Dialog Semiconductor Plc
Annual report and accounts 2018

dialog
SEMICONDUCTOR

Powering the smart connected future

Powe

the

The world is being re-shaped by the convergence of social, mobile, cloud and big data. The combination of these technologies unlocks an incredible opportunity to connect everything together in a new way which is dramatically transforming the way we live and work.

Marc Benioff

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smart

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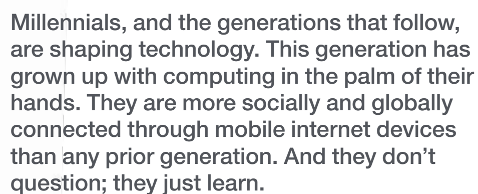

Millennials, and the generations that follow, are shaping technology. This generation has grown up with computing in the palm of their hands. They are more socially and globally connected through mobile internet devices than any prior generation. And they don't question; they just learn.

Brad D. Smith

fut

Some people call this artificial intelligence, but the reality is this technology will enhance us. So instead of artificial intelligence, I think we'll augment our intelligence.

Ginni Rometty

ure

Powering the smart connected future

We are a fabless semiconductor company primarily focused on the development of highly-integrated and power-efficient mixed-signal ICs for consumer electronics and other high-growth markets.

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

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2018 Financial highlights

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

+7%

Year	Value
2018	**1,442**
2017	1,353
2016	1,198

Gross margin (%)

47.9%

Year	Value
2018	**47.9**
2017	47.7
2016	47.3

Operating margin (%)

13.8%

Year	Value
2018	**13.8**
2017	13.8
2016	25.9

Diluted EPS (US$)

US$1.80

Year	Value
2018	**1.80**
2017	2.21
2016	3.25

Cash flow from operating activities (US$m)

US$288.6m

Year	Value
2018	**288.6**
2017	284.7
2016	248.8

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

+7%

Year	Value
2018	**1,442**
2017	1,353
2016	1,198

Underlying gross margin (%)

48.3%

Year	Value
2018	**48.3**
2017	47.9
2016	47.4

Underlying operating margin (%)

19.5%

Year	Value
2018	**19.5**
2017	19.2
2016	18.5

Underlying diluted EPS (US$)

US$2.90

Year	Value
2018	**2.90**
2017	2.92
2016	2.09

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

An explanation of the adjustments made to the equivalent IFRS measures in calculating the non-IFRS measures and reconciliations of the non-IFRS measures to the equivalent IFRS measures for each of the periods presented are set out in the section entitled “Financial performance measures” on pages 156 to 161.

Industry drivers

A number of external factors are creating new opportunities for the industry and driving growth

driving

The semiconductor industry is enabling a smart connected future where consumers benefit from an array of new technologies. Our challenge is to deliver innovation and make it happen.

Technological advancements and industry dynamics are creating new investment opportunities and growth.

1

IOT: SMART CONNECTED FUTURE

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

Consumers are more connected than ever, owning an average of four IoT devices that communicate with the cloud. Globally, an estimated 127 new devices connect to the Internet every second.[1]

The IoT is also benefiting from infrastructure improvements that have enhanced connectivity. Similarly, technological advances are reducing power requirements, decreasing costs, and promoting the development of more integrated IoT solutions.

1 McKinsey & Company, "What's new with the Internet of Things", May 2017.

growth

3

5G AND AR/VR TECHNOLOGIES

Major telecommunications companies, together with mobile phone device manufacturers, are preparing to release 5G capabilities. The US started the 5G roll-out in H2 2018 while Japan and Korea are expected to start in 2019. 5G will enable an increasing number and range of machines to transmit and receive data. Bandwidth-intensive applications, such as high-resolution video streaming and AR/VR, now accounts for 70% of broadband data usage; and that is expected to rise rapidly.

5

SECURITY

Security concerns around connected devices pose a major threat to semiconductor companies. These include home automation systems, wearable devices, and industrial automation products. Semiconductor products, especially those used in areas such as connected health and industrial automation, will therefore, need to place more focus on developing secure chips.

2

RISE OF ARTIFICIAL INTELLIGENCE

AI is viewed as a source of differentiation from their competition by businesses. The next generation of AI is set to be combined with self-driving cars, surgical robots, autonomous drones, and smartphones. Semiconductor chips consume a huge amount of power to do such AI intensive tasks.

4

LONGER BATTERY LIFE

Semiconductors are used extensively in electronic devices, such as smartphones, wearables, flat-screen monitors and LED TVs. The industry is set to grow as needs such as long battery life continue to be driven by the increasing power consumption brought by data processing and AI capabilities.

6

CONSOLIDATION THROUGH M&A

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

Industry dynamics

Our position is shaped by industry dynamics...

TOP INDUSTRY DYNAMICS IN THE NEXT THREE YEARS

IMPLICATIONS FOR DIALOG

DIVERSE CUSTOMER DEMANDS

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

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

Read more about our customers on **Page 20**

INCREASING COMPETITION FOR TALENT

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

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

Read more about our people on **Pages 18-19**

CROSS-BORDER REGULATIONS

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

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

Read more about our risks on **Pages 52-56**

ASP EROSION

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

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

Read more about our segmental review on **Pages 36-42**

Investment case

SOLID COMPETITIVE POSITIONING

- The quality of our products is rooted in deep and focused R&D investment and intellectual property.
- Our engineers deliver technical excellence and high level of integration through short design cycles.

Expensed in R&D in 2018

US$326m

Number of employees in engineering functions in 2018 KPI

1,599

Read more about how we are enhancing our competitive advantages on **Page 15**

SUPPORT ORGANIC AND INORGANIC EXPANSION

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

Number of Sales Opportunities with a value higher than US$250k KPI

1,011

Read more about our KPIs on **Pages 34-35**

Year-on-year revenue growth in CMIC* KPI

+24%

* Compared to 2017 12 months' actual revenue of US$84.3 million.

A growing business built on innovation

STRUCTURAL GROWTH

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

Year-on-year revenue growth in 2018 KPI

+7%

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

+21%

Read more about our industry drivers on **Pages 02-03**

HIGH RETURNS, STRONG CASH GENERATION

- We outsource the production of our semiconductors to leading foundries. Our high touch fabless model enables a low capital intensity business.
- The combination of low capital intensity and rigorous working capital management results in strong cash flow generation.

Free cash flow in 2018* KPI

US$230m

Read more about cash flow on **Page 48**

* Free cash flow is a non-IFRS measure. See "Financial performance measures" on pages 156-161.

which underpin our investment case

Our technologies

POWER MANAGEMENT

With its unique focus and expertise in system power management Dialog brings high-quality power supply and efficiency to a wide range of applications, such as mobile phones, tablets, notebooks, headsets, gaming and automotive infotainment systems.

More information
Pages 36-37

CONNECTIVITY

Reliable, powerful and easy-to-use, our wireless connectivity product family delivers outstanding performance, flexibility and improved battery life to wearables and smart home applications.

More information
Pages 40-41

AUDIO

Our high definition audio amplifiers, CODECs and audio integrated PMICs are suitable for a wide range of digital, low power, portable audio products.

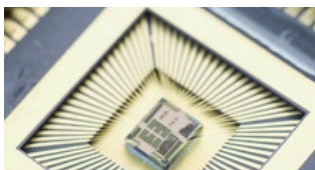
More information
Pages 40-41

With strength in a range of technologies...

CONFIGURABLE MIXED-SIGNAL

A new category of products, bringing programmability to the analog space, enabling customers a fast time-to-market through a proprietary software platform to design, test and deploy analog circuits.

More information
Pages 38-39



POWER CONVERSION

Our AC/DC primary-side converters, secondary-side ICs and synchronous rectifiers solve power consumption, size and cost issues in power adapters and power supplies for smartphones, tablets, laptops, portable electronics, networking and home appliances.

More information
Pages 38-39

LIGHTING

Innovative LED drivers to solve our customers' design challenges in solid state lighting and display backlighting.

More information
Pages 38-39

Our framework and values

...our values and a strategic framework to deliver growth

Chairman's statement

We are entering a new chapter with exciting opportunities to create long-term value for all our stakeholders

"We are entering a new chapter in the story of our Company. We are confident about the future of our business and the opportunity to create long-term value for a wider range of stakeholders."

Richard Beyer
Chairman

Engaging with our stakeholders

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

Our people

Customers

Investors

Strategic partners and suppliers

Society/ Communities

Fellow shareholder,

2018 was an important year in the history of our Company. In October 2018 we signed a landmark agreement with Apple Inc. which clarified our long-term business relationship and monetised our unique IP.

Increasing penetration of technology and connected devices, despite some softness in consumer demand in the high-end of the smartphone market, resulted in 7% revenue growth, increasing underlying profitability and strong cash flow generation. In November 2018, we restarted the share buyback programme, with a new tranche of up to €150 million and a maximum maturity date of 21 May 2019 (2017: US$125 million returned to shareholders, approximately €114 million).

Our culture and employees

The Board is firmly aware that listening to and involving our people in shaping the business are key to the long-term success of the Company. The energy and commitment of our 2,100 colleagues are vital to our success. Our four key values, Agility, Difference, Many and Ideas, are the guiding values of our culture, including what guides employees' priorities and actions.

Central to a high performing business is a diverse workforce and an ability to retain and develop our talent. All of our efforts in this area are focused on ensuring that we can attract, retain, develop, engage and inspire the very best people.

value for our
stake

Relationships with customers, partners and communities

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

Our engagement with customers, partners and suppliers has evolved into a close collaboration, resulting in the development of leading technology, product quality and operational excellence. Given the speed of technological change in our markets, our focus is to develop and retain long-term relationships, adopting a true partnership approach.

The Board also recognises our wider responsibility to society, and we promote responsible business practices across our value chain to protect our ability to create sustainable value for our stakeholders. Annually, we undertake audits of all fabrication partners to ensure our relationships continue to operate effectively.

Read more about our value chain in our **Sustainability Report 2018**

As a thought leader in semiconductors and technology, we engage with universities and professional bodies to share our knowledge and contribute to the continuing development of students and professionals. Additionally, in 2018 we distributed approximately US$1.3 billion across a range of stakeholders, including employees, tax authorities and local community projects across the world.

Some of our most important societal impacts come from the quality and energy efficiency of our semiconductors and the contribution they make towards the reduction of power consumption in consumer electronics.

Building a constructive dialogue with our shareholders

The Board is committed to engaging in constructive dialogue with shareholders to provide a clear understanding of our strategy and to foster mutual understanding of what is important to the Board and shareholders. During 2018, we consulted with our shareholders regarding the revisions to our remuneration policy. As detailed in the 2018 report on remuneration, the Board found the feedback from shareholders to be helpful in determining our final approach to remuneration. Our decisions as a Board are intended to protect and enhance enterprise value and the capital entrusted to us by you as shareholders.

Read more about our relations with shareholders in our Governance section on **Page 67**

Governance and the right balance of skills

Our ability to create value for our stakeholders is heavily linked to our commitment to high standards of corporate governance. The Board and I feel we have the right balance of skills, experience and backgrounds to oversee the evolution of our strategy and, when necessary, challenge the management team. At the 2018 AGM, Chris Burke stepped down from the Board and our ongoing programme of Board refreshment will continue in 2019 when Aidan Hughes retires from the Board at the 2019 AGM.

I would like to recognise the contribution of Aidan Hughes, who will not stand for re-election at the next AGM. Aidan has played a key role in helping Dialog create value for our shareholders and other stakeholders, and we were fortunate to have his contribution for over 14 years.

In 2019, we will enter a new chapter in the story of Dialog together with all our stakeholders. Following the announcement of our agreement with Apple, at our Capital Markets Day on 1 November 2018, Dialog's management set out the strategic path to protect and create shareholder value over the long term.

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

Sincerely,

Richard M. Beyer
Chairman

holders

Q&A with our CEO, Dr Jalal Bagherli

Dear shareholder

We are building a vibrant and ambitious mixed-signal business. Our expertise, proven track record and talent, gives me confidence in the future success of our business.

"The agreement to license certain Power Management IC technologies to Apple Inc. demonstrates the strength of Dialog's mixed-signal expertise.

In 2018, revenue outside Mobile Systems grew 33% and operating profit almost tripled."

Dr Jalal Bagherli
Chief Executive Officer

Our strategy

We continued to make good progress on our corporate strategy.

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

Read more on **Page 25**

2018 has been an important year in the history of Dialog. We are entering into the next chapter of the Company's history from a position of strength and I am truly excited for what this means for all our stakeholders.

On 11 October 2018 we reached an agreement with Apple Inc. to license certain of our PMIC technologies, and transfer of certain assets and over 300 employees. With this agreement, expected to complete in the first half of 2019, we are setting the stage for the next phase of revenue growth, building on our strong expertise in mixed-signal semiconductors, talented colleagues, IP and customer relationships. Dialog will focus on growing its market share in high-growth segments of Internet of Things ("IoT"), Mobile, Automotive, and Computing & Storage.

Despite customer-specific headwinds, in 2018 the business delivered 7% year-on-year revenue growth and increasing underlying operating margin. During the year, we successfully completed the integration of Silego Technology Inc. and the LED backlighting business from ams AG, which contributed to the positive financial performance in 2018.

Q.

How would you describe Dialog's financial performance in 2018?

I am very pleased with the financial performance of the business in 2018. Revenue was up 7% and we delivered almost US$200 million operating profit, US$282 million on an underlying basis. The combined performance of Connectivity, Advanced Mixed Signal ("AMS") and Automotive & Industrial ("A&I") was strong, 36% year-on-year revenue growth and 14.4% operating margin on an underlying basis. Strong cash flow generation is a distinctive feature of our business, and 2018 was no exception with US$289 million cash flow from operating activities.

Confidence in the future

Consumer demand in the high-end smartphone segment remained stable during the first half of the year but we saw some softness in consumer demand in the December quarter. Mobile Systems revenue in 2018 was 1% below 2017 due to softness in consumer demand and customer-specific headwinds announced in May which reduced our share of volume for the main PMIC product in the 2018 iPhone platform.

As more devices get connected, the Bluetooth® low energy market also experienced strong growth during 2018. Building on the quality of our products and market growth, Connectivity delivered 9% year-on-year revenue growth and 19% increase in operating profit.

Across a range of end-markets, customers value the benefits of our Configurable Mixed-signal IC, which delivered 24% year-on-year revenue growth[1], ahead of our initial expectations. The adoption of rapid charge technologies and LED backlighting gathered momentum during 2018, also contributing to higher revenue. Our CMIC, rapid charge and lighting products are grouped under Advanced Mixed Signal (AMS) which grew 73% year-on-year, including revenue from the acquisition of Silego in November 2017.

Automotive and Industrial revenue was broadly stable from 2017.

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

IoT and mobile computing are our main end-markets. Our expertise and IP in mixed-signal semiconductors are aligned with customer requirements for energy-efficient and configurable products.

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

Rapid charge technologies continue to be adopted across Asian markets. In 2019, we expect adoption of new technologies, such as USB PD Type C™ to become more prevalent and with approximately 60% market share in rapid charge for smartphones we are well positioned to continue to benefit from this trend.

Our presence in the IoT segment is built on the success and technical excellence of our Bluetooth® low energy ("BLE") products, and increasingly our Configurable Mixed-signal ICs. This year the Bluetooth® SIG launched the 5.0 standard, adding mesh functionality to the standard and our products introduced it soon after. SmartBond™ performed well, offering low power consumption, small size and low system cost without compromise. The market continued to grow and we expect it to grow at approximately 23% CAGR for the period 2016–2021[2].

In 2018, BLE grew 21% year-on-year, the fourth consecutive year of strong double-digit growth; a clear testament of the value it brings to customers.

Can you explain the rationale behind the agreement reached with Apple?

This agreement strengthens Dialog and Apple's long-term partnership, enabling us to establish a clear path for the future of our business and generating immediate value from certain PMIC technologies and assets.

At closing, Dialog will receive US$300 million in cash for the licensing of certain PMIC technologies and transfer of certain PMIC assets and employees. This includes over 300 employees from four of our European sites who will join Apple to support their future chip research and development efforts. Employees who will transfer to Apple represent around 16% of our global workforce, and Dialog will have approximately 1,800 employees following the transfer. Apple will also make a prepayment of approximately US$300 million to Dialog at closing which will be credited to future product purchases over the next three years.

What are the main sustainability priorities for Dialog?

In 2018 we maintained a strong focus on the energy-efficiency of our products, our people and a responsible supply chain. We remain fully committed to playing an active role in promoting the high standards of responsible business across the supply chain and ensure we meet our customers' high standards.

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

Is there anything else you would like to add?

I would like to thank our employees for their continued hard work and dedication. Together we are setting the stage for the next chapter in the Company's story, building a vibrant and ambitious mixed-signal business and creating long-term value for our shareholders.

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

Dr Jalal Bagherli
Chief Executive Officer

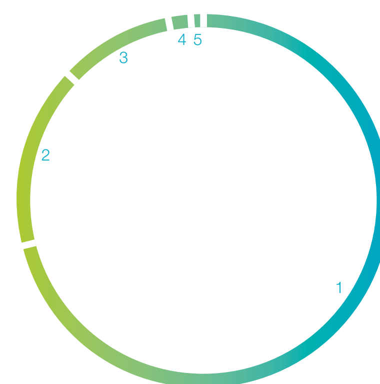
1 Compared to 12 months' revenue in 2017 of US$84.3 million.
2 Source: IHS Technology Q1 2018 Report, Dialog Internal.

At a glance

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

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

Read more on the markets in which we operate on **Page 24**



	% of total Group revenue
1. Mobile Systems	72%
2. Advanced Mixed Signal	16%
3. Connectivity	10%
4. Automotive & Industrial	2%
5. Corporate	0%

MOBILE SYSTEMS

72%
of total Group revenue in 2018

-1%
Year-on-year revenue decline

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

Revenue (US$m)

US$1,030m

Year	Revenue
2018	**1,030**
2017	1,043
2016	923

Key products

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

Segment review on **Page 36**

ADVANCED MIXED SIGNAL

16%
of total Group revenue in 2018

+73%
Year-on-year revenue growth

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

Revenue (US$m)

US$230m

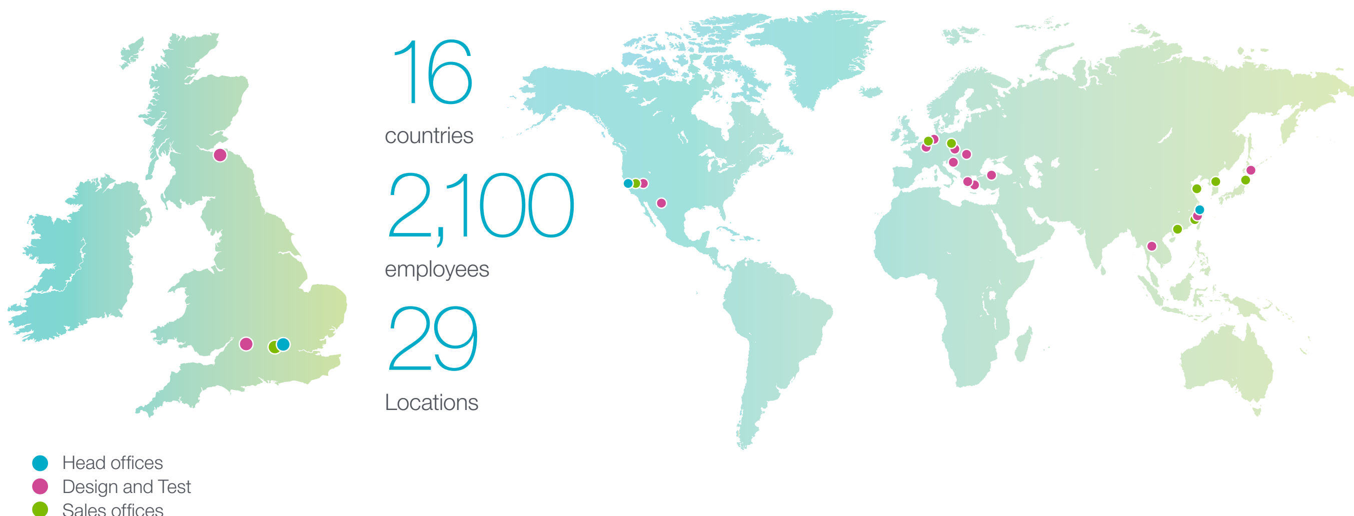
Year	Revenue
2018	**230**
2017	133
2016	117

Key products

- Configurable Mixed-signal ICs.
- 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 38**

Operations



CONNECTIVITY

10%
of total Group revenue in 2018

+9%
Year-on-year revenue growth

→ We provide short-range wireless connectivity solutions that deliver outstanding performance, flexibility and power efficiency. Our Bluetooth® low energy solutions enable the Internet of My Things. In 2018, we added Bluetooth® Mesh support to the SmartBond™ product family.

Revenue (US$m)

US$149m

Year	Revenue
2018	149
2017	136
2016	118

Key products

→ Bluetooth® low energy ICs.

→ Voice over DECT for cordless phones and professional audio applications.

→ Digital audio and audio CODEC ICs for headsets and headphones.

Segment review on Page 40

AUTOMOTIVE & INDUSTRIAL

2%
of total Group revenue in 2018

-1%
Year-on-year revenue decline

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

Revenue (US$m)

US$33m

Year	Revenue
2018	33
2017	33
2016	30

Key products

→ Motor control ICs.

→ ASIC controllers for LED lighting.

Segment review on Page 42

Our business model

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

HOW WE MONETISE OUR BUSINESS

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

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

Aligned interests

Dialog is committed to the continuing development of market-leading innovative products which we believe will generate profitable revenue streams and create long-term value for our shareholders. We achieve this by setting stretching performance targets, which align with shareholders' interests, and then motivating our executives and employees to achieve those targets with appropriate incentive arrangements. Dialog's remuneration policy is set out in greater detail within the Directors' remuneration policy on pages 73-78.

quality

DESIGN CYCLE
6–18 MONTHS

We develop our products in short and collaborative design cycles

INVESTMENT PHASE

Short development times
Focused R&D* investment in target markets 17% – 19% of revenue

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

MANUFACTURING CYCLE
3 MONTHS

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

INVESTMENT PHASE

Low capital intensity
Variable cost of goods sold
Gross margins* 47% – 48%

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

$ FINANCIAL FLOWS

REINVESTMENT
Strategic growth initiatives
(such as strategic investments or M&A)

* Underlying long-term financial model.

OUR CYCLE IN DETAIL

Design cycle

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

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

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

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

Manufacturing cycle

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

We outsource production to industry-leading wafer foundries such as TSMC, UMC and Global Foundries. This approach enables flexibility to deploy advanced production processes and maintain low capital intensity. Our assembly and test partners are leading companies such as SPIL, ASE and UTAC.

Our competitive advantage is built on

OUR PEOPLE AND CULTURE

Highly skilled engineers and entrepreneurial values.

IP AND PRODUCTS

Mixed-signal, highly-integrated power-efficient technologies that extend battery life and reduce materials consumption.

STRONG BALANCE SHEET

A strong balance sheet gives us the financial flexibility to pursue our growth strategy.

CUSTOMER RELATIONS

We work with the leading consumer electronics companies. A close R&D collaboration is at the heart of our customer relations.

ROBUST AND RESPONSIBLE SUPPLY CHAIN

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

PRODUCTS CYCLE 1–5 YEARS

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

REVENUE GENERATION

Long-term visibility

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

SHAREHOLDERS

Consistent return of capital through share buybacks

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

We promote responsible business practices internally and across our supply chain. Although fabless, we are responsible for delivering our products to customers. An efficient and responsible supply chain is important to us and our customers.

Product cycle

Dialog's focus and expertise in power management and power-efficient semiconductors contributes to better energy efficiency and lower power consumption for a range of 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.

Managing our resources and relationships

Managing our resources and relationships to create a sustainable business model

sustainable

VISION

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

APPLICABLE EXTERNAL STANDARDS

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

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

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. In 2018, we carried out an interim review of our materiality matrix and we aim to undertake a full materiality assessment in 2019 in line with our policy.

The outcome of our interim materiality assessment resulted in no major changes. Our core materiality areas remained as in 2017 with only one change in the prioritisation of our core material issues.

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

Further detail is available in our 2018 Sustainability Report and on our website at www.dialog-semiconductor.com/company/corporate-social-responsibility

MATERIALITY MATRIX

OUR SUSTAINABILITY PRIORITIES

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

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

- (+) New material issue
- (=) No change
- (↑)(↓) Re-prioritisation of material issues

Our core material issues	Change from 2017	Mapping to business issue
→ Economic performance and impact	=	**Society**
→ Technological innovation and agility	=	**Society**
→ Intellectual property	=	**Business ethics**
→ Compliance with customer standards	=	**Value chain**
→ Product impacts	=	**Environment**
→ Labour rights and human rights (supply chain)	=	**Value chain**
→ Retention, morale and engagement	↑	**People**
→ Employee development	↓	**People**
→ Corporate governance and compliance	=	**Business ethics**
→ Diversity and equality	=	**People**

Read more about our approach to sustainability in our 2018 Sustainability Report at www.dialog-semiconductor.com/company/sustainability/reports-and-presentations

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

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

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

We engage with our customers to better understand their requirements and their perception of the quality of the products we design for them. This helps us increase the value we bring into our products and our performance.

Read more about our customers on **Page 20**

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

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

Read more about our fabrication partners on **Page 21**

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

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

Corporate governance and legal compliance remains a core sustainability priority for the Company and our stakeholders.

Read more about governance on **Page 57**

Managing our resources and relationships continued

Engaging with our colleagues

Our people and culture	Customer relations	IP and products	Robust and responsible supply chain	Strong balance sheet

Building our competitive advantage

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

Julie Pope
Senior Vice President, Human Resources

TO HELP US MANAGE OUR HUMAN RESOURCES, WE MONITOR INTERNAL KPIs TO CHECK WE ARE ON TRACK:

76% KPI
Engineering talent ratio (%)

250
New employees globally in 2018 (29 net additions)

2,100
2018 headcount
(2017: 2,071 +1%)

Our performance

	2018	2017
Employee turnover (%)	**10.7**	10.3
Employee retention (%)		
Manager retention rate	**91.0**	94.7
Overall employee retention rate	**89.3**	89.7
Engineering talent ratio (%)	**76.1**	74.7
Diversity (%)		
Women overall	**17.6**	16.8
Part-time employees	**3.4**	3.2
Number of nationalities	**69**	65

Dialog People and Culture

Dialog's ongoing success and growth is dependent on our ability to continue to attract and retain employees who are passionate about working within Dialog's agile business model, designing and developing leading-edge products tailored to the needs of our customer base.

We work to ensure that the environment at Dialog is a place where employees are motivated to deliver for our customers. This means having the right culture – one in which employees can perform at their best and deliver "best-in-class", innovative products.

We are an engineering-led organisation with 76% of employees in engineering functions. We have a diverse global workforce of 2,100 employees who are vital to our success. Our goal is to offer them a combination of responsibility, recognition and benefits that are relevant and meaningful at every stage of their career.

In 2018, we signed an agreement with Apple which, subject to the requisite regulatory approvals, will result in over 300 employees transferring to Apple in 2019. One of our key focus areas in 2019 will be to support these employees during their transition to Apple and to provide employees remaining with Dialog with the leadership and resources to ensure that they feel engaged and excited about Dialog's future.

Our overall employee retention rates remain stable in 2018 at 89.3%.

Talent attraction

Dialog values diversity and fresh thinking, and our recruitment approach reflects this by spanning early careers to experienced hire recruitment.

In 2018, we welcomed 250 new employees globally (29 net additions) and successfully integrated Silego employees into our teams in China, Japan, Korea, Taiwan, Ukraine and the US.

Passionate about developing employees and managers

Dialog recognises the importance of developing the engineering talent of the future. Our Graduate & Early Careers Programme is key to this. In 2018, we supported graduate hires with bespoke learning programmes that included technical training, group projects, opportunities for work shadowing, and coaching and mentoring programmes.

To ensure our employees maintain leading-edge technical capability, we invest heavily in the development of Dialog's engineering population. In 2018, we rolled out key technical leadership skills development workshops for our analog, digital and technical populations. Engineers are able to access development appropriate to their needs through internally run courses, cross-functional projects and mentoring. We also recognise the value of an external perspective, and facilitate attendance at key external courses and conferences.

In addition to their accountabilities to our customers, our managers and leaders coach and mentor their own teams with technical skills and advice. To support this critical population, we continue to expand the reach and scope of our manager development programmes. In 2018, the total number of training hours for our managers was 3,454 with an average of 15 training hours per person.

Dialog recognises that an effective learning organisation depends on the employee's ability to acquire and share knowledge critical to their development. In 2019, Dialog will focus on building employee capability, providing them with the tools and resources to enable them to diagnose their own learning needs and proactively access development that maximises their potential and puts them in the driving seat of their careers.

Diversity and inclusion

Diversity and inclusion are vital in maintaining a creative, dynamic and innovative business environment. We currently have operations in 16 countries, and we are proud that our employees represent 69 nationalities.

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

Our 2018 global gender balance is 82.4% men to 17.6% women, an 0.8% increase in female representation from 2017. Skills and professional expertise form the basis of Dialog's recruitment processes, and our job offers are gender-neutral, ensuring a bias-free selection. We remain committed to encouraging more women to apply for roles within Dialog and participate in several initiatives that support women in engineering.

In 2018, we partnered with the Women in Engineering Society (WES) to work towards increasing the number of women engineers in the Company. In June 2018, female engineers from the Swindon site held an exclusive event with our CEO and senior executive team members to discuss how to address the gender gap that prevails across the electrical engineering sector.

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

For the second year running we will be reporting our gender pay gap statistics as they relate to our total UK population as at 5 April 2018. As required by the UK Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, we submit data to the UK government via their website.

Employee engagement

We understand that an actively engaged workforce is critical to our success. In a year of change, we are actively focusing on ensuring the positive engagement of our employees by equipping our leaders and managers with the skills to help employees navigate a changing environment, support employee development and create an environment in which employees are excited for their future with Dialog.

By operating a flexible, decentralised HR model, we enable our business units and locations to have the autonomy to work in partnership with us to put in place organisational plans that motivate and engage employees in ways that are relevant to their locations.

In 2018 we took the decision to review our approach to annual employee engagement surveying. In 2019, we intend to move to a more regular, dynamic survey approach, consistent with the pace of change of the work environment.

Additionally, in 2019, in line with best practice, we will be appointing one of our Board members to take responsibility for overseeing employee engagement in collaboration with our global HR teams.

Employee communications

Open and continuous two-way communication is a vital part of employee engagement. We keep employees regularly updated on Company performance, business strategy and other relevant news that concerns employees across the Company via regular "All Hands" meetings. We use our intranet to post news articles and regular video updates from our CEO and other senior leaders, and we use our "Enginews" site to share information on our engineering products – recent developments, ideas and celebrations.

Rewarding and recognising employees

We offer market-competitive pay and employee benefits, along with opportunities for individual and team recognition, all within a supportive working environment. We regularly benchmark our pay and benefits against the employment markets in which we operate. This includes close analysis of total compensation offered by our direct competitors, both global and local, to ensure that our offering remains attractive.

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

We encourage regular recognition and will shortly be launching a technology platform that will allow managers to recognise and reward those employees who have gone "above and beyond".

Work environment

Our workspaces offer our employees the highest standard of safety, comfort, technology and accessibility. We will continue to support employee well-being through the provision of free refreshments, healthy snacks and fruit at key locations.

Human and labour rights

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

Anti-bribery and corruption

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

Julie Pope
Senior Vice President, Human Resources

Managing our resources and relationships continued

The strength of our customer relations

Our people and culture | **Customer relations** | IP and products | Robust and responsible supply chain | Strong balance sheet

Building our competitive advantage

75% KPI

Customer concentration (%)

Year	%
2018	75
2017	77
2016	74

Read more on our KPIs on **Pages 34-35**

Technological innovation and agility

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

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

These top five customers represented 83% of Dialog revenue in 2018 (2017 82%; 2016: 92%). We recognise there is a risk associated with this level of customer concentration and the revenue derived from our largest customer (Apple Inc.) is shown on page 144, note 33c.

See details of customer concentration in the Risk section on **Page 53**

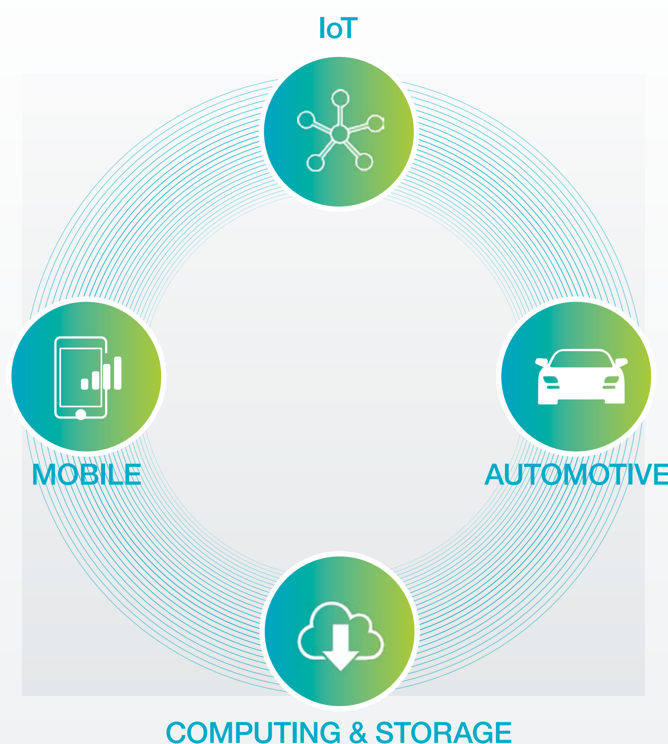
During 2018 we reached a landmark agreement with Apple Inc., a testimony of the quality and strength of our mixed-signal technology. Dialog will continue on its path to create a more diversified business, welcoming new customers across multiple business segments.

Customer and industry standards

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

For more information see our **2018 Sustainability Report**

Our target end-markets



A landmark agreement with Apple Inc.

On 11 October 2018, Dialog announced an agreement with Apple Inc. to license certain of its power management technologies, transfer certain of its assets and over 300 employees to support chip research and development. The employees who will be transferred when the deal closes have worked closely with Apple for many years, and this transition will foster deeper collaboration between the two companies.

This agreement was the result of a long-standing and close R&D collaboration which resulted in the creation of unique power management technology for mobile applications.

Apple will remain an important customer and innovation partner to Dialog and we expect to continue to collaborate with them to develop innovative technologies for many years to come.

Strategic report
Corporate governance
Financial statements
Additional information

Managing our production partners and suppliers

100%

On Time Delivery performance (%)

Year	%
2018	100
2017	99
2016	99

About our Supplier Code of Conduct

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

For more information see our **2018 Sustainability Report**

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

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

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

Over the years we have worked closely with TSMC to introduce new manufacturing technologies for our highly-integrated power management ICs, such as 130 nanometre BCD.

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

Our test programmes, based on our own and individual customers' specifications are developed by our test engineers in parallel with the design process.

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

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 2018, we carried out 22 supplier audits on this basis (2017: 18).

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])	2016	2017	2018
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]	2016	2017	2018[5]
Health and safety	0	6	**7**
Environment	1	2	**5[4]**
Labour practices (incl. human rights)	0	3	**20[6]**
Society	0	0	**0**

1 Screening activity is aimed at improving the performance of our fabrication partners where necessary, rather than their exclusion from our supply chain.
2 Includes both documentary auditing and on-site auditing. All our fabrication partners were subjected to auditing in 2018.
3 i.e. audit findings of sufficient seriousness that Dialog requires immediate correction on the part of the supplier.
4 Such as, boundary noise management, waste management and indoor air quality management.
5 In 2018, we continued to strengthen our audit processes and expanded the scope of our audits to include Silego Technology Inc., acquired in November 2017.
6 Such as working hours management above and beyond local law and foreign contract worker protection.

* As indicated on page 16, material sustainability issues.

Managing our resources and relationships continued

Through our business activity we create value for society

Our most important societal impact is the generation of economic value, much of which is distributed amongst investors, employees, suppliers, host governments and other beneficiaries. The nature of products means we play an important role in helping millions of end-users access affordable and life-enhancing technology. Furthermore, our position at the forefront of semiconductor R&D means we are constantly contributing towards the advancement of scientific knowledge in this area, laying the ground for future technological innovation, whether by ourselves or others. 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.

Societal benefits

Economic impact

In pursuit of the generation of profit we also generate broader economic value, much of which is distributed to a wider set of stakeholders.

For more information see our **2018 Sustainability Report**

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 computing devices.
- IoT applications.
- LED solid state lighting and LED backlighting.

Total value generation and distribution by type (US$ millions)	2016	2017	2018
Economic value generated	1,197.6	1,352.8	**1,442.1**
Economic value distributed	1,076.2	1,183.1	**1,304.2**
Operating costs[1]	794.9	881.3	**933.7**
Employee wages and benefits[2]	230.3	274.5	**311.2**
Payments to providers of capital	3.4	1.3	**3.1**
Payments to government	47.4	25.8	**56.0**
Community investments	0.2	0.2	**0.2**
Economic value retained	121.4	169.7	**137.9**

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

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

These include:

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

Minimisation of negative product impacts

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

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

* As indicated on page 16, material sustainability issues.
** Compared to discrete solutions.
*** Compared to similar products available in the market.

We operate and promote environmentally responsible practices

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 energy-efficient IC solutions, and we aim to have a positive impact on the wider environment through the development and marketing of energy-saving technology. We make an ongoing effort to minimise our:

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

Management approach

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

Energy and carbon emissions

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

	2017 Total	2017 per employee	**2018 Total**	**2018 per employee**
Scope 1	92.5	0.05	**81.2**	**0.04**
Scope 2	1,651.5	0.86	**1,170.3**	**0.56**
Scope 3	5,210.2	2.71	**4,203.6**	**1.99**

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.

* As indicated on page 16, material sustainability issues.

Our markets and strategy

The opportunities in our markets

The major markets in which we operate are below (market size in US$)		Key Drivers
PMICs, Charger ICs and Haptics		
3% 2017-2021 CAGR Source: Gartner 2018, Dialog internal.	2021 $6.2bn; 2017 $5.5bn	→ Increasing daily use of mobile devices. → Larger batteries and battery charge time reduction. → Larger, higher resolution screens, higher rate of data transmission and multi-core application processors. → Industry increase in "always-on" applications. → Acceleration of mobile technology into the Automotive space.
Audio Codec		
1% 2017-2021 CAGR Source: Gartner 2017, IDC 2016, Dialog internal.	2021 $542m; 2017 $523m	→ More power-efficient audio solutions which help to extend battery life. → High-quality audio technology capturing speech and audio. → Industry increase in "always-on" applications.
Bluetooth® low energy		
23% 2017-2021 CAGR Source: IHS Technology Q1 2018 Report, Dialog internal.	2021 $762m; 2017 $334m	→ 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		
10% 2017-2021 CAGR Source: Future source (October 2018) and Dialog internal.	2021 $735m; 2017 $505m	→ Increase in power-efficient, feature-rich wireless audio applications. → Fast growing USB type-C Hi-res audio headsets for the mobile market. → Fast growing semi-professional Unified Communication headsets with low-latency microphone features.
Configurable Mixed-signal ICs		
4% 2017-2021 CAGR Source: Gartner 2018, Dialog internal estimates.	2021 $1,683m; 2017 $1,436m	→ Initially focused on consumer markets requiring reliable and cost sensitive products, as well as fast time-to-market. → CMICs replace incumbent discrete components so its growth potential is higher than the end-market growth. → Addressing the opportunity in consumer, mobile, IoT, automotive, communications and computing end-markets.
Power Conversion		
43% 2018-2021 CAGR Source: Statista (2018), WitsView (Dec 2015), Gartner (2018), Dialog internal estimates.	2021 $579m; 2018 $197m	→ Larger smartphone/mobile device batteries and higher power adapters needed to charge them. → Consumer demand for faster mobile device charging and smaller travel adapters/power supplies requires very efficient, higher power density AC/DC IC solutions. → An expanding array of new rapid charging protocols, including the new USB Power Delivery 3.0 (USB-PD 3.0), Qualcomm® Quick Charge™ 4+ and other new proprietary OEM protocols. → Market shift from edge-lit design to multi-segment and direct backlighting to enable higher resolution and high dynamic range ("HDR") displays.

Our strategy

A path for future revenue growth

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

We made good progress in 2018, moving forward with initiatives in each of our strategic priorities. Our goal is to generate sustainable long-term value for our customers, our shareholders, our employees and other stakeholders.

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

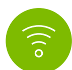
Read about Managing risk and uncertainty on **Page 52**

STRATEGIC PRIORITY

WHY IT IS IMPORTANT

HOW WE MEASURE OUR PROGRESS

EXTEND OUR PRODUCT PORTFOLIO



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

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New products introduced and sold in 2018 with revenues greater than US$200,000.

ACHIEVE A BROADER AND DEEPER CUSTOMER BASE

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

26

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

DELIVER CONTINUOUS INNOVATION

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

US$326m

Expensed in R&D programmes during 2018, an increase of 8% compared with 2017.

STRATEGIC INITIATIVES AND M&A

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

In Q4 2018 we entered the Indian smartphone market with the first PMIC volume production for the latest Micromax smartphone.

Our ongoing collaborations with Renesas and Xilinx will strengthen our presence in the automotive segment.

Our strategic priorities

Extending our product portfolio

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

Dialog entered the growing haptics market with ultra-low power and compact Haptic IC.

The DA7280 offers a unique and highly responsive haptic experience to the next generation of smartphones, gaming and automotive UI systems. This product offers lower power consumption and approximately 50% reduction in cost (Bill of Materials) compared to existing solutions on the market.

As haptic drivers spend the majority of their time in standby/idle mode, the DA7280 was designed to utilise very low idle current consumption (360nA) to maximise battery life.

Touchscreens are becoming a necessity, both in the consumer and increasingly in the automotive market, and this new IC will help provide a superior user experience.

HOW WE MEASURE OUR PROGRESS

48

New products introduced and sold in 2018 with revenue greater than US$200,000

Year	Value
2018	48
2017	39
2016	29

extend

PROGRESS IN 2018

- New 15 Degrees-of-Freedom ("DOF") SmartBond™ Multi-Sensor Kit to support sensor connectivity in the Internet of Things ("IoT"). Built on Dialog's DA14585 SmartBond™ System-on-Chip ("SoC"), the kit allows engineers to easily connect sensors to the cloud at the lowest power and smallest footprint.
- Added Bluetooth® Mesh support to SmartBond™ product family. Enhanced by the Bluetooth® mesh standard, SmartBond™ SoCs will now enable extended-range applications within the home and industrial environments.

KEY RISKS

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

Our strategic priorities

Achieving a broader and deeper customer base

Four billion Configurable Mixed-signal ICs shipped to date

This is a significant milestone for our Configurable Mixed-signal ICs ("CMICs") technology, with over four billion CMICs having been shipped to date. The milestone validates Dialog's configurable technology, including the highly successful GreenPAK™ product family, as the leading choice for the market.

As market demand for CMIC technology intensifies, Dialog has added to its suite of development tools to further accelerate customer product designs across IoT and mobile end-markets.

PROGRESS IN 2018

- Jabra introduces the first product on the market featuring Dialog's DA14495 hi-fi audio SoC, delivering superior connectivity and industry-leading performance, even in busy work environments.
- Dialog Semiconductor USB PD chipset was adopted by Hosiden for its latest smartphone adapters. Hosiden selected Dialog to reduce BOM and minimise adapter size for one of Japan's leading mobile TELCO providers.

KEY RISKS

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

HOW WE MEASURE OUR PROGRESS

26

New customers welcomed to Dialog in 2018 with revenue greater than US$200,000. Additionally, we deepened our existing customer base with new ASIC and ASSP products.

Year	Value
2018	26
2017	16
2016	5

broaden

Connected health

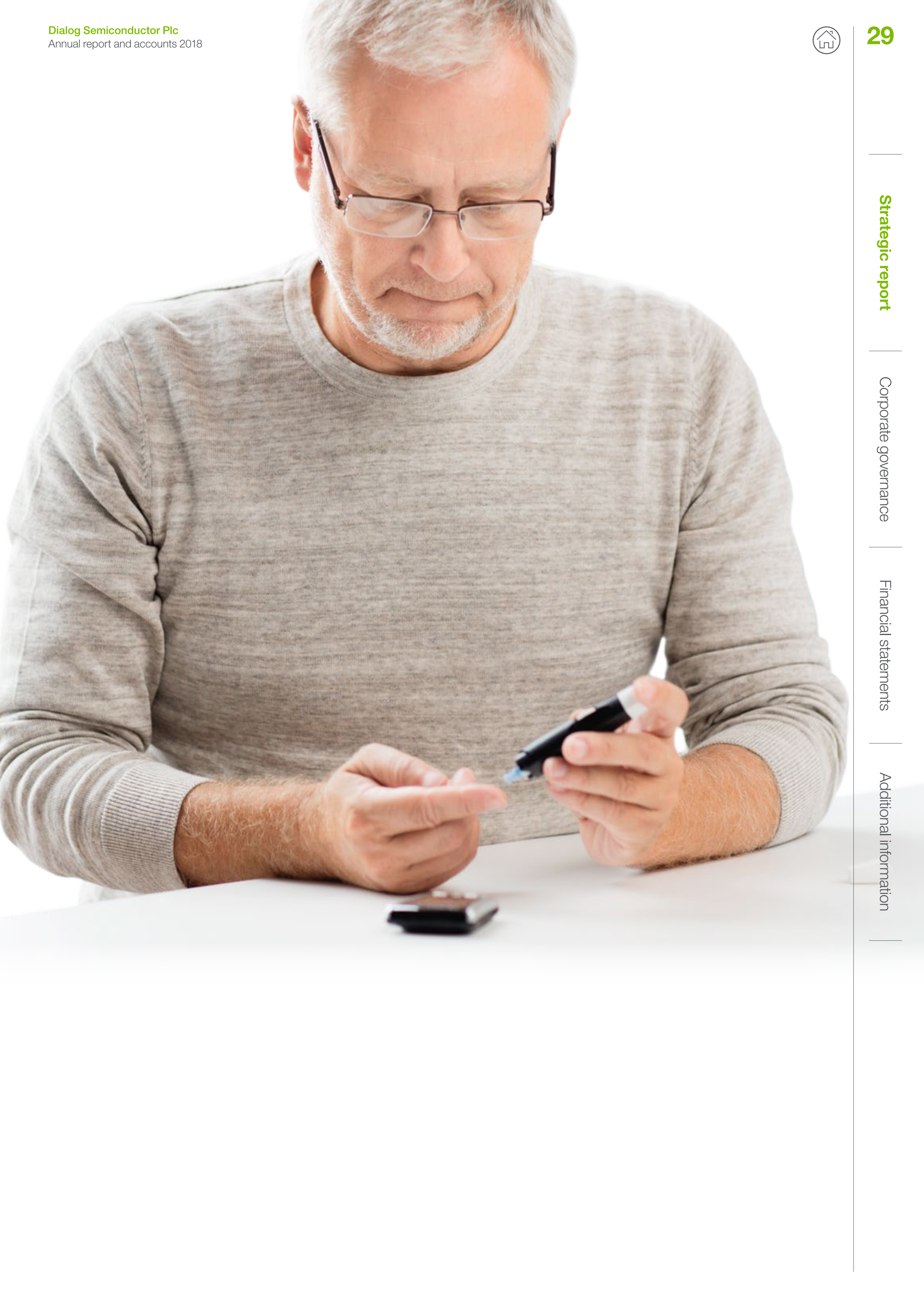
A chip a day keeps the doctor away

The number of patients being treated for chronic diseases reached almost two billion* in 2017. In that context, connected health represents a new growth area for our business.

Dialog is working with some of the leading pharma companies in the development of new Bluetooth® low energy ICs targeting disposable medical products. Our technology is enabling new ways to meet market needs in areas such as glucose monitoring and prescription drugs timestamping and dosage.

Applications such as glucose monitors, injectors, inhalers, blood pressure meter, and thermometers will be optimised and get connected using our Bluetooth® low energy and Configurable Mixed-signal ICs.

* Source: Statista and 2017 Dialog internal.



Our strategic priorities

Delivering continuous innovation

Dialog Semiconductor First to Demonstrate Stereo HiFi Quality Audio Over Bluetooth® low energy

The technology, which enables True Wireless Stereo audio streaming over Bluetooth® low energy, was showcased in a proof of concept implementation to Bluetooth® SIG Associate members at Bluetooth® World 2018 in Santa Clara, California.

This allows developers to overcome challenges of battery life and synchronisation for True Wireless Stereo systems.

innovation

PROGRESS IN 2018

- Nanopower PMIC press release.
- Introduced the first Configurable Mixed-signal ICs with In-System-Programming, adding significant value in a wide range of battery powered applications and extending the range of addressable applications.

KEY RISKS

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

HOW WE MEASURE OUR PROGRESS

US$326m

Expensed in R&D programmes during 2018, an increase of 8% compared to 2017.

Year	Value
2018	326m
2017	303m
2016	261m

76% KPI

Engineering talent ratio (2017: 75%; 2016: 75%)

860

Inventions for which we are pursuing or have already obtained patent protection (2017 approximately 800; 2016: approximately 700)

Our strategic priorities

Focusing on strategic initiatives and M&A...

Entering the Indian smartphone market with our partner UNISOC

In 2018 we partnered with UNISOC, formerly Spreadtrum Communications, to develop the SC2703, an optimised high-performance Power Management Integrated Circuit ("PMIC") that is powering the latest addition to the new Micromax Canvas LTE smartphone series.

The smartphone market in India has taken off in recent years, largely due to the entrance of mobile network operator Reliance Jio and has driven tremendous adoption of 4G-enabled devices. Micromax, one of the leading handset players in India, began rolling out its Canvas series of smartphones with 4G capabilities for first time smartphone users, and the Canvas series quickly became the highest selling phone series in the under Rs 5,000 budget (approximately US$70) segment in India after its launch.

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

focus

PROGRESS IN 2018

- Powered the latest addition to the new Micromax Canvas LTE smartphone series through our collaboration with UNISOC.
- Energous Corporation Announces New DA2223 Receiver IC Designed for Small Electronic Devices. The Smallest IC in the Energous portfolio increases the available market for wireless charging by providing Energous WattUp® to smaller form factors devices.

KEY RISKS

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

HOW WE MEASURE OUR PROGRESS

During 2018 we continued developing our partnerships with UNISOC and Energous Inc. Our ongoing collaborations with Renesas and Xilinx will strengthen our presence in the automotive segment.

Evolve and develop

The gaming experience continues to evolve and the development of richer virtual reality experiences is taking the gaming industry into an exciting new phase.

Dialog's technology supports a richer gaming experience, enabling efficient power management of the main console and controllers, low power connectivity (Bluetooth® low energy) for AR/VR controllers, a sharper and stronger haptic experience at ultra-low power, and high-performance audio with our audio ICs.

game

By using special input/output devices (joysticks, data gloves or other devices), users can receive feedback from computer applications in the form of felt sensations in the hand or other parts of the body. In combination with a visual display, haptics technology can be used to train people for tasks requiring hand-eye coordination, such as surgery and space ship manoeuvres. It can also be used for games in which you feel as well as see your interactions with images. For example, you might play tennis with another computer user somewhere else in the world. Both of you can see the moving ball and, using the haptic device, position and swing your tennis racket and feel the impact of the ball.

on

Key performance indicators "KPIs"

Our KPIs

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

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

Performance indicators	Definition and relevance	2018 performance

Employee turnover

2018
10.7%

Year	Value
2018	10.7%
2017	10.3%
2016	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 and commercial professionals is vital given the strong competition for skills in the sector, ageing population, and our business growth ambitions.

In 2018, employee turnover was broadly stable at 10.7%. Our ability to recruit and retain engineering professionals remained high. In 2018 the total number of employees remained broadly in line with 2017. Dialog has a performance management system to ensure we reward our best employees through appropriate mechanisms.

Engineering talent ratio

2018
76%

Year	Value
2018	76%
2017	75%
2016	75%

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

In 2018, the engineering talent ratio was 76%, slightly above 2017.

Number of sales opportunities

2018
1,011

Year	Value
2018	1,011
2017	1,038
2016	823

Number of sales opportunities recorded in the pipeline in a given year, with a value higher than US$250k excluding cancelled, rejected, lost, and opportunities which reached their end of life.

In 2018, the number of sales opportunities with a value higher than US$250k was broadly in line with 2017. However, the number of opportunities with a value lower than US$250k almost doubled. This is a reflection of the increasing number of revenue opportunities in our various business segments.

Customer concentration

2018
75%

Year	Value
2018	75%
2017	77%
2016	74%

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

In 2018, customer concentration was slightly below the previous year at 75%, two percentage points lower than in 2017. Revenue growth in 2018, excluding our largest customer, was 16%.

Free cash flow

2018
US$230m

Year	Value
2018	US$230m
2017	US$205m
2016	US$195m

Free cash flow is a non-IFRS measure that represents cash flow from operating activities, less capital expenditure. It provides a measure of the cash available for expansion, to make strategic investments in, or acquire, other businesses, to repay borrowings and to fund distributions to shareholders.

Free cash flow in 2018 was 12% above 2017. This was the result of the higher profitability in 2018 alongside the Company's ability to convert profit into cash, partially offset by higher tax payments. In 2018, we saw a net outflow from income taxes of US$41.1 million (2017: inflow US$8.3 million).

Performance indicators	Definition and relevance	2018 performance

Revenue growth

IFRS 2018
+7%

Underlying 2018
+7%

Year	IFRS	Underlying
2018	+7%	+7%
2017	+13%	+13%
2016	-12%	-12%

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.

2018 performance: Revenue in 2018 was 7% above 2017. Excluding the contribution from the acquisition of Silego Technology Inc., revenue in 2018 was broadly in line with 2017. The main contributors to the revenue performance in 2018 were the acquisition of Silego Technology, the solid performance of our connectivity technologies, in particular SmartBond™, our Bluetooth® low energy products, and the increased adoption of rapid charge technologies. Excluding revenue from Silego Technology, revenue in 2018 was in line with 2017.

Gross margin

IFRS 2018
47.9%

Underlying 2018
48.3%

Year	IFRS	Underlying
2018	47.9%	48.3%
2017	47.7%	47.9%
2016	47.3%	47.4%

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.

2018 performance: Gross margin in 2018 (both IFRS and underlying) was slightly above 2017. This increase was mainly the result of lower manufacturing costs.

Operating expenses as a percentage of revenue

IFRS 2018
34.3%

Underlying 2018
28.9%

Year	IFRS	Underlying
2018	34.3%	28.9%
2017	33.1%	28.8%
2016	32.9%	29.0%

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 % and underlying OpEx % provide a useful reflection of the focus and efficiency of our operating structure. OpEx includes Selling & Marketing expenses, General & Administrative expenses and Research & Development expenses.

2018 performance: OpEx % in 2018 was 120bps above 2017 mainly due to the acquisition of Silego. On an underlying basis, OPEX % was 10bps above 2017. Underlying R&D % was at the same level as 2017, a reflection of our commitment to innovation. SG&A % was 10bps above 2017. We made further investment in our sales network but G&A functions did not increase significantly. It is important to note that our R&D effort is not directly linked to the revenue of the same period. It represents an investment in future revenue streams.

Operating margin

IFRS 2018
13.8%

Underlying 2018
19.5%

Year	IFRS	Underlying
2018	13.8%	19.5%
2017	13.8%	19.2%
2016	25.9%	18.5%

Definition and relevance: 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.

2018 performance: Operating margin in 2018 was in line with 2017 which includes the acquisitions of Silego Technology Inc. and the ams AG LED backlighting business in 2017. On an underlying basis, operating margin was 30bps above 2017. This increase is mostly the result of the improvement in underlying gross margin.

Diluted EPS (US$)

IFRS 2018
1.80

Underlying 2018
2.90

Year	IFRS	Underlying
2018	1.80%	2.90%
2017	2.21	2.92
2016	3.25	2.09

Definition and relevance: 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.

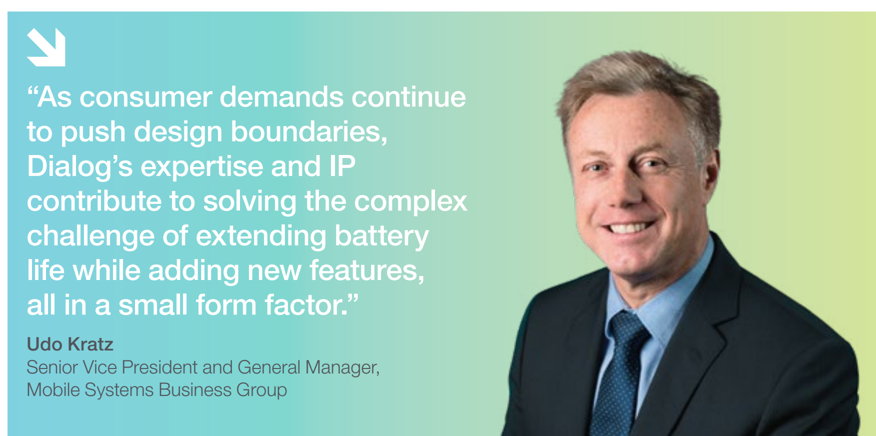
2018 performance: Diluted EPS was 19% below 2017 to US$1.80 in line with the movement in net income which is mostly due to the recognition of a fair value loss of US$10.9 million on the warrants we hold over shares of Energous. 2016 diluted EPS included the impact from the Atmel termination fee. Underlying diluted EPS was 1% below 2017, due to a US$1.0 million currency translation loss. In 2017 we recognised a currency translation gain of US$1.7 million.

Segmental review

Mobile Systems

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

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



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

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

KEY FACTS

US$1,030m
Revenue (US$m)

US$248.8m
Underlying operating profit

Underlying operating profit reconciliation on **Pages 45-46**

Highlights

- Reached an agreement with Apple Inc. to license certain of our PMIC technologies, and transfer certain assets and over 300 employees.
- Introduced the first fully-integrated nanopower PMIC for low power IoT applications.
- Entered the growing Indian smartphone market with first PMIC volume production for the latest Micromax smartphone.
- Entered the haptics market with an ultra-low power and compact Haptic IC.
- Leveraged our power management technology into new markets such as gaming, solid state drives and automotive.

Our markets

- System power and battery management ICs for large-screen smartphones and tablets (5"–11" category).
- High-efficiency battery chargers for smartphones and tablets.
- Audio CODECs for mobile computing and accessories.
- High-voltage power management for Chromebooks™, Ultrabooks™, and convertible tablets.
- Automotive-grade PMICs for in-vehicle infotainment, electronic instrument cluster, telematic systems and driver-assisted displays.
- Low-power and highly-integrated power management for connected consumer applications including smart wearables, home and building automation, and connected medical devices.

Our products

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

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

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

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

A fully-integrated nanopower PMIC to power connected devices

Today's "always-on" IoT devices such as fitness trackers, smartwatches and smart home products are expected to spend less time tethered to a charger, but expanding feature sets present new challenges to battery life. With board area already at a premium for engineers, new power management solutions are favoured over increasing battery capacity. Dialog's first fully-integrated nanopower PMICs build on our expertise in power management and IoT connectivity to provide engineers with a compact, powerful solution that solves these challenges while reducing overall form factor of the system.

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

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.

2018 progress

- Since 11 October 2018 we have worked towards the closing of the licensing agreement with Apple Inc. which is expected during H1 2019.
- Successful mass production release of industry-leading Nanopower PMIC products for connected consumer applications: DA9230 & DA9231.
- Launched first fully integrated nanopower PMIC including system power and battery management, DA9070 and DA9073.
- Entered the growing Indian smartphone market with the first PMIC volume production for latest Micromax smartphone.
- Entered into new markets with production of custom application specific ("ASICs") PMICs for the gaming and DSLR camera markets.
- Continued leadership of audio codec product for a leading computing platform.
- Expanded our automotive PMICs solutions for Renesas R-Car H3, M3 and V3M computing platforms.
- Launched industry's lowest power high definition haptics driver, DA7280.

Key drivers

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

Forward focus areas for 2019

Extend product portfolio

- Extend our Automotive PMIC portfolio.
- Expanding our engagement in gaming and Solid State Drives PMIC design.

Deliver continuous innovation

- Accelerate System-on-Chip partner collaboration.
- Leverage Dialog internal synergies to provide signal chain solutions to our customers.

Strategic initiatives and M&A

- Deepen our collaboration with strategic partners.

Segmental review continued

Advanced Mixed Signal

Configurable and programmable ICs enable our customers a fast time-to-market

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

PrimAccurate™ digital control technology is at the heart of our AC/DC converters, backlight driver ICs and solid state lighting LED driver ICs. It enables energy-efficient products and helps our customers meet ever increasing government standards and energy regulations.

"In 2018, we maintained our commanding share in the rapid charge market and grew our backlighting business over 3X."

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

KEY FACTS

US$230m
Revenue (US$m)

US$30.5m
Underlying operating profit

Underlying operating profit reconciliation on Pages 45-46

Highlights

- Launched the first in-system programmable CMIC.
- We sustained our strong position in the fast charging smartphone/tablet market with approximately 60% market share.
- We began shipping USB PD 3.0 solutions in volume to customers.
- We introduced a unique silicon-optimised state machine solution that simplifies induction heat cooker power supply controller design.
- We grew our backlighting revenue by more than 3X, through both organic growth and the acquisition of ams AG LED backlighting business.

Our markets

- Configurable Mixed-signal ICs for IoT, mobile computing and automotive.
- AC/DC controller solutions for smartphones, tablets, appliances, industrial products – digital intelligence and state machine solutions for high power density rapid charge and non-rapid charge applications, and power supplies.
- LED drivers for display backlighting in TV, automotive and LED displays.
- LED drivers for solid state lighting in residential and commercial lighting applications.

Our products

Configurable Mixed-signal IC

A new product category, integrating analog mixed-signal functionality on an easily configurable software platform. CMICs use non-volatile memory to configure multiple analog, digital, and power functions allowing customers to easily replace standard analog, logic and discrete board components. The CMIC enables a fast go-to-market, reduces board space and costs. There are over 30 different products already available, addressing a wide range of consumer IoT and mobile applications. Its configurability allows our customers to adapt through the design cycle, differentiate, and achieve a lower power consumption than using discrete components.

AC/DC Power Conversion and Control

As large screens and powerful applications continue to drive portable device purchasing decisions, consumers now also make their choices based on fast charging capability. In fact, rapid charging continues to be the fastest growing segment in the highest volume market – smartphones, and Dialog remains the number one player with approximately 60% market share.

Dialog's AC/DC travel adapter IC solutions support virtually all fast charge protocols, including the newest USB Power Delivery 3.0 specification with programmable power supply (PPS); Qualcomm® Quick Charge™ 4+; Samsung Adaptive Fast Charging ("AFC"); Huawei SuperCharge™ technology and Fast Charger Protocol ("FCP") as well as other proprietary OEM protocols.

In 2018, we introduced our new state machine-based USB Power Delivery ("USB PD") 3.0 **RapidCharge** interface IC that uses far fewer components, simplifies design and lowers the BOM cost versus conventional microcontroller-based approaches.

Our AC/DC high power density **RapidCharge** chipsets and AC/DC converter ICs deliver efficiency as high as 90% and support output power up to 45W, using fewer and smaller components. In 2018 we developed a new high power density topology that reduces heat dissipation and enables low system cost, resulting in an easy-to-use, ultra-high power density travel adapter solution.

We expanded our SAM in 2018 with two new AC/DC solutions that lower BOM costs and improve performance for the appliances and small electrics markets. We introduced a unique silicon-optimised state machine solution for induction heat cookers and an AC/DC converter for small electric appliances, such as toasters and coffee makers.

LED Backlight Drivers

When it comes to buying a new display, consumers consistently cite best picture quality as their number one buying consideration.

That's why manufacturers are transitioning LED displays from edge-lit to multi-segment (zone) direct backlighting technology: to enable the vibrant visual experience of 4K, 8K and high dynamic range ("HDR") TVs, with MiniLED backlight displays emerging now and MicroLED capability on the horizon.

Direct backlighting requires LED drivers that can drive many LED zones and plays to Dialog's core **BroadLED™** IP. This technology lowers the bill of materials ("BOM") cost, improves picture quality and reduces power dissipation for better thermal performance, higher reliability and longer lifetime.

LED Solid State Lighting ("SSL")

With its energy savings, improved performance and lower costs, solid state lighting ("SSL") has become the preferred technology for new residential and commercial installations.

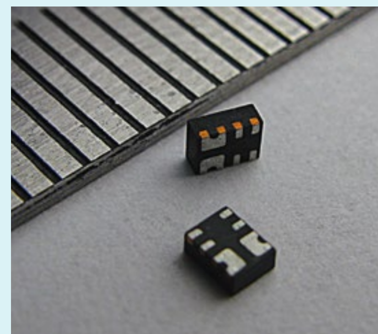
Dialog addresses the SSL market with a broad range of high performance, low BOM cost LED driver ICs. We support both dimmable and non-dimmable solutions, with ongoing investment in both commercial and residential SSL applications.

2018 progress

- Over four billion CMICs shipped since launch.
- Introduced the first in-system programmable CMIC.
- Maintained our dominant position in the mobile device rapid charging market with approximately 60% market share.
- Delivered solutions in volume for virtually all fast charge protocols, including USB PD 3.0.
- Shipped LED backlight driver ICs in volume for virtually all leading TV manufacturers.

Key drivers

- Consumer applications have very short design cycles and demand low-power, low-cost small form factor ICs.
- Consumer demand for faster mobile device charging and smaller travel adapters requiring very efficient, higher power density solutions.
- Stringent government regulations continue to raise the bar for efficiency and standby power in electronic products.



The first Configurable Mixed-signal IC with in-system programming

The introduction of in-system programming streamlines the development process as it allows the installation of an un-programmed CMIC (GreenPAK) on the printed circuit board, simplifying modifications late in the design cycle, in-field or in the production line. These features and the ultra-low power consumption will add significant value in a wide range of battery powered applications and extend the range of addressable applications.

Forward focus areas for 2019

Extend product portfolio

- Increase the value of our configurable platform incorporating additional analog and power management IP.
- Continue to deliver next-generation **RapidCharge™** adapter solutions, including USB PD high power density solutions, to meet emerging fast charging standards and sustain our leadership position.
- Extend our leadership in LED backlighting, delivering products for next-generation MiniLED and MicroLED displays.
- Expand our SSL LED driver solutions for commercial and professional LED lighting.

Achieve a broader and deeper customer base

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

Segmental review continued

Connectivity

Everything is connected

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

KEY FACTS

US$149m

Revenue (US$m)

US$17.0m

Underlying operating profit

Underlying operating profit reconciliation on **Pages 45-46**

Highlights

- Delivered strong revenue growth in Bluetooth®* low energy.
- Completed the upgrade of our SmartBond™ product portfolio to support Bluetooth® 5.0.
- Launched our Bluetooth® Mesh software development kit (SDK).

Our markets

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

Our products

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

Dialog's SmartBond™ family is the simplest route to delivering power-friendly and flexible Bluetooth® low energy connected products to the market. SmartBond™ DA14585 is still the market-leading low power, high integration Bluetooth® low energy SoC, covering a broad range of applications.

In 2018, we introduced the DA14682 and DA14683, two new devices that bring support for the Bluetooth® 5.0 standard to our high-end product line. These new products offer customers the ability to take advantage of the standard's features while enjoying the benefits of the integration on a complete power management unit and charger for rechargeable applications. Alongside this, the new products bring an increased level of security ensuring end-to-end encryption of the application's data.

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

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

The newly introduced SmartBond™ DA14585 IoT SDK makes prototyping and developing sensor node-to-cloud application easy. The kit includes 15 degrees-of-freedom ("DoF") covering motion sensing, temperature, pressure, humidity, air quality, light and sound sensing. Couple to an intuitive smartphone application and several cloud connectivity options, the kit is an ideal solution for customers to accelerate their development and time-to-market.

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

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

In 2018, Dialog launched the DA14495 single chip, which integrates the fastest 1.9GHz DECT radio in industry. This new product aims at the professional headset and pro-audio segment, benefiting from the interference free radio technology and the advanced audio processing.

2018 progress:

- Strong revenue growth in Bluetooth® low energy.
- Completed the upgrade of our Bluetooth® low energy products to support Bluetooth 5.0.
- Strengthened market position in the wearable segment with key design wins at multiple customers.
- Launched our Bluetooth® mesh SDK in support of the newly introduced Bluetooth® mesh standard.
- Launched the DA14495 SmartBeat™ Audio IC platform for 1.9GHz professional headphones.

Key drivers

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

Sailing past the 200 million units of SmartBond™

In 2018, shipments of SmartBond™, our Bluetooth® low energy product sailed past the 200 million units.

Wearable devices, Human Interface devices, Smart Home applications, proximity tags and portable medical devices are some of the applications driving the growth in the market. The introduction of the Bluetooth® mesh standard, which enables many-to-many communication in a mesh network topology will enable new applications in the Smart Building, Smart Home and Industrial space to take advantage of this standardised protocol and fuel further growth of the standard in the medium term.

Forward focus areas for 2019

Achieve a broader and deeper customer base

- Continue to invest in the Bluetooth® low energy ("BLE") platform and increase market footprint.
- Leverage distribution and Sales representative network to expand our BLE customer base.

Deliver continuous innovation

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

Segmental review continued

Automotive & Industrial

Capitalising on our experience and mixed-signal expertise, Dialog continues to support its loyal customers in the mid-to high-end European automotive segment and the industrial lighting segment through customer-specific parts.

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

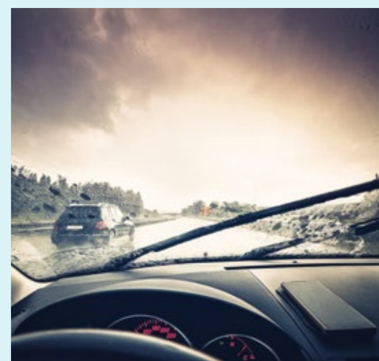
Sean McGrath
Senior Vice President and General Manager, Connectivity, Automotive & Industrial Business Group

KEY FACTS

US$33m
Revenue (US$m)

US$11.7m
Underlying operating profit

Underlying operating profit reconciliation on **Pages 45-46**



Our heritage in mixed-signal expertise

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

Highlights

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

Our markets

- Custom motor control ICs for windscreen wipers.
- Electronic ballasts for fluorescent or high-intensity industrial lighting and energy-efficient controllers for LED lighting solutions.

2018 progress

- Successful development of new LED lighting solutions.

Key drivers

- Increasing market for reverse wipers and LED lighting solutions.

Our products

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

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

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

Forward focus areas for 2019

Achieve a broader and deeper customer base

- Support our customers to remain competitive.
- Follow this market with appropriate investments.

Financial review

Our disciplined approach to capital allocation aims to create shareholder value

Our people and culture	Customer relations	IP and products	Robust and responsible supply chain	**Strong balance sheet**

Building our competitive advantage

In 2018, we delivered another year of revenue growth, increased underlying operating margin and free cash flow, while investing over US$325 million in the development of new products. We successfully integrated Silego and launched a new share buyback tranche for up to €150 million.

"Our highly cash generative business gives us the financial flexibility to support the next phase of growth."

Wissam Jabre
Chief Financial Officer, Senior Vice President Finance

Year ended 31 December US$ millions unless stated otherwise	IFRS basis			Underlying basis[1]		
	2018	2017	Change	**2018**	2017	Change
Revenue[2]	**1,442.1**	1,352.8	+7%	**1,442.1**	1,352.8	+7%
Gross profit[3]	**691.1**	644.9	+7%	**696.0**	648.4	+7%
Gross margin %[2, 3]	**47.9%**	47.7%	+20bps	**48.3%**	47.9%	+40bps
R&D % of revenue[3]	**22.6%**	22.4%	+20bps	**20.4%**	20.4%	0bps
SG&A % of revenue	**11.7%**	10.7%	+100bps	**8.5%**	8.4%	+10bps
EBITDA[1]	**n/a**	n/a	n/a	**339.6**	315.8	+8%
EBITDA margin %[1]	**n/a**	n/a	n/a	**23.5%**	23.3%	+20bps
Operating profit	**199.7**	187.0	+7%	**281.6**	259.5	+9%
Operating margin %[2]	**13.8%**	13.8%	0bps	**19.5%**	19.2%	+30bps
Profit before tax	**196.2**	194.8	+1%	**289.7**	266.6	+9%
Net income	**139.8**	169.4	-17%	**225.4**	228.0	-1%
Basic EPS (US$)	**1.89**	2.34	-19%	**3.05**	3.08	-1%
Diluted EPS (US$)[2]	**1.80**	2.21	-19%	**2.90**	2.92	-1%
Cash flow from operating activities	**288.6**	284.7	+1%	**n/a**	n/a	n/a
Free cash flow[1, 2]	**n/a**	n/a	n/a	**229.9**	205.3	+12%

1 Non-IFRS measures (see explanations and reconciliations to the nearest equivalent IFRS measures in the section entitled "Financial performance measures" on pages 156 to 161).
2 Key performance indicators.
3 Certain product development costs have been reclassified from cost of sales to research and development expenses (see note 1 to the consolidated financial statements).

Basis of preparation

Accounting policies

The consolidated financial statements of Dialog Semiconductor Plc ("the Company") and its subsidiaries (together, "Dialog" or "the Group") for the year ended 31 December 2018 are set out on pages 94 to 98.

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

The Group's significant accounting policies are unchanged compared with the year ended 31 December 2017, except for the adoption of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* with effect from 1 January 2018.

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

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.

Adoption of IFRS 15 had no impact on the recognition and measurement of the majority of the Group's revenue. Under our previous revenue recognition policy, however, revenue on certain sales to distributors and the related cost of sales were not recognised until the onward sale of the products by the distributors to the end customers. Under IFRS 15, we are required to recognise revenue on all sales to distributors when the products are physically transferred to the distributors, net of allowances for estimated rebates and returns.

Financial review continued

We applied IFRS 15 using the modified retrospective approach, whereby prior periods were not restated and we recognised a credit of US$1.5 million to the opening balance of retained earnings as at 1 January 2018 representing the cumulative effect of the adoption of IFRS 15.

Revenue recognised in 2018 was US$10.1 million higher than it would have been under our previous revenue recognition policy, of which US$9.4 million was recognised in our Advanced Mixed Signal operating segment and US$0.7 million in Connectivity.

Further details are set out in note 35 to the consolidated financial statements.

Financial Instruments

IFRS 9 *Financial Instruments* introduced 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.

Adoption of IFRS 9 had no immediate impact on the Group's results or financial position.

Further details are set out in note 35 to the consolidated financial statements.

Reclassification of certain product development costs

With effect from 1 January 2018, we changed the income statement classification of the amortisation of capitalised product development costs, the amortisation of acquired technology-based intangible assets and royalties payable for the use of intellectual property in our product development activities. Previously, we included these costs within cost of sales. We now include them within research and development expenses.

We made this change in order that our results are more comparable with our industry peers.

As shown in note 1 to the consolidated financial statements, comparative information has been re-presented on a consistent basis with the effect that cost of sales was US$24.2 million lower and R&D expenses were US$24.2 million higher in 2017 than previously reported.

Critical accounting judgements and estimates

Details 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 are set out in note 2 to the consolidated financial statements.

Non-IFRS measures

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

An explanation of the adjustments made to the equivalent IFRS measures in calculating the non-IFRS measures and reconciliations of the non-IFRS measures to the equivalent IFRS measures for the periods presented are set out in the section entitled "Financial performance measures" on pages 156 to 161.

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

Agreements entered into with Apple

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

Apple will pay US$300 million for the licence and asset transfers. The transaction is expected to complete in the first half of 2019, subject to applicable regulatory approvals and other customary closing conditions. We have accordingly classified the assets to be transferred to Apple and certain directly associated liabilities as held for sale.

Our revenue for 2018 was unaffected by this agreement and we will continue to supply Apple with PMICs for their current generation of products. Revenue associated with those products, which totalled approximately US$870 million in 2018, will begin to decline in the second half of 2019 and phase out by 2022. We expect to continue to provide PMICs to other customers across the globe.

When we announced this agreement with Apple, we also announced that we have been awarded a broad range of new contracts from Apple for the development and supply of power management, audio sub-system, charging and other mixed-signal integrated circuits.

Revenue from the new contracts is expected to commence in 2019 and accelerate in 2020 and 2021.

On completion of the licence and asset transfer agreement, Apple will make a prepayment of US$300 million that is expected to be recouped against the sale of our products over the following three years.

During 2018, we incurred transaction costs of US$7.8 million in relation to the agreements with Apple (within general and administrative expenses).

Recent acquisitions

Silego Technology Inc.

We completed the acquisition of Silego Technology Inc. ("Silego") on 1 November 2017.

Silego is included in our Advanced Mixed Signal operating segment. Silego contributed US$104.2 million to the Group's revenue in 2018 compared with US$11.4 million in 2017. When compared on a full-year basis, Silego's revenue in 2018 was 24% higher than in 2017.

We incurred integration costs of US$2.8 million in relation to Silego during 2018, taking the total integration costs incurred to US$5.0 million.

Contingent consideration of up to US$30.4 million was payable for the acquisition of Silego dependent on Silego's revenue in 2017 and 2018. Based on Silego's revenue in 2017, the first instalment of US$10.0 million was paid in full and a further US$17.9 million was payable based on Silego's revenue for 2018.

During 2018, we recognised a credit of US$0.9 million arising from the finalisation of the contingent consideration and a credit of US$0.2 million due to the forfeiture by former employees of deferred consideration payable for Silego.

LED backlight business

We acquired ams AG's LED backlight technology and product portfolio on 15 November 2017.

We have included the business in our Advanced Mixed Signal operating segment where it contributed US$11.3 million to revenue in 2018 compared with US$0.8 million in 2017.

Dyna Image Corporation

Deconsolidation and subsequent accounting under the equity method

We hold a 48.5% shareholding in Dyna Image Corporation ("Dyna Image").

Dyna Image was accounted for as a subsidiary until it was deconsolidated at the end of 2017. Details are set out in note 4 to the consolidated financial statements.

With effect from 1 January 2018, we have accounted for Dyna Image as an associate using the equity method with an initial carrying amount of US$1.1 million. During 2018, Dyna Image continued to make losses. We recognised our share of those losses in the consolidated income statement until the carrying amount of our investment was reduced to nil during the fourth quarter of 2018.

Under the equity method, the Group's revenue no longer includes any contribution from Dyna Image. During 2017, the Group's revenue included Dyna Image's revenue of US$5.5 million.

Agreement to dispose of our shareholding in Dyna Image

Following the termination of negotiations with a potential investor in December 2017, it had been the intention of the shareholders in Dyna Image to gradually wind down the company in a way that would safeguard the interests of its creditors. During early 2018, however, the shareholders were approached by a potential acquirer of the business.

On 7 December 2018, each of the shareholders in Dyna Image entered into an agreement to dispose of their respective interests in a transaction that is expected to complete in the first half of 2019, subject to applicable regulatory approvals.

We expect to receive consideration of between US$2.4 million and US$5.0 million in exchange for our shareholding in Dyna Image.

Synaptics Incorporated

During 2018, we held discussions with regard to the potential acquisition of Synaptics Incorporated. On 31 July 2018, we announced that these discussions had been terminated. We incurred related costs of US$3.6 million (within general and administrative expenses).

Results of operations

Analysis by operating segment

Mobile Systems segment revenue was US$1,029.6 million in 2018 compared with US$1,042.9 million in 2017, a decrease of 1%. Revenue declined principally due to the effect in the fourth quarter of 2018 of our reduced share of volume for the main PMIC on Apple's 2018 smartphone platform, though this was partially offset by higher demand for our custom PMICs on other platforms.

Mobile Systems' operating profit was $248.5 million in 2018 compared with $271.7 million in 2017. Operating profit benefited from favourable product mix but this was outweighed by the effect of the lower sales volume and higher R&D expenses. Operating margin declined to 24.1% (2017: 26.1%).

Mobile Systems' underlying operating profit was US$248.8 million in 2018 compared with US$271.8 million in 2017. Underlying operating margin was also lower at 24.2% (2017: 26.1%).

Mobile Systems' underlying operating profit excludes payroll taxes arising on share-based compensation of US$0.3 million (2017: US$0.1 million).

Connectivity segment revenue was US$148.8 million in 2018 compared with US$136.4 million in 2017, an increase of 9%. Connectivity's revenue increased principally due to strong growth in demand for Bluetooth® low energy products and our new range of audio ICs.

Connectivity's operating profit was higher at US$16.9 million in 2018 compared with US$14.3 million in 2017, with the effect of the higher sales volume and improved product margins being only partially offset by higher R&D expenses. Operating margin improved to 11.4% (2017: 10.5%).

Connectivity's underlying operating profit was broadly the same as its reported operating profit in both 2018 and 2017.

Automotive & Industrial segment revenue was US$32.7 million in 2018 compared with US$33.0 million in 2017, a decrease of 1%. Revenue declined over the year as a whole principally due to lower demand for automotive products in the fourth quarter of 2018.

Automotive & Industrial's operating profit was US$11.7 million in 2018 compared with US$12.5 million in 2017, a decrease of 7%. Operating profit was lower principally due to higher R&D expenses. Operating margin declined to 35.8% (2017: 38.1%).

Automotive & Industrial's underlying operating profit was broadly the same as its reported operating profit in both 2018 and 2017.

Advanced Mixed Signal segment revenue was US$229.8 million in 2018 compared with US$132.7 million in 2017, an increase of 73%. When adjusted to reflect the contribution of Silego for comparable periods and for the effect of IFRS 15, Advanced Mixed Signal's revenue in 2018 was broadly unchanged compared with 2017. Growth in sales of Rapid Charge™ smartphone power adaptors was offset by lower sales of residential solid state lighting driver ICs.

Advanced Mixed Signal made an operating profit of US$1.8 million in 2018 compared with an operating loss of US$15.1 million in 2017, the improvement being principally due to the contribution of Silego for the full year in 2018. Operating margin was 0.8% in 2018 compared with (11.4)% in 2017.

Advanced Mixed Signal's underlying operating profit was US$30.5 million in 2018 compared with US$5.9 million in 2017. Underlying operating margin was 13.3% in 2018 compared with 4.5% in 2017.

Results by operating segment

Year ended 31 December US$ millions	Revenue 2018	Revenue 2017	Revenue Change	Operating profit/(loss) 2018	Operating profit/(loss) 2017
Mobile Systems	**1,029.6**	1,042.9	-1%	**248.5**	271.7
Connectivity	**148.8**	136.4	+9%	**16.9**	14.3
Automotive & Industrial	**32.7**	33.0	-1%	**11.7**	12.5
Advanced Mixed Signal	**229.8**	132.7	+73%	**1.8**	(15.1)
Total segments	**1,440.9**	1,345.0	+7%	**278.9**	283.4
Corporate activities	**1.2**	7.8	-84%	**(79.2)**	(96.4)
Total Group	**1,442.1**	1,352.8	+7%	**199.7**	187.0

Financial review continued

Advanced Mixed Signal's underlying operating result excludes the increase in cost of sales of US$3.1 million (2017: US$2.3 million) arising from consumption of the fair value uplift on acquired inventory, amortisation of US$22.6 million (2017: US$15.3 million) on the fair value uplift of acquired intangible assets, integration costs of US$1.4 million (2017: US$2.0 million) and deferred consideration payable for Silego treated as compensation expense of US$1.5 million (2017: US$1.4 million).

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

Corporate activities also comprise various development stage businesses and, until its deconsolidation at the end of 2017, included the results of Dyna Image.

Corporate activities showed an operating loss of US$79.2 million in 2018 compared with an operating loss of US$96.4 million in 2017.

Corporate's underlying operating loss was US$26.4 million in 2018 compared with US$45.2 million in 2017, with the improvement being principally due to lower R&D expenses in development stage businesses.

Corporate's underlying operating result excludes the Group's share-based compensation expense of US$41.2 million (2017: US$35.4 million), transaction costs of US$11.3 million (2017: US$4.5 million), integration costs of US$1.4 million (2017: US$0.3 million), credits totalling US$1.1 million in relation to the remeasurement and forfeiture of contingent and deferred consideration payable for Silego, and, in 2017, amortisation of US$1.1 million on the fair value uplift of acquired intangible assets and losses totalling US$9.9 million on the impairment of assets held by Dyna Image and its subsequent deconsolidation.

Analysis of the Group's results

Revenue was US$1,442.1 million in 2018 compared with US$1,352.8 million in 2017, an increase of 7%. When adjusted to reflect the contribution of Silego for comparable periods and for the effect of IFRS 15, revenue in 2018 was broadly unchanged compared with 2017. Revenue growth in Connectivity was offset by the net reduction in demand for our custom PMICs in Mobile Systems in the fourth quarter of 2018.

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$751.1 million in 2018 compared with US$708.0 million in 2017, an increase of 6% that was principally due to the acquisition of Silego.

Gross profit was US$691.1 million in 2018 compared with US$644.9 million in 2017, an increase of 7%.

Gross margin was 20 basis points higher at 47.9% in 2018 compared with 47.7% in 2017. Gross margin improved largely due to a favourable change in product unit costs.

Underlying gross profit was US$696.0 million in 2018 compared with US$648.4 million in 2017, an increase of 7%. Underlying gross margin was 40 basis points higher at 48.3% in 2018 compared with 47.9% in 2017.

Underlying gross profit excludes share-based compensation expenses and related payroll taxes of US$1.8 million (2017: US$1.2 million) and consumption of the fair value uplift on acquired inventory of US$3.1 million (2017: US$2.3 million).

Selling and marketing expenses were US$83.9 million in 2018 compared with US$70.4 million in 2017. We maintained tight control of selling and marketing costs but they increased due to the acquisition of Silego.

Underlying selling and marketing expenses increased to US$65.0 million in 2018 compared with US$56.6 million in 2017, and were higher as a percentage of the Group's revenue at 4.5% in 2018 compared with 4.2% in 2017.

Underlying selling and marketing expenses exclude share-based compensation expenses and related payroll taxes totalling US$4.4 million (2017: US$4.1 million), amortisation of US$14.0 million (2017: US$8.9 million) on the fair value uplift of acquired intangible assets, deferred consideration payable for Silego treated as compensation expense of US$0.5 million (2017: US$0.4 million) and, in 2017, integration costs of US$0.4 million.

General and administrative expenses were US$84.3 million in 2018 compared with US$74.9 million in 2017, with the increase being largely due to the acquisition of Silego and corporate transaction costs.

Underlying general and administrative expenses increased slightly to US$57.4 million in 2018 compared with US$56.9 million in 2017, but were lower as a percentage of the Group's revenue at 4.0% in 2018 compared with 4.2% in 2017.

Underlying general and administrative expenses exclude share-based compensation and related payroll taxes totalling US$12.8 million (2017: US$12.2 million), transaction costs of US$11.3 million (2017: US$4.5 million), deferred consideration payable for Silego treated as compensation expense of US$0.5 million (2017: US$0.5 million), integration costs of US$2.5 million (2017: US$0.7 million) and, in 2018, a credit of US$0.2 million on the forfeiture of deferred consideration payable for Silego.

R&D expenses were US$326.3 million in 2018 compared with US$303.0 million in 2017, an increase of 8%.

R&D costs totalled US$356.3 million in 2018 (2017: US$331.2 million), of which US$24.8 million (2017: US$21.0 million) were capitalised, and we recognised R&D expenditure credits of US$5.2 million (2017: US$7.2 million).

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

Underlying R&D expenses were US$294.2 million in 2018 compared with US$275.8 million in 2017, an increase of 7%. When adjusted to reflect the contribution of Silego on a like-for-like basis, underlying R&D expenses were broadly unchanged in 2018 compared with 2017, because higher spending in Mobile Systems was largely offset by lower spending in development stage businesses. Underlying R&D expenses represented 20.4% of the Group's revenue in 2018, broadly unchanged compared with 2017.

Underlying R&D expenses exclude share-based compensation expenses and related payroll taxes totalling US$22.7 million (2017: US$18.0 million), amortisation of US$8.6 million (2017: US$7.5 million) on the fair value uplift of acquired technology, integration costs of US$0.2 million (2017: US$1.2 million) and deferred consideration payable for Silego treated as compensation expense of US$0.6 million (2017: US$0.5 million).

Other operating income was US$3.2 million in 2018 compared with an expense of US$9.6 million in 2017.

In 2018, we recognised income from R&D contracts of US$2.3 million and a credit of US$0.9 million arising from the finalisation of the contingent consideration payable for Silego.

In 2017, we recognised income from R&D contracts of US$0.3 million and losses totalling US$9.9 million on the impairment of assets held by Dyna Image and its subsequent deconsolidation.

Operating profit was US$199.7 million in 2018 compared with $187.0 million in 2017.

Underlying operating profit was US$281.6 million in 2018 compared with US$259.5 million in 2017, an increase of 9%. Underlying operating profit improved because the effect of higher overall sales volumes outweighed the increase in underlying sales and marketing and R&D expenses.

Underlying operating margin was 30 basis points higher at 19.5% in 2018 compared with 19.2% in 2017.

Interest income was US$9.9 million in 2018 compared with US$6.0 million in 2017, with the increase reflecting higher US dollar interest rates.

Interest expense increased to US$3.1 million in 2018 compared with US$1.3 million in 2017, principally due to the additional interest expense recognised on the contingent consideration payable for Silego.

Other finance expense was US$10.3 million in 2018 compared with income of US$3.1 million in 2017.

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

We recognised a net currency translation loss of US$1.0 million in 2018 compared with a net gain of US$1.7 million in 2017.

During 2018, we recognised a fair value loss of US$10.9 million (2017: gain of US$0.9 million) on the warrants that we hold over shares in Energous and amortisation of the gain on initial recognition of the second tranche of warrants amounting to US$1.6 million (2017: US$0.8 million).

During 2017, we recognised losses totalling US$0.3 million on other strategic investments.

Share of loss of associate was US$1.1 million (2017: US$nil) in relation to Dyna Image.

Income tax

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

Income tax expense was US$55.3 million (2017: US$25.4 million) on profit before tax of US$196.2 million (2017: US$194.8 million), an effective tax rate for the year of 28.2% (2017: 13.0%).

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

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

Our income tax expense for 2018 includes a charge of US$2.8 million (2017: credit of US$1.5 million) resulting from the finalisation of prior year tax items with tax authorities.

Our income tax expense for 2017 reflected a non-cash deferred tax credit of US$6.7 million resulting from US tax reform. We excluded this non-recurring credit in determining our underlying income tax expense for 2017.

Our underlying income tax expense was US$63.2 million (2017: US$38.6 million) on underlying profit before tax of US$289.7 million (2017: US$266.6 million). Our underlying effective tax rate for 2018 was therefore 21.8%, which compares with 14.5% for 2017.

Excluding the charge of US$2.8 million in respect of the agreement of prior year items (2017: credit of US$1.5 million), our underlying effective tax rate for 2018 was 20.8%, which compares with 15.0% for 2017.

Our underlying effective tax rate for 2017 was unusually low, principally because of the tax effects of unpredictable, and significant in the year, currency exchange rate movements.

Net income was US$139.8 million in 2018 compared with US$169.4 million in 2017. Net income in 2017 reflected a loss of US$4.5 million that was attributable to the non-controlling interest in Dyna Image. Underlying net income was US$225.4 million in 2018 compared with US$228.0 million in 2017, a decrease of 1%.

Basic earnings per share were US$1.89 (2017: US$2.34) based on the weighted average of 74.0 million shares (2017: 74.5 million shares) that were in issue during the year excluding 2.4 million shares (2017: 2.1 million shares) held by employee benefit trusts and, in 2017, the weighted average of 1.4 million of our own shares that were held in treasury. Underlying basic earnings per share were US$3.05 (2017: US$3.08).

Diluted earnings per share were US$1.80 (2017: US$2.21). Diluted earnings per share additionally reflect the weighted average of 3.7 million (2017: 4.1 million) dilutive employee share options. Underlying diluted earnings per share were US$2.90 (2017: US$2.92).

Financial review continued

Cash flows

Cash flow from operating activities was US$288.7 million in 2018 compared with US$284.7 million in 2017, reflecting higher cash generated from operations that was partially offset by the timing of income tax cash flows.

Cash generated from operations before changes in working capital was US$322.3 million in 2018 compared with US$301.5 million in 2017.

Excluding the effect of acquisitions, net working capital increased by US$1.0 million compared with an increase of US$30.9 million in 2017.

Demand for our products is typically higher in the fourth quarter of the year and lower in the first and second quarters. Inventory levels therefore usually decline between the end of the third quarter and the end of the year. We anticipated higher than usual sales of new customer products in the first quarter of 2018 and therefore had unusually high levels of inventory at the end of 2017. Inventory levels were therefore lower at the end of 2018 compared with the end of 2017, releasing cash of US$13.6 million. At the end of 2018, inventories represented 61 days' cost of sales in the preceding quarter (end of 2017: 60 days' cost of sales).

Trade and other receivables were higher at the end of 2018 compared with the end of 2017, absorbing cash of US$36.3 million. At the end of 2018, trade and other receivables represented 24 days' sales in the preceding quarter (end of 2017: 15 days' sales) and reflected our reduced use of receivables financing facilities.

Trade and other payables were higher at the end of 2018 compared with the end of 2017 releasing cash of US$16.0 million, principally due to lower materials purchases in the fourth quarter of 2018 compared with 2017. At the end of 2018, trade and other payables represented 50 days' cost of sales in the preceding quarter (2017: 51 days' cost of sales).

Movements on other working capital items had the effect of releasing cash of US$6.0 million during 2018.

Interest paid was US$0.5 million in 2018 compared with US$0.4 million in 2017.

Summary cash flow statement

Year ended 31 December

US$ millions	2018	2017
Cash generated from operations	**321.6**	270.6
Interest received, net	**8.2**	5.8
Income taxes (paid)/received	**(41.1)**	8.3
Cash flow from operating activities	**288.7**	284.7
Purchase of property, plant and equipment	**(26.1)**	(47.9)
Purchase of intangible assets	**(6.2)**	(6.2)
Capitalised development expenditure	**(24.8)**	(21.0)
Capital element of finance lease payments	**(1.7)**	(4.3)
Free cash flow	**229.9**	205.3
Payment of contingent consideration	**(9.4)**	–
Purchase of businesses, net	**(3.5)**	(267.9)
Purchase of other investments, net	**–**	(13.7)
Purchase of own shares into treasury	**–**	(125.0)
Purchase of Dialog shares by EBTs, net	**(18.2)**	(17.1)
Other cash flows, net	**0.1**	0.4
Net cash inflow/(outflow) during the period	**198.9**	(218.0)
Currency translation differences	**(0.3)**	0.2
Increase/(decrease) in cash and cash equivalents	**198.6**	(217.8)

Interest received was US$8.7 million in 2018 compared with US$6.2 million in 2017.

During 2018, we made net income tax payments of US$41.1 million compared with net receipts of US$8.3 million in 2017. Income tax cash flows comprise payments on account in respect of current year taxable profits and adjusting payments or receipts in respect of earlier years. During 2017, we received repayments of income taxes overpaid in respect of earlier years totalling US$38.1 million.

Capital expenditure totalled US$58.8 million in 2018 compared with US$79.4 million in 2017, with the reduction principally reflecting the unusually high expenditure on testing equipment during 2017.

Free cash flow was US$229.9 million in 2018 compared with US$205.3 million in 2017. Our robust free cash flow provides a basis for financing strategic investments and for making distributions to shareholders.

Cash outflow in relation to acquired businesses was US$12.9 million in 2018 compared with US$267.9 million in 2017.

During 2018, we made a number of payments in relation to the purchase of Silego. We paid a purchase price adjustment of US$0.7 million following agreement with the vendors of Silego's cash, debt and working capital levels on completion. We also paid US$9.4 million in relation to the first tranche of the contingent consideration payable for Silego and US$2.8 million in settlement of deferred consideration.

During 2017, there was a net cash outflow of US$258.4 million on completion of the purchase of Silego and we paid US$9.5 million in cash for ams's LED backlight business.

Cash outflow on other investments was US$nil in 2018 compared with US$13.7 million in 2017.

During 2017, we paid US$15.0 million on subscription for shares in Energous and received US$1.3 million on the sale of our shareholding in Arctic Sand.

Net cash outflow on share purchases was US$18.2 million in 2018 compared with US$142.1 million in 2017.

Employee benefit trusts purchased the Company's ordinary shares in the market at a cost of US$21.8 million (2017: US$24.3 million) and received proceeds of US$3.6 million (2017: US$7.2 million) on the exercise of share options.

During 2017, we made settlements in relation to the Company's share buyback programme totalling US$125.0 million including transaction costs.

Liquidity and capital resources

Financial risk management

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

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

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

Cash and cash equivalents

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

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

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

At the end of 2018, cash and cash equivalents amounted to US$677.8 million (end of 2017: US$479.3 million), which principally comprised investments in money market funds and bank deposits with a maturity of three months or less.

Revolving credit facility

In July 2017, the Company and certain of its subsidiaries, as guarantors, entered into a US$150 million three-year revolving credit facility provided by four financial institutions. The facility is committed and available for general corporate purposes. In June 2018, we exercised our option to extend the maturity date by a year but reduced the amount of the facility to US$112.5 million from July 2020 until it matures in July 2021. On the second anniversary of the facility, we have the option to extend the maturity date by a further year subject to the consent of the lenders. We also have the option to increase the amount of the facility by US$75 million subject to certain conditions.

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

We have not yet made any drawings under the facility.

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

Receivables financing facilities

We utilise non-recourse receivables financing facilities provided by two financial institutions in an aggregate amount of US$240 million. In March 2018, we extended the principal facility of US$220 million for a period of 18 months and it now matures on 31 October 2019.

Gross receivables sold under the facilities decreased by US$57.8 million to stand at US$113.5 million at the end of 2018 compared with US$171.3 million at the end of 2017.

At the end of 2018, cash and cash equivalents included US$96.1 million (end of 2017: US$145.1 million) in relation to receivables sold under these facilities.

Currency hedging activities

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

Derivative financial instruments are measured at fair value that is determined based on market forward exchange rates at the balance sheet date. At the end of 2018, currency derivatives held by the Group were represented by a liability of US$6.2 million (end of 2017: asset of US$6.6 million).

All currency derivatives held to hedge forecast cash flows were designated as hedging instruments in cash flow hedge relationships. During 2018, a loss of US$10.1 million (2017: gain of US$16.4 million) was recognised in other comprehensive income representing the change during the year in the fair value of derivatives in effective hedging relationships and a cumulative fair value gain of US$2.3 million (2017: gain of US$0.4 million) was transferred from equity to profit or loss on the occurrence of the hedged cash flows.

After taking into account hedging, we recognised a net currency translation loss of US$0.9 million (2017: net loss of US$0.2 million) in profit or loss in relation to liabilities to purchase shares under the Company's share buyback programme.

Financial review continued

Balance sheet

Summary balance sheet

As at 31 December US$ millions	2018	2017
Assets		
Cash and cash equivalents	**677.8**	479.3
Other current assets	**296.2**	281.2
Total current assets	**974.0**	760.5
Goodwill	**439.5**	439.5
Other intangible assets	**217.4**	235.6
Property, plant and equipment	**66.4**	83.9
Deferred tax assets	**6.0**	7.5
Other non-current assets	**13.8**	49.8
Total non-current assets	**743.1**	816.3
Total assets	**1,717.1**	1,576.8
Liabilities and equity		
Current liabilities	**393.9**	199.7
Deferred tax liabilities	**8.0**	4.0
Other non-current liabilities	**12.7**	30.7
Total liabilities	**414.6**	234.4
Total equity	**1,302.5**	1,342.4
Total liabilities and equity	**1,717.1**	1,576.8

Share buyback programme

We initiated our share buyback programme in May 2016. By the end of 2017, we had purchased a total of 4,483,816 shares at a cost of €168.7 million (US$184.7 million). Details of the share purchases made during 2016 and 2017 are set out in note 26 to the consolidated financial statements.

At the Company's 2018 AGM, the Directors were granted a new authority to purchase up to 7,638,214 of the Company's ordinary shares. Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2019, whichever is the earlier.

Purchases made under the share buyback programme are off-market and are effected by way of contingent forward purchase contracts entered into with brokers. Barclays, Goldman Sachs, HSBC or Merrill Lynch may be appointed as brokers for purchases under the 2018 AGM authority.

On 6 November 2018, the Company announced details of the first tranche of the share buyback programme pursuant to the 2018 AGM authority, under which it committed to purchase shares with a minimum cost of €100.0 million and a maximum cost of €150.0 million.

We have not yet been required by the appointed broker to make any intermediate settlements in relation to this tranche, under which the broker may continue to purchase shares until 21 May 2019.

We do not expect to announce another tranche of share purchases under the 2018 AGM authority but we will seek renewal of the share buyback authority at the Company's 2019 AGM. We will consider initiating further tranches of share purchases in the context of our regular assessment of the Group's future growth opportunities and its strategic objectives.

Capital management

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

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

Goodwill

At the end of 2018 and 2017, the carrying amount of goodwill was US$439.5 million.

Goodwill impairment tests carried out during 2018 showed that the recoverable amount of each operating segment to which goodwill is allocated was comfortably in excess of its carrying amount and therefore no impairment was recognised.

Other intangible assets

At the end of 2018, the carrying amount of other intangible assets was US$217.4 million (end of 2017: US$235.6 million). During 2018, additions amounted to US$31.2 million, comprising capitalised product development costs of US$24.8 million and purchased software, licences and patents totalling US$6.4 million. During 2018, the amortisation expense was US$49.1 million (2017: US$42.0 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 2018, Dialog operated in 29 locations worldwide covering a total of 57,800 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 2018, the carrying amount of property, plant and equipment was US$66.4 million (end of 2017: US$83.9 million). Additions during the year amounted to US$26.1 million. During 2018, the depreciation expense was US$31.5 million (2017: US$30.8 million).

Other non-current assets

Other non-current assets decreased by US$37.5 million to US$19.8 million (end of 2017: US$57.3 million), primarily due to the recognition of losses totalling US$34.6 million on the remeasurement of our investments in Energous shares and warrants.

Current assets

Current assets totalled US$974.0 million at the end of 2018 compared with US$760.5 million at the end of 2017, an increase of US$213.5 million.

Cash and cash equivalents increased by US$198.5 million to US$677.8 million. Other current assets increased by US$15.0 million to US$296.2 million, principally reflecting an increase of US$36.3 million in trade and other receivables that was partially offset by a decrease of US$19.2 million in inventories.

Current liabilities

Current liabilities totalled US$393.9 million at the end of 2018 compared with US$199.7 million at the end of 2017. Excluding the share buyback obligation of US$171.8 million that was recognised at the end of 2018, current liabilities increased by US$22.0 million to US$221.7 million at the end of 2018, principally reflecting an increase of US$14.9 million in trade and other payables and the reclassification as current of the liability for the remaining contingent consideration payable for Silego.

Income tax assets and liabilities

At the end of 2018, the Group had net current tax payables of US$6.0 million (end of 2017: net payables of US$0.6 million).

At the end of 2018, the Group had net deferred tax liabilities of US$2.0 million (end of 2017: net assets of US$3.5 million), comprising deferred tax assets of US$6.0 million (end of 2017: US$7.5 million) and deferred tax liabilities of US$8.0 million (end of 2017: US$4.0 million).

Other non-current liabilities

Other non-current liabilities decreased by US$18.0 million to US$12.7 million (end of 2017: US$30.7 million), principally due to the reclassification as current of the liability for the remaining contingent consideration payable for Silego.

Total equity

Total equity was US$1,302.5 million at the end of 2018 (end of 2017: US$1,342.4 million). At the end of 2018, Dialog shares held by employee benefit trusts amounted to US$22.5 million (end of 2017: US$0.9 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.

Accounting standards to be adopted in 2019

Leases

IFRS 16 *Leases* provides a single lessee accounting model, requiring lessees to recognise a right-of-use asset and a lease liability for all leases, except those with a short lease term and/or involving an underlying asset of low value. In summary, for lessees, the distinction between an operating lease and a finance lease will disappear and most operating leases will be accounted for similarly to the way in which finance leases were accounted for under the predecessor accounting standard, IAS 17 *Leases*.

Further details on the accounting for leases under IFRS 16 are set out in note 1 to the consolidated financial statements.

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

Going forward, we expect that IFRS 16 will be beneficial to operating profit to the extent that depreciation of the right-of-use assets will be lower than the rental expense that would have been recognised under IAS 17. We expect, however, that operating profit will be only slightly higher in 2019 than it would have been under IAS 17. After taking into account the interest expense on the lease liabilities, we expect that net income will be slightly lower in 2019 than it would have been under IAS 17.

As we progress through 2019, we will show in the notes to our consolidated financial statements the effect of adopting IFRS 16 on our quarterly and year to date results.

We can confirm that the calculation of the financial covenants associated with our revolving credit facility will be unaffected by the adoption of IFRS 16.

Uncertain tax positions

IFRIC 23 *Uncertainty over Income Tax Treatments* clarifies the application of the recognition and measurement requirements of IAS 12 *Income Taxes* where there is uncertainty over income tax treatments.

We already account for income taxes on a basis consistent with IFRIC 23 and therefore do not expect it to affect the Group's results or financial position.

Consequences of Brexit

Considerable uncertainty exists as to the timing of the UK's exit from the EU, scheduled to take place on 29 March 2019, the terms of any withdrawal agreement between the UK and the EU and the effect of Brexit on the UK's future relationships with the EU, other multilateral organisations and individual countries outside the EU.

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

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

While the withdrawal negotiations are ongoing and during any subsequent transition period, we will operate on a business as usual basis within applicable regulations and our continuing focus will be on growing our business.

Wissam Jabre
Chief Financial Officer,
Senior Vice President Finance

Managing risk and uncertainty

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

Our risk management framework

THE BOARD AND AUDIT COMMITTEE

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

OPERATIONAL MANAGEMENT

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

THE RISK MANAGEMENT OFFICE

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

INTERNAL AUDIT

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

Our principal risks

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

RISK TREND KEY

Strategic risks

Dialog management is focused on executing its strategic objectives in order to mitigate its dependencies on key markets and customers. As part of our 2018 review, a political conditions risk has been added to our strategic risks.

DEPENDENCY ON MOBILE AND CONSUMER ELECTRONICS	Mitigating actions
Dialog's product portfolio is heavily focused upon the mobile and consumer electronics market. Dialog's revenue is heavily reliant upon the commercial success of its customers' end products, principally in the high-end mobile phone market. If the market for these products flattens or declines, Dialog's revenue and profitability will be impacted. Furthermore, the consumer electronics market is characterised by short product cycles and rapid innovation which provide opportunities for customers to change suppliers for subsequent product generations based on competitive factors such as price, quality, technology or specific product specifications.	We engage with our customers to understand their requirements and tailor the products we design to their specifications. Dialog expensed US$326 million in R&D in 2018 to anticipate and respond to new product developments and market trends. The Company rapidly implements new designs to meet customer needs and to keep abreast of technological trends. Examples include Configurable Mixed-signal ICs with in-system programming, low power haptic ICs and nanopower PMICs for low power IoT applications. Dialog also looks for technology and product acquisitions where appropriate. Examples include the acquisitions of Silego, Inc. with its Configurable Mixed-signal Integrated Circuit technology and product portfolio, as well as the portfolio of LED backlighting products and technology acquired from ams AG in 2017.

DEPENDENCY ON KEY CUSTOMERS	Mitigating actions
Dialog relies on a relatively small number of customers, within the mobile and consumer electronics market, for a substantial proportion of its revenue. The loss of our largest customer, Apple Inc. or of specific products sold to Apple, would have a material effect on revenue and profitability. Dialog's 2018 revenue derived from Apple Inc. was US$1,082 million. We recognise that Apple has the resources and capability to internally design PMICs and we expect this capability to be enhanced through the transaction between Dialog and Apple announced in October 2018, when completed.	Dialog seeks to diversify its product offerings within its key accounts and to expand its relationships with more top tier global electronics companies. As a result of the announced transaction with Apple, Dialog expects to reduce its dependency on Apple over a three to five year term and diversify its future Apple revenue across a range of power management, audio subsystem, charging and other mixed-signal products. Dialog also monitors and reviews acquisition opportunities to further diversify its product offering and customer base.

RETURN ON RESEARCH AND DEVELOPMENT INVESTMENT	Mitigating actions
Dialog's investments in research and development of products, technology and methodologies may not result in successful products or anticipated levels of revenue or profitability.	Dialog engages with key customers and market leaders to anticipate future product and technology requirements. Dialog's ongoing product and technology development processes incorporate detailed business justifications and review of business cases. Dialog seeks to manage its technology and product research and development efficiently and effectively through rigorous project management and engineering controls.

Managing risk and uncertainty continued

Strategic risks continued

HUMAN CAPITAL	Mitigating actions
In order to successfully execute its current and future business commitments, Dialog needs to continue to build its organisational capability in two key areas: continuous innovation in product development, manufacturing and packaging technologies; and leadership skills in an expanding and complex global operation. We continue to monitor the progress of Brexit discussions and any impact these may have on our ability to attract and retain key employees from the EU into the UK.	Dialog seeks to create a positive working environment that results in low levels of staff turnover. Over the years, it has developed an effective recruitment process to attract and retain high-calibre staff, while succession planning for senior management positions facilitates continuity of leadership. Dialog has dedicated human resource professionals working closely with the business to drive further development of its personnel and benchmark its employment terms to match industry top performers. Dialog has a decentralised approach to research & development with teams around the world. In a highly competitive talent market we believe this flexible approach is advantageous, allowing us to recruit talent where it resides and as a defence mechanism to stop large scale “poaching” by competitors. Emerging talent programmes continued successfully in 2018, with new graduates and interns entering the business – the majority within engineering functions.

GEOPOLITICAL EVENTS	Mitigating actions
The increasing use of tariffs and trade barriers between the US and China could adversely impact end-user demand, with a consequent impact on demand for Dialog’s products. Uncertainty around Brexit and the UK’s withdrawal from the EU may adversely affect economic conditions in the UK, the EU and elsewhere. We continue to believe that Brexit will not have a significant impact on Dialog in the short term because only a small amount of our revenue is derived from customers in the UK. However, approximately two-thirds of our workforce is based in the EU and our teams are typically comprised of several nationalities. We have not yet experienced any material negative impact from Brexit, but we cannot predict its future implications. Tensions exist between Ukraine and Russia which, if escalated further, could potentially affect Dialog’s continuing operations in Western Ukraine.	Although currently unaffected, Dialog continues to monitor the situation closely. Supply Chain options are constantly under review to ensure the most efficient arrangements are in place. The US represents a significant part of Dialog’s customer’s end-user global market, but the rest of the world should be unaffected by any additional US tariffs on Chinese goods. Dialog will continue to monitor very closely any proposed changes to the current regulations in respect of the rights of EU and other nationals to work in the UK, and vice versa. Dialog will continue to monitor events in Ukraine. Our IT infrastructure ensures that projects could continue at multiple locations should operations in Ukraine become too difficult to maintain.

Operational risks

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

SUPPLY CHAIN INTERRUPTION	Mitigating actions
Dialog runs a “high-touch” fabless business model and outsources the capital intensive production of silicon wafers, packaging and testing of integrated circuits to leading third-party suppliers, mainly in Asia. The manufacturing of products runs over multiple stages with multiple suppliers. The failure of any of these third-party vendors to deliver products or otherwise perform as required could damage relationships with our customers, decreasing our revenue and limiting our growth. Supplier delivery performance can be adversely affected by multiple issues. For example, if increased demand for these suppliers’ products exceeds their production capacity.	Dialog has forged close partnerships with its suppliers, which help capacity planning and management. Dialog’s suppliers are mainly highly respected large-scale operations. Dialog strives to source its high volume components via a dual sourcing strategy where appropriate. Dialog works with a range of foundries and back-end vendors, mainly in Taiwan, China and Singapore, to mitigate the risk of supply chain disruption and constraints. The geographical spread of Dialog’s suppliers also helps with disaster recovery planning. Dialog achieved a total company “On Time Delivery” performance of 100% in 2018, which measures performance against delivery dates confirmed by Dialog at date of order acceptance. Dialog continues to carry out supplier audits which cover a wide range of topics including compliance and product quality (ISO 9000 and ISO 14000) reviews. Dialog conducts regular business reviews with its suppliers to manage supplier performance and future capabilities.

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

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

Financial risks

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

FOREIGN CURRENCY	Mitigating actions
The majority of Dialog's revenue and expenses are denominated in US dollars. Some exposure exists to non-USD denominated operating expenditure, primarily Euro and Pound sterling, meaning exchange rate volatility could have an adverse impact on our financial results.	Discrete currency exposures are managed on a case by case basis. Transactional currency exposures are managed using forward currency contracts, hedging no further than 12 months out on a layered approach. These are designated as cash flow hedges and at the year-end approximately US$136 million equivalent were outstanding. During the year, share buyback liabilities were hedged using forward currency contracts, forming an economic hedge but not designated for hedge accounting purposes. Please refer to notes 26 and 32 to the consolidated financial statements.

COUNTERPARTY RISK	Mitigating actions
Dialog is exposed to the potential default of banks, suppliers and customers. If their credit worthiness were to change, this could have an adverse effect on Dialog's business and financial condition.	The Company uses non-recourse receivables financing to help manage credit risk of selected customers. When executing financial transactions, Dialog deals with reputable financial institutions in accordance with Board approved policy. Financial stability is a key selection criteria for all suppliers. Annual performance reviews are carried out for key suppliers by Dialog's Manufacturing Review Board.*

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

Managing risk and uncertainty continued

Financial risks continued

FUNDING AND LIQUIDITY	Mitigating actions
The risk of being unable to continue to meet the financial obligations/requirements of our operations and provide resources for future growth.	The business has no debt and is cash generative. As such, the Company finances its operations from surplus cash, only raising debt when necessary. The policy is to maintain a sufficient level of liquidity appropriate to meet short-term liabilities and longer-term strategy. Cash flow from operating activities in 2018 was US$289 million. In addition the Company has a US$150 million revolving credit facility which remains undrawn. See note 8b.

Legal and compliance risks

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

COMPLIANCE WITH LAWS AND REGULATIONS	Mitigating actions
Dialog is subject to national and regional laws and regulations in such diverse areas as product safety, product claims, patents, copyright, trademarks, competition, employee health and safety, the environment, corporate governance, share listing and related disclosure, employment and taxes. Failure to comply with laws and regulations could expose Dialog to civil and/or criminal actions leading to damages, fines and criminal sanctions against us and/or our employees with possible consequences for our financial results and corporate reputation. Changes to laws and regulations could have a material impact on our cost of doing business. Tax, in particular, is a complex area where laws and their interpretation are changing regularly, leading to the risk of unexpected tax exposures.	Dialog monitors laws and legal and regulatory changes across the countries in which it operates and continues to update its policies, processes and compliance programmes. We audit our key suppliers to ensure their compliance with industry standards and legal requirements. We also continue to strengthen our system of internal controls, procedures and resources which reinforce compliance with various legal regimes.

IP PROTECTION	Mitigating actions
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) and physically (via security and IT processes). We seek to protect our current business and our IP from being copied or used by others through appropriate use of patents, copyrights and trademarks on a global basis.	Dialog has in excess of 850 patent families and continues an active patent registration programme overseen by its Patent Committee. Dialog has continued to make investments to improve the tools used to protect its IP. Engineering projects are segregated and access controlled via a tracked approval process.

IP INFRINGEMENT	Mitigating actions
The semiconductor industry is characterised by frequent litigation regarding intellectual property rights. We may be subject to claims by third parties who allege that our products infringe their patents or other intellectual property rights. Such claims against us or our customers could adversely affect our business and require us to pay royalties/damages or expend significant resources to modify or redesign our products.	Dialog invests significantly in original research and development to address product requirements with innovative solutions. Furthermore, we have invested in a robust patent protection programme to deter frivolous infringement claims by competitors. Dialog also seeks indemnification for intellectual property infringement by its suppliers.

Strategic report approved on 6 March 2019

Dr Jalal Bagherli
Chief Executive Officer

Wissam Jabre
Chief Financial Officer, Senior Vice President Finance

Introduction to governance

Dear shareholder,

I am pleased to present our 2018 corporate governance report. As Dialog is incorporated in the UK and listed in Frankfurt, we are not required to follow, and report against, the UK Corporate Governance Code. In line with our commitment to maintaining high standards of corporate governance and oversight, the Board has decided to follow the UK Code to the extent it considers it beneficial to the good governance of the Company.

2018 developments

The Board is cognisant of the recent revisions to the UK Code. Following the publication of the latest iteration of the Code in July 2018, the Board was apprised of the key alterations to its framework. The Code became effective on 1 January 2019 and the Board will, where appropriate, act to reflect the revised UK Code in Dialog's approach to corporate governance. Details of those steps will be provided to shareholders in our 2019 Annual Report. Certain of the key changes in the Code have been made in areas where we have made significant progress in recent years, including in embedding our culture and strengthening engagement with our key stakeholders. New regulations also came into effect for UK companies, relating to the CEO to employee pay ratio and extension of reporting around s.172 of the Companies Act. Reporting in line with those regulations will be included in the 2019 Annual report.

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

Culture and stakeholders

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

Succession planning

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

Board refreshment

Aidan Hughes, who has been a key member of the Board since 2004, will step down at the 2019 AGM. As part of our ongoing programme of Board and Committee refreshment, the Board is looking to appoint a new independent non-executive Director who will be, in addition, appointed to the Audit Committee to ensure that Committee's composition remains aligned with best practice corporate governance.

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

The Board has continued to focus on providing effective leadership and oversight of the Group as it seeks to create value for our shareholders.

In 2017, we conducted an externally facilitated Board evaluation. Its findings were presented to the Board in February 2018. Later in 2018, we conducted an internal evaluation. The Directors engaged extensively with both the internal and external evaluations and found them to be helpful processes in promoting effectiveness at Board level. The outcome of both reviews were positive and confirmed that the Board and its Committees operate to a high standard.

Senior Independent Director ("SID")

Having carefully considered the role and responsibilities of a Senior Independent Director, and the fact that 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 SID at this time. Rich is available to shareholders as are all of the Directors, particularly the Chairs of each of the Board Committees. Furthermore, any concerns regarding the performance of the Chairman may be addressed to and will be managed by the Chair of the Nomination Committee. As such, the Board believes that its composition continues to ensure a proper division between management and non-executive oversight; nonetheless, we will review the potential for a new SID on an ongoing basis.

Non-executive Director positions

We have not set hard guidelines at Dialog but recognise the importance of ensuring Directors have sufficient time to discharge their obligations to Dialog and believe each of the Directors has demonstrated exceptional commitment to their roles for the past fiscal year, as exemplified by their meeting attendance on page 66.

Remuneration

The Directors' 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, we are proposing some changes to the remuneration policy at the 2019 AGM.

Understanding our stakeholders

As set out in the Chairman's statement, the Board continues to take account of the impact of its decisions on all of our stakeholders. We have also begun to assess the methods in which we ensure meaningful engagement can take place between the Board and the workforce. This engagement, amongst other things, will allow Directors to gauge how the Group's new strategic initiatives are embedding within the organisation. The alignment of our strategy, corporate culture and corporate governance framework provides us with the foundation to ably meet any challenges that the business faces, and position us for long-term growth.

In 2017, the European Union Directive on disclosure of non-financial and diversity information (the "Non-Financial Reporting Directive") came into effect. Since 2015, the Company has adopted the Global Reporting Initiative (GRI) framework for the purpose of identifying and reporting on our material sustainability topics. In 2018, we transitioned to the GRI Standards, against which our 2018 Sustainability Report makes a 'GRI-referenced' claim. In our annual sustainability report, we provide disclosure on the impacts of our activities; our interaction with stakeholders; and, in respect of environmental, employee, social, human and labour rights, anti-corruption and anti-bribery matters.

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

Nick Jeffery
Chairman, Nomination Committee

Leadership – Board of Directors

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

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

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

In particular, the Board combines a group of Directors with diverse backgrounds within the technology sector, in both public and private companies, which combine to provide the 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 above and on page 59 and further details on the composition of the Board, and the Board's Committees, are detailed on pages 64 and 65.

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

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

1. Rich Beyer

Chairman
Joined: February 2013

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

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

Board Experience: ● ✚

2. Dr Jalal Bagherli

Executive Director
(Chief Executive Officer)
Joined: September 2005

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

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

Board Experience: ● ✚

3. Alan Campbell

Independent non-executive Director
Joined: April 2015

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

External Appointments: Alan is currently Chairman of ON Semiconductor.

Committee Membership: Audit (Chair)

Board Experience: ● ■ ✚

4. Mike Cannon

Independent non-executive Director
Joined: February 2013

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

External Appointments: Mike currently serves on the boards of Seagate Technology as the Lead Independent Director and chairman of the Nominating and Governance committee and also serves on the Compensation committee, and on the Lam Research Corporation board on the Audit committee and the Nominating and Corporate Governance committee. Mike was previously on the board of directors of the US – China Business Council.

Committee Membership: Remuneration (Chair), Nomination

Board Experience: ● ✚

5. Mary Chan

Independent non-executive Director
Joined: December 2016

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

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

Committee Membership: Nomination, Remuneration

Board Experience: ● ◆

6. 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: ● ■ ✚

7. Nick Jeffery

Independent non-executive Director
Joined: July 2016

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

External Appointments: CEO, Vodafone UK.

Committee Membership: Nomination (Chair), Remuneration

Board Experience: ◆

8. Eamonn O'Hare

Independent non-executive Director
Joined: March 2014

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

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

Committee Membership: Audit

Board Experience: ◆ ■ ✚

Leadership – Management team

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 Asia, Europe and North America. Jalal is a non-executive Director of Lime Microsystems Ltd since 2005 and was the Chairman of Global Semiconductor Association Europe from 2011 to 2013. He has a BSc (Hons) in Electronics Engineering from Essex University, and holds a PhD in Electronics from Kent University, UK.

Tenure with Dialog: 13 years

2. Vivek Bhan

Senior Vice President, Engineering

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

Tenure with Dialog: Five years

3. Christophe Chene

Senior Vice President, Asia

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

Tenure with Dialog: Seven years

4. Mohamed Djadoudi

Senior Vice President, Global Manufacturing Operations & Quality

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

Tenure with Dialog: 11 years

5. Wissam Jabre

Chief Financial Officer, Senior Vice President, Finance

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

Tenure with Dialog: Two years

6. Udo Kratz

Senior Vice President and General Manager, Mobile Systems Business Group

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

Tenure with Dialog: 12 years

7. Davin Lee

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

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

Tenure with Dialog: Five years

8. Sean McGrath

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

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

Tenure with Dialog: Six years

9. Julie Pope

Senior Vice President, Human Resources

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

Tenure with Dialog: One year

10. Tom Sandoval

Senior Vice President, Worldwide Sales

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

Tenure with Dialog: Three years

11. Colin Sturt

Senior Vice President, General Counsel

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

Tenure with Dialog: Three years

12. Mark Tyndall

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

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

Tenure with Dialog: Ten years

Name	Role Tenure with	Tenure with Dialog (years)
Dr Jalal Bagherli	Chief Executive Officer	13
Vivek Bhan	Senior Vice President, Engineering	5
Christophe Chene	Senior Vice President, Asia	7
Mohamed Djadoudi	Senior Vice President, Global Manufacturing Operations & Quality	11
Wissam Jabre	Chief Financial Officer, Senior Vice President, Finance	2
Udo Kratz	Senior Vice President and General Manager, Mobile Systems Business Group	12
Davin Lee	Senior Vice President and General Manager, Advanced Mixed Signal Business Group	5
Sean McGrath	Senior Vice President and General Manager, Connectivity, Automotive & Industrial Business Group	6
Julie Pope	Senior Vice President, Human Resources	1
Tom Sandoval	Senior Vice President, Worldwide Sales	3
Colin Sturt	Senior Vice President, General Counsel	3
Mark Tyndall	Senior Vice President, Corporate Development & Strategy and General Manager Emerging Products Business Group	10

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 2018. These accounts have been prepared under IFRS and are available on the Company's website: www.dialog-semiconductor.com

Principal activities and review of the business

Dialog Semiconductor develops and distributes highly-integrated, mixed-signal ICs, optimised for personal portable, Configurable Mixed-signal IC, low energy short-range wireless, LED solid state lighting and automotive applications. The Company provides customers with world-class innovation combined with flexible and dynamic support.

The Company is listed on the Frankfurt (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 03505161. A full list of Company subsidiaries outside of the UK is detailed in Dialog's related undertakings set out on page 167.

Further information on the principal activities of the business and the factors affecting future developments are detailed in the Group's Strategic report. Information on treasury policies and objectives is included in note 32 to the consolidated financial statements.

Future developments

The Company's stated objective is to power the smart connected future by becoming the leading global supplier of highly-integrated, power management, AC/DC, solid state lighting and low energy short-range wireless connectivity. The key aspects of the Group's strategy are set out in the Strategic report on page 25.

Research and development R&D

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

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

Greenhouse gases

Corporate responsibility and a commitment to sustainable business practices are important to Dialog's business model and a component of Dialog's strategy to deliver long-term profitable growth. Our commitment to environmentally oriented, sustainable business practices is evidenced in our commitment to continually reduce CO_2 emissions and minimise the carbon footprint of our business. Further details on the Company's commitment to sustainable and environmentally friendly business practices are set out on pages 21 to 23.

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$678 million of cash and cash equivalents at the end of 2018 (2017: US$479 million) and has a US$150 million Revolving Credit Facility, with an initial three-year period to July 2020, which was undrawn at 31 December 2018. 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 2018 (2017: nil). At the 2019 Annual General Meeting, in line with the shareholder approvals obtained in 2017 and 2018, the Board will be asking shareholders for an authority to continue the share buyback programme.

The first tranche of the share buyback programme corresponding to the 2018 Buyback Programme was announced by the Company on 6 November 2018, for up to €150 million and a maximum maturity date of 21 May 2019. It should be emphasised that, even if shareholder authority to continue the share buyback programme is granted, no decision has yet been made to implement such a programme and implementation will only occur if the Board considers this in the best interests of the Company depending on the prevailing circumstances.

Purchase of own shares by Employee Benefit Trust

The Company operates an Employee Benefit Trust, which purchases and sells shares in the Company for the benefit of employees under the Company's share option scheme, Long-Term Incentive Plan, Executive Incentive Plan and Employee Share Plan. Since the Company has de facto control of the assets and liabilities of the Trust, they are included in the Company and Group balance sheets. At 31 December 2018, the Trust held 2,607,259 shares, which represented 3.4% of the total called-up share capital, at a nominal value of £260,726.

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 page 67.

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 generally and a further 5% on a non-pre-emptive basis in certain limited circumstances related to the financing of a transaction. The Directors have additional power to issue up to a further third of the issued share capital of the Company, provided it is only applied on the basis of a rights issue.

Directors' remuneration and interests

Directors' remuneration and interests are detailed in the Annual report on remuneration on pages 79 to 85 of this report. No Director had a material interest during the year ended 31 December 2018 in any contract of significance with any Group company.

The agreement between the Company and its Directors for compensation for loss of office is given in the Director's remuneration policy report on pages 73 to 78 of this report.

Directors' third-party indemnity provisions

The Company has granted an indemnity to its Directors against proceedings brought against them by third parties, by reason of

their being Directors of the Company, to the extent permitted by the Companies Act 2006. Such indemnity remains in force as at the date of approving the Directors' report.

Election and re-election of Directors

In accordance with the Company's Articles of Association, one third of the Directors have to stand for re-election at the Annual General Meeting. Any Director who has been on the Board for more than nine years is subject to annual re-election. The next Annual General Meeting will be held on 2 May 2019 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. While the UK Code does not apply to Dialog, in line with our commitment to maintaining high standards of corporate governance and oversight, the Board will follow the UK Code to the extent it considers it beneficial to the good governance of the Company.

Principal risks and uncertainties

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

Financial instruments

The Group's financial risk management and policies, and exposure to risks, are set out on pages 55 to 56 of this report and on note 32 to the consolidated financial statements.

Employee policies

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

Diversity and equal opportunity

In 2018, Dialog operated from 29 locations in 16 countries with a highly diverse workforce, incorporating employees from 69 nationalities.

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

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

Gender diversity is of particular importance. Women comprise 17.6% of the overall workforce and further details are set out on pages 18 and 19 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 2018, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the share capital, and changes in share capital, can be found in note 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 financial quarter and end 48 hours after the release of the financial results).

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

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

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

Annual General Meeting

The notice convening the Annual General Meeting will be published separately and posted on the Company's website. The meeting will be held at Tower Bridge House, St Katharine's Way, London, E1W 1AA on 2 May 2019 at 9 a.m.

By order of the Board

Dr Jalal Bagherli
Director
6 March 2019

Corporate governance statement

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

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

Board of Directors – role and responsibilities

The Board has overall responsibility for the leadership, control and oversight of the Company. The day-to-day responsibility for the management of the Company has been delegated by the Board to the Chief Executive Officer ("CEO"), who is accountable to the Board. The CEO executes this authority through an executive management team outlined on pages 60 and 61 of this report. In addition, a number of responsibilities of the Board are delegated to sub-committees of the Board; details of which are set out below.

Matters reserved for the Board

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

Chairman

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

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

Board composition

The Board currently comprises eight Directors who are listed below.

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

Director	Status	Independent/non-independent	Tenure (years)	Concurrent tenure* (years)
Rich Beyer	Current	Independent (Chairman)	5	5
Dr Jalal Bagherli	Current	Non-independent (Executive)	13	N/A
Alan Campbell	Current	Independent	3	3
Mike Cannon	Current	Independent	5	5
Mary Chan	Current	Independent	2	2
Aidan Hughes	Current	Independent	14	13
Nick Jeffery	Current	Independent	2	2
Eamonn O'Hare	Current	Independent	4	4

* Note: Concurrent tenure means tenure on the Board concurrently with the Company's CEO. Aidan Hughes will step down from the Board immediately prior to the 2019 AGM.

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.

Board size

At the end of 2018, the Board comprised eight Directors. A maximum of ten Directors is allowable under Dialog's Articles of Association. The eight members of the Dialog Board include one Executive Director and seven independent, non-executive Directors (including the Chairman). The Nomination Committee has reviewed the size and performance of the Board during the year. The Committee considered that the Board functions effectively; comprises the skills, knowledge and experience required by Dialog; is not so large as to be unwieldy; and meets corporate governance best practice guidelines on independence.

Board independence

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

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

Excluding the Chairman, the Board currently comprises six 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 our ongoing programme of Board refreshment and renewal, Mr Hughes will not be standing for re-election at the 2019 AGM.

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

Senior Independent Director

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

Board Committees

The Board has established a number of Committees to assist in the execution of its responsibilities. During 2018, 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 6 March 2019, is set out below. Attendance at meetings held in 2018 is set out in the table on page 66.

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 67 and 69.

Committee members

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

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

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

* Chris Burke served on the Nomination and Remuneration Committees until stepping down from the Board immediately prior to the May 2018 AGM.

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

Company Secretary

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

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

Tim Anderson of Reynolds Porter Chamberlain LLP is the Company Secretary and has served in this role for over 18 years.

Corporate governance statement continued

2018 Board and Committee attendance

Director	Board	Audit	Remuneration	Nomination
Number of meetings in 2018	5	4	4	4
Meetings attended				
Richard Beyer	5			
Dr Jalal Bagherli	5			
Chris Burke*	1		1	1
Alan Campbell	5	4		
Michael Cannon	5		4	4
Mary Chan	5		4	4
Aidan Hughes	5	4		
Nick Jeffery	5		4	4
Eamonn O'Hare	5	4		

* Chris Burke stepped down immediately before the May 2018 AGM.

Board meetings

The Board holds at least four Board meetings each year. The Board may meet more frequently as required. In addition, there are ad hoc Board calls through the year and when necessary. The number of meetings of Board sub-committees each year varies by Committee. There were five Board meetings in 2018. The attendance at Board and Committee meetings by the Directors who held office in 2018 is set out above. The Board places considerable importance on attendance at both scheduled Board and Committee meetings. During the year, no Director attended less than 75% of scheduled Board or Board Committee meetings to which they were entitled to attend. At scheduled Board meetings, the Board also meets without the Executive Director present.

In addition, the non-executive Directors meet annually to review the performance of the Chairman. This process, which commenced in 2015, is an annual process and occurred in February 2018.

The 2019 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 2018, a Board meeting was held in California. As part of the Board meeting in California the Board received a presentation from local management. In addition, at the October 2018 Board meeting FTI delivered a training session on the new UK Corporate Governance Code.

Performance evaluation

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

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

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

In 2018, an internally conducted review was undertaken the results of which were presented to the Board in February 2019.

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 2018 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 84. Details of the activities of these Committees during 2018 are set out on pages 67 to 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.

Share ownership and dealing

Details of Directors' shareholdings are set out on pages 81 and 82. The Company has a policy on dealing in shares that applies to all Directors and senior management. Under this policy, Directors are required to obtain clearance from the Chief Executive Officer (or in the case of the Chief Executive Officer himself, from the Chairman) before dealing.

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

Loans to Directors or senior executives

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

Relations with shareholders

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

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

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

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

Significant shareholders

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

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

Once Dialog is notified, the Company must then notify BaFin and the Frankfurt Stock Exchange.

Dialog's shares are listed with Clearstream Germany as legal owner. As far as the Company is aware, based on TR-1 notifications received, those holding a significant beneficial interest (i.e. greater than 3%) in the Company as of 31 December 2018 were:

- 9.01% – Tsinghua University
- 3.004% – Norges Bank

The free-float includes the following shares held on behalf of discretionary clients as per the share register on 31 December 2018:

SIX SIS AG	9,216,342
Citigroup Global Markets	7,690,087
The Bank of New York Mellon	6,902,382
Union Investment Privatfonds GmbH	3,186,760
BNP Paribas Securities Services	2,779,146
State Street Bank & Trust Corp.	2,752,917

As of 20 February 2019, the Company was aware of the following holdings:

Citigroup Global Markets	9,052,122
The Bank of New York Mellon	8,795,240
SIX SIS AG	8,783,934
State Street Bank & Trust Corp.	3,137,664
BNP Paribas Securities Services	2,683,913
Citigroup Global Markets*	2,380,689

* Reflecting a different shareholder ID.

Dialog's free-float is 73,774,880 or 96.6% of the outstanding shares. The free-float is calculated by excluding the 2,607,259 shares held in the Dialog Semiconductor Plc Employee Benefit Trust.

Internal control and risk management

In accordance with the EU Transparency Directive (DTR 7.2.5), the Board of Directors (following review and recommendation by the Audit Committee) acknowledge that they are responsible for the Company's process of internal control and risk management. Such processes are designed to manage rather than eliminate the risk of failure and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

A detailed list of risks and their management is set out on pages 52 to 56.

The Company has an ongoing process of identifying, evaluating and managing risk. The process was in place during 2018 and up to the date of the approval of the 2018 Annual report and financial statements. The Board and Audit Committee can confirm that necessary actions are being undertaken to remedy any perceived failings or weakness identified from these ongoing process reviews.

Audit Committee

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

During 2018, the Audit Committee comprised only independent non-executive Directors. Members at the end of 2018 were Alan Campbell (Chairman), Aidan Hughes and Eamonn O'Hare.

Corporate governance statement continued

Dialog's Audit Committee has recent and relevant financial experience. In line with best practice, the Board has affirmed that members of the Audit Committee also have significant expertise in Dialog's business sector. Alan Campbell, Chairman of the Audit Committee, has long-standing experience as a CFO in the semiconductor industry. 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.

The Audit Committee meets a minimum of four times a year. In 2018, the Committee met four times. Attendance at meetings held is set out in the table on page 66. 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 2018

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

- Reviewed the Annual report and accounts – including the report of the external auditor – for the year ended 31 December 2018;
- Reviewed the interim reports issued in May, August and October 2018;
- Reviewed and approved the external auditor's audit plan for 2018, including the auditor's proposed fee and statement of independence;
- Reviewed non-audit fees paid to the external auditor in the year, which totalled US$150,000 and related solely to the review of the Group's quarterly financial statements;
- Received and discussed with the external auditor reports setting out the auditor's findings from each quarterly review and the full year audit;
- Considered the appropriateness and disclosure of accounting policies, key judgements and estimates with a focus on the key audit matters: the carrying amount of goodwill, and the capitalisation of development costs;
- Monitored the progress of management's implementation project for IFRS 16 *Leases;*
- Reviewed the impact of adopting IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* on the Group's results and financial position, the expected impact of IFRS 16 and the related disclosures made in the Group's quarterly and annual financial statements;
- Reviewed the risk register for updates to key risks and status;
- Approved the annual internal audit plan, received and reviewed internal audit reports, including a report on the audit of changes made to the internal controls over revenue recognition in response to IFRS 15 and the annual assessment and review of internal controls, and monitored the effective and timely remediation of any control weaknesses; and
- Reviewed and updated the Committee's terms of reference.

The Company believes that an effective and robust system of internal control is essential to achieving reliable business performance. The system of internal control is supported by a strong commitment by the management team, ongoing monitoring by the Audit Committee and a dedicated internal control function. There continues to be ongoing focus on the internal control over financial reporting using the COSO framework to design relevant and sustainable internal controls and test the operating effectiveness of internal controls.

The Committee is pleased with the progress achieved in 2018 and will continue to monitor the ongoing work in these areas in 2019.

Role of the External Auditor

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 informing the Chairman of the Audit Committee of any grounds for disqualification or impartiality of the auditor occurring during the audit, unless such grounds are eliminated.

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

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

External auditor and non-audit work

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

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

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

Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 7 to the consolidated financial statements. In line with EU regulations, the Audit Committee will ensure that, for the year ended 31 December 2020, non-audit fees paid to the Company's auditor will be capped at a maximum of 70% of the average audit fees paid in the last three consecutive financial years.

Nomination Committee

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

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

At the end of 2018, the Nomination Committee comprised Nick Jeffery (Chair), Mary Chan and Mike Cannon. The Committee comprises only independent non-executive Directors. By invitation, other members of the Board may attend the Committee's meetings. The Committee is free to seek its own advice free from management as it deems appropriate.

During the year, the Committee used the services of an external search and recruitment agency to assist with the non-executive recruitment. The firm, Egon Zehnder, is an independent third party and has no other connection with Dialog.

During the year, the Committee met formally on four occasions. Attendance at scheduled meetings is set out on page 66.

Activity in 2018

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

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

Remuneration Committee

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

At the end of 2018, the Remuneration Committee comprised Mike Cannon (Chair), Nick Jeffery and Mary Chan. The Committee comprised only independent non-executive Directors. By invitation, other members of the Board may attend the Committee's meetings. The CEO and the Senior Vice President, Human Resources, may also attend by invitation but take no part in discussions or decisions on matters relating to their own remuneration. The Committee is free to seek its own advice free from management as it deems appropriate.

During the year, the Committee sought and received general advice relating to remuneration from independent adviser Aon Plc. Aon is a signatory to the Remuneration Consultants Group Code of Conduct and any advice was provided in accordance with this code. Aon provided no other services to Dialog during 2018 and has no other connection with the Company other than as adviser on issues relating to remuneration.

In 2018, the Committee met formally on four occasions. Attendance at scheduled meetings is set out on page 66.

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 2018, is set out on page 85.

Tim Anderson
Company Secretary

Directors' remuneration report

Annual statement from Mike Cannon, Chairman of the Remuneration Committee

Dear shareholder,

I am pleased to present the Directors' remuneration report for 2018, which has been prepared by the Remuneration Committee and approved by the Board.

Our last substantive review of executive remuneration policy was in 2014, and a new policy resulting from that review was approved by shareholders at the 2015 AGM. In 2016, shareholders approved some minor changes to our policy on Directors' contracts, but the main features of the overall policy remained unchanged. This policy will expire at the 2019 AGM. As a result, a full review of the policy was undertaken in 2018, and a new policy has been designed as set out on pages 73 to 78 and will be presented to shareholders at the 2019 AGM.

The report is in two parts: the Annual Report on remuneration which sets out the details of and basis for remuneration during 2018, and the Directors' remuneration policy, which describes the policy for the remuneration of Executive and non-executive Directors.

Context of the Committee's decisions

Dialog is building on its leadership position in power-efficient mixed-signal ICs to capitalise on new growth opportunities. Our custom, configurable and programmable design expertise, coupled with our ability to quickly and reliably ramp to high-volume production, enables us to serve an increasingly broad customer base. Our deep expertise and track record provide us with a strong foundation to drive the next phase of growth and create value for Dialog shareholders.

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

Performance and remuneration for 2018

Dialog has delivered robust performance over 2018. Revenue has grown by over 6% to an all time high, and both operating margin and gross margin have improved over 2017 levels. In addition, we have struck a landmark agreement with Apple Inc. which clarified our long-term business relationship and monetised our unique IP. This strong operational performance has been reflected in both the annual bonus for 2018. Further detail on the annual bonus outcomes and targets is provided on pages 79 and 80.

Base salary

The Committee reviewed the CEO's base salary in the first half of 2018. Normally the review would reference his performance alongside the salary increase range for other employees of the Company, as well as the positioning of his package compared to Dialog's peer group. However, due to the challenging economic climate and need for cost-cutting in 2018, the Committee agreed that the CEO would not receive an increase this year. His base salary therefore remains at £485,886 (US$620,379) which is below the market median for Dialog's peer group, based on the Company's size at the time of the July 2018 review.

Annual Bonus

As a result of the strong performance in 2018, an annual bonus award of 115.3% of target has been achieved by the CEO, compared with 128.9% for 2017 and 69.24% for 2016.

Bonus performance outcomes are detailed in the Annual Report on Remuneration on pages 79 and 80.

Long-term incentive

The 2016 award made under the Long-Term Incentive Plan ("LTIP") will vest in the first quarter of 2019. The LTIP is subject to a performance test over the period 2016-18 and 47.08% of the target number of shares are expected to vest (23.54% of the max number of shares).

Introduction of new Remuneration Policy at 2019 AGM

Following the announcement of our landmark agreement with Apple, at our Capital Markets Day on 1 November, Dialog's management set out a strategic transformation plan to protect and create shareholder value over the long term. As Dialog enters an important period of strategic and transformational change, it is critical that remuneration incentivises and retains our senior executives as they lead, manage and oversee the successful implementation of our strategy. In this context, the current remuneration policy is not sustainable because:

- CEO remuneration is not only below market median (and has been for a number of years), but significantly below market lower quartile;
- A remuneration package positioned significantly below market lower quartile is extremely unlikely to incentivise and retain the CEO to lead the current executive team through this important period of strategic and transformational change;
- In addition, when taking account of remuneration levels in our sector, the current policy is unlikely to be fit for purpose if the requirement to recruit a new CEO arises during the life of the policy; and
- The current policy was approved in 2014 prior to significant growth in the business – in terms of revenue, employee numbers and extent of operations.

As a result, the Committee believes that the remuneration policy must be amended so that remuneration for our CEO can be brought to appropriate competitive levels. While the Committee notes that remuneration levels will continue to be considerably below the median of our peers, it has determined to take a prudent approach to any increases in order to balance the risks to the business and the expectations of our shareholders. We recognise concerns of shareholders and proxy advisers that "chasing the median" through benchmarking has had the impact of increasing remuneration levels, which led the Committee to consider alignment with the lower quartile as being an appropriate and balanced approach. This would help "lock-in" the current CEO and provide increased flexibility in the case of any future recruitment.

Changes proposed for 2019

Central to the review of the remuneration policy is the Committee's desire to ensure that our remuneration arrangements remain competitive against our most direct semiconductor peers over the next three-year period. Competition for talent in our industry is intense and, given the importance of the upcoming period of strategic change, such a large discrepancy between the remuneration at Dialog and those of our peers presents a risk to the Company and our shareholders, and could impact Dialog's ability to recruit and retain external executive talent in the future.

In order to create a sustainable remuneration policy over the next three-year period, the following changes to the Directors' remuneration policy for the CEO are proposed:

1. Increase in target bonus from 100% of base salary to 125% of base salary;
2. Increase in target LTIP award from £2 million to £3 million;
3. Increase in the share ownership guideline from 3x to 4x base salary; and
4. Introduce a 2-year post-vesting holding period to LTIP awards in recognition of feedback received during our consultation on the proposed changes.

Holding periods are an unusual feature of long-term incentive plans at our competitors. However, the Committee decided to introduce this feature after listening to the feedback received from shareholders and proxy agencies, and in order to take account of best practice at UK companies. No other material changes are proposed for Executive Directors, the Chairman or non-executive Directors. The approach to the selection of performance metrics and the measurement of performance will also remain unchanged for the annual bonus and LTIP. In light of the transformational level of change in the business and strategy, the Committee is satisfied that the ability of Executives to achieve maximum pay-outs under the revised policy will be challenging. It should be noted that the Committee has a clear track record of setting targets that require truly exceptional performance for high pay-outs to be made, evidence of which can be seen in the levels of vesting under the LTIP over the period since the introduction of our first binding remuneration policy.

The proposals set out above would bring the CEO's target bonus, target LTIP award level, and target total remuneration to around the lower quartile of our peer group. Base salary will be subject to the normal annual review process.

It is also important to note that, despite this proposed increase in target LTIP award levels, the Remuneration Committee is maintaining features of UK and European remuneration rather than following more generous US practices. 100% of the Dialog CEO's LTIP award will be in performance shares, and the portion of his annual bonus above 100% of base salary will be deferred into shares rather than the US norm of paying bonuses entirely in cash. In addition, the increase in share ownership guidelines is significantly above the median level at the FTSE 250 (200% of base salary) and even the FTSE 100 (300% of base salary).

Shareholder consultation

As part of the comprehensive review of our remuneration policy, the Committee wrote to major shareholders representing approximately 50% of our issued share capital, as well as proxy advisers.
The Committee is extremely grateful for the feedback provided by shareholders as part of engagement, and is pleased that overall, shareholders were supportive of the proposals. The feedback had an impact on our final proposals; specifically, the Committee decided to introduce a 2-year post-vesting holding period to LTIP awards granted under the new remuneration policy and to improve the level of detail of the disclosure of targets under the bonus scheme and our Long-Term Incentive Plan.

If you have any feedback on our remuneration arrangements, please pass those comments for my attention to our Company Secretary, Tim Anderson at RPC, Tower Bridge House, St Katharine's Way, London, E1W 1AA. We have been pleased at previous AGMs to receive a positive response from shareholders to our remuneration approach. We hope you find the contents of this report informative. The Committee would welcome your support at our AGM on 2 May 2019 for our advisory shareholder vote on the Annual report on remuneration and binding vote on the Directors' remuneration policy.

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
6 March 2019

Dialog Semiconductor Plc

Remuneration at a glance

Summary of our current remuneration policy and structure for Financial Year 2018

Component	Features	How we implemented
Base Salary	→ Salary and benefits to facilitate recruitment and retention → Fixed pay is restrained to emphasise performance-based remuneration and further align the interests of the CEO and shareholders	→ 0% increase → Chief Executive Officer: £485,886 → 15% pension allowance
Annual Bonus – weightings: 15% Revenue 15% Underlying gross margin 15% EBIT 25% Diversification 30% Commercial goals	→ Target potential 100% of base salary → Key financial, commercial and organisational goals → The portion of any award above 100% of salary is deferred into shares for three years	→ 115.3% of target bonus paid → CEO: £560,227
LTIP – weightings: 33.3% Revenue 33.3% Underlying operating margin 33.3% Relative Total Shareholder Return	→ Target award is capped at £2 million → 2x multiplier for excellent performance → Goals focused on KPIs and long-term shareholder returns	→ Awards granted to the CEO in 2018 had a target value of £2 million at grant
Shareholding Requirements	→ CEO 300% of salary	→ CEO exceeds requirement

How we measure performance and link to strategy

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

Measure	2018 Annual Bonus	LTIP	Rationale and link to strategy
Revenue	✓	✓	Measures top-line business growth
Underlying operating margin	✓	✓	Measures profitability of our operating activity
Underlying gross margin	✓		Provides a measure of ability to obtain profit margin from our products and manage our manufacturing costs
Relative Total Shareholder Return ("TSR")		✓	Measures the delivery of long-term sustainable value growth for shareholders
Commercial & organisational goals	✓		Focuses executives on the delivery of our strategic goals

How we performed

Revenue (US$m)

1,442

2018	1,442
2017	1,353

Operating margin, underlying (%)

19.5%

2018	19.5
2017	19.2

Gross margin, underlying (%)

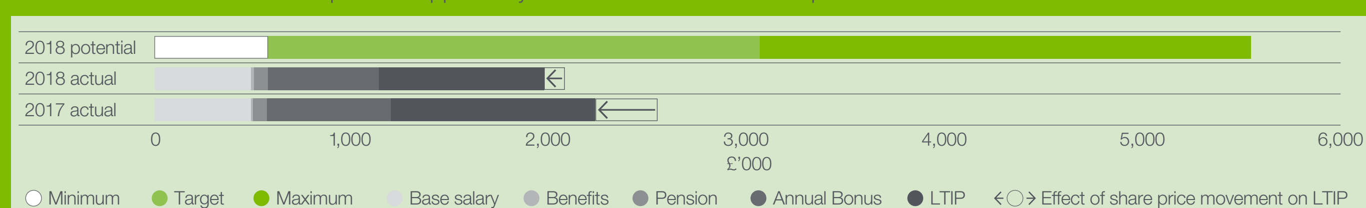
48.3%

2018	48.3
2017	47.9*

* 2017 Gross margin is presented on a consistent basis. Further information is presented on page 99, note 1.

2018 Remuneration

The chart below shows the 2018 potential opportunity and actual achievement compared to 2017 actual achievement.



Maximum = Fixed pay, maximum annual bonus (200% of salary) and maximum value of the LTIP vesting.
Target = Fixed pay and on-target award for Annual Bonus (100% of salary) and 1x target value of the LTIP vesting.
Minimum = Fixed pay (base salary, benefits and pension).

The split of the LTIP bar shows the value lost or gained due to the effect of the share price. The arrow on the "2017 actual" and "2018 actual" LTIP outcome shows the value loss of the vested shares due to the decrease in share price since grant.

Directors' remuneration policy

Our policy on remuneration

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

The Committee believes that a simple approach is most effective. Dialog's elements of executive remuneration are fixed pay (base salary, benefits and pensions), annual bonus and a long-term incentive. A significant portion of remuneration is linked to, and paid in, Company shares, which enables alignment with shareholder interests and reinforces our pay-for-performance philosophy. The Committee believes that 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;

→ The competitive international market for senior executives in the semiconductor industry; and

→ The pay and employment practices of Dialog employees generally.

Directors' remuneration policy table

The table below summarises Dialog's remuneration policy for Executive Directors and, where indicated, for non-executive Directors. The policy will take formal effect when approved at the 2019 AGM.

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

Directors' remuneration policy continued

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

Annual bonus plan	Executive Directors
Purpose and link to strategy	Motivate Executive Directors to achieve stretching financial and commercial objectives consistent with and supportive of Dialog's growth plans. Create a tangible link between annual performance and individual pay opportunity.
Maximum opportunity	Target award of 125% of base salary. Award value can range between 0 and 2x target award level based on the performance condition. The Committee retains discretion to adjust the overall bonus outcome to take account of performance outside the normal bounds. This discretion cannot be used to raise the bonus outcome above 2x target bonus.
Operation	The portion of any award up to 100% of base salary is paid in cash, and the portion of any award above 100% of base salary is awarded in deferred shares. Deferred shares normally vest after three years, and are subject to the plan rules in the event of termination or change in control. Dividend equivalents may be paid on any shares which vest. The Committee may vary the performance measures and mix used to adapt to changing Company circumstances. Financial measures will be a significant portion of the total scorecard.
Performance framework	Performance metrics include: → Financial goals (which determine a significant portion of bonus every year); → Commercial goals; and → Organisational and employee-related goals. For financial metrics, performance is set in line with the stretch annual budget.
Changes in policy	Increase in target bonus from 100% to 125% of salary.

Long-Term Incentive Plan ("LTIP")	Executive Directors
Purpose and link to strategy	Motivate Executive Directors to deliver sustainable long-term shareholder value through long-term profitability and share price growth.
Maximum opportunity	Target award of £3 million. Maximum award at date of grant is 2x target award level based on the performance condition.
Operation	Annual award of performance shares (which may also be in the form of nominal/nil-cost options). Performance is measured over three years, based on performance metrics selected by the Remuneration Committee to support the Company's business strategy. Vesting is dependent on continued employment with the Company at the time of vesting. Dividend equivalents may be paid on any shares which vest. Certain "leaver" provisions apply and are described in the section headed "Termination arrangements" below. A holding period of two years will normally apply to any vesting awards. The Committee has the discretion in certain circumstances to settle an award in cash. In practice this will only be used either to cover the settlement of tax on vesting or in exceptional circumstances for Executive Directors.
Performance framework	Performance metrics include suitable Company financial performance metrics and at least one third on a relative TSR condition measured versus a comparator group. The Committee reviews and selects appropriate measures and their weightings in advance of each award. 0.5x the target award vests for threshold performance, 1x the target award vests for target performance and 2x the target award vests for maximum performance as defined by the Remuneration Committee under the plan. For the relative TSR condition, Dialog Semiconductor TSR is measured over the three-year performance period and compared to the companies in the comparator group. If Dialog TSR is at the median of the comparator group then 0.5x the target award vests. If Dialog TSR is at the 60th percentile of the comparator group then 1x the target award will vest. If Dialog TSR is at or above the 75th percentile of the comparator group then 2x the target award will vest. For performance in between these levels, vesting is determined on a straight-line basis. If Dialog TSR is negative over the three-year performance period, then the maximum number of shares which can vest subject to the relative TSR condition will be capped at 1x the target award, even if relative TSR is above 60th percentile. For the Company financial performance component, targets are normally set annually over the three-year performance period.
Changes in policy	Increase in target award from £2 million to £3 million.

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

Directors' remuneration policy continued

<table>
<tr><th></th><th>Additional points:</th></tr>
<tr><td></td><td>The above termination payments (both in connection with and not in connection with a change in control) would be reduced by the amount of any other contractual payments made to the Executive. Such payments could include a payment in lieu of notice, garden leave payment, and/or a payment in lieu of holiday accrual. Any payment in lieu of notice will be limited to the pro-rata value of base salary and the other benefits described under the retirement benefits and other benefits sections above. An Executive can also be placed on garden leave.

A pre-defined "good reason" includes: material salary reduction (other than across-the-board reductions of up to 10%) or any reduction on change of control; company required relocation by 30 miles; or material diminution in duties, responsibilities or authority (but a change in reporting line alone does not constitute a good reason).

In addition to the above termination payments, the Committee may pay reasonable outplacement and legal fees where considered appropriate and may pay any statutory entitlements or settle any compromise claims in connection with a termination of employment, where considered in the best interests of the Company.

Termination provisions for LTIP are as follows:

Termination not in connection with a change in control

If an Executive Director is not employed by the Company at the time of vesting, the award will lapse, except in certain circumstances as determined by the Board including death, disability, retirement and any other circumstance as decided by the Board. The portion of any award which vests will be determined by the Board based on a number of factors including performance against targets. Alternatively, the Board may decide that outstanding awards will vest in accordance with the normal vesting schedule. Unless the Board decides otherwise, in all cases the vesting level will be reduced in accordance with time proration. In the case that employment is terminated by the Company without cause or termination by the executive for a pre-defined good reason detailed above, then the outstanding awards will vest subject to time proration and performance against targets.

Termination in connection with a change in control

In the event of a change in control of the Company, any award will be rolled over into an award in the new entity but with the Company having discretion for time pro-rated vesting, subject to performance, with the balance rolled over. Performance-based awards, after application of any performance test, will roll over into time-based awards. Any awards rolled over will ordinarily vest at the nominal vesting date. However, in the case that employment is terminated by the Company without cause, or termination by the executive for a pre-defined good reason detailed above in connection with a change in control, then outstanding awards will vest immediately without time proration.</td></tr>
<tr><td>Changes in policy</td><td>No change</td></tr>
</table>

<table>
<tr><th>Fees</th><th>Non-executive Directors</th></tr>
<tr><td>Purpose and link to strategy</td><td>Supports recruitment and retention of a non-executive Director with the experience and skills that will make a major contribution to the Dialog Board.</td></tr>
<tr><td>Maximum opportunity</td><td>Aggregate fees are subject to the limit set out in the Articles of Association or any such higher amount as determined by ordinary resolution.</td></tr>
<tr><td>Operation</td><td>Fees are normally reviewed annually. Fees may be paid in a combination of cash and shares subject to any requirements of the Articles of Association of the Company or shareholder resolution. Non-executive Directors' fees are not eligible for any incentive awards or share options.

The Chairman's fee and other non-executive Director fees are determined by the Board following a review and recommendation by the Remuneration Committee.

Non-executive Directors may also receive tax advice.

In addition to the fees referred to above, non-executive Directors are also reimbursed for the costs of travel relating to the performance of their duties, and these costs may be grossed-up if treated as a taxable benefit in the applicable jurisdiction.</td></tr>
<tr><td>Performance framework</td><td>Fee reviews take account of individual performance and contribution, company size, growth and complexity, level of experience and market profile and time committed.</td></tr>
<tr><td>Changes in policy</td><td>No change</td></tr>
</table>

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	No change

Directors' remuneration policy continued

Clawback and malus policy

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

Shareholding requirement

The Committee will set a shareholding requirement for Executive Directors. The requirement for the current CEO will be increased from 300% to 400% of base salary with effect from 2019. The Committee reviews the level of shareholding requirement from time to time and has authority to amend it as necessary.

Share options for non-executive Directors

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

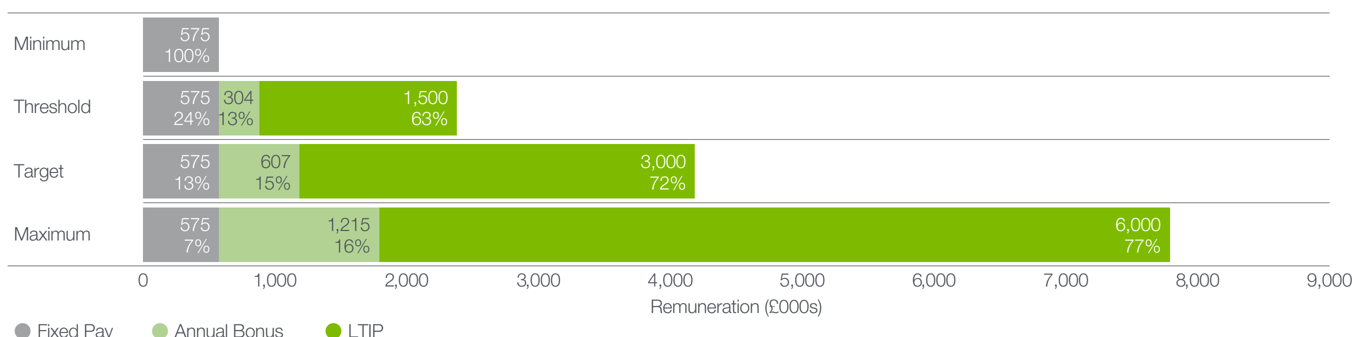
Remuneration policy for Executive Directors compared to that for other employees

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

- Annual bonus – All Dialog employees participate in annual bonus plans. The nature of those plans varies somewhat by location and employee category. Most employees participate in a profit-sharing plan; a smaller group participates in a plan based on performance against individual objectives;
- LTIP – Participation in the LTIP is limited to employees in senior roles and executives, which currently comprise around 50 Dialog employees. This number may increase over time as the business grows. Different conditions to those attaching to awards made to Executive Directors may apply; and
- Notice periods – Other UK employees' contracts of employment include three-month notice periods.

Remuneration scenarios for the CEO

The charts below illustrate for the 2019 year the pay mix between the different elements of remuneration for the CEO, assuming threshold, target and maximum performance. Amounts are shown in GBP (000s).



The scenarios shown above are based on the following assumptions:

- Minimum performance: fixed pay only (base salary, benefits and pension);
- Threshold performance: fixed pay, annual bonus (62.5% of salary) and 0.5x target value of the LTIP award vesting;
- Target performance: fixed pay, annual bonus (125% of salary) and 1x target value of the LTIP award vesting; and
- Maximum performance: fixed pay, maximum annual bonus of 250% of salary and 2x target value of the LTIP award vesting.

We have assumed a target LTIP grant of £3 million, which is the proposed limit for the policy for 2019.

Annual report on remuneration for the year ended 31 December 2018

1. Executive Director remuneration: Single Figure Table (audited)

The table below sets out the single figure for the CEO:

Incumbent	Year	Total salary US$[2]	Benefits US$	Pension US$	Total fixed pay US$[3]	Annual bonus US$[4]	Long-term Incentive US$[5]	Total variable pay US$[6]	Total excluding LTI US$[7]	Total US$[8]
Dr Jalal Bagherli	2018[1]	620,379	20,464	93,057	733,900	715,298	1,068,025	1,783,323	1,449,198	2,517,223
Dr Jalal Bagherli	2017[1]	640,770	15,923	96,115	752,809	846,098	1,399,163	2,245,261	1,598,907	2,998,070

Notes:
1 Exchange rates used are: 2017: GBP 1 = USD 1.35093 ; EUR 1 = USD 1.19875; 2018: GBP 1 = USD 1.2768; EUR 1 = USD 1.1451.
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 2018 GBP base salary increase was 0%.
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 For the 2017 performance year, 13,427 EIP options and 33,526 LTIP awards vested. Value is based on a price of €25.00 (the share price on the vesting date).
For the 2018 performance year, 43,001 LTIP awards will vest. Value is based on a price of €21.84 (average share price over last three months in 2018).
6 The sum of annual bonus (cash and deferred share element) and long-term incentives.
7 The sum of basic salary, benefits, pension and annual bonus (cash and deferred share element).
8 The sum of basic salary, benefits, pension, annual bonus (cash and deferred share element) and long-term incentives which vested for performance to the end of the year.

2. Commentary on the Executive Director Single Figure Table

2.1 Base salary

The Remuneration Committee reviewed the CEO's base salary in July 2018 with reference to his performance, the scale of the Group, and the positioning of his package compared to Dialog's peer group. Given the challenging economic climate and need for cost-cutting in 2018, the CEO was awarded a 0% increase in annual base salary with effect from 1 July 2018 which resulted in his base salary remaining at £485,886 (US$620,379).

2.2 Other benefits and Pension

The CEO received a cash allowance in lieu of a company car (US$13,023), medical insurance for himself and his spouse and Group life and income protection insurance. The total value of taxable benefits provided was US$20,464 equivalent to 3.30% of his current salary.

The CEO receives a pension allowance of 15% of base salary which is in line with policy. In 2018, the Company made pension allowance payments of £72,883 (US$93,057) to the CEO.

2.3 Annual bonus disclosure

For 2018, the CEO was eligible for a target annual bonus of 100% of base salary, which could range 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 (70%) comprising revenue (15%), underlying gross margin (15%), EBIT (15%), diversified revenue (25%); and

→ Commercial & organisational goals (30%).

The 2018 bonus was determined at 115.3% of target, reflecting performance as set out in the table below. Performance targets under these measures are considered by the Board to be commercially sensitive and will, where possible, be disclosed in a future Annual report when they are considered no longer to be commercially sensitive.

Measure		Outcome	Below Threshold	Between Threshold and Target	On Target	Above Target
Financial	Revenue	$1,442m		✓		
	Underlying gross margin	48.3%				✓
	EBIT	19.5%		✓		
Diversification	Diversified Revenue	The outcomes of the goals in this category were between threshold and target overall. Exact figures are not shown as they are deemed commercially sensitive.				
Commercial goals		See below				✓

The overall outcome for the commercial goals was above target. This reflects performance as set out in the table below:

Performance Measure	Outcome
Carve-out/M&A	Above-target performance on this measure in recognition of the landmark agreement with Apple Inc. which clarified our long-term business relationship and monetised our unique IP.

Annual report on remuneration for the year ended 31 December 2018 continued

2. Commentary on the Executive Director Single Figure Table continued

2.3 Annual bonus disclosure continued

Accordingly, the Committee determined that a bonus equivalent to 115.3% of base salary should be paid for the performance in the 2018 financial year. Of this, 15.3% (£74,341) will be deferred into shares for three years. The Committee also considered the disclosure of the performance targets relating to the 2018 annual bonus. Having reviewed the targets, the Committee decided that the targets continued to be commercially sensitive if disclosed at the same time as the bonus is paid. The targets for the 2017 annual bonus have been set out below:

Performance Measure		Weighting	Threshold	Target	Maximum	Outcome	Bonus payable (% of salary) Threshold	Target	Maximum	Bonus payable
Financial	Revenue	20%	$1,209m	$1,343m	$1,478m	$1,353m	10%	20%	40%	21.5%
	Underlying gross margin	20%	44.0%	45.5%	47.0%	46.7%	10%	20%	40%	36.0%
	EBIT	20%	16.9%	17.8%	19.6%	19.2%	10%	20%	40%	35.6%
Diversification		20%	The outcome of $321m was in between threshold and target.							10.8%
Commercial goals		20%	Successful completion and integration of Silego acquisition. Executed successfully on milestones for long-term partnerships.							25.0%
Total										**128.9%**

2.4 LTIP disclosure

Awards granted under the 2016 Long-Term Incentive Plan ("LTIP") are capable of vesting in 2019 subject to the achievement of revenue, underlying operating margin and relative Total Shareholder Return ("TSR") performance targets. Following the completion of the final performance period in 2018, the Committee has assessed performance against the performance targets set over the performance period and has determined that 47.08% of the target number of share options awarded will vest to participants. In light of shareholder feedback obtained during our consultation with shareholders, we have enhanced disclosure of performance outcomes under the LTIP.

Measure	Target award level (% of target award)	Performance Needed for Maximum Vesting	Outcome	Actual vesting outcome (% of target award)
Revenue	33.3%	$4.89bn	$3.99bn	17.65%
EBIT (underlying operating margin)	33.3%	21.7%	19.1%	29.43%
Relative TSR vs. peer group	33.3%	Dialog TSR over the 3-year performance period was below the median of the peer group, i.e. the constituents of the S&P Select Semiconductor Index. For maximum payout, upper quartile performance would have been needed.		0.00%
Total	100.0%			47.08%

The Chief Executive was awarded a target number of 91,324 LTIP share options in 2016 (which is equivalent to a maximum number of 182,648 share options if all the maximum performance targets are met). As a result of the actual vesting outcome, 43,001 of the target number of LTIP share options awarded to the Chief Executive in 2016 (i.e. 47.08% of target) will vest in 2019. As the share price at the date of vesting for the 43,001 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 2018 of Euro 21.84. This results in a value of US$1,068,025. This figure will be updated next year when the actual share price at the date of vesting is known.

2.5 Share awards made during the year

In 2018 the CEO was granted an LTIP award with a target value of £2 million in line with the policy in force. As noted in the policy section, shares awarded are structured as nominal priced options, hence the reference to options throughout.

Awarded during the year	Date of award	Granted number Target	Max	30-day average share price at date of grant in £	Value of award Target	Max	% of max award that will vest at threshold	Performance period
LTIP – performance shares	05/03/2018	92,775	185,550	£21.5575	£1,999,997	£3,999,994	25%	01/01/2018–31/12/2020

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 5 March 2018 (€24.36). The sterling equivalent share price was £21.5575, resulting in a maximum LTIP award value of £3,999,994 which equates to a target LTIP award of £1,999,997.

The LTIP performance shares set out in the table above will vest subject to performance against three performance metrics:

- Dialog TSR performance over the three-year performance period relative to the constituents of the S&P 1500 Select Semiconductor index (one third);
- Dialog revenue in each year of the three-year performance period (one third); and
- Dialog underlying operating margin in each year of the three-year performance period (one third).

Revenue and underlying operating margin targets are set annually over the three-year performance period of the award. For each annual period a third of this part of the award is assessed on actual Dialog performance against targets set at the beginning of each year. Relative Total Shareholder Return is measured at the third anniversary date of the award over the three-year performance period. Shares accrued during the performance period are released to Executive Directors as soon as practicable after the third anniversary of the award.

2.6 Dilution

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

3. Non-executive Directors' remuneration: Single Figure Table (audited)

Incumbent	Year	Fees US$[3]	Taxable Benefits US$	Incentives (Annual) US$	Incentives (Long-term) US$	Other remuneration US$	Shares Vested US$	Total US$
Chris Burke[2]	2018[1]	67,460	2,171	–	–	–	–	69,631
Chris Burke[2]	2017[1]	196,942	2,048	–	–	–	–	198,990
Aidan Hughes	2018[1]	195,350	11,092	–	–	–	–	206,442
Aidan Hughes	2017[1]	206,693	5,976	–	–	–	–	212,669
Russ Shaw	2018[1]	–	–	–	–	–	–	–
Russ Shaw	2017[1]	59,993	1,067	–	–	–	–	61,060
Richard Beyer	2018[1]	255,360	10,528	–	–	–	–	265,888
Richard Beyer	2017[1]	270,186	4,653	–	–	–	–	274,839
Mike Cannon	2018[1]	203,650	5,831	–	–	–	–	209,481
Mike Cannon	2017[1]	215,473	1,494	–	–	–	–	216,967
Eamonn O'Hare	2018[1]	195,350	2,404	–	–	–	–	197,754
Eamonn O'Hare	2017[1]	201,268	1,698	–	–	–	–	202,966
Alan Campbell	2018[1]	205,565	10,095	–	–	–	–	215,660
Alan Campbell	2017[1]	217,500	4,424	–	–	–	–	221,924
Nick Jeffery	2018[1]	199,181	2,866	–	–	–	–	202,047
Nick Jeffery	2017[1]	210,918	4,324	–	–	–	–	215,242
Mary Chan	2018[1]	195,989	8,187	–	–	–	–	204,176
Mary Chan	2017[1]	207,954	3,870	–	–	–	–	211,824

Notes:
1 Exchange rate used 2017: GBP 1 = USD 1.35093; EUR 1 = USD 1.19875; 2018: GBP 1 = USD 1.2768; EUR 1 = USD 1.1451.
2 Chris Burke retired from the Board on 3 May 2018.
3 Fees include fees paid in cash and shares.

4. Directors' shareholdings at 31 December 2018 (audited)

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

		Share Awards with Performance Conditions		Share Awards without Performance Conditions				
Number at 31 December 2018	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	398,557	566,362	38,117	130,963	–	–	114,373	1,248,372
Chris Burke	3,481	–	–	–	–	–	–	3,481
Aidan Hughes	33,119	–	–	–	–	2,081	2,293	37,493
Russ Shaw	944	–	–	–	–	–	–	944
Richard Beyer	11,526	–	–	–	–	–	–	11,526
Mike Cannon	8,693	–	–	–	–	–	–	8,693
Eamonn O'Hare	10,991	–	–	–	–	–	–	10,991
Alan Campbell	8,428	–	–	–	–	–	–	8,428
Nick Jeffery	5,213	–	–	–	–	–	–	5,213
Mary Chan	6,932	–	–	–	–	–	–	6,932

Annual report on remuneration for the year ended 31 December 2018 continued

4. Directors' shareholdings at 31 December 2018 continued

Further detail on the CEO's EIP, LTIP and deferred bonus share awards, is set out below.

Full Name	Share plan	Grant date	Final vesting date	Lapse date	Exercise price (EUR)	Holding at 31 Dec 2017	Granted	Exercised	Lapsed	Holding at 31 Dec 2018
Dr Jalal Bagherli	Executive incentive plan	16/02/2013	16/02/2016	16/02/2019	0.12	79,735	–	79,735	–	–
Dr Jalal Bagherli	Deferred bonus plan	18/02/2013	18/02/2016	18/02/2020	0.01	42,611	–	–	–	42,611
Dr Jalal Bagherli	Executive incentive plan	18/02/2013	18/02/2016	18/02/2019	0.12	34,638	–	34,638	–	–
Dr Jalal Bagherli	Executive incentive plan	16/02/2014	16/02/2017	16/02/2020	0.12	60,850	–	–	–	60,850
Dr Jalal Bagherli	Deferred bonus plan	18/02/2014	18/02/2017	18/02/2021	0.01	40,153	–	–	–	40,153
Dr Jalal Bagherli	Executive incentive plan	18/02/2014	18/02/2017	18/02/2021	0.12	24,690	–	–	–	24,690
Dr Jalal Bagherli	Deferred bonus plan	12/02/2015	12/02/2018	12/02/2022	0.01	29,913	–	–	–	29,913
Dr Jalal Bagherli	Executive incentive plan	12/02/2015	12/02/2018	12/02/2022	0.12	18,395	–	–	4,968	13,427
Dr Jalal Bagherli	LTIP nominal cost option	01/05/2015	01/03/2018	01/03/2021	0.15	97,329	–	–	63,803	33,526
Dr Jalal Bagherli	Deferred bonus plan	03/03/2016	03/03/2019	03/03/2023	0.01	11,772	–	–	–	11,772
Dr Jalal Bagherli	LTIP nominal cost option	03/03/2016	01/03/2019	01/03/2022	0.15	182,648	–	–	–	182,648
Dr Jalal Bagherli	LTIP nominal cost option	01/03/2017	01/03/2020	01/03/2023	0.15	103,788	–	–		103,788
Dr Jalal Bagherli	Deferred bonus plan	05/03/2018	05/03/2021	05/03/2025	0.01	–	6,514	–	–	6,514
Dr Jalal Bagherli	LTIP nominal cost option	05/03/2018	05/03/2021	05/03/2024	0.15	–	185,550	–	–	185,550

Further detail on the NEDs' remaining share awards is set out below.

Full Name	Share plan	Grant date	Final vesting date	Lapse date	Exercise price (EUR)	Holding at 31 Dec 2017	Granted	Exercised	Lapsed	Holding at 31 Dec 2018
Aidan Hughes	NED 2011 share option	21/07/2011	21/04/2014	01/05/2018	0.15	2,293	–	2,293	–	0
Aidan Hughes	NED 2011 share option	18/07/2012	21/04/2015	01/05/2019	0.15	2,081	–	–	–	2,081

The chart below shows the CEO shareholding as at 31 December 2018 against the shareholding requirement as a % of base salary.

5. Percentage change in CEO remuneration

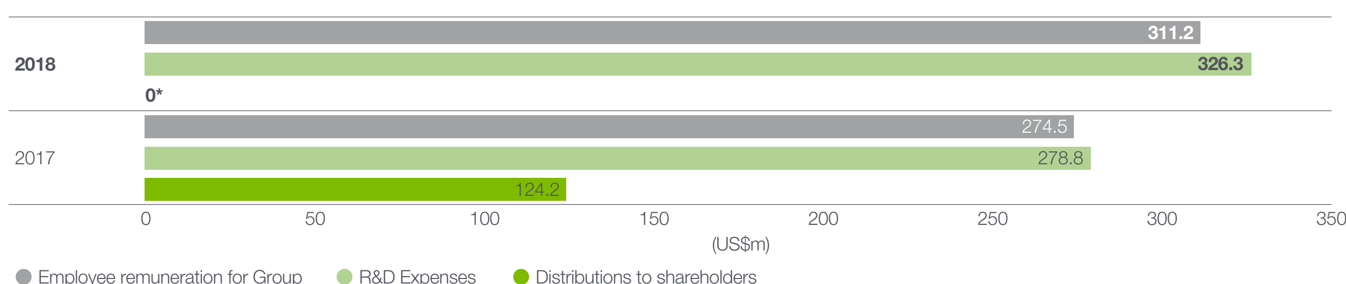
The table below compares the average change in base salary, benefits (excluding pension) and bonus awards for the CEO and for an average UK employee over the period 2017 to 2018.

	Percentage change from 2017 to 2018	
Measure	CEO	Average UK employee
Base salary	0.0%	5.9%
Taxable benefits	36.0%[2]	20.9%
Annual bonus	–10.6%	–27.0%[3]
Total[1]	–5.5%	2.6%

1 Represents the sum of base salary, taxable benefits and bonus.
2 There was no change to the benefits provided to the CEO in 2018. However, there was an increase in the value of a portion of the benefits provided in 2018 due to timing of taxes.
3 At the time of preparation for this report, annual bonuses for the Group had yet to be finalised and the numbers presented reflect expected payouts. The annual bonus for the majority of employees is a plan based on EBIT (underlying operating margin) which was below-target for 2018.

6. Relative importance of spend on pay

The chart below compares the amount spent on employee pay by Dialog to amounts spent by Dialog on research and development and distributions to shareholders.

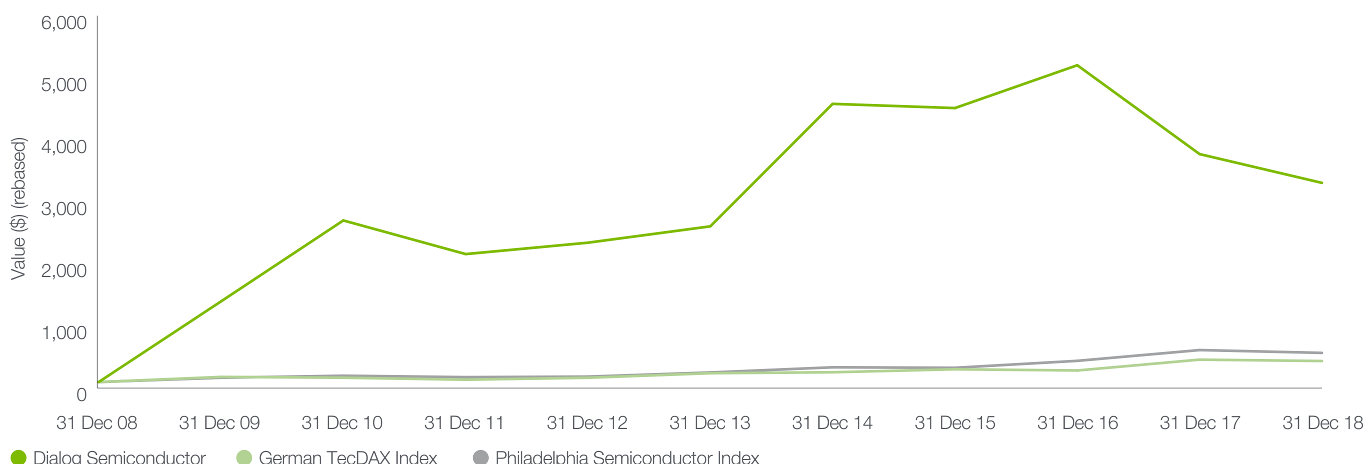


* Please refer back to "Share buyback programme" on page 50.

7. Review of past performance

7.1 TSR Chart

The following graph compares Dialog Semiconductor's TSR performance to that of the same investment in the German TecDAX Index. This comparison has been chosen because it reflects the local market and industry in which Dialog is listed. We also show a comparison to the Philadelphia SE Semiconductor Sector Index (Price return) as an additional industry comparator, recognising that Dialog competes with companies on an international basis. TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and – where relevant – assuming reinvestment of dividends. Data is averaged over 30 days at the end of each financial year.



This graph shows the value, by 31 December 2018, 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: FactSet.

7.2 Ten-year Chief Executive single figure remuneration

The table below sets out the annual change in the single figure total remuneration provided to the CEO over the previous ten-year period.

Financial year ending	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014	31 Dec 2015	31 Dec 2016	31 Dec 2017	31 Dec 2018
Total remuneration including unrealised gains on options in $ (single figure basis)[1]	1,028,853	4,809,398	30,426,678	2,167,224	2,046,555	4,521,143	5,910,729	5,576,750	2,998,070	2,517,223
Annual bonus (% of maximum)[2]	N/A	N/A	N/A	100%	91.94%	89.12%	79.25%	34.62%	64.45%	57.65%
Long-term variable pay (% of maximum)[3]	95%	100%	100%	100%	100%	78%	81.3%	61.49%	34.44%	23.54%

1 The total remuneration for 2010 and 2011 includes awards made under the 2008 LTIP plan approved by shareholders at the 2008 AGM. The values vested to the CEO from this plan were US$3,593,299 (2010) and US$29,103,138 (2011), resulting from the exceptional performance and share price growth of the Company, as can be seen in the TSR performance chart above. There are no further awards under this plan. Total remuneration includes the value of long-term incentive awards at the time they vest, as required by UK reporting regulations. The actual value realised by the CEO is based on the market value on the date they are permitted (under Directors' trading restrictions) and/or choose to exercise options or sell shares. The value presented does not therefore reflect exactly that received by the CEO.
2 No maximum bonus was defined prior to 2012.
3 The percentages shown for 2017 and 2018 long-term variable pay are for the LTIP. In 2017 there was a legacy EIP award with a vesting percentage of 44.88%.

8. Statement of implementation for the year ending 31 December 2019

8.1 Executive Director

This section details how remuneration will be implemented for the CEO, following the new remuneration policy that is to be implemented in 2019. The rationale for the changes below can be found in the Remuneration Chairman's Letter. Both this report and the Chairman's Letter are subject to approval at the 2019 AGM.

Base salary
The CEO's base salary will be subject to review in 2019 with any change being effective from 1 July 2019.

Benefits & pension
No change to benefits. Pension contribution remains at 15% of salary.

Annual Bonus for the year ending 31 December 2019
The maximum bonus potential will continue to be 2x target bonus, however there will be an increase in target bonus from 100% to 125% of base salary.

The annual bonus will be based on similar metrics to last year. Weightings will be in line with the performance framework set out in the remuneration policy and aligned to the key strategic priorities for 2019. There will be a significant weighting on financial metrics supported by appropriate measures of operational and commercial performance.

Annual report on remuneration for the year ended 31 December 2018 continued

8. Statement of implementation for the year ending 31 December 2019 continued

8.1 Executive Director continued

LTIP for the year ending 31 December 2019
Following approval of the policy at the 2019 AGM, target LTIP award will be increased from £2 million to £3 million.

As in prior years, the LTIP award will vest after three years subject to the satisfaction of three performance metrics:

- Dialog TSR performance over the three-year performance period relative to the constituents of the S&P 1500 Select Semiconductor index;
- Dialog revenue in each year of the three-year performance period; and
- Dialog underlying operating margin in each year of the three-year performance period.

Financial targets will be disclosed retrospectively in the year of vesting.

For the relative TSR condition of the 2019 LTIP award, Dialog Semiconductor TSR is measured over the three-year performance period and compared to the companies in the comparator group. If Dialog TSR is at the median of the comparator group then 0.5x the target award vests. If Dialog TSR is at the 60th percentile of the comparator group then 1x the target award will vest. If Dialog TSR is at or above the 75th percentile of the comparator group then 2x the target award will vest. For performance in between these levels, vesting is determined on a straight-line basis.

Share Ownership Guidelines
Share Ownership Guidelines are required to build and retain a shareholding in Dialog's shares. Previously, the CEO has been required to hold the equivalent of 3x base salary in shares, this is to be increased to 4x base salary for 2019.

Holding Period
A post-vesting holding period of two years will normally apply to awards granted under the new policy which will be submitted for shareholder approval at the 2019 AGM.

8.2 Non-executive Directors

The following table sets out the fee rates for non-executive Directors, which have applied from 2016.

	2019		2018	
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	–

9. Governance

9.1 The Remuneration Committee

The Board as a whole is responsible for setting the Company's policy on Directors' remuneration. The Board of Directors has established a Remuneration Committee (the "Committee") and has delegated authority to this Committee to review and recommend to the Board: the salaries and incentive compensation of the Company's officers and its subsidiaries; and provide recommendations for other employees and consultants as appropriate.

The Committee comprises independent, non-executive Directors. The members are currently Mike Cannon (Chair), Mary Chan and Nick Jeffery. The Committee's members have no financial interest in the Company other than as shareholders and through the remuneration paid to them by the Company.

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

During the year, the Committee sought and received general advice relating to remuneration from Aon plc. The Committee is satisfied that the advice received from Aon is objective and independent and is not subject to any material conflict of interest. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct; all advice received during the year was provided in accordance with this code. Fees charged by Aon for advice provided to the Committee for 2018 amounted to £240,342.

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

Responsibilities
The Remuneration Committee's main responsibilities are to:

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

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

- Review, plan and recommend to the Board CEO and executive management remuneration;
- Review and address Annual General Meeting outcomes;
- Consider market trends; and
- Review the long-term incentive and the structure of the CEO's remuneration package.

9.2 Statement of Shareholder voting

At the 2018 AGM 99.64% of shareholders supported the advisory resolution to approve the Annual report on remuneration. The table below summarises the number of votes for and against Annual report on remuneration at the 2018 AGM, and also includes the number of abstentions (referred to as votes withheld).

	Votes for[1]		Votes against[1]		Votes withheld[2]	Total votes cast	% of voting capital instructed[3]
Resolution	No of shares	%	No of shares	%	No of shares	No of shares	
Approval of Directors' remuneration report	42,965,758	99.64%	153,125	0.36%	242,655	43,118,883	56.45%

1 Votes "For" and "Against" are expressed as a percentage of votes received.
2 A "Vote withheld" is not a vote in law and is not counted in the calculation of the votes "For" or "Against" a resolution.
3 Total number of shares in issue at 9am BST (10am CEST) on 1 May 2018 was 76,382,139 shares.

9.3 Stakeholder views

Shareholder and 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
6 March 2019

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual report and the Group and parent company financial statements in accordance with the applicable law and regulations.

UK company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under the law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework*. Under UK company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that the Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performances; and
- Make an assessment of the Company's ability to continue as a going concern.

In preparing the parent company financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether Financial Reporting Standard 101 (*Reduced Disclosure Framework)* has been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping 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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This responsibility statement was approved by the board of directors on 6 March 2019 and is signed on its behalf by:

Dr Jalal Bagherli
Chief Executive Officer

Independent auditor's report

to the members of Dialog Semiconductor Plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Dialog Semiconductor Plc (the "Parent Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated statement of income;
- the Consolidated statement of comprehensive income;
- the Consolidated and Parent Company balance sheets;
- the Consolidated statement of cash flows;
- the Consolidated and Parent Company statements of changes in equity; and
- the related notes 1 to 35 to the Group financial statements and notes 1 to 10 to the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report

to the members of Dialog Semiconductor Plc continued

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: → Carrying amount of goodwill – revenue growth forecasts of new products used for the Connectivity CGU → Capitalisation of development costs
Materiality	We determined materiality for the Group financial statements to be US$10.7 million, which represents 5.4% of pre-tax profit.
Scoping	We conducted full scope audit procedures on the Parent Company as well as the three largest components, which represent 94% of the Group's revenue, 83% of the Group's pre-tax profit and 99% of Group's net assets. We performed specified audit procedures on two additional components.
Significant changes in our approach	Our audit approach was consistent with the previous year, except as explained below. Last year our report included two key audit matters which are not included in our report this year: *Revenue growth assumptions used in the valuation of customer relationships acquired as part of the Silego acquisition:* For 2018, no acquisitions took place and therefore the key audit matter is not applicable. *Revenue recognition:* Previously we identified a risk in relation to sales to distributors on "ship and debit" terms, which we pinpointed to the risk of manual adjustments at year end. With the implementation of IFRS 15 *Revenue from Contracts with Customers*, such revenue is recognised when the products are released for collection by the third party distributor rather than when the sale is made to the end customer, therefore the key audit matter is no longer applicable. We also identified a risk in relation to direct sales to end customers, which we pinpointed to cut-off based on contractual terms of sales. We evaluated the results of our previous audits and concluded that this was not a key audit matter for 2018.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying amount of goodwill – revenue growth forecasts of new products used for the Connectivity CGU

Key audit matter description

1. Mobile Systems	24%
2. Connectivity	20%
3. Advanced Mixed Signal	56%

As detailed in Notes 14 and 15 to the financial statements, the Group held US$439.5 million of goodwill and US$217.4 million of other intangible assets at the balance sheet date. As detailed in Note 2, the Group is required to, at least annually, test goodwill for impairment, or when an impairment trigger is identified.

The impairment test involves a number of significant judgements in assessing the recoverable amount of each cash generating unit ("CGU"), to which goodwill is allocated, most importantly growth assumptions made within the three-year cash flow forecasts contained in management's Strategic Plan.

We have identified the risk of impairment to principally relate to the Connectivity CGU. High revenue growth rates are assumed in the three-year cashflow forecasts for Connectivity, with the growth driven by new products in less mature end markets. The headroom of value in use over the carrying amount of the assets of the CGU is also lower than that of the other CGUs. We have reviewed management's sensitivity analysis and performed our own analysis in concluding on the focus for our key audit matter.

Given the impact on overall value in use of the high revenue growth rates for new products, this is considered to be the key judgement and a key audit matter.

How the scope of our audit responded to the key audit matter

We evaluated the design and implementation (D&I) of the key controls that ensure consistency between the Strategic Plan and forecasts in the impairment test, and regarding the preparation and review of the impairment assessment.

We reviewed and challenged management's key assumptions used in the impairment test for the Connectivity CGU, focusing on the appropriateness of the revenue growth rates assumed in the three-year cash flow forecasts. Our procedures included:

- Comparing prior year forecast revenue growth to actual performance to assess historical accuracy of forecasting, with particular focus on assessing the performance of products previously categorised as new products which have now launched;
- Agreeing forecasts used to the latest Board approved forecasts as well as reviewing 2019 trading to date;
- Enquiring of management, including individuals outside of finance, to understand and challenge the assumptions in the revenue growth forecasts with focus on products identified in our sensitivity analysis that have the most significant impact on future performance;
- Obtaining evidence of post-year end order backlogs for new products launched in 2019; and
- Comparing assumptions in the growth assumed to third party and other market data, where available, analyst and industry reports.

Key observations

Based on the audit procedures performed, we concur with management that an impairment was not required in the year ended 31 December 2018.

Independent auditor's report

to the members of Dialog Semiconductor Plc continued

Capitalisation of development costs

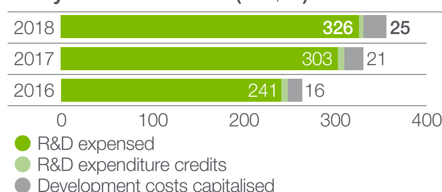
Key audit matter description

Research and development ("R&D") activity is an important part of the Group's business model to create value in the business, as detailed in the Strategic report on pages 30 to 31. During 2018, the Group incurred US$351.1 million of research and development costs, net of R&D expenditure credits of US$5.2 million. Of this amount, US$24.8 million was capitalised.

In line with IAS 38 *Intangible Assets*, and as detailed in note 2, development expenditure is expensed until it can be demonstrated a new product is technically feasible, commercially viable and management intends to complete the development.

The point of commencement of capitalisation of such costs is an area of management judgement and there is a risk that costs which should have been expensed are capitalised. Therefore, we consider this a method by which the profit for the year could be fraudulently misstated.

Analysis of R&D costs (US$m)



How the scope of our audit responded to the key audit matter

We assessed the D&I of controls in relation to the R&D process, in particular the tracking of the stage of completion of projects and the determination of the requirement to capitalise.

We focused our substantive testing on the review of significant projects for indicators of potential manipulation. Where indicators were identified we challenged management regarding them, making inquiries with individuals in both finance and also the project management teams.

Evidence was obtained for all projects with total budgeted costs in excess of a set threshold which commenced capitalisation during 2018 to support that the timing of the commencement of capitalisation was in accordance with the requirements of IAS 38.

A review for contradictory evidence was performed in order to identify indicators that the stage of completion of a project differed from that reported. This included a review for inventory build-up or revenue in the period.

Key observations

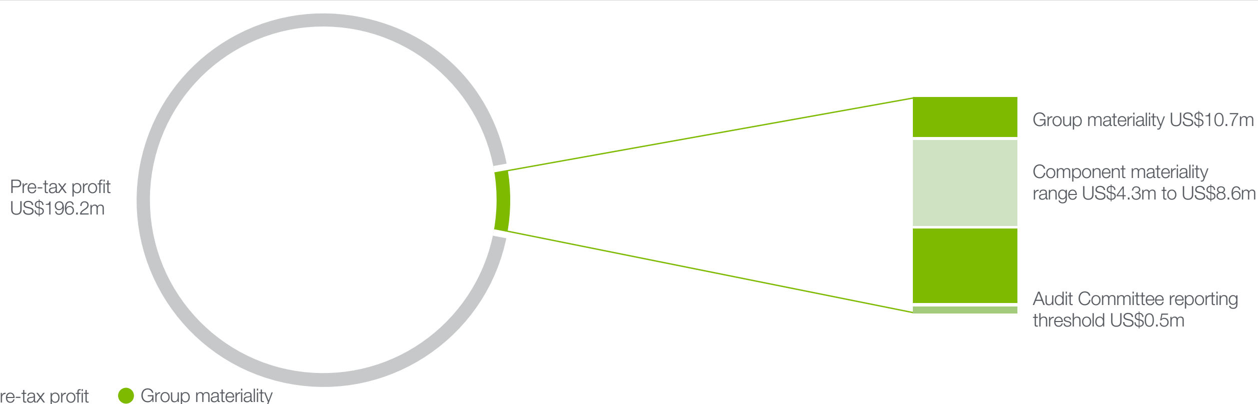
Based on the audit procedures performed, we did not identify any material misstatements in relation to the capitalisation of development costs.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	We determined materiality for the Group to be US$10.7 million (2017: US$10.5 million). The materiality for the audit of the Parent Company based on balance sheet measures would be in excess of Group materiality, therefore we capped the materiality for the Parent Company at US$10.6 million (2017: US$10.4 million).
Basis for determining materiality	Our materiality for the Group represents 5.4% of pre-tax profit of US$196.2 million. In 2017 our materiality was based on 5.4% of pre-tax profit of US$194.8 million.
Rationale for the benchmark applied	Our base for determining materiality is in line with prior year. We consider pre-tax profit to be a key benchmark for users of the financial statements, including customers, suppliers and other parties such as tax authorities.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $535,500 (2017: $525,200), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

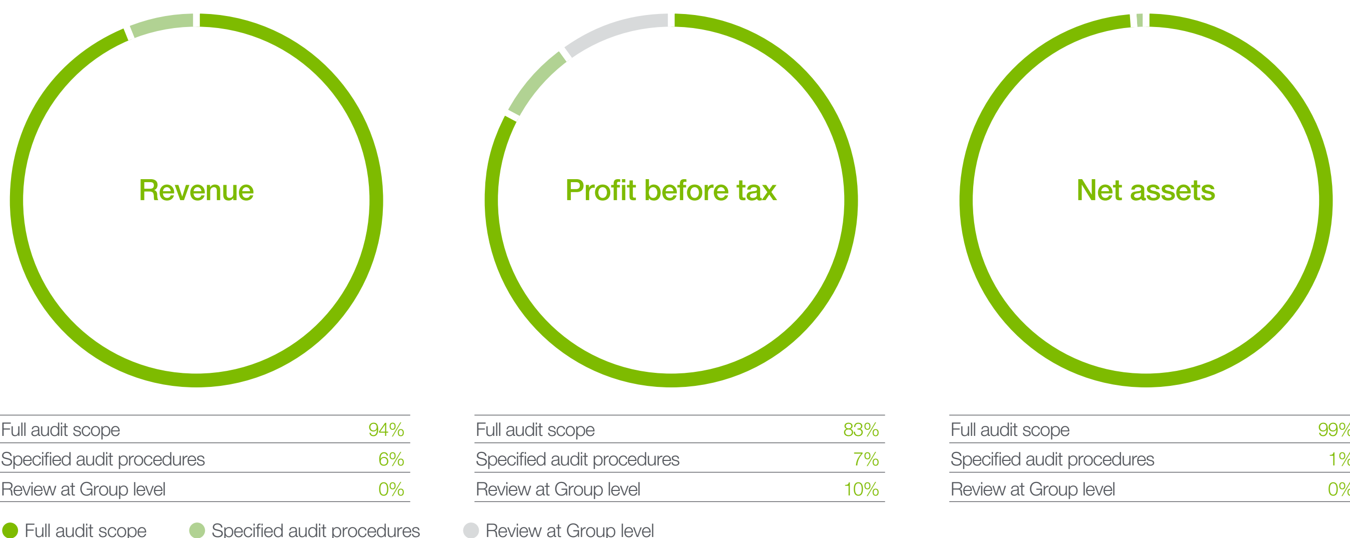
An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including an understanding of the geographical positioning of accounting processing, management decision making and the risk of material misstatement at the Group level.

The Group is present in sixteen countries across Europe, North America and Asia; however, the majority of transactional accounting processing as well as the consolidation is performed in Germany, which co-ordinates closely with the UK head office finance team. In addition, 90% of the Group's revenue is generated through its German component.

Based on this assessment, we focused on the component located in Germany as well as three components located in the UK where we performed full scope audits, covering 94% (2017: 98%) of revenue, 83% (2017: 94%) of pre-tax profit and 99% (2017: 96%) of net assets.

For the two other components, which include Silego, we performed specific audit procedures on defined balances and transactions, which increased our coverage to cover 100% of revenue, 90% of pre-tax profit and 100% net assets as detailed below:



Revenue	
Full audit scope	94%
Specified audit procedures	6%
Review at Group level	0%

Profit before tax	
Full audit scope	83%
Specified audit procedures	7%
Review at Group level	10%

Net assets	
Full audit scope	99%
Specified audit procedures	1%
Review at Group level	0%

Full audit scope   Specified audit procedures   Review at Group level

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent auditor's report

to the members of Dialog Semiconductor Plc continued

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, internal legal counsel and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including the component audit team and involving relevant internal specialists, including tax, valuations, and information technology regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: judgement regarding the point of commencement of capitalisation of development costs and the identification and interpretation of the contractual terms of new and/or updated revenue contracts; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the Group's operations. The key laws and regulations we considered in this context included among others, the UK Companies Act, German listing rules and tax legislations (UK, USA and Germany).

Audit response to risks identified

As a result of performing the above, we identified capitalisation of development costs as a key audit matter. The key audit matters section of our report explains that matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing regulatory correspondence;
- in addressing the risk of fraud in revenue recognition, assessing the appropriateness of the design and implementation of controls regarding capturing new contractual terms and reviewing significant new contracts for compliance with IFRS 15; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and the component audit team, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure
Following the recommendation of the Audit Committee, we were appointed by Dialog Semiconductor Plc on 25 January 2016 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ended 31 December 2015 to 31 December 2018.

Consistency of the audit report with the additional report to the Audit Committee
Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

Alexander Butterworth ACA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, UK
6 March 2019

Consolidated statement of income

Year ended 31 December

	Note	**2018 US$000**	2017* US$000	2016* US$000
Revenue	5, 33	**1,442,138**	1,352,841	1,197,611
Cost of sales		**(751,070)**	(707,971)	(630,963)
Gross profit		**691,068**	644,870	566,648
Selling and marketing expenses		**(83,877)**	(70,412)	(62,331)
General and administrative expenses		**(84,351)**	(74,850)	(70,940)
Research and development expenses	33	**(326,309)**	(303,013)	(261,278)
Other operating income/(expense)	5	**3,176**	(9,578)	137,708
Operating profit	5, 33	**199,707**	187,017	309,807
Interest income	8	**9,883**	5,995	3,665
Interest expense	8	**(3,134)**	(1,302)	(3,447)
Other finance (expense)/income	8	**(10,263)**	3,093	(4,819)
Profit before income taxes		**196,193**	194,803	305,206
Income tax expense	9	**(55,281)**	(25,369)	(47,090)
Profit after income taxes		**140,912**	169,434	258,116
Share of loss of associate		**(1,113)**	–	–
Net income		**139,799**	169,434	258,116
Attributable to:				
– Shareholders in the Company		**139,799**	173,916	260,940
– Non-controlling interests	27	**–**	(4,482)	(2,824)
Net income		**139,799**	169,434	258,116

	Note	2018	2017*	2016*
Earnings per share (US$)	10			
Basic		**1.89**	2.34	3.43
Diluted		**1.80**	2.21	3.25
Weighted average number of shares (in thousands)	10			
Basic		**73,959**	74,472	76,047
Diluted		**77,655**	78,611	80,398

* Certain product development costs have been reclassified from cost of sales to research and development expenses (see note 1).

Consolidated statement of comprehensive income

Year ended 31 December

	2018 US$000	2017 US$000	2016 US$000
Net income	**139,799**	169,434	258,116
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods			
Currency translation differences on foreign operations:			
– (Loss)/gain recognised in the year	**(527)**	1,658	227
– Gain transferred to profit or loss on deconsolidation of Dyna Image	**–**	(1,144)	–
Income tax relating to currency translation differences on foreign operations	**(78)**	180	(47)
Fair value gain on available-for-sale investments	**–**	5,971	2,866
Income tax relating to available-for-sale investments	**–**	(1,015)	–
Cash flow hedges:			
– Fair value (loss)/gain recognised on effective hedges in the year	**(10,075)**	16,433	(13,264)
– Fair value (gain)/loss transferred to profit or loss	**(2,343)**	(441)	8,382
Income tax relating to cash flow hedges	**2,376**	(3,149)	765
	(10,647)	18,493	(1,071)
Items that will not be reclassified to profit or loss			
Fair value loss on equity investments	**(23,764)**	–	–
Income tax relating to equity investments	**1,015**	–	–
	(22,749)	–	–
Other comprehensive (loss)/income for the year	**(33,396)**	18,493	(1,071)
Total comprehensive income for the year	**106,403**	187,927	257,045
Attributable to:			
– Shareholders in the Company	**106,403**	192,416	259,769
– Non-controlling interests	**–**	(4,489)	(2,724)
Total comprehensive income for the year	**106,403**	187,927	257,045

Consolidated balance sheet

As at 31 December

	Note	2018 US$000	2017 US$000
Assets			
Cash and cash equivalents	11	**677,848**	479,295
Trade and other receivables	12	**114,514**	78,186
Other current financial assets	18	**202**	6,649
Inventories	13	**149,736**	168,947
Income tax receivables		**2,146**	12,739
Other current assets	19	**18,306**	14,656
		962,752	760,472
Assets classified as held for sale	20	**11,295**	–
Total current assets		**974,047**	760,472
Goodwill	14	**439,508**	439,508
Other intangible assets	15	**217,445**	235,637
Property, plant and equipment	16	**66,359**	83,870
Investment in associate	17	**–**	1,100
Other investments	17	**11,538**	46,155
Other non-current financial assets	18	**1,807**	2,090
Other non-current assets	19	**398**	503
Deferred tax assets	9	**6,034**	7,451
Total non-current assets		**743,089**	816,314
Total assets		**1,717,136**	1,576,786
Liabilities and equity			
Trade and other payables	21	**122,140**	107,195
Other current financial liabilities	22	**196,890**	16,041
Provisions	23	**5,253**	3,474
Income taxes payable		**8,193**	13,356
Other current liabilities	24	**58,237**	59,619
		390,713	199,685
Liabilities directly associated with assets held for sale	20	**3,167**	–
Total current liabilities		**393,880**	199,685
Non-current financial liabilities	22	**841**	17,378
Provisions	23	**3,078**	3,725
Deferred tax liabilities	9	**7,958**	4,017
Other non-current liabilities	24	**8,872**	9,560
Total non-current liabilities		**20,749**	34,680
Ordinary shares		**14,204**	14,204
Share premium account		**403,660**	403,660
Retained earnings		**930,576**	915,482
Other reserves		**(23,419)**	9,977
Dialog shares held by employee benefit trusts		**(22,514)**	(902)
Total equity	25	**1,302,507**	1,342,421
Total liabilities and equity		**1,717,136**	1,576,786

These financial statements were approved by the Board of Directors on 6 March 2019 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Consolidated statement of cash flows

Year ended 31 December

	Note	**2018 US$000**	2017 US$000	2016 US$000
Cash flows from operating activities				
Net income		**139,799**	169,434	258,116
Non-cash items within net income:				
– Depreciation of property, plant and equipment		**31,455**	30,807	27,219
– Amortisation of intangible assets		**49,130**	41,969	35,954
– Impairment of non-current assets		**–**	4,327	–
– Addition to inventory reserve, net		**5,643**	1,288	4,375
– Share-based compensation expense		**41,153**	35,320	28,167
– Loss on deconsolidation of Dyna Image	4	**–**	5,597	–
– Other non-cash items		**6,590**	(7,904)	2,118
Interest income, net	8	**(6,749)**	(4,693)	(218)
Income tax expense	9	**55,281**	25,369	47,090
Cash generated from operations before changes in working capital		**322,302**	301,514	402,821
Changes in working capital:				
– (Increase)/decrease in trade and other receivables		**(36,310)**	11,117	(8,105)
– Decrease/(increase) in inventories		**13,615**	(54,377)	21,609
– Decrease/(increase) in prepaid expenses		**56**	1,930	(301)
– Increase/(decrease) in trade and other payables		**15,968**	7,819	(44,206)
– Increase in provisions		**3,089**	2,136	260
– Change in other assets and liabilities		**2,852**	473	13,601
Cash generated from operations		**321,572**	270,612	385,679
Interest paid		**(530)**	(425)	(3,434)
Interest received		**8,714**	6,221	3,314
Income taxes (paid)/received		**(41,107)**	8,314	(136,799)
Cash flow from operating activities		**288,649**	284,722	248,760
Cash flows from investing activities				
Purchase of property, plant and equipment		**(26,145)**	(47,938)	(25,553)
Purchase of intangible assets		**(6,197)**	(6,196)	(8,177)
Purchase of businesses, net of acquired cash	3	**(3,480)**	(267,940)	(647)
Payment of contingent consideration	3	**(9,360)**	–	–
Cash held by Dyna Image on deconsolidation	4	**–**	(420)	–
Payments for capitalised development costs		**(24,771)**	(20,988)	(15,802)
Purchase of other investments, net	17	**–**	(13,738)	(10,000)
(Increase)/decrease in other long-term assets		**–**	(488)	227
Cash flow used for investing activities		**(69,953)**	(357,708)	(59,952)
Cash flows from financing activities				
Purchase of own shares into treasury	26	**–**	(125,035)	(61,472)
Currency hedges on share buyback obligation		**–**	1,227	(1,186)
Capital element of finance lease payments		**(1,651)**	(4,283)	(3,834)
Purchase of shares by employee benefit trusts		**(21,786)**	(24,301)	(3,127)
Sale of shares by employee benefit trusts		**3,617**	7,246	11,083
Issue of shares by a subsidiary to non-controlling interests		**–**	1,107	–
Facility arrangement costs		**–**	(988)	–
Share issue costs		**–**	(28)	–
Cash flow used for financing activities		**(19,820)**	(145,055)	(58,536)
Net cash inflow/(outflow) during the year		**198,876**	(218,041)	130,272
Cash and cash equivalents at beginning of year		**479,295**	697,167	566,809
Currency translation differences		**(323)**	169	86
Cash and cash equivalents at end of year	11	**677,848**	479,295	697,167

An analysis of changes in liabilities arising from financing activities is presented in note 22.

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 31 December 2015	14,402	403,687	631,548	(7,923)	(24,630)	1,017,084	7,801	1,024,885
Net income	–	–	260,940	–	–	260,940	(2,824)	258,116
Other comprehensive (loss)/income	–	–	–	(1,171)	–	(1,171)	100	(1,071)
Total comprehensive income/(loss)	–	–	260,940	(1,171)	–	259,769	(2,724)	257,045
Other changes in equity:								
– Purchase of own shares into treasury	–	–	(1,643)	(61,472)	–	(63,115)	–	(63,115)
– Share buyback obligation	–	–	(63,077)	–	–	(63,077)	–	(63,077)
– Purchase of shares by employee benefit trusts	–	–	–	–	(3,127)	(3,127)	–	(3,127)
– Sale of shares by employee benefit trusts	–	–	3,934	–	7,149	11,083	–	11,083
– Share-based compensation, net of tax	–	–	31,212	–	–	31,212	–	31,212
As at 31 December 2016	14,402	403,687	862,914	(70,566)	(20,608)	1,189,829	5,077	1,194,906
Net income	–	–	173,916	–	–	173,916	(4,482)	169,434
Other comprehensive income/(loss)	–	–	–	18,500	–	18,500	(7)	18,493
Total comprehensive income/(loss)	–	–	173,916	18,500	–	192,416	(4,489)	187,927
Other changes in equity:								
– Purchase of own shares into treasury	–	–	3,024	(125,050)	–	(122,026)	–	(122,026)
– Share buyback obligation	–	–	62,584	–	–	62,584	–	62,584
– Cancellation of treasury shares	(571)	–	(186,522)	187,093	–	–	–	–
– Shares issued by Dyna Image	–	–	361	–	–	361	746	1,107
– Deconsolidation of Dyna Image	–	–	–	–	–	–	(1,334)	(1,334)
– Shares issued to employee benefit trust	373	(27)	–	–	(373)	(27)	–	(27)
– Purchase of shares by employee benefit trusts	–	–	–	–	(24,301)	(24,301)	–	(24,301)
– Sale of shares by employee benefit trusts	–	–	(37,134)	–	44,380	7,246	–	7,246
– Share-based compensation, net of tax	–	–	36,339	–	–	36,339	–	36,339
As at 31 December 2017	**14,204**	**403,660**	**915,482**	**9,977**	**(902)**	**1,342,421**	**–**	**1,342,421**
Adjustment on initial application of IFRS 15 (note 35)	**–**	**–**	**1,541**	**–**	**–**	**1,541**	**–**	**1,541**
Adjusted balance as at 1 January 2018	**14,204**	**403,660**	**917,023**	**9,977**	**(902)**	**1,343,962**	**–**	**1,343,962**
Net income	**–**	**–**	**139,799**	**–**	**–**	**139,799**	**–**	**139,799**
Other comprehensive loss	**–**	**–**	**–**	**(33,396)**	**–**	**(33,396)**	**–**	**(33,396)**
Total comprehensive income/(loss)	**–**	**–**	**139,799**	**(33,396)**	**–**	**106,403**	**–**	**106,403**
Other changes in equity:								
– Share buyback obligation	**–**	**–**	**(171,187)**	**–**	**–**	**(171,187)**	**–**	**(171,187)**
– Purchase of shares by employee benefit trusts	**–**	**–**	**–**	**–**	**(21,786)**	**(21,786)**	**–**	**(21,786)**
– Sale of shares by employee benefit trusts	**–**	**–**	**3,443**	**–**	**174**	**3,617**	**–**	**3,617**
– Share-based compensation, net of tax	**–**	**–**	**41,498**	**–**	**–**	**41,498**	**–**	**41,498**
As at 31 December 2018	**14,204**	**403,660**	**930,576**	**(23,419)**	**(22,514)**	**1,302,507**	**–**	**1,302,507**

Notes to the consolidated financial statements

For the year ended 31 December 2018

1. Background

Description of business

Dialog Semiconductor Plc ("the Company") is a public limited company that is incorporated in England and Wales and domiciled in the United Kingdom. The Company's ordinary shares are listed on the Frankfurt Stock Exchange.

Dialog creates and markets highly-integrated, mixed-signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid state lighting and automotive applications. Dialog has four operating segments: Mobile Systems; Connectivity; Automotive & Industrial; and Advanced Mixed Signal. Segment information is presented in note 33.

Registered office

The Company's registered office is at Tower Bridge House, St Katharine's Way, London E1W 1AA, United Kingdom.

Statement of compliance

The consolidated financial statements of the Company and its subsidiaries (together, "Dialog" or "the Group") set out on pages 98 to 148 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS and therefore comply with Article 4 of the IAS Regulation. The consolidated financial statements also comply with IFRS as issued by the International Accounting Standards Board ("IASB").

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments, derivative financial instruments and contingent consideration are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Information about assets and liabilities that are measured at fair value is presented in note 29.

The Group's significant accounting policies are set out in note 2.

Presentation currency

The consolidated financial statements are presented in US dollars ("US$"), which is the functional currency of the Company. All US dollar amounts are rounded to the nearest thousand ("US$000"), except where stated otherwise.

Approval of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 6 March 2019.

Company financial statements

Separate financial statements for the Company are set out on pages 149 to 155.

Reclassification of certain product development costs

With effect from 1 January 2018, we reclassified within the consolidated statement of income the amortisation of capitalised development costs, the amortisation of acquired technology-based intangible assets and royalties payable for the use of intellectual property in our product development activities. Previously, we included these costs within cost of sales. We now include them within research and development expenses.

We have made this change in order that our results are more comparable with those of our industry peers.

Comparative amounts for 2017 and 2016 have been re-presented on a consistent basis as follows:

	2017			2016		
	As previously reported US$000	Effect of reclassification US$000	As reclassified US$000	As previously reported US$000	Effect of reclassification US$000	As reclassified US$000
Revenue	1,352,841	–	1,352,841	1,197,611	–	1,197,611
Cost of sales	(732,188)	24,217	(707,971)	(650,896)	19,933	(630,963)
Gross profit	620,653	24,217	644,870	546,715	19,933	566,648
Research and development expenses	(278,796)	(24,217)	(303,013)	(241,345)	(19,933)	(261,278)
Operating profit	187,017	–	187,017	309,807	–	309,807

Notes to the consolidated financial statements continued

1. Background continued

Accounting standards adopted during the year

IFRS 15 *Revenue from Contracts with Customers*
IFRS 9 *Financial Instruments*
We adopted IFRS 15 and IFRS 9 with effect from 1 January 2018. We adopted IFRS 15 and the classification and measurement (including impairment) requirements of IFRS 9 using the modified retrospective approach, whereby information presented for prior periods has not been restated. We applied the hedge accounting requirements of IFRS 9 prospectively with effect from 1 January 2018.

An explanation of the changes introduced by IFRS 15 and IFRS 9 and their impact on the Group's results and financial position are set out in note 35.

On adoption of IFRS 15, the Group recognised a cumulative effect credit of US$1,541 to retained earnings. During 2018, the Group's revenue was US$10,137 higher and its net income US$2,619 higher than it would have been under the predecessor accounting standard, IAS 18 *Revenue*.

IFRS 9 had no impact on the Group's results or financial position.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
With effect from 1 January 2018, we adopted amendments to IFRS 2 *Share-based Payment* which, among other things, clarified the classification of share-based payment transactions with net settlement features for withholding tax obligations. Adoption of the amendments had no impact on the Group's results or financial position.

Accounting standards issued but not adopted as at 31 December 2018

We outline below relevant accounting standards that have been issued by the IASB but not yet adopted by us as at 31 December 2018.

IFRS 16 *Leases*
IFRS 16 will change the way in which lessees recognise, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise a right-of-use asset and a lease liability for all leases, except those with a short lease term and/or involving an underlying asset of low value. In summary, for lessees, the distinction between an operating lease and a finance lease will disappear and most operating leases will be accounted for similarly to the way in which finance leases were accounted for under the predecessor accounting standard, IAS 17 *Leases*. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

We will adopt IFRS 16 using a modified retrospective approach whereby prior periods will not be restated but we will recognise cumulative effect adjustments to the opening consolidated balance sheet on 1 January 2019.

We will recognise the following for each contract that is, or contains, a lease on the transition date:

- a lease liability measured at the present value of the remaining lease payments discounted at the lessee's incremental borrowing rate; and
- a right-of-use asset measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments that was recognised as at 31 December 2018.

We estimate that the related cumulative effect adjustments will be as follows:

	US$ million
Right-of-use assets	66.4
Lease liabilities	(67.6)
Net accrued lease payments	1.2

Subsequent to the transition date, each right-of-use asset will be depreciated over the remaining lease term and will be adjusted for any remeasurement of the lease liability. Depreciation will be recognised in profit or loss (in arriving at operating profit). Going forward, we expect that IFRS 16 will be beneficial to operating profit to the extent that depreciation of the right-of-use assets will be lower than the rental expense that would have been recognised under IAS 17. We expect, however, that operating profit will be only slightly higher in 2019 than it would have been under IAS 17.

Subsequent to the transition date, each lease liability will be measured by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect lease payments made. Interest accrued on the lease liability will be recognised in profit or loss (within interest expense). Lease liabilities will be remeasured to reflect certain changes in the lease payments or lease modifications. After taking into account the interest expense on the lease liabilities, we expect that net income will be slightly lower in 2019 than it would have been under IAS 17.

As we progress through 2019, we will show in the notes to our consolidated financial statements the effect of adopting IFRS 16 on our quarterly and year to date results.

IFRIC 23 *Uncertainty over Income Tax Treatments*
IFRIC 23 clarifies the application of the recognition and measurement requirements of IAS 12 *Income Taxes* where there is uncertainty over income tax treatments. IFRIC 23 specifically considers whether tax treatments should be considered collectively, assumptions with regard to the examinations by tax authorities, the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and the effect of changes in facts and circumstances.

IFRIC 23 is effective for annual periods beginning on or after 1 January 2019. We already account for income taxes on a basis consistent with IFRIC 23 and do not expect it to affect the Group's results or financial position.

1. Background continued

Definition of a Business (Amendments to IFRS 3)
In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations* aimed at resolving the difficulties that can arise when an entity determines whether it has acquired a business or a group of assets. In summary, the amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs and narrow the definition of outputs by focusing on goods and services provided to customers.

We will apply the amendments in the future if there is ambiguity as to whether we have acquired a business or a group of assets.

Subject to endorsement for use in the European Union, the amendments will be effective for business combinations with an acquisition date on or after 1 January 2020.

Definition of Material (amendments to IAS 1 and IAS 8)
In October 2018, the IASB published amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the definition of material in those standards and align with the definition used in the Conceptual Framework. We do not expect that the amendments will cause us to reach a different conclusion as to whether an item is or is not material.

Subject to endorsement for use in the European Union, the amendments will be effective for annual periods beginning on or after 1 January 2020.

2. Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the results, cash flows and assets and liabilities of the Company and its subsidiaries and sponsored employee benefit trusts.

A subsidiary is an entity that is controlled, either directly or indirectly, by the Company.

Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Generally, such power exists where the Company holds a majority of the voting rights of an entity. When the Company holds less than a majority of the voting rights of an entity, it considers all relevant facts and circumstances in assessing whether or not its voting rights are sufficient to give it power to direct the activities that significantly affect its returns from the entity, including: the size of the Company's holding of voting rights relative to the size and dispersion of the holdings of other vote holders; potential voting rights held by the Company, other vote holders or other parties; and rights arising from other contractual arrangements.

Details of the Company's subsidiaries as at 31 December 2018 are set out on page 167.

Consolidation of a subsidiary commences when the Company obtains control over the subsidiary and ceases at such time as control over the subsidiary is lost. Transactions and balances between members of the Group, and any unrealised profits or losses on such transactions, are eliminated on consolidation.

Non-controlling interests represent the equity in a subsidiary that is not attributable, directly or indirectly, to the Company. Where the equity in a subsidiary is not wholly-owned by the Company, the subsidiary's profit or loss and each component of its other comprehensive income are attributed to the Company and to the non-controlling interests in proportion to their ownership interests.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity.

Business combinations

A business combination is a transaction or other event in which the Company obtains control over a business.

Business combinations are accounted for using the acquisition method.

Goodwill acquired in a business combination is recognised as an intangible asset and represents the excess of the aggregate of the consideration transferred, including contingent consideration, and the amount of any non-controlling interests in the acquired business over the net total of the identifiable assets and liabilities of the acquired business at the acquisition date. Any shortfall, negative goodwill, is recognised immediately as a gain in profit or loss.

Consideration transferred represents the sum of the fair values at the acquisition date of the assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control over the acquired business.

Acquisition-related costs are charged to profit or loss in the period in which they are incurred.

Identifiable assets and liabilities of the acquired business are measured at their fair value at the acquisition date, except for certain items that are measured in accordance with the relevant Group accounting policy, such as replacement equity-settled share-based compensation awards and deferred tax assets and liabilities.

Non-controlling interests that entitle their holders to a proportionate share of the net assets of the acquired business in the event of a liquidation are measured either at fair value or at the non-controlling interest's proportionate share of the identifiable assets and liabilities of the business. Other non-controlling interests are measured at fair value.

Contingent consideration is subsequently measured at fair value unless it is classified as equity. Changes in the fair value of contingent consideration that result from events after the acquisition date are recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Investment in associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in financial and operating policy decisions but not to control or jointly control them. Significant influence generally exists where the Company holds, directly or indirectly through one or more of its subsidiaries, more than 20% and less than 50% of the shareholders' voting rights.

Associates are accounted for using the equity method, whereby the Group's investment is initially recognised at cost and the carrying amount is increased or decreased to reflect the Group's share of the profit or loss of the associate. Losses of an associate in excess of the Group's interest in the entity are not recognised, except to the extent that the Group has incurred obligations or made payments on behalf of the associate.

Foreign currency translation

Each entity within the Group has a functional currency, which is normally the currency in which the entity primarily generates and expends cash. The functional currency of the Company and its principal subsidiaries is the US dollar.

At entity level, a foreign currency is a currency other than the entity's functional currency. Sales, purchases and other transactions denominated in foreign currencies are recorded in the entity's functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Currency translation differences arising at entity level are recognised in profit or loss.

The Group's presentation currency is the US dollar. Foreign operations are therefore those of the Company's subsidiaries and associates whose functional currency is not the US dollar.

On consolidation, the results of foreign operations are translated into US dollars at the average exchange rate for the period and their assets and liabilities are translated into US dollars at the exchange rate ruling at the balance sheet date.

Currency translation differences arising on consolidation are recognised in other comprehensive income and taken to the currency translation reserve. In the event that a foreign operation is sold, the related cumulative currency translation difference recognised in other comprehensive income is reclassified from equity to profit or loss and is included in calculating the gain or loss on disposal of the foreign operation.

Revenue recognition

We generate revenue principally through the sale of our products. Relatively small amounts of revenue are generated from royalties for the use of intellectual property assets and from research and development contracts.

Sale of products
Sales of products are mostly made direct to end customers but we also sell to distributors.

Revenue from the sale of products is recognised when the customer obtains control of the products. We consider that control passes when the products are transferred to the customer. Accordingly, where products are sold on "ex-works" incoterms, revenue is recognised when the products are released for collection by the customer. Otherwise, revenue is recognised when the products are delivered to the customer. Where products are supplied on a consignment basis, delivery takes place and revenue is recognised when the products are taken out of the consignment by the customer.

Revenue recognised on the sale of products is measured at the fair value of the consideration received or receivable, excluding sales taxes and after making allowance for rebates and product returns.

Where we sell to a distributor on "ship and debit" terms, the distributor may be entitled to a rebate if the distributor sells the product to end customers at a price lower than the price at which the distributor purchased the products from us. Rebates are estimated using the expected value method based on actual rebates granted at the distributor and product level during the preceding quarter so as to reflect current pricing trends.

Prior to adopting IFRS 15, we recognised revenue from sales to distributors on ship and debit terms when the products were sold by the distributor to end customers by which time the amount of the rebate due to the distributor was known.

Most of our distributor customers are entitled to limited rights of return, referred to as stock rotation rights. Typically, returns are allowed twice-yearly for a credit of up to a percentage of the value of products shipped by us to the distributor during the preceding six-month period. Revenue on sales to distributors is recognised after making allowance for stock rotation claims that is estimated based on stock rotation credits granted at the distributor level during the preceding six-month period.

As permitted by IFRS 15, we do not capitalise the incremental costs of obtaining contracts (such as sales representatives' commissions) because the amortisation period of such costs would be one year or less.

Royalties
Revenue from royalties is recognised on an accruals basis in accordance with the terms of the relevant licensing agreements.

Research and development contracts
Revenue from research and development contracts is recognised by reference to the stage of completion of the contract, which is represented by the costs incurred for work performed to date as a percentage of the estimated total contract costs. If it is probable that a contract will be loss making, the expected loss is recognised immediately as an expense in profit or loss.

2. Significant accounting policies continued

Research and development expenditure

All research expenditure is expensed as it is incurred.

Development expenditure is also expensed as it is incurred until such time as it can be demonstrated that the product is both technically feasible and commercially viable and that management intends to complete the development of the product and sell it to customers. Development expenditure incurred after that time and before the developed product is available to be put into full production is capitalised. Generally, development expenditure is expensed until relatively late in the development process when prototypes are available for quality and other tests.

Government grants

Government grants are not recognised until there is reasonable assurance that Dialog will comply with the conditions attaching to them and that the grants will be received.

A grant that is receivable as compensation for expenses incurred is recognised in profit or loss in the period in which it becomes receivable and is deducted from the related expense. A grant whose primary condition is that Dialog should purchase, construct or otherwise acquire a non-current asset is recognised as deferred revenue and transferred to profit or loss on a straight-line basis over the useful life of the related asset.

Goodwill

Goodwill acquired in a business combination is carried at cost as established at the acquisition date, less impairment losses, if any.

Internally generated goodwill is not recognised as an asset.

Other intangible assets

Other intangible assets comprise identifiable intangibles acquired in business combinations (principally customer-related assets and developed technology), licences, computer software, patents and product development costs.

Other intangible assets held by the Group have finite useful lives and are therefore carried at cost less accumulated amortisation and impairment losses, if any. Cost comprises the purchase price of the asset (including non-refundable purchase taxes) and any costs directly attributable to preparing the asset for its intended use, or, in the case of an asset acquired in a business combination, is its fair value at the acquisition date.

Other intangible assets are amortised on a straight-line basis so as to charge their cost to profit or loss over their estimated useful lives as follows:

	Useful life
Customer-related assets	1 to 15 years
Software, licences and other	3 to 10 years
Patents	10 years
Product development assets	1 to 10 years

Patents are typically granted for a period of 20 years but they are amortised over the period during which the Group expects to benefit from them, which is typically ten years.

Estimated useful lives are regularly reviewed and the effect of any change in estimate is accounted for on a prospective basis.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price of the asset (including non-refundable purchase taxes) and any costs directly attributable to bringing the asset to the location and condition necessary to enable its intended use, or, in the case of an asset acquired in a business combination, is its fair value at the acquisition date. Leasehold improvements include the estimated cost of any obligation to restore the leased property to its original condition at the end of the lease.

Costs of replacing a significant part of an asset are included in the cost of the asset but routine repairs and maintenance costs are recognised in profit or loss when they are incurred.

Items of property, plant and equipment are depreciated on a straight-line basis so as to charge their cost, less their estimated residual value, if any, to profit or loss over their estimated useful lives as follows:

	Useful life
Test equipment	3 to 7 years
Leasehold improvements	Shorter of useful life or lease term
Office and other equipment	1.5 to 5 years
Office furniture and fittings	5 to 15 years

Estimated residual values and useful lives are regularly reviewed and the effect of any change in estimate is accounted for on a prospective basis.

Assets that are under construction and not ready for their intended use are not depreciated.

Notes to the consolidated financial statements continued

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 or group of CGUs to which the asset belongs.

Impairment losses are recognised in profit or loss.

Impairment losses recognised in previous periods for assets other than goodwill are reversed if there has been a change in the estimates used to determine the asset's recoverable amount, but only to the extent that the carrying amount of the asset does not exceed its carrying amount had no impairment been recognised in previous periods. Impairment losses in respect of goodwill are not reversed.

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. As permitted by IFRS 9, we recognise an allowance for credit losses in respect of trade receivables from initial recognition measured as the amount of the lifetime expected credit losses. Prior to adopting IFRS 9, we recognised a credit loss allowance only when there was objective evidence that we may not be able to collect the amount due.

When a trade receivable is determined to be uncollectable it is written off, firstly against any allowance made and then directly to profit or loss. Subsequent recoveries are credited to profit or loss.

Trade receivables sold under receivables financing facilities are derecognised from the balance sheet because the financial institutions concerned assume the credit risk associated with them. Retentions held by the financial institutions are recognised as other receivables.

(b) Cash and cash equivalents
Cash and cash equivalents include cash at bank and in hand, cash available on demand from receivables financing facilities, investments in money market funds and short-term deposits with an original maturity of three months or less.

Interest income on cash and cash equivalents is accrued on a time basis.

We normally recognise an allowance for credit losses in respect of cash and cash equivalents that is measured as the amount of expected credit losses over the next 12 months. If, however, the risk of default has increased significantly since initial recognition, we measure the allowance as the amount of lifetime credit losses. Prior to adopting IFRS 9, we recognised a credit loss allowance only when there was objective evidence of default.

(c) Equity investments
Equity investments are initially measured at fair value plus transaction costs, if any. Equity investments are subsequently measured at fair value with resulting gains and losses recognised in profit or loss unless we irrevocably elect for such gains and losses to be recognised in other comprehensive income. On adoption of IFRS 9, we made this election in respect of our strategic investment in the common shares of Energous Corporation. Consequently, fair value gains or losses arising subsequent to 1 January 2018 that may be realised on any future sale of all or part of this investment will not be reclassified to profit or loss.

Prior to adopting IFRS 9, equity investments were classified as available-for-sale investments.

(d) Trade and other payables
Trade payables represent the amount of invoices received from suppliers for purchases of goods and services for which payment has not been made. Long-term payables are discounted where the effect is material.

(e) Bank and other loans
Bank and other loans are initially measured at fair value plus transaction costs, if any. Such loans are subsequently measured at amortised cost using the effective interest method.

(f) Derivative financial instruments
We use derivative financial instruments to reduce the Group's exposure to currency exchange rate movements and hold equity options and warrants in relation to certain of its strategic investments. We do not hold or issue derivatives for speculative purposes.

All derivative financial instruments are recognised as assets and liabilities measured at fair value. Unless a derivative is in a designated and effective cash flow hedging relationship, all fair value gains and losses are recognised in profit or loss. Where the fair value of a derivative on initial recognition differs from the transaction price, if any, the difference is recognised immediately in profit or loss only if the fair value is evidenced by a quoted price in an active market or is based on a valuation technique that uses only data from observable markets.

2. Significant accounting policies continued

(g) Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount presented in the balance sheet where there is a currently enforceable legal right to offset the recognised amounts and management intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Inventories

Inventories comprise raw materials, work in progress and finished goods.

Inventories are stated at the lower of cost and net realisable value, with due allowance for any excess, defective or obsolete items.

Cost is determined using the first-in, first-out ("FIFO") method. Cost of finished goods and work in progress includes materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price, less estimated costs of completion and estimated selling, marketing and distribution costs.

Assets classified as held for sale

An asset or group of assets is classified as held for sale if its carrying amount will be recovered by sale rather than by continuing use in the business, it is available for immediate sale in its present condition and management has committed to, and has initiated, a plan to sell the asset which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are measured at the lower of their carrying amount when classified as held for sale and fair value less costs to sell.

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.

All hedging relationships designated under IAS 39 as at 31 December 2017 met the criteria for hedge accounting under IFRS 9 as at 1 January 2018 and were therefore regarded as continuing hedging relationships.

Hedge accounting is discontinued if we revoke the hedge relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. If the hedging instrument expires or is sold, terminated or exercised, or if the hedge relationship no longer meets the conditions for hedge accounting, the cumulative fair value gain or loss remains in equity until the forecast cash flow occurs. If the hedged forecast cash flow is no longer expected to occur, the cumulative fair value gain or loss is reclassified from equity to profit or loss immediately.

Income taxes

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period. Taxable profit differs from accounting profit because it excludes income or expenses that are recognised in the period for accounting purposes but are either not taxable or not deductible for tax purposes or are taxable or deductible in earlier or subsequent periods. Current tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is tax expected to be payable or recoverable on temporary differences between the carrying amount of an asset or liability in the financial statements and its tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available in the future against which they can be utilised.

Deferred tax assets and liabilities are not recognised in respect of temporary differences arising from the initial recognition of goodwill or from the initial recognition of other assets or liabilities in a transaction other than a business combination that affects neither accounting profit nor taxable profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Income taxes continued

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.

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. We recognise a compensation expense that is based on the fair value of the awards measured at the grant date using the Black-Scholes option pricing formula or a Monte Carlo valuation model. Fair value is not subsequently remeasured unless relevant conditions attaching to the awards are modified.

Fair value reflects any market performance conditions and all non-vesting conditions. Adjustments are made to the compensation expense to reflect actual and expected forfeitures due to failure to satisfy service conditions or non-market performance conditions.

We recognise the resulting compensation expense on a systematic basis over the vesting period and a corresponding credit is recognised in equity. In the event of the cancellation of an option or an award by the Company or by the participating employee, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in profit or loss.

Payroll taxes are payable in the UK and in certain other jurisdictions on the exercise or vesting of awards. Provision is made for such taxes based on the intrinsic value of the relevant awards at the balance sheet date so as to accrue for the taxes payable over the vesting period of the awards.

Shares held by employee benefit trusts

The Group provides finance to two trusts to purchase the Company's ordinary shares in order to meet its obligations under its share-based compensation plans. When the trusts purchase such shares, the cost of the shares is debited to equity and subsequent sales or transfers of the shares by the trusts are accounted for within equity.

Treasury shares

Treasury shares comprise the Company's ordinary shares that have been purchased under the Company's share buyback programme and have not been subsequently sold, transferred or cancelled. Purchases made under the programme are off market and are effected by way of contingent forward share purchase contracts with third-party brokers. On inception of each tranche, a liability is recognised for the maximum cost of the shares to be purchased under the tranche and there is a corresponding debit to retained earnings. On intermediate and final settlement of purchases with the broker, the cost of the shares purchased is credited to retained earnings and debited to treasury shares within equity. On final settlement, any remaining balance of the liability is credited back to retained earnings.

Subsequent sales, transfers or cancellations of treasury shares by the Company are accounted for within equity.

2. Significant accounting policies continued

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.

(a) Critical judgements in applying accounting policies
Critical judgements are the judgements, apart from those involving estimations, that management has made that have had the most significant effect on amounts included in the consolidated financial statements.

Product development costs
Product development costs are capitalised from the time when the technical feasibility and commercial viability of the product can be demonstrated. Management is therefore required to make judgements about the technical feasibility of the product based on engineering studies and the commercial viability of the product based on expectations concerning the marketability of the product, the product's useful life and the extent of future demand from customers.

Uncertain tax treatments
Uncertainty may exist concerning the tax treatment of a specific item or group of items because of, for example, uncertainty as to the meaning of tax law or to the applicability of tax law to a particular transaction or circumstance, the determination of appropriate arm's length pricing in accordance with OECD transfer pricing principles or because the amount of current and deferred tax depends on the results of an ongoing or future examination of previously filed tax returns by the tax authorities.

Where such an uncertainty exists, management is required to exercise its judgement in forming its expectation as to the likely outcome of the examination of the uncertain tax treatment by the relevant tax authorities. Due to the complexity of tax laws and their interpretation, the amount ultimately agreed with the tax authorities may differ materially from the amount of current and deferred tax recognised in the consolidated financial statements. Accordingly, the resolution of uncertain tax treatments in future periods may give rise to adjustments to the amounts of current and deferred tax assets and liabilities that may have a material consequential effect on the income tax expense recognised in future periods.

(b) Key sources of estimation uncertainty
Key sources of estimation uncertainty are those that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Management considers that there are no key sources of estimation uncertainty underlying the measurement of the carrying amount of assets and liabilities recognised as at 31 December 2018.

3. Business combinations

Year ended 31 December 2018

Consideration payable for Silego Technology Inc.
Purchase price adjustment
During 2018, we paid a purchase price adjustment of US$692 following the agreement with the vendors of Silego's cash, debt and working capital levels on completion.

Deferred consideration
On completion of the acquisition, unvested employee options were converted into deferred cash rights and the fair value of those rights was apportioned between a deferred consideration element and a future compensation element. During 2018, we paid US$2,788 in settlement of vested deferred consideration and recognised a credit of US$204 to profit or loss in respect of forfeitures. As at 31 December 2018, we recognised a liability of US$3,173 in relation to the remaining deferred consideration that is expected to be payable over the period to March 2021.

Contingent consideration
Contingent consideration of up to US$30,400 was payable for the acquisition of Silego in two instalments based on Silego's revenue for 2017 and 2018.

Silego's actual revenue for 2017 confirmed that the first instalment of US$10,000 was payable in full. In February 2018, we paid US$9,360 in settlement of the amount attributable to the shares and vested options acquired and attributed the balance of the first instalment of US$640 to the deferred cash rights.

Silego's actual revenue for 2018 showed that US$17,874 was payable in settlement of the second instalment. Since Silego's actual revenue for 2018 was lower than our initial estimate, we recognised a credit of US$878 to profit or loss on remeasurement of the fair value of the contingent consideration. As at 31 December 2018, we recognised a liability of US$16,414 (net of discounting of US$316) for the second instalment of the contingent consideration attributable to the shares and vested options acquired and attributed the balance of the second instalment of US$1,144 to the deferred cash rights.

In February 2019, we paid US$16,730 in settlement of the amount of the second instalment attributable to the shares and vested options acquired.

Notes to the consolidated financial statements continued

3. Business combinations continued

Year ended 31 December 2017

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

Silego's CMICs integrate multiple analog, logic and discrete component functionalities into a single chip. Silego's intuitive CMIC software interface allows customers to easily configure these functions and prototype a custom IC within hours and offers considerable flexibility in design. Silego's technology enables manufacturers to reduce board space, simplify their supply chain and reduce time-to-market. Our acquisition of Silego will complement our business by increasing our content at existing customers and expanding our customer base. Silego's broad product portfolio will strengthen our presence in a number of markets, including the IoT, computing, industrial and automotive markets.

We acquired Silego for US$276,000 on a cash and debt-free basis, subject to adjustments for cash, debt and working capital. Additional consideration of up to US$30,400 was payable contingent on Silego's revenues for 2017 and 2018.

We acquired all of Silego's outstanding common and preferred shares, all "in the money" vested, outstanding, unexercised employee options over common shares and all "in the money" outstanding preferred share warrants. On completion, we paid initial consideration of US$290,508 in cash, including US$22,527 in respect of Silego's estimated cash, debt and working capital levels on completion. We estimated that we would pay a purchase price adjustment of US$692 reflecting Silego's actual cash, debt and working capital levels on completion.

We paid US$34,500 of the initial consideration into an escrow fund that was available to settle any valid claims that we may have made in relation to the representations, warranties and indemnities that were provided to us by the sellers.

On completion, all "in the money" outstanding, unvested employee options over common shares were converted into and became the right to receive cash payments comprising a pro rata share of the initial purchase price less their respective exercise prices, purchase price adjustments and any payments of contingent consideration. Such rights are subject to the vesting schedule and other terms (including a service condition) that governed the options that they replaced. We estimated that the acquisition date fair value of the rights was US$11,545, of which US$6,655 was attributable to employee service rendered before the acquisition date and therefore represents deferred consideration. We are recognising the balance of US$4,890, less an allowance for expected and actual forfeitures, as compensation expense on a straight-line basis over the remaining vesting period of the rights.

In November 2017, we paid US$371 in relation to the accelerated vesting of the deferred cash rights in accordance with employee change of control arrangements.

Contingent consideration was payable in two instalments: the first instalment of up to US$10,000 was payable in March 2018 based on Silego's revenue for 2017 and the second instalment of up to US$20,400 was payable in March 2019 based on Silego's revenue for 2018. At the acquisition date, we expected that the first instalment would accrue in full and that the amount of the second instalment would be in the range US$11,652 to US$20,400. Using the expected value method, we estimated that the acquisition date fair value of the contingent consideration attributable to the shares and vested options acquired was US$23,273 (net of discounting of US$2,974).

3. Business combinations continued

Assets acquired and liabilities assumed

We allocated the purchase consideration to the identifiable assets and liabilities of Silego and goodwill as follows:

	US$000
Assets acquired	
Cash and cash equivalents	32,439
Trade and other receivables	9,957
Inventories	13,866
Intangible assets	122,156
Property, plant and equipment	1,481
Deferred tax assets	12,907
Other assets	1,484
Total assets acquired	194,290
Liabilities assumed	
Trade and other payables	15,586
Other current liabilities	5,794
Provisions	157
Deferred tax liabilities	41,484
Other non-current liabilities	906
Total liabilities	63,927
Net identifiable assets acquired	130,363
Goodwill arising on acquisition	190,765
Consideration	321,128

Purchase consideration was satisfied by:	
Cash paid on completion	290,508
Purchase price adjustment	692
Initial consideration	291,200
Deferred consideration	6,655
Contingent consideration	23,273
Consideration	321,128

Trade and other receivables were expected to be collected at their gross contractual amounts.

Identifiable intangible assets acquired comprised customer relationships, developed technology and know-how and the GreenPAK™ trade name.

Deferred tax assets recognised mainly represented tax loss carryforwards.

Goodwill recognised on the acquisition of Silego is attributable to the further development of technology and know-how by the business in the future, the assembled workforce and future sales to new customers for its products.

None of the goodwill is deductible for tax purposes.

During 2017, Silego contributed US$11,391 to the Group's revenue and a loss after tax of US$3,575. If Silego had been acquired on 1 January 2017, the Group's revenue would have been US$72,942 higher at US$1,425,783 but it is not practicable to estimate what the Group's profit after tax would have been because Silego did not previously prepare financial information in accordance with IFRS.

We incurred transaction costs of US$4,439 in relation to the acquisition of Silego (included within general and administrative expenses).

Notes to the consolidated financial statements continued

3. Business combinations continued

LED backlight business
On 15 November 2017, we purchased ams AG's LED backlight technology and product portfolio for US$9,500 in cash. As part of the transaction, we also acquired related intellectual property rights.

Assets acquired

We allocated the purchase consideration to the identifiable assets of the business and goodwill as follows:

	US$000
Assets acquired	
Inventories	234
Intangible assets	5,400
Total identifiable assets acquired	5,634
Goodwill arising on acquisition	3,866
Consideration	9,500

Identifiable intangible assets acquired comprised customer relationships and developed technology.

None of the goodwill is deductible for tax purposes.

We incurred transaction costs of US$100 in relation to the acquisition of this business (included in general and administrative expenses).

Year ended 31 December 2016

Aborted merger with Atmel Corporation
In January 2016, Atmel Corporation ("Atmel") terminated the merger agreement that existed with Dialog. Under the terms of the agreement, Atmel paid us a termination fee of US$137,300. We recognised the termination fee as other operating income during 2016.

Also during 2016, we incurred residual transaction costs of US$3,485 (recognised within general and administrative expenses) and commitment fees of US$1,913 on the borrowing facility that was arranged to finance the transaction prior to the cancellation of the facility in January 2016 (recognised within interest expense).

Dyna Image Corporation
In June 2016, Dialog paid the equivalent of US$647 as deferred consideration in relation to its initial investment in Dyna Image Corporation ("Dyna Image").

Years ended 31 December 2018, 2017 and 2016

Net cash outflow on the purchase of businesses was as follows:

	2018 US$000	2017 US$000	2016 US$000
Initial consideration	**–**	300,008	–
Purchase price adjustment	**692**	–	–
Deferred consideration	**2,788**	371	647
Consideration paid	**3,480**	300,379	647
Cash and cash equivalents acquired	**–**	(32,439)	–
Cash outflow on purchase of businesses, net of cash acquired	**3,480**	267,940	647

Contingent consideration of US$9,360 paid during 2018 in relation to the acquisition of Silego was below our initial estimate and is shown separately within cash flows from investing activities.

4. Deconsolidation of Dyna Image Corporation

We acquired a 45.7% interest in Dyna Image Corporation ("Dyna Image") in June 2015. We accounted for the investment as a business combination because we were granted a call option to acquire the shares that we did not already own in Dyna Image that we considered gave us the power to direct the activities of the entity that will significantly affect its returns.

Subsequent to our initial investment, Dyna Image suffered quality problems that resulted in the loss of a major customer and gave rise to sustained operating losses. By the end of 2016, Dyna Image was in need of additional funding to enable it to pursue its recovery plan. We agreed with our fellow shareholders to seek a new investor in the business and, in the meantime, that certain of the existing shareholders would inject new capital into the business.

In January 2017, we participated in a new issue of shares by Dyna Image. We invested the equivalent of US$1,893. As a result of the share issue, our shareholding in Dyna Image increased from 45.7% to 48.5%. We reflected the increase in our shareholding as a transfer of US$361 within equity from non-controlling interests to retained earnings.

During 2017, Dyna Image continued to seek new investment but its operating results fell considerably short of the level envisaged in its recovery plan. In December 2017, negotiations with a potential investor were terminated and the shareholders in Dyna Image decided that it should be gradually wound down in a way that will safeguard the interests of its creditors.

As a consequence of this decision, we recognised impairment losses totalling US$4,327 in relation to the intangible assets and property, plant and equipment held by Dyna Image (within other operating expenses). We also derecognised deferred tax assets of US$543 that were no longer considered to be recoverable. We did not consider that the carrying amount of the goodwill attributable to Dyna Image was impaired because it was covered by the recoverable amounts of the operating segments to which it had been allocated on acquisition.

We also reviewed the call option over the non-controlling interests in Dyna Image. We observed that the fair value of each share in Dyna Image has fallen significantly and irretrievably below the minimum exercise price of the option. We concluded that there existed an economic barrier to our exercising the option prior to its expiry in June 2018 that was so great that the option no longer gives us power over Dyna Image. We considered that this loss of control occurred during December 2017 and therefore we deconsolidated Dyna Image with effect from 31 December 2017.

At the end of 2017, we recognised a loss of US$5,597 on the deconsolidation of Dyna Image that was determined as follows:

	US$000
Assets derecognised	
Cash and cash equivalents	420
Trade and other receivables	1,428
Inventories	3,542
Other current assets	426
Goodwill	6,907
Total assets derecognised	**12,723**
Liabilities derecognised	
Trade and other payables	2,958
Other current liabilities	590
Total liabilities derecognised	**3,548**
Net assets derecognised	**9,175**
Currency translation gain transferred from equity	(1,144)
Non-controlling interests	(1,334)
Fair value of remaining interest	(1,100)
Loss on deconsolidation	**5,597**

We included the loss on deconsolidation of Dyna Image within other operating expenses.

Notes to the consolidated financial statements continued

5. Operating profit

a) Revenue

Revenue may be analysed as follows:

	2018 US$000	2017 US$000	2016 US$000
Sale of goods			
– Sales direct to end customers	**1,144,371**	1,156,451	1,023,465
– Sales to distributors	**296,598**	195,364	173,063
Royalties	**1,169**	1,026	1,083
Total	**1,442,138**	1,352,841	1,197,611

Revenue from research and development contracts is included in other operating income.

b) Operating expenses

Operating profit is stated after charging/(crediting):

	2018 US$000	2017* US$000	2016* US$000
Cost of inventories included in cost of sales	**702,078**	663,216	592,527
Write-down of inventories	**5,643**	1,288	4,375
Research and development costs expensed as incurred	**331,550**	310,201	268,367
Government incentives (deducted from research and development expenses)	**(5,241)**	(7,188)	(7,089)
Depreciation of property, plant and equipment	**31,455**	30,807	27,868
Loss on disposal of fixed assets	**923**	591	1,569
Amortisation of intangible assets	**49,130**	41,969	35,949
Operating lease rentals	**12,450**	10,153	9,797
Integration costs	**2,765**	2,305	–
Acquisition-related costs	**–**	4,539	–
Corporate transaction costs	**11,346**	–	3,485

Amortisation of intangible assets was allocated as follows:

	2018 US$000	2017* US$000	2016* US$000
Cost of sales	**592**	701	892
Selling and marketing expenses	**14,231**	9,126	7,779
General and administrative expenses	**2,348**	2,170	2,018
Research and development expenses	**31,959**	29,972	25,260
Total	**49,130**	41,969	35,949

* Certain product development costs have been reclassified from cost of sales to research and development expenses (see note 1).

c) Other operating income/(expense)

Other operating income/(expense) comprised:

	2018 US$000	2017 US$000	2016 US$000
Revenue from research and development contracts	**2,298**	346	408
Change in estimate of contingent consideration	**878**	–	–
Impairment of non-current assets held by Dyna Image (notes 15 & 16)	**–**	(4,327)	–
Loss on deconsolidation of Dyna Image (note 4)	**–**	(5,597)	–
Atmel termination fee (note 3)	**–**	–	137,300
Total	**3,176**	(9,578)	137,708

6. Employee information

Employment costs were as follows:

	2018 US$000	2017 US$000	2016 US$000
Wages and salaries	**224,908**	200,222	167,090
Social security costs	**31,051**	26,457	24,932
Share-based compensation	**41,153**	35,319	28,167
Compensation element of deferred cash rights	**1,481**	1,409	–
Pension costs from defined contribution plans	**12,609**	11,058	10,154
Total	**311,202**	274,465	230,343

Pension costs from defined contribution plans include costs for the state funded pension plan in Germany of US$3,853 (2017: US$3,599; 2016: US$3,400).

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:

	2018	2017	2016
Research and development	**1,371**	1,256	1,130
Production	**184**	172	176
Sales and marketing	**272**	239	235
Administration	**200**	185	167
Information technology	**59**	55	46
Total	**2,086**	1,907	1,753

7. Auditor's remuneration

Fees payable to the Company's auditors, Deloitte LLP, were as follows:

	2018 US$000	2017 US$000	2016 US$000
Assurance services			
Audit of the parent company and consolidated financial statements	**629**	560	280
Audit of subsidiaries	**423**	370	320
Other assurance services	**150**	202	244
Other services			
Services related to corporate finance transactions	**–**	478	–
Total	**1,202**	1,610	844

Notes to the consolidated financial statements continued

8. Finance income/(expense)

a) Interest income

	2018 US$000	2017 US$000	2016 US$000
Interest on bank deposits	**5,619**	3,556	3,073
Interest on money market funds	**4,189**	2,423	584
Other interest income	**75**	16	8
Total	**9,883**	5,995	3,665

b) Interest expense

	2018 US$000	2017 US$000	2016 US$000
Interest on receivables financing facilities	**–**	–	(850)
Interest on finance leases and hire purchase contracts	**(50)**	(289)	(560)
Facility commitment fees	**(452)**	(194)	(1,913)
Amortisation of deferred facility arrangement costs	**(315)**	(151)	–
Unwinding of discount on contingent consideration (note 3)	**(2,220)**	(436)	–
Unwinding of discount on provisions (note 23)	**(70)**	(60)	(110)
Other interest expense	**(27)**	(172)	(14)
Total	**(3,134)**	(1,302)	(3,447)

During 2017, we incurred arrangement costs of US$988 in relation to the Group's US$150 million revolving credit facility and are amortising those costs over the initial three-year period to maturity of the facility in July 2020.

Facility commitment fees incurred during 2016 related to the borrowing facility that was arranged to finance the proposed merger with Atmel prior to the cancellation of the facility in January 2016.

c) Other finance (expense)/income

	2018 US$000	2017 US$000	2016 US$000
Currency translation (loss)/gain, net	**(994)**	1,695	(6,017)
Fair value (loss)/gain on Energous warrants (note 17)	**(10,853)**	941	1,929
Amortisation of gain on initial measurement of Energous warrants (note 17)	**1,584**	776	–
Loss on sale of Arctic Sand shares	**–**	(177)	–
Fair value loss on Dyna call option	**–**	(142)	(731)
Total	**(10,263)**	3,093	(4,819)

9. Income taxes

Income tax recognised in profit or loss

The components of the Group's income tax expense for the year were as follows:

	2018 US$000	2017 US$000	2016 US$000
Current tax			
United Kingdom	**(15,896)**	379	(10,171)
Foreign	**(33,633)**	(33,884)	(36,127)
Deferred tax			
United Kingdom	**(321)**	1,315	(549)
Foreign	**(5,431)**	6,821	(243)
Income tax expense	**(55,281)**	(25,369)	(47,090)

	2018 US$000	2017 US$000	2016 US$000
Current tax			
Current income tax charge	**(45,587)**	(38,643)	(46,993)
Adjustments in respect of prior years	**(3,942)**	5,138	695
Deferred tax			
Origination and reversal of temporary differences	**(4,663)**	(6,353)	(3,922)
Recognition of previously unrecognised deferred tax assets	**–**	9,655	–
Movement in deferred tax balances following intra-group reorganisation	**(1,920)**	1,977	808
Movement in deferred tax balances following US tax rate change	**–**	6,658	–
Adjustments in respect of prior years	**831**	(3,801)	2,322
Income tax expense	**(55,281)**	(25,369)	(47,090)

During 2014, we recognised a non-cash deferred tax credit of US$17,759 resulting from an intra-group reorganisation of certain Intellectual Property that was acquired with iWatt, Inc., which reduced the amount of the related deferred tax liabilities. We recognised further deferred tax credits of US$808 in 2016 and US$1,977 in 2017 and a deferred tax charge of US$1,920 in 2018 that related to the ongoing impact of the reorganisation on the deferred tax balances.

Notes to the consolidated financial statements continued

9. Income taxes continued

Factors affecting the income tax expense for the year

The Group's income tax expense differed from the amount that would have resulted from applying the statutory rate of corporation tax in the UK to the Group's profit before income taxes for the reasons shown in the following table:

	2018 US$000	2017 US$000	2016 US$000
Profit before income taxes	**196,193**	194,803	305,206
Income tax expense at UK corporation tax rate of 19.0% (2017: 19.25%; 2016: 20.0%)	**(37,277)**	(37,500)	(61,041)
Effect of different foreign tax rates	**(6,656)**	(12,569)	(15,434)
Non-taxable income:			
– Atmel termination fee	**–**	–	27,460
– Other non-taxable income	**39**	–	240
Non-deductible expenses:			
– Transaction costs	**(1,131)**	–	(697)
– Non-deductible portion of share-based compensation	**(9,336)**	(9,396)	(7,614)
– Other non-deductible expenses	**(3,232)**	(2,764)	(3,068)
Tax benefit from share-based compensation	**1,997**	3,658	4,871
Tax impact of deconsolidation of Dyna Image Corporation	**–**	(1,938)	–
Tax benefit from Intellectual Property and research and development incentives	**8,633**	6,576	8,728
Write-down of previously recognised deferred tax assets	**(1,015)**	(543)	–
Benefit from previously unrecognised deferred tax assets	**70**	9,655	–
Additional tax losses for which no deferred tax asset is recognised	**(117)**	(568)	(1,321)
Movement in deferred tax balances following intra-group reorganisation	**(1,920)**	1,977	808
Differences arising from different functional and tax currencies	**(2,065)**	9,576	(2,976)
Tax benefit from US tax rate change	**–**	6,658	–
Adjustments in respect of prior years	**(3,111)**	1,337	3,020
Other items	**(160)**	472	(66)
Income tax expense	**(55,281)**	(25,369)	(47,090)

The Group's income tax expense for 2018 was US$55,281 (2017: US$25,369; 2016: US$47,090), an effective tax rate for the year of 28.2% (2017: 13.0%; 2016: 15.4%).

Our effective tax rate is sensitive to the geographic mix of the Group's profits and reflects a combination of different tax rates in different countries, in particular higher tax rates in Germany and, in prior years, in the US. Our effective tax rate can also be affected by changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructuring and currency exchange rate movements, which give rise to tax effects where an entity's functional currency differs from the currency in which it is required to calculate and pay income taxes.

Our effective tax rate is reduced because a large proportion of Dialog's research and development activities are undertaken in the UK and the Netherlands and we are therefore able to benefit from the UK and Netherlands tax regimes that provide incentives for innovation.

Our income tax expense for 2018 includes a charge of US$2,820 (2017: credit of US$1,465) resulting from the finalisation of prior year tax items with tax authorities.

Our low effective tax rate for 2017 reflected a non-cash deferred tax credit of US$6,658 resulting from US tax reform and a credit of US$19,231 due to the tax effects of unpredictable currency exchange rate movements.

Our low effective tax rate for 2016 reflected the tax treatment of the Atmel termination fee of US$137,300. We obtained tax advice that the termination fee should not be taxable in the UK. We therefore concluded that no tax liability should arise and did not recognise a tax expense in relation to the termination fee.

9. Income taxes continued

Factors affecting the income tax expense in future years

Factors that may affect the Group's future tax expense include foreign exchange rate movements, changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructuring and the resolution of open issues with tax authorities. From 2018, the application to Dialog of the UK tax regime that provides incentives for innovation has changed, resulting in a limit to the benefits available by reference to the location of Dialog's research and development activities. Given the global nature of Dialog's research and development activities, this may also affect the Group's future tax expense.

On 11 October 2018, we announced that we have entered into an agreement with Apple Inc, ("Apple") to license our power management technologies and transfer to Apple certain assets and over 300 employees from our design centres in the UK, Germany and Italy. The transaction is expected to complete in the first half of 2019, subject to applicable regulatory approvals and other customary closing conditions. Completion of the transaction may affect the geographic mix of the Group's profits and the location of its research and development activities, both of which may have an impact on the Group's future tax expense. We continue to review and assess the potential impact of this transaction.

The Group maintains provisions for potential tax liabilities where uncertainty exists concerning the amount of current or deferred tax recognised. Due to the complexity of tax laws and their interpretation, the amounts ultimately agreed with tax authorities in respect of these uncertainties may differ materially from the amounts provided and may therefore affect the Group's income tax expense in future periods.

International tax reform remains a key focus of attention, including the OECD's Base Erosion & Profit Shifting project, the EU's action plan for fair and efficient corporate taxation and US tax reform. We continually monitor developments and assess the potential impact for Dialog of such initiatives. We have concluded that current or announced future tax law changes as a result of such initiatives give rise to no changes to the principal risks for Dialog.

Income tax recognised outside profit or loss

Income tax recognised in other comprehensive income was as follows:

	2018 US$000	2017 US$000	2016 US$000
Items that may be reclassified to profit or loss			
Currency translation differences on foreign operations:			
– Current tax (expense)/credit	**(78)**	180	–
– Deferred tax expense	**–**	–	(47)
Equity investments:			
– Deferred tax credit/(expense)	**1,015**	(1,015)	–
Cash flow hedges:			
– Current tax credit/(expense)	**2,376**	(3,149)	1,890
– Deferred tax expense	**–**	–	(1,125)
Income tax credited/(charged) to other comprehensive income	**3,313**	(3,984)	718

Income tax recognised directly in equity was as follows:

	2018 US$000	2017 US$000	2016 US$000
Share-based compensation:			
– Current tax credit	**281**	1,859	2,544
– Deferred tax credit/(expense)	**64**	(839)	522
Total tax credited directly to equity	**345**	1,020	3,066

Deferred tax

Analysis of movement in the net deferred tax balance during the year:

	US$000
As at 31 December 2016	25,409
Exchange movements	319
Recognised in income	8,136
Recognised in other comprehensive income	(1,015)
Recognised in equity	(839)
Acquisitions	(28,576)
As at 31 December 2017	3,434
Exchange movements	(77)
Recognised in income	(5,752)
Recognised in other comprehensive income	1,015
Recognised in equity	64
Transfer to current tax	(608)
As at 31 December 2018	**(1,924)**

Notes to the consolidated financial statements continued

9. Income taxes continued

Deferred income tax assets and liabilities, before offset of balances within countries, are as follows:

	Amount (charged)/credited to profit or loss		Net recognised deferred tax (liability)/asset	
	2018 US$000	2017 US$000	**As at 31 December 2018 US$000**	As at 31 December 2017 US$000
Temporary differences relating to intangible assets	**3,388**	21,102	**(23,526)**	(26,585)
Temporary differences relating to share-based compensation	**(580)**	(4,539)	**6,369**	6,885
Temporary differences relating to licence royalties	**–**	3,312	**–**	–
Other temporary differences	**(1,077)**	4,583	**(473)**	(662)
Deferred taxes in relation to tax credits	**1,899**	1,733	**11,622**	10,331
Net operating loss carryforwards	**(9,382)**	(18,055)	**4,084**	13,465
Total	**(5,752)**	8,136	**(1,924)**	3,434

Deferred tax assets and liabilities are analysed in the consolidated balance sheet, after offset of balances within countries, as follows:

	As at 31 December 2018 US$000	As at 31 December 2017 US$000
Deferred tax assets	**6,034**	7,451
Deferred tax liabilities	**(7,958)**	(4,017)
Recognised net deferred tax (liabilities)/assets	**(1,924)**	3,434

Tax loss carryforwards, temporary differences and net deferred tax assets are summarised as follows:

	As at 31 December 2018			As at 31 December 2017		
	Tax loss carryforwards US$000	**Temporary differences US$000**	**Net deferred tax (liabilities)/assets US$000**	Tax loss carryforwards US$000	Temporary differences US$000	Net deferred tax assets/(liabilities) US$000
Germany	**–**	**(1,015)**	**(288)**	–	4,768	1,353
United Kingdom	**10,016**	**13,048**	**2,173**	10,638	7,160	2,125
Netherlands	**7,269**	**960**	**2,014**	13,208	(272)	3,234
USA	**15,459**	**(76,739)**	**(2,227)**	48,229	(108,755)	673
Other	**12,649**	**4,466**	**(3,596)**	13,394	3,574	(3,951)
Total	**45,393**	**(59,280)**	**(1,924)**	85,469	(93,525)	3,434

In assessing whether the deferred tax assets can be used, management considers the probability that some, or all, of the deferred tax assets will not be realised. The utilisation of deferred tax assets depends upon generating taxable profit during the periods in which those temporary differences become deductible or tax-loss carryforwards can be utilised. Management considers the reversal of deferred tax liabilities, projected future taxable income, benefits that could be realised from available tax planning strategies and other positive and negative factors in making this assessment.

As at 31 December 2018, deferred tax assets were not recognised for tax loss carryforwards of US$27,330 (2017: US$22,726), temporary differences of US$53 (2017: US$849) and tax credits of US$5,781 (2017: US$4,859) in respect of which there is expected to be insufficient future taxable profit and therefore utilisation is not probable. Unrecognised tax loss carryforwards and temporary differences of US$10,069 (2017: US$5,516) have no expiration date. Tax loss carryforwards in the US of US$4,665 (2017: US$4,665) expire between 2018 and 2025. Tax losses in Taiwan of US$12,649 (2017: US$13,394) expire between 2023 and 2026. The tax credits expire between 2021 and 2038.

Deferred tax liabilities have not been recognised in respect of undistributed earnings of subsidiaries because no liability is expected to arise on distribution under applicable tax legislation or because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

10. Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to holders of ordinary shares in the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to holders of ordinary shares in the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued if all the securities or other contracts to issue ordinary shares were exercised.

Profit attributable to shareholders in the Company and the weighted average number of ordinary shares for calculating basic and diluted earnings per share were calculated as follows:

		2018 US$000	2017 US$000	2016 US$000
Profit attributable to shareholders in the Company				
For calculating basic and diluted earnings per share	a	**139,799**	173,916	260,940
Weighted average number of ordinary shares				
Shares in issue at the beginning of the period		**76,382,139**	77,865,955	77,865,955
Effect on average number of shares during the period:				
– Shares issued to employee benefit trust		**–**	2,350,000	–
– Cancellation of treasury shares		**–**	(2,329,093)	–
Average number of shares in issue during the period		**76,382,139**	77,886,862	77,865,955
Deduct:				
– Average number of shares held by employee benefit trusts		**(2,422,787)**	(2,061,901)	(1,296,216)
– Average number of treasury shares		**–**	(1,352,891)	(523,135)
For calculating basic earnings per share	b	**73,959,352**	74,472,070	76,046,604
Add:				
– Average number of dilutive share options and awards		**3,695,214**	4,139,123	4,351,328
For calculating diluted earnings per share	c	**77,654,566**	78,611,193	80,397,932
Earnings per share (US$)				
Basic	a/b	**1.89**	2.34	3.43
Diluted	a/c	**1.80**	2.21	3.25

During 2018, the average number of anti-dilutive share options outstanding was 830,300 (2017: 375,041; 2016: 423,760).

11. Cash and cash equivalents

Cash and cash equivalents were as follows:

	As at 31 December 2018 US$000	As at 31 December 2017 US$000
Cash at bank	**3,920**	7,794
Cash held by employee benefit trusts	**2,829**	1,151
Cash available from receivables financing facilities	**96,099**	145,100
Bank deposits	**325,000**	100,000
Money market funds	**250,000**	225,250
Total	**677,848**	479,295

Short-term deposits are made for varying periods of up to three months.

As at 31 December 2018 and 2017, no amounts had been drawn from the cash available from receivables financing facilities.

Notes to the consolidated financial statements continued

12. Trade and other receivables

Trade and other receivables were as follows:

	As at 31 December 2018 US$000	As at 31 December 2017 US$000
Trade accounts receivable	**98,234**	51,959
Retentions under receivables financing facilities	**16,280**	26,227
Total	**114,514**	78,186

Trade accounts receivable are generally on 30 to 60-day credit terms. Trade accounts receivable are regularly reviewed for collectability and an allowance is established for doubtful accounts against which receivables are written-off when they are no longer considered to be collectable.

Movements on the allowance for doubtful accounts were as follows:

	2018 US$000	2017 US$000
At the beginning of the year	**101**	118
Allowances charged to profit or loss	**–**	33
Utilised for write-offs	**(68)**	(11)
Releases credited to profit or loss	**(12)**	(39)
At the end of the year	**21**	101

13. Inventories

Inventories were as follows:

	As at 31 December 2018 US$000	As at 31 December 2017 US$000
Raw materials	**36,579**	12,301
Work in progress	**48,416**	59,704
Finished goods	**64,741**	96,942
Total	**149,736**	168,947

14. Goodwill

Movements on goodwill during the years ended 31 December 2018 and 2017 were as follows:

	2018 US$000	2017 US$000
At the beginning of the year	439,508	251,208
Acquisition of Silego (note 3)	–	190,765
Acquisition of ams's LED backlight business (note 3)	–	3,866
Deconsolidation of Dyna Image (note 4)	–	(6,907)
Effect of movements in foreign currency	–	576
At the end of the year	**439,508**	439,508

Goodwill is monitored by management at the level of the Group's operating segments and is therefore allocated at that level. As at 31 December 2018 and 2017, goodwill was allocated to operating segments as follows:

	US$000
Mobile Systems	107,163
Connectivity	88,198
Advanced Mixed Signal	244,147
Total	**439,508**

Impairment tests carried out during the year

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Goodwill is tested for impairment at the level of the operating segments to which it is allocated. Goodwill is impaired if the carrying amount of the operating segment to which it is allocated exceeds its recoverable amount. In conducting impairment tests of goodwill during 2018, we measured the recoverable amount of each operating segment to which goodwill is allocated on a value in use basis. Value in use represents the present value of the future cash flows that we estimate will be generated by the assets allocated to each operating segment in their current use and condition.

Expected future cash flows in the first three years were forecast based on the Group's Strategic Plan. 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 2018 and 2017, 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 12.7% (2017: 12.2%); Connectivity 14.2% (2017: 13.6%); and Advanced Mixed Signal 13.5% (2017: 11.0%).

We did not recognise any goodwill impairment during 2018 and the recoverable amount of each operating segment to which goodwill is allocated was comfortably in excess of its carrying amount.

Notes to the consolidated financial statements continued

15. Other intangible assets

Movements on other intangible assets for the years ended 31 December 2018 and 2017 were as follows:

	Acquired customer-related intangible assets US$000	Purchased software, licences and other US$000	Patents US$000	Product development assets US$000	Total US$000
Cost					
As at 31 December 2016	77,075	72,679	17,510	138,726	305,990
Acquisition of businesses	95,800	4,028	255	27,473	127,556
Additions	–	3,506	2,654	21,027	27,187
Reclassifications	–	(34)	34	–	–
Disposals	–	(182)	(12)	–	(194)
Deconsolidation of assets held by Dyna Image (note 4)	–	(243)	–	(5,819)	(6,062)
Effect of movements in foreign currency	–	35	–	486	521
As at 31 December 2017	172,875	79,789	20,441	181,893	454,998
Additions	**–**	**3,642**	**2,803**	**24,771**	**31,216**
Reclassifications	**–**	**(105)**	**105**	**–**	**–**
Transfer to assets held for sale	**–**	**(3)**	**(293)**	**–**	**(296)**
Disposals	**–**	**(693)**	**(58)**	**(123)**	**(874)**
Effect of movements in foreign currency	**–**	**(13)**	**–**	**–**	**(13)**
As at 31 December 2018	**172,875**	**82,617**	**22,998**	**206,541**	**485,031**
Amortisation and impairment losses					
As at 31 December 2016	(40,596)	(56,706)	(7,991)	(75,078)	(180,371)
Amortisation charge for the period	(8,856)	(8,410)	(1,819)	(22,884)	(41,969)
Disposals	–	22	7	–	29
Impairment of assets held by Dyna Image (note 4)	–	(100)	–	(2,690)	(2,790)
Deconsolidation of Dyna Image (note 4)	–	243	–	5,819	6,062
Effect of movements in foreign currency	–	(15)	–	(307)	(322)
As at 31 December 2017	(49,452)	(64,966)	(9,803)	(95,140)	(219,361)
Amortisation charge for the period	**(13,647)**	**(6,015)**	**(2,140)**	**(27,328)**	**(49,130)**
Transfer to assets held for sale	**–**	**3**	**78**	**–**	**81**
Disposals	**–**	**680**	**33**	**103**	**816**
Effect of movements in foreign currency	**–**	**8**	**–**	**–**	**8**
As at 31 December 2018	**(63,099)**	**(70,290)**	**(11,832)**	**(122,365)**	**(267,586)**
Net book value					
As at 31 December 2017	123,423	14,823	10,638	86,753	235,637
As at 31 December 2018	**109,776**	**12,327**	**11,166**	**84,176**	**217,445**

Impairment of assets held by Dyna Image

As explained in note 4, in December 2017, it was decided to wind down the operations of Dyna Image. As a consequence of this decision, the carrying amount of the intangible assets held by Dyna Image ceased to be recoverable. We therefore reduced the carrying amount of those assets to nil and recognised a corresponding impairment loss of US$2,790.

Assets held under hire purchase contracts

As at 31 December 2018, the carrying amount of intangible assets held under hire purchase contracts was US$ nil (2017: US$1,840).

16. Property, plant and equipment

Movements on property, plant and equipment for the years ended 31 December 2018 and 2017 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 31 December 2016	149,999	21,901	79,439	1,304	252,643
Acquisition of businesses	367	118	651	345	1,481
Additions	25,915	2,605	12,881	3,766	45,167
Reclassifications	63	172	393	(628)	–
Disposals	(1,566)	(1,343)	(1,365)	(59)	(4,333)
Deconsolidation of assets held by Dyna Image (note 4)	(2,709)	–	(113)	(160)	(2,982)
Effect of movements in foreign currency	417	174	571	11	1,173
As at 31 December 2017	172,486	23,627	92,457	4,579	293,149
Additions	**8,250**	**4,050**	**12,107**	**1,738**	**26,145**
Reclassifications	**187**	**2,008**	**1,335**	**(3,530)**	**–**
Transfer to assets held for sale	**(3,080)**	**(6,371)**	**(10,085)**	**(30)**	**(19,566)**
Disposals	**(699)**	**(405)**	**(1,401)**	**(686)**	**(3,191)**
Effect of movements in foreign currency	**(109)**	**(115)**	**(524)**	**–**	**(748)**
As at 31 December 2018	**177,035**	**22,794**	**93,889**	**2,071**	**295,789**
Depreciation and impairment losses					
As at 31 December 2016	(118,918)	(11,612)	(52,445)	–	(182,975)
Depreciation charge for the period	(14,614)	(4,064)	(12,129)	–	(30,807)
Disposals	1,560	1,198	868	–	3,626
Impairment of assets held by Dyna Image (note 4)	(1,347)	–	(30)	(160)	(1,537)
Deconsolidation of Dyna Image (note 4)	2,709	–	113	160	2,982
Effect of movements in foreign currency	(209)	(93)	(266)	–	(568)
As at 31 December 2017	(130,819)	(14,571)	(63,889)	–	(209,279)
Depreciation charge for the period	**(14,989)**	**(3,363)**	**(13,103)**	**–**	**(31,455)**
Transfer to assets held for sale	**1,023**	**1,202**	**6,572**	**–**	**8,797**
Disposals	**577**	**400**	**1,075**	**–**	**2,052**
Effect of movements in foreign currency	**127**	**42**	**286**	**–**	**455**
As at 31 December 2018	**(144,081)**	**(16,290)**	**(69,059)**	**–**	**(229,430)**
Net book value					
As at 31 December 2017	41,667	9,056	28,568	4,579	83,870
As at 31 December 2018	**32,954**	**6,504**	**24,830**	**2,071**	**66,359**

Impairment of assets held by Dyna Image
As explained in note 4, in December 2017, it was decided to wind down the operations of Dyna Image. As a consequence of this decision, the carrying amount of the property, plant and equipment held by Dyna Image ceased to be recoverable. We therefore reduced the carrying amount of those assets to nil and recognised a corresponding impairment loss of US$1,537.

Notes to the consolidated financial statements continued

17. Investments

Investments were as follows:

	As at 31 December 2018 US$000	As at 31 December 2017 US$000
Investment in associate	–	1,100
Other investments		
Equity investments:		
– Energous shares	**10,073**	33,837
Derivative financial instruments:		
– Energous warrants	**1,465**	12,318
Total other investments	**11,538**	46,155
Total investments	**11,538**	47,255

Investment in associate

As at 31 December 2018, the Group held a 48.5% ownership interest in Dyna Image Corporation ("Dyna Image"), which is an entity whose principal place of business and country of incorporation is Taiwan. As explained in note 4, Dyna Image was formerly accounted for as a subsidiary but the Company lost the power to direct its relevant activities in December 2017 and it was deconsolidated with effect from 31 December 2017.

On deconsolidation, the Group's investment in Dyna Image was measured at its fair value of US$1,100, which equated to the Group's share of the carrying amount of Dyna Image's net assets.

Dyna Image is now accounted for as an associate using the equity method.

During 2018, Dyna Image continued to make losses. We recognised our share of those losses in profit or loss until the carrying amount of our investment was reduced to nil during the fourth quarter of 2018.

During early 2018, the shareholders in Dyna Image were approached by a potential acquirer of the business. On 7 December 2018, each of the shareholders in Dyna Image entered into an agreement to dispose of their respective interests in a transaction that is expected to complete in the first half of 2019, subject to applicable regulatory approvals. Accordingly, we have reclassified the Group's investment in Dyna Image as an asset held for sale at its carrying amount of nil.

We expect to receive consideration of between US$2.4 million and US$5.0 million in exchange for our shareholding in Dyna Image.

Other investments

Energous shares and warrants

Energous Corporation ("Energous") is the developer of WattUp®, a wire-free charging technology. In November 2016, we entered into a strategic alliance with Energous. At that time, we subscribed for 763,552 common shares in Energous and were granted warrants to purchase up to 763,552 common shares that are exercisable in full or in part on a cashless basis at any time between May 2017 and November 2019. We initially recognised the warrants at their grant date fair value of US$4,695 and an equivalent deferred credit within non-current liabilities. We will amortise the deferred credit to profit or loss in relation to the royalties that may be payable for the use of Energous' Intellectual Property over the initial seven-year term of the strategic alliance. Amortisation of the deferred credit has not yet commenced.

On 5 July 2017, we subscribed for a further 976,139 common shares in Energous at a cost of US$15,000 and were granted a second tranche of warrants to purchase up to 654,013 common shares that are exercisable in full or in part on a cashless basis at any time between January 2018 and July 2020. We initially recognised the second tranche of the warrants at their grant date fair value of US$4,753 and an equivalent deferred credit within non-current liabilities. We are amortising the deferred credit to profit or loss over the three-year period from the grant date to the expiry of the warrants.

During 2018, we recognised a fair value loss on the shares of US$23,764 (2017: gain of US$5,971) in other comprehensive income and recognised a fair value loss of US$10,853 (2017: gain of US$941) on the warrants in profit or loss (as other finance (expense)/income). Also during 2018, we recognised a credit of US$1,584 (2017: credit of US$776) in profit or loss on the amortisation of the fair value on initial recognition of the second tranche of the warrants (as other finance income).

18. Other financial assets

Other financial assets were as follows:

	As at 31 December 2018 US$000	As at 31 December 2017 US$000
Current		
Currency derivatives in designated hedging relationships	**202**	6,649
Non-current		
Rental and other deposits	**1,807**	2,090
Total	**2,009**	8,739

19. Other assets

Other assets were as follows:

	As at 31 December 2018 US$000	As at 31 December 2017 US$000
Current		
Prepaid expenses	**6,720**	6,810
Other tax receivables	**1,787**	3,904
Deferred facility arrangement costs	**250**	319
Other assets	**9,549**	3,623
Total current	**18,306**	14,656
Non-current		
Deferred facility arrangement costs	**398**	503
Total	**18,704**	15,159

20. Assets classified as held for sale

Transfer of design centre assets to Apple Inc.

On 11 October 2018, we entered into an agreement with Apple Inc. ("Apple") to license our power management technologies and transfer to Apple certain assets and over 300 employees from our design centres in the UK, Germany and Italy. Apple will pay US$300 million for the licence and asset transfers. The transaction is expected to complete in the first half of 2019, subject to applicable regulatory approvals and other customary closing conditions. Accordingly, we have reclassified as held for sale the design centre assets that will be transferred to Apple and the liabilities that are directly associated with them.

Design centre assets that will be transferred to Apple are included in the Mobile Systems operating segment. We expect that the carrying amount of the assets will be recovered in full by the transfer proceeds.

Assets held for sale and directly associated liabilities were as follows:

	As at 31 December 2018 US$000
Assets held for sale	
Other current assets	311
Other intangible assets	215
Property, plant and equipment	10,769
	11,295
Liabilities directly associated with assets held for sale	
Trade and other payables	100
Income taxes payable	63
Other current liabilities	1,721
Provisions	1,283
	3,167

Investment in associate

As explained in note 17, the Group's investment in Dyna Image Corporation was also classified as held for sale as at 31 December 2018 but had a carrying amount of nil.

21. Trade and other payables

Trade and other payables were as follows:

	As at 31 December 2018 US$000	As at 31 December 2017 US$000
Trade accounts payable	**105,039**	90,025
Other payables	**17,101**	17,170
Total	**122,140**	107,195

Trade accounts payable are non-interest bearing and are normally settled on 30 to 70-day terms. Other payables are non-interest bearing and have a term of less than three months.

Notes to the consolidated financial statements continued

22. Other financial liabilities

Other financial liabilities were as follows:

	As at 31 December 2018 US$000	As at 31 December 2017 US$000
Current		
Finance lease and hire purchase obligations	–	1,651
Currency derivatives in designated hedging relationships	6,080	97
Currency derivatives hedging share buyback obligation	301	–
Deferred consideration	2,332	5,456
Contingent consideration	16,414	8,837
Share buyback obligation	171,763	–
Total current	**196,890**	16,041
Non-current		
Deferred consideration	841	2,506
Contingent consideration	–	14,872
Total non-current	**841**	17,378
Total	**197,731**	33,419

Future minimum payments under finance leases and hire purchase obligations are as follows:

	Minimum payments	
	2018 US$000	2017 US$000
Within one year	–	1,701
Between one and two years	–	–
Total minimum payments	–	1,701
Less: future finance charges	–	(50)
Present value of minimum payments	–	1,651

Changes in liabilities arising from financing activities were as follows:

	Finance lease and hire purchase obligations US$000	Share buyback obligation US$000	Derivatives hedging share buyback obligation US$000	Total US$000
As at 31 December 2015	8,596	–	–	8,596
Additions	1,172	139,501	–	140,673
Releases	–	(15,313)	–	(15,313)
Changes in fair value	–	–	4,250	4,250
Changes in currency exchange rates	–	(1,643)	–	(1,643)
Changes from financing cash flows	(3,834)	(61,472)	(1,186)	(66,492)
As at 31 December 2016	5,934	61,073	3,064	70,071
Additions	–	79,407	–	79,407
Releases	–	(18,469)	–	(18,469)
Changes in fair value	–	–	(4,291)	(4,291)
Changes in currency exchange rates	–	3,024	–	3,024
Changes from financing cash flows	(4,283)	(125,035)	1,227	(128,091)
As at 31 December 2017	1,651	–	–	1,651
Additions	–	**171,173**	–	**171,173**
Changes in fair value	–	–	**301**	**301**
Changes in currency exchange rates	–	**590**	–	**590**
Changes from financing cash flows	**(1,651)**	–	–	**(1,651)**
As at 31 December 2018	–	**171,763**	**301**	**172,064**

23. Provisions

Movements on provisions were as follows:

	Product warranties US$000	Leasehold property US$000	Legal claims US$000	Contractual severance US$000	Other provisions US$000	Total US$000
As at 31 December 2016	1,104	2,618	–	753	372	4,847
Acquisition of businesses	76	–	–	–	100	176
Additions charged to profit or loss	1,285	985	750	202	95	3,317
Utilised during the year	(1,011)	(159)	–	–	(220)	(1,390)
Releases credited to profit or loss	(9)	(59)	–	–	(23)	(91)
Unwinding of discount	–	60	–	–	–	60
Currency translation differences	–	180	–	99	1	280
As at 31 December 2017	1,445	3,625	750	1,054	325	7,199
Additions charged to profit or loss	**2,629**	**462**	**394**	**1,985**	**–**	**5,470**
Utilised during the year	**(1,361)**	**(808)**	**(220)**	**(107)**	**(308)**	**(2,804)**
Releases credited to profit or loss	**–**	**(121)**	**(30)**	**–**	**–**	**(151)**
Unwinding of discount	**–**	**70**	**–**	**–**	**–**	**70**
Transfer to held for sale	**–**	**–**	**–**	**(1,283)**	**–**	**(1,283)**
Currency translation differences	**–**	**(106)**	**–**	**(47)**	**(17)**	**(170)**
As at 31 December 2018	**2,713**	**3,122**	**894**	**1,602**	**–**	**8,331**

Provisions are presented in the Group's balance sheet as follows:

	As at 31 December 2018 US$000	As at 31 December 2017 US$000
Current liabilities	**5,253**	3,474
Non-current liabilities	**3,078**	3,725
Total	**8,331**	7,199

Product warranties

Dialog provides contractual product warranties under which it guarantees the performance of its products. Product warranty provisions are based on historical warranty data and are expected to be utilised within one year of the balance sheet date.

Leasehold property

Leasehold property provisions include dilapidation provisions for the costs of restoring leasehold properties to their original condition at the end of the lease and provisions for onerous leases. Leasehold property provisions will be utilised over the remaining terms of the relevant leases, which expire up to five years from the balance sheet date.

Contractual severance

Provision is made for contractual severance payments that are payable to employees in certain countries when they leave the Group's employment.

24. Other liabilities

Other liabilities were as follows:

	As at 31 December 2018 US$000	As at 31 December 2017 US$000
Current		
Obligations for personnel and social expenses	**33,291**	41,462
Advances received in relation to research and development contracts	**2,801**	3,801
Deferred income	**17,124**	5,840
Other liabilities	**5,021**	8,516
Total current	**58,237**	59,619
Non-current		
Deferred royalty credits (note 17)	**4,695**	4,695
Deferred gain on initial measurement of warrants (note 17)	**2,392**	3,976
Accrued expenses	**207**	410
Other liabilities	**1,578**	479
Total non-current	**8,872**	9,560
Total	**67,109**	69,179

Notes to the consolidated financial statements continued

25. Share capital and reserves

a) Ordinary shares

As at 31 December 2018, 2017 and 2016, the authorised share capital of the Company comprised 104,311,860 ordinary shares with a nominal value of £0.10 per share.

The number of allotted and fully paid ordinary shares was as follows:

	Number of shares	Nominal value US$000
As at 31 December 2015 and 2016	77,865,955	14,402
Shares issued to employee benefit trust	3,000,000	373
Cancellation of treasury shares	(4,483,816)	(571)
As at 31 December 2017 and 2018	**76,382,139**	**14,204**

Ordinary shareholders have no entitlement to share in the profits of the Company except for dividends that may be declared and in the event of the Company's liquidation.

Ordinary shareholders have the right to attend, and vote at, general meetings of the Company or to appoint a proxy to attend and vote at such meetings on their behalf. Ordinary shareholders have one vote for every share held.

b) Share premium account

The share premium account represents the difference between the nominal value of shares issued and the fair value of the consideration received. The share premium account is not distributable but may be used for certain purposes specified by United Kingdom law, including to write off expenses on any issue of shares and to pay up fully paid bonus shares.

c) Other reserves

Currency translation reserve
The currency translation reserve represents the cumulative gains and losses recognised on the translation into US dollars of the Group's net investments in foreign operations.

Fair value reserve
The fair value reserve represents the unrealised gains and losses recognised on equity investments that are measured at fair value through other comprehensive income.

Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative gains and losses on effective cash flow hedging instruments that will be recycled to profit or loss on the occurrence of the hedged cash flows.

Treasury shares
Treasury shares were shares purchased under the Company's share buyback programme. Details of the purchases made under the programme are set out in note 26.

Capital redemption reserve
On 23 June 2017, the Company cancelled all of the treasury shares that it held following completion of the third tranche of the share buyback programme. On cancellation, the total cost of the treasury shares was transferred from treasury shares and set against retained earnings and the nominal value of the shares cancelled of US$571 was transferred from share capital to a non-distributable capital redemption reserve.

25. Share capital and reserves continued

Movements on other reserves were as follows:

	Capital redemption reserve US$000	Currency translation reserve US$000	Fair value reserve US$000	Hedging reserve US$000	Treasury shares US$000	Total US$000
As at 31 December 2015	–	(4,480)	–	(3,443)	–	(7,923)
Other comprehensive income/(loss):						
– Currency translation differences on foreign operations	–	127	–	–	–	127
– Fair value loss on available-for-sale investments	–	–	2,866	–	–	2,866
– Cash flow hedges:						
Fair value loss recognised on effective hedges	–	–	–	(13,264)	–	(13,264)
Fair value loss transferred to profit or loss	–	–	–	8,382	–	8,382
– Income tax credit/(expense)	–	(47)	–	765	–	718
Other changes in equity:						
– Purchase of own shares into treasury	–	–	–	–	(61,472)	(61,472)
As at 31 December 2016	–	(4,400)	2,866	(7,560)	(61,472)	(70,566)
Other comprehensive income/(loss):						
– Currency translation differences on foreign operations	–	1,665	–	–	–	1,665
– Gain transferred to profit or loss on deconsolidation of Dyna Image	–	(1,144)	–	–	–	(1,144)
– Fair value loss on available-for-sale investments	–	–	5,971	–	–	5,971
– Cash flow hedges:						
Fair value gain recognised on effective hedges	–	–	–	16,433	–	16,433
Fair value loss transferred to profit or loss	–	–	–	(441)	–	(441)
– Income tax credit/(expense)	–	180	(1,015)	(3,149)	–	(3,984)
Other changes in equity:						
– Purchase of own shares into treasury	–	–	–	–	(125,050)	(125,050)
– Cancellation of treasury shares	571	–	–	–	186,522	187,093
As at 31 December 2017	571	(3,699)	7,822	5,283	–	9,977
Other comprehensive loss:						
– Currency translation differences on foreign operations	**–**	**(527)**	**–**	**–**	**–**	**(527)**
– Fair value loss on equity investments	**–**	**–**	**(23,764)**	**–**	**–**	**(23,764)**
– Cash flow hedges:						
Fair value loss recognised on effective hedges	**–**	**–**	**–**	**(10,075)**	**–**	**(10,075)**
Fair value gain transferred to profit or loss	**–**	**–**	**–**	**(2,343)**	**–**	**(2,343)**
– Income tax (expense)/credit	**–**	**(78)**	**1,015**	**2,376**	**–**	**3,313**
As at 31 December 2018	**571**	**(4,304)**	**(14,927)**	**(4,759)**	**–**	**(23,419)**

Notes to the consolidated financial statements continued

26. Share buyback programme

Share buyback authority

At the Company's 2016 AGM, the Directors were granted an authority to purchase up to 7,786,595 ordinary shares in the capital of the Company. During 2016 and 2017, 4,483,816 ordinary shares were purchased under the 2016 AGM authority at a total cost of US$186,522 (including transaction costs of US$1,866). The 2016 AGM authority expired on 3 May 2017.

At the Company's 2017 AGM, the Directors were granted a new authority to purchase up to 7,808,280 of our ordinary shares in further tranches. We did not announce any purchases under the 2017 AGM authority and it expired on 2 May 2018.

At the Company's 2018 AGM, the Directors were granted the authority to purchase up to 7,638,214 of our ordinary shares, representing approximately 10% of the issued ordinary share capital of the Company as at 21 March 2018. Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2019, whichever is the earlier.

Purchases made under the share buyback programme are off-market and are effected by way of contingent forward purchase contracts entered into with brokers. Barclays, Goldman Sachs, HSBC or Merrill Lynch may be appointed as brokers for purchases under the 2018 AGM authority.

Shares purchased during 2016

On 9 May 2016, the Company announced details of the first tranche of the share buyback programme pursuant to the 2016 AGM authority under which it committed to purchase shares with a minimum cost of €37.5 million and a maximum cost of €50 million. Final settlement and conclusion of the first tranche took place on 28 September 2016. We purchased a total of 1,332,158 shares under the first tranche at a cost of €37.5 million (US$42,024).

On 8 November 2016, the Company announced details of the second tranche of the share buyback programme pursuant to the 2016 AGM authority under which it committed to purchase shares with a minimum cost of €56.25 million and a maximum cost of €75.0 million.

We completed the first intermediate settlement of the second tranche on 30 December 2016 purchasing 473,592 shares at an initial cost of €17.45 million (US$18,383). As at 31 December 2016, we held 1,805,750 shares purchased under the first and second tranches in treasury at a total cost of US$61,472 (including transaction costs of US$1,063).

As at 31 December 2016, we recognised a debit to equity amounting to US$63,077 in relation to the maximum remaining obligation to purchase shares under the second tranche of €57.55 million (US$62,759) and related transaction costs.

Shares purchased during 2017

We made a further intermediate settlement of the second tranche on 9 February 2017 and final settlement and conclusion of the tranche took place on 17 February 2017. In these further settlements, we purchased 977,456 shares at a cost of €38.8 million (US$41,385) and incurred transaction costs of US$270. On conclusion of the second tranche, we credited back to retained earnings the remainder of the obligation to purchase shares initially recognised of US$19,961 and related transaction costs.

On 27 February 2017, the Company announced details of the third tranche of the share buyback programme pursuant to the 2016 AGM authority under which it committed to purchase shares with a minimum cost of €56.25 million and a maximum cost of €75.0 million. We initially recognised a debit to retained earnings amounting to US$79,407, which comprised the maximum obligation to purchase shares of €75.0 million (US$79,012) and related transaction costs.

We made intermediate settlements of the third tranche on 25 April 2017 and 2 June 2017 and final settlement and conclusion of the tranche took place on 23 June 2017. We purchased 1,700,610 shares under the third tranche at a cost of €74.9 million (US$82,862) and incurred transaction costs amounting to US$533. On conclusion of the third tranche, we credited back to earnings the remainder of the obligation to purchase shares initially recognised of US$71 and related transaction costs.

During 2017, we showed a credit to retained earnings of US$3,024, which mirrored the loss recognised in profit or loss on the translation into US dollars of the Euro-denominated liability that existed in relation to shares that were purchased during the period. We hedge the currency translation exposure on outstanding liabilities to purchase shares using currency forwards and swaps. After taking into account hedging, we recognised a net currency translation loss of US$237 in profit or loss in relation to liabilities to purchase shares under the second and third tranches during 2017.

26. Share buyback programme continued

First tranche pursuant to the 2018 AGM authority

On 6 November 2018, the Company announced details of a tranche of the share buyback programme pursuant to the 2018 AGM authority under which it committed to purchase shares with a minimum cost of €100.0 million and a maximum cost of €150.0 million. On initiation of this tranche, we recognised a liability and a corresponding debit to retained earnings of €150.0 million (US$171,173) in respect of the maximum obligation to purchase shares. We also debited transaction costs incurred of US$14 to retained earnings.

During the remainder of 2018, we recognised a currency translation loss of US$576 on the retranslation of the Euro-denominated liability into US dollars. As at 31 December 2018, the carrying amount of the liability was €150.0 million (US$171,763).

We have not yet been required by the appointed broker to make any intermediate settlements in relation to this tranche, under which the broker may continue to purchase shares until 21 May 2019.

27. Non-controlling interests

We hold a 48.5% ownership interest in Dyna Image Corporation ("Dyna Image"). As explained in note 4, Dyna Image was formerly accounted for as a subsidiary but the Company lost the power to direct its relevant activities in December 2017 and it was deconsolidated with effect from 31 December 2017.

In January 2017, the Group's ownership interest in Dyna Image increased from 45.7% to 48.5% and there was a corresponding decrease from 54.7% to 51.5% in the ownership interests held by non-controlling interests.

Summarised financial information about Dyna Image for periods before it ceased to be a subsidiary is presented below:

	2018 US$000	2017 US$000	2016 US$000
Summary comprehensive (loss)/income			
Revenue	–	5,474	9,409
Expenses	–	(17,870)	(14,195)
Loss for the year	–	(12,396)	(4,786)
Loss attributable to owners of the Company	–	(7,914)	(1,962)
Loss attributable to the non-controlling interests	–	(4,482)	(2,824)
Loss for the year	–	(12,396)	(4,786)
Other comprehensive (loss)/income attributable to owners of the Company	–	(7)	69
Other comprehensive (loss)/income attributable to the non-controlling interests	–	(7)	100
Other comprehensive (loss)/income for the year	–	(14)	169
Total comprehensive loss attributable to owners of the Company	–	(7,921)	(1,893)
Total comprehensive loss attributable to the non-controlling interests	–	(4,489)	(2,724)
Total comprehensive loss for the year	–	(12,410)	(4,617)
Summary of cash flows			
Cash flow used for operating activities	–	(4,769)	(1,025)
Cash flow used for investing activities	–	(47)	(29)
Cash flow from financing activities	–	3,000	–
Net decrease in cash and cash equivalents	–	(1,816)	(1,054)

All other subsidiaries of the Company are wholly-owned.

Notes to the consolidated financial statements continued

28. Pension schemes

The Group operates defined contribution pension schemes in most of the countries in which it operates. Contributions payable by the Group to the plans amounted to US$8,756 (2017: US$7,458; 2016: US$6,754). As at 31 December 2018, the Group had not paid over to the plans contributions due amounting to US$1,596 (2017: US$2,408; 2016: US$1,802). All contributions due for the period were paid over subsequent to the balance sheet date. Pension costs also include payments to the state funded pension plan in Germany in the amount of US$3,853 (2017: US$3,599; 2016: US$3,400).

29. Share-based compensation

The Company operates a number of share-based compensation plans under which it grants options and awards over its ordinary shares to certain of the Group's employees.

a) Plans without performance conditions

Stock Option Plan
Shareholders approved the Stock Option Plan ("SOP") at the Company's 1998 AGM.

Options granted under the SOP before 31 October 2006 vested over periods of one or five years from the grant date provided the participant remained in employment by the Group at the vesting date and, if unexercised, expired on the tenth anniversary of the grant date. Options granted after 31 October 2006 vest monthly over four years provided the participant remains in employment by the Group at the vesting date but may not be exercised until the first anniversary of the grant date and, if unexercised, expire on the seventh anniversary of the grant date.

Unless otherwise determined by the Remuneration Committee, options granted under the SOP have an exercise price not less than the market price of the Company's ordinary shares on the grant date.

Employee Share Plan
Shareholders approved the Employee Share Plan ("ESP") at the Company's 2013 AGM. The ESP operates alongside the SOP.

Options granted under the ESP vest over a three-year period with one third of each award vesting on the first, second and third anniversary of the grant date provided the participant remains in employment by the Group at the vesting date and, if unexercised, expire on the seventh anniversary of the grant date.

Options granted under the ESP have a nominal exercise price.

Fair value of awards
The fair value of options granted under the ESP was measured using the Black-Scholes option pricing model. The weighted average fair value of options granted during the years ended 31 December 2018, 2017 and 2016 and the principal assumptions made in measuring those fair values were as follows:

	Grant in 2018	Grant in 2017	Grant in 2016
Weighted average fair value	**€21.95**	€33.31	€34.86
Principal assumptions:			
– Share price on grant date	**€22.06**	€33.40	€34.96
– Exercise price	**€0.11**	€0.10	€0.10
– Expected volatility of the Company's shares	**44%**	42%	41%
– Expected option life	**3 – 6 years**	3 – 6 years	3 – 6 years
– Dividend yield on the Company's shares	**0%**	0%	0%
– Risk-free interest rate	**(0.3)%**	(0.3)%	(0.3)%

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the expected life of the options.

29. Share-based compensation continued

b) Performance-based plans

Executive Incentive Plan

Shareholders approved the Executive Incentive Plan ("EIP") at the Company's 2010 AGM.

Awards under the EIP vested three years from the grant date provided certain performance conditions were satisfied and the participant remained in employment by the Group at the end of the vesting period.

a) Share price increase

One quarter of each award accrued in equal annual instalments on the anniversary of grant date provided the market price of the Company's ordinary shares on the relevant anniversary date exceeded the higher of the market price of the shares on the grant date and on any preceding anniversary date.

Awards that had accrued vested and became exercisable on the third anniversary of the grant date.

b) Group performance conditions

Up to three-eighths of each award vested depending upon the compound annual growth of the Group's revenue over the three-year performance period. Up to three-eighths of each award vested depending on the compound annual growth of the Group's EBIT (operating profit) over the three-year performance period. Even if the revenue and EBIT targets were met, however, the number of awards that vested were reduced by up to 20% if customer diversification targets were not also met.

The EIP expired for the purpose of new awards in May 2015.

Long-Term Incentive Plan

Shareholders approved the Long-Term Incentive Plan ("LTIP") at the Company's 2015 AGM. The LTIP replaced the EIP. All employees are eligible to participate in the plan but in practice awards will be targeted at the Executive Director level and others in senior roles.

Awards granted under the LTIP take the form of either a nil or nominal cost share option, a conditional share award, a market price share option or, in jurisdictions where it is not feasible to deliver shares to employees, a cash-settled award linked to the market value of the Company's shares.

Awards under the LTIP generally vest three years from the grant date provided certain performance conditions are satisfied and the participant remains in employment by the Group at the end of the vesting period.

a) Total shareholder return ("TSR")

Up to one third of each award vests depending on the TSR on the Company's ordinary shares relative to the TSR of the constituents of the S&P 1500 Select Semiconductor Index over the three-year performance period. If the TSR on the Company's ordinary shares is negative over the vesting period, vesting is capped at one half of this element of the award irrespective of the whether the TSR on the Company's ordinary shares has exceeded the TSR of the constituents of the S&P 1500 Select Semiconductor Index.

b) Group Performance Conditions

Up to one half of each award vests depending upon the Group's revenue in each year of the three-year performance period. Up to one half of each award vests depending on the Group's underlying operating margin in each year of the three-year performance period.

Notwithstanding the performance conditions, the Remuneration Committee may apply a downward adjustment to the number of awards that vest if it considers this to be necessary taking into account the Group's financial performance and overall financial health.

Fair value of awards

The fair value of awards made under the EIP and the LTIP was measured using a variant of the Monte Carlo valuation model. The weighted average fair value of options granted during the years ended 31 December 2018, 2017 and 2016 and the principal assumptions made in measuring those fair values were as follows:

	Grant in 2018	Grant in 2017	Grant in 2016
Weighted average fair value	**€23.23**	€44.86	€29.26
Principal assumptions:			
– Share price on grant date	**€25.25**	€50.32	€33.41
– Exercise price	**€0.09**	€0.10	€0.10
– Expected volatility of the Company's shares	**44%**	42%	41%
– Expected option life	**6 years**	6 years	6 years
– Dividend yield on the Company's shares	**0%**	0%	0%
– Risk-free interest rate	**(0.3)%**	(0.3)%	(0.3)%

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the expected life of the awards.

Notes to the consolidated financial statements continued

29. Share-based compensation continued

c) Share options

Movements in the total number of share options outstanding during the years ended 31 December 2018 and 2017 were as follows:

	2018		2017	
	Options	Weighted average exercise price €	Options	Weighted average exercise price €
Outstanding at the beginning of the year	4,303,195	1.50	4,469,977	2.90
Granted	2,536,355	0.10	1,345,455	0.10
Exercised	(1,010,647)	3.05	(1,240,297)	5.30
Forfeited	(356,268)	0.19	(271,940)	0.29
Outstanding at the end of the year	5,472,635	0.65	4,303,195	1.50
Options exercisable at the end of the year	1,155,481	2.71	1,302,600	4.71

When share options were exercised during 2018, the weighted average of the Company's share price was €22.71 (2017: €45.50).

The weighted average contractual life and exercise price of share options outstanding as at 31 December 2018 and 2017 were as follows:

	2018		2017	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (in years)	Number outstanding	Weighted average remaining contractual life (in years)
€0.0 – 1.00	5,270,419	4.73	3,883,067	4.58
€1.00 – 8.00	–	n/a	–	n/a
€8.00 – 16.85	202,216	0.97	420,128	1.60
€0.00 – 16.85	5,472,635	4.59	4,303,195	4.29

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 2018, the trusts held 2,607,259 ordinary shares (2017: 2,791,027 ordinary shares).

Movements in the number of shares held by the trusts during the years ended 31 December 2018 and 2017 were as follows:

	2018		2017	
	Number of shares	Cost US$000	Number of shares	Cost US$000
At the beginning of the year	2,791,027	902	574,600	20,608
Purchase of shares in the market	826,879	21,786	456,724	24,301
Subscription for newly-issued shares	–	–	3,000,000	373
Sale or transfer of shares	(1,010,647)	(174)	(1,240,297)	(44,380)
At the end of the year	2,607,259	22,514	2,791,027	902

30. Commitments

Operating lease and software licence commitments

The Group rents all of its office and development facilities and some production, office and test equipment under operating leases. Future minimum lease payments under non-cancellable operating leases and software licences are as follows:

	Operating leases 2018 US$000	**Software licences 2018 US$000**	Operating leases 2017 US$000	Software licences 2017 US$000
Within one year	**15,505**	**25,616**	12,600	15,286
Between one and two years	**14,749**	**15,158**	11,261	7,420
Between two and three years	**14,056**	**3,900**	9,711	5,669
Between three and four years	**13,042**	**2,552**	6,605	2,300
Between four and five years	**8,078**	**75**	4,902	2,385
Thereafter	**13,202**	**–**	10,247	–
Total minimum payments	78,632	47,301	55,326	33,060

During 2018, the Group recognised in profit or loss an operating lease expense of US$12,450 (2017: US$10,153; 2016: US$9,797) and software licence fees of US$13,854 (2017: US$9,944; 2016: US$7,384).

Capital commitments

As at 31 December 2018, the Group has contractual commitments for the acquisition of property, plant and equipment of US$5,874 (2017: US$7,022) and for the acquisition of intangible assets of US$4,391 (2017: US$5,311).

31. 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 2018 and 2017 are analysed by class and category:

	As at 31 December 2018					
	Amortised cost US$000	**At fair value through profit or loss US$000**	**At fair value in designated hedges US$000**	**At fair value through other comprehensive income US$000**	**Net book value US$000**	**Fair value US$000**
Financial assets						
Cash and cash equivalents	677,848	–	–	–	677,848	677,848
Trade and other receivables	114,514	–	–	–	114,514	114,514
Energous shares	–	–	–	10,073	10,073	10,073
Energous warrants	–	1,465	–	–	1,465	1,465
Other investments	–	1,465	–	10,073	11,538	
Currency derivatives	–	–	202	–	202	202
Rental and other deposits	1,807	–	–	–	1,807	1,807
Other financial assets	1,807	–	202	–	2,009	
Total financial assets	794,169	1,465	202	10,073	805,909	
Financial liabilities						
Trade and other payables	(122,140)	–	–	–	(122,140)	(122,140)
Currency derivatives	–	(301)	(6,080)	–	(6,381)	(6,381)
Share buyback obligation	(171,763)	–	–	–	(171,763)	(171,763)
Deferred consideration	(3,173)	–	–	–	(3,173)	(3,173)
Contingent consideration	–	(16,414)	–	–	(16,414)	(16,414)
Other financial liabilities	(174,936)	(16,715)	(6,080)	–	(197,731)	
Total financial liabilities	(297,076)	(16,715)	(6,080)	–	(319,871)	

Currency derivatives that are not in designated hedging relationships are held to hedge the currency translation exposure on the Euro-denominated share buyback liability (note 26).

Notes to the consolidated financial statements continued

31. Additional disclosures on financial instruments continued

	As at 31 December 2017					
	Amortised cost US$000	At fair value through profit or loss US$000	At fair value in designated hedges US$000	At fair value through other comprehensive income US$000	Net book value US$000	Fair value US$000
Financial assets						
Cash and cash equivalents	479,295	–	–	–	479,295	479,295
Trade and other receivables	78,186	–	–	–	78,186	78,186
Energous shares	–	–	–	33,837	33,837	33,837
Energous warrants	–	12,318	–	–	12,318	12,318
Other investments	–	12,318	–	33,837	46,155	
Currency derivatives	–	–	6,649	–	6,649	6,649
Rental and other deposits	2,090	–	–	–	2,090	2,090
Other financial assets	2,090	–	6,649	–	8,739	
Total financial assets	559,571	12,318	6,649	33,837	612,375	
Financial liabilities						
Trade and other payables	(107,195)	–	–	–	(107,195)	(107,195)
Hire purchase and finance lease obligations	(1,651)	–	–	–	(1,651)	(1,651)
Currency derivatives	–	–	(97)	–	(97)	(97)
Deferred consideration	(7,962)	–	–	–	(7,962)	(7,962)
Contingent consideration	–	(23,709)	–	–	(23,709)	(23,709)
Other financial liabilities	(9,613)	(23,709)	(97)	–	(33,419)	
Total financial liabilities	(116,808)	(23,709)	(97)	–	(140,614)	

Fair value measurement

a) Financial instruments carried at fair value
All financial instruments that are carried at fair value are revalued on a recurring basis. We have not chosen to designate any financial instruments at fair value through profit or loss on initial recognition.

Details of our investment in the Energous shares and warrants are set out in note 17. We measured the fair value of these financial assets using the following methods and assumptions:

- Energous shares (listed on NASDAQ) – measured at the quoted bid price at the close of business on the balance sheet date; and
- Energous warrants – measured using a Black Scholes valuation model based on the quoted bid price of Energous' common shares and other inputs such as implied share price volatility that is modelled based on historical price data for Energous' common shares.

Fair value of currency derivatives represents the present value of the future contractual cash flows, which is estimated using observable spot exchange rates and by applying a discount rate that is based on the yield curves of the respective currencies and reflects the credit risk of the counterparties.

Contingent consideration in respect of the acquisition of Silego was payable in two tranches based on Silego's revenue for 2017 and 2018. As at 31 December 2017, the fair value of the contingent consideration was measured based on the expected value of a range of possible outcomes of Silego's revenue for 2017 and 2018. As at 31 December 2018, the fair value of the contingent consideration is based on Silego's actual revenue for 2017 and 2018.

In the following table, the financial instruments that are carried at fair value are categorised into one of three levels in a fair value hierarchy according to the nature of the significant inputs to the valuation techniques that are used to determine their fair value as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable either directly (as market prices) or indirectly (derived from market prices).
- Level 3 – Unobservable inputs, such as those derived from internal models or using other valuation methods.

31. Additional disclosures on financial instruments continued

	As at 31 December 2018				As at 31 December 2017			
	Level 1 US$000	**Level 2 US$000**	**Level 3 US$000**	**Total US$000**	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Financial assets carried at fair value								
Investments:								
– Energous shares	10,073	–	–	10,073	33,837	–	–	33,837
Derivative financial instruments:								
– Currency derivatives	–	202	–	202	–	6,649	–	6,649
– Energous warrants	–	–	1,465	1,465	–	–	12,318	12,318
Total financial assets carried at fair value	10,073	202	1,465	11,740	33,837	6,649	12,318	52,804
Financial liabilities carried at fair value								
Derivative financial instruments:								
– Currency derivatives	–	(6,381)	–	(6,381)	–	(97)	–	(97)
Contingent consideration	–	–	(16,414)	(16,414)	–	–	(23,709)	(23,709)
Total financial liabilities carried at fair value	–	(6,381)	(16,414)	(22,795)	–	(97)	(23,709)	(23,806)

During 2018, 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:

	2018 US$000	2017 US$000	2016 US$000
Financial assets carried at fair value			
At the beginning of the year	12,318	6,766	873
Additions:			
– Energous warrants	–	4,753	4,695
Unrealised fair value (loss)/gain recognised in profit or loss (other finance (expense)/income):			
– Energous warrants	(10,853)	941	1,929
– Dyna Image call option	–	(142)	(731)
At the end of the year	1,465	12,318	6,766
Financial liabilities carried at fair value			
At the beginning of the year	(23,709)	–	–
Contingent consideration:			
– Additions	(653)	(23,273)	–
– Change in estimate (other operating income)	808	–	–
– Unwinding of discount recognised in profit or loss (interest expense)	(2,220)	(436)	–
– Settlements	9,360	–	–
At the end of the year	(16,414)	(23,709)	–

We estimate that if the implied volatility of 118.5% incorporated in the valuation of the first tranche of Energous warrants and that of 109.8% incorporated in the second tranche as at 31 December 2018 had been ten percentage points higher or lower, the fair value of the warrants would have been US$333 higher at US$1,798 or US$318 lower at US$1,147, respectively. In each case, the effect of the increase/(decrease) in fair value would have been recognised in profit or loss as other finance income/(expense).

b) Financial instruments not carried at fair value
Finance lease and hire purchase obligations attract fixed interest rates that are implicit in the lease rentals. For disclosure purposes, the fair value of these obligations has been calculated as the present value of the future contractual cash flows using observable yield curves (Level 2).

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).

Notes to the consolidated financial statements continued

32. Financial risk management

Background

The Group's central treasury function is responsible for ensuring that adequate funding is available to meet the Group's requirements and for maintaining an efficient capital structure, together with managing the Group's counterparty credit risk, foreign currency and interest rate exposures. All treasury operations are conducted within strict policies and guidelines that are approved by the Board.

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

Credit risk

Credit risk is the risk that a customer or a counterparty financial institution fails to meet its contractual obligations as they fall due causing the Group to incur a financial loss. The Group is exposed to credit risk in relation to receivables from its customers and cash and cash equivalents and other financial assets held with financial institutions.

Before accepting a new customer, we assess the potential customer's credit quality and establish a credit limit. Credit quality is assessed using data maintained by reputable credit agencies, by checking references included in credit applications, and, where they are available, by reviewing the customer's recent financial statements. Credit limits are subject to multiple levels of authorisation and are reviewed on a regular basis.

The Group depends on a relatively small number of customers for a substantial part of its revenue. As at 31 December 2018, trade accounts receivable amounted to US$98,234 (2017: US$51,959), including US$62,207 (2017: US$34,038) due from our largest customer.

We utilise uncommitted non-recourse receivables financing facilities provided by two financial institutions in an aggregate amount of US$240 million. The principal facility is for US$220 million and matures on 31 October 2019.

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 2018, cash and cash equivalents included a benefit of US$96,099 (2017: US$145,100) in relation to receivables sold under these facilities and trade and other receivables included US$16,280 (2017: US$26,227) retained by the financial institutions.

Cash deposits and cash equivalent investments are placed only with reputable financial institutions that satisfy the criteria set out in our Board approved treasury policy, including a requirement that each has a median credit rating of not less than A- (Standard & Poor's), A3 (Moody's) 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 and tax cash flows are denominated in currencies other than the US dollar, in particular the Euro and the pound sterling. It is the Group's policy to hedge a proportion of the currency risk associated with highly probable forecast cash flows on a rolling 12-month basis. As the timing of the forecast cash flows draws nearer, the proportion of the currency risk that is hedged increases within set parameters.

Where possible, forward currency contracts that are entered into to hedge forecast cash flows are designated as hedging instruments in cash flow hedge relationships. During 2018, a loss of US$10,075 (2017: gain of US$16,433; 2016: loss of US$13,264), was recognised in other comprehensive income representing the change in the fair value of currency derivatives in effective hedging relationships and a cumulative gain of US$2,343 (2017: gain of US$441; 2016: loss of US$8,382) was reclassified to profit or loss on the occurrence of the hedged cash flows.

32. Financial risk management continued

Currency derivatives held to hedge forecast cash outflows were as follows:

	As at 31 December 2018 Net notional amount			
	Euro 000	**Pound sterling 000**	**Japanese Yen 000**	**Chinese Renminbi 000**
Maturity				
0 – 3 months	**26,750**	**11,000**	**207,500**	**19,000**
4 – 6 months	**21,500**	**9,250**	**115,000**	**10,000**
7 – 9 months	**18,000**	**3,750**	**140,000**	**10,500**
10 – 12 months	**8,000**	**1,750**	**50,000**	**4,000**
Total	**74,250**	**25,750**	**512,500**	**43,500**
Weighted average exchange rate US$ =	**0.82**	**0.74**	**107.99**	**6.71**

	As at 31 December 2017 Net notional amount			
	Euro 000	Pound sterling 000	Japanese Yen 000	Chinese Renminbi 000
Maturity				
0 – 3 months	33,500	11,650	185,000	16,000
4 – 6 months	27,500	10,000	120,000	9,000
7 – 9 months	20,000	6,500	135,000	13,000
10 – 12 months	11,000	4,000	60,000	6,000
Total	92,000	32,150	500,000	44,000
Weighted average exchange rate US$ =	0.86	0.77	109.97	6.83

During the year, the following amounts were recognised in profit or loss in relation to forward currency contracts in cash flow hedge relationships:

	2018 US$000	2017 US$000	2016 US$000
Gain/(loss) reclassified from hedging reserve			
Hedged item affected profit or loss:			
– Cost of sales	**436**	(77)	(1,196)
– Selling and marketing expenses	**47**	(3)	(328)
– General and administrative expenses	**96**	(69)	(1,023)
– Research and development expenses	**1,422**	(124)	(5,543)
– Income tax expense	**342**	743	(292)
Cash flow no longer expected to occur:			
– Other finance expense	**–**	(29)	–
	2,343	441	(8,382)
Hedge ineffectiveness			
– Other finance (expense)/income	**(13)**	14	(3)

Hedge ineffectiveness was determined as follows:

	2018 US$000	2017 US$000	2016 US$000
Change in fair value of designated hedging instruments	**(12,431)**	16,006	(4,885)
Change in value of hedged item used to determine hedge ineffectiveness	**12,418**	(15,992)	4,882
Hedge ineffectiveness recognised in profit or loss	**(13)**	14	(3)

If the US dollar was to depreciate or appreciate by 10% against each of the foreign currencies in respect of which there were effective cash flow hedges in place as at 31 December 2018, there would be an incremental fair value gain of US$33,497 (2017: US$18,367) or an incremental fair value loss of US$27,407 (2017: US$15,027), respectively, recognised in other comprehensive income that would be reclassified to profit or loss on the occurrence of the hedged cash flows.

Currency translation risk arises on financial assets and liabilities that are denominated in a currency other than the functional currency of the entity that holds them. The Group's policy allows for such exposures to be hedged using currency derivatives.

During 2018 and 2017, we used forward currency contracts and currency swaps to hedge the translation exposure on the Euro-denominated liabilities that arose in relation to successive tranches of the Company's share buyback programme. At the end of 2018, we held outstanding contracts to purchase €150.0 million at an average rate of US$1 = €0.86 as a hedge of the maximum obligation outstanding in relation to the uncompleted tranche of share purchases.

Notes to the consolidated financial statements continued

32. Financial risk management continued

After taking into account currency hedging activities, the currency profile of the Group's net financial assets/(liabilities) was as follows:

	As at 31 December 2018 US$000	As at 31 December 2017 US$000
US dollar	482,967	484,493
Euro	(6,434)	(10,637)
Pound sterling	7,420	(4,104)
Taiwanese dollar	768	186
Other	1,752	1,823
Total	**486,473**	471,761

If the US dollar was to appreciate or depreciate by 10% against each of the foreign currencies in which financial assets and financial liabilities were denominated as at 31 December 2018, there would be an exchange loss of US$351 (2017: gain of US$1,273) or an exchange gain of US$351 (2017: loss of US$1,273), respectively, recognised in arriving at the Group's profit before tax.

Currency translation risk also arises on consolidation in relation to the translation into US dollars of net investments in foreign operations but the exposure is not significant because the US dollar is the functional currency of the Company and each of its principal subsidiaries.

b) Interest risk
The interest rate profile of the Group's financial assets and liabilities was as follows:

	As at 31 December 2018			
	Interest-bearing			
	Floating rate US$000	Fixed rate US$000	Non-interest bearing US$000	Total US$000
Financial assets				
Cash and cash equivalents	581,749	–	96,099	677,848
Trade and other receivables	–	–	114,514	114,514
Investments	–	–	11,538	11,538
Other financial assets	–	–	2,009	2,009
Total financial assets	**581,749**	**–**	**224,160**	**805,909**
Financial liabilities				
Trade and other payables	–	–	(122,140)	(122,140)
Other financial liabilities	–	–	(197,731)	(197,731)
Total financial liabilities	**–**	**–**	**(319,871)**	**(319,871)**

	As at 31 December 2017			
	Interest-bearing			
	Floating rate US$000	Fixed rate US$000	Non-interest bearing US$000	Total US$000
Financial assets				
Cash and cash equivalents	334,195	–	145,100	479,295
Trade and other receivables	–	–	78,186	78,186
Investments	–	–	46,155	46,155
Other financial assets	–	–	8,739	8,739
Total financial assets	334,195	–	278,180	612,375
Financial liabilities				
Trade and other payables	–	–	(107,195)	(107,195)
Other financial liabilities	–	(1,651)	(31,768)	(33,419)
Total financial liabilities	–	(1,651)	(138,963)	(140,614)

The Group's principal exposure to interest rate risk is in relation to interest income on investments in money market funds and short-term deposits, which attract US dollar interest rates.

When applied to the Group's floating interest rate exposures as at 31 December 2018, an increase or decrease of 50 basis points in market interest rates would increase or decrease the Group's profit before tax by US$2,875 (2017: US$1,645), respectively.

32. Financial risk management continued

c) Other price risk
In November 2016 and July 2017, the Company subscribed for common shares and was granted warrants to purchase common shares in Energous Corporation ("Energous"). Energous' common shares are listed on NASDAQ. At the end of 2018, the fair value of the shares held was US$10,073 and the fair value of the warrants was US$1,465. Changes in the fair value of the shares are recognised in other comprehensive income and changes in the fair value of the warrants are recognised in profit or loss.

Assuming all other factors remain constant, the effect of a 10% increase in Energous' share price as at 31 December 2018 would be to increase the Group's profit before tax by US$314 (2017: US$2,079) and to increase other comprehensive income by US$1,007 (2017: US$3,384) and the effect of a 10% decrease in the share price would be to reduce the Group's profit before tax by US$289 (2017: US$1,998) and to reduce other comprehensive income by US$1,007 (2017: US$3,384).

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities.

We regularly monitor cash flows at both Group and entity level. As at 31 December 2018, cash and cash equivalents amounted to US$677,848 (2017: US$479,295).

In July 2017, the Company and certain of its subsidiaries, as guarantors, entered into a US$150 million three-year revolving credit facility provided by four financial institutions. The facility is committed and available for general corporate purposes. In June 2018, the facility was extended by a year at a reduced amount of US$112.5 million from July 2020 until it matures in July 2021. On the second anniversary of the facility, we have the option to extend the facility for a further year subject to the consent of the lenders. We also have the option to increase the amount of the facility by US$75 million subject to certain conditions. The credit agreement contains various provisions, covenants and representations that are customary for such a facility.

The facility remained undrawn as at 31 December 2018.

Contractual undiscounted future cash flows related to the Group's financial liabilities were as follows:

	As at 31 December 2018			As at 31 December 2017		
	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	122,140	–	–	107,195	–	–
Finance lease and hire purchase obligations	–	–	–	834	817	–
Deferred consideration	712	1,620	841	3,144	2,312	2,506
Contingent consideration	16,730	–	–	9,343	–	17,626
Share buyback obligation	171,763	–	–	–	–	–
Other non-derivative liabilities	189,205	1,620	841	13,321	3,129	20,132
Cash flows on non-derivative liabilities	311,345	1,620	841	120,516	3,129	20,132
Cash flows on derivative liabilities						
– Payments	49,875	253,620	–	4,618	45,256	–
– Receipts	(46,018)	(248,172)	–	(4,552)	(44,882)	–
Cash flows on financial liabilities	315,202	7,068	841	120,582	3,503	20,132

Capital management

The Group's capital is represented by its total equity. As at 31 December 2018, the Group's total equity was US$1,302,507 (2017: US$1,342,421).

We seek to maintain a capital structure that supports the ongoing activities of our business and its strategic objectives in order to deliver long-term returns to shareholders. We allocate capital to support organic and inorganic growth, investing to support research and development and our product pipeline. We will fund our growth strategy using a mix of equity and debt after giving consideration to prevailing market conditions.

In May 2016, we initiated a share buyback programme as part of our strategy to deliver shareholder returns. Between May 2016 and June 2017, we returned €168.65 million (US$184,656) to shareholders under the first three tranches of the programme. In November 2018, we announced details of a further tranche of the programme under which we have committed to purchase shares with a minimum cost of €100.0 million and a maximum cost of €150.0 million.

We will seek renewal of the share buyback authority at the Company's 2019 AGM. We will consider initiating further tranches of share purchases in the context of our regular assessment of the Group's future growth opportunities and its strategic objectives.

Notes to the consolidated financial statements continued

33. Segment and geographic information

a) Analysis by operating segment

Segment information is presented in the financial statements on a basis consistent with the information presented to the Management Team (the "chief operating decision-maker") for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses. Members of the Management Team are identified on pages 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 Advanced Mixed Signal.

- Mobile Systems provides power management and audio chips designed to meet the needs of the wireless systems markets and a range of advanced driver technologies for low power display applications – from PMOLEDs to electronic paper and MEMS displays.
- Automotive & Industrial's products address the safety, management and control of electronic systems in cars and for industrial applications.
- Connectivity's products include short-range wireless, digital cordless, Bluetooth® and VoIP technology.
- Advanced Mixed Signal's products include CMICs, AC/DC converter solutions for smaller, fast charging power adaptors for portable devices as well as LED drivers for solid state lighting products.

No operating segments have been aggregated in determining our reportable segments. Each operating segment has a manager who is responsible for its performance and is accountable to the Chief Executive Officer.

The Management Team uses operating profit as the principal measure of the profitability of each of the Group's operating segments. Operating profit is, therefore, the measure of segment profit presented in the Group's segment disclosures. Whilst the Management Team also uses underlying operating profit to measure segment profitability, this is used as a supplement to operating profit. In addition to our reportable segments, we present information for Corporate activities. Corporate activities do not meet the definition of an operating segment. Corporate activities principally comprise the costs of operating central corporate functions, the Group's 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/(loss)		
	2018 US$000	2017 US$000	2016 US$000	**2018 US$000**	2017 US$000	2016 US$000
Mobile Systems	**1,029,561**	1,042,908	922,946	**248,440**	271,716	239,859
Connectivity	**148,772**	136,443	118,334	**16,924**	14,276	5,342
Automotive & Industrial	**32,686**	32,975	30,014	**11,706**	12,575	10,126
Advanced Mixed Signal	**229,840**	132,714	116,808	**1,822**	(15,127)	(7,535)
Total segments	**1,440,859**	1,345,040	1,188,102	**278,892**	283,440	247,792
Corporate activities	**1,279**	7,801	9,509	**(79,185)**	(96,423)	62,015
Total Group	**1,442,138**	1,352,841	1,197,611	**199,707**	187,017	309,807
Interest income				**9,883**	5,995	3,665
Interest expense				**(3,134)**	(1,302)	(3,447)
Other finance (expense)/income				**(10,263)**	3,093	(4,819)
Profit before income taxes				**196,193**	194,803	305,206

1 Revenue is from sales to external customers (there were no inter-segment sales).

33. Segment and geographic information continued

Other segment information is as follows:

	Mobile Systems US$000	Connectivity US$000	Automotive & Industrial US$000	Advanced Mixed Signal US$000	Total segments US$000	Corporate activities US$000	Total Group US$000
Year ended 31 December 2018							
Research and development expenses	**193,672**	**40,114**	**1,583**	**55,154**	**290,523**	**35,786**	**326,309**
Write-down of inventories	**4,336**	**225**	**(59)**	**1,073**	**5,575**	**68**	**5,643**
Fixed assets[1]:							
– Additions[2]	**36,051**	**9,558**	**262**	**9,703**	**55,574**	**1,787**	**57,361**
– Depreciation/amortisation	**41,844**	**10,261**	**694**	**27,262**	**80,061**	**524**	**80,585**
– Loss on disposal	**788**	**4**	**–**	**27**	**819**	**104**	**923**
Integration costs	**–**	**–**	**–**	**1,385**	**1,385**	**1,380**	**2,765**
Corporate transaction costs	**–**	**–**	**–**	**–**	**–**	**11,346**	**11,346**
Year ended 31 December 2017							
Research and development expenses[3]	179,990	36,230	1,217	35,796	253,233	49,780	303,013
Write-down of inventories	39	327	60	944	1,370	(82)	1,288
Fixed assets[1]:							
– Additions[2]	43,939	9,198	163	11,467	64,767	7,587	72,354
– Depreciation/amortisation	41,609	9,193	620	19,092	70,514	2,262	72,776
– Loss on disposal	414	2	3	–	419	172	591
Impairment of non-current assets held by Dyna Image (notes 15 & 16)	–	–	–	–	–	(4,327)	(4,327)
Loss on deconsolidation of Dyna Image (note 4)	–	–	–	–	–	(5,597)	(5,597)
Acquisition-related costs	–	–	–	–	–	4,539	4,539
Integration costs	–	–	–	–	–	2,305	2,305
Year ended 31 December 2016							
Research and development expenses[3]	160,113	33,260	1,236	29,274	223,883	37,395	261,278
Write-down of inventories	2,236	238	165	1,652	4,291	84	4,375
Fixed assets[1]:							
– Additions[2]	33,915	7,137	192	4,647	45,891	8,047	53,938
– Depreciation/amortisation	36,695	6,892	702	17,294	61,583	2,234	63,817
– Loss on disposal	305	–	–	145	450	1,119	1,569
Atmel termination fee (note 3)	–	–	–	–	–	137,300	137,300
Corporate transaction costs	–	–	–	–	–	3,485	3,485

1 Non-current assets excluding investments and deferred tax assets.
2 Additions to fixed assets comprise the cost of items acquired separately and the fair value of items acquired in business combinations.
3 Certain product development costs have been reclassified from cost of sales to research and development expenses (see note 1).

b) Geographic information

	2018 US$000	2017 US$000	2016 US$000
Revenue by shipment destination			
United Kingdom	**647**	529	421
Other European countries	**40,816**	46,432	48,063
Mainland China	**1,027,976**	1,034,847	884,187
Hong Kong	**288,838**	196,722	212,261
Other Asian countries	**72,642**	61,111	41,013
Rest of the world	**11,219**	13,200	11,666
Total	**1,442,138**	1,352,841	1,197,611

Notes to the consolidated financial statements continued

33. Segment and geographic information continued

	As at 31 December 2018 US$000	As at 31 December 2017 US$000	As at 31 December 2016 US$000
Non-current assets[1] by location			
United Kingdom	**47,909**	48,761	96,890
Germany	**43,511**	58,782	44,992
Netherlands	**56,501**	52,791	49,982
USA	**568,755**	589,753	236,245
Taiwan	**1,507**	2,222	13,196
Rest of the world	**7,334**	9,299	6,444
Total	**725,517**	761,608	447,749

1 Non-current assets excluding investments and deferred tax assets.

c) Information about major customers

During each of the years ended 31 December 2018, 2017 and 2016, there was only one customer, Apple Inc. ("Apple"), that accounted for more than 10% of the Group's revenue. In 2018, revenue from Apple was US$1,081,532, of which US$1,015,630 was recognised in the Mobile Systems segment and US$65,902 was recognised in the Advanced Mixed Signal segment. In 2017, revenue from Apple was US$1,042,669, of which US$1,035,412 was recognised in the Mobile Systems segment and US$7,257 was recognised in the Advanced Mixed Signal segment. In 2016, revenue from Apple was US$889,904, which was recognised wholly in the Mobile Systems segment.

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:

	2018 US$000	2017 US$000	2016 US$000
Short-term employee benefits	**9,196**	6,712	7,278
Post-employment benefits	**237**	267	224
Share-based compensation	**11,952**	10,895	10,751
Total	**21,385**	17,874	18,253

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 85.

During 2018, the aggregate emoluments payable to Directors in respect of qualifying services to the Company amounted to US$2,947 (2017: US$3,370; 2016: US$2,262). Share options and awards granted to the Executive Director under long-term incentive plans that have vested or will vest based on the Group's and/or the Executive Director's performance over a period ending during the year had an estimated value on vesting of US$1,068 (2017: US$1,399; 2016: US$4,529).

Other related party transactions

During the years ended 31 December 2018, 2017 and 2016, there were no other related party transactions that are required to be reported in these consolidated financial statements.

35. Adoption of IFRS 15 and IFRS 9

Introduction

We adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* with effect from 1 January 2018. We explain below the changes that were made to the Group's significant accounting policies as a consequence of the adoption of these standards and their effect on the Group's results and financial position.

IFRS 15 Revenue from Contracts with Customers

Background
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 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 performance obligations are satisfied.

Changes in revenue recognition policy
We generate revenue principally through the sale of our products. Relatively small amounts of revenue are generated from royalties for the use of intellectual property assets and from research and development contracts.

Sale of products
Prior to adopting IFRS 15, revenue from the sale of products was recognised when the significant risks and rewards of ownership had been transferred to the customer, the amount of revenue could be measured reliably and it was probable that payment would be received. We considered that these conditions were met when the products were transferred to the customer, except in the case of sales to distributors on "ship and debit" terms.

Where we sell to a distributor on ship and debit terms, the distributor may be entitled to a rebate if the distributor sells the product to end customers at a price lower than the price at which the distributor purchased the products from us. We therefore consider that we retain significant risks of ownership and therefore did not recognise revenue until the distributor had sold the products to end customers.

Under IFRS 15, revenue from the sale of products is recognised when the customer obtains control of the products. We consider that control passes when the products are transferred to the customer. Accordingly, where products are sold on "ex-works" incoterms, revenue is recognised when the products are released for collection by the customer. Otherwise, revenue is recognised when the products are delivered to the customer. Where products are supplied on a consignment basis, delivery takes place and revenue is recognised when the products are taken out of the consignment by the customer.

IFRS 15 had no effect on the recognition and measurement of revenue from the sale of products, except in relation to sales to distributors on ship and debit terms. Revenue on sales to distributors on ship and debit terms is now recognised when the products are transferred to the distributor rather than when the products are sold by the distributor to end customers. Revenue from sales to distributors on ship and debit terms is therefore now recognised earlier than it would have been prior to the adoption of IFRS 15.

Revenue recognised on the sale of products is measured at the fair value of the consideration received or receivable, excluding sales taxes and after making allowance for rebates and product returns.

Rebates are estimated using the expected value method based on actual rebates granted at the distributor and product level during the preceding quarter so as to reflect current pricing trends. As a consequence of our pricing policy, allowances for rebates on sales to distributors on ship and debit terms typically represent a significant proportion of the list price of the products.

Most of our distributor customers are entitled to limited rights of return, referred to as stock rotation rights. Typically, returns are allowed twice-yearly for a credit of up to a percentage of the value of products shipped by us to the distributor during the preceding six-month period. Revenue on sales to distributors is recognised after making allowance for stock rotation claims that is estimated based on stock rotation credits granted at the distributor level during the preceding six-month period. Historically, stock rotation claims have not been significant.

As permitted by IFRS 15, we do not capitalise the incremental costs of obtaining contracts (such as sales representatives' commissions) because the amortisation period of such costs would be one year or less.

Other revenue
IFRS 15 did not affect the recognition and measurement of royalty income and income from research and development contracts.

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 by reference to the stage of completion of the contract, which is represented by the costs incurred for work performed to date as a percentage of the estimated total contract costs. If it is probable that a contract will be loss making, the expected loss is recognised immediately as an expense in profit or loss.

Notes to the consolidated financial statements continued

35. Adoption of IFRS 15 and IFRS 9 continued

Financial effect of adopting IFRS 15

We adopted IFRS 15 with effect from 1 January 2018 using the modified retrospective approach, whereby information for prior periods has not been restated but a cumulative effect adjustment was made to the opening balance of retained earnings which represented the cumulative effect of the earlier recognition of revenue sales to distributors on ship and debit terms.

As at 1 January 2018, we recognised a credit to equity of US$1,541 on adoption of IFRS 15, which may be analysed as follows:

	US$000
Deferred revenue	8,578
Sales rebate allowance	(3,367)
Returns liability	(1,156)
Revenue recognised in equity	4,055
Deferred cost of sales	(2,738)
Returns asset	659
Royalty allowance	(24)
Cost of sales recognised in equity	(2,103)
Credit to equity before income taxes	1,952
Income tax expense	(411)
Credit to equity after income taxes	1,541

In the following tables, we summarise the effect of adopting IFRS 15 on the consolidated statement of income for the year ended 31 December 2018 and on the consolidated balance sheet as at 31 December 2018. The adoption of IFRS 15 had no effect on other comprehensive income or on the statement of cash flows.

Consolidated statement of income for the year ended 31 December 2018

	As reported under IFRS 15 US$000	Adjustment for effect of IFRS 15 US$000	Amounts under IAS 18 US$000
Revenue	**1,442,138**	(10,137)	1,432,001
Cost of sales	**(751,070)**	6,896	(744,174)
Gross profit	**691,068**	(3,241)	687,827
Operating profit	**199,707**	(3,241)	196,466
Profit before income taxes	**196,193**	(3,241)	192,952
Income tax expense	**(55,281)**	622	(54,659)
Profit after income taxes	**140,912**	(2,619)	138,293
Net income	**139,799**	(2,619)	137,180
Earnings per share (US$)			
Basic	**1.89**	(0.04)	1.85
Diluted	**1.80**	(0.03)	1.77

Consolidated balance sheet as at 31 December 2018

	As reported under IFRS 15 US$000	Adjustment for effect of IFRS 15 US$000	Amounts under IAS 18 US$000
Assets			
Other current assets	**18,306**	(637)	17,669
Total current assets	**974,047**	(637)	973,410
Total non-current assets	**743,089**	–	743,089
Total assets	**1,717,136**	(637)	1,716,499
Liabilities and equity			
Income taxes payable	**8,193**	(1,032)	7,161
Other current liabilities	**58,237**	4,555	62,792
Total current liabilities	**393,880**	3,523	397,403
Total non-current liabilities	**20,749**	–	20,749
Retained earnings	**930,576**	(4,160)	926,416
Total equity	**1,302,507**	(4,160)	1,298,347
Total liabilities and equity	**1,717,136**	(637)	1,716,499

35. Adoption of IFRS 15 and IFRS 9 continued

IFRS 9 Financial Instruments

Background

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It replaced IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 introduced 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 risk management activities.

Classification and measurement of financial assets and liabilities

IFRS 9 largely retained the requirements of IAS 39 for the classification of financial liabilities but changed the classification of financial assets.

Under IFRS 9, a financial asset must be classified on initial recognition as measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). IFRS 9 eliminated the IAS 39 categories for financial assets of held to maturity, loans and receivables and available-for-sale.

Classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at amortised cost if it is held with the objective of collecting the contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are measured at fair value.

We have a strategic investment in the common shares of Energous Corporation that we intend to hold for the long term. As permitted by IFRS 9, we have irrevocably elected to present changes in the fair value of this equity investment in other comprehensive income rather than in profit or loss. Consequently, fair value gains or losses arising subsequent to 1 January 2018 that may be realised on any future sale of all or part of this investment will not be reclassified to profit or loss.

We have not chosen to designate any financial assets or financial liabilities at FVTPL that would otherwise be classified as measured at amortised cost or FVOCI.

In the following table, we present the previous classification under IAS 39 of financial assets and financial liabilities held by the Group as at 1 January 2018 and their new classification under IFRS 9. It can be seen that there was no change in the basis of measurement of the financial assets or financial liabilities held by the Group as a result of their reclassification in accordance with IFRS 9.

	Classification under IAS 39	Classification under IFRS 9
Financial assets		
Cash and cash equivalents	Loans and receivables (amortised cost)	Amortised cost
Trade and other receivables	Loans and receivables (amortised cost)	Amortised cost
Investments:		
– Energous shares	Available-for-sale	FVOCI – equity instrument
– Energous warrants	FVTPL	FVTPL
Other financial assets:		
– Currency derivatives	Fair value – hedging instruments	Fair value – hedging instruments
– Rental and other deposits	Loans and receivables (amortised cost)	Amortised cost
Financial liabilities		
Trade and other payables	Amortised cost	Amortised cost
Other financial liabilities:		
– Hire purchase and finance lease obligations	Amortised cost	Amortised cost
– Currency derivatives	Fair value – hedging instruments	Fair value – hedging instruments
– Deferred consideration	Amortised cost	Amortised cost
– Contingent consideration	FVTPL	FVTPL

Impairment of financial assets

Where appropriate, financial assets that are measured at amortised cost are stated net of an allowance for credit losses. IFRS 9 replaced the "incurred loss" model in IAS 39 with an "expected credit loss" model.

Trade receivables

As permitted by IFRS 9, we recognise an allowance for credit losses in respect of trade receivables from initial recognition measured as the amount of the lifetime expected credit losses. We previously recognised a credit loss allowance only when there was objective evidence that we may not be able to collect the amount due.

Dialog is a business-to-business supplier with many established customers, several of which are large multi-national businesses, and has a record of insignificant credit losses. 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 rating 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.

Against this background, we determined that there was no appreciable difference between the credit loss allowance that we recognised against trade receivables using the incurred loss model under IAS 39 and that recognised using the expected credit loss model on adoption of IFRS 9.

Notes to the consolidated financial statements continued

35. Adoption of IFRS 15 and IFRS 9 continued

Cash and cash equivalents
Under IFRS 9, we normally recognise an allowance for credit losses in respect of cash and cash equivalents that is measured as the amount of expected credit losses over the next 12 months. If, however, the risk of default has increased significantly since initial recognition, we measure the allowance as the amount of lifetime credit losses. We previously recognised a credit loss allowance only when there was objective evidence of default.

Cash deposits and cash equivalent investments are placed only with reputable financial institutions that satisfy the criteria set out in our Board approved treasury policy, including a requirement that each has a median credit rating of not less than A- (Standard & Poor's), A3 (Moody's) or A- (Fitch). Credit risk is further limited by investing only in liquid instruments. Historically, we have not recognised any significant credit losses in respect of cash deposits and cash equivalent investments.

Hedge accounting

We use forward currency contracts principally to hedge our exposure to exchange rate movements on forecast operating expenses and tax cash flows 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.

We have elected to adopt the new general hedge accounting model in IFRS 9, which requires us to ensure that hedge accounting relationships are aligned with our risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness than was the case under IAS 39. Whilst hedges must still be expected to be highly effective on inception and in subsequent periods, the requirement of IAS 39 for the actual effectiveness of the hedge to be within a specified range in order for hedge accounting to continue has been removed under IFRS 9.

We applied the hedge accounting requirements of IFRS 9 prospectively with effect from 1 January 2018. All hedging relationships designated under IAS 39 as at 31 December 2017 met the criteria for hedge accounting under IFRS 9 as at 1 January 2018 and were therefore regarded as continuing hedging relationships.

Financial effect of adopting IFRS 9

We adopted the classification and measurement (including impairment) requirements of IFRS 9 with effect from 1 January 2018 using the modified retrospective approach, whereby information for prior periods has not been restated to reflect these requirements.

We recognised no changes in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 and, therefore, there was no cumulative effect adjustment to the opening balance of equity as at 1 January 2018.

Company balance sheet

As at 31 December

	Note	2018 US$000	2017 US$000
Assets			
Cash and cash equivalents		**577,945**	326,543
Other financial assets		**202**	6,649
Income tax receivable	7	**612**	–
Amounts owed by group undertakings		**32,593**	179,618
Other current assets		**2,618**	723
		613,970	513,533
Assets classified as held for sale	6	**1,944**	–
Total current assets		**615,914**	513,533
Investments in subsidiaries	4	**855,299**	840,109
Other investments	5	**11,538**	47,034
Intangible assets		**190**	318
Other non-current assets		**398**	503
Total non-current assets		**867,425**	887,964
Total assets		**1,483,339**	1,401,497
Liabilities and equity			
Amounts owed to group undertakings		**377,757**	363,923
Trade and other payables		**3,158**	3,119
Other financial liabilities		**178,146**	97
Income tax payable	7	**–**	4,938
Other payables		**89**	124
Total current liabilities		**559,150**	372,201
Non-current liabilities		**7,087**	8,671
Ordinary shares		**14,204**	14,204
Share premium account		**403,660**	403,660
Retained earnings		**536,108**	595,270
Other reserves		**(14,356)**	8,393
Dialog shares held by employee benefit trusts		**(22,514)**	(902)
Total equity	8	**917,102**	1,020,625
Total liabilities and equity		**1,483,339**	1,401,497

These financial statements were approved by the Board of Directors on 6 March 2019 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Company statement of changes in equity

Year ended 31 December

	Ordinary shares US$000	Share premium account US$000	Retained earnings US$000	Other reserves (note 8) US$000	Dialog shares held by employee benefit trusts US$000	Total US$000
As at 31 December 2016	14,402	403,687	456,350	(58,606)	(20,608)	795,225
Net income	–	–	296,968	–	–	296,968
Other comprehensive income	–	–	–	4,956	–	4,956
Total comprehensive income	–	–	296,968	4,956	–	301,924
Other changes in equity:						
– Shares issued to employee benefit trust	373	(27)	–	–	(373)	(27)
– Purchase of own shares into treasury	–	–	3,024	(125,050)	–	(122,026)
– Share buyback obligation	–	–	62,584	–	–	62,584
– Cancellation of treasury shares	(571)	–	(186,522)	187,093	–	–
– Purchase of shares by employee benefit trusts	–	–	–	–	(24,301)	(24,301)
– Sale of shares by employee benefit trusts	–	–	(37,134)	–	44,380	7,246
As at 31 December 2017	14,204	403,660	595,270	8,393	(902)	1,020,625
Net income	**–**	**–**	**108,582**	**–**	**–**	**108,582**
Other comprehensive loss	**–**	**–**	**–**	**(22,749)**	**–**	**(22,749)**
Total comprehensive income/(loss)	**–**	**–**	**108,582**	**(22,749)**	**–**	**85,833**
Other changes in equity:						
– Share buyback obligation	**–**	**–**	**(171,187)**	**–**	**–**	**(171,187)**
– Purchase of shares by employee benefit trusts	**–**	**–**	**–**	**–**	**(21,786)**	**(21,786)**
– Sale of shares by employee benefit trusts	**–**	**–**	**3,443**	**–**	**174**	**3,617**
As at 31 December 2018	**14,204**	**403,660**	**536,108**	**(14,356)**	**(22,514)**	**917,102**

Notes to the Company financial statements

For the year ended 31 December 2018

1. Background

Description of business

Dialog Semiconductor Plc ("the Company") is a public limited company that is incorporated and domiciled in the United Kingdom. The Company's ordinary shares are listed on the Frankfurt Stock Exchange.

The Company is the ultimate parent of a group of companies that creates and markets highly-integrated, mixed-signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid state lighting and automotive applications.

Statement of compliance

The Company's separate financial statements on pages 149 to 155 have been prepared in accordance with FRS 101 *Reduced Disclosure Framework* and those parts of the Companies Act 2006 that are applicable to companies reporting under FRS 101. Accordingly, the Company's separate financial statements comply with the recognition and measurement requirements of IFRS as adopted for use in the European Union but they exclude certain disclosures that would otherwise be required under that body of accounting standards.

Basis of preparation

The Company's separate financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments and derivative financial instruments are stated at their fair value.

The Company's significant accounting policies are set out in note 2.

Presentation currency

The Company's separate financial statements are presented in US dollars ("US$"), which is the Company's functional currency. All US dollar amounts are rounded to the nearest thousand ("US$000"), except where otherwise stated.

Disclosure exemptions utilised under FRS 101

In preparing the Company's separate financial statements, the Directors utilised the following exemptions from the disclosure requirements of IFRS adopted for use in the European Union that are available to them under FRS 101:

- Paragraphs 45(b) (number and weighted average exercise prices of share options) and 46 to 52 (determination of fair value of options and awards granted and financial effect of share-based compensation) of IFRS 2 *Share-based Payment*.
- IFRS 7 *Financial Instruments – Disclosures*.
- Paragraphs 91 to 99 (disclosure requirements) of IFRS 13 *Fair Value Measurement*.
- Paragraph 38 of IAS 1 *Presentation of Financial Statements* with regard to comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1 (reconciliation of the number of the Company's shares outstanding at the beginning and end of the period).
- Paragraphs 10(d) (statement of cash flows), 16 (statement of compliance with IFRS), 38(A to D) (comparative information), 111 (statement of cash flows) and 134 to 136 (disclosures about capital) of IAS 1 *Presentation of Financial Statements*.
- IAS 7 *Statement of Cash Flows*.
- Paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (discussion of IFRSs issued by the IASB but not yet adopted by the Company).
- Paragraph 17 of IAS 24 *Related Party Disclosures* (compensation of key management personnel) and the further requirement in IAS 24 to disclose related party transactions entered into with a subsidiary, provided the subsidiary is wholly-owned by the Company.

Approval of the financial statements

The Company's separate financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 6 March 2019.

Accounting standards adopted during the year

IFRS 9 *Financial Instruments*
The Company adopted IFRS 9 with effect from 1 January 2018.

The Company adopted the classification and measurement (including impairment) requirements of IFRS 9 using the modified retrospective approach, whereby information presented for prior periods has not been restated. An explanation of the changes introduced by IFRS 9 is provided in note 35 to the consolidated financial statements.

The Company also adopted the hedge accounting requirements of IFRS 9 but does not currently apply hedge accounting to any of its economic hedges.

Adoption of IFRS 9 had no impact on the Company's results or financial position.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
With effect from 1 January 2018, the Company adopted 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. Adoption of the amendments had no impact on the Company's results or financial position.

IFRS 15 *Revenue from Contracts with Customers*
The Company adopted IFRS 15 with effect from 1 January 2018. Since the Company does not currently enter into contracts that fall within the scope of IFRS 15, its adoption had no impact on the Company's results or financial position.

Notes to the Company financial statements continued

2. Significant accounting policies

Investments in subsidiaries

A subsidiary is an entity that is controlled, either directly or indirectly, by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity that significantly affect its returns.

Investments in subsidiaries represent interests in the Company's subsidiaries that are directly owned by the Company. Unless classified as held for sale, investments in subsidiaries are stated at cost less provision for impairment.

Investment in associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in financial and operating policy decisions but not to control or jointly control them. Significant influence generally exists where the Company holds, directly or indirectly through one or more of its subsidiaries, more than 20% and less than 50% of the shareholders' voting rights.

Prior to its reclassification as held for sale, the Company's investment in its associate was stated at cost less provision for impairment.

Foreign currency translation

Transactions denominated in foreign currencies are recorded in US dollars at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Currency translation differences are recognised in profit or loss.

Financial instruments

(a) Amounts owed by/to group undertakings
Amounts owed by/to group undertakings are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

(b) Cash and cash equivalents
Cash and cash equivalents include cash at bank and in hand, investments in money market funds and short-term deposits with an original maturity of three months or less.

(c) Equity investments
Equity investments are initially measured at fair value plus transaction costs, if any. Equity investments are subsequently measured at fair value with resulting gains and losses recognised in profit or loss unless the Company irrevocably elects on initial recognition for such gains and losses to be recognised in other comprehensive income. The Company has made this election in respect of its investment in the common shares of Energous Corporation.

(d) Derivative financial instruments
The Company holds derivative financial instruments that are used to reduce its exposure or that of its subsidiaries to currency exchange rate movements. The Company 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.

Assets classified as held for sale

An asset is classified as held for sale if its carrying amount will be recovered by sale, it is available for immediate sale in its present condition and management has committed to, and has initiated, a plan to sell the asset which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are measured at the lower of their carrying amount when classified as held for sale and fair value less costs to sell.

2. Significant accounting policies continued

Income taxes

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period.

Deferred tax is tax expected to be payable or recoverable on temporary differences between the carrying amount of an asset or liability in the financial statements and its tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available in the future against which they can be utilised.

Current tax and deferred tax is recognised in profit or loss unless it relates to an item that is recognised in the same or a different period outside profit or loss, in which case the related tax is also recognised outside profit or loss, either in other comprehensive income or directly in equity.

Share-based compensation

The Company operates share-based compensation plans under which it grants options and other awards over its ordinary shares to employees of its subsidiaries. Awards granted under the existing plans are classified as equity-settled awards.

The Company recognises a compensation expense that is based on the fair value of the awards measured at the grant date using the Black-Scholes option pricing formula or a Monte Carlo valuation model.

Shares held by employee benefit trusts

The Company provides finance to two trusts to purchase the Company's ordinary shares in order to meet its obligations under its share-based compensation plans. When the trusts purchase such shares, the cost of the shares is debited to equity and subsequent sales or transfers of the shares by the trusts are accounted for within equity.

Treasury shares

Treasury shares comprise the Company's ordinary shares that have been purchased under the Company's share buyback programme. Purchases made under the programme are off market and are effected by way of contingent forward share purchase contracts with third-party brokers. Subsequent sales, transfers or cancellations of treasury shares held by the Company are accounted for within equity.

3. Income statement

As permitted by section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements. The Company's profit after tax was US$108,582 (2017: US$296,968).

During 2018, the Company had no employees (2017: none).

Directors' remuneration is set out in the Directors' remuneration report on pages 70 to 85.

Fees payable to the Company's auditors, Deloitte LLP, are set out in note 7 to the consolidated financial statements.

4. Investments in subsidiaries

Movements in the carrying amount of subsidiaries owned directly by the Company were as follows:

	US$000
As at 31 December 2017	840,109
Additions	15,203
Reclassification as asset held for sale (note 6)	(13)
As at 31 December 2018	855,299

Details of the Company's subsidiaries as at 31 December 2018 are set out on page 167.

Notes to the Company financial statements continued

5. Other investments

Other investments were as follows:

	2018 US$000	2017 US$000
Investment in associate (note 6)	–	879
Strategic investments		
Equity investments:		
– Energous shares	10,073	33,837
Derivative financial instruments:		
– Energous warrants	1,465	12,318
Total strategic investments	11,538	46,155
Total other investments	11,538	47,034

Energous shares and warrants

In November 2016, the Company entered into a strategic alliance with Energous Corporation ("Energous"), the developer of WattUp®, a wire-free charging technology. At that time, the Company subscribed for 763,552 common shares in Energous and was granted warrants to purchase up to 763,552 common shares that are exercisable in full or in part on a cashless basis at any time between May 2017 and November 2019. The Company initially recognised the warrants at their grant date fair value of US$4,695 and an equivalent deferred credit within non-current liabilities. The Company will amortise the deferred credit to profit or loss in relation to the royalties that may be payable for the use of Energous' Intellectual Property over the initial seven-year term of the strategic alliance. Amortisation of the deferred credit has not yet commenced.

On 5 July 2017, the Company subscribed for a further 976,139 common shares in Energous at a cost of US$15,000 and was granted a second tranche of warrants to purchase up to 654,013 common shares that are exercisable in full or in part on a cashless basis at any time between January 2018 and July 2020. The Company initially recognised the second tranche of the warrants at their grant date fair value of US$4,753 and an equivalent deferred credit within non-current liabilities. The Company is amortising the deferred credit to profit or loss over the three-year period from the grant date to the expiry of the warrants.

During 2018, the Company recognised a fair value loss on the shares of US$23,764 (2017: gain of US$5,971) in other comprehensive income and a fair value loss of US$10,853 (2017: gain of US$941) on the warrants in profit or loss. Also during 2018, the Company recognised a credit of US$1,584 (2017: credit of US$776) in profit or loss on the amortisation of the fair value on initial recognition of the second tranche of the warrants.

6. Assets classified as held for sale

Investment in subsidiary

On 11 October 2018, the Company entered into an asset transfer agreement into with Apple Inc. ("Apple"), pursuant to which it will sell to Apple its shareholding in its wholly-owned subsidiary, Dialog Semiconductor (Italy) S.R.L. The transaction is expected to complete in the first half of 2019, subject to regulatory approvals and other customary closing conditions. Accordingly, the Company has reclassified its investment as an asset held for sale at its carrying amount of US$13.

Investment in associate

As at 31 December 2018, the Company held a 38.7% ownership interest in Dyna Image Corporation ("Dyna Image"). Details of the associate are set out on page 167.

On 7 December 2018, the Company entered into an agreement to dispose of its shareholding in Dyna Image for which it expects to receive consideration of between US$1.9 million and US$4.2 million. On entering into the sale agreement, the carrying amount of the investment was remeasured with the effect that US$1,052 of the impairment loss recognised on the investment in previous years was reversed as a credit to profit or loss. The transaction is expected to complete in the first half of 2019, subject to applicable regulatory approvals. Accordingly, the Company has reclassified its investment in Dyna Image as an asset held for sale at its carrying amount of US$1,931.

7. Income tax

As at 31 December 2018, there was current tax receivable of US$612 representing tax overpaid. As at 31 December 2017, there was current tax payable of US$4,938, which arose because UK tax laws restricted the utilisation of available tax loss carryforwards to offset the Company's taxable profit.

As at 31 December 2017, deferred tax assets were recognised for tax loss carryforwards of US$5,971 to offset deferred tax liabilities recognised in relation to remeasurement gains on equity investments. During 2018, the remeasurement gains were eliminated due to a significant decline in the fair value of the investments and the related deferred tax liabilities and deferred tax assets were derecognised. As at 31 December 2018, no deferred tax assets were recognised.

As at 31 December 2018, deferred tax assets were not recognised for tax loss carryforwards of US$10,016 (2017: US$3,783) and deductible temporary differences of US$53 (2017: US$135) because it is not considered probable that taxable profits will be available in the future against which they can be utilised.

8. Share capital and reserves

a) Share capital and share premium account

Details of the Company's share capital are set out in note 25 to the consolidated financial statements.

The share premium account represents the difference between the nominal value of shares issued and the fair value of the consideration received. The share premium account is not distributable but may be used for certain purposes specified by United Kingdom law, including to write off expenses on any issue of shares and to pay up fully paid bonus shares.

b) Other reserves

Movements on other reserves were as follows:

	Capital redemption reserve US$000	Fair value reserve US$000	Treasury shares US$000	Total US$000
As at 31 December 2016	–	2,866	(61,472)	(58,606)
Other comprehensive income/(loss):				
– Fair value loss on available-for-sale investments	–	5,971	–	5,971
– Income tax expense	–	(1,015)	–	(1,015)
Other changes in equity:				
– Purchase of own shares into treasury	–	–	(125,050)	(125,050)
– Cancellation of treasury shares	571	–	186,522	187,093
As at 31 December 2017	571	7,822	–	8,393
Other comprehensive loss:				
– Fair value loss on equity investments	**–**	**(23,764)**	**–**	**(23,764)**
– Income tax credit	**–**	**1,015**	**–**	**1,015**
As at 31 December 2018	**571**	**(14,927)**	**–**	**(14,356)**

Treasury shares were shares purchased under the Company's share buyback programme.

On 23 June 2017, the Company cancelled all of the treasury shares that it held following completion of the third tranche of the share buyback programme. On cancellation, the total cost of the treasury shares was transferred from treasury shares and set against retained earnings and the nominal value of the shares cancelled of US$571 was transferred from share capital to a non-distributable capital redemption reserve.

c) Distributable profits

Profits available for distribution by the Company comprise its accumulated realised profits less its accumulated realised losses, subject to the restriction that a distribution may not reduce the Company's net assets below the aggregate of its called up share capital and its undistributable reserves.

The Directors consider that the Company's distributable profits as at 31 December 2018 amounted to US$670,430 (2017: US$582,780).

d) Share buyback programme

Details of tranches initiated under the Company's share buyback programme are set out in note 26 to the consolidated financial statements.

On 6 November 2018, the Company announced details of the latest tranche of the share buyback programme. On initiation of this tranche, the Company recognised a liability and a corresponding debit to retained earnings of €150.0 million (US$171,173) in respect of the maximum obligation to purchase shares. We also debited transaction costs incurred of US$14 to retained earnings.

We have not yet been required by the appointed broker to make any intermediate settlements in relation to this tranche, under which the broker may continue to purchase shares until 21 May 2019.

e) 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 2018, the trusts held 2,607,259 ordinary shares (2017: 2,791,027 ordinary shares). An analysis of movements in the number of shares held by the trusts is presented in note 29 to the consolidated financial statements.

9. Share-based compensation

A description of the share-based compensation plans operated by the Company, together with information about share options exercised and outstanding is presented in note 29 to the consolidated financial statements.

10. Guarantees

General guarantees have been issued by the Company under Article 403, Book 2 of the Dutch Civil Code in respect of its Dutch subsidiaries, in order that they do not have to file annual accounts in the Netherlands.

Financial performance measures

Use of non-IFRS measures

We use a number of measures to assess our financial performance, to ensure our performance is aligned to strategy and continued alignment with shareholders' interests. We consider certain of these measures to be particularly important and identify them as "key performance indicators" (KPIs). We have identified the following financial measures as KPIs: revenue growth; gross margin, operating expenses as a percentage of revenue; operating profit margin; diluted EPS and free cash flow. We monitor the profit or loss measures that are KPIs on both an IFRS basis and an underlying basis.

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

Underlying measures of performance

We report underlying measures of performance because we believe they provide both management and investors with useful additional information about the financial performance of our businesses. Underlying measures of performance represent the equivalent IFRS measures adjusted for specific items that are considered by us to hinder comparison of the financial performance of our businesses either from one period to another or with other similar businesses.

Underlying measures of performance exclude items that can have a significant effect on the Group's profit or loss. We compensate for these limitations by monitoring separately the items that are excluded from the equivalent IFRS measures in calculating the underlying measures.

We outline below the specific items of income and expense that are recognised in profit or loss in accordance with IFRS but are excluded from our underlying results and their related tax effects.

Share-based compensation

We exclude the share-based compensation expense recognised in relation to options and awards granted under the Company's share-based compensation plans because the awards are equity-settled and therefore have no immediate effect on shareholders' returns. We additionally exclude the effect on profit or loss of changes in the accrual for payroll taxes payable on the exercise or vesting of such options and awards because the accrual fluctuates with the Company's share price and the effect on profit or loss is therefore not necessarily indicative of our trading performance.

Business combinations

We exclude those effects of applying the acquisition method of accounting under IFRS that we consider are not indicative of the Group's trading performance, including the accounting for transaction costs; the fair value adjustment to inventories of acquired businesses; the recognition of certain elements of the purchase price as compensation expense; and the recognition of remeasurements of contingent consideration in profit or loss.

In 2018 and 2017, we excluded from our underlying results the following in relation to the accounting for the acquisitions of Silego and ams AG's LED backlight business:

- acquisition-related costs;
- the recognition in cost of sales of the consumption of the fair value uplift to inventory held by the acquired businesses at the acquisition date;
- the element of deferred amounts payable for Silego that is recognised as compensation expense;
- the credit recognised on the forfeiture of deferred consideration payable for Silego; and
- the credit arising from the change in estimate of the liabilities for the contingent consideration payable for Silego and the interest expense recognised on the unwinding of the discount on the liabilities.

We also exclude from our underlying results the amortisation of identifiable intangible assets that are recognised in business combinations in order that the performance of those businesses that we have acquired may be compared fairly with those businesses that we have developed on an organic basis.

Integration costs

We exclude the costs of integrating acquired businesses that are considered by us to hinder the assessment of the financial performance of those businesses.

In 2018 and 2017, we excluded the costs that we incurred in relation to the integration of Silego.

Corporate transaction costs

We exclude significant transaction costs and other non-recurring items recognised in relation to corporate transactions other than business combinations.

In 2018, we excluded from our underlying results the costs that we incurred in relation to the acquisition discussions with Synaptics Incorporated and the licence and asset transfer agreements that we entered into with Apple Inc.

In 2016, we excluded the fee that we received from Atmel Corporation on their termination of the merger agreement that existed between us and residual transaction costs and facility commitment fees that we incurred prior to termination.

Underlying measures of performance continued

Effective interest on financial liabilities

We adjusted our interest expense to exclude the non-cash element of the interest expense recognised in relation to a patent licensing agreement that was accounted for as a hire purchase contract within other intangible assets. We considered that the cash interest payments are more indicative of the effect of this arrangement on shareholders' returns.

Strategic investments

We exclude the effect on profit or loss of the measurement at fair value of our strategic investments (comprising the shares and the warrants that we hold in Energous, the call option that we held over the shares that we do not own in Dyna Image prior to its expiry in June 2018 and, until they were sold in May 2017, the shares that we held in Arctic Sand). We hold these instruments for strategic reasons linked to our commercial partnerships with these companies. Since we do not hold these instruments for trading purposes, we exclude fluctuations in their fair values when assessing our trading performance.

In December 2017, we recognised impairment losses totalling US$4,327 in relation to the intangible assets and property, plant and equipment held by Dyna Image and ceased to account for it as a subsidiary, recognising a loss of US$5,597 on deconsolidation. Since these were discrete non-recurring losses, we excluded them from our underlying results.

Income tax effect of underlying adjustments

We calculate the income tax effect of underlying adjustments by considering the specific tax treatment of each item and by applying the relevant statutory tax rate to those items that are taxable or deductible for tax purposes.

US tax reform

In December 2017, the US President signed into law significant reforms of the US tax system, including a reduction of the Federal corporate income tax rate from 35% to 21%. Our income tax expense for 2017 reflected a non-cash deferred tax credit of US$6,658 resulting from the remeasurement of US deferred tax balances at the lower tax rate. Since this was a discrete non-recurring benefit, we excluded it from our underlying results.

Reconciliation of underlying measures to equivalent IFRS measures

Reconciliations of the underlying measures of performance to the equivalent IFRS measures for the years ended 31 December 2018, 2017 and 2016 are presented in the following tables:

Year ended 31 December 2018

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Corporate transaction costs	Effective interest	Strategic investments	Underlying basis
Revenue	1,442,138	–	–	–	–	–	–	1,442,138
Cost of sales	(751,070)	1,791	3,129	13	–	–	–	(746,137)
Gross profit	691,068	1,791	3,129	13	–	–	–	696,001
Gross margin %	*47.9%*							*48.3%*
SG&A expenses	(168,228)	17,163	14,757	2,524	11,346	–	–	(122,438)
R&D expenses	(326,309)	22,699	9,148	228	–	–	–	(294,234)
Other operating income	3,176	–	(877)	–	–	–	–	2,299
Operating profit	199,707	41,653	26,157	2,765	11,346	–	–	281,628
Operating margin %	*13.8%*							*19.5%*
Net finance (expense)/income	(3,514)	–	2,220	–	–	50	9,269	8,025
Profit before income taxes	196,193	41,653	28,377	2,765	11,346	50	9,269	289,653
Income tax expense	(55,281)	(2,108)	(3,448)	(555)	(1,024)	(9)	(746)	(63,171)
Profit after income taxes	140,912	39,545	24,929	2,210	10,322	41	8,523	226,482
Share of loss of associate	(1,113)	–	–	–	–	–	–	(1,113)
Net income	139,799	39,545	24,929	2,210	10,322	41	8,523	225,369
EBITDA	n/a							339,584
EBITDA margin %	*n/a*							*23.5%*

Financial performance measures continued

Reconciliation of underlying measures to equivalent IFRS measures continued

Year ended 31 December 2017

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Effective interest	Strategic investments	US tax reform	Underlying basis
Revenue	1,352,841	–	–	–	–	–	–	1,352,841
Cost of sales*	(707,971)	1,219	2,306	–	–	–	–	(704,446)
Gross profit	644,870	1,219	2,306	–	–	–	–	648,395
Gross margin %	*47.7%*							*47.9%*
SG&A expenses	(145,262)	16,285	14,358	1,121	–	–	–	(113,498)
R&D expenses*	(303,013)	17,994	8,050	1,184	–	–	–	(275,785)
Other operating (expense)/income	(9,578)	–	–	–	–	9,924	–	346
Operating profit	187,017	35,498	24,714	2,305	–	9,924	–	259,458
Operating margin %	*13.8%*							*19.2%*
Net finance income	7,786	–	436	–	289	(1,398)	–	7,113
Profit before income taxes	194,803	35,498	25,150	2,305	289	8,526	–	266,571
Income tax expense	(25,369)	(3,476)	(4,187)	(701)	(56)	1,889	(6,658)	(38,558)
Net income	169,434	32,022	20,963	1,604	233	10,415	(6,658)	228,013
EBITDA	n/a							315,773
EBITDA margin %	*n/a*							*23.3%*

Year ended 31 December 2016

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related payroll taxes	Accounting for business combinations	Aborted merger with Atmel	Effective interest	Strategic investments	Underlying basis
Revenue	1,197,611	–	–	–	–	–	1,197,611
Cost of sales*	(630,963)	1,120	–	–	–	–	(629,843)
Gross profit	566,648	1,120	–	–	–	–	567,768
Gross margin %	*47.3%*						*47.4%*
SG&A expenses	(133,271)	15,826	7,473	3,485	–	–	(106,487)
R&D expenses*	(261,278)	13,570	7,029	–	–	–	(240,679)
Other operating income	137,708	–	–	(137,300)	–	–	408
Operating profit	309,807	30,516	14,502	(133,815)	–	–	221,010
Operating margin %	*25.9%*						*18.5%*
Net finance expense	(4,601)	–	–	1,913	526	(1,199)	(3,361)
Profit before income taxes	305,206	30,516	14,502	(131,902)	526	(1,199)	217,649
Income tax expense	(47,090)	(4,686)	(351)	(383)	(105)	386	(52,229)
Net income	258,116	25,830	14,151	(132,285)	421	(813)	165,420
EBITDA	n/a						269,681
EBITDA margin %	*n/a*						*22.5%*

* Certain product development costs have been reclassified from cost of sales to research and development expenses (see note 1 to the consolidated financial statements).

Accounting for business combinations

We excluded from the underlying measures of performance the following specific items arising from business combinations accounting under IFRS:

US$000	**2018**	2017	2016
Acquisition-related costs	**–**	4,539	–
Amortisation of acquired intangible assets	**22,629**	16,461	14,502
Consumption of the fair value uplift of acquired inventory	**3,129**	2,305	–
Consideration accounted for as compensation expense	**1,481**	1,409	–
Forfeiture of deferred consideration	**(204)**	–	–
Remeasurement of contingent consideration	**(878)**	–	–
Increase in operating profit	**26,157**	24,714	14,502
Unwinding of discount on contingent consideration	**2,220**	436	–
Increase in profit before income taxes	**28,377**	25,150	14,502
Income tax credit	**(3,448)**	(4,187)	(351)
Increase in net income	**24,929**	20,963	14,151

Explanation of financial performance measures

Change in revenue

We monitor the change in revenue from one period to another and the trend in revenue over time because they are important measures of the growth in our business. During the periods presented, there were no differences between revenue determined in accordance with IFRS and on an underlying basis. During each period, the change in revenue was as follows:

US$000 unless stated otherwise	**2018**	2017	2016
IFRS and underlying measures			
Revenue in the period	**1,442,138**	1,352,841	1,197,611
Revenue in the comparative period	**1,352,841**	1,197,611	1,355,312
Increase/(decrease) in revenue	**6.6%**	13.0%	(11.6)%

Gross margin

Gross margin is gross profit expressed as a percentage of revenue. We monitor gross margin because we believe it provides a measure of the value that we add to our products. Gross margin determined in accordance with IFRS and on an underlying basis was as follows:

US$000 unless stated otherwise	**2018**	2017	2016
IFRS measures			
Revenue	**1,442,138**	1,352,841	1,197,611
Gross profit	**691,068**	644,870	566,648
Gross margin	**47.9%**	47.7%	47.3%
Underlying measures			
Revenue	**1,442,138**	1,352,841	1,197,611
Gross profit	**696,001**	648,395	567,768
Gross margin	**48.3%**	47.9%	47.4%

Operating expenses as a percentage of revenue

We monitor operating expenses as a percentage of revenue because we believe it provides a measure of our effort in innovation and the efficiency of our operating structure. Operating expenses comprise selling, general and administrative ("SG&A") expenses and research and development ("R&D") expenses. Operating expenses as a percentage of revenue determined in accordance with IFRS and on an underlying basis was as follows:

US$000 unless stated otherwise	**2018**	2017	2016
IFRS measures			
Revenue	**1,442,138**	1,352,841	1,197,611
Operating expenses	**(494,537)**	(448,275)	(394,549)
Operating expenses as a percentage of revenue	**34.3%**	33.1%	32.9%
Underlying measures			
Revenue	**1,442,138**	1,352,841	1,197,611
Operating expenses	**(416,672)**	(389,283)	(347,166)
Operating expenses as a percentage of revenue	**28.9%**	28.8%	29.0%

Change in operating profit

We monitor the change in operating profit from one period to another and the trend in operating profit over time because we believe they are important measures of the performance of our operations. Operating profit growth determined in accordance with IFRS and on an underlying basis was as follows:

US$000 unless stated otherwise	**2018**	2017	2016
IFRS measures			
Operating profit in the period	**199,707**	187,017	309,807
Operating profit in the comparative period	**187,017**	309,807	259,746
Increase/(decrease) in operating profit	**6.8%**	(39.6)%	19.3%
Underlying measures			
Operating profit in the period	**281,628**	259,458	221,010
Operating profit in the comparative period	**259,458**	221,010	317,656
Increase/(decrease) in operating profit	**8.5%**	17.4%	(30.4)%

Financial performance measures continued

Explanation of financial performance measures continued

Operating profit margin

Operating profit margin is operating profit expressed as a percentage of revenue. We monitor operating profit margin because we believe it provides a measure of the overall profitability of our operations. Operating profit margin determined in accordance with IFRS and on an underlying basis was as follows:

US$000 unless stated otherwise	**2018**	2017	2016
IFRS measures			
Revenue	**1,442,138**	1,352,841	1,197,611
Operating profit	**199,707**	187,017	309,807
Operating profit margin	**13.8%**	13.8%	25.9%
Underlying measures			
Revenue	**1,442,138**	1,352,841	1,197,611
Operating profit	**281,628**	259,458	221,010
Operating profit margin	**19.5%**	19.2%	18.5%

Underlying EBITDA and EBITDA margin

Underlying EBITDA is a non-IFRS measure that we define as underlying net income before net finance expense, income tax expense and depreciation and amortisation expenses. Underlying EBITDA margin is a non-IFRS measure that represents underlying EBITDA expressed as a percentage of revenue. We present underlying EBITDA and underlying EBITDA margin because we believe these measures are useful to investors and other users of our financial information in evaluating the sensitivity of our underlying trading performance to changes in variable operating expenses. Underlying EBITDA may be reconciled to net income determined in accordance with IFRS as follows:

US$000	**2018**	2017	2016
Net income	**139,799**	169,434	258,116
Net finance expense/(income)	**3,514**	(7,786)	4,601
Income tax expense	**55,281**	25,369	47,090
Depreciation expense	**31,455**	30,807	27,219
Amortisation expense	**49,130**	41,969	35,954
EBITDA	**279,179**	259,793	372,980
Share-based compensation and related payroll taxes	**41,653**	35,498	30,516
Acquisition-related costs	**–**	4,539	–
Consumption of the fair value uplift of acquired inventory	**3,129**	2,305	–
Consideration accounted for as compensation expense	**1,481**	1,409	–
Forfeiture of deferred consideration	**(204)**	–	–
Remeasurement of contingent consideration	**(878)**	–	–
Corporate transaction costs	**11,346**	–	3,485
Integration costs	**2,765**	2,305	–
Share of loss of associate	**1,113**	–	–
Impairment of intangible assets	**–**	2,790	–
Impairment of property, plant and equipment	**–**	1,537	–
Loss on deconsolidation of Dyna Image	**–**	5,597	–
Merger termination fee	**–**	–	(137,300)
Underlying EBITDA	**339,584**	315,773	269,681

Underlying EBITDA margin was as follows:

US$000 unless stated otherwise	**2018**	2017	2016
Underlying measures			
Revenue	**1,442,138**	1,352,841	1,197,611
EBITDA	**339,584**	315,773	269,681
EBITDA margin	**23.5%**	23.3%	22.5%

Explanation of financial performance measures continued

Earnings per share

We monitor basic and diluted earnings per share ("EPS") on an IFRS basis and on an underlying basis. We believe that underlying EPS measures are useful to investors in assessing our ability to generate earnings and provide a basis for assessing the value of the Company's shares (for example, by way of price earnings multiples). Earnings for calculating IFRS and underlying EPS measures were calculated as follows:

US$000	2018	2017	2016
IFRS measures			
Net income	**139,799**	169,434	258,116
Loss attributable to non-controlling interests	**–**	4,482	2,824
Earnings for calculating basic and diluted EPS	**139,799**	173,916	260,940
Underlying measures			
Net income*	**225,369**	228,013	165,420
Loss attributable to non-controlling interests	**–**	1,425	2,299
Earnings for calculating basic and diluted EPS	**225,369**	229,438	167,719

* Underlying net income is reconciled to net income determined in accordance with IFRS basis in the tables set out under the heading "Reconciliation of underlying measures to equivalent IFRS measures".

Underlying and diluted EPS measures are calculated using the weighted average number of shares that are used in calculating the equivalent measures under IFRS as presented in note 10 to the consolidated financial statements.

Basic and diluted EPS on an IFRS basis and on an underlying basis were as follows:

US$	2018	2017	2016
IFRS earnings per share			
Basic	**1.89**	2.34	3.43
Diluted	**1.80**	2.21	3.25
Underlying earnings per share			
Basic	**3.05**	3.08	2.20
Diluted	**2.90**	2.92	2.09

Free cash flow

Free cash flow is a non-IFRS measure that represents cash flow from operating activities, less capital expenditure. We believe that free cash flow is useful to investors because it provides a measure of the cash generated by our business that is available for expansion, to make strategic investments in, or acquire, other businesses, to repay borrowings and to fund distributions to shareholders.

Free cash flow was calculated as follows:

US$000	2018	2017	2016
Cash flow from operating activities	**288,649**	284,722	248,760
Purchase of property, plant and equipment	**(26,145)**	(47,938)	(25,553)
Purchase of intangible assets	**(6,197)**	(6,196)	(8,177)
Payments for capitalised development costs	**(24,771)**	(20,988)	(15,802)
Capital element of finance lease payments	**(1,651)**	(4,283)	(3,834)
Free cash flow	**229,885**	205,317	195,394

Glossary of Terms – Technical

Technical glossary

Analog A type of signal in an electronic circuit that takes on a continuous range of values rather than only a few discrete values.

Appcessories A physical device and counterpart application for a mobile device typically controlled via Bluetooth®.

ASIC An Application Specific Integrated Circuit is an integrated chip, custom-designed for a specific application.

ASSP An Application Specific Standard Product is a semiconductor device integrated circuit ("IC") dedicated to a specific application and sold to more than one user.

Audio CODEC The interface between analog signals (such as the human voice) and the digital data processing inside a mobile phone, determining voice quality.

BCD process platform The incorporation of analog components ("Bipolar"), digital components ("CMOS") and high-voltage transistors ("DMOS") on the same die to reduce the number of components required in the bill of materials, minimise board space, costs and the parasitic losses in comparison to a non-integrated solution.

BOM Bill of materials.

Bluetooth® Smart Bluetooth® Smart is a wireless personal area network technology designed and marketed by the Bluetooth Special Interest Group aimed at novel applications in the healthcare, fitness, beacons, security, and home entertainment industries.

Buck converter A DC-to-DC buck converter accepts a direct current input voltage and produces a direct current output voltage to a plurality of channels.

CAD Computer Aided Design usually refers to a software tool used for designing electronics hardware or software systems.

CDMA Code Division Multiple Access is an alternative to GSM technology for mobile wireless networks.

Chips Electronic integrated circuits.

CMOS Complementary Metal Oxide Semiconductor: the most popular class of semiconductor manufacturing technology.

CMIC Configurable Mixed-Signal IC A category of ICs comprising a matrix of analog and digital blocks which are configurable through a programmable ("OTP") non-volatile memory.

Digital A type of signal used to transmit information that has only discrete levels of some parameter ("usually voltage").

Digital Enhanced Cordless Telecommunications ("DECT") is a wireless connectivity standard technology originated in Europe for cordless telephony.

Fabless A company that designs and delivers semiconductors by outsourcing the fabrication ("manufacturing") process.

FET A Field Effect Transistor uses an electric field to control the shape and hence the conductivity of a channel of one type of charge carrier in a semiconductor material.

Foundry A manufacturing plant where silicon wafers are produced.

Hi-Fi High-Fidelity is the reproduction of sound with little or no distortion.

High power density In the context of travel adapters, chargers and power supplies, high power density is the ability to put higher power AC/DC conversion capability inside smaller form-factor adapter cases and power supply housings while avoiding thermal issues that can occur when operating high power electronics in confined, small spaces. High power density is achieved by enabling the use of smaller components that are also more highly efficient.

GaN Gallium Nitride.

IC Integrated Circuit An electronic device with numerous components on a single chip.

FPGA A Field-programmable gate array is an integrated circuit designed to be configured by a customer or a designer after manufacturing.

Imaging The capture and processing of images via an image sensor for use by an electronic device to send to a display for viewing by a user.

Internet of Things ("IoT") The Internet of Things is an environment where everyday items, such as smartphones, wearable health meters, light bulbs, and lighting, security and HVAC systems, are all connected via the Internet, allowing them to send and receive data and be controlled wirelessly.

Internet of My Things It refers to the consumer segment of the Internet of Things.

LDO Low dropout voltage regulators are used in battery operated systems, where the output voltage is typically lower than the input voltage.

LED A Light Emitting Diode is a semiconductor device that emits light when charged with electricity, often used for LCD display backlights.

Liquid Crystal Display ("LCD") A display technology found in many portable electronics products, including personal organisers, cellular handsets and notebook computers.

LTE Long-Term Evolution is a standard for wireless communication of high-speed data for mobile phones and data terminals.

Mixed-signal A combination of analog and digital signals being generated, controlled or modified on the same chip.

OEM An Original Equipment Manufacturer that builds products or components that are used in products sold by another company.

Original Design Manufacturer ("ODM") An original design manufacturer designs and produces products that are specified and then rebranded by OEMs.

PMIC Power Management IC.

Power Management The management of the power requirements of various subsystems, important in hand-held and portable electronics equipment.

PrimAccurate™ Dialog's patented control technology that uses digital algorithms on the primary side of an isolated power supply eliminating the need for a secondary side regulator and optical feedback isolator to lower the total BOM cost, reduce the overall solution size and improve reliability.

Rapid Charge™ A Dialog product which enables substantially faster battery charging of portable devices via USB AC/DC power adapters.

Semiconductor A base material halfway between a conductor and an insulator, which can be physically altered by mixing in certain atoms. Semiconductors form the basis for present-day electronics.

Silicon A semi-metallic element used to create a wafer – and the most common semiconductor material – in about 95% of all manufactured chips.

SmartBond™ Dialog's SmartBond™ family is the simplest route to delivering the most power-friendly and flexible Bluetooth® Smart connected products to the market. Highly-integrated, SmartBond™ delivers the smallest, most power-efficient Bluetooth® Smart solutions available – and enables the lowest system costs.

SmartDefender™ Dialog's advanced cycle-by-cycle, hiccup mode technology that addresses soft short circuits in adapter cables and connectors helping to prevent excessive heat build-up and damage.

SmartMirror™ A technology patented by Dialog Semiconductor which simplifies circuit design and provides very low current consumption in Power Management circuits.

Smartphone A mobile phone offering advanced capabilities, often with pc-like functionality ("PC-mobile handset convergence"). A smartphone runs complete operating system software providing a standardised interface and platform for application developers.

SmartPulse™ A series of wireless sensors, actuators and base station devices enables the easy creation of wireless sensor networks for the home automation, security, healthcare and energy monitoring consumer markets.

SmarteXite™ Dialog's brand name for its intelligent LED lighting technology platform.

SmartXtend™ A technology patented by Dialog Semiconductor that extends the life and reduces power consumption of high-resolution, passive matrix OLED displays.

Solid State Lighting A type of lighting in which light-emitting diodes ("LEDs") replaces conventional incandescent and fluorescent lamp for general lighting purposes.

Subcontractor A business that signs a contract to perform part or all of the obligations of another's contract.

Synchronous Rectifier An integrated circuit that can replace diodes to improve efficiency and power density in power conversion applications, such as power supplies.

SoC System on Chip An integrated circuit with all the necessary electronic circuits and parts for a given system.

System-on-Chip An IC that integrates all components of a computer or other electronic system into a single chip. It may contain digital, analog, mixed-signal, and often radio-frequency functions – all on a single chip substrate.

Tablet PC A tablet PC refers to a slate- or tablet-shaped mobile computer device, equipped with a touchscreen or stylus.

TAM Total addressable market, TAM measures the potential market for your product – and your product only – assuming you could reach 100% of your customers.

Ultrabook™ A higher-end, compact sub-notebook that is designed to be compact, thin and light without compromising performance and battery life. Ultrabooks™ typically feature low power processors and solid-state drives.

USB Universal Serial Bus: a universal interface standard to connect different electronics devices.

USB Power Delivery ("USB PD") A communication protocol developed by the USB Implementers Forum. The USB PD protocol is added on top of the USB Type-C™ connector specification to enable a single USB cable/connector solution that can be used ubiquitously for power or charging across mobile devices, tablets, laptops, and even power tools, networking devices, and USB wall receptacles. The specification supports scalable power and performance for new and emerging electronic products. The USB PD specification provides flexible power delivery and data transfer up to 100W.

USB Type-C™ cable and connector specification A universal cable and connector specification developed by the USB Implementers Forum that addresses new, smaller, thinner, lighter form factor computing platforms and devices. It provides for a slim, sleek and standard connector form-factor and high-power cable. Combined with the USB Power Delivery specification, USB Type-C enables a single USB cable/connector solution that can be used ubiquitously for power or charging across mobile devices, tablets, laptops, and even power tools, networking devices, and USB wall receptacles. The specification supports scalable power and performance for new and emerging electronic products.

Voice Over IP Our energy-efficient multicore VoIP processors interact with Bluetooth®, Wi-Fi and DECT to enable headset and handset connectivity while combining industry-leading power consumption with the flexibility and processing capacity to handle a wealth of enterprise VoIP applications.

Wafer A slice of silicon from a 4, 5, 6 or 8 inch diameter silicon bar and used as the foundation on which to build semiconductor products.

4G Wireless broadband standard.

Glossary of Terms – Financial

Financial glossary

AGM Annual General Meeting of the Company's shareholders.

BaFin the Federal Financial Supervisory Authority in Germany (Bundesanstalt für Finanzdiensleistungsaufsicht).

Basis point or bp one hundredth of one percentage point.

CAGR Compound Annual Growth Rate, a method of assessing the average growth of a value over time.

CEO Chief Executive Officer.

CFO Chief Financial Officer.

the Companies Act 2006 the Companies Act 2006 of England and Wales, as amended.

the Company Dialog Semiconductor Plc.

COSO Committee of Sponsoring Organizations, whose mission is to provide thought leadership on risk management, internal control and fraud deterrence to improve organisational performance and governance.

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs (including share-based compensation), applicable overhead and depreciation of test and other equipment.

Dialog used for convenience to refer to the Company and its subsidiaries, unless the context requires otherwise.

the DTRs the Disclosure & Transparency Rules of the UKLA.

EBIT Earnings before interest and taxes (also known as operating profit).

EBITDA Earnings before depreciation, amortisation, interest and taxes.

the EU the European Union.

Euro (€) the common currency used in the majority of member countries of the EU.

the Frankfurt Stock Exchange the largest of the seven regional securities exchanges in Germany.

Free-float The proportion of an issuer's share capital that is available for purchase in the public equity markets by investors.

General and administrative expenses consist primarily of personnel costs (including share-based compensation) and costs for our finance, human resources and other business support functions.

the Group the Company and its subsidiaries.

the IASB the International Accounting Standards Board.

IFRS International Financial Reporting Standards, comprising accounting standards issued by the IASB.

KPIs Key Performance Indicators, a range of indicators to assess performance, to ensure performance is aligned to strategy, and to ensure continued alignment with shareholder interests.

LTIP Long-Term Incentive Plan.

NASDAQ the National Association of Securities Dealers and Automated Quotations.

OECD Organisation for Economic Co-operation and Development.

Other operating income consists of income from customer-specific R&D contracts and other income that is not classified as revenue, less other operating expenses.

Pound sterling (£) the currency of the UK.

Prime Standard a market segment of the Frankfurt Stock Exchange that lists companies which comply with international transparency standards, including periodic reporting in German and English, application of international accounting standards, publication of a financial calendar, staging of at least one analyst conference a year and ad hoc disclosure also in German and English.

R&D research and development.

R&D expenses consist principally of personnel costs (including share-based compensation) and other design and engineering-related costs associated with the development of new ASICs and ASSPs.

Selling and marketing expenses consist primarily of personnel costs (including share-based compensation), travel expenses, sales commissions, advertising and other marketing costs, together with amortisation expenses in relation to identifiable intangible assets such as customer relationships, key customers and order backlog acquired in business combinations.

SG&A selling, general and administrative.

the TecDAX stock index that tracks the performance of the 30 largest companies by market capitalisation from the technology sector that are listed on the Frankfurt Stock Exchange.

UK the United Kingdom of Great Britain and Northern Ireland.

the UKLA the UK Listing Authority.

US the United States of America.

US dollar (US$) the currency of the US.

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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	2 May 2019
Q1 2019 Results	9 May 2019
Q2 2019 Results	1 August 2019
Q3 2019 Results	6 November 2019
Preliminary results for 2019	February 2020

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Related undertakings

The Company's related undertakings as at 31 December 2018 were as follows:

Name	Registered Address	Country
Dialog Argo Holdings, Inc.	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Dialog Integrated Circuits (Tianjin) Limited[1]	Rooms 2701-2, No. 2 Building, TEDA Service Outsourcing Industrial Park, No. 19 XinHuanxi West Road, TEDA, Tianjin, 300457	China
Dialog Semiconductor (Italy) S.R.L.	Via Gaetano D'Alesio No.2, 57126, Livorno	Italy
Dialog Semiconductor (Shenzhen) Limited[1]	25F, Lifetech Scientific Building, South 12 Road, Southern District in High-tech Zone, Nan Shan District, Shenzhen, 518057	China
Dialog Semiconductor (UK) Limited	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom
Dialog Semiconductor Arastırma Gelistirme ve Ticaret Anonim Sirketi	Istanbul Technical University, Ayazaga Campus, ARI 6 Building, Maslak, Istanbul, 34469	Turkey
Dialog Semiconductor B.V.	Het Zuiderkruis 53, 5215 MV's-Hertogenbosch	Netherlands
Dialog Semiconductor Finance B.V.	Het Zuiderkruis 53, 5215 MV's-Hertogenbosch	Netherlands
Dialog Semiconductor GmbH	Neue Strasse 95, 73230 Kirchheim unter Teck-Nabern	Germany
Dialog Semiconductor Hellas Societe Anonyme of Integrated Circuits[1]	Megaro Xenia, Achilleos 8 & Lambrou Katsoni, Kallithea, Athens, 17674	Greece
Dialog Semiconductor Holdings 1 Limited	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom
Dialog Semiconductor Hong Kong Limited[1]	Units 515-517, 5/F., Building 12W, No.12, Science Park West Avenue, Phase Three, Hong Kong Science Park, Pak Shek Kok, N.T.	Hong Kong
Dialog Semiconductor Inc.[1]	Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Dialog Semiconductor K.K.	8F W-Building 1-8-15, Minato-ku, Tokyo 108-0075	Japan
Dialog Semiconductor Operations Services Limited[1]	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom
Dialog Semiconductor Trading (Shanghai) Limited[1]	Room 703, 7F Kehui Building, No.1188 North Quinzhou Road, Xuhui District, Shanghai 200231	China
Dyna Image Corporation[2]	8F., No.233-2, Baoqiao Rd., Xindian Dist., New Taipei City, 23145	Taiwan
iWatt B.V.[1]	Het Zuiderkruis 53, 5215 MV's-Hertogenbosch	Netherlands
iWatt Cayman[1]	PO Box 309, Ugland House, Grand Cayman, KY1-1104	Cayman Islands
iWatt Coöperatief U.A.[1]	Het Zuiderkruis 53, 5215 MV's-Hertogenbosch	Netherlands
iWatt HK Limited[1]	Units 515-517, 5/F., Building 12W, No.12, Science Park West Avenue, Phase Three, Hong Kong Science Park, Pak Shek Kok, N.T.	Hong Kong
iWatt L.L.C.[1]	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States
Powerventure Semiconductor Limited	Tower Bridge House, St Katharine's Way, London E1W 1AA	United Kingdom
Silego Korea Inc.[1]	6FL, Deokmyeong Building, Teheran-ro 625, Gangnam-gu, Seoul, 06173	Korea
Silego (Hefei) Technology, Inc.[1]	Room 303, Building 2, No. 3 Tian Yuan Road, High-Tech Zone, Hefei, 230088	China
Silego Technology Japan, Inc.[1]	8F W-Building 1-8-15 Konan, Minato-ku, Tokyo, 108-0075	Japan
Limited Liability Company Silego Technology (Ukraine)[1]	Kamyanetska Str. 33, Lviv 79034	Ukraine
Silego Technology Inc.[1]	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, DE 19801	United States

1 Held indirectly.
2 Dyna Image Corporation is an associate in which the Company has a direct ownership interest of 38.7% and an indirect ownership interest of 9.8% that is held by a wholly-owned subsidiary.

All subsidiaries are wholly-owned.

Branches and representative offices

Name	Entity Type	Registered Address	Country
Dialog Integrated Circuits (Tianjin) Limited Beijing Branch	Branch Office	Room 902-904, Zhong Guan Cun Crowne Plaza Office Building, No. 106 ZhiChun Road, Haidian District, Beijing, 100086	China
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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, Teheran-ro 625, Gangnam-gu, Seoul, 06173	Korea
Dialog Semiconductor Operations Services Limited Thailand Representative Office	Representative Office	26th Floor, Sathorn City Tower, 175 South Sathorn Road, Thungmahamek, Sathorn,10120 Bangkok	Thailand
Dialog Semiconductor Operations Services Limited Taiwan Branch	Branch Office	7F., No.392, Ruiguang Rd., Neihu Dist., Taipei City 114	Taiwan
Powerventure Semiconductor Limited, Taiwan Branch	Branch Office	7F., No. 1, Taiyuan 1st St., Zhubei City, Hsinchu County 302	Taiwan
Silego Technology Inc., Shanghai Representative Office	Representative Office	Room 2102 J, LT Square, 500 North Chengdu Rd., Juangdu District, Shanghai	China
Silego Technology Inc., Taiwan Branch	Branch Office	7F., No. 392, Ruiguang Rd., Neihu Dist., Taipei City 114	Taiwan

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