dialog
SEMICONDUCTOR

Annual report and accounts | 2013

The power to be...

# ...personal
# ...portable
# ...connected

# Who we are

Dialog Semiconductor creates and markets highly integrated, mixed signal integrated circuits (ICs), optimised for personal portable, low energy short-range wireless, LED solid-state lighting and automotive applications. The Company provides customers with world-class innovation combined with flexible and dynamic support, and the assurance of dealing with an established business partner.

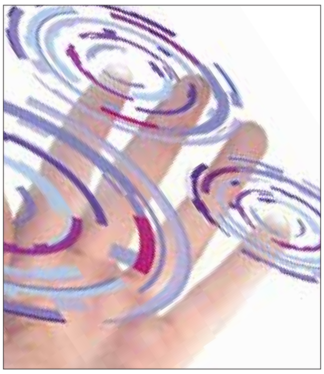
With a focus and expertise in energy-efficient system power management and a technology portfolio that also includes audio, short-range wireless, AC/DC power conversion and multi-touch, Dialog brings experience and leadership to the rapid development of integrated solutions for personal portable applications, including smartphones, tablets, Ultrabooks™ and digital cordless phones.

Dialog's processor companion chips increase the performance of portable devices by extending battery lifetime, enabling faster charging thus enhancing consumers' multimedia experience. With world-class manufacturing partners, Dialog operates a fabless business model.

Dialog Semiconductor Plc is headquartered in London with a global R&D, marketing and sales organisation. In 2013, we delivered US$903 million in revenue and continued to be one of the fastest growing European public semiconductor companies. We currently have around 1,100 employees worldwide.

The Company is listed on the Frankfurt (FWB: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index. It also has convertible bonds listed on the Euro MTF Market on the Luxemburg Stock Exchange (ISIN XS0757015606).

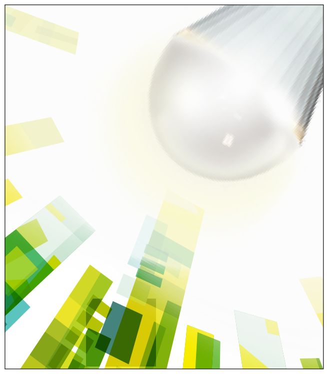
## Key products



**See our strategy in action:**
Feel the pressure…**16-17**

**See our strategy in action:**
Intelligent rapid charging…**18-19**

**See our strategy in action:**
Wear your life…**20-21**



**See our strategy in action:**
Lighting the way to successful acquisitions…**22-23**

# Performance highlights

## 2013 – Delivering on our objectives

During 2013, Dialog brought exciting innovation into the market and improved the underlying performance of its business. We laid the foundations for a more diversified business and made good progress on each of the four key strategic pillars.

### Four strategic pillars

Dialog's objective is to sustain and build on its position as a leading provider of highly integrated innovative power management, audio, AC/DC and short-range wireless technologies. Our approach to achieve this is based on four key strategic pillars which are set out below. During 2013, Dialog has made good progress on each of these pillars. Further details are set out under "Our Strategy in action" starting on page 17.

| Strategic pillar | Delivery in 2013 |
|---|---|
| Diversify product portfolio | Development of SmartWave™ Multi-Touch Integrated Circuit (MTIC™), the world's first chip to enable touch technology from FlatFrog in high volume consumer devices. A number of ODMs are currently evaluating product designs using this technology. |
| Extend global customer base | Increased our focus with Asia-based customers outside of our existing Tier 1 customers. The acquisition of iWatt Inc. in Q3 2013 brought in new customers such as Nokia, htc, Motorola, Osram, GE, Philips and IKEA. |
| Continuous innovation | Development of SmartBond™ – the world's lowest power and smallest Bluetooth® smart chip which more than doubles the battery life of an app-enabled smartphone accessory or computer peripheral in comparison to competing solutions on the market. It's designed to connect keyboards, mice and remote controls wirelessly to tablets, laptops or smart TVs and enables consumers to use innovative new apps on their smartphones and tablets – connected with watches, wristbands and smart tags. |
| Acquisition and strategic cooperation | Acquisition of iWatt Inc., a leading provider of digital power management integrated circuits (ICs). The acquisition enhances Dialog's leadership in power management for tablets and smartphones and diversifies Dialog's product portfolio, adding two high-growth product families: AC/DC charger adaptor ICs and a broad range of LED solid-state lighting ICs. |

### Key financial metrics

Dialog is a growth business and has a track record of delivering profitable growth which, in turn, is the basis of value creation for our Shareholders. In 2013, Dialog has delivered against all of the key performance measures for the business. To provide a more accurate reflection of business performance in 2013, measurement is on an underlying basis, eliminating the impact from accounting adjustments including those arising from the acquisition of iWatt in July 2013. Full reconciliation table is included in the Financial Review on page 33.

+18%
**Revenue growth***
(2012: US$774m)

40.4%
**Gross margin***
(2012: 38.0%)

+30%
**EBIT growth***
(2012: US$107.5m)

US$1.49
**Basic EPS***
(2012: US$1.24)

*Underlying

*Our performance against each of these key financial metrics, together with a range of other performance measures, is set out in greater detail under "Our performance in 2013" on page 24.*

# Chairman's statement

> The Company's revenue growth was exceptional, and underlying profit improvement was similarly impressive.

**Rich Beyer**, Chairman

This is my first letter to Shareholders following my appointment as Chairman in July 2013. I am pleased to note that 2013 was a year that continued Dialog's record of performance significantly ahead of the performance of our industry. The Company's revenue growth was exceptional, and underlying profit improvement was similarly impressive. We grew our underlying revenues by 18% while the semiconductor industry grew less than 5%.

The Dialog team's execution on its strategic initiatives in 2013 again demonstrated the high degree of talent and commitment of the management team and the entire body of Dialog employees. The high level of focus and the consistent execution are apparent in the results we achieved in the four pillars of our strategy:

- Diversification of our product portfolio
- Extension of our global customer base
- Continuous innovation
- Acquisition and strategic cooperation

This year's annual report has evolved in line with the changing disclosure regulations.

These updated requirements involve ensuring that annual reports provide the information necessary for Shareholders to assess the Company's performance, business model and strategy. In line with good corporate governance standards we have ensured that the annual report is "fair, balanced and understandable".

Dialog has consistently strived to ensure our annual reports communicate our performance and prospects clearly and comprehensively to our Shareholders. To further assist our Shareholders in this annual report, we have created a slightly different structure and have provided additional detail and disclosure.

I would like to record our appreciation to Greg Reyes who retired as Chairman during 2013 and who will retire as a Director at the 2014 AGM. He joined the Board in 2003 and has led the Board as Chairman of Dialog since 2006. The Company has delivered exceptional performance and significant value for Shareholders under his stewardship.

In conclusion, the Board of Dialog is pleased with the Company's performance in 2013 and is excited about its prospects in 2014 and beyond. We thank you for your continued support.

**Rich Beyer**
Chairman

# Chief Executive's review

> In 2013, Dialog delivered year-on-year underlying revenue growth of 18%, continuing a consecutive seven year track record of profitable growth.

**Jalal Bagherli**, CEO

## Dear Shareholders

During 2013, we made good progress on the key pillars of our strategy and laid the foundations for a more diversified business which we believe will deliver superior returns for our shareholders over the medium term. Customer concentration is a feature of our business operation and we recognise that extending our customer base is an important strategic goal (see our customers section on page 27 and additional disclosures in note 24).

In 2013, Dialog delivered year-on-year underlying revenue growth of 18%, continuing a consecutive seven-year track record of profitable growth. This comfortably outpaced the semiconductor industry, which achieved 4.5% revenue growth in 2013 according to Gartner. Over the medium term we believe we have the opportunity to continue to exceed the performance of the industry.

The Company has been generating positive EBIT and net income in each and every quarter since Q4 2007, an achievement we are very proud to maintain.

This growth is a result of focused execution on development and delivery of competitive and differentiated products and positioning the Company in the high volume and high-growth personal mobile and connected devices markets.

## Market trends

A number of trends developed in our markets in 2013:

- The pace of new product introductions for mobile and consumer markets continued to shift towards the second half of the year, relative to prior years, resulting in more pronounced second half weighted revenue. This trend is only partially moderated by the growing influence of the Chinese New Year in the first quarter of the year.

- While the mid to high-end smartphone market is maturing, particularly in the western world, the low-end smartphone continues to be a significant opportunity for growth, driven mainly out of Asia and emerging markets. We believe in the mid term, this market will rapidly shift towards the mid range as feature differentiation and rising incomes continue apace providing expected market segmentations.

- The tablet market continues to grow at the expense of the traditional PC and notebook segment with the Ultrabook™ and "all-in-one" PC categories being the only sub-segments of growth. The low- to mid-end of the tablet market is driven by a highly fragmented set of low cost android based providers vying to grow their niche offerings. Dialog is well positioned for mid- to high-end markets through custom solutions and we start to address the low- to mid-end through standard products as part of partners' offerings in Asia.

- The "Internet of my Things" as manifested in wearable computing products is upon us. Smartphones have become a ubiquitous part of our life and we have a huge amount of processing power in our hands with low power and easy connectivity to control and monitor our personal environments. This is a market in which Dialog can bring multiple technologies to bear.

## Diversification through R&D innovation, partnerships and acquisitions

We have actively invested management time and resources in our diversification strategies, in our quest to build a balanced and diverse portfolio of mixed signal products and technologies that will carry Dialog's momentum successfully for the next five to ten years. During 2013 we sustained our R&D investment in order to underpin our future revenue growth. As a result of these investments, we brought a number of exciting innovations into the market.

### Low Energy Bluetooth (LE BT)

Our short-range connectivity expertise from the 2011 SiTel BV acquisition yielded the world's lowest power and smallest Bluetooth smart system-on-chip; the cornerstone of Dialog's entry into the wearable computing market. Dialog's low energy SmartBond™ delivers the smallest form factor and doubles the battery life of Bluetooth low energy smartphone and tablet accessories and peripherals compared to the nearest competing solution. Low energy Bluetooth is the wireless standard of choice to extend battery life when connecting wearable peripherals such as watches, wristbands and smart tags to smartphones, tablets and other personal internet hubs. The applications for this technology include tracking everything from vital signs and fitness levels to lost keys and more.

### High voltage and high current Power Management sub-PMICs

These products target the specific requirements of future mobile platforms. As the integration of multi-core processors, LTE modems and larger screen sizes become prevalent in smartphones and tablets, the requirements for dealing with peak currents and higher voltages for multi-cell batteries create the need for new generations of sub-PMICs to work alongside the main system PMIC and enable these functionalities.

We continued to extend our innovation through collaborations with partners. These included:

- Partnership with Intel to provide highly integrated PMIC solution for Intel's Bay Trail processor, targeting Windows 8 and android Ultrabooks™ and tablets. We have sampled our product **DA6021**, to the first customers and anticipate adoption sometime in 2014.
- Collaboration with FlatFrog, an innovative start-up in Sweden, that enabled our entry into **multi-touch controllers** for all-in-one PCs and Ultrabooks™ in the future. Dialog's **DA8901** allows FlatFrog's Planar Scatter Detection touch technology to detect and track multiple touches, gestures and pressures from gloved hands, stylus and other objects. It provides a more natural true-touch user experience at performance levels, surpassing the latest capacitance-based solutions at a fraction of the cost.
- Relationship with Arctic Sand, a start-up in Massachusetts, USA that has specific technology which we are employing to achieve industry-leading high conversion efficiency in power management products for specific applications such as **multi-cell battery chargers**.

Asia has been a geographic focus as we have engaged a number of existing and new Tier 1 customers with our product lines. For example, we announced further smartphone platform wins with Samsung through the year with strengthening business relationship and revenue contributions expected in 2014.

We also announced the first of the partnerships we envisage with multiple semiconductor vendors located in Asia to benefit from their local strength of market knowledge. Our collaboration with Richtek in Taiwan specifically opens entry into a highly fragmented market in mainland China for our power management products for tablets. We expect the Chinese market to be a growth area for Dialog going forward.

## Acquisition of iWatt

After extensive evaluation of available targets for acquisition, we acquired California headquartered iWatt in July 2013. This was a successful start-up company with many patented technologies in digital power management and control for the power conversion market and material revenue with major customers around the world.

iWatt brings to Dialog two new product lines based on power conversion technology, both with very large market TAMs. The first is a range of AC/DC wall chargers and adapters that are used for all mobile products such as smartphones and tablets, as well as home appliances and industrial and communications space. The second product line is LED drivers for solid-state lighting products a high-growth segment for the semiconductor industry, fuelled in part by stringent governmental regulations throughout the world to phase out incandescent lighting in favour of more energy-efficient LED lighting alternatives.

We believe with Dialog resources behind this company (now our Power Conversion Business Group) we will benefit from many growth synergies in our products and customer base. For example in the mobile market, the capability to own the AC/DC charger technology as well as the PMIC inside a phone allows us to create new end-to-end solutions for fast charging of smartphones and tablets. These solutions will bring a tangible consumer benefit and one that many Tier 1 mobile customers are working to bring to market. Another example is the combination of short-range wireless capability with solid-state lighting, the ability to control from a smartphone the operation and dimming of LED lights, again bringing unique benefits from one company in this field.

With the acquisition of iWatt our mobile customer list has been significantly expanded with both Tier 1 and Tier 2 accounts and now includes Nokia, Motorola, Lenovo and htc, opening the door to promote products from the broader Dialog portfolio to a wider customer base.

## Around the Company

We have grown the Company to over 1,100 employees to date through our talent acquisition programmes as well as 185 employees who joined us through the iWatt acquisition. We expect to continue to grow our employee numbers during 2014, recruiting globally. During 2013, we opened two new design centres in Livorno (northern Italy) and Istanbul to help further build our technical base for the future. Dialog as a whole while growing and retaining a strong European presence, has now a much broader base in Greater China (five locations), Hong Kong, Taiwan, Korea and Japan, as well as North America.

We are truly proud of our achievements and delivered an exceptional set of financial results. In addition to the record revenue in 2013, we delivered on our promises of underlying gross margin improvement (+2.4 percentage points above 2012) and underlying operating profit improvement (+1.5 percentage points above 2012).

The major achievements highlighted here are a subset of what the Company has accomplished in the past 12 months. These achievements are largely due to our talented employees, and I wish to thank them sincerely for their dedicated efforts in 2013.

With the wealth of technologies created, strong talent pipeline, secular mobile trends and lighting market demand ahead, we consider our growth prospects to be very strong and we have now many more business opportunities ahead. Our ambitions remain to continue with our above-industry average track record, delivering increasing profitability and stable cash flow, and build a truly vibrant, global and diverse mixed signal business.

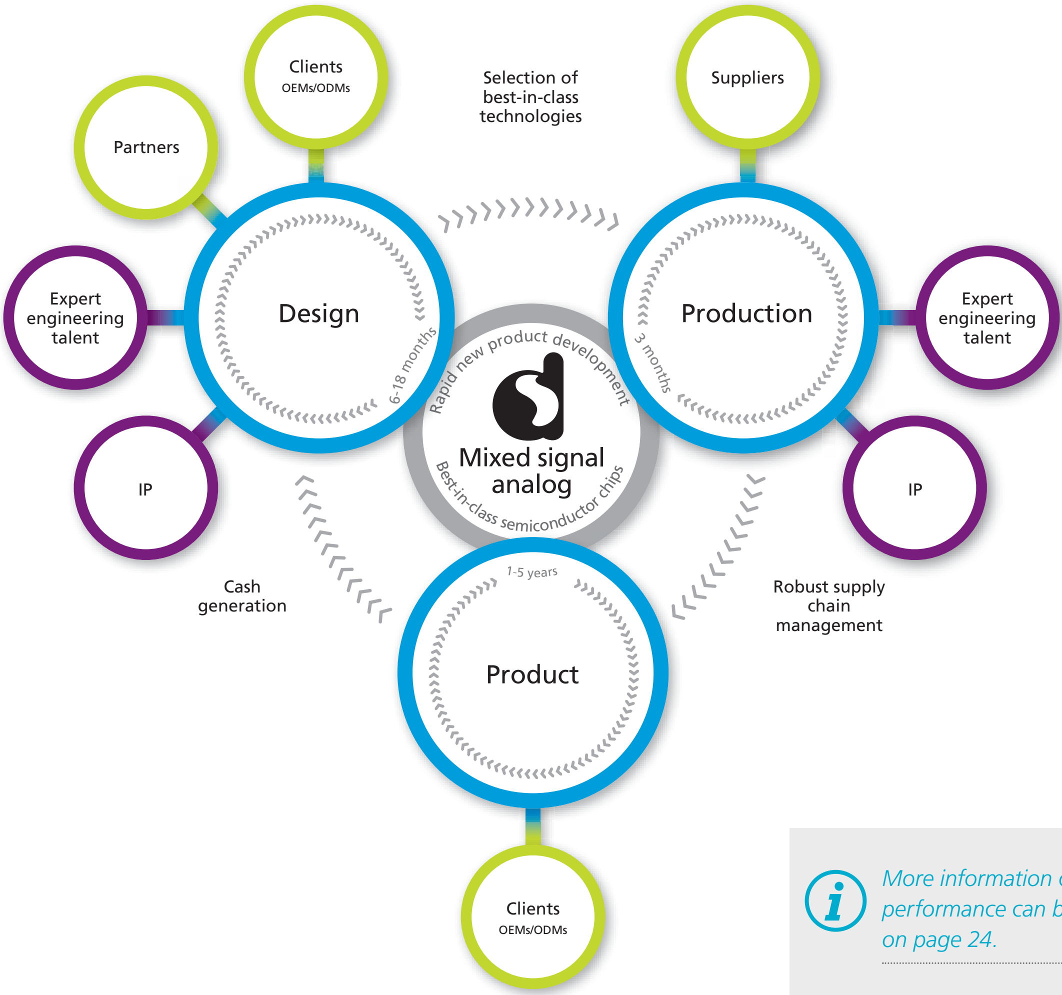
**Jalal Bagherli**
CEO

# Introduction

The 2013 Dialog annual report differs in structure from prior years. It is required that the report include a “Strategic Report” that provides a fair review of the Company’s business performance in the period in review; progress against key financial and non-financial performance indicators; and sets out details of the principal risks and uncertainties facing the business.

This report sets out on the following pages information that is intended to convey the Dialog business model and strategy, delivery on the Company’s strategy during 2013 and the prospects for the business in the year ahead. It also sets out Dialog’s commitment to corporate responsibility and sustainable business practices; and the principal risks and uncertainties facing the business.

# The Dialog business model




More information on our performance can be found on page 24.

Dialog's focus and expertise is in analog mixed signal semiconductors for personal and portable devices and applications in the fastest growing consumer product markets. We seek to bring best-in-class power management and power efficiency technologies to sustain and build on our position as a leading provider of highly integrated innovative power management, audio, display, AC/DC and short-range wireless technologies. We design and produce power-efficient semiconductor chips for a range of personal portable devices and applications in the consumer products market as well as applications for the automotive and industrial markets.

Innovation is at the core of our business model and our highly skilled engineers, their know-how and our intellectual property (IP) are our key assets. We have implemented a "high-touch" fabless model – meaning we have outsourced the vast majority of production – which allows us to remain flexible and low capital-intensive while retaining some core manufacturing and packaging competencies in-house. Our customers include some of the most important companies in the consumer electronics industry.

Our business model is aligned with the requirements of our customers in the consumer markets we operate in. We procure the rapid development of highly integrated semiconductors and use best-in-class manufacturing and packaging technologies to deliver steep production ramps of new products.

**Our business model has three dimensions:**

1 Design and innovation
2 Production partnerships
3 Product leadership

# The Dialog business model continued

### 1. Design and innovation

The level of innovation that we bring into the design of a chip requires a substantial investment in R&D. Our core technical competencies are in mixed signal analog technologies applied to the design of power management and power-efficient semiconductors. Our partnership approach, operational flexibility and the quality of our products are key sources of value to our customers.

For our customers, and in particular those in the consumer devices market, product development times are short due to rapidly evolving consumer requirements and competition in this vibrant market. Dialog has decades of experience in the rapid development of integrated circuits (ICs) over which time we have amassed significant IP.

The design of our customised solutions (ASICs) is well embedded in our customers' design cycle. We engage with our largest customers as an "extended R&D team", delivering differentiation with the speed of execution of a start-up company.

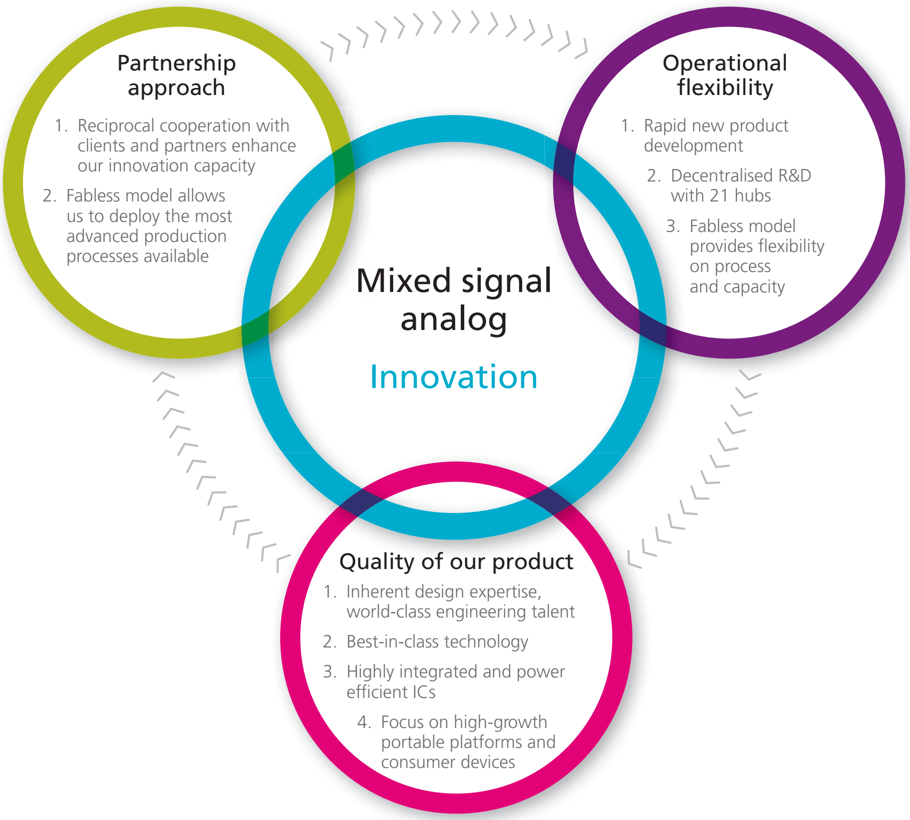
In addition to reduced design times, our integrated design approach helps to reduce component size and number which, in turn, helps our customers to reduce the overall cost of their products while ensuring maximum performance capability.

We are continually investing in our human capital, recruiting the best talent we can and supporting their development in order to maintain innovation and produce best-in-class solutions. We have a decentralised approach to research and development with teams in 14 countries. In a highly competitive talent market we believe this flexible approach is advantageous, allowing us to recruit talent from where it resides.

Dialog has one of the biggest R&D engineering teams in the world, focused on power management and mixed signal know-how for mobile and connected consumer applications. The size and focus of our engineering talent, we believe, has become a "deep moat" advantage against our competitors.

*More information on our people can be found on page 13.*

**Value creation model**



### 2. Production partnerships

While we design and manage the production of each semiconductor chip in-house, we outsource its production to the most suitable foundry partner. This "high-touch" fabless model provides us with the flexibility to deploy the most advanced production processes and meet market demand while keeping our fixed asset costs low and maintaining deep expertise on advanced processes, test and packaging development through our own teams. These areas of expertise are fundamental to remaining ahead of our competitors and supporting our customers' development of products which are thin and light – features highly valued by consumers in portable devices.

Our foundry and packaging partners are the leading companies in their field and, over time, we have developed a strong collaboration with them. Some of our teams are based at manufacturing sites, enabling a continuous quality improvement process that helps us achieve better manufacturing yields and reduce quality impairment issues.

Dialog has developed a robust supply chain management approach which seeks to ensure the delivery of a steep ramp of new products to our customers. This is particularly well suited to meet the requirement of high-volume product launches in consumer electronics, particularly for those of our clients that launch several products simultaneously and on a global scale.

### 3. Product leadership

Our customers include the leading brands in each of our markets who are attracted by the quality and performance of our products – evidenced by our inherent design expertise, leading technology and ability to innovate – and our focus on high-growth portable platforms and consumer devices. A business model based on high Tier 1 client penetration results in high volumes, and a strong cash generation capability. Examples of a range of market-leading innovative products, launched in 2013, are set out in the section on Our Strategy on page 14.

### Sustainability supports our growth objectives

Dialog's focus and expertise in power management and power efficiency semiconductors contribute to enhanced power efficiency and lower power consumption for a range of personal portable devices and applications in the consumer products market.

Corporate responsibility and a commitment to sustainable business practices are important to the Dialog business model and a component of Dialog's strategy to deliver long-term profitable growth. Our commitment to environmentally oriented, sustainable business practices is evidenced in our commitment to continue to reduce $CO_2$ emissions and minimise the carbon footprint of our business. We achieved a reduction of $CO_2$ emissions of 40% in our main design centres in 2013, which equates to $CO_2$ emissions of 618 tonnes following a 34% reduction in 2012.

In addition to a commitment to environmentally oriented business practices, a key aspect of corporate responsibility is a commitment to good corporate governance; a responsibility towards the care and development of the Company's employees; and in particular a focus on fostering diversity across the organisation. Dialog's commitment to sustainability and diversity is outlined in greater detail on page 40 and also within the Company's annual sustainability report, which is available on the corporate website. Details of Dialog's Corporate Governance policies and practice are also set out on pages 55 to 64 of this document.

### Aligned interests

Dialog is committed to the continuing development of market-leading innovative products which we believe in turn create value for our Shareholders. We achieve this by setting stretching performance targets, which align with Shareholders' interests and then motivating our executives to achieve those targets with appropriate incentive arrangements. Dialog's remuneration policy is set out in greater detail within the Directors' remuneration policy report on page 65.

> "Dialog has one of the biggest R&D engineering teams in the world, focused on power management and mixed signal know-how for mobile and connected consumer applications."

# Our marketplace

Worldwide demand for power is expected to continue to grow fast. The World Energy Outlook 2012 and Electricity Information 2012 reports from the OECD's International Energy Agency (IEA) estimate that from 2000 to 2010 total world primary energy demand grew by 26%, and to 2020 it is projected to grow by 20%. Under current policies, growth from 2012 to 2035 is forecast at 47%.

Regulatory bodies such as the EPA, and the International Energy Agency have launched a number of initiatives to encourage more efficient consumption of energy. In this context, consumer demand for better power management and more power-efficient products is expected to continue to rise.

Dialog Semiconductor's primary focus is in consumer electronics, particularly in mobile and portable applications. We have been at the centre of the mobile computing revolution, constantly supporting a better consumer experience by enabling our customers to produce lighter and thinner portable applications with better power efficiency and a longer battery life. In the period 2012 to 2015, units of smartphones and tablets are estimated to grow to 26% CAGR and 41% CAGR respectively. The introduction of more powerful telecommunications networks like 4G, the emergence of the low-end smartphone and rapid adoption of tablets are the key enablers of such a strong level of growth. Smartphones and tablets have now become a ubiquitous part of our life, allowing us to stay connected on the go and enjoy a huge amount of processing power in the palm of our hands.

Bluetooth and Bluetooth Smart are now provided as a standard technology in smartphones and tablets. Bluetooth Smart (low energy Bluetooth) was specifically developed to target low bit-rate, low power, battery-operated wireless devices, which makes it a prime candidate for personal connectivity. From a customer perspective, personal connectivity devices will have to fulfil three major criteria. First, these devices will have to virtually "last forever", requiring a long battery life. Time and again consumer studies have shown that battery life is the leading dissatisfaction source for users of battery-operated portable products. Second, these devices will have to be unobtrusive and consumers will be looking at devices they can enjoy wearing or even forget they are wearing until they need them. Third, consumers will want the products to be simple to use. New types of applications in a wide range of industries are making their way into the market and we are witnessing the beginning of exciting new areas such as wearable computing.

The influence of consumer electronics in the development of the traditional computing products is pervasive. The market continues to evolve towards a convergence of features between the next generation of computing devices such as all-in-one PCs, hybrids and Ultrabooks™ and consumer electronics. One particular example of this influence is the increasing presence of multi-touch screens into next generation computing devices. In 2013, we launched our first multi-touch semiconductor (IC), SmartWave™ enabling a new touch screen technology developed by FlatFrog, a Swedish start-up backed up by Intel capital targeting high-volume consumer devices.

Consumers' appetite for more power-efficient platforms of communication remains very strong. The processing power of the latest devices available in the market is steadily increasing and consumers want to use it while consuming minimum power. Dialog is well positioned to enable this. Our core technical expertise in mixed signal analog, power management and power efficiency integrated circuits (ICs) will continue to play a vital role in all our markets and will continue to enable consumers to make the most out of the processing power available in the palm of their hands.

In 2013, with the acquisition of iWatt Inc. a leading provider of digital-centric power management integrated circuits (ICs), we gained access to two new markets:

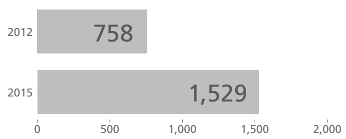
- LED solid-state lighting ("SSL"): this refers to a type of lighting that uses semiconductor light emitting diodes (LED). Adoption has increased due to regulatory mandates and incentives and reduced costs from improvements in technology and manufacturing yields. According to McKinsey, total LED SSL shipments are expected to grow from 272 million units in 2011 to 1.9 billion units in 2015. LED SSL has many advantages over competing light sources, including low energy consumption, longer lifetime and minimal environmental impact. Challenges associated with LED adoption, such as flicker and compatibility with the installed base of existing fixtures and dimmers, demand high-performance solutions with smaller form factors.

- AC/DC power conversion: The vast majority of the world's electronic devices that plug into an electric wall outlet require the conversion of high voltage AC power to low voltage DC. Robust growth in portable device markets including smartphones, tablets and Ultrabooks™ is driving the increased need for a new generation of intelligent AC/DC chargers that will be more power efficient, enable a quicker charge time and be available in a smaller form factor.

Governments across the world are focused on improving energy efficiency by implementing policies and subsidies to accelerate the transition to more efficient forms of lighting, including LEDs, by requiring the elimination of incandescent bulbs within specified time frames.


**Product/device | Million units | Market trends**

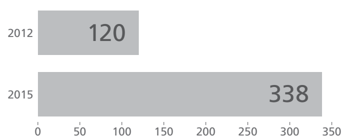
### Mobiles




Source: Dialog-Gartner September 2013

- Multicore and LTE platforms
- Emergence of low-end smartphone
  – 26% CAGR 2012-2015

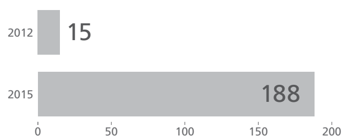
### Tablets




Source: Dialog-Gartner September 2013

- Rapid adoption of tables
  – 41% CAGR 2012-2015

### Notebooks



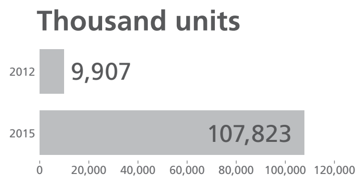

Source: Dialog-Gartner September 2013

- The Ultrabook™ opportunity
  – 132% CAGR 2012-2015
  – 40% of notebook market by 2015

# Our marketplace continued

**350m+ Bluetooth smart ICs to ship by end of 2016 (IHS Inc. forecast, 2013)**

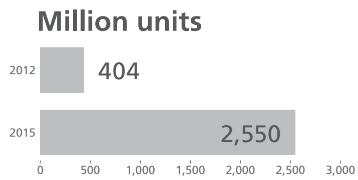

## Bluetooth smart ICs to ship




Source: Dialog-Gartner September 2013

Including PC peripherals, home entertainment, sports and fitness, proximity sensors, watches, health and wellness and other.

## LED SSL drivers




Source: Dialog-Gartner September 2013

Demand for greater performance, increased power efficiency and reduced size in all of the markets we serve, positions Dialog for continued growth. We provide our customers with solutions that help to maximise the performance of their products while also minimising weight and size. Through our recently acquired iWatt business, we can now also capitalise on the transition to more efficient forms of lighting and the progressive use of LEDs over less efficient, less durable lighting products.

# Our people

## Our people are at the centre of our success

Innovation is at the core of our business and attracting, developing and motivating our talented people is fundamental to underpinning our creative and innovative capability. Dialog is committed to sustaining and promoting a positive learning culture which supports the development of the individual and ensures that our teams perform at their best.

At the end of the year we employed 1,100 people worldwide; a 36% increase on the prior year. In July 2013, following the acquisition of iWatt Inc. we welcomed approximately 180 new people to Dialog. Excluding these, the number of our employees grew by 15%.

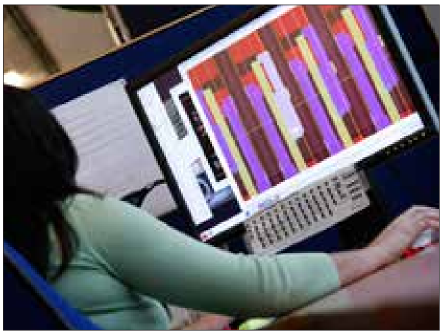
We now operate from 21 locations in 14 countries and our increasing global workforce has also become increasingly diverse – now incorporating 50 nationalities. Dialog takes equality and equal opportunity for all employees very seriously. We are committed to creating an inclusive working environment that attracts and retains the best talent and supports business growth. Women now comprise 15% of the overall workforce of 1,100 employees and the Company actively supports various initiatives in the areas of STEM (Science, Technology, Engineering and Mathematics) education.

There is currently no female representation on our Board or Senior Management team.

A high proportion of our people are engineers. As of 31 December 2013, 75% of our people were professional graduate engineers. Typically more than 50% of our engineers hold Masters or PhD degrees.

We continue to recruit globally for the most talented people, identify centres of engineering talent and build our business around them. In 2013, we increased our presence in Asia, expanded our newest design centres in Italy and Turkey.

Our people play an important role in the Company's governance and sustainability efforts and engage actively within the communities in which they work. Further details are set out on pages 40 to 43.



“More than 50% of our engineers hold Masters or PhD degrees.”

### Key demographic indicators

**1,100**[1]
**Number of employees**
(2012: 806)

**50**
**Number of nationalities**
(2012: 51)

**15%**[2]
**Women**
(2012: 15%)

**825**
**Engineers**
(2012: 606)

**5.2%**[3]
**Employee turnover rates**
(2012: 5.6%)

Notes:
1 Represents the number of employees as of 31 December 2013
2 As a percentage of total number of employees
3 Number of leavers divided by average number of employees in the reporting period

# Our strategy

Dialog's objective is to be the leading provider of analog and mixed signal semiconductors for personal and portable devices and applications in the fastest growing consumer product markets. Our ambition is to continue to bring innovation into the market and enable our customers to provide a better consumer experience. We aim to achieve this with best-in-class power management and power efficiency technologies which sustain and build on our position as a leading provider of highly integrated innovative power management, audio, AC/DC and short-range wireless technologies. Our approach to achieve this is based on four key strategic pillars.

## 01. Diversification: Extend our portfolio of highly integrated mixed signal, lower power products for portable platforms

In 2013, Dialog developed the SmartWave™ Multi-Touch Integrated Circuit (MTIC™), the world's first chip to enable touch technology from FlatFrog in high volume consumer devices. Leading ODM Wistron was announced as Dialog's first customer for SmartWave™ MTIC™.

**Quick reference: pages 16-17**
Feel the pressure…

## 02. Customers: Extend our global customer base

Increased our focus with Asia-based customers outside of our existing Tier 1 customers. The acquisition of iWatt Inc. in Q3 2013 brought in new customers such as Nokia, htc, Motorola, Osram, GE, Philips and IKEA.

Dialog's Green VoIP chipset enables Avantec's customers to reduce the power usage of hotel room phones by half and increase the sound quality.

**Quick reference: pages 18-19**
Intelligent rapid charging…

## 03. Innovation: Continuous innovation to drive value

In 2013, Dialog developed and launched SmartBond™ – the world's lowest power and smallest Bluetooth® smart chip which more than doubles the battery life of an app-enabled smartphone accessory or computer peripheral in comparison to competing solutions on the market. It's designed to connect keyboards, mice and remote controls wirelessly to tablets, laptops or smart TVs and enables consumers to use innovative new apps on their smartphones and tablets – connected with watches, wristbands and smart tags.

**Quick reference: pages 20-21**
Wear your life…

## 04. Acquisitions: Acquisitions and strategic cooperation to drive access to innovative technologies

In 2013, Dialog acquired iWatt Inc., a leading provider of digital power management integrated circuits (ICs). The acquisition enhances Dialog's leadership in power management for tablets and smartphones and diversifies Dialog's product portfolio, adding two high-growth product families: AC/DC charger adaptor ICs and a broad range of LED solid-state lighting ICs.

**Quick reference: pages 22-23**
Lighting the way to successful acquisitions…

### Strategy: Driving value in our main business segments through 2013 and beyond

## Mobile systems

**Key drivers**

- Increasing processing power of smartphones and tablets
- Increasing battery drain of additional new features and peripherals
- High-growth in mid- to low-end smartphone segment of the market
- Fast adoption of tablets and ultraslims

**2013 progress**

- Extended our relationship with Samsung, winning third and fourth platforms adopting our power management IC with integrated audio functionality
- Launched our first range of sub-PMICs for multicore processor design scalability and optimisation of overall power scheme
- Expanded collaboration with Intel for the development of a single chip power management IC for tablets; Bay Trail
- Announced Richtek partnership for China smartphone and tablet markets

**Forward focus**

- Continue focus on power efficiency and integration and increasing digital content
- PMIC for multi-cell battery market (tablets, notebooks and ultraslims)
- Fast and intelligent charging
- Power management for the Internet of my Things

## Connectivity

**Key drivers**

- Rapid market acceptance of Bluetooth Smart™ following adoption by Apple and Google in smartphone platforms
- Increasing trend to use the proven DECT standard in new applications like smart home and low latency audio
- Maturity of DECT handset market as volumes start to decline

**2013 progress**

- Launched Dialog's first Bluetooth smart IC SmartBond™ in the market, with Murata announced as lead customer
- Everspring selected Dialog for their DECT ULE smart home solution
- Design win with Avantec for their VoIP hotel phones

**Forward focus**

- Enter the market with SmartBond™. Expect to announce additional SmartBond™ customers during 2014
- Continue to invest in the SmartBond™ platform: product roadmap and application reference designs
- Focus on the growth segments of the DECT market, such as ULE and audio applications

## Power conversion

**Key drivers**

- Sold State Lighting (SSL) continues to be a high-growth segment for the semiconductor industry, fuelled in part by stringent governmental regulations to phase out incandescent light bulbs in favour of more energy-efficient, LED-based solutions
- Higher semiconductor dollar content in the charger driven by emerging "rapid-charging" standards which require more semiconductor "intelligence" in the power adapter to communicate with the power management IC in the phone
- Emerging energy regulatory guidelines for power adapters are becoming more stringent, mandating higher operating efficiency, lower standby power consumption and high efficiency

**2013 progress**

- Partnering with Qualcomm Technologies and MediaTek in the development of AC/DC converter ICs that comply with the Quick Charge 2.0 and MediaTek's Pump Express™ proprietary fast charge protocols. This gives Dialog control of "both sides of the wire" for complete, end-to-end rapid charging solutions
- LED driver solutions for the commercial LED lighting market, offering the industry's first driver optimised for commercial lighting with a built-in 0-10V dimming interface and 30% to 40% cost savings versus competitive solutions
- Launched smarteXite™ LED SSL driver platform with the first retrofit LED lamp driver to support the next generation LEDOTRON™ industry-standard digital dimming protocol, and optimised for low energy Bluetooth wireless control

**Forward focus**

- Expand our LED driver solutions for the mainstream retrofit SSL bulb market
- Extend our focus in the commercial solid-state lighting market space
- Intelligent Quick Charge 2.0-compliant smartphone and tablet adapter solutions

> Expanding our total addressable market, enabling a cost-effective touch experience with superior performance.

# Our strategy in action

# Feel the pressure...

By adopting SmartWave™-enabled touch technology we have expanded our portfolio.

Our collaboration with Swedish company FlatFrog into touch display culminated with the launch of our first multi-touch IC (MTIC).

Touch technology has revolutionised the way we interact with our computing devices, and has become the user interface of choice. Most studies conclude touch technology is a superior interface that is easy to learn, easy to use and more intuitive than either keyboard or mouse.

Touch technologies are rapidly innovating as they progress from consumer applications to the mainstream IT workplace. The demand for touch applications in being driven by advanced touch-enabled operating systems preloaded on powerful and nimble devices.

Growth in the touch screen market will be driven by increasing penetration in markets beyond the smartphone and tablet businesses. Touch screens are dramatically increasing in use across a broader range of products such as 2-in-1 PCs, Ultrabook™ and all-in-one PCs.

In 2012, we started our collaboration with Swedish multi-touch pioneer, FlatFrog, culminating in the launch of our first multi-touch IC in 2013. FlatFrog has developed a new touch technology called Plannar Scatter Detention (PSD) which uses edge-to-edge, in-glass infrared light and can detect and track multiple touches, gestures and pressures from gloved hands and other objects. It is the first multi-touch display technology to offer pressure detection, which can be used in a number of ways to help users better interact with content in multi-touch interfaces.

PSD works with glass or plastic cover lenses, eliminating the need for expensive ITO layers. It uses standard low-cost electrical components and high-yielding assembly processes, providing a premium, true-touch user experience at performance levels surpassing the latest capacitance-based solutions, but at a lower cost.

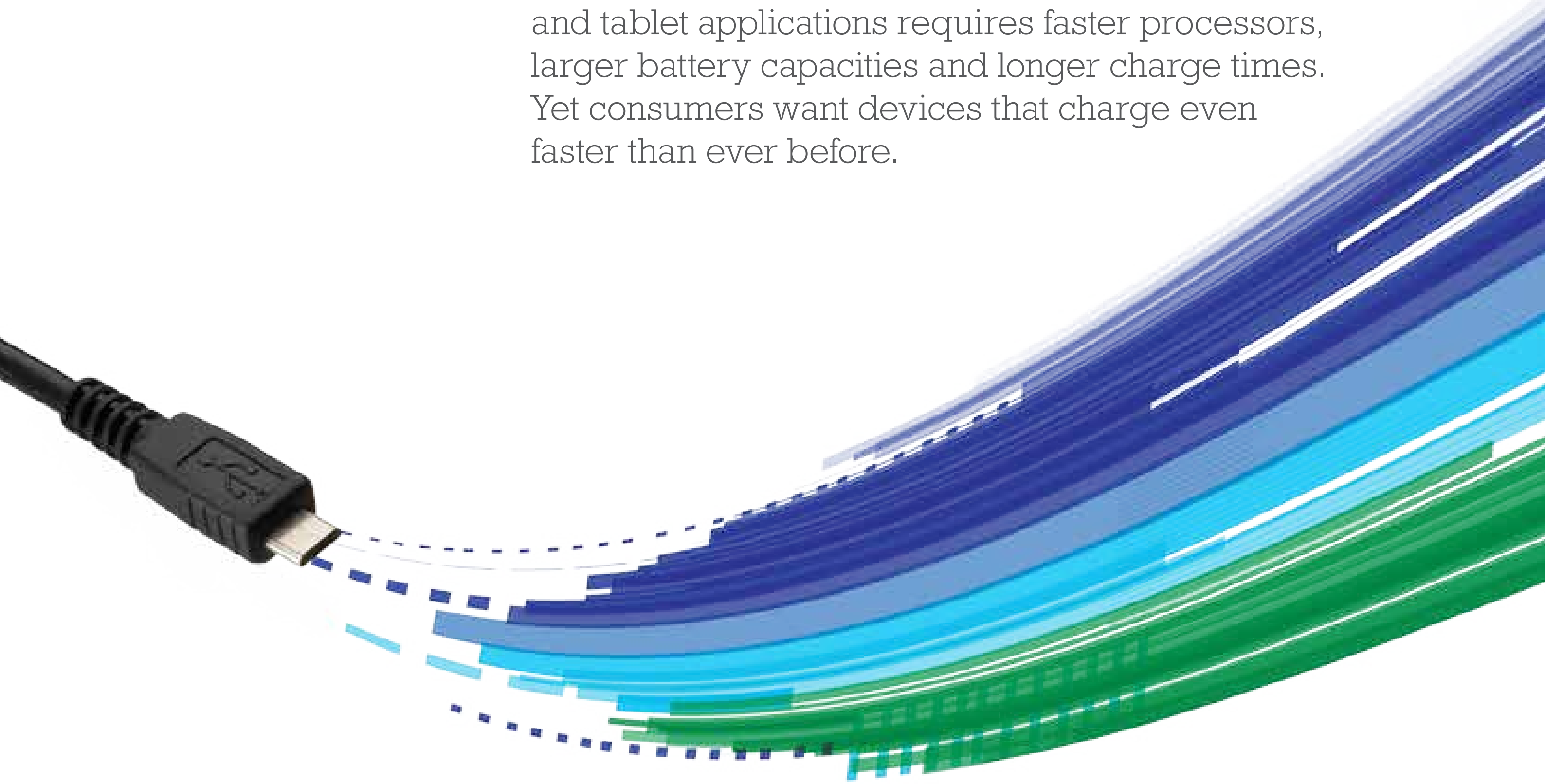
Our collaboration with FlatFrog led to the launch of SmartWave™, Dialog's first multi-touch IC (DA8901). SmartWave™ is optimised for any display between 11 and 36 inches using FlatFrog PSD Touch and is suitable for use in a full range of products from notebooks, tablets, 2-in-1 PCs and Ultrabooks™ to stationary and portable all-in-one PCs and monitors. In addition to being optimised for Microsoft Windows 8.1, SmartWave™ is also able to support Google android-based touch-enabled operating systems.

Three months after the launch of SmartWave™, we announced our first customer engagement with Wistron, a leading Taiwanese ODM. Wistron developed a 23 inch SmartWave™-enabled touch module that can be used as a direct one-to-one replacement of today's projected capacitance touch module, offering OEMs fast-to-market, low risk and low-cost multi-touch technology without the need for product redesigns.

# Our strategy in action continued

## Intelligent rapid charging…

The endless surge in more power-hungry smartphone and tablet applications requires faster processors, larger battery capacities and longer charge times. Yet consumers want devices that charge even faster than ever before.



Building on our existing market leadership position in AC/DC adapter ICs for smartphones and tablets from our iWatt acquisition, Dialog is uniquely positioned to benefit from the rapid charging trend based on our intelligent digital technology, while much of the rest of the industry is still focused on analog approaches.

Key industry players Qualcomm® and MediaTek have developed proprietary rapid charge communication standards – Qualcomm's Quick Charge 2.0 battery charging technology and MediaTek's Pump Express™ protocol, which enable up to 75% faster charge times.

Digital communication between the smartphone and power adapter facilitates the higher power transfer needed for rapid charging using these protocols.

Dialog produces the digital AC/DC controller chips that are the "brains" of the wall adapters for smartphones, tablets and portable devices. Using this technology leadership, we collaborated with Qualcomm and MediaTek to quickly deliver AC/DC rapid charge solutions compatible with Qualcomm's Quick Charge 2.0 protocol and MediaTek's Pump Express™ protocol.

Our innovative thinking and SmartBond™ system-on-chip (SoC) enables consumers to wirelessly connect on the move.

### Built-In digital intelligence for MediaTek Pump Express™ Rapid Charging

Dialog's iW1680 MediaTek Pump Express™ -compatible solution is a single-chip approach that uses digital intelligence to significantly reduce charge times in USB AC/DC wall chargers – all with no bill of materials cost premium over slower conventional charging technologies.

The iW1680 dynamically scales the output voltage of the charger to deliver the optimised level required by the phone at any given time. This lowers the overall system cost by eliminating the need for additional voltage conversion circuitry in the phone and reduces charge times by enabling more efficient power transfer to the battery.

### Highest efficiency for Qualcomm Quick Charge 2.0 rapid charging

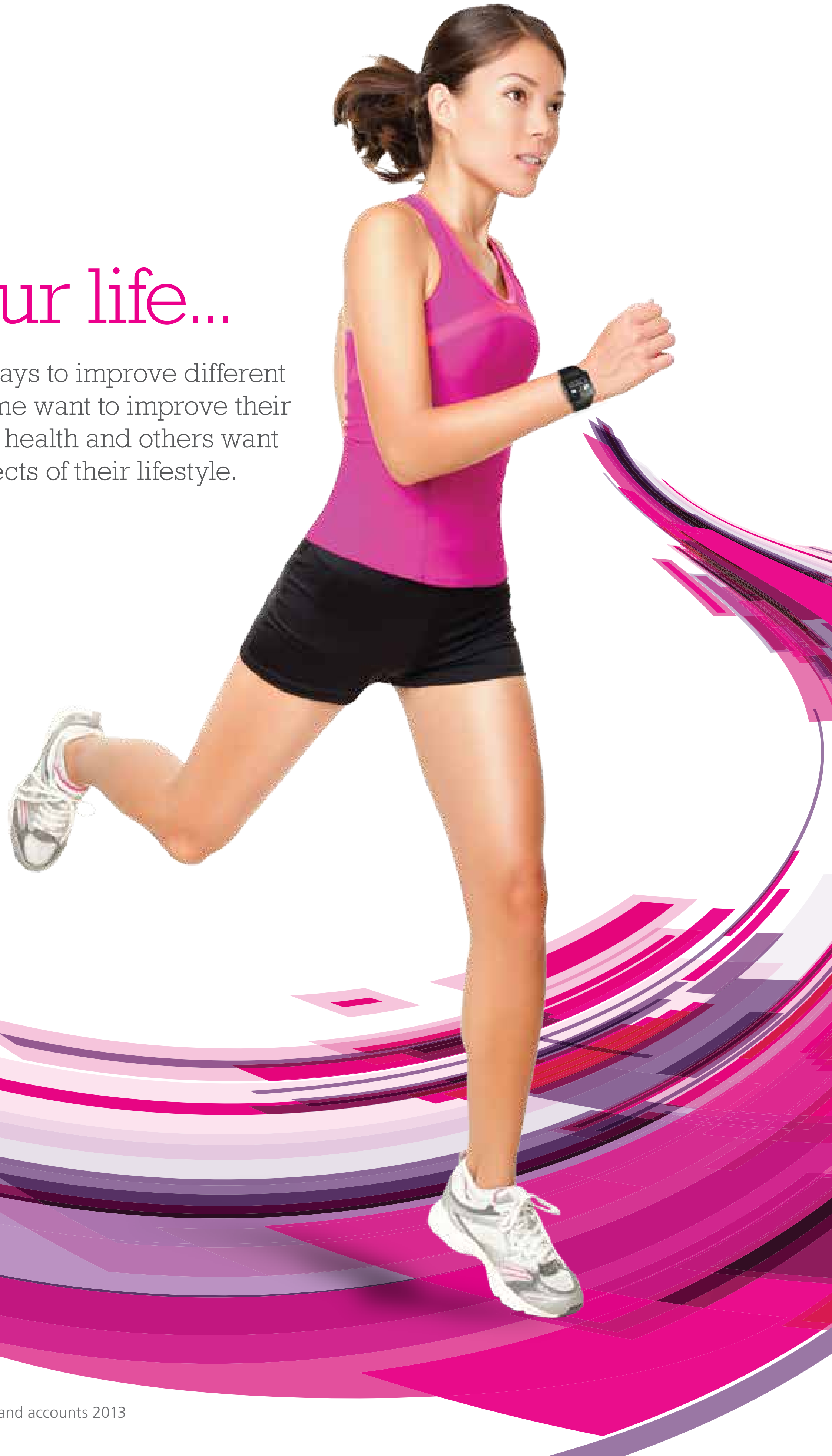
Dialog's iW620+iW1760 rapid charge AC/DC adapter solution for Qualcomm Quick Charge 2.0 power supplies offers inherently higher efficiency versus competing solutions – without adding components. Dialog's solution results in faster charging times and enables the higher power density needed for smaller form-factor rapid charging adapters.

Dialog produces the digital AC/DC controller chips that are the "brains" of the wall adapters for smartphones, tablets and portable devices.

75%

*Qualcomm's Quick Charge 2.0 battery charging technology and MediaTek's Pump Express™ protocol enable up to 75% faster charge times.*

# Our strategy in action continued



## Wear your life...

We are all looking for ways to improve different aspects of our lives. Some want to improve their productivity, some their health and others want to improve various aspects of their lifestyle.

With smartphones becoming a ubiquitous part of our life, we now have a huge amount of processing power in the palm of our hands and the capability to interpret any measured data in a precise way. We can now for example extract concrete information from an automated or on-the-spot diagnosis of our health or evaluate what would be the appropriate next training step to improve our cycling performance.

We refer to this ability to connect one's "self" to the "internet as personal connectivity" or the "Internet of my Things" and Bluetooth Smart is playing a crucial role in enabling this.

Bluetooth Smart, was specifically developed to target low bit-rate, low power, battery-operated wireless devices and is now provided as a standard technology in smartphones. We believe it will be the technology of choice for system integrators to enable the connectivity of wireless devices to the smartphone or tablet.

From a customer perspective, personal connectivity devices will have to fulfil three major criteria.

1. First and foremost, these devices will have to virtually last forever.
2. Second, personal connectivity wireless sensors will have to be unobtrusive. Consumers will be looking at devices they can enjoy wearing or even forget they are wearing until they need them.
3. Third, consumers will want products that are easy to use. Consumers' experience in setting up and using personal connectivity devices will have to be very intuitive, easy and simple to understand. The standardisation of Bluetooth Smart profiles that the Bluetooth SIG has taken up will play an important role in meeting the inter-operability requirement while the user interface will still depend on the system integrator's capabilities.

In order to meet the consumers' criteria for personal connectivity devices in 2013 we introduced **SmartBond™** – the world's lowest power and smallest Bluetooth® Smart system-on-Chip (SoC).

It's designed to enable consumers to use innovative new apps on their smartphones and tablets – connected with watches, wristbands and smart tags – to, for example, "self-track" their health or fitness levels or locate lost keys and connect keyboards, mice and remote controls wirelessly to tablets, laptops or smart TVs and gaming consoles.

### Half the power consumption

SmartBond™ more than doubles the battery life of an app-enabled smartphone accessory or computer peripheral in comparison to competing solutions on the market. It is the first Bluetooth Smart solution to break the 4mA current barrier for wireless transmission and reception, enabling designers to double a product's battery life or reduce the number and size of cells required. Its low power architecture draws 50% less voltage than other Bluetooth Smart solutions on the market – with a deep sleep current of under 600nA. This means a 225mAh coin-cell battery in a product sending 20 bytes of data per second would last four years and five months in comparison to just two years with previous generations of Bluetooth Smart technology.

### Half the size

SmartBond™ also has a size advantage. It comes in three different form factors – the smallest Wafer-Level Chip-Scale (WL-CSP) is just 2.5 x 2.5 x 0.5mm. This enables Bluetooth to be now added to the most space-constrained wireless accessories.

Next generation Bluetooth Smart SoCs will need to find new ways to integrate more of the embedded system components to accommodate for the additional sensors required by personal connectivity. This will come at the cost of battery lifetime for which Bluetooth Smart SoC vendors will need to compensate by reducing the power consumption of each and every block of their SoCs as well as finding a solution to harness the power of alternative energy sources through energy harvesting.

Our innovative thinking and SmartBond™ system-on-chip (SoC) enables consumers to wirelessly connect on the move.

# Our strategy in action continued

# Lighting the way

## to successful acquisitions...

The acquisition of iWatt in July 2013 was a key development in Dialog's diversification strategy and opened new opportunities for us in the fastest growing semiconductor market – solid-state LED lighting. It also extended our power management integrated circuits (PMIC) strength in portable devices, expanding our addressable market to include the adjacent, high-growth AC/DC power charger/adapter space.

### PrimAccurate™ control – at the core of our AC/DC converters and LED SSL drivers

Dialog's patented PrimAccurate™ digital control technology reduces the material costs and allows our customers to produce smaller, lower-cost adapters, chargers and LED SSL retrofit lighting by eliminating the secondary-side regulator, the optical feedback isolator and 30+ discrete components typically required by conventional approaches. This PrimAccurate™ technology uses digital control algorithms that reduce operating and standby power consumption and improve light load efficiency to meet emerging, stringent energy regulations for power supplies, including those put forth by the European Code of Conduct (CoC)[1] and the US Department of Energy (DoE)[2].

### AC/DC converter solutions – digital intelligence for smaller, faster charging power adapters

Robust growth in the portable device market is driving increased demand for ultra-low power consumption AC/DC chargers that are also smaller and charge faster. Dialog's digital AC/DC pulse width modulation (PWM) converters use PrimAccurate™ control to solve these challenges in power adapters and chargers for smartphones, tablets, Ultrabooks™, laptops, ebooks, media players, home networking equipment and even household appliances. Combining our AC/DC power management expertise from iWatt with our existing embedded PMICs enables us to deliver smart, ultra-small, end-to-end power management solutions for a new generation of rapid charging portable devices.

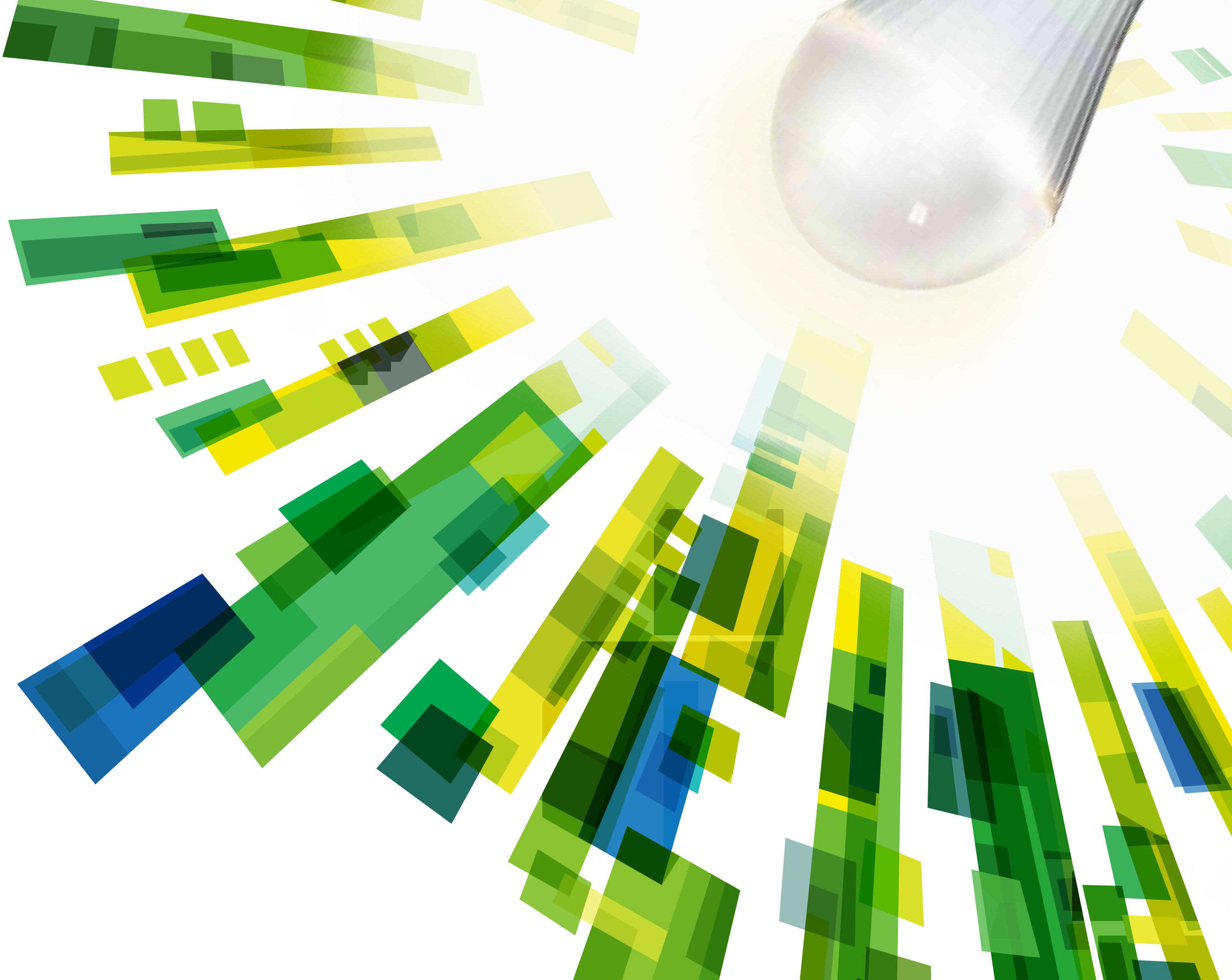
### LED drivers for solid-state lighting – innovating to solve our customers' design challenges

Solid-state LED lighting is displacing traditional incandescent and CFL lighting technologies due to its superior energy efficiency and long life. Dialog is positioned to address the range of challenges that arise in this progressive shift from traditional lighting to solid-state LED lighting. Two key challenges in retrofit bulb applications are dimmer compatibility and dimmer performance. There is a huge installed base of existing dimmers using a wide array of technologies, including leading-edge, trailing-edge, digital, and universal dimmers – all originally designed to operate with incandescent bulbs, which create resistive loads. Since LED drivers are high-switching devices, they cannot match the resistive load. Dialog's patented intelligent digital dimming control solves this problem, using

*Dialog's PrimAccurate™ digital control technology slashes the bill of materials cost for smaller, lower-cost adapters with faster charge time.*

Operating as Dialog's Power Conversion Business Group, iWatt brings over 10 years of experience and extensive intellectual property (IP), with more than 110 patents covering intelligent digital power management technologies.

1 European Code of Conduct (CoC) on Energy Efficiency of External Power Supplies Version 5
2 US Department of Energy (DoE), Regulatory Information Number RIN-1904-AB57



advanced digital analytics to interrogate the dimmer and provide algorithms that automatically adapt to the dimmer type. This technology yields the added benefits of flicker-free dimming, from 1-100% and tight +/-5% LED current regulation needed for consistent LED light intensity.

Another challenge our SSL customers face is heat, especially in installations where airflow is restricted. The problem is that bulb designers don't know how or where bulbs will be used – in closed lighting fixtures with limited airflow or open fixtures with free airflow. In restricted airflow applications, poor thermal design can result in overheating, which dramatically reduces SSL bulb operating life and can potentially cause fires.

Dialog solves this problem with its patented over-temperature protection (OTP) derating technology that monitors the temperature inside the sealed SSL bulb. When thermal conditions get too hot, the LED driver automatically reduces the current drive to the LEDs, resulting in cooler operation.

This prevents exceeding the temperature rating of the electrolytic capacitors in the system and helps ensure the long-term reliability and safety consumers expect from LED replacement bulbs.

Our products for the LED SSL market also use PrimAccurate™ control to reduce BOM costs – an important factor for the mass consumer adoption of SSL lighting. We offer a wide range of dimmable and non-dimmable solutions up to 45 watts, which is equivalent in brightness to a 200 watt incandescent bulb.

*Dialog LED SSL drivers use proprietary temperature management technology that can automatically reduce current drive to the LEDs. This provides cooler operation in low airflow bulb installations and helps ensure the long-term reliability and safety consumers expect from LED replacement bulbs.*

# Our performance in 2013

The Board uses a range of indicators to continually assess performance; ensure performance is delivering on the Group's stated strategy; and to ensure continued alignment with Shareholder interests. The key performance indicators are set out below. To provide a more accurate reflection of performance in 2013, measurement is on an underlying basis, eliminating the impact of accounting adjustments including those arising from the acquisition of iWatt in July 2013. Details of the reconciliation items between IFRS and underlying KPIs can be found on page 33.

## Revenue growth

| Performance indicator | | Definition and relevance | 2013 performance |
|---|---|---|---|
| *IFRS* +17% | *Underlying* +18% | Actual and prior year's full-year underlying revenue measured in our functional currency, US dollars. Monitoring this revenue trend provides a measure of business growth. Underlying revenue is used in order to provide a better reflection of business growth by eliminating the impact of accounting adjustments. | Full-year underlying revenue in 2013 was 18% above 2012. This growth is the result of volume and ASP increase, reflecting not just market volume trends but the increased value we continue to bring to our clients. |

## Gross margin

| Performance indicator | | Definition and relevance | 2013 performance |
|---|---|---|---|
| *IFRS* 39% | *Underlying* 40% | Actual and prior year's underlying gross margin. Gross margin is gross profit expressed as a percentage of revenue and shows the economic substance of the Group's products. Monitoring this trend provides a measure of our ability to increase the economic value of our products over a period of time. Underlying gross margin provides a better reflection of the economic value of our products by eliminating the impact of accounting adjustments. | Underlying Gross margin in 2013 was 240 bps above 2012. This increase reflects the higher economic value of our products as a result of the high level of innovation and integration of our products and the level of efficiency of our high-touch fabless model. |

## Operating expenses as a percentage of revenue

| Performance indicator | | Definition and relevance | 2013 performance |
|---|---|---|---|
| *IFRS* 28% | *Underlying* 25% | Actual and prior year's underlying operating expenses (OpEx) expressed as a percentage of underlying revenue. Underlying 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. Underlying OpEx % provides a better reflection of the focus and efficiency of our operating structure by eliminating the impact of accounting adjustments. Operating expenses include Selling and Marketing expenses, General and Administrative expenses and Research and Development expenses. | Underlying OpEx % in 2013 was 25%, 90 bps above 2012. Excluding the first-time consolidation of iWatt into the Group, OpEx % in 2013 was below 2012. This decrease reflects our continuing effort to improve the efficiency of our General and Admin function and the strategic commitment to innovation by increasing our research and development efforts.<br>It is important to note that our research and development effort is not directly linked to the revenue of the same period. Our R&D programmes represent an investment in future revenue growth. |

In 2013, Dialog delivered an exceptional set of financial results, with revenue growth, increased underlying profitability and strong cash generation. We brought exciting innovation into the market and sustained our R&D effort in order to underpin our future revenue growth. We made good progress on the four key pillars of our strategy and laid the foundations for a more diversified business that we believe will deliver superior returns for our Shareholders over the medium term.

## EBIT growth

| Performance indicator | | Definition and relevance | 2013 performance |
|---|---|---|---|
| *IFRS* +13% | *Underlying* +30% | Actual and prior year's full-year underlying EBIT measured in US dollars. Monitoring this EBIT trend provides a measure of the economic value of our operating business. Underlying EBIT is used in order to provide a better reflection of economic value by eliminating the impact of accounting adjustments. | Underlying EBIT in 2013 was 30% above 2012. This increase reflects the higher economic value of our business and it's underpinned by the increasing economic value of our products and the efficiencies achieved in our operating structure. |

## EBIT margin

| Performance indicator | | Definition and relevance | 2013 performance |
|---|---|---|---|
| *IFRS* 11% | *Underlying* 15% | Actual and prior year's underlying EBIT margin. Monitoring this trend provides a measure of our ability to increase the economic value of our operating activity over a period of time. Underlying EBIT provides a link to our ability to generate cash as we are a low capital intensity business. | Underlying EBIT margin in 2013 was 150 bps above 2012. This increase reflects the higher economic value of our business and it's underpinned by the increasing economic value of our products and the efficiencies achieved in our operating structure. |

## Basic EPS

| Performance indicator | | Definition and relevance | 2013 performance |
|---|---|---|---|
| *IFRS (US$)* 0.95 | *Underlying (US$)* 1.49 | Actual and prior year's underlying basic EPS. Monitoring this trend provides a measure of our ability to increase the inherent value of our business for our Shareholders over a period of time. Underlying basic EPS provides a better reflection of the inherent value of the business by eliminating the impact of accounting adjustments. | Basic underlying EPS was 20% up over 2012 at US$1.49. This increase reflects the higher inherent value of our business as a whole. |

# Operating review

## 2013...

Has been a stand out year for Dialog in terms of innovation, laying the foundations for a more diversified business and a stronger financial performance.

*FlatFrog Planar Scatter Detection (PSD) Touch for laptops and monitors.*

## Our markets

Dialog is primarily focused on high-growth portable and consumer applications.

### Mobile

- Power management ICs and audio CODECs for smartphones, tablets and Ultrabooks™
- Additionally, our products address a range of secondary embedded systems such as automotive infotainment, wearable technology and energy-efficient microcontroller platforms

### PCs, Ultrabooks™, monitors

In 2013, we launched our first multi-touch IC enabling FlatFrog Planar Scatter Detection (PSD) Touch for laptops, all-in-one PCs, Ultrabooks™ and monitors

### Connectivity

- Single chip transceivers for DECT-based cordless telephones, wireless microphones, headsets and gaming consoles
- SmartBond™ single chip wireless ICs, certified to the Bluetooth Smart™ standard, for personal accessory and peripheral applications
- SmartPulse™ short-range wireless ICs, based on the ultra-low energy DECT standard, for smart home applications
- Energy-efficient multicore Voice-over IP (VoIP) processors, audio CODECs and amplifiers, interfacing with Bluetooth, Wi-Fi and DECT, to enable headset and handset connectivity

### Automotive and industrial

- Custom motor control ICs for windscreen wipers and companion processor integrated power management and clock ICs for automotive infotainment systems
- Electronic ballasts for fluorescent or high-intensity industrial lighting and energy-efficient retrofit bulb LED lighting solutions

### Power conversion

- AC/DC converter solutions – digital intelligence for smaller, faster charging power adapters for smartphones and tablets
- LED drivers for solid-state lighting – innovating to solve our customers' design challenges
- LED drivers for display backlighting for LED TVs

*See our business model on page 7.*

## Our key customers and products

Customers increasingly look to Dialog for innovation, technical expertise and high integration, fast product development and support. Given the rapidly evolving nature of the technology used in our target markets, our focus is to develop and retain long-term relationships with all our major customers and adopt a partnership approach for both ASIC and standard product solutions.

Customers with a significant contribution to revenue include (in order of contribution) Apple, Gigaset, Samsung, Bosch and Panasonic.

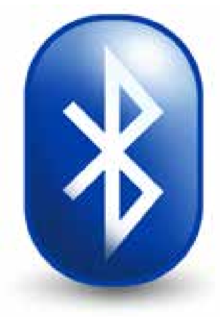
These top five customers represented 90% of revenues in 2013. We recognise there is risk associated with this level of customer concentration and the revenue derived from our largest customer is shown on page 136. We are delighted to have such a strong relationship and during 2013 we have been able to broaden and deepen our interactions based upon excellent service delivery. The diversification of our business is a key strategic objective and we made progress towards this objective in acquiring iWatt during 2013. Further details on the management of risk is set out on page 44.

### Mobile systems

Consumers today want to be able to use exciting new entertainment apps on their smartphones and tablets and interact via high-speed, 4G LTE networks. Video streaming, sharing and calls are becoming increasingly popular, alongside enhanced gaming, GPS, data and voice services. Our power management, audio and display semiconductor solutions are designed for portable devices, including smartphones, tablets, Ultrabooks™ and other ultra-mobile computing devices. Dialog replaces discrete power management components with highly integrated, single chip solutions that provide design simplicity, reduce energy usage, save board space for other components and lower cost. Dialog's Power Management Integrated Circuits (PMICs) are fully configurable, which means they can be programmed to meet the exact voltage and current needs of every component.

Effective power management in many portable devices presents an increasingly complex array of design challenges. Smartphones, tablets and Ultrabooks™ increasingly need to be able to run high definition video, games, GPS maps and audio content and connect via high-speed 4G LTE and legacy 3G networks, Wi-Fi and short-range wireless stands like Bluetooth. 4G LTE, for example, requires a lot more processing power to decode far greater amounts of data in the wireless spectrum. At the same time, consumers demand displays that are brighter, bigger and incorporate touch functionality and, in the future, tactile feedback technology. Each of these features is a major battery drain, creating a need for effective power management technologies.

Multicore devices delegate simple tasks to one core, while directing more complex, power-hungry tasks to the other core. Each of the quad- or octal-core application processors needs to be powered up and down into and out of sleep state in particular sequences.



*SmartBond™ single chip wireless ICs, certified to the Bluetooth standard.*

# Operating review continued

Dialog brought exciting innovation to the market and extended its product portfolio and customer base with the acquisition of iWatt Inc.

*Our power management solutions are specifically designed for portable devices.*

*Our DECT-based transceivers are designed for professional headsets.*

## Our key customers and products continued

Dialog's solutions excel at handling this power management complexity, enhancing device performance and maximising the use of available battery power, which is crucial in today's world of mobile technologies.

Dialog's charging solutions for lithium ion battery systems also support faster, safer charging and from a wider variety of sources.

With a proven track record of delivering different power management designs for world-leading mobile phone manufacturers and portable consumer OEMs, we seek to optimise all aspects of the design, including electrical, thermal and mechanical packaging considerations. These designs offer sophisticated integration with multiple power management and analog functions on the chip, including programmable high-performance LDOs (low dropout voltage regulators), high-efficiency DC/DC voltage converters, intelligent battery charging circuits, software programmable LED drivers, sensor ADCs, USB interfaces, and multi-channel audio capabilities.

In 2013, Dialog launched the first in a family of sub-PMICs designed as companion devices to our system PMICs. Such scalability allows, for example, one design to address single, dual and quad processors, reducing time-to-market and enabling our customers to optimise the overall power scheme for cost, area and power which are vital for high-volume consumer devices.

Our configurable PMICs enable late changes in board level designs as additional functionality that is added into smartphone platforms during the R&D process.

As a platform-based PMIC can support multiple phone designs, Dialog helps its customers reduce inventories and respond to the consumer market's need for volume flexibility.

Our audio technology allows the capture of speech and audio with high-quality and low power consumption while at the other end of the audio channel enables speaker playback at maximum loudness and power efficiency while extending battery usage time. Dialog's audio CODECs provide full-range, high-fidelity audio capture and playback to a variety of portable devices and audio accessories. They feature programmable Digital Signal Processors (DSPs) that offload audio software from the host processor including DTS SRS™, advanced echo cancellation and microphone beamforming.

Dialog is one of the first companies to combine a fully configurable PMIC with a low power audio CODEC that is monolithically integrated, or stacked, in a single package to deliver significant board space and cost savings to its customers. This can involve the integration of over 40 different high- and low-voltage circuits and analog functions on a single chip.

### Connectivity and VoIP solutions

Dialog's DECT-based transceivers are designed for wireless microphones, speakers, gaming controllers as well as professional headsets and cordless phones using this secure, reliable, interference-free short-range connectivity standard that offers ceiling to cellar reach and can also extend out into consumers' gardens.

DECT is optimised for the short-range wireless spectrum, giving audio priority in the home or office. It is also ideally suited to handling other types of signal that require a real-time response with no buffering. Use of DECT avoids the problems of co-channel interference when multiple Wi-Fi, Bluetooth, microwave and other proprietary signals compete, slowing response times and causing device drop-offs. For example, DECT ensures that microphones capturing voice are perfectly in sync with the backing tracks and musicians and consumers can enjoy reliable, real-time control when using their gaming consoles.

Dialog has also developed SmartPulse™, based on DECT ultra-low energy, to enable consumers to wirelessly monitor and control electric plugs, solar panels, lighting switches, heating thermostats and other innovative smart home applications over the cloud using the always-on computing power of a smartphone or tablet.

Dialog developed SmartBond™ in 2013, its first Bluetooth Smart™ certified system-on-chip (SoC). Bluetooth Smart™ is a part of the Bluetooth™ 4.0 standard that address peripheral and accessory applications with lower power and lower connection times than classic Bluetooth™. These features are expected to open up new applications in the areas of health and fitness, proximity devices, human interface devices for tablets and smartphones, wearables, and a variety of new applications. The Bluetooth Smart™ market is forecast to experience strong growth in the coming years. Dialog has leveraged its expertise in power management and in radio SoCs to enter the market with a highly integrated, ultra-low power solution.

By enabling voice and data to run over a single network Voice-over IP (VoIP) technology can enable businesses to increase bandwidth efficiencies and reduce costs and migrate away from traditional copper wire switched telephone systems. Dialog engages with the leading global VoIP phone manufacturers with our energy-efficient Green VoIP solution to address the large enterprise, small to medium business (SMB) and hotel markets.

Dialog offers high-performance, energy-saving VoIP chipsets that integrate the building blocks for best-in-class audio, security and graphics functionality. They use acoustic echo cancellation and active noise reduction to deliver crystal clear conversations, with the option of video calling or phone number directories on a high resolution, colour touch screen LCD, and banking-grade levels of security authentication.

## Automotive and industrial

Dialog supplies motor control ICs to a leading European automotive supplier who in turn delivers Dialog-based windscreen wiper motor products addressing mid- to high-end European cars. Our first product for a customer in Japan went into production in 2012, and is currently being rolled-out further to new car models.

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

*Our innovation and expertise allow portable devices to perform better.*

# Operating review continued

We believe successful delivery on the Group's stated strategy, and ensuring continuing operational efficiency and effectiveness, will provide the basis for strong financial performance and, in turn, superior Shareholder returns.

## Our key customers and products continued

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

### Power conversion

**AC/DC converter solutions – digital intelligence for smaller, faster charging power adapters for portable devices.** Robust growth in the portable device market is driving increased demand for ultra-low power consumption AC/DC chargers that are also smaller and charge faster. Combining our AC/DC power management expertise from iWatt with our existing embedded PMICs enables us to deliver smart, ultra-small, end-to-end power management solutions for a new generation of rapid charging portable devices.

**LED drivers for solid-state lighting – innovating to solve our customers' design challenges.** Solid-state LED lighting is displacing traditional incandescent and CFL lighting technologies due to its superior energy-efficiency and long life. Dialog is positioned to address the range of challenges that arise in this progressive shift from traditional lighting to solid-state LED lighting. Two key challenges that exist in retrofit bulb applications are dimmer compatibility and dimmer performance. There is a huge installed base of existing dimmers using a wide array of technologies, including leading-edge, trailing-edge, digital, and universal dimmers – all originally designed to operate with incandescent bulbs, which create resistive loads. Since LED drivers are high-switching devices, they cannot match the resistive load. Dialog's patented intelligent digital dimming control solves this problem, using advanced digital analytics to interrogate the dimmer and provide algorithms that automatically adapt to the dimmer type.

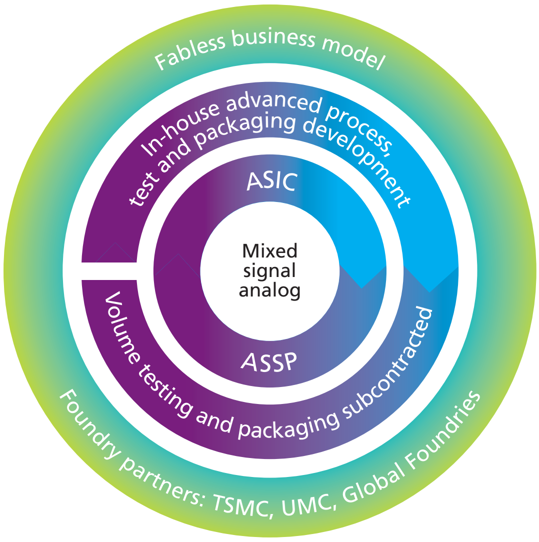
*Details about Dialog's Board of Directors and management team are on pages 48 to 51.*

*Faster charging, smaller ultra-low power consumption AC/DC chargers.*

*Superior energy-efficient long life LED lightbulbs.*

## Our "high-touch" fabless operating model

Outsourcing our production process provides exceptional operational flexibility and low CAPEX while maintaining deep expertise on advanced process, test and packaging development through our own teams.




### Manufacture, assembly and testing

Dialog operates a scalable "high-touch" fabless operating model with access to leading-edge manufacturing technologies, almost unlimited production capacities and maximum flexibility in terms of delivery, technology offer and cost base. We partner with and source only from state-of-the-art manufacturing facilities for industry-leading performance with wafer foundries like TSMC, UMC, Global Foundries and assembly and test vendors such as SPIL, ASE and UTAC. Geographically the production locations are spread out which helps to mitigate risk and disaster recovery in Taiwan, Singapore, China and Thailand. The entire supply chain is managed by Dialog to streamline volume manufacturing and to ensure competitive lead times, rapid delivery of prototypes to secure the optimal time-to-market. This is supported by globally located supply chain teams as well as process, assembly, test and quality engineers on-site within Dialog's Global Operations and Quality organisation.

In order to meet our stringent product quality and qualification requirements, all test programmes are developed and maintained by Dialog's Test and Product engineering; when characterised and qualified, the test solution is deployed to our back-end partners. We have our own manufacturing and technical engineers close to foundries and assembly, and test subcontractors in Asia. By being "on the spot" to resolve any potential engineering issues quickly, we have also installed control ramp processes to ensure there are no problems during mass production.

### Quality and environment control

We have an uncompromising approach to quality assurance in every area of our business by strict deployment of our zero failures policy. Active employee participation in error prevention approaches has enabled us to win the approval of our major customers and to beat their parts per million (ppm) failure rate expectations. The overall objective of our quality management system is to provide all our customers with the assurance that our products and services not only fulfil their current contractual requirements, but will also meet their future needs.

We are committed to minimising our impact on the environment by developing and promoting environmentally compatible products, and operate in accordance with the ISO 14001 international environmental quality standard. We promote awareness and knowledge of environmental and social responsibility throughout the organisation to ensure that they become a natural part of the decision-making process. As we demand the same standards from our suppliers, we only form subcontractor partnerships with those who are accredited to the same international standards.

Further details on our commitment to corporate responsibility and sustainable business practices – which are integral to the Dialog business model – are set out on page 40.

# Financial review

> At Dialog, we remain focused on long-term sustainable and profitable growth. Our continuous reinvestments in innovation coupled with financial and operational excellence are key drivers towards achieving that goal.

**Jean-Michel Richard**, CFO, Vice President Finance

+18%
**Revenue growth***
(2012: US$774m)

40.4%
**Gross margin***
(2012: 38.0%)

+30%
**EBIT growth***
(2012: US$107.5m)

US$1.49
**Basic EPS***
(2012: US$1.24)

*Underlying

The following tables detail the historical consolidated statements of the operations of Dialog for the years ended 31 December 2012 and 31 December 2013 both on an IFRS and underlying (*) and basis.

## Dialog Semiconductor's IFRS and underlying financial performance for 2013 and 2012

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| **US$000** | **IFRS** | **Adjustments** | **Underlying[1]** | IFRS | Adjustments | Underlying[1] |
| Revenues | **902,907** | **6,222** | **909,129** | 773,583 | – | 773,583 |
| Cost of sales | **(551,099)** | **9,492** | **(541,607)** | (480,971) | 1,142 | (479,829) |
| **Gross profit** | **351,808** | **15,714** | **367,522** | 292,612 | 1,142 | 293,754 |
| Selling and marketing expenses | **(49,000)** | **10,243** | **(38,757)** | (38,669) | 6,286 | (32,383) |
| General and administrative expenses | **(44,255)** | **9,442** | **(34,813)** | (33,476) | 4,296 | (29,180) |
| Research and development expenses | **(159,287)** | **4,930** | **(154,357)** | (127,886) | 4,716 | (123,170) |
| Restructuring expenses | **–** | **–** | **–** | (1,549) | – | (1,549) |
| Other operating income | **3,394** | **(3,394)** | **–** | – | – | – |
| **Operating profit** | **102,660** | **36,935** | **139,595** | 91,032 | 16,440 | 107,472 |
| Interest income and other financial income | **565** | **–** | **565** | 1,360 | – | 1,360 |
| Interest expense and other financial expense | **(13,345)** | **8,935** | **(4,410)** | (6,466) | 4,668 | (1,798) |
| Foreign currency exchange gains and losses, net | **(168)** | **–** | **(168)** | 199 | – | 199 |
| **Result before income taxes** | **89,712** | **45,870** | **135,582** | 86,125 | 21,108 | 107,233 |
| Income tax expense | **(27,508)** | **(10,459)** | **(37,967)** | (23,612) | (3,659) | (27,271) |
| **Net profit** | **62,204** | **35,411** | **97,615** | 62,513 | 17,449 | 79,962 |
| Earnings per share (in US$) | | | | | | |
| Basic | **0.95** | **0.54** | **1.49** | 0.97 | 0.27 | 1.24 |
| Diluted | **0.92** | **0.52** | **1.44** | 0.93 | 0.26 | 1.19 |
| **EBITDA[2]** | **151,256** | **22,959** | **174,215** | 124,352 | 10,162 | 134,514 |

1 The term "underlying" is not defined in IFRS and therefore may not be comparable with similarly titled measures reported by other companies. Underlying measures are not intended as a substitute for, or a superior measure to, IFRS measures. Underlying results (net of tax) have been fully reconciled to IFRS results (net of tax) above. All other underlying measures disclosed within this report are a component of this measure and adjustments between IFRS and underlying measures for each of these measures are a component of those disclosed above.

2 EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (2013: US$18.6 million, 2012: US$12.7 million), amortisation for intangible assets (2013: US$28.6 million, 2012: US$19.6 million) and losses on disposals and impairment of fixed assets (2013: US$1.4 million, 2012: US$1.0 million).

## Dialog Semiconductor's underlying adjustments for 2013

| | 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| US$000 | Option expenses | Accrual National Insurance | PPA BV | Convertible Bond | Licence agreement | Acquisition and integration costs | PPA iWatt | BenQ | TOTAL |
| Revenues | – | – | – | – | – | | (7,073) | 851 | (6,222) |
| Cost of sales | (681) | (5) | (806) | – | – | (15) | (7,985) | – | (9,492) |
| Selling and marketing expenses | (1,769) | (123) | (3,197) | – | – | (404) | (4,750) | – | (10,243) |
| General and administrative expenses | (2,473) | (625) | (2) | – | – | (6,342) | – | – | (9,442) |
| Research and development expenses | (3,564) | (121) | (1,063) | – | – | (182) | – | – | (4,930) |
| Other operating income | – | – | – | – | – | – | 3,249 | 145 | 3,394 |
| **Operating profit** | **(8,487)** | **(874)** | **(5,068)** | **–** | **–** | **(6,943)** | **(16,559)** | **996** | **(36,935)** |
| Interest expense and other financial expense | – | – | – | (7,801) | (1,134) | – | – | – | (8,935) |
| **Result before income taxes** | **(8,487)** | **(874)** | **(5,068)** | **(7,801)** | **(1,134)** | **(6,943)** | **(16,559)** | **996** | **(45,870)** |
| Income taxes | 1,334 | 248 | 1,267 | – | 322 | 638 | 6,933 | (283) | 10,459 |
| **Net income** | **(7,153)** | **(626)** | **(3,801)** | **(7,801)** | **(812)** | **(6,305)** | **(9,626)** | **713** | **(35,411)** |

See underlying definition note on page 35.

## Dialog Semiconductor's financial performance on an IFRS basis for 2013 and 2012

| | 2013 | | 2012 | | |
|---|---|---|---|---|---|
| | US$000 | % of revenues | US$000 | % of revenues | Change % |
| **Revenues** | | | | | |
| Mobile Systems | 744,869 | 82.4 | 638,765 | 82.6 | 16.6 |
| Automotive/Industrial | 37,814 | 4.2 | 38,686 | 5.0 | (2.3) |
| Connectivity | 92,588 | 10.3 | 96,133 | 12.4 | (3.7) |
| Power conversion | 26,768 | 3.0 | – | – | – |
| Corporate sector | 868 | 0.1 | (1) | 0.0 | >1,000 |
| **Revenues** | **902,907** | **100.0** | 773,583 | 100.0 | 16.7 |
| Cost of sales | (551,099) | (61.0) | (480,971) | (62.2) | 14.6 |
| **Gross profit** | **351,808** | **39.0** | 292,612 | 37.8 | 20.2 |
| Selling and marketing expenses | (49,000) | (5.5) | (38,669) | (5.0) | 26.7 |
| General and administrative expenses | (44,255) | (4.9) | (33,476) | (4.3) | 32.2 |
| Research and development expenses | (159,287) | (17.6) | (127,886) | (16.5) | 24.6 |
| Restructuring expenses | – | 0.0 | (1,549) | (0.2) | – |
| Other operating income | 3,394 | 0.4 | – | 0.0 | 0.0 |
| **Operating profit** | **102,660** | **11.4** | 91,032 | 11.8 | 12.8 |
| Interest income and other financial income | 565 | 0.0 | 1,360 | 0.2 | (58.5) |
| Interest expense and other financial expense | (13,345) | (1.5) | (6,466) | (0.8) | 106.4 |
| Foreign currency exchange gains and losses, net | (168) | 0.0 | 199 | (0.1) | (184.4) |
| **Result before income taxes** | **89,712** | **9.9** | 86,125 | 11.1 | 4.2 |
| Income tax expense | (27,508) | (3.0) | (23,612) | (3.0) | 16.5 |
| **Net profit** | **62,204** | **6.9** | 62,513 | 8.1 | (0.5) |

# Financial review continued

## Results of operations

### Segment reporting

Revenues for the **Mobile Systems** segment for the year ended 31 December 2013 were US$744.9 million (2012: US$638.8 million), representing 82.4% of our total revenues compared to 82.6% for the year ended 31 December 2012. The 16.6% year-on-year revenue increase is primarily driven by the continuous success of our growing range of highly integrated and increasingly more complex power management solutions for portable devices such as smartphones and tablet PCs.

The operating profit in the **Mobile Systems** segment (see note 26 to the consolidated financial statements) grew to US$141.2 million from US$112.2 million achieved in 2012, an increase of 25.8%. As a percentage of **Mobile Systems** revenues, 2013 operating profit was 19% compared to 17.6% in 2012. This increased profitability was primarily driven by higher revenue, continuous product margin improvements and by leveraging operating expenses.

Revenues from our **Automotive/Industrial Applications** segment were US$37.8 million compared to US$38.7 million in the prior year, representing 4.2% of our total revenues (2012: 5.0%). The marginal decrease in revenue is mainly the result of lower sales volumes in the area of professional lighting applications caused by the ongoing unfavourable economic climate in Europe and our reduced investments in **Automotive**. Although demand for our products picked up in the second half of 2013, this was not sufficient to compensate for the softness experienced in the first half of the year.

Operating profit in the segment was US$12.2 million (2012: US$8.1 million). Despite lower revenues in the sector, 2013 operating profit increased by 50.3% over 2012 to be 32.3% of **Automotive** and **Industrial** total revenues (2012: 21.0%). This increased profitability is the result of continuous improvements in manufacturing processes, the redeployment of R&D and selling resources and attributable overhead expenses from this segment to the **Mobile System** sector in support of high growth.

Revenues from our **Connectivity** segment were US$92.6 million (2012: US$96.1) million representing 10.3% of total revenues compared to 12.4% for the year ended 31 December 2012. This reflects the continuous softness in the DECT cordless phone market, especially in Europe.

The **Connectivity** segment contributed an operating loss of US$2.1 million, compared to an operating loss of US$13.1 million in 2012. As a percentage of revenues the loss of 13.7% in 2012 reduced to 2.3% in 2013. This development can largely be attributed to an improved gross margin achieved during 2013 compared to a year ago. This improvement results from a shift to sales of higher value products, increasing manufacturing efficiencies and related cost reductions. Further positive effects are attributable to a decrease in amortisation expenses relating to the purchase price allocation from US$6.3 million in 2012 to US$5.1 million in 2013 as certain assets were fully amortised in 2012. In addition, the operating profit in 2013 includes benefits from capitalised R&D expenses of US$2.5 million, compared to US$0.6 million in 2012. This capitalisation represents the

### The Connectivity segment's underlying financial performance for 2013 and 2012 is summarised below:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| US$000 | IFRS | Adjustments | Underlying[1] | IFRS | Adjustments | Underlying[1] |
| **Revenues** | **92,588** | **–** | **92,588** | 96,133 | – | 96,133 |
| **Operating profit (loss)** | **(2,121)** | **5,182** | **3,061** | (13,144) | 6,887 | (6,257) |

1 Underlying results in 2013 are based on IFRS consolidated income statement, adjusted to exclude US$5.1 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and charges for National Insurance related to share-based compensation in the amount of US$0.1 million.

Underlying results in 2012 are based on IFRS consolidated income statement, adjusted to exclude US$6.3 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and share-based compensation charges and related charges for National Insurance of US$0.6 million.

### The Power Conversion segment's underlying financial performance for 2013 is summarised below:

| | 2013 | | |
|---|---|---|---|
| US$000 | IFRS | Adjustments | Underlying[1] |
| **Revenues** | **26,768** | **7,073** | **33,841** |
| **Operating profit (loss)** | **(22,533)** | **21,630** | **(903)** |

1 Underlying results in 2013 are based on IFRS consolidated income statement, adjusted to include deferred revenue in the amount of US$7.1 million. Expenses of US$8.9 million for amortisation of intangibles associated with the acquisition of iWatt group, US$7.0 million higher cost of sales related to fair value measurement of inventories and cost of US$3.2 million related to adjustment of deferred revenues are excluded from operating result. As one-time expenses-related acquisition and integration costs in amount of US$1.8 million are also excluded from operating result.

portion of R&D expenses that is expected to provide future benefits from completely developed technologies. Furthermore, in 2012, a one-time expense of approximately US$1.0 million was recorded relating to the transfer of certain legacy **Connectivity** products to a new assembly site. On an underlying (*) basis, **Connectivity** operating profits were US$3.1 million in 2013, compared to an operating loss of US$6.3 million in 2012.

The newly created **Power Conversion** segment includes the operating segment of our newly acquired subsidiary iWatt Inc., USA (for further information please refer to note 4 – Business Combinations and note 26 – Segment Reporting – of the consolidated financial statements. Revenues from our **Power Conversion** segment were US$26.8 million or 3% of total revenues for the five and a half months this entity was consolidated in 2013. The operating loss in the **Power Conversion** segment was US$22.5 million in 2013. On an underlying (*) basis revenues were US$33.9 million and operating loss was US$0.9 million. The underlying revenues include US$7.1 million of deferred revenue that have been eliminated from IFRS results as part of the purchase accounting associated with the acquisition of iWatt. Underlying cost of sales include additional expenses of US$3.2 million in relation to the aforementioned deferred revenues. Furthermore, underlying operating results do not include depreciation and amortisation expenses in the amount of US$8.9 million and additional costs for material consumption of US$7.0 million; all these adjustments relate to the acquisition accounting. Further one-time costs relating to the acquisition and integration of iWatt of US$1.8 million were excluded from underlying expenses.

## Revenues

Total IFRS revenues for 2013 were US$902.9 million, up 16.7% from 2012 (2012: US$773.6 million). As described above, the newly acquired iWatt business contributed US$26.8 million of IFRS revenues since 16 July 2013 (underlying (*) revenues: US$33.9 million – including US$7.1 million of one-off deferred revenue as part of the purchase accounting). The revenue growth is mainly attributable to higher sales volumes, an increase in average selling prices (“ASPs”) from our more complex devices in our **Mobile Systems** segment and the revenue contribution from the new **Power Conversion** segment. Excluding iWatt contribution, 2013 IFRS revenues grew 13.3% over 2012 (2013: US$876.1 million).

## Cost of sales

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs, applicable overhead and depreciation of test and other equipment. IFRS cost of sales for the period ending 31 December 2013 was up 14.6% to US$551.1 million (2012: US$481.0 million). The increase can largely be attributed to increased revenues and iWatt acquisition related accounting adjustments. 2013 IFRS cost of sales is net of a one-time inventory purchase price adjustment (US$7.0 million), amortisation and depreciation expenses relating to the purchase price allocation of iWatt (US$4.1 million) as well as SiTel BV acquisition (US$0.8 million) and the reversal of cost of sales related to deferred revenues (US$3.2 million). As a percentage of revenues, IFRS cost of sales decreased from 62.2% in 2012 to 61.0% in 2013. Underlying (*) cost of sales increased from US$479.8 million in 2012 (62.0% of underlying revenues) to US$541.6 million in 2013 (59.6% of underlying (*) revenues). This reduced cost of sales contribution to revenue drove the gross profit increase.

“Total IFRS revenues for 2013 were US$902.9 million, up 16.7% from 2012.”

Underlying results (net of tax) in 2013 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US$7.8 million, excluding US$3.8 million of amortisation of intangibles associated with the acquisition of SiTel BV (now Dialog B.V.), excluding US$7.8 million non-cash effective interest expense in connection with the convertible bond, excluding US$0.8 million non-cash effective interest expense related to a licensing agreement entered into in Q3 2012, excluding US$6.3 million acquisition and integration expenses in connection with the purchase of iWatt and US$10.3 million of amortisation and depreciation expenses associated with the acquisition of iWatt, deferred sales and related cost of sales that were reversed in connection with the iWatt business integration of US$2.5 million were brought back. Furthermore, the gain of US$3.2 million from the release of an earn-out provision in relation to the iWatt acquisition was reversed and a recorded income related to a payment the Company received in connection with the insolvency of BenQ of US$0.7 million was also taken out.

# Financial review continued

> Underlying (*) operating profit in 2013 was US$139.6 million compared to US$107.5 million.

## Gross profit

Our IFRS gross margin increased from 37.8% of revenues in 2012 to 39.0% of revenues for the period ending 31 December 2013. On an IFRS basis, the acquisition of the iWatt business contributed negatively to the 2013 Group profit as a result of one-time accounting related adjustments. On an underlying (*) basis, the gross margin improved from 38.0% in 2012 to 40.4%. The gross margin improvements throughout 2013 were the result of three key elements:

- The realisation of the benefits of manufacturing cost optimisation over the last six months;
- Positive product mix contribution from the **Power Conversion** Business Group, the **Connectivity** segment and new products in **Mobile Systems**;
- Higher revenues and the subsequent lower allocation per unit of the fixed component of Cost of Goods Sold.

IFRS gross profit for the period ending 31 December 2013 was US$351.8 million, an increase of 20.2% compared to US$292.6 million in 2012, mainly driven by increased revenues and material cost improvements.

## Selling and marketing expenses

Selling and marketing expenses consist primarily of salaries, travel expenses, sales commissions, advertising and other marketing costs. Also included are amortisation expenses for intangible assets such as customer relationships, key customers and order backlog resulting from the purchase price allocation related to the acquisition of iWatt Inc. in the third quarter of 2013 and SiTel BV in 2011.

IFRS selling and marketing expenses increased from US$38.7 million in 2012 (5.0% of total IFRS revenues) to US$49.0 million for the period ending 31 December 2013 (5.4% of total IFRS revenues).

The newly acquired iWatt business contributed US$10.6 million of selling and marketing expenses, of which US$4.8 million were amortisation expenses resulting from the purchase price allocation. Excluding these amortisation expenses and other adjustments for the integration of iWatt as well as share option and amortisation expenses relating to the SiTel BV purchase price allocation, on an underlying (*) basis selling and marketing expenses were US$38.8 million in 2013 (4.3% of total underlying (*) revenues) compared to US$32.4 million in 2012 (4.2% of total underlying (*) revenues).

## General and administrative expenses

General and administrative expenses consist primarily of personnel and support costs for our finance, human resources and other management departments.

IFRS general and administrative expenses were US$44.3 million (4.9% of total revenues) in 2013, an increase of 32.2% over the US$33.5 million (4.3% of total revenues) recorded in 2012. This increase predominantly reflects a growing business and the consolidation of the newly acquired iWatt business, which contributed US$3.2 million additional general and administrative expenses. Furthermore, general and administrative expenses in 2013 include US$6.3 million acquisition and integration expenses related to the acquisition of iWatt (see note 4 – Business Combinations in the consolidated financial statements). Excluding the additional expenses relating to the iWatt acquisition as well as share option and amortisation expenses relating to the SiTel BV purchase price allocation, underlying (*) general and administrative expenses increased from US$29.2 million in 2012 (3.8% of total IFRS revenues) to US$34.8 million in 2013 (3.8% of underlying (*) revenues).

## Research and development expenses

Research and development expenses consist principally of design and engineering-related costs associated with the development of new Application Specific Integrated Circuits ("ASICs") and Application Specific Standard Products ("ASSPs").

IFRS research and development expenses (net of customer funded projects) were US$159.3 million in 2013 (2012: US$127.9 million), representing a year-on-year increase of 24.6%. As a percentage of total revenues, IFRS research and development expenses increased from 16.5% to 17.6%. This increase can largely be attributed to an increased R&D headcount to support our ongoing growth strategy (our engineering headcount has now more than doubled since 2010) despite lower than expected revenue growth in the first half of 2013 and the acquisition of iWatt business in July 2013.

Excluding iWatt, 2013 IFRS R&D expenses were US$150.5 million, US$22.6 million above 2012 or 17.1% of 2013 revenues excluding iWatt. Underlying (*) research and development increased from US$123.2 million (15.9% of total revenues) to US$154.4 million in 2013 (17.0% of total underlying revenues).

## Operating profit

IFRS operating profit for the period ending 31 December 2013 was US$102.7 million, compared to US$91.0 million in 2012.

Since being acquired in July 2013, iWatt business contributed an IFRS loss of US$22.5 million to the operating profit of the Dialog Group, mainly as a result of accounting adjustments booked in connection with the acquisition and related purchase price allocation expenses. On the other hand, a higher gross profit and lower amortisation expenses associated with the acquisition of SiTel BV (US$1.2 million) had a positive impact on operating profit.

Underlying (*) operating profit in 2013 was US$139.6 million or 15.4% of underlying revenues compared to US$107.5 million or 13.9% in 2012. The year-on-year improvement in underlying operation profit is the result of higher revenues and the subsequent lower allocation per unit of the fixed component of our operating expenses and improved product margins.

## Interest income and other financial income

Interest income and other financial income from the Company's investments (primarily short-term deposits) was US$565,000 for the period ending 31 December 2013 (2012: US$1.4 million). The decrease primarily resulted from the cash outflow of US$303.9 million in July 2013 in connection with the acquisition of iWatt. Furthermore, a general decrease of interest rates on financial markets associated with the short-term nature of our investments led to an additional decrease of interest income.

## Interest expense and other financial expense

Interest expense and other financial expense consist primarily of expenses from capital leases, hire purchase agreements and the Group's factoring arrangement. Furthermore, starting from the second quarter 2012, the expenses included the interest charges for the convertible bond; and starting from the third quarter 2013, the interest charges for new loan facilities totalled US$115 million (outstanding at 31 December 2013: US$105 million), which the Company contracted in connection with the acquisition of iWatt.

In 2013, interest and other financial expenses were US$13.3 million (2012: US$6.5 million). The amount in 2013 mainly includes two components related to the convertible bond: US$2.0 million for a 1% coupon payable on a semi-annual basis to the bond holders and US$7.8 million (non-cash) for the interest expense in connection with the measurement of the financial liability from the bond using the effective interest method. The interest expenses related to new debt facilities were US$1.6 million. The year-on-year increase mainly results from charges relating to the convertible bond for which in 2013 we recorded expenses for the full 12 months compared to only eight and a half months in 2012. In addition, 2013 also includes the expenses for the new loan facility contracted in July of that year.

## Income tax expense

In 2013, a net IFRS income tax charge of US$27.5 million was recorded (2012: US$23.6 million) resulting in an effective tax rate of 30.7% (2012: 27.4%). The main reasons for the increase in the effective tax rate were that in 2013 a lower amount of previously unrecognised deferred tax assets was recognised and the effect on the tax rate arising from the acquisition of iWatt.

## Net profit

For the reasons described above, we reported a net IFRS profit of US$62.2 million in 2013 (2012: US$62.5 million). On an underlying (*) basis, however, 2013 net profit increased year-on-year by US$17.6 million to US$97.6 million.

Basic and diluted IFRS earnings per share in 2013 were US$0.95 and US$0.92 respectively compared to basic and diluted IFRS earnings per share of US$0.97 and US$0.93 in 2012 respectively.

On an underlying basis (*), net profit increased from US$80.0 million in 2012 to US$97.6 million in 2013 (10.7% of underlying total revenues).

# Financial review continued

> "At 31 December 2013, we had cash and cash equivalents of US$186.0 million."

## Liquidity and capital resources

*Cash flows*

**Cash flow from operating activities** was US$110.7 million in 2013 (2012: US$52.4 million). Cash inflow during 2013 was US$170.8 million (2012: US$139.7 million) and resulted from the Company's net profit adjusted by depreciation, amortisation and other non-cash effective expenses. This cash inflow was only partially offset by cash outflows for investments in working capital of US$18.8 million (2012: US$77.9 million cash outflow), demonstrating our capacity to manage working capital tightly despite the year-on-year revenue growth. In addition, in 2013 the Company paid US$41.4 million for income taxes (2012: US$9.5 million) as a result of German tax losses having been fully utilised in 2012.

**Cash used for investing activities** was US$344.2 million for the period ending 31 December 2013 (2012: US$54.3 million). Cash used in 2013 for investing activities consisted primarily of the net cash outflow of US$303.9 million in connection with the iWatt purchase and further investments in tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment totalling US$23.2 million (2012: US$35.0 million). The purchase of intangible assets was US$9.5 million (2012: US$13.4 million) and payments relating to capitalised development costs were US$6.0 million, flat to 2012.

**Cash flow from financing activities** was US$106.7 million in 2013 compared to US$200.7 million in 2012. The cash inflow in 2013 relates mainly to two debt facilities (in total US$115 million) related to financing activities for the iWatt acquisition of which US$10 million was pre-paid in Q4 2013. Further cash inflows resulted from share option exercises in connection with the Company's employee share option programme. 2012 cash inflow came primarily from the proceeds of a convertible bond issued in April 2012 (US$196.6 million).

## Statement of financial position

| | **At 31 December 2013 US$000** | At 31 December 2012 US$000 | Change US$000 | % |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents and restricted cash | **186,025** | 312,435 | (126,410) | (40.5) |
| All other current assets | **261,419** | 251,067 | 10,352 | 4.1 |
| **Total current assets** | **447,444** | 563,502 | (116,058) | (20.6) |
| Property, plant and equipment, net | **58,465** | 50,318 | 8,147 | 16.2 |
| Goodwill | **244,878** | 32,283 | 212,595 | >500 |
| Intangible assets | **148,591** | 51,789 | 96,802 | 186.9 |
| Investments | **1,531** | – | 1,531 | – |
| All other non-current assets | **1,608** | 1,335 | 273 | 20.4 |
| Deferred tax assets | **24,935** | 8,913 | 16,022 | 179.8 |
| **Total non-current assets** | **480,008** | 144,638 | 335,370 | 231.9 |
| **Total assets** | **927,452** | 708,140 | 219,312 | 31.0 |
| Liabilities and Shareholders' equity | | | | |
| Current liabilities | **163,024** | 142,650 | 20,374 | 14.3 |
| Non-current liabilities | **307,778** | 182,899 | 124,879 | 68.3 |
| Net Shareholders' equity | **456,650** | 382,591 | 74,059 | 19.4 |
| **Total liabilities and Shareholders' equity** | **927,452** | 708,140 | 219,312 | 31.0 |

*Liquidity*
At 31 December 2013, we had cash and cash equivalents of US$186.0 million (31 December 2012: US$312.4 million). The working capital (defined as current assets minus current liabilities) was US$284.4 million (31 December 2012: US$420.9 million).

Total non-current financial liabilities as of 31 December 2013 were US$265.7 million of which US$171.9 million represents the book value of the liability from the convertible bond (31 December 2012: US$164.2 million) and US$84.2 million relate to two additional debt facilities.

Up to July 2013, the Company had a three-year (2011-2014) revolving credit facility of US$35.0 million available for use that bears an interest rate of LIBOR +140bp. At 31 December 2012, we had no amounts outstanding under this facility. As of 16 July 2013, the facility was cancelled and replaced by a US$25.0 million revolving credit line facility (RCF), which is available until March 2017. At the end of July 2013, US$15.0 million was used from this RCF in order to finance the iWatt acquisition but US$10 million was subsequently pre-paid in December 2013. In addition to the RCF, Dialog Group entered into a Base Currency term loan facility in an aggregate amount equal to US$100.0 million.

In addition, we have two factoring agreements that provide the Company with up to US$75.0 million of readily available cash. Accordingly, we believe the funding available from these and other sources will be sufficient to satisfy our working capital requirements in the near to medium term if needed.

The balance sheet total was US$927.5 million at 31 December 2013 (31 December 2012: US$708.1 million). Cash and cash equivalents decreased by US$126.4 million or 40.5% to US$186.0 million at 31 December 2013 (31 December 2012: US$312.4 million). This decrease was mainly caused by the cash outflows from investing activities amounting to US$344.2 million to finance the acquisition of iWatt Inc. in July 2013 which was partly offset by cash inflows from operating (US$110.7 million) and financing (US$106.7 million) activities.

Other current assets increased from US$251.1 million at 31 December 2012 to US$261.4 million at 31 December 2013. The increase of 4.1% is mainly driven by US$42.7 million incremental trade accounts receivable but offset by a US$34.9 million reduction in inventories when compared to 31 December 2012.

Total non-current assets increased significantly; mainly driven by the iWatt acquisition in the third quarter 2013 that led to the recognition of goodwill of US$244.9 million (please refer to note 4 to the consolidated financial statements). Non-current assets totalling US$134.9 million were added to the Group's balance sheet during the initial consolidation of iWatt (please refer to note 4 to the consolidated financial statements for further information). In addition, we have invested into tangible and intangible assets for a total of US$35.0 million. These additions were more than offset by depreciation and amortisation charges in the amount of US$47.2 million. Furthermore, we have made a strategic equity investment into Arctic Sand Technologies, Inc. amounting to US$1.5 million; for further information please refer to our Q2 2013 interim financial statements.

Current liabilities increased by net US$20.4 million, which is mainly the result of the US$19.8 million increase in other current financial liabilities. This increase represents the short-term portion of the new debt facilities taken as a result of the iWatt acquisition.

The increase of non-current liabilities is mainly dominated by new debt facilities with a total fair value of US$84.2 million, the deferred tax liability of US$38.7 million relating to the purchase price allocation of the iWatt acquisition and the compounding of the convertible bond in the amount of US$171.9 million.

Net debt, which is defined as short- and long-term financial liabilities less cash was US$103.6 million at 31 December 2013. This compares to a net cash position (cash less financial liabilities) of US$131.7 million at 31 December 2012. This change is mainly related to the purchase of iWatt as explained above.

Shareholders' equity increased to US$456.7 million (US$382.6 million at 31 December 2012), which is mainly a result of our net profit (adjusted by expenses for share-based payments). The equity ratio was 49.2% (54.0% at 31 December 2012).

Jean-Michel Richard
CFO, Vice President Finance

# Corporate responsibility and sustainability

## An integral part of our strategy…

Corporate responsibility and a commitment to sustainable business practices are important to the Dialog business model and a central component of Dialog's strategy to deliver long-term profitable growth.

In addition to a commitment to environmentally sound business practices, which are set out below, a key aspect of corporate responsibility is a commitment to good corporate governance; and a responsibility towards the care and development of the Company's employees.

The Company has a strong commitment to corporate governance and details of Dialog's governance policies and practice are set out on pages 55 to 64.

### Sustainable, responsible and fair business practices

Dialog's commitment to sustainable and responsible business practices are woven into the fabric of the Company. Through innovative new technologies and environmental, employee or supplier policies, we strive to make a contribution to society and a difference in the world.

Dialog's focus and expertise in power management and power efficiency semiconductors contribute to enhanced power efficiency and lower power consumption for a range of personal portable devices and applications in the consumer products market.

Dialog's environmentally responsible approach to business underpins everything that we do. We aim to minimise our use of natural resources and reduce and eliminate all types of waste, following the principles of redesign, reduce and recycle. We are ISO 14001 certificated and require all our suppliers to be accredited to, and comply with, this environmental standard.

#### Redesign

Dialog offers a range of green IC solutions that minimise the number of components required within consumer electronic products, the energy they consume, and extend to their overall lifespan to reduce waste. In power management, our single chip solutions reduce the number of discrete components that need to be used within mobile devices, while delivering energy savings.

The Company also offers a range of low energy short-range wireless ICs for a range of smart home devices, including energy monitoring, metering and management applications. In 2012, Dialog began actively developing next generation, highly controllable LED (Light Emitting Diode) technologies to deliver better quality light within homes and offices, aiming to significantly reduce energy usage and enabling consumers to benefit from bulbs with an average lifespan of around ten years in comparison to just three to four years with Compact Fluorescent (CFL) bulbs.

#### Reduce

Dialog is working to systematically reduce $CO_2$ emissions and minimise the carbon footprint of our business, focusing on the impact of our design centres. The Carbon Disclosure Project recognised Dialog as one of ten successful companies achieving the "Scope-2-Indirect $CO_2$ Emission Reduction", with a reduction of 40% in our main design centres in 2013, which equates to 618 tonnes of $CO_2$ emissions. This follows a 34% reduction in 2012. Despite significant growth in our employee base we have already beaten our target of 30% by 2014.

In addition, we are actively reducing the quantity of hazardous substances used in our labs.

We take the scarcity of natural resources seriously and consider the conservation of raw materials, such as metals, to be a priority. Dialog continues to identify potential methods to improve existing technologies and substitute alternatives, such as copper for precious metals, to minimise our impact on the environment and reduced costs without sacrificing quality and performance.

#### Recycle

We have also implemented a rigorous recycling of precious metals, such as gold and silver, from waste and damaged products. In 2013, we increased the quantity of recovered gold by 61% (2012: 26%) and recovered silver by 300% (2012: 250%).

Dialog only uses packing material qualified as "green packing", and have implemented a "non-wood packing" delivery policy. We believe that reusing and recycling packing material and waste (including the PET and glass bottles used in our work areas) can contribute to the effectiveness of our resource management and sustainability. Our main five design locations currently recycle 95% of packing and waste, which is up from 92% in 2012. We are still considering the way to assess intensity emissions for our business.

> "Our main five design locations currently recycle 95% of packing and waste, which is up from 92% in 2012."

## Suppliers

As a fabless semiconductor company, it is important that all of Dialog's manufacturing partners are equally committed to respecting the environment. Within our supply chain, we continually emphasise that environmental issues should be an instinctive part of any decision-making process, and suppliers should:

- Design and manufacture only environmentally friendly products;
- Monitor, reduce and eliminate all types of waste. This includes waste water, solid waste, wasted energy, ozone-depleting $CO_2$ emissions and other volatile organic chemicals (VOC). We work with suppliers relentlessly to maximise yields, minimising the number of chips that fail performance tests and need to be disposed of, alongside hazardous substances used during the production process;
- Identify resource substitution and resource recovery processes and take steps to ensure that conflict minerals are not used in the manufacturing process; and
- Ensure all environmental permits are obtained, maintained and kept current.

### Human rights and 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 Electronics Industry Code of Conduct (EICC) standard as the model for our own "Code of Conduct" to try to ensure that working conditions for both external suppliers and employees are safe and that all workers are treated with respect and dignity. This is in addition to adopting principles from the International Labour Organization Standards (ILO), Universal Declaration of Human Rights (UDHR), Social Accountability International (SAI), and the Ethical Trading Initiative (ETI).

All labour must be given voluntarily and workers must be free to leave their employment on reasonable notice. Child labour must not be used at any stage of manufacturing. Working hours must not exceed the maximum set by local laws and wages must comply with all applicable laws. Dialog and its suppliers must ensure that workers are not threatened or subjected to inhumane or harsh treatment, harassment or any form of unlawful discrimination. Open communication and direct engagement between workers and management is encouraged, even in those countries where there is no meaningful legal protection.

### Health and safety

Dialog considers a safe and healthy working environment to be essential in the maintenance of morale, productivity and the production of high-quality, innovative products within our own operations and those of our suppliers. We are committed to implementing and facilitating continuous improvements and to mitigating operations-related risks. We expect our suppliers to provide evidence of suitable controls, safe working procedures, preventative maintenance and general protective measures in their working environments. When hazards cannot be adequately controlled by these means alone, suitable protective clothing or equipment is supplied and evacuation procedures and facilities are in place at Dialog's and suppliers' premises.

Every supplier is required to complete a self-audit questionnaire to identify and document compliance. We also carry out regular on-site audits of all of our major suppliers.

### Ethics

Dialog believes that continued success in the semiconductor market can be achieved only by adopting high standards of ethical behaviour when dealing with customers, suppliers and workers.

It is particularly important to protect Intellectual Property ("IP"), which is the key to ensuring the development of innovative solutions to complex problems. Any transfer of technology or know-how is always done in a manner that seeks to protect IP rights, but also enables us to discuss products openly with our business partners. The disclosure of information that is related to business activities, structure, our financial situation and performance is always carried out in accordance with applicable regulations and prevailing industry practices. We expect the highest standards of integrity from all Dialog stakeholders.

Any malpractice is strictly prohibited and may result in immediate employer or supplier termination and legal action.

*For further information on our commitment to sustainability and to download a copy of our report, please go to www.dialog-semiconductor.com/docs/investor/dialog-sustainability-2013.pdf*

# Corporate responsibility and sustainability continued

Neither we, nor our suppliers, offer or accept inducements or any other means of obtaining undue or improper advantage. We have a "whistle-blower" policy in place to protect employees' confidentiality and encourage our suppliers to do the same.

## Employees

Dialog has a highly diverse workforce, incorporating employees from 50 nationalities. Dialog takes equality and equal opportunity for all employees very seriously. Women comprise 15% of the overall workforce of 1,100 employees. Although this is in line with the industry standard, the Company is supporting various initiatives in the areas of STEM education for young women in the UK to encourage more women to pursue careers in engineering and electronic engineering. An example of this is the newly created Gary Duncan Women in Engineering Scholarship, which is currently supporting a second-year student from Imperial College London.

There is currently no female representation on our Board or Senior Management team.

### Continuous innovation and professional development

Dialog has an ongoing commitment to the training and development of all staff at all levels of the organisation, both in technical and non-technical areas. We seek to develop a positive learning culture which fully supports the development of the individual and the growth of the business.

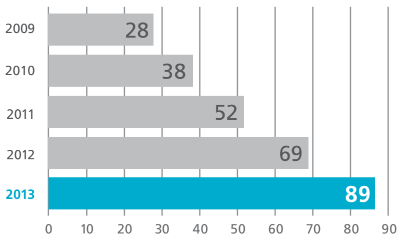
The Company has a global learning and development strategy, which is written to support both the development of the organisation and the individuals within it. The strategy supports the key aims of Dialog's annual and mid-term business plan. Everyone within the organisation has the opportunity to participate in a variety of training events, which feed into these key aims. Commitment to the professional development of our employees is directly responsible for a low employee turnover rate of 5.2% which has reduced from a rate of 9.6% in 2010.

Dialog won the 2013 NMI Training and Development Award in recognition of the internal training initiatives for its staff and also for the work done with schools and universities to encourage young people into electronic engineering. One of their recent graduates also won the NMI Young Engineer of the Year Award.

### Career development

Dialog has clear career levels and paths for those wishing to pursue a technical career or to focus on leadership and management. For example, Dialog has created a Technical Ladder, which provides promotional opportunities for those who bring great value to the Company through their technical expertise and want to focus their careers on that know-how, rather than on management and leadership. Employees who are successful in gaining a place on the Ladder spend around 20% of their time researching new innovation initiatives, developing our university partnership programmes, speaking at external and internal conferences, and delivering and participating in training opportunities.

**Investment in training and development (%)**

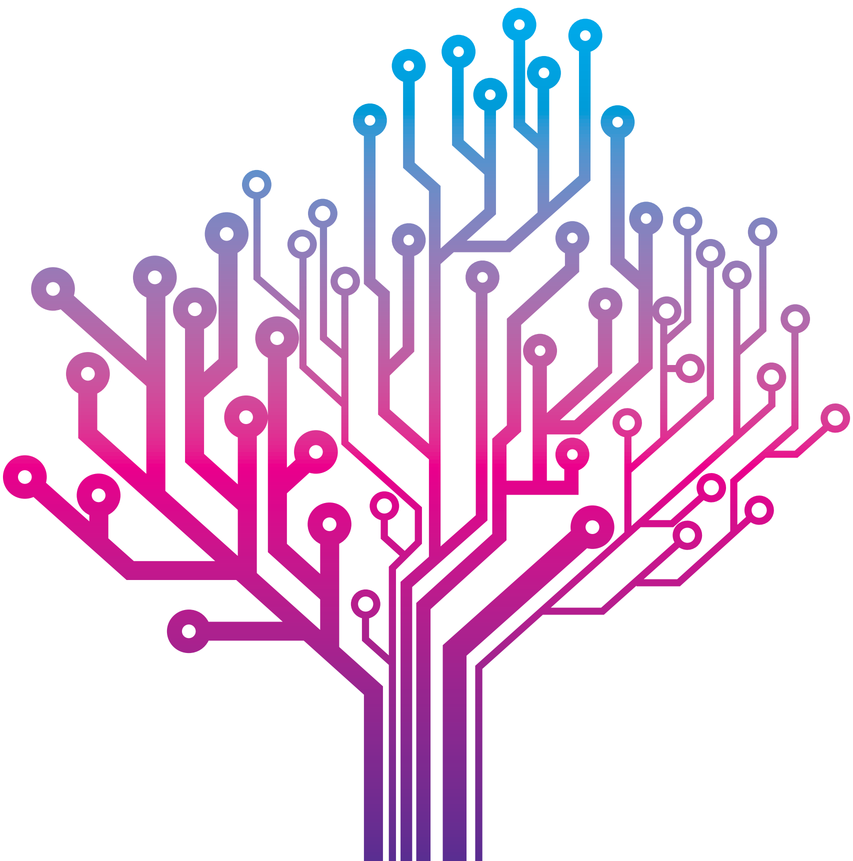



1,100
Employees

825
Engineers

21
Locations

14
Countries



### Work environment and communications

Clear and consistent communication is achieved through regular all-hands meetings, led by Dialog's CEO, to keep employees fully aware of Company matters that affect them. We encourage employee feedback at all levels for new ideas to improve business efficiency and performance.

Dialog has been implementing a programme of growth and investment in many of our locations, expanding facilities and work space. When we expand or refurbish a site, employee suggestions are incorporated to create an environment that both meets the Company's business needs while also being a pleasant place in which to work, which can have a positive impact on productivity levels.

Dialog is committed to supporting the health of its employees. Employees and their families are eligible to participate in non-contributory medical plans where local culture and practice supports this. Additionally, Dialog currently offers a selection of "well-being" initiatives across a variety of locations, including a free, on-site flu vaccination programme, cycle to work schemes and an on-site gym.

## Communities

Dialog's increased its contribution to charities and good causes in 2013, giving US$485,300 during the year (2012: US$122,560). The Company is putting in place a plan to continue to do more and has set a target of giving 1% of pre-tax profit to charity by 2015. We have a formal policy to match all employee contributions or funds raised for charitable causes that are important to our employees and the community.

Some examples of this include:

### Nabern, Germany

- Blood typing – Dialog are paying for its employees in Germany to have their blood type taken to see if they are a potential stem cell donor for cancer of the blood, a good example of employee volunteering and charitable donation.
- Equipment for children with disabilities – Dialog purchased a trampoline and a wheelchair swing. The equipment was installed by volunteer employees.

### Swindon, UK

- Oak and Furrows – the office has supported this local wildlife charity, who are relocating their facilities and require assistance with funding in order to survive. As well as providing a donation for an emergency hospital, there are multiple volunteering opportunities as well as team development activities.
- Swindon Cricket Club – Swindon Cricket Club is one of the oldest clubs in the UK, with a history reaching back nearly 175 years, and were in desperate need of funds in order to survive. Dialog sponsored necessary equipment in order for them to continue to train and develop young and upcoming players.

### Athens, Greece

- School in Athens – due to a serious lack of funding, Dialog provided money for computers, toys and equipment for children with Down's Syndrome.

### Campbell, US

- Employee matching – we have matched funds raised by employees in our Campbell office for local charities, including pancreatic cancer and scleroderma.
- Teacher sponsorship – we have sponsored a STEM teacher through her teacher training at a US university. She would have otherwise been unable to achieve this qualification. In return she will be teaching maths for a year to children in deprived areas.

### Global

- Football tournament – six offices competed in a football tournament held in Germany to raise money for their local charities, totalling US$22,000.

### University partnership programmes

Dialog runs a range of programmes globally to attract the brightest and best students of school and university age into the electronics industry and our Company. We sponsor 12 students (2012: 10) at leading universities, provide access bursaries, academic prizes, and also run a range of schools' outreach programmes.

In 2013, Dialog sponsored 10 electronics engineering students from Imperial College, York, Bristol, Manchester, Edinburgh and Southampton, through the UK Electronic Skills Foundation, an organisation that aims to encourage young people into electronics and develop sound links between universities and industry. We also provided industrial scholarships to students at Karlsruhe and Aalen universities in Germany, Edinburgh in the UK, Twente in The Netherlands, and Stanford in the United States. Scholars receive benefits such as a start-up bursary for books, an annual bursary, paid work placements, an opportunity for a summer job and an industrial mentor.

We give six "access bursaries" of £1,000 each at the University of Edinburgh to assist low-income engineering students and sponsor cash prizes at several universities, including Imperial College London, and a cohort of 10 universities in Tokyo. In September 2013, we sponsored a field trip for 20 electronic engineering students from the University of Twente in The Netherlands, who visited Japan to research the markets, Japanese universities, factories and businesses, including the Dialog design centre in Tokyo.

Dialog staff talked to school age children about the exciting world of the electronics industry, offered careers counselling and work experience placements for students, and run interactive electronics competitions. They have also developed a module for the University of Edinburgh MEng programme, and regularly act as guest lecturers at leading universities to help ensure young people come into the industry with the skills they need to thrive.

# Managing risk and uncertainty

Dialog's risk management process follows a sequence of risk identification, assessment of probability and impact, and assigns an owner to manage mitigation activities. The Company has delegated its coordination to an officer who interacts with the executive management, the internal auditors and the external auditors. All relevant risks are recorded in a risk register that is reviewed quarterly by the Audit Committee.

The following section describes how Dialog responds to those risks that are most relevant in respect of its business objectives.

## Market environment

Dialog operates in the fast-moving, highly competitive consumer electronics market. Consumer electronics manufacturers demand the best quality at lowest prices from their suppliers. Typical to our market are hypes, innovation, fast-rising leaders, mass production and global visibility. As a fabless semiconductor manufacturer, Dialog's high performance in the segments of operation is generated from its high degree of innovation and fast time-to-market.

| Risk | Actions | Progress in 2013 |
|---|---|---|
| **Consumers**<br>Dialog leads in providing a best quality IC solution to innovative consumer electronics. To keep this leading position and grow our business, we need to understand the market and convert trends into business opportunities. | Dialog invests in research and development to anticipate and respond to new market trends, rapidly implements new designs to meet customers' needs and keeps abreast of technological changes. | Dialog invested US$159 million or 17.6% of revenues in R&D in 2013 across a range of highly targeted areas. |
| **Economy**<br>Our ambition is to sustain growth, but the slowing growth of the semiconductor industry also affects the segments of our business. | Dialog broadens its market by entrance into new segments, either by in-house innovative product development or through acquisition. | In Q1 2013, we started to cooperate with Arctic Sand, a US start-up company, to develop next generation PMIC products.<br><br>In Q1 2013, we launched a new family of multi-touch ICs. This brings us into the high-volume PC market and Ultrabook™ market. This was the result of a partnership with FlatFrog, a Swedish company.<br><br>In Q2 2013, Dialog launched SmartBond™, the world's lowest power and smallest Bluetooth® Smart system-on-Chip (SoC) developed in-house.<br><br>In Q3 2013, Dialog acquired iWatt, adding two high-growth product families to the product portfolio; AC/DC charger adaptor ICs and a broad range of LED solid-state lighting ICs.<br><br>In Q3, we licenced Tensilica® Hi-Fi Audio/Voice DSP IP from Cadence Design Systems, to develop next generation audio solutions for our connectivity products. |
| **Competition**<br>Other parties in our industry may seek to yield from our technical innovations by duplication of our products or parts thereof. | Meanwhile we seek to protect our current business and our IP from being copied or used by others by appropriate use of patents, copyrights and trademarks on a global basis. | Dialog holds approximately 450 patent families including more than 110 patents held by iWatt at acquisition. |

*Key financial metrics can be found on page 2.*

## Business relations

We mitigate the cyclical volatility of our market by diversification of our product portfolio into new sectors and we broaden our customer base to reduce exposure to the potential loss of a major customer. We need to seek partnerships that are flexible to the fluctuations in demand and yet are able to ensure the continuity of production. We distribute our supply over multiple partners to prevent shortage in the event that one of our suppliers faces capacity constraints, financial problems or natural disasters.

| Risk | Actions | Progress in 2013 |
|---|---|---|
| **Suppliers**<br>Dialog outsources the capital intensive production of silicon wafers, packaging and testing of integrated circuits to leading suppliers in their area, mainly in Asia. Capacity constraints and business interruption can lead to shortage of supply, with various negative consequential effects as a result such as loss of revenue and adverse impact to the appreciation of Dialog's relation with its customers. | Dialog has forged close partnerships with all our suppliers and they have responded by investing in capacity to meet demand from our expanding customer base.<br><br>Dialog maintains intense interaction to plan and manage capacity with its suppliers. Dialog strives to source its large volume components from two different manufacturers and/or from different sites to mitigate the risk of disruption to supply. For each supplier the manufacturing quality, continuity of supply, financial health and social and environmental ethics are monitored. | Dialog works with a range of foundries and back-end vendors, mainly in Taiwan, China and Singapore to mitigate the risk of supply chain disruption and constraints. This geographical spread also helps prompt disaster recovery. |
| **Customers**<br>Since Dialog relies on a relatively small number of customers for a substantial proportion of our revenue, the loss of one or more of these customers would be likely to have a material effect. | We are seeking to reduce the risk of our revenues, profitability and growth being affected by a slowdown in the wireless communications market, by winning customers in other sectors and by broadening our product offering to existing customers. | During 2013, we extended our collaboration with Samsung to two new smartphone platforms.<br><br>The acquisition of iWatt Inc. in Q3 2013 added new Tier-1 customers and two new product families: AC/DC ICs and solid-state lighting ICs.<br><br>In Q4 2013, we announced a cooperation with Richtek to partner together in addressing the China smartphone and tablet market, using innovative solutions to leverage Dialog's technology and Richtek's sales channel. |

# Managing risk and uncertainty continued

## Operational excellence

Dialog recognises that time-to-market is a critical factor for the success of our customers. The efficiency of our internal operation is a relevant factor to our performance. We run programmes to drive continuous improvement through all facets of the value chain from design to fulfilment. We also test and evaluate the quality of the supporting business functions.

Our business model is fuelled by the funds trusted to Dialog to run its operations. We realise that our financial transactions bring the risk of currency and interest rate fluctuations and bad debts. We seek to ensure we have enough free cash flow to invest in growing our business and seek to select the right financial service providers and products.

| Risk | Actions | Progress in 2013 |
|---|---|---|
| **Design capacity**<br>Dialog develops both application-specific ICs per the demand of a single customer as well as application-specific standard products to address multiple customers in a market sector. Dialog respects that time-to-market for our customers is of importance to their success. With strong demand for new innovations and limited capacity of design engineers, we must balance the allocation of our resources to both our business models. | Dialog has selected specialised outsourced agencies to support the explosive recruitment of personnel.<br><br>In-house we dedicated human resource managers to drive the further development of our personnel and benchmark our employment terms to match industry top performers.<br><br>Unlike many of our peers we have a decentralised approach to research and development with teams in 14 countries. In a highly competitive talent market we believe this flexible approach is advantageous, allowing us to recruit talent from where it resides. | In 2013, we expanded our design capacity by 36%.<br><br>We further extended our pool of IC design engineers through the acquisition of iWatt in China and USA.<br><br>In 2013, we improved our product design methodology and trained all relevant employees to maximise process control and ensure the optimal output of design efforts. |
| **Supply chain**<br>Dialog runs a fabless model because of the highly capital intensive production environment. The manufacturing of our products runs over multiple stages of production with multiple suppliers. Each supplier must manage capacity to ensure a healthy financial return, leading to constraints in times of increasing demand. Long-term capacity planning and short-term fine tuning are crucial to align production cycle time with operable order lead times to our customers. | Dialog carefully selects its suppliers and regularly audits their quality and performance. We keep a very close relationship with intensive communication and have implemented automated feeds with our suppliers to ensure swift turnaround of production orders and to manage the transition of production stages over multiple manufacturing locations. We keep inventory buffers to respond to unplanned demand fluctuations, but manage these to consume a minimum of working capital. | We continue to enhance our Supply Chain Network Planning software, based on SAP, that supports the automated scheduling of production work orders taking into account the capacity constraints of our suppliers.<br><br>During 2013, we have extended our supplier audit programme to fully cover all aspects of business ethics and environmental control. We have published our first sustainability report over 2012. |
| **Interest rate fluctuations**<br>Interest earned from bank and money market deposits can vary according to market fluctuations and Dialog's cash requirements. | Dialog manages its interest income using a matched investment strategy with a mix of fixed and variable interest rate facilities in highly liquid funds, which are offered by highly reputable and rated financial institutions. This includes investing excess funds, even over the short term, once the operating business has been financed. | During the year, the Group has held cash on deposit with a range of maturities from one week to three months.<br><br>Dialog has long-term debt of US$265 million and no amounts outstanding under short-term credit facilities as at 31 December 2013 (2012: nil). |

*Read our Corporate Governance statement on pages 55 to 64.*

| Risk | Actions | Progress in 2013 |
|---|---|---|
| **Liquidity levels**<br>As a high-growth Company, we need to balance the need for liquidity with the avoidance of short-term overdrafts and bank charges. | We structure the maturity of our current financial assets in the Group to meet 100% of the respective maturities and liabilities. We monitor our liquidity on a quarterly basis, with the objective of avoiding interest on short-term bank liabilities or overdrafts. | We hold a US$25 million deposit with variable run-time at one month's notice. |
| **Currency fluctuations**<br>The majority of Dialog's revenue and expenses are in the US dollar currency. There are, however, foreign exchange risks associated with sales and purchases, recognised assets and liabilities in other currencies, primarily the euro and the pound sterling. | We use forward-currency contracts to seek to limit our exposure associated with the payment of salaries and wages in other currencies. We seek to maximise the effectiveness of our hedge derivatives by matching the terms and conditions of the hedge to those of the underlying obligation. | During 2013, Dialog executed forward contracts for €92 million at an average of 1.289 for EUR to USD. The average market rate was 1.328.<br><br>During 2013, Dialog executed forward contracts for £35.3 million at an average of 1.573 for GBP to USD. The average market rate was 1.563.<br><br>During 2013, Dialog executed forward contracts for ¥555 million at an average of 0.01254 for JPY to USD. The average market rate was 0.01025.<br><br>Total of forward transactions resulted in a positive impact of US$1.9 million compared to spot transactions. |
| **Creditworthiness of customers**<br>Dialog trades with selected customers on credit terms and receivable balances, which could create a risk of bad debts. | We view all our customers as having high creditworthiness. However, we have factoring agreements with two reputable financial institutions who assume a major part of the risks associated with the collection of receivables from selected customers. | During 2013, we booked one minor potential bad debt for an amount of US$14,000. |

**Jalal Bagherli**
CEO

20 February 2014

**Jean-Michel Richard**
CFO, Vice President Finance

20 February 2014

# Leadership – Dialog Board of Directors





The Board of Dialog currently comprises nine Directors, the maximum allowable under Dialog's Articles of Association. This includes one executive Director, one non-independent non-executive Director and seven independent non-executive Directors (including the Chairman).

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 Board with a rich resource and expertise to drive the continuing development of Dialog and advance the Company's commercial objectives. Director biographies are set out below and further details on the composition of the Board, and the Board's various sub-committees are detailed on pages 63 and 64.

### 1. Rich Beyer
**Chairman**

Rich joined the Board in February 2013 as an independent non-executive Director and was appointed Chairman in July 2013. Rich has a long-standing career in the technology sector.

He was the Chairman and CEO of Freescale Semiconductor from 2008 to 2012. Prior to this, he held successive positions as CEO and Director of Intersil Corporation, Elantec Semiconductor and FVC.com. He has also held senior leadership positions at VLSI Technology and National Semiconductor Corporation. In 2012, he was Chairman of the Semiconductor Industry Association Board of Directors and served for three years as a member of the US Department of Commerce's Manufacturing Council. He currently serves on the Boards of Analog Devices and Micron Technology Inc and previously served on the Boards of 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 Boards of Micron Technology Inc and Analog Devices Inc.

**Board experience** ● □

### 2. Dr Jalal Bagherli
**Executive Director (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 of the semiconductor industry, through his previous professional and executive positions at Sony Semiconductor and Texas Instruments, managing semiconductor product businesses and working with customers in the Far East, Europe and North America.

Jalal has a BSc (Hons) in Electronics Engineering from Essex University, and holds a PhD in Electronics from Kent University, UK.

**External appointments**
Jalal is a non-executive director of Lime Microsystems Ltd since 2005 and the Chairman of the Global Semiconductor Association Europe since 2011.

**Board experience** ● □

### 3. Chris Burke
**Independent non-executive Director**

Chris joined the Board in July 2006. He has a career of 30 years in telecoms and technology. Post his degree in Computer Science in 1982, he spent 15 years in Nortel Research and Development. Followed by technology business leadership roles as Chief Technology Officer (CTO) in Energis Communications (at the time of IPO into the London Stock Exchange), then CTO at Vodafone UK Ltd. Post-Vodafone Chris has made over 20 technology investments from his own investment fund, founded/co-founded a number of start-up companies, and provides a Strategy and Technology Advisory service for some of the biggest technology manufacturers in the industry as well both private and venture investors.

**External appointments**
Chris serves on the Board of public company Tranzeo Wireless, as well as the private company boards of Aicent, One Access and Navmii.

**Committee membership** S* R △

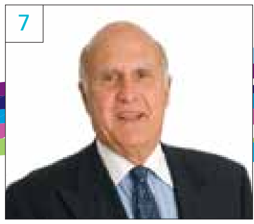
**Board experience** ● ○ □

### 4. Mike Cannon
**Independent non-executive Director**

Mike joined the Board in February 2013. His career in the high-tech industry spans 30 years, including over 10 years as CEO of two Fortune 500 companies. He was President, Global Operations of Dell from February 2007 until his retirement in 2009. Prior to joining Dell, Mike was the Chief Executive Officer of Solectron Corporation, an electronic manufacturing services company, which he joined as CEO in 2003. From 1996 until 2003 Mike served as CEO of Maxtor Corporation, a disk drive and storage systems manufacturer. He successfully led the NASDAQ IPO of Maxtor in 1998. Mike previously held senior management positions at IBM and Control Data Corporation.

Mike studied Mechanical Engineering at Michigan State University and completed the Advanced Management Program at Harvard Business School.

6

7

8

9


**External appointments**
Mike currently serves on the Boards of Adobe Systems Inc., Seagate Technology and Lam Research. He is a member of Adobe's Audit Committee and previously served for five years as Chairman of the Compensation Committee. He is also a member of both the Finance Committee and Nominating & Governance Committee at Seagate; and, a member of the Nominating & Governance and Audit Committees at Lam Research.

Committee membership **R* N**

Board experience ● □

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

**External appointments**
Aidan has a part-time executive role in leading UK private software company Corelogic Limited. He is also an investor and adviser to a number of international private technology companies.

Committee membership **A* N S**

Board experience ● ■ □

### 6. John McMonigall
**Independent non-executive Director, Senior Independent Director**
John joined the Board in March 1998. He joined Apax Partners Worldwide LLP in 1990 and was responsible for investments in telecommunications, electronics and software. He has served on the boards of a number of listed companies, including Autonomy Corporation until its sale in 2011, and currently serves on the boards of several private companies. In 2012, John was appointed the Senior Independent Director at Dialog.

**External appointments**
John is a Chairman of three private companies and is a Trustee of two charities.

Committee membership **A N**

Board experience ● ■ □

### 7. Gregorio Reyes
**Non-Executive Director**
Gregorio joined the Board in December 2003 and served as Chairman from 2006 to July 2013. He has been working in the semiconductor, data storage, magnetic recording and telecommunications industry since 1962. Gregorio began his career with National Semiconductor, followed by executive positions with Motorola Inc. and Fairchild Semiconductor Inc. He was President and CEO of National Micronetics from 1981 to 1984, and Chairman and CEO of American Semiconductor Equipment Technologies from 1986 to 1990. He co-founded Sunward Technologies in 1985 and was Chairman and CEO until 1994. He is currently non-executive Chairman of LSI Corporation and a non-executive Director of Seagate Technology.

**External appointments**
Gregorio is currently non-executive Chairman of LSI Corporation and a non-executive Director of Seagate Technology. He is a member of the Audit Committee and the Finance Committee at Seagate.

Board experience ● □

### 8. Russ Shaw
**Independent non-executive Director**
Russ joined the Board in July 2006 and has over 20 years' senior marketing and brand management experience in the technology, telecoms and financial services sectors. Russ most recently served as the Vice President & General Manager for Skype, with responsibilities for its Mobile Division as well as Europe, Middle East and Africa. Previously, he was at Telefonica, where he was the Global Director of Innovation. Before joining Telefonica, he was the Innovation Director at O2, which he joined as Marketing Director in 2005. Russ is a past Chairman of the Marketing Group of Great Britain, is senior adviser to Ariadne Capital and Founder and Chairman of Tech London Advocates.

**External appointments**
Russ is currently a non-executive Director for Unwire A.p.S. and Cupid Plc.

Committee membership **N* R △**

Board experience ● ○ □

### 9. Peter Weber
**Independent non-executive Director**
Peter joined Dialog in February 2006. He has 35 years' experience, gained at a broad range of companies in the semiconductor and communication sectors, including Texas Instruments, Intel, Siliconix, the Temic Group and Netro Corporation. Since 1998 he has been an investor and management consultant, and is a director of a number of companies in Europe, the US and Asia. Peter holds an MSEE degree in communications engineering.

**External appointments**
Peter is a Director of a number of private companies.

Committee membership **A R S △**

Board experience ● ■

### Committee Membership
**A** = Audit Committee
**N** = Nomination Committee
**R** = Remuneration Committee
**S** = Strategic Transaction and Technology Committee
***** denotes Chair of the committee

### Board experience
● Technology
○ Telecommunications
■ Finance
□ Governance
△ A previous member of the Remuneration and Nomination Committee which was separated into two Committees in May 2013

# Leadership – management team

1

2

3

4

5


### 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 of the semiconductor industry, through his previous professional and executive positions at Sony Semiconductor and Texas Instruments, managing semiconductor product businesses and working with customers in the Far East, Europe and North America.

Jalal is a non-executive director of Lime Microsystems Ltd since 2005 and the Chairman of Global Semiconductor Association Europe since 2011. He has a BSc (Hons) in Electronics Engineering from Essex University, and holds a PhD in Electronics from Kent University, UK.

### 2. Andrew Austin
**Senior Vice President, Sales**

Andrew joined Dialog in April 2009. He was previously a Sales and Marketing consultant specialising in the semiconductor and high-performance sports industries. He has extensive experience of the semiconductor industry through his previous professional positions at Texas Instruments and Raytheon Systems. Andrew holds a degree in Electrical and Electronics from Hertford University.

### 3. Christophe Chene
**Senior Vice President, Asia**

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

### 4. Mohamed Djadoudi
**Senior Vice President, Global Manufacturing Operations and Quality**

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

### 5. Gary Duncan
**Senior Vice President, Product Development**

After 26 years of successful continuous dedication to Dialog, Gary Duncan retired in September 2013. In his last role as Vice President, Product Development Gary was responsible for all IC design and development activities.

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

Udo joined Dialog in May 2006. He is responsible for the Audio and Power Management Business Unit, which makes products for the mobile phone and portable consumer markets. He has over 20 years' experience in the semiconductor industry, gained in general management, senior marketing and engineering at Robert Bosch GmbH, Sony Semiconductor and Infineon Technologies. Udo holds an Electronic Engineering degree from the University for Applied Sciences, Mannheim.

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

Sean joined Dialog in November 2012. Sean has more than 15 years' experience in RF semiconductor businesses, introducing innovative business models and leading organisations to rapid growth. Prior to Dialog he was General Manager of the Smart Home & Energy group at NXP and General Manager of the RF Power and Base Stations business at NXP/Philips Semiconductors. He previously held senior roles at Philips Semiconductors and Mikron Austria GmbH, focusing on the RFID and connectivity markets. Sean holds an honours degree in Geophysics and Geology from Harvard University and an MBA with distinction from INSEAD.


### 8. Martin Powell

**Senior Vice President, Human Resources**

Martin joined the Company in July 2010 and is responsible for developing and driving people strategies in support of Dialog's business goals and initiatives worldwide, including fostering an environment where Dialog's teams can thrive. Prior to Dialog, Martin has held a variety of senior and executive HR roles with Medtronic Inc., General Electric (GE) and the Dell Corporation. Most recently he was a member of the executive team at C-MAC MicroTechnology, a private equity-backed leader in the high reliability electronics sector. During his career Martin has been located in Asia, continental Europe as well as the UK.

### 9. Jean-Michel Richard

**CFO, Senior Vice President Finance**

Jean-Michel joined the Company in September 2006 to head up its finance department. He was previously Finance Director for the Global Manufacturing and Technology Division of ON Semiconductor, in Phoenix, Arizona, and before that held senior finance and treasury positions at ON and Motorola, in Europe and the US. Jean-Michel holds a Masters in Economics from the University of Geneva, Switzerland.

### 10. Mark Tyndall

**Senior Vice President, Corporate Development and Strategy, General Manager Power Conversion Business Group**

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

### Vivek Bhan

Vivek Bhan joined Dialog in November 2013 and is responsible for overall direction of engineering and technology. 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 an MS in Electrical Engineering and an MBA from Arizona State University.

### Management team

| Name | Role | Tenure with Dialog years |
|---|---|---|
| Dr Jalal Bagherli | Chief Executive Officer | 8 |
| Andrew Austin | Senior Vice President, Sales | 4 |
| Christophe Chene | Senior Vice President, Asia | 2 |
| Mohamed Djadoudi | Senior Vice President, Global Manufacturing Operations and Quality | 6 |
| Gary Duncan | Senior Vice President, Product Development | 26 |
| Udo Kratz | Senior Vice President and General Manager, Business Group Mobile Systems | 7 |
| Sean McGrath | Senior Vice President and General Manager, Connectivity, Automotive and Industrial Business Group | 1 |
| Martin Powell | Senior Vice President, Human Resources | 3 |
| Jean-Michel Richard | CFO, Senior Vice President Finance | 7 |
| Mark Tyndall | Senior Vice President, Corporate Development and Strategy, General Manager Power Conversion Business Group | 5 |

Dialog has a strong and effective management team led by Chief Executive Officer, Dr Jalal Bagherli.

# 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 2013. 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 creates and markets highly integrated, mixed signal integrated circuits (ICs), optimised for personal portable, low energy short-range wireless, LED solid-state lighting and automotive applications. The Company provides customers with world-class innovation combined with flexible and dynamic support, and the assurance of dealing with an established business partner.

The Company is listed on the Frankfurt (FWB: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index. It also has convertible bonds listed on the Euro MTF Market on the Luxemburg Stock Exchange (ISIN XS0757015606). The Company is registered in the UK and the registered number is 3505161.

Further information on the principal activities of the business and the factors affecting future developments are detailed in the Group's Strategic report set out on pages 14 to 16. Information on treasury policies and objectives is included in note 2 to these financial statements.

## Future developments

The Group's stated objective is to be the leading global supplier of highly integrated, mixed signal integrated circuits (ICs), optimised for personal portable, low energy short-range wireless, LED solid-state lighting and automotive applications. The key aspects of the Group's strategy are set out in the strategic report on pages 14 to 16.

## Research and development (R&D)

The Group 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 research and development (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 Application Specific Integrated Circuits (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 the Dialog business model and a component of Dialog's strategy to deliver long-term profitable growth. Our commitment to environmentally oriented, sustainable business practices is evidenced in our commitment to continue to reduce $CO_2$ emissions and minimise the carbon footprint of our business. We achieved a reduction of $CO_2$ emissions of 40% in our design centres in 2013 and this follows a 34% reduction in 2012. Further details on the Group's commitment to sustainable and environmentally friendly business practices are set out on pages 40 to 43.

## Going concern

The Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue for the foreseeable future. The Group holds US$186 million of cash at the year end (2012: US$312 million) and has continued access to a US$25 million borrowing facility. The Group 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

The Directors do not recommend the payment of a dividend for 2013 (2012: nil). They are committed to re-investing all profits into the business and believe that this policy is currently in the best interests of its Shareholders.

## Purchase of own shares

The Company operates an Employee Benefit Trust, which purchases 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 2013, the Trust held 2,097,799 shares, which represented 3.08% of the total called-up share capital, at a nominal value of £209,780.

## 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 21 to the consolidated financial statements.

## Substantial shareholdings

Details of substantial shareholdings are on page 78 of this annual report.

## Directors

The Directors, together with their biographies, are listed on pages 48 and 49 of this report.

## Powers of Directors

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

## Directors' remuneration and interests

Directors' remuneration and interests are detailed in the Directors' remuneration policy report on pages 65 to 74 of this report. No Director had a material interest during the year ended 31 December 2013 in any contract of significance with any Group Company.

## Directors' third-party indemnity provisions

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

## Election and re-election of Directors

In accordance with the Company's Articles of Association, one-third of the Directors have to stand for re-election at the Annual General Meeting. Any Director who has been on the Board for more than nine years is subject to annual re-election. The next Annual General Meeting will be held on 1 May 2014 at 9am.

## Corporate Governance

The Company's Corporate Governance statement is set out on pages 55 to 64 of this report.

## Supplier payment policy

It is the Group's policy to pay creditors in accordance with the terms and conditions agreed with them, and in accordance with contractual and other legal obligations. Days payable outstanding for the Group at 31 December 2013 were 65 days (2012: 81 days).

## 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 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 detailed list of risks and their management are set out on pages 44 to 47 of this report.

## Financial instruments

The Group's financial risk management and policies, and exposure to risks, are set out on pages 136 to 141 of this report.

## Political and charitable contributions

The Group made no political contributions during the period. Dialog made charitable contributions of US$485,300 to local community projects (2012: US$122,560).

## 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 2013, Dialog operated from 21 locations in 14 countries with a highly diverse workforce, incorporating employees from 50 nationalities.

Dialog takes equality and equal opportunity for all employees very seriously. Women comprise 15% of the overall workforce of 1,100 employees. Although this is in line with the industry standard, the Company is supporting various initiatives in the areas of STEM education for young women in the UK 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.

## 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 48 and 49 of this report. Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors affirms that:

- To the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- They have taken all reasonable steps to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

# Directors' report continued

## Responsibility statement under the disclosure and transparency rules

Each of the Directors listed on pages 48 and 49 of this report confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and

- The Strategic report and the Directors' report include a fair, balanced and understandable review of the development and the 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

## Takeovers directive

At 31 December 2013, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the share capital can be found in note 21 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

- Employees of the Company are not allowed to trade in shares or exercise options in certain close periods (such close periods normally start two weeks before the end of each quarter and end 48 hours after the release of the financial results)

Details of changes in share capital can be found in note 21 to the consolidated financial statements. The Company did not purchase its own shares in treasury during 2013.

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.

In the case of a change of control of the Company, the CEO's contract is extendable to 12 months' notice. Ordinarily, the CEO's contract provides for six months' notice on either side during which only basic pay and benefits are payable. There is no acceleration of bonus on a change of control. The CEO has no entitlement to a bonus if his employment is terminated before the end of the bonus year unless his employment is terminated after 1 October in any year. In this case he is entitled to a pro rata bonus for that year. Other factors impacted by a change in control, such as the redemption rights of bondholders and the impact on share options are disclosed in the relevant section to these financial statements.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occur because of a takeover bid. The agreement between the Company and its Directors for compensation for loss of office are given in the Director's remuneration policy report on page 70 of this report.

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

## Annual General Meeting

The notice convening the Annual General Meeting will be published separately and posted on the Company's website. The meeting will be held at Tower Bridge House, St Katharine's Way, London E1W 1AA on 1 May 2014 at 9am.

## Auditors

In accordance with Section 384 of the Companies Act 2006, a resolution for the reappointment of Ernst & Young LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

**Dr Jalal Bagherli**
Director

20 February 2014

# Corporate Governance statement

**Dear Shareholder,**

Dialog continues to grow and develop as a business and made significant progress during 2013. In addition to continued progress on the execution of its strategy, the Board of Dialog continues to enhance its oversight and Corporate Governance practice including the continuing review of the skills and experience of the Board; and, the development of the company's Corporate Governance policies. We publish, on our website, our own Corporate Governance principles which have regard to the UK Combined Code and other best practice corporate governance policies. These have been updated as of January 2014 and are updated on an ongoing basis. We have complied with these principles during the year ended 31 December 2013.

During 2013, as part of the process of ongoing Board refreshment and renewal – and to ensure that the Company has a Board which comprises the appropriate skills and expertise to drive the business through its next stage of development – two new Directors were appointed to the Board.

In February 2013, Mike Cannon and Rich Beyer joined the Board and both have made a strong and significant contribution since their appointment.

The Board also appointed Rich Beyer to succeed Gregorio Reyes as Chairman with effect from 23 July 2013. Greg has been Chairman of Dialog for seven years and been central to the growth of the business during that period. Dialog has created significant value for Shareholders under his stewardship. Recognising the value he has brought to the Board, the Directors agreed that Greg remain on the Board as a Director. His leadership, talent and expertise have been a great asset to Dialog and we are pleased to have had his continued involvement as a Director. Greg has indicated he will not seek re-election to the Board at the AGM on 1 May 2014 and we would like to record our appreciation for his significant contribution to Dialog over many years.

Rich brings with him significant experience both within the technology sector and as leader of a publicly listed company. Rich served as the Chairman and CEO of Freescale Semiconductor, a NYSE listed manufacturer of microcontrollers, microprocessors and other semiconductors, from March 2008 to June 2012. He retired from the Freescale Board in April 2013.

Prior to his role at Freescale, he held successive positions as CEO and Director of Intersil Corporation, Elantec Semiconductor and FVC.com. He has also held senior leadership positions at VLSI Technology and National Semiconductor Corporation and served as an officer in the US Marine Corps. In 2012, he was Chairman of the Semiconductor Industry Association Board of Directors and served for three years as a member of the US Department of Commerce's Manufacturing Council. He currently serves on the Boards of Micron Technology Inc. and Analog Devices Inc., both NASDAQ listed semiconductor companies. There is no doubt that Rich is uniquely placed to lead Dialog in the next phase of its development and we are fortunate to have a Chairman of his calibre.

Following the appointment of Mike and Rich to the Board, we continued to review the composition of the Board as a whole to search for new Directors to broaden and deepen our collective skills and expertise and also to replace the position left vacant on the retirement of CB Yoon. Mike and Rich bring significant sector expertise and our objective in seeking an additional Director will be to find an individual with a strong financial background who will, over time, assume the role as Chair of the Group's Audit Committee.

Dr Chang-Bun Yoon, who joined our Board in April 2012 as an independent Director, stepped down from his role at Dialog in August 2013. The decision to step down followed his appointment as the Senior Secretary to the President for Future Strategy by the President of the Republic of Korea.

In view of this new role and the expected time commitment, CB Yoon took the decision to resign as a Director of Dialog. We would like to record our appreciation to CB Yoon for his valuable contribution to Dialog and wish him every success in his new governmental role in South Korea.

During 2013, given the evolving regulatory and governance environment, we also reviewed the number and composition of our Board sub-committees. This time last year, we had three Board sub-committees: Audit; Remuneration and Nomination; and Strategic Transaction and Technology. After careful review and consultation with advisers on changes to remuneration disclosure requirements in particular, it was decided to separate responsibility for remuneration and nominations into two committees.

We now have separate Remuneration and Nomination Committees chaired by Mike Cannon and myself respectively. Corporate Governance is a matter for the Board as a whole; however, the Board delegates much of the responsibility for review of the Group's Corporate Governance practice to relevant Board sub-committees.

The changes we have made to the composition of your Board during 2013 position us well for the future. We have the range and depth of skills and expertise to lead Dialog in its next stage of development.

As a Board, we are open to feedback from Shareholders and our Senior Independent Director, John McMonigall, is available to Shareholders as are the Chairman and Chief Executive. All Directors are also available at the Group's Annual General Meeting 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.

Russ Shaw
Chairman, Nomination Committee

# Corporate Governance statement continued

The Board of Dialog Semiconductor is committed to maintaining high corporate governance standards to protect the interests of all stakeholders. Such principles reflect a range of guidelines which apply to the Company given its status as a UK incorporated, Frankfurt Stock Exchange listed company. In this context the Company has published on its website its Corporate Governance principles which have regard to the UK Combined Code and other best practice corporate governance policies. These have been updated as of January 2014 and are updated on an ongoing basis.

## Board of Directors – role and responsibilities

As Dialog is incorporated in the UK and follows governance principles which have regard to the UK Combined Code and other best practice governance principles, it maintains a single Board structure. The Board has overall responsibility for the leadership, control and oversight of the Company. The day-to-day responsibility for the management of the Company has been delegated by the Board to the Chief Executive Officer, who is accountable to the Board. The Chief Executive Officer executes this authority through an executive management team outlined on pages 50 and 51 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 Chief Executive Officer, 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, Chief Executive, other Directors and the Board sub-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 on 23 July 2013 and was determined by the Board to be independent on his appointment to the Board. The Chairman is responsible for the effective working of the Board while the Chief Executive Officer (CEO), together with the executive management team, is responsible for the day-to-day running of the Company. The functions of Chairman and CEO are not combined and both roles' responsibilities are clearly divided.

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

## Board composition

The Board currently comprises nine Directors who are listed below. During 2013, Rich Beyer and Mike Cannon were appointed to the Board as independent non-executive Directors. Details on their recruitment are set out below. Chang-Bun Yoon also served as a Director on the Board during 2013 up until his retirement on 22 August 2013.

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 Board with a rich resource and expertise to drive the continuing development of Dialog and advance the Company's commercial objectives. In addition, the geographic background of the Board is diverse and it includes Directors who have worked in North America, Europe and Asia. Director biographies are set out on pages 48 and 49.

## 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 48 and 49.

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. Consistent with this policy John McMonigall, given his tenure on the Board,

| Director | Status | Independent/Non-independent | Tenure years | Concurrent tenure* years |
|---|---|---|---|---|
| Rich Beyer | Current | Independent (Chairman) | 1 | 1 |
| Dr Jalal Bagherli | Current | Non-independent (Executive) | 8 | N/A |
| Chris Burke | Current | Independent | 7 | 7 |
| Mike Cannon | Current | Independent | 1 | 1 |
| Aidan Hughes | Current | Independent | 9 | 8 |
| John McMonigall | Current | Independent | 16 | 8 |
| Russ Shaw | Current | Independent | 7 | 7 |
| Gregorio Reyes | Current | Non-independent | 10 | 8 |
| Peter Weber | Current | Independent | 8 | 8 |
| Chang-Bun Yoon | Retired | Independent | – | – |

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

is appointed for a one-year term and subject to annual re-election. The standard terms of the letter of appointment of non-executive Directors are available, on request, from the Company Secretary. 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.

Consistent with a commitment to ongoing Board refreshment and renewal, two new Directors were appointed to the Board in 2013. The Nomination Committee engaged in a process to appoint new Directors who would bring specific industry experience to the Board. An additional objective was to recruit Directors who had experience serving on the Boards of publicly listed companies. Candidates were identified through a variety of methods. The Nomination Committee engaged external search and recruitment agents to identify potential candidates and to assist in selecting and recommending candidates. The recruitment agent has no other relationship with Dialog other than in the role to assist in the identification and recruitment of Board Directors. Informal industry contacts were also used. The Committee, which is committed to achieving a greater level of gender diversity on the Board over time, made considerable effort to ensure that gender was a significant consideration factor in the identification of potential candidates in addition to relevant industry and public company board experience.

Following a thorough process, candidates met with Committee members and the Chairman prior to appointment. Rich Beyer and Mike Cannon were appointed to the Board on the strength of industry experience and skills and the value they can bring to the Board of Directors as a whole for the benefit of all Dialog Shareholders.

During the year, Chang-Bun Yoon stepped down from the Board. Gregorio Reyes has indicated he will not seek re-election to the Board at the AGM on 1 May 2014.

## Board size

At the end of 2013, the Board comprised nine Directors. A maximum of 10 Directors is allowable under Dialog's Articles of Association. The nine members of the Dialog Board includes one executive Director, one non-independent, non-executive Director and seven independent, non-executive Directors (including the Chairman). The Nomination Committee has reviewed the size and performance of the Board during the year. A Board of nine Directors has and continues to function effectively; comprises the skills, knowledge and experience required by Dialog; is not so large as to be unwieldy; and meets Corporate Governance best-practice guidelines on independence.

## Board independence

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

The Company has determined that Chris Burke, Mike Cannon, Aidan Hughes, John McMonigall, Russ Shaw and Peter Weber and are independent. While the Company views Gregorio Reyes as independent in character and judgement, given his prior role as Chairman, the Board has deemed him a non-independent non-executive Director in line with Corporate Governance best practice. The Chairman, Rich Beyer, was independent on his appointment to the Board. The Company's Chief Executive Officer, Dr Jalal Bagherli, is the only executive Director on the Board.

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

As part of its annual review, the Board specifically considered the independence of Mr John McMonigall given his tenure on the Board. When assessing the potential impact of tenure on any Director's independence, the Board views the issue of concurrency with executive Directors as central to that process. The Board's unanimous view is that Mr McMonigall's independence and objectivity, as evidenced by his continuing valuable contribution at Board meetings, is in no way compromised by his length of tenure on the Board. The Board also believes that his industry experience and contribution to the continuing development of Dialog is of significant benefit to the Board as a whole.

While the Board is satisfied that Mr McMonigall is wholly independent, in line with the best-practice principles, as he has been a member of the Board for in excess of nine years, he is subject to annual re-election by shareholders. The Board also notes that Aidan Hughes has reached an absolute tenure of nine years on the Board and will be nine years concurrently on the Board during 2014. The Board intends to review the composition of each of its Board sub-committees during the course of 2014.

## Senior Independent Director

The Board has appointed John McMonigall as Senior Independent Director. He is available to Shareholders who have concerns for which contact through the normal channels of Chairman or Chief Executive Officer has failed to resolve or for which such contact is inappropriate. He is available to meet Shareholders on request.

The Board recognises that tenure on a Board may be perceived as a factor that could compromise the independence and objectivity of a Director. As set out above, the unanimous view of the Board is that John McMonigall's independence and objectivity, as evidenced by his continuing valuable contribution at Board meetings, is in no way compromised by his length of tenure on the Board.

# Corporate Governance statement continued

| 2013 Board and sub-committees | Notes | Board | Audit | Remuneration[6] | Nomination[6] | Strategic Transaction and Technology[4] |
|---|---|---|---|---|---|---|
| **Number of meetings in 2013** | | 5 | 5 | 5 | 5 | 3 |
| Meetings attended | | | | | | |
| Richard Beyer | 1 | 4 | | 2 | | |
| Dr Jalal Bagherli | | 5 | | | | |
| Chris Burke | | 5 | | 5 | | 3 |
| Michael Cannon | 2 | 4 | | 2 | 3 | |
| Aidan Hughes | 3 | 5 | 5 | | 3 | 3 |
| John McMonigall | | 5 | 4 | | 2 | |
| Russ Shaw | | 5 | | 5 | 5 | |
| Gregorio Reyes | | 5 | | | | |
| Peter Weber | 4 | 5 | 3 | 5 | | 3 |
| Chang-Bun Yoon | 5 | 2 | 3 | | | |

Notes:
1 Richard Beyer was appointed to the Board on 14 February 2013 and attended all Board meetings since the date of his appointment. He has also attended all meetings of the newly established Remuneration Committee during his appointment to that Committee.
2 Michael Cannon was appointed to the Board on 14 February 2013 and attended all Board Committee meetings since the date of his appointment. He has also attended all meetings of the newly established Remuneration Committee since his appointment to that Committee.
3 Aidan Hughes has attended all meetings of the newly established Nomination Committee since his appointment to that Committee.
4 Peter Weber has attended all Audit Committee meetings since his appointment to that Committee.
5 Chang-Bun Yoon stepped down from the Board on 22 August 2013.
6 The first two meeting of the Remuneration Committee and Nomination Committee were combined and the members were Russ Shaw (Chair), Chris Burke and Peter Weber.

Aidan Hughes, Chairman of the Audit Committee; Russ Shaw, Chairman of the Nomination Committee; Mike Cannon, Chairman of the Remuneration Committee; and, Chris Burke, Chairman of the Strategic Transaction and Technology Committee are also available to Shareholders should they have specific concerns or issues relevant to their respective Committees.

### Audit Committee Financial Expert

The Board has determined that Aidan Hughes, who chairs the Audit Committee, has recent and relevant financial experience and is the Audit Committee financial expert. He is a qualified chartered accountant; a Fellow of the Institute of Chartered Accountants in England and Wales; and has significant experience as a senior accountant and Finance Director at a number of public companies. His biography is set out on page 49.

### 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.

### Board meetings

The Board holds at least five Board meetings each year. The Board may meet more frequently as required. The number of meetings of Board sub-committees each year varies by Committee.

There were five Board meetings in 2013. The attendance at Board and sub-committee meetings by the Directors who held office in 2013 is set out above. The Board places considerable importance on attendance at both scheduled Board and sub-committee meetings. During the year, no Director attended less than 75% of scheduled Board meetings to which they were entitled to attend. At scheduled Board meetings, the Board also meets without the executive Director present.

There were changes to the number (and composition) of Board sub-committees during 2013. Specifically, in May 2013, the Remuneration and Nomination Committee was separated into two committees. Following the change to the number of Committees, there was one instance where one Director was unable to attend one of the three Committee meetings held following the change to Committee structure and membership. The Board recognises the importance of meeting attendance and expects Directors to generally attend at least 75% of scheduled Committee meetings annually. Given the changes to the composition and number of Board Committees this year, the Board recognises there were scheduling issues which meant that John McMonigall was unable to join one of the three scheduled Nomination Committee meetings following the establishment of that Committee. However, John attended 100% of all Board meetings and over 75% of Audit Committee meetings during 2013.

### Director induction and continuing development

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

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

### Director training and development

The Board is committed to a programme of periodic training and development of its Directors. As part of this process, at least one Board meeting is held at the location of one of the Company's international offices each year. During 2013 one Board meeting was held at the Company's office in Nabern, Germany and another was held at the Company's office in Los Gatos, California.

The Company has also put in place a process of periodic training sessions for Directors which are facilitated by a third party. In June 2013, the Board received a presentation and training session on "Anti-Bribery and Corruption".

At the Board meeting held in February 2014, a presentation and training session on "Corporate Reputation and Crisis Management" was facilitated.

### 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. An annual, internal review was conducted in December 2013 and follows a similar process which was undertaken in 2011 and 2012. It is conducted anonymously and is co-ordinated by the Company Secretary. The findings of the review will be presented to the Board in 2014 for consideration and the implementation of related recommendations.

The Board also recognises the merit in an independent third-party evaluation process and intends to engage a third party to conduct an evaluation during calendar 2014. In addition, in line with the Company's updated Corporate Governance guidelines, the non-executive Directors will meet during 2014 to review the performance of the Chairman. From 2014 onwards, this will become an annual review process.

### 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. The Company welcomes the participation of the non-executives on the Boards of other companies. To avoid potential conflicts of interest, non-executive Directors inform the Chairman of the Nomination Committee before taking up any external appointments. Details of the non-executive positions of each Director are set out under individual biographies which are detailed on pages 48 and 49.

### Directors' fees

The annual fee for non-executive Directors is £80,000. The annual fee for the Chairman is £110,000. The Chairmen of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategic Transaction and Technology Committee receive an additional fee of £10,000 for their role on that Committee. The other Committee members receive no additional fee for serving on those Committees. Details of the activities of these Committees during 2013 are set out on pages 63 and 64.

Directors' fees are paid in cash. Non-executive Directors are not eligible to participate in the Company's bonus or share award schemes. In the past, non-executive Directors were awarded share options. This is no longer the practice at Dialog and no share options will be awarded to non-executive Directors in the future.

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 Directors' remuneration is inclusive of any Director's fee. Further details are set out in the Directors' report on remuneration which begins on page 52.

# Corporate Governance statement continued

| Audit Committee | Nomination Committee | Remuneration Committee | Strategic Transaction and Technology Committee |
|---|---|---|---|
| Aidan Hughes (Chair) | Russ Shaw (Chair) | Mike Cannon (Chair) | Chris Burke (Chair) |
| John McMonigall | John McMonigall | Chris Burke | Aidan Hughes |
| Peter Weber | Aidan Hughes | Russ Shaw | Peter Weber |
| | Mike Cannon | Peter Weber | |
| 100% independent (3 of 3) | 100% independent (4 of 4) | 100% independent (4 of 4) | 100% independent (3 of 3) |

## Share ownership and dealing

Details of Directors' shareholdings are set out on page 78. 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 the Market Abuse (Directive 2003/6/EC) Regulations).

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 five 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 section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz).

## Loans to Directors or senior executives

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

## Board sub-committees

The Board has established four permanent sub-committees to assist in the execution of its responsibilities. These are the: Audit Committee, Remuneration Committee, Nomination Committee and Strategic Transaction and Technology Committee. During 2013, given the evolving regulatory and governance environment, the Board reviewed the number (and composition) of its Board sub-committees. Consequent upon that review and, in particular, the increased burden on the Remuneration Committee due to evolving regulation and disclosure requirements, the Board decided to separate responsibility for remuneration and nominations into two separate committees.

Ad hoc committees are formed from time to time to deal with specific matters.

The composition of the Board sub-committees, as at 20 February 2014, is set out above. Attendance at meetings held in 2013 is set out in the table on page 58.

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 sub-committee attends the Annual General Meeting and is available to answer Shareholder questions. The reports of each of the Board sub-committees are set out on pages 63 and 64 of this report.

## 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 generally accepted accounting principles in accordance with International Financial Reporting Standards.

The Company maintains an investor relations section on its website: www.dialog-semiconductor.com/investor-relations. This contains copies of investor presentations and annual reports as well as providing other financial statements and corporate press releases.

There is regular discussion between Company management and analysts, brokers and institutional Shareholders, ensuring that the market is appropriately informed on business activities. Dialog hosted a day of presentations and product displays, for institutional investors and analysts, in September 2013. The event was attended by Dialog's senior management team as well as members of the Board of Directors.

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 Stock Exchange. Under S.15a of the German Securities Trading Act (Wertpapierhandelgesetz) transactions in the Company's shares carried out by members of the Board of Directors and their family members are reported and published without delay.

Dialog's shares are listed with Clearstream Germany as legal owner. As far as the Company is aware, based on TR-1 notifications received, those holding a significant beneficial interest (i.e. greater than 3%) in the Company as of 31 December 2013 and as of 12 February 2014 were:

| | |
|---|---|
| 6.9% | Deutsche Bank AG |
| 5.12% | Black Creek Investment Management |
| 3.9% | Kleinwort Benson (Jersey) Trustees (2011) Limited as Trustee of the Dialog Semiconductor plc Employee Benefit Trust |

Dialog's free-float is 65,971,131 or 96.9% of the outstanding shares. The free-float is calculated by excluding the 2,079,799 shares held in the Dialog Semiconductor Plc Employee Benefit Trust.

The free-float includes the following shares held on behalf of discretionary clients as per the share register on 31 December 2013.

| | |
|---|---|
| BNP Paribas Securities Services | 6,585,572 |
| Citigroup Global Markets | 4,726,182 |
| The Bank of New York Mellon SA/NV | 3,894,662 |
| RBC Investor Services Trust | 3,735,605 |
| Clearstream Banking S.A. | 3,277,641 |
| Chase Nominees Ltd | 3,230,903 |
| CACEIS Bank France | 3,146,379 |
| Nortrust Nominees Limited | 2,706,714 |
| State Street | 2,130,831 |

## Internal control and risk management

In accordance with the EU Transparency Directive (DTR 7.2.5), the Board of Directors and Audit Committee acknowledge that they are responsible for the Company's process of internal control and risk management and for reviewing its continuing effectiveness. 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 44 to 47.

The Company has an ongoing process of identifying, evaluating and managing risk. This process is reviewed in accordance with the EU Transparency Directive. The process was in place during 2013 and up to the date of the approval of the 2013 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 report

The Board of Directors has established an Audit Committee and has delegated authority to this 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.

The Audit Committee comprises only independent non-executive Directors. The committee currently comprises Aidan Hughes (Chairman), John McMonigall and Peter Weber. There was a change to the membership of the Audit Committee in 2013 as Dr CB Yoon retired during the year. Peter Weber joined the Committee in his place.

As set out on page 49, the Board has determined that Aidan Hughes has recent and relevant financial experience and is the Audit Committee financial expert. He is a qualified chartered accountant; a Fellow of the Institute of Chartered Accountants in England and Wales; and has significant experience as a senior accountant and Finance Director at a number of public companies. The other members of the Audit Committee have a wide range of business experience, which is evidenced by their biographies on pages 48 and 49.

The Board also notes that Aidan Hughes has reached an absolute tenure of nine years on the Board and will be nine years concurrently on the Board with the CEO during 2014. The Board will seek to appoint a further independent Director to the Board in 2014 with recent and relevant financial experience. During the course of 2014, it is expected that this Director will also join and, in time, assume the role as Chair of the Audit Committee.

# Corporate Governance statement continued

## Meetings

The Audit Committee meets a minimum of four times a year. During 2013, the Committee met five times. Attendance at meetings held is set out in the table on page 58. The Committee also meets privately with the internal and external auditors and separately with the executive management and executive Director.

The Audit Committee's main responsibilities include to:

- review and advise the Board on the integrity of the financial statements of the Company, including the annual report, quarterly financial statements and other formal announcements relating to the Company's financial performance
- review and advise the Board on the effectiveness of the Company's internal controls
- review the nature and scope of the work performed by the external and internal auditors, the results of their audit work and the response of the management team;
- make recommendations on the appointment and remuneration of external auditors and to monitor their performance and independence
- approve and monitor the policy for non-audit services provided by the external auditors to ensure that the independence and objectivity of the auditors is not compromised

In order to fulfil its duties, the Committee receives sufficient, reliable and timely information from the Dialog management team.

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

## Activity in 2013

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

- the Audit Committee reviewed the 2012 full-year results announcement issued in February 2013
- the Audit Committee reviewed the annual report and financial statements – including the report of the external auditor – for the year ended 31 December 2012 issued in February 2013
- the Audit Committee reviewed the quarterly financial statements issued in May, July and October 2013
- the Audit Committee considered whether or not to recommend the reappointment of the external auditor
- the Audit Committee reviewed the external audit plan presented by the external auditor in advance of the audit for the year ended 31 December 2013
- the Audit Committee approved the annual internal audit plan and received and reviewed internal audit reports including the annual assessment and review of internal controls, and
- the Audit Committee reviewed and monitored the effectiveness of the Group's risk management process

## External auditor

The Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. This policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee and day-to-day responsibility to the Chief Financial Officer.

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

The external auditor has committed to inform the Chairman of the Audit Committee of any grounds for disqualification or impartiality of the auditor occurring during the audit, unless such grounds are eliminated.

The external auditor has committed to report to the Audit Committee, without delay, on all facts and events of importance that should be brought to the attention of the Board of Directors, which come to light during the performance of the audit, including the Company's financial performance and compliance with the Company's Corporate Governance principles.

The external auditor takes part in Audit Committee meetings on the annual consolidated financial statements and reports on the essential results of its audit.

## External auditor and non-audit work

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

- May be required to audit his/her own work
- Would participate in activities that would normally be undertaken by management;
- Is remunerated through a "success fee" structure
- 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.

Details of the amounts paid to the external auditor during the year for audit and other services are set out on page 108. The Audit Committee has adopted a policy that except in exceptional circumstances with the prior approval of the Audit Committee non-audit fees paid to the Company's auditor should be capped at a maximum of 100% of audit fees in any one year.

During 2013, the non-audit fees paid to the external auditor represented over 100% of the audit fee. Dialog has a policy that non-audit fees should not exceed audit fees save in exceptional circumstances. The majority of fees paid for non-audit services in 2013 relate to due diligence and other work on the acquisition and integration of the iWatt business and a specific corporate tax planning exercise. The Audit Committee carefully considered whether this work, and the related non-audit fees, could, or could be perceived to, compromise the independence and objectivity of the external auditor. The Audit Committee concluded that it did not, in any way, compromise their independence and objectivity. However, the Committee committed to ensure, to the extent appropriate, that such work would, in future, be conducted by another audit firm where the appointment of another audit firm would not: compromise the integrity of such work; increase the likelihood of a leak of information or result in a dramatic increase in fees for Dialog.

As set out in the Company's Corporate Governance principles, Dialog is committed to putting out the statutory audit to tender every ten years. The Company's existing external auditor, Ernst & Young, was appointed in 2006. As part of good governance practice, the lead audit partner was rotated in 2011 after a period of five years.

## Nomination Committee

During 2013, the Board reviewed the number and composition of its Board sub-committees. After careful review and consultation with advisers on changes to remuneration disclosure requirements in particular, it was decided to separate responsibility for remuneration and nominations into two committees.

The new Nomination Committee comprises Russ Shaw (Chair), John McMonigall, Aidan Hughes 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 agency to assist with the recruitment of new Directors. The firm, Russell Reynolds, is an independent third party and has no other connection with Dialog.

During the year the Committee met formally on five occasions, the first two of which were as the combined Remuneration and Nomination Committee. Attendance at scheduled meetings is set out on page 58.

### Responsibilities

The primary role of the Committee is to regularly review Board structure, size and composition and make recommendations to the Board; and identify and nominate Board candidates for approval by the Board. The Committee is also responsible for succession planning for Directors.

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 2013

The key activities of the Committee during the year were:

- Reviewed composition of the Board to ensure the Directors have the skills and expertise to effectively oversee the implementation of the Group's stated strategy
- Identify and recruit new Directors to the Board: two new Directors were recruited during the course of 2013
- Reviewed existing Board sub-committee structure and recommended to the Board to separate remuneration and nomination into two separate committees

# Corporate Governance statement continued

## The Remuneration Committee

During 2013, as set out above, the Board reviewed the number and composition of Board sub-committees. After careful review and consultation with advisers on changes to remuneration disclosure requirements, in particular, it was decided to separate responsibility for remuneration and nominations into two committees.

The new Remuneration Committee comprises Mike Cannon (Chair) Chris Burke, Russ Shaw and Peter Weber. The Committee comprises only independent non-executive Directors. Rich Beyer served on the Committee during 2013 and attended two meetings. He also served as Chairman of the Committee during this period. He stepped down from the Committee at the second of these two meetings following his appointment as Chairman of the Board.

By invitation, other members of the Board may attend the Committee's meetings. The CEO and the 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 Towers Watson, which is a signatory to the Remuneration Consultants Group Code of Conduct and any advice was provided in accordance with this code. Towers Watson provided no other services to Dialog during 2013. Towers Watson has no other connection with the Company other than as adviser on issues relating to remuneration. Remuneration advice was provided in 2013 and also in the prior year, 2012.

During the year the Committee met formally on five occasions, the first two of which were as the combined Remuneration and Nomination Committee. In addition, the Committee Chairman held a number of meetings with advisers. Attendance at scheduled meetings is set out on page 58.

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

### Responsibilities

The Remuneration Committee's main responsibilities include to:

- Determine the salaries and incentive compensation of the Company's officers and the officers of the Company's subsidiaries;
- Provide recommendations for other employees and consultants as appropriate; and
- Administer the Company's compensation, stock and benefits plans.

### Activity in 2013

The key activities of the Committee during the year were:

- Review 2012 Annual General Meeting outcome
- Review and approve Executive Management compensation
- Discuss and review senior level talent; and,
- Review, plan and recommend CEO remuneration to the full Board

Details of 2013 remuneration and Dialog's remuneration policy are set out in the Director's remuneration report on pages 65 to 74.

## Strategic Transaction and Technology Committee

The Board has established a Strategic Transaction and Technology Committee and has delegated authority to this Committee to review, evaluate and make recommendations in relation to strategic transactions (such as acquisitions, disposals or licensing arrangements) and the Company's technology and the technological market in which it operates.

The Strategic Transaction and Technology Committee comprises only independent non-executive Directors. The members during the year were Chris Burke (Chair), Aidan Hughes and Peter Weber.

During the year the Committee met formally on three occasions. Attendance at scheduled meetings is set out on page 58.

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 2013

During the year, the Committee reviewed and determined the criteria and focus of the Company in terms of technology enhancement and potential M&A activity. This included assessment, review and oversight of the acquisition of the iWatt business in 2013.

# Directors' remuneration policy report

## Annual statement from Mike Cannon, Chairman of the Remuneration Committee

I am pleased to present our report on Directors' remuneration at the end of another very successful year. The Committee believes that the performance of our CEO, Jalal Bagherli, has been once again outstanding throughout 2013. Under his strong leadership Dialog has continued to expand at a rapid pace in line with our ambitions for sustained success in an increasingly competitive industry.

Our approach to pay for executive Directors has developed over time, reflecting Dialog's growth and development. When the CEO was hired the Company was still at a relatively early stage in its development and expansion. The CEO's primary objectives were to establish and execute effective growth and profitability strategies, as a result, pay arrangements approved by Shareholders were put in place in 2008/09 that supported the achievement of these objectives. Like many companies in this phase of development, we provided awards of options to acquire Dialog shares, along with short-term incentive arrangements designed to drive high growth in profitability, which in turn has been the primary driver of share price appreciation.

These arrangements were successful and the CEO has led the Company through a period of extraordinary growth. During a period of very challenging market conditions the Dialog share price grew from 70 cents at the end of 2008 to its current level of €15.64 at the end of 2013. As shown on page 80, an investment of €100 made in Dialog shares in 2008 would be worth €2,450 at the end of 2013. A corresponding investment in either of the most relevant share indices would be worth an average of around €232, meaning that Dialog has outperformed these indices by a factor of approximately 10x or 1,000%.

As a result of this growth, awards of options made to the CEO under the previous LTI plan, as approved by Shareholders at the 2008 AGM, had significant value at the time when many of these options vested in 2011. This value appears in the single figure table on page 75. The value vesting to the CEO in 2011 reflects the value generated by Dialog for investors over this period.

Since 2010/11, the Company's strategic focus has evolved to include product and market diversification in addition to profitable and sustained growth. The growth strategy since 2012 has been underpinned by virtue of two significant acquisitions. The structure of a much larger and mature Dialog incorporates a truly global profile. The Remuneration Committee has recognised this in the incentive arrangements in place for the CEO which have moved to reflect a larger global enterprise, bringing with it new challenges in respect of competitive factors, retention and appropriate incentivisation.

Accordingly, steps have been taken to address base pay, annual bonus arrangements, and long-term compensation under the current Shareholder EIP (Executive Incentive Plan). The CEO is subject to stretching annual objectives set by the Board; his annual bonus plan is subject to a minimum profitability gate and any award that meets the criteria for an allocation of deferred shares, these shares must be held for three years.

The Remuneration Committee closely monitors the CEO's compensation, allied to personal performance against predetermined objectives, competitive pressures as well as, at all times, the ongoing development, success, health and vitality of the Company.

At all times the Board of Directors and the Remuneration Committee are focused on ensuring that our pay practices for executive Directors are consistent with serving the best long-term interests of the Company and its Shareholders.

The following guiding principles characterise our key compensation objectives:

- Pay for performance at all times, align reward appropriately for the achievement of demanding stretch targets
- Align pay with a balance of short-term and medium- to long-term objectives in mind
- Ensure our pay metrics are competitive when compared to global market practices for our industry
- Observe and always strive to meet best practice transparency and United Kingdom governance standards, mindful of the sensitivity necessary in relation to our key commercial data and measurements

The Committee considers it essential to ensure that our executive Directors' pay arrangements are fully aligned with our ambitions for the Company and at the same time recognise the need to apply a clear commitment to governance and shareholder engagement so that our executive Directors' pay reflects the views of our Shareholders and good corporate governance.

**Mike Cannon**
Chairman, Remuneration Committee

# Directors' remuneration policy report continued

## 1.1 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.

During 2013, the Committee reviewed its remuneration objectives and determined that they remain fit-for-purpose. The Committee believes that a simple approach is most effective and the key elements of executive remuneration are fixed pay – including base salary, benefits and pensions – annual bonus and a long-term incentive. A significant portion of remuneration is linked to, and paid in, Company shares, which enables alignment with Shareholder interests and reinforces our pay for performance philosophy. The Committee believes that executives should hold a meaningful number of shares personally. The individual remuneration elements operated for executives are described in more detail in the policy table below. Since there is currently only one executive Director – the CEO – we refer to remuneration for the executive Director, the executive Directors and the CEO interchangeably throughout this report.

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

- The history and growth profile of the Company
- The Company's UK incorporation and associated corporate governance expectations
- The Company's international focus, operations and talent market
- The general external environment and the market context for executive pay, and
- The pay and employment practices of Dialog employees generally

## 1.2 Directors' remuneration policy table

The table below summarises Dialog's remuneration policy for executive Directors and – where indicated – for non-executive Directors. It is designed to give the Remuneration Committee the ability over the life of the policy – expected to be three years – to make decisions without the need to seek Shareholders' approval on an annual basis. The policy is intended to take effect from the 2014 AGM although the Remuneration Committee proposes that in practice the policy framework described will apply from 1 January 2014 subject to approval by Shareholders at the 2014 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 those for other UK-based Dialog employees with comparable levels of individual performance and potential.<br><br>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 taking effect in July. A number of factors are considered including but not limited to market pay levels among a group of international industry peers and FTSE 250 companies, and base salary increases for other Dialog employees. |
| Performance framework | n/a |

| Retirement benefits | Executive Directors |
|---|---|
| Purpose and link to strategy | Provide market competitive retirement benefits which help foster loyalty and retention.<br><br>The value of contributions made by Dialog is consistent with those for other Dialog employees. |
| Maximum opportunity | Executive Directors are provided with a pension arrangement with a cost to Dialog of 9% of base salary, the same cost as for all other UK employees. Dialog also contributes half of the employer National Insurance contributions saved through the salary sacrifice. The pension arrangement facilitates an accelerated provision of pension for the executive through a salary sacrifice arrangement. |
| Operation | The executive Directors are provided with a defined benefit pension arrangement. Each year an amount of pension is purchased by a contribution that is paid by the Company and the executive contributes to the cost by a salary sacrifice. The amount of pension secured each year is an amount that will not increase between now and pension age.<br><br>Newly appointed executive Directors may participate in the plan described here or in the Company's Defined Contribution plan, with a maximum employer contribution of 9% of base salary. |
| Performance framework | n/a |

| Other benefits | Executive Directors |
|---|---|
| Purpose and link to strategy | Provide market competitive benefits at an appropriate cost which help foster loyalty and retention.<br><br>Relocation benefits may also be provided based on business need, individual circumstances and location of employment. |
| Maximum opportunity | The total annual value of benefits will not exceed 10% of base salary except in cases where relocation applies. The Committee retains discretion to approve a higher cost in exceptional circumstances or where factors outside the Company's control have changed materially, e.g. increases in insurance premiums.<br><br>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 in line with those for other UK employees, 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. |
| Performance framework | n/a |

# Directors' remuneration policy report continued

| 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.<br><br>Create a tangible link between annual performance and individual pay opportunity. |
| Maximum opportunity | Annual "base bonus" of up to 200% of salary.<br><br>The Committee retains discretion to adjust the overall bonus to take account of performance outside the normal bounds.<br><br>In addition, a "further bonus" may be paid, equivalent to 1% of the Group's annual consolidated profit after tax and interest but before extraordinary items, less the value of the maximum base bonus described above (i.e. 200% of salary). Further bonus awards may not be deferred into shares and are not eligible for invested awards under the EIP. This further bonus will not apply to new or future executive Directors. |
| Operation | Awards in respect of performance up to 100% of base salary are paid in cash, and awards in respect of performance above target are paid in deferred shares.<br><br>Deferred shares must be held for three years. Up to 100% of an executive Director's cash bonus can be voluntarily deferred in shares at his/her election.<br><br>The Committee may vary the performance measures and mix used to adapt to changing Company circumstances. Financial measures will be a significant portion. |
| Performance framework | Performance metrics include:<br><br>• Financial goals (which determine a significant portion of bonus every year)<br>• Commercial goals, and<br>• Organisational and employee-related goals<br><br>For financial metrics, performance is set in line with the stretch annual budget.<br><br>Full details of performance measures and targets will be disclosed in the annual report on remuneration following expiration of the relevant performance period except where the Committee considers them to be commercially sensitive. In cases where details are commercially sensitive, the Committee will explain its rationale and commit to disclosure in the future where appropriate. |

| Executive incentive plan ("EIP") | Executive Directors |
|---|---|
| Purpose and link to strategy | Motivate executive Directors to deliver sustainable long-term Shareholder value through long-term profitability and share price growth. |
| Maximum opportunity | The maximum level of the "basic award" is US$2,750,000. For each share deferred in annual bonus, an additional share will be awarded under the EIP (an "invested award").<br><br>The maximum value of the invested award is 200% of salary, which assumes receipt of maximum bonus and deferral of the total cash amount in shares. |
| Operation | Annual award delivered in performance shares (structured as options with nominal exercise price). Performance is measured over three years, based on three annual targets.<br><br>Vesting is dependent on continued employment with the Company at the time of vesting. Certain "leaver" provisions apply and are described in the section headed "Termination Arrangements" below. |
| Performance framework | Performance metrics are entirely based on Company financial performance (75%) and a share price-based condition (25%). The Committee reviews and selects appropriate measures and their weightings in advance of each award.<br><br>For the Company financial performance component, targets are set annually over the three-year performance period of the EIP.<br><br>For each annual period a third of this part of the award is banked based on actual Dialog performance against targets set at the beginning of each year.<br><br>20% of awards vest for threshold performance, 40% vest for target performance and 100% for maximum performance as defined by the Remuneration Committee under the plan.<br><br>Shares banked during the performance period are released to executive Directors as soon as practicable after the third anniversary of the award.<br><br>For the share price condition, targets are measured on each of the three anniversary dates of the award and a third of this part of the award is banked provided the share price is higher than at any previous measurement point.<br><br>Full details of performance measures and targets will be disclosed in the annual report on remuneration following expiration of the relevant performance period except where the Committee considers them to be commercially sensitive. In cases where details are commercially sensitive, the Committee will explain its rationale and commit to disclosure in the future where appropriate. |

# Directors' remuneration policy report continued

| 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 where appropriate. |
| Maximum opportunity | The Company will provide six months' notice of termination or payment in lieu of notice. 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.<br><br>The notice period provided will extend to 12 months on a change of control of Dialog.<br><br>Where applicable, executive Directors are also entitled to receive payment on termination in lieu of holiday accrued but not used.<br><br>In the event that an executive Director is terminated during a financial year, his/her entitlement to an annual bonus award in respect of that year will be limited as follows:<br><br>• If termination occurs prior to 1 October in any year, no bonus will be paid in respect of that year.<br><br>• If termination occurs on, or after, 1 October in any year, and subject to the leaver provisions included in the EIP plan rules and described below, a time pro-rated bonus award may be paid following the end of the year and in accordance with full-year performance against targets.<br><br>Termination provisions also apply under the EIP – these are as follows:<br><br>• If an executive Director is not employed by the Company at the time of vesting the award will lapse, except in circumstances as determined by the Board including death, disability and retirement. 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 number of awards vesting will be reduced in accordance with the period of service.<br><br>• In the event of a change in control of the Company, EIP shares will vest and be released at the discretion of the Board and in accordance with performance against targets assessed at the time of the change of control and all deferred shares shall vest and be released. If an offer to exchange is made and accepted by an EIP award holder, or the Board so determines, shares subject to the award will be exchanged for shares in the new company on equivalent terms. |

| | Non-executive Directors (Chairman's fee) |
| --- | --- |
| Purpose and link to strategy | Supports recruitment and retention of a Chairman with the experience and skills that will make a major contribution to the Dialog Board. |
| Maximum opportunity | The maximum annual fee increase is consistent with that described above for executive Directors. |
| Operation | Fees are provided entirely in cash and may be reviewed annually. The Chairman's fee is determined by the executive Directors with input from the Remuneration Committee. |
| 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. |

| | Non-executive Directors' fee |
|---|---|
| Purpose and link to strategy | Supports the recruitment of non-executive Directors with appropriate experience and skills. |
| Maximum opportunity | The maximum annual fee increase is consistent with that described above for executive Directors. |
| Operation | Non-executive Directors receive an annual fee paid in cash plus additional fees for chairing a Board Committee where relevant.<br><br>Fees may be reviewed annually by the Chairman and executive Directors. |
| 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. |

## 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 consistent with 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 the table above.
- 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. The Remuneration Committee will in all cases be guided by reasonable market practice and will take appropriate advice where necessary.

# Directors' remuneration policy report continued

The table below outlines policy in respect of recruitment where it differs from that outlined in the table above. Policy in respect of other components of pay is unchanged in recruitment situations from that outlined above. Note that only the fee section applies 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:<br>• the candidate's existing salary/fee, location of employment, skills and experience and expected contribution to the new role<br>• the previous incumbent's salary/fee for the same role<br>• the current salaries/fees of other Dialog Directors<br>• current relevant market pay data for the role<br>• 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 one 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 EIP 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, EIP 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 or "buy-out" forfeited remuneration when recruiting an external candidate by providing additional awards under the EIP. The Committee may also in such situations – where it considers it strictly necessary – remove the performance conditions attached to vesting of all or a portion of such awards.<br><br>Where a "buy-out" is deemed to be necessary, the structure and level will be carefully designed in accordance with the recruitment principles above. "Buy-out" awards will be subject to continued employment for an appropriate period and "clawback" provisions in the event that the individual resigns or is terminated. An explanation of the basis of any "buy-out" will be provided as soon as practicably possible after appointment. |

## Clawback and malus policy

Under the rules of the deferred bonus plan and the EIP, the Remuneration Committee is entitled to cancel or clawback some or all of a participant's deferred shares, invested shares or EIP shares 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.

## Contract terms

The CEO's contract provides for six months' notice on either side (which is extendable to 12 months' notice in the case of a change of control), during which only base salary and benefits are payable, and bonus if he is employed at the year end as described in the termination arrangements section above.

## 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) will vest in 2015. No further options were awarded in 2013 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, outlined in the table above and the sections that follow it, is similar to that for all other Dialog employees. Differences in policy are outlined below.

- Retirement benefits – other Dialog employees participate in the Company's defined contribution pension plan. The value of contributions made by the Company is consistent for all UK employees including executive Directors at 9% of base salary. Retirement provisions in locations other than the UK are operated in accordance with local market practice and their value varies by location.

- 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.

- EIP – participation in the EIP is limited to around 30 Dialog employees including executive Directors, individuals in other senior roles, and other key employees. Deferral of bonus into invested awards is limited to executive Directors.

- Notice periods – most other UK employees' contracts of employment include three-month notice periods.

# Directors' remuneration policy report continued

## Indicative remuneration levels resulting from policy

The graphs below represent the pay mix between the different elements of remuneration for the CEO, assuming threshold, target and maximum performance.

The scenarios shown below are based on the following assumptions:

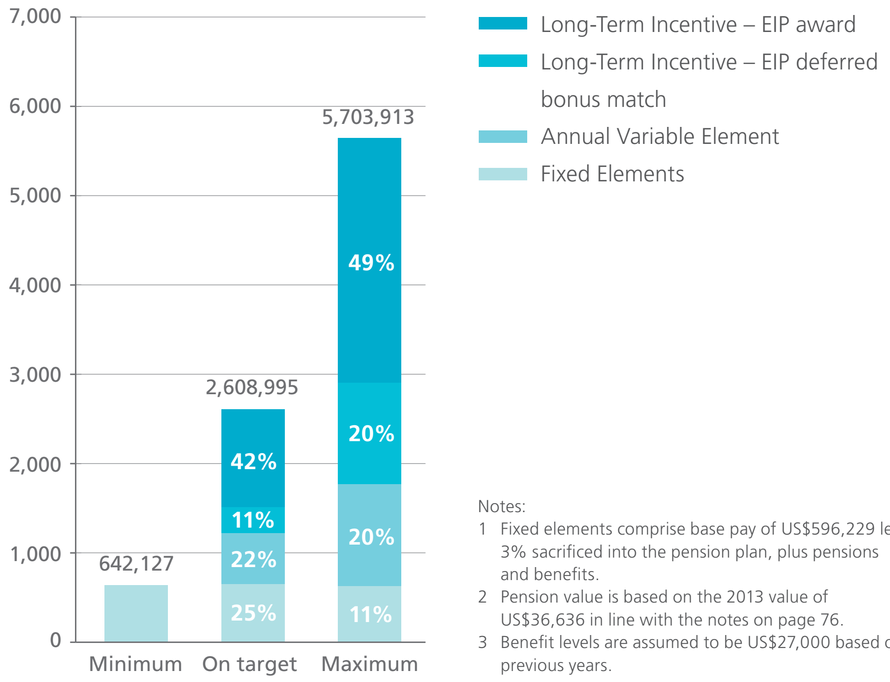
- Minimum performance: fixed pay only (base salary, benefits and pension;
- Target performance: fixed pay, annual bonus of half maximum opportunity (100% of salary) and 40% of maximum EIP award vesting (we assume the CEO voluntarily defers 50% of his cash bonus and receives additional shares under the EIP accordingly); and
- Maximum performance: fixed pay, maximum annual bonus of 200% of salary and 100% of maximum EIP award vesting (including EIP shares provided as a result of assumed investment of 100% of cash bonus – for simplicity we assume no change in salary over the period). Note that this scenario assumes maximum performance is achieved under both the annual bonus and the long-term incentive plans. Long-term incentive plan performance is measured over a three-year period as described in the policy table on page 72

## Stakeholder views

Shareholder proxy advisory groups are engaged when the Company is considering material changes to policy, including approval of any new share plans, as was the case in 2013 in respect of the 2012 reporting year. In 2013, such groups were informed of changes to the CEO's base salary, as explained in last year's Directors' remuneration report.

There is no formal engagement with employees on matters of executive remuneration but employees are encouraged to provide their view on any aspect of the Company's operations through the Company's intranet-based feedback system VP Blog.

### Chief Executive




Notes:
1 Fixed elements comprise base pay of US$596,229 less 3% sacrificed into the pension plan, plus pensions and benefits.
2 Pension value is based on the 2013 value of US$36,636 in line with the notes on page 76.
3 Benefit levels are assumed to be US$27,000 based on previous years.

# Annual report on remuneration

## Audited information

| Incumbent | Year | Total salary US$[1] | Benefits US$ | Pension US$ | Total fixed pay US$[2] | Annual bonus US$[3] | LTI award US$[4] | Total variable pay US$[5] | Total excluding LTI awards US$[6] | Total US$[7] |
|---|---|---|---|---|---|---|---|---|---|---|
| Dr Jalal Bagherli | 2013 | 501,631 | 26,767 | 36,636 | 565,034 | 1,097,104 | 157,885 | 1,254,989 | 1,662,139 | 1,820,023 |
| Dr Jalal Bagherli | 2012 | 475,005 | 27,094 | 138,905 | 641,004 | 1,053,333 | 472,887 | 1,526,220 | 1,694,337 | 2,167,224 |

| Incumbent | Year | Total fees US$ | Benefits US$ | Other remuneration US$ | Total US$ |
|---|---|---|---|---|---|
| Chris Burke[8] | 2013 | 126,340 | – | – | 126,340 |
| Chris Burke | 2012 | 84,477 | – | – | 84,477 |
| Aidan Hughes | 2013 | 128,945 | – | – | 128,945 |
| Aidan Hughes | 2012 | 95,037 | – | – | 95,037 |
| John McMonigall | 2013 | 114,618 | – | – | 114,618 |
| John McMonigall | 2012 | 84,477 | – | – | 84,477 |
| Gregorio Reyes[9] | 2013 | 137,085 | – | – | 137,085 |
| Gregorio Reyes | 2012 | 116,156 | – | – | 116,156 |
| Russ Shaw | 2013 | 128,945 | – | – | 128,945 |
| Russ Shaw | 2012 | 95,037 | – | – | 95,037 |
| Peter Weber | 2013 | 114,618 | – | – | 114,618 |
| Peter Weber | 2012 | 84,477 | – | – | 84,477 |
| Chang-Bun Yoon | 2013 | 70,107 | – | – | 70,107 |
| Chang-Bun Yoon | 2012 | 63,358 | – | – | 63,358 |
| Richard Beyer[10] | 2013 | 114,292 | – | – | 114,292 |
| Richard Beyer | 2012 | – | – | – | – |
| Michael Cannon | 2013 | 93,778 | – | – | 93,778 |
| Michael Cannon | 2012 | – | – | – | – |

Notes:
1 Base salary earned during the financial year ending 31 December and excludes amounts sacrificed into pension (2012: US$38,037; 2013: US$55,857).
2 The sum of basic salary, benefits and pension.
3 Annual bonus cash element and deferred share element awarded in relation to the financial year ending 31 December.
4 LTI reflects the gain on options which vested during each year.
5 The sum of annual bonus (cash and deferred share element) and long-term incentives.
6 The sum of basic salary, benefits, pension and annual bonus (cash and deferred share element).
7 The sum of basic salary, benefits, pension, annual bonus (cash and deferred share element) and long-term incentives which vested during the year.
8 Chris Burke waived £50,000 in fees as tax was due for share options previously exercised, the figure presented here is the total figure prior to the waiver.
9 Gregorio Reyes stepped down as Chairman of the Board on 23 July 2013.
10 Richard Beyer became Chairman of the Board on 23 July 2013.

# Annual report on remuneration continued

## Executive Director
Fixed remuneration

### Base salary
The CEO was awarded a 15% increase in annual salary with effect from 1 July 2013. His current salary is £381,570 (US$596,299). The rationale for this increase was reported in our 2012 annual report and has been communicated to Shareholders. In the light of his performance and contribution, the growth of the Company and the increasing competitive market pressure, the Remuneration Committee considers that the CEO's base salary is too far behind market median to be sustainable. For this reason the Committee proposes to make above-market increases annually until such time as it is comfortable that his salary is sufficient to mitigate the risk to the Company and its Shareholders of him leaving. The Committee will monitor market conditions carefully to ensure that salary does not exceed median market levels and continues to represent good value for money for Shareholders.

### Other benefits
The CEO received a cash allowance in lieu of a company car, medical insurance for himself and his spouse and life and disability insurance. The total value of taxable benefits provided was US$26,767, equivalent to 4.5% of his current salary.

### Pension
The executive is provided with a defined benefit pension arrangement, a Defined Benefit Small Self-Administered Scheme. This arrangement commenced in May 2012. Each year, on the advice of the Scheme Actuary, a fixed amount of pension is secured from the Scheme by the payment of a contribution by the employer.

The employer pays part of the cost of the benefit as a contribution equivalent to 9% of salary, with any balance met by the executive through a salary sacrifice arrangement. The amount of pension secured each year is set by the Actuary to be funded in full by the contribution so that there is no funding shortfall and the assets are always sufficient to meet the liabilities (the intention is that no further funding will be required by the Company). The pension purchased each year will not increase between now and pension age (60).

For the purposes of the single figure included in the table on page 75 we have valued the pension in line with required defined benefit methodology. In 2013, the employer contribution was US$109,301, of which US$55,857 resulted from salary sacrifice. The cost to Dialog is set at 9% of base pay in line with the pension provision for all other employees excluding the salary sacrifice. Dialog also contributes half the National Insurance contributions saved on the salary sacrifice.

### Variable compensation
Annual bonus

For 2013, the CEO was eligible for annual bonus of up to 200% of salary for maximum performance, with 100% of salary being paid for target performance and no awards payable if profit was below threshold.

Performance measures used were:

- Financial goals (30%) comprising revenue (10%), gross margin (7.5%), EBIT (12.5%);
- Commercial goals (40%) comprising product-related measures (30%) and customer-related measures (10%); and
- Organisational and employee-related goals (30%).

Performance against targets set in these areas was as shown in the table below. Performance under gross margin, product-related, customer-related, organisational and employee-related measures is considered by the Board to be commercially sensitive and will be disclosed in the annual report in a future year if it is considered no longer to be commercially sensitive.

Accordingly, the Committee determined that a bonus equivalent to 183.96% of base salary should be paid. This amount will be released to the CEO in March 2014 with 50% of bonus received in cash and 50% deferred into Dialog shares.

### Long-term incentive plans
In 2013, share options with a total value of US$157,885 vested to the CEO under awards made in 2009. No performance measures were attached to the vesting of these options but their value was dependent on share price growth. In addition, the CEO was required to remain in service for a total period of four years from grant in order to receive all of the awards made.

| Measure | Outcome | Below target | On target | Above target |
|---|---|---|---|---|
| Revenue | US$876m | X | | |
| EBIT | 14.7% | | | X |

Revenue is defined as Total Dialog 2013 IFRS Revenue (US$902.9 million) excluding iWatt IFRS revenues recorded in 2013 (US$26.8 million). EBIT is defined as Total Dialog 2013 IFRS EBIT (US$102.7 million) excluding iWatt related IFRS EBIT (US$22.5 million loss), acquisition accounting adjustments and related cost (US$3.7 million). These normalisation adjustments are required on the basis that 2013 Dialog budget did not include iWatt.

## Share awards made during the year

As noted in the policy section above, shares awarded are structured as nominal priced options, hence the reference to options throughout.

| Awarded during the year | Date of award | Granted number | Market price at date of grant | Face value of award | % of award that will vest at threshold performance | Performance period |
|---|---|---|---|---|---|---|
| **EIP – performance shares** | | | | | | |
| Dr Jalal Bagherli | 16/02/2013 | 98,084 | €13.77 | €1,350,617 | 15% | 01/01/2013 – 31/12/2015 |
| Deferred shares | | | | | | |
| Dr Jalal Bagherli | 18/02/2013 | 42,611 | €13.61 | €579,936 | 100% | 18/02/2013 – 18/02/2016[2] |
| EIP – invested shares | | | | | | |
| Dr Jalal Bagherli | 18/02/2013 | 42,611 | €13.61 | €579,936 | 15% | 01/01/2013 – 31/12/2015 |

Notes:
1 Face value is calculated as the number of shares, multiplied by the market price at the date of grant.
2 Dates reflect the service period which must be completed for the award to vest, there are no further performance conditions attached to the deferred bonus.
3 In 2013, the CEO was awarded 98,084 EIP shares (in the form of nominal price options), which at the date of grant (16 February 2013) had a value of €1,350,617. Receipt of these shares is subject to achievement of performance conditions as outlined on page 69.

Of his 2012 annual bonus (paid in 2013), the CEO deferred 75% of the bonus paid which at the share price on the date of award (€13.61) was equivalent to 42,611 shares. These shares were matched on a one-for-one basis under the EIP, meaning his total EIP award in 2013 was 140,695 shares with total value of €1,930,553. As noted above, receipt of these shares is subject to achievement of performance conditions as outlined on page 69.

Performance metrics attached were:

- 75% EBIT and revenue, equally weighted
- 25% share price growth

EBIT and revenue 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 banked based on actual Dialog performance against targets set at the beginning of each year.

Share price growth is measured at the anniversary date of the award over the three-year performance period. Shares subject to share price growth conditions are banked based on annual share price performance.

Banked shares are not subject to further performance conditions. Shares banked during the performance period are released to executive Directors as soon as practicable after the third anniversary of the award.

As disclosed in the 2012 annual report, share dilution as a result of equity-based incentive awards to all Dialog employees is managed to an average 1% flow rate in order to ensure that it moves over time towards a rolling 10% in 10 years.

### Non-executive Directors' fees

In 2013, the Chairman's fee was £110,000. Fees for non-executive Directors were £80,000, with an additional £10,000 paid for chairmanship of Board Committees.

# Annual report on remuneration continued

## Directors' interests in shares

The CEO is expected to establish and hold a shareholding of at least 200% of salary excluding unvested EIP awards. The CEO currently complies with this requirement.

| Number at 31 December 2013 | | 10 pence ordinary shares | EIP – performance shares | Deferred shares | EIP – invested shares | Share options – unvested | Share options – vested but unexercised in the year | Share options – exercised in the year | Total |
|---|---|---|---|---|---|---|---|---|---|
| Dr Jalal Bagherli | 1, 2, 3, 4, 9, 10, 11, 12 | **268,676** | **187,557** | **42,611** | **42,611** | – | **682,412** | – | **1,223,867** |
| Chris Burke | 5, 13 | **15,593** | – | – | – | **3,889** | – | – | **19,482** |
| Aidan Hughes | 6, 14 | **25,000** | – | – | – | **4,374** | – | – | **29,374** |
| John McMonigall | 5, 15 | **76,000** | – | – | – | **3,889** | – | – | **79,889** |
| Gregorio Reyes | 7 | – | – | – | – | **5,347** | – | – | **5,347** |
| Russ Shaw | 6, 16 | **9,946** | – | – | – | **4,374** | – | – | **14,320** |
| Peter Weber | 5 | **22,000** | – | – | – | **3,889** | – | – | **25,889** |
| Chang-Bun Yoon | 8, 17 | – | – | – | – | – | – | – | **0** |

| Number at 31 December 2012 | | 10 pence ordinary shares | EIP – performance shares | Deferred shares | EIP – invested shares | Share options – unvested | Share options – vested but unexercised in the year | Share options – exercised in the year | Total |
|---|---|---|---|---|---|---|---|---|---|
| Dr Jalal Bagherli | 1, 2, 3, 4, 9, 10, 11, 12 | 266,679 | 97,603 | 0 | 0 | 10,690 | 671,722 | 329,940 | 1,378,631 |
| Chris Burke | 5, 13 | 15,593 | 0 | 0 | 0 | 3,889 | 0 | 23,757 | 43,239 |
| Aidan Hughes | 6, 14 | 25,000 | 0 | 0 | 0 | 4,374 | 0 | 44,168 | 73,542 |
| John McMonigall | 5, 15 | 76,000 | 0 | 0 | 0 | 3,889 | 0 | 8,550 | 88,439 |
| Gregorio Reyes | 7 | 20,000 | 0 | 0 | 0 | 5,347 | 0 | 0 | 25,347 |
| Russ Shaw | 6, 16 | 19,891 | 0 | 0 | 0 | 4,374 | 0 | 40,000 | 64,265 |
| Peter Weber | 5 | 33,000 | 0 | 0 | 0 | 3,889 | 0 | 0 | 36,889 |
| Chang-Bun Yoon | 8, 17 | 0 | 0 | 0 | 0 | 1,850 | 0 | 0 | 1,850 |

Current options outstanding as per dates:

1 EIP award as of 31 December 2013, includes two awards granted on 16/02/2013 (98,084 options) and 16/02/2012 (89,473 options (97,603 originally granted, however, 8,130 lapsed at first measurement point on 16/02/2013)). Exercise price for 16/02/2012 grant is €0.12. Exercise price for 16/02/2013 grant is €0.12.
2 2013 deferred shares includes an award granted on 18/02/2013, exercise price is €0.01. Total award size is 42,611 options.
3 2013 EIP invested shares includes an award granted on 18/02/2013, exercise price is €0.12. Total award size is 42,611 options.
4 2013 share options vested but unexercised includes three awards granted on 04/02/2010 (155,000 options), 18/02/2011 (508,170 options), and 13/05/2009 (19,242 options). Exercise price for 04/02/2010 grant is €0.11. Exercise price for 18/02/2011 grant is €0.12. Exercise price for 13/05/2009 grant is €1.52.
5 2013 and 2012 share options unvested includes two awards granted on 21/07/2011 (2,039 options) and 18/07/2012 (1,850 options). Exercise price for 21/07/2011 grant is €0.15. Exercise price for 18/07/2012 grant is €0.15.
6 2013 share options unvested includes two awards granted on 21/07/2011 (2,293 options) and 18/07/2012 (2,081 options). Exercise price for 21/07/2011 grant is €0.15. Exercise price for 18/07/2012 grant is €0.15.
7 2013 share options unvested includes two awards granted on 21/07/2011 (2,803 options) and 18/07/2012 (2,544 options). Exercise price for 21/07/2011 grant is €0.15. Exercise price for 18/07/2012 grant is €0.15.
8 2013 share options unvested includes an award granted on 18/07/2012, exercise price is €0.15.
9 2012 EIP award granted on 16/02/2012, exercise price is €0.12.
10 2012 share options unvested includes an award granted on 13/05/2009, exercise price is €1.52.
11 2012 share options vested but unexercised includes three awards granted on 04/02/2010 (155,000 options), 18/02/2011 (508,170 options), and 13/05/2009 (8,552 options). Exercise price for 04/02/2010 grant is €0.11. Exercise price for 18/02/2011 grant is €0.12. Exercise price for 13/05/2009 grant is €1.52.
12 2012 share options exercised in the year includes those exercised from two awards granted on 04/02/2010 (290,290 options) and 13/05/2009 (39,650 options). Exercise price for 13/05/2009 grant is €1.52. Exercise price for 04/02/2010 is €0.11.
13 2012 share options exercised in the year includes two awards granted on 12/07/2006 (5,210 options) and 22/04/2009 (18,547 options). Exercise price for 12/07/2006 grant is €1.40. Exercise price for 22/04/2009 is €1.17.
14 2012 share options exercised in the year includes three awards granted on 19/06/2006 (4,168 options), 30/04/2008 (20,000 options) and 22/04/2009 (20,000 options). Exercise price for 19/06/2006 grant is €1.27. Exercise price for 30/04/2008 is €1.35. Exercise price for 22/04/2009 is €1.17.
15 2012 share options exercised in the year includes two awards granted on 19/06/2006 (5,210 options) and 22/04/2009 (3,340 options). Exercise price for 19/06/2006 grant is €1.27. Exercise price for 22/04/2009 is €1.17.
16 2012 share options exercised in the year includes two awards granted on 30/04/2008 (20,000 options) and 22/04/2009 (20,000 options). Exercise price for 30/04/2008 grant is €1.35. Exercise price for 22/04/2009 is €1.17.
17 Options awarded to Chang-Bun Yoon lapsed on his resignation date of 22 August 2013.

## Unaudited information

### Annual change in CEO pay versus employee pay

The table below compares the change in base salary, benefits (excluding pension) and bonus awards for the CEO and for an average UK employee over the period 2012 to 2013. The salary increase shown for the CEO was referred to in the 2012 annual report and communicated to investors in 2013. It reflects the Remuneration Committee's view that the salary positioning of the CEO is too far behind market levels to be sustainable. In accordance with the discretion referred to in the policy section above, the Committee increased the CEO's salary in 2013 at a rate higher than that for other employees.

| | **Year ended 31 December 2013** | Year ended 31 December 2012 | Percentage change |
|---|---|---|---|
| **Chief Executive base salary** | **£381,570** | **£331,800** | **15.0%** |
| Relevant average comparator employees' base salary | £60,570 | £58,571 | 3.4% |
| **Chief Executive taxable benefits** | **£17,126** | **£17,069** | **0.3%** |
| Relevant average comparator employees' taxable benefits | £837 | £805 | 4.1% |
| **Chief Executive annual bonus** | **£701,936** | **£663,600** | **5.8%** |
| Relevant average comparator employees' annual bonus | £7,788 | £8,572 | (9.1)% |
| **Chief Executive total** | **£1,100,632** | **£1,012,469** | **8.7%** |
| Relevant average comparator employees' total | £69,195 | £67,958 | 1.8% |

Note:
Figures in this table are in GBP and differ to those in the single figure table on page 75 which a) are presented in USD, and b) exclude amounts contributed by the CEO to pension.

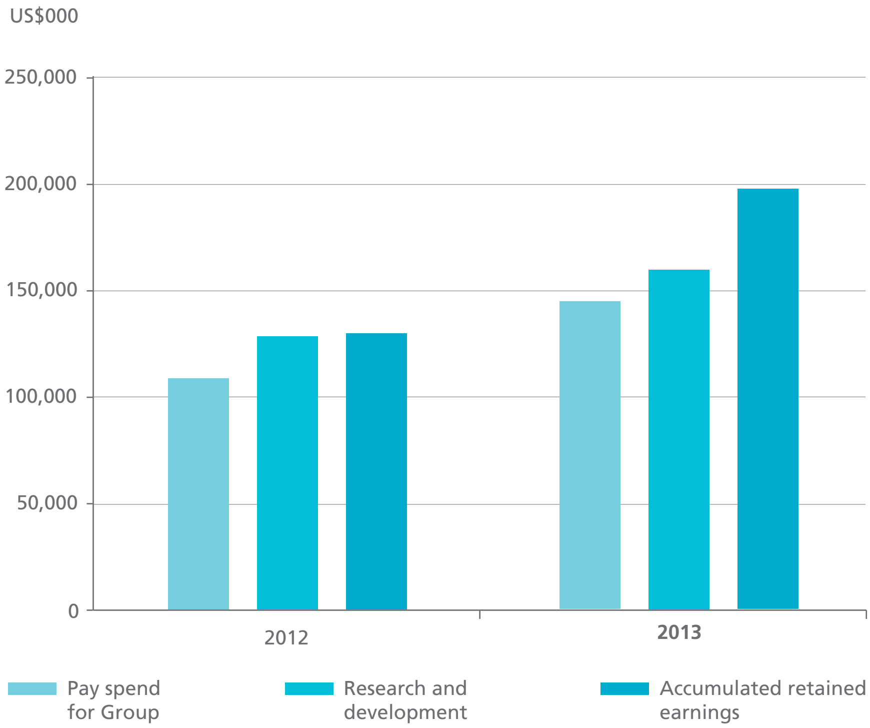
At the time of preparation for this report annual bonuses for the Group had yet to be finalised and the numbers presented overleaf reflect expected payouts.

UK employees include all UK-based Dialog employees and were selected for comparison since they are located in the same market as the CEO and receive similar benefits as described in the policy section above.

# Annual report on remuneration continued

## Relative importance of spend on pay

This chart shows the amounts spent in 2012 and 2013 by Dialog on employee pay and research and development, and also the Group's accumulated retained earnings at the relevant year end.

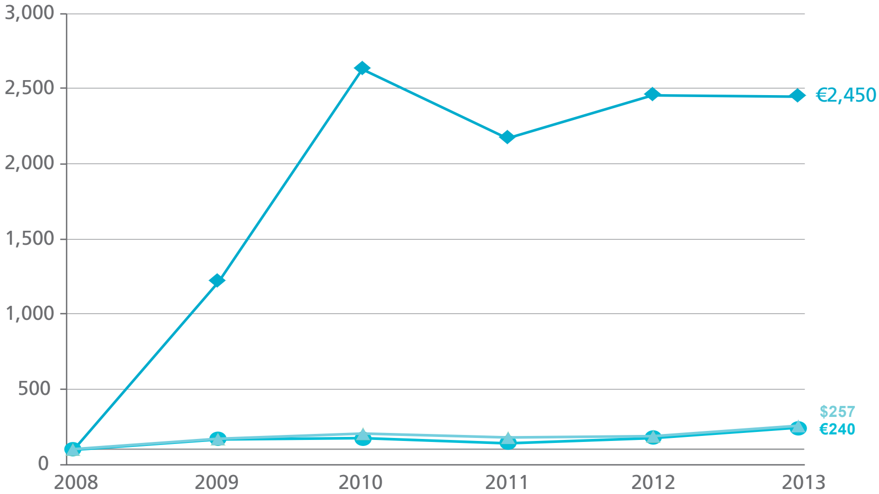



## CEO pay and relative TSR performance

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.

### Value of a hypothetical US$100/€100 investment




Source: DataStream

We also present in the table below the annual change in the single figure total remuneration provided to the CEO over the same period.

| Financial year ending | 31/12/2009 | 31/12/2010 | 30/12/2011 | 31/12/2012 | 31/12/2013 |
|---|---|---|---|---|---|
| Total remuneration including unrealised gains (single figure basis)[1,2] | US$1,028,853 | US$4,809,398 | US$30,426,678 | US$2,167,224 | **US$1,820,023** |
| Long-term variable pay (% of maximum) | 95% | 100% | 100% | 100% | **100%** |

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 Under the Company's annual bonus plan the CEO may receive "maximum base bonus" of 200% of salary, with a "further bonus" equivalent to 1% of the Company's annual consolidated profit after tax and interest but before extraordinary items, less the value of the maximum base bonus described above (i.e. 200% of salary). No "further bonus" has ever been paid.

## Operation of policy in the following year

As described in the policy section above, the Committee is satisfied that the CEO's current remuneration arrangements remain fit for purpose and proposes to make no material changes to the operation of the remuneration policy in 2014. The Committee will continue to monitor closely the alignment of policy with Dialog's strategic objectives and the competitiveness of the CEO's base salary in particular, as described above.

## Governance

### 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 determine and recommend to the Board: the salaries and incentive compensation of the Company's officers and changes to Board structure, size and composition.

The Committee comprises only independent, non-executive Directors. The members during the year were Mike Cannon (Chair from 25 October 2013), Rich Beyer (Chair from 2 May 2013 to 25 October 2013), Russ Shaw (Chair until 2 May 2013), Chris Burke and Peter Weber. Mike Cannon and Rich Beyer were joint Chairmen of the Committee meeting held on 24 October 2013 in order for Rich Beyer to hand over his responsibilities to Mike Cannon. The Committee's members have no financial interest in the Company other than as Shareholders and through the fees paid to them.

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 Towers Watson. Towers Watson was appointed by the Committee in 2012 following a competitive tender process. The Committee are satisfied that the advice received from Towers Watson is objective and independent and is not subject to any material conflict of interest.

Towers Watson are signatories to the UK Remuneration Consultants Group Code of Conduct and all advice received during the year was provided in accordance with this code. They provide no other services to the Company. Fees paid to Towers Watson during the year in respect of advice relating to Directors' pay totalled £163,011 (excluding VAT).

The Committee also received advice from the Senior Vice President, Human Resources and the Company Secretary. During the year the Committee met formally on five occasions, in addition the Committee Chairman held a number of meetings with advisers.

## Responsibilities

The Remuneration Committee's main responsibilities include to:

- Determine the salaries and incentive compensation of the Company's officers and the officers of the Company's subsidiaries
- 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 approve CEO and Executive Management remuneration
- Review and address 2012 Annual General Meeting outcomes
- Consider market trend, and
- Review changes to disclosure regime in the UK

## Shareholder voting results from 2013 AGM

The table below summarises the number of votes for and against the Dialog remuneration report at the 2013 AGM. We also include the number of abstentions (referred to as votes withheld).

| AGM resolution | 2 |
|---|---|
| Votes for (m) | 24,132,887 |
| % for | 94.75% |
| Votes against (m) | 1,337,154 |
| % against | 5.25% |
| Total votes cast (m) | 25,470,041 |
| Votes witheld (m) | 4,400 |

# Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with the applicable law and regulations. UK company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under the law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the parent company financial statements on the same basis.

The Group and parent company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and the parent company and the financial performance and cash flows for that period; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of the Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and parent company financial statements, the Directors are required to:

1 Select suitable accounting policies and then apply them consistently;

2 Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

3 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;

4 State whether they have been prepared in accordance with IFRS as adopted by the EU; and

5 Make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 and article 4 of the IAS Regulation.

They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report and Directors' remuneration report that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislations in other jurisdictions.

# Responsibility statement

The Directors confirm, to the best of their knowledge, that:

- In accordance with the applicable reporting principles, the consolidated financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit and loss of the issuer and undertakings included in the consolidation.
- The annual report and accounts includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties associated with the expected development of the Company and the Group.

The annual report and accounts, taken as a whole, is in line with good corporate governance standards, provides the information necessary for Shareholders to assess the Company's performance, business model and strategy and is fair, balanced and understandable.

**Dr Jalal Bagherli**
Chief Executive Officer

**Jean-Michel Richard**
CFO, Vice President Finance

20 February 2014

# Independent Auditors' report to the members of Dialog Semiconductor Plc

We have audited the financial statements of Dialog Semiconductor Plc for the year ended 31 December 2013 which comprise the Consolidated and Company Statements of financial position, the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statement of cash flows and the Consolidated and Company statements of changes in equity and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibility statement set out on page 82, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's profit for the year then ended; and

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and

- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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.

# Independent Auditors' report to the members of Dialog Semiconductor Plc continued

## Opinion 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; and
- 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 information given in the Corporate Governance statement set out on page 61 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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 and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance statement has not been prepared by the Company.

Tony McCartney
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading

20 February 2014

# Consolidated statement of financial position

As at 31 December 2013

| | Notes | **At 31 December 2013 US$000** | At 31 December 2012 US$000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 7 | **186,025** | 312,435 |
| Trade accounts receivable and other receivable | 8 | **127,336** | 82,887 |
| Inventories | 9 | **117,541** | 152,455 |
| Income tax receivables | 6 | **72** | 60 |
| Other financial assets | 10 | **3,994** | 3,120 |
| Other current assets | 11 | **12,476** | 12,545 |
| **Total current assets** | | **447,444** | 563,502 |
| Property, plant and equipment | 12 | **58,465** | 50,318 |
| Goodwill | 4, 5, 13 | **244,878** | 32,283 |
| Other intangible assets | 13 | **148,591** | 51,789 |
| Investments | 14 | **1,531** | – |
| Deposits | | **1,450** | 1,137 |
| Income tax receivables | 6 | **158** | 198 |
| Deferred tax assets | 6 | **24,935** | 8,913 |
| **Total non-current assets** | | **480,008** | 144,638 |
| **Total assets** | | **927,452** | 708,140 |
| **Liabilities and Shareholders' equity** | | | |
| Trade and other payables | 15 | **91,391** | 106,216 |
| Other financial liabilities | 16 | **23,923** | 4,117 |
| Provisions | 17 | **8,000** | 1,288 |
| Income taxes payable | | **5,354** | 9,359 |
| Other current liabilities | 18 | **34,356** | 21,670 |
| **Total current liabilities** | | **163,024** | 142,650 |
| Provisions | 17 | **1,488** | 603 |
| Other non-current financial liabilities | 19 | **265,657** | 176,617 |
| Deferred tax liabilities (non-current) | 6 | **40,633** | 5,679 |
| **Total non-current liabilities** | | **307,778** | 182,899 |
| Ordinary shares | | **12,852** | 12,852 |
| Additional paid-in capital | | **246,289** | 243,829 |
| Retained earnings | | **199,881** | 129,190 |
| Other reserves | | **(130)** | (427) |
| Employee stock purchase plan shares | | **(2,242)** | (2,853) |
| **Net Shareholders´ equity** | 21 | **456,650** | 382,591 |
| **Total liabilities and Shareholders´ equity** | | **927,452** | 708,140 |

These financial statements were approved by the Board of Directors on 20 February 2014 and were signed on its behalf by:

**Dr Jalal Bagherli**
Director

# Consolidated income statement

For the year ended 31 December 2013

| | Notes | 2013 US$000 | 2012 US$000 |
|---|---|---|---|
| Revenue | 3, 26, 29 | **902,907** | 773,583 |
| Cost of sales | 3 | **(551,099)** | (480,971) |
| **Gross profit** | | **351,808** | 292,612 |
| Selling and marketing expenses | | **(49,000)** | (38,669) |
| General and administrative expenses | | **(44,255)** | (33,476) |
| Research and development expenses | 26 | **(159,287)** | (127,886) |
| Restructuring | | **–** | (1,549) |
| Other operating income | 3, 4, 29 | **3,394** | – |
| **Operating profit** | | **102,660** | 91,032 |
| Interest income | 3 | **565** | 1,360 |
| Interest expense | 3 | **(13,345)** | (6,466) |
| Foreign currency exchange gains (losses), net | | **(168)** | 199 |
| **Result before income taxes** | | **89,712** | 86,125 |
| Income tax expense | 6 | **(27,508)** | (23,612) |
| **Net profit** | | **62,204** | 62,513 |

| | | 2013 | 2012 |
|---|---|---|---|
| **Earnings per share (in US$)** | | | |
| Basic | | **0.95** | 0.97 |
| Diluted | | **0.92** | 0.93 |
| **Weighted average number of shares (in thousands)** | 2 | | |
| Basic | | **65,641** | 64,681 |
| Diluted | | **67,676** | 67,354 |

# Consolidated statement of comprehensive income

For the year ended 31 December 2013

| | 2013 US$000 | 2012 US$000 |
|---|---|---|
| **Net profit** | **62,204** | 62,513 |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods:** | | |
| Exchange differences on translating foreign operations | **269** | (322) |
| Cash flow hedges | **91** | 8,871 |
| Income tax relating to components of other comprehensive income | **(63)** | (725) |
| **Other comprehensive income (loss) for the year, net of tax** | **297** | 7,824 |
| **Total comprehensive income for the year** | **62,501** | 70,337 |

# Consolidated statement of cash flows

For the year ended 31 December 2013

| | Notes | 2013 US$000 | 2012 US$000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net profit | | **62,204** | 62,513 |
| **Adjustments to reconcile net profit to net cash generated from operations:** | | | |
| Interest expense, net | 3 | **12,780** | 5,106 |
| Income tax expense | 6 | **27,508** | 23,612 |
| Impairment of inventories | | **14,445** | 8,207 |
| Depreciation of property, plant and equipment | 12 | **18,581** | 12,698 |
| Amortisation of intangible assets | 13 | **28,646** | 19,593 |
| Losses on disposals of fixed assets and impairment of fixed assets | | **1,369** | 1,029 |
| Expense related to share-based payments | 23 | **8,487** | 6,955 |
| **Changes in working capital:** | | | |
| Trade accounts receivable, other receivables and factoring | 8 | **(33,418)** | (36,158) |
| Inventories | | **26,871** | (105,015) |
| Prepaid expenses | | **(923)** | (159) |
| Trade accounts payable | | **(19,490)** | 55,652 |
| Provisions | | **4,135** | 293 |
| Other assets and liabilities | | **4,067** | 7,462 |
| **Cash generated from operations** | | **155,262** | 61,788 |
| Interest paid | | **(3,805)** | (1,141) |
| Interest received | | **587** | 1,277 |
| Income taxes paid | | **(41,365)** | (9,483) |
| **Cash flow from operating activities** | | **110,679** | 52,441 |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment | 12 | **(23,173)** | (35,025) |
| Purchase of iWatt net of acquired cash | 4 | **(303,851)** | – |
| Purchase of intangible assets | 13 | **(9,519)** | (13,417) |
| Payments for capitalised development costs | 13 | **(5,974)** | (5,956) |
| Sale (purchase) of other investments | | **(1,500)** | – |
| Change in other long term assets | | **(186)** | 98 |
| **Cash flow used for investing activities** | | **(344,203)** | (54,300) |
| **Cash flows from financing activities:** | | | |
| Cash flow from the convertible bond | | **–** | 196,631 |
| Net cash flow from financial liabilities | | **103,650** | – |
| Sale of employee stock purchase plan shares | | **3,071** | 4,114 |
| **Cash flow from financing activities** | | **106,721** | 200,745 |
| **Cash flow from (used for) operating, investing and financing activities** | | **(126,803)** | 198,886 |
| **Net foreign exchange difference** | | **393** | (41) |
| **Net increase (decrease) in cash and cash equivalents** | | **(126,410)** | 198,845 |
| **Cash and cash equivalents at beginning of period** | | **312,435** | 113,590 |
| **Cash and cash equivalents at end of period** | 7 | **186,025** | 312,435 |

# Consolidated statement of changes in equity

For the year ended 31 December 2013

| | Ordinary Shares US$000 | Additional paid-in capital US$000 | Retained earnings US$000 | Other reserves: Currency translation adjustment US$000 | Other reserves: Hedges US$000 | Other reserves: Employee stock purchase plan shares US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2012** | **12,380** | **203,911** | **59,722** | **(1,879)** | **(6,372)** | **(3,158)** | **264,604** |
| Total comprehensive income (loss) | – | – | 62,513 | (85) | 7,909 | – | 70,337 |
| Conversion right embedded in Convertible Bond | – | 37,393 | – | – | – | – | 37,393 |
| Convertible Bond transaction cost attributable to conversion right | – | (814) | – | – | – | – | (814) |
| Capital Increase for employee share option plan (gross proceeds) | 472 | 2,680 | – | – | – | (3,152) | - |
| Transaction cost of capital increase - employee share option plan | – | (33) | – | – | – | – | (33) |
| Sale of employee stock purchase plan shares | – | 692 | – | – | – | 3,457 | 4,149 |
| Equity settled transactions, net of tax | – | – | 6,955 | – | – | – | 6,955 |
| **Changes in Equity total** | **472** | **39,918** | **69,468** | **(85)** | **7,909** | **305** | **117,987** |
| **Balance at 31 December 2012 / 1 January 2013** | **12,852** | **243,829** | **129,190** | **(1,964)** | **1,537** | **(2,853)** | **382,591** |
| Total comprehensive income (loss) | – | – | 62,204 | 254 | 43 | – | 62,501 |
| Sale of employee stock purchase plan shares | – | 2,460 | – | – | – | 611 | 3,071 |
| Equity settled transactions, net of tax | – | – | 8,487 | – | – | – | 8,487 |
| **Changes in Equity total** | **–** | **2,460** | **70,691** | **254** | **43** | **611** | **74,059** |
| **Balance at 31 December 2013** | **12,852** | **246,289** | **199,881** | **(1,710)** | **1,580** | **(2,242)** | **456,650** |

For further details, please refer to note 21.

# Notes to the consolidated financial statements continued

For the year ended 31 December 2013

## 1. General

The consolidated financial statements of Dialog Semiconductor Plc ("Dialog" or the "Group") for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 20 February 2014. Dialog Semiconductor Plc is a company incorporated in the UK, whose shares are publicly listed in Frankfurt/Main, Germany. The principal activities of the Group are set out in the segment reporting (note 26).

**Company name and registered office**

Dialog Semiconductor Plc
Tower Bridge House
St Katharine's Way
London E1W 1AA
United Kingdom

**Basis of presentation**

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. The consolidated financial statements are presented in US dollars ("US$") and all values are rounded to the nearest thousand (US$000) except when otherwise stated.

**Statement of compliance**

The accompanying consolidated financial statements have been prepared on the basis of the recognition and measurement requirements of International Financial Reporting standards (IFRS) and its interpretation as adopted by the EU. Based on these standards, management has applied the accounting policies as provided in note 2.

## 2. Summary of significant accounting policies

**Changes in accounting policies and disclosures**

The accounting policies are consistent with those of the previous financial year except for the changes resulting from the adoption of the following amended, revised and new standards and the new IFRIC interpretation during the year:

IAS 1 Presentation of Financial Statements

The amendments to IAS 1 were issued in June 2011 and are effective for annual periods beginning on or after 1 July 2012. The amendments require companies preparing financial statements in accordance with IFRSs to group together items within Other Comprehensive Income ("OCI") that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendment primarily results in a grouping of OCI items. However all OCI items presented by the Group are reclassifiable.

IAS 12 Income taxes

The amendments to IAS 12 Income Taxes were issued in December 2010 and are effective for annual periods beginning on or after 1 January 2012, however the amendment was adopted by the EU for periods beginning on 1 January 2013. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will normally be through sale. As a result of the amendments, SIC-21 Income Taxes—Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn. The amendment had no material effect on the financial statements of the Group.

IAS 19 Employee Benefits (amended)

The amendments to IAS 19 Employee Benefits were issued in December 2010 and are effective for annual periods beginning on or after 1 January 2013. The amendments especially relate to:

## 2. Summary of significant accounting policies continued

- eliminating an option to defer the recognition of gains and losses, known as the 'corridor method', improving comparability and faithfulness of presentation;
- streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income (OCI), thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations;
- enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

Since the Group does not operate any defined benefit plan, the amendment had no effect on its financial statements.

### IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

The amendments made to this standard were issued in May 2013 and are effective for annual periods beginning on or after 1 January 2014, early application is permitted. These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. In addition the amendment removes the requirement to disclose the recoverable amount for a cash generating unit which is not impaired. Dialog makes use of the early application of this amendment.

### IFRS 7 Financial Instruments: Disclosures (amended / IAS 32 Financial Instruments: Presentation (amended))

The amended IFRS 7 / IAS 32 were issued in December 2011 and are effective for periods beginning on or after 1 January 2013 in respect of IFRS 7 and 1 January 2014 in respect of IAS 32. The amendment standards comprise additional guidance in respect of offsetting financial assets and financial liabilities and introduce disclosure requirements to assess the effect or potential effect of offsetting arrangements on a company's financial position. The new disclosure requirements also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

### IFRS 13 Fair Value Measurement

The new IFRS 13 was issued in May 2011 and is effective for periods beginning on or after 1 January 2013. The requirements of IFRS 13 do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. This includes recurring (eg financial instruments) and non-recurring fair value measurements (eg. purchase price allocations) in the balance sheet throughout the IFRSs, as well as disclosures of fair value in the notes. Beside additional disclosures in note 24, the standard had no material effect on the financial statements of the Group.

### Improvements to IFRSs – a collection of amendments to International Financial Reporting Standards (annual improvements project)

The International Accounting Standards Board (IASB) has also issued a collection of amendments to various IFRSs ("Improvements to IFRSs") in May 2012, which are effective for annual periods beginning on or after 1 January 2013. This includes amendments to various existing IFRSs. Dialog does not expect a material impact on the financial position nor the financial performance of Dialog.

In addition, the following interpretation has been issued:

| Interpretation | Title | Effective date |
|---|---|---|
| IFRIC 20 [1)] | Stripping Costs in the Production Phase of a Surface Mine | 1 January 2013 |

1) IFRIC 20 is not relevant to the operations of the Group

# Notes to the consolidated financial statements continued

## 2. Summary of significant accounting policies continued

**Recently issued accounting standards not yet adopted (Standards and Interpretations are endorsed by the EU except as noted otherwise)**

IFRS 9 Financial Instruments

The new IFRS 9 was issued in November 2009. The new standard for financial instruments sets out provisions for the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets.

In October 2010 additions to IFRS 9 Financial instruments were issued. The additions outline the requirements on the accounting for financial liabilities. The new requirements address the problem of volatility in profit or loss (P&L) arising from an issuer choosing to measure its own debt at fair value (often referred to as the 'own credit' problem). The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income (OCI) section of the income statement, rather than within profit or loss.

In 2013, the IASB removed the previous effective date (i.e. 1 January 2015) of the new IFRS 9. A new effective date will be decided upon once the project is closer to its completion. IFRS 9 has not yet been endorsed by the EU. The impact will be further analysed in the future when the project is complete.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities, IAS 27 (revised) Separate Financial Statements, IAS 28 (revised) Investments in Associates and Joint Ventures

The IASB completed in May 2011 its improvements to the accounting requirements for off balance sheet activities and joint arrangements by issuing IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities (amended in June 2012 in order to clarify the transition guidance in IFRS 10 and to provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12). The new and revised standards are effective for periods beginning on 1 January 2013, however the standards were adopted by the EU for periods beginning on 1 January 2014, at the latest.

- IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
  The new standard has no effect on the financial statements of the Group.
- IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.
  The new standard has no effect on the financial statements of the Group, as the Group is not engaged in joint arrangements.
- IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
  The new standard introduced additional disclosures.
- IAS 27 (revised) now includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IAS 28 (revised) now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

IFRIC Interpretation 21: Levies

The new IFRIC was issued in May 2013 and is effective for annual periods beginning on or after 1 January 2014. The IFRIC outlines the accounting for liabilities to pay levies imposed by governments, other than income taxes, especially when the entity should recognise a liability to pay a levy.

## 2. Summary of significant accounting policies continued

IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Group already applies the requirements clarified by IFRIC 21 on the accounting of the National Insurance related to Share based payments. The liability is recognised progressively if the obligating event occurs over a period of time.

### IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

The amendments made to this standard were issued in November 2013 and are effective for annual periods beginning on or after 1 July 2014 with early application permitted. The narrow-scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. Dialog does not expect a material impact on the financial position nor the financial performance of Dialog. The amendment has not yet been endorsed by the EU.

### IAS 39 Financial Instruments: Recognition and Measurement entitled Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39).

The amendments made to this standard were issued in June 2013 and are effective for annual periods beginning on or after 1 January 2014. The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. Dialog does not expect a material impact on the financial position nor the financial performance of Dialog.

### Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle- a collection of amendments to International Financial Reporting Standards (annual improvements project)

The IASB has also issued a collection of amendments to various IFRSs ("Improvements to IFRSs") in December 2013, which are effective for annual periods beginning on or after 1 July 2014. The Annual Improvements to IFRSs 2010–2012 Cycle is a collection of amendments to IFRSs in response to eight issues addressed during 2010–2012. The Annual Improvements to IFRSs 2011–2013 Cycle is a collection of amendments to IFRSs in response to four issues addressed during 2011–2013. Dialog is evaluating, whether there might be a material impact on the financial position or the financial performance of Dialog. The amendment has not yet been endorsed by the EU.

The Group does not intend to make early application of the amended or revised standards and Interpretation listed above.

### **Principles of consolidation and investments in affiliated companies**

The consolidated financial statements include Dialog Semiconductor Plc and its subsidiaries as at 31 December each year:

# Notes to the consolidated financial statements continued

## 2. Summary of significant accounting policies continued

| Name | Country of incorporation | Participation |
|---|---|---|
| Dialog Semiconductor GmbH | Germany | 100% |
| Dialog Semiconductor B.V. | The Netherlands | 100% |
| Dialog Semiconductor (UK) Limited | UK | 100% |
| Dialog Semiconductor Operations Services Limited | UK | 100% |
| iWatt Inc.[1] | USA | 100% |
| iWatt Cayman[1] | Cayman Islands | 100% |
| Dialog Semiconductor KK | Japan | 100% |
| iWatt MFG (HK) Limited[1] | Hong Kong | 100% |
| IKOR Acquisition Corporation[1] | USA | 100% |
| iWatt L.L.C.[1] | USA | 100% |
| Dialog Argo Holdings Inc. | USA | 100% |
| Dialog Argo Holdings L.L.C. [1] | USA | 100% |
| iWatt Cooperatief U.A.[1] | The Netherlands | 100% |
| Dialog Semiconductor Hong Kong Limited[1] | Hong Kong | 100% |
| iWatt B.V.[1] | The Netherlands | 100% |
| iWatt HK Limited[1] | Hong Kong | 100% |
| iWatt Integrated Circuits Technology (Shenzhen) Limited[1] | China | 100% |
| iWatt Integrated Circuits Technology (Tianjin) Limited[1] | China | 100% |
| Dialog Semiconductor (Italy) S.r.l. | Italy | 100% |
| Dialog Semiconductor Arastirma Gelistirme ve Ticaret A.S. | Turkey | 100% |
| Dialog Semiconductor Hellas Societe Anonyme of Integrated Circuits[1] | Greece | 100% |
| Dialog Semiconductor Trading (Shanghai) Limited [1] | China | 100% |

[1] Held indirectly

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Dialog obtains control, and continue to be consolidated until the date such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If Dialog loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

## 2. Summary of significant accounting policies continued

**Business combinations and Goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**Fair value measurement**

The Group measures financial instruments, such as, derivatives (forward contracts and as hedging designated deposits), at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 24. 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

# Notes to the consolidated financial statements continued

## 2. Summary of significant accounting policies continued

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly Observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's board of non-executive directors and the chief financial officer determine the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AfS financial assets, and for non-recurring measurement.

External valuers are involved for valuation of significant assets, such as investments and AfS financial assets, significant liabilities, such as contingent consideration and share option expense. Involvement of external valuers is decided upon annually by the board of non-executive directors after discussion with and approval by the Company's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The board of non-executive directors decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the board of non-executive directors analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the board of non-executive directors verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The board of non-executive directors, in conjunction with the Group's external valuers, also compares significant changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the board of non-executive directors and the Group's external valuers present the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**Foreign exchange**

The functional currency for the Group entities is generally the currency in which they primarily generate and expense cash. Each entity in the Group determines its own functional currency. Accordingly, the assets and liabilities of companies whose functional currency is other than the US dollar are included in the consolidation by translating the assets and liabilities into the presentation currency (US$) at the exchange rates applicable at the end of the reporting period. Equity accounts are measured at historical rates. The statements of income and cash flows are translated at the average exchange rates during the year. The exchange differences arising on the translation are directly recognised in equity (other reserves). On disposal of an entity, the component of other comprehensive income relating to that particular entity is recognised in the income statement.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit and loss with the exception of differences on monetary items that form part of a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment at which time they are recognised in profit or loss. Tax charges and credits attributable to exchange differences on those monetary items and borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign currency transaction gains and losses are disclosed separately in the income statement, at each reporting period. Key exchange rates against US dollars used in preparing the consolidated financial statements were:

## 2. Summary of significant accounting policies continued

| | Exchange rate at | | Annual average exchange rate | |
|---|---|---|---|---|
| | 31 December 2013 | 31 December 2012 | 2013 | 2012 |
| Currency | US$1 = | US$1 = | US$1 = | US$1 = |
| Pound Sterling | **0.61** | **0.62** | **0.64** | **0.63** |
| Japanese Yen | **104.96** | **86.20** | **97.54** | **79.74** |
| Euro | **0.73** | **0.76** | **0.75** | **0.78** |

### Financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another. Financial assets include, in particular, cash and cash equivalents, trade receivables and other loans and receivables, held-to-maturity investments and derivative and non-derivative financial assets accounted for at fair value through profit or loss, as well as investments available for sale.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes trade payables, liabilities to banks and derivative financial liabilities.

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheet when, and only when, the entity currently has a legal right to set off the recognised amounts and intends to settle on a net basis.

### Financial assets

Financial assets within the scope of IAS 39 are classified as being at fair value through profit or loss, held-to-maturity investments, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are first recognised, they are measured at fair value, plus, in case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on first recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular purchases and sales of financial assets are recognised on the settlement date, which is the date that the Group receives the asset. Regular purchases or sales are classified as purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention of the market place.

At each reporting date, the Group assesses whether a financial asset or group of financial assets is impaired.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the income statement.

The Group has not entered into trading actions nor designated financial asset as financial asset through profit or loss in 2013 and 2012.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, such as trade accounts receivable. Loans and receivables are recorded initially at fair value and do not bear interest. As of 31 December 2013 as well as 31 December 2012, loans and receivables of the Group comprise trade accounts receivable from customers, cash and cash equivalents (except for deposits designated as hedging instruments). After initial recognition, loans and receivables are subsequently carried at amortised cost using the effective interest method, less any allowance for impairment, if necessary.

# Notes to the consolidated financial statements continued

## 2. Summary of significant accounting policies continued

Gains and losses are recognised in the income statement when the loans and receivables are de-recognised or impaired. Interest income and expense on the application of the effective interest method are also recognised in profit or loss.

The Group continuously reviews its allowance for doubtful accounts. Management considers the collectability of a trade account receivable to be impaired when it is probable that the Group will be unable to collect all amounts due according to the sales terms, based on current information and events regarding the customers' ability to meet their obligations. The amount of the impairment loss on loans and receivables is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial asset. The amount of the impairment loss is recognised in profit or loss.

If, in a subsequent reporting period, the amount of the impairment loss decreases, and the decrease can objectively be related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in profit or loss.

When a trade receivable is considered to be impaired, any credit losses are included in the allowance for doubtful accounts through a charge to bad debt expenses. Account balances are set off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Recoveries of trade receivables previously written-off are recorded as other income when received. Reversals of impairment losses are recognised in profit and loss. The Group does not have any off-balance sheet credit exposure related to its customers.

Receivables from work in process for customer specific development projects according to IAS 11 are recorded in the balance sheet line "trade accounts receivable and other receivables" and are disclosed in the notes respectively.

### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or as financial assets at fair value through profit or loss.

After initial measurement available-for-sale financial assets are measured at fair value. Unrealised gains and losses, net of the related tax effect, on available-for-sale financial assets are excluded from earnings and are reported as a component of other reserves until realised, or the investment is determined as being impaired.

At each reporting date, the carrying amounts of available-for-sale assets are assessed to determine whether there is objective, significant evidence of impairment as outlined in IAS 39.59. Any impairment losses on available-for-sale financial assets are charged to profit or loss. The Group does not use allowance accounts in order to record the impairment in the statement of financial position but credits the impairment loss directly against the book value of the financial assets. If this impairment relates to losses previously recognised in equity then the impairment loss is transferred from equity to the income statement. Reversals of impairment losses in respect of equity instruments or investment funds that are classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

The fair value of available-for-sale financial assets actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date.

For investments in which there is no active market, fair value is determined using valuation techniques, including recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis; or other valuation models. If the fair value of unquoted equity instruments cannot be measured with sufficient reliability, these instruments are measured at cost (less any impairment losses, if applicable).

### Derecognition of financial assets

A financial asset is derecognised when:

## 2. Summary of significant accounting policies continued

- the right to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through agreement"; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the derecognition as receivables under factoring agreement.

**Financial liabilities**

Financial liabilities primarily include trade accounts payable, liabilities due to banks, derivative financial liabilities and other liabilities.

Financial liabilities measured at amortised costs

After initial recognition at fair value, less directly attributable transaction costs, financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains and losses on liabilities held for trading are recognised in profit or loss.

During the financial years 2013 and 2012 the Group did not classify any financial liabilities as financial liabilities at fair value through profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**Hedging instruments and hedge accounting**

The Group uses derivative financial instruments, such as forward contracts, mainly for the purposes of hedging currency risks that arise from its operating activities. Beside the derivative financial instruments the Group designated certain deposits as hedging instruments in order to hedge foreign currency risks as well. Such derivative financial instruments and deposits were initially recognised at fair value on the date on which a derivative contract was entered into or the cash deposit was designated as a hedging instrument and was subsequently remeasured at fair value on each subsequent reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains and losses arising from changes in the fair value on derivatives and the deposits during the year that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of derivatives is equal to their positive or negative market value. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of the deposits was measured based on foreign currency market rates at each reporting date.

If the requirements for hedge accounting set out in IAS 39 are met, the Group designates and documents the hedge relationship from the date a derivative contract is entered into or the cash deposit is designated as a hedging instrument, either as a fair value hedge or a cash flow hedge.

# Notes to the consolidated financial statements continued

## 2. Summary of significant accounting policies continued

The Group did not enter into fair value hedges in 2013 and 2012.

In a cash flow hedge, the variability of cash flows to be received or paid related to a recognised asset or liability, or a highly probable forecast transaction, or a firm commitment (in case of currency risks) is hedged. To hedge a currency risk of an unrecognised firm commitment, the Group makes use of the option to recognise this as a cash flow hedge. The documentation of the hedge relationship includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows, and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognised in other reserves, net of applicable taxes, while any ineffective portion of the fair value changes are recognised immediately in profit or loss. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the forecast or committed expenses occur. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss.

If the hedging instrument does not, or no longer, qualifies for hedge accounting because the qualifying criteria for hedge accounting are not, or are no longer met, the derivative financial instruments are classified as held for trading and the deposits are classified as loans and receivables. Amounts previously recognised in equity are transferred to profit or loss, if the transaction is no longer expected to occur.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or the firm commitment occurs.

**Cash and cash equivalents**

Cash and cash equivalents include highly liquid investments with original maturity dates of three months or less and are subject to an insignificant risk of changes in value. The financial position cash and cash equivalents also includes deposits designated as hedging instruments.

**Inventories**

Inventories include assets held for sale in the ordinary course of business (finished goods), in the process of production (work in process) or in the form of materials to be consumed in the production process (raw materials). Inventories are valued at the lower of cost and net realisable value. Cost, which includes direct materials, labour and overhead, plus indirect overhead, is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to make the sale.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. These include the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets as follows:

| Category of assets | Useful life |
|---|---|
| Test equipment | 3 to 8 years |
| Leasehold improvements | Shorter of useful life or lease term |
| Office and other equipment | 18 months to 13 years |

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

## 2. Summary of significant accounting policies continued

### Intangible assets

Intangible assets acquired separately (primarily licences, software and patents) are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination (primarily customer based intangible assets, technology and marketing related intangible assets) is its fair value as at the date of acquisition. Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses, if any. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets are amortised on a straight-line basis over the estimated useful lives as follows:

| Intangible assets | Useful life |
|---|---|
| Customer related intangible assets | 1.5 to 8,5 years |
| Purchased software, licenses and other | 3 to 10 years |
| Patents | 10 years |
| Intangible assets from internal development | 1 to 9,5 years |

Amortisation expenses are allocated to the cost of goods sold, selling expenses, research and development expenses, or general administration expenses. Other than its goodwill, the Group has no intangible assets with an indefinite useful life.

Self-developed intangible assets are recorded on a cost basis. They are amortised on a straight-line basis over the estimated usefulness of 12-114 months. The costs of internally generated intangible assets comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in a manner intended by management, e.g. costs of materials and services used or consumed in generating the intangible asset, costs of employee benefits or fees to register a legal right. Reference is also made to the accounting policy regarding research and development costs in this section.

Patents have been granted by the relevant government agency for a certain period, depending on the specific country, with the option of renewal at the end of this period. In most cases the maximum lifetime of the patents is 20 years. They are amortised over the shorter period of expected future benefit, which is principally ten years. Acquisition costs for patents are based on the cost of patent registration.

### Impairment of non-monetary assets including Goodwill

Dialog assesses at each reporting date whether there is an indication that an asset may be impaired. Goodwill is tested for impairment annually (as at 30 November) and when circumstances indicate that the carrying value may be impaired. Impairment testing involves comparing the carrying amount of each cash-generating unit including goodwill or item of intangible assets, property, plant or equipment to the recoverable amount, which is the higher of its fair value less costs to sell or its value in use. If the carrying amount exceeds the recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets (cash-generating unit). Dialog considers its operating segments as cash-generating units. If a cash generating unit is found to be impaired, an impairment loss is first recognized on any goodwill allocated to it. Any remaining impairment amount is then allocated among the other assets of the cash-generating unit, and pro-rated impairment losses are recognized on the carrying amounts of these assets.

Impairment losses of continuing operations, are recognised in the income statement in expense categories consistent with the function of the impaired asset, except goodwill. Impairment losses on goodwill are recognized in "other expense".

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. These are forecasted on the basis of the Group's current planning, the planning horizon normally being three years including one year of budgeted and two additional forecasted years. In determining the fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

# Notes to the consolidated financial statements continued

## 2. Summary of significant accounting policies continued

Forecasting for the entire planning period involves making assumptions, especially regarding future selling prices, sales volumes and costs. Where the recoverable amount is the fair value less costs to sell, the cash-generating unit or individual asset is measured from the viewpoint of an independent market participant. Where the recoverable amount is the value in use, the cash-generating unit or individual asset is measured as currently used. In either case, net cash flows beyond the planning period are determined on the basis of long-term business expectations using the respective individual growth rates derived from market information.

The net cash inflows are discounted at a pre-tax discount rate. To allow for the different risk and return profiles of the Group's principal businesses, the discount rate is calculated separately for each strategic business unit (synonymously cash generating unit from impairment test perspective)-specific capital structure is defined by benchmarking against comparable companies in the same industry sector. The cost of equity corresponds to the return expected by stockholders, while the cost of debt is based on the conditions on which comparable companies can obtain long-term financing. Both components are derived from capital market information.

For assets other than goodwill, an assessment is made at each reporting date as to whether any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, an estimation of the recoverable amount is made. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount, however, cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

**Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Where the Group is lessee, finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit and loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that Dialog will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and other sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is derived from the sale of products, application specific integrated circuit ("ASIC") and application specific standard product ("ASSP") to end customers. These products are manufactured and tested in accordance with customers' technical specifications prior to delivery.

Revenue is recognised when title passes, the risks and rewards of ownership have been transferred to the customer, the fee is fixed or determinable, and collection of the related receivable is probable. Revenues are recorded net of sales taxes and customer discounts, if any.

## 2. Summary of significant accounting policies continued

The Group has insurance for product claims and also records a provision for warranty costs as a charge in cost of sales, based on historical trends of warranty costs incurred as a percentage of sales, which management has determined to be a reasonable estimate of the probable costs to be incurred for warranty claims in a period.

Customer returns are permitted only for quality-related reasons within the applicable warranty period and any potential warranty claims are subject to the Group's determination that it is at fault for damages. Such claims must usually be submitted within a short period of the date of sale.

Research and development

Revenue from customer-specific research and development contracts involving the development of new customer-specific technology is recognised on the percentage of completion basis when the outcome of the contract can be estimated reliably. A contract's outcome can be estimated reliably when total contract revenue can equally be estimated, it is probable that economic benefits associated with the contract will flow to the Group, and the stage of contract completion can be measured reliably. When the Group is not able to meet those conditions, the policy is to recognise revenues only to the extent the expenses incurred are eligible to be recovered. Completion is measured by reference to costs incurred to date as a percentage of estimated total project costs. The percentage of completion method relies on estimates of total expected contract revenue and costs, as well as the dependable measurement of the progress made towards completing the particular project. Losses on projects in progress are recognised in the period they become likely and can be estimated.

**Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Grants are deducted in reporting the related expense.

**Cost of sales**

Cost of sales consists of the costs of outsourced production, assembly and test, personnel costs and applicable overheads and depreciation of equipment. Provisions for estimated product warranties are recorded in cost of sales at the time the related sale is recognised. This item also includes amortisation charges related to capitalised development cost. Impairment charges are shown either in cost of sales when revenues had already been realized or in research and development expenses if not.

**Sales and marketing expenses**

Sales and marketing expenses consist primarily of salaries, travel expenses, sales commissions, bad debt expenses and costs associated with advertising and other marketing activities.

**General and administrative expenses**

General and administrative expenses consist primarily of personnel and support costs for finance, human resources, ERP system and other management departments which are not attributable to development, production or sales functions.

**Research and development costs**

Costs identified as research costs are expensed as incurred, whereas development costs on an individual project are capitalised as an intangible asset and amortised over the period of expected future benefit if the Group can demonstrate the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

# Notes to the consolidated financial statements continued

## 2. Summary of significant accounting policies continued

**Interest income/expense**

Interest income is recognised as interest accrues. Interest income includes interest income from investments in securities, cash and cash equivalents. Income and expense resulting from the allocation of premiums and discounts is also included. Interest expense is generally expensed as incurred.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Foreign currency exchange gains and losses**

The foreign currency exchange gains and losses mainly result from foreign currency cash transactions and period end revaluation of foreign currency denominated cash into US dollars. It is the Group's view that these gains and losses are driven by the financing activities of the Group and are therefore shown as non-operating results.

**Employee benefits – defined contribution plans**

Contributions to defined contribution and state-funded pension plans are recognised in the income statement as incurred.

**Income taxes**

Current income taxes for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are accounted for using the liability method and are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities, and their respective tax bases, as well as on the carry-forward of unused tax losses that can be utilised.

Deferred tax assets and liabilities are measured using tax rates that have been enacted, or substantially enacted, by the reporting date and which are expected to apply to taxable income in the years, in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognised in income in the period that includes the enactment date.

A deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent, that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets being reduced in the past are presented in the notes gross less respective provisions. If in future periods it becomes probable that taxable profits will be available against which the unused tax losses can be utilized, it is generally assumed that tax losses incurred first will be utilized first and the respective provision will be reversed.

Deferred tax assets and deferred tax liabilities are offset, only if a legally enforceable right exists, to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

**Sales tax**

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables that are stated with the amount of sales tax included.

## 2. Summary of significant accounting policies continued

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**Share-based payments**

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense in the period.

Stock options

The Group has established an equity-settled share option scheme under which employees may be granted stock options to acquire shares of Dialog.

The fair value of options granted is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the service period during which the employees become unconditionally entitled to the options.

The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions on which the options were granted. Expectations of early exercise are accounted for within the average life of the options.

Executives' Long Term Incentive Plan

The Group operates an equity settled Long-Term Incentive Plan (LTIP). Under this plan, key executives are eligible to share in a percentage of the value created for Shareholders in excess of an annual return hurdle measured over a four year performance period.

Each participant in the LTIP is awarded a number of units which convert into Company shares according to the level of outperformance of the Company's share price over the annual return hurdle. If this hurdle is not reached no units convert into Company shares.

The fair value of the awards is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date, using a Monte Carlo Model, taking into account the terms and conditions on which awards are granted and is spread over the service period during which the key executives become unconditionally entitled to the awards.

The last measurement date for the LTIP was 31 January 2011, the LTIP was then replaced by the Executive Incentive Plan, see below.

For further information please refer to note 23.B.

Executive Incentive plan

In 2011 the Group established an equity settled Executives Incentive Plan (EIP). As described above, the EIP replaces the LTIP. Under this plan, key executives and other key value drivers of the business are eligible to share in a percentage of the value created for Shareholders. Pay-outs are now in addition to share price growth also based on corporate performance targets.

Each participant in the EIP is awarded a number of units which convert into Company shares according to the level of the Company's share price, EBIT and revenue growth over a term of three years from the date of grant.

The fair value of the awards is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date, using a Monte Carlo Model, taking into account the terms and conditions on which awards are granted and is spread over the service period during which the key executives become unconditionally entitled to the awards.

For further information please refer to note 23.C.

**Employee benefit trust – Treasury shares**

The Group has an employee benefit trust. The employee benefit trust is separately administrated and is funded by the Group, which consolidates the assets, liabilities, income and expenses in its own accounts. The shares held by the trust are recorded at cost and are shown under "Employee stock purchase plan shares" in the statement of changes in Shareholders' equity.

# Notes to the consolidated financial statements continued

## 2. Summary of significant accounting policies continued

### Earnings per share

Basic earnings per share amounts are calculated by dividing net profit (loss) for the year attributable to ordinary equity holders of Dialog by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of Dialog 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.

The weighted average number of shares outstanding is as follows:

| | **2013**<br>**000** | 2012<br>000 |
|---|---|---|
| Basic number of shares | **65,641** | 64,681 |
| Effect of dilutive options outstanding | **2,035** | 2,673 |
| **Dilutive number of shares** | **67,676** | 67,354 |

The number of anti-dilutive share options outstanding was 3,179,646 (2012: 1,071,524).

In 2013 the potential ordinary shares of the convertible bond were antidilutive as their conversion to ordinary shares would increase earnings per share.

### Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The significant accounting estimates and assumptions are outlined below:

#### Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. In case of such an indicator, an impairment test is made. This requires the determination of the value in use and the fair value less costs to sell respectively of the assets. Estimating the value in use requires management to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of such assets at 31 December 2013 was US$569,475,000 (2012: US$286,845,000), please refer to notes 4, 9, 12 and 13.

#### Business Combinations

In accordance with business combination accounting, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values. We engage third-party appraisal firms to assist management in identifying certain intangible assets acquired and in determining the fair values of certain assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain assets acquired and liabilities assumed include but are not limited to: future expected cash flows from the sale of products, and engineering service sales, the acquired company's brand awareness and discount rate. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results. Subject to these estimates are the fair values recorded as shown in note 4 (Business Combinations).

## 2. Summary of significant accounting policies continued

Goodwill is allocated to cash generating units or groups of cash generating units, that is expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquire are assigned to these units or group of units. The estimates of these synergies include but are not limited to: future cash flows from the sale of products, changes in fair values of cash generating units and discount rate. We refer to note 5 (Impairment testing) for the accounting treatment including applied approach and assumptions related to the current business combination.

### Deferred tax assets and liabilities

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

Significant management judgement on projected future taxable profits and cash flows is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing of future taxable profits, together with future tax planning strategies. At year-end 2013, net deferred tax liabilities amounting to US$15,698,000 were recognised (2012: net deferred assets US$3,234,000).

Further information regarding the assessment of future taxable income is disclosed in note 6.

### Share-based employee compensation awards

- Stock options
  Share-based payment transactions for stock options are measured by reference to the fair value at the date on which they are granted. The fair value of share-based payments is determined using the Black-Scholes model, which involves making assumptions about interest rates, volatilities, market conditions, dividend yield, expected life and fluctuation. Due to the nature of these assumptions, such estimates are subject to significant uncertainty. In 2013, the expense related to stock options was US$5,642,000 (2012: US$5,466,000). For further information on stock options please refer to note 23.A and 23.D.
- Executives' Long Term Incentive Plan
  The fair value of the awards is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date, using a Monte Carlo Model, based on standard inputs such as the Company's share price, interest rate, and volatility of the Company's share price, dividend yield, expected life and fluctuation. Due to the nature of these assumptions, such estimates are subject to significant uncertainty. In 2013, an expense of nil was booked (2012: US$74,000). Further information regarding LTIP is provided in note 23.B and 23.D.
- Executives Incentive Plan
  The fair value of the awards is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date, using a Monte Carlo Model, based on standard inputs such as the Company's share price, interest rate, and volatility of the Company's share price, dividend yield, expected life and fluctuation. Due to the nature of these assumptions, such estimates are subject to significant uncertainty. In 2013, an expense of US$2,846,000 was booked (2012: US$1,415,000). Further information regarding EIP is provided in note 23.C and 23.D.

### Customer-specific research and development

For the determination of revenue and costs for customer-specific research and development contracts, management judgement is required. It is, therefore, necessary to determine the stage of completion based on the progress made towards completing the particular project, as well as the contract revenue and the contract costs. Besides an advance payment received from one customer, at 31 December 2013 no receivables or liabilities from constructions contracts were outstanding (2012: nil).

### Self-developed intangible assets

Development costs are capitalised in accordance with the accounting policy mentioned above, i.e. they are recorded on a cost basis. However, initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. The amortisation starts when the capitalized product is ready for intended use. In determining the probable future economic benefits of the self-developed intangible asset, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2013, the carrying amount of capitalised development costs was US$57,352,000 (2012: US$13,425,000), please refer to note 13.

Actual results may differ from all of the above judgements and estimates.

# Notes to the consolidated financial statements continued

## 3. Other disclosures to the income statement

### a) Operating expenses and revenues

The operating result before income taxes is stated after charging:

| | 2013 US$000 | 2012 US$000 |
|---|---|---|
| **Auditors' remuneration** | | |
| for the audit of the Group financial statements | **(736)** | (302) |
| for the statutory audit of the subsidiaries | **(9)** | (154) |
| for other audit related assurance services | **(170)** | (70) |
| **Other fees for auditors** | | |
| Services related to Corporate Finance transaction | **(335)** | (373) |
| Tax advisory services | **(2,019)** | (7) |
| | **(3,269)** | (906) |
| **Depreciation of property, plant and equipment** | **(18,581)** | (12,698) |
| **Amortisation of intangible assets** | | |
| thereof included in cost of sales | **(10,940)** | (4,454) |
| thereof included in selling and marketing expenses | **(8,203)** | (5,426) |
| thereof included in general and administrative expenses | **(983)** | (637) |
| thereof included in research and development expenses | **(8,520)** | (9,076) |
| | **(28,646)** | (19,593) |
| **Personnel costs** | | |
| Wages and salaries | **(115,913)** | (85,684) |
| Social and security costs | **(12,055)** | (9,049) |
| Share-based payments | **(8,487)** | (6,955) |
| Pension costs from defined contribution plans[1] | **(7,703)** | (6,455) |
| | **(144,158)** | (108,143) |
| **Included in revenues** | | |
| **Revenue from the sale of goods** | **899,660** | 772,919 |
| Revenue from customer specific research and development contracts | **1,527** | 664 |
| Revenue from royalties | **869** | – |
| Included in revenue from sale of goods income attributable to prior periods from BenQ cash settlement (see note 29) | **851** | – |
| **Included in cost of sales** | | |
| Costs in relation to customer specific research and development contracts | **(1,527)** | (664) |
| Amount of inventory recognised as expense | **(484,957)** | (437,939) |
| Impairment of inventories recognised as an expense | **(14,445)** | (8,207) |
| **Included in other operating income** | | |
| Release of an earn out provision (see note 4) | **3,249** | – |
| BenQ Settlement (see note 29) | **145** | – |
| | **3,394** | **–** |

[1] The pension costs from defined contribution plans include costs for the state funded pension plan in Germany of US$2,732,000 (2012: US$2,242,000).

# 3. Other disclosures to the income statement continued

## b) Directors' remuneration

| | 2013 US$000 | 2012 US$000 |
|---|---|---|
| Aggregate remuneration in respect of qualifying services | **2,849** | 1,690 |

| | 2013 No. | 2012 No. |
|---|---|---|
| Number of directors who received shares in respect of qualifying services | **1** | 8 |
| Number of directors who exercised share options | **–** | 5 |

| | 2013 US$000 | 2012 US$000 |
|---|---|---|
| In respect of the highest paid director: | | |
| Aggregate remuneration | **1,820** | 1,046 |
| Of which pension contribution for the year | **37** | 56 |

The highest paid director exercised nil (2012: 329,940) share options during the year.

## c) Interest income and interest expense

Interest income and expenses comprise the following items:

| | 2013 US$000 | 2012 US$000 |
|---|---|---|
| Interest income | **565** | 1,360 |
| Interest expense | **(13,345)** | (6,466) |
| | **(12,780)** | (5,106) |
| Of which: from financial instruments relating to categories in accordance with IAS 39 | | |
| Loans and receivables and liabilities | **(3,845)** | 204 |
| Financial liabilities measured at amortised cost | **(8,935)** | (5,310) |
| | **(12,780)** | (5,106) |

## d) Government grants

The Group receives government grants for research and development activities of its Dutch design centre. Under the condition that technologies are new to the company and performed by the Group's employees, a grant can be received for its development. This grant is based on the hours spent on these R&D activities. In 2013 the Group received grants in the amount of US$1,055,000 (2012: US$1,078,000). In the profit and loss account the grants received were deducted from research and development expenses. In addition in 2013 the company has applied for a grant in the form of a tax relief, an amount of up to US$3,567,000 (2012: US$2,356,000) can be deducted from a positive taxable income in the Netherlands.

# Notes to the consolidated financial statements continued

## 3. Other disclosures to the income statement continued

### e) Headcount

The average number of persons employed by the Group (including the Executive Director) during the year, analysed by category, was as follows:

| | **2013** | 2012 |
|---|---|---|
| Research and Development | **588** | 445 |
| Production | **127** | 95 |
| Sales and Marketing | **156** | 92 |
| Admin | **71** | 58 |
| IT | **30** | 24 |
| | **972** | 714 |

## 4. Business combination

### Acquisition in 2013

On 16 July 2013 Dialog Semiconductor Plc acquired 100% of the voting rights of iWatt Inc. ("iWatt") for a purchase price with a fair value of US$ 311,449,000 of which US$306,261,000 was paid in cash at the time of the acquisition. Headquartered in Campbell, California, with approximately 180 employees worldwide, iWatt is a leading provider of digital power management integrated circuits with a patent portfolio of more than 110 patents and a strong design and application engineering presence in Asia. Its innovative PrimAccurate™ technology platform enables high performance, energy-efficient, small form-factor and cost-effective solutions for markets such as AC/DC power conversion and LED Solid State Lighting (SSL). The Company's solutions are designed into the products of leading global OEMs and it has shipped more than one billion power management ICs since 2007.

This acquisition underscores Dialog's strategy to diversify its markets and growth opportunities through select strategic acquisitions. iWatt's business is highly complementary to Dialog's existing PMIC business. It will enable the resulting business combination to address adjacent emerging power management segments and increase its Total Addressable Market. It diversifies Dialog's product portfolio adding two high growth product families; AC/DC charge adaptor IC and a broad range of LED Solid State Lighting ICs. iWatt's business contributes to the diversification of Dialog's client portfolio by adding new Tier-1 customers and expanding the business opportunities at existing smartphone Tier-1 OEMs.

The acquisition has been accounted for using the acquisition method as required by IFRS 3.4. Due to the timing of the acquisition the initial accounting for the business combination is incomplete at the time the financial statements were authorized for issue. The fair values recognized on the acquisition represent provisional amounts.

## 4. Business combination continued

**Assets acquired and liabilities assumed**

The book values at iWatt and provisional fair values of the identifiable assets and liabilities of iWatt as at the date of acquisition were:

| | Book values at iWatt US$000 | Fair value adjustments US$000 | Fair value recognised on acquisition US$000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 2,410 | – | 2,410 |
| Trade accounts receivable and other receivable | 11,017 | – | 11,017 |
| Inventories | 6,034 | 6,996 | 13,030 |
| Other current assets | 776 | – | 776 |
| Property, plant and equipment | 1,749 | 3,117 | 4,866 |
| Intangible assets [1)] | 54 | 113,499 | 113,553 |
| Deferred tax assets | 16,200 | – | 16,200 |
| Other non-current assets | 314 | – | 314 |
| **Total assets** | **38,554** | **123,612** | **162,166** |
| **Liabilities** | | | |
| Trade and other payables | 11,585 | – | 11,585 |
| Provisions | 7,342 | (3,903) | 3,439 |
| Income taxes payable | 227 | – | 227 |
| Other current liabilities | 3,431 | – | 3,431 |
| Deferred tax liabilities | – | 44,630 | 44,630 |
| **Total liabilities** | **22,585** | **40,727** | **63,312** |
| Total identifiable net assets at fair value | 15,969 | 82,885 | 98,854 |
| Goodwill arising on acquisition | | | 212,595 |
| **Purchase price** | | | **311,449** |
| Fair value of contingent consideration (earn out) | | | (5,188) |
| **Purchase consideration transferred** | | | **306,261** |

[1] For further information please refer to note 13 for allocation of fair value adjustments to Group's asset classes

The fair value of the trade receivables amounts to US$11,017,000. None of the trade receivables have been impaired and it is expected that the full contractual amounts will be collected. The fair value of inventories contains a step-up of US$6,996,000 which has an adverse impact on gross margin and the financial results for the current reporting period (for further details see management report on page 35).

The intangible assets comprise mainly customer and technology (including core technology) related intangible assets.

The deferred tax assets mainly represent tax loss carryforwards, temporary differences relating to intangible assets, other temporary differences and tax credits.

The deferred tax liability mainly comprises the tax effect on fair value adjustments from the purchase price allocation.

# Notes to the consolidated financial statements continued

## 4. Business combination continued

The goodwill of US$212,595,000 comprises the value of expected significant synergies, especially with the Company's mobile system segment, and other benefits from combining the assets and activities of iWatt with those of the Dialog Group as explained above. The allocation of Goodwill to existing and new segments will be based on commercial information available on the acquisition date and finalised during the measurement period of 12 months subsequent to the acquisition date. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of the acquisition, iWatt has contributed US$26,768,000 of revenue (net of US$7,073,000 of deferred revenue which was not accounted for due to acquisition accounting rules) and a loss of US$22,533,000 before tax which are presented in the Group's newly created segment Power Conversion. If iWatt had been acquired on 1 January 2013, revenue of the Group in 2013 would have been US$942,520,000. However, due to a lack of IFRS-specific data prior to the acquisition of iWatt, pro-forma profit or loss of the combined entity in 2013 cannot be determined reliably.

**Purchase consideration**

The total purchase price consideration amounted to US$306,261,000. There is an additional total contingent consideration (earn out) of up to 35,000,000.

**Analysis of cash flows from acquisition**

| | US$000 |
|---|---|
| Transaction costs of the acquisition (included in cash flows from operating activities) | **(3,974)** |
| Total cash outflow for acquisition (included in cash flows from investing activities) | **(306,261)** |
| Net cash acquired with the subsidiary (included in cash flows from investing activities) | **2,410** |
| **Net cash flow on acquisition** | **(307,825)** |

Acquisition costs of US$3,974,000 have been expensed and are included in general and administrative expenses in the income statement.

**Contingent consideration**

As part of the purchase agreement with the previous owner of iWatt, a contingent consideration has been agreed.

The contingent consideration is based on post-acquisition revenue targets to be achieved within two earn out periods, the six months ended 31 December 2013 (the "First Earn-Out Period") and the nine months ended September 30, 2014 (the "Second Earn-Out Period"). The maximum payment relating to the first earn out period is US$17.0 million and the maximum payment relating to the second earn out period is US$18.0 million. In relation to these earn outs we have initially recognized a provision of US$5.2 million which was reduced to US$1.9 million at 31 December 2013. The reduction of US$3.3 million resulted in a gain which is included in other operating income in the consolidated income statement. We note that a minimum of 90% of the stretch targets set by former iWatt owners must be achieved before any earn out is achieved.

Other earn outs which are related to post acquisition employment are treated as post acquisition compensation and are expensed in the income statement over the relevant period.

The acquisition is being funded from both Dialog's existing cash resources and additional debt facilities of US$115 million of which US$10 million have been repaid in December 2013.

**Consideration for unvested share options**

At the Effective Date of acquisition, each unvested option on iWatt shares was cancelled. Instead, a cash compensation has been offered to employees with unvested options which had an Exercise Price per Option lower than the implied Share Price, calculated based upon the effective date consideration. This compensation will be paid out by Dialog over the former vesting period of the cancelled option subject to the employee remaining with Dialog and will be recorded as compensation expense in the income statement. The maximum amount of compensation that will be paid out is US$3,175,000.

# 5. Impairment testing

## Impairment testing of goodwill

For impairment testing purposes, goodwill acquired thorough business combinations (2013: iWatt and 2011: SiTel) has been allocated, as follows:

| | Unallocated | | Mobile Systems | | Connectivity | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| | **US$000** | US$000 | **US$000** | US$000 | **US$000** | US$000 | **US$000** | US$000 |
| **Goodwill** | **212,595** | – | **5,150** | 5,150 | **27,133** | 27,133 | **244,878** | 32,283 |

## Unallocated goodwill

The balance of unallocated goodwill represents the provisional amount acquired through the acquisition of iWatt Inc. on 16 July 2013 which could not be reliably allocated to cash generating units. At 31 December 2013, the integration of iWatt Inc. and its subsidiaries is still on-going. During the integration process, one of the key activities is the evaluation of the complementarity between the two groups as it relates to technology, product portfolio, customer base and sales channels, in an effort to properly and reliably identify cross selling opportunities between the newly acquired group and Dialog's existing segments. In view of the significant differences that exist between the Dialog Group and the former iWatt Group when it comes to sales channels and the geographical foot print in particular, the evaluation is still on going at 31 December 2013. During this on-going process, we are focusing on the evaluation of commercial data which had an impact on the purchase price at the acquisition date. Based on a review at year end, there were no indicators of impairment at 31 December 2013.

## Mobile Systems and Connectivity segment

As described in note 2 in more detail an impairment loss must be recognized if the carrying amount of a cash generating unit exceeds its recoverable amount. The recoverable amount can either be measured as the fair value less cost to sell or the value in use. In Q4-2013 the company performed a separate impairment test for the two relevant CGU's (Mobile Systems and Connectivity) based on the value in use to determine the recoverable amount.

## Key assumptions used in value in use calculations

The calculation of value in use for both connectivity and mobile systems units is most sensitive to the following assumptions:

- Return on sales;
- Discount rates;
- Growth rates used to extrapolate cash flows beyond the planning period.

Return on sales – Return on sales is calculated by dividing the EBITDA by net sales for each of the units. The EBITDA is defined as the operating profit (loss) excluding depreciation and amortisation expenses as reported in note 26.

Discount rates – Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The applied discount rate represents a pre-tax WACC. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. The calculation of the recoverable amount is based on pre-tax cash flows discounted using a pre-tax discount rate.

Growth rate estimates – Rates are based on company's industry research and applied for calculation of perpetuity.

The discounted cash flow calculations use projections that are based on management's expectations covering the assessment year 2014. The planning horizon reflects the assumptions for short-to mid-term market developments. Cash flows for the assessment years 2015 and 2016 are extrapolated using appropriate growth rates. Key assumptions on which management has based its determination of the value in use include the development of key assumptions mentioned above. Cash flow calculations are supported by external sources of information.

# Notes to the consolidated financial statements continued

## 5. Impairment testing continued

**Impairment Testing Parameters**

| | Mobile Systems in % | Connectivity in % |
|---|---|---|
| Actual | | |
| Return on sales | 22.0 | 3.7 |
| Pre-tax discount rate | 11.3 | 11.3 |
| Growth rates | 16.6 | (4.7) |
| **3 year planning period** | | |
| Return on sales | 26.5 - 29.1 | 12.2 - 21.1 |
| Pre-tax discount rate | 11.3 | 11.3 |
| Growth rates | 10.8 - 25.3 | 15.6 - 41.9 |
| **Perpetual annuity** | | |
| Return on sales | 28.0 | 21.0 |
| Pre-tax discount rate | 11.3 | 11.3 |
| Growth rates | 1.0 | 1.0 |

**Sensitivity to changes in assumptions**

The implications of the key assumptions for the recoverable amount are discussed below:

*Growth rate assumptions* - Management recognises that the speed of technological change in the company's industry sector and the possibility of new entrants can have a significant impact on growth rate assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts, but could yield a reasonably possible alternative to the estimated long-term average growth rate of 12.3% for Mobile Systems segment and 28.7% for Connectivity segment. A reduction to 0.0% in the long-term average growth rate in Mobile Systems Segment with all other factors being held constant would not result in a further impairment. For the Connectivity Segment, a reduction of the average growth rate to 15.0% over the short term planning period with all other factors being held constant would result in impairment.

*Discount rates* - A rise in pre-tax discount rate to 31.0% in the Mobile System segment with all other factors being held constant would result in a further impairment. A rise in pre-tax discount rate to 32.6% in the Connectivity segment with all other factors being held constant would result in impairment.

Management concluded that no impairment charge against goodwill should be recognised in either of the two strategic business units. However, although the assumptions concerning the macroeconomic environment and developments in the industries in which Dialog operates and estimates of the discounted future cash flows are believed to be appropriate, changes in assumptions or circumstances could require changes in the analysis. This could lead to impairment losses in the future.

## 6. Income taxes

Income (loss) before income taxes consists of the following:

| | **2013 US$000** | 2012 US$000 |
|---|---|---|
| Germany | **118,932** | 96,999 |
| Foreign | **(29,220)** | (10,874) |
| | **89,712** | **86,125** |

## 6. Income taxes continued

Income tax benefit (expense) is comprised of the following components:

| | 2013 US$000 | 2012 US$000 |
|---|---|---|
| **Current taxes:** | | |
| Germany | **(36,105)** | (12,819) |
| Foreign | **403** | (852) |
| **Deferred taxes:** | | |
| Germany | **943** | (14,860) |
| Foreign | **7,251** | 4,919 |
| **Income tax expense** | **(27,508)** | (23,612) |

| | 2013 US$000 | 2012 US$000 |
|---|---|---|
| **Current taxes:** | | |
| Current income tax charge | **(36,105)** | (13,391) |
| Adjustments in respect of current income tax of previous year | **403** | (280) |
| **Deferred taxes:** | | |
| Relating to origination and reversal of temporary differences | **8,194** | (12,073) |
| Relating to a reversal of a previous write-down of a deferred tax asset | **–** | 2,132 |
| **Income tax expense** | **(27,508)** | (23,612) |

Although Dialog Plc. is a UK company, its principal operations are located in Germany. Accordingly, the following information is based on German corporate tax law.

The tax rate for its German subsidiary is 15%; considering the impact of the solidarity surcharge of 5.5%, the federal corporate tax rate amounts to 15.8%. Combining the federal corporate tax rate with the trade tax rate of 12.6%, the combined statutory tax rate of the German subsidiary is 28.4%.

# Notes to the consolidated financial statements continued

## 6. Income taxes continued

A reconciliation of income taxes determined using the combined German income tax rate of 28.4% (2012: 28.4%), is as follows:

| | 2013 US$000 | 2012 US$000 |
|---|---|---|
| Expected income tax expense | **(25,457)** | (24,439) |
| Tax rate differential | **(652)** | (568) |
| Non-deductible portion of share based payments | **(2,276)** | (1,782) |
| Tax benefit from share based payments | **1,487** | 3,434 |
| Tax free income (non-deductible expenses) | **(71)** | (291) |
| Recognised deferred tax assets relating to a reversal of a previous write-down of deferred tax assets and first time recognition of deferred tax assets relating to prior years | **–** | 2,132 |
| Benefit from previously unrecognised deferred tax assets that is used to reduce current tax expense | **1,983** | 1,631 |
| Additional losses for which no deferred tax asset is recognised | **(2,827)** | (2,543) |
| Adjustments recognised for tax of prior periods | **302** | (388) |
| Differences arising from differences between functional currency and tax currency | **(45)** | (773) |
| Other | **48** | (25) |
| **Actual income tax expense** | **(27,508)** | (23,612) |

Deferred income tax assets and liabilities are summarised as follows:

| | At 31 December 2013 US$000 | At 31 December 2012 US$000 |
|---|---|---|
| Temporary differences relating to intangible assets | **(43,028)** | (5,111) |
| Other temporary differences | **1,913** | 2,178 |
| Deferred taxes in relation to tax credits | **2,771** | – |
| Net operating loss carryforwards | **22,646** | 6,167 |
| **Total net deferred tax assets / (liabilities)** | **(15,698)** | 3,234 |
| **Impaired deferred tax assets** | **–** | – |
| **Recognised net deferred tax assets / (liabilities)** | **(15,698)** | 3,234 |

## 6. Income taxes continued

Tax loss carryforwards, temporary differences and net deferred tax assets are summarised as follows:

| | 31 December 2013 | | | 31 December 2012 | | |
|---|---|---|---|---|---|---|
| | **Tax loss carryforwards US$000** | **Temporary Differences US$000** | **Net deferred tax assets (liabilities) US$000** | Tax loss carryforwards US$000 | Temporary Differences US$000 | Net deferred tax assets (liabilities) US$000 |
| Germany | **–** | **1,026** | **288** | 629 | (2,181) | (440) |
| UK | **73,600** | **31,968** | **–** | 69,739 | 23,084 | – |
| Netherlands | **23,258** | **(7,863)** | **3,849** | 19,384 | (13,244) | 945 |
| US[1)] | **64,509** | **(112,154)** | **(20,398)** | 4,029 | 928 | 2,132 |
| Other | **–** | **1,563** | **563** | – | 1,296 | 597 |
| **Total** | **161,367** | **(85,460)** | **(15,698)** | 93,781 | 9,883 | 3,234 |

[1] Including an estimated amount of US$39,847,000 (2012: US$2,806,000) for state tax loss carryforwards

The amount of deductible temporary differences and unused tax loss carryforwards for which no deferred tax asset is recognised in the balance sheet is US$121,579,000 (2012: US$95,179,000). In addition, no deferred tax asset is recognised in respect of tax credits of US$3,643,000 (2012: nil).

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.

The utilisation of tax loss carryforwards and temporary differences for which currently no deferred tax asset is recognized is subject to the achievement of positive income in periods which are beyond the Company's current business plan and therefore this utilisation is uncertain. Consequently no deferred tax assets were recognised for these losses and temporary differences.

The tax loss carryforwards in the US will expire between 2018 and 2033 and in the Netherlands between 2017 and 2019; other tax loss carryforwards have no  expiration date.

The amount shown under "income tax receivables" in the statement of financial position includes a corporation tax refund claim of the Group's German subsidiary. The total amount the German subsidiary is entitled to receive amounts to €414,000 to be paid out in ten equal amounts during 2008 to 2017. The amount shown within the non-current assets represents the discounted part of the claim that is due after 2014. The amount that will be paid in 2014 is shown within the current assets.

## 7. Cash and cash equivalents

| | **At 31 December 2013 US$000** | At 31 December 2012 US$000 |
|---|---|---|
| Cash at bank | **151,016** | 136,117 |
| Short-term deposits | **35,009** | 170,000 |
| Deposits designated as a hedging instrument | **–** | 6,318 |
| **Cash and cash equivalents** | **186,025** | 312,435 |

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. Deposits designated as a hedging instrument are classified as cash flow hedges to cover firm commitments and forecast transactions in Euros, Pound Sterling and Japanese Yen.

# Notes to the consolidated financial statements continued

## 8. Trade accounts receivable and other receivable

| | At 31 December 2013 US$000 | At 31 December 2012 US$000 |
|---|---|---|
| Trade accounts receivable | **113,236** | 70,490 |
| Receivables from factoring agreement | **14,100** | 12,397 |
| | **127,336** | 82,887 |

Trade receivables are non-interest bearing and are generally on 30-60-day terms.

As described in note 27, the Group has two selective factoring agreements, one since 2007 and the other since 2012. The amount shown as receivables from the factoring agreements represents respectively a 15% or 10% retainer kept by the factoring bank against sold receivables. The retainer is released only once the receivable is fully paid by the customer, at the latest, 120 days after the receivable becomes due or if the insurance event occurs. There are no significant risks related to the continuing involvement. The amounts are non-interest bearing and are generally on 30-60-day terms.

The recorded trade accounts receivable for which an impairment has been recognised, was US$82,000 and US$1,130,000 at 31 December 2013 and 2012, respectively. The related allowance for doubtful accounts was US$82,000 and US$1,130,000 at 31 December 2013 and 2012, respectively.

The allowance for doubtful accounts developed as follows:

| | At 31 December 2013 US$000 | At 31 December 2012 US$000 |
|---|---|---|
| Allowance for doubtful accounts at beginning of year | **1,130** | 1,180 |
| Additions charged to bad debt expense | **20** | 8 |
| Write-offs charged against the allowance | **(670)** | (26) |
| Reductions credited to income | **(168)** | (2) |
| Effect of movements in foreign currency | **(230)** | (30) |
| **Allowance for doubtful accounts at end of year** | **82** | 1,130 |

As at 31 December 2013 and 2012, the aging analysis of trade accounts receivable is as follows:

| | At 31 December 2013 US$000 | At 31 December 2012 US$000 |
|---|---|---|
| Receivables neither past due nor impaired | **109,087** | 66,374 |
| Receivables past due, not impaired individually | **–** | – |
| Less than 30 days | **3,272** | 3,410 |
| 30 to 59 days | **456** | 706 |
| 60 to 89 days | **28** | – |
| 90 to 130 days | **393** | – |
| **Total** | **113,236** | 70,490 |

## 9. Inventories

Inventories are comprised of the following:

| | **At 31 December 2013 US$000** | At 31 December 2012 US$000 |
|---|---|---|
| Raw materials | **14,276** | 20,686 |
| Work-in-process | **26,815** | 51,739 |
| Finished goods | **76,438** | 79,942 |
| Deposits | **12** | 88 |
| | **117,541** | 152,455 |

## 10. Other financial assets

Other financial assets comprise:

| | **At 31 December 2013 US$000** | At 31 December 2012 US$000 |
|---|---|---|
| Deposits for hedging contracts | **1,532** | 368 |
| Hedging instruments | **2,462** | 2,752 |
| | **3,994** | 3,120 |

The deposits for hedging contracts are an advance settlement for hedging instruments with a negative fair value. The deposits do not bear interests and are offset with amounts due when the hedge is settled.

The amount shown under hedging instruments includes the fair value of derivative financial instruments used for cash flow hedges. The Group is exposed to currency risks in the course of its operating activities. These risks are reduced by the use of forward currency exchange contracts.

The Group has clear guidelines as to the use of those derivatives, and compliance is constantly monitored. For further information on the Group's hedging policy please see note 27.

## 11. Other current assets

Other current assets comprise:

| | **At 31 December 2013 US$000** | At 31 December 2012 US$000 |
|---|---|---|
| Prepaid expenses [1)] | **10,713** | 9,138 |
| Other tax receivables | **1,017** | 1,650 |
| Other | **746** | 1,757 |
| | **12,476** | 12,545 |

[1] Including US$3,440,000 (2012: US$3,557,000) prepayments made to a major supplier

# Notes to the consolidated financial statements continued

## 12. Property, plant and equipment, net

A summary of activity for property, plant and equipment for the years ended 31 December 2013 and 2012 is as follows:

| | Test equipment US$000 | Leasehold improvements US$000 | Office and other equipment US$000 | Construction in progress US$000 | Total US$000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at 31 December 2011 / 1 January 2012** | 85,732 | 7,617 | 24,661 | 267 | 118,277 |
| Effect of movements in foreign currency | 19 | 85 | 177 | 1 | 282 |
| Additions | 23,744 | 2,007 | 9,284 | 13 | 35,048 |
| Reclassifications | – | 22 | 242 | (264) | – |
| Disposals | (1,297) | (101) | (1,786) | (5) | (3,189) |
| **Balance at 31 December 2012 / 1 January 2013** | **108,198** | **9,630** | **32,578** | **12** | **150,418** |
| Additions relating to the iWatt acquisition [1)] | 4,440 | 170 | 256 | – | 4,866 |
| Effect of movements in foreign currency | (12) | 108 | 195 | 12 | 303 |
| Additions | 6,640 | 3,468 | 12,321 | 686 | 23,115 |
| Reclassifications | | | 10 | (10) | – |
| Disposals | (1,112) | (157) | (1,477) | – | (2,746) |
| **Balance at 31 December 2013** | **118,154** | **13,219** | **43,883** | **700** | **175,956** |
| **Depreciation and impairment losses** | | | | | |
| **Balance at 31 December 2011 / 1 January 2012** | (74,684) | (1,410) | (13,779) | – | (89,873) |
| Effect of movements in foreign currency | (9) | (25) | (70) | – | (104) |
| Depreciation charge for the year | (6,030) | (1,221) | (5,447) | – | (12,698) |
| Disposals | 1,114 | 16 | 1,445 | – | 2,575 |
| **Balance at 31 December 2012 / 1 January 2013** | (79,609) | (2,640) | (17,851) | – | (100,100) |
| Effect of movements in foreign currency | 2 | (28) | (90) | – | (116) |
| Depreciation charge for the year | (10,107) | (1,546) | (6,928) | – | (18,581) |
| Impairment charges | (171) | – | (346) | – | (517) |
| Disposals | 1,028 | 61 | 734 | – | 1,823 |
| **Balance at 31 December 2013** | **(88,857)** | **(4,153)** | **(24,481)** | **–** | **(117,491)** |
| **Net book value** | | | | | |
| **At 31 December 2011 / 1 January 2012** | 11,048 | 6,207 | 10,882 | 267 | 28,404 |
| **At 31 December 2012 / 1 January 2013** | 28,589 | 6,990 | 14,727 | 12 | 50,318 |
| **At 31 December 2013** | **29,297** | **9,066** | **19,402** | **700** | **58,465** |

### Finance leases

The carrying value of property, plant and equipment held under finance leases at 31 December 2013 was US$288,000 (31 December 2012: US$628,000). Additions during the year were US$40,000 (2012: US$506,000). As of the reporting date future minimum lease payments under those finance lease contracts were US$ nil (2012: US$221,000). The present value of the net minimum lease payments was US$ nil (2012: US$211,000).

## 13. Goodwill and other intangible assets

A summary of activity for intangible assets for the years ended 31 December 2013 and 2012 is as follows:

| | Goodwill | Other intangible assets | | | | |
|---|---|---|---|---|---|---|
| | US$000 | Customer related intangible assets US$000 | Purchased software, licenses and other US$000 | Patents US$000 | Intangible assets from internal development US$000 | Total US$000 |
| **Cost** | | | | | | |
| **Balance at 31 December 2011 / 1 January 2012** | 32,283 | 14,100 | 26,237 | 5,754 | 25,530 | 71,621 |
| Effect of movements in foreign currency | – | – | 96 | – | – | 96 |
| Additions | – | – | 26,606 | 950 | 5,956 | 33,512 |
| Reclassifications | – | – | – | – | – | – |
| Disposals | – | – | (725) | – | (387) | (1,112) |
| **Balance at 31 December 2012 / 1 January 2013** | **32,283** | **14,100** | **52,214** | **6,704** | **31,099** | **104,117** |
| Additions relating to the iWatt acquisition 1) | 212,595 | 62,975 | 979 | – | 49,599 | 113,553 |
| Effect of movements in foreign currency | – | – | 168 | – | – | 168 |
| Additions | – | – | 4,146 | 1,711 | 5,988 | 11,845 |
| Reclassifications | – | – | – | – | – | – |
| Disposals | – | – | (50) | – | (14) | (64) |
| **Balance at 31 December 2013** | **244,878** | **77,075** | **57,457** | **8,415** | **86,672** | **229,619** |
| **Amortisation and impairment losses** | | | | | | |
| **Balance at 31 December 2011 / 1 January 2012** | – | (5,428) | (17,227) | (1,116) | (9,489) | (33,260) |
| Effect of movements in foreign currency | – | – | (50) | – | – | (50) |
| Amortisation charge for the year | – | (5,076) | (5,197) | (1,135) | (8,185) | (19,593) |
| Impairment charges | – | – | – | – | – | – |
| Disposals | – | – | 575 | – | – | 575 |
| **Balance at 31 December 2012 / 1 January 2013** | – | (10,504) | (21,899) | (2,251) | (17,674) | (52,328) |
| Effect of movements in foreign currency | – | – | (71) | – | – | (71) |
| Amortisation charge for the year | – | (7,805) | (7,891) | (1,304) | (11,646) | (28,646) |
| Impairment charges | – | – | (21) | – | – | (21) |
| Disposals | – | – | 38 | – | – | 38 |
| **Balance at 31 December 2013** | **–** | **(18,309)** | **(29,844)** | **(3,555)** | **(29,320)** | **(81,028)** |
| **Net book value** | | | | | | |
| **At 31 December 2011 / 1 January 2012** | 32,283 | 8,672 | 9,010 | 4,638 | 16,041 | 38,361 |
| **At 31 December 2012 / 1 January 2013** | 32,283 | 3,596 | 30,315 | 4,453 | 13,425 | 51,789 |
| **At 31 December 2013** | **244,878** | **58,766** | **27,613** | **4,860** | **57,352** | **148,591** |

[1] Internally developed by iWatt pre-acquisition

# Notes to the consolidated financial statements continued

## 13. Goodwill and other intangible assets continued

A key element of the 2013 additions was the acquisition of iWatt Inc. In connection with this acquisition the company acquired goodwill, internally developed intangible assets, patents and customer related intangible assets, such as customer relationship and order backlog. For further information, please refer to note 4.

Customer related intangible assets comprise intangible assets acquired in a business combination containing key customers, other customer relationships and order backlog. Intangible assets from internal development represent capitalised development costs of individual projects. We refer to Note 2 for a description of applied accounting policies as well as applied ranges of useful lives for subsequent measurement.

A key element of the 2012 additions relates to a new US$26,4 million, 6 years licensing agreement (with the option to extend the term of the agreement by a period of two years) which the Company entered into during the third quarter of 2012 as part of the Company's on-going strategy to invest in R&D. This agreement allows Dialog to access patents in the area of portable power management and battery charging technology.

Dialog paid an initial amount of US$6 million in Q3-2012. In addition to this payment 24 subsequent quarterly payments of US$850,000 will be made by Dialog amounting to a total investment of US$26,4 million. Upon initial recognition, the license agreement was capitalised with its net present value of US$22,077,000. The discount rate used for this calculation represents the imputed interest rate which consists of a credit- and risk spread component reflecting the business risk of the entity. The useful life has been determined being 6 years.

**Hire purchase**

The carrying value of intangible assets held under hire purchase leases at 31 December 2013 was US$17,162,000 (31 December 2012: US$21,315,000). Additions during the year were US$343,000 (2012: US$23,173,000). As of the reporting date future minimum payments under those hire purchase contracts were US$15,300,000 (2012: US$19,177,000). The present value of the net minimum payments was US$12,743,000 (2012: US$15,462,000).

## 14. Investments

The Investment in amount of US$1.5 million relates to strategic equity investment into Arctic Sand Technologies, Inc., an MIT spin-off commercialising an innovative new approach to power conversion for multiple markets, including smartphones, tablets, ultrabooks(TM) and data centres. The investment was part of a Series A funding round, with Dialog participating alongside other venture capital and strategic investors. The investment of US$1.5 million represents a 7.69% share in Arctic Sand on fully diluted position. We refer to note 24 Additional disclosures on financial instruments in terms of fair value determination.

## 15. Trade and other payables

Trade and other payables comprise:

| | **At 31 December 2013 US$000** | At 31 December 2012 US$000 |
|---|---|---|
| Trade accounts payable | **83,778** | 100,616 |
| Other payables | **7,613** | 5,600 |
| | **91,391** | 106,216 |

Terms and conditions of the above trade and other payables:

- trade payables are non-interest bearing and are normally settled on 30-60-day terms; and
- other payables are non-interest bearing and have a term of less than three months.

## 16. Other financial liabilities

Other financial liabilities comprise:

| | At 31 December 2013 US$000 | At 31 December 2012 US$000 |
|---|---|---|
| Hire purchase agreements and finance lease obligations | **3,236** | 3,645 |
| Accrued interest and bank liabilities | **20,431** | – |
| Fair value of derivative financial instruments | **256** | 472 |
| | **23,923** | 4,117 |

The Group is exposed to currency risks in the course of its operating activities. These risks are reduced by the use of forward currency exchange contracts. Accrued interest and bank liabilities represent the short-term re-payment instalment related to facility due in Q3 2014.

## 17. Provisions

The Group issues various types of contractual product warranties under which it guarantees the performance of products delivered for a certain period or term. The estimated provision is based on historical warranty data. The provision for dilapidation includes costs of dismantling and restoring the offices of the Group to their original condition at end the end of the lease terms. The changes in the provision are summarised as follows:

| | At 1 January 2013 US$000 | Currency change US$000 | Discount US$000 | Additions US$000 | Used US$000 | Released US$000 | At 31 December 2013 US$000 |
|---|---|---|---|---|---|---|---|
| Obligations for product warranties | 812 | – | – | 1,266 | (788) | (24) | **1,266** |
| Pending legal claims | 307 | 14 | – | – | – | – | **321** |
| Earn-out and related matter in relation to the iWatt acquisition [1] | – | – | – | 5,188 | – | (3,249) | **1,939** |
| Other [2] | 169 | 1 | – | 4,416 | (96) | (16) | **4,474** |
| **Total current** | **1,288** | **15** | **–** | **10,870** | **(884)** | **(3,289)** | **8,000** |
| Dilapidation | 603 | 16 | 41 | 221 | – | – | **881** |
| Lease obligations | – | – | – | 303 | – | – | **303** |
| Severence | – | – | – | 304 | – | – | **304** |
| **Total non-current** | **603** | **16** | **41** | **828** | **–** | **–** | **1,488** |
| **Total** | **1,891** | **31** | **41** | **11,698** | **(884)** | **(3,289)** | **9,488** |

[1] We refer to Note 4 Business combination for explanation

[2] Including deferred revenue in amount of US$6.5 million and related cost of sales in amount of US$2.1 million, resulting in a net provision of US$4.4 million

# Notes to the consolidated financial statements continued

## 18. Other current liabilities

| | At 31 December 2013 US$000 | At 31 December 2012 US$000 |
|---|---|---|
| Obligations for personnel and social expenses | **19,415** | 15,348 |
| Advances received in relation to customer specific research and development contracts | **2,400** | 2,100 |
| Other | **12,541** | 4,222 |
| | **34,356** | 21,670 |

Terms and conditions of the above other current liabilities:

- obligations for personnel and social expenses have an average term of three months (2012: three months); and
- other payables are non-interest bearing and are normally settled on 30 day terms.

## 19. Other non-current financial liabilities

Other non-current financial liabilities comprise:

| | At 31 December 2013 US$000 | At 31 December 2012 US$000 |
|---|---|---|
| Liabilities relating to the convertible bond [1)] | **171,971** | 164,589 |
| Bank loan [2)] | **84,179** | – |
| Liabilities relating to hire purchase and finance lease obligations | **9,507** | 12,028 |
| | **265,657** | 176,617 |

[1] Please refer to note 20 Convertible Bond
[2] Please refer to note 27 Financial risk management objects and policies

## 20. Convertible bond

During Q1-2012, the Company launched a 5 year Convertible Bond Offering raising gross proceeds of US$201 million. The offering closed on 12 April 2012. The bonds, which are listed on the Luxembourg Stock Exchange's Euro MTF market, will be convertible into ordinary shares of Dialog Semiconductor Plc., listed on the Regulated Market of the Frankfurt Stock Exchange. 1,005 Bonds with a principal amount of US$200,000 each were issued at 100% with a coupon of 1.0% per-annum payable semi-annually in arrears. The initial conversion price is US$29.5717 (€22.367).

After deduction of cost in amount of US$4,369,000 related to commission and other costs incurred in connection with the bond issuance the net proceeds of issuing the Bonds were US$196,631,000 in Q1-2012. In accordance with IAS 32, US$163,607,000 of gross proceeds was allocated to financial liabilities and US$37,393,000 was allocated to equity. The debt component of convertible bonds is measured using the market interest rate obtainable on a similar debt instrument but one that is not convertible. This debt component is measured as liabilities at amortised cost until it is converted into equity or becomes due for repayment. The component of the net proceeds allocated to equity represents the fair value of the conversion right at the time of issuance.

The volume outstanding as per 31 December 2013 for this bond totals US$201 million, taking account of conversions into shares.

## 21. Shareholders' equity and other reserves

### Ordinary shares

The amount of authorized shares at 31 December 2013 was 104,311,860 (2012: 104,311,860) with a par value of £0.10 per share, of which 68,068,930 (2012: 68,068,930) shares were issued and outstanding.

| | Amount of shares | US$000 |
|---|---|---|
| At 1 January 2012 | **65,068,930** | **12,380** |
| Issued on 7 March 2012 | **3,000,000** | **472** |
| **At 31 December 2012 / 2013** | **68,068,930** | **12,852** |

Dialog's stock is issued in the form of registered shares. All shares are fully paid.

### Additional paid-in capital

The account comprises additional paid-in capital in connection with the issue of shares. Since the launch of convertible bond in 2012 the conversion rights with a fair value in amount of US$36,579,000 have been classified as equity instruments in accordance with IAS 32 and disclosed as additional paid-in capital.

### Retained earnings

Retained earnings comprise losses and non-distributed earnings of consolidated Group companies.

### Other reserves

#### Currency translation reserve

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries and branches whose functional currency is not the US$. At 31 December 2013 and 2012, the negative currency translation reserve was US$1,710,000 and US$1,964,000 respectively.

#### Cash flow hedge reserve

The cash flow hedge reserve is used to record the portion of the gain or loss on a hedging instrument that is determined to be a highly effective cash flow hedge. At 31 December 2013 the positive cash flow hedge reserve was US$1,580,000 compared to a positive cash flow hedge reserve of US$1,537,000 at 31 December 2012. Please refer to note 27 for the amounts reclassified from other comprehensive income and recognized in profit and loss statement.

The related tax effects allocated to each component of other reserves for the years ended 31 December 2013 and 2012 are as follows:

| | **2013** | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Pre-tax US$000** | **Tax effect US$000** | **Net US$000** | Pre-tax US$000 | Tax effect US$000 | Net US$000 |
| Currency translation adjustment | **269** | **(15)** | **254** | (322) | 237 | (85) |
| Hedges | **91** | **(48)** | **43** | 8,871 | (962) | 7,909 |
| **Other comprehensive income (loss)** | **360** | **(63)** | **297** | 8,549 | (725) | 7,824 |

# Notes to the consolidated financial statements continued

## 21. Shareholders' equity and other reserves continued

**Employee stock purchase plan shares**

The employee stock purchase plan shares contain the acquisition cost of the shares held by the employee benefit trust (the "Trust"). Please refer to note 23. At 31 December 2013 and 31 December 2012, the Trust held 2,097,799 and 2,679,768 shares respectively. These shares are legally issued and outstanding for accounting purposes and accordingly have been reported in the caption "employee stock purchase plan shares" as a reduction of shareholders' equity.

## 22. Pension scheme

The Group operates defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the Group to the funds and amounted to US$4,971,000 (2012: US$4,213,000). At 31 December 2013, contributions amounting to US$772,000 (2012: US$674,000) were payable to the funds and are included in other current liabilities. Pension costs also include payments to the state funded pension plan in Germany in the amount of US$2,732,000 (2012: US$2,242,000).

## 23. Share-based payments

**A) Stock option plans**

On 7 August 1998, the Group adopted a stock option plan (the "Plan") under which employees, the executive management and the Executive Directors may be granted from time to time, at the discretion of the Board, stock options to acquire up to 3,840,990 shares of the Group's authorised but unissued ordinary shares. On 16 May 2002 the Shareholders of the Group approved a resolution increasing the maximum amount of unexercised stock options which may be granted by the Group at any time, to 15% of Dialog's issued share capital, from time to time on a diluted basis. At 31 December 2013, 12,012,164 shares could be issued. Notwithstanding the foregoing the Company has determined that dilution will be managed using an average annual flow rate of 1% per annum such that the Company will move dilution towards a rolling 10% in 10 years.

Unless otherwise determined by the Board, stock options granted to employees are granted with an exercise price not less than the quoted price at the date of grant, and vest during the service period of the employee without any further vesting conditions. Stock options granted before 31 October 2006 have terms of ten years and vest over periods of one or five years from the grant date. On 19 June 2006 the Board amended the stock option plan under which stock options now have a seven-year life and vest monthly over a period of one to 48 months. The new stock options may not be exercised until they have been held for one calendar year from the grant date. The new rules were implemented on grants made on or after 31 October 2006. The stock option plan was extended by the Board in 2008 to expire 6 August 2018. At the 2013 Annual General Meeting, Shareholders approved the new Dialog Semiconductor PLC Employee Share Plan 2013 (ESP) which will be operated alongside, and within the same aggregate dilution limit detailed above, the existing share option plan. No options were granted under the ESP in 2013.

At the 2011 Annual General Meeting, Shareholders approved a change of the fee structure for Non-Executive Directors. 2/3 of the total fees are delivered in cash and 1/3 of the Non-Executive Directors' annual total fees are delivered in Company equity. The number of shares is calculated using the average 30 day share price preceding the date of the Annual General Meeting. Shares are delivered in the form of conditional shares or options (an exercise price has been attached at Euro 15 cents). Each individual shall be entitled to sell their shares, or exercise their options, if any, no earlier than the day preceding the third AGM following the grant (unless specific circumstances such as a change of control apply). At the 2013 Annual General Meeting, Shareholders resolved that all Non-Executive Directors fees be paid in cash only. Accordingly no stock options were granted to Non-Executive Directors in 2013.

The fair value of all grants in the two-year period ended 31 December 2013 was estimated using the Black-Scholes option pricing model. Expectations of early exercise are considered in the determination of the expected life of the options.

## 23. Share-based payments continued

The following assumptions were used for stock option grants for the years ended 31 December 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Expected dividend yield | **0%** | 0% |
| Expected volatility | **46%** | 38% |
| Risk free interest rate | **0.8%** | 0.2% |
| Expected life (in years) | **2.0 - 6.0** | 2.0 - 6.0 |
| Weighted average share price during the year (in €) | **12.66** | 15.87 |
| Weighted average share price for option grants (in €) | **13.56** | 15.68 |
| Weighted average exercise price (in €) | **13.56** | 15.48 |
| Weighted-average fair value (in €) | **4.41** | 4.34 |

### B) Executives' Long Term Incentive Plan (LTIP)

The Group also operates the Dialog Semiconductor Plc Long Term Incentive Plan (LTIP) which was approved by shareholders at the Annual General Meeting in April 2008. Under the LTIP, key executives are eligible to share in a percentage of the value created for shareholders in excess of an annual return hurdle measured over a four-year performance period (this was originally a three-year period, extended by one year at the Annual General Meeting in April 2009). This value is delivered to a participant in the form of a series of nil-cost options which can be exercised within five years of the date of grant. The first award under the LTIP was made on 8 May 2008.

In 2010 a second award under LTIP was made to selected new and existing members of the executive management. In 2012 and 2013, no further awards under the LTIP plan were made or can be made.

The fair value of the LTIP, where the number of nil-cost options granted to an individual is contingent upon the returns to Shareholders, was calculated using a Monte Carlo simulation model. As a portion of each award is capable of vesting at three separate measurement dates each tranche has been valued separately in accordance with IFRS2.

#### Measurement date 31 January 2010

The measurement share price at 31 January 2010 (average share price over the prior 30 days) was €9.8942. As this price was above the return hurdle for January 2010 of €1.82 (prior year return hurdle of €1.62+12.5%), 3,055,064 nil cost option grants were approved by the Board on 4 February 2010, with 25% exercisable from 22 February 2010 and the remaining 75% exercisable for 5 years from 21 February 2011.

#### Measurement date 31 January 2011 (Last Measurement Date)

The measurement share price at 31 January 2011 (average share price over the prior 30 days) was €17.6632. As this price was above the return hurdle for January 2011 of €11.1310 (prior year return hurdle of €9.8942+12.5%), 1,575,327 nil cost option grants were approved by the Board on 18 February 2011, all exercisable for 5 years from 18 February 2011.

### C) Executives Incentive Plan (EIP)

The Group also operates the Dialog Executive Incentive Plan (EIP) which was approved by the shareholders at the Annual General Meeting in May 2010. Under this plan, key executives and other key value drivers of the business are eligible to share in a percentage of the value created for Shareholders. The Remuneration Committee may not grant awards under the EIP more than five years after its approval.

# Notes to the consolidated financial statements continued

## 23. Share-based payments continued

Under the EIP, up to 0.75% of the issued share capital at the date of grant will be made available for the Remuneration Committee to grant to participants in the EIP on an annual basis. It is envisaged that these shares will be granted to approximately 10 – 15 key executives. A portion of the total number of shares which can be awarded each year would be reserved for grants to new recruits. However, there is no requirement for the Remuneration Committee to allocate all available shares on an annual basis.

### Continuity of Employment Condition

25% of the EIP Award will be banked in equal annual instalments (1/3 of 25% each year) based on the achievement of a share price hurdle measured at the end of each year (Continuity Award). The hurdle is such that the Company's share price at each measurement point (being the anniversary of the date of grant – the first grant was on 16 February 2012 the second grant was on 16 February 2013) must be greater than the higher of the share price on the date of grant or previous measurement points. Where the share price hurdle has not been achieved at the end of the year, that proportion of the Continuity Award will lapse.

At the end of the three year holding period, the Continuity Award will vest and become exercisable subject to continuity of employment. Individuals have three years with which to exercise vested options.

### Corporate Performance Conditions

75% of any EIP Award will vest subject to the achievement of challenging performance conditions (**Performance Award**). The primary performance measure relates to EBIT and Revenue Growth targets. The vesting of 50% of the Performance Award relates to EBIT growth with the other 50% relates to revenue growth targets. The number of shares which vest under the primary performance measure would then be subject to a secondary performance measure (as set out below). The Company believes that these two measures are directly relevant to the Company's strategy at its current stage of development and that the executives should be rewarded on this basis and that focusing on these metrics are critical to driving shareholder value over the medium to long term. Targets are set on an annual basis, rather than over the long-term, to ensure that they remain challenging and relevant. These targets take into consideration budget and market expectations for EBIT and revenue growth for the relevant financial year on the following basis:

**Threshold** (e.g. an acceptable level of performance growth which must be attained for an award to begin to vest)

**Target** (e.g. the level of performance for achieving budgeted growth and which ensures that the business is online for achieving its long-term objectives)

**Exceptional** (e.g. the level of performance which is acknowledged by the Remuneration Committee as exceptional)

At the end of the three year performance period, the Remuneration Committee will determine the level of vesting based on the actual level of growth achieved over the three year period relative to the compounding of the three yearly targets.

Provided that the threshold level of growth has been achieved for both targets, at the end of the performance period, the level of vesting for both metrics will be as follows:

| Level of Corporate Performance | % of EIP Award vesting |
|---|---|
| Threshold[1)] | 20% |
| Target[1)] | 40% |
| Exceptional[1)] | 100% |

[1] Straight-line between points

Where the threshold level of growth has not been achieved for either the EBIT or revenue target the Performance Award will lapse.

Under the secondary performance measure the number of shares vesting at the end of the performance period as determined under the primary performance measure can be adjusted using a downward multiplier of up to 20% against a customer diversification target.

## 23. Share-based payments continued

For example, in measuring customer diversity this could be calibrated as the increase in the regional revenues in key strategic market as a percentage of total revenues.

The level of vesting of the Performance Award at the end of the three year period will therefore be based on:

Growth in Revenues (50%) + Growth in EBIT (50%) X - 20% Adjustment Factor

The balance of any Performance Award which does not vest in accordance with the above performance conditions will lapse.

The following assumptions were used for the fair value calculations:

| | **Grant in 2013** | Grant in 2012 |
|---|---|---|
| Share price at grant date | **€13.61** | €16.43 |
| Exercise price | **€0.12** | €0.12 |
| Expected volatility | **45%** | 38% |
| Risk-free-interest-rate | **0.8%** | 0.2% |
| Assumed level of vesting regarding the performance conditions | **50%** | 50% |
| Option lifetime | **6 Years** | 6 Years |

**D) Development of plans**

Stock option plan activity (including stock options granted under the LTIP and the EIP) for the years ended 31 December 2013 and 2012 was as follows:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Options** | **Weighted average exercise price €** | Options | Weighted average exercise price € |
| Outstanding at beginning of year | **5,878,825** | **7.83** | 6,160,579 | 5.48 |
| Granted | **1,062,623** | **6.29** | 1,557,339 | 11.22 |
| Exercised | **(581,969)** | **3.99** | (1,584,866) | 1.93 |
| Forfeited | **(323,428)** | **7.83** | (254,227) | 9.07 |
| **Outstanding at end of year** | **6,036,051** | **7.93** | 5,878,825 | 7.83 |
| **Options exercisable at year end** | **3,417,287** | **6.82** | 2,976,684 | 4.46 |

The weighted average share price at the date of exercise of options was €13.55 and €16.30 in the years ended 31 December 2013 and 2012 respectively.

Liabilities from share option exercises to employees were US$113,000 at 31 December 2013 (2012: nil).

# Notes to the consolidated financial statements continued

## 23. Share-based payments continued

The following table summarises information on stock options outstanding (including stock options granted under the LTIP and the EIP) at 31 December 2013:

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number outstanding at 31 December 2013 | Weighted average remaining contractual life (in years) | Weighted average exercise price € | Number exercisable at 31 December 2013 | Weighted average exercise price € |
| €0.11 - 2.99 | 2,432,096 | 3.0 | 0.39 | 1,545,281 | 0.54 |
| €3.00 - 8.00 | 334,238 | 2.9 | 6.91 | 334,238 | 6.91 |
| €8.00 - 15.50 | 3,269,717 | 5.0 | 13.65 | 1,537,768 | 13.12 |
| **€0.11 - 15.50** | **6,036,051** | **4.0** | **7.93** | **3,417,287** | **6.82** |

### E) Employee benefit trust

The Group established an employee benefit trust (the "Trust"). The Trust purchases shares in the Group for the benefit of employees under the Group's share option scheme. At 31 December 2013 the Trust held 2,097,799 shares (2012: 2,679,768).

## 24. Additional disclosures on financial instruments

Amount categorised in accordance with IAS 39:

| | Category in accordance with IAS 39 | Amounts recognised in the statement of financial position according to IAS 39: Carrying amount 31 December 2013 US$000 | Amortised cost US$000 | Fair value recognised in OCI US$000 | Fair value recognised in profit or loss US$000 | Fair-Value-Hierarchy | Fair value 31 December 2013 US$000 |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Cash at bank and Short-term deposits | LaR | **186,025** | 186,025 | – | – | n/a | 186,025 |
| Trade accounts receivable and other receivable | LaR | **127,336** | 127,336 | – | – | n/a | 127,336 |
| Other non-derivative financial assets | | | | | | | |
| Deposits for hedging contracts | LaR | **1,532** | 1,532 | – | – | Level 1 | 1,532 |
| Derivative financial assets | | | | | | | |
| Derivatives without hedging relationship | n/a | **–** | – | – | – | | – |
| Derivatives with hedging relationship | n/a | **2,462** | – | 2,462 | – | Level 2 | 2,462 |
| Investments | AfS | **1,531** | – | – | – | Level 3 | 1,531 |
| Liabilities | | | | | | | |
| Trade account payables | FLAC | **83,778** | 83,778 | – | – | n/a | 83,778 |
| Other payables | FLAC | **7,613** | 7,613 | – | – | n/a | 7,613 |
| Other financial liabilities | FLAC | **104,190** | 104,190 | – | – | n/a | 104,190 |
| Hire purchase agreements and finance lease obligations | FLAC | **12,744** | 12,744 | – | – | Level 2 | 13,006 |
| Convertible Bond | FLAC | **172,390** | 172,390 | – | – | Level 2 | 186,411 |
| Derivative financial liabilities | | | | | | | |
| Derivatives without hedging relationship | n/a | **–** | – | – | – | | – |
| Derivatives with hedging relationship | n/a | **256** | – | 256 | – | Level 2 | 256 |
| Of which aggregated by category in accordance with IAS 39: | | | | | | | |
| Loans and receivables (LaR) | | **314,893** | 314,893 | – | – | | 314,893 |
| Held-to-maturity investments (HtM) | | **–** | – | – | – | | – |
| Available-for-sale financial assets (AfS) | | **1,531** | – | – | – | | – |
| Derivatives without hedging relationship | | **–** | – | – | – | | – |
| Derivative financial assets with hedging relationship | | **2,462** | – | 2,206 | – | | 2,206 |
| Derivative financial liabilities with hedging relationship | | **(256)** | – | (256) | – | | (256) |
| Financial liabilities at amortised cost (FLAC) | | **(380,715)** | (380,715) | – | – | | (394,998) |

The fair value of derivatives has been determined with reference to available market information (interest rate and forward currency translation rate: Level 2) applying the mark-to-market method. The carrying amounts of the loans and receivables and other financial liabilities approximate their fair values due to short-term maturities. Since the market conditions affecting the non-current liability component of the convertible bond and liability related to long term finance lease contract have changed the fair value at 31 December 2013 deviates from the carrying amount. Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. Due to the lack of a reliable measurement basis for the fair value of the equity investment this is held at cost of US$1.5 million. Instruments allocated to the column "fair value recognised in other comprehensive income" are derivative financial instruments designated as cash flow hedges.

# Notes to the consolidated financial statements continued

## 24. Additional disclosures on financial instruments continued

| | | Amounts recognised in the statement of financial position according to IAS 39 | | | | | |
|---|---|---|---|---|---|---|---|
| | Category in accordance with IAS 39 | Carrying amount 31 December 2012 US$000 | Amortised cost US$000 | Cost US$000 | Fair value recognised in OCI US$000 | Fair value recognised in profit or loss US$000 | Fair value 31 December 2012 US$000 |
| Assets | | | | | | | |
| Cash at bank and Short-term deposits | LaR | 306,117 | 306,117 | – | – | – | 306,117 |
| Deposits designated as a hedging instrument | n/a | 6,318 | – | – | 6,318 | – | 6,318 |
| Trade accounts receivable and other receivable | LaR | 82,887 | 82,887 | – | – | – | 82,887 |
| Other non-derivative financial assets | | | | | | | |
| Deposits for hedging contracts | LaR | 368 | 368 | – | – | – | 368 |
| Derivative financial assets | | | | | | | |
| Derivatives without hedging relationship | n/a | – | – | – | – | – | – |
| Derivatives with hedging relationship | n/a | 2,752 | – | – | 2,752 | – | 2,752 |
| Liabilities | | | | | | | |
| Trade account payables | FLAC | 100,616 | 100,616 | – | – | – | 100,616 |
| Other payables | FLAC | 5,600 | 5,600 | – | – | – | 5,600 |
| Other financial liabilities | FLAC | 180,262 | 180,262 | – | – | – | 180,262 |
| Derivative financial liabilities | | | | | | | |
| Derivatives without hedging relationship | n/a | – | – | – | – | – | – |
| Derivatives with hedging relationship | n/a | 472 | – | – | 472 | – | 472 |
| Of which aggregated by category in accordance with IAS 39: | | | | | | | |
| Loans and receivables (LaR) | | 389,372 | 389,372 | – | – | – | 389,372 |
| Deposits designated as a hedging instrument | | 6,318 | – | – | 6,318 | – | 6,318 |
| Held-to-maturity investments (HtM) | | – | – | – | – | – | – |
| Available-for-sale financial assets (AfS) | | – | – | – | – | – | – |
| Derivatives without hedging relationship | | – | – | – | – | – | – |
| Derivatives with hedging relationship | | 2,280 | – | – | 2,280 | – | 2,280 |
| Financial liabilities at amortised cost (FLAC) | | (286,478) | (286,478) | – | – | – | (286,478) |

## 25. Commitments

### Operating lease, software and service commitments

The Group leases all its office facilities and vehicles, and some of its office and test equipment, under operating leases. Future minimum lease payments under non-cancellable operating rental and lease agreements and payments for other commitments are as follows:

| | **Operating leases and software commitments** | **Other commitments** | Operating leases and software commitments | Other commitments |
|---|---|---|---|---|
| | **2013 US$000** | **2013 US$000** | 2012 US$000 | 2012 US$000 |
| Within one year | **9,610** | **6,145** | 8,896 | 3,572 |
| Between one and two years | **7,048** | **708** | 6,536 | 693 |
| Between two and three years | **6,170** | **46** | 4,321 | – |
| Between three and four years | **5,957** | **21** | 3,875 | – |
| Between four and five years | **4,342** | **2** | 3,484 | – |
| Thereafter | **9,700** | **–** | 10,782 | – |
| **Total minimum payments** | **42,827** | **6,922** | 37,894 | 4,265 |

Total payments for operating leases and software commitments, charged as an expense in the income statement, amounted to US$10,021,000 and US$8,896,000 for the years ended 31 December 2013 and 2012 respectively.

### Finance lease, hire purchase and software commitments

The Group has finance leases and hire purchase contracts for test and IT equipment and has software contracts. The leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum payments under finance leases and hire purchase and software contracts together with the present value of the net minimum payments are as follows:

| | Minimum payments | |
|---|---|---|
| | **2013 US$000** | 2012 US$000 |
| Within one year | **3,400** | 4,097 |
| Between one and two years | **3,400** | 3,400 |
| Between two and three years | **3,400** | 3,400 |
| Between three and four years | **3,400** | 3,400 |
| Between four and five years | **1,700** | 3,400 |
| Thereafter | **–** | 1,700 |
| **Total minimum payments** | **15,300** | 19,397 |
| Less amounts representing finance charges | **(2,557)** | (3,724) |
| **Present value of minimum payments** | **12,743** | 15,673 |

### Capital commitments

The Group has contractual commitments for the acquisition of property, plant and equipment in 2013 of US$5,161,000 (2012: US$3,014,000) and for the acquisition of intangible assets of US$1,207,000 (2012: US$1,229,000).

In addition the company has a contingent liability of US$400,000 in connection with the purchase of intangible assets. This liability is contingent to certain shipping volumes, relating to the acquired technology, being met. We expect to reach these shipping volumes in third Quarter 2014.

For contingent consideration resulting from business combination with iWatt please refer to Note 4.

# Notes to the consolidated financial statements continued

## 26. Segmental reporting

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

The Group reports on four (2012: three) operating segments, which are independently managed by bodies responsible for the respective segments depending on the nature of products offered. The fourth segment was added in 2013 and represents the newly acquired iWatt business. The identification of Company components as operating segments is based in particular on the existence of business unit managers who report directly to the Board of Management of Dialog and who are responsible for the performance of the segment under their charge.

### a) Operating segments

The Group's operating segments are:

#### Mobile Systems

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

#### Automotive and Industrial

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

#### Connectivity

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

#### Power conversion

The new Power conversion and LED Solid State Lighting (SSL) segment includes the operating segment of our newly acquired subsidiary iWatt Inc. (please refer to Note 4 for further information).

| | 2013 | | | | | | 2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Mobile Systems US$000** | **Automotive/ Industrial US$000** | **Connectivity US$000** | **Power Conversion US$000** | **Corporate [3] US$000** | **Total US$000** | Mobile Systems US$000 | Automotive/ Industrial US$000 | Connectivity US$000 | Corporate US$000 | Total US$000 |
| Revenues [1] | **744,869** | **37,814** | **92,588** | **26,768** | **868** | **902,907** | 638,765 | 38,686 | 96,133 | (1) | 773,583 |
| R&D expenses | **118,091** | **1,194** | **21,705** | **8,806** | **9,491** | **159,287** | 96,586 | 3,613 | 24,590 | 3,097 | 127,886 |
| Operating profit (loss) [2] | **141,242** | **12,211** | **(2,121)** | **(22,533)** | **(26,139)** | **102,660** | 112,244 | 8,127 | (13,144) | (16,195) | 91,032 |
| Depreciation/ amortisation | **35,230** | **152** | **5,467** | **5,163** | **1,215** | **47,227** | 26,268 | 508 | 5,515 | – | 32,291 |
| Inventory impairment, impairment of fixed assets and fixed asset disposal losses | **11,832** | **154** | **2,200** | **1,504** | **124** | **15,814** | 8,470 | 26 | 740 | – | 9,236 |
| Investments | **27,199** | **117** | **4,220** | **3,986** | **938** | **36,460[4]** | 55,693 | 1,077 | 11,692 | – | 68,462[4] |
| | | | **At 31 Dec 2013** | | | | | | At 31 Dec 2012 | | |
| Inventories | **93,604** | **7,460** | **11,227** | **4,752** | **498** | **117,541** | 129,121 | 7,989 | 14,868 | 477 | 152,455 |

[1] All revenues are from sales to external customers

[2] Certain overhead costs are predominantly allocated based on sales and headcount.
The Operating loss of the Corporate Segment results from Holding and Trust related expenses, share option and business development costs

[3]The revenue in the corporate column include mainly the BenQ settlement (please refer to note 29) and sales discounts

[4] Including 23,115 US$000 additions to PPE, 11,844 US$000 additions to intangible assets and -1,501 US$000 purchase of other investments

[5] Including 35,048 US$000 additions to PPE, 33,512 US$000 additions to intangible assets and -98 US$000 deposits

## 26. Segmental reporting continued

Investments comprise additions to property, plant and equipment, and intangible assets.

In 2013 and 2012 the Group had no inter-segment sales, income, expenses, receivables, payables or provisions.

There are no differences between the measurements of the reportable segments profits and losses, inventories and the Group's profit and losses, assets and liabilities.

**b) Corporate**

Revenues in the Corporate column include sales discounts on early payment of US$ nil (2012: US$1,000). The amount in 2013 also includes the BenQ Cash settlement of US$851,000.

R&D expenses in the Corporate column predominantly include stock option expenses, expenses for the Management Long Term Incentive Plan (LTIP) and expenses for the Executive Incentive Plan (EIP) of US$ 3,564,000 (2012: US$2,950,000). Furthermore there are US$5,789,000 (2012: US$478,000) development expenses for new technology projects.

The operating losses recorded in the corporate column for the year ended 31 December 2013 of US$26,139,000 (2012: US$16,195,000) are primarily resulting from stock option expenses US$8,487,000 (including LTIP and EIP) (2012: US$5,808,000 ), the costs of the holding company US$12,838,000 (2012: US$9,910,000) and expenses for developing new technology projects US$8,783,000 (2012: US$478,000). Additionally in 2013 the BenQ cash settlement in the amount of US$996,000 (2012: US$ nil) was included as well as another operating income of US$3,249,000 resulting from release of earn out provision.

**c) Geographic information – Revenues by shipment destination**

| | **2013 US$000** | 2012 US$000 |
|---|---|---|
| **Revenues** | | |
| United Kingdom | **945** | 2,317 |
| Other European countries | **63,183** | 72,722 |
| China | **742,324** | 600,991 |
| Other Asian countries | **87,994** | 90,294 |
| Other countries | **8,461** | 7,259 |
| **Total revenues** | **902,907** | 773,583 |

| | | |
|---|---|---|
| **Investments** | | |
| **Germany** | **21,072** | 38,278 |
| Japan | **121** | 41 |
| United Kingdom | **8,266** | 3,044 |
| Netherlands | **3,599** | 3,391 |
| USA | **1,796** | 22,686 |
| Taiwan | **145** | 420 |
| Singapore | **97** | 369 |
| Other | **1,364** | 233 |
| **Total investments** | **36,460** | 68,462 |

# Notes to the consolidated financial statements continued

## 26. Segmental reporting continued

| | At 31 December 2013 US$000 | At 31 December 2012 US$000 |
|---|---|---|
| **Assets** | | |
| Germany | **438,816** | 461,824 |
| USA | **377,293** | 23,334 |
| Japan | **1,946** | 2,459 |
| United Kingdom | **54,316** | 159,978 |
| Netherlands | **51,477** | 57,608 |
| Other | **3,604** | 2,937 |
| **Total assets** | **927,452** | 708,140 |

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

## 27. Financial risk management objects and policies

**Vulnerability due to certain significant risk concentrations**

The Group's future results of operations involve a number of risks and uncertainties. Factors that could affect the Group's future operating results and cause actual results to vary materially from historical results include, but are not limited to, the highly cyclical nature of both the semiconductor and wireless communications industries, dependence on certain customers and the ability to obtain an adequate supply of sub-micron wafers.

The Group's products are generally utilised in the wireless and automotive industries. The Group generates a substantial portion of its revenue from the Mobile Systems Segment, which accounted for 82,5% and 77% of its total revenue for the years ended 31 December 2013 and 2012, respectively.

Changes in foreign currency exchange rates influence the Group's results of operations. The Group's sales, purchases of raw materials and manufacturing services are primarily denominated in US$.

The Group depends on a relatively small number of customers for a substantial portion of its revenues, and the loss of one or more of these customers may result in a significant decline in future revenue.

During 2013, one (2012; one) customer individually accounted for more than 10% of the Group's revenues. Total revenues from this customer were US$718,733,000 (2012: US$598,183,000). Net receivables from this customer at 31 December 2013 were US$111,799,982 (2012 US$69,035,306). This customer is part of the Mobile Systems Segment (for further information please see Section 2 – Principal customers).

The Group is performing on-going credit evaluations of its customers' financial condition.

**Financial risk management objectives and policies**

The Group's principal financial instruments, other than derivatives, comprise cash, cash equivalents, and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has other financial instruments which mainly comprise trade receivables and trade payables which arise directly from its operations.

The Group also entered into derivative transactions (forward currency contracts). The purpose is to manage the currency risks arising from the Group's operations.

It is, and has been throughout 2013 and 2012, the Group's policy that no trading in derivatives shall be undertaken.

## 27. Financial risk management objectives and policies continued

Exposure to currency, interest rate and credit risk arises in the normal course of the Group's business. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments.

### Interest risk

The Group earns interest from deposits and uses money market deposits with highly rated financial institutions. During the year, the Group has held cash on deposit with a range of maturities from one week to one month. This can vary in view of changes in the underlying currency's interest rates and the Group's cash requirements.

The Group pays interest on amounts received in connection with the factoring agreement, convertible bond (please refer to Note 20) and loans as prescribed below.

The Group has long-term debt outstanding resulting from Base Currency term loan facility in an aggregate amount equal to US$100.0 million and a multicurrency revolving loan facility in an aggregate amount of US$15.0 million equal to the total revolving facility commitments. The applied interest rate contains the margin, LIBOR and mandatory cost. These are the cost of compliance with the requirements of the Bank of England and/or the Financial Conduct Authority and the requirements of the European Central Bank. The termination date of both facilities is the 31 March 2017.

The Group's policy is to manage its interest income using a mix of fixed and variable interest rate debts. In order to achieve this policy, the Group invests in highly liquid funds having a matching investment strategy. Once the operating business has been financed, short-term excess funds are invested in floating interest rate securities. Only short-term deposits bear fixed interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax as well as the Group's equity:

| | Increase/decrease in basis points | Effect on profit US$000 | Effect on equity US$000 |
|---|---|---|---|
| **2013** | | | |
| | **31** | **794** | **794** |
| | **(22)** | **(565)** | **(565)** |
| 2012 | | | |
| | 83 | 2,081 | 2,081 |
| | (54) | (1,360) | (1,360) |

### Currency risk

The main functional currency within the Group and the presentation currency for the consolidated financial statements is the US$. Accordingly, foreign exchange risks arise from transactions, and recognised assets and liabilities, the functional currency of which is not the US$. The currencies giving rise to these exposure risks are primarily the Euro and Pound Sterling. The majority of the Group's revenue and material expenses are denominated in US$. The majority of other operating expenses are denominated in Euros and Pounds Sterling. The Group has transactional currency exposures. Such exposure arises from the sales or purchases by an operating unit in currencies other than the unit's functional currency. In 2013 and 2012 nearly all the Group's sales were denominated in US$.

# Notes to the consolidated financial statements continued

## 27. Financial risk management objects and policies continued

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

It is the Group's policy not to enter into forward contracts nor classify deposits as non-derivative hedging instruments until a firm commitment is in place and to maximise hedge effectiveness by negotiating the terms of hedge instruments to match the terms of the hedged item.

The following table demonstrates the sensitivity to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Group's profit before tax (resulting from changes in the fair value of monetary assets, excluding securities, and liabilities) and changes in the Group's equity (resulting in addition from changes in the fair value of deposits designated as cash flow hedges).

| | | Loans and receivables (LaR) and deposits designated as cash fow hedges [1] | | Financial liabilities at amortised cost (FLAC) [1] | |
|---|---|---|---|---|---|
| | Increase/decrease against US$ | Effect on profit US$000 | Effect on equity US$000 | Effect on profit US$000 | Effect on equity US$000 |
| **2013** | | | | | |
| **Euro** | **4.4%** | **236** | **236** | **(401)** | **(401)** |
| **Pound Sterling** | **2.2%** | **23** | **23** | **(83)** | **(83)** |
| **Euro** | **(4.4%)** | **(236)** | **(236)** | **401** | **401** |
| **Pound Sterling** | **(2.2%)** | **(23)** | **(23)** | **83** | **83** |
| 2012 | | | | | |
| Euro | 1.9% | 178 | 279 | (134) | (134) |
| Pound Sterling | 4.6% | 42 | 42 | (148) | (148) |
| Euro | (1.9%) | (178) | (279) | 134 | 134 |
| Pound Sterling | (4.6%) | (42) | (42) | 148 | 148 |

[1] Categories according to IAS 39

A risk analysis for the Group's securities was done separately, based on the inherent historic volatility of the specific securities, see below.

### Credit risk

The Group is exposed to credit risk from its operating activities and certain financing activities. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis, with the result that the Group's exposure to bad debts is not significant. Regarding the risk concentration please see above, "vulnerability due to certain significant risk considerations".

In order to finance its growth the Group entered into two factoring agreements with reputable financial institutions. The maximum amount of cash that can be received under these agreements is US$92,000,000 (2012: US$60,000,000). The agreements, which comprise receivables from selective customers, significantly reduce the underlying credit risk because the financial institutions assume all credit risks associated with the collection of the receivables financed under the programmes.

The Group's exposure to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, would arise from default by counterparty.

### Liquidity risk

The Group uses quarterly cash flow forecasts to monitor its liquidity risk. It takes financial investments and financial assets (e.g. trade accounts receivable and other financial assets) into consideration, as well as projected cash flows from operations. The Group's objective is to minimise interest expense by avoiding the use of short-term bank liabilities or bank overdrafts within the Group.

At 31 December 2013, the Group had cash and cash equivalents of US$186,025,000 (2012: US$312,435,000).

## 27. Financial risk management objectives and policies continued

The Group's policy is to structure its maturities of current financial assets within the Group to meet 100% of the respective maturities of the liabilities. The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013, based on contractual undiscounted payments:

| | Less than 3 months US$000 | 3 to 12 months US$000 | 1 to 5 years US$000 | Total US$000 |
|---|---|---|---|---|
| **Financial year ended 2013** | | | | |
| **Trade accounts payable** | **83,778** | **–** | **–** | **83,778** |
| **Other payables** | **7,613** | **–** | **–** | **7,613** |
| **Other financial liabilities** | **8,923** | **15,000** | **265,657** | **289,580** |
| **Other current liabilities** | **34,356** | **–** | **–** | **34,356** |
| | **134,670** | **15,000** | **265,657** | **415,327** |
| Financial year ended 2012 | | | | |
| Trade accounts payable | 100,616 | – | – | 100,616 |
| Other payables | 5,600 | – | – | 5,600 |
| Other financial liabilities | 3,868 | 249 | 176,617 | 180,734 |
| Other current liabilities | 21,670 | – | – | 21,670 |
| | 131,754 | 249 | 176,617 | 308,620 |

The non-current other financial liabilities as of 31 December 2013 were US$265.7 million of which US$172.0 million represents the book value of the liability from the convertible bond (31 December 2012: US$164.2 million) and US$84.2 million related to two additional debt facilities. The remaining amount of US$9.5 is related to liabilities from hire purchase and finance lease obligations.

We had a three-year (2011-2014) revolving credit facility of US$35.0 million available for use that bears an interest rate of LIBOR +140bp. At 31 December 2012 we had no amounts outstanding under this facility. As of 16 July 2013 the facility was cancelled and replaced by a US$ 25.0 million revolving credit line facility which is available until March 2017. This facility has been used in the amount of US$15.0 million in order to finance the iWatt acquisition US$ 10 million were repaid in December 2013.

### Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy and strong capital ratios in order to support its business and strategies for growth. The company is considering its total equity as capital.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust its capital structure, the Group may generally issue new shares. Also in 2012 the Group launched a 5 year convertible bond offering amounting to US$201 million which has a significant impact on the capital structure of the Group, amongst others it led to a decrease of the equity ratio in 2012 and 2013. During the assessment year 2013 none conversion rights have been exercised. For further information please refer to note 20.

The Group monitors capital using an equity ratio (total equity divided by total assets). The equity ratio as of 31 December 2013 was 49.2% (2012: 54.0%). Capital includes net Shareholders' equity. The Group's policy is to finance operational business development and growth if at all possible with equity and long-term liabilities. It is, therefore, also its policy to keep a strong equity ratio. This policy will be reconsidered as soon as sustainable profits are earned in order to achieve leverage. However financing of strategic decisions focused on long term growth is ensured by long-term liabilities. For this reason, the funding of iWatt acquisition was partially subject of new debt facilities, a Base Currency term loan facility in an aggregate amount equal to US$100.0 million and a multicurrency revolving loan facility in an aggregate amount of US$15.0 million equal to the total revolving facility commitments. The termination date of both facilities is the 31 March 2017.

# Notes to the consolidated financial statements continued

## 27. Financial risk management objects and policies continued

### Hedging activities

At 31 December 2013, the Group held Forward exchange contracts and deposits (referred to as the "hedging instruments") designated as hedges of firm commitments and forecast transactions in Pound Sterling and Japanese Yen.

The hedging instruments are being used to hedge the foreign currency risk of contractual cash flows, principally resulting from wages and salaries, and rental payments with the aim of eliminating the currency risk by transforming these cash flows from Euros, Pounds Sterling or Japanese Yen into US Dollars. The fair values of the hedging instruments which equal the book values are as follows:

| | **At 31 December 2013** | | At 31 December 2012 | |
|---|---|---|---|---|
| | **Assets US$000** | **Liabilities US$000** | Assets US$000 | Liabilities US$000 |
| Fair values | | | | |
| Forward exchange contracts | **2,462** | **256** | 2,752 | 472 |
| Deposits | **–** | **–** | 6,318 | – |

The critical terms of the deposits have been set to match the terms of the hedged cash flows.

The cash flow hedges of the expected future cash flows in each month from January 2014 to December 2014 and January 2013 to December 2013 respectively were assessed to be highly effective and, at 31 December 2013, a net unrealised gain of US$1,580,000 was included in other comprehensive income in respect of these cash flows (2012: gain of US$1,537,000). During the financial year 2013 a gain of US$1,417,000 (2012: gain of US$2,171,000) was recognised in other comprehensive income and a gain of US$1,656,000 (2012: loss of US$6,701,000) was reclassified from other comprehensive income and recognised in profit and loss. The months of occurrence of the cash flows are the same as the month when the income statement is affected.

The following tables show the contractual maturities of the payments for which deposits are used as hedging instruments, i.e., when the hedged item will be recognised in profit or loss.

| Maturity | Nominal amount €000 | Forward rate US$/€ | Nominal amount €000 | Historical rate US$/€ |
|---|---|---|---|---|
| | Derivatives | | Deposits | |
| **2013** | | | | |
| **January 2014 - December 2014** | **–** | **–** | **–** | **–** |
| 2012 | | | | |
| January 2013 | 2,500 | 1.2655 | 4,000 | 1.3334 |
| February 2013 | 6,500 | 1.2546 | – | – |
| March 2013 | 5,000 | 1.2483 | – | – |
| April 2013 | 5,000 | 1.2492 | – | – |
| May 2013 | 5,000 | 1.2500 | – | – |
| June 2013 | 5,000 | 1.2180 | – | – |
| July 2013 - December 2013 | – | – | – | – |

## 27. Financial risk management objects and policies continued

Hedging instruments for Pound Sterling commitments:

| Maturity | Nominal amount £000 | Forward rate US$/£ |
|---|---|---|
| | Derivatives | |
| **2013** | | |
| **January 2014** | **3,200** | **1.5214** |
| **February 2014** | **3,200** | **1.5213** |
| **March 2014** | **3,200** | **1.5213** |
| **April 2014** | **3,200** | **1.5288** |
| **May 2014** | **3,200** | **1.5287** |
| **June 2014** | **3,200** | **1.5287** |
| **July 2014 - December 2014** | **–** | **–** |
| **2012** | | |
| January 2013 | 1,900 | 1.5516 |
| February 2013 | 1,900 | 1.5515 |
| March 2013 | 1,900 | 1.5513 |
| April 2013 | 1,900 | 1.5503 |
| May 2013 | 1,900 | 1.5501 |
| July 2013 - December 2013 | – | – |

Hedging instruments for Japanese Yen commitments:

| Maturity | Nominal amount ¥000 | Forward rate ¥/US$ | Nominal amount ¥000 | Historical rate ¥/US$ |
|---|---|---|---|---|
| | Derivatives | | Deposits | |
| **2013** | | | | |
| **January 2014** | **50,000** | **94.810** | **–** | **–** |
| **February 2014** | **50,000** | **94.750** | **–** | **–** |
| **March 2014** | **50,000** | **94.700** | **–** | **–** |
| **April 2014** | **50,000** | **95.000** | **–** | **–** |
| **May 2014** | **50,000** | **99.000** | **–** | **–** |
| **June 2014** | **45,000** | **99.300** | **–** | **–** |
| **July 2014 - December 2014** | **–** | **–** | **–** | **–** |
| 2012 | | | | |
| January 2013 | 50,000 | 78.0000 | – | – |
| February 2013 | 50,000 | 78.0000 | – | – |
| March 2013 | 50,000 | 78.0000 | – | – |
| April 2013 | 45,000 | 78.0000 | – | – |
| May 2013 | 45,000 | 78.0000 | – | – |
| June 2013 | 45,000 | 78.0000 | – | – |
| July 2013 | 45,000 | 78.0000 | – | – |
| August 2013 | 45,000 | 82.0000 | – | – |
| September 2013 | 45,000 | 82.0000 | 45,000 | 78.253 |
| October 2013 | 45,000 | 82.0000 | 45,000 | 78.253 |
| November 2013 | 45,000 | 83.0000 | – | – |
| December 2013 | 45,000 | 83.0000 | – | – |

# Notes to the consolidated financial statements continued

## 28. Transactions with related parties

For the relationship between the parent company, Dialog Semiconductor Plc, and its subsidiaries please see note 2.

Related parties are comprised of eight (2012: eight) non-executive members of the Board of Directors and nine (2012: ten) members of the executive management which are named in the management and governance section. These are the only related parties of the Group.

All transactions with related parties are carried out at arm´s length.

**Compensation of key management personnel of the Group**

For the composition of our key management please see management and governance beginning on page 55. Compensation of key management personnel of the Group is as follows:

| | 2013 US$000 | 2012 US$000 |
|---|---|---|
| Short term employee benefits | **4,283** | 4,447 |
| Post-employment benefits1) | **193** | 208 |
| Share based payments | **3,097** | 1,301 |
| | **7,573** | 5,956 |

[1] The amounts include payments for defined contribution plans.

**Compensation of Non-Executive Directors**

The compensation of Non-Executive Directors was US$1,029,000 (2012: US$657,000). As at 31 December 2013 the amount of Board member fees outstanding was US$ nil (2012: nil). For further information please see the Directors' remuneration report within the management and governance section on pages 55 to 81.

**Other related party transactions**

In 2013 and 2012 there were no other transactions with related parties. None of the related parties has a major influence in one of the Group's major suppliers or customers.

## 29. BenQ settlement

In the fourth quarter of 2013, the company received an unexpected cash settlement of US$996,000. As the allocation of the payment was not confirmed by the paying party, we were only able to allocate it in Q4 to receivables which had been previously written down and revenues that had not been recognised in 2006 as a result of the insolvency of BenQ Mobile. The amount represents 15% of the original claim to BenQ Mobile. Of this amount, US$851,000 were classified as revenue and US$145,000 were classified as other operating income. The amount shown as revenue represents prior period revenue. As one of the criteria for revenue recognition under IFRS was not met, for this amount the related revenue was not accounted for in 2006. The amount shown as other operating income was previously recognised as revenue in the periods preceding the insolvency but the underlying receivables were written down against other operating expenses.

## 30. Subsequent event

There are no known events after the date of the Statement of Financial Position that require disclosure.

# Company statement of financial position

For the year ended 31 December 2013

| | Notes | At 31 December 2013 US$000 | At 31 December 2012 US$000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | **40,355** | 155,112 |
| Amounts owed by Group undertakings | | **336,450** | 203,191 |
| Other current assets | | **109** | 520 |
| **Total current assets** | | **376,914** | 358,823 |
| Investments | 31 | **443,741** | 161,896 |
| **Total non-current assets** | | **443,741** | 161,896 |
| **Total assets** | | **820,655** | 520,719 |
| Other financial liabilities | | **20,419** | – |
| Amounts owed to Group undertakings | | **21,280** | – |
| Trade and other payables | | **2,565** | 2,005 |
| Other current liabilities | | **1,510** | 2,029 |
| **Total current liabilities** | | **45,774** | 4,034 |
| **Other non-current financial liabilities** | | **256,150** | 164,589 |
| Ordinary Shares | | **12,852** | 12,852 |
| Share Premium | | **246,289** | 243,829 |
| Retained earnings | | **261,832** | 98,268 |
| Employee stock purchase plan shares | | **(2,242)** | (2,853) |
| **Total Shareholders´ equity** | 33 | **518,731** | 352,096 |
| **Total liabilities and Shareholders´ equity** | | **820,655** | 520,719 |

**Profit for the financial year**

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit after taxation was US$163,564,000 (2012: profit of US$107,677,000).

These financial statements were approved by the Board of Directors on 20 February 2014 and were signed on its behalf by:

**Dr Jalal Bagherli**
Director

# Company statement of changes in equity

For the year ended 31 December 2013

| | Ordinary Shares US$000 | Additional paid-in capital US$000 | Retained earnings US$000 | Other reserves: Hedges US$000 | Other reserves: Employee stock purchase plan shares US$000 | Total US$000 |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2011 / 1 January 2012** | **12,380** | **203,911** | **(9,519)** | **(231)** | **(3,158)** | **203,383** |
| Total comprehensive income (loss) | – | – | 107,677 | 231 | – | 107,908 |
| Sale of employee stock purchase plan shares | – | 692 | – | – | 3,457 | 4,149 |
| Conversion right embedded in Convertible Bond | – | 37,393 | – | – | – | 37,393 |
| Convertible Bond transaction cost attributable to conversion right | – | (814) | – | – | – | (814) |
| Capital Increase for employee share option plan (gross proceeds) | 472 | 2,680 | – | – | (3,152) | – |
| Transaction cost of capital increase - employee share option plan | – | (33) | – | – | – | (33) |
| Equity settled transactions, net of tax | – | – | 110 | – | – | 110 |
| **Changes in Equity total** | **472** | **39,918** | **107,787** | **231** | **305** | **148,713** |
| **Balance at 31 December 2012 / 1 January 2013** | **12,852** | **243,829** | **98,268** | **–** | **(2,853)** | **352,096** |
| Total comprehensive income (loss) | – | – | 163,564 | – | – | 163,564 |
| Sale of employee stock purchase plan shares | – | 2,460 | – | – | 611 | 3,071 |
| **Changes in Equity total** | – | 2,460 | 163,564 | – | 611 | 166,635 |
| **Balance at 31 December 2013** | **12,852** | **246,289** | **261,832** | **–** | **(2,242)** | **518,731** |

# Company statement of cash flows

For the year ended 31 December 2013

| | 2013 US$000 | 2012 US$000 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | **163,564** | 107,677 |
| Adjustments to reconcile net loss to net cash provided by (used for) operating activities: | | |
| Interest expense (income), net | **722** | 900 |
| Expense related to share-based payments | **–** | 110 |
| **Changes in working capital:** | | |
| Trade accounts payable | **560** | 1,321 |
| Other assets and liabilities | **(8,438)** | 2,184 |
| **Cash generated from operations** | **156,408** | 112,192 |
| Interest paid | **(3,265)** | (1,005) |
| Interest received | **528** | 4,151 |
| **Cash flow from operating activities** | **153,671** | 115,338 |
| **Cash flows from investing activities:** | | |
| Foundation of other affiliated companies | **(281,845)** | (41) |
| Loans made to other group companies | **(101,634)** | (188,592) |
| **Cash flow used for investing activities** | **(383,479)** | (188,633) |
| **Cash flows from financing activities:** | | |
| Cash flow from the convertible bond | **–** | 196,631 |
| Net cash flow from financial liabilities | **111,980** | – |
| Sale of employee stock purchase plan shares | **3,071** | 4,114 |
| **Cash flow from financing activities** | **115,051** | 200,745 |
| **Net foreign exchange difference** | **–** | 233 |
| **Net increase (decrease) in cash and cash equivalents** | **(114,757)** | 127,683 |
| **Cash and cash equivalents at beginning of period** | **155,112** | 27,429 |
| **Cash and cash equivalents at end of period** | **40,355** | 155,112 |

# Notes to the Company financial statements

For the year ended 31 December 2013

## 31. Investments

This represents the investment of the Company in Dialog Semiconductor GmbH, Dialog Semiconductor B.V., in 2012 the newly incorporated subsidiaries in Italy and Turkey and in 2013 the newly acquired iWatt Inc. and Dialog Semiconductor Ltd. The proportion of ownership interest is at 100% on all investments mentioned above.

Investments in subsidiaries are stated at cost less any provision for impairment in value.

The aggregate amount of capital and reserves and the results of these undertakings were as follows:

| | **2013 US$000** | 2012 US$000 |
|---|---|---|
| Capital and reserves | **359,690** | 155,927 |
| Profit for the year | **153,060** | 99,323 |

Based on preliminary unaudited results.

## 32. Deferred tax

The utilisation of tax loss carryforwards and temporary differences of the holding company is subject to the achievement of positive income in periods which are beyond the company's current business plan and therefore this utilisation is uncertain. Consequently no deferred tax assets were recognised for these losses and temporary differences.

## 33. Share capital and share options

Details of the Company's share capital and share options are set out in notes 21 and 23 to the consolidated financial statements as at 31 December 2013.

## 34. Headcount and costs

The Company does not have any employees.

## 35. Events after the reporting period

There are no known events after the date of the Statement of Financial Position that require disclosure.

# Glossary of terms

**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.

**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.

**Buck converter** A DC-to-DC buck converter accepts a direct current input voltage and produces a direct current output voltage to a plurality of channels.

**CAD** Computer Aided Design usually refers to a software tool used for designing electronics hardware or software systems.

**CDMA** Code Division Multiple Access is an alternative to GSM technology for mobile wireless networks.

**Chips** Electronic integrated circuits.

**CMOS** Complementary Metal Oxide Semiconductor: the most popular class of semiconductor manufacturing technology.

**Digital** A type of signal used to transmit information that has only discrete levels of some parameter (usually voltage).

**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.

**IC** Integrated Circuit: an electronic device with numerous components on a single chip.

**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.

**Liquid Crystal Display (LCD)** A display technology found in many portable electronics products, including personal organisers, cellular handsets and notebook computers.

**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.

**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.

**Power Management** The management of the power requirements of various subsystems, important in handheld and portable electronics equipment.

**PMIC** Power Management IC.

**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.

**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.

**SmartMirror™** A technology patented by Dialog Semiconductor which simplifies circuit design and provides very low current consumption in Power Management circuits.

**SmartPulse™** A wireless sensor network connectivity solution based on the DECT ULE (Ultra-Low Energy) standard for home automation applications.

**SmartXtend™** A technology patented by Dialog Semiconductor that extends the life and reduces power consumption of high-resolution, passive matrix OLED displays.

**Subcontractor** A business that signs a contract to perform part or all of the obligations of another's contract.

**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.

**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 continued

**Financial glossary**

AGM Annual General Meeting.

CAGR Compound Annual Growth Rate, a method of assessing the average growth of a value over time.

Cash flow The primary purpose of a statement of cash flow is to provide relevant information about the cash receipts and cash payments of an enterprise during a period. It helps to assess the enterprise's ability to generate positive future net cash flows. A statement of cash flows shall explain the change in cash and cash equivalents during the period by classifying cash receipts and payments according to whether they stem from operating, investing or financing activities.

Cash flow from operating activities includes all transactions and other events that are not defined as investing or financing activities in paragraphs. Operating activities generally involve producing and delivering goods and providing services. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income.

Comprehensive income The purpose of reporting comprehensive income is to report a measure of all changes in equity of an enterprise that results from recognised transactions and other economic events of the period other than transactions with owners such as capital increases or dividends. An example of items affecting comprehensive income is foreign currency translation adjustments resulting from the process of translating an entity's financial statements in a foreign currency into the reporting currency.

Corporate Governance The system by which business corporations are directed and controlled. The Corporate Governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the Board, managers, Shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the Company's objectives are set, and the means of attaining those objectives and monitoring performance.

Deferred taxes Deferred tax assets or liabilities are temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively.

Derivative financial instruments A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond).

Dividends Payments made by a company to its shareholders. When the company earns a profit, that money can be put to two uses: it can either be reinvested in the business (called retained earnings) or it can be paid to the shareholders of the company as a dividend.

DTR The UK Disclosure and Transparency Rules implementing the provisions of the Transparency Directive.

EURIBOR The Euro Interbank Offered Rate is the rate at which euro interbank term deposits within the euro zone are offered by one prime bank to another prime bank.

Free-float The proportion of an issuer's share capital that is available for purchase in the public equity markets by investors.

Gross margin This is difference between revenues and cost of sales as presented in the statement of operations.

Impairment The condition that exists when the carrying amount of a long-lived asset exceeds its fair value (the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset).

IFRS (International Financial Reporting Standards) Accounting standards generally to be used for financial years commencing on or after 1 January 2005 by all publicly listed European Union companies in compliance with the European Parliament and Council Regulation adopted in July 2002.

Prime Standard The new segmentation of the equity market of the German Stock Exchange comprises a Prime Standard segment in addition to the General Standard segment that applies the statutory minimum requirements. The Prime Standard segment addresses companies that wish to target international investors. These companies are required to meet high international transparency criteria, over and above those set out by the General Standard.

Restructuring charges Costs associated with an exit or disposal activity, e.g. termination benefits provided to employees that are involuntarily terminated.

Securities Debt securities are instruments representing a creditor relationship with an enterprise and includes government securities, corporate bonds, commercial paper and all securitised debt instruments. Available-for-sale securities are debt securities not classified as held to maturity or trading securities.

Shareholders' equity This reflects the investment of Shareholders in a Company. Shareholders' equity comprises ordinary shares, additional paid-in capital, retained earnings and accumulated other comprehensive income.

Stock option plans This refers to all agreements by an entity to issue shares of stock or other equity instruments to employees. Stock option plans provide employees the opportunity to receive stock resulting in an additional compensation based on future share price performance. The purpose of stock option plans is to motivate employees to increase Shareholder value on a long-term basis.

Total assets All current and non-current assets. Total assets equal total liabilities and Shareholders' equity.

Working capital The excess of current assets over current liabilities and identifies the relatively liquid portion of total enterprise capital that constitutes a margin or buffer for meeting obligations within the ordinary operating cycle of the business.

# Advisers and corporate information

**Public relations**

FTI Consulting
Holborn Gate
26 Southampton Buildings
London EC4R 9HA
UK

FTI Consulting
Park Tower
Bockenheimer Anlage 44
60322 Frankfurt am Main
Germany

**Legal adviser**

Reynolds Porter Chamberlain LLP
Tower Bridge House
St Katharine's Way
London E1W 1AA
UK

**Auditors**

Ernst & Young LLP
Apex Plaza
Reading
Berkshire RG1 1YE
UK

**Principal bankers**

HSBC Bank Plc
Thames Valley Corporate Banking Centre
Apex Plaza
Reading
Berkshire RG1 1AX
UK

Deutsche Bank AG
Global Banking
Am Hafenmarkt
D-73728 Esslingen
Germany

**Designated sponsors**

Close Brothers Seydler
Schillerstrasse 27-29
D-60313 Frankfurt
Germany

Credit Agricole Cheuvreux
Tatnnusarlage 14
D-60325 Frankfurt
Germany

**Shares**

Information on the Company's shares and on significant shareholdings can be found on page 61.

**Registered office**

Dialog Semiconductor Plc
Tower Bridge House
St Katharine's Way
London E1W 1AA
UK
Website: www.dialog-semiconductor.com

**Registered number**

3505161

**Financial calendar**

| | |
|---|---|
| Annual General Meeting | 1 May 2014 |
| Q1 2014 Results | 7 May 2014 |
| Q2 2014 Results | 30 July 2014 |
| Q3 2014 Results | 29 October 2014 |
| Preliminary results for 2014 | February 2015 |

# Group directory

**Germany**
Dialog Semiconductor GmbH
Neue Strasse 95
D-73230 Kirchheim/Teck-Nabern
Germany
Phone: (+49) 7021 805-0
Fax: (+49) 7021 805-100
Email: dialog.nabern@diasemi.com

**United Kingdom**
Dialog Semiconductor (UK) Ltd
Delta 200
Delta Business Park
Welton Road
Swindon
Wiltshire SN5 7XB
UK
Phone: (+44) 1793 757700
Fax: (+44) 1793 757800
Email: dialog.swindon@diasemi.com

100 Longwater Avenue
Green Park
Reading RG2 6GP
United Kingdom
Tel: +44 1793 756959
Fax: +44 1189 450219

**The Netherlands**
Dialog Semiconductor B.V.
Het Zuiderkruis 53
5215 MV 's-Hertogenbosch
The Netherlands
Phone: (+31) 73 640 88 22
Fax: (+31) 73 640 88 23
Email: dialog.nl@diasemi.com

**North America**
Dialog North America
2560 Mission College Boulevard
Santa Clara
California 95054
USA
Phone: (+1) 408 845 8500
Fax: (+1) 408 845 8505
Email: NA_sales_enquiries@diasemi.com

**Japan**
Dialog Semiconductor K.K.
Kamiyacho MT Bldg 16F
4-3-20 Toranomon
Minato-ku
Tokyo 105-0001
Japan
Phone: (+81) 3 5425 4567
Fax: (+81) 3 5425 4568
Email: dialog.tokyo@diasemi.com

**Taiwan & Greater China**
Dialog Semiconductor GmbH
Taiwan Branch
9F, No 185, Sec 2, Tiding Blvd
Neihu district
Taipei city 114
Taiwan, R.O.C.
Phone: (+886) 281 786 222
Fax: (+886) 281 786 220
Email: dialog.taiwan@diasemi.com

**Singapore**
Dialog Semiconductor GmbH
Singapore branch
10 Ang Mo Kio. Street 65.
Unit # 03-11A Techpoint
Singapore 569059
Phone: (+65) 64849929
Fax: (+65) 64843455
Email: dialog.singapore@diasemi.com

**Korea**
Dialog Semiconductor (UK) Ltd
Korea Branch
501 Dongsung B/D,
158-9, Samsung-Dong
Kangnam-Ku, Seoul
Korea, 135-830
Phone: (+82) 2 569 2301
Fax: (+82) 2 569 2302
Email: dialog.korea@diasemi.com

Designed and produced by FTI Consulting www.fticonsulting.com
Sections 5 and 6 produced in-house with FIRE.sys
Printed in England by Cousin, environmentally accredited printers, ISO 14001.

Dialog Semiconductor Plc
Tower Bridge House
St Katharine's Way
London E1W 1AA
UK

www.dialog-semiconductor.com