Dialog Semiconductor Plc

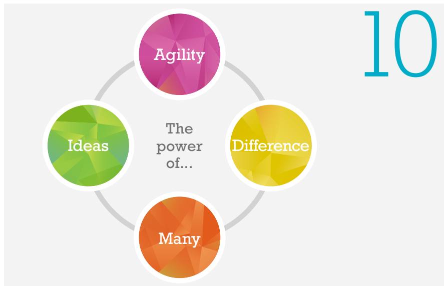
Annual report and accounts 2016

Always moving

Contents

"Our culture is sustained by a strong Board with good Governance oversight."

Richard Beyer
Chairman



The "Spirit of Dialog" is the articulation of our values and culture. It has helped us to deliver success for our customers, our employees and our shareholders.

Powering the smart connected world

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

Through our collaborative R&D approach and responsible supply chain management, we develop and market highly-integrated power management and power efficient mixed signal integrated circuits ("ICs").

Our technologies contribute to extend battery life in portable devices and efficient connectivity in IoT applications, enhancing consumer experience and enabling our customers to differentiate and move fast to market.

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

Financial highlights

A transition year of strong cash flow generation and solid strategic progress

Against the backdrop of lower year-on-year smartphone volumes, our gross margin and cash flow generation remained strong. In line with our strategic objectives, we sustained a healthy level of R&D investment to generate future profitable growth.

Read about our KPIs in detail on **Page 38**

2016 Financial highlights

Revenue decline (US$m)

-12%

2016	1,198
2015	1,355

Gross margin (%)

45.7%

2016	45.7
2015	46.1

Cash flow from operating activities (US$m)

US$249m

2016	249
2015	318

Operating margin (%)

25.9%

2016	25.9
2015	19.2

Diluted EPS (US$)

US$3.25

2016	3.25
2015	2.29

Underlying revenue decline (US$m)

-12%

2016	1,198
2015	1,355

Underlying gross margin (%)

46.3%

2016	46.3
2015	46.7

Underlying operating margin (%)

18.5%

2016	18.5
2015	23.4

Underlying diluted EPS (US$)

US$2.09

2016	2.09
2015	3.02

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

An explanation of the adjustments made to the equivalent IFRS measures in calculating the non-IFRS measures and reconciliations of the non-IFRS measures to the equivalent IFRS measures for each of the periods presented are set out in the section entitled "Financial performance measures" on pages 152 to 158.

Chairman's statement

Embedding the right culture to ensure success

"This year we strengthened our governance practice, and the experience and diversity of the Board."

Richard Beyer
Chairman

Fellow shareholder,

2016 was a year of transition for Dialog. Against a backdrop of weaker year-on-year volume demand for our mobile systems products, we made good progress on delivering innovative and differentiated energy-efficient solutions to power the smart connected world.

The business successfully navigated new challenges brought by the 12% year-on-year revenue decline and delivered the next phase of high-volume products for our customers. The underlying strength of our products and our business is reflected in our strong cash flow generation capability which drives our strong balance sheet.

During 2016, the Board and senior management team continued to place great emphasis on articulating, internally and externally, our culture and values. Embodied in the "Spirit of Dialog", it is the Board's responsibility to ensure our culture and values are shared and understood throughout the organisation; and, among our suppliers, partners and customers. They inform the way we behave towards each other; how we interact with all of our stakeholders; and are the basis for long-term success and value creation.

A strong corporate culture is built and sustained by a strong Board with good governance oversight. During 2016, we continued to review and enhance our corporate governance practice; and strengthen the experience and diversity of your Board. We welcomed two new independent non-executive Directors to the Board during the year: Nick Jeffery and Mary Chan. Nick brings a wealth of international business experience; having scaled new enterprise-focused businesses and successfully led multiple acquisition and integration projects. Mary brings invaluable experience and insight into how pervasive connectivity and the Internet of Things are driving change across multiple industries. The appointment of Nick and Mary builds on our appointment of Alan Campbell and Eamonn O'Hare to the Board over the past two years. Our Board today comprises the range of skills, expertise and international experience which we believe will enable us to continue to position Dialog at the forefront of our industry; provide market-leading innovation for our customers; and drive long-term value for shareholders.

The success of our business is attributable to the hard work and commitment of our 1,766 employees around the world – ably led by our Executive Team and, in particular, our CEO, Jalal Bagherli. We thank all of our employees for their work and dedication to the business during the year.

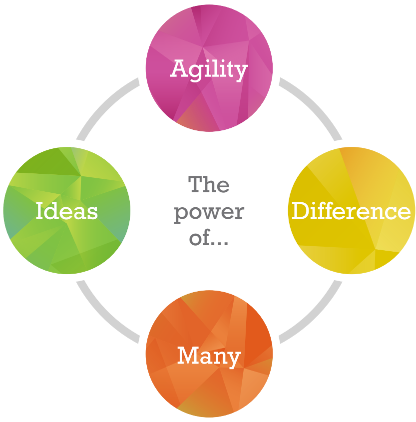
Finally, we would like to thank you, our shareholders, for your continued support and the trust you have placed in us as your Board. We look to 2017 and beyond with confidence. We are proud of the business we are building; of our employees who work hard to deliver every day; and of the customers whom we serve.

Sincerely,

Richard Beyer
Chairman

Our values

Our culture and values encompass our approach to doing business. They guide us in everything we do and ensure the team spirit, dynamism and a "can do" attitude, essential for our continued success.



Read more on **Page 10**

Q&A with our CEO, Dr Jalal Bagherli

Dear shareholder, We can be proud of our achievements during 2016. I am extremely pleased with what we have accomplished. Through the hard work and dedication of all our employees we have laid solid foundations for the future success of the business.

"We are building a vibrant and innovative mixed signal business which is well positioned for future growth."

Jalal Bagherli
Chief Executive Officer

How would you sum up Dialog's financial performance in 2016?

2016 was a transitional year for our business. Our Mobile Systems business saw year-on-year volume decline reflecting soft market conditions in the high-end segment of the smartphone market. In contrast, our Bluetooth® low energy and Power Conversion businesses delivered a phenomenal rate of growth. Despite the 12% year-on-year decline in revenue, gross margin remained broadly in line with 2015 at 45.7% and all four operational business segments were profitable on an underlying basis. As a result, cash generation in the year remained very strong, also helped by a tight control of operating expenses.

For the first time in our history, in 2016 we returned cash to our shareholders. Following shareholders' approval at the AGM in April 2016, the Company initiated a share buyback programme. As of 17 February 2017, the Company had purchased 2.8 million shares at a total cost of US$93.75 million.

Innovation is vital to Dialog's success. What new products has Dialog launched this year and what are their possible applications?

In line with our strategic objectives, in 2016 we continued the expansion of our product portfolio. In power management we entered a new addressable market with the introduction of a highly-efficient high-voltage companion charger. This is the first integrated circuit of an exciting new product line which we will continue to expand in 2017.

We expanded our Bluetooth® low energy range with the introduction of a second System-on-Chip ("SoC") from the 2nd generation of SmartBond™. This second SoC provides low power connectivity and additional functionalities for rechargeable devices, including wearables, home automation and other emerging IoT devices.

In 2016, we also launched our first gallium nitride ("GaN") product, the DA8801. GaN technology offers some of the world's fastest transistors, enabling ultra-efficient power conversion. This technology provides up to 94% power efficiency combined with up to 50% reduction in size. It has the potential to enable true universal chargers for mobile and computing devices.

Lastly, we entered the wireless charging space with a commercial partnership and a US$10 million investment in Energous Corporation, a NASDAQ listed company developing radio frequency ("RF") based wireless charging solutions for consumer electronics. This is an exciting new opportunity which combines complementary technologies from both companies and opens up a new addressable market for Dialog.

The industry Dialog operates in is fast moving. How do you see it developing in the coming years, and how is the Company positioned to capitalise on new growth opportunities?

The smartphone market has entered a mature stage but it continues to evolve. The challenges brought in by increasing data processing, consumer expectations and governmental regulations on energy efficiency can only be met through innovation. On the customer side, Chinese OEMs are gaining importance in our industry, marketing high-quality devices at lower price points than competitors. As we continue to serve our existing customers, we also seek to increase our market share in Asia with key strategic partnerships in China and innovative and differentiated products in power management and rapid charge.

Our strategy

We continued to make good progress on our corporate strategy.

Our 2016 framework incorporates a wider range of stakeholders and aims to drive our competitive advantages.

- **Innovation**
- **Expanding our product portfolio**
- **Broadening and deepening our customer base**
- **Establishing regional partnerships**

In parallel, the number of smart connected devices continues to increase. Our Bluetooth® low energy products enable low power connectivity from peripherals to smartphones and tablets. We expect this market to continue to grow rapidly over the medium term. Our focus is to offer our customers cost-effective solutions without compromise in the quality of the consumer experience.

Dialog is well positioned to capitalise on the growth opportunities in mobility and smart connected devices. Our innovative and differentiated products and the strength of our customer relationships will support the next phase of growth over the medium term.

2016 has been a year of significant geopolitical upheaval. What could be the potential implications for Dialog?

A number of geopolitical risks across the world are clouding the horizon and their full impact will only be known in years to come. Our organisation is agile and truly global and it will continue to adapt as new international commercial arrangements take shape and political uncertainty unfolds. Although uncertainty is not good for business, we remain focused on delivering value for our customers, our employees and our shareholders over the long-term.

In your letter last year you mentioned the values of Dialog being important to the Company's success. How have these developed in 2016?

These values have helped Dialog to succeed in a very competitive industry. For the first time, in 2015 we articulated our values in the "Spirit of Dialog". Personally, this was very important to me. As the Company grows, we wanted to capture the essence of the Company, and the passion we put into our work every day. The combination of values has created a unique identity for Dialog that makes it a special place to work. The "Spirit of Dialog" is our recipe for success, and each value an ingredient of that recipe.

What progress has the Company made in the sustainability front?

During 2016, we made changes to our organisation to embed all sustainability topics into the business. We do not see it as something separated from our business. The energy-efficiency of our products, our people and a responsible supply chain are the key sustainability business areas. Additionally, we take into consideration the impact of our activity across a wider range of stakeholders to ensure that we create value for our customers, our shareholders, our employees, and society.

It was very rewarding to see Dialog listed as one of only two UK companies in the first Carbon Clean 200 Index. A testimony of the role our technology plays in supporting the move to a cleaner and more energy-efficient economy.

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

We welcomed Wissam Jabre as our new Chief Financial Officer and Senior Vice President of Finance. Wissam joined us in April 2016 after serving as Corporate Vice President of Finance at Advanced Micro Devices ("AMD") since 2014. His extensive career in the technology industry, and financial expertise is already helping Dialog maintain and grow its strong financial position.

I would also like to record my appreciation for Andrew Austin who retired after seven years in Dialog, in May 2016. Andrew played a key role in our business as Senior Vice President of Sales and in his role as Senior Vice President Corporate Projects since 2015.

Is there anything else you would like to add?

First, I would like to thank our employees for their continuing dedication and hard work during 2016. We can feel proud of everything we achieved during the year and the progress we made towards the future success of the Company. Together, we are building a vibrant and innovative mixed-signal analog company.

Finally, I would like to thank our shareholders for their continuing support and trust placed in Dialog.

We look to 2017 and beyond with confidence in the business we are building and the value we create for our customers and our shareholders.

Jalal Bagherli
CEO

At a glance

Developing power management and power-efficient technologies to keep people connected

We focus on consumer applications, enabling people to be connected on the move. Our technologies enhance consumer experience by extending battery life and enabling faster and efficient charging of their portable devices.

Building on our expertise in mobile to move into new growth markets

We have been at the centre of the mobile revolution since its inception. As the smartphone market continues to mature, increasingly we are expanding our product portfolio and moving into adjacent markets.

Read more on the markets in which we operate on **Page 14**

Revenue (US$m)

1. Mobile Systems	77%
2. Connectivity	10%
3. Power Conversion	10%
4. Automotive & Industrial	2%
5. Corporate – Dyna Image	1%

1. Mobile Systems

Our products replace discrete power management components with highly-integrated single chip solutions that provide higher energy efficiency, design simplicity and lower costs for portable and mobile devices. High-quality efficient charging technologies have become increasingly important for our customers.

Revenue (US$m)

US$923m
-17%

Year-on-year revenue decline

2016	923
2015	1,114
2014	943

Key products

- Power Management Integrated Circuits ("PMICs") for smartphone, tablets, computing systems and IoT devices.
- Sub-PMICs for mobile devices.
- Charger ICs for smartphones and tablets.
- Automotive grade PMICs for infotainment systems.
- Audio CODECs for portable media players and audio accessories.

Segment review on **Page 30**

2. Connectivity

We provide short-range wireless connectivity solutions that deliver outstanding performance, flexibility and power efficiency. Our Bluetooth® low energy solutions enable the Internet of My Things. In 2016, we introduced a new digital audio solution for consumer headsets.

Revenue (US$m)

US$118m

+1%

Year-on-year revenue growth

Year	Revenue
2016	118
2015	117
2014	92

Key products

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

Segment review on **Page 32**

3. Power Conversion

Our AC/DC controller solutions enable fast-charging, low standby power and small adapters for portable applications. LED drivers for Solid State Lighting and display backlighting complete our range of power conversion products.

Revenue (US$m)

US$117m

+38%

Year-on-year revenue growth

Year	Revenue
2016	117
2015	85
2014	80

Key products

- → AC/DC rapid charge adapters.
- → AC/DC converters.
- → AC/DC power adapters.
- → AC/DC embedded networking converters.
- → SSL LED and backlight drivers.

Segment review on **Page 34**

4. Automotive & Industrial

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

Revenue (US$m)

US$30m

-13%

Year-on-year revenue decline

Year	Revenue
2016	30
2015	34
2014	41

Key products

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

Segment review on **Page 36**

Our business model

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

How we monetise our business

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

A fabless business model based on high Tier 1 customer penetration results in high volumes, longer-term revenue streams and ultimately in strong cash generation.

Sustainability
Corporate responsibility and a commitment to sustainable business practices are important to Dialog. Dialog's commitment to sustainability is outlined in greater detail on page 48 and also in our annual sustainability report, which is available on our website.

Aligned interests
Dialog is committed to the continuing development of market-leading innovative products which we believe will generate profitable revenue streams and create long-term value for our shareholders. We achieve this by setting stretching performance targets, which align with shareholders' interests, and then motivating our executives and employees to achieve those targets with appropriate incentive arrangements. Dialog's remuneration policy is set out in greater detail within the Directors' remuneration policy report on pages 80 to 85.

1 DESIGN CYCLE
6–18 months

A short and collaborative design cycle

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

2 MANUFACTURING CYCLE
3 months

Our high-touch, flexible fabless model

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

3 PRODUCTS CYCLE
1–5 years

Market-leading, quality products that make an impact

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

CREATING VALUE THROUGH INNOVATION

OUR COMPETITIVE ADVANTAGE IS BUILT ON:

1	2	3	4	5
Highly skilled engineers and IP	Strength of our customer relations	Robust and responsible supply chain	The strength of our balance sheet	Our Company culture

These five competitive advantages help us deliver our strategy, read more on Page 18

How do we create value

1

WE DEVELOP OUR PRODUCTS IN SHORT AND COLLABORATIVE DESIGN CYCLES

Design cycle
6–18 months

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

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

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

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

Examples of a range of market-leading innovative products, launched in 2016, are set out in the segmental review on **Pages 30 to 37**

2

WE WORK CLOSELY WITH LEADING AND RESPONSIBLE PRODUCTION PARTNERS – "HIGH-TOUCH FABLESS MODEL"

Manufacturing cycle
3 months

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

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

Our assembly and test partners are leading companies such as SPIL, ASE and UTAC. We maintain deep expertise on advanced processes, test and packaging development in our own teams. These areas of expertise support the development of products which are thin and light, features which consumers value highly in portable devices. In order to meet our stringent product quality and qualification requirements, all test programmes are developed and maintained by our Test and Product teams and deployed to our partners. This approach enables a continuous quality improvement process and delivers high levels of assurance to us and our customers regarding the potential risks they are exposed to through the supply chain.

Read more on our resilient supply chain on **Page 50**

3

WE FOCUS ON HIGHLY-INTEGRATED POWER MANAGEMENT AND POWER-EFFICIENT MIXED SIGNAL ICS FOR CONSUMER ELECTRONICS

Products cycle
1–5 years

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

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

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

Our commitment to sustainability is outlined on **Page 48** and in our annual sustainability report, available on our website.

OUR COMPETITIVE ADVANTAGE IS BUILT ON THE CRITICAL RELATIONSHIPS AND RESOURCES THAT DRIVE OUR BUSINESS:

1 Highly skilled engineers and IP

Our ability to recruit, retain and develop new talent is vital to generate innovation. Our focus is to maintain a sustainable skills pipeline.

We seek to ensure that our IP is adequately safeguarded.

% of engineers of total workforce

75%

2 Strength of our customer relations

We work with many of the leading consumer electronics companies.

A close R&D collaboration with our customers enhances our innovation capacity and creates strong and long lasting customer relations.

3 Robust and responsible supply chain

Although fabless, we are responsible for delivering our products to customers. An efficient and responsible supply chain is important to us and our customers.

Supply chain audits	OTD*
25	98%

4 The strength of our balance sheet

This is a key feature of our business. A fabless business model based on high Tier 1 customer penetration results in strong cash generation ensuring a sustainable level of investment in R&D.

Cash balance 31-Dec-2016

$697m

5 Our Company culture

This underpins the way we behave and the values that will help us succeed with our customers in the future. (Entrepreneurial spirit, Collaborative and honest, Passion for innovation, Care about our impact).

Each employee has a culture objective as part of their annual appraisal.

* On time delivery performance in Mobile Systems and Connectivity

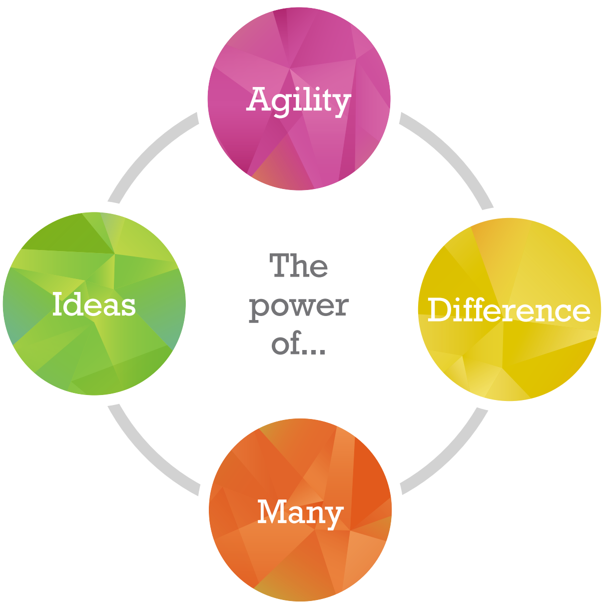
Our culture and values

The "Spirit of Dialog"

The efficiency of our products is matched by our efficiency as a business. Driving this is a strong culture and values – the "Spirit of Dialog".

The power of our values sets us apart

Dialog's success is driven by innovative technology, fast time to market, and the "Spirit of Dialog". Embracing the power of our four key values sets us apart from other semiconductor companies.



Agility

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

Why is it important?

- → We are able to respond to market needs.
- → Quality outcomes delivered at a pace.

Difference

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

Why is it important?

- → Differentiated products help our customers win in their markets.
- → Our products help reduce power consumption, positively impacting the environment and consumers.

Many

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

Why is it important?

- → We can achieve more together, through strong cooperation and knowledge sharing.

Ideas

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

Why is it important?

- → Without new ideas, Dialog cannot grow – there is no competitive advantage in being the same as others.

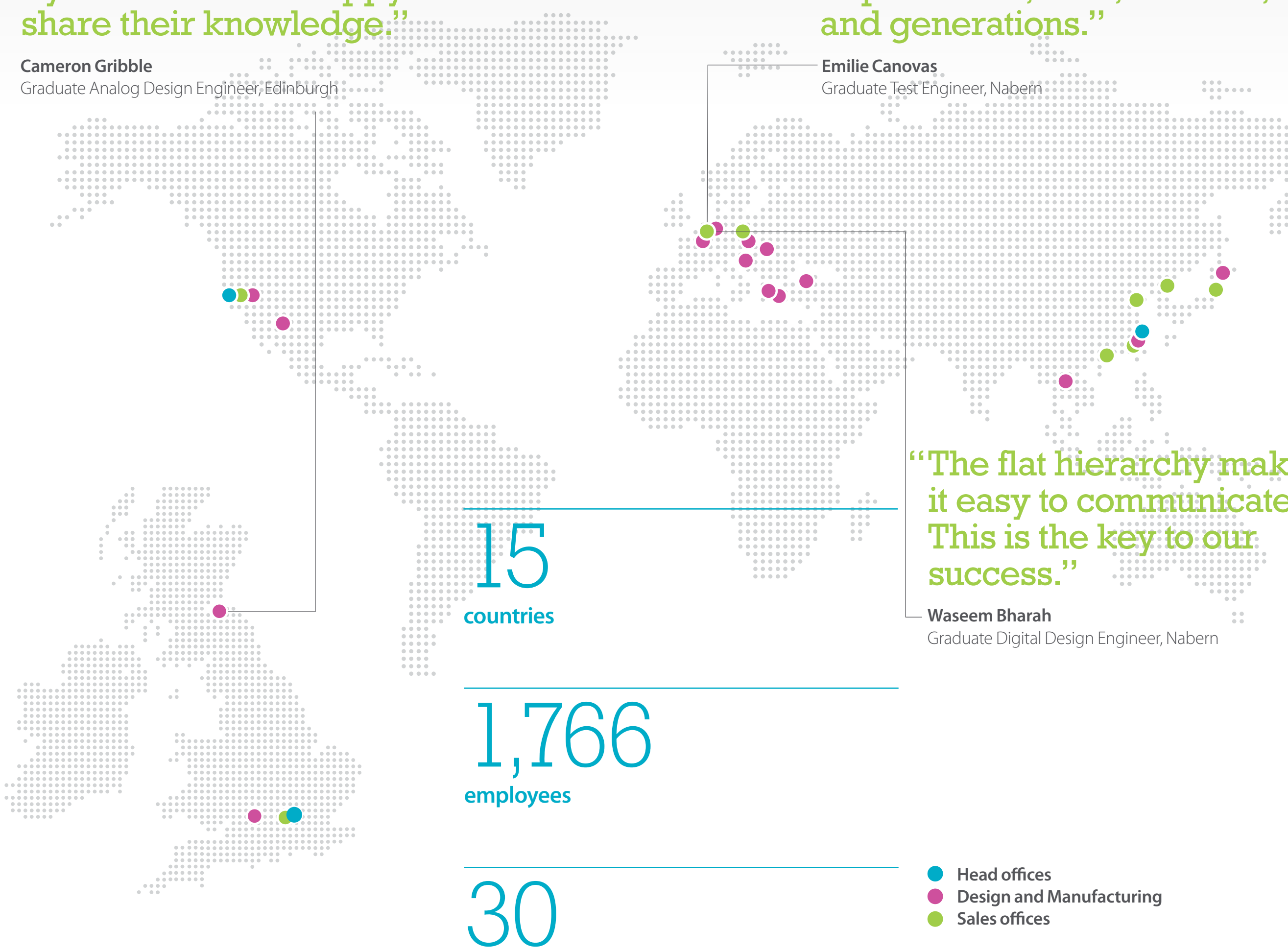
Operations

"The office is in the city centre and the people I am surrounded by are more than happy to share their knowledge."

Cameron Gribble
Graduate Analog Design Engineer, Edinburgh

"Everyday I work with people from different departments, sites, cultures, and generations."

Emilie Canovas
Graduate Test Engineer, Nabern



"The flat hierarchy makes it easy to communicate. This is the key to our success."

Waseem Bharah
Graduate Digital Design Engineer, Nabern

15
countries

1,766
employees

30
locations

We are a global and diverse business yet with a unified culture

We operate from 30 locations in 15 countries, and employ individuals from 65 nationalities. Whilst we celebrate diversity we recognise the need for a common culture to bring our Company together. The "Spirit of Dialog" drives how we act, behave, and make decisions, for every one of our employees, across the business and around the world. Our values embody what has helped Dialog be successful in the past – and what is likely to help us deliver success in the future, as such they truly embrace Dialog's DNA. These values have helped us create value for our customers, our employees, and our shareholders.

The "Spirit of Dialog" in action

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

Each employee has a culture objective as part of their annual appraisal.

Our people

Recruiting and maintaining talent is vital to drive innovation

Our performance

	2016	2015
Employee retention (%)		
Manager retention rate	**93.0**	95.0
Overall employee retention rate	**92.1**	93.1
Diversity (%)		
Women overall	**14.9**	15.8
Part-time employees	**3.2**	3.5
Number of nationalities	**65**	62

"In Dialog we have a strong entrepreneurial culture which rewards performance and is passionate about engaging and developing people. It is our people who make it happen."

Martin Powell
Senior Vice President, Human Resources

1,766
2016 headcount
(2015: 1,660 +6.4%)
Excluding employees from Dyna Image

30
Locations

15
Countries

65
Nationalities

Recruiting talent

In 2016, we hired over 100 new staff across the world. We continuously recruit globally for the most talented people across all functions. This is vital to support the level of innovation required to succeed in a highly competitive industry. During 2016, we expanded all of our existing design centres in Europe, Asia and North America.

Engaging our employees – the Voice of Dialog

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

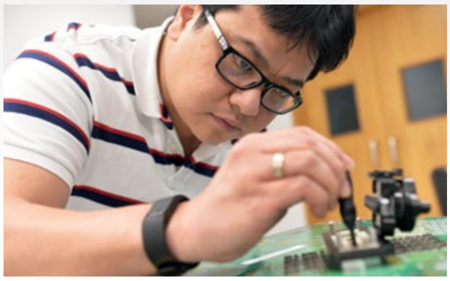
This year was the third year we conducted our annual employee engagement survey "The Voice of Dialog". We are very proud that the participation rate in the survey was up 6% from 2015 to 82%.

As part of our work to ensure our employees are motivated and engaged, we track a number of different measures across the survey, both in comparison to last year's scores and also external industry benchmarks. We also examine the highest scoring units within Dialog to identify what they do well, and share these internal best practices around the Company.

For example, from 2015 to 2016 our biggest improving score (up 11%) was in "I believe action took place on the last survey". We are also significantly above benchmark average in "communication between departments in my organization is good", and we have seen year-on-year improvements in key areas like manager behaviour and training activity and content – where we have made investments, these are paying off.

Of course we are always looking to improve our organisation. Our key focus in 2017 will be to ensure that our employees across the world understand our corporate strategy, are aligned behind it, know what they need to do to contribute, and are motivated to do so.

Our people represent one of our key sustainability business areas. Examples of initiatives and how we manage it are on **Page 49**



Recognising and rewarding our talent

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

This includes market competitive pay and employee benefits, opportunities for individual and team recognition, a healthy working environment that supports long-term employee wellbeing and ongoing learning and career development opportunities.

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

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

Passionate about developing employees

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

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

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

In 2016, development opportunities ranged from mentoring, technical and professional training to management and leadership training. We will continue to develop our virtual and online solutions into 2017 to offer flexible development options to our staff.

Encouraging diversity

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

The globalised nature of our footprint and the nature of our sector mean that, like many of our peers, we benefit from a highly international workforce – many of whom work for us in locations far away from their countries of birth. For example, we have a total of 65 nationalities represented within our business – as well as a senior executive team representing seven different nationalities. We now operate from 30 locations in 15 countries and our global workforce continues to increase in diversity.

It is a reality, however, that the electronic engineering sector performs relatively poorly in terms of gender diversity. There has been much analysis of why this is the case, with growing focus being placed on invisible, structural considerations that may be limiting female engagement with the sector and/or inducing a degree of self-deselection (i.e. rather than any conscious barriers on the part of the sector). This partly reflects why women currently comprise 14.9% of our workforce (2015: 15.8%). From 1 December 2016, the female representation on our Board of Directors is 10% (one of ten directors).

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

Martin Powell
Senior Vice President, Human Resources

Our markets

Focused on high-volume consumer electronics

Our primary focus is consumer electronics, in particular mobility and smart connected devices. Dialog remains at the core of these markets with power management and power-efficient technologies which enable energy-efficient devices and ultimately longer battery life for the end consumer. Efficient highly-integrated power management, charging technologies, low power and DSP audio are vital for our customers' success in the mobility segment. Our Mobile Systems and Power Conversion Business Segments work in Mobility.

Mobile Systems

Read more on **Page 30**

PMIC and Charger ICs

15% CAGR

Source: 2016 IDC market reports and Dialog internal

2019	US$6,046m
2015	US$3,397m

Key drivers

- Increasing daily use of mobile devices.
- Larger batteries and battery charge time reduction.
- Larger screens, higher rate of data transmission and multi-core application processors.
- Industry increase in "always-on" applications.
- Broader adoption of platform reference designs to accelerate time to market.

Audio Codec

8% CAGR

Source: SAR data and Dialog internal

2019	US$1,030m
2015	US$755m

Key drivers

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

Power Conversion

Read more on **Page 34**

AC/DC converters

13% CAGR

Source: IHS, IDC, Dialog internal 2016

2019	US$976m
2015	US$608m

Key drivers

- Larger batteries and battery charge time reduction.
- USB-C™ connectors enabling a higher charging current.
- Consumer appetite for small travel adapters and power supplies.
- Stringent government regulations on standby power.
- Competitive pricing environment.

In parallel, the next stage of mobility is gathering pace. Smart connected devices such as wearables or smart home applications, are increasingly part of our daily life. This type of device requires power-efficient connectivity and sensing technologies to interact with the environment. Our Connectivity Business Segment is engaged in this market.

The Company has also some exposure to the LED Solid State Lighting market with a range of dimmable and non-dimmable LED drivers. Our Power Conversion Business Segment works with this market.

Connectivity

Read more on **Page 32**

Bluetooth® low energy

38% CAGR

Source: IHS Technology Report Q2 2016

2019 US$710m

2015 US$196m

Key drivers

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

Wireless, USB audio

35% CAGR

Source: 2016 Wifore Wireless Consulting, Grand View Research, Dialog

2019 US$776m

2015 US$233m

Key drivers

- Increase in power-efficient, wireless audio applications.
- Fast growing consumer headsets market with Hi-Fi audio and low-latency microphone features.

Power Conversion

Read more on **Page 34**

LED Solid State Lighting and LED Backlight

5% CAGR

Source: IHS Lighting Report and Dialog internal

2019 US$570m

2015 US$463m

Key drivers

- Consumer awareness on energy consumption combined with governmental energy regulations.
- Preferred technology for new residential and commercial applications.
- Improved performance and lower cost are key to market adoption.
- Competitive pricing environment in the mid-to-low end segment of the market.

Automotive & Industrial

Read more on **Page 36**

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

Our markets continued

"Our customers value our strong focus on consumer electronics markets."

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

1.45 billion

Smartphones shipments in 2016

38%

Expected 2015–2019 CAGR Bluetooth® low energy market growth

3 hours

Internet usage time per adult in 2015, almost tripled from 2011

Dialog's R&D investment in highly-integrated power management and charging products allows our Mobile Systems business to be well positioned for mid to high-end mobile devices, enabling our customers to produce lighter and thinner smart devices with higher power efficiency and longer battery life. The top five smartphone vendors as of the end of September 2016 were Samsung, Apple, Huawei, OPPO and vivo[1].

Increasing processing capabilities in mobile devices coupled with more powerful telecommunications networks like 4G being rolled out across the world are enabling consumers to increase the intensity of use of their mobile devices and the volume of data processed. 4G smartphones are expected to surpass the one billion mark in shipments for 2016[2] as emerging markets play catch up. In parallel, internet usage time per adult almost tripled in the period 2011–2015 to almost three hours per day[3]. This increase in data processing has an energy cost. In this context, the need to increase the power efficiency of portable devices will continue to be at the core of consumer electronics.

Portable devices continue to ship with larger batteries to support ever-more powerful processors and large screens. These high-performance devices require additional power to charge them and even more to charge them quickly. Rapid charging continues to be the fastest growing segment in the highest volume power market – smartphones – with a 2015–2019 CAGR estimated at 68%[4].

Consumers want rapid charging capability along with very small travel adapters and power supplies. To do so, our customers need to pack more power into smaller adapter cases without incurring thermal issues, along with very low standby power to meet stringent government regulations. Addressing these market dynamics requires "high power density" AC/DC solutions with fewer and smaller components and very high efficiency. On 3 November 2016 in Munich, Huawei announced the Mate 9 product family, with one of its main features being "SuperCharge" Technology : A full day's charge in 20mins,[5] highlighting the importance of accelerated charging technology in the smartphone market.

Dialog leads the way in rapid charging with over 70% market share in 2016 and AC/DC adapter IC solutions that support virtually all fast charge protocols. Our AC/DC Rapid Charge™ chipsets today offer efficiency as high as 90% and support output power up to 45W. We introduced our gallium nitride ("GaN") technology in 2016, enabling customers to reduce the size of power supplies by up to 50% and 94% efficiency for ultra-high power density going forward.

The introduction of USB-C™ connectors as an upgrade to USB-B type connectors has increased basic charging current from 1.5amps to 3amps, however in the race to charge faster, phone manufacturers are looking at upwards of 5amps to minimise charging times.

The Chinese market is one of the key smartphone markets. China vendors, including Huawei, OPPO and BBK continued to show strength. The introduction of "Rapid Charging" to these platforms is viewed as a key driver of this growth.

The number of smart connected devices continues to increase. In 2020, we expect to have 4.5 billion smartphones and smart vehicles, ten "appcessories" per person and 50 billion wireless connections. Smartphones and tablets are the central mobile gateways and all major mobile platforms, iOS, Android and Windows 10, have adopted Bluetooth® low energy as a core connectivity technology. We anticipate Bluetooth® low energy will also have a key role in connecting IoT nodes into the cloud. The Bluetooth® low energy market is expected to grow 38% CAGR in the period 2015–2019.

"Rapid charging continues to be the highest growing segment in the highest volume power market – smartphones."

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

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

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

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

Dialog addresses the SSL market with a broad range of high performance, low bill of materials ("BOM") cost LED driver ICs for a wide range of residential and commercial applications. Our solutions include strong intellectual property for dimmable SSL applications, as well as smart lighting driver and Bluetooth® low energy modules and sensing technologies to enable wireless lighting and home automation control all from a smartphone or tablet.

Our key customers

Our customers want our focused innovation, technical expertise, high integration and fast product development and support. Given the speed of technological change in our markets, our focus is to develop and retain long-term relationships with all our major customers, adopting a true partnership approach.

Customers with a significant contribution to revenue include Apple, Samsung, Xiaomi, Panasonic and Bosch.

These top five customers represented 92% of Dialog revenue in 2016. We recognise there is a risk associated with this level of customer concentration (see details on page 53 of the Risk section) and the revenue derived from our largest customer is shown on page 138, note 32.c). We are delighted to have such a strong relationship and during 2016 we have broadened and deepened our interactions based upon our innovative products, excellent programme execution and product delivery. The diversification of our business is a key strategic objective. In 2016, we have welcomed new customers across multiple business segments.

1 Source: IDC Worldwide Mobile Phone Tracker, 26 October 2016 https://www.idc.com/getdoc.jsp?containerId=prUS41882816
2 Source: IDC 29 November 2016, https://www.idc.com/getdoc.jsp?containerId=prUS41962716
3 Source: Smart Insights http://www.smartinsights.com/internet-marketing-statistics/insights-from-kpcb-us-and-global-internet-trends-2015-report/
4 Source: IHS, IDC, Dialog 2016
5 Source: Huawei press release http://www.businesswire.com/news/home/20161103005831/en/Huawei-Introduces-HUAWEI-Mate-9

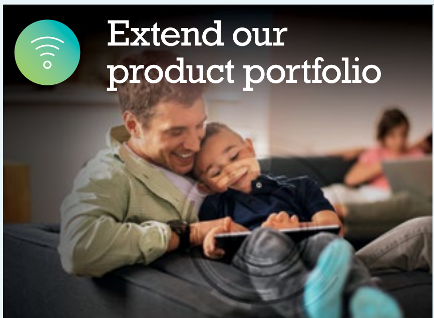
Our strategy

Setting out a clear plan for future growth

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

We made great progress in 2016 and continue to power ahead with initiatives in each of the four pillars of our strategy which aim to generate sustainable long-term value for our customers, our shareholders, our employees and other stakeholders.

Our 2016 strategic framework aims to give a comprehensive view of our business and the links between our strategy, risks, and the progress made during the year.

Strategic priority	Why is it important	How we measure our progress
 Extend our product portfolio	We aim to continuously extend our product portfolio of highly integrated mixed signal, lower power products. This helps us to diversify, open up new addressable markets and stay ahead of the competition.	29 **New products introduced and sold in 2016 with revenue greater than US$200,000.**
 Achieve a broader and deeper customer base	The quality of our products has attracted the leading brands in each of our markets. We want to maintain and grow those strong relationships while further diversifying our customer base by launching new products and opening up new addressable markets.	5 **New customers welcomed to Dialog with revenue greater than US$200,000. Additionally, we started working with various new distributors and deepened our existing customer base with new ASIC and ASSP products.**
 Deliver continuous innovation	Innovation is at the core of our business. Our top talent and technology, paired with an innovative product development philosophy and sustained R&D investment, enables Dialog to deliver high value to our customers.	US$241m **Expensed in R&D programmes during 2016, representing an 8% increase over 2015.**
 Establish regional engagements	A core strategic objective is to establish regional engagements using highly integrated analog and power management technologies. In particular, we are building innovative partnerships with leading companies in Greater China.	3 **In 2016, we developed new products in close collaboration with three of our partners.** **During 2016, we established a new strategic partnership in Greater China.**

Our KPIs

Our key performance indicators seek to ensure performance is aligned to strategy and shareholders' interests. Additionally, the Company works with a wide range of metrics covering different aspects of our business activities. Listed on this page is an example of metrics to gauge progress towards our strategic objectives.

Read about Managing risk and uncertainty on **Page 52**

Key progress in 2016	Forward focus	Risks
→ New Bluetooth® low energy IC, DA14681, offering high performance, with low power consumption, small footprint and low system cost. → Launched the DA14195, an open audio platform IC for consumer headsets. → Introduction of a new high-voltage companion charger IC for smartphones.	→ Continue to deliver next-generation Rapid Charge™ adapter solutions for the smartphone, tablet and portables markets. → Expand our low latency wireless audio activity towards microphones and headset brands.	→ Human Capital. → IT systems. → Dependency on mobile and consumer electronics. → Environmental regulations. → Third-party suppliers. → Quality assurance.
→ Our Bluetooth® low energy IC provides connectivity for Misfit's latest fitness tracker, Misfit Shine 2™ and Pokémon™ GO Plus. → Expanded globally our distribution agreement with Avnet, a leading global technology distributor. → Launched an OpenThread development platform.	→ Continue to invest in the Bluetooth® low energy platform and increase market footprint. → Diversify our product offering with the expansion of the high-efficiency charger portfolio. → Increase our content in power adapters replacing energy-wasting passive components with active digital solutions.	→ Dependency on key customers. → Dependency on mobile and consumer electronics.
→ Entered the Gallium Nitride ("GaN") market with the first integrated device targeting fast charging power adapters. → Expanded our addressable market with PMICs for computing systems, DSLR cameras, auto-infotainment and TVs and set-top boxes.	→ Use our GaN expertise to deliver even higher power density, GaN power stage solutions. → Invest in novel power management for the Internet of My Things, Smart Home and wearable applications. → Focus on wearables and smarthome Bluetooth® low energy market segments.	→ Human capital. → Funding and liquidity. → Dependency on mobile and consumer electronics. → IP protection.
→ Established a new strategic engagement with a company in Greater China. → Our Qualcomm® Quick Charge™ 3.0 chipset extended our leadership in the mobile adapter rapid charge segment in Greater China. → Worked with Renesas in the automotive infotainment segment.	→ Continue to deepen our collaboration with strategic partners in Greater China with a wider range of technologies.	→ Human capital. → Dependency on key customers. → Dependency on mobile and consumer electronics.

A new product line of Charger ICs

Charging ahead

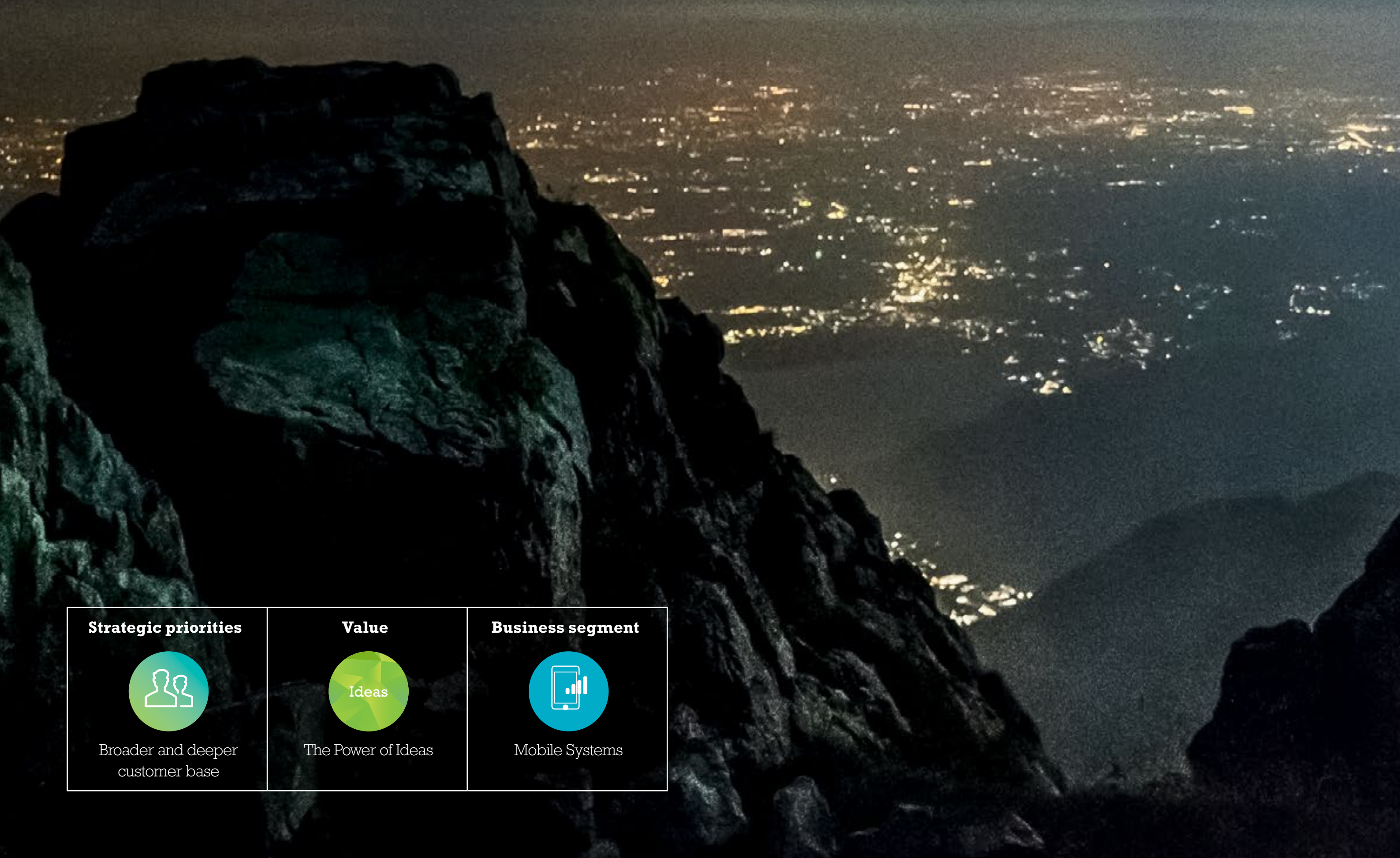
We are charging ahead with a new product line, meeting stringent consumer requirements and opening up new addressable markets for our business.

During the last seven years, mobile processor performance has increased ten times. Additionally, consumers are using their smartphones for over three hours each day. To support this intensity of usage, batteries are getting larger and more powerful. To charge these batteries safely and quickly, Dialog launched a new product line of ultra-efficient high-voltage Charger ICs.

This new product line of Charger ICs will expand in 2017 with two new ICs:

→ An ultra-efficient high-voltage charger; a smaller and cost-effective solution.

→ A single IC solution 50% more efficient than comparable two chip solutions. A Current Doubler with industry leading efficiency, enabling twice the voltage with a standard USB-C cable.



Strategic priorities	Value	Business segment
Broader and deeper customer base	Ideas The Power of Ideas	Mobile Systems

Bluetooth® low energy is everywhere

Always connected

Technologies such as Bluetooth® low energy, have found a place in our daily lives. Our SmartBond™ range of products, enables a power-efficient way to transmit data from a myriad of peripherals to your phone and tablet.

→ At home, it enables your remote TV control, allows you to turn on the lights from your tablet or to find the always missing car keys with a proximity tag.

→ In your car, it helps for example monitoring the tyre pressure.

→ When you play sports, it transmits data from your wearable device so you can track your daily activity or improve your tennis or golf skills.

→ At work, it enables your wireless keyboard or mouse and makes sure that the coffee machine is regularly maintained.

→ During the weekend, it allows kids to find that extremely rare Pokémon, or guide you through the museum by connecting your smartphone to beacons.

Strategic priorities	Value	Business segment
Innovation and Broader and deeper customer base	Ideas Many The Power of Ideas and Many	Connectivity

Expanding our market leadership in fast charge

Always ahead

Our rapid charge solutions meet the lower stand-by power and higher operating efficiency mandated by governments and international energy bodies. Rapid charge is one of the fastest growing consumer segments, fuelled by the adoption of these technologies in smartphones.

Faster processors and larger screens demand larger batteries for full day use and larger batteries need higher-power adapters to charge in an acceptable time. Rapid charge technologies overcome USB connector limitations and enable larger mobile devices to charge much faster.

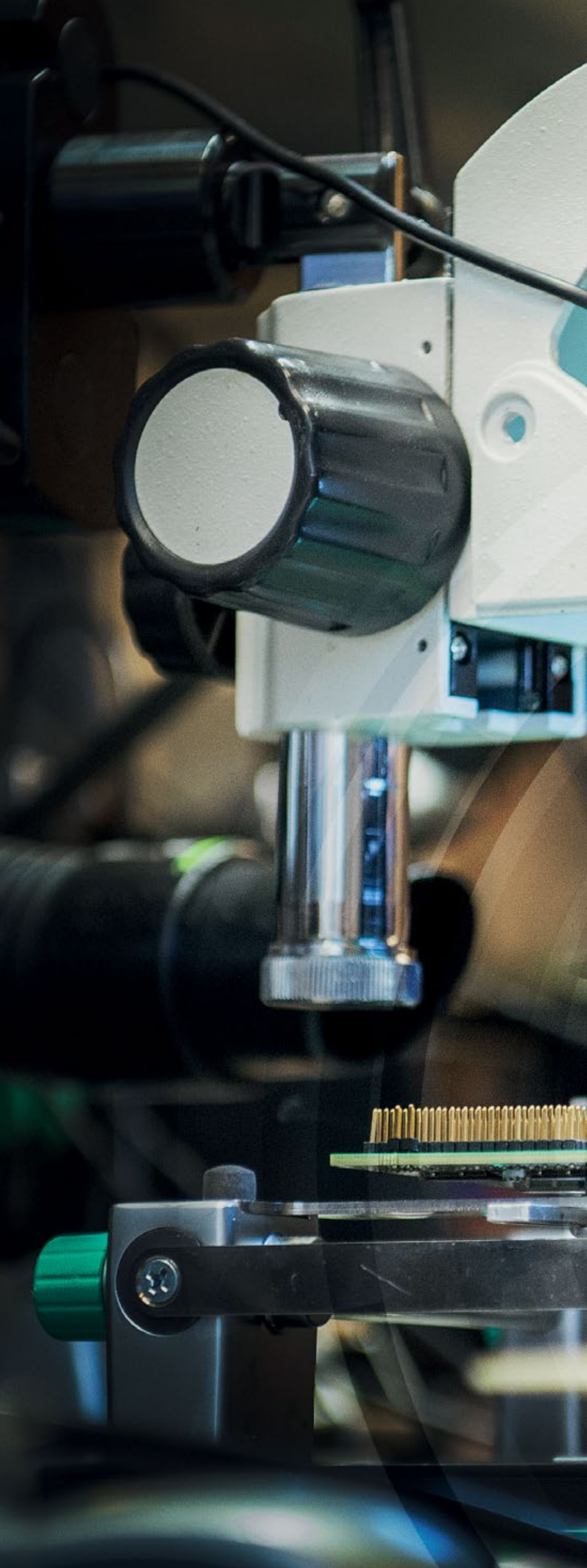
We seek to be ahead of our competitors with the broadest rapid charge portfolio. Our Power Conversion business segment markets solutions compatible with the latest fast charging protocols without compromising on safety, quality or price.

Dialog Rapid Charge™ ICs contribute to the expansion of our customer footprint in Greater China and enable a close collaboration with the leading OEMs in the largest consumer electronics market on the planet.

Strategic priorities	Value	Business segment
Focus on China Market and Broader and deeper customer base	Agility The Power of Agility	Power Conversion

Innovation in charging technology for consumer electronics: GaN ICs

Always innovating



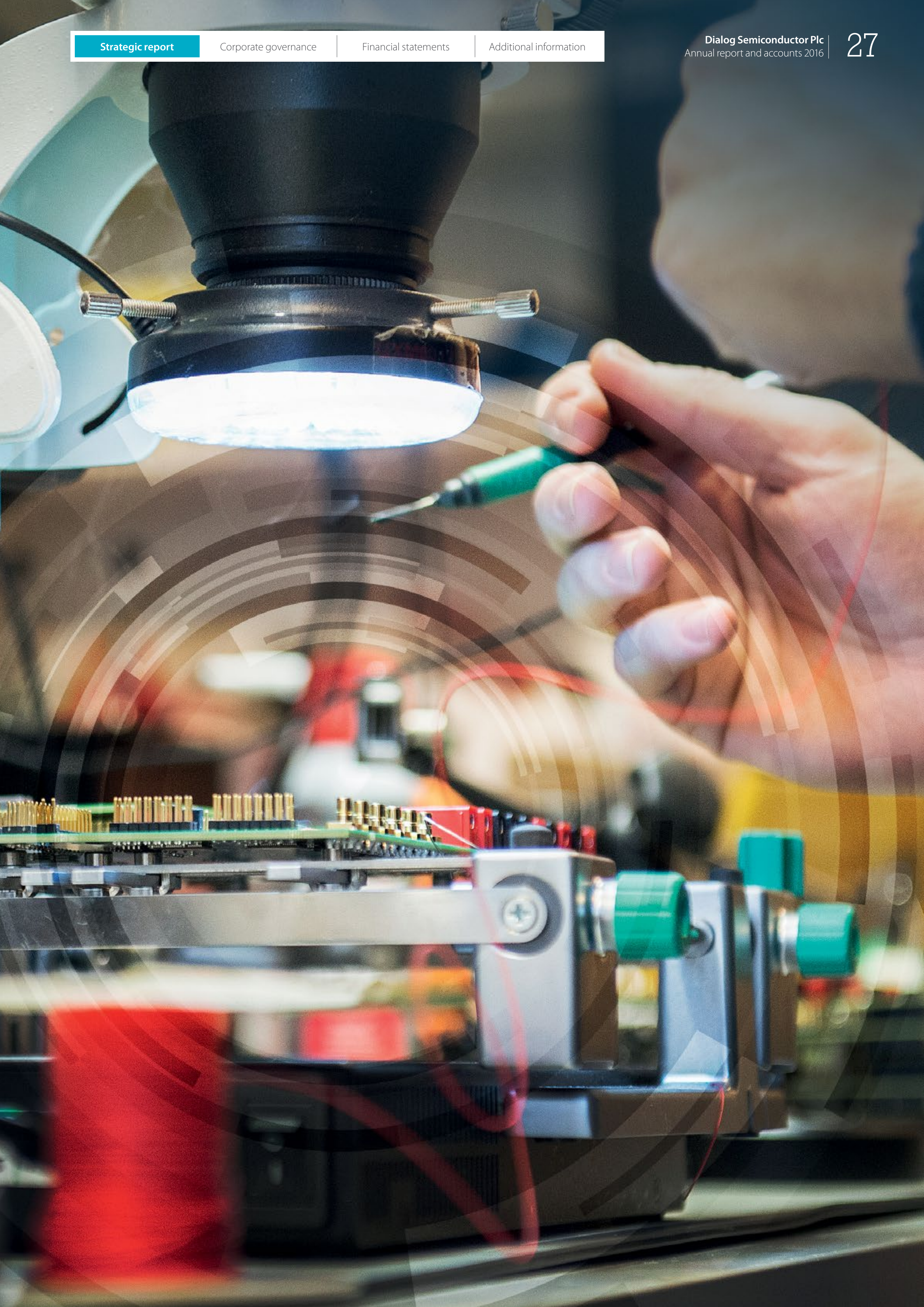
Gallium nitride ("GaN") is a semiconductor material more efficient than silicon.

Until today, GaN semiconductors were only used in a very limited number of industries. Dialog is pioneering the introduction of GaN power management semiconductors in consumer electronics.

The new GaN ICs can reduce in half power losses, producing more energy-efficient solutions with a smaller form factor and at lower costs.

SmartGaN™ is new wall-to-battery platform, focused on reducing the size of adapters while increasing power efficiency and speed of charging. Our vision is a single ubiquitous wall adapter for notebooks, tablets and smartphones.

Strategic priorities	Value	Business segment
Innovation and Extending our product portfolio	Agility Difference The Power of Agility and Difference	Power Conversion



Entering the wireless charging market

Always charging

In November 2016, we made a US$10 million strategic investment in Energous, a wireless charging company. Energous' WattUp® technology can be thought of as wireless charging 2.0, and delivers a wireless charging experience that is much closer to what consumers desire by charging devices close up and at a distance.

By sending energy safely through the air using radio frequencies, WattUp® is able to deliver intelligent, scalable power in a similar way to a Wi-Fi router.

The partnership combines Energous' uncoupled wireless charging technology and Dialog's power saving technologies to drive market expansion. Energous' WattUp® technology uses Dialog's SmartBond™ Bluetooth® low energy solution as the out-of-band communications channel between the wireless transmitter and receiver. Dialog's power management technology is then used to distribute power from the WattUp® receiver IC to the rest of the device, while Dialog's AC/DC Rapid Charge™ power conversion technology efficiently delivers power to the wireless transmitter.

Strategic priorities	Value
Extending our product portfolio	Agility · Many The power of Agility and Many

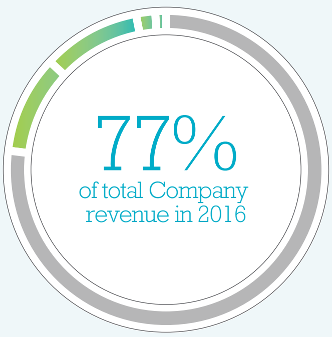
Segmental review

Mobile Systems
Adding value to our customers

Consumers demand longer battery life and more efficient mobile applications. Our power management, charging and audio ICs help our customers bring differentiated products in a highly competitive market.

Key facts

Revenue (US$m)



2016	923
2015	1,114
2014	943
2013	745

US$241.5m

Underlying operating profit

Full reconciliation of non-IFRS on **Page 152**

US$151.8m

Expensed in R&D

Highlights

- Established a new strategic partnership in Greater China.
- Expanded our range of ASSP products with next generation Charger ICs.
- Expanded into adjacent markets with our power management ICs.

Our markets

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

Our products

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

Our Power Management Integrated Circuits ("PMICs") are fully configurable. This allows them to be factory-tailored to meet the exact voltage and current needs of every component on a circuit board.

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

Our leadership position in PMICs allows us to quickly address developing market trends. This year we have identified the importance of battery charging in the mobile segment. The DA9155, a high-voltage companion charger, is the first of a portfolio of products that Dialog will be releasing into the market to address this growing space.

"Efficient and high-quality power management and charging technologies are increasingly important to our customers and consumers."

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

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

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

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

2016 progress

- Successful mass production release of the DA9155 companion charger product.
- Established a partnership in Greater China with an engagement for an LTE smartphone platform in 2017.
- Designed new custom application specific ("ASICs") PMICs with increasing complexity and value for next generation mobile devices.
- Strong adoption of third generation sub-PMIC solution in multiple China smartphone customers.
- Ramping up mass production of Audio codec product for leading computing platform.
- Continued investment in Automotive qualified PMIC solutions for Automotive Advanced Infotainment systems.

Key drivers

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

Charging ahead with our next-generation Charger ICs

In line with our strategic goals, we expanded our product portfolio of ASSPs with next generation Charger ICs and PMICs. Our next generation of Charger ICs help our customers solve the challenge of larger and more powerful batteries, and faster charging times. Consumers can charge their smartphones and tablets faster and safely.

Forward focus areas for 2017

Extend product portfolio
- Diversify our product offering with the expansion of the high-efficiency charger portfolio.
- Automotive PMIC portfolio expansion.

Deliver continuous innovation
- Leverage Dialog internal synergies to provide signal chain solutions to our customers.
- Invest in novel power management for the Internet of My Things, Smart Home and wearable applications.

Establish regional partnerships
- Deepen our collaboration with strategic partners in Greater China.

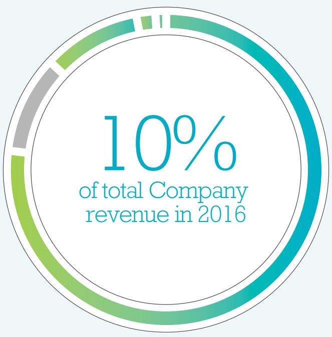
Segmental review continued

Connectivity
Building a low power IoT

We are seeing the beginning of a smart-connected world. As more devices get connected, our low power connectivity technologies and audio ICs enable our customers a faster go-to-market, vital in fast moving consumer markets.

Key facts

Revenue (US$m)



2016	118
2015	117
2014	92
2013	92

US$5.6m

Underlying operating profit

Full reconciliation of non-IFRS on **Page 152**

US$29.5m

Expensed in R&D

Highlights

- Strong revenue growth in Bluetooth® low energy.
- Expanded our SmartBond™ line of products.
- Continued to build a solid partner ecosystem.

Our markets

- Single chip transceivers for DECT-based cordless telephones, wireless microphones, headsets and gaming consoles.
- SmartBond™ single chip wireless ICs, certified to the Bluetooth® low energy standard, for enabling IoT node connectivity to the cloud.
- 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.
- SmartBeat™ provides a platform for robust, low-power wireless audio over USB, Bluetooth® and DECT. This platform offers a highly integrated solution for high quality and fixed low-latency wireless audio applications supporting sample frequencies up to 48kHz.

Our products

Dialog's SmartBond™ family is the simplest route to delivering power-friendly and flexible Bluetooth® low energy connected products to the market. SmartBond™ DA14580 is still the market-leading low power, high integration Bluetooth® low energy SoC, covering a broad range of applications. Based on this world-leading product we extended our portfolio with optimised solutions targeting dedicated applications: DA14581 for wireless charging, DA14582 with an integrated voice codec and DA14583 which has on-board flash memory.

In 2016, we introduced the second single-chip solution for wearables and home automation: DA14681. Customers can now create next-generation Bluetooth® low energy wearables and home automation applications without compromising on functionality, battery lifetime or system size.

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

> "Our second generation of Bluetooth® low energy products, SmartBond™, simplifies the creation of IoT devices and enables a faster go-to-market."

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

In 2016, Dialog introduced the next generation of SmartBeat™ products aiming at new trend of connecting digital headsets with smartphones instead of the analog 3.5mm audio jack. The new SmartBeat™ chip-set DA14195 audio processor and DA7217 ultra low power codec is aimed at Bluetooth® and USB type-C™ digital audio connections with smartphones.

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

2016 progress:

- Strong revenue growth in Bluetooth® low energy.
- Introduced second Bluetooth® low energy product line adding flexibility & integration and enabling new applications.
- Strengthened market position in the wearable segment with key design wins at multiple customers.
- Enabled smart home development platforms for major ecosystems: Apple HomeKit and Thread.
- Launched SmartBeat™ Audio IC platform for active headphones.

Key drivers

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

Expanding the SmartBond™ product line

In 2016, we introduced the second Bluetooth® low energy single-chip solution for wearables and home automation. Our new product helps our customers to reduce the number of components and cost, while enabling consumers to enjoy longer battery life, thinner and lighter applications. Xiaomi, one of the leading OEMs in Greater China, placed our technology at the core of their latest fitness tracker, the Mi Band 2.

Forward focus areas for 2017

Achieve a broader and deeper customer base

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

Deliver continuous innovation

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

Segmental review continued

Power Conversion
Enabling faster charging of portable devices

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

Key facts

Revenue (US$m)

2016	**117**
2015	85
2014	80
2013	27

US$6.1m

Underlying operating profit

Full reconciliation of non-IFRS on **Page 152**

US$22.5m

Expensed in R&D

Highlights

- We sustained our strong position in the fast charging smartphone market.
- Strong year-on-year revenue growth in Rapid Charge™ in 2016.
- Introduced our first gallium nitride ("GaN") IC.

Our markets

- AC/DC controller solutions – digital intelligence for smaller, fast-charging, low standby power adapters and power supplies.
- LED drivers for solid-state lighting – digital intelligence for stunning dimming performance, seamless dimmer compatibility and high quality of light in residential, commercial and smart lighting applications.
- LED drivers for display backlighting – digital control for better LED TV picture quality, simpler design and lower BOM cost.

Our products

AC/DC Power Conversion:

Consumer demand for feature-rich, large-screen mobile devices continues to expand. These devices require larger batteries, which in turn need high power adapters to charge them and even more to charge them faster. These market dynamics continue to drive rapid charging as the fastest growing segment in the highest volume market – smartphones, with a 2015–2019 CAGR estimated at 68%*.

In addition to smartphones, virtually every product that plugs into the wall needs AC/DC power conversion to change high voltage alternating current ("AC") from the wall to the lower voltage, direct current ("DC") required by most electronic products.

All of Dialog's AC/DC power conversion products use our unique PrimAccurate™ primary-side digital control technology to enable accurate control of voltage and current. PrimAccurate™ technology allows our customers to reduce their BOM cost by eliminating the optoisolator, secondary-side regulator and many discrete parts required with conventional AC/DC converter approaches. This technology also enables the high efficiency needed for high power density power supplies and travel adapters, with improved reliability – all in a very small form-factor.

In 2016, we sustained our leadership position in fast charging with 70% market share and AC/DC Rapid Charge™ adapter IC solutions that support virtually every fast charge protocol, including the new USB Power Delivery specification, Qualcomm® Quick Charge™ technology, MediaTek Pump Express™ Plus, Samsung Adaptive Fast Charging ("AFC"), Huawei Fast Charger Protocol ("FCP"), Huawei Smart Charge Protocol ("SCP") for Direct Charging, and other proprietary OEM protocols.

The continued demand for higher power mobile device adapters and electronic product power supplies drives the need for higher power density AC/DC solutions that enable OEMs to pack more power into smaller adapter and power supply cases without incurring thermal issues. These solutions also need to operate at very low standby power to meet stringent government regulations directed at reducing power consumption and global warming.

Our existing AC/DC high power density Rapid Charge™ chipsets and AC/DC converter products deliver efficiency as high as 90% and support output power up to 45W, using fewer and smaller components to minimise the overall adapter and power supply size.

In 2016, we announced our first 650V gallium nitride ("GaN") half-bridge power IC, the DA8801, to further reduce the size of power supplies by up to 50%, with 94% efficiency for ultra-high power density. GaN switches achieve these benefits by maintaining higher efficiency levels at high switching speeds. The high switching rates enable the use of smaller components for reduced size, while the high efficiency generates less heat to keep power supplies ultra-small and case temperatures at or below required levels.

* IHS, IDC, Dialog 2016

"Mobile device rapid charging market shows no signs of slowing down. We serve a wide customer base with a majority 70% share of the smartphone fast charging market in 2016."

Davin Lee
Senior Vice President and General Manager of the Power Conversion Business Group

LED Solid-State Lighting ("SSL"):

Dialog offers a broad range of SSL LED driver ICs, embedding our exclusive technologies to enable high-performance dimming, seamless dimmer compatibility and high quality of light, all with a low bill of materials ("BOM") cost. We support both dimmable and non-dimmable bulbs across a wide range of residential and commercial applications.

In 2016, we continued to see strong market adoption of our iW368x dimmable SSL LED driver with their exceptional dimmer compatibility and dimmer performance in retrofit bulbs. We also introduced our LED driver with integrated FET (iW3858) for high performance, with the lowest BOM cost. We introduced our Dual-Dim™ SSL LED driver (iW3690) that supports TRIAC and digital dimming smart lighting applications, including wireless lighting using our SmartBond™ Bluetooth® low energy system-on-chip.

We expanded our reach in the commercial LED lighting market in 2016 with our easy-to-use, low BOM cost interface IC ("iW337") that enables 3-in-1 dimming for 0-10V analog, 0-10V PWM and resistive dimming. The iW337 interface IC pairs with our iW3631 0-10V dimmable SSL LED driver for commercial lighting applications up to 120W.

2016 progress

- → Maintained our dominant position in the rapid charging market with 70% market share.
- → Delivered solutions in volume for virtually all fast charge protocols, including the new USB Power Delivery specification, Qualcomm® Quick Charge™ technology, MediaTek Pump Express™ Plus, Samsung Adaptive Fast Charging (AFC), Huawei Fast Charger Protocol (FCP), Huawei Smart Charge Protocol (SCP) for Direct Charging, and other proprietary OEM protocols.
- → Announced our first gallium nitride (GaN) half-bridge power IC to reduce the size of power supplies by up to 50%, with 94% efficiency for ultra-high power density.
- → Delivered our Dual-Dim™ iW3690 SSL LED driver supporting TRIAC and digital dimming smart lighting applications, including wireless lighting using our Bluetooth® low energy solution.

Key drivers

- → Smartphones continue to ship with larger batteries to support ever-more powerful processors and large screen sizes, requiring high power adapters to charge them.
- → Consumers want faster-charging smartphones, necessitating higher power adapters.
- → Consumers expect these higher power adapters to remain small; driving the need for higher power density.
- → An expanding array of new rapid charging protocols, including Direct Charging, USB Power Delivery ("USB-PD").
- → Regulation is phasing out inefficient incandescent and compact fluorescent lamp ("CFL") bulbs.
- → Emerging smart lighting market fuelled by wireless technologies and IoT.

Bringing GaN ICs to consumer markets

Our new GaN IC helps our customers to develop smaller and more efficient travel adapters for notebooks, tablets and smartphones.

Forward focus areas for 2017

Achieve a broader and deeper customer base

- → Leverage distribution and representatives network to further expand customer base in China.

Deliver continuous innovation

- → Continue to deliver next-generation Rapid Charge™ adapter solutions for the smartphone, tablet and portables markets.
- → Use our GaN expertise to deliver even higher power density, GaN power stage solutions.
- → Address LED driver market for retrofit SSL and commercial & professional LED lighting.

Automotive & Industrial
Supporting our loyal customers

Dialog is an automotive-certified company addressing the mid to high-end European segment through customer specific parts.

Key facts

Revenue (US$m)

2016	30
2015	34
2014	41
2013	37

US$10.2m

Underlying operating profit

Full reconciliation of non-IFRS on **Page 152**

US$1.2m

Expensed in R&D

Highlights

- Continued to support our customers to remain competitive.
- We played in this market with customer specific programmes.

Our markets

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

Our products

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

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

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

2016 progress

- Successful ramp-up in new windscreen wiper products.

Key drivers

- Increasing market for reverse wipers and LED lighting solutions.

"In 2016, we continued to support our customers to remain competitive."

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

Helping our customers to remain competitive

Our products capitalise on the mixed signal expertise we have built over many years. Our goal is to help our customers to remain competitive and to play in this market through specific customer programmes.

Forward focus areas for 2017

Achieve a broader and deeper customer base

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

Key performance indicators ("KPIs")

The Board uses a range of indicators to assess performance, to ensure performance is aligned to the strategy, and to ensure continued alignment with shareholder interests. The key performance indicators are set out below and include certain underlying (non-IFRS) measures. Underlying measures of profitability are non-IFRS measures because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS or are calculated using financial measures that are not calculated in accordance with IFRS. We do not regard non-IFRS measures as a substitute for, or superior to, the equivalent IFRS measures. Non-IFRS measures presented by Dialog may not be directly comparable with similarly-titled measures used by other companies.

See full explanations and reconciliations in the section entitled "Financial performance measures" on **Page 152**

Revenue performance

Performance indicator

-12% IFRS

-12% Underlying

Definition and relevance

Actual and prior year's full year revenue measured in our reporting currency, US dollars. Monitoring this revenue trend provides a measure of business growth. Revenue is used in order to provide a useful reflection of business performance.

2016 performance

Full year revenue in 2016 was 12% below 2015. This decline was the result of lower volumes in our Mobile Systems and Automotive & Industrial products, partially offset by strong growth in Bluetooth® low energy and AC/DC fast charge converters. The Average Selling Price of our high-volume power management products remained broadly in line with 2015.

Gross margin

Performance indicator

45.7% IFRS

46.3% Underlying

Definition and relevance

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

2016 performance

Gross margin in 2016 (both IFRS and underlying) was 40bps below 2015. This decrease was mostly driven by the lower revenue. The resilience of gross margin in 2016 was the result of the flexibility of our high-touch fabless business model combined with rigorous cost control and the lower value of inventory write-offs.

Operating expenses as a percentage of revenue

Performance indicator

31.3% IFRS

27.9% Underlying

Definition and relevance

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

2016 performance

OpEx % in 2016 was 420bps above 2015, 460bps on an underlying basis. The increase was the result of the lower revenue and the strategic commitment to innovation and investment in our Research & Development ("R&D") effort (2016: 20.2%, underlying 19.0%). It also reflects our commitment to invest and improve the efficiency of our Sales, General & Administrative ("SG&A") infrastructure and align it with the revenue base. It is important to note that our R&D effort is not directly linked to the revenue of the same period. It represents an investment in future revenue streams.

Operating profit movement

Performance indicator	Definition and relevance	2016 performance
+19% IFRS -30% Underlying	Year-on-year movement of operating profit. Monitoring this trend provides a measure of the year-on-year movement in the economic value generated by our operating business.	Operating profit in 2016 was 19.3% above 2015. This increase was mostly the result of US$137 million Atmel termination fees. Underlying operating profit was 30.4% below 2015, reflecting the impact from the revenue decline, combined with the commitment to continuous R&D effort and the alignment of our SG&A infrastructure with the revenue base.

Operating margin

Performance indicator	Definition and relevance	2016 performance
25.9% IFRS 18.5% Underlying	Actual and prior year's operating margin. Monitoring this trend provides a measure of our ability to increase the profitability of our operating activity over a period of time. Underlying operating margin provides a useful link to our ability to generate cash as we are a low capital intensity business.	Operating margin in 2016 was 670bps above 2015, including the impact from the Atmel termination fee. On an underlying basis, it was 490bps below 2015. This decrease is the result of the revenue decline combined with the commitment to continuous R&D effort and the alignment of our SG&A infrastructure with the revenue base.

Diluted EPS (US$)

Performance indicator	Definition and relevance	2016 performance
3.25 IFRS 2.09 Underlying	Actual and prior year's diluted EPS. Monitoring this trend provides a useful measure of our ability to generate earnings and the inherent value of our business for our shareholders over a period of time. Underlying diluted EPS provides a useful reflection of the inherent value of the business.	Diluted EPS was 42% up over 2015 to US$3.25 in line with the movement in net income. Underlying diluted EPS was down 31% in line with the movement in operating profit.

Employee turnover

Performance indicator	Definition and relevance	2016 performance
7.9%	Number of leavers in the last 12 months divided by the average headcount during that period expressed as a percentage. Monitoring our ability to recruit and retain experienced engineering professionals is vital given the strong competition for skills in the sector, ageing population and our business growth ambitions.	In 2016, employee turnover was 7.9%, slightly above 2015 (2015: 6.9%). Our ability to recruit and retain engineering professionals remained high. Dialog has an improved performance management system to ensure we are able to reward our best employees through appropriate mechanisms.

Financial review

In support of organic growth opportunities, we are investing in the development of innovative and differentiated products, as well as expanding our global distribution network and the R&D infrastructure in North America, Europe, and Asia. Dialog is a cash generative business with a strong balance sheet. During 2016, the Company returned US$60 million of cash to our shareholders through our share buyback programme.

"Our focused R&D approach supports future revenue streams and long-term value creation for our shareholders."

Wissam Jabre
Chief Financial Officer, Senior Vice President Finance

Summary of the Group's results

Year ended 31 December US$ millions unless stated otherwise	IFRS basis 2016	IFRS basis 2015	IFRS basis Change	Underlying basis[1] 2016	Underlying basis[1] 2015	Underlying basis[1] Change
Revenue[3]	**1,197.6**	1,355.3	-12%	**1,197.6**	1,355.3	-12%
Gross profit	**546.7**	624.8	-12%	**554.9**	632.3	-12%
Gross margin %[3]	**45.7%**	46.1%	-40bps	**46.3%**	46.7%	-40bps
R&D % of revenue	**20.2%**	16.5%	+370bps	**19.0%**	15.6%	+340bps
SG&A % of revenue	**11.1%**	10.6%	+50bps	**8.9%**	7.7%	+120bps
EBITDA[1,2]	**n/a**	n/a	n/a	**269.7**	357.8	-25%
EBITDA margin %[1,2]	**n/a**	n/a	n/a	**22.5%**	26.4%	-390bps
Operating profit[3]	**309.8**	259.7	+19%	**221.0**	317.7	-30%
Operating margin %[3]	**25.9%**	19.2%	+670bps	**18.5%**	23.4%	-490bps
Profit before tax	**305.2**	254.8	+20%	**217.6**	317.6	-31%
Net income	**258.1**	177.3	+46%	**165.4**	238.4	-31%
Basic EPS (US$)	**$3.43**	$2.42	+42%	**$2.20**	$3.25	-32%
Diluted EPS (US$)[3]	**$3.25**	$2.29	+42%	**$2.09**	$3.02	-31%
Cash flow from operating activities	**248.8**	317.7	-22%	**n/a**	n/a	n/a

1 Non-IFRS measures (see explanations and reconciliations to the nearest equivalent IFRS measures in the section entitled "Financial performance measures" on pages 155 to 158.
2 Prior year underlying EBITDA and EBITDA margin have been recalculated to no longer exclude a loss of US$1.7 million on the disposal of fixed assets (see page 157).
3 Key performance indicators.

Basis of preparation

Accounting policies

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

The Group's significant accounting policies were unchanged compared with 2015. Recent accounting pronouncements that have not yet been adopted by the Group are outlined in note 1 to the consolidated financial statements.

Critical accounting judgements and estimates

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

Non-IFRS measures

We assess the performance of the Group's businesses using a variety of measures. Certain of these measures are non-IFRS measures because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS or are calculated using financial measures that are not calculated in accordance with IFRS. All underlying measures of profitability are non-IFRS measures.

An explanation of the adjustments made to the equivalent IFRS measures in calculating the non-IFRS measures and reconciliations of the non-IFRS measures to the equivalent IFRS measures for each of the periods presented are set out in the section entitled "Financial performance measures" on pages 155 to 158.

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

Strategic investments

Investment in Energous Corporation

In November 2016, Dialog entered into a strategic alliance with Energous whereby we agreed to become the exclusive component supplier of its WattUp® integrated circuits.

At the same time as entering into the strategic alliance, Dialog paid US$10.0 million in cash on subscription for 763,552 common shares in Energous and was granted warrants to purchase up to 763,552 common shares in Energous that are exercisable in full or in part on a cashless basis at any time between May 2017 and November 2019.

At the end of 2016, Dialog held approximately 3.8% of Energous's issued common shares.

Investment in Dyna Image Corporation

In June 2015, we acquired a 45.7% shareholding in Dyna Image and were granted a call option over the shares that we do not own that expires in June 2018. Due to the existence of the call option, Dyna Image is accounted for as a subsidiary and therefore its results subsequent to our initial investment are included in the Group's results.

In January 2017, we participated in a new issue of shares by Dyna Image. We invested US$2.0 million, thereby increasing our shareholding in the business from 45.7% to 48.5%. We will account for the increase in our shareholding as a transfer within equity during the first quarter of 2017.

Aborted merger with Atmel

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

During 2016, we incurred related transaction costs of US$3.5 million (2015: US$17.6 million) and commitment fees of US$1.9 million (2015: US$1.2 million) in relation to the US$2.1 billion borrowing facility that was arranged to finance the transaction before the cancellation of the facility in January 2016.

Results of operations

Analysis by operating segment

Mobile Systems segment revenue was US$923.0 million in 2016 compared with US$1,114.5 million in 2015, a decrease of 17%. Revenue declined principally due to reduced demand for our PMICs resulting from softer demand for high-end smartphones. Mobile Systems represented 77.1% of the Group's revenue in 2016 (2015: 82.2%).

Mobile Systems' operating profit declined by 30% to US$239.9 million (2015: $341.9 million). Operating profit declined in response to the reduction in revenue and also reflected the increase in our R&D activities compared with 2015. Operating margin declined to 26.0% (2015: 30.7%), principally reflecting the lower contribution to fixed costs.

Mobile Systems' underlying operating profit was US$241.5 million in 2016 compared with US$343.7 million in 2015. Underlying operating margin was also lower at 26.2% in 2016 (2015: 30.8%).

Mobile Systems' underlying operating profit excludes payroll taxes arising on share-based compensation of its employees, which amounted to US$1.6 million in 2016 (2015: US$1.8 million).

Results by operating segment

Year ended 31 December US$ millions	Revenue			Operating profit/(loss)	
	2016	2015	Change	**2016**	2015
Mobile Systems	**923.0**	1,114.5	-17%	**239.9**	341.9
Automotive & Industrial	**30.0**	34.4	-13%	**10.1**	9.3
Connectivity	**118.3**	117.0	+1%	**5.3**	8.4
Power Conversion	**116.8**	84.6	+38%	**(7.5)**	(20.7)
Total segments	**1,188.1**	1,350.5	-12%	**247.8**	338.9
Corporate activities	**9.5**	4.8	+98%	**62.0**	(79.2)
Total Group	**1,197.6**	1,355.3	-12%	**309.8**	259.7

Financial review continued

Automotive & Industrial segment revenue was US$30.0 million in 2016 compared with US$34.4 million in 2015, a decrease of 13%. Revenue declined primarily because of reduced demand for traditional industrial lighting and certain automotive applications. Automotive & Industrial represented 2.5% of the Group's revenue (2015: 2.5%).

Automotive & Industrial's operating profit increased by 9% to US$10.1 million (2015: $9.3 million) and its operating margin increased to 33.7% (2015: 27.0%) reflecting tight control over costs and more selective investment in R&D projects.

Automotive & Industrial's underlying operating profit was US$10.2 million in 2016 compared with US$9.5 million in 2015. Underlying operating margin was also higher at 34.0% in 2016 (2015: 27.6%).

Automotive & Industrial's underlying operating profit excludes payroll taxes arising on share-based compensation of its employees, which amounted to US$0.1 million in 2016 (2015: US$0.2 million).

Connectivity segment revenue was US$118.3 million in 2016 compared with US$117.0 million in 2015, an increase of 1%. Strong growth in Bluetooth® low energy more than offset the expected continuing decline in the legacy (DECT) business. Connectivity represented 9.9% of the Group's revenue (2015: 8.6%).

Connectivity's operating profit declined by 37% to US$5.3 million in 2016 (2015: US$8.4 million), with the reduction due largely to higher expenditure on R&D projects.

Connectivity's underlying operating profit was US$5.6 million in 2016 compared with US$9.3 million in 2015. Underlying operating margin was also lower at 4.7% in 2016 compared with 8.0% in 2015.

Connectivity's underlying operating profit excludes payroll taxes arising on share-based compensation of its employees, which amounted to US$0.3 million in 2016 (2015: US$0.3 million) and, in 2015, additional amortisation of US$0.8 million on the fair value uplift of intangible assets acquired with SiTel BV in 2011.

Power Conversion segment revenue increased by 38 % to US$116.8 million in 2016 compared with US$84.6 million in 2015. During 2016, we successfully rolled out our Rapid Charge™ solutions with several Asian OEMs, the effect of which significantly exceeded the decline in the legacy (AC/DC) business. Power Conversion represented 9.8% of the Group's revenue (2015: 6.2%).

Power Conversion incurred an operating loss of US$7.5 million in 2016 but this was a significant improvement compared with its operating loss of US$20.7 million in 2015. Power Conversion's operating result improved significantly as the effect on profitability of higher sales came to outweigh the higher expenses arising from our increased investment in R&D and manufacturing support activities in the second half of 2015. Operating margin improved to (6.5)% in 2016 compared with (24.4)% in 2015.

Power Conversion delivered an underlying operating profit of US$6.1 million in 2016 compared with an underlying operating loss of US$6.6 million in 2015. Underlying operating margin also turned round to 5.2% in 2016 (2015: (7.8)%).

Power Conversion's underlying operating result excludes payroll taxes arising on share-based compensation of its employees, which amounted to US$0.2 million (2015: US$0.3 million), additional amortisation of US$13.4 million (2015: US$13.5 million) on the fair value uplift of intangible assets acquired with iWatt, Inc. in 2013 and, in 2015, further costs of integrating that business of US$0.3 million.

Corporate activities include emerging market businesses (principally Dyna Image and those involved in the development of low cost PMICs for the Chinese consumer markets). Corporate's revenue of US$9.5 million (2015: US$4.8 million) was attributable to Dyna Image, in which we invested in June 2015.

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

Corporate activities showed an operating profit of US$62.0 million in 2016 compared with an operating loss of US$79.2 million in 2015.

Corporate activities included the Atmel termination fee of US$137.3 million, Atmel related transaction costs of US$3.5 million (2015: US$17.6 million) and, in 2015, the expense of US$3.4 million recognised on the settlement of the iWatt contingent consideration. Excluding these items, Corporate activities incurred an operating loss of US$71.8 million in 2016 compared with US$58.2 million in 2015.

Corporate's operating loss was higher principally due to an increase in the Group's share-based compensation expense (which is not allocated to operating segments), the scaling up of our business support functions and advisory fees.

Corporate's underlying operating result additionally excludes the Group's share-based compensation expense of US$28.2 million (2015: US$19.2 million), payroll taxes arising on share-based compensation of Corporate employees of US$0.1million (2015: US$0.1 million) and, in 2016, additional amortisation of US$1.1 million on the fair value uplift of intangible assets acquired with Dyna Image.

Corporate's underlying operating loss was US$42.4 million compared with US$38.3 million in 2015, an increase of 11%.

Analysis of the Group's results

Revenue was US$1,197.6 million in 2016 compared with US$1,355.3 million in 2015, a decrease of 12%. Revenue declined principally due to reduced demand for our PMICs in Mobile Systems though this was partially offset by strong revenue growth in Power Conversion. Revenue was largely unaffected by price movements with the average selling price of our main products remaining broadly unchanged at US$3.15 in 2016 compared with US$3.13 in 2015.

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

Cost of sales was US$650.9 million in 2016 compared with US$730.5 million in 2015, a decrease of 11% that principally reflected lower sales volumes.

Gross profit was US$546.7 million in 2016 compared with US$624.8 million in 2015, a decrease of 12%.

Gross margin declined by 40 basis points to 45.7% in 2016 (2015: 46.1%). Gross margin held up reasonably well because improved margins on our more complex products partially offset the lower contribution to fixed costs due to reduced volumes. Reflecting these factors, underlying gross profit was 12% lower at US$554.9 million in 2016 (2015: US$632.3 million) and the underlying gross margin declined by 40 basis points to 46.3% (2015: 46.7%).

Selling and marketing expenses were broadly unchanged at US$62.3 million (2015: US$62.1 million). We continued to invest in our sales and marketing efforts in our Connectivity and Power Conversion segments, but maintained tight control over our overall costs.

Underlying selling and marketing expenses were also broadly unchanged at US$51.4 million in 2016 compared with US$52.1 million in 2015, but increased as a percentage of the Group's revenue from 3.8% in 2015 to 4.3% in 2016.

Underlying selling and marketing expenses exclude share-based compensation expenses and related payroll costs totalling US$3.4 million (2015: US$2.4 million) and additional amortisation of US$7.5 million (2015: US$7.6 million) on the fair value uplift of acquired intangible assets.

General and administrative expenses were lower at US$70.9 million in 2016 compared with US$80.9 million in 2015.

General and administrative expenses included Atmel related transaction costs of US$3.5 million (2015: US$17.6 million) and, in 2015, the expense of US$3.4 million recognised on the settlement of the iWatt contingent consideration. Excluding these items, general and administrative expenses were higher at US$67.4 million in 2016 compared with US$59.9 million in 2015, reflecting an increase in the share-based compensation expense and higher corporate costs.

Underlying general and administrative expenses additionally exclude share-based compensation and related payroll costs totalling US$12.3 million (2015: US$8.1 million).

Underlying general and administrative expenses were US$55.1 million in 2016 compared with US$51.8 million in 2015, an increase of 6%. Underlying general and administrative expenses increased as a percentage of the Group's revenue from 3.8% in 2015 to 4.6% in 2016.

R&D expenses were US$241.3 million in 2016 compared with US$223.2 million in 2015, an increase of 8%. R&D expenditure was US$264.2 million in 2016 (2015: US$254.1million), of which US$15.8 million (2015: US$24.8 million) was capitalised, and we recognised R&D expenditure credits of US$7.1 million (2015: US$6.1million).

Dialog has an extensive R&D engineering team focused on mixed signal semiconductor power saving technologies. Dialog believes that its R&D activities are critical to support its strategy of growth and product diversification. We continued to hire engineers during 2016 and our R&D activities focused on application specific PMICs for mobile devices and standard products for Bluetooth®, AC/DC chargers, LED Solid State Lighting and mobile devices.

Capitalised development costs were lower than in 2015 due to a reduction in the number of products under development that had satisfied the required technical and commercial feasibility conditions at a stage in the development process beyond which significant further development costs were still to be incurred.

Underlying R&D expenses were US$227.8 million in 2016 compared with US$211.9 million in 2015, an increase of 7%. Underlying R&D expenses increased as a percentage of the Group's revenue from 15.6% in 2015 to 19.0% in 2016.

Underlying R&D expenses exclude share-based compensation expenses and related payroll costs totalling US$13.6 million (2015: US$10.4 million) and, in 2015, additional amortisation of US$0.8 million on the fair value uplift of acquired intangible assets.

Other operating income was US$137.7 million in 2016 compared with US$1.2 million in 2015. In 2016, other operating income included the Atmel termination fee of US$137.3 million.

Operating profit was US$309.8 million in 2016 compared with $259.7 million in 2015. Excluding the Atmel termination fee and related transaction costs, operating profit was US$176.0 million in 2016 compared with US$277.3 million in 2015, with the decline principally due to lower gross profit and higher R&D expenses.

Underlying operating profit was correspondingly lower at US$221.0 million in 2016 compared with US$317.7 million in 2015 and the underlying operating margin was 18.5% in 2016 compared with 23.4% in 2015.

Interest income increased to US$3.7 million (2015: US$1.2 million), reflecting an increase in market interest rates and higher cash balances.

Interest expense was US$3.4 million in 2016 compared with US$6.4 million in 2015.

During 2016, we incurred commitment fees of US$1.9 million (2015: US$1.2 million) in relation to the Atmel borrowing facility and, in 2015, we recognised interest of US$3.5 million in relation to the US$201 million Convertible Bonds before their conversion into shares in April 2015. Excluding these items, we incurred interest of US$1.5 million in 2016 compared with US$1.7 million in 2015, principally in relation to amounts drawn under our receivables financing facilities, hire purchase arrangements and finance leases.

Other finance income (expense) showed a net expense of US$4.8 million in 2016 compared with net income of US$0.3 million in 2015.

We recognise within other finance income (expense) foreign currency translation gains and losses that arise on monetary assets and liabilities that are denominated in currencies other than the functional currencies of the entities by which they are held (principally on the translation of Euro and pound sterling denominated amounts into US dollars). We recognised a net currency translation loss of US$6.0 million in 2016 compared with a net gain of US$0.4 million in 2015.

We also recognise within other finance income (expense) fair value gains and losses on derivative instruments that we hold in relation to our strategic investments in Energous and Dyna Image.

We consider that the grant of the Energous warrants was linked to the negotiation of the strategic alliance with Energous. On the grant date, we therefore recognised the warrants at their fair value of US$4.7 million and an equivalent deferred credit within non-current liabilities. We will amortise the deferred credit to profit or loss in relation to the royalties that may be payable by Dialog for the use of Energous's Intellectual Property over the initial seven-year term of the strategic alliance. By the end of 2016, the fair value of the Energous warrants had increased to US$6.6 million and we recognised the resulting gain of US$1.9 million as other finance income.

During 2016, we recognised a loss of US$0.7 million (2015: loss of US$0.1 million) on the remeasurement at fair value of our call option to acquire the non-controlling interests in Dyna Image.

Financial review continued

Income tax expense was US$47.1 million (2015: US$77.6 million) on profit before tax of US$305.2 million (2015: US$254.8 million), an effective tax rate for the year of 15.4% (2015: 30.4%). The low effective tax rate for 2016 reflects the tax treatment of the Atmel termination fee of US$137.3 million. We have obtained tax advice that the termination fee should not be taxable in the UK. We have therefore concluded that no tax liability should arise and have not recognised a tax expense in relation to the termination fee.

Our effective tax rate is sensitive to the geographic mix of the Group's profits, reflecting a combination of different tax rates in different countries, and to foreign exchange movements which give rise to deferred tax movements where functional and tax currencies are different. A large proportion of Dialog's R&D activities are undertaken in the UK and we are therefore able to benefit from the UK tax regime for technology companies.

Our underlying income tax expense was US$52.2 million (2015: US$79.3 million) on underlying profit before tax of US$217.6 million (2015: US$317.6 million), an underlying effective tax rate for the year of 24.0% (2015: 25.0%). The reduction in our underlying effective tax rate is as a result of the ongoing exercise to align the ownership of the Group's Intellectual Property with the underlying value contributions of group companies. These arrangements are the subject of an application for a Bilateral Advance Pricing Agreement. Our income tax expense on the profit for the year reflects our expectation of the likely final agreement.

We believe the gradual decrease in our underlying effective tax rate is sustainable and will continue in the years to come.

Net income was US$258.1 million (2015: US$177.3million), of which a loss of US$2.8 million (2015: US$1.5 million) was attributable to the non-controlling interest in Dyna Image. Underlying net income was US$165.4 million compared with US$238.4 million in 2015, a decrease of 31%.

Basic earnings per share were US$3.43 (2015: US$2.42) based on the weighted average of 76.0 million shares (2015: 73.8 million shares) that were in issue during the year excluding 1.3 million shares (2015: 1.7 million shares) held by employee benefit trusts and, in 2016, 0.5 million of our own shares held in treasury. Underlying basic earnings per share were US$2.20 (2015: US$3.25), a decrease of 32% that principally reflected our lower sales volumes in 2016.

Diluted earnings per share were US$3.25 (2015: US$2.29). Diluted earnings per share additionally reflect the weighted average of 4.4 million (2015: 3.5 million) dilutive employee share options and awards and, in 2015, 2.4 million shares in relation to the US$ 201 million Convertible Bonds that were converted into shares in April 2015. Underlying diluted earnings per share were US$2.09 (2015: US$3.02).

Cash flows

Cash and cash equivalents increased by US$130.4 million during 2016 (2015: increased by US$242.5 million).

Cash flow from operating activities was US$248.8 million in 2016 compared with US$317.7 million in 2015.

Cash generated from operations before changes in working capital was US$402.8 million in 2016. Excluding the receipt of the Atmel termination fee of US$137.3 million, cash flow from operating activities before changes in working capital was US$265.5 million in 2016 compared with US$345.2 million in 2015.

Net working capital increased by US$17.1 million (2015: decreased by US$17.4 million). Excluding Atmel transaction costs amounting to US$16.7 million that were included in payables at the end of 2015, net working capital increased by US$0.4 million (2015: decreased by US$0.7 million).

As a fabless business, Dialog commits to purchase inventory from its suppliers in advance in order to satisfy expected demand for its products. Demand was significantly lower than we had expected in the fourth quarter of 2015. As a result, by the end of 2015, we were carrying relatively high inventories and correspondingly higher trade and other payables. Inventory levels were reduced during 2016, releasing cash of US$21.6 million. At the end of 2016, inventories represented 48 days cost of sales in the fourth quarter of 2016 (end of 2015: 56 days cost of sales).

Summary cash flow statement

Year ended 31 December US$ millions	2016	2015
Cash generated from operations	**385.7**	362.5
Interest paid, net	**(0.1)**	(2.5)
Income taxes paid	**(136.8)**	(42.3)
Cash flows from operating activities	**248.8**	317.7
Purchase of property, plant and equipment	**(25.8)**	(33.0)
Purchase of intangible assets	**(11.8)**	(11.7)
Capitalised development expenditure	**(15.8)**	(24.8)
Investment in Dyna Image, net of acquired cash	**(0.6)**	(2.6)
Purchase of investment in Energous	**(10.0)**	–
Purchase of own shares into treasury	**(61.5)**	–
Sale/(purchase) of Dialog shares by employee benefit trusts, net	**8.0**	(2.4)
Other cash flows, net	**(1.0)**	0.3
Net cash inflow during the year	**130.3**	243.5
Currency translation differences	**0.1**	(1.0)
Increase in cash and cash equivalents	**130.4**	242.5

Trade and other payables were lower at the end of 2016 compared with the end of 2015 absorbing cash of US$44.2 million, principally as a consequence of lower materials purchases in the fourth quarter in 2016 compared with 2015 and the settlement of the Atmel transaction costs. Excluding the Atmel transaction costs, trade and other payables absorbed cash of US$27.5 million during 2016.

Trade and other receivables were US$8.1 million higher at the end of 2016 compared with the end of 2015. Our reduced use of our receivables financing facilities more than offset the decline in trade receivables due to our lower fourth quarter sales in 2016 compared with 2015. Gross receivables sold under the facilities amounted to US$105.0 million at the end of 2016 compared with US$155.7 million at the end of 2015. At the end of 2016, trade and other receivables represented 20 days sales in the fourth quarter of 2016 (end of 2015: 16 days sales).

Changes in other assets and liabilities had the effect of releasing cash of US$13.9 million during 2016.

Interest paid was US$3.4 million (2015: US$3.6 million), including the payment of commitment fees in relation to the Atmel borrowing facility of US$1.9 million (2015: US$1.2 million). Interest received was US$3.3 million (2015: US$1.1 million).

Income taxes paid were US$94.4 million higher at US$136.8 million in 2016 compared with US$42.4 million in 2015. Tax payments comprise payments on account in respect of current year taxable profits and also adjusting payments in respect of earlier years. The increase in income taxes paid largely reflected the increase in our taxable profits in earlier years.

Cash flow used in investing activities was US$63.8 million in 2016 compared with US$71.7 million in 2015.

Purchases of property, plant and equipment amounted to US$25.8 million (2015: US$33.0 million) and principally comprised tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment to support our R&D activities.

Purchases of intangible assets amounted to US$11.8 million (2015: US$11.7 million) and principally comprised spending on patent applications, purchased software and licences and software development for internal business applications.

Payments related to capitalised development expenditure amounted to US$15.8 million in 2016 compared with US$24.8 million in 2015, the decrease reflecting the lower number of products under development whose costs qualified for capitalisation.

In June 2015, we paid initial consideration equivalent to US$12.9 million to acquire a 45.7% shareholding in Dyna Image, which net of cash held by Dyna Image at the time of our investment, resulted in a net cash outflow of US$2.6 million. In June 2016, we paid the equivalent of US$0.6 million to settle the deferred element of the consideration. We continue to hold a call option over the shares in Dyna Image that we do not already own that expires in June 2018.

During 2015, we paid US$3.4 million in settlement of the contingent consideration payable on the purchase of iWatt (this was reflected in cash generated from operations).

In November 2016, we purchased our shareholding in Energous for US$10.0 million in cash.

Cash flow used in financing activities was US$54.7 million in 2016 compared with US$2.4 million in 2015, with the substantial increase being due to purchases made under the Company's share buyback programme during 2016.

We purchased 1,805,750 of the Company's shares under the share buyback programme at a total cost of US$61.5 million (including related transaction costs of US$1.1 million). We also made cash payments of US$1.2 million on the settlement of currency forwards and swaps that were used to hedge the currency translation exposure on the Euro-denominated share buyback obligation.

During 2016, employee benefit trusts purchased Dialog shares at a cost of US$3.1 million (2015: US$14.0 million) and received proceeds of US$11.1 million (2015: US$11.6 million) on the exercise of share options awarded under employee share schemes.

Liquidity and capital resources

Financial risk management

Dialog is exposed to financial risks including counterparty credit risk, liquidity risk and market risks, which include foreign exchange risk and interest rate risk. Disclosures about these risks and the ways in which we manage them are presented in note 33 to the consolidated financial statements.

Dialog has a centralised treasury function that is responsible for ensuring that adequate funding is available to meet the Group's requirements as they arise and for maintaining an efficient capital structure, together with managing the Group's counterparty risk foreign currency and interest rate exposures. All treasury operations are conducted in accordance with strict policies and guidelines that are approved by the Board.

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

Financial review continued

Cash and cash equivalents

Cash is managed in line with Treasury policy to ensure there is no significant concentration of credit risk in any one financial institution. Credit risk is measured using counterparty credit ratings. As a minimum, a counterparty must have a long-term public rating of at least "single A". Counterparty limits are based on a rating matrix and closely monitored. Credit risk is further limited by investing only in liquid instruments.

At the end of 2016, cash and cash equivalents amounted to US$697.2 million (end of 2015: US$566.8 million), which principally comprised cash available under receivables financing facilities and short-term deposits with a maturity of three months or less.

Borrowing facilities

Dialog is a cash-generative business and cash and cash equivalents held by the Group have increased substantially in recent years. Accordingly, we voluntarily cancelled the Group's revolving credit facility in June 2015 and, since that time, the Group has had no committed borrowing facilities.

Receivables financing facilities

We utilise non-recourse receivables financing facilities provided by two financial institutions. We reviewed these facilities during 2016. In March 2016, the aggregate amount of the facilities was increased from US$112 million to US$187 million. In November 2016, we reduced the number of facilities from three to two but the aggregate amount of the facilities was further increased to US$240 million. The principal facility is for US$220 million and matures on 30 April 2018.

At the end of 2016, cash and cash equivalents included US$88.9 million (end of 2015: US$131.8 million) in relation to receivables sold under these facilities. We are confident that the receivables financing facilities together with our significant cash balances and cash generation will be more than sufficient to satisfy the Group's working capital requirements in the near to medium term.

Currency hedging activities

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

Derivative financial instruments are measured at fair value that is determined based on market forward exchange rates at the balance sheet date. At the end of 2016, currency derivatives held by the Group were represented by a liability of US$12.5 million (end of 2015: liability of US$4.6 million). All currency derivatives held to hedge forecast cash flows were designated as hedging instruments in cash flow hedge relationships. During 2016, a loss of US$13.3 million (2015: loss of US$19.0 million) was recognised in other comprehensive income representing the change during the year in the fair value of derivatives in effective hedging relationships and a cumulative fair value loss of US$8.4 million (2015: loss of US$32.0 million) was transferred from equity to profit or loss on the occurrence of the hedged cash flows.

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

Share buyback programme

At the Company's AGM on 28 April 2016, the Directors were granted the authority to purchase up to 7,786,595 ordinary shares in the capital of the Company (representing approximately 10% of the issued ordinary share capital of the Company as at 30 March 2016). Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2017, whichever is the earlier.

Purchases made under the authority are off-market from the perspective of the Company and are effected by way of contingent forward share purchase contracts entered into with Barclays, HSBC or Merrill Lynch acting as brokers who will purchase interests in the Company's ordinary shares ("CIs") on the Frankfurt Stock Exchange.

On 9 May 2016, the Company announced the first tranche of the share buyback programme under which it committed to purchase shares with a minimum cost of €37.5 million and a maximum cost of €50 million. Final settlement and conclusion of the first tranche took place on 28 September 2016. We purchased a total of 1,332,158 shares under the first tranche at a cost of €37.5 million (US$42.0 million).

On 8 November 2016, the Company announced the second tranche of the programme under which it committed to purchase shares with a minimum cost of €56.25 million and a maximum cost of €75 million. On 30 December 2016, we completed the first intermediate settlement under the second tranche purchasing 473,592 shares at an initial cost of €17.45 million (US$18.4 million).

At the end of 2016, we held 1,805,750 shares purchased under the first and second tranches in treasury at a total cost of US$61.5 million (including related transaction costs of US$1.1 million). We also recognised a debit to equity amounting to US$63.1 million, which comprised the remaining obligation to purchase shares under the second tranche of €57.55 million (US$62.8 million) and related transaction costs of US$0.3 million.

A further intermediate settlement of the second tranche took place on 9 February 2017 and final settlement and conclusion of the tranche took place on 17 February 2017. In these further settlements, we purchased 977,456 shares at a cost of €38.8 million (US$41.4 million) and incurred transaction costs of US$0.2 million.

In total, the Company purchased 2,783,206 shares representing 3.57% of the Company's issued share capital at an average cost of €33.68 per share under the first two tranches. We will seek renewal of the share buyback authority at the Company's AGM on 4 May 2017.

Capital management

The Group's capital is represented by its total equity (shareholders' equity plus non-controlling interests). At the end of 2016, the Group's total equity was US$1,194.9 million (end of 2015: US$1,024.9 million).

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

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

Balance sheet

Summary balance sheet

As at 31 December US$ millions	2016	2015
Assets		
Cash and cash equivalents	**697.2**	566.8
Other current assets	**237.1**	230.7
Total current assets	**934.3**	797.5
Goodwill	**251.2**	251.1
Other intangible assets	**125.6**	138.6
Property, plant and equipment	**69.7**	68.4
Deferred tax assets	**27.4**	28.5
Other non-current assets	**22.3**	3.8
Total non-current assets	**496.2**	490.4
Total assets	**1,430.5**	1,287.9
Liabilities and equity		
Current liabilities	**224.1**	253.7
Deferred tax liabilities	**2.0**	1.6
Other non-current liabilities	**9.5**	7.7
Total liabilities	**235.6**	263.0
Shareholders' equity	**1,189.8**	1,017.1
Non-controlling interests	**5.1**	7.8
Total liabilities and equity	**1,430.5**	1,287.9

Goodwill

At the end of 2016, the carrying amount of goodwill was US$251.2 million (end of 2015: US$251.1 million), with the slight increase during the year being due to changes in currency exchange rates.

Goodwill impairment tests carried out during 2016 showed that the recoverable amount of each cash-generating unit to which goodwill is allocated was comfortably in excess of its carrying amount and therefore no impairment was recognised.

Other intangible assets

At the end of 2016, the carrying amount of other intangible assets was US$125.6 million (end of 2015: US$138.6 million). During 2016, additions amounted to US$24.0 million, comprising capitalised product development costs of US$15.8 million and purchased software, licences and patents totalling US$8.2 million. During 2016, the amortisation expense was US$35.9 million (2015: US$31.1 million).

Property, plant and equipment

Since Dialog operates a fabless business model, it does not have any manufacturing facilities but it does occupy R&D facilities and administrative offices. At the end of 2016, Dialog operated in 31 locations worldwide covering a total of 42,500 square metres. Dialog's facilities are all held under operating leases. Management believes that Dialog's facilities are adequate for its current requirements.

Property, plant and equipment principally comprises test equipment, office equipment and leasehold improvements. At the end of 2016, the carrying amount of property, plant and equipment was US$69.7 million (end of 2015: US$68.4 million). Additions during the year amounted to US$30.0 million and the carrying amount of assets disposed of was US$0.8 million. During 2016, the depreciation expense was US$27.9 million (2015: US$24.2 million).

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

Other non-current assets

Other non-current assets increased by US$18.5 million to US$22.3 million (end of 2015: US$3.8 million), primarily due to the addition of our strategic investment in Energous shares and warrants during 2016.

Income tax assets and liabilities

Due largely to the amount and timing of tax payments to the relevant tax authorities, the Group had net current tax receivables of US$35.4 million (end of 2015: net current tax payables of US$62.0 million).

At the end of 2016, the Group had net deferred tax assets of US$25.4 million (end of 2015: US$26.9 million), comprising deferred tax assets of US$27.4 million (end of 2015: US$28.5 million) and deferred tax liabilities of US$2.0 million (end of 2015: US$1.6 million).

Going concern

For the reasons set out on page 62, the Directors continue to adopt the going concern basis in preparing the Group's and the Company's financial statements. We outline on pages 52 to 56 the principal risks and uncertainties that the Directors believe could adversely affect the Group's results, cash flows and financial position.

Consequences of Brexit

On 23 June 2016, the UK voted in a referendum to leave the EU. As this result was largely unexpected, it initially caused turmoil in the financial markets. Uncertainty about the terms of the UK's exit has given rise to concern about the impact on the UK economy, in particular with regard to the continuing access of UK businesses to markets in the EU and the attractiveness of the UK to overseas investors.

In January 2017, the UK's Prime Minister confirmed the UK Government's intention to commence formal Brexit negotiations with the other EU Member States by the end of March 2017 and set out the UK Government's objectives for the negotiations ahead in a 12-point "Plan for Britain".

In the short term, we do not expect Brexit will have a significant adverse impact on Dialog because only a small amount of our revenue is derived from customers in the UK. Should the weakness of the pound sterling and the Euro against the US dollar be sustained, there may be a positive impact on our earnings due to the more favourable translation into US dollars of pound sterling and Euro-denominated operating expenses.

Our operations are spread across the world and we will continue to balance projects and workload among them. Approximately two-thirds of our workforce is based in the EU and our teams are typically comprised of several nationalities. We will therefore monitor very closely any proposed changes to the current regulations in respect of the rights of EU and other nationals to work in the UK and any likely consequential changes to the rights of UK nationals to work in the EU. In the meantime, we will operate on a business as usual basis within the existing regulations and our continuing focus will be on growing our business.

Wissam Jabre
Chief Financial Officer,
Senior Vice President Finance

Corporate responsibility and sustainability

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

This section provides high-level analysis of our most material business sustainability issues, details on how we manage them and selected data on how we have performed. Further detail is available in our 2016 Sustainability Report and on our website. The results of the materiality process are set out in the matrix published in our 2016 sustainability report. This includes our most material issues, as well as a range of additional relevant issues that we are also proactively managing. In addition to the interim review carried out during 2016, we have given further clarity on the linkage between our key sustainability issues and our key business areas. For that purpose, our core sustainability issues, listed below, have been mapped to one of the key business areas. During 2016, Corruption and Bribery was replaced by Employee Development as one of our core sustainability issues. All our other core sustainability issues remained unchanged.

www.dialog-semiconductor.com/sustainability

Our sustainability vision and applicable standards

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

Issue	Change from 2015	Mapping to business issue
→ Economic performance and impact	No change	**People**
→ Advancement of technology	No change	**Products**
→ Intellectual property	No change	**Other**
→ Compliance with customer standards	Re-prioritisation (up)	**Products**
→ Governance	Re-prioritisation (up)	**Other**
→ Product impacts	No change	**Products**
→ Recruitment Professionals	Re-prioritisation (up)	**People**
→ Labour rights and human rights (value chain)	No change	**Supply Chain**
→ Employee development	New in core	**People**
→ Health and safety (value chain)	Re-prioritisation (down)	**Supply Chain**
→ Conflict minerals	Re-prioritisation (down)	**Supply Chain**
→ Transparency (value chain)	No change	**Supply Chain**

New in core
No change
Re-prioritisation of core issues

Full materiality matrix can be found in the **Sustainability Report**

Our people

Materiality

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

- Strong, ongoing competition for skills within the sector.
- An ageing electronics engineering demographic.
- Our commercial growth ambition.

In this context, we are focused on maintaining a sustainable skills pipeline – ranging from the identification, development (and ultimate recruitment) of high-potential undergraduates through to the attraction of experienced experts. We take a holistic view towards both recruitment and retention that looks beyond the provision of highly competitive financial rewards. We also aim to deliver the kind of lifestyle, working environment, development opportunities and inclusive culture that encourages people to choose to develop high-quality, long-term careers with us.

How we manage our people

We manage our people through:

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

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

Relevant performance indicators in relation to our people can be found on page 12.

> "Dialog focus is on power management and power-efficient technologies. These technologies aim to improve the energy efficiency of consumer electronic devices and reduce power consumption."

Our products

Materiality

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

Positive product impacts

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

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

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

These include:

- Mobile power management: Greater power efficiency, resulting in longer battery life and increased mobility. For example, typical usage tests suggest our Power Management Integrated Circuits decrease the power consumption of smartphones, tablets and Ultrabooks™ by up to 30%.

Corporate responsibility and sustainability continued

- Power conversion: Our high efficiency AC/DC power converters and LED drivers help maximise power conversion efficiency using digital technology and fewer components. This includes converters that use little or no power while on standby – a particularly important aspect when you consider that standby demand consumes more than 100 billion kilowatt-hours of electricity annually in the United States alone (enough to power more than nine million American households). Furthermore, our solid-state lighting ("SSL") LED drivers support very high efficiency, long-lifespan SSL bulbs. It is estimated that the increased use of energy-efficient LED lighting of all kinds in the United States alone will save 300 terawatt hours by 2030 – equivalent to approximately 210 million tonnes of greenhouse gas emissions.
- Connectivity: Our Bluetooth® low energy, SmartBond™ System-On-Chip helps increase the battery life of relevant wireless products by up to 100% – reducing overall power usage and enhancing the mobility of connected products.

Minimisation of negative product impacts

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

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

A resilient supply chain

Materiality

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

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

This reflects:

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

How we manage our value chain

We manage our value chain through:

- A policy of only dealing with fabrication partners who are accredited to or are compliant with the ISO14001 (environment) and ISO9001 (quality) management standards.
- Screening of all new fabrication partners against our Self-Audit Checklist (which covers labour and human rights, health and safety, the environment and business ethics), as well as pre-qualification audits prior to the integration of new fabrication partners into our supply chain.
- Annual auditing (by joint Dialog and third-party auditing teams) of all existing fabrication partners against our Supplier Audit Checklist and Corporate Social Responsibility Checklist. In addition to requirements relating to ISO14001, OHSAS18001 and ISO9001, auditing covers a range of broader corporate social responsibility issues, including those drawn from the SA8000 social accountability standard. In 2016, we carried out 25 supplier audits on this basis.

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

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

	2014	2015	2016
Health and safety (%)	100/100	100/100	**100/100**
Environment (%)	100/100	100/100	**100/100**
Labour rights (incl. human rights) (%)	100/100	100/100	**100/100**
Society (%)	100/100	100/100	**100/100**

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

	2014	2015	2016
Health and safety	0	0	**0**
Environment	0	0	**1[4]**
Labour practices (incl. human rights)	2	0	**0**
Society	0	0	**0**

1 Screening activity is aimed at improving the performance of our fabrication partners where necessary, rather than their exclusion from our supply chain.
2 Includes both documentary auditing and on-site auditing. Approximately 85% of our fabrication partners were subjected to on-site auditing in 2016.
3 I.e., audit findings of sufficient seriousness that Dialog requires immediate correction on the part of the supplier.
4 Potential safety hazard identified for the control of chemicals.

Environmental responsibility

Materiality

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

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

→ Energy consumption and carbon emissions.

→ Pollution and waste.

→ Use of natural resources.

Management approach

Responsibility for environmental performance sits with our Senior Vice President Global Manufacturing Operations. We further govern our environmental responsibility through the application of the Dialog Code of Conduct, which addresses our emissions to air and water, resource use, management of hazardous substances and waste management. Furthermore, we are certified to the ISO14001 environmental management standard, and our Company Quality and Management Manual support our efforts to achieve continuous improvement. In 2016, we implemented a new energy management system in Germany, achieving ISO50001 certification.

Energy and carbon emissions

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

	2016 Total	2016 per employee
Scope 1	86.2	0.05
Scope 2	1,739.2	0.98
Scope 3 (travel only)	4,685.2	2.65

Scope 1: Direct emissions from self-generation.

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

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

Scope 3: Other indirect emissions including those related to transport. Includes all air travel and car hire from design centres in Nabern and Swindon.

Managing risk and uncertainty

This section sets out a description of the principal risks and uncertainties that could have a material adverse effect on the achievement of Dialog's three-year mid-range strategy. Any of these risks could adversely impact the Company's financial situation or reputation and therefore its ability to execute on one or more of the four strategic pillars.

The role of the Risk Management Office is to improve the identification of risk, assessment of probability and impact, and assignment of owners to manage mitigation activities. The Management Team along with the Board has overall responsibility and oversight of the Risk Management Office. The Risk Management Office is led by the Chief Financial Officer, meets quarterly and includes members of the executive leadership team.

The Risk Management Office and the Management Team gather information from the business, as well as internal and external auditors. The Risk Management Office has accountability for reporting the key risks that the Company faces, and reporting the status of any mitigating actions or controls to the Executive Team and the Audit Committee.

Key risks are formally identified and recorded in a risk register that is reviewed by the Executive Team and the Audit Committee. The risk register is used to plan the internal audit activity and assess any potential impact to the Company's strategy.

Principal risks

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

The Company recognises four categories of risks: Strategic, Operational, Financial, and Legal and Compliance. To manage these, we made further progress in 2016 introducing new products, expanding our customer base, working closely with our partners and suppliers and introducing new employee initiatives such as the "Spirit of Dialog". Additionally, the Company has taken a number of steps in 2016 to strengthen the system of internal controls, procedures and resources. Improvements have been made to the internal controls over financial reporting by embedding the COSO framework of internal control; update of key policies and authorities; review of employee access to finance systems; implementation of new procedures; and a new accounting consolidation tool.

Strategic risks

Dialog management is focused on executing on its four strategic pillars in order to mitigate the dependencies on key markets and customers.

Risk	Actions	Progress in 2016
Dependency on mobile and consumer electronics Dialog's product portfolio is heavily focused upon the mobile and consumer electronics marketplace. The end device manufacturers demand from their suppliers the best quality product at the lowest price, high degrees of innovation and fast time to market. There is a high level of competition in terms of product offering or price that could persuade a customer of Dialog to switch suppliers.	Dialog invests in R&D to anticipate and respond to new market trends. The Company rapidly implements new designs to meet customer needs and to keep abreast of technological trends.	Continued development of Quick charge AC/DC converters to meet evolving protocols. Release of new PMIC for the multi cell computing market. In addition to SmartBond™ Dialog developed Bluetooth® related products for wearables and Smart Home applications. Dialog invested US$241 million or 20% of revenue in R&D in 2016 across a range of highly targeted areas. This is an increase of 8% over 2015.
Dependency on key customers Dialog relies on a relatively small number of customers, within the wireless communication sector, for a substantial proportion of its revenue. The loss of our major customer would have a material effect on short-term revenue and profitability. The revenue derived from our largest customer is shown on page 138, note 32c).	Dialog is seeking to reduce the risk of its revenues, profitability and growth being affected by a slowdown in those key customers and the wireless communications sector (within mobile and consumer electronics market) by winning customers in other sectors and broadening its product offering to existing and new customers.	While continuing to provide world-class products and services to its existing key customers. Dialog continues with its Greater China strategy. In addition to new design wins at Huawei, Meizu, Xiaomi, Dialog has won business at Samsung, HTC, and LeTV. Dialog has made significant progress with its highly differentiated AC/DC quick charging products, reporting an estimated 70% market share.
Human capital In order to successfully execute its current and future business commitments, Dialog needs to continue to build its organisational capability in two key areas: → Continuous innovation in product development, manufacturing and packaging technologies; and → Leadership skills in an expanding and increasingly complex global operation. In an increasingly competitive market, a key success factor will come from our ability to recruit and retain high-quality people. There is a risk that competitors may actively target our key people.	Dialog seeks to create a positive working environment that results in low levels of staff turnover. Dialog has developed an effective recruitment process to attract and retain high-calibre staff, while succession planning for senior management positions ensures continuity of leadership. Dialog has dedicated human resource managers to drive further development of its personnel and benchmark its employment terms to match industry top performers. Dialog has a decentralised approach to research & development with teams in 15 countries. In a highly competitive talent market we believe this flexible approach is advantageous, allowing us to recruit talent where it resides and as a defence mechanism to stop large scale "poaching" by competitors. Regular reviews of remuneration practice and employee value propositions to ensure we are able to attract and retain key people. Our "all-employee" profit share plans are an important part of this. Dialog has designed and launched a Management and Leadership curriculum available to all new and experienced people managers globally.	In 2016, the number of engineers increased by approximately 10%. Approximately 75% of our total 2016 hires were for engineering-related functions. Emerging talent programmes continued successfully in 2016, with 35 graduates and 51 interns entering the business – the majority within engineering functions. Staff turnover was 7.9% (2015: 6.9%). In order to minimise staff turnover Dialog has an improved performance management system to ensure that we are able to reward our best employees through appropriate mechanisms. The Company also has a global learning and development strategy and runs an active university partnership programme to attract the brightest and best university graduates to the electronics industry and our Company. In 2016, Dialog continued to embed the "Spirit of Dialog" which documents the principles that have contributed to our success. The "Spirit of Dialog" is now embedded in Recruitment, Performance Management, Promotions and Development.

Managing risk and uncertainty continued

Operational risks

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

Risk	Actions	Progress in 2016
Third-party suppliers Dialog runs a "high-touch" fabless business model and so outsources the capital intensive production of silicon wafers, packaging and testing of integrated circuits to leading third-party suppliers, mainly in Asia. The manufacturing of products runs over multiple stages with multiple suppliers. The failure of any of these third-party vendors to deliver products or otherwise perform as required could damage relationships with our customers, decreasing our revenue and limiting our growth. Supplier delivery performance can be adversely affected by multiple issues. For example, if increased demand for these suppliers' products exceeds their production capacity.	Dialog has forged close partnerships with all our suppliers, which help the planning and management of capacity. Dialog's suppliers are mainly highly respected large-scale operations. Dialog strives to source its large volume components via a dual sourcing strategy where applicable and is supported by its customers to mitigate the risk of disruption to supply.	Dialog works with a range of foundries and back-end vendors, mainly in Taiwan, China and Singapore, to mitigate the risk of supply chain disruption and constraints. The geographical spread also helps with disaster recovery planning. Dialog's Mobile Systems, Automotive and Connectivity businesses achieved an "On Time Delivery" performance of 98% in 2016 vs 97% in 2015. This measures performance against delivery dates confirmed by Dialog at date of order. In 2016, Dialog carried out 25 vendor audits. These audits cover a wide range of topics including compliance and product quality (ISO9000 and ISO14000) reviews. Dialog conducts regular business reviews with its suppliers to manage supplier performance and future capabilities.
Information technology and security Dialog is heavily dependent upon the quality, resilience and security of its information systems, which support the Engineering, Manufacturing and Enterprise aspects of the business. Risks relating to cyber security continue to grow, with consequent risks to assets, intellectual property and individuals.	For Engineering and Manufacturing, the systems support: → Product design activities using third-party tools and support contracts. These tools require an infrastructure that is resilient and secure; and → The semiconductor supply chain, which requires scaled, reliable and secured information systems, given the multiple processes and locations involved in the supply chain. For Enterprise the systems support Sales, Purchasing, Planning, Finance, HR and Legal using in premise and software as a service ("SaaS") ERP technologies. We seek to protect our current business through the use of monitoring tools and controls on access to information systems. E-mail and website monitoring systems are constantly reviewed and updated to ensure their effectiveness in combating the cyber security threat.	Engineering tools are being consolidated into regional data centres connected by a resilient network to allow increased agility, reliability and scale with plans drawn up and agreed in 2016 for delivery starting in 2017. To support Supply Chain activities, additional analytics capabilities were added in 2016 to allow improved diagnosis of manufacturing performance and the back-up and restore processes were updated to increase fault tolerance. Across Engineering, Manufacturing and Enterprise systems, investments continue to be made that improve the efficiency and scalability of the B2B interactions with customers and suppliers for competitive advantage. Dialog's IT systems are managed on a global basis to ensure a unified approach, with IT operations being distributed between Europe, Asia and the USA. In addition, Dialog is continuously strengthening its internal monitoring and controls; applying best practice to ensure a robust and secure IT environment. This included improvements to IT system security and end-user access controls.
Quality assurance Given the timetables for some key product introductions, Dialog must ensure tight control over the new product introduction process and in particular quality assurance in high-volume product ramps. Dialog needs to avoid releasing faulty products which may cause delays in the assembly line of our customers.	Dialog operates a "high-touch" fabless model, with engineers working together with our foundry partners to optimise the manufacturing process. Dialog places a high importance on quality assurance, product validation prior to mass production, in line controls and monitoring of yields with real-time feed from offshore manufacturing. Dialog continues to evolve its internal processes and procedures to ensure new requirements are assessed and appropriate resources applied to satisfy these requirements.	In 2016, Dialog made significant investments in internal capabilities (test development, failure analysis, etc.). Dialog worked with key suppliers to achieve the highest industry standard yields based upon typical defect density limitation. To support this Dialog has, in total, approximately 30 engineers located at key vendors. Yield performance on key products is monitored monthly during internal operational reviews.

Financial risks

Given the Company's sector and business model, Dialog tends to be highly cash generative, operating across the globe. This exposes the Group to several financial risks including fluctuations in interest and foreign exchange rates and credit risk relating to counterparties the Company transacts with. It also needs to ensure access to liquidity at all times to meet its financial obligations, including investment in future growth. Through strong stewardship and financial discipline we are able to mitigate the impact of these risks on the financial performance of the Group.

Risk	Actions	Progress in 2016
Foreign currency The majority of Dialog's revenue and expenses are denominated in US dollars. Some exposure exists to non-USD denominated operating expenditure, primarily Euro and pound sterling, meaning exchange rate volatility could have an adverse impact on our financial statements. Please refer to note 33 on pages 139 to 143.	Transactional currency exposures are managed using forward currency contracts, hedging no further than 12 months out on a layered approach. These are designated as cash flow hedges and at the year-end approximately US$178.3 million equivalent were outstanding.	We have reviewed and updated key policies, procedures and authorities. Details of our derivatives held to hedge forecast foreign currency cash outflows are included in note 33 to the consolidated financial statements.
Counterparty Dialog is exposed to the potential default of banks, suppliers and customers. In particular, although Dialog seeks to invest only in credit worthy financial institutions, its cash and cash equivalents are in a limited number of financial institutions, and if their credit worthiness were to change, this could have an adverse effect on Dialog's business and financial condition.	The Company uses non-recourse receivables financing to manage any risks with selected customers. When executing financial transactions, Dialog only deals with reputable financial institutions in accordance with Board approved policy.	No institutional default on financial transactions. We have reviewed and updated key policies, procedures and authorities.
Funding and liquidity The risk of being unable to continue to meet the financial obligations/requirements of our operations.	Given the business is highly cash generative the Group finances its operations from surplus cash, raising debt when necessary. The policy is to maintain a sufficient level of liquidity appropriate to meet short-term liabilities and longer-term strategy.	Cash flow from operating activities in 2016 was US$249 million. As at 31 December 2016, Dialog had US$697 million of cash and cash equivalents and no debt. This represents a 23% increase from 31 December 2015 (US$567 million).

Managing risk and uncertainty continued

Legal and compliance risks

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

Risk	Actions	Progress in 2016
Compliance with laws and regulations Dialog is subject to national and regional laws and regulations in such diverse areas as product safety, product claims, patents, copyright, trademarks, competition, employee health and safety, the environment, corporate governance, listing and disclosure, employment and taxes. Failure to comply with laws and regulations could expose Dialog to civil and/or criminal actions leading to damages, fines and criminal sanctions against us and/or our employees with possible consequences for our corporate reputation. Changes to laws and regulations could have a material impact on our cost of doing business. Tax, in particular, is a complex area where laws and their interpretation are changing regularly, leading to the risk of unexpected tax exposures.	Dialog monitors laws and legal and regulatory changes across the countries in which it operates and continues to update its policies, processes and compliance programmes.	Dialog revised and improved its Code of Business Conduct, which is applicable to all employees, and enhanced its compliance training, key policies and processes. We have also taken a number of steps to strengthen our system of internal controls, procedures and resources which reinforce compliance with various legal regimes.
IP protection As a highly innovative company Dialog has IP that is attractive to others. Dialog must ensure that this IP is sufficiently protected both legally (via patents) or physically (via security processes).	We seek to protect our current business and our IP from being copied or used by others through appropriate use of patents, copyrights and trademarks on a global basis.	Dialog holds in excess of 700 patent families. In order to strengthen its governance processes, the Patent Committee was established in 2014. Dialog has continued to make investments to improve the tools used to protect its IP. There is an increased use of data leakage protection tools to monitor, restrict and alert if attempts are made to move IP outside of the Company. Engineering projects are segregated and access controlled via a tracked approval process.

Strategic report approved on 23 February 2017.

Jalal Bagherli
Chief Executive Officer

Wissam Jabre
Chief Financial Officer, Senior Vice President Finance

Introduction to governance

Dear shareholder,

We are pleased to present our 2016 corporate governance report and, in particular, to highlight our progress in continuing to strengthen our Board. We have set out below a number of changes and considerations in the 2016 year which demonstrate the Board's commitment to maintain high-standards of corporate governance and oversight at Dialog.

Board refreshment

While there has been considerable Board refreshment and renewal at Dialog over the past number of years, this process continued in 2016 with the appointment of two new Directors to the Board. Mary Chan and I bring strong industry experience to the Board and we look forward to working with them in continuing to build Dialog as a vibrant and innovative mixed signal business.

The appointment of Mary enhances the diversity of industry and background to the Board. Dialog continues to recognise the value of diversity as a tool to enrich its discussions and decision-making process.

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

Senior Independent Director ("SID")

Our former Senior Independent Director, John McMonigall, retired from the Board in 2015. Following his retirement, and as set out in last year's Annual report, the Board, as a whole, carefully considered the role and responsibilities of a Senior Independent Director. Following consideration of the position, together with the role and contribution of the Senior Independent Director, and the fact that Rich Beyer is a Chairman who was wholly independent on appointment in 2013, the Board does not believe there is a necessity to appoint a new SID at this time. Rich is available to our major shareholders as are all of the Directors, particularly the Chairs of each of the Board committees. Furthermore, any concerns regarding the performance of the Chairman may be addressed to and will be managed by the Chair of the Nomination Committee. As such, the Board believes that its composition continues to ensure a proper division between management and non-executive oversight; nonetheless, we will review the potential for a new SID on an ongoing basis.

Committee composition

Both Mary Chan and I have been appointed to the Nomination and Remuneration Committees, and I was appointed Chair of the Nomination Committee in December, replacing Russ Shaw.

Audit Committee expertise

We noted changes to the UK Corporate Governance Code during the year which highlighted the importance of sector expertise – as well as financial expertise – on an Audit Committee. We affirm, and have noted within this report, that we have an Audit Committee with strong experience in, and understanding of, our business sector.

Non-executive Director positions

During the course of 2016, a number of governance bodies and proxy advisers put forward updated guidelines on the number of additional executive or non-executive positions that a Director should hold. We have not set hard guidelines at Dialog but recognise the importance of ensuring Directors have sufficient time to discharge their obligations to Dialog and believe each of the Directors has demonstrated exceptional commitment to their roles for the past fiscal year, as exemplified by their meeting attendance on page 65.

Remuneration and reform

The Director's remuneration report, together with an introductory letter from our Remuneration Committee Chairman, Mike Cannon, is set out on page 70. As set out in the letter, and report, Dialog received shareholder approval of a remuneration policy at our 2016 AGM. As no changes are proposed we are not required to, and do not propose to, put forward a vote on the Directors' remuneration policy at the 2017 AGM.

In addition, the Remuneration Committee is cognisant of the recent consultation paper issued by the UK Department for Business, Energy and Industrial Strategy ("BEIS") on corporate governance reform. This paper, which included a focus on remuneration practices, raises some interesting topics. The Nomination and Remuneration Committees will review the questions raised within the Paper and ensure the Board as a whole is appraised of impending changes to governance practice – or legislation – as they relate to Dialog. In addition, we have reviewed and will keep the Board apprised of the "Principles of Remuneration" issued by the Investment Association in October 2016 and any relevant considerations for Dialog.

Culture

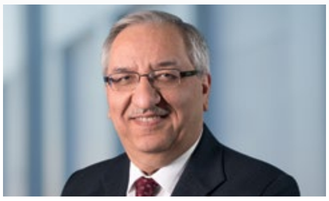
A key topic for debate during the course of 2016 – among companies, regulators, investors and governance bodies – has been corporate culture. Recognising its importance, the Board and senior management team has committed to placing greater emphasis on articulating, internally and externally, our culture and values which are embodied in the "Spirit of Dialog". We recognise it is our responsibility, as a Board, to ensure our culture and values are shared and understood throughout Dialog; and, among our suppliers, partners and customers.

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

Nick Jeffery
Chairman, Nomination Committee

Leadership – Board of Directors

The Board of Dialog currently comprises ten Directors. This includes one Executive Director, and nine independent non-executive Directors (including the Chairman).







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The Board of Directors comprises a mix of the necessary skills, knowledge and experience required to provide leadership, control and oversight of the management of the Company and to contribute to the development and implementation of the Company's strategy.

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

Director biographies are set out below and further details on the composition of the Board, and the Board's committees, are detailed on pages 64 and 67.

Committee membership

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

Board experience

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

* Denotes Chair of the committee

1. Rich Beyer

Chairman

Joined: February 2013. Appointed Chairman in July 2013.

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

External Appointments: Rich currently serves on the Board of Micron Technology Inc.

Committee Membership:

Board Experience: ● ✚

2. Dr Jalal Bagherli

Executive Director (Chief Executive Officer)

Joined: September 2005

Jalal was previously Vice President and General Manager of the Mobile Multimedia business unit for Broadcom Corporation. Prior to that Jalal was the CEO of Alphamosaic, a venture-funded silicon start-up company in Cambridge, focusing on video processing chips for mobile applications. He has extensive experience in the semiconductor industry through his previous professional and executive positions at Sony Semiconductor and Texas Instruments, managing semiconductor product businesses and working with customers in the Far East, Europe and North America. Jalal has a BSc (Hons) in Electronics Engineering from Essex University, and holds a PhD in Electronics from Kent University, UK.

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

Committee Membership:

Board Experience: ● ✚

3. Chris Burke

Independent non-executive Director

Joined: July 2006

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

External Appointments: Chris serves on the private company boards of Fly Victor, One Access, MusicQubed, Premium Credit and Navmii.

Committee Membership: Nomination, Remuneration

Board Experience: ● ◆ ✚

4. Alan Campbell

Independent non-executive Director
Joined: April 2015.

Alan brings over 30 years of relevant business and financial expertise to Dialog Semiconductor, having extensive experience as a Chief Financial Officer in the semiconductor industry. He began his career in 1979 with Motorola and has spent over 12 years in Europe and 20 years in the USA. In 2004, he guided Freescale through its separation from Motorola and successfully executed an initial public offering ("IPO") that listed the company on the New York Stock Exchange ("NYSE"). In 2006, he was instrumental in the execution of a Leverage Buy-Out ("LBO") in one of the largest technology financial transactions at that time. In 2011, he successfully led the company back to the public market to be listed on the NYSE.

External Appointments: Alan currently serves on the Board and is Chair of the Audit Committee of ON Semiconductor.

Committee Membership: Audit (Chair)*

Board Experience: ● ■ ✚

5. Mike Cannon

Independent non-executive Director
Joined: February 2013

Mike's career in the high-tech industry spans 30 years, including over ten years as CEO of two Fortune 500 companies. He was President, Global Operations of Dell from February 2007 until his retirement in 2009. Prior to joining Dell, Mike was the CEO of Solectron Corporation, an electronic manufacturing services company, which he joined as CEO in 2003. From 1996 until 2003, Mike was CEO of Maxtor Corporation. He successfully led the NASDAQ IPO of Maxtor in 1998. Mike previously held senior management positions at IBM and Control Data Corporation. Mike studied Mechanical Engineering at Michigan State University and completed the Advanced Management Program at Harvard Business School.

External Appointments: Mike currently serves on 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 & Governances and Audit Committees at Lam Research.

Committee Membership: Remuneration (Chair)*, Nomination

Board Experience: ● ✚

6. Mary Chan

Independent non-executive Director
Joined: December 2016

Mary's career has spanned executive leadership roles at some of the world's most successful international firms, including AT&T, Alcatel Lucent, Dell Inc. and General Motors Corporation ("GM"). At Dell, between 2009 and 2012, Ms Chan led the company's Enterprise Mobility Solutions and Services business in the USA. Prior to this, at Alcatel-Lucent, Ms Chan served as Executive Vice President of the company's US 4G LTE Wireless Networks business. Most recently at GM, Ms Chan served between 2012 and 2015 as President, Global Connected Consumers & OnStar Service USA. She holds both Bachelor and Master of Science degrees in Electrical Engineering from Columbia University.

External Appointments: Ms Chan currently serves as an Independent Director on the Boards of the SBA Communications Corporation, Microelectronics Technology Inc., and WiTricity Corporation. In addition, Ms Chan is also currently the Managing Partner at VectoIQ. Previously, she has served on the Boards of the Mobile Marketing Association and CTIA – The Wireless Association.

Committee Membership: Nomination, Remuneration

Board Experience: ● ◆

7. Aidan Hughes

Independent non-executive Director
Joined: October 2004

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

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

Committee Membership: Audit

Board Experience: ● ■ ✚

8. Nick Jeffery

Independent non-executive Director
Joined: July 2016

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

External Appointments: CEO, Vodafone UK

Committee Membership: Nomination (Chair)*, Remuneration

Board Experience: ◆

9. Eamonn O'Hare

Independent non-executive Director
Joined: May 2014.

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

External Appointments: Eamonn is the Chairman and CEO of Zegona Communications Plc and a Director of Tele2 AG.

Committee Membership: Audit

Board Experience: ◆ ■ ✚

10. Russ Shaw

Independent non-executive Director
Joined: July 2006

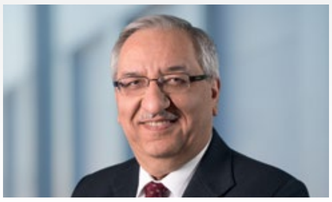
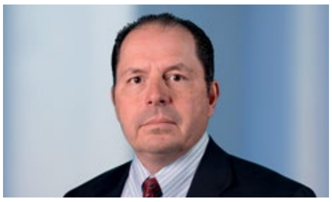
Russ has over 20 years' senior marketing and brand management experience in the technology, telecoms and financial services sectors. Russ most recently served as Vice President & General Manager for Skype, with responsibilities for its Mobile Division as well as Europe, the Middle East and Africa. Previously, 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 L1 Technology Fund.

Committee Membership: Nomination, Remuneration

Board Experience: ● ◆ ✚

Leadership – Management team

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1. Dr Jalal Bagherli

Chief Executive Officer

Jalal joined Dialog as CEO and an Executive Board Director in September 2005. He was previously Vice President & General Manager of the Mobile Multimedia business unit for Broadcom Corporation. Prior to that Jalal was the CEO of Alphamosaic, a venture-funded silicon start-up company in Cambridge, focusing on video processing chips for mobile applications. He has extensive experience in the semiconductor industry, through his previous professional and executive positions at Sony Semiconductor and Texas Instruments, managing semiconductor product businesses and working with customers in the Far East, Europe and North America. Jalal is a non-executive Director of Lime Microsystems Ltd since 2005 and was the Chairman of Global Semiconductor Association Europe from 2011 to 2013. He has a BSc (Hons) in Electronics Engineering from Essex University, and holds a PhD in Electronics from Kent University, UK.

2. Vivek Bhan

Senior Vice President, Engineering

Vivek joined Dialog in November 2013 and is responsible for the overall engineering and technology direction, including design and product development across the various business groups within Dialog. He brings a wealth of engineering leadership experience in the semiconductor industry including technology and products for advanced cellular systems, connectivity and medical applications within RF, mixed signal and SOC space. He has held senior positions at Freescale, Fujitsu Semiconductor and Motorola. Vivek holds a MS in Electrical Engineering and MBA from Arizona State University.

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 & 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. Wissam Jabre

Chief Financial Officer, Senior Vice President Finance

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

6. Udo Kratz

Senior Vice President and General Manager, Mobile Systems Business Group

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

7. Davin Lee

Senior Vice President and General Manager, Power Conversion Business Group

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

8. Sean McGrath

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

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

9. Martin Powell

Senior Vice President, Human Resources

Martin joined Dialog 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 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 and continental Europe as well as the UK.

10. Tom Sandoval

Senior Vice President, Worldwide Sales

Tom joined Dialog in September 2015 and is responsible for the worldwide sales organisation. He has over 25 years of experience in the semiconductor industry and has held executive management positions in sales, marketing and engineering. Prior to joining Dialog, Tom served as Vice President of Sales for the Americas at Xilinx. He previously served as CEO of Calypto Design Systems. Tom holds a BS degree in Electrical Engineering from the University of Southern California.

11. Colin Sturt

Senior Vice President, General Counsel

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

12. Mark Tyndall

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

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

Name	Role Tenure with	Tenure with Dialog (years)
Dr Jalal Bagherli	Chief Executive Officer	11
Andrew Austin	Senior Vice President, Corporate Projects (retired May 2016)	7
Vivek Bhan	Senior Vice President, Engineering	3
Christophe Chene	Senior Vice President, Asia	5
Mohamed Djadoudi	Senior Vice President, Global Manufacturing Operations & Quality	9
Wissam Jabre	Chief Financial Officer, Senior Vice President, Finance	0
Udo Kratz	Senior Vice President and General Manager, Mobile Systems Business Group	10
Davin Lee	Senior Vice President and General Manager, Power Conversion Business Group	3
Sean McGrath	Senior Vice President and General Manager, Connectivity, Automotive & Industrial Business Group	4
Martin Powell	Senior Vice President, Human Resources	6
Tom Sandoval	Senior Vice President, Worldwide Sales	1
Colin Sturt	Senior Vice President, General Counsel	1
Mark Tyndall	Senior Vice President, Corporate Development & Strategy and General Manager Emerging Products Business Group	8

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 2016. These accounts have been prepared under IFRS and are available on the Company's website: www.dialog-semiconductor.com

Principal activities and review of the business

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

The Company is listed on the Frankfurt (FWB: DLG) Stock Exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax index. The Company is registered in the UK and the registered number is 3505161. A full list of Company subsidiaries outside of the UK is detailed in Dialog's related undertakings set out on page 164.

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 18 and 19. Information on treasury policies and objectives is included in note 33 to the consolidated financial statements.

Subsequent events

The second intermediate settlement of the second tranche of the share buyback programme took place on 9 February 2017. The final settlement of the second tranche took place on 17 February 2017. In these two settlements, the Company purchased 977,456 shares at a cost of €38.5 million.

In January 2017, the Company participated in a new issue of shares by its subsidiary, Dyna Image Corporation, investing the equivalent of US$ 2.0 million. As a result, our shareholding in the business increased from 45.7% to 48.5%.

Future developments

The Company's stated objective is to power the smart connected world by becoming the leading global supplier of highly integrated, power management, AC/DC, solid state lighting and low energy short-range wireless connectivity. The key aspects of the Group's strategy are set out in the Strategic report on pages 18 and 19.

Research and development R&D

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

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

Greenhouse gases

Corporate responsibility and a commitment to sustainable business practices are important to the Dialog's business model and a component of Dialog's strategy to deliver long-term profitable growth. Our commitment to environmentally oriented, sustainable business practices is evidenced in our commitment to continue to reduce CO_2 emissions and minimise the carbon footprint of our business. Further details on the Company's commitment to sustainable and environmentally friendly business practices are set out on pages 48 to 51.

Going concern

The Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue for the foreseeable future. The Company held US$697 million of cash and cash equivalents at the end of 2016 (2015: US$567 million) and had no committed borrowing facilities. The Company expects to continue to deliver revenue and profit growth in the period ahead. For these reasons, the Directors have adopted the going concern basis in preparing the financial statements.

Dividends and share repurchases

The Company has historically been committed to reinvesting all profits into laying the framework for future growth. Accordingly, since its initial public offering in 1999, Dialog has not paid any cash dividend. Directors do not recommend the payment of a dividend for 2016 (2015: nil). At the 2017 Annual General Meeting, the Board will be asking shareholders for an authority to follow up the share buyback programme commenced in 2016. It should be emphasised that, even if this authority is granted, no decision has yet been made to implement such a programme and implementation will only occur if the Board considers this in the best interests of the Company depending on the prevailing circumstances.

Purchase of own shares by Employee Benefit Trust

The Company operates an Employee Benefit Trust, which purchases and sells shares in the Company for the benefit of employees under the Company's share option scheme, Long-Term Incentive Plan, Executive Incentive Plan and Employee Share Plan. Since the Company has de facto control of the assets and liabilities of the Trust, they are included in the Company and Group balance sheets. At 31 December 2016, the Trust held 574,600 shares, which represented 0.8% of the total called-up share capital, at a nominal value of £57,460.

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 25 to the consolidated financial statements.

Substantial shareholdings

Details of substantial shareholdings are on pages 67 and 68.

Directors

The Directors, together with their biographies, are listed on pages 58 and 59.

Powers of Directors

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

Directors' remuneration and interests

Directors' remuneration and interests are detailed in the Annual report on remuneration on pages 71 to 79 of this report. No Director had a material interest during the year ended 31 December 2016 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 4 May 2017 at 9am at Tower Bridge House, St Katharine's Way, London E1W 1AA.

Corporate governance

The Company's Corporate governance statement is set out on pages 64 to 69 of this report. We also publish, on our website, our own corporate governance principles which have regard to the UK Corporate Governance Code and other best practice corporate governance policies.

Principal risks and uncertainties

The Company is exposed to a number of risks and uncertainties that could affect the performance of the Company and its prospects. The Board of Directors and the Audit Committee are responsible for the Company's process of internal control and risk management and for reviewing its continuing effectiveness. The Board ensures, to the extent possible, that the system of internal procedures and controls is appropriate to the nature and scale of the Company's activities and that appropriate processes and controls are in place to effectively manage and mitigate strategic, operational, financial and other risks facing the Company. A list of the principal risks and their management is set out on pages 52 to 56.

Financial instruments

The Group's financial risk management and policies, and exposure to risks, are set out on pages 52 to 56 of this report and on note 33 of the consolidated financial statements.

Employee policies

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

Diversity and equal opportunity

In 2016, Dialog operated from 30 locations in 15 countries with a highly diverse workforce, incorporating employees from 65 nationalities.

Dialog takes equality and equal opportunity for all employees very seriously. We believe diversity among an employee base is an important attribute to a well-functioning business.

Diversity spans a range of factors including diversity in terms of geographic origin, background, gender, race, faith, education, experience, viewpoint, interests and technical and interpersonal skills. We also ensure that we offer equal opportunities in all aspects of employment and advancement regardless of age, disability, gender, marital status, nationality, race, religious or political beliefs or sexual orientation.

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

Gender diversity is of particular importance. Women comprise 14.9% of the overall workforce and further details are set out on page 12 of this report. Although this is in line with the industry average, the Company is supporting various initiatives in the areas of STEM education to encourage more women to pursue careers in engineering and electronic engineering.

Disabled persons

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

Statement on disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on pages 58 and 59 of this report. Each of the Directors affirms that:

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

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

Capital structure

As at 31 December 2016, 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 25 to the consolidated financial statements. On a show of hands at a general meeting of the Company every holder of shares present in person and entitled to vote shall have one vote, and on a poll every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held.

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

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

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

Details of changes in share capital can be found in note 25 to the consolidated financial statements.

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

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

The agreement between the Company and its Directors for compensation for loss of office is given in the Director's remuneration policy report on pages 82 and 83 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 4 May 2017 at 9am.

By order of the Board

Dr Jalal Bagherli
Director

23 February 2017

Corporate governance statement

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

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

These standards reflect a range of guidelines which apply to the Company given its status as a UK incorporated, Frankfurt Stock Exchange listed company. The Company has published on its website its Corporate Governance principles which have regard to the UK Corporate Governance Code and other best practice corporate governance policies. These have been updated as of December 2016 and are reviewed 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 Corporate Governance Code and other best practice governance principles, it maintains a single Board structure. The Board has overall responsibility for the leadership, control and oversight of the Company. The day-to-day responsibility for the management of the Company has been delegated by the Board to the Chief Executive Officer ("CEO"), who is accountable to the Board. The CEO executes this authority through an executive management team outlined on pages 60 and 61 of this report. In addition, a number of responsibilities of the Board are delegated to committees of the Board; details of which are set out below.

Matters reserved for the Board

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

Chairman

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

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

Board composition

The Board currently comprises ten Directors who are listed below. During 2016, Nick Jeffery and Mary Chan were appointed to the Board as independent non-executive Directors. Details on their recruitment are set out below.

The Board of Directors comprises a mix of the necessary skills, knowledge and experience required to provide leadership, control and oversight of the management of Dialog and to contribute to the development and implementation of the Company's strategy. In particular, the Board combines a group of Directors with diverse backgrounds within the technology sector, in both public and private companies, which combine to provide the Board with a rich resource and expertise to drive the continuing development of Dialog and advance the Company's commercial objectives. The Board also combines a number of longer serving Directors with Directors who have joined the Board more recently. This combination provides the Board with a fresh perspective while ensuring there is continuity and experience from Directors who have served during a period of rapid growth and development for the business. In addition, the geographic background of the Board is diverse and includes Directors who have worked in North America, Europe and Asia. Director biographies are set out on pages 58 and 59.

Director	Status	Independent/non Independent	Tenure (years)	Concurrent tenure* (years)
Rich Beyer	Current	Independent (Chairman)	3	3
Dr Jalal Bagherli	Current	Non-independent (Executive)	11	N/A
Chris Burke	Current	Independent	10	10
Alan Campbell	Current	Independent	1	1
Mike Cannon	Current	Independent	3	3
Mary Chan	Current	Independent	0	0
Aidan Hughes	Current	Independent	12	11
Nick Jeffery	Current	Independent	0	0
Eamonn O'Hare	Current	Independent	2	2
Russ Shaw	Current	Independent	10	10

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

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 58 and 59.

Subject to approval at the Annual General Meeting by shareholders, Directors are appointed for a term of three years. Any Director who has been on the Board for more than nine years is subject to annual re-election. The standard terms of the letter of appointment of non-executive Directors are available, on request, at the Annual General Meeting of shareholders. Directors seeking re-election are subject to a performance appraisal, which is overseen by the Nomination Committee. In accordance with its Articles of Association a third of Directors stand for re-election at each Annual General Meeting.

Consistent with a commitment to ongoing Board refreshment and renewal, two new Directors, Nick Jeffery and Mary Chan, were appointed to the Board in 2016. The Nomination Committee engaged in a process to appoint new Directors who would bring specific industry experience to the Board replacing a number of experienced Directors who have retired in recent years. Candidates were identified through a variety of methods. The Nomination Committee engaged in a process (supported by an external search and recruitment agent) to identify potential candidates. The recruitment agent, Russell Reynolds 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. Nick Jeffery and Mary Chan were appointed to the Board on the strength of the industry experience and skills they can bring to the Board of Directors as a whole for the benefit of all Dialog shareholders.

Board size

At the end of 2016, the Board comprised of ten Directors. A maximum of ten Directors is allowable under Dialog's Articles of Association. The ten members of the Dialog Board include one Executive Director and nine independent, non-executive Directors (including the Chairman). The Nomination Committee has reviewed the size and performance of the Board during the year. The Committee considered that the Board functions effectively; comprises the skills, knowledge and experience required by Dialog; is not so large as to be unwieldy; and meets corporate governance best practice guidelines on independence.

Board independence

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

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

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

As part of its annual review in 2016, the Board specifically considered the independence of Chris Burke, Aidan Hughes, and Russ Shaw given their tenure on the Board. Each of these Directors has served concurrent tenure with the CEO of ten years or more.

The Board's unanimous view is that independence and objectivity, of each of Mr Burke, Mr Hughes and Mr Shaw as evidenced by their continuing valuable contribution at Board meetings, has, in no way, been compromised by their length of tenure on the Board. The Board also believes that their industry experience and contribution to the continuing development of Dialog has been of significant benefit to the Board as a whole. In addition, given the level of refreshment at Board level in recent years – with six new Directors, including the Chairman, having been appointed since 2013 – there is significant benefit to Dialog in having the tenure and expertise of each of these three Directors on the Board.

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

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

2016 Board Committees

Director	Board	Audit	Remuneration	Nomination
Number of meetings in 2016	5	5	5	5
Meetings attended				
Dr Jalal Bagherli	5			
Richard Beyer	5			
Chris Burke	4		4	4
Alan Campbell	5	5		
Michael Cannon	5		5	5
Mary Chan	1			
Aidan Hughes	5	5		
Nick Jeffery	3		2	2
Eamonn O'Hare	5	5		
Russ Shaw	5		5	5

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

Corporate governance statement continued

Senior Independent Director

John McMonigall stepped down from the Board as Senior Independent Director ("SID") during 2015. Having carefully considered the position and role of the SID, and the fact that Rich Beyer is a Chairman who was wholly independent on appointment, the Board does not believe there is a necessity to appoint a new SID at this time. Comparable to the role of a SID at other companies, Rich Beyer is available to shareholders who have concerns for which contact through the normal channel of CEO has failed to resolve or is inappropriate. Furthermore, any concerns regarding the performance of the Chairman may be addressed to and will be managed by the Chair of the Nomination Committee.

Audit Committee financial and sector expertise

Dialog's Audit Committee is comprised of a number of Directors who have recent and relevant financial experience. In line with best practice, the Board has affirmed that members of the Audit Committee also have significant expertise in Dialog's business sector. Alan Campbell, Chairman of the Audit Committee, has long-standing experience as a CFO in the semiconductor industry. Eamonn O'Hare also has two decades' experience as CFO at some of the world's fastest-growing consumer and technology businesses. Aidan Hughes has experience as a senior accountant and Finance Director at a number of public and private companies, many of which are in the technology sector. Biographies are set out on pages 58 and 59.

Company Secretary

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

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

Tim Anderson of Reynolds Porter Chamberlain LLP is the Company Secretary and has served in this role for over 16 years.

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 committees each year varies by Committee. There were five Board meetings in 2016. The attendance at Board and Committee meetings by the Directors who held office in 2016 is set out on page 65. The Board places considerable importance on attendance at both scheduled Board and Committee meetings. During the year, no Director attended less than 75% of scheduled Board or Board Committee meetings to which they were entitled to attend. At scheduled Board meetings, the Board also meets without the Executive Director present.

In addition, the non-executive Directors meet annually to review the performance of the Chairman. This process, which commenced in 2015, is an annual process and occurred in March 2016.

The 2017 review will be held during the course of the calendar year.

Director induction and continuing development

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

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

Director training and development

The Board is committed to a programme of periodic training and development of its Directors. As part of this process, at least one Board meeting is held at the location of one of the Company's international offices each year. During 2016, Board meetings were held in Germany and California.

In line with the commitment to develop Board members and ensure they represent shareholders in the most effective way, each Director has taken part in a range of training exercises in recent years. In 2016, the Board received training by General Sir Richard Shirreff on geopolitical risk issues while in previous years training has covered topics such as investor activism or business ethics.

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. In line with this policy, an internal review was conducted in December 2016. It is conducted anonymously and is managed by the Company Secretary. The findings of the 2016 review were presented to the Board in February 2017 for consideration and the implementation of related recommendations.

In 2014, consistent with corporate governance best practice, the Board engaged an independent third party to conduct an evaluation. The evaluation was conducted by Equity Communications Ltd, a company which has no other connection with Dialog.

The findings of the evaluation were presented to the Board in February 2015. The Board will consider a further third-party Board evaluation process in 2017.

The non-executive Directors also meet to review the performance of the Chairman and this review took place in March 2016.

External non-executive directorships

The Board believes that a broadening of the skills, knowledge and experience of non-executive Directors is of benefit to the Company. As such, the Company welcomes the participation of the non-executives on the Boards of other companies. To avoid potential conflicts of interest, non-executive Directors inform the Chairman of the Nomination Committee before taking up any external appointments. Details of the non-executive positions of each Director are set out under individual biographies, which are detailed on pages 58 and 59.

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

Directors' fees

The annual fee for non-executive Directors in 2016 was £145,000. The annual fee for the Chairman was £200,000. The Chair of the Audit Committee, the Nomination Committee and the Remuneration Committee received an additional fee of £16,000, £5,000 and £12,000 respectively for their role on that Committee.

The other Committee members receive an additional fee for serving on those Committees as set out on page 67. Details of the activities of these Committees during 2016 are set out on pages 68 and 69.

Directors' fees were paid in cash and shares. Non-executive Directors are not eligible to participate in the Company's bonus or share award schemes.

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

The compensation of the Executive Director comprises a base salary and variable components. Variable compensation includes an annual bonus linked to, and dependent on, certain business targets as well as long-term incentives. The executive Director's remuneration is inclusive of any Director's fee. Further details are set out in the Directors' remuneration report which begins on page 70.

Committee members

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

Nomination Committee
Nick Jeffery (Chair)
Chris Burke
Russ Shaw
Mike Cannon
Mary Chan
100% independent (5 of 5)

Remuneration Committee
Mike Cannon (Chair)
Chris Burke
Nick Jeffery
Mary Chan
Russ Shaw
100% independent (5 of 5)

Share ownership and dealing

Details of Directors' shareholdings are set out on pages 74 and 75. The Company has a policy on dealing in shares that applies to all Directors and senior management. Under this policy, Directors are required to obtain clearance from the Chief Executive Officer (or in the case of the Chief Executive Officer himself, from the Chairman) before dealing.

Directors and senior management are prohibited from dealing in the Company's shares during designated close periods and at any other time when the individual is in possession of Inside Information as defined by Article 7 of Regulation (EU) No. 596/2014 of the European Parliament and the Council of 16 April 2014 ("MAR"). Transactions in securities of the Company's own shares carried out by members of the Board of Directors and of their family members will be reported within three business days and published without delay, if the total value of such transactions in any one year exceeds €5,000, pursuant to and in accordance with Article 19 of MAR.

Loans to Directors or senior executives

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

Board Committees

The Board has established a number of Committees to assist in the execution of its responsibilities. During 2016, these were: Audit Committee, Nomination Committee and Remuneration Committee. Ad hoc committees are formed from time to time to deal with specific matters.

The composition of the Board Committees, as at 23 February 2017, is set out on this page. Attendance at meetings held in 2016 is set out in the table on page 65.

Each of the permanent Board Committees has terms of reference under which authority is delegated to them by the Board. These terms of reference are available on the Company's website. The Chairman of each Committee attends the Annual General Meeting and is available to answer shareholder questions. The reports of each of the Board Committees are set out on pages 68 and 69.

Relations with shareholders

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

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

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

In November 2016, Dialog hosted a day of presentations and product displays, for institutional investors and analysts. The event was attended by many of Dialog's senior management team.

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

Significant shareholders

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

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

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

Dialog's shares are listed with Clearstream Germany as legal owner. As far as the Company is aware, based on TR-1 notifications received, those holding a significant beneficial interest (i.e. greater than 3%) in the Company as of 31 December 2016 were:

5.12% – Deutsche Asset Management Investment GmbH
5.05% – FMR LLC
3.01% – Norges Bank

The free-float includes the following shares held on behalf of discretionary clients as per the share register on 31 December 2016:

The Bank of New York Mellon SA/NV	10,044,332
Chase Nominees Ltd.	7,709,976
Citigroup Global Markets	5,660,911
State Street Bank & Trust Corp.	4,922,712
BNP Paribas Securities Services	3,784,253
Nortrust Nominees Limited	3,647,564

Corporate governance statement continued

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

The Bank of New York Mellon SA/NV	10,279,251
Chase Nominees Ltd.	7,827,243
Citigroup Global Markets	5,527,467
State Street Bank & Trust Corp.	4,694,548
BNP Paribas Securities Services	4,287,414
Nortrust Nominees Limited	3,614,082

Dialog's free-float is 76,485,605 or 99.2% of the outstanding shares. The free-float is calculated by excluding the 574,600 shares held in the Dialog Semiconductor Plc Employee Benefit Trust.

Internal control and risk management

In accordance with the EU Transparency Directive (DTR 7.2.5), the Board of Directors 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 52 to 56.

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 2016 and up to the date of the approval of the 2016 Annual report and financial statements. The Board and Audit Committee can confirm that necessary actions are being undertaken to remedy any perceived failings or weakness identified from these ongoing process reviews.

Dialog Board Committees

As set out in the Corporate Governance report, the Board has established a number of committees to assist in the execution of its responsibilities. During 2016, these were: Audit Committee, Nomination Committee and Remuneration Committee. Reports on the activity of these committees during 2016 are set out on the following pages.

Audit Committee

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

During 2016, the Audit Committee comprised only independent non-executive Directors. Members at the end of 2016 were Alan Campbell (Chairman), Aidan Hughes and Eamonn O'Hare.

As set out on page 66, the Board has determined that Alan Campbell, Eamonn O'Hare and Aidan Hughes all have recent and relevant financial experience. Further, each of the three members of the Committee have relevant sector experience.

The Audit Committee meets a minimum of four times a year. In 2016, the Committee met five times. Attendance at meetings held is set out in the table on page 65. The Committee also meets privately with the internal and external auditors and separately with the executive management.

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

The Audit Committee's main responsibilities include to:

- Review and advise the Board on the integrity of the financial statements of the Company, including the Annual report, quarterly financial statements and other formal announcements relating to the Company's financial performance;
- Review and advise the Board on the effectiveness of the Company's internal controls;
- Make recommendations on the appointment and remuneration of external auditors and to monitor their performance and independence; and
- Approve and monitor the policy for non-audit services provided by the external auditors to ensure that the independence and objectivity of the auditors is not compromised.

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

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

Activity in 2016

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

- Reviewed the 2015 (issued in March 2016) and 2016 (issued in February 2017) full year results announcement.
- Reviewed the Annual report and financial statements – including the report of the external auditor – for the year ended 31 December 2015 (issued in April 2016) and for the year ended 31 December 2016 (to be issued in April 2017).
- Reviewed the quarterly financial statements issued in May, July and November 2016.
- Reviewed the external audit plan presented by the external auditor in advance of the audit for the year ended 31 December 2016.
- Reviewed the risk register for updates to key risks and status.
- Approved the annual internal audit plan and received and reviewed internal audit reports including the annual assessment and review of internal controls.

The Company believes that an effective and robust system of internal control is essential to achieving reliable business performance. The system of internal control is supported by a strong commitment by the management team, ongoing monitoring by the Audit Committee and a dedicated internal control function. Improvements have been made to the internal control over financial reporting by embedding the COSO framework of internal control and investing in skilled resources to improve financial processes including:

- Development and implementation of policies and procedures;
- Implementation of new accounting consolidation tool;
- Improved IT system and end-user access controls; and
- Training a cross section of employees.

The Committee is pleased with the progress achieved in 2016 and will continue to monitor the ongoing work in these areas in 2017.

External Auditor – Role

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

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

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

External auditor and non-audit work

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

- May be required to audit his/her own work;
- Would participate in activities that would normally be undertaken by management;
- Is remunerated through a "success fee" structure; and
- Acts in an advocacy role for the Company.

Other than the above, the Company does not impose an automatic ban on the external auditor undertaking non-audit work. The external auditor is permitted to provide non- audit services that are not, or are not perceived to be, in conflict with auditor independence, provided it has the skill, competence and integrity to carry out the work and that such work does not conflict with EU regulations.

Details of the amounts paid to the external auditor during the year for audit and other services are set out on in note 6. In line with EU regulations, the Audit Committee will ensure that non-audit fees paid to the Company's auditor will be capped at a maximum of 70% of the average audit fees paid in the last three consecutive financial years.

Nomination Committee

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

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

At the end of 2016, the Nomination Committee comprised Nick Jeffery (Chair), Russ Shaw, Chris Burke, Mary Chan, and Mike Cannon. The Committee comprises only independent non-executive Directors. By invitation, other members of the Board may attend the Committee's meetings. The Committee is free to seek its own advice free from management as it deems appropriate.

During the year, the Committee used the services of an external search and recruitment agency to assist with the 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. Attendance at scheduled meetings is set out on page 65.

Activity in 2016

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

- Review the composition of the Board to ensure the Directors have the skills and expertise to effectively oversee the implementation of the Group's stated strategy;
- Identify and recruit two new Directors to the Board: Nick Jeffery and Mary Chan were recruited during the course of 2016; and
- Review succession arrangements for all key executive positions.

Remuneration Committee

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

At the end of 2016, the Remuneration Committee comprised Mike Cannon (Chair), Chris Burke, Russ Shaw, Nick Jeffery, and Mary Chan. The Committee comprised only independent non-executive Directors. By invitation, other members of the Board may attend the Committee's meetings. The CEO and the Senior Vice President, Human Resources, may also attend by invitation but take no part in discussions or decisions on matters relating to their own remuneration. The Committee is free to seek its own advice free from management as it deems appropriate.

During the year, the Committee sought and received general advice relating to remuneration from independent advisers New Bridge Street and Radford (both part of Aon plc). New Bridge Street is a signatory to the Remuneration Consultants Group Code of Conduct and any advice was provided in accordance with this code. New Bridge Street and Radford provided no other services to Dialog during 2016 and have no other connection with the Company other than as adviser on issues relating to remuneration. Remuneration advice was also provided in 2014 by New Bridge Street.

In 2016, the Committee met formally on five occasions. In addition, the Committee Chairman held a number of meetings with advisers. Attendance at scheduled meetings is set out on page 65.

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

A detailed report on the work of the Remuneration Committee during 2016, is set out on pages 78 and 79.

Tim Anderson
Company Secretary

23 February 2017

Directors' remuneration report

Annual statement from Mike Cannon, Chairman of the Remuneration Committee

Dear shareholder,

I am pleased to present the Directors' remuneration report for 2016 which has been prepared by the Remuneration Committee and approved by the Board.

The report is in two parts: the Annual report on remuneration which sets out the details of and basis for remuneration during 2016, and the Directors' remuneration policy which describes the policy for the remuneration of Executive and non-executive Directors.

I am pleased to welcome Nick Jeffery and Mary Chan as new members of the Remuneration Committee.

Context of the Committee's decisions

Dialog is an international semiconductor company whose operations and competitors are largely based in the US. As a result, remuneration in Dialog's sector is heavily influenced by US practice and this is reflected in some aspects of Dialog's Remuneration Policy. Dialog's Remuneration Policy has been designed so that the majority of remuneration is delivered through performance-based, long-term variable remuneration with significant emphasis on equity. Variable remuneration is delivered through an annual bonus and long-term incentive, and performance measures are chosen to incentivise and reward the successful achievement of our strategic objectives.

Performance and remuneration for 2016

Dialog has delivered very strong TSR of 2,224% over the last 12 years since the CEO was appointed. During 2016, the Company continued to develop products, customer relationships and strong operating capability, providing a sound base for performance in the coming year.

However, as referred to in the Chairman's Statement, 2016 was a year of transition for Dialog with weaker volume demand for our mobile systems products and a year-on-year revenue decline. This is reflected in the assessment of the Executive Director's annual bonus and long-term incentive performance.

Bonus performance outcomes against the targets that were set are detailed in the Annual report on remuneration.

Annual Bonus

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

Long-term Incentive

The long-term Executive Incentive Plan ("EIP") for the period 2014–16 is expected to achieve a vesting level of 61.49%, driven by performance relative to the three metrics, which are share price, revenue and EBIT.

Base Salary

The Committee reviewed the CEO's base salary in the first half of 2016 with reference to his performance, the scale of the Group, and the positioning of his package compared to Dialog's peer group. As a result, the Committee awarded the CEO a base salary increase of 5% which is within the range of base salary increases for other high-performing employees. His resulting base salary is £462,749 (US$569,204) which remains below the market median for Dialog's peer group.

Looking ahead

At the 2016 AGM, Dialog shareholders approved a number of changes to the Directors' remuneration policy which have been implemented during the year.

We are not proposing to make any changes to our Directors' remuneration policy in 2017. Our Directors' remuneration policy approved at the 2016 AGM will continue to apply in 2017, and there will be no material changes to the operation of our annual bonus and long-term incentive. Our Directors' remuneration policy remains aligned with the long-term success of the Company.

If you have any feedback on our remuneration arrangements, please pass those comments for my attention to our Company Secretary, Tim Anderson at RPC, Tower Bridge House, St Katharine's Way, London E1W 1AA.

We have been pleased to receive a positive response from shareholders to our remuneration approach. We hope you find the contents of this report informative. The Committee would welcome your support for our 2016 Remuneration report and this statement in the advisory shareholder vote at our AGM on 4 May 2017.

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

Mike Cannon
Chairman, Remuneration Committee

17 February 2017

Annual report on remuneration

Audited information[1]

Incumbent	Year	Total salary US$[2]	Benefits US$	Pension US$[9]	Total fixed pay US$[3]	Annual bonus US$[4]	Long-term Incentive US$[5]	Total variable pay US$[6]	Total excluding LTI US$[7]	Total US$[8]
Dr Jalal Bagherli	2016	555,652	15,492	82,331	653,475	394,117	3,335,896	3,730,013	1,047,592	4,383,488
Dr Jalal Bagherli	2015	637,514	19,885	95,627	753,026	1,035,103	4,122,600	5,157,703	1,788,129	5,910,729

Notes:
1 Exchange rates used are: 2015: GBP 1 = USD 1.481831; EUR 1 = USD 1.089301; 2016: GBP 1 = USD 1.23005; EUR 1 = USD 1.05600
2 Base salary earned during the financial year. The base salary is shown in USD in this table, but set and paid in GBP. The CEO's 2016 GBP base salary increase was 5%.
3 The sum of basic salary, benefits and pension.
4 Annual bonus cash element and deferred share element awarded in relation to the financial year ended 31 December.
5 Long-term Incentive reflects the gain on options and EIP awards which vested for the performance year. For the 2015 performance year, 114,373 EIP options vested and were valued at a price of €35.25 (average share price over last three months in 2015) in the 2015 Annual report. The figure has been updated based on the actual market close price at vesting of €33.08 and €33.51 for awards vesting on 16 and 18 February 2016 respectively. For the 2016 performance year, 85,540 EIP options will vest. Value is based on a price of €37.05 (average share price over last three months in 2016).
6 The sum of annual bonus (cash and deferred share element) and long-term incentives.
7 The sum of basic salary, benefits, pension and annual bonus (cash and deferred share element).
8 The sum of basic salary, benefits, pension, annual bonus (cash and deferred share element) and long-term incentives which vested during the year.
9 From 2015 the CEO receives a pension allowance of 15% of base salary.

Incumbent	Year	Fees[7] US$	Taxable Benefits US$	Incentives (Annual) US$	Incentives (Long-term) US$	Other remuneration US$	Shares Vested[2] US$	Total US$
Chris Burke	2016	143,608	2,050	–	–	–	–	145,659
Chris Burke	2015	118,546	8,885	–	–	–	87,198	214,630
Aidan Hughes	2016	143,301	7,623	–	–	–	–	150,924
Aidan Hughes	2015	118,117	16,468	–	–	–	98,086	232,671
John McMonigall[3]	2016	–	–	–	–	–	–	–
John McMonigall[3]	2015	39,516	1,568	–	–	–	87,198	128,282
Russ Shaw	2016	151,296	2,539	–	–	–	–	153,835
Russ Shaw	2015	133,365	5,857	–	–	–	98,086	237,308
Peter Weber[3]	2016	–	569	–	–	–	–	569
Peter Weber[3]	2015	39,515	9,142	–	–	–	87,198	135,855
Richard Beyer	2016	190,658	5,529	–	–	–	–	196,187
Richard Beyer	2015	163,001	17,011	–	–	–	–	180,012
Michael Cannon	2016	153,449	5,075	–	–	–	–	158,524
Michael Cannon	2015	129,043	17,222	–	–	–	–	146,265
Eamonn O'Hare	2016	143,301	3,157	–	–	–	–	146,458
Eamonn O'Hare	2015	112,614	9,285	–	–	–	–	121,899
Alan Campbell	2016	179,853	5,019	–	–	–	–	184,872
Alan Campbell[4]	2015	84,587	8,147	–	–	–	–	92,734
Nick Jeffery[5]	2016	94,406	1,701	–	–	–	–	96,107
Nick Jeffery[5]	2015	–	–	–	–	–	–	–
Mary Chan[6]	2016	14,863	1,322	–	–	–	–	16,185
Mary Chan[6]	2015	–	–	–	–	–	–	–

Notes:
1 Exchange rates used are: 2015: GBP 1 = USD 1.481831; EUR 1 = USD 1.089301; 2016: GBP 1 = USD 1.23005; EUR 1 = USD 1.05600.
2 Shares vested shows the value of the number of shares vested in 2015 at the closing share price on the day of vesting. There were no performance conditions attached to the vesting. From 2016, there are no further share options vesting for the non-executive Directors.
3 Peter Weber and John McMonigall retired from the Board on 30 April 2015.
4 Alan Campbell joined the Board on 30 April 2015.
5 Nick Jeffery joined the Board on 1 July 2016.
6 Mary Chan joined the Board on 1 December 2016.
7 Fees include fees paid in cash and shares.

Annual report on remuneration continued

Executive Director

Fixed remuneration

Base salary

The Remuneration Committee reviewed the CEO's base salary in July 2016 with reference to his performance, the scale of the Group, and the positioning of his package compared to Dialog's peer group. The CEO was awarded a 5% increase in annual base salary with effect from 1 July 2016. His salary from 1 July 2016 is £462,749 (US$569,204), which remains below the market median for Dialog's peer group.

Other benefits

The CEO received a cash allowance in lieu of a company car (US$12,547), medical insurance for himself and his spouse and Group life and income protection insurance. The total value of taxable benefits provided was US$15,492 equivalent to 2.7% of his current salary.

Pension

The CEO receives a pension allowance of 15% of base salary which is in line with policy. In 2016, the Company made pension allowance payments of £66,933 (US$82,331) to the CEO.

Variable compensation

For 2016, the CEO was eligible for an annual bonus of 100% of base salary for achieving target performance, with up to 200% of base salary for maximum performance. The portion of any bonus awarded above target is deferred into shares which vest after three years.

Performance measures used were:

→ Financial goals (60%) comprising revenue (20%), gross margin (20%), EBIT (20%);

→ Customer-related measures (15%); and

→ Personal goals (25%).

The FY2016 bonus was determined at 34.62% of maximum, reflecting performance as set out in the table below. Performance targets under these measures are considered by the Board to be commercially sensitive and will, where possible, be disclosed in a future Annual report when they are considered no longer to be commercially sensitive.

Performance measures FY2016

Measure	Outcome	Below Threshold	Between Threshold and Target	On Target	Above Target
Revenue	$1.1976bn		✓		
Gross Margin	46.3%		✓		
EBIT	18.5%	✓			
Customer	Commercially sensitive		✓		
Personal	See below			✓	

Note: Revenue is defined as Total Dialog 2016 Underlying Revenue. EBIT is defined as Total Dialog 2016 Underlying EBIT.

The Customer targets and outcomes are considered by the Board to be commercially sensitive. The overall outcome for the personal targets was 50% of maximum. This reflects performance as set out in the table below:

Personal Performance Measure	Outcome
Greater China Focus	The CEO executed successfully on key milestones relating to the Greater China Focus.
Succession Planning & Leadership Depth	The CEO drove the succession planning program for key roles at the next two management levels.
M&A Activity	A judgement of the quality of M&A opportunities identified and the thoroughness of due diligence work.

Accordingly, the Committee determined that a bonus equivalent to 69.24% of base salary should be paid for the performance in the 2016 financial year.

The Remuneration Committee also considered the disclosure of the performance targets relating to the 2015 annual bonus. Having reviewed the targets, the Committee decided that the targets continued to be commercially sensitive and will be disclosed in a future Annual Report on Remuneration.

Long-term incentive plans

In 2011, the Group established an equity settled Executive Incentive Plan ("EIP") replacing the previous LTIP under which no further grants could be made from 31 May 2011. The EIP was then replaced by the new Long-Term Incentive Plan, as no further grants could be made under EIP from 5 May 2015. The first new LTIP Awards were granted on 1 May 2015, after approval of the plan at the 2015 AGM.

Awards granted under the 2014 EIP are capable of vesting in 2017 subject to the satisfaction of Revenue, EBIT and Share Price performance measures. Following the completion of the final performance period in 2016, the Committee has assessed performance against the performance targets set over the performance period and has determined that 61.49% of the share options awarded will vest to participants.

This vesting percentage was calculated as follows:

Disclosure of objectives relating to the 2014 EIP award – vesting in 2017

Measure	Maximum capable of vesting (% of award)	Actual vesting outcome (% of award)
Revenue	37.50%	19.82%
EBIT	37.50%	25.00%
Share Price	25.00%	16.67%
Total	100.00%	61.49%

The Chief Executive was awarded a total of 139,110 EIP share options in 2014, of which 98,957 EIP share options were awarded as performance shares and 40,153 share options were awarded as part of a matching award (invested shares) under the deferred bonus agreement.

As a result of the actual vesting outcome, 85,540 of the total 139,110 EIP share options awarded to the Chief Executive in 2014 (i.e. 61.49%) will vest in 2017. This final vesting outcome reflects Dialog's performance over the three-year performance period.

As the share price at the date of vesting for the 85,540 share options was not known at the date of publication, they have been valued for the purpose of the single figure using Dialog's average share price over October, November and December 2016 of Euro 37.05. This results in a value of US$3,335,896 as shown in the LTI column of the 2016 single figure table. This figure will be updated next year when the actual share price at the date of vesting is known.

Share awards made during the year

As noted in the policy section, shares awarded are structured as nominal priced options, hence the reference to options throughout. Deferred share and LTIP awards were made in line with the policy in force during 2016.

Awarded during the year	Date of award	Granted number	30 day average share price at date of grant in £	Value of award	% of award that will vest at threshold	Performance period
LTIP – performance shares						
Dr Jalal Bagherli	03/03/2016	182,648	£21.90	£3,999,999	25%	01/01/2016–31/12/2018
Deferred shares					n/a	
Dr Jalal Bagherli	03/03/2016	11,772	£21.90	£257,807	No performance conditions	03/03/2016–03/03/2019

Note: The value is calculated as the number of shares, multiplied by the average closing Dialog Semiconductor share price over the 30 business days up to and including 3 March 2016 (€28.33). The Sterling equivalent share price was £21.90, resulting in a maximum LTIP award value of £3,999,999 which equates to a target LTIP award of £1,999,995.
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.

In 2016, the CEO was awarded LTIP shares (in the form of nominal price options) which had a value of £3,999,999 at the date of grant as set out in the above table. Receipt of these shares is subject to achievement of performance conditions as outlined below.

Long-Term Incentive Plan (LTIP – Performance Shares) Performance metrics:

→ Dialog TSR performance over the three-year performance period relative to the constituents of the S&P 1500 Select Semiconductor index (one-third).

→ Dialog Revenue in each year of the three-year performance period (one-third).

→ Dialog EBIT in each year of the three-year performance period (one-third).

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 assessed on actual Dialog performance against targets set at the beginning of each year.

Relative Total Shareholder Return is measured at the third anniversary date of the award over the three-year performance period.

Shares accrued during the performance period are released to Executive Directors as soon as practicable after the third anniversary of the award.

Of his 2015 annual bonus (paid in 2016), the amount over 100% achievement (£257,807) was deferred into shares, as set out in the above table. The Deferred Shares for the annual bonus have no further performance conditions and vest after three years.

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

Annual report on remuneration continued

Non-executive Directors' fees

Non-executive Directors' fees were restructured in 2016 and brought in line with market levels and to increase alignment with shareholders by paying 60% of the fees in shares which are not subject to a performance condition or vesting period. Non-executive Directors are expected to build towards a shareholding in the Company equal to 100% of the pre-tax equity portion of the annual base fee.

In 2016, the Chairman's fee was £200,000 (paid part in cash and part in shares). Fees for non-executive Directors were £145,000 (paid part in cash and part in shares). Additional fees (in cash only) were paid for Board Committees as per the table below.

	2016	
In thousands	Cash	Shares
Chairman fee	£80	£120
Base fee	£58	£87
Committee Chair fee		
Audit	£16	–
Remuneration	£12	–
Nominations	£5	–
Committee membership fee		
Audit	£8	–
Remuneration	£6	–
Nomination	£2.5	–

Directors' interests in shares

The CEO is expected to establish and hold a shareholding of at least 300% of salary. The CEO currently complies with this requirement.

		Share Awards with Performance Conditions		Share Awards without Performance Conditions				
Number at 31 December 2016	10 pence ordinary shares	Performance shares (EIP & LTIP)	EIP – invested shares	Deferred shares	Share options (unvested)	Share options (vested & unexercised)	Options exercised in year	Total
Dr Jalal Bagherli	321,484	510,634	95,240	124,449	–	–	52,808	1,104,615
Chris Burke	777	–	–	–	–	–	–	777
Aidan Hughes	25,968	–	–	–	–	–	–	25,968
John McMonigall	25,000	–	–	–	–	–	–	25,000
Russ Shaw	5,013	–	–	–	–	–	–	5,013
Peter Weber	–	–	–	–	–	–	–	–
Richard Beyer	1,863	–	–	–	–	–	–	1,863
Michael Cannon	1,378	–	–	–	–	–	–	1,378
Eamonn O'Hare	5,368	–	–	–	–	–	–	5,368
Alan Campbell	1,341	–	–	–	–	–	–	1,341
Nick Jeffery	764	–	–	–	–	–	–	764
Mary Chan	135	–	–	–	–	–	–	135

Full Name	Share plan	Grant date	Final vesting date	Lapse date	Exercise price (EUR)	Holding at 31 Dec 2015	Granted	Exercised	Lapsed	Holding at 31 Dec 2016
Jalal Bagherli	Dialog share unapproved – 7yr	13/05/2009	13/05/2013	13/05/2016	1.52	–	–	–	–	–
Jalal Bagherli	Dialog share approved – 7yr	13/05/2009	13/05/2013	13/05/2016	1.52	–	–	–	–	–
Jalal Bagherli	Long-term incentive plan	04/02/2010	04/02/2011	04/02/2015	0.11	–	–	–	–	–
Jalal Bagherli	Long-term incentive plan	18/02/2011	18/02/2011	18/02/2017[1]	0.12	100,000	–	52,808	47,192	–
Jalal Bagherli	Executive incentive plan	16/02/2012	16/02/2015	16/02/2018	0.12	65,332	–	–	–	65,332
Jalal Bagherli	Executive incentive plan	16/02/2013	16/02/2016	16/02/2019	0.12	92,985	–	–	13,250	79,735
Jalal Bagherli	Deferred bonus plan	18/02/2013	18/02/2016	18/02/2020	0.01	42,611	–	–	–	42,611
Jalal Bagherli	Executive incentive plan	18/02/2013	18/02/2016	18/02/2019	0.12	40,395	–	–	5,757	34,638
Jalal Bagherli	Executive incentive plan	16/02/2014	16/02/2017	16/02/2020	0.12	98,957	–	–	13,367	85,590
Jalal Bagherli	Deferred bonus plan	18/02/2014	18/02/2017	18/02/2021	0.01	40,153	–	–	–	40,153
Jalal Bagherli	Executive incentive plan	18/02/2014	18/02/2017	18/02/2021	0.12	40,153	–	–	5,424	34,729
Jalal Bagherli	Deferred bonus plan	12/02/2015	12/02/2018	12/02/2022	0.01	29,913	–	–	–	29,913
Jalal Bagherli	Executive incentive plan	12/02/2015	12/02/2018	12/02/2022	0.12	29,913	–	–	4,040	25,873
Jalal Bagherli	LTIP nominal cost option	01/05/2015	01/03/2018	01/03/2025	0.15	97,329	–	–	–	97,329
Jalal Bagherli	Deferred bonus plan	03/03/2016	03/03/2019	03/03/2023	0.01	–	11,772	–	–	11,772
Jalal Bagherli	LTIP nominal cost option	03/03/2016	01/03/2019	01/03/2026	0.15	–	182,648	–	–	182,648

Note:
1 The exercise period for this grant was extended by the Board of Directors.

Full Name	Share plan	Grant date	Final vesting date	Lapse date	Exercise price (EUR)	Holding at 31 Dec 2015	Granted	Exercised	Lapsed	Holding at 31 Dec 2016
Aidan Hughes	NED 06 share option	19/06/2006	19/06/2010	19/06/2013	1.27	–	–	–	–	–
Aidan Hughes	NED 06 share option	10/05/2007	10/05/2008	10/05/2014	1.80	–	–	–	–	–
Aidan Hughes	NED 06 share option	30/04/2008	30/04/2009	30/04/2015	1.35	–	–	–	–	–
Aidan Hughes	NED 06 share option	22/04/2009	22/04/2010	22/04/2016	1.17	–	–	–	–	–
Aidan Hughes	NED 11 share option	21/07/2011	21/04/2014	01/05/2018	0.15	2,293	–	–	–	2,293
Aidan Hughes	NED 11 share option	18/07/2012	21/04/2015	01/05/2019	0.15	2,081	–	–	–	2,081
Christopher Burke	NED 06 share option	12/07/2006	12/07/2010	12/07/2013	1.40	–	–	–	–	–
Christopher Burke	NED 06 share option	10/05/2007	10/05/2008	10/05/2014	1.80	–	–	–	–	–
Christopher Burke	NED 06 share option	30/04/2008	30/04/2009	30/04/2015	1.35	–	–	–	–	–
Christopher Burke	NED 06 share option	22/04/2009	22/04/2010	22/04/2016	1.17	–	–	–	–	–
Christopher Burke	NED 11 share option	21/07/2011	21/04/2014	01/05/2018	0.15	–	–	–	–	–
Christopher Burke	NED 11 share option	18/07/2012	21/04/2015	01/05/2019	0.15	–	–	–	–	–
John McMonigall	NED 06 share option	19/06/2006	19/06/2010	19/06/2013	1.27	–	–	–	–	–
John McMonigall	NED 06 share option	10/05/2007	10/05/2008	10/05/2014	1.80	–	–	–	–	–
John McMonigall	NED 06 share option	30/04/2008	30/04/2009	30/04/2015	1.35	–	–	–	–	–
John McMonigall	NED 06 share option	22/04/2009	22/04/2010	22/04/2016	1.17	–	–	–	–	–
John McMonigall	NED 11 share option	21/07/2011	21/04/2014	01/05/2018	0.15	–	–	–	–	–
John McMonigall	NED 11 share option	18/07/2012	21/04/2015	01/05/2019	0.15	–	–	–	–	–
Peter Weber	NED 06 share option	19/06/2006	19/06/2010	19/06/2013	1.27	–	–	–	–	–
Peter Weber	NED 06 share option	10/05/2007	10/05/2008	10/05/2014	1.80	–	–	–	–	–
Peter Weber	NED 06 share option	30/04/2008	30/04/2009	30/04/2015	1.35	–	–	–	–	–
Peter Weber	NED 06 share option	22/04/2009	22/04/2010	22/04/2016	1.17	–	–	–	–	–
Peter Weber	NED 11 share option	21/07/2011	21/04/2014	01/05/2018	0.15	–	–	–	–	–
Peter Weber	NED 11 share option	18/07/2012	21/04/2015	01/05/2019	0.15	–	–	–	–	–
Russ Shaw	NED 06 share option	12/07/2006	12/07/2010	12/07/2013	1.40	–	–	–	–	–
Russ Shaw	NED 06 share option	10/05/2007	10/05/2008	10/05/2014	1.80	–	–	–	–	–
Russ Shaw	NED 06 share option	30/04/2008	30/04/2009	30/04/2015	1.35	–	–	–	–	–
Russ Shaw	NED 06 share option	22/04/2009	22/04/2010	22/04/2016	1.17	–	–	–	–	–
Russ Shaw	NED 11 share option	21/07/2011	21/04/2014	01/05/2018	0.15	2,293	–	–	–	2,293
Russ Shaw	NED 11 share option	18/07/2012	21/04/2015	01/05/2019	0.15	2,081	–	–	–	2,081

Annual report on remuneration continued

Unaudited information

Annual change in CEO pay versus employee pay

The table below compares the average change in base salary, benefits (excluding pension) and bonus awards for the CEO and for an average UK employee over the period 2015 to 2016. The salary increase shown for the CEO is above the average increase for UK employees but in line with salary increases for high performers, which ranged from 0% to 10%. The CEO's resulting salary remains below the market median for Dialog's peer group.

	Percentage change from 2015 to 2016	
Measure	CEO	Average UK employee
Base salary	5.0	3.5
Taxable benefits	-6.1	4.0
Annual bonus	-27.3	-46.8
Total[1]	-11.1	-2.7

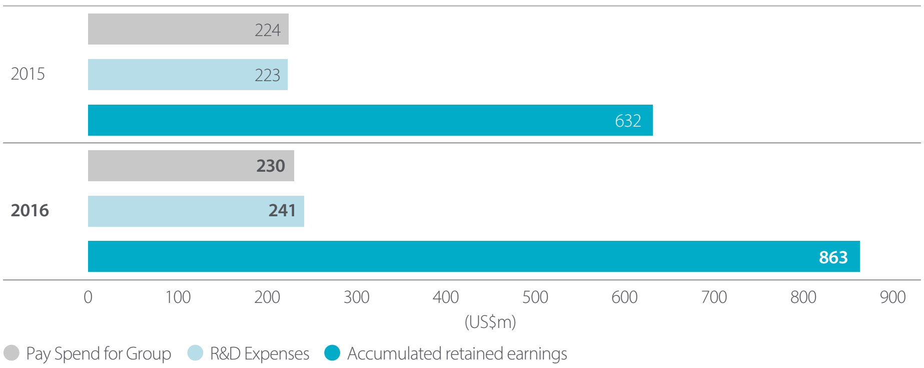
1 Represents the sum of base salary, taxable benefits and bonus.

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

The relevant employee comparator group includes all UK-based Dialog employees and were selected for comparison since they are located in the same market as the CEO.

Relative importance of spend on pay

As no distributions were made to shareholders, the chart below shows the amounts spent in 2015 and 2016 by Dialog on research and development and the Group's accumulated retained earnings at the relevant year end in comparison to spend on employee pay.



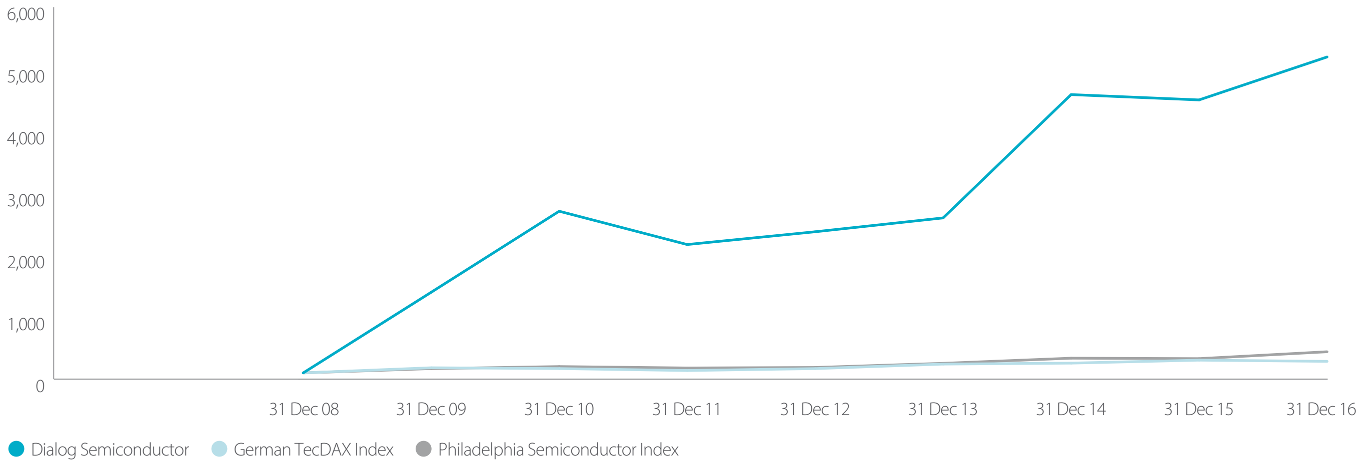
Note: The above chart shows that Dialog's retained earnings exceeded the spend on research and development, and both of these exceed the remuneration spend for the Group. The retained earnings for 2015 have been updated in line with changes in the retained earnings measures in the financial reporting.

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.

Total Shareholder Return (US$)



This graph shows the value, by 31 December 2016, of US$100 invested in Dialog Semiconductor Plc on 31 December 2008 compared with the value of US$100 invested in the German TecDAX Index on the same date. Also plotted is the price index for the Philadelphia Semiconductor Sector Index (rebased to 100). Data has been averaged over 30 days at the end of each financial year.

Source: Datastream (Thomson Reuters).

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 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014	31 Dec 2015	31 Dec 2016
Total remuneration including unrealised gains on options (single figure basis)[1]	1,028,853	4,809,398	30,426,678	2,167,224	2,046,555	4,521,143	5,910,729	4,383,488
Annual bonus (% of maximum)[2]	N/A	N/A	N/A	100%	91.94%	89.12%	79.25%	34.62%
Long-term variable pay (% of maximum)	95%	100%	100%	100%	100%	78%	81.3%	61.49%

1 The total remuneration for 2010 and 2011 includes awards made under the 2008 LTIP plan approved by shareholders at the 2008 AGM. The values vested to the CEO from this plan were US$3,593,299 (2010) and US$29,103,138 (2011), resulting from the exceptional performance and share price growth of the Company, as can be seen in the TSR performance chart above. There are no further awards under this plan. Total remuneration includes the value of long-term incentive awards at the time they vest, as required by UK reporting regulations. The actual value realised by the CEO is based on the market value on the date they are permitted (under Directors' trading restrictions) and/or choose to exercise options or sell shares. The value presented does not therefore reflect exactly that received by the CEO.

2 No maximum bonus was defined prior to 2012.

Annual report on remuneration continued

Operation of policy in the following year

Executive Director

In 2017, the remuneration policy for the CEO will be implemented along broadly similar lines to 2016. Remuneration will continue to be comprised of base salary, benefits, pension, annual bonus and a LTIP award. The annual bonus will be based on similar metrics to last year, namely, financial goals (80%), and commercial & organisational goals (20%).

The LTIP award granted to the Chief Executive in 2017 will have a target value of £2 million in accordance with the approved policy and, as in 2016, will vest after three years subject to the satisfaction of three performance metrics:

→ Dialog TSR performance over the three-year performance period relative to the constituents of the S&P 1500 Select Semiconductor index.

→ Dialog Revenue in each year of the three-year performance period.

→ Dialog EBIT in each year of the three-year performance period.

Non-executive Directors

Non-executive Director fees were restructured in 2016 and brought in line with market levels and to increase alignment with shareholders by paying 60% of the fees in shares (subject to a holding requirement but not a performance condition). The cash element of the fees reduced and the total fee level, which is comprised of a cash and equity component, increased. The fee levels and the portion paid in cash and shares are set out in the following table:

	2017		2016	
In thousands	Cash	Shares	Cash	Shares
Chairman fee	£80	£120	£80	£120
Base fee	£58	£87	£58	£87
Committee Chair fee				
Audit	£16	–	£16	–
Remuneration	£12	–	£12	–
Nominations	£5	–	£5	–
Committee membership fee				
Audit	£8	–	£8	–
Remuneration	£6	–	£6	–
Nominations	£2.5	–	£2.5	–

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 its subsidiaries; and provide recommendations for other employees and consultants as appropriate.

The Committee comprises independent, non-executive Directors. The members are currently Michael Cannon (Chair), Chris Burke, Mary Chan, Russ Shaw, and Nick Jeffery. There were changes to the membership of the Committee during the year as Nick Jeffery was appointed to the committee on 21 July 2016 and Mary Chan on 12 December 2016. The Committee's members have no financial interest in the Company other than as shareholders and through the remuneration paid to them by the Company.

By invitation, other members of the Board may attend the Committee's meetings. The CEO and the Senior Vice President, Human Resources may also attend by invitation but take no part in discussions or decisions on matters relating to their own remuneration. The Committee is free to seek its own independent advice free from management as it deems appropriate.

During the year, the Committee sought and received general advice relating to remuneration from New Bridge Street and Radford (both part of Aon plc). The Committee is satisfied that the advice received from New Bridge Street and Radford is objective and independent and is not subject to any material conflict of interest.

New Bridge Street and Radford are signatories to the UK Remuneration Consultants Group Code of Conduct and all advice received during the year was provided in accordance with this code. Fees paid to New Bridge Street and Radford during the year in respect of advice totalled £127,593.

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 are to:

- Determine the salaries and incentive compensation of the Company's CEO and executive management;
- Provide recommendations for other employees and consultants as appropriate; and
- Administer the Company's compensation, stock and benefits plan.

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

- Review, plan and approve CEO and executive management remuneration;
- Review and address Annual General Meeting outcomes;
- Consider market trends;
- Review the long-term incentive and the structure of the CEO's remuneration package; and
- Review service contracts and separation arrangements for executive Directors.

Shareholder voting results from 2016 AGM

The table below summarises the number of votes for and against the Directors' remuneration policy and Annual report on remuneration at the 2016 AGM. We also include the number of abstentions (referred to as votes withheld).

	Votes for[1]		Votes against[1]				
Resolution	No. of shares	%	No. of shares	%	Votes withheld[2]	Total votes cast	% of voting capital instructed[3]
Approval of Directors' remuneration policy	21,977,434	82.60	4,628,456	17.40	2,112,499	26,605,890	34.17
Approval of Directors' remuneration report (excluding the Directors' remuneration policy)	24,736,694	93.04	1,850,579	6.96	2,131,116	26,587,273	34.15

1 Votes "For" and "Against" are expressed as a percentage of votes received.
2 A "Vote withheld" is not a vote in law and is not counted in the calculation of the votes "For" or "Against" a resolution.
3 Total number of shares in issue at 9:00 am BST (10:00 am CEST) on 26 April 2016 was 77,865,955 shares.

Directors' remuneration policy report

Our policy on remuneration

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

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

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

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

Directors' remuneration policy table

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

Base salary	**Executive Directors**
Purpose and link to strategy	Facilitate recruitment and retention of the best executive talent globally – executives with the experience and expertise to deliver our strategic objectives at an appropriate level of cost.
Maximum opportunity	Base salary increases will not ordinarily exceed the percentage increases awarded for other UK-based Dialog employees with comparable levels of individual performance and potential.
	In cases where an Executive Director's base salary lies materially below the appropriate market competitive level and where such positioning is not sustainable in the view of the Remuneration Committee, annual increases may exceed those for other employees described above. The rationale for any such increase will be described in the Annual report on remuneration for the relevant year.
Operation	Salary is reviewed annually, with any increases normally taking effect in July. A number of factors are considered including, but not limited to, market pay levels among international industry peers of comparable size, and base salary increases for other Dialog employees.
Performance framework	n/a
Changes in policy since 2016	No change

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

Other benefits	Executive Directors
Purpose and link to strategy	Provide market competitive benefits at an appropriate cost which help foster loyalty and retention. Relocation benefits may also be provided based on business need, individual circumstances and location of employment.
Maximum opportunity	There is no maximum for benefits, but they represent a small percentage of remuneration. In the case of relocation, additional benefits may be provided including, but not limited to, the cost of relocation expenses, real estate fees, tax equalisation to home country and tax return filing assistance, temporary housing and schooling. The Remuneration Committee has discretion to determine the value of such benefits and details of any such benefits provided will be disclosed in the Annual report on remuneration covering the year in which they were provided.
Operation	Executive Directors are eligible to receive benefits including, but not limited to, a cash allowance in lieu of a company car, medical insurance for the Executive Director and his/her immediate family members, life and disability insurance, holiday (25–30 days a year, based on length of service) and pay in lieu thereof where applicable, and services to assist with preparation of a tax return or returns where necessary due to the international nature of work completed. Any reasonable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit. Executive Directors are eligible for other benefits and all-employee share plans which are introduced for the wider workforce on broadly similar terms.
Performance framework	n/a
Changes in policy since 2016	No change

Annual bonus plan	Executive Directors
Purpose and link to strategy	Motivate Executive Directors to achieve stretching financial and commercial objectives consistent with and supportive of Dialog's growth plans. Create a tangible link between annual performance and individual pay opportunity.
Maximum opportunity	Annual opportunity of up to 200% of base salary. The Committee retains discretion to adjust the overall bonus outcome to take account of performance outside the normal bounds. This discretion cannot be used to raise the bonus outcome above 200% of base salary.
Operation	The portion of any award up to 100% of base salary is paid in cash, and the portion of any award above 100% of base salary is awarded in deferred shares. Deferred shares normally vest after three years, and are subject to the plan rules in the event of termination or change in control. Dividend equivalents may be paid on any shares which vest. The Committee may vary the performance measures and mix used to adapt to changing Company circumstances. Financial measures will be a significant portion of the total scorecard.
Performance framework	Performance metrics include: → Financial goals (which determine a significant portion of bonus every year); → Commercial goals; and → Organisational and employee-related goals. For financial metrics, performance is set in line with the stretch annual budget.
Changes since 2016	No change

Directors' remuneration policy continued

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

Termination arrangements	Executive Directors
Purpose and link to strategy	To limit the Company's liability for payments in cases of termination, and to provide a fair and equitable settlement in line with market practice where appropriate.
Maximum opportunity	To limit the Company's liability for payments in cases of termination, and to provide a fair and equitable settlement in line with market practice where appropriate. Notice periods from the Company do not exceed 12 months. **Termination not in connection with a change in control** In the case of the current Chief Executive the notice period is 12 months. The maximum termination payment due in the case of termination of employment by the Company without "cause" or termination by the Executive for a pre-defined good reason (see definition below) is: → 1x base salary. → 12 months' continuation of pension and fringe benefits. → Annual bonus pro-rated for the period worked only and subject to the normal performance test at year end. **Termination in connection with a change in control** In the case of the current Chief Executive the notice period from the employee or the Company is 12 months. The maximum payment due in the case of termination of employment by the Company without "cause" or termination by the Executive for a pre-defined good reason in connection with a change in control event is: → 1x base salary. → 12 months' continuation of pension and fringe benefits. → Annual bonus time pro-rated for the period worked, and subject to performance.

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

Fees	Non-executive Directors
Purpose and link to strategy	Supports recruitment and retention of a non-executive Director with the experience and skills that will make a major contribution to the Dialog Board.
Maximum opportunity	Aggregate fees are subject to the limit set out in the Articles of Association or any such higher amount as determined by ordinary resolution.
Operation	Fees are normally reviewed annually. Fees may be paid in a combination of cash and shares subject to any requirements of the Articles of Association of the Company or shareholder resolution. Non-executive Directors' fees are not eligible for any incentive awards or share options. The Chairman's fee is determined by the Executive Directors with input from the Remuneration Committee. Other non-executive Directors may be reviewed annually by the Chairman and Executive Directors. Non-executive Directors may also receive tax advice. In addition to the fees referred to above, non-executive Directors are also reimbursed for the costs of travel relating to the performance of their duties, and these costs may be grossed-up if treated as a taxable benefit in the applicable jurisdiction.
Performance framework	Fee reviews take account of individual performance and contribution, company size, growth and complexity, level of experience and market profile and time committed.
Changes in policy since 2016	No change

Directors' remuneration policy continued

Remuneration of Directors on recruitment and appointment

Dialog is an international company and competes for executive talent on a global basis. In order to recruit and retain Directors of the calibre needed to execute the Company's growth objectives it may be necessary to provide remuneration and benefits taking account of practice among other global semiconductor companies.

The following principles apply in the case of the external recruitment of Directors and the appointment of internal candidates who may be promoted to the Board:

- As far as possible, the remuneration of new Directors will be set in accordance with the existing Directors' remuneration policy described in this report;
- The Remuneration Committee will seek to pay no more than is necessary while ensuring that it can attract the best candidates on a global basis;
- The remuneration package provided will take account of a range of factors, including but not limited to, the calibre of a candidate, the level of existing remuneration, the jurisdiction the candidate is recruited from, and the individual's skills and experience;
- The remuneration package will take account of internal relativities and appropriate international market comparisons;
- The Remuneration Committee has the discretion to determine the fixed elements of a remuneration package (comprising base salary, retirement and other benefits) as it deems necessary and in shareholders' interests. Exercise of such discretion may be necessary, for example in the event of a new appointment to the Board following an acquisition or where commitments have been made as part of a transaction; and
- The Remuneration Committee will in all cases be guided by reasonable market practice and will take appropriate advice where necessary.

The table below outlines policy in respect of recruitment where it differs from that outlined above. Policy in respect of other components of pay is unchanged in recruitment situations from that outlined above. Note that only the references to fees apply to non-executive Directors.

Pay component	Approach in application to recruitment situations
Annual base salary or fee	The following factors will be taken into account when determining appropriate base salary/fee: → The candidate's existing salary/fee, location of employment, skills and experience and expected contribution to the new role; → The previous incumbent's salary/fee for the same role; → The current salaries/fees of other Dialog Directors; → Current relevant market pay data for the role; and → The value of other elements of remuneration to be provided and the combined value of the total package.
Other benefits	The Company recruits executives on a global basis and recruitment is a case in which the Remuneration Committee may choose to exercise the discretion described in the policy table above to provide relocation benefits. In cases where the Committee believes that the Company and its shareholders' interests will be served best by provision of relocation benefits, the Committee will seek to limit these benefits both in terms of their value and the period over which they are provided. Benefits provided may include relocation allowances and global mobility benefits such as housing or schooling as described in the policy table, which may be provided on consideration of family size and business need.
Long-term incentive	The Committee has discretion to provide awards under the LTIP which exceed the maximum outlined in the policy table above in cases where it considers it necessary in order to facilitate recruitment of high-calibre executives. Such awards may be provided as compensation for remuneration foregone at a previous employer as described in the row below. The Committee also has discretion to provide such awards in other circumstances where it considers them necessary to secure an executive's appointment. In cases other than compensation for or "buy-out" of previous awards, LTIP target awards in addition to normal policy levels will be limited to 100% of a target executive's Dialog salary.
Compensation for forfeited remuneration	The Committee may choose to compensate for forfeited remuneration when recruiting an external candidate by providing replacement awards. Where a replacement award is deemed to be necessary, the structure and level will be carefully designed in accordance with the recruitment principles above. Such awards would be designed to take account of the vesting period and where applicable, the performance conditions of the awards they replace. They may include "clawback" provisions. An explanation of the basis of any "buy-out" will be provided as soon as practicably possible after appointment.
Service contracts	Notice periods offered to new Executive Directors will not normally exceed 12 months. However, if it is necessary to offer an executive Director a longer notice period at recruitment, then the length of the notice period will reduce on a rolling basis until it is no greater than 12 months.
Changes in policy since 2016	No change

Clawback and malus policy

Under the rules of the deferred bonus plan, the LTIP and the previous EIP, the Remuneration Committee is entitled to cancel or clawback some or all of a participant's awards in the event that the Audit Committee of the Company determines that the financial accounts of the Company were misstated to a material extent (such determination must be made within two years of the award date or six years if in relation to fraud or reckless behaviour by an executive). Such clawback may be applied through direct repayment or a reduction in unvested awards or future grants, or a reduction in such other payments as might otherwise be due from the Company to the individual.

Shareholding requirement

The Committee will set a shareholding requirement for Executive Directors. The requirement for the current CEO was increased from 200% to 300% of base salary with effect from 2015. The Committee reviews the level of shareholding requirement from time to time and has authority to amend it as necessary.

Share options for non-executive Directors

Until 2012, non-executive Directors received part of their fees in the form of options over Dialog shares. This practice was felt to align their interests with those of shareholders. Use of options was stopped ahead of the 2013 financial year and the last awards made (in 2012) vested in 2015. No further options have been awarded since 2012 and none will be awarded in future years. Provision of share options is not included in the policy table above as options are not part of the Company's forward-looking remuneration policy. According to UK regulations however, reference to options must be made in the policy section of the Directors' remuneration report, in order to permit payments under outstanding awards, hence the inclusion of this section here.

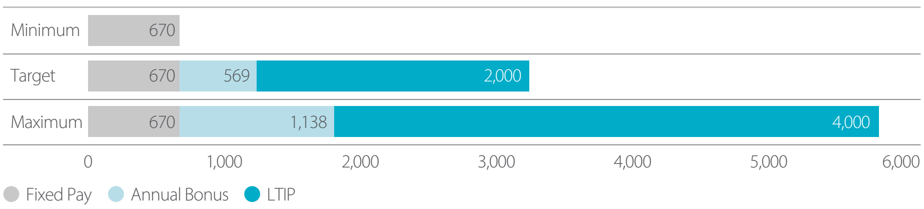
Remuneration policy for Executive Directors compared to that for other employees

The Company's remuneration policy for Executive Directors is similar to that for all other Dialog employees. Differences in policy are outlined below:

- → Annual bonus – All Dialog employees participate in annual bonus plans. The nature of those plans varies somewhat by location and employee category. Most employees participate in a profit-sharing plan; a smaller group participates in a plan based on performance against individual objectives.
- → LTIP – Participation in the LTIP is limited to employees in senior roles and executives, which currently comprise around 70 Dialog employees. This number may increase over time as the business grows.
- → Notice periods – Other UK employees' contracts of employment include three-month notice periods.

Indicative remuneration levels resulting from policy

The charts below represent for the 2017 year the pay mix between the different elements of remuneration for the CEO, assuming threshold, target and maximum performance. Amounts are shown in GBP (000s).



The scenarios shown above are based on the following assumptions:

- → Minimum performance: fixed pay only (base salary, benefits and pension);
- → Target performance: fixed pay, annual bonus of half maximum opportunity (100% of salary) and 50% of the maximum value of the LTIP award vesting; and
- → Maximum performance: fixed pay, maximum annual bonus of 200% of salary and 100% of the maximum value of the LTIP award vesting.

We have assumed that the grant in 2017 under the LTIP will have a target value of £2 million. This could range up to £4 million for achievement of the maximum performance targets. This is in line with the target and maximum value permitted under the policy.

Stakeholder views

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

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

Mike Cannon
Chairman, Remuneration Committee

23 February 2017

Statement of Directors' responsibilities

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

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

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

→ Select suitable accounting policies and then apply them consistently;

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

→ Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performances;

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

→ Make judgements and estimates that are reasonable and prudent.

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

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

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

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

Responsibility statement

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

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

→ The Annual report and accounts includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

→ The Annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

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

Dr Jalal Bagherli
Chief Executive Officer

23 February 2017

Independent Auditor's report

to the members of Dialog Semiconductor Plc

We have audited the financial statements of Dialog Semiconductor Plc for the year ended 31 December 2016 which comprise the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 35. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements, is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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 auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 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 2016 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Alexander Butterworth ACA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

Reading, UK
23 February 2017

Consolidated statement of income

Year ended 31 December

	Notes	**2016 US$000**	2015 US$000	2014 US$000
Revenue	4, 32	**1,197,611**	1,355,312	1,156,105
Cost of sales		**(650,896)**	(730,508)	(641,296)
Gross profit		**546,715**	624,804	514,809
Selling and marketing expenses		**(62,331)**	(62,157)	(60,070)
General and administrative expenses		**(70,940)**	(80,878)	(59,445)
Research and development expenses	32	**(241,345)**	(223,182)	(213,808)
Other operating income	4	**137,708**	1,159	4,416
Operating profit	32	**309,807**	259,746	185,902
Interest income	7	**3,665**	1,215	419
Interest expense	7	**(3,447)**	(6,411)	(14,829)
Other finance (expense)/income	7	**(4,819)**	289	(2,171)
Profit before income taxes		**305,206**	254,839	169,321
Income tax expense	8	**(47,090)**	(77,580)	(31,242)
Net income		**258,116**	177,259	138,079
Attributable to:				
– Shareholders in the Company		**260,940**	178,766	138,079
– Non-controlling interests	27	**(2,824)**	(1,507)	–
Net income		**258,116**	177,259	138,079

		2016	2015	2014
Earnings per share (in US$)	9			
Basic		**3.43**	2.42	2.05
Diluted		**3.25**	2.29	1.93
Weighted average number of shares (in thousands)	9			
Basic		**76,047**	73,763	67,329
Diluted		**80,398**	79,660	76,882

Consolidated statement of comprehensive income

Year ended 31 December

	2016 US$000	2015 US$000	2014 US$000
Net income	**258,116**	177,259	138,079
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods			
Currency translation differences on foreign operations	**227**	(1,884)	(1,032)
Income tax relating to currency translation differences on foreign operations	**(47)**	(10)	(265)
Fair value gain on available-for-sale investments	**2,866**	–	–
Cash flow hedges:			
– Fair value loss recognised on effective hedges in the year	**(13,264)**	(18,960)	(23,614)
– Fair value loss transferred to profit or loss	**8,382**	31,980	3,820
Income tax relating to cash flow hedges	**765**	(3,694)	5,445
Other comprehensive (loss)/income for the year	**(1,071)**	7,432	(15,646)
Total comprehensive income for the year	**257,045**	184,691	122,433
Attributable to:			
– Shareholders in the Company	**259,769**	186,619	122,433
– Non-controlling interests	**(2,724)**	(1,928)	–
Total comprehensive income for the year	**257,045**	184,691	122,433

Consolidated balance sheet

As at 31 December

	Notes	2016 US$000	2015 US$000
Assets			
Cash and cash equivalents	10	**697,167**	566,809
Trade and other receivables	11	**80,773**	72,668
Current financial assets	12	**–**	2,086
Inventories	13	**105,303**	134,930
Income tax receivables		**35,878**	129
Other current assets	14	**15,211**	20,856
Total current assets		**934,332**	797,478
Goodwill	15	**251,208**	251,062
Other intangible assets	16	**125,619**	138,604
Property, plant and equipment	17	**69,668**	68,444
Non-current financial assets	18	**22,332**	3,758
Income tax receivables		**–**	51
Deferred tax assets	8	**27,379**	28,454
Total non-current assets		**496,206**	490,373
Total assets		**1,430,538**	1,287,851
Liabilities and equity			
Trade and other payables	19	**89,645**	131,553
Other current financial liabilities	20	**77,978**	8,245
Provisions	21	**1,477**	1,861
Income taxes payable		**528**	62,181
Other current liabilities	22	**54,444**	49,884
Total current liabilities		**224,072**	253,724
Provisions	21	**3,370**	2,725
Deferred tax liabilities	8	**1,970**	1,598
Other non-current liabilities	23	**6,220**	4,919
Total non-current liabilities		**11,560**	9,242
Ordinary shares		**14,402**	14,402
Share premium account*		**403,687**	403,687
Retained earnings*		**862,914**	631,548
Other reserves*		**(70,566)**	(7,923)
Dialog shares held by employee benefit trusts		**(20,608)**	(24,630)
Equity attributable to shareholders in the Company		**1,189,829**	1,017,084
Non-controlling interests	27	**5,077**	7,801
Total equity	25	**1,194,906**	1,024,885
Total liabilities and equity		**1,430,538**	1,287,851

* Comparative amounts reclassified – see note 25.

These financial statements were approved by the Board of Directors on 23 February 2017 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Consolidated statement of cash flows

Year ended 31 December

	Notes	**2016 US$000**	2015 US$000	2014 US$000
Cash flows from operating activities				
Net income		**258,116**	177,259	138,079
Non-cash items within net income:				
– Depreciation of property, plant and equipment		**27,219**	24,010	22,144
– Amortisation of intangible assets		**35,954**	31,120	33,431
– Write-down of inventories		**4,375**	9,047	9,828
– Share-based compensation expense		**28,167**	19,215	21,173
– Other non-cash items		**2,118**	1,751	407
Interest (income)/expense, net	7	**(218)**	5,196	14,410
Income tax expense	8	**47,090**	77,580	31,242
Cash generated from operations before changes in working capital		**402,821**	345,178	270,714
Changes in working capital:				
– Trade and other receivables		**(8,105)**	29,737	26,764
– Inventories		**21,609**	(42,624)	8,570
– Prepaid expenses		**(301)**	(354)	(376)
– Trade accounts payable		**(44,206)**	34,448	(7,494)
– Provisions		**260**	122	816
– Other assets and liabilities		**13,601**	(3,975)	9,657
Cash generated from operations		**385,679**	362,532	308,651
Interest paid		**(3,434)**	(3,602)	(4,680)
Interest received		**3,314**	1,107	396
Income taxes paid		**(136,799)**	(42,374)	(33,909)
Cash flow from operating activities		**248,760**	317,663	270,458
Cash flows from investing activities				
Purchase of property, plant and equipment		**(25,774)**	(32,955)	(23,842)
Purchase of intangible assets		**(11,790)**	(11,678)	(12,058)
Payments for capitalised development costs		**(15,802)**	(24,778)	(6,670)
Purchase of businesses, net of acquired cash	3	**(647)**	(2,636)	–
(Purchase)/sale of other investments	18	**(10,000)**	68	34
Change in other long term assets		**227**	278	(474)
Cash flow used for investing activities		**(63,786)**	(71,701)	(43,010)
Cash flows from financing activities				
Repayment of borrowings		**–**	–	(105,000)
Share issue costs		**–**	–	(39)
Purchase of Dialog shares by employee benefit trusts		**(3,127)**	(14,032)	(6,172)
Sale of Dialog shares by employee benefit trusts		**11,083**	11,589	22,114
Purchase of own shares into treasury	26	**(61,472)**	–	–
Currency hedges on share buyback obligation		**(1,186)**	–	–
Cash flow used for financing activities		**(54,702)**	(2,443)	(89,097)
Net increase in cash and cash equivalents		**130,272**	243,519	138,351
Cash and cash equivalents at the beginning of the year		**566,809**	324,280	186,025
Currency translation differences		**86**	(990)	(96)
Cash and cash equivalents at the end of the year	10	**697,167**	566,809	324,280

Consolidated statement of changes in equity

Year ended 31 December

	Ordinary shares US$000	Share premium account* US$000	Retained earnings* US$000	Other reserves* (note 25) US$000	Dialog shares held by employee benefit trusts US$000	Equity attributable to shareholders in the Company US$000	Non-controlling interests US$000	Total US$000
As at 1 January 2014 – reclassified	12,852	198,364	211,227	36,449	(2,242)	456,650	–	456,650
Net income	–	–	138,079	–	–	138,079	–	138,079
Other comprehensive income/(loss)	–	–	–	(15,646)	–	(15,646)	–	(15,646)
Total comprehensive income/(loss)	–	–	138,079	(15,646)	–	122,433	–	122,433
Other changes in equity:								
– Shares issued to employee benefit trusts	501	9,741	–	–	(10,281)	(39)	–	(39)
– Purchase of shares by employee benefit trusts	–	–	–	–	(6,172)	(6,172)	–	(6,172)
– Sale of shares by employee benefit trusts	–	–	18,487	–	3,627	22,114	–	22,114
– Share-based compensation, net of tax	–	–	28,690	–	–	28,690	–	28,690
As at 31 December 2014	13,353	208,105	396,483	20,803	(15,068)	623,676	–	623,676
Net income	–	–	178,766	–	–	178,766	(1,507)	177,259
Other comprehensive income/(loss)	–	–	–	7,853	–	7,853	(421)	7,432
Total comprehensive income/(loss)	–	–	178,766	7,853	–	186,619	(1,928)	184,691
Other changes in equity:								
– Conversion of Convertible Bonds								
Issue of shares	1,049	182,089	–	–	–	183,138	–	183,138
Transfer of equity component	–	13,493	23,086	(36,579)	–	–	–	–
– Non-controlling interests in business acquired (note 4)	–	–	–	–	–	–	9,729	9,729
– Purchase of shares by employee benefit trusts	–	–	–	–	(14,032)	(14,032)	–	(14,032)
– Sale of shares by employee benefit trusts	–	–	7,119	–	4,470	11,589	–	11,589
– Share-based compensation, net of tax	–	–	26,094	–	–	26,094	–	26,094
As at 31 December 2015	14,402	403,687	631,548	(7,923)	(24,630)	1,017,084	7,801	1,024,885
Net income	**–**	**–**	**260,940**	**–**	**–**	**260,940**	**(2,824)**	**258,116**
Other comprehensive income/(loss)	**–**	**–**	**–**	**(1,171)**	**–**	**(1,171)**	**100**	**(1,071)**
Total comprehensive income/(loss)	**–**	**–**	**260,940**	**(1,171)**	**–**	**259,769**	**(2,724)**	**257,045**
Other changes in equity:								
– Purchase of own shares into treasury	**–**	**–**	**(1,643)**	**(61,472)**	**–**	**(63,115)**	**–**	**(63,115)**
– Share buyback obligation	**–**	**–**	**(63,077)**	**–**	**–**	**(63,077)**	**–**	**(63,077)**
– Purchase of shares by employee benefit trusts	**–**	**–**	**–**	**–**	**(3,127)**	**(3,127)**	**–**	**(3,127)**
– Sale of shares by employee benefit trusts	**–**	**–**	**3,934**	**–**	**7,149**	**11,083**	**–**	**11,083**
– Share-based compensation, net of tax	**–**	**–**	**31,212**	**–**	**–**	**31,212**	**–**	**31,212**
As at 31 December 2016	**14,402**	**403,687**	**862,914**	**(70,566)**	**(20,608)**	**1,189,829**	**5,077**	**1,194,906**

* Comparative amounts reclassified – see note 25.

Notes to the consolidated financial statements

For the year ended 31 December 2016

1. Background

Description of business

Dialog Semiconductor Plc ("the Company") is a public limited company that is incorporated in England and Wales and domiciled in the United Kingdom. The Company's ordinary shares are listed on the Frankfurt Stock Exchange.

Dialog creates and markets highly integrated, mixed signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid-state lighting and automotive applications. Dialog has four operating segments: Mobile Systems; Automotive & Industrial; Connectivity; and Power Conversion. Segment information is presented in note 32.

Registered office

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

Statement of compliance

The consolidated financial statements of the Company and its subsidiaries (together, "Dialog" or the "Group") set out on pages 88 to 144 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS and therefore comply with Article 4 of the IAS Regulation. The consolidated financial statements also comply with IFRS as issued by the International Accounting Standards Board.

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments and derivative financial instruments are stated at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Information about assets and liabilities that are measured at fair value is presented in note 30.

The Group's significant accounting policies are set out in note 2.

Presentation currency

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

Approval of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 23 February 2017.

Company financial statements

Separate financial statements for the Company are set out on pages 145 to 151.

Accounting standards adopted during the year

At the beginning of 2016, Dialog adopted the following relevant accounting pronouncements, none of which had any impact on the Group's results or financial position:

- Disclosure Initiative (Amendments to IAS 1)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Annual Improvements to IFRSs 2012–2014 cycle

Accounting standards issued but not adopted as at 31 December 2016

We outline below those new or amended accounting pronouncements issued by the IASB that are relevant to Dialog but we had not yet adopted as at 31 December 2016.

Revenue Recognition

IFRS 15 *Revenue from Contracts with Customers* provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows: identify the contract with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

1. Background continued

We have completed our preliminary assessment of the likely impact of IFRS 15. We expect that, in most cases, the recognition and measurement of the Group's revenue will be unaffected. Under our existing revenue recognition policy, however, some sales to distributors and related cost of sales are not recognised until the onward sale of the products by the distributor to end customers. Under IFRS 15, we believe that we will be required to recognise such revenue when the products are physically transferred to the distributors, net of estimated returns or allowances. As at 31 December 2016, revenue deferred on sales to distributors amounted to US$26,121 before returns and allowances.

We intend to apply IFRS 15 using the modified retrospective approach, whereby prior periods will not be restated and the cumulative effect of applying the standard to uncompleted contracts will be recognised as an adjustment to the opening balance of equity on 1 January 2018.

Leases

In January 2016, the IASB issued IFRS 16 *Leases, which* will change the way that lessees will recognise, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

We expect that a significant proportion of those of the Group's leases that are currently classified as operating leases will be recognised on the balance sheet in accordance with IFRS 16, but we have yet to evaluate its impact on the Group's results and financial position.

Financial instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Classification and Measurement*. Changes made by IFRS 9 that are relevant to Dialog include the introduction of a new model for classification and measurement of financial assets and financial liabilities, a single, forward-looking 'expected loss' model for measuring impairment of financial assets (including trade receivables) and a new approach to hedge accounting that is more closely aligned with an entity's risk management activities. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

We expect the most significant changes for Dialog will be in relation to establishing allowances for doubtful debts and accounting for equity investments. We will be required to recognise an allowance for doubtful debts when we recognise revenue on sales to our customers, rather than only when there is objective evidence that we will be unable to collect the amounts due. With regard to equity investments, there will no longer be any exemption from carrying them at fair value and, in the event that such investments are sold, fair value gains and losses that are recognised in equity will no longer be reclassified to profit or loss. We do not expect that the new hedge accounting rules will affect our ability to apply hedge accounting in relation to our foreign currency hedging activities.

Other pronouncements

Amendments to IFRS 2

In June 2016, the IASB published amendments to IFRS 2 *Share-based Payments*, which, among other things, clarified the classification of share-based payment transactions with net settlement features for withholding tax obligations. The amendments are effective for annual periods beginning on or after 1 January 2018. We do not expect the amendments to affect the Group's results or financial position.

Amendments to IAS 7

In January 2016, the IASB published amendments to IAS 7 *Statement of Cash Flows* that are intended to improve information provided to users of financial statements about an entity's financing activities. In particular, the amendments require that specific changes in liabilities arising from financial activities are disclosed and suggest that this requirement may be fulfilled by way of a reconciliation of the opening and closing balances of liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after 1 January 2017 and will affect only the disclosures in the Group's financial statements.

2. Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the results, cash flows and assets and liabilities of the Company and its subsidiaries and sponsored employee benefit trusts.

A subsidiary is an entity that is controlled, either directly or indirectly, by the Company.

Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Generally, such power will exist where the Company holds a majority of the voting rights of an entity. When the Company holds less than a majority of the voting rights of an entity, it considers all relevant facts and circumstances in assessing whether or not its voting rights are sufficient to give it power to direct the activities that significantly affect its returns from the entity, including: the size of the Company's holding of voting rights relative to the size and dispersion of the holdings of other vote holders; potential voting rights held by the Company, other vote holders or other parties; and rights arising from other contractual arrangements.

2. Significant accounting policies continued

Details of the Company's subsidiaries as at 31 December 2016 are set out on page 164.

Consolidation of a subsidiary commences when the Company obtains control over the subsidiary and ceases at such time as control over the subsidiary is lost. Transactions and balances between members of the Group, and any unrealised profits or losses on such transactions, are eliminated on consolidation.

Non-controlling interests represent the equity in a subsidiary that is not attributable, directly or indirectly, to the Company. Where the equity in a subsidiary is not wholly-owned by the Company, the subsidiary's profit or loss and each component of its other comprehensive income are attributed to the Company and to the non-controlling interests in proportion to their ownership interests, even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity.

Business combinations

A business combination is a transaction or other event in which the Company obtains control over a business.

Business combinations are accounted for using the acquisition method.

Goodwill acquired in a business combination is recognised as an intangible asset and represents the excess of the aggregate of the consideration transferred, including contingent consideration, and the amount of any non-controlling interests in the acquired business over the net total of the identifiable assets and liabilities of the acquired business at the acquisition date. Any shortfall, negative goodwill, is recognised immediately as a gain in profit or loss.

Consideration transferred represents the sum of the fair values at the acquisition date of the assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control over the acquired business.

Acquisition-related costs are charged to profit or loss in the period in which they are incurred.

Identifiable assets and liabilities of the acquired business are measured at their fair value at the acquisition date, except for certain items that are measured in accordance with the relevant Group accounting policy, such as replacement equity-settled share-based compensation awards and deferred tax assets and liabilities.

Non-controlling interests that entitle their holders to a proportionate share of the net assets of the acquired business in the event of a liquidation are measured either at fair value or at the non-controlling interest's proportionate share of the identifiable assets and liabilities of the business. Other non-controlling interests are measured at fair value.

Contingent consideration is subsequently measured at fair value unless it is classified as equity. Changes in the fair value of contingent consideration that result from events after the acquisition date are recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Foreign currency translation

Each entity within the Group has a functional currency, which is normally the currency in which the entity primarily generates and expends cash. The functional currency of the Company and its principal subsidiaries is the US dollar.

At entity level, a foreign currency is a currency other than the entity's functional currency. Sales, purchases and other transactions denominated in foreign currencies are translated into the entity's functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Currency translation differences arising at entity level are recognised in profit or loss.

The Group's presentation currency is the US dollar. Foreign operations are therefore those of the Company's subsidiaries whose functional currency is not the US dollar.

On consolidation, the results of foreign operations are translated into US dollars at the average exchange rate for the period and their assets and liabilities are translated into US dollars at the exchange rate ruling at the balance sheet date.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

2. Significant accounting policies continued

The significant currency exchange rates used on consolidation were as follows:

	Exchange rate as at			Annual average exchange rate		
Currency	**31 December 2016 US$1 =**	31 December 2015 US$1 =	31 December 2014 US$1 =	**2016 US$1 =**	2015 US$1 =	2014 US$1 =
Pound Sterling	**0.81**	0.67	0.64	**0.74**	0.65	0.61
Japanese Yen	**116.97**	120.40	119.29	**108.58**	121.10	107.75
Euro	**0.95**	0.92	0.82	**0.90**	0.90	0.75

Currency translation differences arising on consolidation are recognised in other comprehensive income and taken to the currency translation reserve. In the event that a foreign operation is sold, the related cumulative currency translation difference recognised in other comprehensive income is reclassified from equity to profit or loss and is included in calculating the gain or loss on disposal of the foreign operation.

Revenue recognition

Dialog generates revenue principally through the sale of its products, such as ASICs and ASSPs. Relatively small amounts of revenue are generated from royalties for the use of Intellectual Property assets and from research and development contracts.

Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes and after making allowance for discounts, rebates and returns.

Sales of products are mostly made direct to end customers but there are some sales to distributors. Direct sales to end customers are mostly made on a consignment basis to the customer's premises or to a third-party distribution hub, but there are also significant sales to fulfil purchase orders.

Revenue from the sale of products is recognised when the significant risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably and it is probable that payment will be received. Generally, these conditions are satisfied when products are physically transferred to the customer but some sales to distributors and related cost of sales are not recognised until the onward sale of the products by the distributor to end customers.

Revenue from royalties is recognised on an accruals basis in accordance with the terms of the relevant licensing agreements.

Revenue from research and development contracts is recognised using the percentage of completion method with the stage of completion determined as the proportion that costs incurred for work performed to date bear to the estimated total contract costs and disclosed as other operating income. If it is probable that the contract will be loss-making, the expected loss is recognised immediately as an expense in profit or loss.

Research and development expenditure

All research expenditure is expensed as it is incurred.

Development expenditure is also expensed as it is incurred until such time as it can be demonstrated that the product is both technically feasible and commercially viable and that management intends to complete the development of the product and sell it to customers. Development expenditure incurred after that time and before the developed product is available to be put into full production is capitalised.

Generally, development expenditure is expensed until relatively late in the development process when prototypes are available for quality and other tests.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

A grant that is receivable as compensation for expenses incurred is recognised in profit or loss in the period in which it becomes receivable and is deducted from the related expense. A grant whose primary condition is that the Group should purchase, construct or otherwise acquire a non-current asset is recognised as deferred revenue and transferred to profit or loss on a straight-line basis over the useful life of the related asset.

2. Significant accounting policies continued

Goodwill

Goodwill acquired in a business combination is carried at cost as established at the acquisition date, less impairment losses, if any.

Internally generated goodwill is not recognised as an asset.

Other intangible assets

Other intangible assets comprise identifiable intangibles acquired in business combinations (principally customer-related assets and core and developed technology), licences, computer software, patents and product development costs.

Other intangible assets held by the Group have finite useful lives and are therefore carried at cost less accumulated amortisation and impairment losses, if any. Cost comprises the purchase price of the asset (including non-refundable purchase taxes) and any costs directly attributable to preparing the asset for its intended use, or, in the case of assets acquired in business combinations, is the fair value at the acquisition date.

Other intangible assets are amortised on a straight-line basis so as to charge their cost to profit or loss over their estimated useful lives as follows:

	Useful life
Customer-related assets	1.5 to 8.5 years
Software, licences and other	3 to 10 years
Patents	10 years
Product development assets	1 to 9.5 years

Patents are typically granted for a period of 20 years but they are amortised over the period during which the Group expects to benefit from them, which is typically 10 years.

Estimated useful lives are regularly reviewed and the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price of the asset (including non-refundable purchase taxes) and any costs directly attributable to bringing the asset to the location and condition necessary to enable its intended use, or, in the case of assets acquired in business combinations, its fair value at the acquisition date. Leasehold improvements include the estimated cost of any obligation to restore the leased property to its original condition at the end of the lease.

Costs of replacing a significant part of an asset are included in the cost of the asset but routine repairs and maintenance costs are recognised in profit or loss when they are incurred.

Items of property, plant and equipment are depreciated on a straight-line basis so as to charge their cost, less their estimated residual value, if any, to profit or loss over their estimated useful lives as follows:

	Useful life
Test equipment	3 to 7 years
Leasehold improvements	Shorter of useful life or lease term
Office and other equipment	3 to 5 years
Office furniture and fittings	5 to 15 years

Estimated residual values and useful lives are regularly reviewed and the effect of any changes in estimate accounted for on a prospective basis.

Assets that are under construction and not ready for their intended use are not depreciated.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

2. Significant accounting policies continued

Impairment of tangible and intangible assets

Goodwill, other intangible assets and property, plant and equipment are tested for impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. Additionally, goodwill and intangible assets still under development are subject to an annual impairment test.

An asset is impaired to the extent that its carrying amount exceeds its recoverable amount. An asset's recoverable amount represents the higher of the asset's value in use and its fair value less costs to sell. An asset's value in use represents the present value of the future cash flows expected to be derived from the asset in its current use and condition. Fair value less cost to sell is the amount expected to be obtainable from the sale of the asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs. An asset's CGU is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill does not generate cash flows independently of other assets and is, therefore, tested for impairment at the level of the CGU or group of CGUs that are expected to benefit from the synergies of the related business combination.

Value in use is based on estimates of pre-tax cash flows in the periods covered by budgets and/or plans that have been approved by the Board. Such cash flow estimates are discounted at a pre-tax discount rate that reflects the risks specific to the asset or the CGU of group of CGUs to which the asset belongs.

Impairment losses are recognised in profit or loss.

Impairment losses recognised in previous periods for assets other than goodwill are reversed if there has been a change in the estimates used to determine the asset's recoverable amount, but only to the extent that the carrying amount of the asset does not exceed its carrying amount had no impairment been recognised in previous periods. Impairment losses in respect of goodwill are not reversed.

Financial instruments

(a) Trade and other receivables
Trade receivables represent the invoiced amount of sales of goods to customers for which payment has not been received, less an allowance for doubtful accounts where there is objective evidence that the Group may not be able to collect the amounts due. Such evidence may include the period outstanding, the payment history and financial condition of the customer, general economic conditions and other information. When a trade receivable is determined to be uncollectable it is written off, firstly against any allowance made and then directly to profit or loss. Subsequent recoveries are credited to profit or loss.

Trade receivables sold under the Group's receivables financing facilities are derecognised from the balance sheet because the financial institutions concerned assume the credit risk associated with them. Retentions held by the financial institutions are recognised as other receivables.

Long-term receivables are discounted where the effect is material.

(b) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, deposits available on demand and other short-term highly liquid investments with a maturity on acquisition of three months or less.

Interest income on cash and cash equivalents is accrued on a time basis.

(c) Available-for-sale investments
Available-for-sale investments are initially measured at fair value plus transaction costs, if any. Such investments are subsequently measured at fair value and gains and losses are recognised in other comprehensive income, except for impairment losses arising from the significant or prolonged decline in fair value which are recognised in profit or loss.

Equity investments whose fair value cannot be reliably measured are measured at cost less any identified impairment losses.

(d) Trade and other payables
Trade payables represent the amount of invoices received from suppliers for purchases of goods and services for which payment has not been made. Long-term payables are discounted where the effect is material.

(e) Bank and other loans
Bank and other loans are initially measured at fair value plus transaction costs, if any. Such loans are subsequently measured at amortised cost using the effective interest method.

2. Significant accounting policies continued

(f) Derivative financial instruments
The Group uses derivative financial instruments to reduce its exposure to currency exchange rate movements and holds equity options and warrants in relation to certain of its strategic investments. The Group does not hold or issue derivatives for speculative purposes.

All derivative financial instruments held by the Group are recognised as assets and liabilities measured at fair value. Unless a derivative is in a designated and effective cash flow hedging relationship, all fair value gains and losses are recognised in profit or loss. Where the fair value of a derivative on initial recognition differs from the transaction price, if any, the difference is recognised immediately in profit or loss only if the fair value is evidenced by a quoted price in an active market or is based on a valuation technique that uses only data from observable markets.

(g) Convertible bonds
At the time of issue, the proceeds from convertible bonds are split into a liability component and an equity component. The liability component is subsequently measured at amortised cost using the effective interest method.

(h) Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount presented in the balance sheet where there is a currently enforceable legal right to offset the recognised amounts and management intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Inventories

Inventories comprise raw materials, work in progress and finished goods.

Inventories are stated at the lower of cost and net realisable value, with due allowance for any excess, defective or obsolete items.

Cost is determined using the first-in, first-out ("FIFO") method. Cost of finished goods and work in progress includes materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price, less estimated costs of completion and estimated selling, marketing and distribution costs.

Leases

Leases that confer rights and obligations similar to those that attach to owned assets are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets within property, plant and equipment, initially measured at the fair value of the leased asset or, if lower, the present value of the minimum lease payments, and a corresponding liability is recognised. Subsequently, the assets are depreciated over the shorter of the expected useful life of the asset or the term of the lease. At inception of the lease, the lease payments are apportioned between a capital element and an interest element so as to achieve a constant periodic rate of interest on the outstanding liability. Subsequently, the interest element is recognised as an expense in profit or loss while the capital element is applied to reduce the outstanding liability.

Operating lease payments, net of any incentives receivable, are recognised in profit or loss on a straight-line basis over the term of the lease.

Hedge accounting

The Group uses forward currency contracts to hedge its exposure to exchange rate movements on forecast operating expenses denominated in foreign currencies, principally the Euro and the pound sterling. Where possible, these contracts are designated as hedging instruments in cash flow hedge relationships. Changes in the fair value of such hedging instruments are recognised in other comprehensive income to the extent that the hedges are effective. Ineffective portions are recognised in profit or loss immediately. Cumulative fair value gains and losses recognised in other comprehensive income are reclassified from equity to profit or loss when the forecast cash flow occurs.

Hedge accounting is discontinued if the Group revokes the hedge relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. If the hedging instrument expires or is sold, terminated or exercised, or if the hedge relationship no longer meets the conditions for hedge accounting, the cumulative fair value gain or loss remains in equity until the forecast cash flow occurs. If the hedged forecast cash flow is no longer expected to occur, the cumulative fair value gain or loss is reclassified from equity to profit or loss immediately.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

2. Significant accounting policies continued

Income taxes

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period. Taxable profit differs from accounting profit because it excludes income or expenses that are recognised in the period for accounting purposes but are either not taxable or not deductible for tax purposes or are taxable or deductible in earlier or subsequent periods. Current tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is tax expected to be payable or recoverable on temporary differences between the carrying amount of an asset or liability in the financial statements and its tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available in the future against which they can be utilised.

Deferred tax assets and liabilities are not recognised in respect of temporary differences arising from the initial recognition of goodwill or from the initial recognition of other assets or liabilities in a transaction other than a business combination that affects neither accounting profit nor taxable profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Where there is uncertainty concerning the tax treatment of an item or group of items, the amount of current and deferred tax recognised is based on management's expectation of the likely outcome of the examination of the uncertain tax treatment by the relevant tax authorities. Uncertain tax treatments are reviewed regularly and current and deferred tax amounts are adjusted to reflect changes in facts and circumstances, such as the expiry of limitation periods for assessing tax, administrative guidance given by the tax authorities and court decisions.

Current tax assets and liabilities are offset when there is a legally enforceable right to set off the amounts and management intends to settle on a net basis. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current tax and deferred tax is recognised in profit or loss unless it relates to an item that is recognised in the same or a different period outside profit or loss, in which case the related tax is also recognised outside profit or loss, either in other comprehensive income or directly in equity.

Provisions

Provisions for product warranty claims are established based on historical trends of warranty costs as a percentage of sales.

Dilapidation provisions are established for the cost of restoring leasehold property to its original condition at the end of the lease. Provisions are also established for surplus leasehold property or otherwise onerous property leases.

Provisions are discounted where the effect is material.

Defined contribution pension plans

Contributions to defined contribution and state-funded pension plans are recognised in profit or loss in the period to which the contributions relate.

Share-based compensation

As described in note 29, the Company operates share-based compensation plans under which it grants options and other awards over its ordinary shares to employees of its subsidiaries. Awards granted under the existing plans are classified as equity-settled awards. The Group recognises a compensation expense that is based on the fair value of the awards measured at the grant date using the Black-Scholes option pricing formula or a Monte Carlo valuation model. Fair value is not subsequently remeasured unless relevant conditions attaching to the awards are modified.

Fair value reflects any market performance conditions and all non-vesting conditions. Adjustments are made to the compensation expense to reflect actual and expected forfeitures due to failure to satisfy service conditions or non-market performance conditions.

2. Significant accounting policies continued

Generally, the resulting compensation expense is recognised in profit or loss on a straight-line basis over the vesting period and a corresponding credit is recognised in equity. In the event of the cancellation of an option or an award by the Company or by the participating employee, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in profit or loss.

Payroll taxes are payable in the UK and in certain other jurisdictions on the exercise or vesting of awards. Provision is made for such taxes based on the intrinsic value of the relevant awards at the balance sheet date so as to accrue for the taxes payable over the vesting period of the awards.

Shares held by employee benefit trusts

The Group provides finance to two trusts to purchase the Company's ordinary shares in order to meet its obligations under its share-based compensation plans. When the trusts purchase such shares, the cost of the shares is debited to equity and subsequent sales or transfers of the shares by the trusts are accounted for within equity.

Treasury shares

Treasury shares comprise the Company's ordinary shares that have been purchased under the Company's share buyback programme. Purchases made under the programme are off market from the perspective of the Company and are effected by way of contingent forward share purchase contracts with third party brokers. On inception of each tranche, a liability is recognised for the maximum cost of the shares to be purchased under the tranche and there is a corresponding debit to retained earnings. On intermediate and final settlement of purchases with the broker, the cost of the shares purchased is credited to retained earnings and debited to treasury shares within equity. On final settlement, any remaining balance of the liability is credited back to retained earnings.

Subsequent sales, transfers or cancellations of treasury shares by the Company will be accounted for within equity.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements and estimates that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period.

Critical judgements in applying accounting policies
Critical judgements are the judgements, apart from those involving estimations, that management has made that have had the most significant effect on amounts included in the consolidated financial statements.

Business combinations
When the Company makes an investment in a business, management must make judgements as to whether the Company has obtained control over the business and the investment should therefore be accounted for as a business combination.

Accounting for business combinations requires management to make judgements with regard to the purchase price allocation, in particular with regard to the identification and measurement of intangible assets.

When the amount of goodwill acquired in the business combination has been determined, management must exercise judgement to allocate the goodwill for the purpose of future impairment testing to those CGUs or groups of CGUs that it expects will benefit from the synergies of the business combination.

Consolidation of Dyna Image
Dialog has a 45.7% ownership interest in Dyna Image with equivalent shareholder voting rights and has a call option over the shares in Dyna Image that it does not already own.

Dyna Image is accounted for as a subsidiary even though the Company has neither a majority ownership interest nor a majority of the shareholder voting rights because management considers that the terms of the call option are such as to give the Company the power to direct the activities of Dyna Image that will significantly affect its returns.

Revenue recognition
Application of the Group's revenue recognition policy requires management to make judgements as to when the significant risks and rewards of ownership of products have been transferred to the customer, whether the amount of revenue can be measured reliably and whether it is probable that payment will be received. Particular judgement is required as to when the significant risks and rewards of ownership are transferred to distributors who may benefit from sales price allowances and return rights.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

2. Significant accounting policies continued

Product development costs

Product development costs are capitalised from the time when the technical feasibility and commercial viability of the product can be demonstrated. Management is therefore required to make judgements about the technical feasibility of the product based on engineering studies and the commercial viability of the product based on expectations concerning the marketability of the product, the product's useful life and the extent of future demand from customers.

Income taxes

Uncertain tax treatments

Uncertainty may exist concerning the tax treatment of a specific item or group of items because of, for example, uncertainty as to the meaning of tax law or to the applicability of tax law to a particular transaction or circumstance, the determination of appropriate arm's length pricing in accordance with OECD transfer pricing principles, including in relation to our application for a Bilateral Advance Pricing Agreement, or because the amount of current and deferred tax depends on the results of an ongoing or future examination of previously filed tax returns by the tax authorities.

Where such an uncertainty exists, management is required to exercise its judgement in forming its expectation as to the likely outcome of the examination of the uncertain tax treatment by the relevant tax authorities. Due to the complexity of tax laws and their interpretation, the amount ultimately agreed with the tax authorities may differ materially from the amount of current and deferred tax recognised in the consolidated financial statements. Accordingly, the resolution of uncertain tax treatments in future periods may give rise to material adjustments to the amounts of current and deferred tax recognised in the consolidated financial statements. Such adjustments may have a material consequential impact on the Group's income tax expense in future periods.

Recoverability of deferred tax assets

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available in the future against which they can be utilised. Management is required to exercise its judgement in assessing the recoverability of deferred tax assets, in particular regarding the availability of future taxable profits in the same jurisdictions against which deferred tax assets relating to losses may be utilised.

Key sources of estimation uncertainty

Key sources of estimation uncertainty are those that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Impairment of tangible and intangible assets

Impairment tests require management to determine the value in use or fair value less costs to sell of an asset or of the CGU or group of CGUs to which the asset belongs.

Impairment tests conducted during 2016 were based on value in use. Expected future cash flows in the first three years were forecast based on the Group's medium range financial plan. Cash flows beyond the third year were estimated by applying a perpetuity growth factor to the forecast cash flow in the third year. Discount rates applied to the cash flow projections were determined using a capital asset pricing model and reflected current market interest rates, relevant equity and size risk premiums and the risks specific to the assets concerned.

Impairment losses may be recognised in the next financial year if actual cash flows in 2017 differ significantly from management's estimates and/or there is a significant reduction in forecast cash flows beyond 2017, or if market conditions were to cause a significant increase in the applicable discount rates.

As at 31 December 2016, the carrying amount of goodwill was US$251,208 (2015: US$251,062). Disclosures about the sensitivity of the carrying amount of goodwill to changes in the key assumptions are presented in note 15.

Other intangible assets with a carrying amount of US$125,619 as at 31 December 2016 (2015: US$138,604) and property, plant and equipment with a carrying amount of US$69,668 as at 31 December 2016 (2015: US$68,444) would be subject to impairment tests if there were any indicators that they had become impaired during the next financial year.

Share-based compensation

Awards granted under the Group's existing share-based compensation plans are classified as equity-settled awards. The Group recognises a compensation expense that is based on the fair value of the awards measured at the grant date using the Black-Scholes option pricing formula or a Monte Carlo valuation model. Whilst the fair value is not subsequently remeasured unless relevant conditions attaching to the awards are modified, adjustments are made to the resulting compensation expense to reflect management's assumptions about future forfeitures due to failure to satisfy service conditions or non-market performance conditions. Actual forfeitures may differ from management's estimates.

Further information about share-based compensation plans is presented in note 29.

3. Business combination

Year ended 31 December 2016

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

Also during 2016, we incurred residual transaction costs of US$3,485 (recognised within general and administrative expenses) and commitment fees of US$1,913 on the borrowing facility that was arranged to finance the transaction prior to the cancellation of the facility in January 2016 (recognised within interest expense).

Dyna Image Corporation
In June 2016, Dialog paid the deferred consideration of US$680 that was due in relation to its investment in Dyna Image Corporation ("Dyna").

Year ended 31 December 2015

Aborted merger with Atmel
During 2015, we incurred transaction costs of US$17,604 in relation to the proposed acquisition of Atmel (recognised within general and administrative expenses) and commitment fees of US$1,153 on the borrowing facility that was arranged to finance the transaction (recognised within interest expense).

Dyna Image Corporation
On 4 June 2015, Dialog purchased a 45.7% shareholding in Dyna for US$13,601 in cash, of which US$12,921 was paid on completion and US$680 was deferred for 12 months. Prior to the acquisition, Dyna was a majority-owned subsidiary of the Lite-On group of companies. Dialog purchased existing shares in Dyna from Lite-On and also subscribed for new shares.

Lite-On retained a shareholding in Dyna and the remaining shares are owned by the ShunSin Technology group of companies and directors and employees of Dyna. When it acquired its shareholding, Dialog was granted a call option to acquire the outstanding shares in Dyna that it does not already own in one or more tranches at any time during the three years following the closing date. Dialog considers that the call option gives it the power to direct the relevant activities of Dyna and therefore accounted for its investment as a business combination. At the acquisition date, the fair value of the call option was estimated to be US$992.

Dyna specialises in the design and manufacture of optical, inertia and environmental sensors for consumer electronics applications and its sensor technology is complementary to Dialog's power management, audio and Bluetooth® expertise in smartphone, IoT and smart lighting applications.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

3. Business combination continued

Assets acquired and liabilities assumed

Dialog allocated the purchase consideration to the identifiable assets and liabilities of Dyna and goodwill as follows:

	US$000
Assets acquired	
Cash and cash equivalents	10,285
Trade and other receivables	1,836
Inventories	2,212
Other current assets	592
Other intangible assets	5,600
Property, plant and equipment	2,154
Investments	6
Deferred tax assets	859
Total assets acquired	23,544
Liabilities assumed	
Trade and other payables	6,205
Other current liabilities	648
Deferred tax liabilities	1,000
Total liabilities	7,853
Net identifiable assets acquired	15,691
Non-controlling interests	(9,729)
Goodwill arising on acquisition	6,647
Consideration	12,609

Purchase consideration was satisfied by:	
Cash paid on completion	12,921
Deferred cash payment	680
Call option over non-controlling interests	(992)
Consideration	12,609

Identifiable intangible assets acquired comprised developed technology. Deferred tax assets recognised mainly represented tax loss carryforwards.

3. Business combination continued

Non-controlling interests in Dyna comprise Common Stock and Convertible Preferred Shares. Dialog measured the non-controlling interests in the Common Stock at their proportionate share of the net identifiable assets acquired. Since the Convertible Preferred Shares are not entitled to a proportionate share of Dyna's net assets in the event of liquidation, the non-controlling interests in the Convertible Preferred Shares were measured at their fair value at the acquisition date that was based on the price at which Dialog purchased and subscribed for shares in Dyna.

Goodwill recognised on the acquisition of Dyna is attributable to the future strategic growth opportunities arising from the acquisition and the expected synergies with Dialog's existing business in each of its Mobile Systems, Connectivity and Power Conversion segments. None of the goodwill was deductible for tax purposes.

During 2015, Dyna contributed US$4,798 to the Group's revenue and a loss before tax of US$3,240. If Dyna had been acquired on 1 January 2015, the Group's revenue would have been US$2,334 higher at US$1,357,646 and its profit before tax would have been US$1,685 lower at US$253,154.

During 2015, costs of US$51 relating to the acquisition of Dyna were included in general and administrative expenses.

Contingent consideration relating to iWatt. Inc

On 9 April 2014, the previous owners of iWatt Inc. commenced litigation against Dialog in the Court of Chancery in Delaware seeking damages for alleged breaches of the purchase agreement as it relates to the earn-out payments. During the second quarter of 2015, a settlement agreement was reached pursuant to which Dialog paid US$3,375 to the previous owners of iWatt Inc. in full and final settlement of the claim without admission of faults, wrong doing or liability by Dialog. Payment of this amount was made in May 2015 and it was included within general and administrative expenses.

Year ended 31 December 2014

Contingent consideration relating to iWatt. Inc

On 16 July 2013, Dialog acquired 100% of the voting rights of iWatt Inc. The purchase consideration included a contingent consideration of up to US$35 million which was payable dependent on the achievement of revenue targets within two earn out periods. Up to US$17 million was payable dependent on revenue in the six months ended 31 December 2013 and up to a further US$18 million was payable dependent on revenue in the nine months ended 30 September 2014.

Dialog initially recognised a provision of US$5,188 in relation to the fair value of the contingent consideration as at the acquisition date. Subsequently, Dialog considered that the revenue target for neither earn out period was achieved and therefore released US$3,249 of the provision for contingent consideration during 2013 and the remaining US$1,939 during 2014.

Aborted merger with AMS AG

During 2014, we incurred transaction costs amounting to US$1,268 in connection with the aborted merger with AMS AG (recognised within general and administrative expenses).

4. Operating profit

a) Revenue

Revenue may be analysed as follows:

	2016 US$000	2015 US$000	2014 US$000
Sale of goods	**1,196,528**	1,353,936	1,155,124
Royalties	**1,083**	1,376	981
Total	**1,197,611**	1,355,312	1,156,105

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

4. Operating profit continued

b) Operating expenses

Operating profit is stated after charging/(crediting):

	2016 US$000	2015 US$000	2014 US$000
Cost of inventories included in cost of sales	**592,527**	664,355	580,485
Write-down of inventories	**4,375**	9,047	9,828
Research and development costs expensed as incurred	**248,434**	229,258	214,904
Government incentives (deducted from research and development expenses)	**(7,089)**	(6,076)	(1,096)
Depreciation of property, plant and equipment	**27,868**	24,010	22,144
Loss on disposal of fixed assets	**1,569**	1,751	407
Amortisation of intangible assets:	**35,949**	31,120	33,431
– thereof included in cost of sales	**19,363**	13,734	12,792
– thereof included in selling and marketing expenses	**7,779**	7,847	8,289
– thereof included in general and administrative expenses	**2,018**	1,500	1,291
– thereof included in research and development expenses	**6,789**	8,039	11,059
Impairment of intangible assets	**–**	–	2,478
Operating lease rentals	**9,797**	9,177	7,130
Aborted merger costs (note 3)	**3,485**	17,604	1,268
Settlement of iWatt contingent consideration (note 3)	**–**	3,375	–

c) Other operating income

Other operating income comprised:

	2016 US$000	2015 US$000	2014 US$000
Income from research and development contracts	**408**	1,159	1,546
Atmel termination fee (note 3)	**137,300**	–	–
Release of iWatt contingent consideration (note 3)	**–**	–	1,939
Income from insurance benefits and compensation	**–**	–	931
Total	**137,708**	1,159	4,416

5. Employee information

Employment costs were as follows:

	2016 US$000	2015 US$000	2014 US$000
Wages and salaries	**167,090**	174,359	161,405
Social and security costs	**24,932**	21,336	18,522
Share-based compensation	**28,167**	19,215	21,173
Pension costs from defined contribution plans	**10,154**	9,505	9,325
Total	**230,343**	224,415	210,425

Pension costs from defined contribution plans include costs for the state funded pension plan in Germany of US$3,400 (2015: US$3,104; 2014: US$3,256).

Compensation of key management personnel is set out in note 34.

The average number of persons employed by the Group (including the Executive Director) during the year, analysed by category, was as follows:

	2016	2015	2014
Research and development	**1,130**	964	832
Production	**176**	175	157
Sales and marketing	**235**	218	199
Administration	**167**	147	131
Information technology	**46**	42	41
Total	**1,753**	1,546	1,360

6. Auditor's remuneration

Fees payable to the Company's auditors were as follows:

	2016 US$000	2015 US$000	2014 US$000
Audit and audit-related services	**Deloitte**	Deloitte	Ernst & Young
Audit of the parent company and consolidated financial statements	**280**	360	543
Audit of the Company's subsidiaries	**320**	390	43
Other audit-related services	**244**	1,043	187
Other services			
Tax advisory services	**–**	48	2,480
Services related to corporate finance transactions	**–**	555	82
Total	**844**	2,396	3,335

During 2015, the Group also incurred fees amounting to US$1,498 payable to the Company's previous auditors, Ernst & Young LLP.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

7. Finance income/(expense)

a) Interest income

	2016 US$000	2015 US$000	2014 US$000
Interest on cash deposits	**3,657**	779	379
Other interest income	**8**	436	40
Total	**3,665**	1,215	419

b) Interest expense

	2016 US$000	2015 US$000	2014 US$000
Interest on receivables financing facilities	**(850)**	(815)	(589)
Interest on finance leases and hire purchase contracts	**(560)**	(885)	(1,060)
Commitment fees (note 3)	**(1,913)**	(1,153)	–
Interest on Convertible Bonds (note 24)	**–**	(3,482)	(10,279)
Interest on bank borrowings	**–**	–	(2,814)
Unwinding of discount on provisions (note 21)	**(110)**	(39)	(54)
Other interest expense	**(14)**	(37)	(33)
Total	**(3,447)**	(6,411)	(14,829)

c) Other finance (expense)/income

	2016 US$000	2015 US$000	2014 US$000
Currency translation (loss)/gain, net	**(6,017)**	408	(2,171)
Fair value gain on Energous warrants (note 18)	**1,929**	–	–
Fair value loss on Dyna call option (note 18)	**(731)**	(119)	–
Total	**(4,819)**	289	(2,171)

8. Income taxes

Income tax recognised in profit or loss

The components of the Group's income tax expense for the year were as follows:

	2016 US$000	2015 US$000	2014 US$000
Current tax			
United Kingdom	**(10,171)**	–	–
Foreign	**(36,127)**	(78,094)	(57,565)
Deferred tax			
United Kingdom	**(549)**	(10,976)	2,558
Foreign	**(243)**	11,490	23,765
Income tax expense	**(47,090)**	(77,580)	(31,242)

	2016 US$000	2015 US$000	2014 US$000
Current tax			
Current income tax charge	**(46,993)**	(77,862)	(57,559)
Adjustments in respect of prior years	**695**	(232)	(6)
Deferred tax			
Origination and reversal of temporary differences	**(3,922)**	(10,014)	(6,895)
Recognition of previously unrecognised deferred tax assets	**–**	8,105	11,009
Movement in deferred tax liabilities following intra-group reorganisation	**808**	1,292	17,759
Adjustments in respect of prior years	**2,322**	1,131	4,450
Income tax expense	**(47,090)**	(77,580)	(31,242)

In 2014, we recognised a non-cash deferred tax credit of US$17,759 resulting from an intra-group reorganisation of certain Intellectual Property that was acquired with iWatt, Inc., which reduced the amount of the related deferred tax liabilities. We recognised further deferred tax credits of US$1,292 in 2015 and US$808 in 2016 that related to the ongoing impact of the reorganisation on the deferred tax liabilities.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

8. Income taxes continued

Factors affecting the income tax expense for the year

The Group's income tax expense differed from the amount that would have resulted from applying the standard rate of corporation tax in the UK to the Group's profit before income taxes for the reasons shown in the following table:

	2016 US$000	2015 US$000	2014 US$000
Profit before income tax	**305,206**	254,839	169,321
Income tax expense at UK corporation tax rate of 20.0% (2015: 20.25%; 2014: 21.5%)	**(61,041)**	(51,605)	(36,404)
Effect of different foreign tax rates	**(15,434)**	(18,131)	(12,901)
Non-taxable income :			
– Atmel termination fee	**27,460**	–	–
– Other non-taxable income	**240**	–	–
Non-deductible expenses:			
– Atmel transaction costs	**(697)**	(3,798)	–
– Non-deductible portion of share-based compensation	**(7,614)**	(5,008)	(5,120)
– Other non-deductible expenses	**(3,068)**	(1,591)	(553)
Tax benefit from share-based compensation	**4,871**	2,509	4,267
Tax benefit from Intellectual Property and research and development incentives	**8,728**	4,342	–
Benefit from previously unrecognised deferred tax assets	**–**	8,105	11,009
Additional tax losses for which no deferred tax asset is recognised	**(1,321)**	(2,828)	(6,495)
Movement in deferred tax liabilities following intra-group reorganisation	**808**	1,292	17,759
Taxable gain on intra-group reorganisation	**–**	–	(2,445)
Differences arising from different functional and tax currencies	**(2,976)**	(12,089)	(5,426)
Adjustments in respect of prior years	**3,020**	899	4,444
Other items	**(66)**	323	623
Income tax expense	**(47,090)**	(77,580)	(31,242)

The Group's income tax expense for 2016 was US$47,090 (2015: US$77,580; 2014: US$31,242), an effective tax rate for the year of 15.4% (2015: 30.4%; 2014: 18.5%).

Our effective tax rate is sensitive to the geographic mix of profits and reflects a combination of different tax rates in different countries, in particular higher tax rates in Germany and the US. Our effective tax rate can also be affected by foreign exchange rate movements which give rise to deferred tax movements where an entity's functional currency differs from the currency in which it is required to calculate and pay income taxes. The effect on our 2016 tax rate was lower than in 2015 and 2014 due to smaller US dollar to Euro exchange rate movements in 2016.

Our effective tax rate is reduced because a large proportion of Dialog's research and development activities are undertaken in the UK and we are therefore able to benefit from the UK tax regime for technology companies.

Our low effective tax rate for 2016 reflects the tax treatment of the Atmel termination fee of US$137,300. We have obtained tax advice that the termination fee should not be taxable in the UK. We have therefore concluded that no tax liability should arise and have not recognised a tax expense in relation to the termination fee. Our effective tax rate for 2014 was low principally as a consequence of the significant deferred tax credit resulting from the intra-group reorganisation of certain Intellectual Property acquired with iWatt, Inc.

8. Income taxes continued

Factors affecting the income tax expense in future years

Factors that may affect the Group's future tax expense include foreign exchange rate movements, changes in tax legislation and tax rates and the resolution of open issues with tax authorities, including the conclusion of our application for a Bilateral Advance Pricing Agreement relating to the alignment of ownership of the Group's Intellectual Property with the underlying value contributions of group companies.

The Group maintains provisions for potential tax liabilities where uncertainty exists concerning the amount of current or deferred tax recognised. In particular, current and deferred tax amounts recognised as at 31 December 2016 reflect our expectation of the likely final agreement of the Bilateral Advice Pricing Agreement. Due to the complexity of tax laws and their interpretation, the amounts ultimately agreed with tax authorities in respect of these uncertainties may differ materially from the amounts provided and may therefore affect the Group's income tax expense in future periods.

International tax reform remains a key focus of attention, including the OECD's Base Erosion & Profit Shifting project and the EU's action plan for fair and efficient corporate taxation. We continually monitor developments and assess the potential impact for Dialog of such initiatives. We have concluded that current or announced future tax law changes as a result of such initiatives give rise to no changes to the principal risks for Dialog.

Income tax recognised outside profit or loss

Income tax recognised in other comprehensive income was as follows:

	2016 US$000	2015 US$000	2014 US$000
Items that may be reclassified to profit or loss			
Currency translation differences on foreign operations:			
– Deferred tax expense	**(47)**	(10)	(265)
Cash flow hedges:			
– Current tax credit	**1,890**	–	–
– Deferred tax (expense)/credit	**(1,125)**	(3,694)	5,445
Income tax credited/(charged) to other comprehensive income	**718**	(3,704)	5,180

Income tax recognised directly in equity was as follows:

	2016 US$000	2015 US$000	2014 US$000
Share-based compensation:			
– Current tax credit	**2,544**	–	–
– Deferred tax credit	**522**	6,878	7,517
Total tax credited directly to equity	**3,066**	6,878	7,517

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

8. Income taxes continued

Deferred tax

Analysis of movement in the net deferred tax balance during the year:

	US$000
As at 1 January 2015	23,316
Exchange movements	(77)
Recognised in income	514
Recognised in other comprehensive income	(3,704)
Recognised in equity	6,878
Acquisitions and disposals	(71)
As at 31 December 2015	26,856
Exchange movements	**(5)**
Recognised in income	**(792)**
Recognised in other comprehensive income	**(1,172)**
Recognised in equity	**522**
As at 31 December 2016	**25,409**

Deferred income tax assets and liabilities, before offset of balances within countries, are as follows:

	Amount (charged)/credited to profit or loss		Net recognised deferred tax asset/(liability)	
	2016 US$000	2015 US$000	**As at 31 December 2016 US$000**	As at 31 December 2015 US$000
Temporary differences relating to intangible assets	**2,058**	5,219	**(3,518)**	(5,721)
Temporary differences relating to share based compensation	**382**	(7,679)	**12,263**	11,359
Temporary differences relating to licence royalties	**3,325**	3,325	**(3,325)**	(6,650)
Other temporary differences	**(4,096)**	10,051	**(6,699)**	(899)
Deferred taxes in relation to tax credits	**1,587**	594	**5,381**	3,794
Net operating loss carryforwards	**(4,048)**	(10,996)	**21,307**	24,973
Recognised net deferred tax assets/(liabilities)	**(792)**	514	**25,409**	26,856

Deferred tax assets and liabilities are analysed in the consolidated balance sheet, after offset of balances within countries, as follows:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Deferred tax assets	**27,379**	28,454
Deferred tax liabilities	**(1,970)**	(1,598)
Recognised net deferred tax assets/(liabilities)	**25,409**	26,856

8. Income taxes continued

Tax loss carryforwards, temporary differences and net deferred tax assets are summarised as follows:

	As at 31 December 2016			As at 31 December 2015		
	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	–	(6,930)	(1,967)	–	(5,675)	(1,597)
UK	61,416	38,716	7,289	75,100	40,611	8,286
Netherlands	15,597	(1,229)	3,592	25,820	(10,518)	3,826
US	51,893	(13,598)	20,426	51,081	(16,700)	14,195
Other	10,354	3,043	(3,931)	15,837	342	2,146
Total	**139,260**	**20,002**	**25,409**	167,838	8,060	26,856

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$85,505 (2015: US$83,020). In addition, no deferred tax asset is recognised in respect of federal and state tax credits of US$7,667 (2015: US$5,957).

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.

No deferred tax assets were recognised for tax loss carryforwards and temporary differences in respect of which there is expected to be insufficient future taxable profit and therefore utilisation is not probable.

The tax loss carryforwards in the US will expire between 2018 and 2035, in the Netherlands between 2019 and 2023 and in Taiwan between 2023 and 2026. Other tax loss carryforwards have no expiration date.

No deferred tax has been recognised in respect of undistributed earnings of subsidiaries because no liability is expected to arise on distribution under applicable tax legislation or because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

9. 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/(loss) 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.

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

		2016 US$000	2015 US$000	2014 US$000
Profit attributable to shareholders in the Company				
For calculating basic earnings per share	a	**260,940**	178,766	138,079
Add back:				
– Interest expense on convertible bonds (net of tax)		**–**	3,483	10,279
For calculating diluted earnings per share	b	**260,940**	182,249	148,358
		Number	Number	Number
Weighted average number of ordinary shares				
Shares in issue		**77,865,955**	75,515,745	68,068,930
Deduct:				
– Shares held in treasury		**(523,135)**	–	–
– Shares held by employee benefit trusts		**(1,296,216)**	(1,753,204)	(739,976)
For calculating basic earnings per share	c	**76,046,604**	73,762,541	67,328,954
Add:				
– Dilutive share options and awards		**4,351,328**	3,537,414	2,745,904
– Dilutive effect of the Convertible Bonds		**–**	2,360,078	6,806,893
For calculating diluted earnings per share	d	**80,397,932**	79,660,033	76,881,751
		US$	US$	US$
Basic EPS	a/c	**3.43**	2.42	2.05
Diluted EPS	b/d	**3.25**	2.29	1.93

During 2016, the average number of anti-dilutive share options outstanding was 423,760 (2015: 632,893; 2014: 950,340).

10. Cash and cash equivalents

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Cash at bank	**5,131**	34,400
Cash held by employee benefit trusts	**15,160**	10,047
Cash available from receivables financing facilities	**88,876**	91,362
Short-term deposits	**588,000**	431,000
Total	**697,167**	566,809

Short-term deposits are made for varying periods of up to three months.

As at 31 December 2016, short-term deposits included US$nil (2015: US$40,412) drawn from amounts available from receivables financing facilities.

11. Trade and other receivables

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Trade accounts receivable	**64,685**	48,692
Retentions under receivables financing facilities	**16,088**	23,976
Total	**80,773**	72,668

Trade accounts receivable are generally on 30 to 60 day credit terms. Trade accounts receivable are regularly reviewed for collectability and an allowance is established for doubtful accounts against which receivables are written-off when they are no longer considered to be collectible. Trade accounts receivable may be analysed as follows:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Amounts neither past due nor impaired	**63,949**	47,894
Amounts past due but not impaired:		
– Less than 30 days past due	**575**	431
– 30 to 59 days past due	**161**	356
– 60 to 89 days past due	**–**	9
– More than 90 days past due	**–**	2
	736	798
Amounts impaired:		
– Amounts that are impaired	**118**	73
– Allowance for doubtful accounts	**(118)**	(73)
Total	**64,685**	48,692

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

11. Trade and other receivables continued

Movements on the allowance for doubtful accounts were as follows:

	2016 US$000	2015 US$000
At the beginning of the year	**73**	96
Allowances charged to profit or loss	**45**	13
Utilised for write-offs	**–**	(22)
Releases credited to profit or loss	**–**	(14)
At the end of the year	**118**	73

12. Other current financial assets

Other current financial assets comprise:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Deposits for hedging contracts	**–**	2,086

Collateral was required to be placed in relation to certain currency forwards and swaps entered into with a counterparty with which we no longer conduct such transactions.

13. Inventories

Inventories were as follows:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Raw materials	**12,334**	23,651
Work-in-process	**29,337**	43,545
Finished goods	**63,632**	67,734
Total	**105,303**	134,930

14. Other current assets

Other current assets were as follows:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Prepaid expenses	**8,123**	7,812
Other tax receivables	**1,982**	6,720
Other assets	**5,106**	6,324
Total	**15,211**	20,856

15. Goodwill

Movements on goodwill during the years ended 31 December 2016 and 2015 were as follows:

	2016 US$000	2015 US$000
At the beginning of the year	**251,062**	244,878
Investment in Dyna Image (note 3)	–	6,647
Effect of movements in foreign currency	**146**	(463)
At the end of the year	**251,208**	251,062

Dialog's operating segments comprise its cash-generating units (CGUs) for the purpose of allocating goodwill. Goodwill was allocated as follows:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Mobile Systems	**108,113**	108,092
Connectivity	**91,997**	91,909
Power Conversion	**51,098**	51,061
Total	**251,208**	251,062

Impairment tests carried out during the year

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Goodwill is tested for impairment at the level of the operating segments to which it is allocated. Goodwill is impaired if the carrying amount of the operating segment to which it is allocated exceeds its recoverable amount. In conducting impairment tests of goodwill during 2016, we measured the recoverable amount of each operating segment to which goodwill is allocated on a value in use basis. Value in use represents the present value of the future cash flows that we estimate will be generated by the assets allocated to each operating segment in their current use and condition.

Expected future cash flows in the first three years were forecast based on the Group's medium range financial plan. Cash flows beyond the third year were estimated by applying a perpetuity growth factor to the forecast cash flow in the third year.

We consider that the key assumptions used in determining value in use are the expected compound annual growth of revenue during the forecast period, the perpetuity growth rate and the discount rate.

Expected future revenue of each operating segment is based on external forecasts of the future volume of the end markets for the operating segment's products adjusted to reflect factors specific to the operating segment such as its customer base and available distribution channels, the possibility of new entrants to the market and future technological developments. Cash flows during the forecast period also reflect the cost of materials and other direct costs, research and development expenditure and selling, general and administrative expenses. We estimated the cost of materials and other direct and indirect costs based on current prices and market expectations of future price changes.

We applied a perpetuity growth rate of 2% per annum in estimating the future cash flows of each operating segment in both 2016 and 2015, which we consider to be the long-term growth rate in the demand for the products of each operating segment in its end markets.

Discount rates applied to the cash flow projections were determined using a capital asset pricing model and reflected current market interest rates, relevant equity and size risk premiums and the risks specific to the operating segment concerned. Pre-tax discount rates used were as follows: Mobile Systems 12.9% (2015: 11.9%); Connectivity 14.3% (2015: 11.6%); and Power Conversion 11.2% (2015: 11.4%).

We did not recognise any goodwill impairment during 2016 and the recoverable amount of each operating segment to which goodwill is allocated was comfortably in excess of its carrying amount.

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16. Other intangible assets

Movements on other intangible assets for the years ended 31 December 2016 and 2015 were as follows:

	Acquired customer-related intangible assets US$000	Purchased software, licences and other US$000	Patents US$000	Product development assets US$000	Total US$000
Cost					
As at 1 January 2015	77,075	64,999	10,417	93,150	245,641
Effect of movements in foreign currency	–	137	141	(213)	65
Additions	–	4,076	4,257	24,498	32,831
Acquisitions through business combinations	–	–	–	5,600	5,600
Disposals	–	(215)	(1)	(233)	(449)
As at 31 December 2015	77,075	68,997	14,814	122,802	283,688
Effect of movements in foreign currency	**–**	**2**	**–**	**122**	**124**
Additions	**–**	**5,411**	**2,755**	**15,802**	**23,968**
Reclassifications	**–**	**(5)**	**5**	**–**	**–**
Disposals	**–**	**(1,726)**	**(64)**	**–**	**(1,790)**
As at 31 December 2016	**77,075**	**72,679**	**17,510**	**138,726**	**305,990**
Amortisation and impairment losses					
As at 1 January 2015	(26,004)	(40,324)	(5,059)	(42,749)	(114,136)
Effect of movements in foreign currency	–	(105)	(11)	(57)	(173)
Amortisation charge for the year	(7,296)	(8,437)	(1,421)	(13,969)	(31,123)
Disposals	–	169	–	179	348
As at 31 December 2015	(33,300)	(48,697)	(6,491)	(56,596)	(145,084)
Effect of movements in foreign currency	**–**	**2**	**–**	**(11)**	**(9)**
Amortisation charge for the year	**(7,296)**	**(8,673)**	**(1,509)**	**(18,471)**	**(35,949)**
Disposals	**–**	**662**	**9**	**–**	**671**
As at 31 December 2016	**(40,596)**	**(56,706)**	**(7,991)**	**(75,078)**	**(180,371)**
Net book value					
As at 31 December 2015	43,775	20,300	8,323	66,206	138,604
As at 31 December 2016	**36,479**	**15,973**	**9,519**	**63,648**	**125,619**

Hire purchase contracts

The carrying value of intangible assets held under hire purchase contracts at 31 December 2016 was US$5,967 (2015: US$10,703). Additions during the year were US$ nil (2015: US$712). As at 31 December 2016, future minimum payments under those hire purchase contracts were US$5,100 (2015: US$9,504). The present value of the net minimum lease payments was US$1,173 (2015: US$221).

17. Property, plant and equipment

Movements on property, plant and equipment for the years ended 31 December 2016 and 2015 were as follows:

	Test equipment US$000	Leasehold improvements US$000	Office and other equipment US$000	Construction in progress US$000	Total US$000
Cost					
As at 1 January 2015	124,390	15,512	53,810	1,584	195,296
Effect of movements in foreign currency	(77)	51	68	2	44
Additions	12,297	2,503	15,443	2,487	32,730
Acquisitions through business combinations	1,600	–	15	539	2,154
Reclassifications	127	942	319	(1,388)	–
Disposals	(206)	(267)	(2,493)	(115)	(3,081)
As at 31 December 2015	138,131	18,741	67,162	3,109	227,143
Effect of movements in foreign currency	**(10)**	**(37)**	**(175)**	**7**	**(215)**
Additions	**13,152**	**2,044**	**11,089**	**3,685**	**29,970**
Reclassifications	**1,096**	**1,276**	**2,866**	**(5,238)**	**–**
Disposals	**(2,370)**	**(123)**	**(1,503)**	**(259)**	**(4,255)**
As at 31 December 2016	**149,999**	**21,901**	**79,439**	**1,304**	**252,643**
Depreciation and impairment losses					
As at 1 January 2015	(97,636)	(5,924)	(32,473)	–	(136,033)
Effect of movements in foreign currency	30	(37)	(230)	–	(237)
Depreciation charge for the year	(10,978)	(2,624)	(10,552)	–	(24,154)
Reclassifications	21	–	(21)	–	–
Disposals	178	207	1,340	–	1,725
As at 31 December 2015	(108,385)	(8,378)	(41,936)	–	(158,699)
Effect of movements in foreign currency	**28**	**27**	**109**	**–**	**164**
Depreciation charge for the year	**(12,927)**	**(3,333)**	**(11,608)**	**–**	**(27,868)**
Disposals	**2,366**	**72**	**990**	**–**	**3,428**
As at 31 December 2016	**(118,918)**	**(11,612)**	**(52,445)**	**–**	**(182,975)**
Net book value					
As at 31 December 2015	29,746	10,363	25,226	3,109	68,444
As at 31 December 2016	**31,081**	**10,289**	**26,994**	**1,304**	**69,668**

Finance leases

The carrying value of property, plant and equipment held under finance leases at 31 December 2016 was US$4,186 (2015: US$256). Additions during the year were US$4,288 (2015: US$ nil). As at 31 December 2016, future minimum lease payments under those finance lease contracts were US$1,173 (2015: US$225).

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For the year ended 31 December 2016

18. Non-current financial assets

Non-current financial assets were as follows:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Available-for-sale investments:		
– Shares in Energous Corporation	**12,866**	–
– Shares in Arctic Sand Technologies, Inc.	**1,446**	1,446
Derivative financial instruments:		
– Warrants over shares in Energous Corporation	**6,624**	–
– Call option over shares in Dyna Image Corporation	**142**	873
Rental and other deposits	**1,254**	1,439
Total	**22,332**	3,758

Energous Corporation ("Energous")

Energous is the developer of WattUp®, a revolutionary wire-free charging technology that provides over-the-air power at a distance. In November 2016, Dialog entered into a strategic alliance with Energous whereby it agreed to become the exclusive component supplier of the WattUp® integrated circuits. At the same time as entering into the strategic alliance, the Company paid US$10,000 in cash on subscription for 763,552 common shares in Energous and was granted warrants to purchase up to 763,552 common shares in Energous that are exercisable in full or in part on a cashless basis at any time between May 2017 and November 2019.

We have classified the shares held by the Company in Energous as available-for-sale. We consider that the subscription price paid for the shares represented their fair value at the date of issue. As at 31 December 2016, the fair value of the shares held by the Company had increased to US$12,866 and the resulting gain of US$2,866 was recognised in other comprehensive income. As at 31 December 2016, the Company held approximately 3.8% of Energous's issued common shares.

We consider that the grant of the warrants was linked to the negotiation of the strategic alliance. On the grant date, we therefore recognised the warrants at their fair value of US$4,695 and an equivalent deferred credit within non-current liabilities. We will amortise the deferred credit to profit or loss in relation to the royalties that may be payable by Dialog for the use of Energous's Intellectual Property over the initial seven-year term of the strategic alliance. As at 31 December 2016, the fair value of the warrants had increased to US$6,624 and the resulting gain of US$1,929 was recognised in profit or loss (as other finance income).

Arctic Sand Technologies, Inc. ("Arctic Sand")

During 2012, Dialog participated in the initial funding round of Arctic Sand, an MIT spin-off commercialising an innovative new approach to power conversion for multiple markets, including smartphones, tablets, Ultrabooks™ and data centres. As at 31 December 2016, we held approximately 3.5% of the issued equity shares in Arctic Sand. We have classified the shares in Arctic Sand as available-for-sale but we carry them at cost because we are unable to measure reliably the fair value of the shares.

Call option over shares in Dyna Image Corporation ("Dyna")

As described in note 3, the Company has a call option over the shares in Dyna that it does not already own. During 2016, the fair value of the call option decreased from US$873 to US$142. Accordingly, a fair value loss of US$731 was recognised in profit or loss during 2016 (2015: loss of US$119).

19. Trade and other payables

Trade and other payables were as follows:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Trade accounts payable	**79,242**	114,075
Other payables	**10,403**	17,478
Total	**89,645**	131,553

Trade accounts payable are non-interest bearing and are normally settled on 30-60-day terms. Other payables are non-interest bearing and have a term of less than three months.

20. Other current financial liabilities

Other current financial liabilities were as follows:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Hire purchase agreements and finance lease obligations	**4,409**	3,677
Currency forwards and swaps	**12,496**	4,568
Share buyback obligation	**61,073**	–
Total	**77,978**	8,245

21. Provisions

Movements on provisions were as follows:

	Product warranties US$000	Leasehold property US$000	Legal claims US$000	Contractual severance US$000	Other provisions US$000	Total US$000
As at 1 January 2015	1,483	1,345	283	610	63	3,784
Currency translation differences	–	(38)	(29)	(43)	(1)	(111)
Additions charged to profit or loss	1,545	919	–	147	–	2,611
Utilised	(1,226)	(132)	–	(106)	–	(1,464)
Releases credited to profit or loss	(257)	(16)	–	–	–	(273)
Unwinding of discount	–	39	–	–	–	39
As at 31 December 2015	1,545	2,117	254	608	62	4,586
Currency translation differences	**–**	**(131)**	**–**	**(10)**	**–**	**(141)**
Additions charged to profit or loss	**1,104**	**1,302**	**–**	**181**	**350**	**2,937**
Utilised	**(1,545)**	**(622)**	**–**	**(26)**	**–**	**(2,193)**
Releases credited to profit or loss	**–**	**(158)**	**(254)**	**–**	**(40)**	**(452)**
Unwinding of discount	**–**	**110**	**–**	**–**	**–**	**110**
As at 31 December 2016	**1,104**	**2,618**	**–**	**753**	**372**	**4,847**

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For the year ended 31 December 2016

21. Provisions continued

Provisions are presented in the Group's balance sheet as follows:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Current liabilities	**1,477**	1,861
Non-current liabilities	**3,370**	2,725
Total	**4,847**	4,586

Product warranties

The Group provides contractual product warranties under which it guarantees the performance of its products. Product warranty provisions are based on historical warranty data and are expected to be utilised within one year of the balance sheet date.

Leasehold property

Leasehold property provisions include dilapidation provisions for the costs of restoring leasehold properties to their original condition at the end of the lease and provisions for onerous leases. Leasehold property provisions will be utilised over the remaining terms of the relevant leases, which expire up to six years from the balance sheet date.

Contractual severance

Provision is made for contractual severance payments that are payable to employees in certain countries in Asia when they leave the Group's employment.

22. Other current liabilities

Other current liabilities were as follows:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Obligations for personnel and social expenses	**23,575**	30,188
Advances received in relation to research and development contracts	**2,701**	2,701
Other liabilities	**28,168**	16,995
Total	**54,444**	49,884

Obligations for personnel and social expenses have an average term of three months (2015: three months). Other payables are non-interest bearing and are normally settled on 30-day terms.

23. Other non-current liabilities

Other non-current liabilities were as follows:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Liabilities relating to hire purchase and finance lease obligations	**1,525**	4,919
Deferred royalty credits	**4,695**	–
Total	**6,220**	4,919

24. Convertible bonds

During 2012, the Company issued at par US$201 million 1% Convertible Bonds 2017 ("the Bonds") that were convertible into the Company's ordinary shares.

On 16 March 2015, Dialog announced that it would exercise its option to redeem all of the outstanding Bonds on 5 May 2015. By 28 April 2015, all holders of the Bonds had exercised their conversion rights in respect of all outstanding Bonds. At the time of conversion, the carrying amount of the Bonds was US$183,138. Conversion of the Bonds resulted in the issue of 6,797,025 ordinary shares with a nominal value of US$1,049 and an increase in the share premium account of US$182,089.

25. Share capital and reserves

a) Ordinary shares

As at 31 December 2016, 2015 and 2014, the authorised share capital of the Company comprised 104,311,860 ordinary shares with a nominal value of £0.10 per share.

The number of allotted and fully paid ordinary shares was as follows:

	Number of shares	Nominal value US$000
As at 1 January 2014	68,068,930	12,852
Shares issued to employee benefit trusts	3,000,000	501
As at 31 December 2014	71,068,930	13,353
Conversion of Convertible Bonds	6,797,025	1,049
As at 31 December 2015 and 2016	**77,865,955**	**14,402**

Ordinary shareholders have no entitlement to share in the profits of the Company except for dividends that may be declared and in the event of the Company's liquidation.

Ordinary shareholders have the right to attend, and vote at, general meetings of the Company or to appoint a proxy to attend and vote at such meetings on their behalf. Ordinary shareholders have one vote for every share held.

b) Share premium account

The share premium account represents the difference between the nominal value of shares issued and the fair value of the consideration received. The share premium account is not distributable but may be used for certain purposes specified by United Kingdom law, including to write off expenses on any issue of shares and to pay up fully paid bonus shares.

In preparing these financial statements, the Directors have presented the share premium account separately within reserves in order to present more clearly the Company's undistributable reserves. In previous years, the share premium account was subsumed within additional paid-in capital, which also included gains recognised on the sale or transfer of shares held by employee benefit trusts and the equity component of the US$201 million 1% Convertible Bonds 2017 ("the Bonds") that were issued by the Company during 2012 and converted by the bondholders during 2015. As shown in the following table, comparative information has therefore been reclassified as follows:

- to transfer from additional paid-in capital to the share premium account the cumulative premium (net of issue costs) recognised on the issue of shares prior to 1 January 2014 of US$198,364, the premium of US$9,741 on shares issued to employee benefit trusts during 2014 and the premium of US$182,809 on shares issued on conversion of the Bonds during 2015;
- to transfer from additional paid-in capital to retained earnings the cumulative gain of US$11,346 recognised on the sale or transfer of shares by employee benefit trusts prior to 1 January 2014 and the gain on such sales or transfers of US$18,487 during 2014 and US$7,119 during 2015;
- to transfer from additional-paid in capital to a separate reserve the equity component of the Bonds amounting to US$36,579 that was recognised on the issue of the Bonds; and
- on conversion of the Bonds during 2015, to transfer from the separate reserve to retained earnings an amount of US$23,086 representing the cumulative interest expense recognised in relation to the Bonds and to transfer the balance of the equity component amounting to US$13,493 to the share premium account.

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25. Share capital and reserves continued

	Additional paid-in capital US$000	Share premium account US$000	Retained earnings US$000	Equity component of Convertible Bonds US$000
As at 1 January 2014 – as previously stated	246,289	–	199,881	–
Reclassifications:				
– Premium on the issue of shares (net of issue costs)	(198,364)	198,364	–	–
– Gain on sale of shares by employee benefit trusts	(11,346)	–	11,346	–
– Equity component of Convertible Bonds	(36,579)	–	–	36,579
As at 1 January 2014 – reclassified	–	198,364	211,227	36,579
Movements – as previously stated	28,228	–	166,769	–
Reclassifications:				
– Shares issued to employee benefit trusts (net of issue costs)	(9,741)	9,741	–	–
– Gain on sale of shares by employee benefit trusts	(18,487)	–	18,487	–
As at 31 December 2014 – reclassified	–	208,105	396,483	36,579
Movements – as previously stated	189,208	–	204,860	–
Reclassifications:				
– Conversion of Convertible Bonds				
Issue of shares	(182,089)	182,089	–	–
Transfer of equity component	–	13,493	23,086	(36,579)
– Gain on sale of shares by employee benefit trusts	(7,119)	–	7,119	–
As at 31 December 2015 – reclassified	–	403,687	631,548	–

c) Other reserves

Currency translation reserve
The currency translation reserve represents the cumulative gains and losses recognised on the translation into US dollars of the Group's net investments in foreign operations.

Available-for-sale reserve
The available-for-sale reserve represents the unrealised fair value gains less fair value losses that are not considered to represent an impairment recognised on the revaluation of available-for-sale investments since initial recognition.

Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative gains and losses on effective cash flow hedging instruments that will be recycled to profit or loss on the occurrence of the hedged cash flows.

Treasury shares
Treasury shares are shares purchased under the Company's share buyback programme. Details of purchases made under the programme during 2016 are set out in note 26.

25. Share capital and reserves continued

Movements on other reserves were as follows:

	Currency translation reserve US$000	Available-for-sale securities US$000	Hedging reserve US$000	Treasury shares US$000	Equity component of Convertible Bonds US$000	Total US$000
As at 1 January 2014	(1,710)	–	1,580	–	36,579	36,449
Other comprehensive income/(loss):						
– Currency translation differences on foreign operations	(1,032)	–	–	–	–	(1,032)
– Fair value loss recognised on effective hedges	–	–	(23,614)	–	–	(23,614)
– Fair value loss transferred to profit or loss	–	–	3,820	–	–	3,820
– Income tax (expense)/credit	(265)	–	5,445	–	–	5,180
As at 31 December 2014	(3,007)	–	(12,769)	–	36,579	20,803
Other comprehensive income/(loss):						
– Currency translation differences on foreign operations	(1,463)	–	–	–	–	(1,463)
– Fair value loss recognised on effective hedges	–	–	(18,960)	–	–	(18,960)
– Fair value loss transferred to profit or loss	–	–	31,980	–	–	31,980
– Income tax expense	(10)	–	(3,694)	–	–	(3,704)
Other changes in equity:						
– Conversion of Convertible Bonds	–	–	–	–	(36,579)	(36,579)
As at 31 December 2015	(4,480)	–	(3,443)	–	–	(7,923)
Other comprehensive income/(loss):						
– Currency translation differences on foreign operations	**127**	**–**	**–**	**–**	**–**	**127**
– Fair value loss recognised on effective hedges	**–**	**–**	**(13,264)**	**–**	**–**	**(13,264)**
– Fair value loss transferred to profit or loss	**–**	**–**	**8,382**	**–**	**–**	**8,382**
– Fair value gain on available-for-sale investments	**–**	**2,866**	**–**	**–**	**–**	**2,866**
– Income tax (expense)/credit	**(47)**	**–**	**765**	**–**	**–**	**718**
Other changes in equity:						
– Purchase of own shares into treasury	**–**	**–**	**–**	**(61,472)**	**–**	**(61,472)**
As at 31 December 2016	**(4,400)**	**2,866**	**(7,560)**	**(61,472)**	**–**	**(70,566)**

d) Dialog shares held by employee benefit trusts

The Company provides finance to two trusts to purchase its ordinary shares in order to meet its obligations under its share-based compensation plans. As at 31 December 2016, the trusts held 574,600 shares (2015: 1,879,195 shares; 2014: 2,825,412 shares)

26. Share buyback programme

At the Company's AGM on 28 April 2016, the Directors were granted the authority to purchase up to 7,786,595 ordinary shares in the capital of the Company (representing approximately 10% of the issued ordinary share capital of the Company as at 30 March 2016). Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2017, whichever is the earlier.

Purchases made under the authority are off-market from the perspective of the Company and are effected by way of contingent forward share purchase contracts entered into with Barclays, HSBC or Merrill Lynch acting as brokers who will purchase interests in the Company's ordinary shares ("Cis") on the Frankfurt Stock Exchange.

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26. Share buyback programme continued

Shares purchased under the first and second tranches

On 9 May 2016, the Company announced the first tranche of the share buyback programme under which it committed to purchase shares with a minimum cost of €37.5 million and a maximum cost of €50 million. Final settlement and conclusion of the first tranche took place on 28 September 2016. We purchased a total of 1,332,158 shares under the first tranche at a cost of €37.5 million (US$42,024).

On 8 November 2016, the Company announced details of the second tranche of the share buyback programme under which it committed to purchase shares with a minimum cost of €56.25 million and a maximum cost of €75.0 million. On 30 December 2016, we completed the first intermediate settlement under the second tranche purchasing 473,592 shares at an initial cost of €17.45 million (US$18,383).

As at 31 December 2016, we held 1,805,750 shares purchased under the first and second tranches in treasury at a total cost of US$61,472 (including related transaction costs of US$1,063).

During 2016, we recognised a debit to retained earnings of US$1,643, which mirrored the gain recognised in profit or loss on the translation into US dollars of the Euro-denominated liabilities that existed in relation to shares that were purchased during the year under the first and second tranches. We hedge the currency translation exposure on outstanding liabilities to purchase shares using currency forwards and swaps. After taking into account hedging, we recognised a net currency translation loss of US$593 in profit or loss in relation to liabilities to purchase shares under the first and second tranches.

Share buyback obligation

As at 31 December 2016, we recognised a debit to equity amounting to US$63,077, which comprised the maximum remaining obligation to purchase shares under the second tranche of €57.55 million (US$62,759) and related transaction costs of US$318.

27. Non-controlling interests

All subsidiaries are wholly-owned except Dyna Image Corporation, for which information is presented below:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests	Loss allocated to non-controlling interests US$000	Accumulated non-controlling interests US$000
Dyna Image Corporation	Taipei, Taiwan	45.7%	(2,824)	5,077

Summarised financial information before intra-group eliminations:

	As at 31 December 2016 US$000	As at 31 December 2015 US$000
Total current assets	**8,816**	9,609
Total non-current assets	**5,884**	7,237
Total current liabilities	**(4,702)**	(4,702)
Total equity	**9,998**	12,144
Equity attributable to:		
– Shareholders in the Company	**4,921**	4,343
– Non-controlling interests	**5,077**	7,801
Total equity	**9,998**	12,144

27. Non-controlling interests continued

	2016 US$000	2015 US$000
Revenue	**9,409**	4,798
Expenses	**(14,195)**	(7,352)
Loss for the year	**(4,786)**	(2,554)
Loss attributable to owners of the Company	**(1,962)**	(1,047)
Loss attributable to the non-controlling interests	**(2,824)**	(1,507)
Loss for the year	**(4,786)**	(2,554)
Other comprehensive income/(loss) attributable to owners of the Company	**69**	(292)
Other comprehensive income/(loss) attributable to the non-controlling interests	**100**	(421)
Other comprehensive income/(loss) for the year	**169**	(713)
Total comprehensive loss attributable to owners of the Company	**(1,893)**	(1,339)
Total comprehensive loss attributable to the non-controlling interests	**(2,724)**	(1,928)
Total comprehensive loss for the year	**(4,617)**	(3,267)
Cash flow (used for) operating activities	**(1,025)**	(5,740)
Cash flow (used for) investing activities	**(29)**	(1,043)
Cash flow from financing activities	**–**	8,721
Cash flow (used for)/from operating, investing and financing activities	**(1,054)**	1,938

28. Pension schemes

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$6,754 (2015: US$6,401; 2014: US$6,069). As at 31 December 2016, contributions amounting to US$1,802 (2015: US$1,505; 2014: US$916) 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$3,400 (2015: US$3,104; 2014: US$3,256).

29. Share-based compensation

a) Stock option plans (SOP) and Employee Share plans (ESP)

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. As at 31 December 2016, 13,741,051 shares could be issued (2015: 13,741,051 shares). 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 ten years.

Unless otherwise determined by the Board, stock options granted to employees before 31 December 2013, were 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. After an amendment of the stock option plan grants made on or after 31 October 2006 had a seven-year life and vest monthly over a period of one to 48 months. These stock options may not be exercised until they have been held for one calendar year from the grant date.

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. In 2014 the first options were granted under the ESP.

At the 2011 Annual General Meeting, Shareholders approved a change of the fee structure for non-executive Directors. Two-thirds of the total fees are delivered in cash and one-third 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 €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 2015 and 2016.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

29. Share-based compensation continued

The fair value of all grants in the two-year period ended 31 December 2016 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. The expected volatility is based on the historical share price volatility over the remaining life of Dialog Semiconductor Plc shares which is based on information provided by Bloomberg. The expected volatility is based on the assumption that future trends can be concluded from the historical volatility. Therefore, the actual volatility may differ from these assumptions.

The following assumptions were used for stock option grants for the years ended 31 December 2016, 2015 and 2014:

	2016	2015	2014
Expected dividend yield	**0%**	0%	0%
Expected volatility	**41%**	46%	36%
Risk free interest rate	**(0.3)%**	0.1%	0.2%
Expected life (in years)	**3.0-6.0**	3.0-6.0	2.0-5.0
Weighted average share price during the year (in €)	**30.95**	39.42	20.83
Weighted average share price for Option grants (in €)	**34.96**	39.22	18.40
Weighted average exercise price (in €)	**0.10**	0.10	0.10
Weighted-average fair value (in €)	**34.86**	33.38	18.31

b) Executive 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. Therefore, the EIP expired on 5 May 2015.

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 (one-third 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) 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.

29. Share-based compensation continued

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.

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.

c) Long-Term Incentive Plan

The Group also operates the Dialog Long-Term Incentive Plan ("LTIP") which was approved by shareholders at the Annual General Meeting on 30 April 2015. This new plan will replace the existing Executive Incentive Plan ("EIP") which expired on 5 May 2015. All employees will be eligible to participate in the LTIP but in practice awards will be targeted at the executive Director level and others in senior roles. The LTIP will operate over a ten year period from the date of approval by Shareholders. Participants selected by the Remuneration Committee will be granted an LTIP Award either in the form of:

- a nil cost or nominal cost option;
- a conditional share award;
- a market price option; or
- a cash-settled award linked to the value of the Company´s share price (in the case of jurisdictions where it is not feasible to deliver shares to employees).

Notes to the consolidated financial statements continued

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29. Share-based compensation continued

The first LTIP Awards were granted to employees in 2015 within six weeks following the AGM in April. Subsequently, it is intended that, other than in exceptional circumstances, LTIP Awards will be granted to participants within six-week period following the date of publication of the results of the Company.

Awards to executive Directors will vest subject to the achievement of challenging performance conditions, set at each grant by the Remuneration Committee. Awards to other employees may be made with or without performance conditions. For 2015 awards, the proposed performance condition is as follows: there are three different performance measures, relating to EBIT, Revenue Growth and relative Total Shareholder Return (the "TSR"). Each of these three performance measures will determine one-third of the vesting.

Relative TSR

The TSR performance measure looks at the total amount returned to Shareholders, whether by way of share price growth or any dividends paid. The Company´s TSR will be compared to the TSR of the constituents of the S&P Select Semiconductor Index. Dialog´s TSR is measured over a three-year performance period and compared to the companies in the comparator group. The Committee may choose to use the average TSR of each company at the start and end of the measurement period, with averaging over not more than three months. If Dialog´s TSR is below the median of the comparator group then none of this TSR-related part of the award vests. If Dialog´s TSR is at the median of the comparator group then 25% of the maximum TSR-related part of the award vests. If Dialog´s TSR is at the 60th percentile of the comparator group then 50% of the maximum TSR-related part of the award will vest. If Dialog´s TSR is at or above the 75th percentile of the comparator group then 100% of the maximum TSR-related part of the award will vest. Straight-line interpolation will apply between the 25%, 50% and 100% vesting points referred above. In addition, the level of vesting for the TSR-related component of the award is capped: if the TSR is negative for the performance period, vesting is capped at 50% of the maximum award, irrespective of whether the Company has outperformed the constituents of S&P Select Semiconductor Index against which it is benchmarked.

Financial metrics

The EBIT and revenue growth targets will be measured over a three-year period. Targets will be set and measured on an annual basis to ensure that they remain challenging and relevant. These targets will 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); and

Maximum (e.g. the level of performance which is acknowledged by the Remuneration Committee as exceptional).

Level of Corporate Performance	% of LTIP Award vesting, as a percentage of maximum
Threshold[1]	25%
Target[1]	50%
Maximum[1]	100%

1 Straight-line between points.

At the end of the three-year performance period, the Remuneration Committee will determine the level of vesting based on the actual level of performance achieved over the three years.

Overall performance assessment

The Remuneration Committee may apply a downward adjustment to the total level of vesting if it considers this to be necessary to take account of the overall financial health or performance of the Company. The balance of any LTIP Award which does not vest in accordance with the above performance conditions will lapse.

The vesting period for any awards to executive Directors will be three years. Any awards for other participants that are subject to performance conditions will also have a three-year vesting period. Where awards below the Executive Directors are granted without performance conditions, the Remuneration Committee will determine the appropriate vesting period at the time of grant.

29. Share-based compensation continued

The following assumptions were used for the fair value calculations of the Group´s performance related plans described above ("EIP" and "LTIP"):

	Grant in 2016	Grant in 2015	Grant in 2014
Average share price at grant date	**€33.41**	€39.17	€16.00
Exercise price	**€0.10**	€0.12	€0.12
Expected volatility	**41%**	46%	36%
Risk-free interest rate	**(0.3)%**	0.1%	0.2%
Assumed level of vesting regarding the performance conditions	**70%**	70%	70%
Option lifetime	**6 Years**	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 2016 and 2015 was as follows:

	2016 Options	2016 Weighted average exercise price €	2015 Options	2015 Weighted average exercise price €
Outstanding at the beginning of the year	**4,710,245**	**4.53**	5,148,024	5.90
Granted	**1,432,827**	**0.10**	1,008,344	0.10
Exercised	**(1,304,595)**	**6.34**	(1,306,386)	6.57
Forfeited	**(368,500)**	**0.64**	(139,737)	3.70
Outstanding at the end of the year	**4,469,977**	**2.90**	4,710,245	4.53
Options exercisable at year end	**1,483,001**	**8.12**	1,660,213	10.05

The weighted average share price at the date of exercise of options was €31.92 and €39.42 in the years ended 31 December 2016 and 2015 respectively.

The following table summarises information on stock options outstanding (including stock options granted under the LTIP and the EIP) as at 31 December 2016:

	Options outstanding			Options exercisable	
Range of Exercise Prices	Number exercisable as at 31 December 2016	Weighted average remaining contractual life (in years)	Weighted average exercise price €	Number exercisable as at 31 December 2016	Weighted average exercise price €
€0.0 – 1.00	**3,556,032**	**4.63**	**0.1**	**617,435**	**0.13**
€1.00 – 8.00	**–**	**n/a**	**n/a**	**n/a**	**n/a**
€8.00 – 16.85	**913,945**	**2.28**	**13.8**	**865,566**	**13.83**
€0.0 – 16.85	**4,469,977**	**4.15**	**2.90**	**1,483,001**	**8.12**

e) Employee and non-executive Director benefit trusts

The Group established an employee benefit trust and a non-executive Director benefit trust (the "Trusts"). The Trusts purchase shares in the Group for the benefit of employees and non-executive Directors under the Group's share option schemes. As at 31 December 2016, the Trusts held 574,600 shares (2015: 1,879,195).

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30. Additional disclosures on financial instruments

Analysis by class and category

In the following tables, the carrying amounts of the financial assets and financial liabilities held by the Group as at 31 December 2016 and 2015 are analysed by class and category:

	As at 31 December 2016						
	Loans and receivables US$000	Available-for-sale investments US$000	At fair value through profit or loss US$000	Held in designated hedging relationships US$000	Liabilities at amortised cost US$000	Total carrying amount US$000	Fair value US$000
Financial assets							
Cash and cash equivalents	697,167	–	–	–	–	697,167	697,167
Trade and other receivables	80,773	–	–	–	–	80,773	80,773
Investments:							
– Energous shares	–	12,866	–	–	–	12,866	12,866
– Arctic Sand shares	–	1,446	–	–	–	1,446	n/a
Derivative financial instruments:							
– Dyna Image call option	–	–	142	–	–	142	142
– Energous warrants	–	–	6,624	–	–	6,624	6,624
Rental and other deposits	1,254	–	–	–	–	1,254	1,254
Other financial assets	1,254	14,312	6,766	–	–	22,332	
Total financial assets	779,194	14,312	6,766	–	–	800,272	
Financial liabilities							
Trade and other payables	–	–	–	–	(89,645)	(89,645)	(89,645)
Hire purchase and finance lease obligations	–	–	–	–	(5,934)	(5,934)	(4,761)
Derivative financial instruments:							
– Currency forwards and swaps	–	–	(3,034)	(9,462)	–	(12,496)	(12,496)
Share buyback obligation	–	–	–	–	(61,073)	(61,073)	(61,073)
Other financial liabilities	–	–	(3,034)	(9,462)	(67,007)	(79,503)	
Total financial liabilities	–	–	(3,034)	(9,462)	(156,652)	(169,148)	

Currency forwards and swaps that are not in designated hedging relationships are held to hedge the currency translation exposure on the Euro-denominated share buyback liability (note 26).

30. Additional disclosures on financial instruments continued

	As at 31 December 2015						
	Loans and receivables US$000	Available-for-sale investments US$000	At fair value through profit or loss US$000	Held in designated hedging relationships US$000	Liabilities at amortised cost US$000	Total carrying amount US$000	Fair value US$000
Financial assets							
Cash and cash equivalents	566,809	–	–	–	–	566,809	566,809
Trade and other receivables	72,668	–	–	–	–	72,668	72,668
Investments:							
– Arctic Sand shares	–	1,446	–	–	–	1,446	n/a
Derivative financial instruments:							
– Dyna Image call option	–	–	873	–	–	873	873
Collateral deposits for hedging contracts	2,086	–	–	–	–	2,086	2,086
Rental and other deposits	1,439	–	–	–	–	1,439	1,439
Other financial assets	3,525	1,446	873	–	–	5,844	
Total financial assets	643,002	1,446	873	–	–	645,321	
Financial liabilities							
Trade and other payables	–	–	–	–	(131,553)	(131,553)	(131,553)
Hire purchase and finance lease obligations	–	–	–	–	(8,596)	(8,596)	(7,688)
Derivative financial instruments:							
– Currency forwards and swaps	–	–	–	(4,568)	–	(4,568)	(4,568)
Other financial liabilities	–	–	–	(4,568)	(8,596)	(13,164)	
Total financial liabilities	–	–	–	(4,568)	(140,149)	(144,717)	

Fair value measurement

a) Financial instruments carried at fair value

All financial instruments that are carried at fair value are revalued on a recurring basis. We have not designated any financial instruments at fair value through profit or loss on initial recognition.

Details of our investment in Energous shares, the Energous warrants and the Dyna Image call option are set out in note 18. We measured the fair values of these financial assets using the following methods and assumptions:

- Investment in Energous (listed on NASDAQ) – measured at the quoted bid price at the close of business on the balance sheet date.
- Energous warrants – measured using a Black Scholes valuation model based on the quoted bid price of Energous's common shares and other inputs such as implied share price volatility that is modelled based on historical price data for Energous's common shares.
- Dyna Image call option – measured using a Monte Carlo valuation model in which the most significant inputs are management's estimates of the future revenue and profitability of Dyna Image and share price volatility that is modelled based on historical price data for comparable listed securities.

Fair value of currency forwards and swaps represents the present value of the future contractual cash flows, which is estimated using observable spot exchange rates and by applying a discount rate that is based on the yield curves of the respective currencies and reflects the credit risk of the counterparties.

In the following table, the financial instruments that are carried at fair value are categorised into one of three levels in a fair value hierarchy according to the nature of the significant inputs to the valuation techniques that are used to determine their fair value as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than Level 1 that are observable either directly (as market prices) or indirectly (derived from market prices)
- Level 3 – Unobservable inputs, such as those derived from internal models or using other valuation methods

Notes to the consolidated financial statements continued

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30. Additional disclosures on financial instruments continued

	As at 31 December 2016 Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000	As at 31 December 2015 Level 2 US$000	Level 3 US$000	Total US$000
Financial assets carried at fair value							
Investments:							
– Energous shares	**12,866**	**–**	**–**	**12,866**	–	–	–
Derivative financial instruments:							
– Dyna Image call option	**–**	**–**	**142**	**142**	–	873	873
– Energous warrants	**–**	**–**	**6,624**	**6,624**	–	–	–
Total financial assets carried at fair value	**12,866**	**–**	**6,766**	**19,632**	–	873	873
Financial liabilities carried at fair value							
Derivative financial instruments:							
– Currency forwards and swaps	**–**	**(12,496)**	**–**	**(12,496)**	(4,568)	–	(4,568)
Total financial liabilities carried at fair value	**–**	**(12,496)**	**–**	**(12,496)**	(4,568)	–	(4,568)

During 2016, there were no transfers between Level 1 and Level 2.

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

	2016 Energous warrants US$000	Dyna Image option US$000	Total US$000	2015 Dyna Image option US$000
At the beginning of the year	**–**	**873**	**873**	–
Investment in business	**4,695**	**–**	**4,695**	992
Other finance income/(expense) recognised in profit or loss	**1,929**	**(731)**	**1,198**	(119)
At the end of the year	**6,624**	**142**	**6,766**	873

We estimate that if the implied volatility incorporated in the valuation of the Energous warrants as at 31 December 2016 had been 10% higher, the fair value of the warrants would have been US$669 higher at US$7,293 and if the implied volatility had been 10% lower, the fair value of the warrants would have been US$709 lower at US$5,915. In each case, the effect of the increase/(decrease) in fair value would have been recognised in profit or loss as other finance income/(expense).

We do not consider that adjustment of one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would be likely to cause a significant change in the fair value of the Dyna Image call option.

b) Financial instruments not carried at fair value

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

Our investment in Arctic Sand is categorised as available-for-sale and would normally be carried at fair value. However, we are unable to measure its fair value reliably because Arctic Sand is an unlisted entity in which we have only a small non-controlling interest. We therefore carry the investment at cost and do not disclose any estimate of its fair value (Level 3).

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

31. 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 2016 US$000	**Other commitments and software commitments 2016 US$000**	Operating leases 2015 US$000	Other commitments and software commitments 2015 US$000
Within one year	**13,013**	**11,282**	10,432	10,224
Between one and two years	**8,206**	**2,608**	9,982	4,665
Between two and three years	**7,592**	**47**	7,395	339
Between three and four years	**7,077**	**32**	6,561	49
Between four and five years	**5,484**	**–**	6,075	33
Thereafter	**13,051**	**–**	17,994	–
Total minimum payments	**54,423**	**13,969**	58,439	15,310

Total payments for operating leases and software commitments, charged as an expense in the profit or loss, amounted to US$17,181 and US$15,434 for the years ended 31 December 2016 and 2015 respectively. Of this amount US$7,384 and US$6,257 was for software commitments for the years ended 31 December 2016 and 2015 respectively.

Finance lease, hire purchase and software commitments

The Group has finance leases and hire purchase contracts for test and IT equipment. 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 **2016 US$000**	Minimum payments 2015 US$000
Within one year	**4,573**	4,402
Between one and two years	**1,700**	3,400
Between two and three years	**–**	1,700
Total minimum payments	**6,273**	9,502
Less: amounts representing finance charges	**(339)**	(906)
Present value of minimum payments	**5,934**	8,596

Capital commitments

As at 31 December 2016, the Group has contractual commitments for the acquisition of property, plant and equipment of US$8,332 (2015: US$6,962) and for the acquisition of intangible assets of US$922 (2015: US$1,325).

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

32. Segment and geographic information

a) Analysis by operating segment

Segment information is presented in the financial statements on basis consistent with the information presented to the Management Team (the "chief operating decision maker") for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses. Members of the Management Team are identified on pages 60 and 61.

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

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

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

The Management Team uses operating profit as the principal measure of the profitability of each of the Group's operating segments. Operating profit is, therefore, the measure of segment profit presented in the Group's segment disclosures. Whilst the Management Team also uses underlying operating profit to measure segment profitability, this is used as a supplement to operating profit.

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

Revenue and operating profit by segments are as follows:

	Revenue[1]			Operating profit		
	2016 US$000	2015 US$000	2014 US$000	**2016 US$000**	2015 US$000	2014 US$000
Mobile Systems	**922,946**	1,114,495	942,628	**239,859**	341,931	244,180
Automotive & Industrial	**30,014**	34,367	40,952	**10,126**	9,340	11,232
Connectivity	**118,334**	117,014	92,120	**5,342**	8,360	(2,163)
Power Conversion	**116,808**	84,636	80,367	**(7,535)**	(20,675)	(21,135)
Total segments	**1,188,102**	1,350,512	1,156,067	**247,792**	338,956	232,114
Corporate activities	**9,509**	4,800	38	**62,015**	(79,210)	(46,212)
Total Group	**1,197,611**	1,355,312	1,156,105	**309,807**	259,746	185,902
Interest income				**3,665**	1,215	419
Interest expense				**(3,447)**	(6,411)	(14,829)
Other finance (expense)/income				**(4,819)**	289	(2,171)
Profit before income taxes				**305,206**	254,839	169,321

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

32. Segment and geographic information continued

Other segment information is as follows:

	Mobile Systems US$000	Automotive & Industrial US$000	Connectivity US$000	Power Conversion US$000	Total segments US$000	Corporate activities US$000	Total Group US$000
Year ended 31 December 2016							
Research and development expenses	**151,842**	**1,154**	**29,497**	**22,527**	**205,020**	**36,325**	**241,345**
Write-down of inventories	**2,236**	**165**	**238**	**1,652**	**4,291**	**84**	**4,375**
Fixed assets[1]:							
– Additions[2]	**33,915**	**192**	**7,137**	**4,647**	**45,891**	**8,047**	**53,938**
– Depreciation/amortisation	**36,695**	**702**	**6,892**	**17,294**	**61,583**	**2,234**	**63,817**
– Loss in disposal	**305**	**–**		**145**	**450**	**1,119**	**1,569**
Atmel termination fee (note 3)	**–**	**–**	**–**	**–**	**–**	**137,300**	**137,300**
Costs of aborted merger with Atmel (note 3)	**–**	**–**	**–**	**–**	**–**	**3,485**	**3,485**
Year ended 31 December 2015							
Research and development expenses	140,066	2,488	25,747	23,282	191,583	31,599	223,182
Write-down of inventories	7,192	202	394	1,309	9,097	(50)	9,047
Fixed assets[1]:							
– Additions[2]	50,938	446	7,585	5,875	64,844	8,403	73,247
– Depreciation/amortisation	31,010	719	6,467	15,754	53,950	1,327	55,277
– Loss in disposal	955	–	–	262	1,217	534	1,751
Costs of aborted merger with Atmel (note 3)	–	–	–	–	–	17,604	17,604
Increase in iWatt contingent consideration (note 3)	–	–	–	–	–	3,375	3,375
Year ended 31 December 2014							
Research and development expenses	141,246	2,392	25,703	22,476	191,817	21,991	213,808
Write-down of inventories	5,932	260	212	3,386	9,790	38	9,828
Fixed assets[1]:							
– Additions[2]	30,681	167	3,737	4,239	38,824	2,231	41,055
– Depreciation/amortisation	29,959	889	7,337	17,064	55,249	333	55,582
– Loss in disposal	163	–	–	196	359	48	407
Costs of aborted merger with AMS (note 3)	–	–	–	–	–	1,268	1,268
Decrease in iWatt contingent consideration (note 3)	–	–	–	–	–	(1,939)	(1,939)

1 Non-current assets excluding financial instruments and deferred tax assets.
2 Additions to fixed assets comprise the cost of items acquired separately and the fair value of items acquired in business combinations.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

32. Segment and geographic information continued

b) Geographic information

	2016 US$000	2015 US$000	2014 US$000
Revenue by shipment destination			
United Kingdom	**421**	903	782
Other European countries	**48,063**	54,859	60,098
China	**884,187**	1,080,488	983,412
Hong Kong	**212,261**	165,645	53,454
Other Asian countries	**41,013**	42,849	47,213
Rest of the world	**11,666**	10,568	11,146
Total	**1,197,611**	1,355,312	1,156,105

		As at 31 December	
	2016 US$000	2015 US$000	2014 US$000
Non-current assets[1] by location			
United Kingdom	**96,890**	99,992	80,889
Germany	**44,992**	46,518	47,589
Netherlands	**49,982**	46,907	42,025
USA	**257,181**	257,425	261,565
Taiwan	**13,196**	3,979	886
Rest of the world	**6,586**	7,098	6,091
Total	**468,827**	461,919	439,045

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

c) Information about major customers

During each of the years ended 31 December 2016, 2015 and 2014, there was one customer, Apple Inc., that accounted for more than 10% of the Group's revenue. Revenue recognised from that customer, which was reported in the Mobile Systems segment, amounted to US$889,904 in 2016, US$1,077,701 in 2015 and US$909,901 in 2014.

33. Financial risk management

Background

The Group's central treasury function is responsible for ensuring that adequate funding is available to meet the Group's requirements and for maintaining an efficient capital structure, together with managing the Group's counterparty credit, foreign currency and interest rate exposures. All treasury operations are conducted within strict policies and guidelines that are approved by the Board.

We use forward currency contracts to manage currency risk and we hold certain equity options and warrants for strategic reasons. We do not hold or issue derivative financial instruments for speculative purposes.

Credit risk

Credit risk is the risk that a customer or a counterparty financial institution fails to meet its contractual obligations as they fall due causing the Group to incur a financial loss. The Group is exposed to credit risk in relation to receivables from its customers and cash and cash equivalents and other financial assets held with financial institutions.

Before accepting a new customer, we assess the potential customer's credit quality and establish a credit limit. Credit quality is assessed using data maintained by reputable credit agencies, by checking references included in credit applications, and, where they are available, by reviewing the customer's recent financial statements. Credit limits are subject to multiple levels of authorisation and are reviewed on a regular basis.

The Group depends on a relatively small number of customers for a substantial part of its revenue. As at 31 December 2016, trade accounts receivable amounted to US$64,685 (2015: US$48,692) including receivables from our largest customer amounting to US$58,991 (2015: US$25,182).

We utilise non-recourse receivables financing facilities provided by two financial institutions. We reviewed these facilities during 2016. In March 2016, the aggregate amount of the facilities was increased from US$112 million to US$187 million. In November 2016, we reduced the number of facilities from three to two but the aggregate amount of the facilities was increased to US$240 million. The principal facility is for US$220 million and matures on 30 April 2018.

Receivables sold under these facilities are derecognised from the Group's balance sheet because the financial institutions concerned assume all credit risk associated with them. When a receivable is sold, the Group is credited with the majority of the invoice amount with the balance credited on the earlier of the date on which the customer pays the amount due or 120 days after the receivable becomes due for payment. As at 31 December 2016, cash and cash equivalents included a benefit of US$88,876 (2015: US$131,774) in relation to receivables sold under these facilities and trade and other receivables included US$16,088 (2015: US$23,976) retained by the financial institutions.

We transact with financial institutions subject to limits which are set based on a credit rating matrix in accordance with treasury policy. Cash is placed on deposit only with counterparties whose median credit rating is not less than A- (Standard & Poor's), A3 (Moody's) or A- (Fitch). Credit risk is further limited by investing only in liquid instruments.

Market risk

Market risk is the risk that the fair value of, or cash flows associated with, a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk (due to changes in currency exchange rates), interest rate risk (due to changes in market interest rates) and other price risk.

a) Currency risk
The US dollar is the functional currency of the Company and its principal subsidiaries.

Currency risk arises on transactions that are denominated in a currency other than the functional currency of the entity that enters into them. Nearly all of the Group's sales and cost of materials are denominated in US dollars but certain operating expenses are denominated in currencies other than the US dollar, in particular the Euro and the pound sterling. It is the Group's policy to hedge a proportion of the currency risk associated with highly probable forecast cash outflows on a rolling 12-month basis. As the timing of the forecast cash outflows draws nearer, the proportion of the currency risk that is hedged increases within set parameters.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

33. Financial risk management continued

Forward currency contracts that are entered into for this purpose are designated as hedging instruments in cash flow hedge relationships. During 2016, a loss of US$13,264 million (2015: loss of US$18,960; 2014: loss of US$23,614), was recognised in other comprehensive income representing the change in the fair value of currency derivatives in effective hedging relationships and a cumulative loss of US$8,382 (2015: loss of US$31,980; 2014: loss of US$3,820) was reclassified from equity to profit or loss on the occurrence of the hedged cash flows.

Currency derivatives held to hedge forecast cash outflows were as follows:

		As at 31 December 2016 Net notional amount Euro 000s	Pound Sterling 000s	Japanese Yen 000s	Chinese Renminbi 000s
Maturity					
0 – 3 months		**40,000**	**11,000**	**175,000**	**14,000**
4 – 6 months		**37,100**	**8,700**	**118,000**	**8,000**
7 – 9 months		**26,500**	**7,500**	**85,000**	**8,500**
10 – 12 months		**12,000**	**3,500**	**45,000**	**3,000**
Total		**115,600**	**30,700**	**423,000**	**33,500**
Weighted average exchange rate	US$ =	**0.90**	**0.75**	**106.31**	**6.79**

		As at 31 December 2015 Net notional amount Euro 000s	Pound Sterling 000s	Japanese Yen 000s	Chinese Renminbi 000s
Maturity					
0 – 3 months		38,000	11,500	200,000	–
4 – 6 months		28,000	9,000	150,000	–
7 – 9 months		20,500	7,500	110,000	–
10 – 12 months		15,000	6,000	105,000	–
Total		101,500	34,000	565,000	–
Weighted average exchange rate	US$ =	0.89	0.66	120.80	–

Currency translation risk arises on financial assets and liabilities that are denominated in a currency other than the functional currency of the entity that holds them. The Group's policy allows for such exposures to be hedged using currency derivatives.

During 2016, we used forward currency contracts and currency swaps to hedge the Euro-denominated liabilities in relation to the first and second tranches of the Company's share buyback programme. At the end of 2016, we held outstanding contracts to purchase €57.55 million in relation to the maximum remaining obligation under the second tranche at an average exchange rate of $1 = €0.90.

33. Financial risk management continued

After taking into account currency hedging activities, the Group's exposure to currency risk on financial assets and liabilities was as follows:

	As at 31 December	
	2016 US$000	2015 US$000
US dollar	**687,615**	506,609
Euro	**(63,540)**	(3,981)
Pound sterling	**(6,090)**	(7,693)
Taiwanese dollar	**(660)**	2,914
Other	**295**	2,752
Total	**617,620**	500,601

If the US dollar was to depreciate/appreciate by 10% against each of the foreign currencies in which financial assets and financial liabilities were denominated at the end of 2016, there would be an exchange gain/loss of US$5,750 recognised in arriving at the Group's profit before tax.

Currency translation risk also arises on consolidation in relation to the translation into US dollars of net investments in foreign operations but the exposure is not significant because the US dollar is the functional currency of the Company and each of its principal subsidiaries.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

33. Financial risk management continued

b) Interest risk

The interest rate profile of the Group's financial assets and liabilities was as follows:

	As at 31 December 2016			
	Interest-bearing			
	Floating rate 000s	Fixed rate 000s	Non-interest bearing 000s	Total 000s
Financial assets				
Cash and cash equivalents	**608,291**	**–**	**88,876**	**697,167**
Trade and other receivables	**–**	**–**	**80,773**	**80,773**
Other financial assets	**–**	**–**	**22,332**	**22,332**
Financial liabilities				
Trade and other payables	**–**	**–**	**(89,645)**	**(89,645)**
Other financial liabilities	**–**	**(5,934)**	**(73,569)**	**(79,503)**
Net total	**608,291**	**(5,934)**	**28,767**	**631,124**

	As at 31 December 2015			
	Interest bearing			
	Floating rate 000s	Fixed rate 000s	Non-interest bearing 000s	Total 000s
Financial assets				
Cash and cash equivalents	475,448	–	91,361	566,809
Trade and other receivables	–	–	72,668	72,668
Other financial assets	–	–	5,844	5,844
Financial liabilities				
Trade and other payables	–	–	(131,553)	(131,553)
Other financial liabilities	–	(8,596)	(4,568)	(13,164)
Net total	475,448	(8,596)	33,752	500,604

The Group's principal exposure to interest rate risk is in relation to interest income on short-term cash deposits, which principally attract US dollar interest rates.

When applied to the Group's floating interest rate exposures as at 31 December 2016, an increase of 50 basis points in market interest rates would increase the Group's profit before tax by US$3,041 (2015: US$2,377) and a decrease of 50 basis points would reduce the Group's profit before tax by US$2,940 (2015: US$1,215).

33. Financial risk management continued

c) Other price risk

In November 2016, the Company subscribed for common shares and was granted warrants to purchase common shares in Energous Corporation Inc. ("Energous"). Energous's common shares are listed on NASDAQ. At the end of 2016, the fair value of the shares held was US$12,866 and the fair value of the warrants was US$6,624. Changes in the fair value of the shares are recognised in other comprehensive income and changes in the fair value of the warrants are recognised in profit or loss.

Assuming all other factors remain constant, the effect of a 10% increase in Energous's share price as at 31 December 2016 would be to increase the Group's profit before tax by US$994 and to increase other comprehensive income by US$1,287 and the effect of a 10% decrease in the share price would be to reduce the Group's profit before tax by US$960 and to reduce other comprehensive income by US$1,287.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities.

We regularly monitor cash flows at both Group and entity level. Dialog generates strong cash flows and cash and cash equivalents held by the Group have increased substantially in recent years. As at 31 December 2016, cash and cash equivalents amounted to US$697,176 (2015: US$566,809). Accordingly, we voluntarily cancelled the Group's revolving credit facility in June 2015 and, since that time, the Group has had no committed borrowing facilities.

The maturity profile of the contractual undiscounted cash flows associated with the Group's financial liabilities was as follows:

	As at 31 December 2016			As at 31 December 2015		
	Within 3 months US$000	3 to 12 months US$000	1 to 5 years US$000	Within 3 months US$000	3 to 12 months US$000	1 to 5 years US$000
Trade and other payables	89,645	–	–	131,553	–	–
Other financial liabilities	61,805	3,677	1,525	–	3,677	4,919
Total non-derivative liabilities	151,450	3,677	1,525	131,553	3,677	4,919
Currency derivatives	6,893	6,014	–	2,605	1,904	–
Total financial liabilities	158,343	9,691	1,525	134,158	5,581	4,919

Capital management

The Group's capital is represented by its total equity. As at 31 December 2016, the Group's total equity was US$1,194,906 (2015: US$1,024,885).

We seek to maintain a capital structure that supports the ongoing activities of our business and its strategic objectives in order to deliver long-term returns to shareholders. We allocate capital to support organic and inorganic growth, investing to support research and development and our product pipeline. We will fund our growth strategy using a mix of equity and debt after giving consideration to prevailing market conditions.

During 2016, we initiated a share buyback programme as part of our strategy to deliver shareholder returns. As at 31 December 2016, we had returned €55 million (US$60,407) to shareholders under the first and second tranches of the programme. We had returned a further €38.8 million (US$41,385) by the time the second tranche was completed in February 2017. We will consider the continuation of the share buyback programme in parallel with our regular assessment of the Group's future growth opportunities and its strategic objectives.

Notes to the consolidated financial statements continued

For the year ended 31 December 2016

34. Transactions with related parties

Key management personnel

For the purpose of these disclosures, the Group's key management personnel comprise the Management Team (which includes the Company's executive Director) and the Company's non-executive Directors.

Compensation of the Group's key management personnel was as follows:

	2016 US$000	2015 US$000	2014 US$000
Short-term employee benefits	**7,278**	6,055	5,679
Post-employment benefits[1]	**224**	262	203
Share-based compensation	**10,751**	5,797	7,942
Total	**18,253**	12,114	13,824

1 The amounts include payments for defined contribution plans.

Current members of the Company's Board are identified on pages 58 and 59 and current members of the Management Team are identified on pages 60 and 61.

Statutory information about Directors' remuneration is presented in the Directors' remuneration report on pages 70 to 79.

During 2016, the aggregate emoluments payable to Directors in respect of qualifying services to the Company amounted to US$2,262 (2015: US$2,726; 2014: US$2,917). Share options and awards granted to the Executive Director under long-term incentive plans that have vested or will vest based on the Group's and/or the Executive Director's performance over a period ending during the year had an estimated value on vesting of US$3,336 (2015: US$4,123; 2014: US$2,710).

Other related party transactions

During the years ended 31 December 2016, 2015 and 2014, there were no other related party transactions that are required to be reported in these consolidated financial statements.

35. Subsequent events

Share buyback programme

A further intermediate settlement of the second tranche of the Company's share buyback programme took place on 9 February 2017 and final settlement and conclusion of the tranche took place on 17 February 2017. In these further settlements, we purchased 977,456 shares at a cost of €38.8 million (US$41,385) and incurred transaction costs amounting to US$207.

Information about the Company's share buyback programme is presented in note 26.

Investment in Dyna Image Corporation

In January 2017, the Group participated in a new issue of shares by its subsidiary, Dyna Image Corporation. We invested the equivalent of US$2,000, thereby increasing our shareholding in the business from 45.7% to 48.5%. We will account for the increase in our shareholding as a transfer within equity during the first quarter of 2017.

Company balance sheet

As at 31 December

	Notes	2016 US$000	2015 US$000
Assets			
Cash and cash equivalents		**604,052**	55,100
Amounts owed by group undertakings		**243,664**	268,674
Other current assets		**700**	1,172
Total current assets		**848,416**	324,946
Investments in subsidiaries	4	**632,125**	527,657
Other intangible assets		**456**	562
Non-current financial assets	5	**19,490**	–
Total non-current assets		**652,071**	528,219
Total assets		**1,500,487**	853,165
Liabilities and equity			
Amounts owed by group undertakings		**625,668**	23,548
Trade and other payables		**1,209**	19,071
Other financial liabilities		**73,568**	425
Other payables		**122**	378
Total current liabilities		**700,567**	43,422
Non-current liabilities		**4,695**	–
Ordinary shares		**14,402**	14,402
Share premium account*		**403,687**	403,687
Retained earnings*		**456,350**	416,284
Other reserves		**(58,606)**	–
Dialog shares held by employee benefit trusts		**(20,608)**	(24,630)
Total equity	7	**795,225**	809,743
Total liabilities and equity		**1,500,487**	853,165

* Comparative amounts reclassified – see note 7.

These financial statements were approved by the Board of Directors on 23 February 2017 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Company statement of changes in equity

Year ended 31 December

	Ordinary shares US$000	Share premium account* US$000	Retained earnings* US$000	Other reserves (note 7) US$000	Dialog shares held by employee benefit trusts US$000	Total US$000
As at 31 December 2014	13,353	208,105	259,621	36,465	(15,068)	502,476
Net income	–	–	126,441	–	–	126,441
Other comprehensive income	–	–	–	114	–	114
Total comprehensive income	–	–	126,441	114	–	126,555
Other changes in equity:						
– Conversion of Convertible Bonds						
Issue of shares	1,049	182,089	–	–	–	183,138
Transfer of equity component	–	13,493	23,086	(36,579)	–	–
– Purchase of shares by employee benefit trusts	–	–	–		(14,032)	(14,032)
– Sale of shares by employee benefit trusts	–	–	7,119	–	4,470	11,589
– Share-based compensation, net of tax	–	–	17	–	–	17
As at 31 December 2015	14,402	403,687	416,284	–	(24,630)	809,743
Net income	**–**	**–**	**100,852**	**–**	**–**	**100,852**
Other comprehensive income	**–**	**–**	**–**	**2,866**	**–**	**2,866**
Total comprehensive income	**–**	**–**	**100,852**	**2,866**	**–**	**103,718**
Other changes in equity:						
– Purchase of own shares into treasury	**–**	**–**	**(1,643)**	**(61,472)**	**–**	**(63,115)**
– Share buyback obligation	**–**	**–**	**(63,077)**	**–**	**–**	**(63,077)**
– Purchase of shares by employee benefit trusts	**–**	**–**	**–**	**–**	**(3,127)**	**(3,127)**
– Sale of shares by employee benefit trusts	**–**	**–**	**3,934**	**–**	**7,149**	**11,083**
As at 31 December 2016	**14,402**	**403,687**	**456,350**	**(58,606)**	**(20,608)**	**795,225**

* Comparative amounts reclassified – see note 7.

Notes to the Company financial statements

For the year ended 31 December

1. Background

Description of business

Dialog Semiconductor Plc ("the Company") is a public limited company that is incorporated and domiciled in the United Kingdom. The Company's ordinary shares are listed on the Frankfurt Stock Exchange.

The Company is the ultimate parent of a group of companies that creates and markets highly integrated, mixed signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid-state lighting and automotive applications.

Transition to FRS 101 *Reduced Disclosure Framework*

In previous years, the Company's separate financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS.

Since the Company is a qualifying entity under the UK accounting standard FRS 100 *Application of Financial Reporting Requirements*, the Directors decided during 2016 to adopt the UK accounting standard FRS 101 *Reduced Disclosure Framework*. Following the adoption of FRS 101, the Company's separate financial statements continue to comply with the recognition and measurement requirements of IFRS as adopted for use in the European Union but they exclude certain disclosures that would otherwise be required under that body of accounting standards.

Statement of compliance

The Company's separate financial statements on pages 145 to 151 have been prepared in accordance with FRS 101 *Reduced Disclosure Framework* and those parts of the Companies Act 2006 that are applicable to companies reporting under FRS 101.

Basis of preparation

The Company's separate financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments and derivative financial instruments are stated at their fair value.

The Company's significant accounting policies are set out in note 2.

Presentation currency

The Company's separate financial statements are presented in US Dollars (US$), which is the Company's functional currency. All amounts are rounded to the nearest thousand dollars (US$000) except when otherwise stated.

Disclosure exemptions utilised under FRS 101

In preparing the Company's separate financial statements, the Directors utilised the following exemptions from the disclosure requirements of IFRS adopted for use in the European Union that are available to them under FRS 101:

- Paragraphs 45(b)(number and weighted average exercise prices of share options) and 46 to 52 (determination of fair value of options and awards granted and financial effect of share-based compensation) of IFRS 2 *Share- based Payment*
- IFRS 7 *Financial Instruments – Disclosures*
- Paragraphs 91 to 99 (disclosure requirements) of IFRS 13 *Fair Value Measurement*
- Paragraph 38 of IAS 1 *Presentation of Financial Statements* with regard to comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1(reconciliation of the number of the Company's shares outstanding at the beginning and end of the period)
- Paragraphs 10(d) (statement of cash flows), 16 (statement of compliance with IFRS), 38(A to D) (comparative information), 111 (statement of cash flows) and 134 to 136 (disclosures about capital) of IAS 1 *Presentation of Financial Statements*
- IAS 7 *Statement of Cash Flows*
- Paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (discussion of IFRSs issued by the IASB but not yet adopted by the Company)
- Paragraph 17 of IAS 24 *Related Party Disclosures* (compensation of key management personnel) and the further requirement in IAS 24 to disclose related party transactions entered into with a subsidiary, provided the subsidiary is wholly-owned by the Company.

Approval of the financial statements

The Company's separate financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 23 February 2017.

Notes to the Company financial statements continued

For the year ended 31 December

2. Significant accounting policies

Investments in subsidiaries

A subsidiary is an entity that is controlled, either directly or indirectly, by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity that significantly affect its returns.

Investments in subsidiaries represent interests in the Company's subsidiaries that are directly owned by the Company and are stated at cost less provision for impairment.

Foreign currency translation

Transactions denominated in foreign currencies are translated into US dollars at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Currency translation differences are recognised in profit or loss.

Financial instruments

(a) Amounts owed by/ to group undertakings
Amounts owed by/to group undertakings are initially measured at fair and are subsequently measured at amortised cost using the effective interest method.

(b) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, deposits available on demand and other short-term highly liquid investments with a maturity on acquisition of three months or less.

(c) Available-for-sale investments
Available-for-sale investments are initially measured at fair value plus transaction costs, if any. Such investments are subsequently measured at fair value and gains and losses are recognised in other comprehensive income, except for impairment losses arising from the significant or prolonged decline in fair value which are recognised in profit or loss.

(d) Derivative financial instruments
The Company holds derivative financial instruments that are used to reduce the exposure of its subsidiaries to currency exchange rate movements. The Company also holds equity options and warrants in relation to certain of its strategic investments. The Company does not hold or issue derivatives for speculative purposes.

All derivative financial instruments held by the Company are measured at fair value. All fair value gains and losses are recognised in profit or loss. Where the fair value of a derivative on initial recognition differs from the transaction price, if any, the difference is recognised immediately in profit or loss only if the fair value is evidenced by a quoted price in an active market or is based on a valuation technique that uses only data from observable markets.

Income taxes

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and their tax base used in the computation of taxable profit. Deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which they can be utilised.

Share-based compensation

The Company operates share-based compensation plans under which it grants options and other awards over its ordinary shares to employees of its subsidiaries. Awards granted under the existing plans are classified as equity-settled awards.

The Company recognises a compensation expense that is based on the fair value of the awards measured at the grant date using the Black-Scholes option pricing formula or a Monte Carlo valuation model. The Company recharges the compensation expense to those of its subsidiaries whose employees participate in the plans.

Shares held by employee benefit trusts

The Company provides finance to two trusts to purchase the Company's ordinary shares in order to meet its obligations under its share-based compensation plans. When the trusts purchase such shares, the cost of the shares is debited to equity and subsequent sales or transfers of the shares by the trusts are accounted for within equity.

2. Significant accounting policies continued

Treasury shares

Treasury shares comprise the Company's ordinary shares that have been purchased under the Company's share buyback programme. Purchases made under the programme are off market from the perspective of the Company and are effected by way of contingent forward share purchase contracts with third-party brokers. Subsequent sales, transfers or cancellations of treasury shares held by the Company will be accounted for within equity.

3. Income statement

As permitted by section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements. The Company's profit after tax was US$105,547 (2015: US$126,441).

During 2016, the Company had no employees (2015: none).

Directors' remuneration is set out in the Directors' remuneration report on pages 70 to 79.

Fees payable to the Company's auditors, Deloitte LLP, are set out in Note 6 to the consolidated financial statements.

4. Investments in subsidiaries

Movements in the carrying amount of subsidiaries owned directly by the Company were as follows:

	US$000
Balance at 1 January 2016	**527,657**
Additions	**110,545**
Impairment	**(6,077)**
As at 31 December 2016	**632,125**

Details of the Company's subsidiaries as at 31 December 2016 are set out on page 164.

Each of the subsidiaries that are owned directly by the Company are wholly-owned, except for Dyna Image Corporation ("Dyna"), in which the Company had a 45.7% shareholding throughout 2016.

Dyna is accounted for as a subsidiary because the Company has a call option over the shares in Dyna that it does not already own, which the Directors consider give the Company the power to direct Dyna's relevant activities until the option expires in June 2018.

In January 2017, the Company's direct shareholding in Dyna decreased to 38.7% following an issue of new shares by Dyna in which it did not participate.

5. Non-current financial assets

In November 2016, Dialog entered into a strategic alliance with Energous Corporation ("Energous") whereby it agreed to become the exclusive component supplier of Energous's WattUp® integrated circuits. At the same time as entering into the strategic alliance, the Company paid US$10,000 in cash on subscription for 763,552 common shares in Energous and was granted warrants to purchase up to 763,552 common shares in Energous that are exercisable in full or in part on a cashless basis at any time between May 2017 and November 2019.

We have classified the shares in Energous held by the Company as available-for sale. We consider that the subscription price paid for the shares represented their fair value at the date of issue. As at 31 December 2016, the fair value of the shares held by the Company had increased to US$12,866 and the resulting gain of US$2,866 was recognised in other comprehensive income. As at 31 December 2016, the Company held approximately 3.8% of Energous's issued common shares.

We consider that the grant of the warrants was linked to the negotiation of the strategic alliance. On the grant date, we therefore recognised the warrants at their fair value of US$4,695 and an equivalent deferred credit within non-current liabilities. We will amortise the deferred credit to profit or loss in relation to the royalties that may be payable by Dialog for the use of Energous's Intellectual Property over the initial seven-year term of the strategic alliance. As at 31 December 2016, the fair value of the warrants had increased to US$6,624 and the resulting gain of US$1,929 was recognised in profit or loss.

Notes to the Company financial statements continued

For the year ended 31 December

6. Deferred tax

No deferred tax assets were recognised for tax loss carryforwards and deductible temporary differences since there is expected to be insufficient taxable profits and therefore utilisation is not probable.

7. Share capital and reserves

a) Share capital and share premium account

Details of the Company's share capital and share premium account are set out in note 25 to the consolidated financial statements.

In preparing these financial statements, the Directors have presented the share premium account separately within reserves. In previous years, the share premium account was subsumed within additional paid-in capital, which also included gains recognised on the sale or transfer of shares held by employee benefit trusts and the equity component of the US$201 million 1% Convertible Bonds 2017 ("the Bonds") that were issued by the Company during 2012 and converted by the bondholders during 2015. As shown in the following table, comparative information has therefore been reclassified as follows:

- to transfer from additional paid-in capital to the share premium account the cumulative premium (net of issue costs) recognised on the issue of shares prior to 1 January 2015 of US$208,105 and the premium of US$182,809 on shares issued on conversion of the Bonds during 2015;
- to transfer from additional paid-in capital to retained earnings the cumulative gain of US$29,833 recognised on the sale or transfer of shares by employee benefit trusts prior to 1 January 2015 and the gain of US$7,119 on such sales or transfers during 2015;
- to transfer from additional-paid in capital to a separate reserve the equity component of the Bonds amounting to US$36,579 that was recognised on the issue of the Bonds; and
- on conversion of the Bonds during 2015, to transfer from the separate reserve to retained earnings an amount of US$23,086 representing the cumulative interest expense recognised in relation to the Bonds and to transfer the balance of the equity component amounting to US$13,493 to the share premium account.

	Additional paid-in capital US$000	Share premium account US$000	Retained earnings US$000	Equity component of Convertible Bonds US$000
As at 1 January 2015 – as previously stated	274,517	–	229,788	–
Reclassifications:				
– Premium on the issue of shares (net of issue costs)	(208,105)	208,105	–	–
– Gain on sale of shares by employee benefit trusts	(29,833)	–	29,833	–
– Equity component of Convertible Bonds	(36,579)	–	–	36,579
As at 1 January 2015 – reclassified	–	208,105	259,621	36,579
Year ended 31 December 2015				
Movements – as previously stated	189,208	–	126,458	–
Reclassifications:				
– Conversion of Convertible Bonds				
Issue of shares	(182,089)	182,089	–	–
Transfer of equity component	–	13,493	23,086	(36,579)
– Gain on sale of shares by employee benefit trusts	(7,119)	–	7,119	–
As at 31 December 2015 – reclassified	–	403,687	416,284	–

7. Share capital and reserves continued

b) Other reserves

Movements on other reserves were as follows:

	Available-for-sale securities US$000	Hedging reserve US$000	Treasury shares US$000	Equity component of Convertible Bonds US$000	Total US$000
As at 1 January 2014	–	–	–	36,579	36,579
Other comprehensive income (loss):					
– Fair value loss recognised on effective hedges	–	(114)	–	–	(114)
As at 31 December 2014	–	(114)	–	36,579	36,465
Other comprehensive income (loss):					
– Fair value loss transferred to profit or loss	–	114	–	–	114
Other changes in equity:					
– Conversion of Convertible Bonds	–	–	–	(36,579)	(36,579)
As at 31 December 2015	–	–	–	–	–
Other comprehensive income (loss):					
– Fair value gain on available-for-sale investments	**2,866**	**–**	**–**	**–**	**2,866**
Other changes in equity:					
– Purchase of own shares into treasury	**–**	**–**	**(61,472)**	**–**	**(61,472)**
As at 31 December 2016	**2,866**	**–**	**(61,472)**	**–**	**(58,606)**

Treasury shares are shares purchased under the Company's share buyback programme. Details of purchases made under the programme during 2016 are set out in note 26 to the consolidated financial statements.

As at 31 December 2016, we held 1,805,750 in shares in treasury at a total cost of US$61,472 (including related transaction costs of US$1,063). During 2016, we recognised a debit to retained earnings of US$1,643, which mirrored the gain recognised in profit or loss on the translation into US dollars of the Euro-denominated liabilities that existed in relation to shares that were purchased during the year under the first and second tranches of the share buyback programme.

As at 31 December 2016, we recognised a debit to equity amounting to US$63,077, which comprised the maximum remaining obligation to purchase shares under the second tranche of the share buyback programme of €57.55 million (US$62,759) and related transaction costs of US$318.

c) Dialog shares held by employee benefit trusts

The Company provides finance to two trusts to purchase its ordinary shares in order to meet its obligations under its share-based compensation plans. As at 31 December 2016, the trusts held 574,600 ordinary shares (2015: 1,879,195 ordinary shares; 2014: 2,825,412 ordinary shares).

8. Share-based compensation

A description of the share-based compensation plans operated by the Company, together with information about share options exercised and outstanding is presented in note 29 to the consolidated financial statements.

9. Guarantees

General guarantees have been issued by the Company under Article 403, Book 2 of the Dutch Civil Code in respect its Dutch subsidiaries, Dialog Semiconductor B.V. and Dialog Semiconductor Finance B.V., in order that they do not have to file annual accounts in the Netherlands.

10. Subsequent event

Share buyback programme

A further intermediate settlement of the second tranche of the Company's share buyback programme took place on 9 February 2017 and final settlement and conclusion of the tranche took place on 17 February 2017. In these further settlements, we purchased a further 977,456 shares at a cost of €38.8 million (US$41,385) and incurred transaction costs amounting to US$207.

Financial performance measures

Use of non-IFRS measures

We use a range of measures to assess financial performance, to ensure performance is aligned to strategy and to ensure continued alignment with shareholders' interests. Certain of these measures are considered particularly important and are identified as 'key performance indicators' (KPIs). We have identified the following financial measures as KPIs: revenue growth; gross margin, operating expenses as a percentage of revenue; operating profit growth; operating profit margin; and diluted EPS. We monitor these KPIs on both an IFRS basis and an underlying basis.

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

Underlying measures of profitability

We report underlying measures because we believe they provide both management and investors with useful additional information about the financial performance of the Group's businesses. Underlying measures of profitability represent the equivalent IFRS measures adjusted for specific items that we consider hinder comparison of the financial performance of the Group's businesses either from one period to another or with other similar businesses.

We exclude from our underlying results the following specific items of income and expense that are recognised in profit or loss in accordance with IFRS and their related tax effects:

- **Share-based compensation**

  We exclude the share-based compensation expense recognised in relation to options and awards granted under the Company's share-based compensation plans because the awards are equity-settled and therefore have no immediate effect on shareholders' returns. We additionally exclude the effect on profit or loss of changes in the accrual for payroll taxes payable on the exercise or vesting of options and awards made under the plans because the accrual fluctuates with the Company's share price and the effect on profit or loss is therefore not necessarily indicative of the Group's trading performance.

- **Business combinations**

  We exclude from our underlying results those effects of applying the acquisition method of accounting under IFRS that we consider are not indicative of the Group's trading performance, including the accounting for transaction costs, deferred revenue and inventories of acquired businesses, integration costs and contingent consideration. We also exclude from our underlying results transaction costs and termination fees relating to business combinations that are not consummated. We excluded the following such items from our underlying results during the periods presented:

  – in 2016, the termination fee received in relation to the aborted merger with Atmel;

  – in 2016 and 2015, transaction costs relating to the aborted merger with Atmel and, in 2014, transaction costs relating to the aborted merger with AMS;

  – in 2015 and 2014, the adjustments made to the contingent consideration payable on the acquisition of iWatt and the residual costs of integrating that business.

  We also exclude the amortisation of identifiable intangible assets that are recognised in business combinations and the additional depreciation arising from the initial measurement at fair value of property, plant and equipment acquired in business combinations in order that the performance of those businesses that we have acquired may be compared fairly with those businesses that we have developed on an organic basis.

- **Effective interest on financial liabilities**

  We adjust the Group's interest expense to exclude the non-cash element of the interest expense recognised in relation to the liability component of the 1% Convertible Bonds 2017 prior to their early conversion during 2015 and a patent licensing agreement that is accounted for as a finance lease within other intangible assets. We consider in each case that the cash interest payments are more indicative of the effect of these arrangements on shareholders' returns.

- **Strategic derivative investments**

  We exclude the gains or losses recognised on the measurement at fair value through profit or loss of the warrants that we hold to purchase additional shares in Energous and our call option over the non-controlling interests in Dyna Image. We hold these instruments for strategic reasons linked to our commercial partnerships with these companies. Since we do not hold these instruments for trading purposes, we exclude fluctuations in their fair values when assessing the Group's trading performance.

- **Intellectual property reorganisation**
  We exclude the deferred tax credit that was recognised during 2014 as a consequence of the intra-group reorganisation of certain intellectual property following the acquisition of iWatt, because it was a discrete tax benefit that was not indicative of the Group's trading performance.

We calculate the income tax effect of the above Items by considering the specific tax treatment of each item and by applying the relevant statutory tax rate to those items that are taxable or deductible for tax purposes.

Underlying measures of profitability exclude items that can have a significant effect on the Group's profit or loss. We compensate for these limitations by monitoring separately the items that are excluded from the equivalent IFRS measures in calculating the underlying financial measures.

Reconciliation of underlying measures to equivalent IFRS measures

Reconciliations of the underlying measures of profitability used by Dialog to the equivalent IFRS measures for the years ended 31 December 2016, 2015 and 2014 are presented in the following tables:

Year ended 31 December 2016

US$'000	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Aborted merger with Atmel	Effective interest	Strategic derivative investments	Underlying basis
Revenue	1,197,611	–	–	–	–	–	1,197,611
Gross profit	**546,715**	**1,120**	**7,029**	**–**	**–**	**–**	**554,864**
SG&A expenses	(133,271)	15,826	7,473	3,485	–	–	(106,487)
R&D expenses	(241,345)	13,570	–	–	–	–	(227,775)
Other operating income	137,708	–	–	(137,300)	–	–	408
Operating profit	**309,807**	**30,516**	**14,502**	**(133,815)**	**–**	**–**	**221,010**
Net finance (income)/expense	(4,601)	–	–	1,913	526	(1,199)	(3,361)
Profit before income taxes	**305,206**	**30,516**	**14,502**	**(131,902)**	**526**	**(1,199)**	**217,649**
Income tax expense	(47,090)	(4,686)	(351)	(383)	(105)	386	(52,229)
Net income	**258,116**	**25,830**	**14,151**	**(132,285)**	**421**	**(813)**	**165,420**

Year ended 31 December 2015

US$'000	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Aborted merger with Atmel	Integration costs	Effective interest	Underlying basis
Revenue	1,355,312	–	–	–	–	–	1,355,312
Gross profit	624,804	940	6,600	–	–	–	632,344
SG&A expenses	(143,035)	10,287	11,061	17,604	176	–	(103,907)
R&D expenses	(223,182)	10,418	824	–	–	–	(211,940)
Other operating income	1,159	–	–	–	–	–	1,159
Operating profit	259,746	21,645	18,485	17,604	176	–	317,656
Net finance expense	(4,907)	–	–	1,153	–	3,724	(30)
Profit before income taxes	254,839	21,645	18,485	18,757	176	3,724	317,626
Income tax expense	(77,580)	(492)	(1,027)	–	–	(151)	(79,250)
Net income	177,259	21,153	17,458	18,757	176	3,573	238,376

Financial performance measures continued

Year ended 31 December 2014

US$'000	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Aborted merger with AMS AG	Integration costs	Effective interest	Intellectual property reorganisation	Underlying basis
Revenue	1,156,105	–	–	–	–	–	–	1,156,105
Gross profit	514,809	848	7,749	–	–	–	–	523,406
SG&A expenses	(119,515)	13,700	9,914	1,268	1,253	–	–	(93,380)
R&D expenses	(213,808)	10,504	1,066	–	–	–	–	(202,238)
Other operating income	4,416	–	(1,939)	–	–	–	–	2,477
Operating profit	185,902	25,052	16,790	1,268	1,253	–	–	230,265
Net finance expense	(16,581)	–	–	–	–	9,269	–	(7,312)
Profit before income taxes	169,321	25,052	16,790	1,268	1,253	9,269	–	222,953
Income tax expense	(31,242)	–	(1,783)	–	–	–	(17,759)	(50,784)
Net income	138,079	25,052	15,007	1,268	1,253	9,269	(17,759)	172,169

Accounting for business combinations

We excluded from the underlying measures of the profitability the following specific items arising from business combinations accounting under IFRS:

US$'000 unless stated otherwise	**2016**	2015	2014
Acquisition-related costs	**–**	86	1,912
Amortisation of acquired intangible assets	**14,502**	15,024	15,129
Additional depreciation of tangible assets	**–**	–	1,688
Change in the fair value of contingent consideration payable	**–**	3,375	(1,939)
Increase in profit before tax	**14,502**	18,485	16,790
Income tax credit	**(351)**	(1,027)	(1,783)
Increase in net income	**14,151**	17,458	15,007

Explanation of financial performance measures

Change in revenue

We monitor the change in revenue from one period to another and the trend in revenue over time because they are important measures of the growth in our business. During the periods presented there were no differences between IFRS and underlying revenue. Revenue was as follows:

US$'000 unless stated otherwise	**2016**	2015	2014
IFRS and underlying basis			
Revenue in the period	**1,197,611**	1,355,312	1,156,105
Revenue in the comparative period	**1,355,312**	1,156,105	901,380
(Decrease)/increase in revenue	**(11.6)%**	17.2%	28.3%

Gross margin

Gross margin is gross profit expressed as a percentage of revenue. We monitor gross margin because it provides a measure of the value that we add to our products. Gross margin on an IFRS basis and on an underlying basis was as follows:

US$'000 unless stated otherwise	**2016**	2015	2014
IFRS measures			
Revenue	**1,197,611**	1,355,312	1,156,105
Gross profit	**546,715**	624,804	514,809
Gross margin	**45.7%**	46.1%	44.5%
Underlying measures			
Revenue	**1,197,611**	1,355,312	1,156,105
Gross profit	**554,864**	632,344	523,406
Gross margin	**46.3%**	46.7%	45.3%

Operating expenses as a percentage of revenue

We monitor operating expenses as a percentage of revenue because it provides a measure of our effort in innovation and the efficiency of our operating structure. Operating expenses comprise selling, general and administrative (SG&A) expenses and research and development (R&D) expenses. Operating expenses as a percentage of revenue on an IFRS basis and on an underlying basis was as follows:

US$'000 unless stated otherwise	**2016**	2015	2014
IFRS measures			
Revenue	**1,197,611**	1,355,312	1,156,105
Operating expenses	**(374,616)**	(366,217)	(333,323)
Operating expenses as a percentage of revenue	**31.3%**	27.0%	28.8%
Underlying measures			
Revenue	**1,197,611**	1,355,312	1,156,105
Operating expenses	**(334,262)**	(315,847)	(295,618)
Operating expenses as a percentage of revenue	**27.9%**	23.3%	25.6%

Financial performance measures continued

Change in operating profit

We monitor the change in operating profit from one period to another and the trend in operating profit over time because they are important measures of the performance of our operations. Operating profit growth on an IFRS basis and on an underlying basis was as follows:

US$'000 unless stated otherwise	**2016**	2015	2014
IFRS measures			
Operating profit in the period	**309,807**	259,746	185,902
Operating profit in the comparative period	**259,746**	185,902	102,660
Increase in operating profit	**19.3%**	39.7%	81.1%
Underlying measures			
Operating profit in the period	**221,010**	317,656	230,265
Operating profit in the comparative period	**317,656**	230,265	139,595
(Decrease)/increase in operating profit	**(30.4)%**	38.0%	65.0%

Operating profit margin

Operating profit margin is operating profit expressed as a percentage of revenue. We monitor operating profit margin because it provides a measure of the overall profitability of our operations. Operating profit margin on an IFRS basis and on an underlying basis was as follows:

US$'000 unless stated otherwise	**2016**	2015	2014
IFRS measures			
Revenue	**1,197,611**	1,355,312	1,156,105
Operating profit	**309,807**	259,746	185,902
Operating profit margin	**25.9%**	19.2%	16.1%
Underlying measures			
Revenue	**1,197,611**	1,355,312	1,156,105
Operating profit	**221,010**	317,656	230,265
Operating profit margin	**18.5%**	23.4%	19.9%

Underlying EBITDA and EBITDA margin

Underlying EBITDA is a non-IFRS measure that we define as underlying net income before net finance expense, income tax expense and depreciation and amortisation expenses. Underlying EBITDA margin is a non-IFRS measure that represents underlying EBITDA expressed as a percentage of revenue. We present underlying EBITDA and underlying EBITDA margin because these measures are useful to investors and other users of our financial information in evaluating the sensitivity of our underlying trading performance to changes in variable operating expenses. Underlying EBITDA may be reconciled to underlying net income as follows:

US$'000	2016	2015[2]	2014[2]
Underlying measures			
Net income[1]	**165,420**	238,376	172,169
Net finance expense	**3,361**	30	7,312
Income tax expense	**52,229**	79,250	50,784
Depreciation expense	**27,219**	24,010	20,456
Amortisation expense	**21,452**	16,096	18,302
EBITDA	**269,681**	357,762	269,023

1 Underlying net income is reconciled to net income determined in accordance with IFRS basis in the tables set out under the heading 'Reconciliation of underlying measures to equivalent IFRS measures'.
2 Recalculated to no longer exclude gains and losses on the disposal of fixed assets in order that underlying EBITDA and EBITDA margin presented by Dialog are more comparable with similar measures presented by other companies. During 2015, we recognised a loss of US$1,751 on the disposal of fixed assets (2014: loss of US$407) that is now included in arriving at underlying EBITDA.

Underlying EBITDA margin was as follows:

US$'000 unless stated otherwise	2016	2015	2014
Underlying measures			
Revenue	**1,197,611**	1,355,312	1,156,105
EBITDA	**269,681**	357,762	269,430
EBITDA margin	**22.5%**	26.4%	23.3%

Earnings per share (EPS)

We monitor basic and diluted EPS on an IFRS basis and on an underlying basis. We believe that underlying EPS measures are useful to investors in assessing the Group's ability to generate earnings and provide a basis for assessing the value of the Company's shares (for example, by way of price earnings multiples). Earnings for calculating IFRS and underlying EPS measures were calculated as follows:

US$'000 unless stated otherwise	2016	2015	2014
IFRS measures			
Net income	**258,116**	177,259	138,079
Loss attributable to non-controlling interests	**(2,824)**	(1,507)	–
Earnings for calculating basic EPS	**260,940**	178,766	138,079
Effective interest on Convertible Bonds	**–**	3,483	10,279
Earnings for calculating diluted EPS	**260,940**	182,249	148,358
Underlying measures			
Net income[1]	**165,420**	238,377	172,169
Loss attributable to non-controlling interests	**(2,299)**	(1,507)	–
Earnings for calculating basic EPS	**167,719**	239,884	172,169
Interest payable on Convertible Bonds	**–**	503	2,010
Earnings for calculating diluted EPS	**167,719**	240,387	174,179

1 Underlying net income is reconciled to net income determined in accordance with IFRS basis in the tables set out under the heading 'Reconciliation of underlying measures to equivalent IFRS measures'.

Financial performance measures continued

Underlying and diluted EPS measures are calculated using the weighted average number of shares that are used in calculating the equivalent measures under IFRS as presented in note 9 to the consolidated financial statements.

Basic and diluted EPS on an IFRS basis and on an underlying basis were as follows:

US$	**2016**	2015	2014
IFRS measures			
Basic EPS	**3.43**	2.42	2.05
Diluted EPS	**3.25**	2.29	1.93
Underlying measures			
Basic EPS	**2.20**	3.25	2.56
Diluted EPS	**2.09**	3.02	2.27

Glossary of Terms – Technical

Technical glossary

Analog A type of signal in an electronic circuit that takes on a continuous range of values rather than only a few discrete values.

Appcessories A physical device and counterpart application for a mobile device typically controlled via Bluetooth®.

ASIC An Application Specific Integrated Circuit is an integrated chip, custom-designed for a specific application.

ASSP An Application Specific Standard Product is a semiconductor device integrated circuit ("IC") dedicated to a specific application and sold to more than one user.

Audio CODEC The interface between analog signals (such as the human voice) and the digital data processing inside a mobile phone, determining voice quality.

BCD process platform The incorporation of analog components ("Bipolar"), digital components ("CMOS") and high-voltage transistors ("DMOS") on the same die to reduce the number of components required in the bill of materials, minimise board space, costs and the parasitic losses in comparison to a non-integrated solution.

Bluetooth® low energy Bluetooth® low energy is a wireless personal area network technology designed and marketed by the Bluetooth Special Interest Group aimed at novel applications in the healthcare, fitness, beacons, security, and home entertainment industries.

Buck converter A DC-to-DC buck converter accepts a direct current input voltage and produces a direct current output voltage to a plurality of channels.

CAD Computer Aided Design usually refers to a software tool used for designing electronics hardware or software systems.

CDMA Code Division Multiple Access is an alternative to GSM technology for mobile wireless networks.

Chips Electronic integrated circuits.

CMOS Complementary Metal Oxide Semiconductor: the most popular class of semiconductor manufacturing technology.

Digital A type of signal used to transmit information that has only discrete levels of some parameter ("usually voltage").

Digital Enhanced Cordless Telecommunications ("DECT") is a wireless connectivity standard technology originated in Europe for cordless telephony.

Fabless A company that designs and delivers semiconductors by outsourcing the fabrication ("manufacturing") process.

FET A Field Effect Transistor uses an electric field to control the shape and hence the conductivity of a channel of one type of charge carrier in a semiconductor material.

Foundry A manufacturing plant where silicon wafers are produced.

Hi-Fi High-Fidelity is the reproduction of sound with little or no distortion.

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.

Internet of Things ("IoT") The Internet of Things is an environment where everyday items, such as smartphones, wearable health meters, light bulbs, and lighting, security and HVAC systems, are all connected via the Internet, allowing them to send and receive data and be controlled wirelessly.

Internet of My Things It refers to the consumer segment of the Internet of Things.

LDO Low dropout voltage regulators are used in battery operated systems, where the output voltage is typically lower than the input voltage.

LED A Light Emitting Diode is a semiconductor device that emits light when charged with electricity, often used for LCD display backlights.

Liquid Crystal Display ("LCD") A display technology found in many portable electronics products, including personal organisers, cellular handsets and notebook computers.

LTE Long-Term Evolution is a standard for wireless communication of high-speed data for mobile phones and data terminals.

Mixed signal A combination of analog and digital signals being generated, controlled or modified on the same chip.

OEM An Original Equipment Manufacturer that builds products or components that are used in products sold by another company.

Original Design Manufacturer ("ODM") An original design manufacturer designs and produces products that are specified and then rebranded by OEMs.

PMIC Power Management IC.

Power Density The maximum amount of power that can be supplied from a given unit of volume. For example, a high power density power adapter can supply a large amount of power in the same size case as a low power density adapter.

Power Management The management of the power requirements of various subsystems, important in handheld and portable electronics equipment.

Glossary of Terms – Technical continued

PrimAccurate™ Dialog's patented control technology that uses digital algorithms on the primary side of an isolated power supply eliminating the need for a secondary side regulator and optical feedback isolator to lower the total BOM cost, reduce the overall solution size and improve reliability.

Rapid Charge™ A Dialog product which enables substantially faster battery charging of portable devices via USB AC/DC power adapters.

Semiconductor A base material halfway between a conductor and an insulator, which can be physically altered by mixing in certain atoms. Semiconductors form the basis for present-day electronics.

Silicon A semi-metallic element used to create a wafer – and the most common semiconductor material – in about 95% of all manufactured chips.

SmartBond™ Dialog's SmartBond™ family is the simplest route to delivering the most power-friendly and flexible Bluetooth® Smart connected products to the market. Highly integrated, SmartBond™ delivers the smallest, most power efficient Bluetooth® Smart solutions available – and enables the lowest system costs.

Smart Lighting Dialog defines smart lighting to encompass solid state lighting control ranging from various modes of wired digital dimming via the AC supply line, such as toggle-switch dimming, as well as the emerging Ledotron® (IEC 62756-1) digital dimming standard. Smart lighting also includes wireless lighting control via existing wireless standards such as Bluetooth® Smart, ZigBee®, Z-Wave®, Wi-Fi, and others.

SmartDefender™ Dialog's advanced cycle-by-cycle, hiccup mode technology that addresses soft short circuits in adapter cables and connectors helping to prevent excessive heat build-up and damage.

SmartMirror™ A technology patented by Dialog Semiconductor which simplifies circuit design and provides very low current consumption in Power Management circuits.

Smartphone A mobile phone offering advanced capabilities, often with pc-like functionality ("PC-mobile handset convergence"). A smartphone runs complete operating system software providing a standardised interface and platform for application developers.

SmartPulse™ A series of wireless sensors, actuators and base station devices enables the easy creation of wireless sensor networks for the home automation, security, healthcare and energy monitoring consumer markets.

SmarteXite™ Dialog's brand name for its intelligent LED lighting technology platform.

SmartXtend™ A technology patented by Dialog Semiconductor that extends the life and reduces power consumption of high-resolution, passive matrix OLED displays.

Subcontractor A business that signs a contract to perform part or all of the obligations of another's contract.

Synchronous Rectifier An integrated circuit that can replace diodes to improve efficiency and power density in power conversion applications, such as power supplies.

System-on-Chip An IC that integrates all components of a computer or other electronic system into a single chip. It may contain digital, analog, mixed-signal, and often radio-frequency functions – all on a single chip substrate.

Tablet PC A tablet PC refers to a slate- or tablet-shaped mobile computer device, equipped with a touchscreen or stylus.

TAM Total addressable market, TAM measures the potential market for your product – and your product only – assuming you could reach 100% of your customers.

Ultrabook™ A higher-end, compact sub-notebook that is designed to be compact, thin and light without compromising performance and battery life. Ultrabooks™ typically feature low power processors and solid-state drives.

USB Universal Serial Bus: a universal interface standard to connect different electronics devices.

Voice Over IP Our energy-efficient multicore VoIP processors interact with Bluetooth®, Wi-Fi and DECT to enable headset and handset connectivity while combining industry-leading power consumption with the flexibility and processing capacity to handle a wealth of enterprise VoIP applications.

Wafer A slice of silicon from a 4, 5, 6 or 8 inch diameter silicon bar and used as the foundation on which to build semiconductor products.

4G Wireless broadband standard.

Glossary of Terms – Financial

Financial glossary

AGM Annual General Meeting of the Company's shareholders.

BaFin the Federal Financial Supervisory Authority in Germany (Bundesanstalt für Finanzdiensleistungsaufsicht).

Basis point or bp one hundredth of one percentage point.

CAGR Compound Annual Growth Rate, a method of assessing the average growth of a value over time.

CEO Chief Executive Officer.

CFO Chief Financial Officer.

the Companies Act 2006 the Companies Act 2006 of England and Wales, as amended.

the Company Dialog Semiconductor Plc.

COSO Committee of Sponsoring Organizations, whose mission is to provide thought leadership on risk management, internal control and fraud deterrence to improve organisational performance and governance.

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs (including share-based compensation), applicable overhead and depreciation of test and other equipment.

Dialog used for convenience to refer to the Company and its subsidiaries, unless the context requires otherwise.

the DTRs the Disclosure & Transparency Rules of the UKLA.

EBIT Earnings before interest and taxes (also known as operating profit).

EBITDA Earnings before depreciation, amortisation, interest and taxes.

the EU the European Union.

Euro (€) the common currency used in the majority of member countries of the EU.

the Frankfurt Stock Exchange the largest of the seven regional securities exchanges in Germany.

Free-float The proportion of an issuer's share capital that is available for purchase in the public equity markets by investors.

General and administrative expenses consist primarily of personnel costs (including share-based compensation) and costs for our finance, human resources and other business support functions.

the Group the Company and its subsidiaries.

the IASB the International Accounting Standards Board.

IFRS International Financial Reporting Standards, comprising accounting standards issued by the IASB.

KPIs Key Performance Indicators, a range of indicators to assess performance, to ensure performance is aligned to strategy, and to ensure continued alignment with shareholder interests.

LTIP Long-term incentive plan.

NASDAQ the National Association of Securities Dealers and Automated Quotations.

OECD Organisation for Economic Co-operation and Development.

Other operating income consists of income from customer-specific R&D contracts and other income that is not classified as revenue, less other operating expenses.

Pound Sterling (£) the currency of the UK.

Prime Standard a market segment of the Frankfurt Stock Exchange that lists companies which comply with international transparency standards, including periodic reporting in German and English, application of international accounting standards, publication of a financial calendar, staging of at least one analyst conference a year and ad hoc disclosure also in German and English.

R&D research and development.

R&D expenses consist principally of personnel costs (including share-based compensation) and other design and engineering-related costs associated with the development of new ASICs and ASSPs.

Selling and marketing expenses consist primarily of personnel costs (including share-based compensation), travel expenses, sales commissions, advertising and other marketing costs, together with amortisation expenses in relation to identifiable intangible assets such as customer relationships, key customers and order backlog acquired in business combinations.

SG&A selling, general and administrative.

the TecDAX stock index that tracks the performance of the 30 largest companies by market capitalisation from the technology sector that are listed on the Frankfurt Stock Exchange.

UK the United Kingdom of Great Britain and Northern Ireland.

the UKLA the UK Listing Authority.

US the United States of America.

US dollar (US$) the currency of the US.

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Advisers and corporate information

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Shares

Information on the Company's shares and on significant shareholdings can be found on page 67.

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Registered number

3505161

Financial calendar

Annual General Meeting	4 May 2017
Q1 2017 Results	9 May 2017
Q2 2017 Results	27 July 2017
Q3 2017 Results	2 November 2017
Preliminary results for 2017	February 2018

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Related undertakings

The Company's subsidiaries as at 31 December 2016 were as follows:

Name	Registered Address	Country
Avengers Acquisition Corporation	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Dialog Argo Holdings L.L.C.[1]	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Dialog Argo Holdings, Inc.	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Dialog Integrated Circuits (Tianjin) Limited[1] (formerly iWatt Integrated Circuits Technology (Tianjin) Limited)	Rooms 2701-2, No. 2 Building, TEDA Service Outsourcing Industrial Park, No. 19 XinHuanxi West Road, TEDA, Tianjin, 300457	China
Dialog Semiconductor (Italy) S.R.L.	Via Gaetano D'Alesio No.2, 57126, Livorno	Italy
Dialog Semiconductor (Shenzhen) Limited[1]	Room 1009-10, Chang Hong Science and Technology Building, South 12 Road, Southern District in High-tech Zone, Nan Shan District, Shenzhen	China
Dialog Semiconductor (UK) Limited	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom
Dialog Semiconductor Arastırma Gelistirme ve Ticaret Anonim Sirketi	Istanbul Technical University, Ayazaga Campus, ARI 6 Building, Maslak, Istanbul, 34469	Turkey
Dialog Semiconductor B.V.	Het Zuiderkruis 53, 5215 MV's-Hertogenbosch	Netherlands
Dialog Semiconductor Finance B.V.	Het Zuiderkruis 53, 5215 MV's-Hertogenbosch	Netherlands
Dialog Semiconductor Finance L.L.C.	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Dialog Semiconductor GmbH	Neue Strasse 95, 73230 Kirchheim unter Teck-Nabern	Germany
Dialog Semiconductor Hellas Societe Anonyme of Integrated Circuits[1]	Megaro Xenia, Achilleos 8 & Lambrou Katsoni, Kallithea, Athens, 17674	Greece
Dialog Semiconductor Holdings 1 Limited	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom
Dialog Semiconductor Hong Kong Limited[1]	Level 54, Hopewell Centre, 183 Queen's Road East	Hong Kong
Dialog Semiconductor Inc.[1]	Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Dialog Semiconductor K.K.	Kamiyacho MT Building 16F, 4-3-20 Toranomon, Minato-ku, Tokyo, 105-0001	Japan
Dialog Semiconductor Operations Services Limited[1]	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom
Dialog Semiconductor Plc	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom
Dialog Semiconductor Trading (Shanghai) Limited[1]	Room 503,505, Building 1, No. 1535, Hongmei Road, Shanghai, 200233	China
Dyna Image Corporation	8F., No.233-2, Baoqiao Rd., Xindian Dist., New Taipei City, 23145	Taiwan
IKOR Acquisition Corporation[1]	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
iWatt B.V.[1]	Luna Arena, Herikerbergweg 238, 1101 CM Amsterdam	Netherlands
iWatt Cayman[1]	PO Box 309, Ugland House, Grand Cayman, KY1-1104	Cayman Islands
iWatt Coöperatief U.A.[1]	Luna Arena, Herikerbergweg 238, 1101 CM Amsterdam	Netherlands
iWatt HK Limited[1]	Units 515-517, 5/F., Building 12W, No.12, Science Park West Avenue, Phase Three, Hong Kong Science Park, Pak Shek Kok, N.T.	Hong Kong
iWatt L.L.C.[1]	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
iWatt MFG HK Limited[1]	Rooms 2702-3, 27th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai	Hong Kong
Powerventure Semiconductor Limited	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom

1 Held indirectly

All subsidiaries are wholly-owned except Dyna Image Corporation in which the Company has a 45.7% shareholding. The Company had no other related undertakings as at 31 December 2016.

Branches and representative offices

Name	Entity Type	Registered Address	Country
Dialog Integrated Circuits (Tianjin) Limited, Beijing Branch	Branch Office	Room 902-904, Zhong Guan Cun Crowne Plaza Office Building, No. 106 ZhiChun Road, Haidian District, Beijing, 100086	China
Dialog Semiconductor (UK) Limited, Korea Branch	Branch Office	6 FL, Deokmyeong Building 625, Teheran-ro, Gangnam-gu, Seoul	Korea
Dialog Semiconductor GmbH Austria Branch	Branch Office	Kärntner Strasse 518, 8054 Graz-Seiersberg	Austria
Dialog Semiconductor GmbH Singapore Branch	Branch Office	51 Anson Road, #12-51 Anson Centre, Singapore 079904	Singapore
Dialog Semiconductor GmbH Taiwan Branch	Branch Office	7F., No.392, Ruiguang Rd., Neihu Dist., Taipei City 114	Taiwan
Dialog Semiconductor Operations Services Limited Korea Branch	Branch Office	6 FL, Deokmyeong Building 625, Teheran-ro, Gangnam-gu, Seoul	Korea
Dialog Semiconductor Operations Services Limited Thailand Representative Office	Representative Office	26th Floor, Sathorn City Tower, 175 South Sathorn Road, Thungmahamek, Sathorn,10120 Bangkok	Thailand
Dialog Semiconductor Operations Services Limited Taiwan Branch	Branch Office	7F., No.392, Ruiguang Rd., Neihu Dist., Taipei City 114	Taiwan
iWatt HK Limited Korea Branch (liquidated 05/04/2016)	Branch Office		Korea
Powerventure Semiconductor Limited, Taiwan Branch	Branch Office	7F., No. 1, Taiyuan 1st St., Zhubei City, Hsinchu County 302	Taiwan

Notes

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