campbell	2019[1]	231,836	5,350	–	–	–	–	237,186
Alan Campbell	2018[1]	205,565	10,095	–	–	–	–	215,660
Nick Jeffery	2019[1]	224,570	1,436	–	–	–	–	226,006
Nick Jeffery	2018[1]	199,181	2,866	–	–	–	–	202,047
Mary Chan	2019[1]	220,937	4,707	–	–	–	–	225,644
Mary Chan	2018[1]	195,989	8,187	–	–	–	–	204,176
Joanne Curin[3]	2019[1]	99,075	0	–	–	–	–	99,075
Joanne Curin[3]	2018[1]	–	–	–	–	–	–	–

Notes:
1 Exchange rate used 2018: GBP 1 = USD 1.2768; EUR 1 = USD 1.1451; 2019: GBP 1 = USD 1.3210; EUR 1 = USD 1.1228.
2 Aidan Hughes left the Board on 2 May 2019.
3 Joanne Curin joined the Board on 1 August 2019.
4 Fees include fees paid in cash and shares.

4. Directors' shareholdings at 31 December 2019 (audited)

The CEO is expected to establish and hold a shareholding of at least 400% of salary. The CEO currently exceeds this requirement.

		Share Awards with Performance Conditions		Share Awards without Performance Conditions				
Number at 31 December 2019	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	421,053	616,245	38,117	91,643	–	–	103,461	1,270,519
Joanne Curin	608	–	–	–	–	–	–	608
Aidan Hughes	23,400	–	–	–	–	–	2,081	25,481
Richard Beyer	15,383	–	–	–	–	–	–	15,383
Mike Cannon	11,670	–	–	–	–	–	–	11,670
Eamonn O'Hare	13,290	–	–	–	–	–	–	13,290
Alan Campbell	11,490	–	–	–	–	–	–	11,490
Nick Jeffery	6,916	–	–	–	–	–	–	6,916
Mary Chan	9,777	–	–	–	–	–	–	9,777

4. Directors' shareholdings at 31 December 2019 (audited) continued

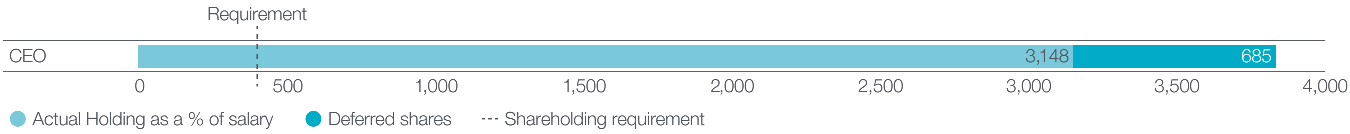
Further detail on the CEO's EIP, LTIP and deferred bonus share awards, is set out below.

Full Name	Share plan	Grant date	Final vesting date	Lapse date	Exercise price (EUR)	Holding at 31 Dec 2018	Granted	Exercised	Lapsed	Holding at 31 Dec 2019
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	16/02/2014	16/02/2017	16/02/2020	0.12	60,850	–	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	24,690	–	–	–	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	13,427	–	–	–	13,427
Dr Jalal Bagherli	LTIP nominal cost option	01/05/2015	01/03/2018	01/03/2021	0.15	33,526	–	–	–	33,526
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	–	–	139,647	43,001
Dr Jalal Bagherli	LTIP nominal cost option	01/03/2017	01/03/2020	01/03/2023	0.15	103,788	–	–	–	103,788
Dr Jalal Bagherli	Deferred bonus plan	05/03/2018	05/03/2021	05/03/2025	0.01	6,514	–	–	–	6,514
Dr Jalal Bagherli	LTIP nominal cost option	05/03/2018	05/03/2021	05/03/2024	0.15	185,550	–	–	–	185,550
Dr Jalal Bagherli	Deferred bonus plan	08/03/2019	08/03/2022	08/03/2026	0.01	–	3,291	–	–	3,291
Dr Jalal Bagherli	LTIP nominal cost option	08/03/2019	08/03/2022	05/03/2025	0.15	–	177,126	–	–	177,126
Dr Jalal Bagherli	LTIP nominal cost option	13/05/2019	13/05/2022	13/05/2029	0.15	–	73,254	–	–	73,254

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 2018	Granted	Exercised	Lapsed	Holding at 31 Dec 2019
Aidan Hughes	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 2019 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 2018 to 2019.

	Percentage change from 2018 to 2019	
Measure	CEO[2]	Average UK employee
Base salary	6.0%	4.5%
Taxable benefits	2,500.7%	5.3%
Annual bonus	108.0%	98.1%[3]
Total[1]	103.6%	8.7%

1 Represents the sum of base salary, taxable benefits and bonus.
2 CEO base salary increased 6% in year, this is equivalent to a 3% increase per year as there was a 0% increase in 2018. Core CEO benefits were not changed in 2019. The increase in value of Benefits is due to the inclusion of an amount relating to grossed up tax penalties, detailed information on which is contained in section 2.2.
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. The annual bonus for the majority of employees is a plan based on EBIT (underlying operating margin) which was above target for 2019.

6. CEO pay ratio

The following table shows the ratio between the total remuneration of the CEO and the median total remuneration of our UK employees. Employee total remuneration has been calculated using "Option A" of the published methodology.

Financial year ending	Methodology	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2019	Option A	60 : 1	44 : 1	27 : 1

The above ratios have been calculated using the single figure for the CEO and the following statistics for our UK employees:

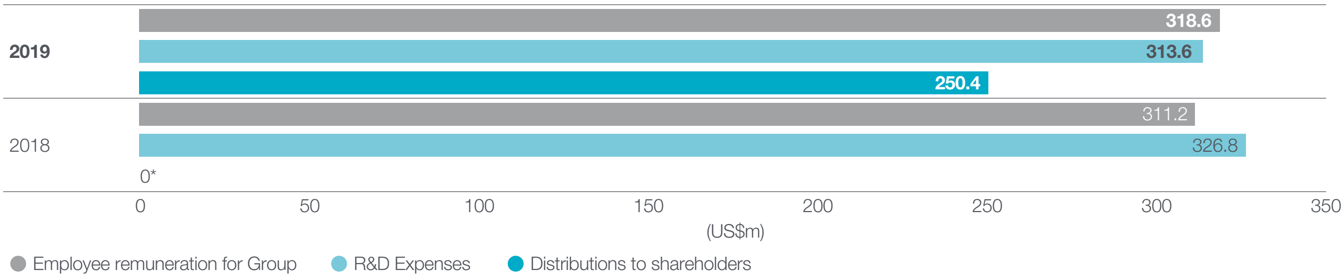
	CEO	25th percentile	50th percentile	75th percentile
Total salary	£500,463	£47,900	£62,056	£72,194
Total remuneration (single figure)	£3,862,881	£64,648	£88,527	£144,677

The CEO pay ratio has been calculated as at 31 December 2019 using Option A as defined in the relevant regulations. This method was chosen as it is the preference of investors and provides a robust analysis. The calculation compares employees on a like for like basis to the CEO; it includes employees employed throughout the whole year, payments were adjusted to reflect full time values by dividing values by hours worked and multiplying by standard UK full time hours, and Bonus and Long-Term Incentives were valued based on 2019 performance, and where an employee has received a maternity payment this has been excluded as the salary has been adjusted to a full time basis. The company believes the median pay ratio for the 2019 financial year is consistent with the pay, reward and progression policies for the company's UK employees taken as a whole.

Annual report on remuneration for the year ended 31 December 2019 continued

7. 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.



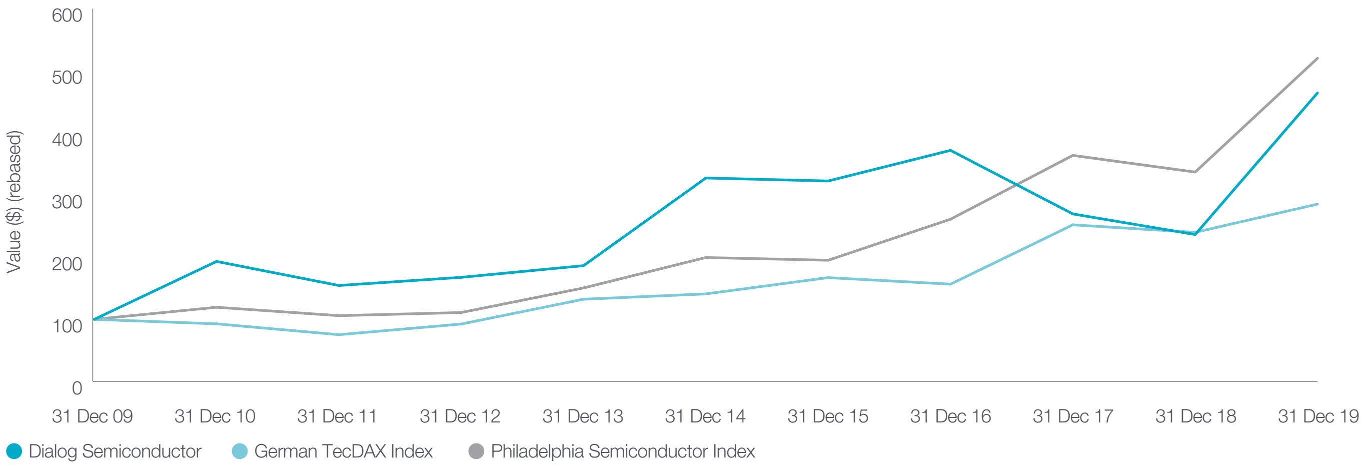
* Please refer back to "Share buyback programme" on page 69.

8. Review of past performance

8.1 TSR Chart

The following graph compares Dialog Semiconductor's TSR performance to that of the same investment in the German TecDAX Index. This comparison has been chosen because it reflects the local market and industry in which Dialog is listed. We also show a comparison to the Philadelphia SE Semiconductor Sector Index (Price return) as an additional industry comparator, recognising that Dialog competes with companies on an international basis. TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and – where relevant – assuming reinvestment of dividends. Data is averaged over 30 days at the end of each financial year.

This graph shows the value, by 31 December 2019, of US$100 invested in Dialog Semiconductor Plc on 31 December 2009 compared with the value of US$100 invested in the German TecDAX Index on the same date. Also plotted is the price index for the Philadelphia Semiconductor Sector Index (rebased to 100). Data has been averaged over 30 days at the end of each financial year.



Source: FactSet.

8.2 Ten-year Chief Executive single figure remuneration

The table below sets out the annual change in the single figure total remuneration provided to the CEO over the previous ten-year period.

Financial year ending	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014	31 Dec 2015	31 Dec 2016	31 Dec 2017	31 Dec 2018	31 Dec 2019
Total remuneration including unrealised gains on options in $ (single figure basis)[1]	4,809,398	30,426,678	2,167,224	2,046,555	4,521,143	5,910,729	5,576,750	2,998,070	2,762,457	5,102,866
Annual bonus (% of maximum)[2]	N/A	N/A	100%	91.94%	89.12%	79.25%	34.62%	64.45%	57.65%	90.5%
Long-term variable pay (% of maximum)[3]	100%	100%	100%	100%	78%	81.3%	61.49%	34.44%	23.54%	42.37%

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 percentages shown for 2017, 2018 and 2019 long-term variable pay are for the LTIP. In 2017, there was a legacy EIP award with a vesting percentage of 44.88%.

9. Statement of implementation for the year ending 31 December 2020

9.1 Executive Director

This section details how remuneration will be implemented for the CEO in line with the remuneration policy that was approved at the 2019 AGM.

Base salary
The CEO's base salary will be subject to review in 2020 with any change being effective from 1 July 2020.

Benefits & pension
No change to benefits. Pension contribution remains at 15% of salary.

Annual Bonus for the year ending 31 December 2019
The maximum bonus potential will continue to be 2x target bonus, and the target bonus will continue to be 125% of base salary.

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 2020. 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 2019
The target LTIP award will continue to be £3 million in line with the current policy.

As in prior years, the LTIP award will vest after three years subject to the satisfaction of three performance metrics:

- Dialog TSR performance over the three-year performance period relative to the constituents of the S&P 1500 Select Semiconductor index;
- Dialog revenue in each year of the three-year performance period; and
- Dialog underlying operating margin in each year of the three-year performance period.

Financial targets will be disclosed retrospectively in the year of vesting.

For the relative TSR condition of the 2020 LTIP award, Dialog Semiconductor TSR is measured over the three-year performance period and compared to the companies in the comparator group. If Dialog TSR is at the median of the comparator group then 0.5x the target award vests. If Dialog TSR is at the 60th percentile of the comparator group then 1x the target award will vest. If Dialog TSR is at or above the 75th percentile of the comparator group then 2x the target award will vest. For performance in between these levels, vesting is determined on a straight-line basis.

Share Ownership Guidelines
Share Ownership Guidelines are required to build and retain a shareholding in Dialog's shares. The CEO is required to hold the equivalent of 400% of base salary in shares.

Holding Period
A post-vesting holding period of two years will apply to the 2020 LTIP award.

9.2 Non-executive Directors

In 2019, fee rates for non-executive Directors were reviewed against fee rates at our comparator group. Since no increase has been applied since 2016, NED fees were found to have fallen behind market median and even behind lower quartile. As a result, it was decided to increase fees to the market lower quartile. For the NED base fee, this represents an annualised increase of circa 5% per annum, which is in line with increase for UK employees over this period. The new rates which applied from 1 July 2019 are set out below. Fees continue to be delivered in a mix of cash and shares, with the share portion comprising the greater part. Shares are not subject to a performance condition or vesting period. The following table sets out the fee rates for non-executive Directors compared to the rates in 2018.

	2019		2018	
In thousands	Cash	Shares	Cash	Shares
Chairman fee	£94	£141	£80	£120
Base fee	£68	£102	£58	£87
Committee Chair fee				
Audit	£20	–	£16	–
Remuneration	£16	–	£12	–
Nomination	£6	–	£5	–
Committee membership fee				
Audit	£10	–	£8	–
Remuneration	£8	–	£6	–
Nomination	£3	–	£2.5	–

Annual report on remuneration for the year ended 31 December 2019 continued

10. Governance

10.1 The Remuneration Committee

The Board as a whole is responsible for setting the Company's policy on Directors' remuneration. The Board of Directors has established a Remuneration Committee (the "Committee") and has delegated authority to this Committee to review and recommend to the Board: the salaries and incentive compensation of the Company's officers and its subsidiaries; and provide recommendations for other employees and consultants as appropriate.

The Committee comprises independent, non-executive Directors. The members are currently Mike Cannon (Chair), Mary Chan and Nick Jeffery. The Committee'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 Aon plc. The Committee is satisfied that the advice received from Aon is objective and independent and is not subject to any material conflict of interest. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct; all advice received during the year was provided in accordance with this code. Fees charged by Aon for advice provided to the Committee for 2019 amounted to £162,214.

The Committee also received advice from the Senior Vice President, Human Resources and the Company Secretary. During the year, the Committee met formally on four occasions; in addition, the Committee Chairman held a number of meetings with advisers.

Responsibilities

The Remuneration Committee's main responsibilities are to:

- Review and recommend to the Board the salaries and incentive compensation of the Company's CEO and executive management;
- Provide recommendations for other employees and consultants as appropriate; 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.

10.2 Statement of Shareholder voting

At the 2019 AGM, 99.68% of shareholders supported the advisory resolution to approve the Annual report on remuneration and 68.69% of shareholders supported the binding resolution to approve the Directors' remuneration policy. The table below summarises the number of votes for and against the Annual report on remuneration and the Directors' remuneration policy at the 2019 AGM, and also includes the number of abstentions (referred to as votes withheld).

	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 (excluding the Directors' remuneration policy)	30,539,759	99.68%	98,759	0.32%	2,373,215	30,638,518	40.11%
Approval of Directors' remuneration policy	21,045,922	68.69%	9,593,976	31.31%	2,371,835	30,639,898	40.11%

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 9am BST (10am CEST) on 30 April 2019 was 76,382,139 shares.

10.3 How stakeholder views are taken into account

Shareholder and proxy advisory groups are engaged when the Company is considering material changes to policy, including approval of any new share plans. In addition, as the Company has decided to follow the UK Corporate Governance Code, shareholders are also engaged when an AGM resolution receives support from fewer than 80% of votes cast.

There is no formal engagement with employees on matters of executive remuneration but employees are encouraged to provide their view on any aspect of the Company's operations through meetings with executives and the annual Voice of Dialog employee survey.

10.4 Consultation following the 2019 AGM

At the Company's AGM, held on 2 May 2019, approximately 31.3% of shares cast were voted against the resolution to approve the Directors' remuneration policy ("DRP"). As announced at the time of issuing the AGM voting results, the Company's Remuneration Committee had undertaken an extensive consultation with a majority of shareholders in advance of the AGM; most of whom were supportive of proposed changes under the DRP. In advance of the AGM, the Company incorporated changes to the DRP based on shareholder feedback from the consultation process. In light of the voting outcome at the AGM, the Company again corresponded with a majority of shareholders and the Chairman conducted additional one-to-one meetings or calls with shareholders to understand concerns, and no new concerns were raised by Shareholders. The Company will continue to correspond with Shareholders to ensure we understand and can address concerns.

Mike Cannon
Chairman, Remuneration Committee

4 March 2020

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual report and the Group and parent company financial statements in accordance with the applicable law and regulations.

UK company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under the law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework*. Under UK company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that the Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performances; and
- Make an assessment of the Company's ability to continue as a going concern.

In preparing the parent company financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether Financial Reporting Standard 101 *(Reduced Disclosure Framework)* has been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation.

They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report and Directors' remuneration report that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislations in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant accounting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 4 March 2020 and is signed on its behalf by:

Dr Jalal Bagherli
Chief Executive Officer

Independent auditor's report

to the members of Dialog Semiconductor Plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

– the financial statements of Dialog Semiconductor plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 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 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 Consolidated notes 1 to 38 and the Parent Company notes 1 to 10.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 *"Reduced Disclosure Framework"* (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent Company during the year are disclosed in note 8 to the consolidated financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – Carrying amount of goodwill– revenue growth forecasts used for new and unlaunched product lines; and – Revenue recognition – the identification and measurement of performance obligations within the licensing and asset transfer agreement with Apple. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	We determined materiality for the Group financial statements to be US$11.2 million, which represents 5.0% of Group pre-tax profit adjusted for the non-recurring impact of the licensing and asset transfer agreement with Apple. Parent Company materiality has been determined to be US$ 11.1 million, which represents 1.5% of its net assets, capped at 99% of Group materiality.
Scoping	We conducted full scope audit procedures on the Parent Company as well as the three largest components, which represent 99% of the Group's revenue, 80% of the Group's pre-tax profit and 98% of Group's net assets. We performed specified audit procedures on three additional components.
Significant changes in our approach	We highlight the following changes to our key audit matters from the prior year: – *Revenue recognition – the identification and measurement of performance obligations within the licensing and asset transfer agreement with Apple* The Group entered in to a significant licensing and asset transfer agreement with Apple during the year which had a significant revenue impact in 2019. We consider the identification and valuation of performance obligations within this licensing agreement to be a key audit matter relating to revenue recognition. – *Capitalisation of development costs* The level of capitalised development costs has reduced from US$24.8 million in 2018 to US$15.4 million in 2019 primarily as a result of a reduction in R&D spend following the licensing and asset transfer agreement with Apple during the year. Consequently, we have determined that this no longer represents a key audit matter.

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters 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 twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and 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.

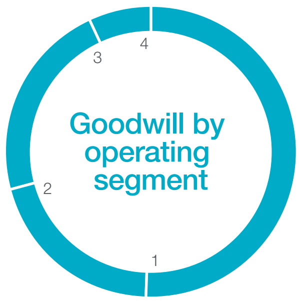
We note the below key audit matters are also referenced as an area of focus of the Audit Committee on page 90 of the annual report.

5.1 Carrying amount of goodwill – revenue growth projections used for new and unlaunched product lines – Refer to Note 15 to the consolidated financial statements

Key audit matter description

The Group's annual evaluation of goodwill for impairment involves the comparison of the recoverable amount of each operating segment to which goodwill is allocated to its carrying amount. Recoverable amount represents the higher of fair value less costs to sell and value in use. The Group used a discounted cash flow model to estimate value in use, which requires significant estimates and assumptions related to forecasts of future revenues. Changes in these assumptions could have a significant impact on the value in use, the amount of any goodwill impairment charge, or both. The goodwill balance of US$482.1 million as at 31 December 2019 was allocated to operating segments as set out in Note 15 to the consolidated financial statements.

We note that the value in use of the operating segments exceeded the carrying amount as of the measurement date for all of the operating segments and, therefore, no impairment has been recognised. We identified a key audit matter in respect of new and unlaunched product lines within three of the operating segments based on the sensitivity of the value in use to changes in revenue forecasts for these products.



	US$m
1. Advanced Mixed Signal	244.1
2. Connectivity & Audio	98.4
3. Custom Mixed Signal business group	107.2
4. Industrial Mixed Signal business unit	32.4

For Advanced Mixed Signal, revenue growth is specifically driven by the backlighting integrated circuits ("ICs") and configurable mixed-signal integrated circuits ("CMICs") product lines.

For Connectivity & Audio, revenue growth is specifically driven by Bluetooth® Low Energy ("BLE") with the majority of the growth in BLE being from new products.

For Custom Mixed Signal business group, revenue growth is driven by custom power management integrated circuits ("PMICs") forecast to be sold to existing customers.

Given the significant judgements made in determining the forecast revenue used in the value in use model, we have performed audit procedures requiring a high degree of auditor judgement and increased effort to evaluate the reasonableness of the estimates and assumptions.

How the scope of our audit responded to the key audit matter

Our audit procedures related to the impairment review focused on the appropriateness of the revenues assumed in the cash flow forecasts of the above mentioned product lines. The procedures performed included the following:

– We obtained an understanding of internal controls in relation to the annual impairment evaluation process, in particular key controls that ensure the reasonableness of the Board-approved three-year Strategic Plan and the forecasts used in the value in use model, and the preparation and review of the impairment assessment.
– We challenged management's ability to accurately forecast future revenues by comparing prior year forecast revenues to actual performance to assess historical accuracy of forecasting, with particular focus on assessing the performance of products previously categorised as new products which have now launched. We also tested the mathematical accuracy of the value in use models.
– We obtained third party analyst and industry reports in order to challenge the reasonableness of the growth rates assumed by management in the value in use models.
– We enquired of management, including individuals outside of finance, to understand and challenge the assumptions in the revenue forecasts with focus on the above mentioned products identified in our sensitivity analysis that have the most significant impact on future performance.
– We challenged the impact of differences between management's Annual Operating Plan for 2020 and the Strategic Plan used in the annual impairment evaluation as at 27 September 2019, and the year end update as at 31 December 2019, as well as reviewing 2020 trading to date and obtaining evidence of post-year end order backlogs for new products launched in 2020.

Key observations

Our audit procedures did not identify any impairment of goodwill and we are satisfied that the impairment assessment is reasonable and in accordance with IFRS. We are satisfied that the sales forecasts supporting management's impairment review are within an acceptable range of values.

Independent auditor's report

to the members of Dialog Semiconductor Plc continued

5.2 Revenue recognition – the identification and measurement of performance obligations within the licensing and asset transfer agreement with Apple – Refer to Note 3 to the consolidated financial statements

Key audit matter description	The completion of the licensing and asset transfer agreement with Apple in April 2019 represented a new revenue contract that significantly affected current year financial performance. The Group granted the use of specified intellectual property to Apple in the form of a perpetual licence for a fee of US$145.8 million, which was fully recognised as revenue in 2019, and an effective four-year license of US$136.4 million recognised as deferred revenue, of which US$18.5 million was recognised as revenue in 2019. In addition, Apple made an interest-free prepayment to Dialog of US$300.0 million that included a "below market element" of US$11.4 million, which management considered to represent additional consideration in respect of the licensing and asset transfer agreement. The identification and measurement of performance obligations within the licensing agreement and the associated allocation of the consideration to those performance obligations, particularly the royalty rates used in determining the standalone selling price of the effective licence, required significant management judgement which could be subject to potential bias.
How the scope of our audit responded to the key audit matter	Our audit procedures relating to the licensing and asset transfer agreement was focused on challenging the appropriateness of the judgements made by management and the application of those judgements in recognising revenue during 2019. – We obtained an understanding of internal controls in relation to management's identification and valuation of performance obligations in the licensing and asset transfer agreement. – We evaluated management's application of the accounting standards and the methodology used in accounting for the licensing and asset transfer agreement with the assistance of our internal accounting specialists. We evaluated the basis of recognition and measurement of revenue recognised under the associated licensing agreements to ascertain that it was recognised in accordance with IFRS 15 *Revenue from Contracts with Customers*. – We engaged our internal valuation specialists in order to challenge the appropriateness of management's assumptions and the methodology of the models used in determining the fair value of the performance obligations specific to the licensing and asset transfer agreement which drives the basis of and point of recognition of revenue.
Key observations	Our audit procedures did not identify any material misstatement in management's revenue recognition for significant new and/or modified revenue contracts. We note that the royalty rate applied to revenue projections in the valuation of the effective license is at the higher end of the acceptable range. We are satisfied with the appropriateness of the performance obligations determined by management related to the licensing and asset transfer agreement and the associated revenue recognised during the year.

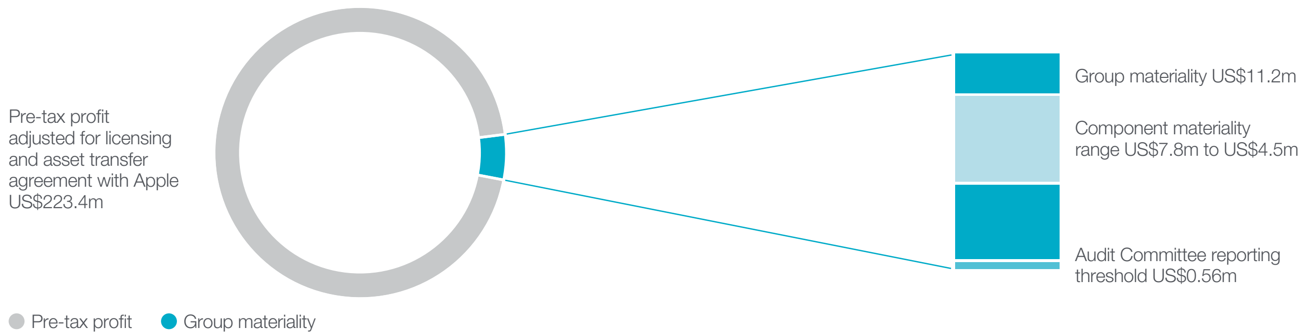
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	US$11.2 million (2018: US$10.7 million)	US$11.1 million (2018: US$10.6 million)
Basis for determining materiality	Our materiality for the Group represents 5% of adjusted pre-tax profit of US$223.4 million. In 2018, our materiality was based on 5.4% of pre-tax profit of US$196.2 million.	The Parent Company materiality equates to 1.5% of Parent Company net assets of US$923.2 million, capped at 99% of Group materiality. In 2018, our materiality was based on 2% of net assets of US$917.1 million, capped at 99% of Group materiality.
Rationale for the benchmark applied	We have based materiality on pre-tax profit adjusted for the non-recurring profits associated with the licensing and asset transfer agreement with Apple in the current year. We consider pre-tax profit to be a key benchmark for users of the financial statements, including customers, suppliers and other parties such as tax authorities and therefore the above mentioned adjustment in the current year is to maintain a level of materiality comparable with the prior year.	Our base for determining materiality is in line with the prior year. We consider net assets to be a key benchmark for users of the financial statements, including customers, suppliers and other parties such as tax authorities.



6.2 Performance materiality
We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%).

In determining performance materiality, we considered a number of factors including the quality of the control environment, including the control deficiencies identified, as well as the low level of corrected and uncorrected misstatements.

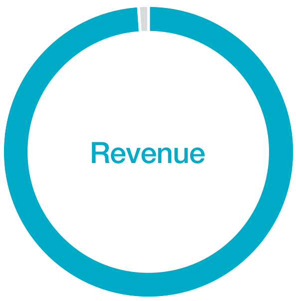
6.3 Error reporting threshold
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$559,000 (2018: US$535,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit
7.1 Identification and scoping of components
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 has operations present in sixteen countries across Europe, North America and Asia; however, the majority of transactional accounting processing as well as the consolidation is performed in Germany, which co-ordinates closely with the UK head office finance team.

We focused on the component located in Germany as well as three components located in the UK where we performed full scope audits, covering 99% (2018: 94%) of revenue, 80% (2018: 83%) of pre-tax profit and 98% (2018: 99%) of net assets.

For three other components, we performed specific audit procedures on defined balances and transactions, which increased our coverage to cover 99% of revenue, 96% of pre-tax profit and 98% of net assets as detailed below:



Full audit scope	99%
Specified audit procedures	0%
Review at Group level	1%

Full audit scope	80%
Specified audit procedures	16%
Review at Group level	4%

Full audit scope	98%
Specified audit procedures	0%
Review at Group level	2%

● Full audit scope ● Specified audit procedures ● Review at Group level

7.2 Working with other auditors
We engaged our German member firm to perform the audit of the components subject to the Group's finance function based in Nabern, Germany. This included both full scope and specified audit balance testing supporting the Group audit opinion. The Group audit team was in active dialogue throughout the audit with the component audit team responsible for the audit work under the direction and supervision of the Group audit team. This included determining whether the work was planned and performed in accordance with the overall Group audit strategy and the requirements of our Group audit instructions to the component audit team.

As part of supervising the work of the component audit team, the Group audit team visited Germany at the planning, interim and year-end stages of the audit.

8. Other information
The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent auditor’s report

to the members of Dialog Semiconductor Plc continued

9. Responsibilities of directors

As explained more fully in the directors’ responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group’s and the Parent Company’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group’s remuneration policies, key drivers for directors’ remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, internal legal counsel and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group’s documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including the component audit team and involving relevant internal specialists, including tax, valuations and information technology specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: management override of controls and the identification and interpretation of the contractual terms of significant new and/or updated revenue contracts.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included among others, the UK Companies Act, German listing rules and tax legislation (UK, USA and Germany).

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group’s ability to operate or to avoid a material penalty.

11.2 Audit response to risks identified

As a result of performing the above, we identified Revenue recognition – the identification and measurement of performance obligations within the licensing and asset transfer agreement with Apple as the key audit matter related to the potential risk of fraud. The key audit matters section of our report explains this matter in more detail and also describes the specific procedures we performed in response to the key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house as well as external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing regulatory correspondence; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and the component audit team, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. Other matters

14.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the directors of Dialog Semiconductor Plc on 25 January 2016 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ended 31 December 2015 to 31 December 2019.

14.2 Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Alexander Butterworth ACA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, UK
4 March 2020

Consolidated statement of income

Year ended 31 December

	Note	2019 US$000	2018 US$000	2017 US$000
Revenue	6, 35	**1,566,239**	1,442,138	1,352,841
Cost of sales		**(717,703)**	(751,070)	(707,971)
Gross profit		**848,536**	691,068	644,870
Selling and marketing expenses		**(92,951)**	(83,877)	(70,412)
General and administrative expenses		**(101,587)**	(84,351)	(74,850)
Research and development expenses		**(313,550)**	(326,309)	(303,013)
Other operating income/(expense)	6	**39,405**	3,176	(9,578)
Operating profit	6, 35	**379,853**	199,707	187,017
Interest income	9	**21,950**	9,883	5,995
Interest expense	9	**(11,309)**	(3,134)	(1,302)
Other finance (expense)/income	9	**(5,456)**	(10,263)	3,093
Profit before income taxes		**385,038**	196,193	194,803
Income tax expense	10	**(83,586)**	(55,281)	(25,369)
Profit after income taxes		**301,452**	140,912	169,434
Share of loss of associate		**–**	(1,113)	–
Net income		**301,452**	139,799	169,434
Attributable to:				
– Shareholders in the Company		**301,452**	139,799	173,916
– Non-controlling interests	30	**–**	–	(4,482)
Net income		**301,452**	139,799	169,434

Earnings per share (US$)	11			
Basic		**4.19**	1.89	2.34
Diluted		**3.96**	1.80	2.21
Weighted average number of ordinary shares (in thousands)	11			
Basic		**71,896**	73,959	74,472
Diluted		**76,181**	77,655	78,611

Consolidated statement of comprehensive income

Year ended 31 December

	Note	2019 US$000	2018 US$000	2017 US$000
Net income		**301,452**	139,799	169,434
Other comprehensive income/(expense) **Items that may be reclassified to profit or loss in subsequent periods**				
Currency translation differences on foreign operations:				
– Gain/(loss) recognised in the year		**2,710**	(527)	1,658
– Loss transferred to profit or loss on disposal of a subsidiary	3	**309**	–	–
– Gain transferred to profit or loss on deconsolidation of Dyna Image	5	**–**	–	(1,144)
– Related income tax (expense)/credit		**(91)**	(78)	180
Available-for-sale investments:				
– Fair value gain in the year	19	**–**	–	5,971
– Related income tax expense		**–**	–	(1,015)
Cash flow hedges:				
– Fair value (loss)/gain recognised on effective hedges in the year		**(3,941)**	(10,075)	16,433
– Fair value loss/(gain) transferred to profit or loss in the year		**9,549**	(2,343)	(441)
– Related income tax (expense)/credit		**(1,065)**	2,376	(3,149)
		7,471	(10,647)	18,493
Items that will not be reclassified to profit or loss				
Equity investments:				
– Fair value loss in the year	19	**(6,994)**	(23,764)	–
– Related income tax credit		**–**	1,015	–
Remeasurements of net defined benefit liability:				
– Remeasurements recognised in the year	26	**(666)**	–	–
– Related income tax credit		**146**	–	–
		(7,514)	(22,749)	–
Other comprehensive (loss)/income for the year		**(43)**	(33,396)	18,493
Total comprehensive income for the year		**301,409**	106,403	187,927
Attributable to:				
– Shareholders in the Company		**301,409**	106,403	192,416
– Non-controlling interests		**–**	–	(4,489)
Total comprehensive income for the year		**301,409**	106,403	187,927

Consolidated balance sheet

As at 31 December

	Note	2019 US$000	2018 US$000
Assets			
Cash and cash equivalents	12	**1,024,544**	677,848
Trade and other receivables	13	**134,079**	114,514
Other current financial assets	20	**1,056**	202
Inventories	14	**122,624**	149,736
Income tax receivables		**1,052**	2,146
Other current assets	21	**22,532**	18,306
		1,305,887	962,752
Assets classified as held for sale	22	**–**	11,295
Total current assets		**1,305,887**	974,047
Goodwill	15	**482,134**	439,508
Other intangible assets	16	**272,068**	217,445
Property, plant and equipment – owned	17	**61,138**	66,359
Property, plant and equipment – leased	18	**41,423**	–
Investments	19	**3,110**	11,538
Other non-current financial assets	20	**2,202**	1,807
Other non-current assets	21	**780**	398
Deferred tax assets	10	**8,242**	6,034
Total non-current assets		**871,097**	743,089
Total assets		**2,176,984**	1,717,136
Liabilities and equity			
Trade and other payables	23	**104,620**	122,140
Lease liabilities	18	**8,972**	–
Other current financial liabilities	24	**124,373**	196,890
Provisions	25	**4,162**	5,253
Income taxes payable		**18,491**	8,193
Other current liabilities	27	**112,804**	58,237
		373,422	390,713
Liabilities directly associated with assets held for sale	22	**–**	3,167
Total current liabilities		**373,422**	393,880
Lease liabilities	18	**34,072**	–
Other non-current financial liabilities	24	**80,963**	841
Provisions	25	**3,102**	3,078
Net defined benefit liability	26	**1,727**	–
Deferred tax liabilities	10	**23,070**	7,958
Other non-current liabilities	27	**88,044**	8,872
Total non-current liabilities		**230,978**	20,749
Ordinary shares		**14,204**	14,204
Share premium account		**403,660**	403,660
Retained earnings		**1,451,582**	930,576
Other reserves	28	**(274,729)**	(23,419)
Dialog shares held by employee benefit trusts		**(22,133)**	(22,514)
Total equity		**1,572,584**	1,302,507
Total liabilities and equity		**2,176,984**	1,717,136

These financial statements were approved by the Board of Directors on 4 March 2020 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Consolidated statement of cash flows

Year ended 31 December

	Note	**2019 US$000**	2018 US$000	2017 US$000
Cash flows from operating activities				
Net income		**301,452**	139,799	169,434
Non-cash items within net income:				
– Depreciation of property, plant and equipment	17, 18	**39,611**	31,455	30,807
– Amortisation of intangible assets	16	**52,233**	49,130	41,969
– Impairment of non-current assets		**3,130**	–	4,327
– Addition to inventory reserve, net		**11,133**	5,643	1,288
– Share-based compensation expense		**46,539**	41,153	35,320
– Deferred licence revenue		**(18,484)**	–	–
– Loss on deconsolidation of Dyna Image	5	**–**	–	5,597
– Other non-cash items		**2,812**	6,590	(7,904)
Effective IP licence fee received	3	**136,400**	–	–
Gain on transfer of design centre businesses	3	**(15,898)**	–	–
Interest income, net	9	**(10,641)**	(6,749)	(4,693)
Income tax expense	10	**83,586**	55,281	25,369
Cash generated from operations before changes in working capital		**631,873**	322,302	301,514
Changes in working capital:				
– (Increase)/decrease in trade and other receivables		**(95,189)**	(36,310)	11,117
– Decrease/(increase) in inventories		**23,196**	13,615	(54,377)
– (Increase)/decrease in prepaid expenses		**(893)**	56	1,930
– (Decrease)/increase in trade and other payables		**(23,107)**	15,968	7,819
– (Decrease)/increase in provisions		**(1,661)**	3,089	2,136
– Change in other assets and liabilities		**15,449**	2,852	473
Cash generated from operations		**549,668**	321,572	270,612
Interest paid		**(4,322)**	(530)	(425)
Interest received		**21,638**	8,714	6,221
Income taxes (paid)/received		**(70,519)**	(41,107)	8,314
Cash inflow from operating activities		**496,465**	288,649	284,722
Cash flows from investing activities				
Purchase of property, plant and equipment		**(12,129)**	(26,145)	(47,938)
Purchase of intangible assets		**(8,437)**	(6,197)	(6,196)
Payments for capitalised development costs		**(15,384)**	(24,771)	(20,988)
Purchase of businesses, net of acquired cash	4	**(139,806)**	(12,840)	(267,940)
Proceeds from transfer of design centres, net of cash disposed	3	**27,814**	–	–
Cash held by Dyna Image on deconsolidation	5	**–**	–	(420)
Purchase of other investments, net		**–**	–	(13,738)
Increase in other long-term assets		**–**	–	(488)
Cash outflow from investing activities		**(147,942)**	(69,953)	(357,708)
Cash flows from financing activities				
Receipt of prepayment from Apple	3	**288,584**	–	–
Cash settlement of prepayment from Apple	3	**(20,345)**	–	–
Purchase of own shares into treasury		**(251,774)**	–	(125,035)
Settlement of currency hedges on share buyback obligation		**(11,625)**	–	1,227
Capital element of lease payments		**(11,086)**	(1,651)	(4,283)
Repayment of bank loans		**(156)**	–	–
Purchase of shares by employee benefit trusts		**–**	(21,786)	(24,301)
Sale of shares by employee benefit trusts		**3,362**	3,617	7,246
Issue of shares by a subsidiary to non-controlling interests		**–**	–	1,107
Share issue and facility arrangement costs		**–**	–	(1,016)
Cash inflow/(outflow) from financing activities		**(3,040)**	(19,820)	(145,055)
Net cash inflow/(outflow) during the year		**345,483**	198,876	(218,041)
Cash and cash equivalents at beginning of year		**677,848**	479,295	697,167
Currency translation differences		**1,213**	(323)	169
Cash and cash equivalents at end of year	12	**1,024,544**	677,848	479,295

An analysis of changes in liabilities arising from financing activities is presented in note 24.

Consolidated statement of changes in equity

Year ended 31 December

	Ordinary shares US$000	Share premium account US$000	Retained earnings US$000	Other reserves (note 28) 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 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
Adjustment on initial application of IFRS 15	–	–	1,541	–	–	1,541	–	1,541
Adjusted balance as at 1 January 2018	14,204	403,660	917,023	9,977	(902)	1,343,962	–	1,343,962
Net income	–	–	139,799	–	–	139,799	–	139,799
Other comprehensive loss	–	–	–	(33,396)	–	(33,396)	–	(33,396)
Total comprehensive income/(loss)	–	–	139,799	(33,396)	–	106,403	–	106,403
Other changes in equity:								
– Share buyback obligation	–	–	(171,187)	–	–	(171,187)	–	(171,187)
– Purchase of shares by employee benefit trusts	–	–	–	–	(21,786)	(21,786)	–	(21,786)
– Sale of shares by employee benefit trusts	–	–	3,443	–	174	3,617	–	3,617
– Share-based compensation, net of tax	–	–	41,498	–	–	41,498	–	41,498
As at 31 December 2018	14,204	403,660	930,576	(23,419)	(22,514)	1,302,507	–	1,302,507
Adjustment on initial application of IFRS 16 (note 37)	**–**	**–**	**40**	**–**	**–**	**40**	**–**	**40**
Adjusted balance as at 1 January 2019	**14,204**	**403,660**	**930,616**	**(23,419)**	**(22,514)**	**1,302,547**	**–**	**1,302,547**
Net income	**–**	**–**	**301,452**	**–**	**–**	**301,452**	**–**	**301,452**
Other comprehensive loss	**–**	**–**	**(520)**	**477**	**–**	**(43)**	**–**	**(43)**
Total comprehensive income/(loss)	**–**	**–**	**300,932**	**477**	**–**	**301,409**	**–**	**301,409**
Other changes in equity:								
– Purchase of own shares into treasury	**–**	**–**	**(4,431)**	**(251,787)**	**–**	**(256,218)**	**–**	**(256,218)**
– Share buyback obligation	**–**	**–**	**169,505**	**–**	**–**	**169,505**	**–**	**169,505**
– Sale of shares by employee benefit trusts	**–**	**–**	**2,981**	**–**	**381**	**3,362**	**–**	**3,362**
– Share-based compensation, net of tax	**–**	**–**	**51,979**	**–**	**–**	**51,979**	**–**	**51,979**
As at 31 December 2019	**14,204**	**403,660**	**1,451,582**	**(274,729)**	**(22,133)**	**1,572,584**	**–**	**1,572,584**

Notes to the consolidated financial statements

For the year ended 31 December 2019

1. Background

Description of business

Dialog Semiconductor Plc ("the Company") is a public limited company that is incorporated in England and Wales and domiciled in the United Kingdom. The Company's ordinary shares are listed on the Frankfurt Stock Exchange.

Dialog creates and markets highly integrated, mixed-signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid state lighting, industrial and automotive applications. Following a segment reorganisation that became effective at the beginning of the second quarter of 2019, Dialog has three reporting segments: Custom Mixed Signal; Advanced Mixed Signal; and Connectivity & Audio. Segment information is presented in note 35.

Registered office

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

Statement of compliance

The consolidated financial statements of the Company and its subsidiaries (together, "Dialog" or "the Group") set out on pages 114 to 175 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union, the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, the disclosure requirements of the German Securities Trading Act (WpHG) and those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS and therefore comply with Article 4 of the IAS Regulation. The consolidated financial statements also comply with IFRS as issued by the International Accounting Standards Board ("IASB").

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments, derivative financial instruments and contingent consideration are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Information about assets and liabilities that are measured at fair value is presented in note 33.

The Group's significant accounting policies are set out in note 2.

Presentation currency

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

Approval of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 4 March 2020.

Company financial statements

Separate financial statements for the Company are set out on pages 176 to 182.

Relevant accounting standards adopted during the year

IFRS 16 *Leases*

We adopted IFRS 16 with effect from 1 January 2019. We adopted IFRS 16 using the modified retrospective approach, whereby information presented for prior periods has not been restated. An explanation of the changes introduced by IFRS 16 and their impact on the Group's results and financial position are set out in note 37.

On adoption of IFRS 16, the Group recognised a cumulative effect credit of US$40 to retained earnings. During 2019, the Group's operating profit was US$1,923 higher and its net income US$790 lower than it would have been under the predecessor accounting standard, IAS 17 *Leases*.

IFRIC 23 *Uncertainty over Income Tax Treatments*

With effect from 1 January 2019, we adopted IFRIC 23 which clarified the application of the recognition and measurement requirements of IAS 12 *Income Taxes* where there is uncertainty over income tax treatments. IFRIC 23 specifically considers whether tax treatments should be considered collectively, assumptions with regard to examinations by tax authorities, the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and the effect of changes in facts and circumstances.

Since we already accounted for income taxes on a basis consistent with IFRIC 23, its adoption had no impact on the Group's results or financial position.

***Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19)**

In February 2018, the IASB published amendments to IAS 19 *Employee Benefits* which, among other things, require that if an amendment, curtailment or settlement of a defined benefit plan occurs, the current service cost and the net interest for the period after the remeasurement must be determined using the assumptions used for the remeasurement.

The amendments became effective for annual periods beginning on or after 1 January 2019. Prior to the acquisition of FCI in May 2019, the Group had no defined benefit plans and the amendments were therefore not relevant to us. We therefore effectively adopted the amendments on the acquisition of FCI.

Notes to the consolidated financial statements continued

1. Background continued

Relevant accounting standards issued by the IASB but not yet adopted

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

In October 2018, the IASB published amendments to IFRS 3 *Business Combinations* aimed at resolving the difficulties that can arise when an entity determines whether it has acquired a business or a group of assets. In summary, the amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs and narrow the definition of outputs by focusing on goods and services provided to customers.

We will apply the amendments in the future if there is ambiguity as to whether we have acquired a business or a group of assets.

Subject to endorsement for use in the European Union, the amendments will be effective for business combinations with an acquisition date on or after 1 January 2020.

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

In October 2018, the IASB published amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the definition of material in those standards and align with the definition used in the Conceptual Framework.

The amendments are effective for annual periods beginning on or after 1 January 2020. We do not expect that the amendments will cause us to reach a different conclusion as to whether an item is or is not material.

***Interest Rate Benchmark Reform* (Amendments to IFRS 9 and IFRS 7)**

Interbank offered rates (IBORs) are benchmark interest rates, such as LIBOR, and EURIBOR, that represent the cost of obtaining unsecured funding, in a particular combination of currency and maturity and in a particular interbank term lending market. Work is underway in multiple jurisdictions to transition to alternative benchmark interest rates.

In September 2019, the IASB published amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* to clarify that during the transition period entities should continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

The amendments are effective for annual periods beginning on or after 1 January 2020. We will make reference to the amendments in the future if we engage in interest rate hedging activities in a market in which existing benchmark interest rates have not been replaced.

***Classification of Liabilities as Current or Non-Current* (Amendments to IAS 1)**

In January 2020, the IASB published amendments to IAS 1 *Presentation of Financial Statements* to clarify that the classification of liabilities with an uncertain settlement date as current or non-current is based on rights that exist at the end of the reporting period.

Subject to endorsement for use in the European Union, the amendments will be effective for annual periods beginning on or after 1 January 2022. We do not consider that the amendments would have changed the classification of any liabilities that were recognised as at 31 December 2019.

2. Significant accounting policies

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 2019 are set out on page 197.

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.

2. Significant accounting policies continued

Business combinations
A business combination is a transaction or other event in which the Company obtains control over a business.

Business combinations are accounted for using the acquisition method.

Goodwill acquired in a business combination is recognised as an intangible asset and represents the excess of the aggregate of the consideration transferred, including contingent consideration, and the amount of any non-controlling interests in the acquired business over the net total of the identifiable assets and liabilities of the acquired business at the acquisition date. Any 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 associate
An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in financial and operating policy decisions but not to control or jointly control them. Significant influence generally exists where the Company holds, directly or indirectly through one or more of its subsidiaries, more than 20% and less than 50% of the shareholders' voting rights.

Associates are accounted for using the equity method, whereby the Group's investment is initially recognised at cost and the carrying amount is increased or decreased to reflect the Group's share of the profit or loss of the associate. Losses of an associate in excess of the Group's interest in the entity are not recognised, except to the extent that the Group has incurred obligations or made payments on behalf of the associate.

Foreign currency translation
Each entity within the Group has a functional currency, which is normally the currency in which the entity primarily generates and expends cash. The functional currency of the Company and its principal subsidiaries is the US dollar.

At entity level, a foreign currency is a currency other than the entity's functional currency. Sales, purchases and other transactions denominated in foreign currencies are recorded in the entity's functional currency at the exchange rate ruling at the date of the transaction. 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.

On consolidation, the results of foreign operations are translated into US dollars at the average exchange rate for the period and their assets and liabilities are translated into US dollars at the exchange rate ruling at the balance sheet date.

Currency translation differences arising on consolidation are recognised in other comprehensive income and taken to the currency translation reserve. In the event that a foreign operation is sold, the related cumulative currency translation difference recognised in other comprehensive income is reclassified from equity to profit or loss and is included in calculating the gain or loss on disposal of the foreign operation.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Revenue recognition

We generate revenue principally through the sale of our products. Revenue is also generated from licence fees and royalties for the use of intellectual property and from research and development contracts.

Sales of products

Sales of products are mostly made direct to end-customers but we also sell to distributors.

Revenue from the sale of products is recognised when the customer obtains control of the products. We consider that control passes when the products are transferred to the customer. Accordingly, where products are sold on “ex-works” incoterms, revenue is recognised when the products are released for collection by the customer. Otherwise, revenue is recognised when the products are delivered to the customer. Where products are supplied on a consignment basis, delivery takes place and revenue is recognised when the products are taken out of the consignment by the customer.

Revenue recognised on the sale of products is measured at the fair value of the consideration received or receivable, excluding sales taxes and after making allowance for rebates and product returns.

Where we sell to a distributor on “ship and debit” terms, the distributor may be entitled to a rebate if the distributor sells the product to end-customers at a price lower than the price at which the distributor purchased the products from us. Rebates are estimated using the expected value method based on actual rebates granted at the distributor and product level during the preceding quarter so as to reflect current pricing trends.

Prior to adopting IFRS 15 *Revenue from Contracts with Customers* on 1 January 2018, we recognised revenue from sales to distributors on ship and debit terms when the products were sold by the distributor to end-customers by which time the amount of the rebate due to the distributor was known.

Most of our distributor customers are entitled to limited rights of return, referred to as stock rotation rights. Typically, returns are allowed twice-yearly for a credit of up to a percentage of the value of products shipped by us to the distributor during the preceding six-month period. Revenue on sales to distributors is recognised after making an allowance for stock rotation claims that is estimated based on stock rotation credits granted at the distributor level during the preceding six-month period.

As permitted by IFRS 15, we do not capitalise the incremental costs of obtaining contracts (such as sales representatives’ commissions) because the amortisation period of such costs would be one year or less.

Licensed intellectual property

Where a licence provides the customer with the “right to use” the related IP as it exists at a point in time, the licence revenue is recognised when the licence is granted. Where a licence provides the customer with a “right to access” the related IP as it develops during the licence period, the licence revenue is recognised over the licence period.

Sales or usage-based royalties are recognised when the subsequent sale or usage occurs.

Research and development contracts

Revenue from research and development contracts typically arises when a counterparty contributes to the cost of researching, designing, developing and testing a new product or product enhancement.

Revenue from research and development contracts is recognised when we have the right to invoice the counterparty but only to the extent that cumulative amount invoiced does not exceed the value of the work completed to date.

Where research and development contracts do not involve the transfer of goods or services to the counterparty, the revenue recognised in relation to them is presented as other operating income.

Research and development expenditure

All research expenditure is expensed as it is incurred.

Development expenditure is also expensed as it is incurred until such time as it can be demonstrated that the product is both technically feasible and commercially viable and that management intends to complete the development of the product and sell it to customers. Development expenditure incurred after that time and before the developed product is available 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.

2. Significant accounting policies continued

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.

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 to 15 years
Software, licences and other	3 to 10 years
Patents	10 years
Product development assets	1 to 5 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 – owned
Property, plant and equipment is measured 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
Freehold buildings	33 to 50 years
Test equipment	3 to 8 years
Leasehold improvements	Shorter of useful life or lease term
Office and other equipment	1 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.

Freehold land and assets that are under construction are not depreciated.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Property, plant and equipment – leased

Property, plant and equipment that we control as lessee is represented by a right-of-use asset and an associated lease liability except where the lease is short-term or the underlying asset is of low value.

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

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

After the commencement date, the carrying amount of the lease liability is increased to reflect interest on the lease liability, reduced to reflect lease payments made and remeasured to reflect reassessments of the future lease payments or certain lease modifications.

Interest on the lease liability is recognised in profit or loss (within interest expense).

On the commencement date of a lease, the right-of-use asset is measured at cost which comprises the initial amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, and any initial direct costs that we incur in relation to the lease.

After the commencement date, the right-of-use asset is measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated so as to charge their cost to profit or loss (in arriving at operating profit), usually on a straight-line basis over the lease term.

As permitted by IFRS 16, we elected not to recognise right-of-use assets and lease liabilities in respect of short-term leases (leases that have a lease term of 12 months or less) or leases involving an underlying asset of low value (an asset with a value when new of less than US$5 or foreign currency equivalent). We recognise the lease payments for those leases as an expense in profit or loss (in arriving at operating profit) on a straight-line basis over the lease term.

Prior to adopting IFRS 16 on 1 January 2019, leases that confer rights and obligations similar to those that attach to owned assets were classified as finance leases. All other leases were classified as operating leases.

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

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

Impairment of tangible and intangible assets

Goodwill, other intangible assets and property, plant and equipment are tested for impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. Additionally, goodwill and intangible assets still under development are subject to an annual impairment test.

An asset is impaired to the extent that its carrying amount exceeds its recoverable amount. An asset's recoverable amount represents the higher of the asset's value in use and its fair value less costs to sell. An asset's value in use represents the present value of the future cash flows expected to be derived from the asset in its current use and condition. Fair value less cost to sell is the amount expected to be 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.

2. Significant accounting policies continued

Financial instruments

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. As permitted by IFRS 9 *Financial Instruments*, we recognise an allowance for credit losses in respect of trade receivables from initial recognition measured as the amount of the lifetime expected credit losses. Prior to adopting IFRS 9 on 1 January 2018, we recognised a credit loss allowance only when there was objective evidence that we may not be able to collect the amount due.

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.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, cash available on demand from receivables financing facilities, investments in money market funds and short-term deposits with an original maturity of three months or less.

Interest income on cash and cash equivalents is accrued on a time basis.

We normally recognise an allowance for credit losses in respect of cash and cash equivalents that is measured as the amount of expected credit losses over the next 12 months. If, however, the risk of default has increased significantly since initial recognition, we measure the allowance as the amount of lifetime credit losses. Prior to adopting IFRS 9, we recognised a credit loss allowance only when there was objective evidence of default.

Equity investments

Equity investments are initially measured at fair value plus transaction costs, if any. Equity investments are subsequently measured at fair value with resulting gains and losses recognised in profit or loss unless we irrevocably elect for such gains and losses to be recognised in other comprehensive income. On adoption of IFRS 9, we made this election in respect of our strategic investment in the common shares of Energous Corporation. Consequently, fair value gains or losses arising subsequent to 1 January 2018 that may be realised on any future sale of all or part of this investment will not be reclassified to profit or loss.

Prior to adopting IFRS 9, equity investments were classified as available-for-sale investments.

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.

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.

Facility arrangement costs are amortised over the term of the facility.

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.

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.

Assets classified as held for sale

An asset or group of assets is classified as held for sale if its carrying amount will be recovered by sale rather than by continuing use in the business, it is available for immediate sale in its present condition and management has committed to, and has initiated, a plan to sell the asset which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are measured at the lower of their carrying amount when classified as held for sale and fair value less costs to sell.

Notes to the consolidated financial statements continued

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.

Post-retirement benefit plans

Defined contribution plans

Contributions to defined contribution and state-funded pension plans are recognised in profit or loss in the period to which the contributions relate.

Defined benefit plan

As described in note 26, the Group has one defined benefit pension plan in South Korea.

A net defined benefit liability is recognised in respect of the plan that represents the excess of the present value of the benefit obligation over the fair value of the plan assets. The benefit obligation is measured on an actuarial basis using the projected unit credit method and is discounted using a discount rate derived from high-quality corporate bonds with a similar duration as the benefit obligation. The plan assets are measured at their fair value.

We recognise the current service cost and net interest on the net defined benefit liability in profit or loss. The current service cost represents the increase in the present value of the defined benefit obligation resulting from employee service in the period. Net interest on the net defined benefit liability is determined by multiplying the net defined benefit liability by the discount rate applied to the benefit obligation, both as determined at the beginning of each year, but taking into account contributions and benefit payments during the period.

We recognise the effect of remeasurements of the net defined benefit liability in other comprehensive income. Remeasurements comprise actuarial gains and losses arising due to changes in actuarial assumptions and experience adjustments and the difference between the return on plan assets and the component of the net interest on the net defined benefit liability recognised in profit or loss that is attributable to the plan assets.

2. Significant accounting policies continued

Share-based compensation
As described in note 31, the Company operates share-based compensation plans under which it grants options and other awards 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.

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.

Product development costs

Product development costs are capitalised from the time when the technical feasibility and commercial viability of the product can be demonstrated. Management is therefore required to make judgements about the technical feasibility of the product based on engineering studies and the commercial viability of the product based on expectations concerning the marketability of the product, the product's useful life and the extent of future demand from customers.

Uncertain tax treatments

Uncertainty may exist concerning the tax treatment of a specific item or group of items because of, for example, uncertainty as to the meaning of tax 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.

Key sources of estimation uncertainty
Key sources of estimation uncertainty are those that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Management considers that there are no key sources of estimation uncertainty underlying the measurement of the carrying amount of assets and liabilities recognised as at 31 December 2019.

Notes to the consolidated financial statements continued

3. Licensing and asset transfer agreement

Summary of the transaction

On 11 October 2018, we announced that we had entered into an agreement with Apple Inc. ("Apple") to license our power management technologies and to transfer to Apple certain assets and over 300 employees from our design centres in the UK, Germany and Italy.

Following receipt of the necessary regulatory approvals and satisfaction of the other closing conditions, the transaction closed on 8 April 2019. Apple paid Dialog US$300,000 in respect of the licensing arrangements and asset transfers.

Pursuant to the agreement, Dialog granted to Apple:

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

Continuation of the effective licence beyond the initial four-year period is contingent on Apple's purchases from Dialog exceeding a specified level in successive preceding 12-month periods.

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

Following completion of the licensing and asset transfer agreement, Apple made an interest-free prepayment to Dialog of US$300,000. On initial recognition, we measured the prepayment at its fair value of US$288,584. We considered that the resulting "below market element" of the prepayment of US$11,416 represented additional consideration in respect of the licensing arrangements and asset transfers.

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

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

We measured the fair value of the perpetual IP licence using the excess earnings method, whereby it represented the present value of the estimated future profits that were foregone by Dialog by licensing our existing Power Management IP.

We measured the fair value of the effective IP licence using the relief from royalty method, whereby it represented the present value of the estimated royalties that would have been payable by Apple over the term of the licence for the use of Dialog's IP in developing future generations of their products.

We measured the fair value of the design centre businesses as the present value of their estimated future cash flows based on applicable transfer prices.

We incurred transaction costs totalling US$23,851 in relation to the agreement with Apple, of which US$16,064 was incurred during 2019 (within general and administrative expenses).

3. Licensing and asset transfer agreement continued

Subsequent accounting for the transaction

Licensing arrangements

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

We consider that the effective IP licence granted Apple a "right to access" the related IP. We are therefore recognising the consideration of US$136,400 allocated to the effective licence as revenue over the four-year period following the closing date. We are amortising the deferred revenue in proportion to the present value of the cash flows that supported the fair value of the effective licence at the closing date. During 2019, we recognised revenue of US$18,484 in relation to the effective licence.

Transfer of design centre businesses

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

	US$000
Carrying amount of assets transferred	
Cash and cash equivalents	**1,452**
Property, plant and equipment – owned	**13,824**
Property, plant and equipment – leased	**4,287**
Patents	**224**
Other assets	**369**
Total assets transferred	**20,156**
Carrying amount of associated liabilities	
Trade and other payables	**161**
Income tax payables	**119**
Lease liabilities	**4,440**
Provisions	**1,326**
Other liabilities	**1,051**
Total liabilities transferred	**7,097**
Net assets transferred	**13,059**
Currency translation loss transferred from equity	**309**
Gain on transfer of design centre businesses	**15,898**
Consideration received	**29,266**

Prepayment agreement

It is intended that the US$300,000 prepayment will be recouped by Apple against amounts payable to Dialog for the purchase of certain of our products over the three-year period ending on 31 March 2022. Settlement of the prepayment is scheduled to take place in quarterly instalments in arrears such that US$200,000 is settled in the first year and US$50,000 is settled in each of the second and third years. During each quarter, Apple will settle our invoices on its normal payment terms. If, on a recoupment date, there is a shortfall of invoices outstanding against the scheduled recoupment amount, Apple may require us to settle the shortfall in cash or may permit us to carry forward the shortfall for recoupment in the subsequent quarter.

In July 2019, the first quarterly instalment of US$50,000 was settled by recoupment by Apple against invoices outstanding totalling US$29,655 and a balancing cash payment by Dialog of US$20,345. In October 2019, the second quarterly instalment of US$50,000 was settled wholly by recoupment against invoices. As at 31 December 2019, the principal amount of the prepayment outstanding was US$200,000.

We account for the prepayment as a financial liability measured at amortised cost. As at 31 December 2019, the carrying amount of the liability was US$194,467. During 2019, we recognised an interest expense of US$5,884 in relation to the prepayment.

As a condition of the prepayment, we put in place a reducing letter of credit in favour of Apple for the outstanding principal amount. During 2019, we incurred related commitment fees of US$1,070 (within interest expense).

Notes to the consolidated financial statements continued

4. Business combinations

Year ended 31 December 2019

Acquisition of Creative Chips GmbH

On 31 October 2019, we completed the acquisition of 100% of the equity interests in Creative Chips GmbH, a supplier of integrated circuits ("ICs") to the Industrial Internet of Things ("IIoT") market.

Headquartered near Frankfurt, Germany, with an additional design centre in Dresden, Germany, Creative Chips has a growing IC business supplying a broad portfolio of industrial ethernet and other mixed-signal products to manufacturers of industrial and building automation systems. Creative Chips has also developed a range of highly complementary standard IO-Link IC products, driving broader connectivity in the Industry 4.0 revolution.

We acquired Creative Chips for US$80,000 on a cash- and debt-free basis. Additional consideration of up to US$23,000 may be payable contingent on Creative Chips' performance against revenue targets for 2020 and 2021.

On completion, we paid initial consideration of US$83,722 in cash, including US$3,722 in respect of Creative Chips' estimated cash, debt and working capital levels on completion. In February 2020, we paid a purchase price adjustment of US$84 to the sellers reflecting Creative Chips' actual cash, debt and working capital levels on completion.

We paid US$15,070 of the initial consideration into an escrow fund that was available to settle any valid claims that we may have made in relation to the representations, warranties and indemnities that were provided to us by the sellers.

Contingent consideration is payable in two instalments: the first instalment of up to US$11,500 may be payable in early 2021 based on Creative Chips' revenue for 2020 and the second instalment of up to US$11,500 may be payable in early 2022 based on Creative Chips' revenue for 2021. At the acquisition date, we estimated that the amount of the first instalment will be in the range US$nil to US$10,210 and that the amount of the second instalment will be in the range US$nil to US$7,475. Using the expected value method, we estimated that the fair value of the contingent consideration at the acquisition date was US$6,517 (net of discounting of US$2,130).

We recognised goodwill of US$32,124 on the acquisition of Creative Chips that is principally attributable to the benefits expected to be derived from the growth potential of the IIoT market, the assembled workforce and the broadening of Dialog's customer base for its own mixed-signal business. None of the goodwill is deductible for tax purposes.

Acquisition of FCI Inc.

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

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

We acquired FCI for US$45,000 on a cash- and debt-free basis. On completion, we paid consideration of US$53,884 in cash, including US$8,884 (net of US$271 transaction tax withheld) in respect of FCI's cash, debt and estimated working capital on completion. We paid the withheld transaction tax to the Korean tax authority during the third quarter of 2019.

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

We estimate that a purchase price adjustment of US$203 will be payable by the seller, reflecting FCI's actual working capital on completion.

We recognised goodwill of US$9,929 on the acquisition of FCI that is principally attributable to the benefits expected to be derived from the development of new technology and product offerings by FCI in the future, the assembled workforce and the opportunities to cross-sell FCI's products to Dialog's customers. None of the goodwill is deductible for tax purposes.

4. Business combinations continued

Year ended 31 December 2019 continued

Assets acquired and liabilities assumed

We have allocated the purchase consideration to the identifiable assets and liabilities of Creative Chips and FCI and goodwill as follows:

	Creative Chips US$000	FCI US$000	Total US$000
Assets acquired			
Cash and cash equivalents	7,328	9,562	16,890
Trade and other receivables	2,235	1,791	4,026
Inventories	4,578	4,347	8,925
Intangible assets	51,278	34,396	85,674
Property, plant and equipment – owned	11,993	872	12,865
Property, plant and equipment – leased	–	762	762
Other assets	1,058	1,098	2,156
Total assets acquired	78,470	52,828	131,298
Liabilities assumed			
Trade and other payables	1,260	2,385	3,645
Net defined benefit liability	–	771	771
Deferred tax liabilities	15,974	3,597	19,571
Other liabilities	3,037	2,052	5,089
Total liabilities	20,271	8,805	29,076
Net identifiable assets acquired	58,199	44,023	102,222
Goodwill arising on acquisition	32,124	9,929	42,053
Consideration	90,323	53,952	144,275

Purchase consideration was satisfied by:			
Cash paid on completion	83,722	54,155	137,877
Purchase price adjustment	84	(203)	(119)
Initial consideration	83,806	53,952	137,758
Contingent consideration	6,517	–	6,517
Consideration	90,323	53,952	144,275

Trade and other receivables were expected to be collected at their gross contractual amounts.

Identifiable intangible assets acquired comprised customer relationships, developed technology and know-how and trade names.

During 2019, Creative Chips contributed US$2,312 to the Group's revenue and a loss after tax of US$521 and FCI contributed US$10,495 to the Group's revenue and a loss after tax of US$3,116. If these businesses had been acquired on 1 January 2019, we estimate that the Group's revenue for 2019 would have been US$26,428 higher at US$1,592,667 and its net income US$2,051 lower at US$299,401.

During 2019, we incurred transaction costs of US$4,040 in relation to the acquisition of Creative Chips and FCI (included within general and administrative expenses).

Consideration payable for Silego Technology Inc.

We acquired Silego in November 2017.

Deferred consideration

On completion of the acquisition, unvested employee options were converted into deferred cash rights and the fair value of those rights was apportioned between a deferred consideration element and a future compensation element. During 2019, we paid US$2,089 in settlement of vested deferred consideration and recognised a credit of US$116 to profit or loss in respect of forfeitures. As at 31 December 2019, we held a liability of US$979 in relation to the remaining deferred consideration that is payable over the period to March 2021.

Contingent consideration

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

In February 2019, we paid US$16,729 in settlement of the amount of the second instalment that was attributable to the shares and vested options acquired and attributed the balance of the first instalment of US$1,144 to the deferred cash rights.

Notes to the consolidated financial statements continued

4. Business combinations continued

Year ended 31 December 2018

Consideration payable for Silego Technology Inc.

Purchase price adjustment

During 2018, we paid a purchase price adjustment of US$692 following the agreement with the vendors of Silego's cash, debt and working capital levels on completion.

Deferred consideration

During 2018, we paid US$2,788 in settlement of vested deferred consideration and recognised a credit of US$204 to profit or loss in respect of forfeitures.

Contingent consideration

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

Silego's actual revenue for 2017 confirmed that the first instalment of the contingent consideration of US$10,000 was payable in full. In February 2018, we paid US$9,360 in settlement of the amount of the first instalment that was attributable to the shares and vested options acquired and attributed the balance of the first instalment of US$640 to the deferred cash rights.

Silego's actual revenue for 2018 showed that US$17,874 was payable in settlement of the second instalment. Since Silego's actual revenue for 2018 was lower than our initial estimate, we recognised a credit of US$878 to profit or loss on remeasurement of the fair value of the contingent consideration.

Year ended 31 December 2017

Acquisition of Silego Technology Inc.

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

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

We acquired Silego for US$276,000 on a cash- and debt-free basis, subject to adjustments for cash, debt and working capital. Additional consideration of up to US$30,400 was payable contingent on Silego's revenues for 2017 and 2018.

We acquired all of Silego's outstanding common and preferred shares, all "in the money" vested, outstanding, unexercised employee options over common shares and all "in the money" outstanding preferred share warrants. On completion, we paid initial consideration of US$290,508 in cash, including US$22,527 in respect of Silego's estimated cash, debt and working capital levels on completion. We estimated that we would pay a purchase price adjustment of US$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 was available to settle any valid claims that we may have made in relation to the representations, warranties and indemnities that were provided to us by the sellers.

On completion, all "in the money" outstanding, unvested employee options over common shares were converted into and became the right to receive cash payments comprising a pro-rata share of the initial purchase price less their respective exercise prices, purchase price adjustments and any payments of contingent consideration. Such rights are subject to the vesting schedule and other terms (including a service condition) that governed the options that they replaced. We estimated that the acquisition date fair value of the rights was US$11,545, 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 was payable in two instalments: the first instalment of up to US$10,000 based on Silego's revenue for 2017 and the second instalment of up to US$20,400 based on Silego's revenue for 2018. At the acquisition date, we expected that the first instalment would accrue in full and that the amount of the second instalment would be in the range US$11,652 to US$20,400. Using the expected value method, we estimated that the acquisition date fair value of the contingent consideration attributable to the shares and vested options acquired was US$23,273 (net of discounting of US$2,974).

4. **Business combinations** continued

Year ended 31 December 2017 continued

Assets acquired and liabilities assumed

We allocated the purchase consideration to the identifiable assets and liabilities of Silego and goodwill as follows:

	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 – owned	1,481
Deferred tax assets	12,907
Other assets	1,484
Total assets acquired	194,290
Liabilities assumed	
Trade and other payables	15,586
Provisions	157
Deferred tax liabilities	41,484
Other liabilities	6,700
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.

We incurred transaction costs of US$4,439 in relation to the acquisition of Silego (included within general and administrative expenses).

Notes to the consolidated financial statements continued

4. Business combinations continued

Year ended 31 December 2017 continued

LED backlight business

On 15 November 2017, we purchased ams AG's LED backlight technology and product portfolio for US$9,500 in cash. As part of the transaction, we also acquired related intellectual property rights.

Assets acquired

We allocated the purchase consideration to the identifiable assets of the business and goodwill as follows:

	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.

We incurred transaction costs of US$100 in relation to the acquisition of this business (included in general and administrative expenses).

Cash flows in relation to business combinations

During the years ended 31 December 2019, 2018 and 2017, the net cash outflow on the purchase of businesses was as follows:

	2019 US$000	2018 US$000	2017 US$000
Initial consideration	**137,877**	–	300,008
Purchase price adjustment	**–**	692	–
Deferred consideration	**2,089**	2,788	371
Contingent consideration	**16,730**	9,360	–
Consideration paid	**156,696**	12,840	300,379
Cash and cash equivalents acquired	**(16,890)**	–	(32,439)
Cash outflow on purchase of businesses, net of cash acquired	**139,806**	12,840	267,940

Contingent consideration paid in 2019 and 2018 in relation to the acquisition of Silego was below our estimate at the acquisition date and is therefore included within cash flows from investing activities.

5. Deconsolidation of Dyna Image Corporation

We acquired a 45.7% interest in Dyna Image Corporation ("Dyna Image") in June 2015. We accounted for the investment as a subsidiary because we were granted a call option to acquire the shares that we did not already own in Dyna Image that we considered gave us the power to direct the activities of the entity that will significantly affect its returns.

Subsequent to our initial investment, Dyna Image suffered quality problems that resulted in the loss of a major customer and gave rise to sustained operating losses. By the end of 2016, Dyna Image was in need of additional funding to enable it to pursue its recovery plan. We agreed with our fellow shareholders to seek a new investor in the business and, in the meantime, that certain of the existing shareholders would inject new capital into the business.

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

During 2017, Dyna Image continued to seek new investment but its operating results fell considerably short of the level envisaged in its recovery plan. In December 2017, negotiations with a potential investor were terminated and the shareholders in Dyna Image decided that it should be gradually wound down in a way that will safeguard the interests of its creditors.

As a consequence of this decision, we recognised impairment losses totalling US$4,327 in relation to the intangible assets and property, plant and equipment held by Dyna Image (within other operating expenses). We also derecognised deferred tax assets of US$543 that were no longer considered to be recoverable. We did not consider that the carrying amount of the goodwill attributable to Dyna Image was impaired because it was covered by the recoverable amounts of the operating segments to which it had been allocated on acquisition.

We also reviewed the call option over the non-controlling interests in Dyna Image. We observed that the fair value of each share in Dyna Image has fallen significantly and irretrievably below the minimum exercise price of the option. We concluded that there existed an economic barrier to our exercising the option prior to its expiry in June 2018 that was so great that the option no longer gives us power over Dyna Image. We considered that this loss of control occurred during December 2017 and therefore we deconsolidated Dyna Image with effect from 31 December 2017.

At the end of 2017, we recognised a loss of US$5,597 on the deconsolidation of Dyna Image that was determined as follows:

	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.

As explained in note 22, we sold our shareholding in Dyna Image in November 2019.

Notes to the consolidated financial statements continued

6. Operating profit

a) Revenue

Revenue may be analysed as follows:

	2019 US$000	2018 US$000	2017 US$000
Sale of products:			
– Sales direct to end-customers	**1,045,774**	1,144,371	1,156,451
– Sales to distributors	**355,348**	296,598	195,364
Total sale of products	**1,401,122**	1,440,969	1,351,815
Licensing agreements with Apple:			
– Perpetual licence fee	**145,750**	–	–
– Effective licence fee	**18,484**	–	–
Royalties	**883**	1,169	1,026
Total revenue	**1,566,239**	1,442,138	1,352,841

b) Operating expenses

Operating profit is stated after charging/(crediting):

	2019 US$000	2018 US$000	2017 US$000
Cost of inventories included in cost of sales	**675,713**	702,078	663,216
Write-down of inventories	**11,133**	5,643	1,288
Research and development costs expensed as incurred	**320,127**	331,550	310,201
Government incentives (deducted from research and development expenses)	**(6,577)**	(5,241)	(7,188)
Depreciation of property, plant and equipment – owned	**27,155**	31,455	30,807
Depreciation of property, plant and equipment – leased	**12,456**	–	–
Loss on disposal of fixed assets	**4,444**	923	591
Amortisation of intangible assets	**52,233**	49,130	41,969
Impairment of intangible assets	**3,130**	–	–
Lease rentals	**993**	12,450	10,153
Integration costs	**2,434**	2,765	2,305
Acquisition-related costs	**4,040**	–	4,539
Corporate transaction costs	**16,064**	11,346	–

Amortisation of intangible assets was allocated as follows:

	2019 US$000	2018 US$000	2017 US$000
Cost of sales	**550**	592	701
Selling and marketing expenses	**16,226**	14,231	9,126
General and administrative expenses	**2,377**	2,348	2,170
Research and development expenses	**33,080**	31,959	29,972
Total	**52,233**	49,130	41,969

6. Operating profit continued

c) Other operating income/(expense)

Other operating income/(expense) comprised:

	2019 US$000	2018 US$000	2017 US$000
Revenue from research and development contracts	**21,872**	2,298	346
Gain on transfer of design centre businesses (note 3)	**15,898**	–	–
Rental and other income	**1,635**	–	–
Change in estimate of contingent consideration	**–**	878	–
Impairment of non-current assets held by Dyna Image	**–**	–	(4,327)
Loss on deconsolidation of Dyna Image	**–**	–	(5,597)
Total	**39,405**	3,176	(9,578)

7. Employee information

Employment costs were as follows:

	2019 US$000	2018 US$000	2017 US$000
Wages and salaries	**226,428**	224,908	200,222
Social security costs	**32,573**	31,051	26,457
Share-based compensation	**46,539**	41,153	35,319
Compensation element of deferred cash rights	**1,204**	1,481	1,409
Defined contribution pension costs	**11,529**	12,609	11,058
Defined benefit pension costs	**369**	–	–
Total	**318,642**	311,202	274,465

Pension costs from defined contribution plans include costs for the state funded pension plan in Germany of US$2,819 (2018: US$3,853; 2017: US$3,599).

Compensation of key management personnel is set out in note 36.

The average number of persons employed by the Group (including the Executive Director) during the year, analysed by category, was as follows:

	2019	2018	2017
Research and development	**1,211**	1,371	1,256
Production	**211**	184	172
Sales and marketing	**296**	272	239
Administration	**203**	200	185
Information technology	**60**	59	55
Total	**1,981**	2,086	1,907

8. Auditor's remuneration

Fees payable to the Company's auditor, Deloitte LLP, were as follows:

	2019 US$000	2018 US$000	2017 US$000
Assurance services			
Audit of the parent company and consolidated financial statements	**755**	629	560
Audit of subsidiaries	**530**	423	370
Other assurance services	**158**	150	202
Other services			
Services related to corporate finance transactions	**225**	–	478
Total	**1,668**	1,202	1,610

Notes to the consolidated financial statements continued

9. Finance income/(expense)

a) Interest income

	2019 US$000	2018 US$000	2017 US$000
Interest on bank deposits	**9,919**	5,619	3,556
Interest on money market funds	**11,910**	4,189	2,423
Other interest income	**121**	75	16
Total interest income	**21,950**	9,883	5,995

b) Interest expense

	2019 US$000	2018 US$000	2017 US$000
Interest on lease liabilities	**(2,956)**	–	–
Interest on finance lease and hire purchase obligations	**–**	(50)	(289)
Facility commitment fees	**(1,506)**	(452)	(194)
Amortisation of deferred facility arrangement costs	**(295)**	(315)	(151)
Unwinding of discount on prepayment received (note 3)	**(5,884)**	–	–
Unwinding of discount on contingent consideration (note 4)	**(464)**	(2,220)	(436)
Unwinding of discount on provisions (note 25)	**(60)**	(70)	(60)
Other interest expense	**(144)**	(27)	(172)
Total interest expense	**(11,309)**	(3,134)	(1,302)

c) Other finance (expense)/income

	2019 US$000	2018 US$000	2017 US$000
Currency translation (loss)/gain, net	**(5,655)**	(994)	1,695
Fair value (loss)/gain on Energous warrants (note 19)	**(1,434)**	(10,853)	941
Amortisation of gain on initial measurement of Energous warrants (note 19)	**1,584**	1,584	776
Net interest expense on the net defined benefit liability (note 26)	**(14)**	–	–
Proceeds from sale of Arctic Sand shares	**63**	–	(177)
Fair value loss on Dyna Image call option	**–**	–	(142)
Total other finance (expense)/income	**(5,456)**	(10,263)	3,093

10. Income taxes

Income tax recognised in profit or loss

The components of the Group's income tax expense for the year were as follows:

	2019 US$000	2018 US$000	2017 US$000
Current tax			
United Kingdom	**(41,617)**	(15,896)	379
Foreign	**(45,523)**	(33,633)	(33,884)
Deferred tax			
United Kingdom	**(90)**	(321)	1,315
Foreign	**3,644**	(5,431)	6,821
Income tax expense	**(83,586)**	(55,281)	(25,369)

	2019 US$000	2018 US$000	2017 US$000
Current tax			
Current income tax charge	**(88,252)**	(45,587)	(38,643)
Adjustments in respect of prior years	**1,112**	(3,942)	5,138
Deferred tax			
Origination and reversal of temporary differences	**4,953**	(4,663)	(6,353)
Recognition of previously unrecognised deferred tax assets	**–**	–	9,655
Movement in deferred tax balances following intra-group reorganisation	**(1,921)**	(1,920)	1,977
Movement in deferred tax balances following US tax rate change	**–**	–	6,658
Adjustments in respect of prior years	**522**	831	(3,801)
Income tax expense	**(83,586)**	(55,281)	(25,369)

Factors affecting the income tax expense for the year

The Group's income tax expense differed from the amount that would have resulted from applying the statutory rate of corporation tax in the UK to the Group's profit before income taxes for the reasons shown in the following table:

	2019 US$000	2018 US$000	2017 US$000
Profit before income taxes	**385,038**	196,193	194,803
Income tax expense at UK corporation tax rate of 19.0% (2018: 19.0%; 2017: 19.25%)	**(73,157)**	(37,277)	(37,500)
Effect of different foreign tax rates	**(10,595)**	(6,656)	(12,569)
Non-taxable income:			
– Other non-taxable income	**2,493**	39	–
Non-deductible expenses:			
– Transaction costs	**(2,395)**	(1,131)	–
– Non-deductible portion of share-based compensation	**(10,559)**	(9,336)	(9,396)
– Other non-deductible expenses	**(2,996)**	(3,232)	(2,764)
Tax benefit from share-based compensation	**6,494**	1,997	3,658
Tax impact of deconsolidation of Dyna Image Corporation	**–**	–	(1,938)
Tax benefit from Intellectual Property and research and development incentives	**10,323**	8,633	6,576
Write-down of previously recognised deferred tax assets	**–**	(1,015)	(543)
Benefit from previously unrecognised deferred tax assets	**82**	70	9,655
Additional tax losses for which no deferred tax asset is recognised	**(127)**	(117)	(568)
Movement in deferred tax balances following intra-group reorganisation	**(1,921)**	(1,920)	1,977
Differences arising from different functional and tax currencies	**(2,536)**	(2,065)	9,576
Tax benefit from US tax rate change	**–**	–	6,658
Adjustments in respect of prior years	**1,635**	(3,111)	1,337
Other items	**(327)**	(160)	472
Income tax expense	**(83,586)**	(55,281)	(25,369)

Notes to the consolidated financial statements continued

10. Income taxes continued

Factors affecting the income tax expense for the year continued

The Group's income tax expense for 2019 was US$83,586 (2018: US$55,281; 2017: US$25,369), an effective tax rate for the year of 21.7% (2018: 28.2%; 2017: 13.0%).

Our effective tax rate is sensitive to the geographic mix of the Group's profits and reflects a combination of different tax rates in different countries, in particular higher tax rates in Germany and, in 2017, in the US. Our effective tax rate can also be affected by changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings and currency exchange rate movements, which give rise to tax effects where an entity's functional currency differs from the currency in which it is required to calculate and pay income taxes.

Our effective tax rate is reduced because a large proportion of the Group's research and development activities are undertaken in the UK and the Netherlands and we are therefore able to benefit from the UK and Netherlands tax regimes that provide incentives for innovation.

Factors affecting the income tax expense in future years

Factors that may affect the Group's future tax expense include foreign exchange rate movements, changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings and the resolution of open issues with tax authorities. Incentives for innovation available under the UK and Netherlands tax regimes are limited by reference to the location of the Group's research and development activities. Given the global nature of the Group's research and development activities, this may also affect the Group's future tax expense.

We maintain provisions for potential tax liabilities where uncertainty exists concerning the amount of current or deferred tax recognised. Due to the complexity of tax laws and their interpretation, the amounts ultimately agreed with tax authorities in respect of these uncertainties may differ materially from the amounts provided and may therefore affect the Group's income tax expense in future periods. In January 2016, we received a termination fee of US$137,300 from Atmel Corporation, Inc. following their termination of the merger agreement that existed between us. We obtained tax advice that the termination fee should not be taxable in the UK and therefore did not recognise a tax expense in relation to the termination fee. Examination of the tax treatment of the termination fee by the UK tax authority is ongoing. We maintain our position that no tax liability should arise in respect of the termination fee.

International tax reform remains a key focus of attention, including the OECD's Base Erosion & Profit Shifting project, the EU's action plan for 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:

	2019 US$000	2018 US$000	2017 US$000
Items that may be reclassified to profit or loss			
Currency translation differences on foreign operations:			
– Current tax (expense)/credit	**(91)**	(78)	180
Equity investments:			
– Deferred tax credit/(expense)	**–**	1,015	(1,015)
Cash flow hedges:			
– Current tax (expense)/credit	**(1,065)**	2,376	(3,149)
Remeasurements of net defined benefit liability:			
– Deferred tax credit	**146**	–	–
Income tax (charged)/credited to other comprehensive income	**(1,010)**	3,313	(3,984)

Income tax recognised directly in equity was as follows:

	2019 US$000	2018 US$000	2017 US$000
Share-based compensation:			
– Current tax credit	**2,183**	281	1,859
– Deferred tax credit/(expense)	**3,257**	64	(839)
Total tax credited directly to equity	**5,440**	345	1,020

10. Income taxes continued

Deferred tax

Analysis of movement in the net deferred tax balance during the year:

	US$000
As at 31 December 2017	3,434
Currency translation differences	(77)
Recognised in income	(5,752)
Recognised in other comprehensive income	1,015
Recognised in equity	64
Transfer to current tax	(608)
As at 31 December 2018	(1,924)
Currency translation differences	**(330)**
Recognised in income	**3,554**
Recognised in other comprehensive income	**146**
Recognised in equity	**3,297**
Acquisition of businesses	**(19,571)**
As at 31 December 2019	**(14,828)**

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 (liability)/asset	
	2019 US$000	2018 US$000	**As at 31 December 2019 US$000**	As at 31 December 2018 US$000
Temporary differences relating to intangible assets	**3,668**	3,388	**(43,507)**	(23,526)
Temporary differences relating to share-based compensation	**1,626**	(580)	**11,252**	6,369
Other temporary differences	**636**	(1,077)	**1,276**	(473)
Deferred taxes in relation to tax credits	**532**	1,899	**13,893**	11,622
Net operating loss carryforwards	**(2,908)**	(9,382)	**2,258**	4,084
Total	**3,554**	(5,752)	**(14,828)**	(1,924)

Deferred tax assets and liabilities are analysed in the consolidated balance sheet, after offset of balances within countries, as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Deferred tax assets	**8,242**	6,034
Deferred tax liabilities	**(23,070)**	(7,958)
Recognised net deferred tax liabilities	**(14,828)**	(1,924)

Tax loss carryforwards, temporary differences and net deferred tax assets are summarised as follows:

	As at 31 December 2019			As at 31 December 2018		
	Tax loss carryforwards US$000	**Temporary differences US$000**	**Net deferred tax (liabilities)/assets US$000**	Tax loss carryforwards US$000	Temporary differences US$000	Net deferred tax assets/(liabilities) US$000
Germany	**–**	**(51,657)**	**(15,621)**	–	(1,015)	(288)
United Kingdom	**9,546**	**30,886**	**5,063**	10,016	13,048	2,173
Netherlands	**–**	**1,111**	**1,111**	7,269	960	2,014
USA	**–**	**(48,627)**	**1,942**	15,459	(76,739)	(2,227)
Other	**24,593**	**(19,788)**	**(7,323)**	12,649	4,466	(3,596)
Total	**34,139**	**(88,075)**	**(14,828)**	45,393	(59,280)	(1,924)

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.

Notes to the consolidated financial statements continued

10. Income taxes continued

Deferred tax continued

As at 31 December 2019, deferred tax assets were not recognised for tax loss carryforwards of US$23,873 (2018: US$27,330) and tax credits of US$10,490 (2018: US$5,781) in respect of which there is expected to be insufficient future taxable profit and therefore utilisation is not probable. Unrecognised tax loss carryforwards of US$9,546 (2018: US$10,069) have no expiration date. Tax losses in Taiwan of US$14,327 (2018: US$12,649) expire between 2024 and 2028. The tax credits expire between 2020 and 2038.

As at 31 December 2019, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was US$111,542 (2018: US$62,703). We do not expect a liability to arise in respect of these differences because the Company is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

11. Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to holders of ordinary shares in the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to holders of ordinary shares in the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued if all the securities or other contracts to issue ordinary shares were exercised.

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

	2019 US$000	2018 US$000	2017 US$000
Profit attributable to shareholders in the Company			
For calculating basic and diluted earnings per share	**301,452**	139,799	173,916
Weighted average number of ordinary shares			
Shares in issue at the beginning of the period	**76,382,139**	76,382,139	77,865,955
Effect on average number of shares during the period:			
– Shares issued to employee benefit trust	**–**	–	2,350,000
– Cancellation of treasury shares	**–**	–	(2,329,093)
Average number of shares in issue during the period	**76,382,139**	76,382,139	77,886,862
Deduct:			
– Average number of shares held by employee benefit trusts	**(1,759,457)**	(2,422,787)	(2,061,901)
– Average number of treasury shares	**(2,726,643)**	–	(1,352,891)
For calculating basic earnings per share	**71,896,039**	73,959,352	74,472,070
Add:			
– Average number of dilutive share options and awards	**4,284,926**	3,695,214	4,139,123
For calculating diluted earnings per share	**76,180,965**	77,654,566	78,611,193
Earnings per share (US$)			
Basic	**4.19**	1.89	2.34
Diluted	**3.96**	1.80	2.21

During 2019, the average number of anti-dilutive share options outstanding was 486,253 (2018: 830,300; 2017: 375,041).

12. Cash and cash equivalents

Cash and cash equivalents were as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Cash at bank	**21,056**	3,920
Cash held by employee benefit trusts	**6,049**	2,829
Cash available from receivables financing facilities	**65,439**	96,099
Bank deposits	**350,000**	325,000
Money market funds	**582,000**	250,000
Total	**1,024,544**	677,848

Short-term deposits are made for varying periods of up to three months.

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

13. Trade and other receivables

Trade and other receivables were as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Trade accounts receivable	**122,528**	**98,234**
Retentions under receivables financing facilities	**11,551**	**16,280**
Total	**134,079**	**114,514**

Trade accounts receivable are generally on 30 to 60-day credit terms. Trade accounts receivable are regularly reviewed for collectability and an allowance is established for doubtful accounts against which receivables are written-off when they are no longer considered to be collectable.

Movements on the allowance for doubtful accounts were as follows:

	2019 US$000	2018 US$000
At the beginning of the year	**21**	101
Acquisition of businesses	**18**	–
Allowances charged to profit or loss	**40**	–
Utilised for write-offs	**–**	(68)
Releases credited to profit or loss	**–**	(12)
At the end of the year	**79**	21

14. Inventories

Inventories were as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Raw materials	**31,938**	36,579
Work in progress	**44,097**	48,416
Finished goods	**46,589**	64,741
Total	**122,624**	149,736

Notes to the consolidated financial statements continued

15. Goodwill

Movements on goodwill during the years ended 31 December 2019 and 2018 were as follows:

	2019 US$000	2018 US$000
At the beginning of the year	439,508	439,508
Acquisition of FCI (note 4)	9,929	–
Acquisition of Creative Chips (note 4)	32,124	–
Currency translation differences	573	–
At the end of the year	**482,134**	439,508

Goodwill is monitored by management at the level of the Group's operating segments and is therefore allocated at that level. As explained in note 35, the Group made a number of organisational changes with effect from the beginning of the second quarter of 2019. Management concluded that these changes did not cause any reallocation of goodwill between operating segments. Immediately following the reorganisation, therefore, goodwill continued to be allocated to the Custom Mixed Signal business group (formerly Mobile Systems), Advanced Mixed Signal and Connectivity & Audio.

Goodwill of US$9,929 recognised on the acquisition of FCI in May 2019 was allocated to Connectivity & Audio. We acquired Creative Chips in October 2019. Creative Chips was designated as our new Industrial Mixed Signal business unit to which the goodwill of US$32,124 recognised on the acquisition is allocated.

As at 31 December 2019 and 2018, goodwill was allocated to operating segments as follows:

	2019 US$000	2018 US$000
Custom Mixed Signal business group	107,163	107,163
Industrial Mixed Signal business unit	32,449	–
Connectivity & Audio	98,375	88,198
Advanced Mixed Signal	244,147	244,147
Total	**482,134**	439,508

Impairment tests carried out during the year

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Goodwill is tested for impairment at the level of the operating segments to which it is allocated. Goodwill is impaired if the carrying amount of the operating segment to which it is allocated exceeds its recoverable amount. In conducting impairment tests of goodwill during 2019, we measured the recoverable amount of each operating segment to which goodwill is allocated on a value in use basis. Value in use represents the present value of the future cash flows that we estimate will be generated by the assets allocated to each operating segment in their current use and condition.

Expected future cash flows in the first three years were forecast based on the Group's Strategic Plan 2020-2022. Except in the case of the Industrial Mixed Signal business unit, cash flows beyond the third year were estimated by applying a perpetuity growth factor to the forecast cash flow in the third year. We expect that the strong growth potential of the Industrial Mixed Signal business unit will take considerably longer than three years to be fully realised. We therefore based its expected future cash flows beyond the third year on profit forecasts for a further seven years made at the time of the acquisition of Creative Chips and applied a perpetuity growth factor to the forecast cash flow in the tenth year.

We consider that the key assumptions used in determining value in use are the expected compound annual growth of revenue ("revenue CAGR") during the forecast period, the perpetuity growth rate and the discount rate.

Expected future revenue of each operating segment is based on external forecasts of the future volume of the end-markets for the operating segment's products adjusted to reflect factors specific to the operating segment such as its customer base and available distribution channels, the possibility of new entrants to the market and future technological developments. Cash flows during the forecast period also reflect the cost of materials and other direct costs, research and development expenditure and selling, general and administrative expenses. We estimated the cost of materials and other direct and indirect costs based on current prices and market expectations of future price changes.

We applied a perpetuity growth rate of 2% per annum in estimating the future cash flows of each operating segment in both 2019 and 2018, which we 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:

	2019	2018
Pre-tax discount rate		
Custom Mixed Signal business group	13.1%	12.7%
Industrial Mixed Signal business unit	19.1%	n/a
Advanced Mixed Signal	13.7%	13.5%
Connectivity & Audio	13.9%	14.2%

15. Goodwill continued

Impairment tests carried out during the year continued

We did not recognise any goodwill impairment during 2019. With the exception of Industrial Mixed Signal, the recoverable amount of each operating segment to which goodwill is allocated was comfortably in excess of its carrying amount. Our calculations show that Industrial Mixed Signal's recoverable amount exceeds its carrying amount by US$16.6 million. We consider that the recoverable amount is most sensitive to a change in the revenue CAGR over the forecast period. Our calculations reflect a revenue CAGR of 15.4% over the forecast period. Assuming all other assumptions remain unchanged, we estimate that the recoverable amount would equal the carrying amount if the revenue CAGR was to fall to 13.4% over the forecast period.

16. Other intangible assets

Movements on other intangible assets during the years ended 31 December 2019 and 2018 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 31 December 2017	172,875	79,789	20,441	181,893	454,998
Additions	–	3,642	2,803	24,771	31,216
Reclassifications	–	(105)	105	–	–
Transfer to assets held for sale	–	(3)	(293)	–	(296)
Disposals	–	(693)	(58)	(123)	(874)
Currency translation differences	–	(13)	–	–	(13)
As at 31 December 2018	172,875	82,617	22,998	206,541	485,031
Acquisition of businesses	**56,012**	**4,075**	**(205)**	**25,792**	**85,674**
Additions	**–**	**6,691**	**1,746**	**15,384**	**23,821**
Reclassifications	**–**	**543**	**137**	**(680)**	**–**
Disposals	**–**	**(265)**	**(1,099)**	**(390)**	**(1,754)**
Currency translation differences	**798**	**223**	**9**	**581**	**1,611**
As at 31 December 2019	**229,685**	**93,884**	**23,586**	**247,228**	**594,383**
Amortisation and impairment losses					
As at 31 December 2017	(49,452)	(64,966)	(9,803)	(95,140)	(219,361)
Amortisation charge for the period	(13,647)	(6,015)	(2,140)	(27,328)	(49,130)
Transfer to assets held for sale	–	3	78	–	81
Disposals	–	680	33	103	816
Currency translation differences	–	8	–	–	8
As at 31 December 2018	(63,099)	(70,290)	(11,832)	(122,365)	(267,586)
Amortisation charge for the year	**(15,524)**	**(4,559)**	**(2,246)**	**(29,904)**	**(52,233)**
Impairment	**–**	**–**	**–**	**(3,130)**	**(3,130)**
Disposals	**–**	**6**	**811**	**–**	**817**
Currency translation differences	**(16)**	**(138)**	**(15)**	**(14)**	**(183)**
As at 31 December 2019	**(78,639)**	**(74,981)**	**(13,282)**	**(155,413)**	**(322,315)**
Carrying amount					
As at 31 December 2018	109,776	12,327	11,166	84,176	217,445
As at 31 December 2019	**151,046**	**18,903**	**10,304**	**91,815**	**272,068**

Notes to the consolidated financial statements continued

17. Property, plant and equipment – owned

Movements on owned property, plant and equipment during the years ended 31 December 2019 and 2018 were as follows:

	Buildings US$000	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 31 December 2017	–	172,486	23,627	92,457	4,579	293,149
Additions	–	8,250	4,050	12,107	1,738	26,145
Reclassifications	–	187	2,008	1,335	(3,530)	–
Transfer to assets held for sale	–	(3,080)	(6,371)	(10,085)	(30)	(19,566)
Disposals	–	(699)	(405)	(1,401)	(686)	(3,191)
Currency translation differences	–	(109)	(115)	(524)	–	(748)
As at 31 December 2018	–	177,035	22,794	93,889	2,071	295,789
Acquisition of businesses	**6,356**	**4,181**	**215**	**2,113**	**–**	**12,865**
Additions	**–**	**5,660**	**1,583**	**5,566**	**1,366**	**14,175**
Reclassifications	**–**	**40**	**134**	**989**	**(1,163)**	**–**
Disposals	**–**	**(4,861)**	**(915)**	**(5,350)**	**(1,113)**	**(12,239)**
Currency translation differences	**75**	**131**	**–**	**154**	**–**	**360**
As at 31 December 2019	**6,431**	**182,186**	**23,811**	**97,361**	**1,161**	**310,950**
Depreciation and impairment losses						
As at 31 December 2017	–	(130,819)	(14,571)	(63,889)	–	(209,279)
Depreciation charge for the period	–	(14,989)	(3,363)	(13,103)	–	(31,455)
Transfer to assets held for sale	–	1,023	1,202	6,572	–	8,797
Disposals	–	577	400	1,075	–	2,052
Currency translation differences	–	127	42	286	–	455
As at 31 December 2018	–	(144,081)	(16,290)	(69,059)	–	(229,430)
Depreciation charge for the period	**(35)**	**(12,268)**	**(3,335)**	**(11,517)**	**–**	**(27,155)**
Disposals	**–**	**3,716**	**129**	**3,120**	**–**	**6,965**
Currency translation differences	**(10)**	**(100)**	**7**	**(89)**	**–**	**(192)**
As at 31 December 2019	**(45)**	**(152,733)**	**(19,489)**	**(77,545)**	**–**	**(249,812)**
Carrying amount						
As at 31 December 2018	–	32,954	6,504	24,830	2,071	66,359
As at 31 December 2019	**6,386**	**29,453**	**4,322**	**19,816**	**1,161**	**61,138**

18. Property, plant and equipment – leased

Background

With the exception of two properties recently acquired with Creative Chips, the Group leases all of its product development and office facilities in the various countries in which it operates.

Property leases that have been entered into by the Group contain varied terms and conditions reflecting its business requirements and local market practices. Property leases are typically for a fixed term of approximately five years but may include extension or early termination options to provide operational flexibility. Property rentals are typically fixed on inception of the lease but may be subject to review to reflect changes in market rental rates.

The Group also leases product testing and office equipment.

At the beginning of 2019, the Group had a contract with a supplier that contained an embedded lease over certain production equipment. During 2019, the contract was terminated by mutual agreement. At the time of termination, the carrying amount of the related right-of-use asset was US$9,956 and the lease liability was US$10,851. Accordingly, the Group recognised a gain on termination of US$895 in profit or loss.

Right-of-use assets

Movements on right-of-use assets in relation to leased property, plant and equipment during the year ended 31 December 2019 were as follows:

	Buildings US$000	Office and other equipment US$000	Total US$000
Cost			
As at 31 December 2018	–	–	–
Adjustment on initial application of IFRS 16 (note 37)	**52,873**	**13,517**	**66,390**
Adjusted balance as at 1 January 2019	**52,873**	**13,517**	**66,390**
Acquisition of businesses	**757**	**5**	**762**
Additions	**1,015**	**426**	**1,441**
Disposals	**(4,287)**	**–**	**(4,287)**
Terminations	**(105)**	**(13,139)**	**(13,244)**
Other changes in lease payments	**(285)**	**–**	**(285)**
Currency translation differences	**52**	**1**	**53**
As at 31 December 2019	**50,020**	**810**	**50,830**
Accumulated depreciation			
As at 1 January 2019	–	–	–
Depreciation charge for the period	**(9,181)**	**(3,275)**	**(12,456)**
Terminations	**47**	**3,037**	**3,084**
Currency translation differences	**(35)**	**–**	**(35)**
As at 31 December 2019	**(9,169)**	**(238)**	**(9,407)**
Carrying amount			
As at 31 December 2019	**40,851**	**572**	**41,423**

Notes to the consolidated financial statements continued

18. Property, plant and equipment – leased continued

Lease liabilities

Movements on the lease liabilities recognised in relation to leased property, plant and equipment during the year ended 31 December 2019 were as follows:

	US$000
As at 31 December 2018	–
Adjustment on initial application of IFRS 16 (note 37)	67,631
Adjusted balance as at 1 January 2019	67,631
Acquisition of businesses	699
Additions	1,411
Disposals	(4,440)
Terminations	(10,845)
Other changes in lease payments	(280)
Lease payments during the period	(14,042)
Interest expense for the period	2,956
Currency translation differences	(46)
As at 31 December 2019	**43,044**

Lease liabilities as at 31 December 2019 were presented in the balance sheet as follows:

	US$000
Amounts falling due:	
– Within one year	8,972
– After more than one year	34,072
Total lease liabilities	**43,044**

During 2019, expenses recognised in relation to lease payments that were not included in the measurement of lease liabilities were as follows:

	US$000
Expense relating to short-term leases	(167)
Expense relating to leases of low value assets	(180)
Expense relating to variable lease payments not included in lease liabilities	(343)

Cash outflow on lease payments

During 2019, the total cash outflow on lease payments was as follows:

	US$000
Lease payments included in lease liabilities	(14,042)
Variable lease payments not included on lease liabilities	(328)
Lease payments on short-term leases	(167)
Lease payments on leases of low value assets	(180)
Total cash outflow on lease payments	**(14,717)**

19. Investments

Investments were as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Equity investments:		
– Energous shares	**3,079**	10,073
Derivative financial instruments:		
– Energous warrants	**31**	1,465
Total investments	**3,110**	11,538

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

On 5 July 2017, we subscribed for a further 976,139 common shares in Energous at a cost of US$15,000 and were granted a second tranche of warrants to purchase up to 654,013 common shares that are exercisable in full or in part on a cashless basis at any time between January 2018 and July 2020. We initially recognised the second tranche of the warrants at their grant date fair value of US$4,753 and an equivalent deferred credit within non-current liabilities. We are amortising the deferred credit to profit or loss over the three-year period from the grant date to the expiry of the warrants.

During 2019, we recognised a fair value loss on the shares of US$6,994 (2018: loss of US$23,764; 2017: gain of US$5,971) in other comprehensive income and recognised a fair value loss of US$1,434 (2018: loss of US$10,853; 2017: gain of US$941) on the warrants in profit or loss (as other finance (expense)/income). Also during 2019, we recognised a credit of US$1,584 (2018: US$1,584; 2017: US$776) in profit or loss on the amortisation of the fair value on initial recognition of the second tranche of the warrants (as other finance income).

20. Other financial assets

Other financial assets were as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Current		
Currency derivatives in designated hedging relationships	**1,056**	202
Non-current		
Rental and other deposits	**2,202**	1,807
Total	**3,258**	2,009

21. Other assets

Other assets were as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Current		
Prepaid expenses	**7,775**	6,720
Other tax receivables	**3,369**	1,787
Deferred facility arrangement costs	**231**	250
Other assets	**11,157**	9,549
Total current	**22,532**	18,306
Non-current		
Deferred facility arrangement costs	**780**	398
Total	**23,312**	18,704

Notes to the consolidated financial statements continued

22. Assets classified as held for sale

Assets and associated liabilities transferred to Apple

On 11 October 2018, we entered into an agreement with Apple Inc. ("Apple"), inter alia, to transfer to Apple certain patents and design centre assets. Details of the agreement are set out in note 3.

On entering into the agreement, we reclassified as held for sale the assets that were to be transferred to Apple and the liabilities that were directly associated with them. As at 31 December 2018, the carrying amounts of the assets held for sale and directly associated liabilities were as follows:

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

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

Investment in associate

As at 31 December 2018, the Group held a 48.5% interest in Dyna Image Corporation ("Dyna Image"). As explained in note 5, Dyna Image was formerly accounted for as a subsidiary but was deconsolidated with effect from 31 December 2017. On deconsolidation, the Group's investment in Dyna Image was measured at its fair value of US$1,100, which equated to the Group's share of the carrying amount of Dyna Image's net assets. Dyna Image was thereafter accounted for as an associate using the equity method.

During 2018, Dyna Image continued to make losses. We recognised our share of those losses in profit or loss until the carrying amount of our investment was reduced to nil during the fourth quarter of 2018.

On 7 December 2018, we entered into an agreement to dispose of our shareholding in Dyna Image and reclassified our investment in Dyna Image as an asset held for sale.

We obtained the necessary regulatory approvals but the purchaser was unable to complete the transaction and the sale agreement was terminated on 2 September 2019. We immediately entered into a new agreement to sell our shareholding to another purchaser for a nominal amount. Since the carrying amount of our investment in Dyna Image had already been reduced to nil, no additional loss was recognised on completion of the sale in November 2019.

23. Trade and other payables

Trade and other payables were as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Trade accounts payable	**88,148**	105,039
Other payables	**16,472**	17,101
Total	**104,620**	122,140

Trade accounts payable are non-interest bearing and are normally settled on 30 to 60-day terms. Other payables are non-interest bearing and have a term of less than three months.

24. Other financial liabilities

Other financial liabilities were as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Current		
Currency derivatives in designated hedging relationships	**1,324**	6,080
Currency derivatives hedging share buyback obligation	**–**	301
Prepayment from Apple	**121,217**	–
Bank loans	**794**	–
Deferred consideration	**1,038**	2,332
Contingent consideration	**–**	16,414
Share buyback obligation	**–**	171,763
Total current	**124,373**	196,890
Non-current		
Prepayment from Apple	**73,250**	–
Bank loans	**1,022**	–
Deferred consideration	**25**	841
Contingent consideration	**6,666**	–
Total non-current	**80,963**	841
Total	**205,336**	197,731

Changes in liabilities arising from financing activities were as follows:

	Prepayment from Apple (note 3) US$000	Bank loans US$000	Lease liabilities (note 18) US$000	Share buyback obligation (note 29) US$000	Derivatives hedging share buyback obligation US$000	Total US$000
As at 31 December 2016	–	–	5,934	61,073	3,064	70,071
Changes from financing cash flows	–	–	(4,283)	(125,035)	1,227	(128,091)
Changes in fair value	–	–	–	–	(4,291)	(4,291)
Other movements	–	–	–	60,938	–	60,938
Currency translation differences	–	–	–	3,024	–	3,024
As at 31 December 2017	–	–	1,651	–	–	1,651
Changes from financing cash flows	–	–	(1,651)	–	–	(1,651)
Changes in fair value	–	–	–	–	301	301
Other movements	–	–	–	171,173	–	171,173
Currency translation differences	–	–	–	590	–	590
As at 31 December 2018	–	–	–	171,763	301	172,064
Adjustment on initial application of IFRS 16	**–**	**–**	**67,631**	**–**	**–**	**67,631**
Acquisition of businesses	**–**	**1,952**	**699**	**–**	**–**	**2,651**
Disposal of businesses	**–**	**–**	**(4,440)**	**–**	**–**	**(4,440)**
Changes from financing cash flows	**268,239**	**(156)**	**(11,086)**	**(251,774)**	**(11,625)**	**(6,402)**
Recoupment against trade receivables	**(79,656)**	**–**	**–**	**–**	**–**	**(79,656)**
Changes in fair value	**–**	**–**	**–**	**–**	**11,324**	**11,324**
Other movements	**5,884**	**–**	**(9,714)**	**86,718**	**–**	**82,888**
Currency translation differences	**–**	**20**	**(46)**	**(6,708)**	**–**	**(6,734)**
As at 31 December 2019	**194,467**	**1,816**	**43,044**	**–**	**–**	**239,326**

Notes to the consolidated financial statements continued

25. 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 31 December 2017	1,445	3,625	750	1,054	325	7,199
Additions charged to profit or loss	2,629	462	394	1,985	–	5,470
Utilised during the year	(1,361)	(808)	(220)	(107)	(308)	(2,804)
Releases credited to profit or loss	–	(121)	(30)	–	–	(151)
Unwinding of discount	–	70	–	–	–	70
Transfer to held for sale	–	–	–	(1,283)	–	(1,283)
Currency translation differences	–	(106)	–	(47)	(17)	(170)
As at 31 December 2018	2,713	3,122	894	1,602	–	8,331
Additions charged to profit or loss	**923**	**228**	**600**	**700**	**–**	**2,451**
Utilised during the year	**(2,377)**	**–**	**(44)**	**(18)**	**–**	**(2,439)**
Releases credited to profit or loss	**–**	**(263)**	**(850)**	**–**	**–**	**(1,113)**
Unwinding of discount	**–**	**60**	**–**	**–**	**–**	**60**
Currency translation differences	**–**	**10**	**–**	**(36)**	**–**	**(26)**
As at 31 December 2019	**1,259**	**3,157**	**600**	**2,248**	**–**	**7,264**

Provisions are presented in the Group's balance sheet as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Current liabilities	**4,162**	5,253
Non-current liabilities	**3,102**	3,078
Total	**7,264**	8,331

Product warranties

Dialog provides contractual product warranties under which it guarantees the performance of its products. Product warranty provisions are based on historical warranty data and are expected to be utilised within one year of the balance sheet date.

Leasehold property

Leasehold property provisions include dilapidation provisions for the costs of restoring leasehold properties to their original condition at the end of the lease and provisions for onerous leases. Leasehold property provisions will be utilised over the remaining terms of the relevant leases, which expire up to five years from the balance sheet date.

Contractual severance

Provision is made for contractual severance payments that are payable to employees in certain countries when they leave the Group's employment.

26. Pension schemes

a) Defined contribution plans

The Group operates defined contribution pension schemes in most of the countries in which it operates. Contributions payable by the Group to the plans amounted to US$8,710 (2018: US$8,756; 2017: US$7,458). As at 31 December 2019, the Group had not paid over to the plans contributions due amounting to US$1,567 (2018: US$1,596; 2017: US$2,408). All contributions due for the period were paid over subsequent to the balance sheet date. Pension costs also include payments to the state funded pension plan in Germany in the amount of US$2,819 (2018: US$3,853; 2017: US$3,599).

b) Defined benefit plan

Prior to the acquisition of FCI in May 2019, the Group had no defined benefit plans. FCI operates a funded defined benefit pension plan in South Korea, that provides participating employees with a lump sum benefit on retirement that is based on the individual's career average salary, annual bonus and average allowance and length of service. The net defined benefit liability recognised in the Group's balance sheet is based on an actuarial valuation of the plan that was carried out by an independent qualified actuary as at 31 December 2019.

Analysis of the net defined benefit liability recognised in the balance sheet:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Present value of benefit obligation	**(4,601)**	–
Fair value of plan assets	**2,874**	–
Net defined benefit liability	**(1,727)**	–

Amounts recognised in profit or loss and other comprehensive income:

	2019 US$000	2018 US$000	2017 US$000
Amounts recognised in profit or loss			
Current service cost	**(369)**	–	–
Net interest expense	**(14)**	–	–
Net expense in the income statement	**(383)**	–	–
Amounts recognised in other comprehensive income			
Actuarial losses:			
– Changes in demographic assumptions	**(505)**	–	–
– Changes in financial assumptions	**(54)**	–	–
– Experience adjustments	**(56)**	–	–
Return on plan assets lower than interest income	**(51)**	–	–
Net measurement expense in other comprehensive income	**(666)**	–	–

Changes in the benefit obligation and the plan assets during 2019 were as follows:

	Benefit obligation Present value US$000	**Plan assets Fair value US$000**
As at 31 December 2018	**–**	**–**
Acquisition of FCI (note 4)	**(4,452)**	**3,681**
Current service cost	**(369)**	**–**
Interest (expense)/income	**(82)**	**68**
Benefits paid out	**912**	**(912)**
Benefits paid directly by/refunded to employer	**126**	**7**
Actuarial losses	**(615)**	**(51)**
Currency translation differences	**(121)**	**81**
As at 31 December 2019	**(4,601)**	**2,874**

Notes to the consolidated financial statements continued

26. Pension schemes continued

b) Defined benefit plan continued

As at 31 December 2019, the weighted-average duration of the defined benefit obligation was 8.48 years.

The principal financial assumptions used in measuring the defined benefit obligation were as follows:

Discount rate	**2.6%**
Rate of increase in salaries	**4.0%**

Mortality and leaver assumptions are based on tables published by the Korea Insurance Development Institute in April 2019.

The fair value of the plan assets may be analysed as follows:

	US$000
Cash and term deposits	**2,780**
Equity-linked bonds	**94**
Total	**2,874**

27. Other liabilities

Other liabilities were as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Current		
Obligations for personnel and social expenses	**46,805**	33,291
Advances received in relation to research and development contracts	**301**	2,801
Deferred income	**14,004**	17,124
Deferred IP revenue	**35,708**	–
Other liabilities	**15,986**	5,021
Total current	**112,804**	58,237
Non-current		
Deferred royalty credits (note 19)	**4,695**	4,695
Deferred gain on initial measurement of warrants (note 19)	**809**	2,392
Deferred IP revenue	**82,209**	–
Accrued expenses	**100**	207
Other liabilities	**231**	1,578
Total non-current	**88,044**	8,872
Total	**200,848**	67,109

28. Share capital and reserves

a) Ordinary shares

As at 31 December 2019, 2018 and 2017, the authorised share capital of the Company comprised 104,311,860 ordinary shares with a nominal value of £0.10 per share.

The number of allotted and fully paid ordinary shares was as follows:

	Number of shares	Nominal value US$000
As at 31 December 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, 2018 and 2019	**76,382,139**	**14,204**

Ordinary shareholders have no entitlement to share in the profits of the Company except for dividends that may be declared and in the event of the Company's liquidation.

Ordinary shareholders have the right to attend, and vote at, general meetings of the Company or to appoint a proxy to attend and vote at such meetings on their behalf. Ordinary shareholders have one vote for every share held.

b) Share premium account

The share premium account represents the difference between the nominal value of shares issued and the fair value of the consideration received. The share premium account is not distributable but may be used for certain purposes specified by United Kingdom law, including to write off expenses on any issue of shares and to pay up fully paid bonus shares.

c) Other reserves

Currency translation reserve

The currency translation reserve represents the cumulative gains and losses recognised on the translation into US dollars of the Group's net investments in foreign operations.

Fair value reserve

The fair value reserve comprises gains and losses recognised on equity investments that are measured at fair value through other comprehensive income.

Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative gains and losses on effective cash flow hedging instruments that will be recycled to profit or loss on the occurrence of the hedged cash flows.

Treasury shares

Treasury shares are shares purchased under the Company's share buyback programme. During 2019, the Company purchased 7,076,747 of its ordinary shares with an aggregate nominal value of £707,675, representing 9.3% of the Company's issued share capital as at 31 December 2019. Details of the purchases made under the programme are set out in note 29.

Capital redemption reserve

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

Notes to the consolidated financial statements continued

28. Share capital and reserves continued

c) Other reserves continued

Movements on other reserves were as follows:

	Capital redemption reserve US$000	Currency translation reserve US$000	Fair value reserve US$000	Hedging reserve US$000	Treasury shares US$000	Total US$000
As at 31 December 2016	–	(4,400)	2,866	(7,560)	(61,472)	(70,566)
Other comprehensive income/(expense):						
– 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
Other comprehensive income/(expense):						
– Currency translation differences on foreign operations	–	(527)	–	–	–	(527)
– Fair value loss on equity investments	–	–	(23,764)	–	–	(23,764)
– Cash flow hedges:						
Fair value loss recognised on effective hedges	–	–	–	(10,075)	–	(10,075)
Fair value gain transferred to profit or loss	–	–	–	(2,343)	–	(2,343)
– Income tax (expense)/credit	–	(78)	1,015	2,376	–	3,313
As at 31 December 2018	571	(4,304)	(14,927)	(4,759)	–	(23,419)
Other comprehensive income/(expense):						
– Currency translation differences on foreign operations	**–**	**3,019**	**–**	**–**	**–**	**3,019**
– Fair value loss on equity investments	**–**	**–**	**(6,994)**	**–**	**–**	**(6,994)**
– Cash flow hedges:						
Fair value loss recognised on effective hedges	**–**	**–**	**–**	**(3,941)**	**–**	**(3,941)**
Fair value loss transferred to profit or loss	**–**	**–**	**–**	**9,549**	**–**	**9,549**
– Income tax expense	**–**	**(91)**	**–**	**(1,065)**	**–**	**(1,156)**
Other changes in equity:						
– Purchase of own shares into treasury	**–**	**–**	**–**	**–**	**(251,787)**	**(251,787)**
As at 31 December 2019	**571**	**(1,376)**	**(21,921)**	**(216)**	**(251,787)**	**(274,729)**

29. Share buyback programme

Background

We initiated our share buyback programme in May 2016.

By the end of 2019, the Company had purchased 11,560,563 of its own ordinary shares at a total cost of US$438,309 (including transaction costs of US$3,209), of which 4,483,816 shares had been cancelled and 7,076,747 shares were held in treasury.

Shareholder authority for a share buyback programme was first granted to the Directors at the Company's 2016 AGM and has been renewed at each subsequent AGM. At the Company's 2019 AGM, the Directors were granted a new authority to purchase up to 11,457,321 of the Company's ordinary shares, representing approximately 15% of the issued ordinary share capital of the Company as at 27 March 2019. Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2020, whichever is the earlier.

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

Shares purchased during the period

Year ended 31 December 2017

On 8 November 2016, the Company announced details of the second tranche of the 2016 Buyback Programme under which it committed to purchase shares with a minimum cost of €56.25 million and a maximum cost of €75.0 million. We completed the first intermediate settlement of the second tranche on 30 December 2016. We completed the second intermediate settlement on 9 February 2017 and final settlement and conclusion of the tranche took place on 17 February 2017. In the second and final settlements, we purchased 977,456 shares at a cost of €38.8 million (US$41,385) and incurred transaction costs of US$270. On conclusion of the tranche, we credited back to retained earnings the remaining US$19,961 of the obligation to purchase shares initially recognised and related transaction costs.

On 27 February 2017, the Company announced details of the third tranche of the 2016 Buyback Programme under which it committed to purchase shares with a minimum cost of €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 of US$533. On conclusion of the third tranche, we credited back to earnings the remaining US$71 of the obligation to purchase shares initially recognised and related transaction costs.

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

We hedge the currency translation exposure on outstanding liabilities to purchase shares using currency forwards and swaps. After taking into account hedging, we recognised a net currency translation loss of US$237 in profit or loss in relation to liabilities to purchase shares outstanding during 2017.

Year ended 31 December 2018

On 6 November 2018, the Company announced details of the first tranche of the 2018 Buyback Programme under which it committed to purchase shares with a minimum cost of €100.0 million and a maximum cost of €150.0 million. On initiation of this tranche, we recognised a liability and a corresponding debit to retained earnings of €150.0 million (US$171,173) in respect of the maximum obligation to purchase shares. We also debited transaction costs incurred of US$14 to retained earnings.

We were not required to make any intermediate settlements in relation to this tranche during 2018.

After taking into account hedging, we recognised a net currency translation loss of US$898 in profit or loss in relation to liabilities to purchase shares outstanding during 2018.

Year ended 31 December 2019

On 31 May 2019, we completed the first and final settlement of the outstanding tranche of the 2018 Buyback Programme. We purchased 3,941,852 shares at a cost of €100.0 million (US$111,470) and incurred transaction costs of US$625. On conclusion of the tranche, we credited back to retained earnings the remaining US$55,847 of the obligation to purchase shares initially recognised.

No further tranches were initiated under the 2018 Buyback Programme.

On 5 June 2019, we announced details of the first tranche of the 2019 Buyback Programme under which the Company committed to purchase shares with a minimum cost of €125.0 million and a maximum cost of €150.0 million. On initiation of this tranche, we recognised a liability and a corresponding debit to retained earnings of €150.0 million (US$168,915) in respect of the maximum obligation to purchase shares. We made intermediate settlements of this tranche on 19 September 2019 and 31 October 2019 and final settlement and conclusion of the tranche took place on 19 December 2019. We purchased 3,134,895 shares at a cost of €125.0 million (US$138,975) and incurred transaction costs of US$703. On conclusion of the tranche, we credited back to earnings the remaining US$27,679 of the obligation to purchase shares initially recognised.

During 2019, we showed a debit to retained earnings of US$4,431, which mirrored the gain recognised in profit or loss on the translation into US dollars of the Euro-denominated liability that existed in relation to shares that were purchased during the period.

After taking into account hedging, we recognised a net currency translation loss of US$4,616 in profit or loss in relation to liabilities to purchase shares outstanding during 2019.

Notes to the consolidated financial statements continued

29. Share buyback programme continued

Movements on reserves

Movements on reserves shown in the statement of changes in equity in relation to the share buyback programme are derived as follows:

	Retained earnings		Treasury shares
	Share buyback obligation US$000	Currency translation differences US$000	Purchase of shares into treasury US$000
Year ended 31 December 2017			
Obligation recognised	(79,407)	–	–
Settlements	121,223	3,024	(124,247)
Transaction costs	803	–	(803)
Release of surplus obligations	19,965	–	–
Increase/(decrease) in equity	62,584	3,024	(125,050)
Year ended 31 December 2018			
Obligation recognised	(171,187)	–	–
Decrease in equity	(171,187)	–	–
Year ended 31 December 2019			
Obligation recognised	**(170,243)**	**–**	**–**
Settlements	**254,876**	**(4,431)**	**(250,445)**
Transaction costs	**1,342**	**–**	**(1,342)**
Release of surplus obligations	**83,530**	**–**	**–**
Increase/(decrease) in equity	**169,505**	**(4,431)**	**(251,787)**

30. Non-controlling interests

Non-controlling interests related to Dyna Image Corporation ("Dyna Image"). As explained in note 5, Dyna Image was formerly accounted for as a subsidiary but was deconsolidated with effect from 31 December 2017.

In January 2017, the Group's ownership interest in Dyna Image increased from 45.7% to 48.5% and there was a corresponding decrease from 54.7% to 51.5% in the ownership interests held by non-controlling interests.

Summarised financial information about Dyna Image before it ceased to be a subsidiary is presented below:

	2019 US$000	2018 US$000	2017 US$000
Summary comprehensive loss			
Revenue	**–**	–	5,474
Expenses	**–**	–	(17,870)
Loss for the year	**–**	–	(12,396)
Loss attributable to owners of the Company	**–**	–	(7,914)
Loss attributable to the non-controlling interests	**–**	–	(4,482)
Loss for the year	**–**	–	(12,396)
Other comprehensive loss attributable to owners of the Company	**–**	–	(7)
Other comprehensive loss attributable to the non-controlling interests	**–**	–	(7)
Other comprehensive loss for the year	**–**	–	(14)
Total comprehensive loss attributable to owners of the Company	**–**	–	(7,921)
Total comprehensive loss attributable to the non-controlling interests	**–**	–	(4,489)
Total comprehensive loss for the year	**–**	–	(12,410)
Summary of cash flows			
Cash flow used for operating activities	**–**	–	(4,769)
Cash flow used for investing activities	**–**	–	(47)
Cash flow from financing activities	**–**	–	3,000
Net decrease in cash and cash equivalents	**–**	–	(1,816)

31. Share-based compensation

The Company operates a number of share-based compensation plans under which it grants options and awards over its ordinary shares to certain of the Group's employees.

a) Plans without performance conditions

Stock Option Plan
Shareholders approved the Stock Option Plan ("SOP") at the Company's 1998 AGM.

Options granted under the SOP before 31 October 2006 vested over periods of one or five years from the grant date provided the participant remained in employment by the Group at the vesting date and, if unexercised, expired on the tenth anniversary of the grant date. Options granted after 31 October 2006 vest monthly over four years provided the participant remains in employment by the Group at the vesting date but may not be exercised until the first anniversary of the grant date and, if unexercised, expire on the seventh anniversary of the grant date.

Unless otherwise determined by the Remuneration Committee, options granted under the SOP have an exercise price not less than the market price of the Company's ordinary shares on the grant date.

Employee Share Plan
Shareholders approved the Employee Share Plan ("ESP") at the Company's 2013 AGM. The ESP operates alongside the SOP.

Options granted under the ESP vest over a three-year period with one third of each award vesting on the first, second and third anniversary of the grant date provided the participant remains in employment by the Group at the vesting date and, if unexercised, expire on the seventh anniversary of the grant date.

Options granted under the ESP have a nominal exercise price.

Fair value of awards
The fair value of options granted under the ESP was measured using the Black-Scholes option pricing model. The weighted average fair value of options granted during the years ended 31 December 2019, 2018 and 2017 and the principal assumptions made in measuring those fair values were as follows:

	Grant in 2019	Grant in 2018	Grant in 2017
Weighted average fair value	**€41.63**	€21.95	€33.31
Principal assumptions:			
– Share price on grant date	**€41.71**	€22.06	€33.40
– Exercise price	**€0.09**	€0.11	€0.10
– Expected volatility of the Company's shares	**45%**	44%	42%
– 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	**(0.5)%**	(0.3)%	(0.3)%

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the expected life of the options.

Notes to the consolidated financial statements continued

31. Share-based compensation continued

b) Performance-based plans

Executive Incentive Plan

Shareholders approved the Executive Incentive Plan ("EIP") at the Company's 2010 AGM.

Awards under the EIP vested three years from the grant date provided certain performance conditions were satisfied and the participant remained in employment by the Group at the end of the vesting period.

a) Share price increase

One quarter of each award accrued in equal annual instalments on the anniversary of grant date provided the market price of the Company's ordinary shares on the relevant anniversary date exceeded the higher of the market price of the shares on the grant date and on any preceding anniversary date.

Awards that had accrued vested and became exercisable on the third anniversary of the grant date.

b) Group performance conditions

Up to three-eighths of each award vested depending upon the compound annual growth of the Group's revenue over the three-year performance period. Up to three-eighths of each award vested depending on the compound annual growth of the Group's EBIT (operating profit) over the three-year performance period. Even if the revenue and EBIT targets were met, however, the number of awards that vested was reduced by up to 20% if customer diversification targets were not also met.

The EIP expired for the purpose of new awards in May 2015.

Long-Term Incentive Plan

Shareholders approved the Long-Term Incentive Plan ("LTIP") at the Company's 2015 AGM. The LTIP replaced the EIP. All employees are eligible to participate in the plan but in practice awards will be targeted at the Executive Director level and others in senior roles.

Awards granted under the LTIP take the form of either a nil or nominal cost share option, a conditional share award, a market price share option or, in jurisdictions where it is not feasible to deliver shares to employees, a cash-settled award linked to the market value of the Company's shares.

Awards under the LTIP generally vest three years from the grant date provided certain performance conditions are satisfied and the participant remains in employment by the Group at the end of the vesting period.

a) Total shareholder return ("TSR")

Up to one third of each award vests depending on the TSR on the Company's ordinary shares relative to the TSR of the constituents of the S&P 1500 Select Semiconductor Index over the three-year performance period. If the TSR on the Company's ordinary shares is negative over the vesting period, vesting is capped at one half of this element of the award irrespective of whether the TSR on the Company's ordinary shares has exceeded the TSR of the constituents of the S&P 1500 Select Semiconductor Index.

b) Group Performance Conditions

Up to one half of each award vests depending upon the Group's revenue in each year of the three-year performance period. Up to one half of each award vests depending on the Group's underlying operating margin in each year of the three-year performance period.

Notwithstanding the performance conditions, the Remuneration Committee may apply a downward adjustment to the number of awards 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 2019, 2018 and 2017 and the principal assumptions made in measuring those fair values were as follows:

	Grant in 2019	Grant in 2018	Grant in 2017
Weighted average fair value	**€24.66**	€23.23	€44.86
Principal assumptions:			
– Share price on grant date	**€27.10**	€25.25	€50.32
– Exercise price	**€0.09**	€0.09	€0.10
– Expected volatility of the Company's shares	**45%**	44%	42%
– Expected option life	**6 years**	6 years	6 years
– Dividend yield on the Company's shares	**0%**	0%	0%
– Risk-free interest rate	**(0.5)%**	(0.3)%	(0.3)%

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the expected life of the awards.

31. Share-based compensation continued

c) Share options

Movements in the total number of share options outstanding during the years ended 31 December 2019 and 2018 were as follows:

	2019 Options	2019 Weighted average exercise price €	2018 Options	2018 Weighted average exercise price €
Outstanding at the beginning of the year	**5,472,635**	**0.65**	4,303,195	1.50
Granted	**1,552,279**	**0.09**	2,536,355	0.10
Exercised	**(1,802,547)**	**1.68**	(1,010,647)	3.05
Forfeited	**(879,678)**	**0.12**	(356,268)	0.19
Outstanding at the end of the year	**4,342,689**	**0.13**	5,472,635	0.65
Options exercisable at the end of the year	**533,304**	**0.43**	1,155,481	2.71

When share options were exercised during 2019, the weighted average of the Company's share price was €36.97 (2018: €22.71).

The weighted average contractual life and exercise price of share options outstanding as at 31 December 2019 and 2018 were as follows:

Range of exercise prices	2019 Number outstanding	2019 Weighted average remaining contractual life (in years)	2018 Number outstanding	2018 Weighted average remaining contractual life (in years)
€0.0 – 1.00	**4,330,836**	**4.86**	5,270,419	4.73
€1.00 – 8.00	**–**	**n/a**	–	n/a
€8.00 – 16.85	**11,853**	**0.70**	202,216	0.97
€0.00 – 16.85	**4,342,689**	**4.85**	5,472,635	4.59

d) Dialog shares held by employee benefit trusts

The Company provides finance to two trusts to purchase its ordinary shares in order to meet its obligations under its share-based compensation plans. As at 31 December 2019, the trusts held 804,712 ordinary shares (2018: 2,607,259 ordinary shares).

Movements in the number of shares held by the trusts during the years ended 31 December 2019 and 2018 were as follows:

	2019 Number of shares	2019 Cost US$000	2018 Number of shares	2018 Cost US$000
At the beginning of the year	**2,607,259**	**22,514**	2,791,027	902
Purchase of shares in the market	**–**	**–**	826,879	21,786
Sale or transfer of shares	**(1,802,547)**	**(381)**	(1,010,647)	(174)
At the end of the year	**804,712**	**22,133**	2,607,259	22,514

Notes to the consolidated financial statements continued

32. Commitments

Software licence commitments

Future minimum payments under software licences were as follows:

	2019 US$000	2018 US$000
Within one year	**20,761**	25,616
Between one and two years	**6,018**	15,158
Between two and three years	**3,299**	3,900
Between three and four years	**73**	2,552
Between four and five years	**15**	75
Total minimum payments	**30,166**	47,301

During 2019, the Group recognised in profit or loss software licence fees of US$15,576 (2018: US$13,854; 2017: US$9,944).

Capital commitments

As at 31 December 2019, the Group has contractual commitments for the acquisition of property, plant and equipment of US$3,863 (2018: US$5,874) and for the acquisition of intangible assets of US$1,538 (2018: US$4,391).

33. 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 2019 and 2018 are analysed by class and category:

	As at 31 December 2019					
	Amortised cost US$000	At fair value through profit or loss US$000	At fair value in designated hedges US$000	At fair value through other comprehensive income US$000	Net book value US$000	Fair value US$000
Financial assets						
Cash and cash equivalents	1,024,544	–	–	–	1,024,544	1,024,544
Trade and other receivables	134,079	–	–	–	134,079	134,079
Energous shares	–	–	–	3,079	3,079	3,079
Energous warrants	–	31	–	–	31	31
Other investments	–	31	–	3,079	3,110	
Currency derivatives	–	–	1,056	–	1,056	1,056
Rental and other deposits	2,202	–	–	–	2,202	2,202
Other financial assets	2,202	–	1,056	–	3,258	
Total financial assets	1,160,825	31	1,056	3,079	1,164,991	
Financial liabilities						
Trade and other payables	(104,620)	–	–	–	(104,620)	(104,620)
Lease liabilities	(43,044)	–	–	–	(43,044)	(45,926)
Prepayment from Apple	(194,467)	–	–	–	(194,467)	(196,278)
Bank loans	(1,816)	–	–	–	(1,816)	(1,816)
Currency derivatives	–	–	(1,324)	–	(1,324)	(1,324)
Deferred consideration	(1,063)	–	–	–	(1,063)	(1,063)
Contingent consideration	–	(6,666)	–	–	(6,666)	(6,666)
Other financial liabilities	(197,346)	(6,666)	(1,324)	–	(205,336)	
Total financial liabilities	(345,010)	(6,666)	(1,324)	–	(353,000)	

Currency derivatives that are not in designated hedging relationships were held to hedge the currency translation exposure on the Euro-denominated share buyback liability (note 29).

33. Additional disclosures on financial instruments continued

Analysis by class and category continued

	As at 31 December 2018					
	Amortised cost US$000	At fair value through profit or loss US$000	At fair value in designated hedges US$000	At fair value through other comprehensive income US$000	Net book value US$000	Fair value US$000
Financial assets						
Cash and cash equivalents	677,848	–	–	–	677,848	677,848
Trade and other receivables	114,514	–	–	–	114,514	114,514
Energous shares	–	–	–	10,073	10,073	10,073
Energous warrants	–	1,465	–	–	1,465	1,465
Other investments	–	1,465	–	10,073	11,538	
Currency derivatives	–	–	202	–	202	202
Rental and other deposits	1,807	–	–	–	1,807	1,807
Other financial assets	1,807	–	202	–	2,009	
Total financial assets	794,169	1,465	202	10,073	805,909	
Financial liabilities						
Trade and other payables	(122,140)	–	–	–	(122,140)	(122,140)
Currency derivatives	–	(301)	(6,080)	–	(6,381)	(6,381)
Share buyback obligation	(171,763)	–	–	–	(171,763)	(171,763)
Deferred consideration	(3,173)	–	–	–	(3,173)	(3,173)
Contingent consideration	–	(16,414)	–	–	(16,414)	(16,414)
Other financial liabilities	(174,936)	(16,715)	(6,080)	–	(197,731)	
Total financial liabilities	(297,076)	(16,715)	(6,080)	–	(319,871)	

Fair value measurement

a) Financial instruments carried at fair value

All financial instruments that are carried at fair value are revalued on a recurring basis. We have not chosen to designate any financial instruments at fair value through profit or loss on initial recognition.

Details of our investment in the Energous shares and warrants are set out in note 19. We measured the fair value of these financial assets using the following methods and assumptions:

- Energous shares (listed on NASDAQ) – measured at the quoted bid price at the close of business on the balance sheet date; and
- Energous warrants – measured using a Black-Scholes valuation model based on the quoted bid price of Energous' common shares and other inputs such as implied share price volatility that is modelled based on historical price data for Energous' common shares.

Fair value of currency derivatives represents the present value of the future contractual cash flows, which is estimated using observable spot exchange rates and by applying a discount rate that is based on the yield curves of the respective currencies and reflects the credit risk of the counterparties.

Contingent consideration in respect of the recent acquisitions depends on the achievement of revenue targets. At the end of 2019, we measured the fair value of the contingent consideration payable for Creative Chips based on the expected value of a range of possible Creative Chip's revenues for 2020 and 2021. At the end of 2018, we measured the fair value of the contingent consideration payable for Silego based on Silego's actual revenues for 2017 and 2018.

In the following table, the financial instruments that are carried at fair value are categorised into one of three levels in a fair value hierarchy according to the nature of the significant inputs to the valuation techniques that are used to determine their fair value as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than Level 1 that are observable either directly (as market prices) or indirectly (derived from market prices); and
- Level 3 – Unobservable inputs, such as those derived from internal models or using other valuation methods.

Notes to the consolidated financial statements continued

33. Additional disclosures on financial instruments continued

Fair value measurement continued

	As at 31 December 2019				As at 31 December 2018			
	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	**3,079**	**–**	**–**	**3,079**	10,073	–	–	10,073
Derivative financial instruments:								
– Currency derivatives	**–**	**1,056**	**–**	**1,056**	–	202	–	202
– Energous warrants	**–**	**–**	**31**	**31**	–	–	1,465	1,465
Total financial assets carried at fair value	**3,079**	**1,056**	**31**	**4,166**	10,073	202	1,465	11,740

	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 liabilities carried at fair value								
Derivative financial instruments:								
– Currency derivatives	**–**	**(1,324)**	**–**	**(1,324)**	–	(6,381)	–	(6,381)
Contingent consideration	**–**	**–**	**(6,666)**	**(6,666)**	–	–	(16,414)	(16,414)
Total financial liabilities carried at fair value	**–**	**(1,324)**	**(6,666)**	**(7,990)**	–	(6,381)	(16,414)	(22,795)

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

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

	2019 US$000	2018 US$000	2017 US$000
Financial assets carried at fair value			
At the beginning of the year	**1,465**	12,318	6,766
Additions:			
– Energous warrants	**–**	–	4,753
Unrealised fair value (loss)/gain recognised in profit or loss (other finance (expense)/income):			
– Energous warrants	**(1,434)**	(10,853)	941
– Dyna Image call option	**–**	–	(142)
At the end of the year	**31**	1,465	12,318

	2019 US$000	2018 US$000	2017 US$000
Financial liabilities carried at fair value			
At the beginning of the year	**(16,414)**	(23,709)	–
Contingent consideration:			
– Additions	**(6,517)**	(653)	(23,273)
– Change in estimate (other operating income)	**–**	808	–
– Unwinding of discount recognised in profit or loss (interest expense)	**(464)**	(2,220)	(436)
– Settlements	**16,729**	9,360	–
At the end of the year	**(6,666)**	(16,414)	(23,709)

We estimate that if the expected values of Creative Chips' revenues for 2020 and 2021 had been 10% higher or 10% lower, the fair value of the contingent consideration payable for Creative Chips at the end of 2019 would have been US$5,111 higher at US$11,777 or US$5,781 lower at US$885, respectively. In each case, the effect of the increase or decrease in fair value would have been recognised in profit or loss as other finance expense or income, respectively.

b) Financial instruments not carried at fair value

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

We have calculated the fair value of lease liabilities by discounting the future lease payments at the relevant lessee's incremental borrowing rate based on observable yield curves at the balance sheet date (Level 2).

We have calculated the fair value of the bank loans acquired with Creative Chips by discounting the future principal repayments based on the observable yield curve at the balance sheet date for Euro-denominated debt with an equivalent risk profile (Level 2).

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

34. Financial risk management

Background

The Group's central treasury function is responsible for ensuring that adequate funding is available to meet the Group's requirements and for maintaining an efficient capital structure, together with managing the Group's counterparty credit risk, foreign currency and interest rate exposures. All treasury operations are conducted within strict policies and guidelines that are approved by the Board.

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

Credit risk

Credit risk is the risk that a customer or a counterparty financial institution fails to meet its contractual obligations as they fall due causing the Group to incur a financial loss. The Group is exposed to credit risk in relation to receivables from its customers and cash and cash equivalents and other financial assets held with financial institutions.

Before accepting a new customer, we assess the potential customer's credit quality and establish a credit limit. Credit quality is assessed using data maintained by reputable credit agencies, by checking references included in credit applications, and, where they are available, by reviewing the customer's recent financial statements. Credit limits are subject to multiple levels of authorisation and are reviewed on a regular basis. We make an allowance for lifetime expected credit losses on receivables that is regularly reviewed and, if necessary, adjusted on the basis of current information about the customer's creditworthiness.

The Group depends on a relatively small number of customers for a substantial part of its revenue. As at 31 December 2019, trade accounts receivable amounted to US$122,528 (2018: US$98,234), including US$85,298 (2018: US$62,207) due from our largest customer.

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

Receivables sold under these facilities are derecognised from the Group's balance sheet because the financial institutions concerned assume all credit risk associated with them. When a receivable is sold, the Group is credited with the majority of the invoice amount with the balance credited on the earlier of the date on which the customer pays the amount due or 120 days after the receivable becomes due for payment. As at 31 December 2019, cash and cash equivalents included a benefit of US$65,439 (2018: US$96,099) in relation to receivables sold under these facilities and trade and other receivables included US$11,551 (2018: US$16,280) retained by the financial institutions.

Cash deposits and cash equivalent investments are placed, where possible, with financial institutions that satisfy the criteria set out in our Board approved treasury policy, including a requirement that each has a median credit rating of not less than A- (Standard & Poor's), A3 (Moody's), A- (Fitch) or equivalent. Credit risk is further limited by investing only in liquid instruments.

Market risk

Market risk is the risk that the fair value of, or cash flows associated with, a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk (due to changes in currency exchange rates), interest rate risk (due to changes in market interest rates) and other price risk.

a) Currency risk

The US dollar is the functional currency of the Company and its principal subsidiaries.

Currency risk arises on transactions that are denominated in a currency other than the functional currency of the entity that enters into them. Nearly all of the Group's sales and cost of materials are denominated in US dollars but certain operating expenses and tax cash flows are denominated in currencies other than the US dollar, in particular the Euro and the pound sterling. It is the Group's policy to hedge a proportion of the currency risk associated with highly probable forecast cash flows on a rolling 12-month basis. As the timing of the forecast cash flows draws nearer, the proportion of the currency risk that is hedged increases within set parameters.

Where possible, forward currency contracts that are entered into hedge forecast cash flows are designated as hedging instruments in cash flow hedge relationships. During 2019, a loss of US$3,941 (2018: a loss of US$10,075; 2017: gain of US$16,433), was recognised in other comprehensive income representing the change in the fair value of currency derivatives in effective hedging relationships and a cumulative loss of US$9,549 (2018: gain of US$2,343; 2017: gain of US$441) was reclassified to profit or loss on the occurrence of the hedged cash flows.

Notes to the consolidated financial statements continued

34. Financial risk management continued

Market risk continued

Currency derivatives held to hedge forecast cash outflows were as follows:

	As at 31 December 2019 Net notional amount			
	Euro 000	**Pound sterling 000**	**Japanese Yen 000**	**Chinese Renminbi 000**
Maturity				
0 – 3 months	**28,250**	**13,500**	**175,000**	**14,500**
4 – 6 months	**21,250**	**13,250**	**90,000**	**10,000**
7 – 9 months	**20,250**	**7,250**	**180,000**	**14,000**
10 – 12 months	**10,500**	**1,750**	**–**	**–**
Total	**80,250**	**35,750**	**445,000**	**38,500**
Weighted average exchange rate US$ =	**0.87**	**0.76**	**106.31**	**7.05**

	As at 31 December 2018 Net notional amount			
	Euro 000	Pound sterling 000	Japanese Yen 000	Chinese Renminbi 000
Maturity				
0 – 3 months	26,750	11,000	207,500	19,000
4 – 6 months	21,500	9,250	115,000	10,000
7 – 9 months	18,000	3,750	140,000	10,500
10 – 12 months	8,000	1,750	50,000	4,000
Total	74,250	25,750	512,500	43,500
Weighted average exchange rate US$ =	0.82	0.74	107.99	6.71

During the year, the following amounts were recognised in profit or loss in relation to forward currency contracts in cash flow hedge relationships:

	2019 US$000	2018 US$000	2017 US$000
Gain/(loss) reclassified from hedging reserve			
Hedged item affected profit or loss:			
– Cost of sales	**(676)**	436	(77)
– Selling and marketing expenses	**(290)**	47	(3)
– General and administrative expenses	**(1,191)**	96	(69)
– Research and development expenses	**(5,352)**	1,422	(124)
– Income tax expense	**(2,040)**	342	743
Cash flow no longer expected to occur:			
– Other finance expense	**–**	–	(29)
	(9,549)	2,343	441
Hedge ineffectiveness			
Other finance income/(expense)	**1**	(13)	14

Hedge ineffectiveness was determined as follows:

	2019 US$000	2018 US$000	2017 US$000
Change in fair value of designated hedging instruments	**5,609**	(12,431)	16,006
Change in value of hedged item used to determine hedge ineffectiveness	**(5,608)**	12,418	(15,992)
Hedge ineffectiveness recognised in profit or loss	**1**	(13)	14

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 2019, there would be an incremental fair value gain of US$16,342 (2018: US$33,497) or an incremental fair value loss of US$13,371 (2018: US$27,407), 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.

34. Financial risk management continued

Market risk continued

During 2019 and 2018, we used forward currency contracts and currency swaps to hedge the translation exposure on the Euro-denominated liabilities that arose in relation to tranches of the Company's share buyback programme. At the end of 2019, there were no outstanding contracts. At the end of 2018, we held outstanding contracts to purchase €150.0 million at an average rate of US$1 = €0.86 as a hedge of the maximum obligation that was outstanding in relation to an uncompleted tranche of share purchases.

After taking into account currency hedging activities, the currency profile of the Group's net financial assets/(liabilities) was as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
US dollar	**832,922**	482,532
Euro	**(10,368)**	(6,434)
Pound sterling	**(7,918)**	7,420
Taiwanese dollar	**(405)**	768
Other	**(2,240)**	1,752
Total	**811,991**	486,038

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 2019, there would be an exchange gain of US$2,093 (2018: loss of US$351) or an exchange loss of US$2,093 (2018: gain of US$351), respectively, recognised in arriving at the Group's profit before tax.

Currency translation risk also arises on consolidation in relation to the translation into US dollars of net investments in foreign operations but the exposure is not significant because the US dollar is the functional currency of the Company and each of its principal subsidiaries.

b) Interest risk

The interest rate profile of the Group's financial assets and liabilities was as follows:

	As at 31 December 2019			
	Interest-bearing			
	Floating rate US$000	Fixed rate US$000	Non-interest bearing US$000	Total US$000
Financial assets				
Cash and cash equivalents	**959,105**	**–**	**65,439**	**1,024,544**
Trade and other receivables	**–**	**–**	**134,079**	**134,079**
Investments	**–**	**–**	**3,110**	**3,110**
Other financial assets	**–**	**–**	**3,258**	**3,258**
Total financial assets	**959,105**	**–**	**205,886**	**1,164,991**
Financial liabilities				
Trade and other payables	**–**	**–**	**(104,620)**	**(104,620)**
Lease liabilities	**–**	**(43,044)**	**–**	**(43,044)**
Other financial liabilities	**–**	**(1,816)**	**(203,520)**	**(205,336)**
Total financial liabilities	**–**	**(44,860)**	**(308,140)**	**(353,000)**

	As at 31 December 2018			
	Interest-bearing			
	Floating rate US$000	Fixed rate US$000	Non-interest bearing US$000	Total US$000
Financial assets				
Cash and cash equivalents	581,749	–	96,099	677,848
Trade and other receivables	–	–	114,514	114,514
Investments	–	–	11,538	11,538
Other financial assets	–	–	2,009	2,009
Total financial assets	581,749	–	224,160	805,909
Financial liabilities				
Trade and other payables	–	–	(122,140)	(122,140)
Other financial liabilities	–	–	(197,731)	(197,731)
Total financial liabilities	–	–	(319,871)	(319,871)

Notes to the consolidated financial statements continued

34. Financial risk management continued

Market risk continued

The Group's principal exposure to interest rate risk is in relation to interest income on investments in money market funds and short-term deposits, which attract US dollar interest rates. When applied to the Group's floating interest rate exposures as at 31 December 2019, an increase or decrease of 50 basis points in market interest rates would increase or decrease the Group's profit before tax by US$4,755 (2018: US$2,875), respectively.

c) Other price risk

In November 2016 and July 2017, the Company subscribed for common shares and was granted warrants to purchase common shares in Energous Corporation ("Energous"). Energous' common shares are listed on NASDAQ. At the end of 2019, the fair value of the shares held was US$3,079 and the fair value of the warrants was US$31. 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 2019 would be to increase the Group's profit before tax by US$9 (2018: US$314) and other comprehensive income by US$308 (2018: US$1,007) and the effect of a 10% decrease in the share price would be to reduce the Group's profit before tax by US$8 (2018: US$289) and other comprehensive income by US$308 (2018: US$1,007).

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities.

We regularly monitor cash flows at both Group and entity level. As at 31 December 2019, cash and cash equivalents amounted to US$1,024,544 (2018: US$677,848).

In July 2017, the Company and certain of its subsidiaries, as guarantors, entered into a US$150 million three-year revolving credit facility provided by four financial institutions. The facility is committed and is available for general corporate purposes. In June 2018, the facility was extended by a year but at a reduced amount of US$112.5 million from July 2020 until July 2021. In June 2019, the facility was extended by a further year to July 2022 with no reduction in the amount of the facility from July 2020. We retain 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 2019.

The contractual maturity of financial liabilities was as follows:

	As at 31 December 2019						
	Within 3 months US$000	Between 3 to 12 months US$000	Between 1 to 2 years US$000	Between 2 to 5 years US$000	After 5 years US$000	Effect of discounting US$000	Carrying amount US$000
Trade and other payables	104,620	–	–	–	–	–	104,620
Lease liabilities	2,833	8,306	9,966	22,501	5,737	(6,299)	43,044
Prepayment from Apple	50,000	75,000	50,000	25,000	–	(5,533)	194,467
Bank loans	198	596	608	414	–	–	1,816
Deferred consideration	635	403	25	–	–	–	1,063
Contingent consideration	–	–	3,387	5,261	–	(1,982)	6,666
Other non-derivative liabilities	53,666	84,305	63,986	53,176	5,737	(13,814)	247,056
Total non-derivative liabilities	158,286	84,305	63,986	53,176	5,737	(13,814)	351,676
Cash flows on derivative liabilities							
– Payments	34,636	81,379	–	–	–	–	116,015
– Receipts	(33,858)	(80,225)	–	–	–	–	(114,083)
Cash flows on financial liabilities	159,064	85,459	63,986	53,176	5,737	(13,814)	353,608

	As at 31 December 2018						
	Within 3 months US$000	Between 3 to 12 months US$000	Between 1 to 2 years US$000	Between 2 to 5 years US$000	After 5 years US$000	Effect of discounting US$000	Carrying amount US$000
Trade and other payables	122,140	–	–	–	–	–	122,140
Deferred consideration	712	1,620	834	7	–	–	3,173
Contingent consideration	16,730	–	–	–	–	(316)	16,414
Share buyback obligation	171,763	–	–	–	–	–	171,763
Other non-derivative liabilities	189,205	1,620	834	7	–	(316)	191,350
Total non-derivative liabilities	311,345	1,620	834	7	–	(316)	313,490
Cash flows on derivative liabilities:							
– Payments	49,875	253,620	–	–	–	–	303,495
– Receipts	(46,018)	(248,172)	–	–	–	–	(294,190)
Cash flows on financial liabilities	315,202	7,068	834	7	–	(316)	322,795

34. Financial risk management continued

Capital management

The Group's capital is represented by its total equity. As at 31 December 2019, the Group's total equity was US$1,572,584 (2018: US$1,302,507).

We seek to maintain a capital structure that supports the ongoing activities of our business and its strategic objectives in order to deliver long-term returns to shareholders. We allocate capital to support organic and inorganic growth, investing to support research and development and our product pipeline. We will fund our growth strategy using a mix of equity and debt after giving consideration to prevailing market conditions.

In May 2016, we initiated a share buyback programme as part of our strategy to deliver shareholder returns. Since then, we have returned €393.7 million (US$435,100) to shareholders through five tranches of the programme. We will seek renewal of the share buyback authority at the Company's 2020 AGM and will consider initiating further tranches of share purchases in the context of our regular assessment of the Group's future growth opportunities and its strategic objectives.

35. Segment and geographic information

a) Analysis by reporting segment

Segment information is presented in the financial statements on a 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 82 and 83.

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

Organisational and measurement changes

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

The following organisational changes were made:

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

We subsequently acquired Creative Chips and designated it as our new Industrial Mixed Signal business unit within Custom Mixed Signal.

The Group now has three reporting segments: Custom Mixed Signal; Advanced Mixed Signal; and Connectivity & Audio:

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

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

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

Comparative information for 2018 and 2017 has been restated to reflect these organisational and measurement changes.

Notes to the consolidated financial statements continued

35. Segment and geographic information continued

a) Analysis by reporting segment continued

Segment revenue and profit or loss

Underlying performance measures exclude specific items of income or expense that are recognised in profit or loss reported in accordance with IFRS that we consider hinder comparison of the financial performance of our businesses from one period to another, with each other or with other similar businesses. Details of the items excluded from profit or loss reported under IFRS in arriving at the Group's underlying profit or loss for each of the periods presented are set out in the section entitled "Financial performance measures" on pages 183 to 189.

Segment revenue and operating profit/(loss) were as follows:

	Underlying revenue[1]			Underlying operating profit/(loss)		
	2019 US$000	Restated 2018 US$000	Restated 2017 US$000	**2019 US$000**	Restated 2018 US$000	Restated 2017 US$000
Custom Mixed Signal	**964,788**	1,042,320	1,059,603	**281,941**	267,589	296,236
Advanced Mixed Signal	**253,415**	244,536	147,603	**15,236**	26,754	(1,326)
Connectivity & Audio	**183,781**	154,004	137,834	**21,607**	13,636	9,740
Total segments	**1,401,984**	1,440,860	1,345,040	**318,784**	307,979	304,650
Corporate and other unallocated items	**18,505**	1,278	7,801	**5,565**	(26,351)	(45,192)
Total Group	**1,420,489**	1,442,138	1,352,841	**324,349**	281,628	259,458

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

Reconciliation of underlying revenue to revenue reported under IFRS

	2019 US$000	2018 US$000	2017 US$000
Underlying revenue	**1,420,489**	1,442,138	1,352,841
Perpetual licence fee	**145,750**	–	–
Revenue reported under IFRS	**1,566,239**	1,442,138	1,352,841

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

	2019 US$000	2018 US$000	2017 US$000
Underlying operating profit	**324,349**	281,628	259,458
Licence and asset transfers to Apple:			
– Perpetual licence fee	**145,750**	–	–
– Gain on transfer of design centre businesses	**15,898**	–	–
Share-based compensation and related expenses	**(54,656)**	(41,653)	(35,498)
Accounting for business combinations:			
– Acquisition-related costs	**(4,040)**	–	(4,539)
– Amortisation of acquired intangible assets	**(26,113)**	(22,629)	(16,461)
– Consumption of the fair value uplift of acquired inventory	**(1,749)**	(3,129)	(2,305)
– Consideration accounted for as compensation expense	**(1,204)**	(1,481)	(1,409)
– Forfeiture of deferred consideration	**116**	204	–
– Remeasurement of contingent consideration	**–**	878	–
Integration costs	**(2,434)**	(2,765)	(2,305)
Corporate transaction costs	**(16,064)**	(11,346)	–
Strategic investments:			
– Impairment of non-current assets held by Dyna Image	**–**	–	(4,327)
– Loss on deconsolidation of Dyna Image	**–**	–	(5,597)
Operating profit reported under IFRS	**379,853**	199,707	187,017
Interest income	**21,950**	9,883	5,995
Interest expense	**(11,309)**	(3,134)	(1,302)
Other finance expense	**(5,456)**	(10,263)	3,093
Profit before income taxes	**385,038**	196,193	194,803

35. Segment and geographic information continued

a) Analysis by reporting segment continued

Other segment information

Other segment information on an underlying basis is as follows:

	Custom Mixed Signal US$000	Connectivity & Audio US$000	Advanced Mixed Signal US$000	Total segments US$000	Corporate activities US$000	Total Group US$000
Year ended 31 December 2019						
Research and development expenses	**158,493**	**52,672**	**63,152**	**274,317**	**2,125**	**276,442**
Write-down of inventories	**6,884**	**738**	**3,514**	**11,136**	**(3)**	**11,133**
Fixed assets[1]:						
– Depreciation/amortisation	**41,464**	**15,202**	**8,327**	**64,993**	**739**	**65,732**
– Loss on disposal	**282**	**3,112**	**58**	**3,452**	**992**	**4,444**
Year ended 31 December 2018						
Research and development expenses	185,061	42,180	53,703	280,944	13,290	294,234
Write-down of inventories	4,309	279	987	5,575	68	5,643
Fixed assets[1]:						
– Depreciation/amortisation	42,150	10,362	4,920	57,432	524	57,956
– Loss on disposal	788	4	27	819	104	923
Year ended 31 December 2017						
Research and development expenses	169,925	39,005	36,128	245,058	30,727	275,785
Write-down of inventories	(370)	337	1,403	1,370	(82)	1,288
Fixed assets[1]:						
– Depreciation/amortisation	41,965	9,193	4,028	55,186	1,129	56,315
– Loss on disposal	417	2	–	419	172	591

1 Non-current assets excluding investments and deferred tax assets.

b) Geographic information

	2019 US$000	2018 US$000	2017 US$000
Revenue by destination			
United Kingdom	**381**	647	529
Other European countries	**38,564**	40,816	46,432
Mainland China	**926,625**	1,027,976	1,034,847
Hong Kong	**318,850**	288,838	196,722
Other Asian countries	**102,041**	72,642	61,111
USA	**173,450**	6,152	8,900
Rest of the world	**6,328**	5,067	4,300
Total	**1,566,239**	1,442,138	1,352,841

Notes to the consolidated financial statements continued

35. Segment and geographic information continued

b) Geographic information continued

	As at 31 December 2019 US$000	As at 31 December 2018 US$000	As at 31 December 2017 US$000
Non-current assets[1] by location			
United Kingdom	**40,830**	47,909	48,761
Germany	**131,739**	43,511	58,782
Netherlands	**62,771**	56,501	52,791
USA	**563,419**	568,755	589,753
Taiwan	**2,546**	1,507	2,222
Rest of the world	**58,440**	7,334	9,299
Total	**859,745**	725,517	761,608

1 Non-current assets excluding investments and deferred tax assets.

c) Information about major customers

During 2019, 2018 and 2017, there was only one customer that accounted for more than 10% of the Group's revenue.

During 2019, revenue from that customer was US$1,168,568, including licence fees totalling US$164,234, of which US$1,086,636 was recognised in Custom Mixed Signal, US$63,448 was recognised in Advanced Mixed Signal and US$18,484 was recognised in Corporate and other unallocated items. During 2018, revenue from that customer was US$1,081,532, of which US$1,015,630 was recognised in Custom Mixed Signal and US$65,902 was recognised in Advanced Mixed Signal. During 2017, revenue from that customer was US$1,042,669, of which US$1,035,412 was recognised in Custom Mixed Signal and US$7,257 was recognised in Advanced Mixed Signal.

36. Transactions with related parties

Key management personnel

For the purpose of these disclosures, the Group's key management personnel comprise the Management Team (which includes the Company's Executive Director) and the Company's non-executive Directors.

Compensation of the Group's key management personnel was as follows:

	2019 US$000	2018 US$000	2017 US$000
Short-term employee benefits	**9,148**	9,196	6,712
Post-employment benefits	**310**	237	267
Share-based compensation	**11,630**	11,952	10,895
Total	**21,088**	21,385	17,874

Current members of the Company's Board are identified on pages 80 and 81 and current members of the Management Team are identified on pages 82 and 83.

Statutory information about Directors' remuneration is presented in the Directors' remuneration report on pages 92 to 106.

During 2019, the aggregate emoluments payable to Directors in respect of qualifying services to the Company amounted to US$3,881 (2018: US$2,947; 2017: US$3,370). 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$2,160 (2018: US$1,310; 2017: US$1,399).

Advances are made by foreign subsidiaries to the Executive Director and certain other members of the Management Team against foreign taxes arising as a result of business travel that are repaid as and when the relevant tax credits are received. As at 31 December 2019, the aggregate amount outstanding was US$1,185 (2018: US$350). During 2019, the weighted average aggregate amount outstanding was US$952 (2018: US$277). No interest is charged on the advances which are treated as a taxable benefit. Details of the advances made to the Executive Director are set out in the Directors' remuneration report on page 100.

Other related party transactions

During 2019, 2018 and 2017, there were no other related party transactions that are required to be reported in these financial statements.

37. Adoption of IFRS 16

Background

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

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

Previous accounting for leases under IAS 17

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

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

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

New accounting for leases under IFRS 16

Definition of a lease

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

Lease liability

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

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

After the commencement date, the carrying amount of the lease liability is increased to reflect interest on the lease liability, reduced to reflect lease payments made and remeasured to reflect reassessments of the future lease payments or certain lease modifications.

Interest on the lease liability is recognised in profit or loss (within interest expense).

Right-of-use asset

On the commencement date of a lease, the right-of-use asset is measured at cost which comprises the initial amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, and any initial direct costs that we incur in relation to the lease.

After the commencement date, the right-of-use asset is measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated so as to charge their cost to profit or loss (in arriving at operating profit), usually on a straight-line basis over the lease term.

Short-term leases and leases of low value assets

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

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

Notes to the consolidated financial statements continued

37. Adoption of IFRS 16 continued

Transition to IFRS 16

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

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

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

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

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

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

	US$000
Right-of-use asset	66,390
Lease liabilities	(67,631)
Net accrued lease payments	1,241
	–
Net deferred tax credit	40
Increase in net assets	40

Prior to adopting IFRS 16, we disclosed commitments for future lease payments under non-cancellable operating leases.

We reconcile below the future lease payments at the end of 2018 discounted at a weighted-average incremental borrowing rate of 5.2% to the lease liabilities recognised on adoption of IFRS 16.

	Future lease payments US$000	Effect of discounting US$000	Discounted future lease payments US$000
Future lease payments			
Within one year	15,505	(169)	15,336
Between one and two years	14,749	(865)	13,884
Between two and three years	14,056	(1,490)	12,566
Between three and four years	13,042	(2,005)	11,037
Between four and five years	8,078	(1,625)	6,453
After more than five years	13,202	(4,399)	8,803
Total minimum lease payments	78,632	(10,553)	68,079
Payment for short-term leases			(393)
Payments for leases of low value assets			(55)
Lease liability			67,631

37. Adoption of IFRS 16 continued

Financial effect of IFRS 16

We summarise below the effect of IFRS 16 on the Group's results for 2019 and on its financial position at the end of 2019.

Consolidated statement of income for year ended 31 December 2019

	As reported under IFRS 16 US$000	Adjustment for effect of IFRS 16 US$000	Amounts under IAS 17 US$000
Revenue	1,566,239	–	1,566,239
Cost of sales	(717,703)	(197)	(717,900)
Gross profit	848,536	(197)	848,339
Operating expenses, net	(508,088)	(1,865)	(509,953)
Other operating income	39,405	139	39,544
Operating profit	379,853	(1,923)	377,930
Net finance income	5,185	2,910	8,095
Profit before income taxes	385,038	987	386,025
Income tax expense	(83,586)	(197)	(83,783)
Profit after income taxes	301,452	790	302,242
Net income	301,452	790	302,242
Earnings per share (US$)			
Basic	4.19	0.01	4.20
Diluted	3.96	0.01	3.97

Consolidated balance sheet as at 31 December 2019

	As reported under IFRS 16 US$000	Adjustment for effect of IFRS 16 US$000	Amounts under IAS 17 US$000
Assets			
Other current assets	22,532	214	22,746
Total current assets	1,305,887	214	1,306,101
Property, plant and equipment – leased	41,423	(41,423)	–
Deferred tax assets	8,242	(237)	8,005
Total non-current assets	871,097	(41,660)	829,437
Total assets	2,176,984	(41,446)	2,135,538
Liabilities and equity			
Lease liabilities	8,972	(8,972)	–
Total current liabilities	373,422	(8,972)	364,450
Lease liabilities	34,072	(34,072)	–
Other non-current liabilities	88,044	945	88,989
Total non-current liabilities	230,978	(33,127)	197,851
Retained earnings	1,451,582	617	1,452,199
Other reserves	(274,729)	36	(274,693)
Total equity	1,572,584	653	1,573,237
Total liabilities and equity	2,176,984	(41,446)	2,135,538

38. Subsequent event

Proposed acquisition of Adesto

On 20 February 2020, we announced that Dialog has entered into a definitive agreement to acquire all of the outstanding shares in Adesto Technologies Corporation ("Adesto").

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

Dialog proposes to acquire Adesto for US$12.55 per share in cash, representing an enterprise value of approximately US$500 million, to be funded from our existing cash balances. The transaction is subject to certain regulatory approvals and customary closing conditions and is expected to close in the third quarter of 2020.

Company balance sheet

As at 31 December

	Note	2019 US$000	2018 US$000
Assets			
Cash and cash equivalents		**939,037**	577,945
Other financial assets		**1,056**	202
Income tax receivable	7	**537**	612
Amounts owed by group undertakings		**44,075**	32,593
Other current assets		**2,938**	2,618
		987,643	613,970
Assets classified as held for sale	6	**–**	1,944
Total current assets		**987,643**	615,914
Investments in subsidiaries	4	**1,013,745**	855,299
Other investments	5	**3,110**	11,538
Intangible assets		**152**	190
Other non-current assets		**366**	398
Total non-current assets		**1,017,373**	867,425
Total assets		**2,005,016**	1,483,339
Liabilities and equity			
Amounts owed to group undertakings		**1,070,257**	377,757
Trade and other payables		**3,424**	3,158
Other financial liabilities		**1,324**	178,146
Other payables		**1,279**	89
Total current liabilities		**1,076,284**	559,150
Non-current liabilities		**5,504**	7,087
Ordinary shares		**14,204**	14,204
Share premium account		**403,660**	403,660
Retained earnings		**800,634**	536,108
Other reserves		**(273,137)**	(14,356)
Dialog shares held by employee benefit trusts		**(22,133)**	(22,514)
Total equity	8	**923,228**	917,102
Total liabilities and equity		**2,005,016**	1,483,339

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 for the financial year was US$96,466 (2018: US$108,582).

These financial statements were approved by the Board of Directors on 4 March 2020 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 8) US$000	Dialog shares held by employee benefit trusts US$000	Total US$000
As at 31 December 2017	14,204	403,660	595,270	8,393	(902)	1,020,625
Net income	–	–	108,582	–	–	108,582
Other comprehensive income	–	–	–	(22,749)	–	(22,749)
Total comprehensive income/(expense)	–	–	108,582	(22,749)	–	85,833
Other changes in equity:						
– Share buyback obligation	–	–	(171,187)	–	–	(171,187)
– Purchase of shares by employee benefit trusts	–	–	–	–	(21,786)	(21,786)
– Sale of shares by employee benefit trusts	–	–	3,443	–	174	3,617
As at 31 December 2018	14,204	403,660	536,108	(14,356)	(22,514)	917,102
Net income	**–**	**–**	**96,466**	**–**	**–**	**96,466**
Other comprehensive loss	**–**	**–**	**–**	**(6,994)**	**–**	**(6,994)**
Total comprehensive income/(expense)	**–**	**–**	**96,466**	**(6,994)**	**–**	**89,472**
Other changes in equity:						
– Purchase of own shares into treasury	**–**	**–**	**(4,431)**	**(251,787)**	**–**	**(256,218)**
– Share buyback obligation	**–**	**–**	**169,505**	**–**	**–**	**169,505**
– Purchase of shares by employee benefit trusts	**–**	**–**	**–**	**–**	**–**	**–**
– Sale of shares by employee benefit trusts	**–**	**–**	**2,981**	**–**	**381**	**3,362**
– Share-based compensation, net of tax	**–**	**–**	**5**	**–**	**–**	**5**
As at 31 December 2019	**14,204**	**403,660**	**800,634**	**(273,137)**	**(22,133)**	**923,228**

Notes to the Company financial statements

For the year ended 31 December 2019

1. Background

Description of business

Dialog Semiconductor Plc ("the Company") is a public limited company that is incorporated in England and Wales and domiciled in the United Kingdom. The Company's ordinary shares are listed on the Frankfurt Stock Exchange.

The Company is the ultimate parent of a group of companies that creates and markets highly-integrated, mixed-signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid state lighting, industrial and automotive applications.

Statement of compliance

The Company's separate financial statements on pages 176 to 182 have been prepared in accordance with FRS 101 *Reduced Disclosure Framework* and those parts of the Companies Act 2006 that are applicable to companies reporting under FRS 101. Accordingly, the Company's separate financial statements comply with the recognition and measurement requirements of 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. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's significant accounting policies are set out in note 2.

Presentation currency

The Company's separate financial statements are presented in US dollars ("US$"), which is the Company's functional currency. All US dollar amounts are rounded to the nearest thousand ("US$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); and
- Paragraph 17 of IAS 24 *Related Party Disclosures* (compensation of key management personnel) and the further requirement in IAS 24 to disclose related party transactions entered into with subsidiaries that are wholly-owned by the Company.

Approval of the financial statements

The Company's separate financial statements for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 4 March 2020.

Accounting standards adopted during the year

IFRS 16 *Leases*

The Company adopted IFRS 16 with effect from 1 January 2019. Since the Company is not party to any lease contracts, the adoption of IFRS 16 had no impact on its results or financial position.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 clarifies the application of the recognition and measurement requirements of IAS 12 *Income Taxes* where there is uncertainty over income tax treatments. Since the Company already accounted for income taxes on a basis consistent with IFRIC 23, its adoption had no impact on the Company's results or financial position.

2. Significant accounting policies

Investments in subsidiaries

A subsidiary is an entity that is controlled, either directly or indirectly, by the Company. Control exists when the Company 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. Unless classified as held for sale, investments in subsidiaries are stated at cost less provision for impairment.

Investment in associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in financial and operating policy decisions but not to control or jointly control them. Significant influence generally exists where the Company holds, directly or indirectly through one or more of its subsidiaries, more than 20% and less than 50% of the shareholders' voting rights.

Unless classified as held for sale, investments in associates are stated at cost less provision for impairment.

Foreign currency translation

Transactions denominated in foreign currencies are recorded in US dollars at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Currency translation differences are recognised in profit or loss.

Financial instruments

Amounts owed by/to Group undertakings

Amounts owed by/to Group undertakings are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, investments in money market funds and short-term deposits with an original maturity of three months or less.

Equity investments

Equity investments are initially measured at fair value plus transaction costs, if any. Equity investments are subsequently measured at fair value with resulting gains and losses recognised in profit or loss unless the Company irrevocably elects on initial recognition for such gains and losses to be recognised in other comprehensive income. The Company has made this election in respect of its investment in the common shares of Energous Corporation.

Derivative financial instruments

The Company holds derivative financial instruments that are used to reduce its exposure or that of its subsidiaries to currency exchange rate movements. The Company may also hold equity options and warrants in relation to certain of its strategic investments. The Company does not hold or issue derivatives for speculative purposes.

All derivative financial instruments held by the Company are measured at fair value. All fair value gains and losses are recognised in profit or loss. Where the fair value of a derivative on initial recognition differs from the transaction price, if any, the difference is recognised immediately in profit or loss only if the fair value is evidenced by a quoted price in an active market or is based on a valuation technique that uses only data from observable markets.

Assets classified as held for sale

An asset is classified as held for sale if its carrying amount will be recovered by sale, it is available for immediate sale in its present condition and management has committed to, and has initiated, a plan to sell the asset which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are measured at the lower of their carrying amount when classified as held for sale and fair value less costs to sell.

Notes to the Company financial statements continued

2. Significant accounting policies continued

Income taxes

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period.

Deferred tax is 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.

Where there is uncertainty concerning the tax treatment of an item or a group of items, the amount of current and deferred tax recognised is based on management's expectation of the likely outcome of the examination of the uncertain tax treatment by the relevant tax authorities.

Current tax and deferred tax is recognised in profit or loss unless it relates to an item that is recognised in the same or a different period outside profit or loss, in which case the related tax is also recognised outside profit or loss, either in other comprehensive income or directly in equity.

Share-based compensation

The Company operates share-based compensation plans under which it grants options and other awards over its ordinary shares to employees of its subsidiaries. Awards granted under the existing plans are classified as equity-settled awards.

The Company recognises a compensation expense that is based on the fair value of the awards measured at the grant date using the Black-Scholes option pricing formula or a Monte Carlo valuation model.

Shares held by employee benefit trusts

The Company provides finance to two trusts to purchase the Company's ordinary shares in order to meet its obligations under its share-based compensation plans. 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.

During 2019, the Company had no employees (2018: none).

Advances are made by foreign subsidiaries to the Executive Director against foreign taxes arising as a result of business travel that are repaid as and when the relevant tax credits are received. Directors' remuneration and details of the advances made to the Executive Director are set out in the Directors' remuneration report on pages 92 to 106.

Fees payable to the Company's auditors, Deloitte LLP, are set out in note 8 to the consolidated financial statements.

4. Investments in subsidiaries

Movements in the carrying amount of subsidiaries owned directly by the Company were as follows:

	US$000
As at 31 December 2018	855,299
Additions	158,446
As at 31 December 2019	**1,013,745**

Details of the Company's subsidiaries as at 31 December 2019 are set out on page 197.

5. Other investments

Other investments were as follows:

	2019 US$000	2018 US$000
Equity investments:		
– Energous shares	**3,079**	10,073
Derivative financial instruments:		
– Energous warrants	**31**	1,465
Total other investments	**3,110**	11,538

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 were exercisable in full or in part on a cashless basis at any time between May 2017 and November 2019. The Company initially recognised the warrants at their grant date fair value of US$4,695 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 2019, the Company recognised a fair value loss on the shares of US$6,994 (2018: loss of US$23,764) in other comprehensive income and a fair value loss of US$1,434 (2018: loss of US$10,853) on the warrants in profit or loss. Also during 2019, the Company recognised a credit of US$1,584 (2018: credit of US$1,584) in profit or loss on the amortisation of the fair value on initial recognition of the second tranche of the warrants.

6. Assets classified as held for sale

Investment in subsidiary

On 11 October 2018, the Company entered into an asset transfer agreement into with Apple Inc. ("Apple"), pursuant to which it will sell to Apple its shareholding in its wholly-owned subsidiary, Dialog Semiconductor (Italy) S.R.L. At that time, the Company reclassified its investment as an asset held for sale at its carrying amount of US$13. On completion of the sale in April 2019, the Company received proceeds of US$4,250 and recognised a gain of US$4,237 in profit or loss.

Investment in associate

On 7 December 2018, the Company entered into an agreement to dispose of its 38.7% ownership interest in Dyna Image Corporation ("Dyna Image") for which it expected to receive consideration of between US$1.9 million and US$4.2 million. On entering into the sale agreement, the carrying amount of the investment was remeasured with the effect that US$1,052 of the impairment loss recognised on the investment in previous years was reversed as a credit to profit or loss and the Company reclassified its investment in Dyna Image as an asset held for sale at its carrying amount of US$1,931.

We obtained the necessary regulatory approvals but the purchaser was unable to complete the transaction and the sale agreement was terminated on 2 September 2019. The Company immediately entered into a new agreement to sell its shareholding to another purchaser for a nominal amount. As a result, the carrying amount of the investment was written off and an impairment loss of US$1,931 was recognised in profit or loss. The sale of the Company's shareholding in Dyna Image was completed in November 2019.

7. Income tax

As at 31 December 2019, there was current tax receivable of US$537 (2018: US$612) representing tax overpaid.

As at 31 December 2019 and 2018, no deferred tax assets were recognised. Deferred tax assets were not recognised for tax loss carryforwards of US$9,533 (2018: US$10,016) and deductible temporary differences of US$nil (2018: US$53) because it is not considered probable that taxable profits will be available in the future against which they can be utilised.

Notes to the Company financial statements continued

8. Share capital and reserves

a) Share capital and share premium account

Details of the Company's share capital are set out in note 28 to the consolidated financial statements.

The share premium account represents the difference between the nominal value of shares issued and the fair value of the consideration received. The share premium account is not distributable but may be used for certain purposes specified by United Kingdom law, including to write off expenses on any issue of shares and to pay up fully paid bonus shares.

b) Other reserves

Movements on other reserves were as follows:

	Capital redemption reserve US$000	Fair value reserve US$000	Treasury shares US$000	Total US$000
As at 31 December 2017	571	7,822	–	8,393
Other comprehensive income/(expense):				
– Fair value loss on available-for-sale investments	–	(23,764)	–	(23,764)
– Income tax expense	–	1,015	–	1,015
As at 31 December 2018	571	(14,927)	–	(14,356)
Other comprehensive income/(expense):				
– Fair value loss on equity investments	**–**	**(6,994)**	**–**	**(6,994)**
Other changes in equity:				
– Purchase of own shares into treasury	**–**	**–**	**(251,787)**	**(251,787)**
As at 31 December 2019	**571**	**(21,921)**	**(251,787)**	**(273,137)**

Treasury shares are shares purchased under the Company's share buyback programme that have not been cancelled. Details of purchases made under the Company's share buyback programme are set out in note 29 to the consolidated financial statements.

The capital redemption reserve represents the nominal value of treasury shares that were cancelled in previous periods and is non-distributable.

The fair value reserve comprises gains and losses recognised on equity investments that are measured at fair value through other comprehensive income.

c) Distributable profits

Profits available for distribution by the Company comprise its accumulated realised profits less its accumulated realised losses, subject to the restriction that a distribution may not reduce the Company's net assets below the aggregate of its called up share capital and its undistributable reserves.

The Directors consider that the Company's distributable profits as at 31 December 2019 amounted to US$504,793 (2018: US$670,430).

d) Dialog shares held by employee benefit trusts

The Company provides finance to two trusts to purchase its ordinary shares in order to meet its obligations under its share-based compensation plans. As at 31 December 2019, the trusts held 804,712 ordinary shares (2018: 2,607,259 ordinary shares). An analysis of movements in the number of shares held by the trusts is presented in note 31 to the consolidated financial statements.

9. Share-based compensation

A description of the share-based compensation plans operated by the Company, together with information about share options exercised and outstanding is presented in note 31 to the consolidated financial statements.

10. Guarantees

As described in note 3 to the consolidated financial statements, Apple made an interest-free prepayment of US$300,000 to Dialog following completion of the licensing and asset transfer agreement between us. The Company and certain of its subsidiaries have jointly and severally guaranteed the reducing letter of credit that was put in place in favour of Apple in relation to the outstanding principal amount of the prepayment. As at 31 December 2019, the amount available to be drawn under the letter of credit was US$250,000 and was reduced to US$200,000 following the scheduled quarterly recoupment of the prepayment in January 2020.

General guarantees have been issued by the Company under Article 403, Book 2 of the Dutch Civil Code in respect of its Dutch subsidiaries, in order that they do not have to file annual accounts in the Netherlands.

Financial performance measures

Use of non-IFRS measures

We use a number of measures to assess our financial performance, to ensure our performance is aligned to strategy and continued alignment with shareholders' interests. We consider certain of these measures to be particularly important and identify them as "key performance indicators" ("KPIs"). We have identified the following financial measures as KPIs: revenue growth; gross margin, operating expenses as a percentage of revenue; operating margin; diluted EPS and free cash flow. We monitor the profit or loss 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 Dialog 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 from one period to another, with each other or with other similar businesses.

Underlying measures of performance exclude items that can have a significant effect on the Group's profit or loss. We compensate for these limitations by monitoring separately the items that are excluded from the equivalent IFRS measures in calculating the underlying measures.

We outline below the specific items of income and expense that are recognised in profit or loss in accordance with IFRS but are excluded from our underlying results.

Licence and asset transfers to Apple

We excluded from our underlying results the following discrete benefits that were recognised on completion of the licensing and asset transfer agreement with Apple in April 2019:

– the revenue attributed to the perpetual licence over our existing Power Management IP; and
– the gain on the transfer of design centre businesses.

Share-based compensation and related expenses

We exclude the share-based compensation expense recognised in relation to options and other awards granted under the Company's share-based compensation plans because the awards are equity-settled and their effect on shareholders' returns is already reflected in diluted earnings per share measures. In 2019, we also excluded discrete compensation payments to certain US persons following the modification of options awarded to them. We additionally exclude the effect on profit or loss of changes in the accrual for payroll taxes payable on the exercise or vesting of such awards because the accrual fluctuates with the Company's share price and the effect on profit or loss is therefore not necessarily indicative of our trading performance.

Business combinations

We exclude those effects of applying the acquisition method of accounting under IFRS that we consider are not indicative of the Group's trading performance, including the accounting for transaction costs; the fair value adjustment to inventories of acquired businesses; the recognition of certain elements of the purchase price as compensation expense; and the recognition of remeasurements of contingent consideration in profit or loss.

During the periods under review, we excluded from our underlying results the following items in relation to the accounting for business combinations:

– acquisition-related costs;
– the recognition in cost of sales of the consumption of the fair value uplift to inventory held by the acquired businesses at the acquisition date;
– the element of deferred amounts payable for Silego that is recognised as compensation expense;
– credits recognised on the forfeiture of deferred consideration payable for Silego;
– the effect of changes in estimates of contingent consideration; and
– the interest expense recognised on the unwinding of the discount on liabilities for contingent consideration.

We also exclude from our underlying results the amortisation of identifiable intangible assets that are recognised in business combinations in order that the performance of those businesses that we have acquired may be compared fairly with those businesses that we have developed on an organic basis.

Integration costs

We exclude the costs of integrating acquired businesses because we consider that they hinder the assessment of the financial performance of those businesses. In 2019, we excluded integration costs incurred in relation to FCI and Creative Chips. In 2018 and 2017, we excluded integration costs incurred in relation to Silego.

Financial performance measures continued

Underlying measures of performance continued

Corporate transaction costs

We exclude significant transaction costs and other discrete items recognised in relation to corporate transactions other than business combinations. In 2019 and 2018, we excluded transaction costs incurred in relation to the licensing and asset transfer agreement with Apple. In 2018, we also excluded the costs incurred in relation to the acquisition discussions that we held with Synaptics Incorporated.

Strategic investments

We exclude the effect on profit or loss of the measurement at fair value of our strategic investments (comprising the shares and the warrants that we hold in Energous, the call option that we held over the shares that we did not own in Dyna Image prior to its expiry in June 2018 and, until they were sold in May 2017, the shares that we held in Arctic Sand). We hold such instruments for strategic reasons linked to our commercial partnerships with the relevant companies. Since we do not hold these instruments for trading purposes, we exclude fluctuations in their fair values when assessing our trading performance.

In December 2017, we recognised impairment losses totalling US$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 were significant discrete items, we excluded them from our underlying results.

Effective interest on financial liabilities

We adjusted profit or loss to exclude the non-cash element of the interest expense recognised in relation to a patent licensing agreement that was accounted for as a hire purchase contract prior to its expiry during 2018. We considered that the cash interest payments were more indicative of the effect of this arrangement on shareholders' returns.

Income tax effect of underlying adjustments

We calculate the income tax effect of underlying adjustments by considering the specific tax treatment of each item and by applying the relevant statutory tax rate to those items that are taxable or deductible for tax purposes.

US tax reform

In December 2017, the US President signed into law significant reforms of the US tax system, including a reduction of the Federal corporate income tax rate from 35% to 21%. Our income tax expense for 2017 reflected a non-cash deferred tax credit of US$6,658 resulting from the remeasurement of US deferred tax balances at the lower tax rate. Since this was a discrete benefit, we excluded it from our underlying results.

Reconciliation of underlying measures to equivalent IFRS measures

Reconciliations of the underlying measures of performance to the equivalent IFRS measures for the years ended 31 December 2019, 2018 and 2017 are presented in the following tables:

Year ended 31 December 2019

US$000 unless stated otherwise	IFRS basis	Licence and asset transfers to Apple	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
Revenue	1,566,239	(145,750)	–	–	–	–	–	1,420,489
Cost of sales	(717,703)	–	2,213	1,749	–	–	–	(713,741)
Gross profit	**848,536**	**(145,750)**	**2,213**	**1,749**	**–**	**–**	**–**	**706,748**
Gross margin %	***54.2%***							***49.8%***
SG&A expenses	(194,538)	–	26,254	20,670	2,086	16,064	–	(129,464)
R&D expenses	(313,550)	–	26,189	10,571	348	–	–	(276,442)
Other operating income	39,405	(15,898)	–	–	–	–	–	23,507
Operating profit	**379,853**	**(161,648)**	**54,656**	**32,990**	**2,434**	**16,064**	**–**	**324,349**
Operating margin %	***24.3%***							***22.8%***
Net finance income	5,185	–	–	464	–	–	(150)	5,499
Profit before income taxes	**385,038**	**(161,648)**	**54,656**	**33,454**	**2,434**	**16,064**	**(150)**	**329,848**
Income tax expense	(83,586)	32,449	(7,937)	(4,998)	(175)	(1,213)	29	(65,431)
Net income	**301,452**	**(129,199)**	**46,719**	**28,456**	**2,259**	**14,851**	**(121)**	**264,417**
EBITDA	n/a							390,081
EBITDA margin %	***n/a***							***27.5%***

Reconciliation of underlying measures to equivalent IFRS measures continued

Year ended 31 December 2018

	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Corporate transaction costs	Effective interest	Strategic investments	Underlying basis
Revenue	1,442,138	–	–	–	–	–	–	1,442,138
Cost of sales	(751,070)	1,791	3,129	13	–	–	–	(746,137)
Gross profit	691,068	1,791	3,129	13	–	–	–	696,001
Gross margin %	*47.9%*							*48.3%*
SG&A expenses	(168,228)	17,163	14,757	2,524	11,346	–	–	(122,438)
R&D expenses	(326,309)	22,699	9,148	228	–	–	–	(294,234)
Other operating income	3,176	–	(877)	–	–	–	–	2,299
Operating profit	199,707	41,653	26,157	2,765	11,346	–	–	281,628
Operating margin %	*13.8%*							*19.5%*
Net finance (expense)/income	(3,514)	–	2,220	–	–	50	9,269	8,025
Profit before income taxes	196,193	41,653	28,377	2,765	11,346	50	9,269	289,653
Income tax expense	(55,281)	(2,108)	(3,448)	(555)	(1,024)	(9)	(746)	(63,171)
Profit after income taxes	140,912	39,545	24,929	2,210	10,322	41	8,523	226,482
Share of loss of associate	(1,113)	–	–	–	–	–	–	(1,113)
Net income	139,799	39,545	24,929	2,210	10,322	41	8,523	225,369
EBITDA	n/a							339,584
EBITDA margin %	*n/a*							*23.5%*

Year ended 31 December 2017

	IFRS basis	Share-based compensation and related expenses	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	(707,971)	1,219	2,306	–	–	–	–	(704,446)
Gross profit	644,870	1,219	2,306	–	–	–	–	648,395
Gross margin %	*47.7%*							*47.9%*
SG&A expenses	(145,262)	16,285	14,358	1,121	–	–	–	(113,498)
R&D expenses	(303,013)	17,994	8,050	1,184	–	–	–	(275,785)
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%*
Net 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%*

Financial performance measures continued

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	2019	2018	2017
Acquisition-related costs	**4,040**	–	4,539
Amortisation of acquired intangible assets	**26,112**	22,629	16,461
Consumption of the fair value uplift of acquired inventory	**1,750**	3,129	2,305
Consideration accounted for as compensation expense	**1,204**	1,481	1,409
Forfeiture of deferred consideration	**(116)**	(204)	–
Remeasurement of contingent consideration	**–**	(878)	–
Increase in operating profit	**32,990**	26,157	24,714
Unwinding of discount on contingent consideration	**464**	2,220	436
Increase in profit before income taxes	**33,454**	28,377	25,150
Income tax credit	**(4,998)**	(3,448)	(4,187)
Increase in net income	**28,456**	24,929	20,963

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 each period, the change in revenue was as follows:

	2019	2018	2017
IFRS measures			
Revenue in the period	**1,566,239**	1,442,138	1,352,841
Revenue in the comparative period	**1,442,138**	1,352,841	1,197,611
Increase in revenue	**8.6%**	6.6%	13.0%
Underlying measures			
Revenue in the period	**1,420,489**	1,442,138	1,352,841
Revenue in the comparative period	**1,442,138**	1,352,841	1,197,611
(Decrease)/increase in revenue	**(1.5)%**	6.6%	13.0%

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:

	2019	2018	2017
IFRS measures			
Revenue	**1,566,239**	1,442,138	1,352,841
Gross profit	**848,536**	691,068	644,870
Gross margin	**54.2%**	47.9%	47.7%
Underlying measures			
Revenue	**1,420,489**	1,442,138	1,352,841
Gross profit	**706,748**	696,001	648,395
Gross margin	**49.8%**	48.3%	47.9%

Explanation of financial performance measures continued

Operating expenses as a percentage of revenue

We monitor operating expenses as a percentage of revenue because we believe it provides a measure of our effort in innovation and the efficiency of our operating structure. Operating expenses comprise selling, general and administrative ("SG&A") expenses and research and development ("R&D") expenses. Operating expenses as a percentage of revenue determined in accordance with IFRS and on an underlying basis was as follows:

	2019	2018	2017
IFRS measures			
Revenue	**1,566,239**	1,442,138	1,352,841
Operating expenses	**(508,088)**	(494,537)	(448,275)
Operating expenses as a percentage of revenue	**32.4%**	34.3%	33.1%
Underlying measures			
Revenue	**1,420,489**	1,442,138	1,352,841
Operating expenses	**(405,906)**	(416,672)	(389,283)
Operating expenses as a percentage of revenue	**28.6%**	28.9%	28.8%

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:

	2019	2018	2017
IFRS measures			
Operating profit in the period	**379,853**	199,707	187,017
Operating profit in the comparative period	**199,707**	187,017	309,807
Increase/(decrease) in operating profit	**90.2%**	6.8%	(39.6)%
Underlying measures			
Operating profit in the period	**324,349**	281,628	259,458
Operating profit in the comparative period	**281,628**	259,458	221,010
Increase in operating profit	**15.2%**	8.5%	17.4%

Operating margin

Operating margin is operating profit or loss expressed as a percentage of revenue. We monitor operating margin because we believe it provides a measure of the overall profitability of our operations. Operating margin determined in accordance with IFRS and on an underlying basis was as follows:

	2019	2018	2017
IFRS measures			
Revenue	**1,566,239**	1,442,138	1,352,841
Operating profit	**379,853**	199,707	187,017
Operating profit margin	**24.3%**	13.8%	13.8%
Underlying measures			
Revenue	**1,420,489**	1,442,138	1,352,841
Operating profit	**324,349**	281,628	259,458
Operating profit margin	**22.8%**	19.5%	19.2%

Financial performance measures continued

Explanation of financial performance measures continued

Underlying EBITDA and EBITDA margin

Underlying EBITDA is a non-IFRS measure that we define as underlying net income before net finance expense, income tax expense and depreciation and amortisation expenses. Underlying EBITDA margin is a non-IFRS measure that represents underlying EBITDA expressed as a percentage of revenue. We present underlying EBITDA and underlying EBITDA margin because we believe these measures are useful to investors and other users of our financial information in evaluating the sensitivity of our underlying trading performance to changes in variable operating expenses. Underlying EBITDA may be reconciled to net income determined in accordance with IFRS as follows:

	2019	2018	2017
Net income	**301,452**	139,799	169,434
Net finance (income)/expense	**(5,185)**	3,514	(7,786)
Income tax expense	**83,586**	55,281	25,369
Depreciation expense	**39,611**	31,455	30,807
Amortisation expense	**52,233**	49,130	41,969
EBITDA	**471,697**	279,179	259,793
Licence and asset transfers to Apple	**(161,648)**	–	–
Share-based compensation and related expenses	**54,656**	41,653	35,498
Acquisition-related costs	**4,040**	–	4,539
Consumption of the fair value uplift of acquired inventory	**1,750**	3,129	2,305
Consideration accounted for as compensation expense	**1,204**	1,481	1,409
Forfeiture of deferred consideration	**(116)**	(204)	–
Remeasurement of contingent consideration	**–**	(878)	–
Corporate transaction costs	**16,064**	11,346	–
Integration costs	**2,434**	2,765	2,305
Share of loss of associate	**–**	1,113	–
Underlying EBITDA	**390,081**	339,584	315,773

Underlying EBITDA margin was as follows:

	2019	2018	2017
Underlying measures			
Revenue	**1,420,489**	1,442,138	1,352,841
EBITDA	**390,081**	339,584	315,773
EBITDA margin	**27.5%**	23.5%	23.3%

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:

	2019	2018	2017
IFRS measures			
Net income	**301,452**	139,799	169,434
Loss attributable to non-controlling interests	**–**	–	4,482
Earnings for calculating basic and diluted EPS	**301,452**	139,799	173,916
Underlying measures			
Net income	**264,417**	225,369	228,013
Loss attributable to non-controlling interests	**–**	–	1,425
Earnings for calculating basic and diluted EPS	**264,417**	225,369	229,438

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 11 to the consolidated financial statements.

Basic and diluted EPS on an IFRS basis and on an underlying basis were as follows:

US$	2019	2018	2017
IFRS earnings per share			
Basic	**4.19**	1.89	2.34
Diluted	**3.96**	1.80	2.21
Underlying earnings per share			
Basic	**3.68**	3.05	3.08
Diluted	**3.47**	2.90	2.92

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:

	2019	2018	2017
Cash flow from operating activities	**496,465**	288,649	284,722
Purchase of property, plant and equipment	**(12,129)**	(26,145)	(47,938)
Purchase of intangible assets	**(8,437)**	(6,197)	(6,196)
Payments for capitalised development costs	**(15,384)**	(24,771)	(20,988)
Capital element of lease payments	**(11,086)**	(1,651)	(4,283)
Free cash flow	**449,429**	229,885	205,317

Appendix

External review of reporting on sustainability

Verisk Maplecroft was commissioned by Dialog Semiconductor Plc ("Dialog Semiconductor") to help advance its sustainability reporting.

This included guidance with respect to reporting strategy, materiality, selected content and reporting best practice. This statement is made in our capacity as a service provider to Dialog Semiconductor on this assignment. Verisk Maplecroft did not verify the data contained in this annual report.

Approach

Verisk Maplecroft was involved in the following activities between mid- 2019 and early 2020:

- Review of reporting standards: Including the Global Reporting Initiative Standards ("GRI Standards"), the International Integrated Reporting ("IR") Framework and the Ten Principles of the United Nations Global Compact ("UNGC");
- Gap analysis: To identify and, where feasible, help address gaps in Dialog Semiconductor's existing reporting practices against the relevant reporting standards;
- Engagement: Including both remote and face-to-face engagement with Dialog Semiconductor managers as well as external stakeholders;
- Materiality process: Implementation, with Dialog Semiconductor, of an interim review of our materiality assessment which was aligned with the GRI Standards; and
- Performance enhancement: The outcomes from the above processes were used, where possible, to enhance Dialog Semiconductor's level of reporting and to support its closer alignment with the GRI Standards reporting requirements.

Sam Rogers and Sarah Sinjab

4 March 2020

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GRI Standards Material Topics

GRI Standard	Material	Sustainability Topic	Page
GRI 100 Series: General			
101: Foundation	Y*		28-31, 70-75, GRI table
102: General disclosures	Y*		Throughout the report
103: Management approach disclosures	Y*		Throughout the report
GRI 200 Series: Economic			
201: Economic performance	Y	Value generation and distribution	40-41, 54-55, 62-69, GRI table
202: Market presence			
203: Indirect economic impact	Y	Value generation and distribution	41
204: Procurement practices			
205: Anti-corruption	Y	Corruption/bribery	48-49, GRI table
206: Anti-competitive behaviour			
207: Tax	Y	Corporate governance and compliance Corruption/bribery	65-67, 71, 74, GRI table
GRI 300 Series: Environmental			
301: Materials		Product impacts Compliance with customer standards	
302: Energy			
303: Water and effluents			
304: Biodiversity			
305: Emissions			
306: Effluents and waste			
307: Environmental compliance	Y	Corporate governance and compliance Compliance with customer standards	38-39, 43, 44-47, GRI table
308: Supplier environmental assessment	Y	Corporate governance and compliance	44-47, GRI table

GRI Standard	Material	Sustainability Topic	Page
GRI 400 Series: Social			
401: Employment	Y	Recruitment of professionals and graduates Retention, morale and engagement	32-35. GRI table
402: Labor/management relations			
403: Occupational health and safety			
404: Training and education	Y	Retention, morale and engagement Employee development	32, 34, 40, GRI table
405: Diversity and equal opportunity	Y	Diversity and equality	34-35, 46, 48
406: Non discrimination	Y	Diversity and equality	34-35, 83
407: Freedom of association and collective bargaining	Y	Labour rights and human rights (supply chain)	34-35, 46, GRI table
408: Child labour	Y	Labour rights and human rights (supply chain)	46, GRI table
409: Forced or compulsory labour	Y	Labour rights and human rights (supply chain)	46, GRI table
410: Security practices			
411: Rights of indigenous peoples			
412: Human rights assessment	Y	Corporate governance and compliance Labour rights and human rights (supply chain)	44–48, GRI table
413: Local communities			
414: Supplier social assessment	Y	Corporate governance and compliance	44–47, GRI table
415: Public policy			
416: Customer health and safety	Y	Corporate governance and compliance	36-37, GRI table
417: Marketing and labelling	Y	Corporate governance and compliance	36-37, GRI table
418: Customer privacy	Y	Corporate governance and compliance	36-37, GRI table
419: Socioeconomic compliance	Y	Corporate governance and compliance	36-37, GRI table

* Applicable to the material topics identified by Dialog in 2019

UN Global Compact reference table

Category	Principle		Page
Human rights	1	Businesses should support and respect the protection of internationally proclaimed human rights	28, 30-31, 38-39, 42-43, 44-49, GRI table
Human rights	2	Businesses should make sure that they are not complicit in human rights abuses	28, 30-31, 38-39, 42-43, 44-49, GRI table
Labour	3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	28, 30-31, 38-39, 42-43, 44-49, GRI table
Labour	4	Businesses should uphold the elimination of all forms of forced and compulsory labour	28, 30-31, 32-35, 38-39, 42-43, 44-49, GRI table
Labour	5	Businesses should uphold the effective abolition of child labour	28, 30-31, 32-35, 38-39, 42-43, 44-49, GRI table
Labour	6	Businesses should uphold the elimination of discrimination in respect of employment and occupation	28, 30-31, 32-35, 38-39, 44-47, GRI table
Environment	7	Businesses should support a precautionary approach to environmental challenges	28, 30-31, 38-39, 40-47, GRI table
Environment	8	Businesses should undertake initiatives to promote greater environmental responsibility	07, 22, 24–27, 29-31, GRI table
Environment	9	Businesses should encourage the development and diffusion of environmentally friendly technologies	02-03, 10-11, 41-43, 56-61, GRI table
Anti-corruption	10	Businesses should work against corruption in all its forms, including extortion and bribery	28, 30-31, 38-39, 42-43, 44-49, GRI table

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.

ADAS Advanced driver-assistance systems.

AI Artificial intelligence.

Appcessories A physical device and counterpart application for a mobile device typically controlled via Bluetooth®.

AR Augmented reality.

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.

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.

CMOS Complementary Metal Oxide Semiconductor: the most popular class of semiconductor manufacturing technology.

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 hand-held 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.

SoC System on Chip An integrated circuit with all the necessary electronic circuits and parts for a given system.

Solid State Lighting A type of lighting in which light-emitting diodes ("LEDs") replaces conventional incandescent and fluorescent 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.

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.

VR Virtual reality.

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 Semiconductor, Dialog both used for convenience to refer to the Company and its subsidiaries, unless the context requires otherwise.

the DTRs the Disclosure & Transparency Rules of the UKLA.

EBIT Earnings before interest and taxes (also known as operating profit).

EBITDA Earnings before depreciation, amortisation, interest and taxes.

ESG Environmental Social and Governance.

the EU the European Union.

Euro (€) the common currency used in the majority of member countries of the EU.

the Frankfurt Stock Exchange the largest of the seven regional securities exchanges in Germany.

Free-float The proportion of an issuer's share capital that is available for purchase in the public equity markets by investors.

General and administrative expenses consist primarily of personnel costs (including share-based compensation) and costs for 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.

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Advisers and corporate information

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Shares

Information on the Company's shares and on significant shareholdings can be found on page 89.

Registered office

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Website: www.dialog-semiconductor.com

Registered number

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Annual General Meeting	30 April 2020
Q1 2020 Results	6 May 2020
Q2 2020 Results	5 August 2020
Q3 2020 Results	5 November 2020
Preliminary results for 2020	February 2021

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Related undertakings

The Company's related undertakings as at 31 December 2019 were as follows:

Name	Registered Address	Country
Creative Chips GmbH[1]	Im Bubenstück 1, 55411 Bingen-Büdesheim	Germany
Creative Chips Dresden GmbH[1]	Altstrehlen 4, 01219 Dresden	Germany
Dialog Argo Holdings, Inc.	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Dialog Integrated Circuits (Tianjin) Limited[1]	Rooms 2601-03, No. 2 Building, TEDA Service Outsourcing Industrial Park, No. 19 XinHuanxi West Road, TEDA, Tianjin, 300457	China
Dialog Semiconductor (Shenzhen) Limited[1]	25F, Lifetech Scientific Building, South 12 Road, Southern District in High tech Zone, Nan Shan District, Shenzhen, 518057	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
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Dialog Semiconductor Korea Inc (formerly FCI Inc.)	7F, Bld B, Silicon Park, 35, Pangyo-ro 255 beon-gil (Sampyeong-dong), Bundang-gi, Seongnam-si, Gyeonggi-do, 13486	Korea
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Dialog Semiconductor Trading (Shanghai) Limited[1]	Room 703, 7F Kehui Building, No.1188 North Quinzhou Road, Xuhui District, Shanghai 200231	China
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iWatt L.L.C.[1]	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
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1 Held indirectly.

All subsidiaries are wholly-owned.

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