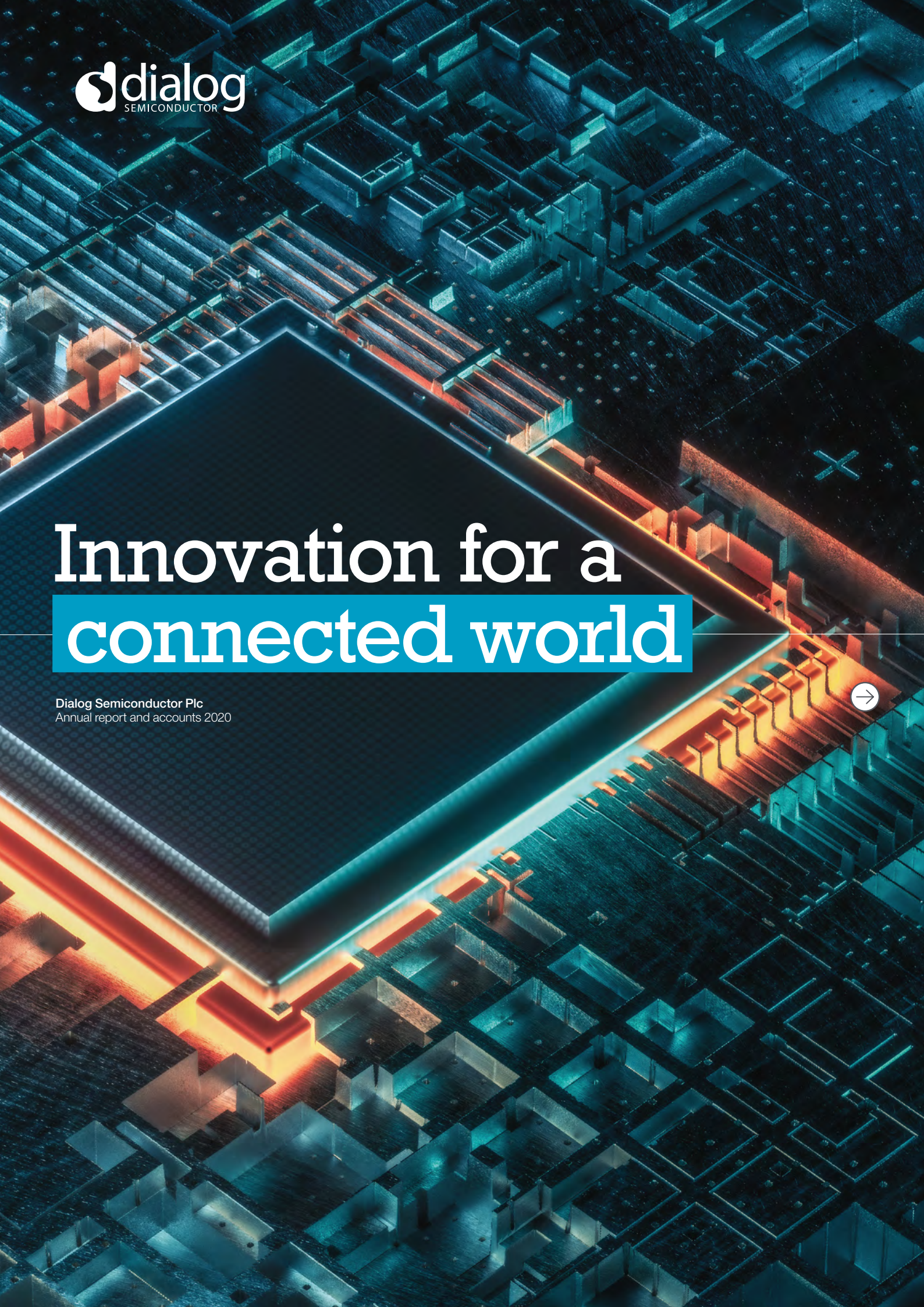

Innovation for a connected world

Dialog Semiconductor Plc
Annual report and accounts 2020

Building a diverse business

Battery management

Battery management represents a significant business opportunity for our technology and IP. There is a battery management system in every portable device.

Read more on p22

Adesto Technologies

The acquisition of Adesto Technologies in 2020, contributed to the diversification of our customer base in the Industrial Internet of Things ("IIoT") market.

Read more on p24

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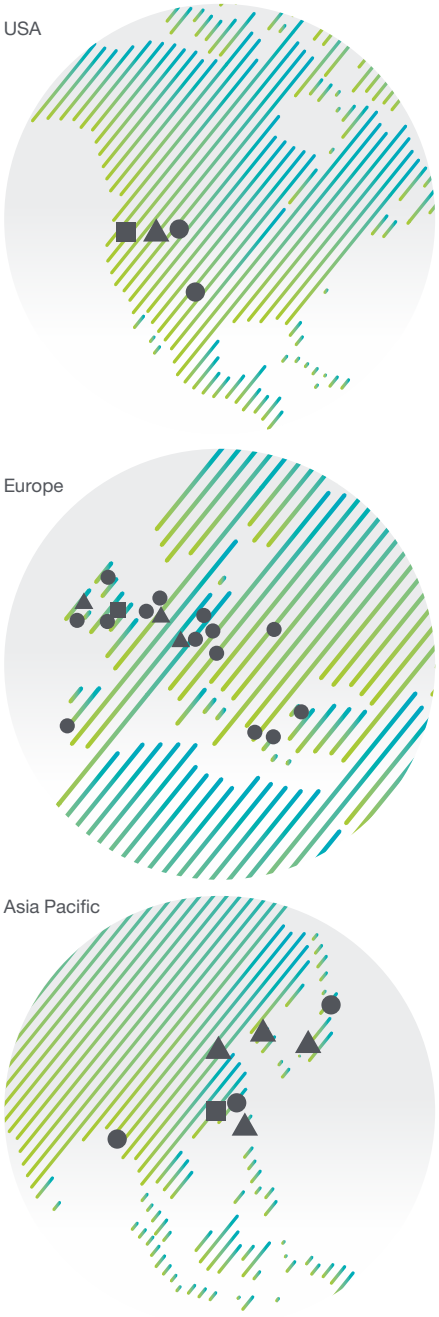
Who we are

Our operations

Key
- Head offices
- Design and Test
- Sales offices



17
Countries

37
Locations

2,286
Employees

Innovation for a connected world

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

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

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

Highlights 2020

Financial highlights

Revenue

US$1,376m

(12)% year-on-year (2019: US$1,566m)

Underlying revenue

US$1,376m

(3)% year-on-year (2019: US$1,420m)

See more about our investment case page 04.

Gross margin

49.3%

(2019: 54.2%)

Underlying gross margin

50.6%

(2019: 49.8%)

Operating margin

8.8%

(2019: 24.3%)

Underlying operating margin

21.6%

(2019: 22.8%)

Diluted EPS

US$1.17

(2019: US$3.96)

Underlying diluted EPS

US$3.32

(2019: US$3.47)

Cash flow from operating activities

US$142m

(2019: US$496.5m)

Revenue excluding licensed main PMIC products

US$1,013m

+27% year-on-year (2019: US$794m)

Operational highlights

Employees

2,286

(2019: 2,036)

Customer concentration

62%

(2019: 72%)

Engineering talent ratio

78%

(2019: 77%)

On Time Delivery performance

99.9%

(2019: 99.9%)

Sustainability highlights

GHG per employee (CO_2 tonnes)

0.67

(2019: 2.35)

Number of supplier audits

20

(2019: 31)

Employee turnover (%)

9.0%

(2019: 10.0%)

Economic value distributed (US$ millions)

1,275

(2019: 1,321)

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

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

We focus our efforts on delivering positive impacts against the following six SDGs in particular, which are referenced throughout this report:

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 190 to 196.

At a glance

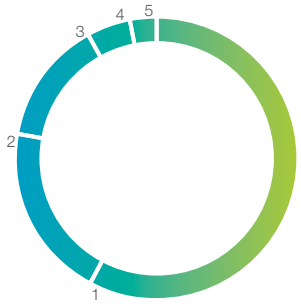
Our power-efficient mixed-signal ICs are increasingly used, enabling energy efficiency to improve across a wide range of consumer, industrial and automotive applications.

Our segments
The Group's organisational structure was updated in Q4 2020. This change is aligned with our growth strategy and the diversification of our business into the industrial market.

We have created a new reporting segment called Industrial IoT which groups the businesses from the acquisitions of Creative Chips GmbH and Adesto Technologies Corporation.

Underlying revenue and underlying operating profit/loss are the measures presented in the Group's segment disclosures. Details of the goodwill movements can be found in note 14 page 152.

Underlying revenue by segment



Total Group revenue

US$1,376m

1	Custom Mixed Signal	58%
2	Advanced Mixed Signal	20%
3	Connectivity & Audio	14%
4	Industrial IoT	5%
5	Corporate and other	3%

Total Group revenue was US$1,376 million. See explanations and reconciliations to the nearest equivalent IFRS measures in the section entitled "Financial performance measures" on pages 190 to 196.

Business segments	Percentage of Group underlying revenue in 2020	Year-on-year underlying revenue (US$m)
Custom Mixed Signal Read more in our segment review on page 58	58%	(16)% 2020 805 2019* 962 2018* 1,042
Advanced Mixed Signal Read more in our segment review on page 60	20%	+8% 2020 275 2019* 253 2018* 245
Connectivity & Audio Read more in our segment review on page 62	14%	+6% 2020 196 2019* 184 2018* 154
Industrial IoT Read more in our segment review on page 64	5%	nm 2020 65 2019* 2 2018* 0

Our position in the industry value chain

Description	Key products
Our custom mixed-signal solutions are highly-integrated single chip solutions that provide advanced performance for mobile devices, automotive infotainment systems, wearables, hearables, gaming, and other consumer devices. These custom solutions are broadly classified under Power Management ICs ("PMICs"), Battery Management ICs ("BMICs"), and Display Power ICs ("DPICs"). Our PMICs integrate numerous complex power converters and other functions to provide small, cost-effective and efficient solutions. Our BMICs are optimised for the consumer's demand for safe and fast charging, as well as extended battery life. Our DPICs integrate all the sophisticated power converters and control functions needed to drive today's advanced screens for contrast and power optimisation in mobile and consumer devices.	– Custom PMICs for consumer products. – BMICs to manage and charge battery powered devices. – DPICs for advanced mobile and consumer displays like OLED and µLED. – Sub-PMICs for high-performance multi-core System-on-Chip ("SoC") based systems. – ICs for gaming, solid state drives, wearable and hearable applications. – Automotive grade PMICs for ADAS ("Advanced Driver-Assistance Systems"), in-vehicle infotainment, and cluster systems. – Motor control ICs (automotive).
Configurable Mixed-signal ICs ("CMICs") can integrate many system functions while minimising component count, board space and power consumption. We also provide AC/DC controller solutions which enable fast and efficient charging for portable applications and LED drivers for display backlighting and Solid State Lighting ("SSL").	– CMICs. – AC/DC power conversion ICs for mobile and embedded power applications. – LED drivers for direct backlighting for TVs, monitors and automotive. – SSL LED drivers, including ASIC controllers. – PMICs for battery and tethered applications. – Sub-PMICs for high-performance multi-core SoC based systems.
We provide short-range wireless connectivity solutions that deliver outstanding performance and power efficiency. Our highly-integrated Bluetooth® low energy ("BLE") SoC delivers small and power-efficient BLE solutions, enabling low system costs. Our Wi-Fi SoCs provide industry-leading power consumption, enabling year-long battery lifetime in many IoT applications. Our Digital Enhanced Cordless Telecommunications ("DECT") and audio products enable a range of professional audio applications and high-end consumer headsets.	– Bluetooth® low energy ICs. – Low power Wi-Fi SoCs. – Voice over DECT for cordless phones and professional audio applications. – Digital audio and audio CODEC ICs for headsets and headphones. – Audio CODECs for computing, portable media players and audio accessories.
A product portfolio at the core of Industrial IoT enabling factory and building automation such as non-volatile memory ("NVM") ICs, industrial comm ICs, custom designed ASICs, M2M, IP and embedded systems, servers and software. Our product portfolio enables our customers to tune and optimise their entire system as well as establish reliable and easy communications for industrial networks and devices.	– NVM memory ICs. – Communications ICs. – Industrial edge computing solutions (hardware and software). – Silicon IP.

* Restated to reflect the segment reorganisation and measurement changes.

Investment case

A growing business built on innovation

Structural growth

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

Read more about our industry drivers on pages 18 and 19

Year-on-year revenue growth in 2020
(excluding legacy licensed main PMIC products)

+27%

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 levels of integration through short design cycles.

Read more about our competitive advantages on pages 10 and 11

Expensed in R&D in 2020

US$326m

Number of employees in engineering functions in 2020

1,791

High returns, strong cash generation

– We outsource the production of our semiconductors to leading foundries. Our high-touch fabless model enables a low capital intensity business.
– The combination of low capital intensity and rigorous working capital management results in strong cash flow generation.
– Although reinvesting in the business is a priority, we seek to consistently return excess cash to shareholders through share buybacks.

Read more about cash flow on page 72

Free cash flow in 2020*

US$92m

Share buyback in 2020

US$80m

Support organic and inorganic expansion

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

Read more about our KPIs on pages 54 to 57

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

1,005

Cash allocated to acquisitions in 2020

US$500m

* Free cash flow is a non-IFRS measure. See "Financial performance measures" on pages 190 to 196.

Our entrepreneurial and collaborative culture support the success of our business

The power of Agility

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

The power of Difference

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

The power of Many

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

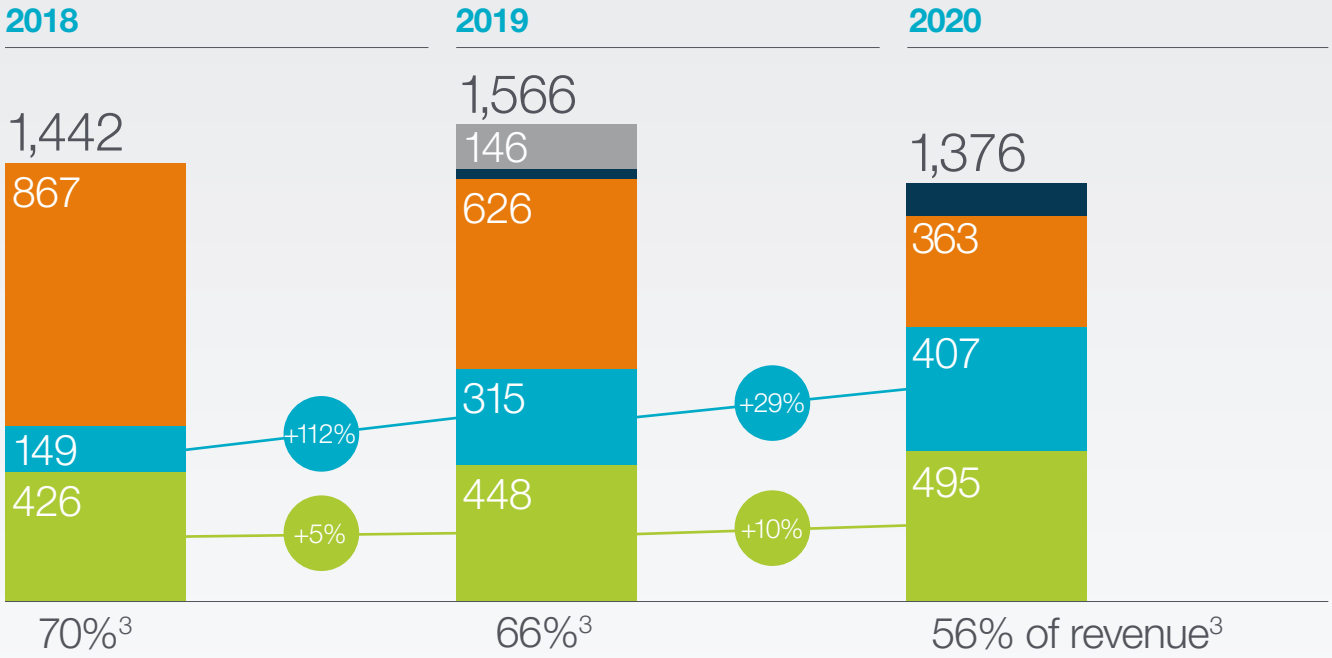
The power of Ideas

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

Successfully executing our strategy over the last three years

	2018	2019	2020
% of Group revenue excluding licensed business	40%	55%	74%
Customer concentration	70%	66%	56%
Revenue growth (excluding licensed business)	–	+38%	+27%
Underlying gross margin	46.3%	49.8%	50.6%
Underlying operating margin	19.5%	22.8%	21.6%

We are building a diverse mixed-signal business



Perpetual IP licence

Strategic Growth Initiatives[1]

Licensed main PMICs

New custom mixed-signal products[2] for our largest customer

AMS, C&A excluding FCI, and other mixed-signal products in CMS.

1 Includes licence revenue from our largest customer as well as revenue from the acquisitions of FCI, Creative Chips and Adesto Technologies.

2 Includes revenue from other mixed signal products from our largest customer reported in CMS (i.e. excluding licensed main PMICs).

3 Revenue from our largest customer recognised in Custom Mixed Signal as a percentage of total Group revenue.

Chairman's statement

Promoting the long-term success of our Company

Fellow shareholder, 2020 was an extraordinary year where we grappled with the Covid-19 pandemic and the exceptional challenges brought in by the lockdown and subsequent social restrictions.

It has also been an extraordinary year for our industry, when our contribution to society took centre stage in our daily lives. Alongside this, the financial performance of the business was strong. Excluding the revenue from licensed main PMICs, the business grew 27% year-on-year. Additionally, in 2020, we returned US$80 million to shareholders through our share buyback programme.

The exceptional challenges we faced in 2020 drew a sharp focus on the importance of promoting the long-term success of the Company and ensuring consideration was given to the interests of our stakeholders.

Our culture and employees

The Board and our employees live by our four "powers" upon which our entrepreneurial and collaborative culture is built (see page 05). The commitment and engagement of our 2,286 colleagues have always been key to our success. No more so than in 2020, where most of our employees worked remotely, demonstrating their capacity to adapt and innovate as well as the strength of our collaborative and entrepreneurial spirit.

Throughout this tumultuous year, we continued to engage with our employees, albeit remotely, having frequent updates on how they navigated the evolving restrictions and most importantly, seeking their feedback, on remote working practices and wellbeing.

> We are executing on our plan to build a diverse and sustainable mixed-signal business, building on the strength of our power-efficiency capabilities.

The ability to retain and develop our talent is key to the successful execution of our growth strategy and the long-term sustainability of the business. For this purpose, our human resources effort is focused on these two areas.

Since the first lockdowns in March 2020, our travel plans for the year were cancelled. As a result, we missed the personal interaction that we so value when the Board undertakes site visits. Nonetheless, Nick Jeffery, our designated director for employee engagement, held virtual meetings with employees based in the US, Austria and Taiwan.

Read more about our employees on pages 34 to 37

Relationships with customers, partners and communities

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

Our collaborative values extend to the way we engage with our stakeholders and have resulted in the development of leading technology, product quality and product excellence.

In 2020, following the closing of the acquisition of Adesto Technologies Corporation ("Adesto"), we welcomed over 5,000 customers and new business partners.

One of the main advantages of our fabless business model is the strong and responsible relationships with the supply chain, to which we extend the promotion of responsible business practices. Every year, we audit our manufacturing partners and consistently increase the level of scrutiny. In 2020, we undertook 20 audits. The increasing requirements of these audits coupled with continuous improvement programmes resulted in a lower number of major negative audit findings than in 2019. In line with our policy, we followed up the resolution of any findings.

Read more about our value chain on pages 46 to 49

The benefits of technology to our society have never been so clear than in 2020. Our sustainable investment in innovation results in technologies and products which play an important role in consumer applications such as tablets, notebooks, and wearables. These applications enabled society to work and learn from home, as well as stay healthy.

Our innovation in power-efficient and highly integrated semiconductors contributes to the reduction of power consumption and materials in consumer electronics. This, alongside economic growth and support to quality education represent our main contribution to society. As an innovative leading European semiconductor company, we seek to engage with universities and professional bodies, supporting the development of students and professionals. Additionally, in 2020 we contributed approximately US$1.3 billion to a range of stakeholders, including employees, tax authorities and local community projects across the world.

Read more about our societal benefits on pages 42 to 43

Building a constructive dialogue with shareholders and investors

The Board is committed to engaging in constructive dialogue with shareholders. Ahead of the 2020 AGM I sent a letter to our main shareholders, giving them the opportunity to raise any concerns. In March 2020, following the engagement with shareholders in relation to the 2019 remuneration policy we published a note providing some additional insight into the primary drivers of shareholder feedback and considerations taken by the Board as a result of it.

Throughout the year, the CEO, CFO and other members of the executive team engaged with investors remotely and hosted a number of webcasts providing further insight to the long-term opportunities in our business.

Read more about our engagement with shareholders on page 27

Governance and oversight

Our ability to create value for our stakeholders is heavily linked to our commitment to high standards of corporate governance. The Board and I feel we have the right balance of skills, experience and backgrounds to oversee the evolution of our strategy and to challenge the Management Team. As a Board, we evaluate changes in best practice, including the growing focus on ESG and sustainability.

The Board is aware that our approach to governance can only be evaluated if we provide high levels of transparency. In 2020, for the first time we reported on the associated climate change risks and opportunities following the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD"). In addition, to continue enhancing our disclosure and levels of accountability, in this year's report we made further progress towards integrated reporting, providing a single simplified message to our stakeholders of all the sources of value creation and preservation.

As we move into 2021, we will continue to look to refine our governance framework.

Recommended cash offer

On 8 February 2021, the boards of Dialog and Renesas Electronics Corporation ("Renesas") reached an agreement on the terms of a recommended all cash offer for the entire issued and to be issued share capital of the Company for €67.50 per share, representing a total equity value of approximately €4.9 billion (US$5.9 billion).

The Acquisition is governed by the UK City Code on Takeovers and Mergers and is expected to be implemented by means of a UK Scheme of Arrangement. The Acquisition will be conditional on approval at a shareholder meeting of Dialog and at a UK court meeting, as well as several regulatory approvals.

Our business would not be possible without the commitment and passion of all our colleagues, and the Board would like to express its sincere thanks for their hard work during a particularly exceptional period.

Sincerely,

Richard M. Beyer
Chairman

CEO Q&A

Executing our plan to build a diverse business

Dear shareholder, 2020 was an extraordinary year where we successfully navigated the challenges and uncertainty brought in by the Covid-19 pandemic.

The health and safety of our employees and business partners has been of paramount importance since the beginning of the pandemic. Most of our employees worked from home throughout the year, in line with national or local guidelines, and the Employee Assistance Programme provided support to get through these challenging times. The dedication, commitment and flexibility of all our employees enabled us to run the Company remotely and provide excellent support for our customers.

The disruption caused earlier in the year to our customers' contract manufacturers resolved successfully as the lockdown restrictions eased and the level of customer engagement continued throughout the year as planned. Although consumer demand in certain segments was impacted by the pandemic, our business also benefited from the shift to work and learn from home.

The operational flexibility and financial resilience of our fabless business model was a key advantage in 2020. Together with our strong balance sheet and liquidity, the Company continues to be well placed to successfully navigate the challenges brought by the ongoing lockdown restrictions.

Last but not least, we are a business built on innovation, and as such, we continued to invest in the development of new products to generate future revenue growth. Our talent, leading power-efficient expertise and collaborative culture give me confidence in the future of our business.

2020 was the second year of our plan to become a more diverse mixed-signal business. We did so with confidence in the future, expanding into the industrial IoT market with the acquisition of Adesto Technologies, and delivering an excellent Group financial performance. Group revenue in 2020 was US$1,376 million and underlying operating margin was 21.6%. Operating margin was 8.8% and included a US$44.9 million impairment loss in relation to the goodwill recognised in the acquisition of Adesto. In 2020, the business delivered 27% year-on-year revenue growth excluding revenue from licensed main PMIC products. Group revenue in 2020 was 12% below 2019 mainly due to US$146 million one-off licence revenue in Q2 2019, from the licensing agreement with our largest customer.

Our DNA is built on collaborative innovation. Dialog has developed leading mixed-signal power-efficient technology, working closely with customers, suppliers and other stakeholders. The length and quality of our customer relationships, the commitment of our employees and a strong collaboration with our foundry, test and packaging partners are a testimony of this approach. The Company values are lived daily by employees, management and

the Board: being open, entrepreneurial and collaborative, and understanding that together we make a contribution to society which goes beyond the generation of economic value. This has never been more clear than during the exceptional circumstances we lived through in 2020.

Q How would you describe Dialog's financial performance in 2020?

I am very pleased with the financial performance of the business in 2020. Underlying revenue was down 3% but excluding the contribution of licensed main PMIC products, revenue was up 27%. During the year, we delivered US$121 million operating profit, US$297 million on an underlying basis. In addition, the business generated US$142 million cash flow from operating activities.

We are gradually rebalancing the end-market footprint of the business, reducing its exposure to the smartphone market. In 2020, consumer demand improved for applications linked to the shift to working and learning from home, i.e. tablets, notebooks and wearable devices. Custom Mixed Signal revenue in 2020 was 16% below 2019 due to the decline from licensed main PMIC products. Excluding this, revenue was up 31% year-on-year.

The number of connected devices increased during the year which resulted in the expansion of the Bluetooth® low energy market. In this context, we continued to invest in the development of new Bluetooth® low energy ("BLE") and audio products to take advantage of market opportunities and position the segment for higher revenue growth and profitability over the coming years.

Across a range of end-markets, customers value the benefits of our Configurable Mixed-signal ICs, which delivered 27% year-on-year revenue growth. The adoption of LED backlighting slowed down during 2020 due to impact on the high-end TV market from the cancellation of live sports. Advanced Mixed Signal grew 8% year-on-year while we continued to expand the product pipeline to support future revenue growth.

Q How would you describe Dialog's competitive position in consumer Internet of Things ("IoT")?

The IoT market continues to gather momentum. In 2020, we expanded our range of Bluetooth® low energy products with the introduction of BLE TINY™ and the first combo Wi-Fi and BLE module, purpose built for battery-powered IoT applications, such as connected door locks, thermostats, and security cameras. Our VirtualZero™ technology enables the industry's lowest level of power consumption for Wi-Fi connectivity, delivering up to five years of battery life in many use cases.

We expect the LED backlighting segment to gradually recover in 2021, as new smart TV models come to market. Our technology meets today's High Dynamic Range ("HDR") requirements and is well placed to benefit from new opportunities in micro-LED displays.

The investments we made in the last two years will position the business to maximise the revenue growth opportunity in the coming years.

Q Is mobile a target end-market for Dialog?

Although we are rebalancing our exposure to mobile, it remains an important end-market for the Company. With the increasing power and battery requirements of 5G phones, our deep expertise and IP in mixed-signal semiconductors are aligned with customer requirements for energy-efficient and configurable products.

To support the expansion of our business into new areas, in 2020 we introduced next generation battery management solutions for mobile which were developed organically and will ramp in H2 2021. We also continue to hold a strong market position in AC/DC power conversion for travel adapters. Rapid charge technologies continue to be adopted across Asian markets and we remain focused on supporting our mobile customers on the roll out of High Power Density technology.

Q Is the Company considering further acquisitions?

In 2020, we acquired Adesto, a leading provider of innovative custom integrated circuits ("ICs") and embedded systems for the Industrial Internet of Things ("IIoT") market. This acquisition broadens and enhances our presence into the industrial market with a range of connectivity products highly-optimised for building and industrial automation. This builds on the acquisition of Creative Chips, supporting our growth strategy and accelerating the diversification of our business.

We continue to work hard to create new revenue growth opportunities. M&A remains one of our key strategic initiatives and will further contribute to enhance our competitive advantages, expand our product portfolio and addressable markets, and reduce customer concentration.

Q It seems that 2020 has been a pivotal year for sustainability in the financial markets. What are the main sustainability priorities for Dialog?

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

The key sustainability priorities haven't changed in 2020. Our employees, innovative power-efficient products, and a responsible supply chain are vital for the long-term success of our business. Retaining and developing our talented employees and a focused R&D approach is vital for innovation. To support the next level of innovators, Dialog remains committed to promoting STEM subjects, particularly amongst female students.

Our collaborative business approach and commitment ensures we play an active role in promoting high standards of business conduct across the value chain.

In 2020, we reported risks and opportunities associated with climate change following the recommendations of the TCFD (see pages 30 to 31).

Underlying operating profit

US$297m

(Operating profit US$121m*)

Underlying gross margin

50.6%

(Gross margin 49.3%*)

Year-on-year revenue growth excluding licensed PMIC products

+27%

Q Is there anything else you would like to add?

2020 was a challenging year but we successfully ran the Company remotely thanks to the commitment and flexibility of all our employees. I am extremely proud of all our employees for their hard work and dedication through these exceptional times.

This has allowed us to continue providing excellent customer support and generate a healthy pipeline of new opportunities across a multitude of customers for 2022 and beyond, including exciting new areas such as battery management, display and audio.

We are building a more diverse, vibrant and ambitious mixed-signal business, strongly focused on power-efficient technologies which will continue to create long-term sustainable value for our shareholders and other stakeholders.

I look forward to the future with confidence.

Dr Jalal Bagherli
Chief Executive Officer

* See full explanations and reconciliations on pages 190 to 196.

Our business model

How we monetise our business

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

A fabless business model based on differentiated best-in-breed products and tier one customer penetration results in high volumes, longer-term revenue streams, and ultimately in strong cash generation. On the other hand, our relatively high customer concentration can lead to significant fluctuations in revenue based on customer success and sourcing strategies. Dialog seeks to minimise its environmental footprint. Risks and opportunities related to climate change are included on page 30.

Aligned interests

Dialog's development of market-leading innovative products seeks to generate profitable revenue streams and create long-term value for our shareholders. We achieve this by setting stretching performance targets, which align with shareholders' interests, and then motivate our executives and employees to achieve those targets with appropriate incentive arrangements. The remuneration policy is set out in greater detail within the Directors' remuneration policy on pages 100 to 105.

Inputs

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

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

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

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

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

Business process

Financial flows

Investment phase

Short development times.

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

Investment phase

Low capital intensity.

Variable cost of goods sold. Underlying gross margins* 50% – 53%.

Revenue generation

Long-term visibility.

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

Reinvestment
Strategic growth initiatives including M&A

Outputs

Design cycle

6-18 months

We develop our consumer products in short and collaborative design cycles.

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

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

In the consumer electronics market, such as mobile, computing and IoT, product development times are short due to rapidly evolving consumer requirements. In other markets such as automotive and industrial, product development times are longer.

Our customers' requirements are a vital source of information for the development of new products. For the design of Application Specific IC ("ASIC") solutions, we engage with our customers as an "extended R&D team", delivering differentiation in short design cycles. Direct input from existing or potential new customers is also vital for the development of our standard products.

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

Manufacturing cycle

3 months

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

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

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 and UMC. This approach enables flexibility to deploy advanced production processes and maintain low capital intensity. Our assembly and test partners are leading companies such as SPIL, ASE and UTAC. Although fabless, we are responsible for delivering our products to customers.

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

We promote responsible business practices internally and across our value chain. An efficient and responsible supply chain is important to us and our customers. Climate change related risks to our supply chain are included on page 30.

Product cycle

1-10 years

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

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

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

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

Our customers are attracted by the quality, performance and energy efficiency of our products which are subject to a significant body of technical, legal, social responsibility, and quality control requirements defined by our customers.

Highly engaged, motivated and diverse workforce

9.0%

Employee turnover in 2020

Read more about our KPIs on pages 54 to 57

New IP and power-efficient differentiated mixed-signal ICs

1,250

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

Read more on pages 44 and 45

Sustainable partner relationships

99.9%

On Time Delivery

Read more on pages 46 to 49

Close and longstanding customer relationships

62%

Customer concentration

Read more on pages 38 and 39

High returns and strong cash flow generation

US$92m

Free cash flow generation in 2020

Read more about our KPIs on pages 52 to 55

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

* See explanations and reconciliations to the nearest equivalent IFRS measures on pages 190 to 196.

Our growth strategy

Generating new revenue opportunities

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

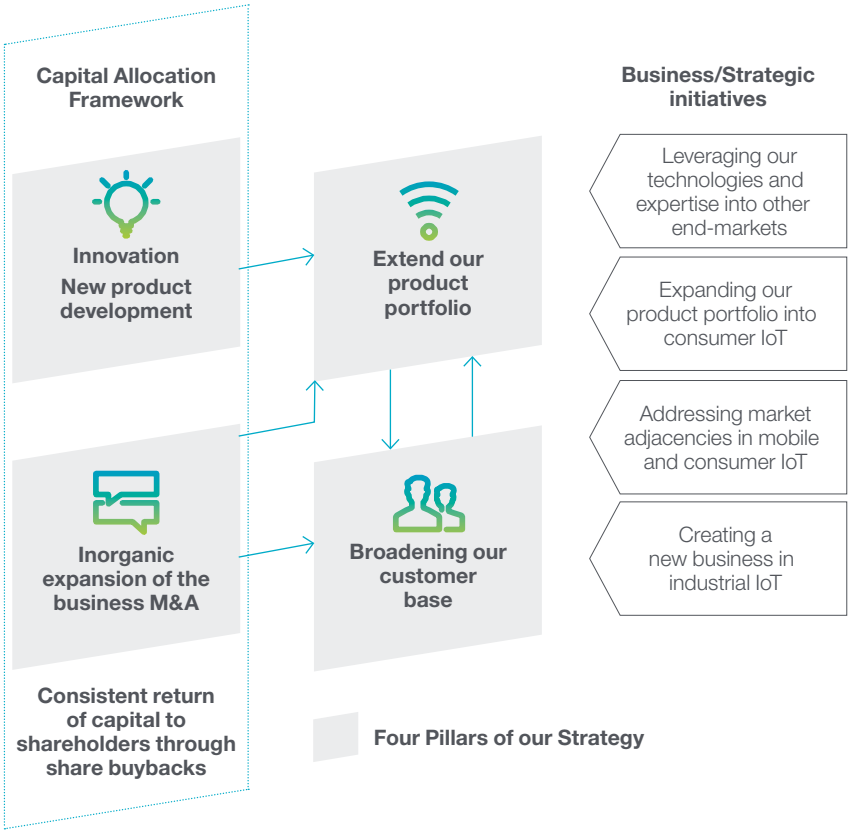
We made good progress in 2020 on the key business initiatives supporting our strategic priorities, particularly in the expansion of our business into Industrial IoT with the acquisition of Adesto.

The strategic framework aims to give a comprehensive view of our business and the links between our capital allocation framework, growth and business diversification initiatives, main risks, and the progress made during the year.

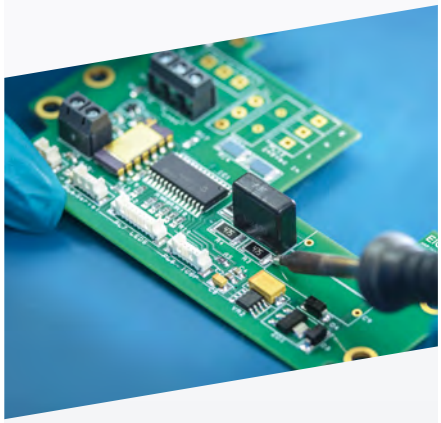
The remuneration framework is aligned to our growth and diversification strategy. For example the annual bonus calculation includes a 15% weighting on revenue and a 25% on diversification. For further details see page 99.

Read about Managing risk and uncertainty on pages 75 to 83

Growth and diversification strategy



Deliver continuous innovation



Why it is important

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

How we measure our progress

US$326m

Expensed in R&D programmes during 2020, an increase of 4% compared with 2019.

Read more on this strategic priority in action on

p14

Focusing on strategic initiatives and M&A

Why it is important

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

How we measure our progress

In 2020, we broadened our presence in industrial IoT with the acquisition of Adesto.

Read more on this strategic priority in action on

p15

Extend our product portfolio

Why it is important

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

How we measure our progress

54

New products introduced and sold in 2020 with revenues greater than US$200,000.

Read more on this strategic priority in action on

p16

Achieve a broader and deeper customer base

Why it is important

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

How we measure our progress

46

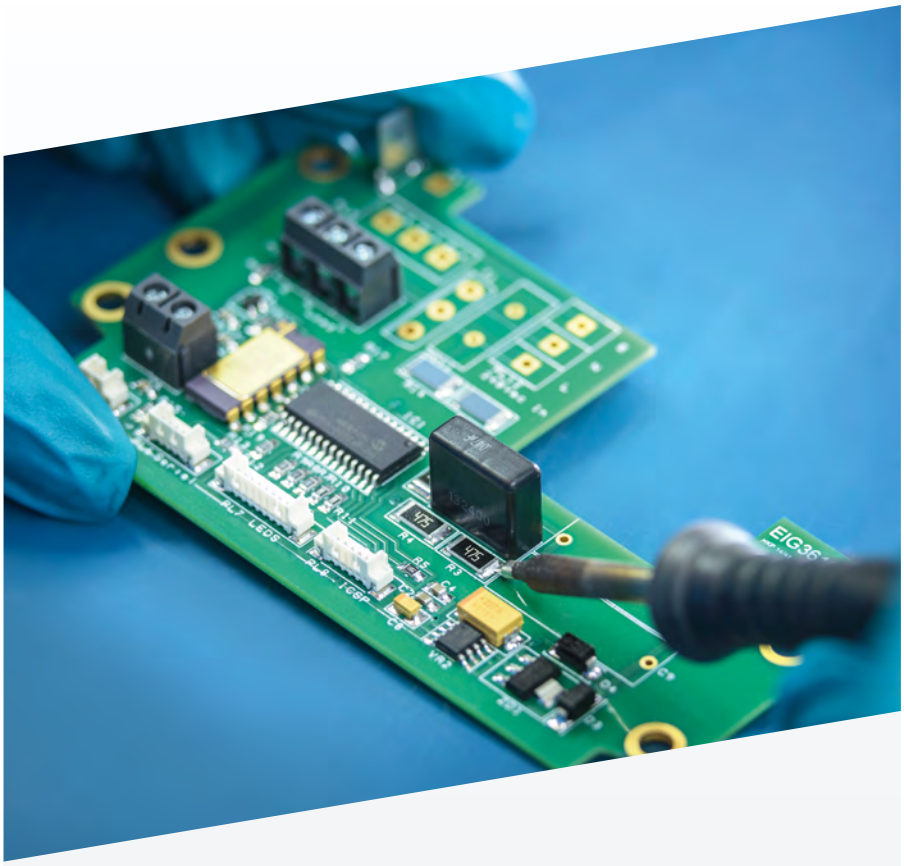
New customers welcomed to Dialog with revenues greater than US$200,000. Additionally, we deepened our existing customer base with new ASIC and ASSP products and the acquisition of Adesto.

Read more on this strategic priority in action on

p17

Our strategic priorities

Delivering continuous innovation



Innovation in next generation battery management ICs.

We have leveraged our expertise in highly-integrated, power-efficient solutions to create next generation battery management products which can help our customers differentiate and enable a fast go-to-market.

Battery management systems inside portable applications can integrate key functions like in-device battery charging, careful monitoring of the battery, and safety protective features. Innovation is driven by strong consumer desire to charge devices faster, the ability of travel adapters to deliver more power, and systems that safely and efficiently handle the higher power and energy delivery.

Progress in 2020

- Dialog collaborated with TDK Corporation, a global leader in electronic solutions for the smart society, to include Dialog's GreenPAK™ technology with TDK's latest series of µPOL™ power solutions, to create the world's first single-integrated system power sequencing solution. The combination of our GreenPAK™ technology with TDK's point-of-load solutions results into a fully integrated, reliable power sequencing system that is cost- and power-efficient.
- The DA14531 SmartBond TINY™ module was specifically optimised to significantly reduce the cost of adding BLE functionality to an IoT system. Its easy-to-use design and software allow developers to quickly and intuitively develop highly functional connected devices, targeting the next generation of connected consumer, connected medical, smart home and smart appliance 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 2020, an increase of 4% compared to 2019.

78%

Engineering talent ratio
(2019: 77%; 2018: 76%)

1,250

Inventions for which we are pursuing or have already obtained patent protection
(2019: approximately 1,080; 2018: approximately 860)

Focusing on strategic initiatives and M&A

The acquisition of Adesto in 2020 broadened our presence in the industrial IoT market.

This acquisition accelerated Dialog's expansion into the growing IIoT market that enables smart buildings and industrial automation, seamlessly driving cloud connectivity.

Headquartered in Santa Clara, California, Adesto had approximately 270 employees and an established portfolio of industrial solutions for smart building automation that fully complements Dialog's manufacturing automation products. Adesto's solutions are sold across the industrial, consumer, medical, and communications markets.

Progress in 2020

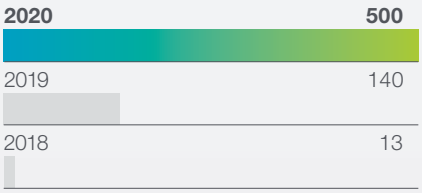
- FusionHD™ NOR flash memories were qualified for use with Dialog's SmartBond™ DA1469x family of BLE microcontrollers. With the combined solution, customers can deploy the latest BLE technology while keeping power consumption to an absolute minimum in a wide range of industrial and connected consumer applications.
- EcoXiP™ octal xSPI non-volatile memory ("NVM") was optimised to be used with Renesas' RZ/A2M Arm® -based microprocessors (MPUs). Customers of the RZ/A2M, which is designed for high-speed processing of embedded AI imaging in smart appliances, service robots, and industrial machinery, can take advantage of the lowest power octal xSPI NOR flash device.

Key risks

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

Cash allocated to acquisitions

US$500m



Our strategic priorities

Extending our product portfolio

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

Extended our IoT connectivity portfolio with the new low-power Wi-Fi SoC.

Introduced the DA16200, a highly-integrated, low-power Wi-Fi networking SoC, and two modules that leverage Dialog's VirtualZero™ technology to deliver a breakthrough in battery life for Wi-Fi connected, battery-powered IoT devices such as door locks, thermostats and security video cameras.

Progress in 2020

- We launched the SLG47004, Dialog's first Advanced Analog GreenPAK™ IC which integrates operational amplifiers and digital rheostats, allowing for unique custom analog ICs to be designed fast.
- The DA16200 SoC was our first low-power Wi-Fi and BLE combo, pointing the way for a new wave of IoT connectivity. This SoC was purpose built for battery powered IoT applications, including connected door locks, thermostats, security cameras and other devices that require an "always on" Wi-Fi connection, but may be only used occasionally.
- We launched a new member of the audio CODEC family delivering groundbreaking active noise cancellation. The DA7403 also delivers a multi microphone beamforming which improves voice calls in noisy environments. New market trend for digital headsets for smartphone aftermarket using Bluetooth®, with rapid market expansion for the new generations of True Wireless Stereo ("TWS") earbuds.

Key risks

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

How we measure our progress

54

New products introduced and sold in 2020 with revenue greater than US$200,000.

Achieving a broader and deeper customer base

We expanded our collaboration with Renesas as preferred power solution provider for automotive platforms.

Building on the collaboration between the two companies on the Renesas' R-Car Gen 2 and R-Car H3 platforms, the power solutions for the R-Car M3 and R-Car E3 platform include the DA9063-A system PMIC and the DA9224-A sub PMIC.

The expanded collaboration between Dialog and Renesas enables the leading automotive tier one suppliers to deliver differentiated, reliable, high-performance and cost-effective electronic systems based on the industry leading R-Car platforms.

Progress in 2020

- We launched our IoT Partner Programme, which gives systems integrators and solutions providers access to Dialog's SmartServer IoT edge server and open software suite. This programme equips system integrators and solution providers with an open, secure and scalable integration platform for automation, energy efficiency, monitoring and control systems.
- We licensed our Non-Volatile Resistive RAM Technology ("CBRAM") to GLOBALFOUNDRIES for 22FDX platform, targeting IoT and artificial intelligence. Low power consumption, high read and write speeds, reduced manufacturing costs and tolerance for harsh environments make CBRAM suitable for a range of applications.

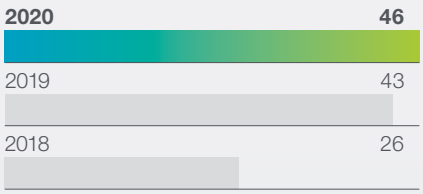
Key risks

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

How we measure our progress

46

New customers welcomed to Dialog in 2020 with revenue greater than US$200,000. Additionally, we deepened our existing customer base with new ASIC and ASSP products, and with the acquisition of Adesto.



Industry drivers

Semiconductors are the centre of the connected world, from smart homes to industrial IoT.

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

Longer battery life

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

Rise of artificial intelligence

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

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. Remote working and home-schooling has stimulated the demand for wired communication as people around the world adopted new ways of working, studying, and communicating.

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

Industrial applications

Major drivers within industrial applications include medical electronics, accelerating automation, and adoption of Industry 4.0 technologies in plants. Enterprises are using AI, robotics, edge computing, and the cloud to make informed, timely decisions. Solutions designed for IIoT use connected sensors and edge devices to help improve product quality and operational efficiency.

Security

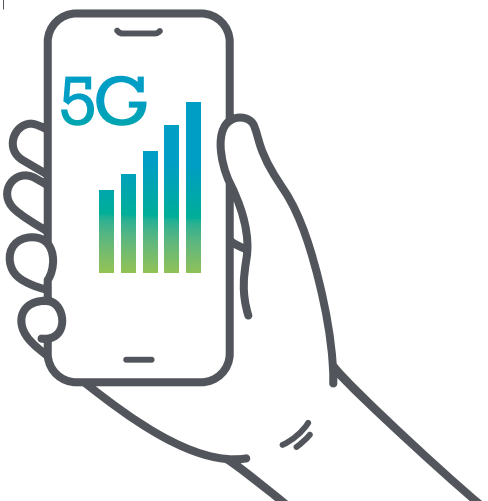
Data security of connected devices is an important area of focus for semiconductor companies. These include home automation systems, wearable devices, and industrial automation products. Semiconductor companies, especially those used in areas such as home security, connected health and industrial automation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

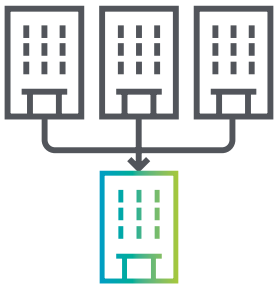
Automotive industry

The pace of change in the automotive industry is accelerating and the number of connected, electric and autonomous cars is growing. Manufacturers are required to implement the latest safety, comfort and self-driving features which demand an ever-growing number of ICs. By 2026, IHS Markit forecasts the global market for automotive semiconductors to reach $67.6 billion, a healthy compound annual growth rate of 7% from 2019 to 2026[1].

5G and AR/VR technologies

5G will enable an increasing number and range of machines to transmit and receive data. Major telecommunications companies, together with mobile phone device manufacturers, are releasing 5G capabilities. Alongside this, 5G spectrum availability continued to increase and bandwidth-intensive applications, such as high-resolution video streaming and AR/VR are increasingly popular.





Consolidation through M&A

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

1 Global automotive semiconductor revenue in 2020, iHS Market November 2020.

Industry dynamics

Top industry dynamics for the next three years

Diverse Customer Demands

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

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

Read more about our customers on pages 38 and 39

Increasing competition for talent

Electronic engineers are in high demand and with the rapid convergence of technologies, winning the future in innovation requires access to top high-tech talent.

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

Read more about our people on pages 34 to 37

Cross-border regulations

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

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

Read more about our risks on pages 76 to 83

ASP* erosion

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

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

Read more about our segmental review on pages 58 to 65

* Average Selling Price.

Focused R&D

Semiconductor companies have developed effective crisis management strategies aimed at sustaining innovation, allowing them to sustain a rich and evolving product portfolio, with access to promising IP becoming the basis of competition.

Implications for Dialog
Dialog believes that its future competitive position will depend on its ability to respond to the rapidly changing needs of its customers by developing new designs in a timely and cost-effective manner. Dialog's capital allocation framework positions the company to focus on next-generation products.

Read more about our investment in R&D on pages 44 and 45

Resilient supply chains

In response to the pandemic, risks that were previously unrecognised in the supply chain led many semiconductor companies to reconfigure their supply chains to improve resiliency.

Implications for Dialog
Dialog operates a high-touch fabless business model and has developed strong relationships with foundry, test and packaging partners and value chain management is a particularly important issue for the Company.

Read more about our supply chain on pages 46 to 49

Opportunities in our markets

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

Bluetooth® low energy

2023
$2.7bn

2020
$1.1bn

35% **CAGR 2020-2023**

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

Custom Power Management

2023
$4.8bn

2020
$4.1bn

5% **CAGR 2020-2023**

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

Configurable Mixed-signal ICs

2023
$4.1bn

2020
$2.0bn

28% **CAGR 2020-2023**

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

Automotive – Custom & Infotainment

2023
$2.7bn

2020
$1.8bn

14% **CAGR 2020-2023**

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

Low Power Wi-Fi

2023
$1.5bn

2020
$0.9bn

20% **CAGR 2020-2023**

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

Charging (AC/DC)

2023
$2.1bn

2020
$1.8bn

5% **CAGR 2020-2023**

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

Audio

2023
$1.9bn

2020
$1.0bn

24% **CAGR 2020-2023**

Key drivers
- Increasing demand for TWS headsets.
- Increasing adoption of audio features such as noise cancellation.

2020 market size

2023 market opportunity

* IHS Technology October 2019, Q1 2020, and Company estimates.

Advanced IP and innovation in battery management

We are expanding our addressable market and generating growth by leveraging our expertise in highly integrated power-efficient solutions to create next-generation battery management products.

Battery management represents a significant addressable market for Dialog. Our IP and expertise, combined with focused R&D investments have successfully supported the expansion of our business into this market. With differentiated battery management solutions, and a dominant market share in AC/DC converters for travel adapters, Dialog has been winning in mobile and IoT.

Battery management solutions utilise multiple architectures based on inductive switching or capacitive converter topologies. These solutions integrate key functions like in-device battery charging, careful monitoring of the battery, and precise control of the battery operation.

Innovation in this space is fuelled by a strong consumer desire to charge devices faster, the ability of travel adapters to deliver more power, and systems that safely and efficiently handle the higher power and energy delivery.

Dialog has developed an end-to-end system, with multiple complementary product families that work together. Our products help our customers to differentiate and enable a fast go-to-market.

Enabling a safer and more efficient battery charging.

Alignment to SDGs

Differentiation

Dialog IP and expertise in mixed-signal enable our customers to meet consumer's demand to charge a wide range of portable devices safely and fast.

Innovation

Dialog is winning market share in battery management because of the high efficiency power conversion of our products and our ability to customise.

Expanding into industrial IoT

In support of our growth and diversification strategy in 2020, we acquired Adesto Technologies, broadening our presence in the industrial IoT market.

Building on the 2019 acquisitions of FCI and Creative Chips, in 2020 we acquired Adesto Technologies a leading provider of embedded systems, innovative custom ICs and specialty memory for the industrial IoT market.

With this acquisition, we expanded our business into growth segments of the attractive industrial IoT market, strengthened our product portfolio with highly complementary products and accelerated our diversification strategy.

Adesto brings to Dialog highly complementary products, world-class IP and comprehensive system expertise. Our portfolios are a perfect match, especially as we look to provide even greater value for industrial customers who need reliable, efficient and secure solutions with embedded intelligence.

Full system solutions

By bringing Dialog and Adesto together, we can offer an extended product portfolio and full system solutions, delivering added value to customers and creating stronger and long-standing customer relationships.

Alignment to SDGs

IP and expertise

We welcomed a highly skilled team of engineers and designers with a proven track record of delivering complex custom mixed-signal ICs and a world-class library of IP assets.

Future opportunities

Adesto's products, expertise and IP create interesting opportunities to unlock future growth and value.

Who we engage with and why?

Engaging with our stakeholders supports value creation and the long-term success of our business.

Our culture promotes establishing mutually beneficial long-term relationships with our stakeholders, which support value creation. We work with a range of stakeholders to successfully deliver our long-term strategic objectives.

Government/Regulators

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

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

Frequency of engagement
- Ad hoc.

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

How do we distribute value created?
- US$32 million expensed in corporate tax.
- Active engagement with regulators and any government bodies.

Read more on pages 42 and 43

Employees

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

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

Form of engagement
- Nick Jeffery held virtual meetings with employees in Phoenix, Graz and Taipei.
- Employee annual reviews.
- Employee survey.
- Regular communications on Company intranet.
- Global sustainability Group representatives from each office.

Frequency of engagement
- At least monthly.
- Quarterly Group virtual meetings.

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

How do we distribute value created?
- US$357 million expensed in salaries and performance incentive programmes.
- Training and learning opportunities as well as a range of other employee benefits.

Read more on pages 34 to 37

Customers

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

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

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

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

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

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

How do we distribute value created?
- Delivering innovative products which enable them to differentiate.
- Meeting On Time Delivery targets.
- Delivering excellent customer support.

Read more on pages 38 and 39

Economic value distributed (US$m)

Operating costs	877.0	Employee wages and benefits	357.5	To providers of capital	8.2
To government	32.4	Community investments	0.1		

Community

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

In 2020, we invested US$89,000 in local community projects across the world.

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

Form of engagement
- Annual report.
- Community projects.

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

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

How do we distribute value created?
- Invested US$89,000 in local community projects.
- Creating stable and high-quality jobs.

Read more on pages 42 and 43

Suppliers

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

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

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

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

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

How do we distribute value created?
- US$877 million in operating costs mostly related to manufacturing partners.
- Creating long-term sustainable partnerships built upon respect for human and labour rights, environmental standards, and health and safety.

Read more on pages 46 to 49

Investors

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

Feedback from shareholders informs our Board discussions.

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

Form of engagement
- Quarterly and annual reports.
- Investor roadshows and conferences.
- Ongoing investor relations engagement.
- Business webcasts.

Frequency of engagement
- At least daily.

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

How do we distribute value created?
- Returned US$80 million cash in 2020 through our share buyback programme.
- Delivering on our strategy and creating sustainable long-term value (increase in share price).

Read more on page 95

Corporate reporting in 2020

How the Board promoted the long-term sustainable success of the Company (section 172 of the Companies Act 2006)

Maintaining our high standards of business conduct

While the UK Code does not apply to Dialog, the Company has always had regard for UK corporate governance practice and will follow the Code to the extent it considers it beneficial to the good governance of the Company. In line with that approach, the Board is cognisant of the principle underpinning Provision 5, which asks Boards to have regard for engagement mechanisms with stakeholders. The Board is fully aware of its responsibilities in this regard and the following sets out clearly the long-term engagement we have developed with shareholders, employees, customers, suppliers, communities and regulatory bodies.

See our corporate governance statement on pages 92 to 97

Shareholders

In 2020, in order to safeguard the health and safety of employees, shareholders and other stakeholders, the Board felt it appropriate to request to shareholders not to attend the AGM in person and submit proxy votes in advance. Instead, shareholders were invited to participate in the Q1 2020 results conference call on 6 May 2020 to ask any questions.

At the Board meeting in October 2020, a third-party independent adviser presented an update on ESG, including investors' expectations on topics such as climate change and gender diversity.

In addition, the Company finalised the consultation with top shareholders on the new remuneration policy approved in May 2019.

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

Outcomes: Final outcome and update of the new remuneration policy (AGM 2019) consultation was published on the AGM 2020 section of our website. Publication of Diversity Statement on our website; Webcasts for investors and analysts on different segments of our business.

Strategy: Shareholders' feedback informs Board considerations on capital allocation and strategy.

Employees

The Company follows a structured approach to engage with employees, from email communications to virtual "all-hands" meetings where employees and senior management exchange views.

During 2020, we ran targeted pulse surveys that enabled the Company to quickly gather information on employee safety, wellbeing, and experiences of collaboration in a remote-working context. In October 2020, Nick Jeffery held virtual roundtables with employees in Phoenix, Graz, and Taipei.

Board review of employee survey or any other programmes, particularly any new virtual initiatives undertaken during the pandemic.

Outcomes: Review of policies regarding health and safety in relation to Covid-19 and the related issue of home working/ communication in respect of which employees' surveys were undertaken. Review of diversity actions.

Strategy: Retention and development of employees is vital to ensure innovation and growth.

Customers

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

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

Therefore, customer engagement takes place at multiple levels through our R&D and Sales functions, and their views are embedded in the business plans and proposals presented to the Board. During 2020, there was special consideration to the US government sanctions against Huawei and its wider implications across the industry both in terms of customers and suppliers.

Outcomes: Management and Board oversight of delivery of customer commitments, outcomes and complaints, as well as US government sanctions against Huawei; Review of product roadmap for key customers and main R&D programmes (as part of the annual Strategic Review).

Strategy: Customer roadmaps and design engagements inform Board review of strategy.

Suppliers

Our culture promotes long standing and close collaboration with our key suppliers and partners.

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

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

Outcomes: Review of supply chain programme (as part of the annual Strategic Review); Approval of UK Payment reporting; Approval of Modern Slavery Act statement; Approval of Update on General Authorisation policy.

Strategy: Sustainable and responsible relationships in annual Strategic Review; Ensure Management has plans in place to monitor the impact of our business partners on human rights and labour rights as well as health and safety performance.

Community and the environment

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

Outcome: Review and approval of climate change disclosures in 2020 annual report.

Strategy: Promoting STEM subjects and the next generation of innovators; Ensure there are plans in place to minimise the impact of our economic activity and identify opportunities, including products.

See more on pages 42 and 43

Regulatory bodies

Following the end of the transition period on 31 December 2020, the UK is treated as a third country within the meaning of the European Legislation. On 4 January 2021, Dialog announced that it had chosen the Federal Republic of Germany as the home member state. As a result of this, Dialog is supervised by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht,"BaFin").

Outcome: The Audit Committee considered the implications from changes to reporting and regulatory requirements following the end of the Brexit transition period.

Non-financial information statement

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

Reporting requirements	Policies and standards which govern and inform our approach	Reference in 2020 Annual Report
Environmental matters	• ISO9001, ISO50001, ISO14001 • Quality, Environmental and Energy Policy	Environmental responsibilities pages 40 and 41
Climate change	• TCFD recommendations	Pages 30 and 31
Employees	• Code of Business Conduct • Country specific HR policies	Our people and culture pages 34 to 37
Human rights	• Code of Business Conduct • Supplier Code of Conduct • Global Data Privacy Policy • Conflict Minerals Policy	Robust and responsible supply chain pages 46 to 49
Social matters	• Community engagement and Corporate Giving Programme	Societal benefits pages 42 and 43
Anti-corruption and anti-bribery	• Code of Business Conduct • Anti-Financial Crime Policy • Modern Slavery and Human Trafficking Statement • Code of Dealing	Business ethics pages 50 and 51
Business model	• n/a	Business model pages 10 and 11
Principal risks and uncertainties	• Confidential Information and Intellectual Property Policy	Principal risks and uncertainties pages 76 to 83
Non-financial key performance indicators	• GRI standards • UNGC • UN SDGs	KPIs pages 54 and 55

Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 76 to 83, including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.

- All key performance indicators of the Group, including those non-financial indicators, are on pages 54 to 57.
- The Business Performance section on pages 66 to 75 includes, where appropriate, references to, and additional explanations of, amounts included in the entity's annual accounts.

Reporting scope and the boundary

The 2020 Annual report and accounts incorporates the strategic report and the consolidated Group financial statements, both of which have been approved by the Board of Directors ("the Board"). The strategic report represents our first steps towards aligning our reporting practices with the International Integrated Reporting ("IR") Framework.

The materiality assessment process (undertaken in conjunction with a third party), and the list of material issues arising from stakeholder engagement and analysis of the external environment, are disclosed on pages 32 and 33 of this report.

The contents of this report are guided by the provisions of the Companies Act 2006, the UK Corporate Governance Code, and the Disclosure Guidance and Transparency Rules. The report also applies the Global Reporting Initiative ("GRI") Standards and makes a "GRI-referenced" claim, whereby the list of GRI Standards referenced in this report are available in the GRI Table on pages 197 and 198. Furthermore, we continue to map our business outputs to the United Nations Sustainable Development Goals ("UNSDGs"), and aim to continue to focus our efforts on those goals where we can make the most meaningful contribution. Our approach to SDG mapping is set out on page 31.

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

Corporate reporting in 2020 continued

Climate change risks and opportunities
Given that climate change could potentially affect operations and pose financial risk, in 2020 we began using the TCFD recommendations to determine our climate-related risks and opportunities.

- Low
- Medium
- Low to Medium

Related to the transition to a low carbon economy

Risks

Policy and Legal — Low

Dialog reports on a range of environmental, social and governance topics following the Global Reporting Initiative framework.

Our business model is constantly adapting to new regulatory and customer requirements, as well as constantly evolving product standards.

As a fabless business with low capital intensity we don't have a significant amount of assets at risk of impairment or early retirement as a result of changes in environmental legislation.

Technology — Low

Dialog is at the forefront of power-efficient semiconductor technology.

Our sustainable and focused R&D investment ensures we remain ahead of our competitors.

Market — Low

Energy costs are not a primary cost driver as it represents a small part of our overall direct costs.

Our business has a low risk exposure from scarcity of "rare Earth materials".

Higher energy costs could potentially impact the direct costs of our manufacturing partners. We work with leading manufacturing partners who invest in the adoption of next generation manufacturing technologies.

Reputation — Low

We work with leading manufacturing partners who have initiatives in place to manage their environmental impact. Our main foundry partner, TSMC, follows the recommendations of the Task Force.

Opportunities

Resource efficiency — Medium

Improving energy efficiency for end-customers is a key element of many of Dialog's products, underlining the Company's commitment to being part of the solution to the challenge that climate change represents.

Certain of our products are specifically used in LED technology, smart meters, the electrification of vehicles, and retrofitting buildings with more adequate HVAC systems.

Energy source — Low

Although energy from renewables is not available in all our locations, where possible we are trying to improve the mix of purchased energy.

Most of our premises are based on modern smart buildings with energy saving systems and efficient HVAC systems.

Products and services — Medium

The semiconductor industry is well placed to support the transition to lower carbon emission and Dialog has deep expertise in power management and power-efficient mixed-signal technologies.

Some of our products are directly supporting low emission applications and our product portfolio supports higher-energy efficiency and low power consumption for a wide range of consumer, automotive and industrial applications.

Markets — Low

No access to new low carbon emission markets identified.

Related to the Physical impact of climate change

Acute risk (event driven) — Low to Medium

The nature of our business as a fabless manufacturer, means that Dialog's own operations are unlikely to face any specific material risks as a result of the physical impacts of climate change, such as property damage due to extreme weather events.

Dialog's manufacturing partners have implemented multiple initiatives to reduce their carbon footprint, review water and energy usage and to understand and manage the effects of climate change on their own operations. We work with leading companies like TSMC, which follow the recommendations of the Task Force and have initiatives in place to manage these risks.

Dialog's key assets are our employees, and our intellectual property. None of our main locations are prone to flood or windstorm and there are systems in place for our employees to work remotely.

Chronic risk (long-term shifts in climate patterns) — Low

In the longer term, changes in greenhouse gas emissions regulations could result in increased costs in our supply chain due to higher compliance, raw materials or energy costs to our suppliers.

It could potentially become more difficult or expensive to insure certain locations.

Dependency on natural, human and social capital
Climate change doesn't create any new direct dependencies on natural, human or social capital. Our business model relies on our ability to generate new IP and innovative power-efficient mixed-signal semiconductors for a range of consumer, automotive, and industrial applications. Our highly skilled engineers and talented employees are vital to ensure we can deliver innovative products. Electronic engineers are in high demand and companies outside the semiconductor industry are establishing engineering departments to design some of their semiconductor requirements.

Company policies on climate change
Governance: climate change risk is integrated in risk management, which falls under the responsibility of the Audit Committee.

Strategy: we divide climate change risk and opportunity in medium (three to five years) and long-term (more than five years) which is mostly aligned to our management planning period. Our medium-term strategy is focused around reducing our direct carbon footprint by increasing the use of renewable energy in those locations where it is available, reduce travel and offset CO_2 emissions from travel. In addition, our long-term strategy is currently mostly focused on the ongoing contribution of our products towards more energy-efficient applications and the ongoing engagement with our supply chain partners.

Management: we use the TFCD framework to identify climate-related risks and opportunities. Principal risks, including climate-related risks, are reviewed and approved by the Risk Management Office, which reports to the Audit Committee.

Metrics and Targets: in 2021 we will be reviewing a number of areas to set the baseline from which we could measure specific medium-term targets. These areas include the reduction of CO_2 emissions from travel; the application of renewable energy for our own activities and increase its contribution to 100% of locations where it is available; and the establishment of a baseline CO_2 emission calculation per employee.

United Nations Sustainable Development Goals ("UN SDGs")

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

Output: **Highly engaged, motivated and diverse workforce**

Quality education

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

Gender equality

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

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

See more on pages 52 and 53

Decent work and economic growth

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

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

Output: **High returns and strong cash flow generation**

Industry, innovation and infrastructure

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

Read more about our financial performance pages 66 to 75

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

Good health and well-being

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

See more on pages 62 and 63

Industry, innovation and infrastructure

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

See more on pages 44 and 45

In October 2020, we licensed our non-volatile resistive RAM technology to GLOBALFOUNDRIES, the leading specialty foundry, for 22FDX platform, targeting artificial intelligence and IoT.

Climate action

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

Although fabless, we seek to minimise our carbon footprint using renewable energy in those locations where it is available and offset all travel CO_2 emissions.

Output: **Sustainable partner relationships**

Decent work and economic growth

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

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

See more on pages 46 to 49

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

Managing our resources and relationships

Managing our resources and relationships to create a sustainable business model

Vision

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

Applicable external standards

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

Management Approach

During 2020, we made further progress in the integration of sustainability management into our business activities. Human Resources, Manufacturing, Business Development and Legal departments are responsible for the management of their respective sustainability issues – and are subject to the oversight of the Executive Committee. We believe this is a better way to fully embed sustainability into the responsibilities – and actions – of managers throughout the Company. The Sustainability Working Group is comprised of representatives of manufacturing, human resources, risk management and investor relations – who coordinate these activities.

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

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

This section sets out high-level analysis of the most material sustainability issues for our business. It also provides details on how we manage these issues as well as selected data on how we have performed. In 2020, we carried out an internal materiality assessment which resulted in no major changes. Nonetheless, feedback from stakeholders resulted in adjusted scores for the following two topics:

- Health and safety: increased importance to stakeholders – reflecting the impact of Covid-19 on employee health and wellbeing. The Company response was well managed, putting employee's health and wellbeing at its centre, while ensuring no business disruption. The speed of response and flexibility of employees was also vital in adapting to new processes and procedures; and
- Product impact: increased importance to stakeholders – in the context of their focus on the energy efficiency of our products and aligning our climate-related disclosures with the TCFD recommendations.

See more on page 36

Dialog 2020 Materiality Matrix
Our annual materiality assessment did not result in any major changes to our core issues. During the interviews with our internal stakeholders the following topics were raised as significant focus points:

- Health and safety;
- Positive product impacts; and
- Supply chain constraints.

Key

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

In 2020, we continued to make progress on the development of an integrated report.

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

These are the 2020 issues that are most important to our business and key stakeholders. Although our sustainability activities cover a wider range of topics, our efforts are primarily focused on these issues.

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

- Product impacts: the importance of managing product impacts throughout the entire product cycle was raised by our external stakeholders on several occasions; and
- Corporate governance: a wide range of external stakeholders, and in particular investors, are placing further scrutiny on a number of ESG topics.

Our values define how we engage with stakeholders

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

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

Read more about our customers on pages 38 and 39

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

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

Read more about our fabrication partners on pages 46 to 49

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

As a publicly listed company, we aim to generate value for our shareholders and seek mutually beneficial relations with a wide range of stakeholders who share the economic value created.

Read more about governance on pages 92 to 97

Our core material issues in 2020	Change from 2019	Mapping to business issue
Value generation and distribution	=	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	=	Employees
Employee development	=	Employees
Corporate governance and compliance	=	Business ethics
Diversity and equality	=	Employees

+ New material issue = No change ^ v Re-prioritisation of material issues

Managing our resources and relationships continued

Our people and culture

"Our employees are a critical element of our competitive advantage, and in 2020 ensuring they were safe, and could continue to work productively in a time of significant global disruption has been paramount. I have been exceptionally proud of the agility our employees have demonstrated in shifting to new ways of working remotely, while continuing to deliver for our customers, responding to challenging deadlines and rapidly changing demands."

Julie Pope
Senior Vice President, Human Resources

Context

2020 was a disruptive year, with the backdrop of a global pandemic meaning restrictions on travel, and remote working becoming the norm for many of our employees, preventing us from easily meeting in person.

Supporting our employees to remain productive and connected during this time has been more important than ever, and our focus on physical and mental wellbeing has increased as a result.

Despite these seismic global changes, the completion of the Adesto acquisition added 238 employees to Dialog, with most of the integration being delivered remotely. Our employees have embraced new ways of working, and continued to deliver excellent results.

Management approach

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

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

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

Employees in engineering functions

78.4% (2019: 77.3%)

New employees globally in 2020

444 (250 net increase)

2020 headcount

2,286 (2019: 2,036)

We aim to deliver the kind of working environment, development opportunities and inclusive culture that allow our people to develop high-quality, long-term careers with us. Our workspaces offer our employees the highest standard of safety, comfort, technology and accessibility, with additional measures being introduced in 2020 to minimise Covid-19 risks and ensure employees can successfully work remotely as required.

Read more about our values on page 05

Performance

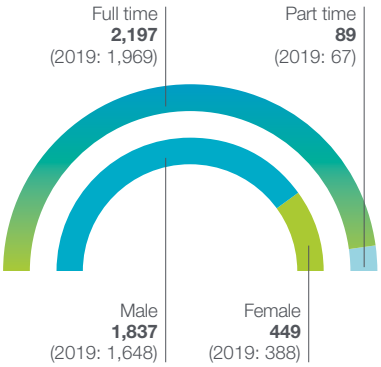
	2020	2019
Employee turnover (%)	**9.0**	10.0
Employee retention (%)		
Manager retention rate	**92.7**	95.6
Overall employee retention rate	**91.0**	90.0
Engineering talent ratio (%)	**78.4**	77.3
Diversity (%)		
Women overall	**19.6**	19.1
Part-time employees	**3.9**	3.3
Number of nationalities	**61**	66

Overall workplace profile[1]

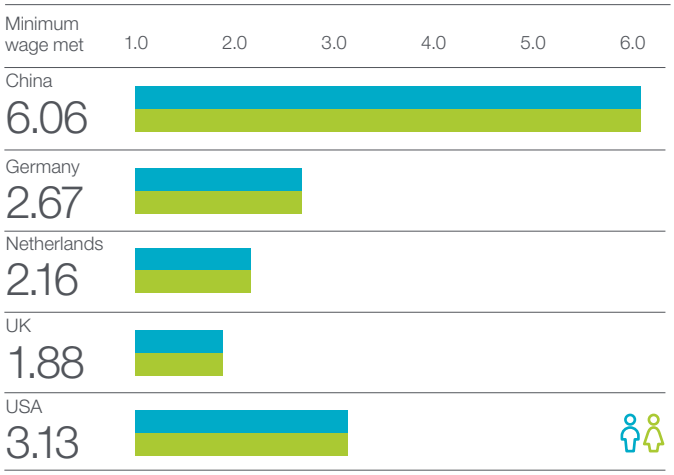
Permanent employees

2,286

(2019: 2,036)



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

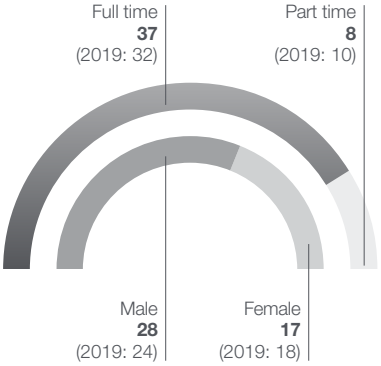


Overall workplace profile[1]

Temporary employees

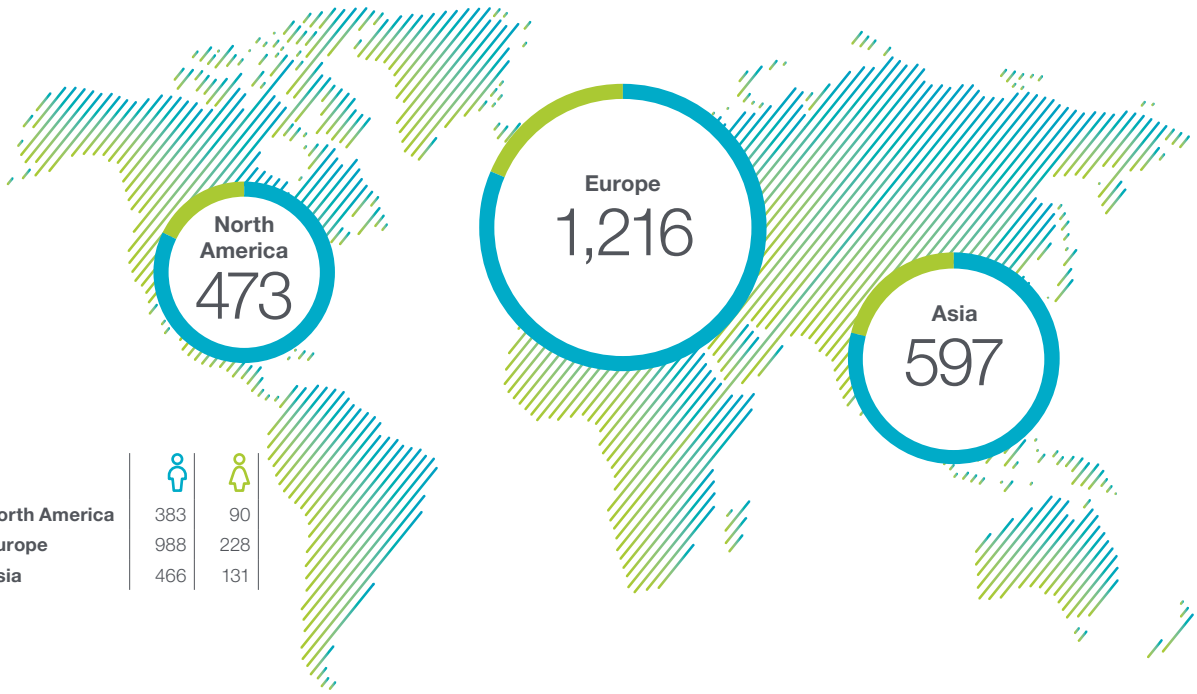
45

(2019: 42)



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

Geographic distribution of workforce



North America	383	90
Europe	988	228
Asia	466	131

Managing our resources and relationships continued

Our people and culture continued

Key issues and initiatives

Employee Wellbeing and Covid-19 response

In early 2020, the emerging Covid-19 global pandemic forced all businesses to rapidly assess the impact to their operations and people. Dialog's focus was initially on ensuring employee health and safety and securing the interests of our customers, shareholders and other partners, establishing dedicated, cross functional teams to actively monitor available information sources, assess the implications to our organisation, and develop appropriate guidance for our employees worldwide. Through moving quickly to reduce office density and introduce home working for much of our workforce, and introducing support arrangements to reduce infection risk when remote working was not feasible, we were able to protect our employees and reduce the risk of infection while keeping the business running.

Beyond the initial response, the focus shifted in the latter half of the year towards enabling effective remote working, and supporting our people through the challenges of reduced opportunity for face-to-face connection and collaboration, and elevated wellbeing risk. A variety of programmes were introduced to minimise the impact to our workforce, including social competitions, focus on wellbeing campaigns and trialling technologies to facilitate remote collaboration.

Talent identification and recruitment

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

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

Key components of our recruitment approach include:

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

Our hiring programmes continued successfully in 2020, with 24 graduate new hires joining us globally. We continued our strategic partnership with UK Electronic Skills Foundation ("UKESF") in the United Kingdom supporting the Females in Engineering programme.

Experienced hires

In 2020, we welcomed 444 new employees globally and successfully integrated Adesto employees into our teams around the world.

Recruitment efforts have continued, despite global headwinds, and focus has been in transforming our recruitment process to be predominantly digitally-enabled, allowing recruitment of key roles to continue virtually.

Retention rates continued to improve during 2020, with attrition reducing from 10.0% to 9.0%.

Ongoing talent, development and succession planning

Talent development evolved quickly in 2020 with the rise in prominence of digital and "just in time" learning becoming the preferred and, in many locations, the only way to deliver learning. We are proud to have expanded our virtual library of learning with the continued partnership and promotion of Mindtools and Litmos Heroes resources (two leading digital learning content providers). Alongside our additional self-guided learning options, we have continued our targeted programme-based learning curriculum, with year two of our "Emerging Leaders Programme", which started in 2019, and a personalised executive development suite for our Executive Team.

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

To ensure our employees maintain leading-edge technical capabilities, we invest heavily in the development of Dialog's engineering population. In 2020, we continued to deliver key technical leadership skills development workshops for our analog, digital and technical populations; mostly delivered remotely and through digital channels. Engineers are able to access development opportunities appropriate to their needs through internally run courses and self-guided learning, cross-functional projects and mentoring.

We also recognise the value of an external perspective, and facilitate attendance at key external courses and conferences. In 2020, attendance at external events was limited, with many events being delayed or taking place virtually, with reduced scope.

We continually measure the impact of training by the percentage increase in competence.

In 2020, formal training hours reduced overall across the Company, reflecting a necessary shift from classroom learning to digital and "on demand" learning, with existing training programme content streamlined for virtual delivery.

The total number of formal training hours for our managers was 1,240, with an average of 3.8 training hours per person.

Diversity and inclusion are vital in maintaining a creative, dynamic and innovative business environment. We currently have operations in 17 countries, and we are proud that our employees represent 61 nationalities.

We recognise the value a diverse workforce can bring in terms of creativity and the sharing of new perspectives. We know that embracing diversity makes us stronger and more innovative. Dialog is committed to employing and developing those people who have the necessary skills, experience and values to excel in their roles – irrespective of their gender, ethnicity, religion, disability or any other non-work related personal characteristic. In 2020, there were no allegations of discrimination made with respect to our employees.

With an appointed Diversity and Inclusion Lead we have put great efforts on increasing our Diversity and Inclusion initiatives. In 2019, we published our Diversity and Inclusion statement outlining our commitment to a global and cultural diverse workforce, which is at the centre of our success. 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 and diversity of thought and experience. The engineering sector performs low in terms of gender diversity, and even more so in electronic engineering. Similar to the external industry, women are also under-represented in our workforce. Female representation on our Board of Directors continues to be a focus, following female Board appointments in 2019, and is currently 25%, and within our Executive Team and their direct reports is 16%.

In 2020, our global gender balance was 80.4% men to 19.6% women, a 0.5% increase in female representation from 2019. 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 have increased our participation in initiatives that support women in engineering.

In 2020, we continued with the Female at Dialog awards with UK Electronics Skills Foundation ("UKESF"), however due to Covid-19 and travel restrictions we were unable to go ahead with the 2020 summer internships, and these have been postponed to 2021. The aim of the Female at Dialog award is to hire more females into graduate roles and we will be continuing this initiative in 2021 with additional students as well as returning interns within this scheme.

In 2020, we continued our partnership with the Women in Engineering Society ("WES") to work towards increasing the number of women engineers in the Company. Being partnered with WES has allowed our female employees to gain free membership and access to WES events.

To actively promote diversity and inclusion in engineering, in 2020 we were an official sponsor of the International Women in Engineering Day ("INWED") which enabled our company profile to be included on all INWED resource packs and communications as well as profiling our female engineers across WES social media and networking platforms.

In addition to our gender initiatives, in 2020 focus was increased on diversity of race and ethnicity. Dialog is now partnered with NACME (National Action Council for Minorities in Engineering) which allows us to provide support to ethnic minority students before they start university, including registration fees, travel funding and tuition support. Furthermore, top performing scholars will receive tuition support and an internship at our US office in 2021. The aim of the partnership is to increase the number of ethnic minorities in engineering. We know the importance of attending external diversity events and we encourage our employees to attend events to learn from the market. In 2020, we continued to promote female engineering managers and members of the HR team to attend virtual events and conferences to further their understanding of best practice in this area.

In 2020, our Senior Executive Team continued to engage with different employee groups, switching to virtual roundtable sessions to gather feedback and opinions on gender diversity at Dialog from our workforce. As well as these talks, we have created a regular forum of live panel sessions where senior leaders share their thoughts and experiences on particular topics such as Gender, Ethnicity and Wellbeing, provide practical tips and answer questions from our employees.

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 fourth year running we will be reporting our gender pay gap statistics, as they relate to our total UK population as at 5 April 2020. As required by the UK Equality Act 2010 ("Gender Pay Gap Information") Regulations 2017, we submit data to the UK government via their website.

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

As well as monitoring gender pay we have continued to review our benefits to ensure we are supporting a fully diverse workforce. We have improved our parental leave policies in multiple locations and will continue to extend this globally.

We will continue to focus on our Diversity and Inclusion initiatives within Dialog and will work with our organisation to build a greater diversity and inclusive workplace.

Employee engagement and communication

Listening to our people is critical to our success as a company. This year, we enhanced our continuous listening strategy through running a higher number of shorter, targeted pulse surveys on a range of topics. This allowed us to quickly gather information from the workforce on Dialog's response to the Covid-19 pandemic, employee safety and wellbeing, and experiences of collaboration in a remote-working context.

The ability to measure and aggregate views in near-real time allowed Dialog to rapidly develop solutions in direct response to feedback, which was well received by our people.

We are planning a broader employee engagement survey in 2021 and will continue to complement annual engagement surveying with more regular, dynamic "pulse" surveys on different topics, enhancing the way in which we listen to our people.

Nick Jeffery is the designated Director for overseeing employee engagement in collaboration with our global Human Resources teams.

Nick held a series of virtual roundtable sessions with employees in three locations, Taiwan, Graz and Phoenix. Additionally, members of the Executive Team have regularly conducted employee "All Hands" meetings across our global operations, both in-person where possible, and remotely. These sessions have covered a variety of topics, including business performance, and have provided opportunities to connect and hear directly from our employees.

The CEO has regularly appeared in video messages to all employees, providing a summary of business performance, providing his views, and addressing questions on other topics, such as impact from Covid-19, and the Adesto acquisition.

Employee reward and recognition

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

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

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

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

Forward focus areas for 2021

- Delivering the "future of work at Dialog"; Enhancing our ability to attract and retain employees who seek greater autonomy over when and where they work by building on the increased flexibility provided to employees during the pandemic, while maintaining a collaborative, innovative and productive environment.
- Continued focus on diversity and inclusion initiatives, specifically to address female representation throughout the organisation.
- Enhancing change agility and resilience through manager development to ensure employees are supported, and are able to thrive in our dynamic and changing workplace.

Managing our resources and relationships continued

The strength of our customer relationship

> "Our long-standing customer relationships are rooted in our deep expertise on power-efficient mixed-signal technology, an expanding product portfolio, and excellent customer support all the way from the factory to the field."

John Teegen
Senior Vice President, Worldwide Sales

Context

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

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

Management approach

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

Read more about our values on page 05

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

Our top five customers in 2020 were Apple, Xiaomi, Samsung, Panasonic, and Oppo. These are multi-year relationships, and in some cases, they extend over ten years. We supply a diverse and expanding range of products to most of our largest customers. Our aim, aligned with our corporate values, is to become a strategic supplier and ensure a mutually beneficial relationship. The value we bring is built on a combination of leading-edge products and excellent support.

Performance

Revenue from our top five customers decreased year-on-year to 73% of the total Group underlying revenue in 2020 (2019: 84%; 2018: 83%). 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 181, note 32c.

See details of customer concentration in the Risk section on page 78.

During 2020, we expanded our presence in the industrial IoT market with the acquisition of Adesto. Adesto's technology and IP enable seamless connectivity of heterogeneous systems in an industrial environment to the cloud for building and industrial automation. These capabilities, together with Dialog's portfolio in factory automation from the acquisition of Creative Chips, will allow us to deliver fully integrated solutions to over 5,000 customers, the majority of which are new for Dialog.

In addition, the widening Dialog product portfolio allows us to not only address a larger customer base but deepen our offering within our current customer base.

Key issues and initiatives

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

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

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

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

Further information on our supply chain auditing activity can be found on pages 46 to 49.

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

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

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

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

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

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

Forward focus areas for 2021

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

Our target end-markets

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

Internet of Things

Computing

Automotive

Mobile

Industrial

Managing our resources and relationships continued

Environmental responsibility

> "Together with our supply chain partners we support the gradual implementation of responsible environmental practices. Our environmental responsibility is governed through the application of our Code of Conduct."

Alex McCann
Senior Vice President, Global Operations

Context

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

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

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Management approach

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

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

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

In 2020, we strengthened our Environmental and Energy Policy. Our management is committed to the prevention of pollution by volatile organic compounds.

Performance

Energy and carbon emissions

We are working across our offices to significantly reduce carbon emissions and minimise the carbon footprint of our business. 100% of our electricity consumption in the UK and Munich is generated from renewable sources. The equivalent in kWh of our scope 1 and 2 emissions was 8,260,474 kWh, 19% of which were from the UK. Of the total CO_2 emission (scope 1, 2 and 3), 30% were from the UK.

Scope 1 and 2 emissions are calculated using The Energy Efficiency Association for heating, cooling and CHP (AGFW) FW309-6:2016 standard for emissions from Germany, and the National Energy Foundation Simple Carbon Calculator for UK emissions. Scope 3 emissions are calculated using the US-EPA standard.

This year, we have offset 100% of carbon emissions from all air travel and the use of rental cars from our two main technical competence centres – Nabern and Swindon, in addition to the Edinburgh and Reading offices. We work with Climate Care to offset carbon emissions through various renewable energy projects in Turkey, Taiwan, India and China. Due to the lockdown restrictions in 2020 our scope 3 emissions are significantly lower than in 2019.

As part of our annual audit of our top five contractors, which represent approximately 90% of our total activity, there were no emissions recorded from nitrogen oxides, sulphur oxides, non-methane volatile organic compounds, particulate matter, and hazardous air pollutants.

Scope 1: CO_2 tonnes
Direct emissions from self-generation.

Total	Per employee
59.5	0.03
2020	2020
60.8	**0.03**
2019	2019

Scope 2: CO_2 tonnes
Indirect emissions from the consumption of purchased electricity, heat or steam.

Total	Per employee
953.7	0.42
2020	2020
1,011.3	**0.50**
2019	2019

Scope 3: CO_2 tonnes
Other indirect emissions including those related to transport. Includes all air travel and car hire.

Total	Per employee
521.9	0.23
2020	2020
3,709.6	**1.82**
2019	2019

Key issues and initiatives

Pollution, resources and waste

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

- Environmental impact of our main fabrication partners;
- Environmental impact of our products, including green packing;
- Monitoring and reduction of CO_2 emissions, water usage, energy consumption in our main European centres; and
- Monitoring of hazardous substances at our labs.

Recycling

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

Use of natural resources

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

How our CMICs help reduce material consumption

GreenPAK™ is a cost-effective NVM programmable device that enables innovators to integrate many system functions while minimising component count, board space, and power consumption. Using Dialog's GreenPAK Designer Software and GreenPAK Development Kit, designers can create and programme a custom circuit in minutes.

Our customers can benefit from a smaller PCB footprint, integrating multiple discrete components into a single CMIC as small as 1.0 x 1.2 mm.

Additionally, it results into fewer components used as a typical GreenPAK implementation removes from ten to 30 separate components per instance.

Forward focus areas for 2021

- Achieving the objectives of our 2021 Environmental Goals Programme.
- Continue our efforts to reduce carbon emissions, pollution and waste, and the use of natural resources.

Managing our resources and relationships continued

Societal benefits

> We are supporting the next generation of innovators, and in 2020 we focused on sponsoring under-represented groups in our industry. Through this effort we sought to support the knowledge of engineering electronics in our communities and the development of a more diverse skills pool.

Julie Pope
Senior Vice President, Human Resources

Context

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

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

Management approach

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

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

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

Read more about our values on page 05

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

Performance

Direct impacts

Our most important means of distributing value are through:

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

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

Total value generation and distribution by type (US$ millions)	2018	2019	2020
Economic value generated – Group revenue (a)	1,442.1	1,566.2	**1,375.9**
Economic value distributed (b)	1,304.2	1,320.8	**1,275.1**
– Operating costs[1]	933.7	906.6	**877.0**
– Employee wages and benefits[2]	311.2	318.6	**357.5**
– To providers of capital[3]	3.1	11.3	**8.2**
– To government[3]	56.0	84.1	**32.4**
– Community investments	0.2	0.1	**0.1**
Economic value retained (a)-(b)	137.9	245.5	**100.8**

1 Including cost of sales and excluding employee wages and benefits, other operating (expense)/income and property tax.
2 See details on note 6 to the accounts on page 145.
3 Interest expense and income tax expense.

Community engagement and corporate giving

Dialog has an active community engagement and community investment programme, and in 2020 we invested approximately US$89,000 to various causes aligned with our business objectives (2019: US$101,000). The Corporate Giving Policy encourages employees to engage with the communities in which they work. The policy places a stronger emphasis on activities to which we can bring additional value through our expertise and business activities.

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

Indirect impacts

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

- The application of our technology to improve the capabilities and portability of handheld electronic devices (amongst others). This enhances the ability of our customers to develop and market enhanced consumer products – as reflected in the recent boom in advanced mobile communications and wearable technology. In turn, this has helped support the creation and maintenance of jobs amongst suppliers and customers working in this exciting sector. Furthermore, it also supports the delivery of ever-more productive and portable communications and computing technology to end-users. In 2020, for example, we shipped in excess of three billion integrated circuits; and
- The enhancement of skills and knowledge within the electronic engineering community through our range of pre-employment educational initiatives, our recruitment and development of high-quality graduate electronics engineers, the experience our senior engineers gain by working on cutting-edge products and our considerable investment in R&D.

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

Forward focus areas for 2021

- Attracting female talent to STEM subjects and to our industry through our collaboration with universities, industry bodies and engineering organisations; and
- Support ethnic minority engineering students through our partnership with NACME.

How BLE supports contact tracing

In May 2020, we launched the latest release of our Wireless Ranging (“WiRa™”) Software Development Kit (“SDK”), with added highly accurate and reliable distance measurement capabilities to our DA1469x family of BLE SoCs. The highly accurate distance measurement capabilities found their way into a variety of products helping slow the spread of Covid-19.

The need for more accurate and reliable distance measurement and tracing technology has become even more critical in the wake of Covid-19. With businesses across the globe planning a controlled reopening of their workplaces, they are looking for solutions that will help guarantee safe distances between employees and improved contact tracing capabilities, to ensure safe working environments and peace of mind for employees.

Managing our resources and relationships continued

Our IP and products

> "Dialog has deep expertise in power-efficient mixed-signal technologies which help our customers develop energy-efficient applications which respond to ever-growing consumer and governmental requirements."

Mark Tyndall
Senior Vice President, Corporate Development and Strategy, and General Manager Industrial IoT

Context

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

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

Management approach

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

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

Given the rapid evolution of technology and fast-moving consumer demands, the sustainability of our business requires us to stay at the cutting edge of these technologies. As a result, we invest a significant amount into R&D. In 2020, we invested US$326 million on R&D activities or 23.7% of our total revenue (2019: US$314 million; 2018: US$326 million; 2019: 20.0% of revenue; 2018: 22.6%).

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

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

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

Performance

Protecting intellectual property

In 2020, we had no complaints relating to breaches of customer privacy, losses of customer data or the misuse of customers' intellectual property (2019: nil; 2018: nil).

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

	2018	2019	**2020**
Registered	102	128	**129**
Filed	119	119	**63**

As at 31 December 2020, we had approximately 1,250 inventions (2019: approximately 1,080; 2018: approximately 860) for which we are pursuing or have already obtained patent protection. In particular, Dialog had 1,070 (2019: 830, 2018: 673) granted patents in the United States alone. While intellectual property protection around this technology means it will not be shared in the short to medium term, in the long term it is technology that can be applied by anyone.

As a result of this kind of investment, we produce original technological inventions on an ongoing basis. This not only helps underpin the future success of our business, but also increases the sum of our global technological knowledge.

Key issues and initiatives

Positive product impacts

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

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

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

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

Minimisation of negative product impacts

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

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

Trademarks

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

GreenPak™	SmartBeat™
PrimAccurate™	SmartPulse™
SmartBond™	SmartWave™
Flickerless™	BroadLED™
AccuSwitch™	SmarteXite™
VirtualZero™	SmartBond TINY™
SmartServer™ IoT	CBRAM®
WiRa™	

Forward focus areas for 2021

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

Powering the next generation of IoT devices

The SmartBond TINY™ module empowers customers to build the next generation of connected devices. It was specifically optimised to significantly reduce the cost of adding Bluetooth® low energy functionality to an IoT system.

SmartBond TINY™ is power efficient, delivering a record score of 18300 on the latest EEMBC benchmark for IoT connectivity.

In addition, low hibernation and active power consumption ensures long operating and shelf life.

Available in a tiny 2.0 x 1.7mm package, the module is half the size of its predecessor, or any offering from other leading manufacturers.

Managing our resources and relationships continued

Robust and responsible supply chain

> "Operational excellence within our supply chain is built upon a strong and sustainable relationship with our manufacturing partners. This in turn is vital to ensure our customers' success."

Alex McCann
Senior Vice President, Global Operations

Context

We operate a high-touch fabless business model and we have developed strong and responsible relationships with our foundry, test and packaging partners.

Over time, our engagement has evolved into close R&D and supply chain collaboration.

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

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

This reflects:

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

Management approach

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

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

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

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

We manage our value chain through:

- A policy of only dealing with fabrication partners who are accredited to or are compliant with the ISO14001 (environment), ISO50001 (energy), and ISO9001 (quality) management standards;
- Screening all new fabrication partners against our Self-Audit Checklist (which covers labour and human rights, health and safety, the environment and business ethics), as well as undertaking pre-qualification audits prior to the integration of new fabrication partners into our supply chain;
- Annual auditing (jointly by Dialog and third-party auditing teams) of our major fabrication partners against our Supplier Audit Checklist and Corporate Social Responsibility Checklist. In addition to requirements relating to ISO14001, ISO45001 and ISO9001, auditing covers a range of broader corporate social responsibility issues, including those drawn from the RBA6.0 Responsible Business Alliance Code of Conduct. In 2020, due to the restrictions imposed by the Covid-19 lockdown, we carried out 20 supplier audits on this basis, most of them remotely (2019: 31; 2018: 22); and
- Regular business reviews, during which Dialog managers meet with our suppliers to discuss performance and future capabilities.

As part of the annual audit of our top five contractors, which represent approximately 90% of our total activity, we monitor their energy consumption, water usage, volatile organic compounds and waste. This includes reviewing targets and progress towards those targets.

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

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

Performance

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

In 2020, we continued with our main fabrication partners to apply tightened requirements and auditing criteria. A significant decrease in the number of major negative audit findings relative to 2019 shows that our suppliers have undergone successful continuous improvement programmes to address previous findings and are monitoring ongoing effectiveness. This strengthened audit process helps us manage the expansion of our business and the ability to integrate additional suppliers to the scope of our audits.

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

Type and number of "major" negative audit findings[3]	2018	2019	2020[5]
Health and safety	7	2	**1**[6]
Environment	5	3	**8**[4]
Labour rights (incl. human rights)	20	2	**6**[7]
Society	0	0	**0**

1 Screening activity is aimed at improving the performance of our fabrication partners where necessary, rather than their exclusion from our supply chain.
2 Includes both documentary auditing and on-site auditing. All our major fabrication partners were subjected to auditing in 2020. One of our fabrication partners was excluded from our supply chain.
3 i.e. audit findings of sufficient seriousness that Dialog requires immediate correction on the part of the supplier.
4 Such as: application of customer-specific testing criteria on boundary noise, chemical materials, and hazardous waste more strict than international standards.
5 Decreased numbers reflect successful improvements due to the strengthening of our audit process throughout the past three years.
6 Such as: requirements for regular evacuation drills.
7 Such as: working hours management, medical check-ups, and regulations on dormitory room occupancy.

Examples of negative audit findings in 2020

Health and safety	Insufficient evidence shown for fire drills in dormitories
Environment	Insufficient storage and treatment of chemical materials
Labour rights (incl. human rights)	Too many workers occupying a room in the dormitories
Society	None

In 2020, neither our own operations nor any of our largest suppliers were found to pose a significant social or environmental risk (2019: nil; 2018: nil).

In 2020, as in previous years, we did not identify any cases where tungsten, tin, tantalum and gold ("3TG") integrated into our products may have supported armed groups in the Democratic Republic of Congo ("DRC") or adjoining countries.

Key issues and initiatives

Transparency

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

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

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

In this context, we require our major suppliers to:

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

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

Managing our resources and relationships continued

Robust and responsible supply chain continued

Our Supplier Code of Conduct

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

Labour rights

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

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

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

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

Dialog Code of Business Conduct

https://www.dialog-semiconductor.com/sites/default/files/2020-07/dialog_code_of_business_conduct.pdf

Health and safety

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

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

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

Environmental management

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

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

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

Our Supplier Code of Conduct

Labour rights

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

Health and safety

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

Environmental management

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

Ethics

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

Management systems

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

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

Business ethics

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

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

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

www.responsiblebusiness.org/standards/code-of-conduct
Responsibility in this respect sits with the Senior Vice President Global Operations. He is supported in this role on a day-to-day basis by the Environmental Manager.

Conflict minerals

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

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

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

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

As such, our Conflict Minerals Policy commits us to:

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

In addition, our Supplier Code of Conduct requires suppliers to complete and return information requests regarding the origin of any 3TG contained in products supplied to Dialog. The Conflict Minerals Reporting Template ("CMRT") is created by the Responsible Minerals Initiative ("RMI") supporting companies to deliver accurate information to their customers about mineral country of origin and the smelters and refiners they use. Dialog Semiconductor requires from its suppliers to complete and return the latest CMRT 6.01 regarding the origin of any 3TG contained in products supplied to us. Our QA & Environmental Systems Lead Auditors frequently audit the suppliers on this topic and check their compliance.

If we do identify 3TG in our products that originate from the DRC or adjoining countries, and which may have financed or benefited armed groups, we will carry out further due diligence. If this shows that the 3TG has financed or benefited armed groups, it will be excluded from our supply chain. No incidents of this type were identified in 2020.

Managing our resources and relationships continued

Business ethics

> Dialog's principles of business conduct define the way we do business worldwide and are aligned to our corporate values. Amongst these, we expect our employees, partners, and others who do business with Dialog to demonstrate openness, integrity and high ethical standards in all business dealings.

Colin Sturt
Senior Vice President, General Counsel

Context

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

Maintaining our partners' trust depends on:

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

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

Management approach

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

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

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

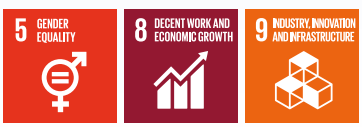
- A range of specific policies addressing issues such as bribery and corruption, fraud, money laundering, financial dealings and whistleblower protection; and
- Mandatory training on specific topics such as bribery and corruption, conflicts of interest, preventing harassment and insider dealing.

The application of our corporate Code of Business Conduct

Human and labour rights

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

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



Anti-bribery and corruption

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

Performance

In 2020, 98% of Dialog employees had completed the online training covering our Code of Business Conduct. The following modules were also completed by most of our employees (97% to 98% completion):

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

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

For more information see our website https://www.dialog-semiconductor.com/sites/default/files/2020-07/dialog_code_of_business_conduct.pdf

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

Forward focus areas for 2021

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

A resilient cybersecurity framework

The global pandemic and the stay-at-home orders represented a significant set of unique challenges, forcing the business to move to a remote working model.

Using collaboration tools, the IT teams set about ensuring a seamless switch, reviewing network connectivity in real time to ensure sufficient bandwidth, assessing equipment and licence availability, and upscaling where required.

Operational and security aspects were reviewed to ensure the full support of remote users without compromising business security.

The Company quickly and efficiently, over the space of two weeks, transitioned to operate almost entirely remotely and suffered no significant outages or disruptions.

Our people and culture: diversity and inclusion

Embracing diversity and inclusion is not just the right thing to do. It makes us stronger and more innovative.

Official sponsor for INWED20

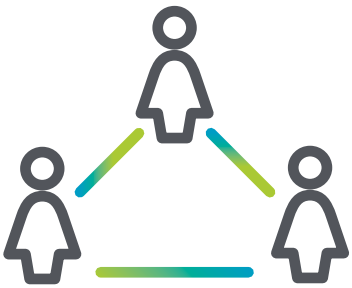
We continued our partnership with the Women in Engineering Society ("WES"), working towards increasing the number of female engineers in the Company. Dialog was also an official sponsor of the 2020 International Women in Engineering Day ("INWED").

Diversity & inclusion events

During the year, we celebrated a number of diversity & inclusion days, including International Women's Day and International Women in Engineering Day. We also hosted our first diversity & inclusion awareness month with the aim to encourage new perspectives, ideas, and an appreciation of diversity.

Improved benefits

In 2020, we introduced enhanced family friendly benefits in certain locations, providing a wider range of inclusive benefits. Our goal in 2021 is to extend these benefits globally.



Female network groups and mentoring

In 2020, we founded an Employee Resource Group for females, creating a forum to network and share knowledge. In addition, our mentor network continued to provide invaluable coaching and support. During the year, we made a great effort to increase the number of female mentors and mentees.

Sponsorship for under-represented groups

We are proud to have partnered with the National Action Council for Minorities in Engineering ("NACME"), one of the largest providers of college scholarships for under-represented students pursuing engineering degrees. Through NACME, we provide financial support to ethnic minority students before they start university. In addition, the top performing scholar will receive tuition support and an internship at our US office next summer.

Diversity & inclusion talks

In 2020, Dialog started its own panel series "Dialog Talks" where employees heard from leaders openly discussing a range of topics such as gender, ethnicity, culture, and wellbeing.

Dialog award for female undergraduates

We continued to support UKESF with the Dialog award for female undergraduates. The award is designed to address the lack of women in engineering, encouraging young female students. We look forward to welcoming additional students in 2021.

Key performance indicators "KPIs"

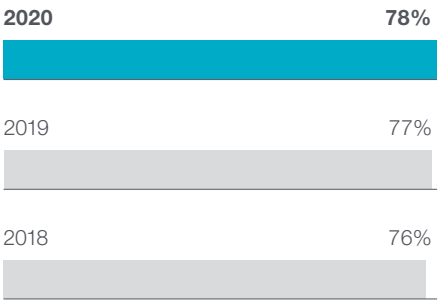
We are a business built on innovation and deep mixed-signal semiconductor expertise, and our four strategic objectives support the ambition to build a diverse and vibrant mixed-signal business.

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

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

Engineering talent ratio

78%



Definition and relevance

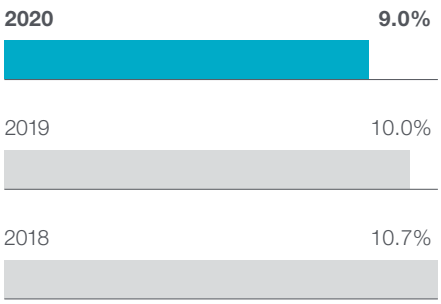
Proportion of employees in engineering functions as a percentage of the total employee base. Monitoring the size of our engineering pool and our ability to generate innovation.

2020 performance

In 2020, the engineering talent ratio was slightly above 2019 at 78%. In 2020, we welcomed new engineers from the acquisition of Adesto.

Employee turnover

9.0%



Definition and relevance

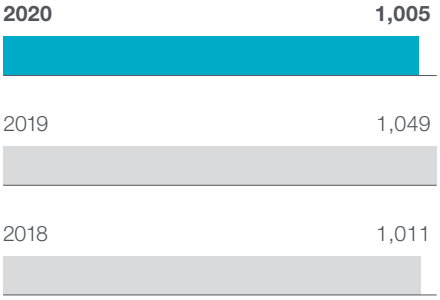
Number of voluntary leavers in the last 12 months divided by the average headcount during that period expressed as a percentage. Monitoring our ability to recruit and retain experienced engineering and commercial professionals is vital given the strong competition for skills in the sector, ageing population,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

2020 performance

In 2020, employee turnover was below 2019 at 9.0%. Our ability to recruit and retain engineering professionals remained high. Dialog has a performance management system to ensure we reward our best employees through appropriate mechanisms.

Number of sales opportunities

1,005



Definition and relevance

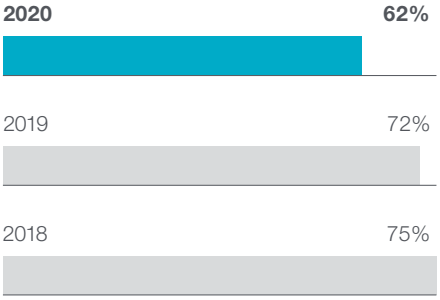
Number of sales opportunities recorded in the pipeline in a given year, with a value higher than US$250k excluding cancelled, rejected, lost, and opportunities which reached their end of life.

2020 performance

In 2020, the number of sales opportunities with a value higher than US$250k was 4% below 2019. The number of opportunities with a value lower than US$250k was up 22% year-on-year. This is a reflection of the increasing number of revenue opportunities in our various business segments.

Customer concentration

62%



Definition and relevance

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

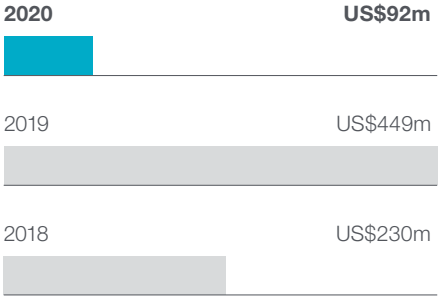
2020 performance

In 2020, customer concentration was 62%, ten percentage points lower than in 2019 which excluded US$145.7 million from the perpetual IP licence.

Excluding revenue from standard products, customer concentration was 56%, ten percentage points below 2019 (2019: 66%).

Free cash flow

US$92m



Definition and relevance

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

2020 performance

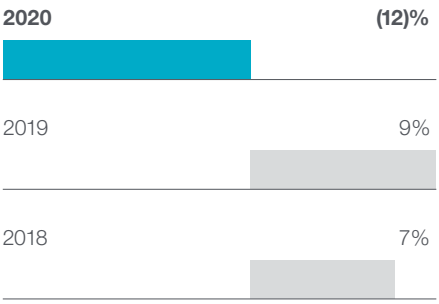
Free cash flow in 2020 was 80% below 2019. This was the result of the lower cash inflow from operating activities alongside the Company's ability to convert profit into cash.

See explanations and reconciliations to the nearest IFRS measure in the section entitled "Financial performance measures" on pages 190 to 196.

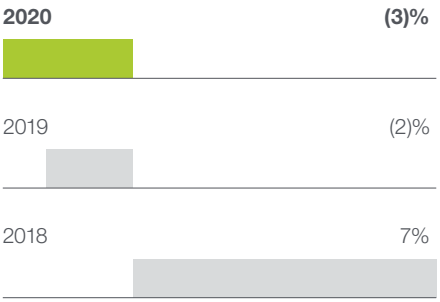
Key performance indicators "KPIs" continued

Revenue

(12)% IFRS



(3)% underlying



Definition and relevance

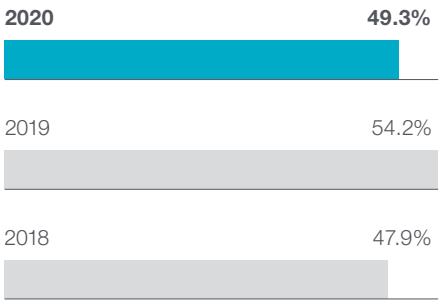
Actual and prior year's full-year revenue measured in our reporting currency, US dollars. Monitoring this revenue trend provides a measure of business growth.

2020 performance

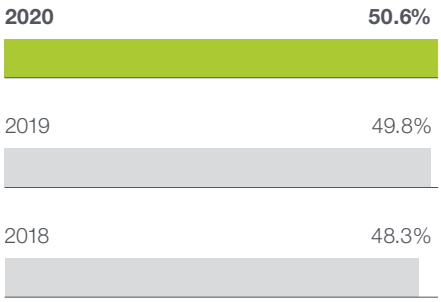
Revenue in 2020 was US$1,376 million, which was 12% below 2019. Revenue in 2019 included the perpetual IP licence fee of US$146 million in relation to the licensing arrangement with our largest customer which closed in April 2019. Total Group underlying revenue was 3% below year-on-year. This was due to the anticipated decline in revenue from licensed main PMICs (FY 2020: US$363 million; FY 2019: US$626 million) offsetting the strong performance in the rest of the business.

Gross margin

49.3% IFRS



50.6% underlying



Definition and relevance

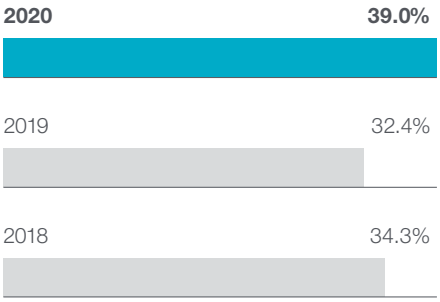
Actual and prior year's gross margin. Gross margin is gross profit expressed as a percentage of revenue and shows the value of the Group's products. Monitoring this trend provides a measure of our ability to obtain profit margin from our products and manage our manufacturing costs over a period of time.

2020 performance

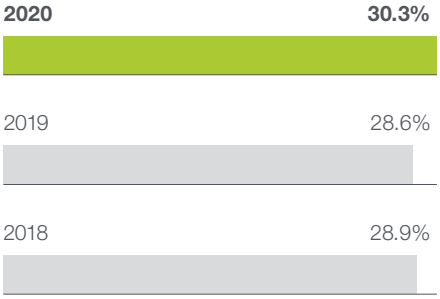
Gross margin in 2020 was below 2019 mainly due to the positive impact from the perpetual IP licence fee in 2019. Underlying gross margin was 50.6%, which was above 2019. This increase was due to the positive impact from the revenue recognition of the effective IP licence granted to our largest customer together with savings in manufacturing costs.

Operating expenses as a percentage of revenue

39.0% IFRS



30.3% underlying



Definition and relevance

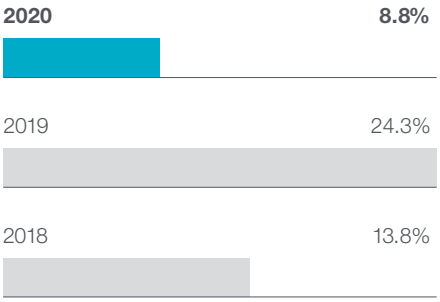
Actual and prior year's operating expenses ("OpEx") expressed as a percentage of revenue. OpEx % provides a measure of our effort in innovation and the efficiency of our operating structure over a period of time and it reflects the need for current returns as well as an investment in future revenue growth.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

2020 performance

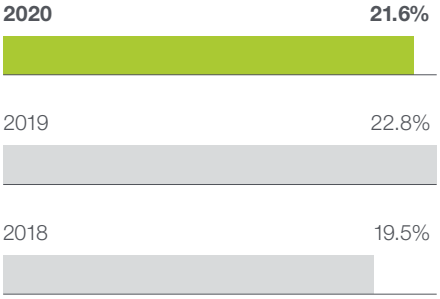
OpEx % in 2020 was 660bps above 2019 mainly due to the lower revenue and higher OpEx expenses resulting from the acquisitions of Creative Chips and Adesto, partially offset by savings. On an underlying basis, OPEX % was 170bps above 2019. Underlying R&D % was 120bps above 2019 while SG&A % was 50bps above 2019. 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

8.8% IFRS



21.6% underlying



Definition and relevance

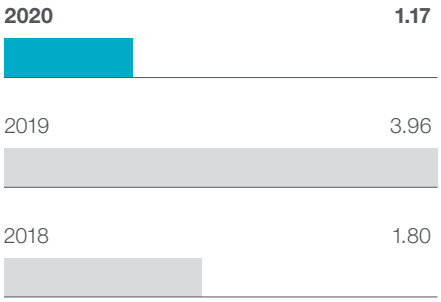
Actual and prior year's operating margin. Monitoring this trend provides a measure of our ability to increase the profitability of our operating activity over a period of time. Underlying operating margin provides a useful link to our ability to generate cash as we are a low capital intensity business.

2020 performance

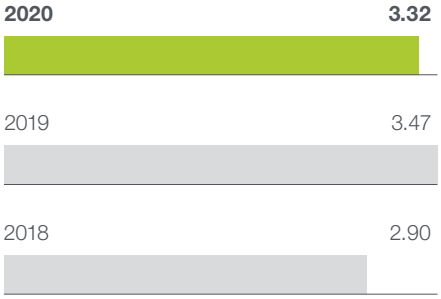
Operating margin in 2020 was significantly below 2019 mainly due to the lower revenue and the US$45 million impairment loss in relation to the goodwill recognised in the acquisition of Adesto. On an underlying basis, operating margin was 120bps below 2019. This decrease was the result of the lower revenue together with higher underlying OpEx partially offset by increased underlying gross margin.

Diluted EPS (US$)

1.17 IFRS



3.32 underlying



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.

2020 performance

Diluted EPS was significantly below 2019 at US$1.17 due to the lower net income together with the lower share count. Underlying diluted EPS was below 2019, mainly driven by the decrease in underlying net income partially offset by the lower sharecount.

Segmental Review

Custom Mixed Signal

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

> Dialog has successfully leveraged its deep expertise and IP in power management and energy efficiency. Together with our leading customers, we have delivered advanced battery management and display power ICs that enhance the performance of the end products and improve consumers' experience.

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

Our ability to integrate combinations of complex mixed-signal IP in customer-specific products and reliably produce them in very high volumes has helped fuel the mobile computing revolution since its early days. Our investments in technology adjacencies such as battery management and display power have begun to produce tangible success in the creation of innovative IP as well as design wins with major customers in mobile, computing, IoT and automotive.

Underlying revenue

US$805m

(2019: US$962m)

Underlying operating profit

US$230.1m

(2019: US$282.6m)

See explanations and reconciliations to the nearest IFRS measure in the section entitled "Financial performance measures" on pages 190 to 196

Highlights

- Double digit year-on-year underlying revenue growth excluding licensed main PMIC products.
- Delivered samples for high-volume phone battery management programmes at multiple tier one customers.
- Won key designs and began high volume production at leading tier one automotive suppliers.
- Began volume production of new products for gaming platforms.
- Design wins in an emerging AR/VR application at a major tier one customer.
- Expanded our market diversification with several developments in the wearable and TWS markets.

Our markets

- System power and battery management ICs for large-screen smartphones and tablets.
- Power management ICs for wearables, watches, and TWS.
- High-efficiency battery management solutions for smartphones and tablets.
- High-voltage power management for Chromebooks™, Ultrabooks™, and convertible tablets.
- Automotive-grade power management solutions for powering in-vehicle infotainment, ADAS, instrument clusters, and telematics systems.
- Custom power management ICs for gaming, memory and SSDs.

2020 progress

- Continued market diversification initiatives by partnering with five new major mobile and consumer suppliers.
- Made excellent progress on our diversification goals by securing more than 50% of design wins with non-mobile customers.
- Began development for a second major gaming platform.

Power management for automotive computing

In 2020, we expanded our collaboration with Renesas as the preferred power solution provider for the R-Car M3 and R-Car E automotive computing platforms. In addition, Telechips, selected Dialog as the preferred power management partner for its next generation automotive platforms.

– Accelerated production ramp for Automotive-grade PMICs across key in-cabin applications for various automotive tier ones, and announced partnership with Telechips, a leading SoC supplier for automotive in-cabin electronic control units.

Key drivers

– Battery charge time reduction.
– Extended battery range.
– Increasing efficiency requirements to address tightening thermal budgets.
– Industry increase in "always-on" applications requiring ultra-low power solutions to extend battery life.
– Integration of complex battery management functionality to support advanced features.
– Increased computing capability.
– Flexibility and scalability to meet the various requirements of high-performance multi-core SoC platforms for automotive electronics systems.

Our products

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

Our PMICs are flexible and scalable delivering power solutions which 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 easily modify PMIC functions to gain a competitive advantage.

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

The trends in battery management are driven by continuously improved performance and functionality in our customer's products with limited battery capacity. We have strong interest for BMICs customised to meet the complex configurations of consumer solutions while providing the accurate and precise monitoring functions to ensure the reliability and safety of batteries.

The increasing electrification of the automobile is driving additional business opportunities for our automotive-grade PMICs. Configurable high resolution screens, advanced infotainment systems, flexible electronic instrument clusters, and ADAS features require the use of high-performance multi-core SoC devices powered by flexible/scalable power management solutions.

More applications require effective power management solutions.

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

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

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

Forward focus areas for 2021

Extend product portfolio

– Capitalise on established partners and secure second-generation opportunities.
– Expand our engagement in gaming, hearables, and wearables with our custom mixed-signal solutions.
– Expand our automotive PMIC portfolio.

Deliver continuous innovation

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

Strategic initiatives and M&A

– Deepen our collaboration with strategic partners.

Segmental Review

Advanced Mixed Signal

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

"2020 was another growth year for our Advanced Mixed Signal business. Despite the impact from the pandemic on our backlighting business, we maintained a commanding market share in the rapid charge market and delivered strong growth from our GreenPAK™ products through increased customer adoption and new product introductions."

Underlying revenue

US$275m

(2019: US$253m)

Underlying operating profit

US$27.9m

(2019: US$15.2m)

Underlying operating profit reconciliation on pages 190 to 196

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

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

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

Highlights

- 8% year-on-year underlying revenue growth; underlying operating profit up 83%.
- Introduced our new highest efficiency AC/DC chipset – our Zero Voltage Switching ("ZVS") solution, which enables smaller form factor power supplies.
- Despite the adverse impact from the cancellation of live sports we saw strong customer engagement with our backlighting products, leading to design wins, including our solutions for Mini LED backlit TVs.

Our markets

- CMICs for IoT, mobile computing and automotive.
- LED LCD drivers for direct backlighting in TV, automotive and LED monitor displays.
- SSL LED drivers for residential and commercial lighting applications.
- AC/DC controller solutions for smartphones, tablets, appliances, industrial products – digital intelligence and state machine solutions for high power density and zero standby power rapid charge and non-rapid charge adapter and power supplies.
- DC/DC Power Management ICs ("PMICs") for smartphones, portable devices and wearables.

2020 progress

- Launched the first fully programmable advanced analog CMIC.
- Saw strong adoption of our backlighting products, including our solutions for Mini LED backlit TVs.
- Saw expanded adoption of our USB PD travel adapter solutions.
- Increased number of customers willing to pay premium for our AC/DC solutions for higher power, smaller adapters/ power supplies.
- Introduced our new highest efficiency AC/DC chipset – our ZVS solution.

Key drivers

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

Our products

Configurable Mixed-signal ICs
("CMICs") integrate analog mixed-signal functionality on an easily configurable software platform, using non-volatile memory to configure multiple analog, digital and power functions.

Expanding our CMIC portfolio

The latest member of our CMIC GreenPak™ family, allows for unique custom analog ICs to be designed in short times.

The SLG47004 is the first GreenPAK™ IC to incorporate configurable op amp functionality. Its high level of customisation and integration of multiple functions into a small form factor is unmatched.

This new product will rapidly accelerate GreenPAK™ adoption into entirely new applications for our customers and partners.

This allows customers to easily replace standard analog, logic and discrete board components, enabling a fast go-to-market, and reduce board space and costs.

In 2020, Dialog launched the first fully programmable CMIC with op amp functionality. With its high level of customisation and integration, it is the beginning of a new family of analog-focused GreenPAK solutions.

LED Backlight Drivers
Consumers want the absolute best picture quality for the price when purchasing a new TV or monitor. That is why manufacturers continue to transition from edge-lit to multi-zone, direct backlight High Dynamic Range ("HDR") displays.

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

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

We saw continued adoption of our direct backlighting solutions for HDR TVs in 2020. And we continue to be well positioned with our direct backlighting solutions at major panel vendors and suppliers.

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

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

Our AC/DC high power density RapidCharge™ chipsets and AC/DC converter ICs deliver efficiency greater than 90% and support output power greater than 100W, using fewer and smaller components. Our high power density Zero Voltage Switching ("ZVS") RapidCharge™ solution reduces heat dissipation and enables low system cost, allowing OEMs to pack more power into even smaller charger and adapter cases with very low standby power.

Additionally, fast chargers and power supplies designed with Dialog's RapidCharge™ controllers are not hackable. This is because our controllers are hard-wired state machines, so there is no firmware that can be corrupted by hackers. Adapters that use microcontrollers ("MCUs") can be vulnerable to hacking when connected via the USB cable, when the charger can be compromised by sourcing more power than the portable device can safely handle, causing damage or even destruction of the smartphone or tablet.

LED Solid State Lighting
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 increasing focus in commercial lighting applications.

Forward focus areas for 2021

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

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

Segmental Review

Connectivity & Audio

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

"2020 has seen continued revenue growth in a challenging environment. We have worked with our manufacturing partners to meet sudden demand for work and learn-from-home applications, as well as pandemic-related health products such as testers and social distancing applications. Our innovation in WiRa™, wireless ranging over BLE, will help workers in warehouses and other environments maintain proper social distancing."

Underlying revenue

US$196m

(2019: US$184m)

Underlying operating profit

US$15.1m

(2019: US$21.6m)

Underlying operating profit reconciliation on pages 190 to 196

Everything is connected

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

Highlights

- 6% year-on-year underlying revenue growth.
- Fully integrated FCI's operations into the Dialog organisation.
- Launched second generation VirtualZero™ low power Wi-Fi SoC.
- Launched the DA16200 SoC, combining BLE and low power Wi-Fi into a single module purpose built for battery-powered IoT applications.
- Launched the DA7403, the world's smallest smart CODEC integrating active noise cancelling and multi-microphone beamforming.

Our markets

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

2020 progress

- Continued revenue growth in a challenging environment.
- Launched second-generation Wi-Fi SOC and modules.
- Expanded our audio offering with the launch of the DA7403 smart CODEC.
- Strengthened market position in the wearable segment and audio segment with key design wins at multiple customers.

Key drivers

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

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

SmartBond TINY™ module gets IoT devices to market quicker and easier than ever

This module is designed to accelerate an IoT device's time to market, cutting down the costs and resources that typically go into a development cycle. Because all external components are integrated into the module's design, customers don't need to source these individual components separately, eliminating further levels of development costs and time.

The SmartBond TINY™ module boasts a highly configurable, easy-to-use design that empowers customers to quickly and intuitively create highly functional connected devices.

Our products

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

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

In 2020, we introduced the DA16600, a module that uniquely combines Dialog's market-leading Wi-Fi and BLE capabilities into a single solution. This two-in-one module is comprised of two groundbreaking SoCs, the DA16200 and the SmartBond™ TINY DA14531, to provide best-in-class, low-power Wi-Fi and BLE for customers and further broaden Dialog's IoT connectivity portfolio.

Our range of BLE products is 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.

SmartBeat™ products support the trend to replace the analog 3.5mm audio jack headset connection with digital alternatives. The SmartBeat™ chipset, DA14195 audio processor, DA7217 ultra-low power codec and DA7401 low power CODEC with integrated Active Noise Cancelling, is aimed at Bluetooth® and USB type-C™ digital audio connections with smartphones.

In 2020, we launched a new member of the audio CODECs family, delivering groundbreaking active noise cancellation. The DA7403 delivers active noise cancellation as well as multi-microphone beamforming which improve voice calls in noisy environments.

In 2020, we had a fast ramp up of our new low-power high-definition Haptics driver giving the most complex click/vibration touch effects in the new generation of all-in-one VR games, tablets and wearables.

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

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

Forward focus areas for 2021

Achieve a broader and deeper customer base

- Continue to invest in the BLE platform and increase market footprint.
- Expand our activities in the SmartBeat™ audio products, by announcing new audio processor application design wins and introducing new lower power smart codecs to the market.
- Continue to invest in the low power Wi-Fi portfolio, delivering follow-up SoCs and building design wins to increase market penetration.
- Leverage the combination of BLE and Wi-Fi through our distribution and Sales representative network to expand our customer base.

Deliver continuous innovation

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

Segmental Review

Industrial IoT

Mark Tyndall
Senior Vice President Corporate Development and Strategy, and General Manager Industrial IoT

> Industrial automation is driving some of the most complex networking and electronic system solutions in the world today. Dialog is at the forefront of product and technology innovation.

Underlying revenue

US$65m

(2019: US$2m)

Underlying operating loss

US$(0.7)m

(2019: US$(0.7)m)

Underlying operating profit reconciliation on pages 190 to 196

A growing opportunity in industrial IoT

The combined product portfolio and expertise from the acquisitions of Creative Chips and Adesto Technologies, gives Dialog a growing opportunity in industrial IoT. In 2020, we made excellent progress in the integration of Adesto and we are on track to deliver $20 million cost synergies in the first calendar year after close.

Highlights

- Closed the acquisition of Adesto on 30 June 2020.
- Integration of Adesto progressed slightly ahead of plan.
- We made excellent progress in the identification and delivery of US$20 million cost synergies.
- Formed the Industrial IoT Group, bringing together the businesses from Creative Chips and Adesto.
- Recognised an impairment loss of US$44.9 million in relation to the provisional goodwill recognised on the acquisition of Adesto.
- Licensed our Non-Volatile Resistive RAM Technology to GLOBALFOUNDRIES for 22FDX Platform, targeting IoT and AI.

Our markets

- Smart cities and buildings.
- Factory and industrial automation.
- Smart grids and metering.
- Consumer IoT.

2020 progress

- Introduced SmartServer™ IoT Partner Ecosystem for edge solutions in smart buildings and factories.
- FusionHD™ NOR Flash memory compatible and qualified with our SmartBond™ Bluetooth® Low Energy SoCs.
- EcoXiP™ octal xSPI non-volatile memory optimised to be used with Renesas' RZ/A2M Arm®-based microprocessors ("MPUs").
- Expansion of IO-Link IC portfolio providing robust communication to the smallest and most price sensitive IO-Link device sensors and actuators.

Key drivers

- Building automation systems providing intelligent, energy-efficient working and living environments.
- Next generation Industry 4.0 extending 5G connectivity to the industrial edge providing automation and AI cloud analytics through industrial edge computing.
- Satellite communications providing global broadband connectivity.
- Expansion of CBRAM technology as a low power non-volatile memory solution in IoT and 5G connectivity and AI applications.

Innovation in IoT and AI

In 2020, we licensed our non-volatile resistive RAM technology to GLOBALFOUNDRIES for 22FDX Platform, targeting IoT and Artificial Intelligence ("AI").

Dialog's proprietary and production proven CBRAM technology is a low power NVM solution designed to enable a range of applications from IoT and 5G connectivity to AI. Low power consumption, high read/write speeds, reduced manufacturing costs and tolerance for harsh environments make CBRAM particularly suitable for consumer, medical, and select industrial and automotive applications.

Our products

Specialty non-volatile memory
Non-volatile memory ("NVM") is a key component at the heart of every system design. It holds critical data, controls how the system boots, and affects overall performance. Choosing the right NVM is key. Our wide range of NVM products offer an array of features designed to help tune and optimise a system.

EcoXiP's blazingly fast performance and low power consumption allow even time-critical software to be executed directly out of non-volatile memory, reducing boot time and system cost.

DataFlash's advanced dual SRAM buffer architecture makes it the most efficient memory for data logging. It also incorporates a suite of advanced features that save system power, reduce processor overhead, simplify software development, and provide comprehensive data security and integrity options.

Our Dual/Quad products, including our new FusionHD™ devices, are designed with compatibility in mind. They feature industry standard features and pin outs that can work in any new or pre-existing design. But we know that great systems need more. This is why we offer product lines with a wealth of advanced features such as ultra-deep power down, hi-reliability, hi-temp, faster page erase, and comprehensive security features.

Industrial edge computing
Our industrial edge servers, interfaces and software enable OEMs, application developers and system integrators to quickly develop robust, innovative and interoperable solutions for their end-users — solutions that meet the unique requirements of the industrial IoT, which include autonomous control, industrial-strength reliability and scalability.

These solutions can enable customers to reduce energy consumption, capital and operating costs, and maintenance; more accurately control business-critical conditions; establish a platform for additional networked applications; and collect data for better asset utilisation, increased efficiencies, and powerful predictive analytics.

Our edge servers combine smart gateway and automation server functionalities for industrial controls, building automation, energy management, smart grid and lighting applications.

Communication ICs
Our communications ICs are designed to enable reliable and easy communications for industrial devices and networks. Our ICs enable OEMs to quickly develop robust and innovative IIoT solutions that meet the unique requirements of the industrial IoT, such as industrial-strength reliability and scalability. Our solutions include customer programmable, highly integrated transceiver SoCs for Free Topology ("FT") networks over a single twisted pair and Power Line Communications ("PLC").

Our range of IO-Link compliant transceivers provide IO-Link compliant communication capability with advanced protection circuitry and additional features while keeping the application small and simple.

Forward focus areas for 2021

– Successfully complete the integration of Adesto and achieve US$20 million cost synergies.

Extend product portfolio
– Develop roadmap for next generation products, combining available competencies in industrial IoT.
– Continue the development of industrial edge computing offering.

Achieve a broader and deeper customer base
– Deepening our existing customer base with a strong focus on tier one industrial companies.
– Continue to push for revenue synergies to increase cross selling.

Financial review

Strong balance sheet

> In a challenging year, we made good progress towards building a diverse and sustainable mixed signal business. We achieved this thanks to the dedication and commitment of our employees, and the operational flexibility and financial resilience of our fabless model.

Wissam Jabre
Chief Financial Officer, Senior Vice President Finance

Summary

In 2020, we delivered strong underlying results.

Underlying revenue excluding licensed main PMIC grew 27% year-on-year and underlying gross margin reached a record 50.6%. We invested over US$500 million in Adesto and US$326 million in the development of new products, and returned US$80 million to our shareholders through share buybacks.

Year ended 31 December US$ millions unless stated otherwise	IFRS basis		Underlying basis[1]		
	2020	2019	**2020**	2019	Change
Revenue[2]	**1,375.9**	1,566.2	**1,375.9**	1,420.5	(3)%
Gross profit	**678.1**	848.5	**696.9**	706.7	(1)%
Gross margin %[2]	**49.3%**	54.2%	**50.6%**	49.8%	80bps
R&D % of revenue	**23.7%**	20.0%	**20.7%**	19.5%	120bps
SG&A % of revenue	**15.3%**	12.4%	**9.6%**	9.1%	50bps
EBITDA[1]	**n/a**	n/a	**357.0**	390.1	(8)%
EBITDA margin %[1]	**n/a**	n/a	**25.9%**	27.5%	(160)bps
Operating profit	**120.9**	379.9	**297.4**	324.3	(8)%
Operating margin %[2]	**8.8%**	24.3%	**21.6%**	22.8%	(120)bps
Profit before tax	**116.9**	385.0	**292.9**	329.8	(11)%
Net income	**84.5**	301.5	**240.2**	264.4	(9)%
Basic EPS (US$)	**1.24**	4.19	**3.53**	3.68	(4)%
Diluted EPS (US$)[2]	**1.17**	3.96	**3.32**	3.47	(4)%
Cash flow from operating activities	**142.2**	496.5	**n/a**	n/a	n/a
Free cash flow[1, 2]	**n/a**	n/a	**92.1**	449.4	(80)%

1 Non-IFRS measures (see explanations and reconciliations to the nearest equivalent IFRS measures in the section entitled "Financial performance measures" on pages 190 to 196.

2 Key performance indicators.

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

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 2020 are set out on pages 183 to 189.

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 2019.

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

Critical accounting judgements and estimates

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

Non-IFRS measures

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

An explanation of the adjustments made to the equivalent IFRS measures in calculating the non-IFRS measures and reconciliations of the non-IFRS measures to the equivalent IFRS measures for the periods presented are set out in the section entitled "Financial performance measures" on pages 190 to 196.

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

Covid-19 pandemic

During the first quarter of 2020, the Covid-19 outbreak developed into a global pandemic. We saw early disruption to our supply chain and to our customers' manufacturing facilities but these factors dissipated during the second quarter of the year. As consumers adapted to restrictions enforced around the globe, we saw demand increase for our products in headphones, fitness trackers, digital watches, notebooks, and tablets. Demand for our products was, however, adversely affected in our industrial markets.

Our supply chain remained stable during the second half of the year, but with most suppliers and our customers' contract manufacturers operating at almost full capacity, we were constrained in our ability to meet additional demand from our customers.

While there is still considerable uncertainty as to the extent and duration of its impact on the global economy, we consider that our fabless business model and the strength of our balance sheet provide us with the operational flexibility and financial resilience necessary to navigate the remaining course of the pandemic.

Recent corporate transactions

Acquisition of Adesto

Purchase price allocation

On 29 June 2020, we completed the acquisition of 100% of the equity interests in Adesto Technologies Corporation ("Adesto") at a price of US$12.55 per share in cash. Adesto is a leading provider of innovative non-volatile memory, custom ICs and embedded systems for the IIoT market.

Headquartered in Santa Clara, California, Adesto had approximately 270 employees and an established portfolio of industrial solutions for smart building automation that complements our range of manufacturing automation products. Adesto's solutions are sold across the industrial, consumer, medical, and communications markets.

On completion, we paid US$397.2 million in cash for Adesto's outstanding issued common shares and US$8.5 million in cash to settle Adesto's "in the money" outstanding vested employee share awards.

On completion, Adesto's "in the money" outstanding unvested employee share awards were converted into either replacement Dialog restricted share units or the right to receive future cash payments, which are generally subject to the vesting schedule and other terms (including a service condition) that governed the awards that they replaced. We determined that the acquisition date fair value of the replacement awards was US$26.0 million, of which US$11.2 million represented deferred consideration. Accordingly, the total purchase consideration recognised was US$416.9 million.

Shortly after completing the acquisition, we paid US$98.2 million in cash in settlement of Adesto's outstanding 4.25% Convertible Notes 2024 and received US$6.1 million in cash on the settlement of related capped call contracts over Adesto's common shares.

We funded the cash payments arising from the acquisition entirely from the Group's cash balances.

Our provisional purchase price allocation shows that Adesto's net assets on acquisition were US$98.0 million (after deducting the liability to settle the convertible notes). We recognised identifiable intangible assets including customer relationships (US$105.1 million), developed technology (US$44.3 million), in-process research and development (US$3.2 million) and trade names (US$4.2 million).

We have therefore recognised provisional goodwill of US$318.9 million in relation to Adesto. Details of the provisional purchase price allocation are set out in note 3 to the consolidated financial statements.

During 2020, we incurred transaction costs of US$9.0 million in relation to the acquisition of Adesto (included within general and administrative expenses). We also paid US$7.8 million in settlement of certain of Adesto's transaction costs.

During 2020, we incurred integration costs amounting to US$5.9 million in relation to Adesto, which principally comprised employee severance costs.

Adesto is included in our Industrial IoT reporting segment. Adesto contributed US$41.0 million to the Group's revenue in 2020.

Financial review continued

Strong balance sheet continued

Acquisition of Adesto continued

Impairment of goodwill

We agreed the purchase consideration for Adesto in early February 2020 based on profit forecasts for the business that were prepared before the extent of the impact of the Covid-19 pandemic could be predicted.

By the time we completed the acquisition, it had become clear that the forecasts would have to be scaled back to reflect the impact of the pandemic, particularly in Adesto's industrial markets. We based the provisional purchase price allocation on our revised forecasts, projected over a ten-year period in order to capture the long-term growth potential of the business.

During the third quarter of 2020, there was an increase in the discount rate applicable to Adesto's forecast cash flows that caused us to perform an impairment test on the carrying amount of Adesto.

We concluded that the carrying amount was impaired and recognised an impairment loss of US$44.9 million against the provisional goodwill relating to Adesto.

Further information is presented in note 14 to the consolidated financial statements.

Acquisition of Creative Chips

We completed the acquisition of Creative Chips GmbH ("Creative Chips") in October 2019 for initial consideration of US$83.7 million, including US$3.7 million in respect of Creative Chips' estimated cash, debt and working capital. In February 2020, we paid a purchase price adjustment of US$0.1 million to the sellers reflecting Creative Chips' actual cash, debt and working capital on completion.

Additional consideration of up to US$23.0 million in cash was payable contingent on Creative Chips' performance against revenue targets for 2020 and 2021 and the achievement of certain product development targets by the end of 2020. During 2020, it became apparent that one of the product development targets would not be met. We therefore reduced the contingent consideration liability to US$nil and recognised a corresponding credit of US$6.9 million in profit or loss (within other operating income).

Acquisition of FCI

We completed the acquisition of FCI in May 2019 for initial consideration of US$54.2 million in cash, including US$9.2 million in respect of FCI's estimated cash and working capital. In January 2021, we reached agreement with the vendors as to FCI's actual cash, debt and working capital on completion and will receive a purchase price adjustment of US$0.1 million from them.

Acquisition of Silego

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

Contingent consideration of up to US$30.4 million was payable for Silego in two instalments dependent on its revenues in 2017 and 2018. Silego's revenues were such that contingent consideration of US$27.9 million was payable in total, of which US$26.1 million was attributable to the shares and vested options acquired and the balance payable to holders of deferred cash rights. During 2019, we paid US$16.7 million in settlement of the element of the second instalment that was attributable to the shares and vested options acquired.

During 2020, we paid US$0.9 million (2019: US$2.1 million) in relation to the consideration element of the deferred cash rights, bringing the total deferred consideration paid to US$6.2 million.

Licensing and asset transfer agreement with Apple

In April 2019, we licensed our power management technologies to Apple Inc. ("Apple") and transferred to Apple certain assets and over 300 employees from our design centres in the UK, Germany and Italy.

Apple paid Dialog US$300.0 million in respect of the licensing arrangements and asset transfers.

Pursuant to the agreement, we granted to Apple:

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

On closing of the licensing and asset transfer agreement, Apple made an interest-free prepayment to Dialog of US$300.0 million to be recovered primarily by recoupment against invoices payable to Dialog for the purchase of certain of our products in quarterly instalments over the three-year period ending on 31 March 2022. On initial recognition, we measured the prepayment at its fair value of US$288.6 million. We accounted for the "below market element" of the prepayment of US$11.4 million as additional consideration in respect of the licensing arrangements and asset transfers.

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

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

We recognised the consideration for the perpetual IP licence as revenue on the closing date.

We are recognising the consideration for the effective licence over the four-year period following the closing date. During 2020, we recognised revenue of US$35.7 million (2019: US$18.5 million) in relation to the effective IP licence.

During 2019, we recognised a gain of US$15.9 million on the transfer of the design centre businesses (within other operating income) and transaction costs in relation to the licensing and asset transfer agreement of US$16.1 million (within general and administrative expenses).

Cost-reduction initiatives

During Q3 2020, we commenced a number of initiatives to reduce the Group's cost base in response to the Covid-19 pandemic and recognised related expenses of US$2.4 million, that were principally employee termination benefits.

Our approach to tax

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

Results of operations

Segment reorganisation

Prior to the acquisition of Adesto at the beginning of the third quarter of 2020, the Group had three reporting segments: Custom Mixed Signal; Advanced Mixed Signal; and Connectivity & Audio. Custom Mixed Signal included our Industrial Mixed Signal business unit. We initially managed Adesto on a stand-alone basis and reported its results separately to the Management Team. During the fourth quarter of 2020, we changed the Group's internal reporting structure, bringing together Adesto and the Industrial Mixed Signal business unit to form a single operating segment that we named Industrial IoT.

Following the reorganisation, the Group has four reporting segments: Custom Mixed Signal; Advanced Mixed Signal; Connectivity & Audio; and Industrial IoT.

Segment information is presented in note 32 to the consolidated financial statements. In the analysis of the Group's results by reporting segment presented below, comparative information for 2019 has been restated to reflect the segment reorganisation.

Analysis by reporting segment

Custom Mixed Signal's underlying revenue was US$804.7 million in 2020 compared with US$962.5 million in 2019, a decrease of 16%. Revenue declined principally due to the expected reduction in sales of legacy licensed main PMICs to our largest customer, though this was partially offset by growth in sales of new mixed-signal products.

Revenue from our largest customer for products not covered by the perpetual IP licence increased by 29% to US$406.9 million in 2020 compared with US$315.1 million in 2019.

Custom Mixed Signal's underlying operating profit was US$230.1 million compared with US$282.6 million in 2019. Underlying operating profit decreased principally due to lower revenue, though this was partially offset by lower operating expenses following the transfer of design centre businesses to Apple in April 2019. Underlying operating margin was 28.6% compared with 29.4% in 2019.

Advanced Mixed Signal's underlying revenue was US$274.6 million in 2020 compared with US$253.4 million in 2019, an increase of 8%. Revenue benefited from higher sales of CMICs and PMICs, but this was partially offset by lower sales of backlighting ICs and rapid charge ICs for power adaptors.

Advanced Mixed Signal's underlying operating profit was US$27.9 million compared with US$15.2 million in 2019. Underlying operating profit increased principally due to higher revenue and lower selling and marketing expenses, though these benefits were partially offset by higher R&D expenses. Underlying operating margin was 10.2% compared with 6.0% in 2019.

Connectivity & Audio's underlying revenue was US$195.5 million in 2020 compared with US$183.8 million in 2019, an increase of 6%. Sales of Bluetooth® low energy and new audio products increased but this was partially offset by lower sales of legacy DECT-based products.

Connectivity & Audio's underlying operating profit was US$15.1 million compared with US$21.6 million in 2019, with the decline principally due to higher R&D expenses and lower customer contributions to product development costs. Underlying operating margin was 7.7% compared with 11.8% in 2019.

Industrial IoT's underlying revenue was US$65.4 million in 2020 compared with US$2.3 million in 2019, with the increase reflecting the acquisition of Adesto and a full year's contribution from Creative Chips.

Industrial IoT incurred an underlying operating loss of US$0.7 million that was unchanged compared with 2019. Creative Chips was profitable on an underlying basis in 2020. Adesto incurred an underlying operating loss but its performance following acquisition was broadly in line with our expectations when we completed the acquisition. Industrial IoT's underlying operating margin improved to (1.1)% compared with (29.2)% in 2019.

Corporate and other unallocated items comprise the costs of operating central corporate functions and certain other unallocated items.

Corporate and other unallocated items represented an underlying operating profit of US$25.0 million compared with US$5.6 million in 2019, with the improvement being principally due to the recognition of higher revenue on the effective IP licence granted to Apple in April 2019.

Results by reporting segment

	Underlying revenue			Underlying operating profit/(loss)	
US$ millions unless stated otherwise	**2020**	2019*	Change	**2020**	2019*
2020 compared with 2019					
Custom Mixed Signal	**804.7**	962.5	(16)%	**230.1**	282.6
Advanced Mixed Signal	**274.6**	253.4	8%	**27.9**	15.2
Connectivity & Audio	**195.5**	183.8	6%	**15.1**	21.6
Industrial IoT	**65.4**	2.3	nm	**(0.7)**	(0.7)
Total segments	**1,340.2**	1,402.0	(4)%	**272.4**	318.7
Corporate and other unallocated items	**35.7**	18.5	nm	**25.0**	5.6
Total Group	**1,375.9**	1,420.5	(3)%	**297.4**	324.3

* Restated to reflect the segment reorganisation.

Financial review continued

Strong balance sheet continued

Analysis of the Group's results

Revenue was US$1,375.9 million in 2020 compared with US$1,566.2 million in 2019. Revenue declined principally due to the effect of the licensing arrangements with Apple that became effective during the second quarter of 2019.

Excluding the perpetual IP licence fee of US$145.7 million that was recognised in 2019, underlying revenue declined from US$1,420.5 million in 2019 to US$1,375.9 million in 2020, a decrease of 3%.

Underlying revenue declined principally due to the expected reduction in sales of legacy licensed main PMICs, though this was partially offset by strong growth in sales of other products in Custom Mixed Signal, the contribution of acquired businesses in Industrial IoT and higher sales in each of our other reporting segments.

Cost of sales was US$697.8 million in 2020 compared with US$717.7 million in 2019, a decrease of 3%.

Cost of sales declined due to lower sales volumes of higher cost products, but this was partially offset by higher consumption of the fair value uplift on the inventory of acquired businesses.

Gross profit was US$678.1 million in 2020 compared with US$848.5 million in 2019. Gross margin decreased to 49.3% in 2020 compared with 54.2% in 2019, principally due to the recognition of the perpetual IP licence fee in 2019.

Underlying gross profit was US$696.9 million compared with US$706.7 million in 2019, a decrease of 1%. Underlying gross margin was 80 basis points higher at 50.6% compared with 49.8% in 2019.

Underlying gross profit excludes the consumption of the fair value uplift on acquired inventory of US$15.3 million (2019: US$1.7 million), share-based compensation and related expenses of US$2.9 million (2019: US$2.2 million), deferred consideration accounted for as compensation expense of US$0.6 million (2019: US$nil) and, in 2019, the perpetual IP licence fee of US$145.7 million.

Selling and marketing expenses were US$107.6 million in 2020 compared with US$92.9 million in 2019, with the increase being principally due to the acquisition of Adesto.

Underlying selling and marketing expenses were also higher at US$72.1 million compared with US$69.4 million in 2019 and represented 5.2% of the Group's underlying revenue compared with 4.9% in 2019.

Underlying selling and marketing expenses exclude share-based compensation and related expenses totalling US$9.0 million (2019: US$6.3 million), amortisation of acquired intangible assets of US$24.6 million (2019: US$16.0 million), deferred consideration accounted for as compensation expense of US$1.9 million (2019: US$0.4 million) and, in 2019, integration costs of US$0.8 million.

General and administrative expenses were US$103.2 million in 2020 compared with US$101.6 million in 2019, with the increase due to the acquisition of Adesto and severance costs arising from our cost-reduction initiatives being largely offset by lower transaction costs.

Underlying general and administrative expenses were broadly unchanged at US$60.2 million compared with US$60.1 million in 2019 and represented 4.4% of the Group's underlying revenue compared with 4.2% in 2019.

Underlying general and administrative expenses exclude share-based compensation and related expenses totalling US$20.8 million (2019: US$19.9 million), transaction costs of US$9.1 million (2019: US$20.1 million), deferred consideration accounted for as compensation expense of US$4.2 million (2019: US$0.2 million), integration costs of US$6.5 million (2019: US$1.3 million) and, in 2020, cost-reduction expenses of US$2.4 million.

R&D expenses were US$325.9 million in 2020 compared with US$313.5 million in 2019.

R&D costs totalled US$346.5 million (2019: US$334.6 million), of which US$13.7 million (2019: US$15.4 million) was capitalised and US$6.9 million (2019: US$5.7 million) was offset by R&D expenditure credits.

R&D expenses were lower in Custom Mixed Signal due to the transfer of design centre businesses to Apple in April 2019, but were higher overall due to the acquisition of Adesto and our increased investment in product development in Advanced Mixed Signal and Connectivity & Audio.

Underlying R&D expenses were US$284.6 million in 2020 compared with US$276.4 million in 2019 and represented 20.7% of the Group's underlying revenue compared with 19.5% in 2019.

Underlying R&D expenses exclude share-based compensation and related expenses totalling US$28.3 million (2019: US$26.2 million), amortisation of acquired intangible assets of US$12.3 million (2019: US$10.1 million), deferred consideration accounted for as compensation expense of US$0.7 million (2019: US$0.5 million) and, in 2019, integration costs of US$0.3 million.

Other operating expense was US$20.6 million in 2020 compared with other operating income of US$39.4 million in 2019.

During 2020, we incurred the impairment loss of US$44.9 million on the Adesto goodwill that was partially offset by a credit of US$6.9 million on the remeasurement of the contingent consideration payable for Creative Chips. During 2019, we recognised a gain of US$15.9 million on the transfer of design centre businesses to Apple. Excluding these items, underlying other operating income was US$17.4 million in 2020 compared with US$23.5 million in 2019.

Underlying other operating income was lower in 2020 compared with 2019 principally due to a decrease in customer contributions to product development costs.

Operating profit was therefore US$120.9 million in 2020 compared with US$379.9 million in 2019.

Underlying operating profit was US$297.4 million compared with US$324.3 million in 2019, a decrease of 8%. Underlying operating profit declined principally due to lower revenue in Custom Mixed Signal. Underlying operating margin was also lower at 21.6% compared with 22.8% in 2019.

Interest income was US$6.1 million in 2020 compared with US$21.9 million in 2019, with the decrease due to our lower average cash balance in 2020 compared with 2019 and a decline in market interest rates.

Interest expense was US$8.2 million in 2020 compared with US$11.3 million in 2019, with the decrease principally reflecting the lower amount outstanding on the prepayment from Apple.

Other finance expense was US$1.9 million in 2020 compared with US$5.5 million in 2019.

We recognised a net currency translation loss on monetary assets and liabilities of US$2.6 million compared with a loss of US$5.7 million in 2019.

We recognised a fair value loss of US$0.1 million (2019: loss of US$1.4 million) on our now expired warrants over shares in Energous and a credit of US$0.8 million (2019: US$1.6 million) from the amortisation of the gain on initial recognition of the second tranche of the warrants.

Income tax expense was US$32.4 million (2019: US$83.6 million) on profit before tax of US$116.9 million (2019: US$385.0 million), an effective tax rate for the year of 27.7% (2019: 21.7%).

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

Our relatively high effective tax rate for 2020 was principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation, business combinations and the goodwill impairment loss.

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

Our underlying income tax expense was US$52.7 million (2019: US$65.4 million) on underlying profit before tax of US$292.9 million (2019: US$329.8 million). Our underlying effective tax rate for 2020 was therefore 18.0%, which compares with 19.8% for 2019. Our underlying effective tax rate for 2020 was lower than expected, principally because of the tax effects of unpredictable currency exchange rate movements.

Net income was US$84.5 million in 2020 compared with US$301.5 million in 2019. Underlying net income was US$240.1 million compared with US$264.4 million in 2019, a decrease of 9%.

Basic earnings per share were US$1.24 (2019: US$4.19) based on the weighted average of 68.1 million shares (2019: 71.9 million shares) that were in issue during the period excluding the weighted average of 2.5 million shares (2019: 1.8 million shares) held by employee benefit trusts and the weighted average of 5.6 million shares (2019: 2.7 million shares) that were held in treasury. Underlying basic earnings per share were US$3.53 (2019: US$3.68).

Diluted earnings per share were US$1.17 (2019: US$3.96). Diluted earnings per share additionally reflect the weighted average of 4.2 million (2019: 4.3 million) dilutive employee share options and awards. Underlying diluted earnings per share were US$3.32 (2019: US$3.47).

Summary cash flow statement

US$ millions	2020	2019
Cash generated from operations	**204.0**	549.7
Interest received, net	**3.8**	17.3
Income taxes paid	**(65.6)**	(70.5)
Cash inflow from operating activities	**142.2**	496.5
Purchase of property, plant and equipment	**(19.4)**	(12.1)
Purchase of intangible assets	**(7.3)**	(8.5)
Capitalised development expenditure	**(13.7)**	(15.4)
Capital element of lease payments	**(9.7)**	(11.1)
Free cash flow	**92.1**	449.4
Purchase of businesses, net of acquired cash	**(407.9)**	(139.8)
Proceeds from transfer of design centres, net of cash disposed	**–**	27.8
Receipt of prepayment from Apple	**–**	288.6
Cash settlements of prepayment from Apple	**(12.9)**	(20.3)
Sale of Dialog shares by EBTs	**0.3**	3.4
Purchase of own shares	**(80.5)**	(251.8)
Settlement of Adesto convertible notes, net	**(92.1)**	–
Other cash flows, net	**0.8**	(11.8)
Net cash (outflow)/inflow during the period	**(500.2)**	345.5
Currency translation differences	**(0.5)**	1.2
(Decrease)/increase in cash and cash equivalents	**(500.7)**	346.7

Cash flows

Cash inflow from operating activities was US$142.2 million in 2020 compared with US$496.5 million in 2019.

Cash generated from operations before changes in working capital was US$276.7 million compared with US$631.9 million in 2019. During 2019, we received consideration totalling US$282.2 million on completion of our IP licensing arrangements with Apple. Excluding those receipts, cash generated from operations before changes in working capital of US$276.7 million in 2020 compares with US$349.7 million in 2019, with the reduction principally reflecting lower product sales, higher operating expenses and lower customer contributions to product development costs in 2020.

Excluding the effect of acquisitions and disposals of businesses, net working capital increased by US$72.7 million in 2020 compared with an increase of US$82.2 million in 2019.

Inventory levels increased slightly during 2020, absorbing cash of US$3.7 million. At the end of 2020, inventories represented 64 days' cost of sales in the preceding quarter (end of 2019: 58 days' cost of sales).

Movements in trade and other receivables during 2020 absorbed cash of US$74.9 million. During 2020, we settled US$112.1 million of the quarterly instalments totalling US$125.0 million due in relation to the prepayment from Apple by recoupment against receivables. If those receivables had been settled in cash, cash of US$37.2 million would have been released from trade and other receivables during 2020. At the end of 2020, trade and other receivables represented 25 days' sales in the preceding quarter (end of 2019: 31 days' sales).

Trade and other payables increased slightly during 2020, releasing cash of US$4.0 million. At the end of 2020, trade and other payables represented 61 days' cost of sales in the preceding quarter (end of 2019: 49 days' cost of sales).

Movements on other working capital items had the effect of releasing cash of US$2.0 million during 2020.

Net interest received was US$3.8 million in 2020 compared with US$17.3 million in 2019.

Net income tax payments were US$65.6 million in 2020 compared with US$70.5 million in 2019. Income tax cash flows comprise payments on account in respect of current year taxable profits and adjusting payments or receipts in respect of earlier years.

Financial review continued

Strong balance sheet continued

Cash outflow from investing activities was US$448.3 million in 2020 compared with US$147.9 million in 2019.

Capital expenditure comprising cash outflows in relation to the purchase of property, plant and equipment and intangible assets and capitalised development expenditure totalled US$40.4 million in 2020 compared with US$36.0 million in 2019. Capital expenditure increased principally due to the addition of recently-acquired businesses.

During 2020, there was a cash outflow of US$400.9 million on the acquisition of Adesto (net of cash of US$4.7 million held by the business on the acquisition date). We also paid deferred consideration for Adesto and Silego totalling US$6.9 million and a purchase price adjustment of US$0.1 million following agreement with the vendors of Creative Chips' cash, debt and working capital levels on completion.

During 2019, there was a cash outflow of US$44.6 million on the acquisition of FCI (net of cash of US$9.6 million held by the business on the acquisition date), a cash outflow of US$76.4 million on the acquisition of Creative Chips (net of cash of US$7.3 million held by the business on the acquisition date) and we paid deferred and contingent consideration for Silego totalling US$18.8 million. Also during 2019, there was a cash inflow of US$27.8 million on the transfer of design centre businesses to Apple (net of cash of US$1.5 million held by the businesses on the transfer date).

Cash outflow from financing activities was US$194.2 million in 2020 compared with US$3.0 million in 2019.

During 2019, we recognised the receipt of the prepayment from Apple at its fair value of US$288.6 million. Excluding that receipt, the cash outflow from financing activities of US$194.2 million in 2020 compares with US$291.6 million in 2019, with the decrease principally reflecting lower share buyback activity that was partially offset by the net payment of US$92.1 million on the settlement of the convertible notes acquired with Adesto.

During 2020, the Company made purchases under its share buyback programme at a total cost of US$80.5 million (2019: US$251.8 million) and received US$1.5 million (2019: paid US$11.6 million) on the settlement of currency hedges of share buyback liabilities.

During 2020, we settled US$12.9 million (2019: US$20.3 million) of the quarterly instalments due in relation to the prepayment from Apple in cash. Since the scheduled quarterly instalments have now reduced to US$12.5 million, we do not expect to have to settle any of the remaining liability in cash.

During 2020, there was a cash outflow on the capital element of lease payments of US$9.7 million (2019: US$11.1 million) and we made capital repayments of US$0.7 million (2019: US$0.2 million) on bank loans owed by Creative Chips.

Employee benefit trusts received proceeds of US$0.3 million (2019: US$3.4 million) on the exercise of share options, the decrease reflecting the lower exercise prices of options granted in recent years.

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 31 to the consolidated financial statements.

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

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

Cash and cash equivalents

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

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

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

At the end of 2020, cash and cash equivalents amounted to US$523.9 million (end of 2019: US$1,024.5 million), which principally comprised investments in money market funds and bank deposits with a maturity of three months or less.

Prepayment from Apple

At the end of 2020, the principal amount of the prepayment outstanding was US$75.0 million, which is scheduled to be settled in quarterly instalments by recoupment against invoices totalling U$$50.0 million in 2021 and the balance of US$25.0 million by April 2022.

We account for the prepayment as a financial liability at amortised cost. At the end of 2020, the carrying amount of the liability was US$73.3 million.

Revolving credit facility

Since July 2017, we have had a US$150 million revolving credit facility provided by four financial institutions that is committed and available for general corporate purposes.

We have not made any drawings under the facility and retain the option to increase the amount of the facility by US$75 million, subject to certain conditions.

The facility will mature on 28 July 2022.

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

Receivables financing facilities

During 2020, we continued to utilise non-recourse receivables financing facilities provided by two financial institutions in an aggregate amount of US$240 million. The principal facility of US$220 million will mature on 31 October 2021.

Gross receivables sold under the facilities increased by US$10.3 million to US$87.3 million at the end of 2020 compared with US$77.0 million at the end of 2019.

At the end of 2020, cash and cash equivalents included US$74.2 million (end of 2019: US$65.4 million) in relation to receivables sold under these facilities.

Currency hedging activities

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

Derivative financial instruments are measured at fair value that is determined based on market forward exchange rates at the balance sheet date. At the end of 2020, currency derivatives held by the Group were represented by a net asset of US$6.9 million (end of 2019: net liability of US$0.3 million).

All currency derivatives held to hedge forecast cash flows were designated as hedging instruments in cash flow hedge relationships. During 2020, a gain of US$8.1 million (2019: loss of US$3.9 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 gain of US$0.6 million (2019: loss of US$9.5 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$0.8 million (2019: net loss of US$4.6 million) in profit or loss in relation to liabilities to purchase shares under the Company's share buyback programme.

Share buyback programme

Since initiating the share buyback programme in May 2016, the Company has purchased 13,597,268 of its own ordinary shares and returned €463.7 million (US$515.2 million) to shareholders. Details of the share purchases made during the last three years are set out in note 27 to the consolidated financial statements.

On 12 March 2020, the Company announced details of the second tranche of the share buyback programme pursuant to an authority granted by shareholders at the Company's 2019 AGM, under which the Company committed to purchase shares with a minimum cost of €70.0 million and a maximum cost of €90.0 million.

We completed the fourth and final settlement of this tranche on 8 October 2020. We purchased a total of 2,036,705 shares under this tranche at a cost of €70.0 million (US$80.0 million). We also incurred transaction costs of US$0.5 million.

At the Company's AGM on 30 April 2020, the Directors were granted a new authority to purchase up to 10,395,809 of the Company's ordinary shares, representing approximately 15% of the issued ordinary share capital of the Company as at 25 March 2020. Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2021, whichever is the earlier. The Company has not yet announced any purchases under the 2020 AGM authority.

Purchases made under the share buyback programme are off-market and are effected by way of contingent forward purchase contracts entered into with brokers. Barclays, Goldman Sachs, HSBC or Merrill Lynch may be appointed as brokers for purchases under the 2020 AGM authority.

We will seek renewal of the share buyback authority at the Company's 2021 AGM.

Cancellation of treasury shares

On 18 May 2020, the Company cancelled 3,700,000 of the treasury shares that it had purchased under the share buyback programme. At the end of 2020, the Company held 5,413,452 shares in treasury at a cost of US$203.0 million.

Capital management

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

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

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

Going concern

For the reasons set out on page 90, the Directors continue to adopt the going concern basis in preparing the Group's and the Company's financial statements.

We outline on pages 76 to 83 the principal risks and uncertainties that the Directors consider could adversely affect the Group's results, cash flows and financial position.

Balance sheet

Goodwill

At the end of 2020, the carrying amount of goodwill was US$756.8 million compared with US$482.1 million at the end of 2019, an increase of US$274.7 million that was almost entirely due to the provisional goodwill of US$318.9 million recognised on the acquisition of Adesto, less the impairment of that goodwill of US$44.9 million that was recognised at the end of the third quarter of 2020.

Our annual goodwill impairment tests performed during November 2020 showed that the recoverable amount of each operating segment to which goodwill is allocated exceeded its carrying amount and therefore no further impairment was recognised. Details of the impairment tests performed and the sensitivity of the recoverability of the goodwill allocated to Industrial IoT to changes in the key assumptions made in those tests are set out in note 14 to the consolidated financial statements.

Other intangible assets

At the end of 2020, the carrying amount of other intangible assets was US$391.0 million compared with US$272.1 million at the end of 2019, an increase of US$118.9 million. Additions during 2020 totalled US$179.4 million, comprising identifiable intangible assets recognised on the acquisition of Adesto of US$157.9 million, capitalised product development costs of US$13.7 million and purchased software, licences and patents totalling US$7.8 million. During 2020, the related amortisation expense was US$60.9 million (2019: US$52.2 million).

Financial review continued

Strong balance sheet continued

Property, plant and equipment

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

At the end of 2020, the Group operated in 37 locations worldwide in facilities covering a total of approximately 67,000 square metres. Management considers that the Group's facilities are adequate for its current requirements.

Owned property, plant and equipment principally comprises test equipment, office equipment and leasehold improvements. At the end of 2020, the carrying amount of those assets was US$60.7 million (end of 2019: US$61.1 million). Additions during 2020 totalled US$24.3 million, including assets of US$4.9 million acquired with Adesto. During 2020, the related depreciation expense was US$24.8 million (2019: US$27.2 million).

Leased property, plant and equipment comprises right-of-use assets. At the end of 2020, the carrying amount of those assets was US$40.6 million (end of 2019: US$41.4 million). Additions during 2020 totalled US$9.7 million, including assets of US$6.6 million acquired with Adesto. During 2020, the related depreciation expense was US$10.8 million (2019: US$12.5 million).

Other non-current assets

Other non-current assets totalled US$28.3 million at the end of 2020 compared with US$14.4 million at the end of 2019, an increase of US$13.9 million that principally reflected the recognition of deferred tax assets in relation to Adesto's brought forward tax losses, net of deferred tax liabilities that were offset against them.

Current assets

Current assets were US$844.1 million at the end of 2020 compared with US$1,305.9 million at the end of 2019, a decrease of US$461.8 million.

Cash and cash equivalents decreased by US$500.7 million to US$523.9 million, principally due to the acquisition of Adesto. Other current assets increased by US$38.8 million to US$320.2 million.

Income tax receivables increased by US$12.6 million to US$13.7 million, principally due to a change in the timing of payments on account in the UK.

Balance sheet

Summary balance sheet

US$ millions	As at 31 December 2020	As at 31 December 2019
Assets		
Cash and cash equivalents	**523.9**	1,024.5
Other current assets	**320.2**	281.4
Total current assets	**844.1**	1,305.9
Goodwill	**756.8**	482.1
Other intangible assets	**391.0**	272.1
Property, plant and equipment – owned	**60.7**	61.1
Property, plant and equipment – leased	**40.6**	41.4
Other non-current assets	**28.3**	14.4
Total non-current assets	**1,277.4**	871.1
Total assets	**2,121.5**	2,177.0
Liabilities and equity		
Current liabilities	**343.8**	373.4
Non-current liabilities	**123.2**	231.0
Total liabilities	**467.0**	604.4
Total equity	**1,654.5**	1,572.6
Total liabilities and equity	**2,121.5**	2,177.0

Current liabilities

Current liabilities were US$343.8 million at the end of 2020 compared with US$373.4 million at the end of 2019, a decrease of US$29.6 million.

Trade and other payables increased by US$47.2 million to US$151.8 million. Lease and other current financial liabilities decreased by US$71.6 million to US$61.7 million, principally due to the reduction in the current element of the prepayment from Apple.

Income taxes payable decreased by US$10.3 million to US$8.2 million, reflecting lower taxable profits and the timing of tax payments.

Other current liabilities increased by US$5.1 million to US$122.1 million.

Non-current liabilities

Non-current liabilities amounted to US$123.2 million at the end of 2020 compared with US$231.0 million at the end of 2019, a decrease of US$107.8 million.

Lease and other non-current financial liabilities decreased by US$57.3 million to US$57.7 million, principally due to the reduction in the non-current element of the prepayment from Apple.

Deferred tax liabilities decreased by US$11.0 million to US$12.1 million, principally due to their partial offset against deferred tax assets recognised on the acquisition of Adesto.

Other non-current liabilities decreased by US$39.5 million to US$53.4 million, principally due to the reduction in the non-current element of the deferred revenue on the effective IP licence granted to Apple in 2019.

Total equity

Total equity was US$1,654.5 million at the end of 2020 compared with US$1,572.6 million at the end of 2019, an increase of US$81.9 million. During 2020, total comprehensive income was US$93.8 million and there was a credit to equity of US$66.4 million relating to share-based payments, but these increases were partially offset by the debit to equity of US$78.2 million arising from the purchase of own shares.

At the end of 2020, Dialog shares held in treasury amounted to US$203.0 million (end of 2019: US$251.8 million) and Dialog shares held by employee benefit trusts amounted to US$1.9 million (end of 2019: US$22.1 million).

Financial reporting following Brexit

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

Following the end of the transition period, the UK is treated as a "third country" within the meaning of EU law and it was necessary for Dialog to choose a new EU home member state. Since Dialog's shares are listed on the Frankfurt Stock Exchange, it was natural that Dialog should choose Germany as its new home member state. Consequently, although Dialog remains registered in the UK, it is now regulated by the German Federal Financial Supervisory Authority ("BaFin").

Since 2005, Dialog has prepared its consolidated financial statements in accordance with IFRS as adopted for use in the EU ("EU-adopted IFRS"). Following the end of the transition period, the UK Government introduced its own process for endorsing IFRS for use in the UK ("UK-adopted IFRS"). For financial periods beginning on or after 1 January 2021, Dialog will prepare its consolidated financial statements for filing in the UK in accordance with UK-adopted IFRS.

At the end of the transition period, the UK adopted IFRS that had been adopted for use in the EU. IFRS that had not been endorsed by the EU at the end of the transition period will be subject to the UK endorsement process. It is possible that UK-adopted IFRS and EU-adopted IFRS may diverge in the future. If differences emerge that are relevant to Dialog, it may be necessary in future for us to prepare different versions of our consolidated financial statements for filing in the UK and to meet BaFin's reporting requirements.

Subsequent event

Proposed acquisition of Dialog by Renesas

On 8 February 2021, the directors of Dialog and Renesas Electronics Corporation ("Renesas"), a supplier of advanced semiconductor solutions, announced that they have reached agreement on the terms of the acquisition of the entire issued and to be issued share capital of the Company for €67.50 per share in cash, representing a total equity value of approximately €4.9 billion (US$5.9 billion).

Renesas is incorporated in Japan and its shares are listed on the Tokyo Stock Exchange.

It is intended that the acquisition will be effected by means of a scheme of arrangement under the UK Companies Act 2006. As such, completion of the transaction will be subject to approval by Dialog's shareholders and the court in England & Wales. It will also be subject to regulatory approvals in a number of jurisdictions and other customary closing conditions. Subject to obtaining the necessary approvals and satisfying the other closing conditions, it is expected that the acquisition will become effective during the second half of 2021. In the meantime, Dialog will operate on a business as usual basis, including continuing to fulfil its reporting obligations as a company listed on the Frankfurt Stock Exchange.

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.

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.

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.

The Security Council

The Security Council meets at least quarterly. It is chaired by the VP of IT and the Director of Global Information security, it consists of the CFO, SVP of Global Operations, as well as General Counsel and SVP of HR. The role of the council is to review and oversee the cyber-security posture of the organisation and is responsible for Dialog's overall Security Strategy. As well as providing oversight for improvement and remediation projects, it reviews the specific cyber security controls as well as the changing security landscape, and agrees the security policy for the business. Where necessary, it reviews incident investigations and reviews the operational data provided by the security tools that IT have deployed. Via this forum it provides updates for the Risk Management Office.

Emerging risks

New and emerging risks are identified and discussed as part of the Corporate Risk Register update process, with review by Operational Management, the RMO and Audit Committee. The twin challenges of Covid-19 and continuing geopolitical instability create a backdrop of uncertainty, whilst M&A risk will grow in proportion to the level of M&A activity the business undertakes.

Climate change

Although not currently believed to be material, Dialog is exposed to some extent to the regulatory and physical risks associated with climate change. The nature of our business as a fabless manufacturer, means that Dialog's own operations are unlikely to face any specific material risks as a result of the physical impacts of extreme weather events. Nonetheless, Dialog has identified various physical and transitional climate-related risks and opportunities, in accordance with the recommendations of the TCFD. These are examined in further detail on page 30 of this report.

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

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

Managing risk and uncertainty continued

Our principal risks

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

1 Strategic risks

Dialog management is focused on executing its strategic objectives in order to mitigate its dependencies on key markets and customers. As part of our 2020 review, no significant new risks were identified.

Dependency on mobile and consumer electronics	Mitigation
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, tablet and wearables markets. If the markets for these products flatten or decline, 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 2020 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. Dialog seeks to diversify its end-market exposure through both organic and inorganic expansion. For example, we have extended existing product lines into the automotive and medical sectors. Additionally, we have diversified through acquisitions of low power Wi-Fi for battery powered IoT applications, industrial custom ICs and industrial ethernet throughout 2019. In 2020, we acquired Adesto and its portfolio of industrial memory, communications and edge computing solutions.

Dependency on key customers	Mitigation
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 2020 revenue derived from Apple Inc. is shown on page 181. Apple's capability to internally design PMICs has been enhanced through the transaction between Dialog and Apple completed in April 2019.	Dialog seeks to diversify its product offerings within its key accounts and to expand its relationships with more top tier global electronics companies. Dialog has reduced its dependency on Apple over the last two years and expects to continue to do so over the medium term. Dialog is also diversifying its Apple revenue across a range of power management, audio subsystem, charging and other mixed-signal products. Dialog monitors and reviews acquisition opportunities to further diversify its product offering and customer base as evidenced by the recent acquisitions of Creative Chips and Adesto.

Return on research and development investment	Mitigation
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.

Key to risk trends

Risk increasing | No change | Risk decreasing

1 Strategic risks continued

Dialog management is focused on executing its strategic objectives in order to mitigate its dependencies on key markets and customers. As part of our 2020 review, no significant new risks were identified.

Human capital	Mitigation
In order to successfully execute its current and future business commitments, Dialog needs to continue to build its organisational capability in these key areas: continuous innovation in product development, manufacturing and packaging technologies; and leadership skills in an expanding and complex global operation.	Dialog seeks to create a positive working environment that results in low levels of staff turnover. Over the years, it has developed an effective recruitment process to attract and retain high-calibre staff, while succession planning for senior management positions facilitates continuity of leadership. Dialog has dedicated human resource professionals working closely with the business to drive further development of its personnel and benchmark its employment terms to match industry top performers. Dialog has a decentralised approach to research and 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. Dialog continues to monitor the progress of Brexit and any impact these may have on our ability to attract and retain key employees from the EU into the UK.

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

Managing risk and uncertainty continued

1 Strategic risks continued

Dialog management is focused on executing its strategic objectives in order to mitigate its dependencies on key markets and customers. As part of our 2020 review, no significant new risks were identified.

Mergers and acquisitions

Dialog has acquired, and may in the future acquire, additional business that we believe will complement or augment our existing businesses.

There is risk that an acquisition could prove more difficult to integrate than anticipated and that expected synergies are not fully achieved. We may have difficulty in developing and marketing the products of a newly acquired company, or in growing the business at the rate we anticipate. We may also suffer loss of key employees, customers and strategic partners of acquired companies and it may be difficult to implement our corporate culture at acquired companies. This could mean a consequent failure to realise the value on which the purchase price was based; a price which may have to be set many months before the acquisition completion. This risk was demonstrated by the Adesto goodwill impairment incurred in Q3 2020.

Dialog is subject to a recommended takeover offer by Renesas Electronics Corporation. The offer is subject to various conditions, including regulatory clearances. There is a risk that the announcement of the offer or any failure of it to complete could result in a loss of momentum and short and medium-term disruption to our business, including due to a diversion of employees' and management's attention and due to destabilisation of employees and other stakeholders. There is a risk that actual and potential customers and suppliers reassess their business relationships with us due to the offer having been announced, completing or failing to complete.

Mitigation

Dialog has an experienced corporate development team responsible for coordinating our acquisition identification, execution and integration activities.

Dialog has significant recent experience in successfully, acquiring and integrating new businesses, including Silego in 2018, FCI and Creative Chips in 2019 and Adesto in 2020. Dialog's processes for acquisitions include: disciplined target identification, in-depth due diligence, synergy analysis and business modelling, integration planning and detailed execution, which processes benefit from the lessons learned through each acquisition.

Dialog's Management Team is accustomed to coordinating integration activities, including proactively communicating with stakeholders (including actual and potential employees, customers and suppliers) in relation to M&A activity. We have put in place cash retention and incentivisation arrangements for certain key employees in the context of the Renesas offer.

2 Operational risks

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

Supply chain interruption

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 in sufficient quantities, or otherwise perform as required, could damage relationships with our customers, decreasing our revenue and limiting our growth. Supplier delivery performance can be adversely affected by multiple issues such as spikes in global semiconductor demand, pandemic, fire, flood and earthquakes.

Mitigation

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 Outsourced Semiconductor Assembly and Test ("OSAT") vendors, mainly in Taiwan, China and the Philippines, to mitigate the risk of supply chain disruption and constraints. The geographical spread of Dialog's suppliers also helps with disaster recovery planning.

Dialog achieved a total company "On Time Delivery" performance of 99.9% in 2020, which measures performance against delivery dates confirmed by Dialog at date of order acceptance.

Dialog continues to carry out supplier audits which cover a wide range of topics including, amongst others, compliance with quality, environmental and health and safety standards.

Dialog conducts regular business reviews with its suppliers to manage supplier performance and future capabilities.

Key to risk trends

Risk increasing | No change | Risk decreasing

2 Operational risks continued

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

Information security and technology	Mitigation
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. Since early 2020, the need to support the global workforce operating predominantly from home has been a requirement and is expected to be part of the new normal going forward.	Dialog is continuously strengthening its internal monitoring and controls; applying best practice to maintain a robust and secure IT environment. Dialog's IT systems are managed on a global basis to ensure a unified approach, with IT operations being distributed between Europe, Asia and the USA. Engineering tools are being consolidated into regional data centres connected by an upgraded network to allow increased agility, reliability and scale. Dialog deployed improved collaboration solutions in 2019 that have enabled business operations to continue uninterrupted through 2020 as work from home became the norm. These will continue to evolve. Joint roadmaps have been developed with the business to align and prioritise IT investment with evolving business needs and to maintain compliance and controls. IT policies, procedures and cyber security initiatives are reviewed and updated regularly by a newly established Security Council and the RMO to address the changing regulatory environment, including data privacy regulations and to mitigate the evolving cyber security threat.

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

Covid-19	Mitigation
Should Covid-19 continue to spread unchecked due to vaccine-resistant strains emerging and/or the vaccine rollout not being implemented effectively, it may impact our employees or the operations of our suppliers or customers. There may also be long-lasting adverse economic consequences resulting from the direct or indirect impact of Covid-19 on the global economy which could reduce demand for our end-customers' products.	Throughout the pandemic, Dialog's focus has been to protect the health and wellbeing of our employees and business partners. Dialog's supply chain has remained stable through 2020, with most suppliers and our customers' contract manufacturers continuing to operate at almost full capacity. Customer engagements are still managed remotely and so far, we have not seen any significant decrease in levels of activity. Our business remains resilient. Our fabless business model and the strength of our balance sheet provide us with financial resilience and operational flexibility to navigate the current circumstances and future uncertainties.

Managing risk and uncertainty continued

3 Financial risks

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

Foreign currency	Mitigation
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 using a layered approach. These are designated as cash flow hedges and at the year-end approximately US$118 million equivalent were outstanding. During the year, Euro-denominated share buyback liabilities were also hedged using forward currency contracts, forming an economic hedge but not designated for hedge accounting purposes. Please refer to notes and to the consolidated financial statements.

Counterparty risk	Mitigation
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.

Funding and liquidity	Mitigation
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 net debt and is cash generative. As such, the Company finances its operations from surplus cash, only raising debt when necessary. The policy is to maintain a sufficient level of liquidity appropriate to meet short-term liabilities and longer-term strategy. Cash flow from operating activities in 2020 was US$142. In addition, the Company has a US$150 million revolving credit facility which remains undrawn.

Key to risk trends

Risk increasing | No change | Risk decreasing

4 Legal & Compliance risks

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

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

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

Intellectual property infringement	Mitigation
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 3 March 2021 on behalf of the Board

Dr Jalal Bagherli
Chief Executive Officer

Wissam Jabre
Chief Financial Officer, Senior Vice President Finance

Our corporate governance framework

Introduction to governance

Dear shareholder, I am pleased to present our 2020 corporate governance report.

As Dialog is incorporated in the UK and listed in Frankfurt, we are not required to follow, and report against, the UK Corporate Governance Code ("The Code"). However, in line with our commitment to maintaining high standards of corporate governance and oversight, the Board has decided to follow The Code to the extent it considers it beneficial to the good governance of the Company.

2020 review

2020 was a challenging year for all businesses as well as society. Ensuring the health, safety and wellbeing of our people quickly became our priority. Drawing on our strong resilience and commitment, our people ensured the Company continued to deliver for all our stakeholders.

It has been a year of change for corporate governance. There is a renewed focus on corporate culture which is evidenced by the breadth of reporting requirements. The purpose of companies and their place in society is being redefined with a clear mandate for boards to be more transparent about how businesses operate; interact with their stakeholders; and take their views into consideration when formulating strategy.

Updates to legislation also came into effect from 1 January 2019, which focused on stakeholder engagement and the ratio between pay for the CEO and the Company's median employee. The Directors' statement on section 172 of the Companies Act 2006 is disclosed on page 28 while the pay ratio of the CEO to median employee is detailed on page 110.

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", which is the cornerstone of our corporate values. Our corporate culture defines who we are, what we stand for and how we do business. Our reputation has been built on our resolve to maintain the highest ethical and professional standards at all times, underpinned by a well-defined and effective system of governance. We recognise and understand the value of recruiting and developing the best people and ensuring our culture is shared and understood across the organisation. By living our values, our people differentiate us from our competitors, helping us to attract new business and retain our customers. Our success is built on a clear understanding of the importance of our values and the role they play in our distinctive, delivery focused culture.

Succession planning

Succession planning is an important element of good governance, ensuring that we are fully prepared for planned or sudden departures from key positions throughout the year. The challenges presented by Covid-19 heightened the need to ensure we have strong and effective succession plans in place. The Nomination Committee again 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 composition

Following the retirement of Aidan Hughes and appointment of Joanne Curin to the Board in 2019, there were no changes during the course of 2020. The Board comprises a total of eight Directors, including the Chairman and the CEO. We recognise the importance of maintaining a diverse board, both by gender, cultural, experience and skill set. We currently have 25% female Board membership; though recognise the Hampton Alexander review has set a target of 33% female composition and factor that into our Board refreshment decisions. The Board also recognises that the Parker review sets a target of at least one Director of colour on the Board and the current Board meets this target.

Our Board also continues to include an appropriate balance of longer serving and more recently appointed Directors, with diverse backgrounds and experience delivering a strong blend of skills to promote the Company's success. The combination of tenures serves to bring fresh thinking to the Board while preserving 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.

Following an internal evaluation in 2019, the Board engaged an independent third party to undertake a Board evaluation during the course of 2020. Interviews were conducted with all Board members and the findings were presented to the Board at the February 2021 Board meeting. The feedback was positive as to the quality of the Board and the skill sets required of the Board. It was noted that improvements could be made in the papers submitted to the Board to ensure the correct level of detail was provided to help guide Board decisions.

Senior Independent Director ("SID")

Having carefully considered the role and responsibilities of a Senior Independent Director, and the fact that our Chairman, Rich Beyer, was wholly independent on appointment in 2013, the Board does not believe there is a necessity to appoint a SID at this time. Our Chairman Rich Beyer is available to shareholders as are all of the Directors, particularly the Chairs of each of the Board Committees. Furthermore, any concerns regarding the performance of the Chairman may be addressed to and will be managed by the Chair of the Nomination Committee. As such, the Board believes that its composition continues to ensure a proper division between management and non-executive oversight; nonetheless, we will review the potential for a new SID on an ongoing basis.

Remuneration

The Directors' remuneration report, together with an introductory letter from our Remuneration Committee Chairwoman, Mary Chan, who succeeded Mike Cannon as chair in July 2020, is set out on page 98. Following extensive engagement with a majority of shareholders on remuneration in 2019, no specific engagement on remuneration issues was undertaken during 2020.

Understanding our stakeholders

The Board recognises the importance of assessing the impact of its decisions on all of our stakeholders. As part of this and reflecting the guidance of the Code, I was designated director for overseeing employee engagement in collaboration with our global HR teams during 2019. This engagement allows me, on behalf of the Board, to gauge the views of the Group's workforce and ensure their issues and concerns have a clear voice at Board level. During 2020, this has been vital in ensuring that employee concerns were communicated to the Board. During the year, I reviewed results of our annual engagement, the Voice of Dialog, and facilitated employee feedback sessions. We were unable to conduct in-person meetings like 2019 due to restrictions on travel and meetings under Government health guidelines. However, I hosted three virtual meetings with employees based in the US, Taiwan and Austria during the year.

Sustainability

Since 2015, the Company has adopted the Global Reporting Initiative ("GRI") framework for the purpose of identifying and reporting on our material sustainability topics. In 2018, we transitioned to the GRI Standards, against which our annual report makes a "GRI-referenced" claim. 2020 represents the second year of producing an integrated report bringing into a single report information we previously published in the sustainability report.

In this report, we have taken the first step on our climate change disclosures following the recommendation of the TCFD, detailed on page 30.

Finally, the Board remains open to all feedback from shareholders, all Directors are usually available at the Company's AGM, and we encourage you to take advantage of this opportunity should you wish to meet with and engage in any discussion with a member of your Board.

Nick Jeffery
Chairman, Nomination Committee

Leadership – Board of Directors

The Board of Dialog currently comprises eight Directors. This includes our Chairman, one Executive Director, and six independent non-executive Directors.

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

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

Further details on the composition of the Board, and the Board's Committees, are detailed on page 93.

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

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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 was previously a non-executive Director of Lime Microsystems Ltd and 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, Nomination

Board Experience: ● ✚

5. Mary Chan
Independent non-executive Director
Joined: December 2016

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

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

Committee Membership: Nomination, Remuneration (Chair)

Board Experience: ● ◆

6. Joanne Curin
Independent non-executive Director
Joined: August 2019

Joanne comes to Dialog with over 20 years of experience as a CFO and non-executive director, with a deep background in finance and an international career spanning global large-scale public companies listed in the UK and Australia. In her previous roles as CFO across a wide array of markets and sectors, Joanne has been highly effective at initiating and leading strategic, operational and process changes that have delivered considerable shareholder value, and has successfully led a number of complex multi-billion dollar M&A transactions. Joanne has a bachelor's degree in commerce from the University of Auckland and is a member of the Institute of Chartered Accountants in New Zealand.

External Appointments: Joanne is a founding Director of Stirling Industries Plc.

Committee Membership: Audit

Board Experience: ■ ✚

7. Nick Jeffery
Independent non-executive Director
Joined: July 2016

Nick has a career of over 20 years in the telecommunications industry. He held a position on the Vodafone Group Executive Committee from 2013 until February 2021 and was from 2016 until February 2021 the CEO of Vodafone UK Limited. He held 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: Nick has been recently appointed President and CEO of Frontier Communications.

Committee Membership: Nomination (Chair), Remuneration

Board Experience: ◆

8. Eamonn O'Hare
Independent non-executive Director
Joined: March 2014

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

External Appointments: Eamonn is currently Founder, Chairman and CEO of Zegona Communications Plc, and a Director of Euskaltel, S.A.

Committee Membership: Audit

Board Experience: ◆ ■ ✚

Leadership – Management Team

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1. Dr Jalal Bagherli

Chief Executive Officer

Jalal joined Dialog as CEO and an Executive Board Director in September 2005. He was previously Vice President & General Manager of the Mobile Multimedia business unit for Broadcom Corporation. Prior to that, Jalal was the CEO of Alphamosaic, a venture-funded silicon start-up company in Cambridge focusing on video processing chips for mobile applications. He has extensive experience in the semiconductor industry, through his previous professional and executive positions at Sony Semiconductor and Texas Instruments, managing semiconductor product businesses and working with customers in Asia, Europe and North America. Jalal was previously a non-executive Director of Lime Microsystems Ltd 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: 15 years

2. Vivek Bhan

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

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

Tenure with Dialog: Seven years

3. Wissam Jabre

Chief Financial Officer, Senior Vice President, Finance

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

Tenure with Dialog: Four years

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

Tenure with Dialog: Seven years

5. Alex McCann
Senior Vice President Global Operations
Alex joined Dialog Semiconductor in May 2019 and has more than 25 years of experience in Semiconductor Engineering and Operations. His most recent role prior to joining Dialog was as VP of Operations at Analog Devices, who in 2017 acquired Linear Technology, where Alex had previously served as Chief Operating Officer. Alex started his career with National Semiconductor, where he has held various progressive Engineering and Operations positions. Alex then joined Anadigics Inc in New Jersey, initially serving as the Director of Wafer Fab Operations and then as the VP of Global Operations. Following his tenure at Anadigics, Alex was the VP of Operations at Nano-Opto, a New Jersey based Optical start up. Alex has an MBA with distinction from the University of Glasgow and a BSc in Electrical and Electronic Engineering.

Tenure with Dialog: One year

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

Tenure with Dialog: Eight years

7. Julie Pope
Senior Vice President, Human Resources
Julie joined Dialog in May 2017. An experienced international HR executive, Julie began her career as a consultant at The Wyatt Company progressing to KPMG before joining IBM in 1998. With IBM, Julie spent time in New York and Paris. Julie joined American Express in New York in 2003 in International Benefits and moved to VP Global Mobility and HR Business Partner, Global Business Travel. She relocated to Sydney in 2011 as the VP HR Australia and New Zealand and then moved to the UK as VP HR Business Partner EMEA. During her career, Julie has gained extensive international experience in reward and benefits, global mobility, change management, talent planning, mergers and acquisition and global talent acquisition. Julie holds a Bachelor's degree in Mathematics and Psychology from Lamar University in Beaumont, Texas and is an Associate of the Society of Actuaries.

Tenure with Dialog: Three years

8. Tom Sandoval
Senior Vice President, Automotive
Tom joined Dialog in September 2015 holding initially the position of Senior Vice President Worldwide Sales. He is now responsible for driving and growing the Automotive Business across Dialog. He has over 25 years of experience in the semiconductor industry and has held executive management positions in sales, marketing and engineering. Prior to joining Dialog, Tom served as Vice President of Sales for the Americas at Xilinx. He previously served as CEO of Calypto Design Systems. Tom holds a BS degree in Electrical Engineering from the University of Southern California.

Tenure with Dialog: Five years

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

Tenure with Dialog: Five years

10. John Teegen
Senior Vice President, Worldwide Sales
John joined Dialog in November 2017 with the Dialog acquisition of Silego Technology, where he was CEO. He is responsible for worldwide sales and previously he was VP and GM of the Configurable Mixed-signal Business Unit at Dialog. He has more than 30 years of experience in the semiconductor industry and has held executive management positions at Kovio, NeoPhotonics, MMC Networks and VLSI Technology. John has a BS degree in Electrical Engineering from the University of Florida.

Tenure with Dialog: Three years

11. Mark Tyndall
Senior Vice President, Corporate Development & Strategy and General Manager, Industrial IoT 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: 12 years

Name	Role Tenure with	Tenure with Dialog (years)
Dr Jalal Bagherli	Chief Executive Officer	15
Vivek Bhan	Senior Vice President and General Manager, Custom Mixed Signal Business Group	7
Wissam Jabre	Chief Financial Officer, Senior Vice President, Finance	4
Davin Lee	Senior Vice President and General Manager, Advanced Mixed Signal Business Group	7
Alex McCann	Senior Vice President Global Operations	1
Sean McGrath	Senior Vice President and General Manager, Connectivity & Audio Business Group	8
Julie Pope	Senior Vice President, Human Resources	3
Tom Sandoval	Senior Vice President, Automotive	5
Colin Sturt	Senior Vice President, General Counsel	5
John Teegen	Senior Vice President, Worldwide Sales	3
Mark Tyndall	Senior Vice President, Corporate Development & Strategy and General Manager, Industrial IoT Business Group	12

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 2020. These accounts have been prepared under IFRS and are available on the Company's website: www.dialog-semiconductor.com

Principal activities and review of the business

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

The Company is listed on the Frankfurt (XTRA: DLG) Stock Exchange (Regulated Market, Prime Standard, ISIN GB0059822006). The Company is incorporated in the UK and the registered number is 03505161. A full list of Company subsidiaries outside of the UK is detailed in Dialog's related undertakings set out on page 204.

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 31 to the consolidated financial statements.

Future developments

The Company's stated objective is to build a power-efficient connected world by becoming the leading global supplier of highly-integrated mixed-signal technologies such as, power management, AC/DC, LED backlighting and solid state lighting, and low energy short-range wireless connectivity. The key aspects of the Group's strategy are set out in the Strategic report on pages 12 to 13.

Subsequent events

Details of subsequent events are on note 34 to the consolidated financial statements.

Research and development R&D

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

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

Greenhouse gases

Corporate responsibility and a commitment to sustainable business practices are important to Dialog's business model and a component of Dialog's strategy to deliver long-term profitable growth. Our commitment to environmentally oriented, sustainable business practices is evidenced in our commitment to continually reduce CO_2 emissions and minimise the carbon footprint of our business. Further details on the Company's commitment to sustainable and environmentally friendly business practices are set out on pages 40 and 41.

Going concern

At the time of approving the financial statements, the Directors are required to form a judgement as to whether the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. In forming their judgement, the Directors consider the Group's current financial position, its medium-term plan and its budget for the next financial year, and the principal risks and uncertainties that it faces. The Directors have also considered the proposed acquisition of the Company by Renesas Electronics Corporation that was announced on 8 February 2021.

At the end of 2020, the Group held cash and cash equivalents of US$524 million and currently has an undrawn committed revolving credit facility of US$150 million. Based on the Group's most recent plan and budget, the Directors expect that the Group will continue to be cash generative over the next 12 months, even in the downside scenario that they considered regarding the impact of the Covid-19 pandemic. For these reasons, the Directors have adopted the going concern basis in preparing the Group's and the Company's 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 2020 (2019: nil). At the 2021 Annual General Meeting, in line with the shareholder approvals obtained in 2019 and 2020, the Board will be asking shareholders for an authority to continue the share buyback programme.

In October 2020, we completed the second tranche of the share buyback programme corresponding to the 2019 Authorisation, for an amount of €70 million (US$80 million). It should be emphasised that, even if shareholder authority to continue the share buyback programme is granted, no decision has yet been made to implement such a programme and implementation will only occur if the Board considers this in the best interests of the Company depending on the prevailing circumstances.

Purchase of own shares by Employee Benefit Trust

The Company operates an Employee Benefit Trust, which purchases and transfers shares in the Company for the benefit of employees under the Company's share option scheme, Long-Term Incentive Plan, Executive Incentive Plan and Employee Share Plan. Since the Company has de facto control of the assets and liabilities of the Trust, they are included in the Company and Group balance sheets. At 31 December 2020, the Trust held 3,630,109 shares, which represented 5.1% of the total called-up share capital, at a nominal value of £363,011. The maximum number of shares owned by the Employee Benefit Trust during 2020 was 4,453,232, at a nominal value of £445,323.

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 26 to the consolidated financial statements.

Substantial shareholdings

Details of substantial shareholdings are on page 95.

Directors

The Directors, together with their biographies, are listed on pages 86 and 87.

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 106 to 114 of this report. No Director had a material interest during the year ended 31 December 2020 in any contract of significance with any Group company.

The agreement between the Company and its Directors for compensation for loss of office is given in the Directors' remuneration policy report on pages 100 to 105 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 4 May 2021 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 92 to 97 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 76 to 83.

Financial instruments

The Group's financial risk management and policies, and exposure to risks, are set out on page 82 of this report and on note 31 to the consolidated financial statements.

Stakeholders engagement

Details of stakeholders engagement, including engagement with suppliers, are set out on pages 26 and 27.

Employee engagement

In 2019, Nick Jeffery became the designated Director of overseeing employee engagement. This engagement, amongst other things, will allow Directors to gauge how the Group's new strategic initiatives are embedding within the organisation. Further details on the Company's engagement with its employees can be found on pages 26 and 28.

Employee policies

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

Diversity and equal opportunity

In 2020, Dialog operated from 37 locations in 17 countries with a highly diverse workforce, incorporating employees from 61 nationalities. Our Commitment to Diversity and Inclusion is available on our website at https://www.dialog-semiconductor.com/sites/default/files/diversity_statement_v2.pdf

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

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

Gender diversity is of particular importance. Women comprise 19.6% of the overall workforce and further details are set out on pages 36 and 37 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.

Political donations and expenditure

Details are set out on page 95.

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 86 and 87 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.

Reappointment of auditors

Details are set out on page 97.

Capital structure

As at 31 December 2020, 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 26 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 4 May 2021 at 9am.

Approved by the Board of Directors and signed on its behalf by

Dr Jalal Bagherl
Director

3 March 2021

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 Board is responsible for establishing the Company's purpose, values and strategy, promoting its culture, overseeing its conduct and affairs, and for promoting the success of the Company for the benefit of its members and stakeholders. It recognises that it has a wider duty to a broad community of stakeholders whose support is essential, and that the business has impact on colleagues, customers, shareholders, suppliers and the communities in which it operates. Page 28 of the Annual Report highlights how the Board has sought to effectively consider and engage with our shareholders and other stakeholders, including suppliers, customers, communities, employees and regulatory bodies.

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 88 and 89 of this report. In addition, a number of responsibilities of the Board are delegated to committees of the Board; details of which are set out below.

Matters reserved for the Board

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

Chairman

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

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

Board composition

The Board currently comprises eight Directors who are listed below.

The Board of Directors comprises a mix of the skills, knowledge and experience required to provide leadership, control and oversight of the management of Dialog and to contribute to the development and implementation of the Company's strategy. In particular, the Board combines a group of Directors with diverse backgrounds within the technology sector, in both public and private companies, which combine to provide the Board with a rich resource and expertise to drive the continuing development of Dialog and advance the Company's commercial objectives. The Board also combines a number of longer serving Directors with Directors who have joined the Board more recently. This combination provides the Board with a fresh perspective while ensuring there is continuity and experience from Directors who have served during a period of rapid growth and development for the business. In addition, the geographic background of the Board is diverse and includes Directors who have international work experience. Director biographies are set out on pages 86 and 87.

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 and ethnic 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 86 and 87.

Following the retirement of Aidan Hughes and appointment of Joanne Curin to the Board in 2019, there were no changes during the course of 2020. The Board has 25% female membership. The Board also recognises that the Parker review sets a target of at least one Director of colour on the Board and the current Board meets this target.

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 2020, the Board comprised eight Directors. A maximum of ten Directors is allowable under Dialog's Articles of Association. The eight members of the Dialog Board include the Chairman, one Executive Director and six independent, non-executive Directors. The Nomination

Director	Status	Independent/non-independent	Tenure (years)	Concurrent tenure* (years)
Rich Beyer	Current	(Chairman)	7	7
Dr Jalal Bagherli	Current	Non-independent (Executive)	15	N/A
Alan Campbell	Current	Independent	5	5
Mike Cannon	Current	Independent	7	7
Mary Chan	Current	Independent	4	4
Joanne Curin	Current	Independent	1	1
Nick Jeffery	Current	Independent	4	4
Eamonn O'Hare	Current	Independent	6	6

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

Committee has reviewed the size and performance of the Board during the year. The Committee considered that the Board functions effectively; comprises the skills, knowledge and experience required by Dialog; is not so large as to be unwieldy; and meets corporate governance best-practice guidelines on independence.

Board independence

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

The Board has determined that Alan Campbell, Mike Cannon, Mary Chan, Joanne Curin, Eamonn O'Hare, and Nick Jeffery are independent. The Chairman, Rich Beyer, was independent on his appointment to the Board. The Company's Chief Executive Officer, Dr Jalal Bagherli, is the only Executive Director on the Board. Excluding the Chairman, the Board currently comprises six independent non-executive and one Executive Director and is, therefore, compliant with provision 11 of the UK Code that at least half the Board, excluding the Chairman, should comprise Directors determined by the Board to be independent.

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

Senior Independent Director

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

Board Committees

The Board has established a number of Committees to assist in the execution of its responsibilities. During 2020, 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 3 March 2021, is set out below. Attendance at meetings held in 2020 is set out in the table on page 94.

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 96 and 97.

Committee members

Audit Committee
Alan Campbell (Chair)
Joanne Curin
Eamonn O'Hare
100% independent (3 of 3)
Nomination Committee
Nick Jeffery (Chair)
Mike Cannon
Mary Chan
100% independent (3 of 3)
Remuneration Committee
Mary Chan (Chair)
Mike Cannon
Nick Jeffery
100% independent (3 of 3)

Alan Campbell, Chair of the Audit Committee, Nick Jeffery, Chair of the Nomination Committee and Mary Chan, Chair 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 20 years.

In November 2020, Nick Jeffery, our designated Director to oversee employee engagement, held virtual roundtables with employees based in the US, Austria and Taiwan.

During the virtual meetings, employees had an opportunity to share their views and experiences on how the Company was navigating lockdown restrictions as well as the level of support received, and the regular updates on how the business was managing the evolving situation through the year. Company strategy was also discussed during these virtual meetings, and in particular, how employees experienced the efforts to diversify our business and its implications on resourcing. Finally, there was an open discussion on other relevant topics, such as the challenges of working from home, working in international teams spread over different time zones, and the benefits of the open and collaborative culture of the Company.

Corporate governance statement continued

Board meetings

The Board holds at least four Board meetings each year. The Board may meet more frequently as required. In addition, there are ad hoc Board calls through the year and when necessary. The number of meetings of Board sub-committees each year varies by Committee. There were five Board meetings in 2020. The attendance at Board and Committee meetings by the Directors who held office in 2020 is set out above. The Board places considerable importance on attendance at both scheduled Board and Committee meetings. During the year, no Director attended less than 75% of scheduled Board or Board Committee meetings to which they were entitled to attend. At scheduled Board meetings, the Board also meets without the Executive Director present.

In addition, the non-executive Directors meet annually to review the performance of the Chairman. This is an annual process and occurred in February 2020.

The 2021 review will be held during the course of the calendar year.

Director induction and continuing development

Following appointment to the Board, new Directors are provided with induction materials and are briefed on the Company, its structure, strategy, technologies, operations, corporate governance practice, and their duties and responsibilities as a Director. The induction is usually conducted at a Dialog office, with a full day of meetings with Executives and employees.

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

Director training and development

The Board is committed to a programme of periodic training and development of its Directors. As part of this process, at least one Board meeting is held at the location of one of the Company's international offices each year. Since March 2020, all travel plans were cancelled, after which Board meetings took place remotely. At the October 2020 Board meeting, our Sustainability consultants delivered a session on the ESG landscape, including stakeholders' increasing climate change requirements.

Director	Board	Audit	Remuneration	Nomination
Number of meetings in 2020	5	4	4	4
Meetings attended				
Richard Beyer	5			
Dr Jalal Bagherli	4			
Alan Campbell	5	4		
Michael Cannon	5		4	4
Mary Chan	5		4	3
Joanne Curin	5	4		
Nick Jeffery	5		4	4
Eamonn O'Hare	5	4		

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 2020, consistent with this best practice, the Board engaged an independent third party to conduct an evaluation. The evaluation in 2020 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 2021. The Board will consider a further third-party Board evaluation process in 2023.

External non-executive directorships

The Board believes that a broadening of the skills, knowledge and experience of non-executive Directors is of benefit to the Company. As such, the Company welcomes the participation of the non-executives on the Boards of other companies. To avoid potential conflicts of interest, and to ensure non-executive Directors continue to have sufficient time to discharge their responsibilities, non-executive Directors inform the Chairman of the Nomination Committee before taking up any external appointments. Details of the non-executive positions of each Director are set out under individual biographies, which are detailed on pages 86 and 87.

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

Directors' fees

In 2020, due to the uncertainty brought in by the pandemic, NED fees remained unchanged. The annual fee for non-executive Directors, was £170,000. The annual fee for the Chairman was £235,000. The Chair of the Audit Committee, the Nomination Committee and the Remuneration Committee received an additional fee of £20,000, £6,000 and £16,000 respectively for their role on that Committee.

The other Committee members receive an additional fee for serving on those Committees as set out on page 112. Details of the activities of these Committees during 2020 are set out on pages 96 and 97.

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 98.

Political donations and expenditure

The Company did not make any political donations or incur any political expenditure during the year ended 31 December 2020. Dialog has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

Share ownership and dealing

Details of Directors' shareholdings are set out on page 109. 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 are regular discussions 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 2020 were:

5.33% – Schroders Plc
4.98% – Norges Bank

The free-float includes the following shares held on behalf of discretionary clients as per the share register on 31 December 2020:

Citigroup Global Markets	7,894,008
The Bank of New York Mellon	7,153,571
Chase Nominees LTD	4,614,733
BNP Paribas Securities Services	4,521,032
State Street Bank International	4,051,421

As of 18 February 2021, the Company was aware of the following holdings:

The Bank of New York Mellon	12,731,437
Citigroup Global Markets	7,955,880
BNP Paribas Securities Services	4,146,133
Chase Nominees LTD	3,422,142
State Street Bank & Trust Corp.	2,984,743

Dialog's free-float at 31 December 2020 was 67,638,578 or 94.9% of the outstanding shares. The free-float is calculated by excluding the 3,630,109 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 76 to 83.

The Company has an ongoing process of identifying, evaluating and managing risk. The process was in place during 2020 and up to the date of the approval of the 2020 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.

Corporate governance statement continued

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 2020, the Audit Committee comprised only independent non-executive Directors. Members at the end of 2020 were Alan Campbell (Chairman), Joanne Curin and Eamonn O'Hare.

Dialog's Audit Committee has recent and relevant financial experience. In line with best practice, the Board has affirmed that members of the Audit Committee also have significant expertise in Dialog's business sector. Alan Campbell, Chairman of the Audit Committee, has long standing experience as a CFO in the semiconductor industry. Joanne Curin has experience as Finance Director at a number of large scale global public and private companies. Eamonn O'Hare also has two decades' experience as CFO at some of the rapid growth consumer and technology businesses. Biographies are set out on pages 86 and 87.

The Audit Committee meets a minimum of four times a year. In 2020, the Committee met four times. Attendance at meetings held is set out in the table on page 94. The Committee also meets privately with the internal and external auditors and separately with the executive management.

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

The Audit Committee's main responsibilities include to:

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

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

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

Activity in 2020

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 2020;
- Reviewed the interim reports issued in May, August and November 2020;
- Reviewed and approved the external auditor's audit plan for 2020, including the auditor's proposed fee and statement of independence. Non-audit fees paid to the external auditor in the year were US$0;
- Reviewed the audit planning, organisation and coordination in light of changes in the audit team including the appointments of new Audit partners in UK and Germany;
- Received and discussed with the external auditor reports setting out the auditor's findings from each quarterly review and the full year audit;
- Assessed the effectiveness of the external audit through a combination of: (a) quarterly private sessions to review interactions with management and the auditors understanding of the Company's business risks and the consequential impact on the financial statements; and (b) reviewing how the external auditors addressed the findings from the firm-wide audit quality inspection report published by the FRC in the context of the Dialog audit. The Committee is satisfied that the external audit was effective;
- Considered the appropriateness and disclosure of accounting policies, key judgements and estimates with a focus on the key audit matters: the carrying amount of goodwill and intangible assets; and the review of purchase price allocations for the Adesto acquisition;
- Reviewed the risk register for updates to key risks and status including the impact of the Coronavirus pandemic on the business;
- Considered the implications from changes to reporting and regulatory requirements following the end of the Brexit transition period;
- Approved the annual internal audit plan, received and reviewed internal audit reports and the annual assessment and review of internal controls, and monitored the effective and timely remediation of any control weaknesses; and
- Reviewed 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 2020 and will continue to monitor the ongoing work in these areas in 2021.

Role of the external auditor

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

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

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

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

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 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 best practice, the Audit Committee will ensure that, for the year ended 31 December 2021, non-audit fees paid to the Company's auditor will be capped at a maximum of 70% of the average audit fees paid in the preceding three financial years.

Nomination Committee

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

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

At the end of 2020, 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 met formally on four occasions. Attendance at scheduled meetings is set out on page 94.

Activity in 2020

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

- Review the composition and diversity of the Board to ensure the Directors have the skills, expertise and experience to effectively oversee the implementation of the Group's stated strategy;
- Reviewing the Company's response to the Covid-19 pandemic in relation to the impact on the Company's employees;
- Review succession arrangements for all key executive positions; and
- Reviewing and approving an executive development programme to, in part, assist with executive succession.

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 2020, the Remuneration Committee comprised Mary Chan (Chair), succeeding Mike Cannon as Chair in July 2020, Nick Jeffery and Mike Cannon. The Committee comprised only independent non-executive Directors. By invitation, other members of the Board may attend the Committee's meetings. The CEO and the Senior Vice President, Human Resources, may also attend by invitation but take no part in discussions or decisions on matters relating to their own remuneration. The Committee is free to seek its own advice free from management as it deems appropriate.

During the year, the Committee sought and received general advice relating to remuneration from independent advisers. During 2020, the incumbent advisers, Aon Plc. ceased providing executive remuneration adviser services. Alvarez & Marsal were appointed as independent advisers from 1 June 2020. Alvarez & Marsal is a signatory to the Remuneration Consultants Group Code of Conduct and any advice was provided in accordance with this code. Alvarez & Marsal provided no other services to Dialog during 2020 and has no other connection with the Company other than as adviser on issues relating to remuneration.

In 2020, the Committee met formally on four occasions. Attendance at scheduled meetings is set out on page 94.

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 2020, is set out on page 113.

Tim Anderson
Company Secretary

Directors' remuneration report

Annual statement from Mary Chan, Chair of the Remuneration Committee

Dear shareholder,
I am pleased to present the Directors' remuneration report for 2020, which has been prepared by the Remuneration Committee and approved by the Board.

This report is in two parts: the Annual report on remuneration which sets out the details of and basis for remuneration during 2020, and the Directors' remuneration policy, which describes the policy for the remuneration of Executive and non-executive Directors. At the 2021 AGM, a resolution to approve the Annual report on remuneration will be submitted. The Directors' remuneration policy will not be submitted for shareholder approval as it was approved at the 2019 AGM and will expire at the 2022 AGM.

Context of the Committee's decisions
Dialog has continued to build 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.

Impact of Covid-19 in 2020
The Company has not made use of any of the relevant government-backed financial stimulus packages introduced during the Covid-19 pandemic, except where such measures applied unilaterally across territories, for example country-wide reductions in employers social security contributions. No employees have been furloughed during 2020.

Performance and remuneration for 2020
Dialog's strategic focus on high-growth segments of its target markets and operational excellence has delivered strong performance over 2020. Revenue decreased by 3% on an underlying basis, underlying gross margin improved over 2019, and cash generation was strong. In addition, Dialog expanded its foothold in the growing industrial IoT market through the acquisition of Adesto. This has broadened Dialog's customer base and opened up new opportunities to create long-term and sustainable value for shareholders. The strong Group financial and operational performance has been reflected in the annual bonus and LTIP outcomes for 2020. Further detail on the annual bonus and LTIP outcomes and targets is provided on pages 106 and 107.

Base salary
Due to the effect of Covid-19 on global economies, significant uncertainty in forecasting meant that a normal annual salary review was not conducted across the Group, except for a small number of countries (China, Turkey and Ukraine). Therefore the Committee did not adjust the CEO's base salary during 2020.

Annual Bonus
As a result of the strong performance in 2020, an annual bonus award of 147.9% of target has been achieved by the CEO, compared with 181.0% for 2019.

Bonus performance outcomes are detailed in the Annual report on remuneration on pages 106 and 107.

Long-term incentive
The 2018 award made under the Long-Term Incentive Plan ("LTIP") will vest in the first quarter of 2021. The LTIP is subject to a performance test over the period 2018-20 and 94.58% of the target number of shares are expected to vest (47.29% of the maximum number of shares).

Committee view
The 2020 financial year presented a number of exceptional challenges for Dialog. Nevertheless, the Company delivered robust results which were in the target ranges set at the beginning of the year. In this context, the Committee considers corporate performance to have been strong in 2020, and the remuneration outcomes for the CEO are a fair reflection of this level of performance.

Non-executive Director fees
Because a normal annual salary review was not conducted for the majority of employees in 2020, the Board agreed that Non-executive Director fees would not be reviewed in 2020.

If you have any feedback on our remuneration arrangements, please pass those comments for my attention to our Company Secretary, Tim Anderson at RPC, Tower Bridge House, St Katharine's Way, London, E1W 1AA. We hope you find the contents of this report informative. The Committee would welcome your support at our AGM on 4 May 2021 for our advisory shareholder vote on the Annual report on remuneration.

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

Mary Chan
Chair, Remuneration Committee

3 March 2021

Dialog Semiconductor Plc

Remuneration at a glance

Summary of our current remuneration policy and structure for Financial Year 2020

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	• No increase • CEO: £515,040 • 15% pension allowance
Annual Bonus – weightings: 15% Revenue 15% Underlying gross margin 15% EBIT 25% Diversification 30% Commercial and organisational goals	• Target potential 125% of base salary • Key financial, commercial and organisational goals • The portion of any award above 100% of salary is deferred into shares for three years	• 147.9% of target bonus paid • CEO: £952,180
LTIP – weightings: 33.3% Revenue 33.3% Underlying operating margin 33.3% Relative Total Shareholder Return	• Target award is capped at £3 million • 2x multiplier for excellent performance • Goals focused on KPIs and long-term shareholder returns • 2-year post-vesting holding period for awards granted after the 2019 AGM	• Awards granted to the CEO in 2020 had a target value of £3 million at grant
Shareholding Requirements	• CEO 400% of salary	• CEO exceeds requirement

How we measure performance and link to strategy

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

Measure	2020 Annual Bonus	LTIP	Rationale and link to strategy
Revenue	✓	✓	Measures top-line business growth
Underlying operating margin	✓	✓	Measures profitability of our operating activity
Underlying gross margin	✓		Provides a measure of ability to obtain profit margin from our products and manage our manufacturing costs
Relative Total Shareholder Return ("TSR")		✓	Measures the delivery of long-term sustainable value growth for shareholders
Commercial and organisational goals	✓		Focuses executives on the delivery of our strategic goals

How we performed

Underlying revenue (US$m)

US$1,376m

Underlying operating margin (%)

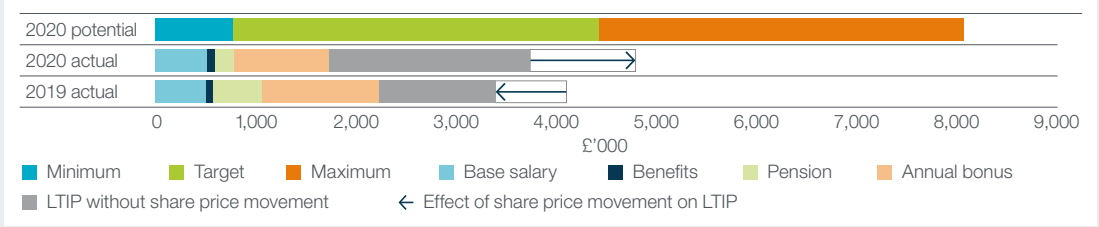
21.6%

Underlying gross margin (%)

50.6%

2020 Remuneration

The chart below shows the 2020 potential opportunity and actual achievement compared to 2019 actual achievement.



Maximum Fixed pay, maximum annual bonus (250% of salary for 2020 and 250% of salary for 2019) and maximum value of the LTIP vesting.
Target Fixed pay and on-target award for Annual Bonus (125% of salary for 2020 and 125% of salary for 2019) 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 "2019 actual" and "2020 actual" LTIP outcome shows the value impact of the vested shares due to the increase or decrease in share price since grant.

Directors' remuneration policy

The following is the Directors' Remuneration Policy report, as approved by shareholders at the 2019 AGM. There have been no changes since that date. In the interest of clarity, some minor updates are made when necessary to reflect changes to base salaries which occur during the policy's effective period.

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 took formal effect when approved at the 2019 AGM, with minor amends for lapsing schemes.

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

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

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

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.

Directors' remuneration policy continued

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

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

	Additional points:
	The above termination payments (both in connection with and not in connection with a change in control) would be reduced by the amount of any other contractual payments made to the Executive. Such payments could include a payment in lieu of notice, garden leave payment, and/or a payment in lieu of holiday accrual. Any payment in lieu of notice will be limited to the pro-rata value of base salary and the other benefits described under the retirement benefits and other benefits sections above. An Executive can also be placed on garden leave. A pre-defined "good reason" includes: material salary reduction (other than across-the-board reductions of up to 10%) or any reduction on change of control; company required relocation by 30 miles; or material diminution in duties, responsibilities or authority (but a change in reporting line alone does not constitute a good reason). In addition to the above termination payments, the Committee may pay reasonable outplacement and legal fees where considered appropriate and may pay any statutory entitlements or settle any compromise claims in connection with a termination of employment, where considered in the best interests of the Company. Termination provisions for LTIP are as follows: **Termination not in connection with a change in control** If an Executive Director is not employed by the Company at the time of vesting, the award will lapse, except in certain circumstances as determined by the Board including death, disability, retirement and any other circumstance as decided by the Board. The portion of any award which vests will be determined by the Board based on a number of factors including performance against targets. Alternatively, the Board may decide that outstanding awards will vest in accordance with the normal vesting schedule. Unless the Board decides otherwise, in all cases the vesting level will be reduced in accordance with time proration. In the case that employment is terminated by the Company without cause or termination by the executive for a pre-defined good reason detailed above, then the outstanding awards will vest subject to time proration and performance against targets. **Termination in connection with a change in control** In the event of a change in control of the Company, any award will be rolled over into an award in the new entity but with the Company having discretion for time pro-rated vesting, subject to performance, with the balance rolled over. Performance-based awards, after application of any performance test, will roll over into time-based awards. Any awards rolled over will ordinarily vest at the nominal vesting date. However, in the case that employment is terminated by the Company without cause, or termination by the executive for a pre-defined good reason detailed above in connection with a change in control, then outstanding awards will vest immediately without time proration.

Fees	**Non-executive Directors**
Purpose and link to strategy	Supports recruitment and retention of a non-executive Director with the experience and skills that will make a major contribution to the Dialog Board.
Maximum opportunity	Aggregate fees are subject to the limit set out in the Articles of Association or any such higher amount as determined by ordinary resolution.
Operation	Fees are normally reviewed annually. Fees may be paid in a combination of cash and shares subject to any requirements of the Articles of Association of the Company or shareholder resolution. Non-executive Directors' fees are not eligible for any incentive awards or share options. The Chairman's fee and other non-executive Director fees are determined by the Board following a review and recommendation by the Remuneration Committee. Non-executive Directors may also receive tax advice. In addition to the fees referred to above, non-executive Directors are also reimbursed for the costs of travel relating to the performance of their duties, and these costs may be grossed-up if treated as a taxable benefit in the applicable jurisdiction.
Performance framework	Fee reviews take account of individual performance and contribution, company size, growth and complexity, level of experience and market profile and time committed.

Directors' remuneration policy continued

Remuneration of Directors on recruitment and appointment

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

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

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

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

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

Clawback and malus policy

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

Shareholding requirement

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

Share options for non-executive Directors

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

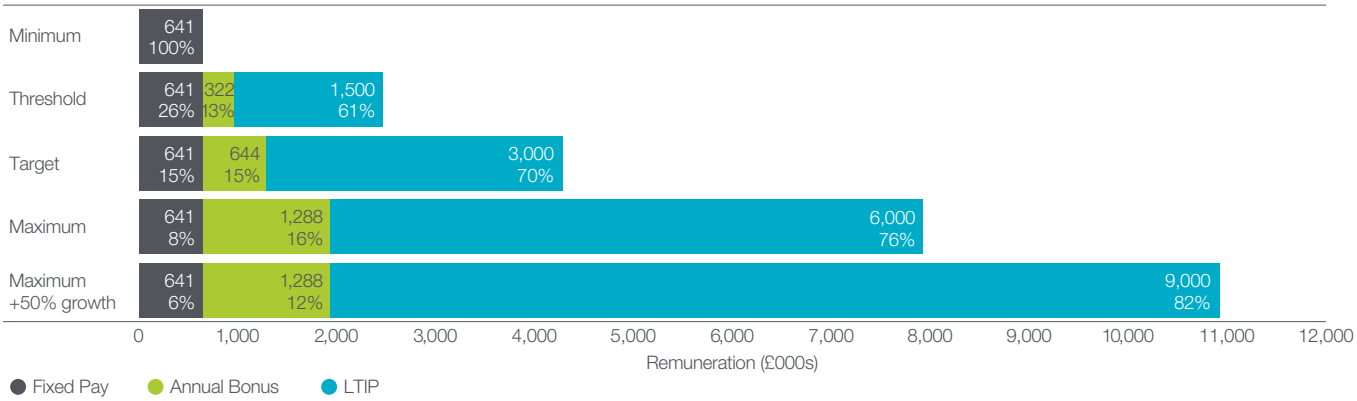
Remuneration policy for Executive Directors compared to that for other employees

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

- Annual bonus – All Dialog employees participate in annual bonus plans. The nature of those plans varies somewhat by location and employee category. Most employees participate in a profit-sharing plan; a smaller group participates in a plan based on performance against individual objectives;
- LTIP – Participation in the LTIP is limited to employees in senior roles and executives, which currently comprise around 60 Dialog employees. This number may increase over time as the business grows. Different conditions to those attaching to awards made to Executive Directors may apply; and
- Notice periods – Other UK employees' contracts of employment include three-month notice periods.

Remuneration scenarios for the CEO

The charts below illustrate for the 2020 year the pay mix between the different elements of remuneration for the CEO, assuming threshold, target and maximum performance. Amounts are shown in GBP (000s).



The scenarios shown above are based on the following assumptions:

- Minimum performance: fixed pay only (base salary, benefits and pension);
- Threshold performance: fixed pay, annual bonus (62.5% of salary) and 0.5x target value of the LTIP award vesting;
- Target performance: fixed pay, annual bonus (125% of salary) and 1x target value of the LTIP award vesting;
- Maximum performance: fixed pay, maximum annual bonus of 250% of salary and 2x target value of the LTIP award vesting; and
- Maximum performance with share price appreciation: Same assumptions as for the maximum performance scenario, but assumes that the value of LTIP shares increases by +50% over the performance period.

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

Annual report on remuneration for the year ended 31 December 2020

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	2020[1]	702,978	252,555	105,447	1,060,980	1,299,631	4,167,224	5,466,855	2,360,611	6,527,835
Dr Jalal Bagherli	2019[1]	661,112	643,822	98,685	1,403,619	1,539,332	1,526,359	3,065,691	2,942,951	4,469,310

Notes:

1 Exchange rates used are: 2019: GBP 1 = USD 1.3210; EUR 1 = USD 1.1228; 2020: GBP 1 = USD 1.3649; EUR 1 = USD 1.2274.

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 2020 GBP base salary was not changed in 2020. Core CEO benefits were not changed in 2020. The decrease in value of Benefits is due to reduced amounts in 2020 relating to grossed up tax penalties, further information on which is contained in section 2.2.

3 The sum of basic salary, benefits and pension.

4 Annual bonus cash element and deferred share element awarded in relation to the financial year ended 31 December.

5 For the 2019 performance year, 43,980 LTIP awards vested. Value is based on a price of €31.06 (the share price on the vesting date), which changed over the vesting period from €50.19 at grant. This resulted in a reduction of value of the LTIP award of €841,337.

For the 2020 performance year, 87,753 LTIP awards will vest. Value is based on a price of €38.84 (average share price over last three months in 2020), which changed over the vesting period from €25.40 at grant. The value of the award attributable to share price appreciation is €1,179,400.

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 did not increase the CEO's base salary in 2020 given the decision not to apply pay increases to the majority of other employees at Dialog. The market positioning of the CEO's base salary remains around the lower quartile of our peers.

2.2 Other benefits and Pension

The CEO received a cash allowance in lieu of a company car US$13,922 (£10,200), medical insurance for himself and his spouse and Group life and income protection insurance.

Advances are made to the Executive Director by foreign subsidiaries against foreign taxes as a result of business travel that are repaid as and when the relevant tax credits are received. During 2020, the average amount outstanding was US$599,502 (£467,630) (2019: £314,780). The outstanding balance was reduced to zero by 31 December. No interest is charged on the advances which are treated as a taxable benefit.

In late 2019, the Company identified that the application of cross jurisdiction tax rules for specific employees related to stock options, was incomplete, and a number of employees had become subject to US tax penalties. The Company agreed to pay specified penalties on behalf of all impacted employees, including the CEO, and have minimised employee exposure for the future. Included in benefits for the CEO is an amount of US$185,512 (£135,916) which relates to penalties and gross up of amounts due in relation to US tax years 2016 to 2020.

The total value of taxable benefits provided was US$252,555 (£185,035) equivalent to 35.93% of his current salary.

The CEO receives a pension allowance of 15% of base salary which is in line with policy. In 2020, the Company made pension allowance payments of US$105,447 (£77,256) to the CEO.

2.3 Annual bonus disclosure

For 2020, the CEO was eligible for a target annual bonus of 125% of base salary, which could range up to 250% of base salary for maximum performance. The portion of any bonus awarded above 100% of base salary is deferred into shares which vest after three years.

Performance measures used were:

- Financial goals (70%) comprising revenue (15%), underlying gross margin (15%), EBIT (15%), diversified revenue (25%); and
- Commercial and organisational goals (30%).

The 2020 bonus was determined at 147.9% of target, reflecting performance as set out in the table below. Performance targets under these measures are considered by the Board to be commercially sensitive and will, where possible, be disclosed in a future Annual report when they are considered no longer to be commercially sensitive.

Measure		Outcome	Below Threshold	Between Threshold and Target	On Target	Above Target
Financial	Revenue	$1,335m				✓
	Underlying gross margin	50.7%		✓		
	EBIT	22.5%				✓
Diversification	Diversified Revenue	The outcomes of the goals in this category were between target and maximum overall. Exact figures are not shown as they are deemed commercially sensitive.				
Commercial and organisational goals		See below				✓

2. Commentary on the Executive Director Single Figure Table continued

2.3 Annual bonus disclosure continued

The overall outcome for the commercial and organisational goals was above target. This reflects performance as set out in the table below:

Performance Measure	Outcome
Commercial and organisational Goals	Above target performance on this measure to recognise business performance in the context of a global pandemic and economic uncertainty, and delivery of the Adesto acquisition.

Accordingly, the Committee determined that a bonus equivalent to 184.9% of base salary should be paid for the performance in the 2020 financial year. Of this, 84.9% (£437,140) will be deferred into shares for three years.

The Committee also considered the disclosure of the performance targets relating to the 2020 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. However, the Committee also decided that the targets for the 2019 annual bonus are no longer commercially sensitive and these have been set out below:

Performance Measure		Weighting (% of target bonus)	Threshold	Target	Maximum	Outcome	Bonus payable (% of target) Threshold	Target	Maximum	Bonus payable
Financial	Revenue	15%	$1,220m	$1,355m	$1,491m	$1,408m	7.5%	15.0%	30.0%	20.9%
	Underlying gross margin	10%	47.5%	49.0%	51.5%	49.8%	5.0%	10.0%	20.0%	13.2%
	EBIT	15%	20.1%	22.1%	24.1%	24.2%	7.5%	15.0%	30.0%	30.0%
Diversification		20%	Revenue excluding Como Mobile Systems of $782m was in between target and maximum.							36.9%
Commercial goals (Carve-out/M&A)		40%	Above-target performance on this measure in recognition of the organisational adjustments made following the agreement with Apple Inc., and completion of diversifying acquisitions of FCI and Creative Chips.							80.0%
Total										181.0%

2.4 LTIP disclosure

Awards granted under the 2018 Long-Term Incentive Plan ("LTIP") are capable of vesting in 2021 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 94.58% of the target number of share options awarded will vest. In light of shareholder feedback obtained during our consultation with shareholders, we enhanced disclosure of performance outcomes under the LTIP in last year's report. We have continued to provide this enhanced level of disclosure below.

Measure	Target award level (% of target award)	Performance Needed for Maximum Vesting	Outcome	Actual vesting outcome (% of target award)
Revenue	33.3%	$4.62bn	$4.19bn	40.97%
EBIT (underlying operating margin)	33.3%	22.5%	22.1%	53.61%
Relative TSR vs. peer group	33.3%	Dialog TSR over the three-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%			94.58%

The Chief Executive was awarded a target number of 92,775 LTIP share options in 2018 (which is equivalent to a maximum number of 185,550 share options if all the maximum performance targets are met). As a result of the actual vesting outcome, 87,753 of the target number of LTIP share options awarded to the Chief Executive in 2018 (i.e. 94.58% of target) will vest in 2021. As the share price at the date of vesting for the 87,753 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 2020 of Euro 38.84. This results in a value of US$4,167,224. 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 2020, the CEO was granted an LTIP award with a target value of £3 million in line with the policy in force. As noted in the policy section, shares awarded are structured as nominal priced options, hence the reference to options throughout.

Awarded during the year	Date of award	Granted number Target	Granted number Max	30-day average share price at date of grant in £	Value of award Target	Value of award Max	% of max award that will vest at threshold	Performance period
LTIP – performance shares	06/03/2020	94,601	189,203	£31.7119	£2,999,977	£5,999,987	25%	01/01/2020–31/12/2022

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 6 March 2020 (€37.42). The sterling equivalent share price was £31.7119, resulting in a maximum LTIP award value of £5,999,987 which equates to a target LTIP award of £2,999,977.

Annual report on remuneration for the year ended 31 December 2020 continued

2. Commentary on the Executive Director Single Figure Table continued

2.5 Share awards made during the year continued

The LTIP performance shares set out in the table above will vest subject to performance against three performance metrics:

- Dialog TSR performance over the three-year performance period relative to the constituents of the S&P 1500 Select Semiconductor index (one third);
- Dialog revenue in each year of the three-year performance period (one third); and
- Dialog underlying operating margin in each year of the three-year performance period (one third).

Revenue and underlying operating margin targets are set annually over the three-year performance period of the award. For each annual period a third of this part of the award is assessed on actual Dialog performance against targets set at the beginning of each year. Relative Total Shareholder Return is measured at the third anniversary date of the award over the three-year performance period. Shares accrued during the performance period under contingent awards are released to, and shares vesting under nominal-cost options are exercisable by, Executive Directors as soon as practicable after the third anniversary of the award, and subject to any relevant holding periods.

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$[3]	Taxable Benefits US$	Total Fixed Pay US$	Incentives (Annual) US$	Incentives (Long-term) US$	Total Variable Pay US$	Other remuneration US$	Shares Vested US$	Total US$
Richard Beyer	2020[1]	320,752	6,033	326,785	–	–	–	–	–	326,785
Richard Beyer	2019[1]	287,318	6,507	293,825	–	–	–	–	–	293,825
Mike Cannon	2020[1]	250,687	4,777	255,464	–	–	–	–	–	255,464
Mike Cannon	2019[1]	230,184	4,766	234,950	–	–	–	–	–	234,950
Eamonn O'Hare	2020[1]	245,682	922	246,604	–	–	–	–	–	246,604
Eamonn O'Hare	2019[1]	219,947	1,936	221,883	–	–	–	–	–	221,883
Alan Campbell	2020[1]	259,331	3,842	263,173	–	–	–	–	–	263,173
Alan Campbell	2019[1]	231,836	5,350	237,186	–	–	–	–	–	237,186
Nick Jeffery	2020[1]	251,142	596	251,738	–	–	–	–	–	251,738
Nick Jeffery	2019[1]	224,570	1,436	226,006	–	–	–	–	–	226,006
Mary Chan	2020[1]	254,326	5,775	260,101	–	–	–	–	–	260,101
Mary Chan	2019[1]	220,937	4,707	225,644	–	–	–	–	–	225,644
Joanne Curin[2]	2020[1]	245,682	1,964	247,646	–	–	–	–	–	247,646
Joanne Curin[2]	2019[1]	99,075	0	99,075	–	–	–	–	–	99,075

Notes:

1 Exchange rates used are: 2019: GBP 1 = USD 1.3210; EUR 1 = USD 1.1228; 2020: GBP 1 = USD 1.3649; EUR 1 = USD 1.2274.

2 Joanne Curin joined the Board on 1 August 2019.

3 Fees include fees paid in cash and shares.

4. Directors' shareholdings at 31 December 2020 (audited)

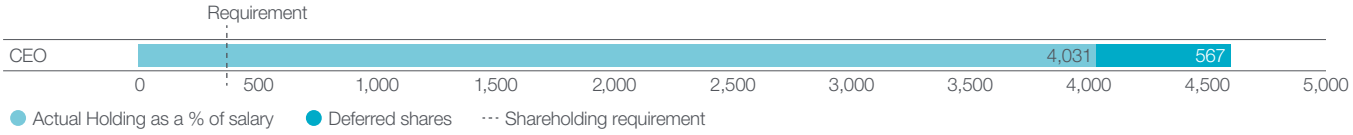
The CEO is expected to establish and hold a shareholding of at least 400% of salary. The CEO currently exceeds this requirement.

		Share Awards with Performance Conditions		Share Awards without Performance Conditions				
Number at 31 December 2020	10 pence ordinary shares	Performance shares (LTIP)	EIP – invested shares	Deferred shares	Share options (unvested)	Share options (vested & unexercised)	Options exercised in year	Total
Dr Jalal Bagherli	511,615	668,134	–	71,994	–	–	155,776	1,407,519
Joanne Curin	2,350	–	–	–	–	–	–	2,350
Richard Beyer	19,358	–	–	–	–	–	–	19,358
Mike Cannon	14,662	–	–	–	–	–	–	14,662
Eamonn O'Hare	15,665	–	–	–	–	–	–	15,665
Alan Campbell	14,492	–	–	–	–	–	–	14,492
Nick Jeffery	8,511	–	–	–	–	–	–	8,511
Mary Chan	12,674	–	–	–	–	–	–	12,674

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 2019	Granted	Exercised	Lapsed	Holding at 31 Dec 2020
Dr Jalal Bagherli	Deferred bonus plan	18/02/2014	18/02/2017	18/02/2021	0.01	40,153	–	40,153	–	–
Dr Jalal Bagherli	Executive incentive plan	18/02/2014	18/02/2017	18/02/2021	0.12	24,690	–	24,690	–	–
Dr Jalal Bagherli	Deferred bonus plan	12/02/2015	12/02/2018	12/02/2022	0.01	29,913	–	–	–	29,913
Dr Jalal Bagherli	Executive incentive plan	12/02/2015	12/02/2018	12/02/2022	0.12	13,427	–	13,427	–	–
Dr Jalal Bagherli	LTIP nominal cost option	01/05/2015	01/03/2018	01/03/2021	0.15	33,526	–	33,526	–	–
Dr Jalal Bagherli	Deferred bonus plan	03/03/2016	03/03/2019	03/03/2023	0.01	11,772	–	–	–	11,772
Dr Jalal Bagherli	LTIP nominal cost option	03/03/2016	01/03/2019	01/03/2022	0.15	43,001	–	–	–	43,001
Dr Jalal Bagherli	LTIP nominal cost option	01/03/2017	01/03/2020	01/03/2023	0.15	103,788	–	43,980	59,808	–
Dr Jalal Bagherli	Deferred bonus plan	05/03/2018	05/03/2021	05/03/2025	0.01	6,514	–	–	–	6,514
Dr Jalal Bagherli	LTIP nominal cost option	05/03/2018	05/03/2021	05/03/2024	0.15	185,550	–	–	–	185,550
Dr Jalal Bagherli	Deferred bonus plan	08/03/2019	08/03/2022	08/03/2026	0.01	3,291	–	–	–	3,291
Dr Jalal Bagherli	LTIP nominal cost option	08/03/2019	08/03/2022	08/03/2025	0.15	177,126	–	–	–	177,126
Dr Jalal Bagherli	LTIP nominal cost option	13/05/2019	13/05/2022	13/05/2029	0.15	73,254	–	–	–	73,254
Dr Jalal Bagherli	Deferred bonus plan	06/03/2020	06/03/2023	06/03/2027	0.01	–	20,504	–	–	20,504
Dr Jalal Bagherli	LTIP nominal cost option	06/03/2020	06/03/2023	06/03/2030	0.15	–	189,203	–	–	189,203

The chart below shows the CEO shareholding as at 31 December 2020 against the shareholding requirement as a % of base salary.



Annual report on remuneration for the year ended 31 December 2020 continued

5. Percentage change in remuneration of Directors and employees

The table below compares the average change in base salary, benefits (excluding pension) and bonus awards for the Directors and for an average UK employee over the period 2019 to 2020.

Percentage change in remuneration of Directors and employees.

	Percentage change from 2019 to 2020		
	Base salary/fees	Taxable Benefits	Annual Bonus
Executive Directors			
Dr Jalal Bagherli[1]	2.9%	(62.0)%	(18.3)%
Non-Executive Directors[2,3,4]			
Richard Beyer	8.0%	1.8%	–
Alan Campbell	8.3%	(32.1)%	–
Mike Cannon[5]	5.4%	(12.4)%	–
Mary Chan[5]	11.4%	5.0%	–
Joanne Curin[6]	8.1%	–	–
Nick Jeffery	8.2%	(59.8)%	–
Eamonn O'Hare	8.1%	(53.9)%	–
Employees of the parent company[7]	–	–	–
Employees of Dialog Semiconductor (UK) Ltd[8]	2.0%	(1.9)%	14.9%

1 CEO salary was increased July 2019, resulting in a percentage change compared to total salary received in 2020. CEO salary was not increased in 2020.

2 Non-Executive Directors' fees were increased in September 2019, resulting in percentage change compared to total fees received in 2020. Non-Executive Directors fees were not increased in 2020.

3 Non-Executive Directors benefits reduced for some in 2020, as expenses for in-person Board meetings were not incurred in the normal way.

4 Non-Executive Directors do not take part in any bonus or incentive plans.

5 Chair of the Remuneration Committee changed from Mike Cannon to Mary Chan on 15 June 2020. The table above reflects the change in Committee Chair fees.

6 Joanne Curin received no taxable benefits in 2019. Therefore a percentage change is not reported.

7 The regulations require disclosure of the change in remuneration of the employees of the parent company. As the parent company does not have any employees, it is not possible to provide a percentage change in their pay.

8 As it is not possible to show the change in remuneration for employees of the parent company, the Remuneration Committee has decided to voluntarily disclose the percentage change in remuneration of all employees of Dialog Semiconductor (UK) Ltd.

6. CEO pay ratio

The following table shows the ratio between the total remuneration of the CEO and the median total remuneration of our UK employees. Employee total remuneration has been calculated using "Option A" of the published methodology.

Financial year ending	Methodology	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2019	Option A	56 : 1	39 : 1	26 : 1
2020	Option A	76 : 1	54 : 1	40 : 1

The above ratios have been calculated using the single figure for the CEO and the following statistics for our UK employees:

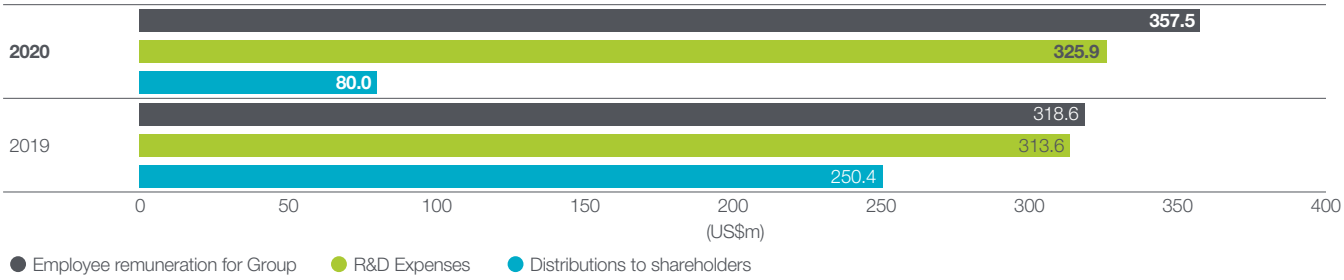
	CEO	25th percentile	50th percentile	75th percentile
Total salary	515,040	43,950	61,532	85,950
Total remuneration (single figure)	4,782,646	63,242	88,851	120,760

The CEO pay ratio has been calculated as at 31 December 2020 using Option A as defined in the relevant regulations. This method was chosen as it is the preference of investors and provides a robust analysis. The calculation compares employees on a like for like basis to the CEO; it includes employees employed throughout the whole year, payments were adjusted to reflect full time values by dividing values by hours worked and multiplying by standard UK full time hours, bonuses payable in respect of 2020 performance, time based Long-Term incentives granted in or in respect of 2020 are included at their face value at grant and performance based Long-Term Incentives vesting in 2021 by reference to 2018 to 2020 performance are included at the number vesting in 2021 and valued using the average share price over the three months to 31 December 2020, and where an employee has received a maternity payment this has been excluded as the salary has been adjusted to a full time basis.

The increase in the pay ratio over the year is not the result of a change in pay practice at Dialog but a result of the vesting of the CEO's 2018 LTIP and the strong share price growth over the last three years. In more detail, this LTIP award was granted in 2018 based on a share price of EUR 24.36 and has been valued in 2020 using a share price of EUR 38.84 and with vesting at 94.58% of target, reflecting strong performance over the period. Over the same period, there has been no significant change in the remuneration levels of other employees. The company believes the median pay ratio for the 2020 financial year is consistent with the pay, reward and progression policies for the company's UK employees taken as a whole. A large portion of senior executive remuneration is delivered in share-based awards. For senior management including the CEO there are performance conditions attached to the awards, the value of which will naturally change with share price as they are included by reference to the average share price over the last three months of the year rather than at the share price at grant. As a result, significant year-on-year changes in line with share price, both up and down, are to be expected in the CEO pay ratio as all of the CEO's LTIP awards are performance based. These are the result of our remuneration philosophy which seeks to align our senior executives with the interests of shareholders and the company, and places a significant focus on variable remuneration.

7. Relative importance of spend on pay

The chart below compares the amount spent on employee pay by Dialog to amounts spent by Dialog on research and development and distributions to shareholders.

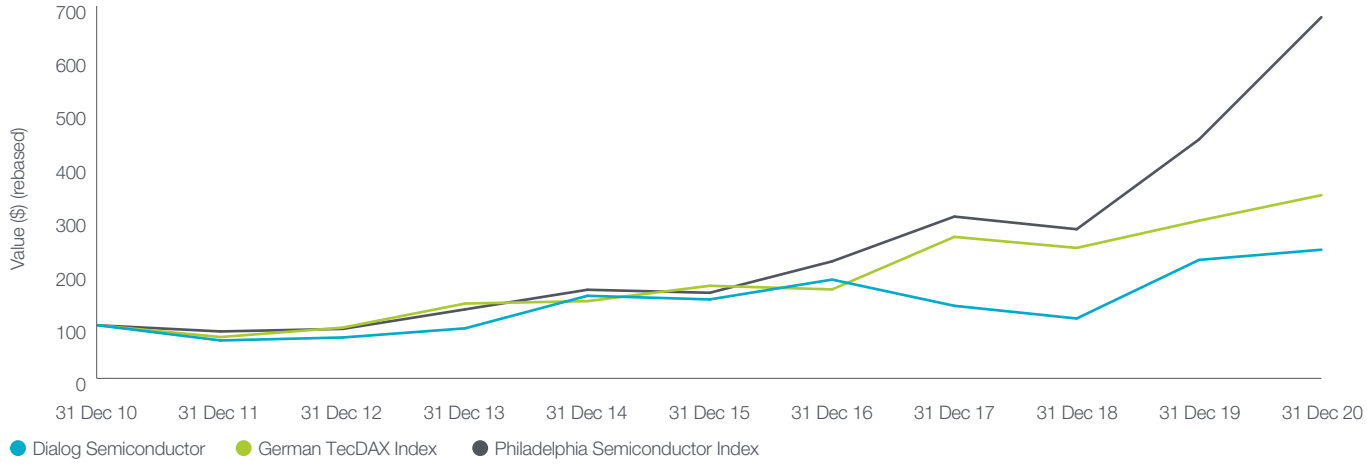


8. Review of past performance

8.1 TSR Chart

The following graph compares Dialog Semiconductor's TSR performance to that of the same investment in the German TecDAX Index. This comparison has been chosen because it reflects the local market and industry in which Dialog is listed. We also show a comparison to the Philadelphia SE Semiconductor Sector Index (Price return) as an additional industry comparator, recognising that Dialog competes with companies on an international basis. TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and – where relevant – assuming reinvestment of dividends. Data is averaged over 30 days at the end of each financial year.

This graph shows the value, by 31 December 2020, of US$100 invested in Dialog Semiconductor Plc on 31 December 2009 compared with the value of US$100 invested in the German TecDAX Index on the same date. Also plotted is the price index for the Philadelphia Semiconductor Sector Index (rebased to 100). Data has been averaged over 30 days at the end of each financial year.



Source: FactSet.

8.2 Ten-year Chief Executive single figure remuneration

The table below sets out the annual change in the single figure total remuneration provided to the CEO over the previous ten-year period.

Financial year ending	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014	31 Dec 2015	31 Dec 2016	31 Dec 2017	31 Dec 2018	31 Dec 2019	31 Dec 2020
Total remuneration including unrealised gains on options in $ (single figure basis)[1]	30,426,678	2,167,224	2,046,555	4,521,143	5,910,729	5,576,750	2,998,070	2,762,457	4,469,310	6,527,835
Annual bonus (% of maximum)[2]	N/A	100%	91.94%	89.12%	79.25%	34.62%	64.45%	57.65%	90.50%	73.95%
Long-term variable pay (% of maximum)[3]	100%	100%	100%	78%	81.3%	61.49%	34.44%	23.54%	42.37%	47.29%

1 The total remuneration for 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$29,103,138 (2011), resulting from the exceptional performance and share price growth of the Company. There are no further awards under this plan. Total remuneration includes the value of long-term incentive awards at the time they vest, as required by UK reporting regulations. The actual value realised by the CEO is based on the market value on the date they are permitted (under Directors' trading restrictions) and/or choose to exercise options or sell shares. The value presented does not therefore reflect exactly that received by the CEO.

2 No maximum bonus was defined prior to 2012.

3 The percentages shown for 2017, 2018, 2019 and 2020 long-term variable pay are for the LTIP. In 2017, there was a legacy EIP award with a vesting percentage of 44.88%.

Annual report on remuneration for the year ended 31 December 2020 continued

9. Statement of implementation for the year ending 31 December 2021

9.1 Executive Director

This section details how remuneration will be implemented for the CEO in line with the remuneration policy that was approved at the 2019 AGM.

Base salary
The CEO's base salary will be subject to review in 2021 with any change being effective from 1 July 2021.

Benefits & pension
No change to benefits. Pension contribution remains at 15% of salary.

Annual Bonus for the year ending 31 December 2021
The maximum bonus potential will continue to be 2x target bonus, and the target bonus will continue to be 125% of base salary.

The annual bonus will be based on similar metrics to last year. Weightings will be in line with the performance framework set out in the remuneration policy and aligned to the key strategic priorities for 2021. There will be a significant weighting on financial metrics supported by appropriate measures of operational and commercial performance.

LTIP for the year ending 31 December 2021
The target LTIP award will continue to be £3 million in line with the current policy.

As in prior years, the LTIP award will vest after three years subject to the satisfaction of three performance metrics:

- Dialog TSR performance over the three-year performance period relative to the constituents of the S&P 1500 Select Semiconductor index;
- Dialog revenue in each year of the three-year performance period; and
- Dialog underlying operating margin in each year of the three-year performance period.

Financial targets will be disclosed retrospectively in the year of vesting.

For the relative TSR condition of the 2021 LTIP award, Dialog Semiconductor TSR is measured over the three-year performance period and compared to the companies in the comparator group. If Dialog TSR is at the median of the comparator group then 0.5x the target award vests. If Dialog TSR is at the 60th percentile of the comparator group then 1x the target award will vest. If Dialog TSR is at or above the 75th percentile of the comparator group then 2x the target award will vest. For performance in between these levels, vesting is determined on a straight-line basis.

Share Ownership Guidelines
Share Ownership Guidelines are required to build and retain a shareholding in Dialog's shares. The CEO is required to hold the equivalent of 4x base salary in shares.

Holding Period
A post-vesting holding period of two years will apply to the 2021 LTIP award.

9.2 Non-executive Directors

In 2020, fee rates for non-executive Directors were not reviewed, in line with no pay increases for the wider employee group. Fees continue to be delivered in a mix of cash and shares, with the share portion comprising the greater part. Shares are not subject to a performance condition or vesting period. The following table sets out the fee rates for non-executive Directors compared to the rates in 2019.

	2020		2019	
In thousands (£000s)	Cash	Shares	Cash	Shares
Chairman fee	£94	£141	£94	£141
Base fee	£68	£102	£68	£102
Committee Chair fee				
Audit	£20	–	£20	–
Remuneration	£16	–	£16	–
Nomination	£6	–	£6	–
Committee membership fee				
Audit	£10	–	£10	–
Remuneration	£8	–	£8	–
Nomination	£3	–	£3	–

10. Governance

10.1 The Remuneration Committee

The Board as a whole is responsible for setting the Company's policy on Directors' remuneration. The Board of Directors has established a Remuneration Committee (the "Committee") and has delegated authority to this Committee to review and recommend to the Board: the salaries and incentive compensation of the Company's officers and its subsidiaries; and provide recommendations for other employees and consultants as appropriate.

The Committee comprises independent, non-executive Directors. The members are currently Mary Chan (Chair), Mike Cannon 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 and Alvarez & Marsal. The Committee is satisfied that the advice received from these advisers is objective and independent and is not subject to any material conflict of interest. Both advisers are members of the Remuneration Consultants Group and signatories 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 2020 amounted to £64,178, and fees charged by Alvarez & Marsal for advice provided to the Committee for 2020 amounted to £45,356.

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 Chair 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.

Annual report on remuneration for the year ended 31 December 2020 continued

10. Governance continued

10.2 Statement of shareholder voting

At the 2020 AGM, 90.70% of shareholders supported the advisory resolution to approve the Annual report on remuneration. The table below summarises the number of votes for and against the Annual report on remuneration at the 2020 AGM and the number of votes for and against the Directors' remuneration Policy at the 2019 AGM, and also includes the number of abstentions (referred to as votes withheld).

	Votes for[1]		Votes against[1]		Votes withheld[2]	Total votes cast	% of voting capital instructed[3]
Resolution	No. of shares	%	No. of shares	%	No. of shares	No. of shares	
Approval of Directors' remuneration report (2020 AGM) (excluding the Directors' Remuneration Policy)	35,327,882	90.77%	3,594,045	9.23%	815,171	38,921,927	56.16%
Approval of Directors' Remuneration Policy (2019 AGM)	21,045,922	68.69%	9,593,976	31.31%	2,371,835	30,639,898	40.11%

1 Votes "For" and "Against" are expressed as a percentage of votes received.

2 A "Vote withheld" is not a vote in law and is not counted in the calculation of the votes "For" or "Against" a resolution.

3 Total number of shares in issue (excluding shares held in treasury) at 2pm BST (3pm CEST) on 28 April 2020 was 69,305,392 shares.

At the 2019 AGM, approximately 31.3% of shares cast were voted against the resolution to approve the Directors' Remuneration Policy ("DRP"). As announced at the time of issuing the AGM voting results, the Company's Remuneration Committee had undertaken an extensive consultation with a majority of shareholders in advance of the AGM; most of whom were supportive of proposed changes under the DRP. In advance of the AGM, the Company incorporated changes to the DRP based on shareholder feedback from the consultation process. In light of the voting outcome at the AGM, the Company again corresponded with a majority of shareholders and the Chairman conducted additional one-to-one meetings or calls with shareholders to understand concerns, and no new concerns were raised by shareholders. The Company will continue to correspond with shareholders to ensure we understand and can address concerns.

10.3 How stakeholder views are taken into account

Shareholder and proxy advisory groups are engaged when the Company is considering material changes to policy, including approval of any new share plans. In addition, as the Company has decided to follow the UK Corporate Governance Code where possible, shareholders are also engaged when an AGM resolution receives support from fewer than 80% of votes cast.

There is no formal engagement with employees on matters of executive remuneration but employees are encouraged to provide their view on any aspect of the Company's operations through the annual Voice of Dialog employee survey, and meetings with executives. In 2020, most of these employee meetings have taken place virtually, using different online meeting and presentation technology.

Mary Chan
Chair, Remuneration Committee

3 March 2021

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual report and the Group and parent company financial statements in accordance with the applicable law and regulations.

UK company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under the law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and Article 4 of the IAS Regulation and have chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework*. Under UK company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that the Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performances; and
- Make an assessment of the Company's ability to continue as a going concern.

In preparing the parent company financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether Financial Reporting Standard 101 *Reduced Disclosure Framework* has been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation.

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant accounting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 3 March 2021 and is signed on its behalf by:

Dr Jalal Bagherli
Chief Executive Officer

Independent auditor's report

to the members of Dialog Semiconductor Plc

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Dialog Semiconductor Plc (the 'Parent Company') and its subsidiaries (the 'Group'):

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "*Reduced Disclosure Framework*"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated statement of income;
- the Consolidated statement of comprehensive income;
- the Consolidated and Parent Company balance sheets;
- the Consolidated statement of cash flows;
- the Consolidated and Parent Company statements of changes in equity; and
- the related Consolidated notes 1 to 34 and the Parent Company notes 1 to 11.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006, IFRSs as adopted by the European Union and 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).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Intangible assets: the valuation of the customer relationship intangible assets identified as part of the acquisition of Adesto Technologies Corporation • Carrying amount of goodwill – revenue growth forecast within the Industrial IoT operating segment Within this report, key audit matters are identified as follows: Newly identified · Increased level of risk · Similar level of risk · Decreased level of risk
Materiality	We determined materiality for the Group financial statements to be US$9.0 million based upon a range of benchmarks in recognition of the enlarged group following the acquisition of Adesto Technologies Corporation ("Adesto") and its contribution to Group revenue, profit before tax and net assets. This represents 7.6% of profit before tax and 5.5% of profit before tax excluding the non-recurring goodwill impairment charge of US$44.9 million. Parent Company materiality has been determined to be US$8.9 million, which represents 1.5% of its net assets, capped at 99% of Group materiality.
Scoping	We conducted full scope audit procedures on the Parent Company as well as the four largest components, which represent 96% of the Group's revenue, 69% of the Group's profit before tax and 76% of Group's net assets. We performed specified audit procedures on six additional components, which increased our coverage to cover 99% of Group revenue, 91% of the Group's profit before tax and 92% of Group's net assets. The number of locations included in our audit scoping increased from previous years as a result of the acquisition of Adesto by the Group during the year.
Significant changes in our approach	We highlight the following changes to our key audit matters from the prior year: • *Revenue recognition – the identification and measurement of performance obligations within the licensing and asset transfer agreement with Apple* The Group entered in to a significant licensing and asset transfer agreement with Apple during the prior year which had a significant revenue impact in 2019. Since no similar agreement was entered into during 2020, we determined that this no longer represents a key audit matter. • *Intangible assets: the valuation of the customer relationship intangible assets identified as part of the acquisition of Adesto Technologies Corporation* The acquisition of Adesto completed on 29 June 2020. As part of the purchase price allocation (PPA) exercise, intangible assets of US$157.9 million were identified including US$87.7 million in relation to the application-specific standard products ("ASSP") customer relationship intangible. We consider the key assumptions used within the PPA exercise, particularly the estimates involved in forecasting future revenue growth, to be a key audit matter.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included our risk assessment, taking into account the nature of the Group, its business model and related risks, the requirements of the applicable financial reporting framework and the system of internal control. In view of the uncertainty surrounding the impact of the Covid-19 pandemic, management modelled a number of scenarios. We have evaluated this assessment, including challenging the underlying data and key assumptions by comparing to external sources used to make the assessment. We also evaluated the Directors' plans for future actions in relation to their going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements were authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Intangible assets: the valuation of the customer relationship intangible assets identified as part of the acquisition of Adesto Technologies Corporation – refer to Note 3 to the consolidated financial statements.

Key audit matter description	On 29 June 2020, Dialog completed the acquisition of Adesto Technologies Corporation paying a total consideration of US$416.9 million. The PPA identified US$157.9 million of intangibles including US$87.7 million in relation to the ASSP customer relationship intangible asset. The provisional goodwill arising from the acquisition was US$318.9 million. Given the significant judgements made by management in determining the key assumptions used in valuing the ASSP customer relationship intangible asset, particularly the estimates involved in forecasting future revenue growth, we have performed audit procedures requiring a high degree of auditor judgement and increased effort, including the need to involve our fair value specialists and this has therefore been identified as a key audit matter.
How the scope of our audit responded to the key audit matter	Our audit procedures were focused on challenging the appropriateness of the judgements made by management and the application of those judgements within the valuation of the ASSP customer relationship intangible asset. These included the following: • We obtained an understanding of relevant controls in relation to management's identification and valuation of acquired intangibles with the PPA exercise including management's oversight and use of a third party expert. • We enquired of management, including individuals outside of finance, to understand and challenge the assumptions in the revenue forecasts with focus on those used in measuring the ASSP customer relationships intangible asset. • We evaluated the reasonableness of the revenue growth rates assumed by management in the valuation models by comparing them to third party analyst and industry reports. • We evaluated management's ability to accurately forecast future revenues of acquired entities by comparing the forecast revenues made for recent acquisitions compared to the actual performance to assess historical accuracy of forecasting. • With the assistance of our valuation specialists we have tested both the appropriateness and application of management's methodology used in the valuation models. • We tested the mathematical accuracy of the valuation models used in determining the fair value of the ASSP customer relationship intangible. • We assessed the appropriateness of the disclosure about business combinations included within the consolidated financial statements.
Key observations	Our audit procedures did not identify any material misstatement within the provisional ASSP customer relationship intangible and we are satisfied that assumptions used within the valuation are within an acceptable range of values.

Independent auditor's report

to the members of Dialog Semiconductor Plc continued

5.2. Carrying amount of goodwill – revenue growth forecast within the Industrial IoT operating segment – Refer to Note 14 to the consolidated financial statements

Key audit matter description	The Group's evaluation of goodwill for impairment involves the comparison of the recoverable amount of each operating segment to which goodwill is allocated to its carrying amount. Recoverable amount represents the higher of fair value less costs to sell and value in use. The Group used a discounted cash flow model to estimate value in use, which requires significant estimates and assumptions. Changes in these assumptions could have a significant impact on the amount of any goodwill impairment charge and the disclosures made in the financial statements. As part of the acquisition of Adesto, provisional goodwill of US$318.9 million was recorded within the Adesto operating segment. During the third quarter of 2020, management identified an indicator of impairment and following an impairment test of the Adesto segment in which management assessed the fair value less costs to sale and the value in use, an impairment of US$44.9 million was recorded. During the fourth quarter, the Group's reorganised their business units, bringing together Adesto and the Industrial Mixed Signal business unit to form a single new operating segment, named Industrial IoT, with a combined goodwill of US$306.4 million. The value in use of Industrial IoT during the year-end impairment review exceeded the carrying amount, therefore, no additional impairment has been recognised. We identified a key audit matter in respect of revenue growth forecasts in ASSP within the Adesto operating segment (as at the end of third quarter of 2020) and Industrial IoT operating segment (as at 31 December 2020). Given the significant judgements made in determining the forecast revenue used in the value in use models, we have performed audit procedures requiring a high degree of auditor judgement and increased effort to evaluate the reasonableness of the estimates and assumptions.
How the scope of our audit responded to the key audit matter	Our audit procedures related to the impairment review focused on the appropriateness of the revenue growth rates assumed in the cash flow forecasts of ASSP within the Adesto operating segment (as at the end of the third quarter of 2020) and Industrial IoT operating segment (as at 31 December 2020). These included the following: • We obtained an understanding of relevant controls in relation to the annual impairment evaluation process, in particular key controls that ensure the reasonableness of the Board-approved three-year Strategic Plan, the ten-year forecasts used in the value in use model, and the preparation and review of the impairment assessment. • We evaluated management's ability to accurately forecast future revenues by comparing current year forecast of revenue growth to actual performance to assess historical accuracy of forecasting, with special focus on assessing the performance of the Industrial IoT operating segment against forecasts. • We obtained evidence of post year-end order backlogs and 2021 trading to date and compared this to the initial forecast assumptions. • We evaluated the reasonableness of the revenue growth rates assumed by management in the value in use models by comparing them to third party analyst and industry reports. • We tested the mathematical accuracy of the fair value less costs to sell assessment and value in use models. • We evaluated the appropriateness of the sensitivity disclosures included within the consolidated financial statements.
Key observations	Our audit procedures did not identify any additional impairment of goodwill other than the US$44.9 million recorded during the third quarter of 2020 and we are satisfied that the impairment assessment is reasonable and in accordance with IFRS. We are satisfied that the revenue forecasts supporting management's impairment review are within an acceptable range of values.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	US$9.0 million (2019: US$11.2 million)	US$8.9 million (2019: US$11.1 million)
Basis for determining materiality	We have considered a number of benchmarks including profit before tax (PBT), revenue and net assets, and selected US$9.0 million as our materiality, which represents 7.6% of PBT and 5.5% of PBT excluding the non-recurring goodwill impairment charge of US$44.9 million. Our prior year materiality was based upon 5% of PBT adjusted for the impact of the one-off effects of the Apple transaction.	The Parent Company materiality equates to 1.5% of Parent Company net assets of US$923.7 million, capped at 99% of Group materiality. In 2019, our materiality was based on 1.5% of net assets of US$923.7 million, capped at 99% of Group materiality.
Rationale for the benchmark applied	For 2020, we determined materiality based upon a range of benchmarks in recognition of the enlarged group following the acquisition of Adesto and its contribution to Group revenue, profit before tax and net assets.	Our base for determining materiality is in line with the prior year. We consider net assets to be a key benchmark for users of the financial statements, including customers, suppliers and other parties such as tax authorities.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent Company financial statements
Performance materiality	70% (2019: 70%) of Group materiality	70% (2019: 70%) of Parent Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered a number of factors including the quality of the control environment, including the control deficiencies identified, as well as the low level of corrected and uncorrected misstatements.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$450,000 (2019: US$559,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

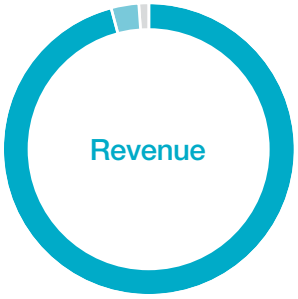
7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including an understanding of geographical positioning of accounting processing, management decision making and risk of material misstatement at the Group level.

The Group has operations across Europe, North America and Asia; however, the majority of transactional accounting processing as well as the consolidation is performed in Germany with the newly-acquired Adesto's transactional accounting processing being performed in the US, both of which closely co-ordinates with the UK head office finance team.

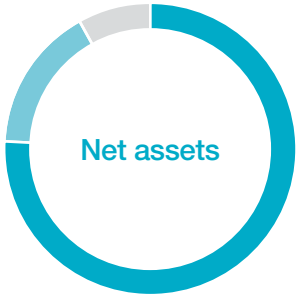
We have components located in Germany and the US as well as two components and the Parent Company located in the UK where we performed full scope audits, covering 96% (2019: 99%) of revenue, 69% (2019: 80%) of profit before tax and 76% (2019: 98%) of net assets.

For six other components, we performed specified audit procedures on defined balances and transactions, which increased our coverage to cover 99% of revenue (2019: 99%), 91% of profit before tax (2019: 96%) and 92% of net assets (2019: 98%) as detailed below:



Full audit scope	96%
Specified audit procedures	3%
Review at Group level	1%

Full audit scope	69%
Specified audit procedures	22%
Review at Group level	9%



Full audit scope	76%
Specified audit procedures	16%
Review at Group level	8%

Full audit scope Specified audit procedures Review at Group level

7.2 Working with other auditors

We engaged both our German and US member firms to perform the audit of the components subject to the Group's finance function based in Nabern, Germany and Santa Clara, USA respectively. This included both full scope and specified audit balance testing supporting the Group audit opinion. The Group audit team was in active dialogue throughout the audit with the component audit teams responsible for the audit work under the direction and supervision of the Group audit team. This included determining whether the work was planned and performed in accordance with the overall Group audit strategy and the requirements of our Group audit instructions to the component audit teams.

The Group audit team held regular communication with the component auditors in planning for, and throughout, the year-end audit process. In light of the travel restrictions and widespread lockdowns resulting from the Covid-19 pandemic we were not able to complete our normal planned visits. In response to these restrictions, we enhanced our remote oversight through a number of measures, as appropriate to each component, including more frequent dialogue and use of video conferencing and screen-sharing facilities.

Independent auditor's report

to the members of Dialog Semiconductor Plc continued

8. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting, unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, internal legal counsel and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including the component audit team and relevant internal specialists, including tax, valuations and information technology specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: management override of controls and the identification and interpretation of undocumented or additional contractual terms impacting revenue recognition.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included among others, the UK Companies Act, German listing rules and tax legislation in the UK, the USA and Germany.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty.

11.2 Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house as well as external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- obtaining confirmations from third party customers as to the completeness of contractual terms agreed and the existence of undocumented or additional contractual terms;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing regulatory correspondence; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Directors of Dialog Semiconductor Plc on 25 January 2016 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ended 31 December 2015 to 31 December 2020.

14.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the 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.

Mark Tolley FCA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, UK
3 March 2021

Consolidated statement of income

Year ended 31 December

	Note	2020 US$000	2019 US$000	2018 US$000
Revenue	5,32	**1,375,924**	1,566,239	1,442,138
Cost of sales		**(697,805)**	(717,703)	(751,070)
Gross profit		**678,119**	848,536	691,068
Selling and marketing expenses		**(107,568)**	(92,951)	(83,877)
General and administrative expenses		**(103,221)**	(101,587)	(84,351)
Research and development expenses		**(325,860)**	(313,550)	(326,309)
Other operating (expense)/income	5	**(20,595)**	39,405	3,176
Operating profit	5,32	**120,875**	379,853	199,707
Interest income	8	**6,086**	21,950	9,883
Interest expense	8	**(8,173)**	(11,309)	(3,134)
Other finance expense	8	**(1,885)**	(5,456)	(10,263)
Profit before income taxes		**116,903**	385,038	196,193
Income tax expense	9	**(32,408)**	(83,586)	(55,281)
Profit after income taxes		**84,495**	301,452	140,912
Share of loss of associate		**–**	–	(1,113)
Net income		**84,495**	301,452	139,799
Earnings per share (US$)	10			
Basic		**1.24**	4.19	1.89
Diluted		**1.17**	3.96	1.80
Weighted average number of ordinary shares (in thousands)	10			
Basic		**68,051**	71,896	73,959
Diluted		**72,239**	76,181	77,655

Consolidated statement of comprehensive income

Year ended 31 December

	Note	2020 US$000	2019 US$000	2018 US$000
Net income		**84,495**	301,452	139,799
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods				
Currency translation differences on foreign operations:				
– Gain/(loss) recognised in the year		**2,603**	2,710	(527)
– Loss transferred to profit or loss on disposal of a subsidiary	4	**–**	309	–
– Related income tax credit/(expense)		**370**	(91)	(78)
Cash flow hedges:				
– Fair value gain/(loss) recognised on effective hedges in the year		**8,116**	(3,941)	(10,075)
– Fair value (gain)/loss transferred to profit or loss in the year		**(607)**	9,549	(2,343)
– Related income tax (expense)/credit		**(1,427)**	(1,065)	2,376
		9,055	7,471	(10,647)
Items that will not be reclassified to profit or loss				
Equity investments:				
– Fair value gain/(loss) in the year	18	**53**	(6,994)	(23,764)
– Related income tax credit		**–**	–	1,015
Remeasurements of net defined benefit liability:				
– Remeasurements recognised in the year	24	**235**	(666)	–
– Related income tax (expense)/credit		**(46)**	146	–
		242	(7,514)	(22,749)
Other comprehensive income/(loss) for the year		**9,297**	(43)	(33,396)
Total comprehensive income for the year		**93,792**	301,409	106,403

Consolidated balance sheet

As at 31 December

	Note	2020 US$000	2019 US$000
Assets			
Cash and cash equivalents	11	**523,880**	1,024,544
Trade and other receivables	12	**120,629**	134,079
Other current financial assets	19	**8,476**	1,056
Inventories	13	**159,393**	122,624
Income tax receivables		**13,689**	1,052
Other current assets	20	**18,006**	22,532
Total current assets		**844,073**	1,305,887
Goodwill	14	**756,838**	482,134
Other intangible assets	15	**390,990**	272,068
Property, plant and equipment – owned	16	**60,728**	61,138
Property, plant and equipment – leased	17	**40,602**	41,423
Investments	18	**3,533**	3,110
Other non-current financial assets	19	**2,263**	2,202
Other non-current assets	20	**3,701**	780
Deferred tax assets	9	**18,790**	8,242
Total non-current assets		**1,277,445**	871,097
Total assets		**2,121,518**	2,176,984
Liabilities and equity			
Trade and other payables	21	**151,847**	104,620
Lease liabilities	17	**11,767**	8,972
Other current financial liabilities	22	**49,899**	124,373
Provisions	23	**6,945**	4,162
Income taxes payable		**8,167**	18,491
Other current liabilities	25	**115,128**	112,804
Total current liabilities		**343,753**	373,422
Lease liabilities	17	**32,357**	34,072
Other non-current financial liabilities	22	**25,379**	80,963
Provisions	23	**3,590**	3,102
Net defined benefit liability	24	**6**	1,727
Deferred tax liabilities	9	**12,142**	23,070
Other non-current liabilities	25	**49,763**	88,044
Total non-current liabilities		**123,237**	230,978
Ordinary shares	26	**14,253**	14,204
Share premium account		**403,660**	403,660
Retained earnings		**1,454,908**	1,451,582
Other reserves	26	**(216,402)**	(274,729)
Dialog shares held by employee benefit trusts	28	**(1,891)**	(22,133)
Total equity		**1,654,528**	1,572,584
Total liabilities and equity		**2,121,518**	2,176,984

These financial statements were approved by the Board of Directors on 3 March 2021 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Consolidated statement of cash flows

Year ended 31 December

	Note	**2020 US$000**	2019 US$000	2018 US$000
Cash flow from operating activities				
Net income		**84,495**	301,452	139,799
Non-cash items within net income:				
– Amortisation of intangible assets	15	**60,903**	52,233	49,130
– Depreciation of property, plant and equipment	16, 17	**35,544**	39,611	31,455
– Impairment of non-current assets	14	**44,900**	3,130	–
– Increase in inventory reserve, net		**3,743**	11,133	5,643
– Share-based compensation expense		**58,630**	46,539	41,153
– Deferred licence revenue	4	**(35,707)**	(18,484)	–
– Gain on transfer of design centre businesses	4	**–**	(15,898)	–
– Other non-cash items		**(10,335)**	2,812	6,590
Effective IP licence fee received	4	**–**	136,400	–
Interest expense/(income), net		**2,087**	(10,641)	(6,749)
Income tax expense		**32,408**	83,586	55,281
Cash generated from operations before changes in working capital		**276,668**	631,873	322,302
Changes in working capital:				
– Increase in trade and other receivables		**(74,910)**	(95,189)	(36,310)
– (Increase)/decrease in inventories		**(3,656)**	23,196	13,615
– Decrease/(increase) in prepaid expenses		**3,108**	(893)	56
– Increase/(decrease) in trade and other payables		**3,957**	(23,107)	15,968
– Increase/(decrease) in provisions		**1,747**	(1,661)	3,089
– Change in other assets and liabilities		**(2,899)**	15,449	2,852
Cash generated from operations		**204,015**	549,668	321,572
Interest paid		**(3,906)**	(4,322)	(530)
Interest received		**7,743**	21,638	8,714
Income taxes paid		**(65,609)**	(70,519)	(41,107)
Cash inflow from operating activities		**142,243**	496,465	288,649
Cash flows from investing activities				
Purchase of property, plant and equipment		**(19,410)**	(12,129)	(26,145)
Purchase of intangible assets		**(7,256)**	(8,437)	(6,197)
Payments for capitalised development costs		**(13,746)**	(15,384)	(24,771)
Purchase of businesses, net of acquired cash	3	**(407,865)**	(139,806)	(12,840)
Proceeds from transfer of design centres, net of cash disposed	4	**–**	27,814	–
Cash outflow from investing activities		**(448,277)**	(147,942)	(69,953)
Cash flows from financing activities				
Receipt of prepayment from Apple	4	–	288,584	–
Cash settlements of prepayment from Apple	4	**(12,917)**	(20,345)	–
Purchase of own shares into treasury	27	**(80,500)**	(251,774)	–
Settlement of currency hedges on share buyback obligation		**1,503**	(11,625)	–
Settlement of Adesto convertible notes	3	**(92,114)**	–	–
Capital element of lease payments	17	**(9,734)**	(11,086)	(1,651)
Repayment of bank loans		**(697)**	(156)	–
Purchase of shares by employee benefit trusts		**–**	–	(21,786)
Sale of shares by employee benefit trusts		**291**	3,362	3,617
Cash outflow from financing activities		**(194,168)**	(3,040)	(19,820)
Net cash (outflow)/inflow during the year		**(500,202)**	345,483	198,876
Cash and cash equivalents at the beginning of the year		**1,024,544**	677,848	479,295
Currency translation differences		**(462)**	1,213	(323)
Cash and cash equivalents at the end of the year	11	**523,880**	1,024,544	677,848

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 26) US$000	Dialog shares held by employee benefit trusts US$000	Total US$000
As at 31 December 2017	14,204	403,660	915,482	9,977	(902)	1,342,421
Adjustment on initial application of IFRS 15	–	–	1,541	–	–	1,541
Adjusted balance as at 1 January 2018	14,204	403,660	917,023	9,977	(902)	1,343,962
Year ended 31 December 2018						
Net income	–	–	139,799	–	–	139,799
Other comprehensive loss	–	–	–	(33,396)	–	(33,396)
Total comprehensive income/(loss)	–	–	139,799	(33,396)	–	106,403
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
– Share-based compensation, including tax credit of US$345	–	–	41,498	–	–	41,498
As at 31 December 2018	14,204	403,660	930,576	(23,419)	(22,514)	1,302,507
Adjustment on initial application of IFRS 16	–	–	40	–	–	40
Adjusted balance as at 1 January 2019	14,204	403,660	930,616	(23,419)	(22,514)	1,302,547
Year ended 31 December 2019						
Net income	–	–	301,452	–	–	301,452
Other comprehensive (loss)/income	–	–	(520)	477	–	(43)
Total comprehensive income	–	–	300,932	477	–	301,409
Other changes in equity:						
– Purchase of own shares into treasury	–	–	(4,431)	(251,787)	–	(256,218)
– Share buyback obligation	–	–	169,505	–	–	169,505
– Sale of shares by employee benefit trusts	–	–	2,981	–	381	3,362
– Share-based compensation, including tax credit of US$5,440	–	–	51,979	–	–	51,979
As at 31 December 2019	14,204	403,660	1,451,582	(274,729)	(22,133)	1,572,584
Year ended 31 December 2020						
Net income	**–**	**–**	**84,495**	**–**	**–**	**84,495**
Other comprehensive income	**–**	**–**	**189**	**9,108**	**–**	**9,297**
Total comprehensive income	**–**	**–**	**84,684**	**9,108**	**–**	**93,792**
Other changes in equity:						
– Purchase of own shares into treasury	**–**	**–**	**1,374**	**(80,500)**	**–**	**(79,126)**
– Share buyback obligation	**–**	**–**	**908**	**–**	**–**	**908**
– Cancellation of treasury shares	**(449)**	**–**	**(129,270)**	**129,719**	**–**	**–**
– Shares issued to employee benefit trust	**498**	**–**	**–**	**–**	**(498)**	**–**
– Sale of shares by employee benefit trusts	**–**	**–**	**(20,449)**	**–**	**20,740**	**291**
– Share-based consideration	**–**	**–**	**5,096**	**–**	**–**	**5,096**
– Share-based compensation, including tax credit of US$2,353	**–**	**–**	**60,983**	**–**	**–**	**60,983**
As at 31 December 2020	**14,253**	**403,660**	**1,454,908**	**(216,402)**	**(1,891)**	**1,654,528**

Notes to the consolidated financial statements

For the year ended 31 December 2020

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 mixed-signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, backlighting and LED solid state lighting, industrial and automotive applications. Following a segment reorganisation that became effective during the fourth quarter of 2020, Dialog has four reporting segments: Custom Mixed Signal; Advanced Mixed Signal; Connectivity & Audio; and Industrial IoT. Segment information is presented in note 32.

Registered office
The Company's registered office is at Tower Bridge House, St Katharine's Way, London E1W 1AA, United Kingdom.

Statement of compliance
The consolidated financial statements of the Company and its subsidiaries (together, "Dialog" or "the Group") set out on pages 122 to 182 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union, the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, the disclosure requirements of the German Securities Trading Act ("WpHG") and those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS and therefore comply with Article 4 of the IAS Regulation. The consolidated financial statements also comply with IFRS as issued by the International Accounting Standards Board ("IASB").

Basis of preparation
The consolidated financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments, derivative financial instruments and contingent consideration are measured 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 30.

The Group's significant accounting policies are set out in note 2.

Going concern
At the time of approving the financial statements, the Directors are required to form a judgement as to whether the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. In forming their judgement, the Directors consider the Group's current financial position, its medium-term plan and its budget for the next financial year, and the principal risks and uncertainties that it faces. The Directors have also considered the proposed acquisition of the Company by Renesas Electronics Corporation that was announced on 8 February 2021.

At the end of 2020, the Group held cash and cash equivalents of US$524 million and currently has an undrawn committed revolving credit facility of US$150 million. Based on the Group's most recent plan and budget, the Directors expect that the Group will continue to be cash generative over the next 12 months, even in the downside scenario that they considered regarding the impact of the Covid-19 pandemic. For these reasons, the Directors have adopted the going concern basis in preparing the consolidated financial statements.

Use of estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates and assumptions and affect the Group's results in future periods.

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 in thousands ("US$000"), except where stated otherwise.

Approval of the consolidated financial statements
The consolidated financial statements for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 3 March 2021.

Company financial statements
Separate financial statements for the Company are set out on pages 183 to 189.

Relevant accounting standards adopted during the year
Covid-19-Related Rent Concessions **(Amendments to IFRS 16)**
In May 2020, the IASB published an amendment to IFRS 16 *Leases* to make it easier for lessees to account for rent concessions, such as rent holidays and temporary rent reductions, that are granted as a direct consequence of the Covid-19 pandemic. The amendment exempts lessees from having to determine whether such Covid-19-related rent concessions are lease modifications and allows lessees to account for them as if they were not lease modifications. It applies to Covid-19-related rent concessions that reduce rent payments due on or before 30 June 2021. We applied the amendment with effect from 1 January 2020 and recognised a resulting credit of US$252 for rent concessions in profit or loss during 2020.

Notes to the consolidated financial statements continued

1. Background continued

Relevant accounting standards adopted during the year continued

Definition of a Business **(Amendments to IFRS 3)**
In October 2018, the IASB published amendments to IFRS 3 *Business Combinations* aimed at resolving the difficulties that can arise when an entity determines whether it has acquired a business or a group of assets. In summary, the amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs and narrow the definition of outputs by focusing on goods and services provided to customers. We adopted the amendments with effect for acquisitions completed 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 adopted the amendments with effect from 1 January 2020 and they have not yet caused us to reach a different conclusion as to whether an item is or is not material.

Interest Rate Benchmark Reform - Phase 1 **(Amendments to IFRS 9 and IFRS 7)**
Interbank offered rates ("IBORs") are benchmark interest rates, such as LIBOR, and EURIBOR, that represent the cost of obtaining unsecured funding, in a particular combination of currency and maturity and in a particular interbank term lending market. Work is underway in multiple jurisdictions to transition to alternative benchmark interest rates.

In September 2019, the IASB published amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* to clarify that during the transition period entities should continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. We adopted the Phase 1 amendments with effect from 1 January 2020 and will make reference to them if we engage in interest rate hedging activities in a market in which existing benchmark interest rates have not been replaced.

Consequences of Brexit for the consolidated financial statements

On 31 January 2020, the UK ceased to be a member of the European Union and entered a transition period that ended on 31 December 2020.

Since 2005, Dialog has prepared its consolidated financial statements in accordance with IFRS as adopted for use in the European Union ("EU-adopted IFRS"). Following the end of the transition period, the UK Government introduced its own process for endorsing IFRS for use in the UK ("UK-adopted IFRS"). For financial periods beginning on or after 1 January 2021, Dialog will prepare its consolidated financial statements for filing in the UK in accordance with UK-adopted IFRS.

At the end of the transition period, the UK adopted IFRS that had been adopted for use in the EU. IFRS that had not been endorsed by the EU at the end of the transition period will be subject to the UK endorsement process.

Relevant accounting standards issued by the IASB but not yet adopted

Classification of Liabilities as Current or Non-Current **(Amendments to IAS 1)**
In January 2020, the IASB published amendments to IAS 1 *Presentation of Financial Statements* to clarify that the classification of liabilities with an uncertain settlement date as current or non-current is based on rights that exist at the end of the reporting period.

In July 2020, the IASB deferred the effective date of the amendments by one year. Subject to their endorsement for use in the UK, the amendments will now be effective for annual periods beginning on or after 1 January 2023. We do not consider that the amendments would have changed the classification of any liabilities that were recognised as at 31 December 2020.

Onerous Contracts – Cost of Fulfilling a Contract **(Amendments to IAS 37)**
In May 2020, the IASB published amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* that specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, which can be either the incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. Subject to their endorsement for use in the UK, the amendments will be effective for annual periods beginning on or after 1 January 2022. We do not currently have any material provisions for onerous contracts.

Interest Rate Benchmark Reform – Phase 2 **(Amendments to IFRS 9, IFRS 7 and IFRS 16)**
In August 2020, the IASB published amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* and IFRS 16 *Leases* that address the issues that might affect financial reporting when an existing interest rate benchmark is actually replaced. These amendments introduce a practical expedient for modifications required by IBOR reform, clarify that hedge accounting is not discontinued solely because of the reform, and introduce disclosures about the risks to an entity arising from IBOR reform and how the entity is managing those risks. The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021. We are not currently exposed to significant risks arising from IBOR reform.

Definition of Accounting Estimates **(Amendments to IAS 8)**
In February 2021, the IASB published amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* that introduce a definition of an accounting estimate and clarify that a change in an accounting estimate that results from new information or new developments is not the correction of an error. Subject to their endorsement for use in the UK, the amendments will be effective for annual periods beginning on or after 1 January 2023. We do not expect that the amendments will have any practical impact on our accounting for estimates.

2. Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the results, cash flows and assets and liabilities of the Company, 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 2020 are set out on page 204.

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.

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.

Associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in financial and operating policy decisions but not to control or jointly control them. Significant influence generally exists where the Company holds, directly or indirectly through one or more of its subsidiaries, more than 20% and less than 50% of the shareholders' voting rights.

Associates are accounted for using the equity method, whereby the Group's investment is initially recognised at cost and the carrying amount is increased or decreased to reflect the Group's share of the profit or loss of the associate. Losses of an associate in excess of the Group's interest in the entity are not recognised, except to the extent that the Group has incurred obligations or made payments on behalf of the associate.

Foreign currency translation

Each entity within the Group has a functional currency, which is normally the currency in which the entity primarily generates and expends cash. The functional currency of the Company and its principal subsidiaries is the US dollar.

At entity level, a foreign currency is a currency other than the entity's functional currency. Sales, purchases and other transactions denominated in foreign currencies are recorded in the entity's functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Currency translation differences arising at entity level are recognised in profit or loss.

The Group's presentation currency is the US dollar. Foreign operations are therefore those of the Company's subsidiaries and associates whose functional currency is not the US dollar.

On consolidation, the results of foreign operations are translated into US dollars at the average exchange rate for the period and their assets and liabilities are translated into US dollars at the exchange rate ruling at the balance sheet date.

Currency translation differences arising on consolidation are recognised in other comprehensive income and taken to the currency translation reserve. In the event that a foreign operation is sold, the related cumulative currency translation difference recognised in other comprehensive income is reclassified from equity to profit or loss and is included in calculating the gain or loss on disposal of the foreign operation.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Revenue recognition

We generate revenue principally through the sale of products that we have developed. Revenue is also generated from product and IP development services and from licence fees and royalties for the use of our IP.

Sales of products

Sales of products are made direct to end-customers and 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.

Most of our distributor customers are entitled to limited rights of return, referred to as stock rotation rights. Typically, returns are allowed twice-yearly for a credit of up to a percentage of the value of products shipped by us to the distributor during the preceding six-month period. Revenue on sales to distributors is recognised after making an allowance for stock rotation claims that is estimated based on stock rotation credits granted at the distributor level during the preceding six-month period.

As permitted by IFRS 15 *Revenue from Contracts with Customers*, 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.

Product and IP development services

Our Industrial IoT business provides product and IP development services to customers. Revenue from these services is recognised by reference to the stage of completion of the contract, measured by reference to the costs incurred for work performed to date as a percentage of the estimated total contract costs. If it becomes probable that a contract will be loss making, immediate provision is made for the expected loss.

Licensed intellectual property

Where a licence provides the customer with the "right to use" the related IP as it exists at a point in time, the licence revenue is recognised when the licence is granted. Where a licence provides the customer with a "right to access" the related IP as it develops during the licence period, the licence revenue is recognised over the licence period.

Sales or usage-based royalties are recognised when the subsequent sale or usage occurs.

Research and development 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.

Contributions to product development costs

We typically develop ASICs to a customer's specification wholly at our own risk but, in some cases, the customer agrees to make a contribution towards our product development costs.

Contributions to product development costs are recognised when we have the right to invoice the customer but only to the extent of the development costs incurred that are expected to be recoverable.

Contributions to product development costs are presented as other operating income.

2. Significant accounting policies continued

Government grants

Government grants are not recognised until there is reasonable assurance that Dialog will comply with the conditions attached 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
Acquired customer-related assets	2 to 15 years
Software, licences and other	1 to 20 years
Patents	1 to 10 years
Product development assets	1 to 5 years

Patents are typically granted for a period of 20 years but they are amortised over the period during which the Group expects to benefit from them, which is typically ten years.

Estimated useful lives are regularly reviewed and the effect of any change in estimate is accounted for on a prospective basis.

Property, plant and equipment – owned

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price of the asset (including non-refundable purchase taxes) and any costs directly attributable to bringing the asset to the location and condition necessary to enable its intended use, or, in the case of an asset acquired in a business combination, is its fair value at the acquisition date. Leasehold improvements include the estimated cost of any obligation to restore the leased property to its original condition at the end of the lease.

Costs of replacing a significant part of an asset are included in the cost of the asset but routine repairs and maintenance costs are recognised in profit or loss when they are incurred.

Items of property, plant and equipment are depreciated on a straight-line basis so as to charge their cost, less their estimated residual value, if any, to profit or loss over their estimated useful lives as follows:

	Useful life
Buildings	33 & 50 years
Test equipment	2 to 10 years
Leasehold improvements	Shorter of useful life or lease term
Office and other equipment	1 to 5 years
Office furniture and fittings	5 to 15 years

Estimated residual values and useful lives are regularly reviewed and the effect of any change in estimate is accounted for on a prospective basis.

Assets that are under construction are not depreciated.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Property, plant and equipment – leased

We adopted IFRS 16 *Leases* with effect from 1 January 2019 using the modified retrospective approach, whereby information presented for prior periods was not restated.

Following the adoption of IFRS 16, property, plant and equipment that we control as lessee is represented by a right-of-use asset and an associated lease liability except where the lease is short-term or the underlying asset is of low value.

On the commencement date of a lease, the lease liability is measured at the present value of the future lease payments discounted using the interest rate implicit in the lease, if that rate can be readily determined, or using the lessee entity's incremental borrowing rate. Future lease payments comprise fixed payments, less any lease incentives receivable, variable payments that depend on an index or rate and, where applicable, amounts expected to be paid under a residual value guarantee, a purchase option or by way of termination penalties.

Variable lease payments that do not depend on an index or rate are not reflected in the lease liability and are recognised in profit or loss in the period in which the event that triggers those payments occurs.

After the commencement date, the carrying amount of the lease liability is increased to reflect interest on the lease liability, reduced to reflect lease payments made and remeasured to reflect reassessments of the future lease payments or certain lease modifications.

Interest on the lease liability is recognised in profit or loss (within interest expense).

On the commencement date of a lease, the right-of-use asset is measured at cost which comprises the initial amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, and any initial direct costs that we incur in relation to the lease.

After the commencement date, the right-of-use asset is measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated so as to charge their cost to profit or loss (in arriving at operating profit), usually on a straight-line basis over the lease term.

As permitted by IFRS 16, we elected not to recognise right-of-use assets and lease liabilities in respect of short-term leases (leases that have a lease term of 12 months or less) or leases involving an underlying asset of low value (an asset with a value when new of less than US$5 or foreign currency equivalent). We recognise the lease payments for those leases as an expense in profit or loss (in arriving at operating profit) on a straight-line basis over the lease term.

Prior to adopting IFRS 16, leases that confer rights and obligations similar to those that attach to owned assets were classified as finance leases. All other leases were classified as operating leases.

Assets held under finance leases were recognised as assets within property, plant and equipment, initially measured at the fair value of the leased asset or, if lower, the present value of the minimum lease payments, and a corresponding liability was recognised. Subsequently, the assets were depreciated over the shorter of the expected useful life of the asset or the lease term. At inception of the lease, the lease payments were apportioned between a capital element and an interest element so as to achieve a constant periodic rate of interest on the outstanding liability. Subsequently, the interest element was recognised as an expense in profit or loss while the capital element was applied to reduce the outstanding liability over the lease term.

Operating lease payments, net of any incentives receivable, were recognised in profit or loss on a straight-line basis over the lease term.

Impairment of tangible and intangible assets

Goodwill, other intangible assets and property, plant and equipment are tested for impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. Additionally, goodwill and intangible assets still under development are subject to an annual impairment test.

An asset is impaired to the extent that its carrying amount exceeds its recoverable amount. An asset's recoverable amount represents the higher of the asset's value in use and its fair value less costs to sell. An asset's value in use represents the present value of the future cash flows expected to be derived from the asset in its current use and condition. Fair value less cost to sell is the amount expected to be obtainable from the sale of the asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs. An asset's CGU is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill does not generate cash flows independently of other assets and is, therefore, tested for impairment at the level of the CGU or group of CGUs that are expected to benefit from the synergies of the related business combination.

Value in use is based on estimates of pre-tax cash flows in the periods covered by budgets and/or plans that have been approved by the Board. Such cash flow estimates are discounted at a pre-tax discount rate that reflects the risks specific to the asset or the CGU or group of CGUs to which the asset belongs.

Impairment losses are recognised in profit or loss.

Impairment losses recognised in previous periods for assets other than goodwill are reversed if there has been a change in the estimates used to determine the asset's recoverable amount, but only to the extent that the carrying amount of the asset does not exceed its carrying amount had no impairment been recognised in previous periods. Impairment losses in respect of goodwill are not reversed.

2. Significant accounting policies continued

Financial instruments

Trade and other receivables
Trade receivables represent the invoiced amount of sales of goods to customers for which payment has not been received, less an allowance for doubtful accounts. As permitted by IFRS 9 *Financial Instruments*, we recognise an allowance for credit losses in respect of trade receivables from initial recognition measured as the amount of the lifetime expected credit losses.

When a trade receivable is determined to be uncollectable it is written off, firstly against any allowance made and then directly to profit or loss. Subsequent recoveries are credited to profit or loss.

Trade receivables sold under receivables financing facilities are derecognised from the balance sheet because the financial institutions concerned assume the credit risk associated with them. Retentions held by the financial institutions are recognised as other receivables.

Cash and cash equivalents
Cash and cash equivalents include cash at bank, cash available on demand from receivables financing facilities, investments in money market funds and bank deposits with an original maturity of three months or less. Cash held on deposit is measured at amortised cost. Investments in money market funds are measured at fair value through profit or loss because the return on the funds does not involve solely payments of principal and interest.

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.

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. We have made this election in respect of our investments in the common shares of Energous Corporation and Semitech Semiconductor Pty Ltd because we hold them for strategic reasons and therefore do not consider that it is appropriate to recognise short-term fluctuations in their fair values in profit or loss.

Trade and other payables
Trade payables represent the amount of invoices received from suppliers for purchases of goods and services for which payment has not been made. Long-term payables are discounted where the effect is material.

Bank and other loans
Bank and other loans are initially measured at fair value plus transaction costs, if any. Such loans are subsequently measured at amortised cost using the effective interest method.

Facility arrangement costs are amortised over the term of the facility.

Derivative financial instruments
We use derivative financial instruments to reduce the Group's exposure to currency exchange rate movements and hold equity options and warrants in relation to certain of its strategic investments. We do not hold or issue derivatives for speculative purposes.

All derivative financial instruments are recognised as assets and liabilities measured at fair value. Unless a derivative is in a designated and effective cash flow hedging relationship, all fair value gains and losses are recognised in profit or loss. Where the fair value of a derivative on initial recognition differs from the transaction price, if any, the difference is recognised immediately in profit or loss only if the fair value is evidenced by a quoted price in an active market or is based on a valuation technique that uses only data from observable markets.

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount presented in the balance sheet where there is a currently enforceable legal right to offset the recognised amounts and management intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Inventories
Inventories comprise raw materials, work in progress and finished goods.

Inventories are stated at the lower of cost and net realisable value, with due allowance for any excess, defective or obsolete items.

Cost is determined using the first-in, first-out ("FIFO") method. Cost of finished goods and work in progress includes materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price, less estimated costs of completion and estimated selling, marketing and distribution costs.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Contract balances

Contract assets represent the amount of revenue recognised on product and IP development services contracts that has not yet been billed to the customer and therefore transferred to trade and other receivables. Contract assets are included within other assets.

Contract liabilities represent amounts billed to customers in excess of revenue recognised on product and IP development services contracts. Contract liabilities are included within other liabilities.

Hedge accounting

The Group uses forward currency contracts to hedge its exposure to exchange rate movements on forecast operating expenses denominated in foreign currencies, principally the Euro and the pound sterling. Where possible, these contracts are designated as hedging instruments in cash flow hedge relationships. Changes in the fair value of such hedging instruments are recognised in other comprehensive income to the extent that the hedges are effective. Ineffective portions are recognised in profit or loss immediately. Cumulative fair value gains and losses recognised in other comprehensive income are reclassified from equity to profit or loss when the forecast cash flow occurs.

Hedge accounting is discontinued if we revoke the hedge relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. If the hedging instrument expires or is sold, terminated or exercised, or if the hedge relationship no longer meets the conditions for hedge accounting, the cumulative fair value gain or loss remains in equity until the forecast cash flow occurs. If the hedged forecast cash flow is no longer expected to occur, the cumulative fair value gain or loss is reclassified from equity to profit or loss immediately.

Income taxes

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period. Taxable profit differs from accounting profit because it excludes income or expenses that are recognised in the period for accounting purposes but are either not taxable or not deductible for tax purposes or are taxable or deductible in earlier or subsequent periods. Current tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is tax expected to be payable or recoverable on temporary differences between the carrying amount of an asset or liability in the financial statements and its tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available in the future against which they can be utilised.

Deferred tax assets and liabilities are not recognised in respect of temporary differences arising from the initial recognition of goodwill or from the initial recognition of other assets or liabilities in a transaction other than a business combination that affects neither accounting profit nor taxable profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Where there is uncertainty concerning the tax treatment of an item or group of items, the amount of current and deferred tax recognised is based on management's expectation of the likely outcome of the examination of the uncertain tax treatment by the relevant tax authorities. Uncertain tax treatments are reviewed regularly and current and deferred tax amounts are adjusted to reflect changes in facts and circumstances, such as the expiry of limitation periods for assessing tax, administrative guidance given by the tax authorities and court decisions.

Current tax assets and liabilities are offset when there is a legally enforceable right to set off the amounts and management intends to settle on a net basis. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current tax and deferred tax is recognised in profit or loss unless it relates to an item that is recognised in the same or a different period outside profit or loss, in which case the related tax is also recognised outside profit or loss, either in other comprehensive income or directly in equity.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (more likely than not) that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for product warranty claims are established when the sale is recognised based on historical trends of warranty costs as a percentage of product revenues.

Provisions for the dilapidation of leasehold property represent the estimated cost of restoring the property to its original condition at the end of the lease.

Provisions for employee termination benefits are recognised when the employees who will be affected have been made aware of the Group's plans and can determine the nature and amount of the benefits they will receive when their employment is terminated.

Provisions are discounted if the effect of the time value of money is material.

2. Significant accounting policies continued

Post-retirement benefit plans

Defined contribution plans
Contributions to defined contribution and state-funded pension plans are recognised in profit or loss in the period to which the contributions relate.

Defined benefit plan
As described in note 24, the Group has one defined benefit pension plan in South Korea.

A net defined benefit liability is recognised in respect of the plan that represents the excess of the present value of the benefit obligation over the fair value of the plan assets. The benefit obligation is measured on an actuarial basis using the projected unit credit method and is discounted using a discount rate derived from high-quality corporate bonds with a similar duration as the benefit obligation. The plan assets are measured at their fair value.

We recognise the current service cost and net interest on the net defined benefit liability in profit or loss. The current service cost represents the increase in the present value of the defined benefit obligation resulting from employee service in the period. Net interest on the net defined benefit liability is determined by multiplying the net defined benefit liability by the discount rate applied to the benefit obligation, both as determined at the beginning of each year, but taking into account contributions and benefit payments during the period.

We recognise the effect of remeasurements of the net defined benefit liability in other comprehensive income. Remeasurements comprise actuarial gains and losses arising due to changes in actuarial assumptions and experience adjustments and the difference between the return on plan assets and the component of the net interest on the net defined benefit liability recognised in profit or loss that is attributable to the plan assets.

Share-based compensation
As described in note 28, the Company operates share-based compensation plans under which it grants options and other awards over its ordinary shares to employees of its subsidiaries. Awards granted under the existing plans are classified as equity-settled awards. We recognise a compensation expense that is based on the fair value of the awards measured at the grant date using the Black-Scholes option pricing formula or a Monte Carlo valuation model. Fair value is not subsequently remeasured unless relevant conditions attaching to the awards are modified.

Fair value reflects any market performance conditions and all non-vesting conditions. Adjustments are made to the compensation expense to reflect actual and expected forfeitures due to failure to satisfy service conditions or non-market performance conditions.

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.

Notes to the consolidated financial statements continued

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.

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. During 2020, we incurred product development costs of US$345,231 (2019: US$334,684), of which US$13,746 (2019: US$15,384) was capitalised and US$5,624 (2019: US$5,750) was offset by R&D expenditure credits.

Uncertain tax treatments

Uncertainty may exist concerning the tax treatment of a specific item or group of items because of, for example, uncertainty as to the meaning of tax law or to the applicability of tax law to a particular transaction or circumstance, the determination of appropriate arm's length pricing in accordance with OECD transfer pricing principles or because the amount of current and deferred tax depends on the results of an ongoing or future examination of previously filed tax returns by the tax authorities.

Where such an uncertainty exists, management is required to exercise its judgement in forming its expectation as to the likely outcome of the examination of the uncertain tax treatment by the relevant tax authorities. Due to the complexity of tax laws and their interpretation, the amount ultimately agreed with the tax authorities may differ materially from the amount of current and deferred tax recognised in the consolidated financial statements. Accordingly, the resolution of uncertain tax treatments in future periods may give rise to adjustments to the amounts of current and deferred tax assets and liabilities that may have a material consequential effect on the income tax expense recognised in future periods.

Key sources of estimation uncertainty

Key sources of estimation uncertainty are those that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Recoverability of goodwill

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 segment 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. Goodwill impairment tests conducted in 2020 measured the recoverable amount on a value in use basis. Value in use represents the present value of the future cash flows expected to be generated by an operating segment to which goodwill is allocated and its calculation requires management to estimate those cash flows and apply a suitable discount rate to them.

As at 31 December 2020, the carrying amount of goodwill was US$756,838. With the exception of Industrial IoT, the recoverable amount of each operating segment to which goodwill is allocated was comfortably in excess of its carrying amount. Our annual impairment tests performed during November 2020 showed that Industrial IoT's recoverable amount exceeded its carrying amount by US$105,534. During the third quarter of 2020, we recognised an impairment loss of US$44,900 in relation to the goodwill recognised on the acquisition of Adesto that is allocated to Industrial IoT. A further impairment loss may be recognised within the next financial year if Industrial IoT's actual cash flows in 2021 differ significantly from management's estimates and/or there is a significant reduction in the forecast cash flows beyond 2021, or if market conditions were to cause a significant increase in the discount rate applied to those cash flows.

Further information about the goodwill impairment tests conducted during 2020 and the sensitivity of the value in use of Industrial IoT to changes in the key underlying assumptions is presented in note 14.

3. Business combinations

Year ended 31 December 2020

Acquisition of Adesto

On 29 June 2020, we completed the acquisition of 100% of the equity interests in Adesto Technologies Corporation ("Adesto") at a price of US$12.55 per share in cash.

Adesto is a leading provider of innovative non-volatile memory, custom ICs and embedded systems for the IIoT market. Headquartered in Santa Clara, California, and listed on NASDAQ, Adesto had approximately 270 employees when acquired and an established portfolio of industrial solutions for smart building automation that complements our range of manufacturing automation products. Adesto's solutions are sold across the industrial, consumer, medical, and communications markets.

On completion, we paid US$397,215 in cash for Adesto's outstanding issued common shares and US$8,447 in cash to settle Adesto's 'in the money' outstanding vested employee share awards.

On completion, Adesto's "in the money" outstanding unvested employee share awards were converted into either replacement Dialog restricted share units or the right to receive future cash payments, which are generally subject to the vesting schedule and other terms (including a service condition) that governed the awards that they replaced. We determined that the acquisition date fair value of the replacement awards was US$26,019 (net of an allowance of US$1,664 for expected forfeitures), of which US$11,225 was attributable to employee service rendered before the acquisition date and therefore represented deferred consideration. We are recognising the balance of the acquisition date fair value of the replacement awards of US$14,794 as an employee compensation expense over the remaining vesting periods of the awards.

During 2020, we paid US$5,944 in settlement of the consideration element of the deferred cash rights that reflected accelerated vesting of those rights in accordance with employee change of control arrangements. We recognised a credit of US$25 to profit or loss on the forfeiture of the consideration element of the deferred cash rights. At the end of 2020, the remaining liability for the deferred consideration was US$151 that is expected to be settled over the period to July 2024.

In September 2019, Adesto issued 4.25% Convertible Notes 2024 ("the Notes"). In the event of a change in control, the indenture governing the Notes gave the noteholders a number of options, of which the most advantageous to them was the option to convert the Notes into a right to receive a cash payment equivalent to the intrinsic value of the Notes on conversion into Adesto's common shares at the transaction price of US$12.55 per share plus a "make whole" amount. All of the noteholders chose the conversion option and the Notes were settled for cash payments totalling US$98,207 during the third quarter of 2020. At the same time as issuing the Notes, Adesto entered into privately negotiated capped call options over its own common shares. Immediately following completion, Adesto terminated the options and shortly afterwards received US$6,093 in cash from the issuers in settlement of the fair value of the options based on the transaction price of US$12.55 per share.

Our provisional allocation of the purchase consideration to the identifiable assets and liabilities of Adesto and goodwill is as follows:

	US$000
Assets acquired	
Cash and cash equivalents	4,749
Trade and other receivables	22,819
Inventories	36,901
Intangible assets	157,943
Property, plant and equipment – owned	4,864
Property, plant and equipment – leased	6,557
Deferred tax assets	4,789
Other assets	15,096
Total assets acquired	**253,718**
Liabilities assumed	
Trade and other payables	43,567
Convertible notes	98,207
Lease liabilities	6,557
Other liabilities	7,374
Total liabilities	**155,705**
Net identifiable assets acquired	**98,013**
Goodwill arising on acquisition	318,875
Consideration	**416,888**

Purchase consideration was satisfied by:	
Cash	405,662
Dialog RSUs	5,096
Deferred cash rights	6,130
Consideration	**416,888**

Notes to the consolidated financial statements continued

3. Business combinations continued

Year ended 31 December 2020 continued

We have not yet completed the purchase price allocation for Adesto, with the following matters being among those outstanding: the recoverability of certain trade receivables; the assessment of certain product warranty claims; and the determination of the amount of Adesto's brought forward tax losses that will be available to be relieved against expected future taxable profits.

Trade and other receivables are stated after deducting US$1,035 for amounts that are not expected to be collected.

Identifiable intangible assets acquired included customer relationships (US$105,099), order backlog (US$532), developed technology (US$44,307), in-process research and development (US$3,222) and trade names (US$4,195).

We recognised provisional goodwill of US$318,875 on the acquisition of Adesto that is principally attributable to the benefits expected to be derived from the development of new technology and product offerings by Adesto in the future, the assembled workforce and the opportunities to cross-sell Adesto's products to Dialog's customers. None of the goodwill is deductible for tax purposes.

During 2020, Adesto contributed US$40,973 to the Group's revenue and a net loss of US$36,420 after taking into account purchase accounting adjustments. If we had acquired Adesto on 1 January 2020, we estimate that the Group's revenue for 2020 would have been US$29,354 higher at US$1,405,278 and its net income US$31,912 lower at US$52,583.

During 2020, we incurred transaction costs of US$9,027 in relation to the acquisition of Adesto (included within general and administrative expenses). We also paid US$7,791 in settlement of certain of Adesto's transaction costs.

Consideration payable for Creative Chips GmbH
We acquired Creative Chips on 31 October 2019.

Purchase price adjustment
On completion of the acquisition, we paid initial consideration of US$83,722 in cash, including US$3,722 in respect of Creative Chips' estimated cash, debt and working capital. In February 2020, we paid a purchase price adjustment of US$84 to the sellers reflecting Creative Chips' actual cash, debt and working capital on completion.

Contingent consideration
Additional consideration of up to US$23,000 in cash was payable contingent on Creative Chips' performance against revenue targets for 2020 and 2021 and the achievement of certain product development targets by the end of 2020. During 2020, it became apparent that one of the product development targets would not be met. We therefore reduced the contingent consideration liability to US$nil and recognised a corresponding credit of US$6,938 in profit or loss (within other operating income).

Consideration payable for FCI Inc.
We acquired FCI on 31 May 2019.

Purchase price adjustment
We paid consideration of US$54,155 in cash for FCI, including US$9,155 in respect of FCI's estimated cash and working capital. During the second quarter of 2020, we reduced our estimate of the purchase price adjustment receivable from the vendor by US$76 and recognised a corresponding increase in the goodwill arising on the acquisition. Since we are now beyond the measurement period, any further change in the purchase price adjustment will be recognised in profit or loss.

Consideration payable for Silego Technology Inc.
We acquired Silego on 1 November 2017.

Deferred consideration
On completion of the acquisition, unvested employee options were converted into deferred cash rights and the fair value of those rights was apportioned between a deferred consideration element and a future compensation element. During 2020, we paid US$924 in settlement of vested deferred consideration and recognised a credit of US$30 to profit or loss in respect of forfeitures. As at 31 December 2020, the remaining liability for the deferred consideration was US$19 that is expected to be settled during the first quarter of 2021.

3. Business combinations continued

Year ended 31 December 2019

Acquisition of Creative Chips GmbH

On 31 October 2019, we completed the acquisition of 100% of the equity interests in Creative Chips GmbH, a supplier of integrated circuits ("ICs") to the Industrial Internet of Things ("IIoT") market.

Headquartered near Frankfurt, Germany, with an additional design centre in Dresden, Germany, Creative Chips has a growing IC business supplying a broad portfolio of industrial ethernet and other mixed-signal products to manufacturers of industrial and building automation systems. Creative Chips has also developed a range of highly complementary standard IO-Link IC products, driving broader connectivity in the Industry 4.0 revolution.

We acquired Creative Chips for US$80,000 on a cash- and debt-free basis. Additional consideration of up to US$23,000 was payable contingent on Creative Chips' performance against revenue targets for 2020 and 2021 and the achievement of certain product development targets by the end of 2020.

On completion, we paid initial consideration of US$83,722 in cash, including US$3,722 in respect of Creative Chips' estimated cash, debt and working capital. We estimated that a purchase price adjustment of US$84 would be payable to the sellers reflecting Creative Chips' actual cash, debt and working capital levels on completion.

We paid US$15,070 of the initial consideration into an escrow fund that was available to settle any valid claims that we may have made in relation to the representations, warranties and indemnities that were provided to us by the sellers.

Additional consideration of up to US$23,000 in cash was payable in two instalments contingent on Creative Chips' performance against revenue targets for 2020 and 2021 and the achievement of certain product development targets by the end of 2020. At the acquisition date, we estimated that the amount of the first instalment payable in early 2021 would be in the range US$nil to US$10,210 and that the amount of the second instalment payable in early 2022 would be in the range US$nil to US$7,475. Using the expected value method, we estimated that the fair value of the contingent consideration at the acquisition date was US$6,517 (net of discounting of US$2,130).

We recognised goodwill of US$32,124 on the acquisition of Creative Chips that was principally attributable to the benefits expected to be derived from the growth potential of the IIoT market, the assembled workforce and the broadening of Dialog's customer base for its own mixed-signal business. None of the goodwill is deductible for tax purposes.

Acquisition of FCI Inc.

On 31 May 2019, we completed the acquisition of 100% of the equity interests in Silicon Motion Technology Corporation's Mobile Communications product group, branded as FCI.

FCI is based near Seoul, South Korea and is a leading supplier of Mobile TV SoCs and Low Power Wi-Fi SoCs. During the fourth quarter of 2018, began ramping production of its first Ultra-Low-Power Wi-Fi SoC that is designed to meet the demands of battery powered IoT devices, providing direct internet connectivity. FCI has been integrated into our Connectivity & Audio operating segment where we are combining its Ultra-Low-Power Wi-Fi technology with our own Bluetooth® low energy chips and modules, principally to enhance our IoT offerings.

We acquired FCI for US$45,000 on a cash- and debt-free basis. On completion, we paid consideration of US$53,884 in cash, including US$8,884 (net of US$271 transaction tax withheld) in respect of FCI's cash, debt and estimated working capital. We paid the withheld transaction tax to the Korean tax authority during the third quarter of 2019.

We paid US$5,400 of the consideration into an escrow fund that is available to settle any valid claims that we may make in relation to the representations, warranties and indemnities that were provided to us by the seller.

We initially estimated that a purchase price adjustment of US$203 would be payable by the seller, reflecting FCI's actual working capital on completion.

We initially recognised goodwill of US$9,929 on the acquisition of FCI that was principally attributable to the benefits expected to be derived from the development of new technology and product offerings by FCI in the future, the assembled workforce and the opportunities to cross-sell FCI's products to Dialog's customers. None of the goodwill is deductible for tax purposes.

Notes to the consolidated financial statements continued

3. Business combinations continued

Year ended 31 December 2019 continued

Assets acquired and liabilities assumed

At their respective acquisition dates, we allocated the purchase consideration to the identifiable assets and liabilities of Creative Chips and FCI and goodwill as follows:

	Creative Chips US$000	FCI US$000	Total US$000
Assets acquired			
Cash and cash equivalents	**7,328**	**9,562**	**16,890**
Trade and other receivables	**2,235**	**1,791**	**4,026**
Inventories	**4,578**	**4,347**	**8,925**
Intangible assets	**51,278**	**34,396**	**85,674**
Property, plant and equipment – owned	**11,993**	**872**	**12,865**
Property, plant and equipment – leased	**–**	**762**	**762**
Other assets	**1,058**	**1,098**	**2,156**
Total assets acquired	**78,470**	**52,828**	**131,298**
Liabilities assumed			
Trade and other payables	**1,260**	**2,385**	**3,645**
Net defined benefit liability	**–**	**771**	**771**
Deferred tax liabilities	**15,974**	**3,597**	**19,571**
Other liabilities	**3,037**	**2,052**	**5,089**
Total liabilities	**20,271**	**8,805**	**29,076**
Net identifiable assets acquired	**58,199**	**44,023**	**102,222**
Goodwill arising on acquisition	**32,124**	**9,929**	**42,053**
Consideration	**90,323**	**53,952**	**144,275**

Purchase consideration was satisfied by:			
Cash paid on completion	**83,722**	**54,155**	**137,877**
Purchase price adjustment	**84**	**(203)**	**(119)**
Initial consideration	**83,806**	**53,952**	**137,758**
Contingent consideration	**6,517**	**–**	**6,517**
Consideration	**90,323**	**53,952**	**144,275**

Trade and other receivables were expected to be collected at their gross contractual amounts.

Identifiable intangible assets acquired comprised customer relationships, developed technology and know-how and trade names.

During 2019, we incurred transaction costs of US$4,040 in relation to the acquisition of Creative Chips and FCI (included within general and administrative expenses).

Consideration payable for Silego Technology Inc.

Deferred consideration

During 2019, we paid US$2,089 in settlement of vested deferred consideration and recognised a credit of US$116 to profit or loss in respect of forfeitures.

Contingent consideration

Additional consideration of up to US$30,400 was payable for the acquisition of Silego in two instalments contingent on Silego's revenues for 2017 and 2018. In February 2019, we paid US$16,730 in settlement of the amount of the second instalment of the contingent consideration that was attributable to the shares and vested options acquired and attributed the balance of that instalment of US$1,144 to the deferred cash rights.

3. Business combinations continued

Year ended 31 December 2018

Consideration payable for Silego Technology Inc.

Purchase price adjustment
On completion of the acquisition of Silego in November 2017, 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. 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 on completion.

Deferred consideration
During 2018, we paid US$2,788 in settlement of vested deferred consideration and recognised a credit of US$204 to profit or loss in respect of forfeitures.

Contingent consideration
Additional consideration of up to US$30,400 was payable for the acquisition of Silego in two instalments contingent on Silego's revenues for 2017 and 2018.

Silego's actual revenue for 2017 confirmed that the first instalment of the contingent consideration of US$10,000 was payable in full. In February 2018, we paid US$9,360 in settlement of the amount of the first instalment that was attributable to the shares and vested options acquired and attributed the balance of that 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.

Cash flows in relation to business combinations

During the years ended 31 December 2020, 2019 and 2018, the net cash outflow on the purchase of businesses was as follows:

	2020 US$000	2019 US$000	2018 US$000
Initial consideration	**405,662**	137,877	–
Purchase price adjustment	**84**	–	–
Deferred consideration	**6,868**	2,089	2,788
Contingent consideration	**–**	16,730	9,360
Consideration paid	**412,614**	156,696	12,840
Cash and cash equivalents acquired	**(4,749)**	(16,890)	–
Cash outflow on purchase of businesses, net of cash acquired	**407,865**	139,806	12,840

Contingent consideration paid in 2019 and 2018 in relation to the acquisition of Silego was below our estimate at the acquisition date and is therefore wholly included within cash flows from investing activities.

Notes to the consolidated financial statements continued

4. Licensing and asset transfer agreement

Summary of the transaction

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

Following receipt of the necessary regulatory approvals and satisfaction of the other closing conditions, the transaction closed on 8 April 2019. Apple paid Dialog US$300,000 in respect of the licensing arrangements and asset transfers.

Pursuant to the agreement, Dialog granted to Apple:

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

Continuation of the effective licence beyond the initial four-year period is contingent on Apple's purchases from Dialog exceeding a specified level in successive preceding 12-month periods.

While there was no transfer of legal ownership of the licensed IP rights, a relatively small number of patents were included in the business assets transferred to Apple.

Following completion of the licensing and asset transfer agreement, Apple made an interest-free prepayment to Dialog of US$300,000. On initial recognition, we measured the prepayment at its fair value of US$288,584. We considered that the resulting "below market element" of the prepayment of US$11,416 represented additional consideration in respect of the licensing arrangements and asset transfers.

We allocated the consideration received in respect of the licensing and asset transfer arrangements as follows:

	US$000
Fair value at closing date	
Licensing arrangements:	
– Perpetual IP licence	**145,750**
– Effective IP licence	**136,400**
Design centre businesses	**29,266**
Total fair value	**311,416**
Consideration	
Cash received	**300,000**
Below market element of prepayment	**11,416**
Total consideration	**311,416**

We measured the fair value of the perpetual IP licence using the excess earnings method, whereby it represented the present value of the estimated future profits that were foregone by Dialog by licensing our existing Power Management IP.

We measured the fair value of the effective IP licence using the relief from royalty method, whereby it represented the present value of the estimated royalties that would have been payable by Apple over the term of the licence for the use of Dialog's IP in developing future generations of their products.

We measured the fair value of the design centre businesses as the present value of their estimated future cash flows based on applicable transfer prices.

We incurred transaction costs totalling US$23,851 in relation to the agreement with Apple, of which US$16,064 was recognised during 2019 and US$7,787 during 2018 (within general and administrative expenses).

4. Licensing and asset transfer agreement continued

Subsequent accounting for the transaction

Licensing arrangements

We consider that the perpetual IP licence granted Apple a "right to use" the related IP. We therefore recognised the consideration of US$145,750 allocated to the perpetual licence as revenue on the closing date.

We consider that the effective IP licence granted Apple a "right to access" the related IP. We are therefore recognising the consideration of US$136,400 allocated to the effective licence as revenue over the four-year period following the closing date. We are amortising the deferred revenue in proportion to the present value of the cash flows that supported the fair value of the effective licence at the closing date. During 2020, we recognised revenue of US$35,707 (2019: US$18,484) in relation to the effective licence.

Transfer of design centre businesses

We recognised a gain of US$15,898 on the transfer of the design centre businesses (within other operating income) that was calculated as follows:

	US$000
Carrying amount of assets transferred	
Cash and cash equivalents	**1,452**
Property, plant and equipment – owned	**13,824**
Property, plant and equipment – leased	**4,287**
Patents	**224**
Other assets	**369**
Total assets transferred	**20,156**
Carrying amount of associated liabilities	
Trade and other payables	**161**
Income tax payables	**119**
Lease liabilities	**4,440**
Provisions	**1,326**
Other liabilities	**1,051**
Total liabilities transferred	**7,097**
Net assets transferred	**13,059**
Currency translation loss transferred from equity	**309**
Gain on transfer of design centre businesses	**15,898**
Consideration received	**29,266**

Prepayment agreement

It was intended that the US$300,000 prepayment would be recouped by Apple against amounts payable to Dialog for the purchase of certain of our products over the three-year period ending on 31 March 2022. Settlement of the prepayment takes place in quarterly instalments in arrears such that US$200,000 was settled in the first year and US$50,000 will be settled in each of the second and third years. During each quarter, Apple settles our invoices on its normal payment terms. If, on a recoupment date, there is a shortfall of invoices outstanding against the scheduled recoupment amount, Apple may require us to settle the shortfall in cash or permit us to carry forward the shortfall for recoupment in the subsequent quarter.

During 2020, quarterly instalments totalling US$125,000 (2019: US$100,000) were settled by recoupment by Apple against invoices outstanding of US$112,083 (2019: US$79,655) and balancing cash payments by Dialog of US$12,917 (2019: US$20,345). As at 31 December 2020, the principal amount of the prepayment outstanding was US$75,000 (2019: US$200,000).

We account for the prepayment as a financial liability measured at amortised cost. As at 31 December 2020, the carrying amount of the liability was US$73,250 (2019: US$194,467). During 2020, we recognised an interest expense of US$3,783 (2019: US$ 5,884) in relation to the prepayment.

As a condition of the prepayment, we put in place a reducing letter of credit in favour of Apple for the outstanding principal amount. During 2020, we incurred related commitment fees of US$738 (2019: US$1,070) (within interest expense).

Notes to the consolidated financial statements continued

5. Operating profit

a) Revenue

Revenue may be analysed as follows:

	2020 US$000	2019 US$000	2018 US$000
Sale of products:			
– Sales direct to end-customers	**896,317**	1,045,774	1,144,371
– Sales to distributors	**437,344**	355,348	296,598
Total sale of products	**1,333,661**	1,401,122	1,440,969
Product and IP development services	**3,355**	–	–
Licensing agreements with Apple:			
– Perpetual licence fee	**–**	145,750	–
– Effective licence fee	**35,707**	18,484	–
Other licence fees and royalties	**3,201**	883	1,169
Total revenue	**1,375,924**	1,566,239	1,442,138

b) Operating expenses

Operating profit is stated after charging/(crediting):

	2020 US$000	2019 US$000	2018 US$000
Cost of inventories included in cost of sales	**658,533**	675,713	702,078
Write-down of inventories	**3,743**	11,133	5,643
Research and development costs expensed as incurred	**332,790**	320,127	331,550
Government incentives (deducted from research and development expenses)	**(6,930)**	(6,577)	(5,241)
Depreciation of property, plant and equipment – owned	**24,785**	27,155	31,455
Depreciation of property, plant and equipment – leased	**10,759**	12,456	–
Loss on disposal of fixed assets	**728**	4,444	923
Amortisation of intangible assets	**60,903**	52,233	49,130
Impairment of intangible assets	**44,900**	3,130	–
Lease rentals	**625**	993	12,450
Transaction costs	**9,145**	20,104	11,346
Costs of integrating acquired businesses	**6,490**	2,434	2,765
Cost-reduction initiatives	**2,406**	–	–

Amortisation of intangible assets was allocated as follows:

	2020 US$000	2019 US$000	2018 US$000
Cost of sales	**550**	550	592
Selling and marketing expenses	**24,803**	16,226	14,231
General and administrative expenses	**2,806**	2,377	2,348
Research and development expenses	**32,744**	33,080	31,959
Total	**60,903**	52,233	49,130

Impairment of intangible assets
During 2020, we recognised an impairment loss of US$44,900 against the provisional goodwill relating to Adesto (see note 14).

Lease rentals
Subsequent to the adoption of IFRS 16 *Leases* at the beginning of 2019, lease rentals represent payments that are not included in the measurement of lease liabilities (see note 17).

Transaction costs
Transaction costs comprise acquisition-related costs (see note 3) and other corporate transaction costs, including, in 2019 and 2018, costs relating to the licensing and asset transfer agreement with Apple (see note 4).

Cost-reduction initiatives
During 2020, we commenced a number of initiatives to reduce the Group's cost base in response to the Covid-19 pandemic and incurred related costs of US$2,406 (principally employee termination benefits).

5. Operating profit continued

c) Other operating (expense)/income

Other operating (expense)/income comprised:

	2020 US$000	2019 US$000	2018 US$000
Contributions to product development costs	**14,828**	21,872	2,298
Impairment of goodwill (note 14)	**(44,900)**	–	–
Change in estimate of contingent consideration (note 3)	**6,938**	–	878
Gain on transfer of design centre businesses	**–**	15,898	–
Rental and other income	**2,539**	1,635	–
Total	**(20,595)**	39,405	3,176

6. Employee information

Employment costs were as follows:

	2020 US$000	2019 US$000	2018 US$000
Wages and salaries	**245,442**	226,428	224,908
Social security costs	**33,756**	32,573	31,051
Share-based compensation	**58,630**	46,539	41,153
Compensation element of deferred cash rights	**7,482**	1,204	1,481
Defined contribution pension costs	**11,549**	11,529	12,609
Defined benefit pension costs	**628**	369	–
Total	**357,487**	318,642	311,202

Pension costs from defined contribution plans include costs for the state funded pension plan in Germany of US$2,514 (2019: US$2,819; 2018: US$3,853).

Compensation of key management personnel is set out in note 33.

The monthly average number of persons employed by the Group (including the Executive Director) during the year, analysed by category, was as follows:

	2020	2019	2018
Research and development	**1,293**	1,211	1,371
Production	**241**	211	184
Sales and marketing	**341**	296	272
Administration	**226**	203	200
Information technology	**63**	60	59
Total	**2,164**	1,981	2,086

7. Auditor's remuneration

Fees payable to the Company's auditor, Deloitte LLP, were as follows:

	2020 US$000	2019 US$000	2018 US$000
Assurance services			
Audit of the parent company and consolidated financial statements	**908**	755	629
Audit of subsidiaries	**899**	530	423
Other assurance services	**277**	158	150
Other services			
Services related to corporate finance transactions	**–**	225	–
Total	**2,084**	1,668	1,202

Notes to the consolidated financial statements continued

8. Finance income/(expense)

a) Interest income

	2020 US$000	2019 US$000	2018 US$000
Interest on bank deposits	**2,425**	9,919	5,619
Interest on money market funds	**3,605**	11,910	4,189
Other interest income	**56**	121	75
Total interest income	**6,086**	21,950	9,883

b) Interest expense

	2020 US$000	2019 US$000	2018 US$000
Interest on lease liabilities	**(2,062)**	(2,956)	–
Interest on income tax payable	**(499)**	–	–
Interest on finance leases and hire purchase contracts	**–**	–	(50)
Facility commitment fees	**(1,192)**	(1,506)	(452)
Amortisation of deferred facility arrangement costs	**(260)**	(295)	(315)
Unwinding of discount on contingent consideration (note 3)	**(272)**	(464)	(2,220)
Unwinding of discount on prepayment (note 4)	**(3,783)**	(5,884)	–
Unwinding of discount on provisions (note 23)	**(58)**	(60)	(70)
Other interest expense	**(47)**	(144)	(27)
Total interest expense	**(8,173)**	(11,309)	(3,134)

c) Other finance expense

	2020 US$000	2019 US$000	2018 US$000
Currency translation loss, net	**(2,620)**	(5,655)	(994)
Fair value loss on Energous warrants (note 18)	**(31)**	(1,434)	(10,853)
Amortisation of gain on initial measurement of Energous warrants (note 18)	**809**	1,584	1,584
Net interest expense on the net defined benefit liability (note 24)	**(43)**	(14)	–
Proceeds from sale of Arctic Sand shares	**–**	63	–
Total other finance expense	**(1,885)**	(5,456)	(10,263)

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:

	2020 US$000	2019 US$000	2018 US$000
Current tax			
United Kingdom	**(25,331)**	(41,617)	(15,896)
Foreign	**(22,424)**	(45,523)	(33,633)
Deferred tax			
United Kingdom	**1,572**	(90)	(321)
Foreign	**13,775**	3,644	(5,431)
Income tax expense	**(32,408)**	(83,586)	(55,281)

	2020 US$000	2019 US$000	2018 US$000
Current tax			
Current income tax charge	**(48,148)**	(88,252)	(45,587)
Adjustments in respect of prior years	**393**	1,112	(3,942)
Deferred tax			
Origination and reversal of temporary differences	**16,321**	4,953	(4,663)
Movement in deferred tax balances following intra-group reorganisation	**(2,054)**	(1,921)	(1,920)
Adjustments in respect of prior years	**1,080**	522	831
Income tax expense	**(32,408)**	(83,586)	(55,281)

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:

	2020 US$000	2019 US$000	2018 US$000
Profit before income taxes	**116,903**	385,038	196,193
Income tax expense at UK corporation tax rate of 19.0% (2019: 19.0%; 2018: 19.0%)	**(22,211)**	(73,157)	(37,277)
Effect of different foreign tax rates	**(310)**	(10,595)	(6,656)
Non-taxable income:			
– Reduction in contingent consideration liability	**1,318**	–	–
– Other non-taxable income	**1,466**	2,493	39
Non-deductible expenses:			
– Impairment of goodwill	**(9,429)**	–	–
– Transaction costs	**(1,332)**	(2,395)	(1,131)
– Non-deductible portion of share-based compensation	**(12,971)**	(10,559)	(9,336)
– Other non-deductible expenses	**(5,135)**	(2,996)	(3,232)
Tax benefit from share-based compensation	**7,646**	6,494	1,997
Tax benefit from Intellectual Property and research and development incentives	**6,026**	10,323	8,633
Write-down of previously recognised deferred tax assets	**–**	–	(1,015)
Benefit from previously unrecognised deferred tax assets	**1,277**	82	70
Additional tax losses for which no deferred tax asset is recognised	**(638)**	(127)	(117)
Movement in deferred tax balances following intra-group reorganisation	**(2,054)**	(1,921)	(1,920)
Differences arising from different functional and tax currencies	**1,349**	(2,536)	(2,065)
Adjustments in respect of prior years	**1,473**	1,635	(3,111)
Effect of change in tax rates	**718**	–	–
Other items	**399**	(327)	(160)
Income tax expense	**(32,408)**	(83,586)	(55,281)

Notes to the consolidated financial statements continued

9. Income taxes continued

Factors affecting the income tax expense for the year continued

The Group's income tax expense for 2020 was US$32,408 (2019: US$83,586; 2018: US$55,281), an effective tax rate for the year of 27.7% (2019: 21.7%; 2018: 28.2%).

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. Our effective tax rate can also be affected by changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings and currency exchange rate movements, which give rise to tax effects where an entity's functional currency differs from the currency in which it is required to calculate and pay income taxes.

Our effective tax rate is reduced because a large proportion of the Group's research and development activities are undertaken in the UK and the Netherlands and we are therefore able to benefit from the UK and Netherlands tax regimes that provide incentives for innovation.

Factors affecting the income tax expense in future years

Factors that may affect the Group's future tax expense include foreign exchange rate movements, changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings and the resolution of open issues with tax authorities. Incentives for innovation available under the UK and Netherlands tax regimes are limited by reference to the location of the Group's research and development activities. Given the global nature of the Group's research and development activities, this may also affect the Group's future tax expense.

We maintain provisions for potential tax liabilities where uncertainty exists concerning the amount of current or deferred tax recognised. Due to the complexity of tax laws and their interpretation, the amounts ultimately agreed with tax authorities in respect of these uncertainties may differ materially from the amounts provided and may therefore affect the Group's income tax expense in future periods. In January 2016, we received a termination fee of US$137,300 from Atmel Corporation, Inc. following their termination of the merger agreement that existed between us. We obtained tax advice that the termination fee should not be taxable in the UK and therefore did not recognise a tax expense in relation to the termination fee. Examination of the tax treatment of the termination fee by the UK tax authority is ongoing. We maintain our position that no tax liability should arise in respect of the termination fee.

International tax reform remains a key focus of attention, including the OECD's Base Erosion & Profit Shifting project, the EU's action plan for fair and efficient corporate taxation and US tax reform. We continually monitor developments and assess the potential impact for Dialog of such initiatives. We have concluded that current or announced future tax law changes as a result of such initiatives give rise to no changes to the principal risks for Dialog.

Income tax recognised outside profit or loss

Income tax recognised in other comprehensive income was as follows:

	2020 US$000	2019 US$000	2018 US$000
Items that may be reclassified to profit or loss			
Currency translation differences on foreign operations:			
– Current tax (expense)/credit	**370**	(91)	(78)
Equity investments:			
– Deferred tax credit/(expense)	**–**	–	1,015
Cash flow hedges:			
– Current tax (expense)/credit	**(1,427)**	(1,065)	2,376
Items that will not be reclassified to profit or loss			
Remeasurements of net defined benefit liability:			
– Deferred tax (expense)/credit	**(46)**	146	–
Income tax (charged)/credited to other comprehensive income	**(1,103)**	(1,010)	3,313

Income tax recognised directly in equity was as follows:

	2020 US$000	2019 US$000	2018 US$000
Share-based compensation:			
– Current tax credit	**1,807**	2,183	281
– Deferred tax credit	**546**	3,257	64
Total tax credited directly to equity	**2,353**	5,440	345

9. Income taxes continued

Deferred tax

Analysis of movement in the net deferred tax balance during the year:

	US$000
As at 31 December 2018	(1,924)
Currency translation differences	(330)
Recognised in income	3,554
Recognised in other comprehensive income	146
Recognised in equity	3,297
Transfer to current tax	(19,571)
As at 31 December 2019	(14,828)
Currency translation differences	**603**
Recognised in income	**15,347**
Recognised in other comprehensive income	**(46)**
Recognised in equity	**546**
Transfer from current tax	**237**
Acquisition of businesses	**4,789**
As at 31 December 2020	**6,648**

Deferred income tax assets and liabilities, before offset of balances within countries, are as follows:

	Amount credited/(charged) to profit or loss		Net recognised deferred tax asset/(liability)	
	2020 US$000	2019 US$000	**As at 31 December 2020 US$000**	As at 31 December 2019 US$000
Temporary differences relating to intangible assets	**8,942**	3,668	**(66,729)**	(43,507)
Temporary differences relating to share-based compensation	**3,038**	1,626	**14,826**	11,252
Other temporary differences	**2,730**	636	**13,522**	1,276
Deferred taxes in relation to tax credits	**962**	532	**16,125**	13,893
Net operating loss carryforwards	**(325)**	(2,908)	**28,904**	2,258
Total	**15,347**	3,554	**6,648**	(14,828)

Deferred tax assets and liabilities are analysed in the consolidated balance sheet, after offset of balances within countries, as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Deferred tax assets	**18,790**	8,242
Deferred tax liabilities	**(12,142)**	(23,070)
Recognised net deferred tax assets/(liabilities)	**6,648**	(14,828)

Tax loss carryforwards, temporary differences and net deferred tax assets are summarised as follows:

	As at 31 December 2020			As at 31 December 2019		
	Tax loss carryforwards US$000	**Temporary differences US$000**	**Net deferred tax assets/(liabilities) US$000**	Tax loss carryforwards US$000	Temporary differences US$000	Net deferred tax assets/(liabilities) US$000
Germany	**–**	**(41,483)**	**(12,141)**	–	(51,657)	(15,621)
United Kingdom	**2,942**	**34,934**	**6,637**	9,546	30,886	5,063
Netherlands	**–**	**7,769**	**1,942**	–	1,111	1,111
USA	**115,491**	**(115,736)**	**11,411**	–	(48,627)	1,942
Other	**39,091**	**(35,390)**	**(1,201)**	24,593	(19,788)	(7,323)
Total	**157,524**	**(149,906)**	**6,648**	34,139	(88,075)	(14,828)

In assessing whether the deferred tax assets can be used, management considers the probability that some, or all, of the deferred tax assets will not be realised. The utilisation of deferred tax assets depends upon generating taxable profit during the periods in which those temporary differences become deductible or tax-loss carryforwards can be utilised. Management considers the reversal of deferred tax liabilities, projected future taxable income, benefits that could be realised from available tax planning strategies and other positive and negative factors in making this assessment.

Notes to the consolidated financial statements continued

9. Income taxes continued

Deferred tax continued

As at 31 December 2020, deferred tax assets were not recognised for tax loss carryforwards of US$18,014 (2019: US$23,873) and tax credits of US$10,856 (2019: US$10,490) in respect of which there is expected to be insufficient future taxable profit and therefore utilisation is not probable. Unrecognised tax loss carryforwards of US$2,942 (2019: US$9,546) have no expiration date. Tax losses in Taiwan of US$15,072 (2019: US$14,327) expire between 2025 and 2029. The tax credits expire between 2021 and 2040.

As at 31 December 2020, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was US$267,041 (2019: US$111,542). We do not expect a liability to arise in respect of these differences because the Company is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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:

	2020 US$000	2019 US$000	2018 US$000
Profit attributable to shareholders in the Company			
For calculating basic and diluted earnings per share	**84,495**	301,452	139,799
Weighted average number of ordinary shares			
Shares in issue at the beginning of the period	**76,382,139**	76,382,139	76,382,139
Effect on average number of shares during the period:			
– Shares issued to employee benefit trust	**2,093,151**	–	–
– Cancellation of treasury shares	**(2,301,096)**	–	–
Average number of shares in issue during the period	**76,174,194**	76,382,139	76,382,139
Deduct:			
Average number of shares held by employee benefit trusts	**(2,473,960)**	(1,759,457)	(2,422,787)
Average number of treasury shares	**(5,648,962)**	(2,726,643)	–
For calculating basic earnings per share	**68,051,272**	71,896,039	73,959,352
Add:			
Average number of dilutive share options and awards	**4,187,868**	4,284,926	3,695,214
For calculating diluted earnings per share	**72,239,140**	76,180,965	77,654,566
Earnings per share (US$)			
Basic	**1.24**	4.19	1.89
Diluted	**1.17**	3.96	1.80

During 2020, the average number of anti-dilutive share options outstanding was 400,187 (2019: 486,253; 2018: 830,300).

11. Cash and cash equivalents

Cash and cash equivalents were as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Cash at bank	**24,315**	21,056
Cash available from receivables financing facilities	**74,232**	65,439
Bank deposits	**170,000**	350,000
Money market funds	**254,000**	582,000
Cash held by employee benefit trusts	**1,333**	6,049
Total	**523,880**	1,024,544

Bank deposits are made for varying periods of up to three months.

As at 31 December 2020 and 2019, no amounts had been drawn from the cash available from receivables financing facilities.

12. Trade and other receivables

Trade and other receivables were as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Trade accounts receivable	**107,512**	122,528
Retentions under receivables financing facilities	**13,117**	11,551
Total	**120,629**	134,079

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:

	2020 US$000	2019 US$000
At the beginning of the year	**79**	21
Allowances charged to profit or loss	**68**	58
Releases credited to profit or loss	**(52)**	–
At the end of the year	**95**	79

13. Inventories

Inventories were as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Raw materials	**21,749**	31,938
Work in progress	**72,426**	44,097
Finished goods	**65,218**	46,589
Total	**159,393**	122,624

Notes to the consolidated financial statements continued

14. Goodwill

Movements on goodwill during the years ended 31 December 2020 and 2019 were as follows:

	2020 US$000	2019 US$000
Carrying amount		
At the beginning of the year	**482,134**	439,508
Acquisition of Adesto* (note 3)	**318,875**	–
Acquisition of FCI	**76**	9,929
Acquisition of Creative Chips	**–**	32,124
Impairment of Adesto goodwill	**(44,900)**	–
Currency translation differences	**653**	573
At the end of the year**	**756,838**	482,134

* Provisional goodwill.

** At the end of 2020, the carrying amount of goodwill was stated net of an impairment loss of US$44,900 (end of 2019: US$nil).

Goodwill is monitored by management at the level of the Group's operating segments and is therefore allocated at that level. For the first three months following its acquisition, we managed Adesto on a stand-alone basis and reported it as a separate operating segment. We allocated the provisional goodwill recognised on the acquisition wholly to the Adesto operating segment. During the fourth quarter of 2020, we reorganised the Group's internal reporting structure, bringing together Adesto and the Industrial Mixed Signal business unit to form a single new operating segment, named Industrial IoT. At the year end, goodwill was allocated to four operating segments as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Carrying amount		
Custom Mixed Signal business group	**107,163**	107,163
Advanced Mixed Signal	**244,147**	244,147
Connectivity & Audio	**99,104**	98,375
Industrial IoT*	**306,424**	32,449
Total	**756,838**	482,134

* Comparative figure for the former Industrial Mixed Signal business unit.

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. Goodwill impairment tests conducted during 2020 measured the recoverable amount on a value in use basis. Value in use represents the present value of the future cash flows expected to be generated by the assets allocated to each operating segment in their current use and condition.

Impairment of Adesto goodwill

We agreed the purchase consideration for Adesto in early February 2020 based on profit forecasts for the business that were prepared before the extent of the impact of the Covid-19 pandemic could be predicted. By the time we completed the acquisition in late June 2020, it had become clear that the forecasts would have to be scaled back to reflect the impact of the pandemic, particularly in Adesto's industrial markets. We based the provisional purchase price allocation on our revised forecasts, projected over a ten-year period in order to capture the long-term growth potential of the business.

Following completion of the acquisition, there was an increase in the discount rate applicable to Adesto's forecast cash flows that caused us to perform an impairment test on the carrying amount of Adesto at the end of the third quarter of 2020. We concluded that the carrying amount was impaired and recognised an impairment loss of US$44,900 against the provisional goodwill relating to Adesto.

Annual goodwill impairment tests

In measuring value in use, expected future cash flows in the first three years were based on the Group's Strategic Plan 2021-2023. Except in the case of Industrial IoT, cash flows beyond the third year were estimated by applying a perpetuity growth factor to the forecast cash flow in the third year. We expect that the strong growth potential of Industrial IoT will take considerably longer than three years to be fully realised. We therefore based its expected future cash flows beyond the third year on profit forecasts for a further seven years and applied a perpetuity growth factor to the forecast cash flow in the tenth year.

We consider that the key assumptions used in determining value in use are the expected compound annual growth of revenue ("revenue CAGR") during the forecast period, the perpetuity growth rate and the applicable discount rate.

14. Goodwill continued

Impairment tests carried out during the year continued

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 2020 and 2019, 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:

	2020	2019
Pre-tax discount rate		
Custom Mixed Signal business group	**12.6%**	13.1%
Advanced Mixed Signal	**13.0%**	13.7%
Connectivity & Audio	**14.3%**	13.9%
Industrial IoT*	**13.0%**	19.1%

* Comparative figure for the former Industrial Mixed Signal business unit.

With the exception of Industrial IoT, the recoverable amount of each operating segment to which goodwill is allocated was comfortably in excess of its carrying amount. Our calculations showed that Industrial IoT's recoverable amount exceeded its carrying amount by US$105,534. We consider that the recoverable amount is most sensitive to a reasonably possible change in the revenue CAGR over the ten-year forecast period or in the applicable discount rate. Our calculations reflect a revenue CAGR of 13.4% over the forecast period. Assuming the other key assumptions remain unchanged, we estimate that the recoverable amount would equal the carrying amount if the revenue CAGR was to fall to 11.4% over the forecast period or if the pre-tax discount rate was to increase from 13.0% to 14.9%.

Notes to the consolidated financial statements continued

15. Other intangible assets

Movements on other intangible assets during the years ended 31 December 2020 and 2019 were as follows:

	Acquired customer-related assets US$000	Software, licences and other US$000	Patents US$000	Product development assets US$000	Total US$000
Cost					
As at 31 December 2018	172,875	82,617	22,998	206,541	485,031
Acquisition of businesses	56,012	4,075	(205)	25,792	85,674
Additions	–	6,691	1,746	15,384	23,821
Reclassifications	–	543	137	(680)	–
Disposals	–	(265)	(1,099)	(390)	(1,754)
Currency translation differences	798	223	9	581	1,611
As at 31 December 2019	229,685	93,884	23,586	247,228	594,383
Acquisition of businesses	**105,631**	**4,783**	**–**	**47,529**	**157,943**
Additions	**–**	**5,824**	**1,892**	**13,746**	**21,462**
Disposals	**–**	**(7,050)**	**(488)**	**(74)**	**(7,612)**
Currency translation differences	**841**	**448**	**26**	**1,166**	**2,481**
As at 31 December 2020	**336,157**	**97,889**	**25,016**	**309,595**	**768,657**
Amortisation and impairment losses					
As at 31 December 2018	(63,099)	(70,290)	(11,832)	(122,365)	(267,586)
Amortisation charge for the year	(15,524)	(4,559)	(2,246)	(29,904)	(52,233)
Impairment	–	–	–	(3,130)	(3,130)
Disposals	–	6	811	–	817
Currency translation differences	(16)	(138)	(15)	(14)	(183)
As at 31 December 2019	(78,639)	(74,981)	(13,282)	(155,413)	(322,315)
Amortisation charge for the year	**(23,673)**	**(5,633)**	**(2,229)**	**(29,368)**	**(60,903)**
Disposals	**–**	**6,154**	**334**	**36**	**6,524**
Currency translation differences	**(319)**	**(331)**	**(45)**	**(278)**	**(973)**
As at 31 December 2020	**(102,631)**	**(74,791)**	**(15,222)**	**(185,023)**	**(377,667)**
Carrying amount					
As at 31 December 2019	**151,046**	**18,903**	**10,304**	**91,815**	**272,068**
As at 31 December 2020	**233,526**	**23,098**	**9,794**	**124,572**	**390,990**

16. Property, plant and equipment – owned

Movements on owned property, plant and equipment during the years ended 31 December 2020 and 2019 were as follows:

	Buildings US$000	Test equipment US$000	Leasehold improvements US$000	Furniture, fittings and equipment US$000	Construction in progress US$000	Total US$000
Cost						
As at 31 December 2018	–	177,035	22,794	93,889	2,071	295,789
Acquisition of businesses	6,356	4,181	215	2,113	–	12,865
Additions	–	5,660	1,583	5,566	1,366	14,175
Reclassifications	–	40	134	989	(1,163)	–
Disposals	–	(4,861)	(915)	(5,350)	(1,113)	(12,239)
Currency translation differences	75	131	–	154	–	360
As at 31 December 2019	6,431	182,186	23,811	97,361	1,161	310,950
Acquisition of businesses	**–**	**–**	**1,998**	**2,866**	**–**	**4,864**
Additions	**–**	**11,762**	**627**	**6,535**	**486**	**19,410**
Reclassifications	**–**	**90**	**22**	**186**	**(298)**	**–**
Disposals	**–**	**(13,862)**	**(541)**	**(1,019)**	**(7)**	**(15,429)**
Currency translation differences	**–**	**1,010**	**283**	**175**	**6**	**1,474**
As at 31 December 2020	**6,431**	**181,186**	**26,200**	**106,104**	**1,348**	**321,269**
Depreciation and impairment losses						
As at 31 December 2018	–	(144,081)	(16,290)	(69,059)	–	(229,430)
Depreciation charge for the period	(35)	(12,268)	(3,335)	(11,517)	–	(27,155)
Disposals	–	3,716	129	3,120	–	6,965
Currency translation differences	(10)	(100)	7	(89)	–	(192)
As at 31 December 2019	(45)	(152,733)	(19,489)	(77,545)	–	(249,812)
Depreciation charge for the period	**(205)**	**(11,270)**	**(3,043)**	**(10,267)**	**–**	**(24,785)**
Disposals	**–**	**13,861**	**453**	**855**	**–**	**15,169**
Currency translation differences	**(2)**	**(996)**	**(192)**	**77**	**–**	**(1,113)**
As at 31 December 2020	**(252)**	**(151,138)**	**(22,271)**	**(86,880)**	**–**	**(260,541)**
Carrying amount						
As at 31 December 2019	6,386	29,453	4,322	19,816	1,161	61,138
As at 31 December 2020	**6,179**	**30,048**	**3,929**	**19,224**	**1,348**	**60,728**

Notes to the consolidated financial statements continued

17. Property, plant and equipment – leased

Background

With the exception of two properties acquired with Creative Chips in 2019, the Group leases all of its product development and office facilities in the various countries in which it operates.

Property leases that have been entered into by the Group contain varied terms and conditions reflecting its business requirements and local market practices. Property leases are typically for a fixed term of approximately five years but may include extension or early termination options to provide operational flexibility. Property rentals are typically fixed on inception of the lease but may be subject to review to reflect changes in market rental rates.

The Group also leases office and other equipment.

At the beginning of 2019, the Group had a contract with a supplier that contained an embedded lease over certain production equipment. During 2019, the contract was terminated by mutual agreement. At the time of termination, the carrying amount of the related right-of-use asset was US$9,956 and the lease liability was US$10,851. Accordingly, the Group recognised a gain on termination of US$895 in profit or loss.

Right-of-use assets

Movements on right-of-use assets in relation to leased property, plant and equipment during the years ended 31 December 2020 and 2019 were as follows:

	Buildings US$000	Office and other equipment US$000	Total US$000
Cost			
As at 1 January 2019	52,873	13,517	66,390
Acquisition of businesses	757	5	762
Additions	1,015	426	1,441
Disposal of businesses (note 4)	(4,287)	–	(4,287)
Terminations	(105)	(13,139)	(13,244)
Other changes in lease payments	(285)	–	(285)
Currency translation differences	52	1	53
As at 31 December 2019	50,020	810	50,830
Acquisition of businesses	**6,557**	**–**	**6,557**
Additions	**3,126**	**–**	**3,126**
Terminations	**(1,539)**	**(112)**	**(1,651)**
Other changes in lease payments	**(72)**	**(21)**	**(93)**
Currency translation differences	**919**	**37**	**956**
As at 31 December 2020	**59,011**	**714**	**59,725**
Accumulated depreciation			
As at 1 January 2019	–	–	–
Depreciation charge for the period	(9,181)	(3,275)	(12,456)
Terminations	47	3,037	3,084
Currency translation differences	(35)	–	(35)
As at 31 December 2019	(9,169)	(238)	(9,407)
Depreciation charge for the period	**(10,454)**	**(305)**	**(10,759)**
Terminations	**1,281**	**55**	**1,336**
Currency translation differences	**(271)**	**(22)**	**(293)**
As at 31 December 2020	**(18,613)**	**(510)**	**(19,123)**
Carrying amount			
As at 31 December 2019	40,851	572	41,423
As at 31 December 2020	**40,398**	**204**	**40,602**

17. Property, plant and equipment – leased continued

Lease liabilities

Movements on the lease liabilities recognised in relation to leased property, plant and equipment during the years ended 31 December 2020 and 2019 were as follows:

	2020 US$000	2019 US$000
At the beginning of the year	**43,044**	67,631
Acquisition of businesses	**6,557**	699
Additions	**3,127**	1,411
Disposals of businesses (note 4)	**–**	(4,440)
Terminations	**(249)**	(10,845)
Other changes in lease payments	**(35)**	(280)
Covid-19-related rent concessions	**(252)**	–
Lease payments during the period	**(11,796)**	(14,042)
Interest expense for the period	**2,062**	2,956
Currency translation differences	**1,666**	(46)
At the end of the year	**44,124**	43,044

Lease liabilities were presented in the balance sheet as follows:

	2020 US$000	2019 US$000
Amounts falling due:		
– Within one year	**11,767**	8,972
– After more than one year	**32,357**	34,072
Total lease liabilities	**44,124**	43,044

Expenses recognised in relation to lease payments that were not included in the measurement of lease liabilities were as follows:

	2020 US$000	2019 US$000
Expense relating to short-term leases	**(200)**	(167)
Expense relating to leases of low value assets	**(256)**	(180)
Expense relating to variable lease payments not included in lease liabilities	**(169)**	(343)

Cash outflow on lease payments

The total cash outflow on lease payments was as follows:

	2020 US$000	2019 US$000
Lease payments included in lease liabilities	**(11,796)**	(14,042)
Variable lease payments not included on lease liabilities	**(202)**	(328)
Lease payments on short-term leases	**(467)**	(167)
Lease payments on leases of low value assets	**(256)**	(180)
Total cash outflow on lease payments	**(12,721)**	(14,717)

Notes to the consolidated financial statements continued

18. Investments

Investments were as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Equity investments:		
– Energous shares	**3,132**	3,079
– Semitech shares	**401**	–
Derivative financial instruments:		
– Energous warrants	**–**	31
Total investments	**3,533**	3,110

Energous shares and warrants

In November 2016, we entered into a strategic alliance with Energous Corporation ("Energous") the developer of WattUp®, a wire-free charging technology. At that time, the Company subscribed for 763,552 common shares in Energous and was granted warrants to purchase up to 763,552 common shares that were exercisable in full or in part on a cashless basis at any time between May 2017 and November 2019. 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, the Company subscribed for a further 976,139 common shares in Energous and was granted a second tranche of warrants to purchase up to 654,013 common shares that were 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 amortised the deferred credit to profit or loss over the three-year period from the grant date to the expiry of the warrants.

As at 31 December 2020, we held an equity interest of approximately 2.8% in Energous following the expiry of all of the warrants that we held.

During 2020, we recognised a fair value gain on the shares of US$53 (2019: loss of US$6,994; 2018: loss of US$23,764) in other comprehensive income and recognised a fair value loss of US$31 (2019: US$1,434; 2018: US$10,853) on the warrants in profit or loss (as other finance expense). Also during 2020, we recognised a credit of US$809 (2019: US$1,584; 2018: US$1,584) 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).

Semitech shares

We acquired an equity interest of approximately 11.8% in Semitech Semiconductor Pty Ltd ("Semitech") with the acquisition of Adesto. Semitech is headquartered in Melbourne, Australia and provides semiconductor devices that transform homes into energy-aware ("smart homes"). Semitech's shares are unlisted and are measured at fair value through other comprehensive income. We consider that there was no appreciable change in the fair value of the shares between the acquisition date and the end of 2020.

19. Other financial assets

Other financial assets were as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Current		
Restricted cash	**890**	–
Currency derivatives	**7,586**	1,056
Total current	**8,476**	1,056
Non-current		
Rental and other deposits	**2,263**	2,202
Total	**10,739**	3,258

20. Other assets

Other assets were as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Current		
Prepaid expenses	**7,593**	7,775
Contract assets	**2,319**	–
Other tax receivables	**4,021**	3,369
Deferred facility arrangement costs	**231**	231
Other assets	**3,842**	11,157
Total current	**18,006**	22,532
Non-current		
Deferred facility arrangement costs	**3,701**	780
Total	**21,707**	23,312

21. Trade and other payables

Trade and other payables were as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Trade accounts payable	**129,155**	88,148
Other payables	**22,692**	16,472
Total	**151,847**	104,620

Trade accounts payable are non-interest bearing and are normally settled on 30 to 60-day terms. Other payables are non-interest bearing and have a term of less than three months.

22. Other financial liabilities

Other financial liabilities were as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Current		
Currency derivatives in designated hedging relationships	**715**	1,324
Prepayment from Apple	**48,381**	121,217
Bank loans	**697**	794
Deferred consideration	**106**	1,038
Total current	**49,899**	124,373
Non-current		
Prepayment from Apple	**24,869**	73,250
Bank loans	**452**	1,022
Deferred consideration	**58**	25
Contingent consideration	**–**	6,666
Total non-current	**25,379**	80,963
Total	**75,278**	205,336

Notes to the consolidated financial statements continued

22. Other financial liabilities continued

Changes in liabilities arising from financing activities were as follows:

	Prepayment from Apple (note 4) US$000	Bank and other loans US$000	Lease liabilities (note 17) US$000	Share buyback obligation (note 27) US$000	Derivatives hedging share buyback obligation US$000	Total US$000
As at 31 December 2017	–	–	1,651	–	–	1,651
Changes from financing cash flows	–	–	(1,651)	–	–	(1,651)
Changes in fair value	–	–	–	–	301	301
Other movements	–	–	–	171,173	–	171,173
Currency translation differences	–	–	–	590	–	590
As at 31 December 2018	–	–	–	171,763	301	172,064
Adjustment on initial application of IFRS 16	–	–	67,631	–	–	67,631
Acquisition of businesses	–	1,952	699	–	–	2,651
Disposal of businesses	–	–	(4,440)	–	–	(4,440)
Changes from financing cash flows	268,239	(156)	(11,086)	(251,774)	(11,625)	(6,402)
Recoupment against trade receivables	(79,656)	–	–	–	–	(79,656)
Changes in fair value	–	–	–	–	11,324	11,324
Other movements	5,884	–	(9,714)	86,718	–	82,888
Currency translation differences	–	20	(46)	(6,708)	–	(6,734)
As at 31 December 2019	194,467	1,816	43,044	–	–	239,326
Acquisition of businesses	**–**	**–**	**6,557**	**–**	**–**	**6,557**
Changes from financing cash flows	**(12,917)**	**(697)**	**(9,734)**	**(80,500)**	**1,503**	**(102,345)**
Recoupment against trade receivables	**(112,083)**	**–**	**–**	**–**	**–**	**(112,083)**
Changes in fair value	**–**	**–**	**–**	**–**	**(1,503)**	**(1,503)**
Other movements	**3,783**	**–**	**2,591**	**78,219**	**–**	**84,593**
Currency translation differences	**–**	**30**	**1,666**	**2,281**	**–**	**3,977**
As at 31 December 2020	**73,250**	**1,149**	**44,124**	**–**	**–**	**118,522**

23. Provisions

Movements on provisions were as follows:

	Product warranties US$000	Leasehold property US$000	Severance costs US$000	Other provisions US$000	Total US$000
As at 31 December 2018	2,713	3,122	1,602	894	8,331
Additions charged to profit or loss	923	228	700	600	2,451
Utilised during the year	(2,377)	–	(18)	(44)	(2,439)
Releases credited to profit or loss	–	(263)	–	(850)	(1,113)
Unwinding of discount	–	60	–	–	60
Currency translation differences	–	10	(36)	–	(26)
As at 31 December 2019	1,259	3,157	2,248	600	7,264
Acquisition of businesses	**238**	**–**	**–**	**326**	**564**
Additions charged to profit or loss	**852**	**66**	**8,357**	**131**	**9,406**
Utilised during the year	**(832)**	**(78)**	**(5,810)**	**(190)**	**(6,910)**
Releases credited to profit or loss	**(12)**	**(4)**	**(126)**	**–**	**(142)**
Unwinding of discount	**–**	**58**	**–**	**–**	**58**
Currency translation differences	**5**	**154**	**136**	**–**	**295**
As at 31 December 2020	**1,510**	**3,353**	**4,805**	**867**	**10,535**

Provisions are presented in the Group's balance sheet as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Current liabilities	**6,945**	4,162
Non-current liabilities	**3,590**	3,102
Total	**10,535**	7,264

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
Provision is made for the costs of restoring leasehold properties to their original condition at the end of the lease. Such provisions are expected to be utilised at the end of the relevant leases, which expire up to five years from the balance sheet date.

Severance costs
Severance provisions include termination benefits of US$2,209 in relation to the Group's cost-reduction initiatives and the integration of Adesto that are expected to be utilised within one year of the balance sheet date. Other severance provisions are for contractual amounts payable to employees in certain countries when they leave the Group's employment.

Notes to the consolidated financial statements continued

24. Pension schemes

a) Defined contribution plans

The Group operates defined contribution pension schemes in most of the countries in which it operates. Contributions payable by the Group to the plans amounted to US$9,000 (2019: US$8,710; 2018: US$8,756). As at 31 December 2020, the Group had not paid over to the plans contributions due amounting to US$2,189 (2019: US$1,567; 2018: US$1,596). All contributions due for the period were paid over subsequent to the balance sheet date. Pension costs also include payments to the state funded pension plan in Germany in the amount of US$2,514 (2019: US$2,819; 2018: US$3,853).

b) Defined benefit plan

Prior to the acquisition of FCI in May 2019, the Group had no defined benefit plans. FCI operates a funded defined benefit pension plan in South Korea, that provides participating employees with a lump sum benefit on retirement that is based on the individual's career average salary, annual bonus and average allowance and length of service. The net defined benefit liability recognised in the Group's balance sheet is based on an actuarial valuation of the plan that was carried out by an independent qualified actuary as at 31 December 2020.

Analysis of the net defined benefit liability recognised in the balance sheet:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Present value of benefit obligation	**(4,477)**	(4,601)
Fair value of plan assets	**4,471**	2,874
Net defined benefit liability	**(6)**	(1,727)

Amounts recognised in profit or loss and other comprehensive income were as follows:

	2020 US$000	2019 US$000	2018 US$000
Amounts recognised in profit or loss			
Current service cost	**(628)**	(369)	–
Net interest expense	**(43)**	(14)	–
Net expense in the income statement	**(671)**	(383)	–
Amounts recognised in other comprehensive income			
Actuarial gains/(losses):			
– Changes in demographic assumptions	**–**	(505)	–
– Changes in financial assumptions	**112**	(54)	–
– Experience adjustments	**157**	(56)	–
Return on plan assets lower than interest income	**(34)**	(51)	–
Net remeasurement credit/(expense) in other comprehensive income	**235**	(666)	–

Changes in the benefit obligation and the plan assets were as follows:

	Benefit obligation Present value		Plan assets Fair value	
	2020 US$000	2019 US$000	**2020 US$000**	2019 US$000
At the beginning of the year	**(4,601)**	–	**2,874**	–
Acquisition of FCI (note 3)	**–**	(4,452)	**–**	3,681
Current service cost	**(628)**	(369)	**–**	–
Interest (expense)/income	**(113)**	(82)	**70**	68
Benefits paid out	**632**	912	**(632)**	(912)
Benefits paid directly by/contributions by employer	**214**	126	**1,908**	7
Remeasurements	**269**	(615)	**(34)**	(51)
Currency translation differences	**(250)**	(121)	**285**	81
At the end of the year	**(4,477)**	(4,601)	**4,471**	2,874

24. Pension schemes continued

b) Defined benefit plan continued

As at 31 December 2020, the weighted-average duration of the defined benefit obligation was 9.2 years (2019: 8.5 years).

The principal financial assumptions used in measuring the defined benefit obligation were as follows:

	2020 US$000	2019 US$000
Discount rate	**2.9%**	2.6%
Rate of increase in salaries	**4.0%**	4.0%

Mortality and leaver assumptions are based on tables published by the Korea Insurance Development Institute.

The fair value of the plan assets may be analysed as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Cash and term deposits	**4,471**	2,780
Equity-linked bonds	**–**	94
Total	**4,471**	2,874

25. Other liabilities

Other liabilities were as follows:

	As at 31 December 2020 US$000	As at 31 December 2019 US$000
Current		
Obligations for personnel and social expenses	**48,523**	46,805
Contract liabilities	**963**	–
Deferred income	**13,388**	14,004
Deferred IP revenue	**37,324**	35,708
Other liabilities	**14,930**	16,287
Total current	**115,128**	112,804
Non-current		
Deferred royalty credits (note 18)	**4,695**	4,695
Deferred gain on initial measurement of warrants (note 18)	**–**	809
Deferred IP revenue	**44,886**	82,209
Other liabilities	**182**	331
Total non-current	**49,763**	88,044
Total	**164,891**	200,848

Notes to the consolidated financial statements continued

26. Share capital and reserves

a) Ordinary shares

The Company's share capital is comprised of 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 2017, 2018 and 2019	76,382,139	14,204
Cancellation of treasury shares	**(3,700,000)**	**(449)**
Shares issued to employee benefit trust	**4,000,000**	**498**
As at 31 December 2020	**76,682,139**	**14,253**

On 18 May 2020, the Company cancelled 3,700,000 of the shares that it had purchased under the share buyback programme. On cancellation, the total cost of the shares was transferred from treasury shares and set against retained earnings and the nominal value of the shares cancelled of US$449 was transferred from share capital to the capital redemption reserve.

On 23 June 2020, the principal employee benefit trust subscribed for 4,000,000 new ordinary shares in the Company at nominal value for total consideration of US$498 in cash.

Ordinary shareholders have no entitlement to share in the profits of the Company except for dividends that may be declared and in the event of the Company's liquidation.

Ordinary shareholders have the right to attend, and vote at, general meetings of the Company or to appoint a proxy to attend and vote at such meetings on their behalf. Ordinary shareholders have one vote for every share held.

b) Share premium account

The share premium account represents the difference between the nominal value of shares issued and the fair value of the consideration received. The share premium account is not distributable but may be used for certain purposes specified by United Kingdom law, including to write off expenses on any issue of shares and to pay up fully paid bonus shares.

c) Other reserves

Currency translation reserve

The currency translation reserve represents the cumulative gains and losses recognised on the translation into US dollars of the Group's net investments in foreign operations.

Fair value reserve

The fair value reserve comprises gains and losses recognised on equity investments that are measured at fair value through other comprehensive income.

Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative gains and losses on effective cash flow hedging instruments that will be recycled to profit or loss on the occurrence of the hedged cash flows.

Treasury shares

Treasury shares are shares purchased under the Company's share buyback programme that have not been cancelled. Details of the purchases made under the programme are set out in note 27. As at 31 December 2020, the Company held 5,413,452 of its ordinary shares with an aggregate nominal value of £541,345 in treasury, which represented 7.1% of its issued share capital.

Capital redemption reserve

The capital redemption reserve represents the aggregate nominal value of shares purchased under the Company's share buyback programme that have been cancelled and is not distributable.

26. Share capital and reserves continued

c) Other reserves continued

Movements on other reserves were as follows:

	Capital redemption reserve US$000	Currency translation reserve US$000	Fair value reserve US$000	Hedging reserve US$000	Treasury shares US$000	Total US$000
As at 31 December 2017	571	(3,699)	7,822	5,283	–	9,977
Other comprehensive income/(expense):						
– Currency translation loss on foreign operations	–	(527)	–	–	–	(527)
– Fair value loss on available-for-sale investments	–	–	(23,764)	–	–	(23,764)
– Cash flow hedges:						
Fair value loss recognised on effective hedges	–	–	–	(10,075)	–	(10,075)
Fair value gain transferred to profit or loss	–	–	–	(2,343)	–	(2,343)
– Income tax (expense)/credit	–	(78)	1,015	2,376	–	3,313
As at 31 December 2018	571	(4,304)	(14,927)	(4,759)	–	(23,419)
Other comprehensive income/(expense):						
– Currency translation gain on foreign operations	–	3,019	–	–	–	3,019
– Fair value loss on equity investments	–	–	(6,994)	–	–	(6,994)
– Cash flow hedges:						
Fair value loss recognised on effective hedges	–	–	–	(3,941)	–	(3,941)
Fair value loss transferred to profit or loss	–	–	–	9,549	–	9,549
– Income tax expense	–	(91)	–	(1,065)	–	(1,156)
Other changes in equity:						
– Purchase of own shares into treasury	–	–	–	–	(251,787)	(251,787)
As at 31 December 2019	571	(1,376)	(21,921)	(216)	(251,787)	(274,729)
Other comprehensive income/(expense):						
– Currency translation gain on foreign operations	**–**	**2,603**	**–**	**–**	**–**	**2,603**
– Fair value gain on equity investments	**–**	**–**	**53**	**–**	**–**	**53**
– Cash flow hedges:						
Fair value gain recognised on effective hedges	**–**	**–**	**–**	**8,116**	**–**	**8,116**
Fair value gain transferred to profit or loss	**–**	**–**	**–**	**(607)**	**–**	**(607)**
– Income tax credit/(expense)	**–**	**370**	**–**	**(1,427)**	**–**	**(1,057)**
Other changes in equity:						
– Purchase of own shares into treasury	**–**	**–**	**–**	**–**	**(80,500)**	**(80,500)**
– Cancellation of treasury shares	**449**	**–**	**–**	**–**	**129,270**	**129,719**
As at 31 December 2020	**1,020**	**1,597**	**(21,868)**	**5,866**	**(203,017)**	**(216,402)**

Notes to the consolidated financial statements continued

27. Share buyback programme

Background

We initiated our share buyback programme in May 2016.

By the end of 2020, the Company had purchased 13,597,268 of its own ordinary shares at a total cost of US$518,810 (including transaction costs of US$3,679), of which 8,183,816 shares had been cancelled and 5,413,452 shares were held in treasury.

Shareholder authority for a share buyback programme was first granted to the Directors at the Company's 2016 AGM and has been renewed at each subsequent AGM. At the Company's 2020 AGM, the Directors were granted a new authority to purchase up to 10,395,809 of the Company's ordinary shares, representing approximately 15% of the issued ordinary share capital of the Company as at 25 March 2020. Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2021, 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 2020 AGM authority.

Share purchases during 2020 were made under the 2019 AGM authority. We have not yet announced any purchases under the 2020 AGM authority.

Shares purchased during the period

Year ended 31 December 2018

On 6 November 2018, the Company announced details of the first tranche of the 2018 Buyback Programme under which it committed to purchase shares with a minimum cost of €100.0 million and a maximum cost of €150.0 million. On initiation of this tranche, we recognised a liability and a corresponding debit to retained earnings of €150.0 million (US$171,173) in respect of the maximum obligation to purchase shares. We also debited transaction costs incurred of US$14 to retained earnings.

We were not required to make any intermediate settlements in relation to this tranche during 2018.

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$898 in profit or loss in relation to liabilities to purchase shares outstanding during 2018.

Year ended 31 December 2019

On 31 May 2019, we completed the first and final settlement of the outstanding tranche of the 2018 Buyback Programme. We purchased 3,941,852 shares at a cost of €100.0 million (US$111,470) and incurred transaction costs of US$625. On conclusion of the tranche, we credited back to retained earnings the remaining US$55,847 of the obligation to purchase shares initially recognised.

No further tranches were initiated under the 2018 Buyback Programme.

On 5 June 2019, we announced details of the first tranche of the 2019 Buyback Programme under which the Company committed to purchase shares with a minimum cost of €125.0 million and a maximum cost of €150.0 million. On initiation of this tranche, we recognised a liability and a corresponding debit to retained earnings of €150.0 million (US$168,915) in respect of the maximum obligation to purchase shares. We made intermediate settlements of this tranche on 19 September 2019 and 31 October 2019 and final settlement and conclusion of the tranche took place on 19 December 2019. We purchased 3,134,895 shares at a cost of €125.0 million (US$138,975) and incurred transaction costs of US$703. On conclusion of the tranche, we credited back to earnings the remaining €25.0 million (US$27,679) of the obligation to purchase shares initially recognised.

During 2019, we showed a debit to retained earnings of US$4,431, which mirrored the gain recognised in profit or loss on the translation into US dollars of the Euro-denominated liability that existed in relation to shares that were purchased during the period.

After taking into account hedging, we recognised a net currency translation loss of US$4,616 in profit or loss in relation to liabilities to purchase shares outstanding during 2019.

Year ended 31 December 2020

On 12 March 2020, the Company announced details of the second tranche of the 2019 Buyback Programme under which it committed to purchase shares with a minimum cost of €70.0 million and a maximum cost of €90.0 million. On initiation of this tranche, we recognised a liability of €90.0 million (US$101,149) and a corresponding debit to retained earnings in respect of the maximum obligation to purchase shares.

We made intermediate settlements of this tranche on 18 May 2020, 30 June 2020 and 10 August 2020 and final settlement and conclusion of the tranche took place on 8 October 2020. We purchased 2,036,705 shares in total under this tranche at a cost of €70.0 million (US$80,031) and incurred transaction costs of US$455. On conclusion of this tranche, we credited back to equity the remaining €20.0 million (US$23,386) of the obligation to purchase shares initially recognised.

During 2020, we showed a credit to retained earnings of US$1,374, 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.

After taking into account hedging, we recognised a net currency translation loss of US$778 in profit or loss in relation to liabilities to purchase shares outstanding during 2020.

27. Share buyback programme continued

Movements on reserves

Movements on reserves shown in the statement of changes in equity in relation to the share buyback programme are derived as follows:

	Retained earnings		Treasury shares
	Share buyback obligation US$000	Currency translation differences US$000	Purchase of shares into treasury US$000
Year ended 31 December 2018			
Obligation recognised	(171,187)	–	–
Decrease in equity	(171,187)	–	–
Year ended 31 December 2019			
Obligation recognised	(168,901)	–	–
Settlements	254,876	(4,431)	(250,445)
Transaction costs	–	–	(1,342)
Release of surplus obligations	83,530	–	–
Increase/(decrease) in equity	169,505	(4,431)	(251,787)
Year ended 31 December 2020			
Obligation recognised	**(101,149)**	**–**	**–**
Settlements	**78,671**	**1,374**	**(80,045)**
Transaction costs	**–**	**–**	**(455)**
Release of surplus obligations	**23,386**	**–**	**–**
Increase/(decrease) in equity	**908**	**1,374**	**(80,500)**

28. Share-based compensation

The Company operates a number of share-based compensation plans under which it grants awards over its ordinary shares to certain of the Group's employees.

a) Plan without performance conditions

Employee Share Plan

Shareholders approved the Employee Share Plan ("ESP") at the Company's 2013 AGM.

Awards granted under the ESP vest over a three- or four-year period with each award vesting in equal instalments on each 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.

Awards granted under the ESP take the form of either a nominal cost share option, a conditional share award 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.

Fair value of awards

The fair value of equity-settled awards granted under the ESP was measured using the Black-Scholes option pricing model. The weighted average fair value of options and conditional share awards granted during the years ended 31 December 2020, 2019 and 2018 and the principal assumptions made in measuring those fair values were as follows:

	Grant in 2020	Grant in 2019	Grant in 2018
Weighted average fair value	**€37.80**	€41.63	€21.95
Principal assumptions:			
– Share price on grant date	**€37.85**	€41.71	€22.06
– Exercise price	**€0.05**	€0.09	€0.11
– Expected volatility of the Company's shares	**49%**	45%	44%
– Expected option life	**3 – 7 years**	3 – 6 years	3 – 6 years
– Dividend yield on the Company's shares	**0%**	0%	0%
– Risk-free interest rate	**(0.7)%**	(0.5)%	(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

28. Share-based compensation continued

b) Performance-based plan

Long-Term Incentive Plan

Shareholders approved the Long-Term Incentive Plan ("LTIP") at the Company's 2015 AGM. 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 or, in jurisdictions where it is not feasible to deliver shares to employees, a cash-settled award linked to the market value of the Company's shares.

Awards under the LTIP generally vest three years from the grant date provided certain performance conditions are satisfied and the participant remains in employment by the Group at the end of the vesting period.

a) Total shareholder return ("TSR")

Up to one third of each award vests depending on the TSR on the Company's ordinary shares relative to the TSR of the constituents of the S&P 1500 Select Semiconductor Index over the three-year performance period. If the TSR on the Company's ordinary shares is negative over the vesting period, vesting is capped at one half of this element of the award irrespective of whether the TSR on the Company's ordinary shares has exceeded the TSR of the constituents of the S&P 1500 Select Semiconductor Index.

b) Group Performance Conditions

Up to one half of each award vests depending upon the Group's revenue in each year of the three-year performance period. Up to one half of each award vests depending on the Group's underlying operating margin in each year of the three-year performance period.

Notwithstanding the performance conditions, the Remuneration Committee may apply a downward adjustment to the number of awards that vest if it considers this to be necessary taking into account the Group's financial performance and overall financial health.

Fair value of awards

The fair value of equity-settled 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 and conditional share awards granted during the years ended 31 December 2020, 2019 and 2018 and the principal assumptions made in measuring those fair values were as follows:

	Grant in 2020	Grant in 2019	Grant in 2018
Weighted average fair value	**€35.99**	€24.66	€23.23
Principal assumptions:			
– Share price on grant date	**€28.73**	€27.10	€25.25
– Exercise price	**€0.07**	€0.09	€0.09
– Expected volatility of the Company's shares	**49%**	45%	44%
– Expected option life	**6 years**	6 years	6 years
– Dividend yield on the Company's shares	**0%**	0%	0%
– Risk-free interest rate	**(0.7)%**	(0.5)%	(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.

28. Share-based compensation continued

c) Share awards

Movements in the total number of options and conditional share awards outstanding during the years ended 31 December 2020 and 2019 were as follows:

	2020		2019	
	Options	**Weighted average exercise price €**	Options	Weighted average exercise price €
Outstanding at the beginning of the period	**4,342,689**	**0.13**	5,472,635	0.65
Granted	**1,909,129**	**0.05**	1,552,279	0.09
Exercised	**(1,174,603)**	**0.21**	(1,802,547)	1.68
Forfeited	**(328,176)**	**0.11**	(879,678)	0.12
Outstanding at the end of the period	**4,749,039**	**0.08**	4,342,689	0.13
Options exercisable at the end of the period	**519,877**	**0.14**	533,304	0.43

When awards were exercised during 2020, the weighted average of the Company's share price was €37.88 (2019: €36.97).

The weighted average contractual life and exercise price of awards outstanding as at 31 December 2020 and 2019 were as follows:

	2020		2019	
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	**4,749,039**	**5.08**	4,330,836	4.86
€1.00 – 8.00	**–**	**n/a**	–	n/a
€8.00 – 16.85	**–**	**n/a**	11,853	0.70
€0.00 – 16.85	**4,749,039**	**5.08**	4,342,689	4.85

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 2020, the trusts held 3,630,109 ordinary shares (2019: 804,712 ordinary shares).

Movements in the number of shares held by the trusts during the years ended 31 December 2020 and 2019 were as follows:

	2020		2019	
	Number of shares	**Cost US$000**	Number of shares	Cost US$000
At the beginning of the period	**804,712**	**22,133**	2,607,259	22,514
Subscription for newly-issued shares	**4,000,000**	**498**	–	–
Sale or transfer of shares	**(1,174,603)**	**(20,740)**	(1,802,547)	(381)
At the end of the period	**3,630,109**	**1,891**	804,712	22,133

Notes to the consolidated financial statements continued

29. Commitments

Software licence commitments

Future minimum payments under software licences were as follows:

	2020 US$000	2019 US$000
Within one year	**28,235**	20,761
Between one and two years	**21,802**	6,018
Between two and three years	**15,615**	3,299
Between three and four years	**535**	73
Between four and five years	**2**	15
Total minimum payments	**66,189**	30,166

During 2020, the Group recognised in profit or loss software licence fees of US$14,670 (2019: US$15,576; 2018: US$13,854).

Capital commitments

As at 31 December 2020, the Group has contractual commitments for the acquisition of property, plant and equipment of US$4,201 (2019: US$3,863) and for the acquisition of intangible assets of US$1,927 (2019: US$1,538).

30. Additional disclosures on financial instruments

Analysis by class and category

In the following tables, the carrying amounts of the financial assets and financial liabilities held by the Group as at 31 December 2020 and 2019 are analysed by class and category:

	As at 31 December 2020					
	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 deposits	**269,880**	**–**	**–**	**–**	**269,880**	**269,880**
Money market funds	**–**	**254,000**	**–**	**–**	**254,000**	**254,000**
Cash and cash equivalents	**269,880**	**254,000**	**–**	**–**	**523,880**	**523,880**
Trade and other receivables	**120,629**	**–**	**–**	**–**	**120,629**	**120,629**
Energous shares	**–**	**–**	**–**	**3,132**	**3,132**	**3,132**
Semitech shares	**–**	**–**	**–**	**401**	**401**	**401**
Investments	**–**	**–**	**–**	**3,533**	**3,533**	**3,533**
Currency derivatives	**–**	**–**	**7,586**	**–**	**7,586**	**7,586**
Restricted cash	**890**	**–**	**–**	**–**	**890**	**890**
Rental and other deposits	**2,263**	**–**	**–**	**–**	**2,263**	**2,263**
Other financial assets	**3,153**	**–**	**7,586**	**–**	**10,739**	**10,739**
Total financial assets	**393,662**	**254,000**	**7,586**	**3,533**	**658,781**	**658,781**
Financial liabilities						
Trade and other payables	**(151,847)**	**–**	**–**	**–**	**(151,847)**	**(151,847)**
Lease liabilities	**(44,124)**	**–**	**–**	**–**	**(44,124)**	**(47,108)**
Prepayment from Apple	**(73,250)**	**–**	**–**	**–**	**(73,250)**	**(74,534)**
Bank loans	**(1,149)**	**–**	**–**	**–**	**(1,149)**	**(1,149)**
Currency derivatives	**–**	**–**	**(715)**	**–**	**(715)**	**(715)**
Deferred consideration	**(164)**	**–**	**–**	**–**	**(164)**	**(164)**
Other financial liabilities	**(74,563)**	**–**	**(715)**	**–**	**(75,278)**	**(76,562)**
Total financial liabilities	**(270,534)**	**–**	**(715)**	**–**	**(271,249)**	**(275,517)**

30. Additional disclosures on financial instruments continued

Analysis by class and category continued

	As at 31 December 2019					
	Amortised cost US$000	At fair value through profit or loss US$000	At fair value in designated hedges US$000	At fair value through other comprehensive income US$000	Net book value US$000	Fair value US$000
Financial assets						
Cash and deposits	442,544	–	–	–	442,544	442,544
Money market funds	–	582,000	–	–	582,000	582,000
Cash and cash equivalents	442,544	582,000	–	–	1,024,544	1,024,544
Trade and other receivables	134,079	–	–	–	134,079	134,079
Energous shares	–	–	–	3,079	3,079	3,079
Energous warrants	–	31	–	–	31	31
Other investments	–	31	–	3,079	3,110	
Currency derivatives	–	–	1,056	–	1,056	1,056
Rental and other deposits	2,202	–	–	–	2,202	2,202
Other financial assets	2,202	–	1,056	–	3,258	
Total financial assets	578,825	582,031	1,056	3,079	1,164,991	
Financial liabilities						
Trade and other payables	(104,620)	–	–	–	(104,620)	(104,620)
Lease liabilities	(43,044)	–	–	–	(43,044)	(45,926)
Prepayment from Apple	(194,467)	–	–	–	(194,467)	(196,278)
Bank loans	(1,816)	–	–	–	(1,816)	(1,816)
Currency derivatives	–	–	(1,324)	–	(1,324)	(1,324)
Deferred consideration	(1,063)	–	–	–	(1,063)	(1,063)
Contingent consideration	–	(6,666)	–	–	(6,666)	(6,666)
Other financial liabilities	(197,346)	(6,666)	(1,324)	–	(205,336)	
Total financial liabilities	(345,010)	(6,666)	(1,324)	–	(353,000)	

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.

We measured the fair value of these financial assets using the following methods and assumptions:

- Investments in money market funds – based on the net asset value of the funds;
- Energous shares (listed on NASDAQ) – measured at the quoted bid price at the close of business on the balance sheet date;
- Semitech shares (unlisted) – measured by reference to the market value of comparable companies as a multiple of their revenues; and
- Energous warrants – measured using a Black-Scholes valuation model based on the quoted bid price and volatility of Energous' common shares.

We measure the 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 Creative Chips was dependent on its performance against revenue targets for 2020 and 2021 and the achievement of certain product development targets by the end of 2020. When the product development targets were expected to be met, we measured the fair value of the contingent consideration based on the expected value of a range of possible outcomes for Creative Chips' revenues for 2020 and 2021.

In the following table, the financial instruments that are carried at fair value are categorised into one of three levels in a fair value hierarchy according to the nature of the significant inputs to the valuation techniques that are used to determine their fair value as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than Level 1 that are observable either directly (as market prices) or indirectly (derived from market prices); and
- Level 3 – Unobservable inputs, such as those derived from internal models or using other valuation methods.

Notes to the consolidated financial statements continued

30. Additional disclosures on financial instruments continued

Fair value measurement continued

	As at 31 December 2020				As at 31 December 2019			
	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								
Cash and cash equivalents								
– Money market funds	**254,000**	**–**	**–**	**254,000**	582,000	–	–	582,000
Investments:								
– Energous shares	**3,132**	**–**	**–**	**3,132**	3,079	–	–	3,079
– Semitech shares	**–**	**–**	**401**	**401**	–	–	–	–
Derivative financial instruments:								
– Currency derivatives	**–**	**7,586**	**–**	**7,586**	–	1,056	–	1,056
– Energous warrants	**–**	**–**	**–**	**–**	–	–	31	31
Total financial assets carried at fair value	**257,132**	**7,586**	**401**	**265,119**	585,079	1,056	31	586,166
Financial liabilities carried at fair value								
Derivative financial instruments:								
– Currency derivatives	**–**	**(715)**	**–**	**(715)**	–	(1,324)	–	(1,324)
Contingent consideration	**–**	**–**	**–**	**–**	–	–	(6,666)	(6,666)
Total financial liabilities carried at fair value	**–**	**(715)**	**–**	**(715)**	–	(1,324)	(6,666)	(7,990)

During 2020, there were no transfers between Level 1 and Level 2.

In the following tables, we present a reconciliation of the changes in the Level 3 fair values:

	Semitech shares US$000	Energous warrants US$000	Total US$000
As at 31 December 2017	–	12,318	12,318
Fair value loss (other finance expense)	–	(10,853)	(10,853)
As at 31 December 2018	–	1,465	1,465
Fair value loss (other finance expense)	–	(1,434)	(1,434)
As at 31 December 2019	–	31	31
Acquisition of business	**401**	**–**	**401**
Fair value loss (other finance expense)	**–**	**(31)**	**(31)**
At the end of the year	**401**	**(31)**	**370**

Our remaining warrants over shares in Energous Corporation expired on 5 July 2020.

	Contingent consideration		
	2020 US$000	2019 US$000	2018 US$000
Financial liabilities carried at fair value			
At the beginning of the year	**(6,666)**	(16,414)	(23,709)
Additions	**–**	(6,517)	(723)
Change in estimate (other operating income)	**6,938**	–	878
Unwinding of discount (interest expense)	**(272)**	(464)	(2,220)
Settlements	**–**	16,729	9,360
At the end of the year	**–**	(6,666)	(16,414)

As explained in note 3, the fair value of the contingent consideration payable for Creative Chips was reduced to US$nil during 2020.

30. Additional disclosures on financial instruments continued

Fair value measurement continued

b) Financial instruments not carried at fair value

We have calculated the fair value of the non-interest bearing prepayment from Apple by discounting the future scheduled recoupments based upon the observable yield curve at the balance sheet date for US dollar-denominated debt with an equivalent risk profile (Level 2).

We have calculated the fair value of lease liabilities by discounting the future lease payments at the relevant lessee's incremental borrowing rate based on observable yield curves at the balance sheet date (Level 2).

We have calculated the fair value of the bank loans acquired with Creative Chips by discounting the future principal repayments based on the observable yield curve at the balance sheet date for Euro-denominated debt with an equivalent risk profile (Level 2).

Other financial assets and financial liabilities that are not carried at fair value are of short maturity and/or bear interest at floating rates. We therefore consider that their carrying amounts approximate to their fair values (Level 2).

31. Financial risk management

Background

The Group's central treasury function is responsible for ensuring that adequate funding is available to meet the Group's requirements and for maintaining an efficient capital structure, together with managing the Group's counterparty credit risk, foreign currency and interest rate exposures. All treasury operations are conducted within strict policies and guidelines that are approved by the Board.

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

Credit risk

Credit risk is the risk that a customer or a counterparty financial institution fails to meet its contractual obligations as they fall due causing the Group to incur a financial loss. The Group is exposed to credit risk in relation to receivables from its customers and cash and cash equivalents and other financial assets held with financial institutions.

Before accepting a new customer, we assess the potential customer's credit quality and establish a credit limit. Credit quality is assessed using data maintained by reputable credit agencies, by checking references included in credit applications, and, where they are available, by reviewing the customer's recent financial statements. Credit limits are subject to multiple levels of authorisation and are reviewed on a regular basis. We make an allowance for lifetime expected credit losses on receivables that is regularly reviewed and, if necessary, adjusted on the basis of current information about the customer's creditworthiness.

The Group depends on a relatively small number of customers for a substantial part of its revenue. As at 31 December 2020, trade accounts receivable amounted to US$107,512 (2019: US$122,528), including US$39,869 (2019: US$85,298) due from our largest customer.

During 2020, we continued to utilise non-recourse receivables financing facilities provided by two financial institutions in an aggregate amount of US$240 million. The principal facility of US$220 million will mature on 31 October 2021.

Receivables sold under these facilities are derecognised from the Group's balance sheet because the financial institutions concerned assume all credit risk associated with them. When a receivable is sold, the Group is credited with the majority of the invoice amount with the balance credited on the earlier of the date on which the customer pays the amount due or 120 days after the receivable becomes due for payment. As at 31 December 2020, cash and cash equivalents included a benefit of US$74,232 (2019: US$65,439) in relation to receivables sold under these facilities and trade and other receivables included US$13,117 (2019: US$11,551) retained by the financial institutions.

Cash deposits and cash equivalent investments are placed, where possible, with financial institutions that satisfy the criteria set out in our Board approved treasury policy, including a requirement that each has a median credit rating of not less than A- (Standard & Poor's), A3 (Moody's), A- (Fitch) or equivalent. Credit risk is further limited by investing only in liquid instruments.

Market risk

Market risk is the risk that the fair value of, or cash flows associated with, a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk (due to changes in currency exchange rates), interest rate risk (due to changes in market interest rates) and other price risk.

a) Currency risk

The US dollar is the functional currency of the Company and its principal subsidiaries.

Currency risk arises on transactions that are denominated in a currency other than the functional currency of the entity that enters into them. Nearly all of the Group's sales and cost of materials are denominated in US dollars but certain operating expenses and tax cash flows are denominated in currencies other than the US dollar, in particular the Euro and the pound sterling. It is the Group's policy to hedge a proportion of the currency risk associated with highly probable forecast cash flows on a rolling 12-month basis. As the timing of the forecast cash flows draws nearer, the proportion of the currency risk that is hedged increases within set parameters.

Where possible, forward currency contracts that are entered into hedge forecast cash flows are designated as hedging instruments in cash flow hedge relationships. During 2020, a gain of US$8,116 (2019: a loss of US$3,941; 2018: a loss of US$10,075), 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$607 (2019: loss of US$9,549; 2018: gain of US$2,343) was reclassified to profit or loss on the occurrence of the hedged cash flows.

Notes to the consolidated financial statements continued

31. Financial risk management continued

Market risk continued

Currency derivatives held to hedge forecast cash outflows were as follows:

	As at 31 December 2020 Net notional amount			
	Euro 000	**Pound sterling 000**	**Japanese Yen 000**	**Chinese Renminbi 000**
Maturity				
0 – 3 months	**29,000**	**8,000**	**–**	**–**
4 – 6 months	**24,000**	**8,000**	**–**	**–**
7 – 9 months	**14,000**	**4,000**	**–**	**–**
10 – 12 months	**4,000**	**2,750**	**–**	**–**
Total	**71,000**	**22,750**	**–**	**–**
Weighted average exchange rate US$ =	**0.86**	**0.78**	**–**	**–**

	As at 31 December 2019 Net notional amount			
	Euro 000	Pound sterling 000	Japanese Yen 000	Chinese Renminbi 000
Maturity				
0 – 3 months	28,250	13,500	175,000	14,500
4 – 6 months	21,250	13,250	90,000	10,000
7 – 9 months	20,250	7,250	180,000	14,000
10 – 12 months	10,500	1,750	–	–
Total	80,250	35,750	445,000	38,500
Weighted average exchange rate US$ =	0.87	0.76	106.31	7.05

During the year, the following amounts were recognised in profit or loss in relation to forward currency contracts in cash flow hedge relationships:

	2020 US$000	2019 US$000	2018 US$000
Gain/(loss) reclassified from hedging reserve			
Hedged item affected profit or loss:			
– Cost of sales	**(215)**	(676)	436
– Selling and marketing expenses	**(108)**	(290)	47
– General and administrative expenses	**(140)**	(1,191)	96
– Research and development expenses	**(609)**	(5,352)	1,422
– Income tax expense	**1,679**	(2,040)	342
	607	(9,549)	2,343
Hedge ineffectiveness			
Other finance (expense)/income	**(2)**	1	(13)

31. Financial risk management continued

Market risk continued

Hedge ineffectiveness was determined as follows:

	2020 US$000	2019 US$000	2018 US$000
Change in fair value of designated hedging instruments	**7,507**	5,609	(12,431)
Change in value of hedged item used to determine hedge ineffectiveness	**(7,509)**	(5,608)	12,418
Hedge ineffectiveness recognised in profit or loss	**(2)**	1	(13)

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 2020, there would be an incremental fair value gain of US$13,119 (2019: US$16,342) or an incremental fair value loss of US$10,734 (2019: US$13,371), 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 2020 and 2019, we used forward currency contracts and currency swaps to hedge the translation exposure on the Euro-denominated liabilities that arose in relation to tranches of the Company's share buyback programme. At the end of 2020 and 2019, there were no outstanding contracts.

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 2020 US$000	As at 31 December 2019 US$000
US dollar	**416,120**	832,922
Euro	**(19,024)**	(10,368)
Pound sterling	**(10,747)**	(7,918)
Taiwanese dollar	**(121)**	(405)
Other	**1,304**	(2,240)
Total	**387,532**	811,991

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 2020, there would be an exchange gain of US$3,287 (2019: gain of US$2,093) or an exchange loss of US$3,287 (2019: loss of US$2,093), respectively, recognised in arriving at the Group's profit before tax.

Currency translation risk also arises on consolidation in relation to the translation into US dollars of net investments in foreign operations but the exposure is not significant because the US dollar is the functional currency of the Company and each of its principal subsidiaries.

Notes to the consolidated financial statements continued

31. Financial risk management continued

Market risk continued

b) Interest risk

The interest rate profile of the Group's financial assets and liabilities was as follows:

	As at 31 December 2020			
	Interest-bearing			
	Floating rate US$000	Fixed rate US$000	Non-interest bearing US$000	Total US$000
Financial assets				
Cash and cash equivalents	**449,648**	**–**	**74,232**	**523,880**
Trade and other receivables	**–**	**–**	**120,629**	**120,629**
Investments	**–**	**–**	**3,533**	**3,533**
Other financial assets	**–**	**–**	**10,739**	**10,739**
Total financial assets	**449,648**	**–**	**209,133**	**658,781**
Financial liabilities				
Trade and other payables	**–**	**–**	**(151,847)**	**(151,847)**
Lease liabilities	**–**	**(44,124)**	**–**	**(44,124)**
Other financial liabilities	**–**	**(1,149)**	**(74,129)**	**(75,278)**
Total financial liabilities	**–**	**(45,273)**	**(225,976)**	**(271,249)**

	As at 31 December 2019			
	Interest-bearing			
	Floating rate US$000	Fixed rate US$000	Non-interest bearing US$000	Total US$000
Financial assets				
Cash and cash equivalents	959,105	–	65,439	1,024,544
Trade and other receivables	–	–	134,079	134,079
Investments	–	–	3,110	3,110
Other financial assets	–	–	3,258	3,258
Total financial assets	959,105	–	205,886	1,164,991
Financial liabilities				
Trade and other payables	–	–	(104,620)	(104,620)
Lease liabilities	–	(43,044)	–	(43,044)
Other financial liabilities	–	(1,816)	(203,520)	(205,336)
Total financial liabilities	–	(44,860)	(308,140)	(353,000)

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 2020, an increase or decrease of 50 basis points in market interest rates would increase or decrease the Group's profit before tax by US$2,120 (2019: US$4,755), respectively.

c) Other price risk

As at 31 December 2020, we held common shares in Energous Corporation ("Energous") with a fair value of US$3,132 (2019: US$3,079). Energous' common shares are listed on NASDAQ. Changes in the fair value of the shares are recognised in other comprehensive income. If Energous' share price as at 31 December 2020 was to increase/decrease by 10%, other comprehensive income would increase/decrease by US$313 (2019: US$308).

31. Financial risk management continued

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 2020, cash and cash equivalents amounted to US$523,880 (2019: US$1,024,544).

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 has since been extended by a year on two occasions and will now mature in July 2022. The facility is committed and is available for general corporate purposes. We retain the option to increase the amount of the facility by US$75 million subject to certain conditions. The credit agreement contains various provisions, covenants and representations that are customary for such a facility. The facility remained undrawn as at 31 December 2020.

The contractual maturity of financial liabilities was as follows:

	As at 31 December 2020						
	Within 3 months US$000	**Between 3 to 12 months US$000**	**Between 1 to 2 years US$000**	**Between 2 to 5 years US$000**	**After 5 years US$000**	**Effect of discounting US$000**	**Carrying amount US$000**
Trade and other payables	**151,847**	**–**	**–**	**–**	**–**	**–**	**151,847**
Lease liabilities	**3,256**	**9,644**	**11,655**	**20,549**	**4,368**	**(5,348)**	**44,124**
Prepayment from Apple	**12,500**	**37,500**	**25,000**	**–**	**–**	**(1,750)**	**73,250**
Bank loans	**218**	**479**	**417**	**35**	**–**	**–**	**1,149**
Deferred consideration	**42**	**64**	**43**	**15**	**–**	**–**	**164**
Other non-derivative liabilities	**16,016**	**47,687**	**37,115**	**20,599**	**4,368**	**(7,098)**	**118,687**
Total non-derivative liabilities	**167,863**	**47,687**	**37,115**	**20,599**	**4,368**	**(7,098)**	**270,534**
Cash flows on derivative liabilities							
– Payments	**6,824**	**1,229**	**–**	**–**	**–**	**–**	**8,053**
– Receipts	**(6,124)**	**(1,227)**	**–**	**–**	**–**	**–**	**(7,351)**
Cash flows on financial liabilities	**168,563**	**47,689**	**37,115**	**20,599**	**4,368**	**(7,098)**	**271,236**

	As at 31 December 2019						
	Within 3 months US$000	Between 3 to 12 months US$000	Between 1 to 2 years US$000	Between 2 to 5 years US$000	After 5 years US$000	Effect of discounting US$000	Carrying amount US$000
Trade and other payables	104,620	–	–	–	–	–	104,620
Lease liabilities	2,833	8,306	9,966	22,501	5,737	(6,299)	43,044
Prepayment from Apple	50,000	75,000	50,000	25,000	–	(5,533)	194,467
Bank loans	198	596	608	414	–	–	1,816
Deferred consideration	635	403	25	–	–	–	1,063
Contingent consideration	–	–	3,387	5,261	–	(1,982)	6,666
Other non-derivative liabilities	53,666	84,305	63,986	53,176	5,737	(13,814)	247,056
Total non-derivative liabilities	158,286	84,305	63,986	53,176	5,737	(13,814)	351,676
Cash flows on derivative liabilities:							
– Payments	34,636	81,379	–	–	–	–	116,015
– Receipts	(33,858)	(80,225)	–	–	–	–	(114,083)
Cash flows on financial liabilities	159,064	85,459	63,986	53,176	5,737	(13,814)	353,608

Notes to the consolidated financial statements continued

31. Financial risk management continued

Capital management

The Group's capital is represented by its total equity. As at 31 December 2020, the Group's total equity was US$1,654,528 (2019: US$1,572,584).

We seek to maintain a capital structure that supports the ongoing activities of our business and its strategic objectives in order to deliver long-term returns to shareholders. We allocate capital to support organic and inorganic growth, investing to support research and development and our product pipeline. We will fund our growth strategy using a mix of equity and debt after giving consideration to prevailing market conditions.

In May 2016, we initiated a share buyback programme as part of our strategy to deliver shareholder returns. Since then, we have returned €463.7 million (US$515,131) to shareholders through six tranches of the programme. We will seek renewal of the share buyback authority at the Company's 2021 AGM.

32. Segment and geographic information

a) Analysis by reporting segment

Segment information is presented in the financial statements on a basis consistent with the information presented to the Management Team (the "chief operating decision-maker") for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses. Members of the Management Team are identified on pages 88 and 89.

The Group's reporting segments are determined based on the nature of the products that they provide to our customers.

Prior to the acquisition of Adesto at the beginning of the third quarter of 2020, the Group had three reporting segments: Custom Mixed Signal; Advanced Mixed Signal; and Connectivity & Audio. Custom Mixed Signal included our Industrial Mixed Signal business unit. We initially managed Adesto on a stand-alone basis and reported its results separately to the Management Team. During the fourth quarter of 2020, we changed the Group's internal reporting structure, bringing together Adesto and the Industrial Mixed Signal business unit to form a single operating segment that we named Industrial IoT. The Group therefore now has four reporting segments: Custom Mixed Signal; Advanced Mixed Signal; Connectivity & Audio; and Industrial IoT:

- Custom Mixed Signal provides custom ICs designed to meet the needs of our customers in the mobile, automotive, computing and storage markets;
- Advanced Mixed Signal provides standard products including CMICs, AC/DC converter solutions for smaller, fast charging power adaptors for portable devices as well as LED drivers for backlighting and solid state lighting products;
- Connectivity & Audio provides standard products incorporating short-range wireless, digital cordless, Bluetooth® low energy, audio and low-power Wi-Fi technologies; and
- Industrial IoT provides products enabling smart factory and building automation including non-volatile memory ("NVM") ICs, industrial communication ICs, custom-designed ASICs and embedded systems, servers and software.

Comparative information for 2019 has been restated to reflect the transfer of the Industrial Mixed Signal business unit from Custom Mixed Signal to Industrial IoT.

Each of the Group's operating segments has a manager who is responsible for its performance and is accountable to the Chief Executive Officer. Custom Mixed Signal comprises our Custom Mixed Signal business group and our Automotive business unit, both of which meet the definition of an operating segment but have been aggregated because they have similar economic characteristics and each provides custom products to similar types of customers through similar distribution channels. Otherwise, we have not aggregated any operating segments in determining our reporting segments.

The Management Team uses underlying measures as the principal basis for allocating resources to and assessing the financial performance of the Group's businesses. Underlying revenue is therefore the measure of segment revenue and underlying operating profit/loss is the measure of segment profit/loss that is presented in the Group's segment disclosures.

32. Segment and geographic information continued

a) Analysis by reporting segment continued

Segment revenue and profit or loss

Underlying performance measures exclude specific items of income or expense that are recognised in profit or loss reported in accordance with IFRS that we consider hinder comparison of the financial performance of our businesses from one period to another, with each other or with other similar businesses. Details of the items excluded from profit or loss reported under IFRS in arriving at the Group's underlying profit or loss for each of the periods presented are set out in the section entitled "Financial performance measures" on pages 190 to 196.

Segment revenue and operating profit/(loss) were as follows:

	Underlying revenue[1]			Underlying operating profit/(loss)		
	2020 US$000	Restated 2019 US$000	2018 US$000	**2020 US$000**	Restated 2019 US$000	2018 US$000
Custom Mixed Signal	**804,699**	962,476	1,042,320	**230,084**	282,617	267,589
Advanced Mixed Signal	**274,593**	253,415	244,536	**27,874**	15,236	26,754
Connectivity & Audio	**195,540**	183,781	154,004	**15,065**	21,607	13,636
Industrial IoT	**65,389**	2,312	–	**(706)**	(676)	–
Total segments	**1,340,221**	1,401,984	1,440,860	**272,317**	318,784	307,979
Corporate and other unallocated items[2]	**35,703**	18,505	1,278	**25,055**	5,565	(26,351)
Total Group	**1,375,924**	1,420,489	1,442,138	**297,372**	324,349	281,628

1 Revenue is from sales to external customers (there were no significant inter-segment sales).
2 Unallocated revenue in 2020 and 2019 is revenue recognised on the effective IP licence granted to Apple (see note 4).

Reconciliation of underlying revenue to revenue reported under IFRS

	2020 US$000	2019 US$000	2018 US$000
Underlying revenue	**1,375,924**	1,420,489	1,442,138
Perpetual licence fee	**–**	145,750	–
Revenue reported under IFRS	**1,375,924**	1,566,239	1,442,138

Reconciliation of underlying operating profit to profit before income taxes reported under IFRS

	2020 US$000	2019 US$000	2018 US$000
Underlying operating profit	**297,372**	324,349	281,628
Licence and asset transfers to Apple:			
– Perpetual licence fee	**–**	145,750	–
– Gain on transfer of design centre businesses	**–**	15,898	–
Share-based compensation and related expenses	**(60,973)**	(54,656)	(41,653)
Accounting for business combinations:			
– Acquisition-related costs	**(9,145)**	(4,040)	–
– Amortisation of acquired intangible assets	**(36,837)**	(26,113)	(22,629)
– Consumption of the fair value uplift of acquired inventory	**(15,257)**	(1,749)	(3,129)
– Consideration accounted for as compensation expense	**(7,482)**	(1,204)	(1,481)
– Forfeiture of deferred consideration	**55**	116	204
– Remeasurement of contingent consideration	**6,938**	–	878
Integration costs	**(6,490)**	(2,434)	(2,765)
Impairment of goodwill	**(44,900)**	–	–
Cost-reduction initiatives	**(2,406)**	–	–
Corporate transaction costs	**–**	(16,064)	(11,346)
Operating profit reported under IFRS	**120,875**	379,853	199,707
Interest income	**6,086**	21,950	9,883
Interest expense	**(8,173)**	(11,309)	(3,134)
Other finance income/(expense)	**(1,885)**	(5,456)	(10,263)
Profit before income taxes	**116,903**	385,038	196,193

Notes to the consolidated financial statements continued

32. Segment and geographic information continued

a) Analysis by reporting segment continued

Other segment information

Other segment information on an underlying basis is as follows:

	Custom Mixed Signal US$000	Connectivity & Audio US$000	Advanced Mixed Signal US$000	Industrial IoT US$000	Total segments US$000	Corporate activities US$000	Total Group US$000
Year ended 31 December 2020							
Research and development expenses	**135,233**	**61,915**	**67,454**	**19,395**	**283,997**	**612**	**284,609**
Write-down of inventories	**2,368**	**670**	**1,909**	**(1,202)**	**3,745**	**(2)**	**3,743**
Fixed assets[1]:							
– Depreciation/amortisation	**30,549**	**16,186**	**8,893**	**2,999**	**58,627**	**983**	**59,610**
– Loss on disposal	**75**	**133**	**75**	**115**	**398**	**330**	**728**
Year ended 31 December 2019[2]							
Research and development expenses	157,298	52,672	63,152	1,195	274,317	2,125	276,442
Write-down of inventories	6,884	738	3,514	–	11,136	(3)	11,133
Fixed assets[1]:							
– Depreciation/amortisation	41,259	15,202	8,327	205	64,993	739	65,732
– Loss on disposal	282	3,112	58	–	3,452	992	4,444
Year ended 31 December 2018							
Research and development expenses	185,061	42,180	53,703	–	280,944	13,290	294,234
Write-down of inventories	4,309	279	987	–	5,575	68	5,643
Fixed assets[1]:							
– Depreciation/amortisation	42,150	10,362	4,920	–	57,432	524	57,956
– Loss on disposal	788	4	27	–	819	104	923

1 Non-current assets excluding investments and deferred tax assets.

2 Restated to reflect segment reorganisation.

b) Geographic information

	2020 US$000	2019 US$000	2018 US$000
Revenue by destination			
United Kingdom	**1,651**	381	647
Other European countries	**60,244**	38,564	40,816
Mainland China	**715,501**	926,625	1,027,976
Hong Kong	**361,249**	318,850	288,838
Other Asian countries	**180,616**	102,041	72,642
United States of America	**49,284**	173,450	6,152
Rest of the world	**7,379**	6,328	5,067
Total	**1,375,924**	1,566,239	1,442,138

32. Segment and geographic information continued

b) Geographic information continued

	As at 31 December 2020 US$000	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Non-current assets[1] by location			
United Kingdom	**36,448**	40,830	47,909
Germany	**121,596**	131,739	43,511
Netherlands	**63,379**	62,771	56,501
United States of America	**971,494**	563,419	568,755
Korea	**40,789**	45,022	641
Rest of the world	**21,416**	15,964	8,200
Total	**1,255,122**	859,745	725,517

1 Non-current assets excluding investments and deferred tax assets.

c) Information about major customers

During 2020, 2019 and 2018, there was only one customer that accounted for more than 10% of the Group's revenue.

During 2020, revenue from that customer was US$893,288, including licence fees totalling US$35,707, of which US$769,811 was recognised in Custom Mixed Signal, US$87,770 was recognised in Advanced Mixed Signal and US$35,707 was unallocated. During 2019, revenue from that customer was US$1,168,568, including licence fees totalling US$164,234, of which US$1,086,636 was recognised in Custom Mixed Signal, US$63,448 was recognised in Advanced Mixed Signal and US$18,484 was unallocated. During 2018, revenue from that customer was US$1,081,532, of which US$1,015,630 was recognised in Custom Mixed Signal and US$65,902 was recognised in Advanced Mixed Signal.

33. Transactions with related parties

Key management personnel

For the purpose of these disclosures, the Group's key management personnel comprise the Management Team (which includes the Company's Executive Director) and the Company's non-executive Directors.

Compensation of the Group's key management personnel was as follows:

	2020 US$000	2019 US$000	2018 US$000
Short-term employee benefits	**9,681**	9,148	9,196
Post-employment benefits	**284**	310	237
Share-based compensation	**15,229**	11,630	11,952
Total	**25,194**	21,088	21,385

Current members of the Company's Board are identified on pages 86 and 87 and current members of the Management Team are identified on pages 82 and 89.

Statutory information about Directors' remuneration is presented in the Directors' remuneration report on pages 98 to 114.

During 2020, the aggregate emoluments payable to Directors in respect of qualifying services to the Company amounted to US$3,936 (2019: US$3,881; 2018: US$2,947). 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$4,167 (2019: US$2,160; 2018: US$1,310).

Advances are made by foreign subsidiaries to the Executive Director and certain other members of the Management Team against foreign taxes arising as a result of business travel that are repaid as and when the relevant tax credits are received. As at 31 December 2020, the aggregate amount outstanding was US$377 (2019: US$1,185). During 2020, the weighted average aggregate amount outstanding was US$1,000 (2019: US$952). No interest is charged on the advances which are treated as a taxable benefit. Details of the advances made to the Executive Director are set out in the Directors' remuneration report on page 106.

Other related party transactions

During 2020, 2019 and 2018, there were no other related party transactions that are required to be disclosed in these financial statements.

Notes to the consolidated financial statements continued

34. Subsequent event

Proposed acquisition of Dialog by Renesas

On 8 February 2021, the Directors of the Company and Renesas Electronics Corporation ("Renesas"), a supplier of advanced semiconductor solutions, announced that they have reached agreement on the terms of the acquisition of the entire issued and to be issued share capital of the Company for €67.50 per share in cash, representing a total equity value of approximately €4.9 billion (US$5.9 billion).

Renesas is incorporated in Japan and its shares are listed on the Tokyo Stock Exchange. With an extensive portfolio of microcontrollers, analog, power, and SoC products, Renesas provides the expertise, quality, and comprehensive solutions for a broad range of automotive, industrial, home electronics, office automation and ICT applications.

It is intended that the acquisition will be effected by means of a scheme of arrangement under the UK Companies Act 2006. As such, completion of the transaction will be subject to approval by the Company's shareholders and the court in England & Wales. It will also be subject to regulatory approvals in a number of jurisdictions and other customary closing conditions. Subject to obtaining the necessary approvals and satisfying the other closing conditions, it is expected that the acquisition will become effective during the second half of 2021.

Company balance sheet

As at 31 December

	Note	**2020 US$000**	2019 US$000
Assets			
Cash and cash equivalents		**426,488**	939,037
Other financial assets		**7,587**	1,056
Income tax receivable	7	**–**	537
Amounts owed by group undertakings		**93,083**	44,075
Other current assets		**736**	2,938
Total current assets		**527,894**	987,643
Investments in subsidiaries	4	**1,177,542**	1,013,745
Other investments	5	**3,132**	3,110
Intangible assets		**138**	152
Amounts owed by group undertakings	6	**250,000**	–
Other non-current assets		**136**	366
Total non-current assets		**1,430,948**	1,017,373
Total assets		**1,958,842**	2,005,016
Liabilities and equity			
Amounts owed to group undertakings		**1,026,606**	1,070,257
Trade and other payables		**2,946**	3,424
Other financial liabilities		**715**	1,324
Income tax payable	7	**64**	–
Other payables		**114**	1,279
Total current liabilities		**1,030,445**	1,076,284
Non-current liabilities		**4,695**	5,504
Ordinary shares	8	**14,253**	14,204
Share premium account		**403,660**	403,660
Retained earnings		**731,545**	800,634
Other reserves	8	**(223,865)**	(273,137)
Dialog shares held by employee benefit trusts	8	**(1,891)**	(22,133)
Total equity		**923,702**	923,228
Total liabilities and equity		**1,958,842**	2,005,016

As permitted by section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements. The Company's profit for the financial year was US$65,835 (2019: US$96,466).

These financial statements were approved by the Board of Directors on 3 March 2021 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 2018	14,204	403,660	536,108	(14,356)	(22,514)	917,102
Net income	–	–	96,466	–	–	96,466
Other comprehensive income	–	–	–	(6,994)	–	(6,994)
Total comprehensive income/(expense)	–	–	96,466	(6,994)	–	89,472
Other changes in equity:						
– Purchase of own shares into treasury	–	–	(4,431)	(251,787)	–	(256,218)
– Share buyback obligation	–	–	169,505	–	–	169,505
– Sale of shares by employee benefit trusts	–	–	2,981	–	381	3,362
– Share-based compensation	–	–	5	–	–	5
As at 31 December 2019	14,204	403,660	800,634	(273,137)	(22,133)	923,228
Net income	**–**	**–**	**65,835**	**–**	**–**	**65,835**
Other comprehensive loss	**–**	**–**	**–**	**53**	**–**	**53**
Total comprehensive income/(expense)	**–**	**–**	**65,835**	**53**	**–**	**65,888**
Other changes in equity:						
– Purchase of own shares into treasury	**–**	**–**	**1,374**	**(80,500)**	**–**	**(79,126)**
– Share buyback obligation	**–**	**–**	**908**	**–**	**–**	**908**
– Cancellation of treasury shares	**(449)**	**–**	**(129,270)**	**129,719**	**–**	**–**
– Shares issued to employee benefit trust	**498**	**–**	**–**	**–**	**(498)**	**–**
– Sale of shares by employee benefit trusts	**–**	**–**	**(20,449)**	**–**	**20,740**	**291**
– Share-based consideration	**–**	**–**	**12,513**	**–**	**–**	**12,513**
As at 31 December 2020	**14,253**	**403,660**	**731,545**	**(223,865)**	**(1,891)**	**923,702**

Notes to the Company financial statements

For the year ended 31 December 2020

1. Background

Description of business

Dialog Semiconductor Plc ("the Company") is a public limited company that is incorporated in England and Wales and domiciled in the United Kingdom. The Company's ordinary shares are listed on the Frankfurt Stock Exchange.

The Company is the ultimate parent of a group of companies that creates and markets mixed-signal integrated circuits, optimised for personal, portable, hand-held devices, low energy short-range wireless, backlighting and LED solid state lighting, industrial and automotive applications.

Statement of compliance

The Company's separate financial statements on pages 183 to 189 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 as at 31 December 2020 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 they have been prepared in accordance with the historical cost convention, except that certain investments and derivative financial instruments are measured 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.

The Company's significant accounting policies are set out in note 2.

Going concern

At the time of approving the financial statements, the Directors are required to form a judgement as to whether the Company has adequate resources to continue in operational existence for the foreseeable future. In forming their judgement, the Directors consider the Company's current financial position, the Group's medium-term plan and its budget for the next financial year, and the principal risks and uncertainties that it faces. The Directors have also considered the proposed acquisition of the Company by Renesas Electronics Corporation that was announced on 8 February 2021.

At the end of 2020, the Company held cash and cash equivalents of US$426 million and had an undrawn committed revolving credit facility of US$150 million. Based on the Group's most recent plan and budget, the Directors expect that the Group will continue to be cash generative over the next 12 months, even in the downside scenario that they considered regarding the impact of the Covid-19 pandemic. For these reasons, the Directors have adopted the going concern basis in preparing the Company's separate financial statements.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates and assumptions and affect the Company's results in future periods.

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 in thousands ("US$000"), except where otherwise stated.

Disclosure exemptions utilised under FRS 101

In preparing the Company's separate financial statements, the Directors utilised the following exemptions from the disclosure requirements of IFRS adopted for use in the European Union that are available to them under FRS 101:

- Paragraphs 45(b) (number and weighted average exercise prices of share options) and 46 to 52 (determination of fair value of options and awards granted and financial effect of share-based compensation) of IFRS 2 *Share-based Payment*;
- IFRS 7 *Financial Instruments – Disclosures*;
- Paragraphs 91 to 99 (disclosure requirements) of IFRS 13 *Fair Value Measurement*;
- Paragraph 38 of IAS 1 *Presentation of Financial Statements* with regard to comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1 (reconciliation of the number of the Company's shares outstanding at the beginning and end of the period);
- Paragraphs 10(d) (statement of cash flows), 16 (statement of compliance with IFRS), 38(A to D) (comparative information), 111 (statement of cash flows) and 134 to 136 (disclosures about capital) of IAS 1 *Presentation of Financial Statements*;
- IAS 7 *Statement of Cash Flows*;
- Paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (discussion of IFRSs issued by the IASB but not yet adopted by the Company); and
- Paragraph 17 of IAS 24 *Related Party Disclosures* (compensation of key management personnel) and the further requirement in IAS 24 to disclose related party transactions entered into with subsidiaries that are wholly-owned by the Company.

Approval of the financial statements

The Company's separate financial statements for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 3 March 2020.

Notes to the Company financial statements continued

1. Background continued

Relevant accounting standards adopted during the year

With effect from 1 January 2020, the Company adopted the following accounting standards, none of which had any immediate impact on its results or financial position:

- *Definition of a Business* (Amendments to IFRS 3); and
- *Definition of Material* (Amendments to IAS 1 and IAS 8)
- *Interest Rate Benchmark Reform – Phase 1* (Amendments to IFRS 9 and IFRS 7).

A brief summary of these accounting standards is set out in note 1 to the consolidated financial statements.

Consequences of Brexit for the Company's separate financial statements

On 31 January 2020, the UK ceased to be a member of the European Union and entered a transition period that ended on 31 December 2020.

Since 2016, the Company has prepared its separate financial statements in accordance with FRS 101 *Reduced Disclosure Framework*, which contained the recognition and measurement requirements of IFRS adopted for use in the EU ("EU-adopted IFRS").

Following the end of the transition period, the UK Government introduced its own process for endorsing IFRS for use in the UK ("UK-adopted IFRS"). For annual periods beginning on or after 1 January 2021, the Company will continue to prepare its separate financial statements in accordance with FRS 101 but FRS 101 will contain the recognition and measurement requirements of UK-adopted IFRS.

At the end of the transition period, the UK adopted IFRS that had been adopted for use in the EU. IFRS that had not been endorsed by the EU at the end of the transition period will be subject to the UK endorsement process.

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.

Foreign currency translation

Transactions denominated in foreign currencies are recorded in US dollars at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Currency translation differences are recognised in profit or loss.

Financial instruments

Amounts owed by/to Group undertakings

Amounts owed by/to Group undertakings are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, investments in money market funds and short-term deposits with an original maturity of three months or less.

Equity investments

Equity investments are initially measured at fair value plus transaction costs, if any. Equity investments are subsequently measured at fair value with resulting gains and losses recognised in profit or loss unless the Company irrevocably elects on initial recognition for such gains and losses to be recognised in other comprehensive income. The Company has made this election in respect of its investment in the common shares of Energous Corporation.

Derivative financial instruments

The Company holds derivative financial instruments that are used to reduce its exposure or that of its subsidiaries to currency exchange rate movements. The Company may also hold equity options and warrants in relation to certain of its strategic investments. The Company does not hold or issue derivatives for speculative purposes.

All derivative financial instruments held by the Company are measured at fair value. All fair value gains and losses are recognised in profit or loss. Where the fair value of a derivative on initial recognition differs from the transaction price, if any, the difference is recognised immediately in profit or loss only if the fair value is evidenced by a quoted price in an active market or is based on a valuation technique that uses only data from observable markets.

2. Significant accounting policies continued

Income taxes

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period.

Deferred tax is tax expected to be payable or recoverable on temporary differences between the carrying amount of an asset or liability in the financial statements and its tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available in the future against which they can be utilised.

Where there is uncertainty concerning the tax treatment of an item or a group of items, the amount of current and deferred tax recognised is based on management's expectation of the likely outcome of the examination of the uncertain tax treatment by the relevant tax authorities.

Current tax and deferred tax is recognised in profit or loss unless it relates to an item that is recognised in the same or a different period outside profit or loss, in which case the related tax is also recognised outside profit or loss, either in other comprehensive income or directly in equity.

Share-based compensation

The Company operates share-based compensation plans under which it grants options and other awards over its ordinary shares to employees of its subsidiaries. Awards granted under the existing plans are classified as equity-settled awards.

The Company recognises a compensation expense that is based on the fair value of the awards measured at the grant date using the Black-Scholes option pricing formula or a Monte Carlo valuation model.

Shares held by employee benefit trusts

The Company provides finance to two trusts to purchase the Company's ordinary shares in order to meet its obligations under its share-based compensation plans. When the trusts purchase such shares, the cost of the shares is debited to equity and subsequent sales or transfers of the shares by the trusts are accounted for within equity.

Treasury shares

Treasury shares comprise the Company's ordinary shares that have been purchased under the Company's share buyback programme. Purchases made under the programme are off market and are effected by way of contingent forward share purchase contracts with third-party brokers. Subsequent sales, transfers or cancellations of treasury shares held by the Company are accounted for within equity.

3. Income statement

As permitted by section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements.

During 2020, the Company had no employees (2019: none).

Advances are made by foreign subsidiaries to the Executive Director against foreign taxes arising as a result of business travel that are repaid as and when the relevant tax credits are received. Directors' remuneration and details of the advances made to the Executive Director are set out in the Directors' remuneration report on pages 98 to 99.

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 2019	1,013,745
Additions	163,797
As at 31 December 2020	**1,177,542**

Details of the Company's subsidiaries as at 31 December 2020 are set out on page 204.

Notes to the Company financial statements continued

5. Other investments

Other investments were as follows:

	2020 US$000	2019 US$000
Equity investments:		
– Energous shares	**3,132**	3,079
Derivative financial instruments:		
– Energous warrants	**–**	31
Total other investments	**3,132**	3,110

Details of the Company's investments in Energous Corporation ("Energous") are set out in note 18 to the consolidated financial statements. During 2020, the Company recognised a fair value gain on the shares of US$53 (2019: loss of US$6,994) in other comprehensive income.

The Company's remaining warrants over shares in Energous expired on 5 July 2020.

6. Amounts owed by/to Group undertakings

Amounts owed by/to Group undertakings are generally repayable on demand or have no fixed repayment terms and are therefore classified as current assets or current liabilities.

During 2020, the Company made loans totalling US$250,000 to one of its subsidiaries to facilitate the acquisition of Adesto Technologies Corporation. Each loan is repayable in June 2025 and attracts interest at a floating rate determined on an arm's length basis taking into account the credit profile of the borrower. Accordingly, the loans are classified as non-current assets and their principal amounts were considered equivalent to their fair value on initial recognition.

7. Income tax

During 2020, previously unrecognised deferred tax assets were utilised to reduce taxable profit. UK tax laws restrict the utilisation of tax loss carryforwards and accordingly taxable profit was not fully offset. Consequently, as at 31 December 2020, there was current tax payable of US$64 (2019: receivable of US$537).

As at 31 December 2020, no deferred tax assets were recognised for tax loss carryforwards of US$2,810 (2019: US$9,533) 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 26 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 2018	571	(14,927)	–	(14,356)
Other comprehensive income/(expense):				
– Fair value loss on equity investments	–	(6,994)	–	(6,994)
Other changes in equity:				
– Purchase of own shares into treasury	–	–	(251,787)	(251,787)
As at 31 December 2019	571	(21,921)	(251,787)	(273,137)
Other comprehensive income/(expense):				
– Fair value gain on equity investments	**–**	**53**	**–**	**53**
Other changes in equity:				
– Purchase of own shares into treasury	**–**	**–**	**(80,500)**	**(80,500)**
Cancellation of treasury shares	**449**	**–**	**129,270**	**129,719**
As at 31 December 2020	**1,020**	**(21,868)**	**(203,017)**	**(223,865)**

Treasury shares are shares purchased under the Company's share buyback programme that have not been cancelled. Details of purchases made under the Company's share buyback programme are set out in note 27 to the consolidated financial statements.

8. Share capital and reserves continued

b) Other reserves continued

On 18 May 2020, the Company cancelled 3,700,000 of the treasury shares that it had purchased under 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$449 was transferred from share capital to the capital redemption reserve.

The capital redemption reserve represents the nominal value of treasury shares that have been cancelled and is non-distributable.

The fair value reserve comprises gains and losses recognised on equity investments that are measured at fair value through other comprehensive income.

c) Distributable profits

Profits available for distribution by the Company comprise its accumulated realised profits less its accumulated realised losses, subject to the restriction that a distribution may not reduce the Company's net assets below the aggregate of its called up share capital and its undistributable reserves.

The Directors consider that the Company's distributable profits as at 31 December 2020 amounted to US$504,769 (2019: US$504,793).

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 2020, the trusts held 3,630,109 ordinary shares (2019: 804,712 ordinary shares). An analysis of movements in the number and carrying amount of the shares held by the trusts is presented in note 28 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 28 to the consolidated financial statements.

10. Guarantees

As described in note 4 to the consolidated financial statements, Apple made an interest-free prepayment of US$300,000 to Dialog following the completion in April 2019 of the licensing and asset transfer agreement between us. The Company and certain of its subsidiaries have jointly and severally guaranteed the reducing letter of credit that was put in place in favour of Apple in relation to the outstanding principal amount of the prepayment. As at 31 December 2020, the amount available to be drawn under the letter of credit was US$87,500 and was reduced to US$75,000 following the scheduled quarterly recoupment of the prepayment in January 2021.

General guarantees were issued by the Company under Article 403, Book 2 of the Dutch Civil Code in respect of its Dutch subsidiaries, in order that they did not have to file annual accounts in the Netherlands.

11. Subsequent event

Proposed acquisition of Dialog by Renesas

On 8 February 2021, the Directors of the Company and Renesas Electronics Corporation ("Renesas"), a supplier of advanced semiconductor solutions, announced that they have reached agreement on the terms of the acquisition of the entire issued and to be issued share capital of the Company for €67.50 per share in cash, representing a total equity value of approximately €4.9 billion (US$5.9 billion).

Renesas is incorporated in Japan and its shares are listed on the Tokyo Stock Exchange.

It is intended that the acquisition will be effected by means of a scheme of arrangement under the UK Companies Act 2006. As such, completion of the transaction will be subject to approval by the Company's shareholders and the court in England & Wales. It will also be subject to regulatory approvals in a number of jurisdictions and other customary closing conditions. Subject to obtaining the necessary approvals and satisfying the other closing conditions, it is expected that the acquisition will become effective during the second half of 2021.

Financial performance measures

Use of non-IFRS measures

We use a number of measures to assess the financial performance of our businesses. We consider certain of these measures to be particularly important and identify them as "key performance indicators" ("KPIs"). We have identified the following financial measures as KPIs: revenue growth; gross margin, operating expenses as a percentage of revenue; operating margin; diluted EPS and free cash flow. We monitor the profit or loss measures that are KPIs on both an IFRS basis and an underlying basis.

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

Underlying measures of performance

We report underlying measures of performance because we believe they provide both management and investors with useful additional information about the financial performance of our businesses. Underlying measures of performance represent the equivalent IFRS measures adjusted for specific items that are considered by us to hinder comparison of the financial performance of our businesses from one period to another, with each other or with other similar businesses.

Underlying measures of performance exclude items that can have a significant effect on the Group's profit or loss. We compensate for these limitations by monitoring separately the items that are excluded from the equivalent IFRS measures in calculating the underlying measures.

We outline below the specific items of income and expense that are recognised in profit or loss in accordance with IFRS but are excluded from our underlying results.

Licence and asset transfers to Apple

We excluded from our underlying results the following discrete benefits that were recognised on completion of the licensing and asset transfer agreement with Apple in April 2019:

- the revenue attributed to the perpetual licence over our existing Power Management IP; and
- the gain on the transfer of design centre businesses.

Share-based compensation and related expenses

We exclude the share-based compensation expense recognised in relation to options and other awards granted under the Company's share-based compensation plans because the awards are equity-settled and their effect on shareholders' returns is already reflected in diluted earnings per share measures. In 2019, we also excluded discrete compensation payments to certain US persons following the modification of options awarded to them. We additionally exclude the effect on profit or loss of changes in the accrual for payroll taxes payable on the exercise or vesting of such awards because the accrual fluctuates with the Company's share price and the effect on profit or loss is therefore not necessarily indicative of our trading performance.

Business combinations

We exclude those effects of applying the acquisition method of accounting under IFRS that we consider are not indicative of the Group's trading performance, including the accounting for transaction costs; the fair value adjustment to inventories of acquired businesses; the recognition of certain elements of the purchase price as compensation expense; and the recognition of remeasurements of contingent consideration in profit or loss.

During the periods under review, we excluded from our underlying results the following items in relation to the accounting for business combinations:

- acquisition-related costs;
- the recognition in cost of sales of the consumption of the fair value uplift to inventory held by the acquired businesses at the acquisition date;
- the elements of deferred amounts payable for Adesto and Silego that are recognised as compensation expense;
- credits recognised on the forfeiture of deferred consideration payable for Adesto and Silego;
- the effect of changes in estimates of contingent consideration payable for Creative Chips and Silego; and
- the interest expense recognised on the unwinding of the discount on liabilities for contingent consideration.

We also exclude from our underlying results the amortisation of identifiable intangible assets that are recognised in business combinations in order that the performance of those businesses that we have acquired may be compared fairly with those businesses that we have developed on an organic basis.

Integration costs

We exclude the costs of integrating acquired businesses because we consider that they hinder the assessment of the financial performance of those businesses in comparison with others. In 2020, integration costs were incurred principally in relation to Adesto. In 2019, integration costs related to FCI and Creative Chips. In 2018, integration costs related to Silego.

Underlying measures of performance continued

Consequences of the Covid-19 pandemic

We excluded from our underlying results the following significant discrete items that arose principally from the Covid-19 pandemic:

- the impairment loss of US$44,900 incurred in September 2020 on the provisional goodwill recognised on the acquisition of Adesto; and
- expenses incurred in relation to cost-reduction initiatives that commenced during 2020 in response to the pandemic (largely employee termination benefits).

Corporate transaction costs

We exclude significant transaction costs and other discrete items recognised in relation to corporate transactions other than business combinations. In 2019 and 2018, we excluded transaction costs incurred in relation to the licensing and asset transfer agreement with Apple. In 2018, we also excluded the costs incurred in relation to the acquisition discussions that we held with Synaptics Incorporated.

Strategic investments

We excluded the effect on profit or loss of the measurement at fair value of the warrants that we held in Energous prior to their expiry in November 2019 and July 2020 and the call option that we held over the shares that we did not own in Dyna Image prior to its expiry in June 2018. We held these instruments for strategic reasons linked to our commercial partnerships with the relevant companies. Since we did not hold these instruments for trading purposes, we excluded fluctuations in their fair values when assessing our trading performance.

Effective interest on financial liabilities

We excluded the non-cash element of the interest expense recognised in relation to a patent licensing agreement that was accounted for as a hire purchase contract prior to its expiry in 2018. We considered that the cash interest payments were more indicative of the effect of this arrangement on shareholders' returns.

Income tax effect of underlying adjustments

We calculate the income tax effect of underlying adjustments by considering the specific tax treatment of each item and by applying the relevant statutory tax rate to those items that are taxable or deductible for tax purposes.

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 2020, 2019 and 2018 are presented in the following tables:

Year ended 31 December 2020

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Impairment of goodwill	Cost-reduction initiatives	Strategic investments	Underlying basis
Revenue	1,375,924	–	–	–	–	–	–	1,375,924
Cost of sales	(697,805)	2,922	15,843	–	–	–	–	(679,040)
Gross profit	678,119	2,922	15,843	–	–	–	–	696,884
Gross margin %	***49.3%***							***50.6%***
SG&A expenses	(210,789)	29,815	39,808	6,490	–	2,406	–	(132,270)
R&D expenses	(325,860)	28,236	13,015	–	–	–	–	(284,609)
Other operating expense	(20,595)	–	(6,938)	–	44,900	–	–	17,367
Operating profit	120,875	60,973	61,728	6,490	44,900	2,406	–	297,372
Operating margin %	***8.8%***							***21.6%***
Net finance expense	(3,972)	–	272	–	–	–	(777)	(4,477)
Profit before income taxes	116,903	60,973	62,000	6,490	44,900	2,406	(777)	292,895
Income tax expense	(32,408)	(8,467)	(10,287)	(1,301)	–	(419)	148	(52,734)
Net income	84,495	52,506	51,713	5,189	44,900	1,987	(629)	240,161
EBITDA	n/a							356,982
EBITDA margin %	***n/a***							***25.9%***

Financial performance measures continued

Reconciliation of underlying measures to equivalent IFRS measures continued

Year ended 31 December 2019

US$000 unless stated otherwise	IFRS basis	Licence and asset transfers to Apple	Share-based compensation and related payroll taxes	Accounting for business combinations	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
Revenue	1,566,239	(145,750)	–	–	–	–	–	1,420,489
Cost of sales	(717,703)	–	2,213	1,749	–	–	–	(713,741)
Gross profit	848,536	(145,750)	2,213	1,749	–	–	–	706,748
Gross margin %	*54.2%*							*49.8%*
SG&A expenses	(194,538)	–	26,254	20,670	2,086	16,064	–	(129,464)
R&D expenses	(313,550)	–	26,189	10,571	348	–	–	(276,442)
Other operating income	39,405	(15,898)	–	–	–	–	–	23,507
Operating profit	379,853	(161,648)	54,656	32,990	2,434	16,064	–	324,349
Operating margin %	*24.3%*							*22.8%*
Net finance income	5,185	–	–	464	–	–	(150)	5,499
Profit before income taxes	385,038	(161,648)	54,656	33,454	2,434	16,064	(150)	329,848
Income tax expense	(83,586)	32,449	(7,937)	(4,998)	(175)	(1,213)	29	(65,431)
Net income	301,452	(129,199)	46,719	28,456	2,259	14,851	(121)	264,417
EBITDA	n/a							390,081
EBITDA margin %	*n/a*							*27.5%*

Year ended 31 December 2018

US$000 unless stated otherwise	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Corporate transaction costs	Effective interest	Strategic investments	Underlying basis
Revenue	1,442,138	–	–	–	–	–	–	1,442,138
Cost of sales	(751,070)	1,791	3,129	13	–	–	–	(746,137)
Gross profit	691,068	1,791	3,129	13	–	–	–	696,001
Gross margin %	*47.9%*							*48.3%*
SG&A expenses	(168,228)	17,163	14,757	2,524	11,346	–	–	(122,438)
R&D expenses	(326,309)	22,699	9,148	228	–	–	–	(294,234)
Other operating income	3,176	–	(877)	–	–	–	–	2,299
Operating profit	199,707	41,653	26,157	2,765	11,346	–	–	281,628
Operating margin %	*13.8%*							*19.5%*
Net finance (expense)/income	(3,514)	–	2,220	–	–	50	9,269	8,025
Profit before income taxes	196,193	41,653	28,377	2,765	11,346	50	9,269	289,653
Income tax expense	(55,281)	(2,108)	(3,448)	(555)	(1,024)	(9)	(746)	(63,171)
Profit after income taxes	140,912	39,545	24,929	2,210	10,322	41	8,523	226,482
Share of loss of associate	(1,113)	–	–	–	–	–	–	(1,113)
Net income	139,799	39,545	24,929	2,210	10,322	41	8,523	225,369
EBITDA	n/a							339,584
EBITDA margin %	*n/a*							*23.5%*

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	2020	2019	2018
Acquisition-related costs	**9,145**	4,040	–
Amortisation of acquired intangible assets	**36,837**	26,112	22,629
Consumption of the fair value uplift of acquired inventory	**15,257**	1,750	3,129
Consideration accounted for as compensation expense	**7,482**	1,204	1,481
Forfeiture of deferred consideration	**(55)**	(116)	(204)
Remeasurement of contingent consideration	**(6,938)**	–	(878)
Increase in operating profit	**61,728**	32,990	26,157
Unwinding of discount on contingent consideration	**272**	464	2,220
Increase in profit before income taxes	**62,000**	33,454	28,377
Income tax credit	**(10,287)**	(4,998)	(3,448)
Increase in net income	**51,713**	28,456	24,929

Explanation of financial performance measures

Change in revenue

We monitor the change in revenue from one period to another and the trend in revenue over time because they are important measures of the growth in our business. During each period, the change in revenue was as follows:

US$000 unless stated otherwise	2020	2019	2018
IFRS measures			
Revenue in the period	**1,375,924**	1,566,239	1,442,138
Revenue in the comparative period	**1,566,239**	1,442,138	1,352,841
(Decrease)/Increase in revenue	**(12.2)%**	8.6%	6.6%
Underlying measures			
Revenue in the period	**1,375,924**	1,420,489	1,442,138
Revenue in the comparative period	**1,420,489**	1,442,138	1,352,841
(Decrease)/increase in revenue	**(3.1)%**	(1.5)%	6.6%

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	2020	2019	2018
IFRS measures			
Revenue	**1,375,924**	1,566,239	1,442,138
Gross profit	**678,119**	848,536	691,068
Gross margin	**49.3%**	54.2%	47.9%
Underlying measures			
Revenue	**1,375,924**	1,420,489	1,442,138
Gross profit	**696,884**	706,748	696,001
Gross margin	**50.6%**	49.8%	48.3%

Financial performance measures continued

Explanation of financial performance measures continued

Operating expenses as a percentage of revenue

We monitor operating expenses as a percentage of revenue because we believe it provides a measure of our effort in innovation and the efficiency of our operating structure. Operating expenses comprise selling, general and administrative ("SG&A") expenses and research and development ("R&D") expenses. Operating expenses as a percentage of revenue determined in accordance with IFRS and on an underlying basis was as follows:

US$000 unless stated otherwise	**2020**	2019	2018
IFRS measures			
Revenue	**1,375,924**	1,566,239	1,442,138
Operating expenses	**(536,649)**	(508,088)	(494,537)
Operating expenses as a percentage of revenue	**39.0%**	32.4%	34.3%
Underlying measures			
Revenue	**1,375,924**	1,420,489	1,442,138
Operating expenses	**(416,879)**	(405,906)	(416,672)
Operating expenses as a percentage of revenue	**30.3%**	28.6%	28.9%

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	**2020**	2019	2018
IFRS measures			
Operating profit in the period	**120,875**	379,853	199,707
Operating profit in the comparative period	**379,853**	199,707	187,017
(Decrease)/increase in operating profit	**(68.2)%**	90.2%	6.8%
Underlying measures			
Operating profit in the period	**297,372**	324,349	281,628
Operating profit in the comparative period	**324,349**	281,628	259,458
(Decrease)/increase in operating profit	**(8.3)%**	15.2%	8.5%

Operating margin

Operating margin is operating profit or loss expressed as a percentage of revenue. We monitor operating margin because we believe it provides a measure of the overall profitability of our operations. Operating margin determined in accordance with IFRS and on an underlying basis was as follows:

US$000 unless stated otherwise	**2020**	2019	2018
IFRS measures			
Revenue	**1,375,924**	1,566,239	1,442,138
Operating profit	**120,875**	379,853	199,707
Operating profit margin	**8.8%**	24.3%	13.8%
Underlying measures			
Revenue	**1,375,924**	1,420,489	1,442,138
Operating profit	**297,372**	324,349	281,628
Operating profit margin	**21.6%**	22.8%	19.5%

Explanation of financial performance measures continued

Underlying EBITDA and EBITDA margin

Underlying EBITDA is a non-IFRS measure that we define as underlying net income before net finance expense, income tax expense and depreciation and amortisation expenses. Underlying EBITDA margin is a non-IFRS measure that represents underlying EBITDA expressed as a percentage of revenue. We present underlying EBITDA and underlying EBITDA margin because we believe these measures are useful to investors and other users of our financial information in evaluating the sensitivity of our underlying trading performance to changes in variable operating expenses. Underlying EBITDA may be reconciled to net income determined in accordance with IFRS as follows:

US$000	**2020**	2019	2018
Net income	**84,495**	301,452	139,799
Net finance expense/(income)	**3,972**	(5,185)	3,514
Income tax expense	**32,408**	83,586	55,281
Depreciation expense	**35,544**	39,611	31,455
Amortisation expense	**60,903**	52,233	49,130
EBITDA	**217,322**	471,697	279,179
Licence and asset transfers to Apple	**–**	(161,648)	–
Share-based compensation and related expenses	**60,973**	54,656	41,653
Acquisition-related costs	**9,145**	4,040	–
Consumption of the fair value uplift of acquired inventory	**15,257**	1,750	3,129
Consideration accounted for as compensation expense	**7,482**	1,204	1,481
Forfeiture of deferred consideration	**(55)**	(116)	(204)
Remeasurement of contingent consideration	**(6,938)**	–	(878)
Integration costs	**6,490**	2,434	2,765
Impairment of goodwill	**44,900**	–	–
Cost-reduction initiatives	**2,406**	–	–
Corporate transaction costs	**–**	16,064	11,346
Share of loss of associate	**–**	–	1,113
Underlying EBITDA	**356,982**	390,081	339,584

Underlying EBITDA margin was as follows:

US$000 unless stated otherwise	**2020**	2019	2018
Underlying measures			
Revenue	**1,375,924**	1,420,489	1,442,138
EBITDA	**356,982**	390,081	339,584
EBITDA margin	**25.9%**	27.5%	23.5%

Financial performance measures continued

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	**2020**	2019	2018
Earnings for calculating basic and diluted EPS	**84,495**	301,452	139,799
Underlying net income	**240,161**	264,417	225,369

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$000	**2020**	2019	2018
IFRS earnings per share			
Basic	**1.24**	4.19	1.89
Diluted	**1.17**	3.96	1.80
Underlying earnings per share			
Basic	**3.53**	3.68	3.05
Diluted	**3.32**	3.47	2.90

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	**2020**	2019	2018
Cash flow from operating activities	**142,243**	496,465	288,649
Purchase of property, plant and equipment	**(19,410)**	(12,129)	(26,145)
Purchase of intangible assets	**(7,256)**	(8,437)	(6,197)
Payments for capitalised development costs	**(13,746)**	(15,384)	(24,771)
Capital element of lease payments	**(9,734)**	(11,086)	(1,651)
Free cash flow	**92,097**	449,429	229,885

Appendix

External review of reporting on sustainability

Verisk Maplecroft was commissioned by Dialog Semiconductor Plc ("Dialog Semiconductor") to help advance its sustainability reporting.

This included guidance with respect to reporting strategy, materiality, selected content and reporting best practice. This statement is made in our capacity as a service provider to Dialog Semiconductor on this assignment. Verisk Maplecroft did not verify the data contained in this annual report.

Approach

Verisk Maplecroft was involved in the following activities between mid- 2020 and early 2021:

- Review of reporting standards: Including the Global Reporting Initiative Standards ("GRI Standards"), the International Integrated Reporting ("IR") Framework, the Ten Principles of the United Nations Global Compact ("UNGC"), and the Task Force on Climate-Related Financial Disclosures ("TCFD");
- Gap analysis: To identify and, where feasible, help address gaps in Dialog Semiconductor's existing reporting practices against the relevant reporting standards;
- Engagement: Remote engagement with Dialog Semiconductor managers;
- Materiality process: Implementation, with Dialog Semiconductor, of an interim review of our materiality assessment which was aligned with the GRI Standards; and
- Performance enhancement: The outcomes from the above processes were used, where possible, to enhance Dialog Semiconductor's level of reporting and to support its closer alignment with the GRI Standards reporting requirements.

Sam Rogers and Sarah Sinjab

3 March 2021

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GRI Standards Material Topics

GRI Standard	Material	Sustainability Topic	Page
GRI 100 Series: General			
101: Foundation	Y*		Throughout the report
102: General disclosures	Y*		Throughout the report
103: Management approach disclosures	Y*		Throughout the report
GRI 200 Series: Economic			
201: Economic performance	Y	Value generation and distribution	26-27, 42-43, 54-57, GRI table
202: Market presence			
203: Indirect economic impact	Y	Value generation and distribution	42-43
204: Procurement practices			
205: Anti-corruption	Y	Corruption/bribery	50-51, GRI table
206: Anti-competitive behaviour			
207: Tax	Y	Corporate governance and compliance Corruption/bribery	69-75, 79, GRI table
GRI 300 Series: Environmental			
301: Materials		Product impacts Compliance with customer standards	
302: Energy			
303: Water and effluents			
304: Biodiversity			
305: Emissions			
306: Effluents and waste			
307: Environmental compliance	Y	Corporate governance and compliance Compliance with customer standards	38-39, 48-49, GRI table
308: Supplier environmental assessment	Y	Corporate governance and compliance	48-49, GRI table

* Applicable to the material topics identified by Dialog in 2019

Appendix continued

GRI Standard	Material	Sustainability Topic	Page
GRI 400 Series: Social			
401: Employment	Y	Recruitment of professionals and graduates Retention, morale and engagement	34-37. GRI table
402: Labour/management relations			
403: Occupational health and safety			
404: Training and education	Y	Retention, morale and engagement Employee development	36-37, GRI table
405: Diversity and equal opportunity	Y	Diversity and equality	28, 36-37, 52-53, 91
406: Non discrimination	Y	Diversity and equality	36-37, 84, 91
407: Freedom of association and collective bargaining	Y	Labour rights and human rights (supply chain)	48-49, GRI table
408: Child labour	Y	Labour rights and human rights (supply chain)	46-49, GRI table
409: Forced or compulsory labour	Y	Labour rights and human rights (supply chain)	46-49, GRI table
410: Security practices			
411: Rights of indigenous peoples			
412: Human rights assessment	Y	Corporate governance and compliance Labour rights and human rights (supply chain)	46–49, 50, GRI table
413: Local communities			
414: Supplier social assessment	Y	Corporate governance and compliance	46–49, GRI table
415: Public policy			
416: Customer health and safety	Y	Corporate governance and compliance	38-39, GRI table
417: Marketing and labelling	Y	Corporate governance and compliance	38-39, 45, GRI table
418: Customer privacy	Y	Corporate governance and compliance	38-39, 44-45, GRI table
419: Socioeconomic compliance	Y	Corporate governance and compliance	38-39, 42-43, 50, GRI table

* Applicable to the material topics identified by Dialog in 2019

UN Global Compact reference table

Category	Principle	Page
Human rights	1 Businesses should support and respect the protection of internationally proclaimed human rights	32-33, 46-51, GRI table
Human rights	2 Businesses should make sure that they are not complicit in human rights abuses	32-33, 46-51, GRI table
Labour	3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	32-33, 46-51, GRI table
Labour	4 Businesses should uphold the elimination of all forms of forced and compulsory labour	32-33, 46-51, GRI table
Labour	5 Businesses should uphold the effective abolition of child labour	32-33, 46-51, GRI table
Labour	6 Businesses should uphold the elimination of discrimination in respect of employment and occupation	32-33, 36-37, 50-53, GRI table
Environment	7 Businesses should support a precautionary approach to environmental challenges	32-33, 40-41, GRI table
Environment	8 Businesses should undertake initiatives to promote greater environmental responsibility	32-33, 40-41, 46-47, GRI table
Environment	9 Businesses should encourage the development and diffusion of environmentally friendly technologies	Throughout the report
Anti-corruption	10 Businesses should work against corruption in all its forms, including extortion and bribery	32-33, 50-51, GRI table

Glossary of Terms – Technical

Technical glossary

Analog A type of signal in an electronic circuit that takes on a continuous range of values rather than only a few discrete values.

ADAS Advanced driver-assistance systems.

AI Artificial intelligence.

Appcessories A physical device and counterpart application for a mobile device typically controlled via Bluetooth®.

AR Augmented reality.

ASIC An Application Specific Integrated Circuit is an integrated chip, custom-designed for a specific application.

ASSP An Application Specific Standard Product is a semiconductor device integrated circuit ("IC") dedicated to a specific application and sold to more than one user.

Audio CODEC The interface between analog signals (such as the human voice) and the digital data processing inside a mobile phone, determining voice quality.

BCD process platform The incorporation of analog components ("Bipolar"), digital components ("CMOS") and high-voltage transistors ("DMOS") on the same die to reduce the number of components required in the bill of materials, minimise board space, costs and the parasitic losses in comparison to a non-integrated solution.

BLE Bluetooth® Low Energy.

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.

CBRAM Conductive Bridging RAM.

CDMA Code Division Multiple Access is an alternative to GSM technology for mobile wireless networks.

Chips Electronic integrated circuits.

CMIC Configurable Mixed-signal IC A category of ICs comprising a matrix of analog and digital blocks which are configurable through a programmable ("OTP") non-volatile memory.

CMOS Complementary Metal Oxide Semiconductor: the most popular class of semiconductor manufacturing technology.

Digital A type of signal used to transmit information that has only discrete levels of some parameter ("usually voltage").

Digital Enhanced Cordless Telecommunications ("DECT") is a wireless connectivity standard technology originated in Europe for cordless telephony.

Fabless A company that designs and delivers semiconductors by outsourcing the fabrication ("manufacturing") process.

FET A Field Effect Transistor uses an electric field to control the shape and hence the conductivity of a channel of one type of charge carrier in a semiconductor material.

Foundry A manufacturing plant where silicon wafers are produced.

Hi-Fi High-Fidelity is the reproduction of sound with little or no distortion.

High power density In the context of travel adapters, chargers and power supplies, high power density is the ability to put higher power AC/DC conversion capability inside smaller form-factor adapter cases and power supply housings while avoiding thermal issues that can occur when operating high power electronics in confined, small spaces. High power density is achieved by enabling the use of smaller components that are also more highly efficient.

GaN Gallium Nitride.

IC Integrated Circuit An electronic device with numerous components on a single chip.

FPGA A Field-programmable gate array is an integrated circuit designed to be configured by a customer or a designer after manufacturing.

Imaging The capture and processing of images via an image sensor for use by an electronic device to send to a display for viewing by a user.

Internet of Things ("IoT") The Internet of Things is an environment where everyday items, such as smartphones, wearable health meters, light bulbs, and lighting, security and HVAC systems, are all connected via the Internet, allowing them to send and receive data and be controlled wirelessly.

Internet of My Things This 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.

NVM Non Volatile Memory.

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.

RAM Random Access Memory.

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.

Glossary of Terms – Technical continued

SmartMirror™ A technology patented by Dialog Semiconductor which simplifies circuit design and provides very low current consumption in Power Management circuits.

Smartphone A mobile phone offering advanced capabilities, often with pc-like functionality ("PC-mobile handset convergence"). A smartphone runs complete operating system software providing a standardised interface and platform for application developers.

SmartPulse™ A series of wireless sensors, actuators and base station devices enables the easy creation of wireless sensor networks for the home automation, security, healthcare and energy monitoring consumer markets.

SmarteXite™ Dialog's brand name for its intelligent LED lighting technology platform.

SmartXtend™ A technology patented by Dialog Semiconductor that extends the life and reduces power consumption of high-resolution, passive matrix OLED displays.

SoC System on Chip An integrated circuit with all the necessary electronic circuits and parts for a given system.

Solid State Lighting A type of lighting in which light-emitting diodes ("LEDs") replaces conventional incandescent and fluorescent lamp for general lighting purposes.

SRAM Static RAM.

Subcontractor A business that signs a contract to perform part or all of the obligations of another's contract.

Synchronous Rectifier An integrated circuit that can replace diodes to improve efficiency and power density in power conversion applications, such as power supplies.

System-on-Chip An IC that integrates all components of a computer or other electronic system into a single chip. It may contain digital, analog, mixed-signal, and often radio-frequency functions – all on a single chip substrate.

Tablet PC A tablet PC refers to a slate- or tablet-shaped mobile computer device, equipped with a touchscreen or stylus.

TAM Total addressable market, TAM measures the potential market for your product – and your product only – assuming you could reach 100% of your customers.

Ultrabook™ A higher-end, compact sub-notebook that is designed to be compact, thin and light without compromising performance and battery life. Ultrabooks™ typically feature low power processors and solid-state drives.

USB Universal Serial Bus: a universal interface standard to connect different electronics devices.

USB Power Delivery ("USB PD") A communication protocol developed by the USB Implementers Forum. The USB PD protocol is added on top of the USB Type-C™ connector specification to enable a single USB cable/connector solution that can be used ubiquitously for power or charging across mobile devices, tablets, laptops, and even power tools, networking devices, and USB wall receptacles. The specification supports scalable power and performance for new and emerging electronic products. The USB PD specification provides flexible power delivery and data transfer up to 100W.

USB Type-C™ cable and connector specification A universal cable and connector specification developed by the USB Implementers Forum that addresses new, smaller, thinner, lighter form factor computing platforms and devices. It provides for a slim, sleek and standard connector form-factor and high-power cable. Combined with the USB Power Delivery specification, USB Type-C enables a single USB cable/connector solution that can be used ubiquitously for power or charging across mobile devices, tablets, laptops, and even power tools, networking devices, and USB wall receptacles. The specification supports scalable power and performance for new and emerging electronic products.

Voice Over IP Our energy-efficient multicore VoIP processors interact with Bluetooth®, Wi-Fi and DECT to enable headset and handset connectivity while combining industry-leading power consumption with the flexibility and processing capacity to handle a wealth of enterprise VoIP applications.

VR Virtual reality.

Wafer A slice of silicon from a 4, 5, 6 or 8 inch diameter silicon bar and used as the foundation on which to build semiconductor products.

WiRa™ Wireless Ranging.

4G Wireless broadband standard.

Glossary of Terms – Financial

Financial glossary

AGM Annual General Meeting of the Company's shareholders.

BaFin the Federal Financial Supervisory Authority in Germany (Bundesanstalt für Finanzdiensleistungsaufsicht).

Basis point or bp one hundredth of one percentage point.

CAGR Compound Annual Growth Rate, a method of assessing the average growth of a value over time.

CEO Chief Executive Officer.

CFO Chief Financial Officer.

the Companies Act 2006 the Companies Act 2006 of England and Wales, as amended.

the Company Dialog Semiconductor Plc.

COSO Committee of Sponsoring Organizations, whose mission is to provide thought leadership on risk management, internal control and fraud deterrence to improve organisational performance and governance.

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs (including share-based compensation), applicable overhead and depreciation of test and other equipment.

Dialog Semiconductor, Dialog both used for convenience to refer to the Company and its subsidiaries, unless the context requires otherwise.

the DTRs the Disclosure & Transparency Rules of the UKLA.

EBIT Earnings before interest and taxes (also known as operating profit).

EBITDA Earnings before depreciation, amortisation, interest and taxes.

ESG Environmental Social and Governance.

the EU the European Union.

Euro (€) the common currency used in the majority of member countries of the EU.

the Frankfurt Stock Exchange the largest of the seven regional securities exchanges in Germany.

Free-float The proportion of an issuer's share capital that is available for purchase in the public equity markets by investors.

General and administrative expenses consist primarily of personnel costs (including share-based compensation) and costs for our finance, human resources and other business support functions.

the Group the Company and its subsidiaries.

the IASB the International Accounting Standards Board.

IFRS International Financial Reporting Standards, comprising accounting standards issued by the IASB.

KPIs Key Performance Indicators, a range of indicators to assess performance, to ensure performance is aligned to strategy, and to ensure continued alignment with shareholder interests.

LTIP Long-Term Incentive Plan.

NASDAQ the National Association of Securities Dealers and Automated Quotations.

OECD Organisation for Economic Co-operation and Development.

Other operating income consists of income from customer-specific R&D contracts and other income that is not classified as revenue, less other operating expenses.

Pound sterling (£) the currency of the UK.

Prime Standard a market segment of the Frankfurt Stock Exchange that lists companies which comply with international transparency standards, including periodic reporting in German and English, application of international accounting standards, publication of a financial calendar, staging of at least one analyst conference a year and ad hoc disclosure also in German and English.

R&D research and development.

R&D expenses consist principally of personnel costs (including share-based compensation) and other design and engineering-related costs associated with the development of new ASICs and ASSPs.

Selling and marketing expenses consist primarily of personnel costs (including share-based compensation), travel expenses, sales commissions, advertising and other marketing costs, together with amortisation expenses in relation to identifiable intangible assets such as customer relationships, key customers and order backlog acquired in business combinations.

SG&A selling, general and administrative.

the TecDAX stock index that tracks the performance of the 30 largest companies by market capitalisation from the technology sector that are listed on the Frankfurt Stock Exchange.

UK the United Kingdom of Great Britain and Northern Ireland.

the UKLA the UK Listing Authority.

US the United States of America.

US dollar (US$) the currency of the US.

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Advisers and corporate information

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Auditors

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Reading
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UK

Principal bankers

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Reading
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Designated sponsors

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Germany

Kepler Cheuvreux
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60325 Frankfurt am Main
Germany

Shares

Information on the Company's shares and on significant shareholdings can be found on page 95.

Registered office

Dialog Semiconductor Plc
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London E1W 1AA
UK
Website: www.dialog-semiconductor.com

Registered number

3505161

Financial calendar

Annual General Meeting	4 May 2021
Q1 2021 Results	12 May 2021
Q2 2021 Results	11 August 2021
Q3 2021 Results	10 November 2021
Preliminary results for 2021	February 2022

Company Registrar

Link Market Services (Frankfurt) GmbH
Mergenthalerallee 15-21
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Group directory

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Pangyo-ro 255beon-gil, Bundang-gu
Seongnam-si, Gyeonggi-do
13846 Republic of Korea
Phone: (+82) 31 785 8620

Related undertakings

The Company's related undertakings as at 31 December 2020 were as follows:

Name	Registered Address	Country
Adesto Technologies Corporation[1]	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle DE 19801	United States
Adesto Technologies Corporation Limited[1]	Suites 2111-13, 21/F., Prudential Tower, The Gateway, Harbour City, 21 Canton Road, Tsimshatsui, Kowloon	Hong Kong
Adesto Technologies France SARL[1]	3 rue du Colonel Moll, 75017, Paris	France
Adesto Technologies UK Limited[1]	Carrick House, Lypiatt Road, Cheltenham, Gloucestershire, GL50 2QJ	United Kingdom
Artemis Acquisition LLC[1]	818 West Seventh Street, Suite 930, Los Angeles, CA 90017	United States
Dialog Argo Holdings, Inc.	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle DE 19801	United States
Dialog Integrated Circuits (Tianjin) Limited[1]	Room 2601-03, No.2 Building, TEDA Service Outsourcing Industry Park, No.19 Xinhuan Road, TEDA, Tianjin, 300457	China
Dialog Semiconductor (Shenzhen) Limited[1]	25F, Lifetech Scientific Bldg., Keji South 12th Road, High-tech Zone (Southern Zone), Nanshan District, Shenzhen, 518057	China
Dialog Semiconductor (UK) Limited	Tower Bridge House, St Katharine's Way, London, E1W 1AA	United Kingdom
Dialog Semiconductor Arastirma 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 Bingen GmbH[1] (formerly Creative Chips GmbH)	Im Bubenstück 1, 55411 Bingen-Büdesheim	Germany
Dialog Semiconductor Czech s.r.o.[1]	Klicperova 3208/12, 150 00 Prague 5 – Smichov	Czech Republic
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 Integrated Circuits Single-Member Societe Anonyme[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 Center, 1209 Orange Street, Wilmington, New Castle DE 19801	United States
Dialog Semiconductor K.K.	8F W-Building 1-8-15 Konan, Minato-ku, Tokyo, 108-0075	Japan
Dialog Semiconductor Korea Inc.[1]	(Sampyeong-dong, Pangyo Silicon Park) #B-703, 35, Pangyo-ro 255beon-gil, Bundang-gu, Seongnam-si, Gyeonggi-do	Korea
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 Qinzhou Road, Xuhui District, Shanghai, 200231	China
Echelon Asia Pacific Limited[1]	Room A, 8/F, Excelsior Building, 68-76 Sha Tsui Road, Tsuen Wan, N.T.	Hong Kong
Echelon B.V.[1]	Het Zuiderkruis 53, 5215, MV's-Hertogenbosch	Netherlands
Echelon Corporation[1]	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle DE 19801	United States
Echelon Europe Limited[1]	Carrick House, Lypiatt Road, Cheltenham, Gloucestershire, GL50 2QJ	United Kingdom
Echelon European Development Center GmbH[1]	Neubeckumer Str. 39, 59269 Beckum	Germany
Echelon GmbH[1]	Neubeckumer Str. 39, 59269 Beckum	Germany
Echelon Japan K.K.[1]	Shinagawa Intercity A Tower 28th Floor, 15-1, Kohnan 2-chome, Minato-ku, Tokyo	Japan
Echelon Technology (Beijing) Co., Ltd.[1]	Room 1504B, No. 3, Maizidian West Road, Sanyuanqiao, Chaoyang District, Beijing	China
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
Limited Liability Company Silego Technology (Ukraine)[1]	Kamyanetska Str. 33, Lviv, 79034	Ukraine
Powerventure Semiconductor Limited	Tower Bridge House, St Katharine's Way, London, E1W 1AA	United Kingdom
S3 ASIC Semiconductors Limited[1]	The Herbert Building, The Park, Carrickmines, Dublin 18, D18K8Y4	Ireland
S3 Portugal – Desenvolvimento de Circuitos Microelectrónicos e Software Integrado, S.A.[1]	Madan Parque de Ciência, Rua dos Inventores, s/nº., Monte da Caparica, 2825-182 Caparica	Portugal

Name	Registered Address	Country
Silego (Hefei) Technology, Inc.[1]	Room 303, Building 2, No. 3 Tian Yuan Road, High-Tech Zone, Hefei, 230088	China
Silego Korea Inc.[1]	(Sampyeong-dong, Pangyo Silicon Park) #B-703, 35, Pangyo-ro 255beon-gil, Bundang-gu, Seongnam-si, Gyeonggi-do	Korea
Silego Technology Inc.[1]	Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle DE 19801	United States
Silego Technology Japan, Inc.[1]	8F W-Building 1-8-15 Konan, Minato-ku, Tokyo, 108-0075	Japan
Zhejiang Echelon-Holley Co., Ltd. (51%)[1]	Room 201, Building 1, 1500 Wenyi West Road, Yuhang, Hangzhou, 311121	China

1 Held indirectly.

All subsidiaries are wholly owned unless otherwise stated.

Branches and representative offices

Name	Entity Type	Registered Address	Country
Adesto Technologies Corporation – Philippine Representative Office	Representative Office	2nd Flr (S-01), San Jose Bldg, Santa Rosa Estate Commercial Strip, Sta. Rosa – Tagaytay Road, Sto. Domingo, City of Sta. Rosa, Laguna 4026	Philippines
Adesto Technologies Corporation Limited, Korea Liaison Office	Liaison Office	69-187, Hanseo-ro, Seorak-myeon, Gapyeong-gun, Gyeonggi-do	Korea
Adesto Technologies Corporation Shenzhen Representative Office	Representative Office	Room 1214, Kerry Centre, Renminnan Road, Luo Hu District, Shenzhen, 518001	China
Adesto Technologies Corporation Taiwan Representative Office	Representative Office	7F., No 392, Ruiguang Road, Neihu District, Taipei City 11492	Taiwan
Dialog Integrated Circuits (Tianjin) Limited Beijing Branch	Branch Office	Room 902-904, Zhong Guan Cun Crowne Plaza Office Building, No.106 ZhiChun Road, Haidian District, Beijing, 100086	China
Dialog Semiconductor (UK) Limited Korea Branch	Branch Office	(Sampyeong-dong, Pangyo Silicon Park) #B-703, 35, Pangyo-ro 255beon-gil, Bundang-gu, Seongnam-si, Gyeonggi-do	Korea
Dialog Semiconductor Bingen GmbH Japan Branch	Branch Office	8F W-Building 1-8-15 Konan, Minato-ku, Tokyo, 108-0075, Japan	Japan
Dialog Semiconductor GmbH (Singapore Branch)	Branch Office	51 Anson Road, #12-51 Anson Centre, 079904, Singapore	Singapore
Dialog Semiconductor GmbH Austria Branch	Branch Office	Kaerntner Strasse 518, 8054, Graz-Seiersberg	Austria
Dialog Semiconductor GmbH Taiwan Branch	Branch Office	7F., No 392, Ruiguang Road, Neihu District, Taipei City 11492	Taiwan
Dialog Semiconductor Operations Services Limited Korea Branch	Branch Office	(Sampyeong-dong, Pangyo Silicon Park) #B-703, 35, Pangyo-ro 255beon-gil, Bundang-gu, Seongnam-si, Gyeonggi-do	Korea
Dialog Semiconductor Operations Services Limited Thailand Representative Office	Representative Office	26th Floor, Sathorn City Tower, 175 South Sathorn Road, Thungmahamek, Sathorn, Bangkok, 10120	Thailand
Dialog Semiconductor Operations Services Limited, Taiwan Branch	Branch Office	7F., No 392, Ruiguang Road, Neihu District, Taipei City 11492	Taiwan
Echelon Asia Pacific Limited, Korea Branch	Branch Office	20-2, Bongeunsa-ro 97-gil, Gangnam-gu, Seoul (Samsungdong), 06087	Korea
Echelon Technology (Beijing) Co., Ltd. Guangzhou Branch	Branch Office	Room 2502, East Tower, 122 Sports East Road, Tianhe District, Guangzhou, Guangdong, 510635	China
Powerventure Semiconductor Limited, Taiwan Branch	Branch Office	7F., No 392, Ruiguang Road, Neihu District, Taipei City 11492	Taiwan
Silego Technology Inc Shanghai Representative Office	Representative Office	Room 703, 7F, Kehui Building, No.1188 North Qinzhou Road, Xuhui District, Shanghai, 200231	China
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