

# Interactive PDF

## User Guide

Welcome to the Dialog annual report and accounts 2010.

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The power to be...  
...**personal**  
...**portable**  
...**connected**



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# the power to be...

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

With its focus and expertise in energy-efficient system power management, audio, low energy short-range wireless and VoIP technologies, Dialog brings decades of experience to the rapid development of ICs.

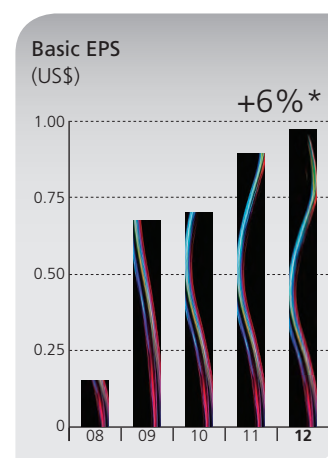
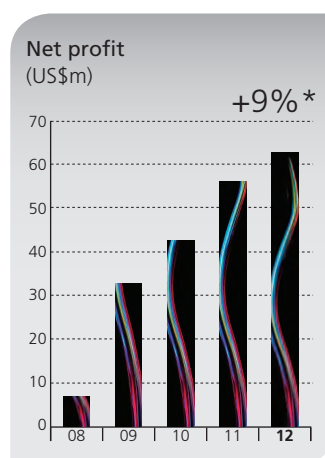
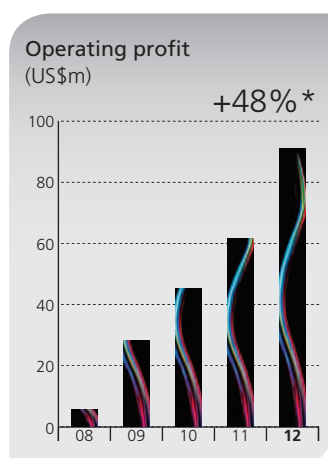
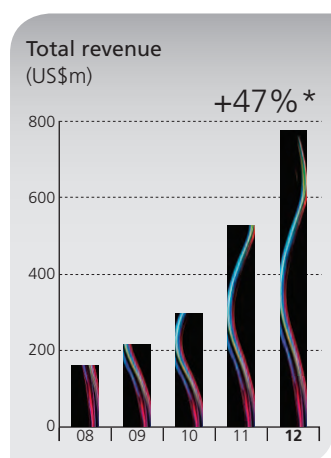
Dialog's power management processor companion chips enhance the performance of personal portable devices – including smartphones, tablets and Ultrabooks™ – by extending battery play time and supporting increasingly demanding multimedia applications. Our short-range wireless technology provides connectivity to wireless headsets, microphones and gaming consoles and is enabling the emergence of innovative new smart home applications.

Dialog Semiconductor Plc is headquartered near Stuttgart, with a global sales, R&D and marketing organisation. In 2012, it had US\$774 million in revenue and continues to be one of the fastest growing European public semiconductor companies. At 31 December 2012, the Company had 806 employees. With world-class manufacturing partners, Dialog operates a fabless business model.

The Company is listed on the Frankfurt (FWB: DLG) stock exchange and is a member of the German TecDAX index.



# Dialog at a glance and our markets



\* Year-on-year growth 2011-12

## 2012 financial highlights – a record year

- US\$774 million revenue in 2012, up 47% over 2011
- Full-year 2012 net profit of US\$62.5 million or 8.1% of sales, completing five years of successive profitable growth
- Full year gross margin of 37.8%
- Closing year cash balance of US\$312 million
- Basic and diluted 2012 IFRS earnings per share (EPS) of 0.97 cents and 0.93 cents respectively

## 2012 operational highlights

- Sustained high demand for our power management technologies from leading smartphone and tablet customers
- Momentum in our connectivity portfolio with the selection of our short-range wireless audio ICs, VoIP and DECT solutions by leading microphone, gaming and professional headset and cordless phone customers, including VTech and Jabra
- Continued success in broadening our Processor Partner Programme with companies including Intel, NVIDIA and Freescale. This includes the selection of our Power Management ICs (PMICs) by Freescale for a reference board using its i.MX series of multicore application processors to enable the rapid development of tablets, infotainment systems, media hubs and other smart devices
- Continuous innovation in our standard and custom product portfolios:
  - Our latest PMIC, featuring an innovative multiphase buck converter architecture to support the high currents increasingly required in multicore application processors for smartphones and tablets was sampled to key customers
  - Dialog continued partnering with TSMC on state-of-the-art 0.13 micron bipolar-CMOS-DMOS (BCD) technology to integrate higher voltage components into a smaller form factor, single-chip power management IC to support next generation smartphones and tablets
  - We licensed the ARM® Cortex™ M0 32-bit multicore processor for use in our next generation PMICs, targeting multicore smartphones, tablets and other embedded devices. The first of these PMICs was sampled in 2012

## Our markets

### Mobile:

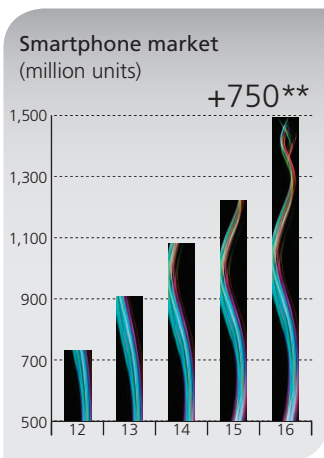
- Power management ICs and audio CODECs for smartphones, tablets and Ultrabooks™

### Automotive and industrial:

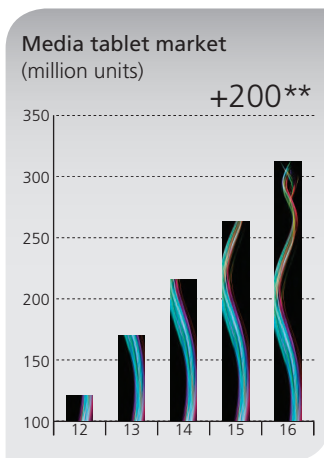
- Custom motor control ICs for windscreen wipers and companion processor integrated power management and clock ICs for automotive infotainment systems
- Electronic ballasts for fluorescent or high-intensity industrial lighting and energy-efficient retrofit bulb LED lighting solutions

### Connectivity:

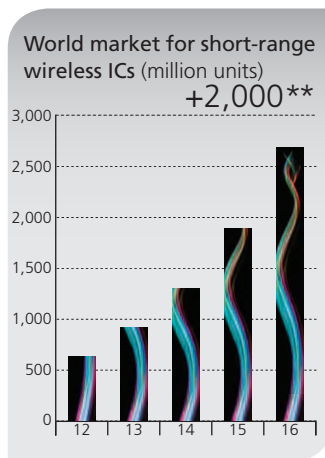
- Single chip transceivers for DECT-based wireless microphones, headsets and gaming consoles
- SmartPulse™ short-range wireless ICs, based on the Ultra Low Energy DECT standard, for smart home applications
- Energy-efficient multicore Voice-over IP (VoIP) processors, audio codecs and amplifiers, interfacing with Bluetooth, Wi-Fi and DECT, to enable headset and handset connectivity



Source: IDC 2012  
\*\* Forecast unit growth 2012-2016



Source: Gartner/Dialog 2012



Source: GBI Research 2012

2012 saw Dialog achieve US\$774 million in revenues. The customer base was further diversified with additional platform wins at Samsung. We laid the groundwork for our entry into the 4G LTE market with sampling under way of standardised PMICs on a reference board for Asia-based customers. Dialog also opened its new Asian headquarters in Taipei to meet increasing demand for our products in Taiwan, China and Korea and issued a convertible bond offering for corporate funding purposes.

Q1



Dialog extended its Green VoIP IC family with the launch of the new SC14453, incorporating leading audio, security and graphics functionality.

Q2



Samsung selected Dialog's power management and audio technology for a second smartphone platform – the Galaxy Pocket S5300 – and our audio technology for its ultra compact Pebble MP3 accessory that syncs with the Galaxy SIII smartphone to enable runners and sportspeople to enjoy music on the move.

SmartPulse™ DECT ULE (Ultra Low Energy) was adopted by a European plug manufacturer for internet-enabled smart plugs, enabling home appliances to be controlled from a smartphone or tablet.

Q3



Dialog introduced a new PMIC architecture for next generation application processors through our Processor Partner Programme to help drive and support innovation in the smartphone and tablet markets.

Q4



Dialog's PMIC was selected by a Processor Partner Programme member for a 4G LTE-based chipset platform for Asia-based customers.

Consumers today want to be able to use exciting new entertainment apps on their smartphones and tablets and interact via high-speed, 4G LTE networks. Video streaming, sharing and calls are becoming increasingly popular, alongside enhanced gaming, GPS, data and voice services.

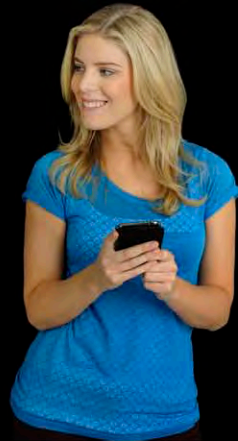
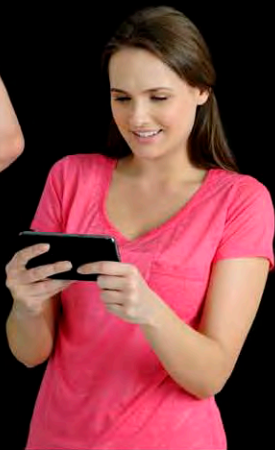
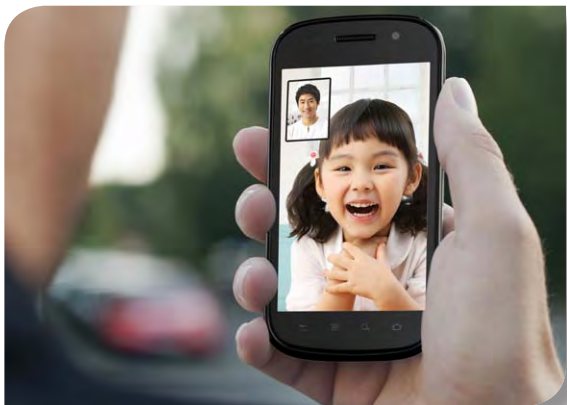
# Processors



*"Dialog's innovative technology increases the battery life that a smartphone or tablet can deliver, enabling consumers to multi-task and enjoy high-quality multimedia content on the go. Our power management chips can be programmed to enable each of the multicore processors to be powered in and out of sleep mode in specific sequences and meet the exact voltage and current requirements of each sub-system, including the application and baseband processors, display, audio, graphics, GPS and memory components."*

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







## Chairman's statement



**Greg Reyes**  
Chairman

**2012 has been another great year for Dialog Semiconductor Plc, with revenue up 47% year-on-year to US\$774 million.**

The Company continues its strategy of deepening and broadening relationships with existing and new customers. Dialog is focusing on cross-selling a wider range of more complex power management, audio and wireless solutions into a broader range of portable computing devices. This includes high-end and low-end smartphones, tablets and, in the future, Ultrabooks™, which we view as one of the next growth markets for Dialog.

People are doing more and more computing on the go using smartphones and tablets. Around 700 million smartphones are believed to have been shipped in 2012, and this is forecast to rise to 1.5 billion by 2016; while tablet purchases are forecast to continue to snowball with unit shipments likely to be around 300 million by 2016 according to the analyst firm IDC. Dialog is well positioned to help its customers meet this market demand.

Dialog remains committed to outpacing its competitors – not only in terms of the level of innovation and quality control but also financially, where profitability has to be managed carefully, given the competing pressures of the price expectation of volume customers and supply constraints.

Dialog's management team have aspirations to achieve a mid-term goal of over US\$1 billion in annual revenues. Despite continued economic uncertainty Dialog continues to see strong demand for its technologies and is making good progress to this target.

The Company continues to put in place the necessary infrastructure to support high levels of growth on a global basis. In this context there is considerable competition for the top talent that Dialog needs to achieve these goals. Accordingly, ever mindful of its needs to be corporate governance compliant, Dialog has to be best-in-class in performance-driven remuneration schemes.

The Board recognises, with the increasing scale and value of the business, the importance of seeking to achieve best practice in corporate governance. This has seen a much greater focus for the Board in 2012 and will continue to be so in 2013. A review of the Corporate Governance statement and Directors' remuneration report in this annual report, of themselves of greater detail and transparency over previous years, set out the enhanced focus in this area and the greater professionalism being brought to the subject.

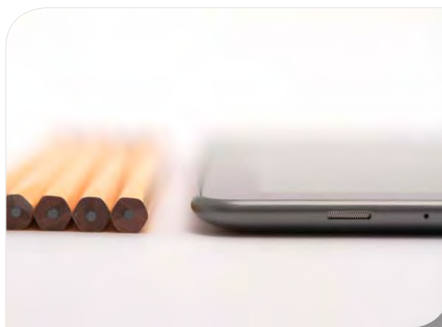
Despite the troubled economic environment, I remain confident about the future growth prospects of the Company in 2013 and thank you for your continued support.

**Greg Reyes**  
Chairman

**From left:**

*Dialog is focusing on cross-selling a wider range of more complex power management, audio and wireless solutions into a broader range of portable computing devices, including tablets.*

*Dialog views Ultrabooks™ as one of the next growth markets for its technologies.*



# Dialog Semiconductor shares in 2012

Dialog continues to expand its investor base, gaining the confidence of the market, both in Europe and the US, and attracting new long-term oriented institutional Shareholders.

## Share price development

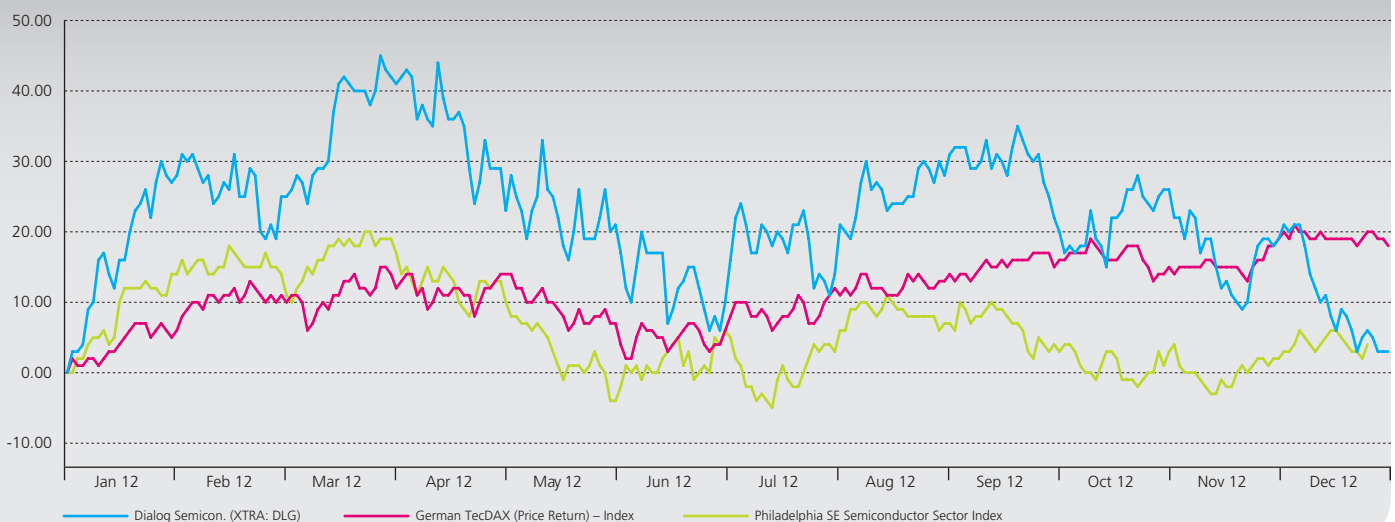
The following graphs chart the cumulative Shareholder return of the Company for the past 12 months and for the past five years, compared with selected technical benchmark indices – Germany's TecDAX index – which Dialog itself entered in September 2009 and the Philadelphia SE Semiconductor index ("SOX").

In 2012, Dialog's share price opened at €12.58 and reached a high of €18.74 on 26 March. During the second half of 2012 the continuing macro concerns about fiscal consolidation and low growth in Europe and the US brought additional instability to the financial markets. The share price trended down, tracking some of our most immediate peers and closing the year at €13.30 on 31 December.

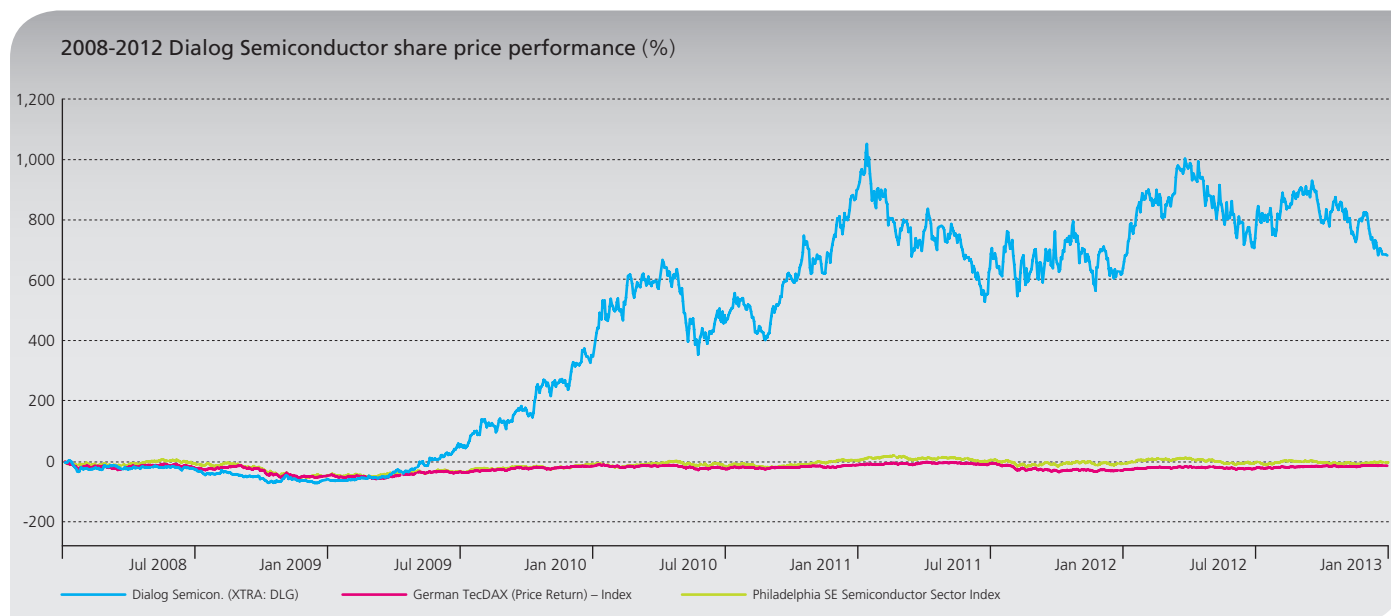
As can be seen from the graph below, which shows the percentage movement in share price during the year, in 2012 Dialog's share price performance followed a similar trend to that of TecDAX and SOX for most of the year. The stock underperformed the TecDAX and its peer group during the last two months of the year, seeing some recovery in the first few days of the New Year 2013. In the last three years, 2010–2012, Dialog has continued to show remarkable growth, outperforming TecDAX and SOX by approximately 700%. During these years the share price grew by around 75%.

Note: Peer group Index constituents: Wolfson Microelectronics Plc, Texas Instruments Inc., STMicroelectronics NV, Skyworks Solutions Inc., Nordic Semiconductor ASA, Microsemi Corp., Micrel Inc., Melexis NV, MaxLinear, Inc., Maxim Integrated Products Inc., Linear Technology Corp., Intersil Corporation, Infineon Technologies, CSR plc, Cirrus Logic Inc., Broadcom Corp., austriamicrosystems AG, Aixtron SE.

2012 12-month Dialog Semiconductor share price performance (%)



# Dialog Semiconductor shares in 2012 continued



## Share fundamentals for the financial year 2012

Total number of shares outstanding and registered as at 31 December 2012	68,068,930
Weighted average number of shares during 2012 (basic)	64,680,895
Weighted average number of shares during 2012 (diluted)	67,354,071
Type	Ordinary
Par value (in £)	0.1
Bloomberg Symbol	DLG
Reuters Symbol	DLGS.DE
ISIN	GB0059822006

## Key figures for the financial year 2012 based on weighted average number of shares (basic)

Revenue per share (in US\$)	11.96
Operating profit per share (in US\$)	1.41
Net profit per share (in US\$)	0.97
Book value per share as at 31 December 2012 (in US\$)	5.91
Accounting standards	IAS/IFRS

## Market data 2012

Exchange segment Germany	Midcap, Prime All Share, Prime Technology, Technology All Share
Designated sponsor	Close Brothers Seydler Cheuvreux (as at 1.1.2013)
Market capitalisation as at 31 December 2012 (in millions of €)	905
Turnover of shares during 2012	530,815 shares/day

### Trading in Dialog shares

Dialog shares are traded in Germany on the XETRA and Frankfurt regulated official markets, and on all other German regional exchanges on the open market.

### Dividend policy

Dialog participates in industries that are considered to be global growth engines and provides its services and products to major players in these industries. Dialog's Board of Directors is committed to reinvesting all profits into laying the framework for future growth and continues to believe that this policy is in the best interests of all its Shareholders.

### Investor relations

Dialog understands the importance of clear communication with investors and analysts, particularly during a period of global economic uncertainty. During 2012, the management team continued its efforts to ensure that the market was kept up to date with the effect the changing macroenvironment was having on its business, together with the important and exciting changes under way at the Company. Dialog's shares are now followed by 17 independent financial analysts, representing both European and US investment banks. During 2012, we issued trading updates and quarterly earnings reports, presented at several investor conferences and international road shows in Europe, the US and Asia, and kept in regular contact with our Shareholders and analysts. Dialog was named in second place in the "German Investor Relations Award 2012" for the TecDAX category by Thomson Reuters Extel (a division of Thomson Reuters), WirtschaftsWoche business magazine, and DIRK (the association for Investor Relations (IR) in Germany).

Information provided, including presentations, press releases and reports of the Company, as well as the recommendations of analysts covering the Company, can be downloaded from the corporate website: [www.dialog-semiconductor.com/investor-relations](http://www.dialog-semiconductor.com/investor-relations)

### TecDAX index

Dialog was granted entry to the TecDAX index during 2009. The TecDAX tracks the 30 largest and most actively traded companies from the various technology sectors of the Prime Standard segment, excluding those listed in the German DAX index. It is amongst the most important stock indices in Germany and membership is decided by a ranking, based on a company's free-float market capitalisation and stock market trading volume.

### Free-float

Dialog's free-float is 65,389,162 or 96.1% of the outstanding shares. The free-float is calculated by excluding the 2,679,768 shares held in the Dialog Semiconductor Plc Employee Benefit Trust.

The free-float includes the following shares held on behalf of discretionary clients as per the share register on 31 December 2012.

State Street	6,140,555	9.4%
BNP Paribas Securities Services	4,618,079	7.1%
The Bank of New York Mellon SA/NV	4,438,659	6.8%
Citigroup Global Markets	3,974,595	6.1%
Clearstream Banking S.A.	3,488,399	5.3%
CACEIS Bank	3,391,493	5.2%
Chase Nominees Ltd	2,865,198	4.4%
Brown Brothers Harriman & Co	2,008,765	3.1%

Shares held by X-Fab Semiconductor AG, as per the share register on 31 December 2012, amounted to 1.8% of discretionary clients.

Since 31 December 2012 and as per the share register on 31 January 2013, there has been one material change to the shares held on behalf of discretionary clients.

Shares held on behalf of discretionary clients as per the share register on 31 January 2013.

The Bank of New York Mellon SA/NV	4,511,756	6.9%
BNP Paribas Securities Services	4,347,913	6.6%
State Street	3,888,040	5.9%
Citigroup Global Markets	3,658,365	5.6%
Clearstream Banking S.A.	3,453,092	5.3%
CACEIS Bank	3,197,105	4.9%
Chase Nominees Ltd	2,838,229	4.3%

### Disclosure of interests

The provisions of the 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%.

# Portable

Dialog's audio CODECs provide full-range, high fidelity audio capture and playback to a variety of portable devices and audio accessories. They feature programmable Digital Signal Processors (DSPs) that offload audio software from the host processor and include advanced echo cancellation technology to filter out extreme background noise. They are complemented by our amplifier technology to provide a rich, deep bass and clear high frequencies to wireless and wired headphones, speakers and handsets.

*"Dialog's customers increasingly use our audio CODECs to deliver natural, realistic audio with a wider sound field to the wireless and wired headphones and small form factor speakers that consumers increasingly want to use. We also apply our connectivity expertise to high-quality digital cordless phones and next generation wireless microphones and headsets."*

**Andrew Austin**  
Vice President, Sales





*"Consumer electronics manufacturers in personal, portable, connected markets build products based on standard application processor platforms. Dialog is a leader in forging strategic partnerships and supplying companion power management ICs with the world's leading application processor providers to deliver its customers fully optimised solutions."*

**Mark Tyndall**

Vice President, Business Development and Corporate Strategy

# Our business strategy and performance

Dialog delivered its sixth successive year of record revenue growth in 2012, further validating our strategy, and closed the year with a strong balance sheet.

Our strategy is built on four key pillars:

## 1. Extending our portfolio of highly integrated mixed signal, lower power products for portable platforms

Dialog offers custom Application Specific Integrated Circuits (ASICs) for large, high volume customers and standard Application Specific Standardised Products (ASSPs), which offer high levels of configurability, to a wider customer base. In 2012, we:

- Launched a fourth generation of configurable system power management ICs, designed for multicore application processor devices.
- Enhanced our audio technology portfolio, including an integrated DSP to enable echo cancellation and noise suppression using advanced algorithms.
- Continued to see increased design wins for our SmartPulse™ wireless sensor technology, based on DECT Ultra Low Energy. This includes OEMs that are using our chipset to develop internet-enabled plugs for home appliance energy monitoring and management applications via smartphone, tablet and PC apps.



## 2. Broadening and deepening our global customer base

Dialog continues to extend the range of power and audio management semiconductor content sold into the portable platforms of the world's leading smartphone vendors and the number of smartphone, tablet, Ultrabook™, DECT and VoIP platforms and models we are able to address. In 2012, Dialog:

- Secured more platform wins with Samsung. Our power management and audio technologies now feature in two Galaxy smartphone platforms and the Pebble MP3 player. This includes the S-5368 smartphone, which was launched in the Chinese TD-SCDMA market in 2012 and went into volume production for distribution by China Mobile, which aims to sell over 120 million TD-SCDMA devices in 2013 and it aims for 80% of these units to be smartphones.
- Extended its Processor Partner Programme, developing companion PMICs with leading and emerging application processor vendors to address a broader customer base through their sales ecosystems. In 2012, Freescale included our power management technology in its reference design for quad-core smartphone devices and we had success with a key partner sampling our chipset for 4G LTE smartphones, designed for Asian-based customers.
- Won several new short-range wireless customers, including VTech in the enterprise cordless phone market and Jabra in the professional headset market. We also see significant market interest in the microphone and console gaming products.
- Opened our new Asian headquarters in Taipei to meet the needs of our growing customer base in the region.



### 3. Continuous innovation

Dialog has a strategy of continuous innovation, focusing on new power-saving solutions and design methodologies in the personal portable device market, while partnering with our foundries on advanced production processes. This year we have:

- Developed new building blocks to drive much higher current than was ever possible before, supporting extended play time between battery charges, faster charging and batteries that do not discharge as quickly for a wider range of tablet and smartphone devices.
- This includes pioneering work on the use of a multiphase buck architecture, 0.13 micron BCD technology.
- We also licensed the ARM® Cortex™ M0 processor to integrate a standard 32-bit processor into mixed signal PMICs for the first time in the industry.

These technological advances are helping us to provide superior digital processing capabilities and better power management functions that can be produced in exceptionally high volumes at competitive prices.



### 4. Select acquisitions and strategic co-operations for access to innovative differentiating technologies

Dialog continues to evaluate select acquisition opportunities in segments that complement our existing core strengths and provide differentiation, building on the successful purchase of SiTel and integration of its wireless connectivity solutions into our business last year. We are also partnering with innovative start-ups on a range of new technologies. This year we have partnered with:

- A pioneer in the use of MEMS-based silicon timing solutions that replace legacy quartz products to offer unsurpassed performance, reliability and flexibility with the lowest cost of ownership.
- A start-up that is taking an innovative new approach to power conversion for multiple markets, including smartphones, tablets, Ultrabooks™ and data centres, based on switch capacitive techniques. The technology facilitates the use of smaller inductive components, resulting in increased efficiency and an overall higher power density factor over and above today's competing technologies.





## Chief Executive's review



**Dr Jalal Bagherli**  
Chief Executive Officer

### Dear Shareholders,

Dialog continued to perform very strongly in 2012 with top-line growth of 47% year-on-year, against a backdrop of broadly flat global semiconductor industry revenue according to industry analysts. This is our fifth successive year of profitable and rapid growth.

At the same time, in 2012, the Company has improved its gross operating margin quarter on quarter as a percentage of revenue to 37.8% over the last four quarters by focusing on product yield improvements, supply chain negotiations and material cost reductions. Continued margin improvement remains a key focus.

Dialog's financial performance in 2012 was driven by success in the smartphone and tablet sectors. Beyond the boom in smartphones, tablets, e-books and media players, we expect to see the emergence of other portable devices, such as next generation convertible Ultrabooks™ that can be used as a tablet or laptop. Ultrabooks™ are closer in architecture to smartphones and tablets than PCs, in terms of their battery and energy requirements, creating opportunities for Dialog's power management technologies.

We're also expanding into new sectors. Using our DECT technology, Dialog is able to support reliable, interference-free wireless signals to cordless phones and headsets, microphones and gaming controllers in real time with no buffering, achieving ceiling to cellar reach. Additionally our Ultra Low Energy (ULE) DECT ICs are increasingly used in home automation applications that can also be controlled over the cloud from your smartphone or tablet. This expertise in short-range wireless connectivity is enabling us to develop new ICs for transmitting data between personal devices, smartphones and tablets, and we already have some exciting new products in development.

As such, innovation continues to be the lifeblood of our Company. Our power management IC, featuring a new multiphase buck converter for powering quad-core application processors, was sampled to key customers in 2012. It meets the more complex power management needs of next generation smartphones, tablets and Ultrabooks™.

In due course, we believe there will be additional technical capabilities that Dialog must develop or acquire to ensure it maintains its strengths in the mixed signal semiconductor market for portable devices. This was one of the main reasons for our successful US\$201 million convertible bond issue in March 2012.

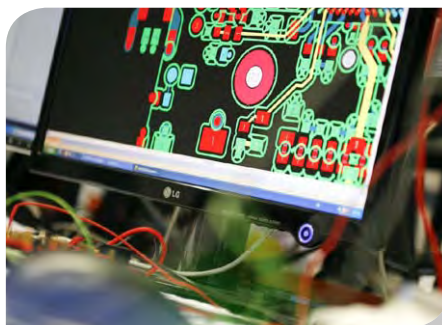
Dialog is also keeping pace with technology and in 2013, together with our foundry partners, will start its transition to a smaller geometry, 130 nanometer manufacturing process that will yield more chips per wafer. As a fabless semiconductor company, we've forged close partnerships with a number of foundries to enable us to integrate more analog, digital and high voltage components, including Field Effect Transistors (FETs) into a smaller form factor, single chip power management solutions. This will help to increase the talk time of portable devices while meeting the consumers' desire of faster charging.

Dialog continues to seek the brightest and the best and has significantly increased its employee base to a total of 806 in Asia, the US and Europe; during the last quarter of 2012 we opened two new design centres in Turkey and Italy to attract further talent.

### From left:

Dialog has a strategy of continuous innovation, focusing on new power-saving solutions and design methodologies in the personal portable device market, while partnering with our foundries on advanced production processes.

Dr Jalal Bagherli, Dialog Semiconductor CEO, with Maria Marced, President of TSMC Europe, one of Dialog's key partners with whom the Company is co-operating on state-of-the-art 0.13 micron bipolar-CMOS-DMIS (BCD) technology.





**Above:**

*Dialog replaces discrete power management components with highly integrated, single-chip solutions that provide design simplicity, reduce energy usage, save board space for other components and lower the overall bill of materials.*

We have also expanded our global footprint by establishing an Asian headquarters function in Taipei in April 2012. This complements our existing manufacturing engineering support presence in Taiwan, and is intended to facilitate engagement with major new customers locally and is a stepping stone for our future growth ambitions to address the fast-growing smartphone market in China, which we expect to nearly double to more than 450 million units in 2013.

Dialog should play its part as good corporate citizens. We operate with a conscious eye on minimising our impact on the environment and making a positive contribution to society. This not only reduces operating costs, by minimising energy and raw material wastage, but also helps us to make Dialog a great place to work.

I look forward to the challenges of 2013, focusing in particular on the opportunities for our technologies in next generation smartphones, tablets and Ultrabooks™, together with the exciting growth opportunity to bring our technology into smartphones for China. I remain confident of Dialog's prospects for continuing profitable growth as we pursue our aspirations to reach and surpass US\$1 billion in annual revenues.

**Dr Jalal Bagherli**  
Chief Executive Officer

**From left:**

*SmartPulse is Dialog's wireless sensor network connectivity solution, based on the Ultra Low Energy DECT standard for home automation applications.*

*Dialog opened its new Asian headquarters in Taipei in 2012 to meet the needs of our growing customer base in the region.*



## Our products and key customers

Dialog focuses on three major sectors: mobile, connectivity and automotive and industrial.

### Mobile solutions

Our power management, audio and display semiconductor solutions are designed for portable devices, including smartphones, tablets, Ultrabooks™, ebooks, MP3, MP4 and other media players.

Dialog replaces discrete power management components with highly integrated, single chip solutions that provide design simplicity, reduce energy usage, save board space for other components and lower the overall bill of materials. Dialog's Power Management Integrated Circuits (PMICs) are fully configurable, which means they can be programmed to meet the exact voltage and current needs of every component.

Effective power management in many portable devices presents an increasingly complex array of design challenges. Smartphones, tablets and Ultrabooks™ increasingly need to be able to run high definition video, games, GPS maps and audio content and connect via high speed 4G LTE and legacy 3G networks, Wi-Fi and

short-range wireless stands like Bluetooth. 4G LTE, for example, requires a lot more processing power to decode far greater amounts of data in the wireless spectrum. At the same time consumers demand displays that are brighter, bigger and incorporate touch functionality and, in the future, haptic feedback. Each of these features is a major battery drain, creating a need for effective power management technologies.

Multicore devices delegate simple tasks to one core, while directing more complex, power-hungry tasks to the other core. Each of the quad- or octal-core application processors needs to be powered up and down into and out of sleep state in particular sequences. Dialog's solutions excel at handling this power management complexity. Dialog's charging solutions for lithium ion battery systems support faster charging, more safely and from a wider variety of sources.

With a long legacy of delivering different power management designs for world-leading mobile phone manufacturers and portable consumer OEMs, we seek to optimise all aspects of the design, including electrical, thermal and mechanical packaging considerations. These designs offer sophisticated integration with multiple power management and analog functions on the chip, including programmable

high-performance LDOs (low dropout voltage regulators), high-efficiency DC-DC voltage converters, intelligent battery charging circuits, software programmable LED drivers, sensor ADCs, USB interfaces, and multichannel audio capabilities.

In 2012, Dialog launched a new class of power management product – DA9063 – our fourth generation of advanced system PMIC and flagship product, targeting high-end multicore-based applications. A second member of the family – DA9021 – addresses lower power cost-sensitive applications.

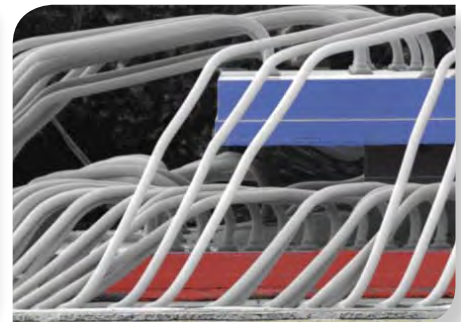
Our configurable PMICs enable late changes in board-level designs as additional functionality that is added into smartphone platforms during the R&D process. As a platform-based PMIC can support multiple phone designs, Dialog helps its customers reduce inventories and respond to the consumer market's need for volume flexibility.

Dialog's Audio CODECs filter out extreme background noise and increase the fidelity of the sound through advanced echo cancellation and DSP (Digital Signal Processing) technology that delivers a rich, deep base and clear high frequencies even in noisy environments. This is complemented by amplifier technology to improve audio quality through the headphones and speakers.

### From left:

*In 2012, Dialog launched a new class of power management product – DA9063 – our fourth generation of advanced system power management integrated circuit (PMIC).*

*Dialog replaces discrete power management components with highly integrated, single chip solutions that provide design simplicity, reduce energy usage, save board space for other components and lower the overall bill of materials.*



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

#### Connectivity and VoIP solutions

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

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

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

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

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

We are also developing DECT and VoIP technologies to provide voice control and telephony functionality in smart home appliances, for example medical pendants for the elderly.

#### From left:

*Dialog's DECT-based transceivers are designed for wireless gaming controllers, microphones and speakers and provide reliable, interference-free connectivity.*

*By using the DECT ULE (Ultra Low Energy) standard, Dialog is able to provide interference-free wireless connectivity with the widest reach throughout consumers' homes and low deployment costs.*



## Our products and key customers continued

### Automotive and industrial

Dialog supplies motor control ASICs to a leading European automotive supplier who in turn delivers Dialog-based windscreen wiper motor products addressing mid- to high-end European cars. Additionally, our first product for a customer in Japan went into production in 2012.

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

Dialog's power management and clock companion ICs for the Intel Atom and Freescale i.MX series of processors provide an optimum solution for next generation infotainment systems. These help to deliver video, high fidelity audio and better GPS and other multimedia support that reacts in real time to the changing external environment.

For the industrial market, Dialog develops innovative control ASICs, both for conventional light sources, such as fluorescent or High-Intensity Discharge ("HID") lamps. Our future development focus is on energy-efficient retrofit

bulb LED lighting solutions. These devices seek to deliver optimal control and regulation of light sources, while maximising their service life. Through intelligent control, using advanced digital signal processing, these devices help to minimise energy consumption.

### Design, development and production

We are justifiably proud of the quality and feature-rich functionality of our mixed signal integrated circuits, achieving high integration levels.

Innovation is vital to our continued success. During 2012, we invested US\$127.9 million, or 16.5% of our revenue, in research and development. Our ability to develop mixed signal Application Specific Integrated Circuits (ASICs) and Application Specific Standard Products (ASSPs) designs rapidly enables us to respond to customers' needs for new, higher performance solutions while reducing cost. Our strategy of modifying and reusing a wide set of specialised analog building blocks speeds up the design process. In addition, our use of industry standard design tools increases the level of automation and the quality of verification in our products. Our commitment to continuously deepen our expertise has resulted in increased levels of integration and product innovation in all business sectors.

### Manufacture, assembly and testing

Dialog outsources its wafer production to select foundries, principally in Taiwan, Singapore and China, which provide high-quality products and have the ability to meet both our stringent qualification requirements and tight deadlines.

The final assembly of our chips is outsourced to a number of qualified subcontractors in Asia. Our test programmes, based on our own and individual customers' specifications, are developed by our test engineers in parallel with the design process. All test development is undertaken at our Nabern facility in Germany using the same type of test equipment and handling interfaces as our offshore test subcontractors to speed up the production transfer process and volume ramp.

All production testing and warehousing of our final products is outsourced to our Asian test subcontract partners, enabling direct drop shipments to our end customers. We have also created a specialist offshore operations and a support centre in Taiwan. We have our own manufacturing and technical engineers close to foundries and assembly and test subcontractors in Asia. By being "on the spot" to resolve any potential engineering issues quickly, they can forestall potential delays in production.

### From left:

Dialog's power management and clock companion ICs for the Intel Atom and Freescale i.MX series of processors provide an optimum solution for next generation infotainment systems.

During 2012, Dialog invested US\$127.5 million, or 16.5% of our revenue, in research and development.



### Quality and environment control

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

We are committed to minimising our impact on the environment by developing and promoting environmentally compatible products, and operate in accordance with the ISO 14001 international environmental quality standard. We continuously promote awareness and knowledge of environmental and social responsibility throughout the organisation to ensure that they become a natural part of the decision-making process. As we demand the same standards from our suppliers we only form supply partnerships with those who are accredited to the same international standards. For more detailed information on specific products, please see our website: [www.dialog-semiconductor.com](http://www.dialog-semiconductor.com).

### Principal customers

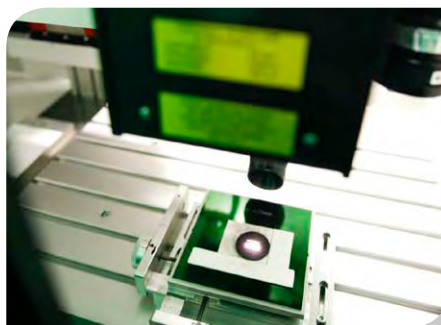
Many of Dialog's principal customers are leading portable device digital cordless, automotive and industrial equipment manufacturers that purchase both ASIC and ASSP solutions. Customers with a significant contribution to revenue include (in order of contribution) Apple, Gigaset, Panasonic, Bosch and Samsung. These top five customers represented 91% of revenue in 2012. Samsung has also become increasingly important for a growing range of our products targeting smartphone and portable media player platforms.

Given the rapidly evolving nature of the technology used in Dialog's target markets, the Company strives to develop long-term relationships with its major customers and seeks to adopt a partnership approach for both standard products and custom solutions. Customers look to Dialog for high integration, innovation and technical expertise, while close working relationships with customers provide Dialog with an opportunity to develop and refine market-leading products with recognised industry leaders.

### From left:

*Dialog has an uncompromising approach to quality assurance in every area of our operations and goal of zero failures of our products in the field.*

*Given the rapidly evolving nature of the technology used in Dialog's target markets, the Company strives to develop long-term relationships with its major customers and seeks to adopt a partnership approach for both standard products and custom solutions.*



# connected

The Internet of Things is at last becoming a reality. Consumers' desire for greater comfort, and convenience, to conserve energy in their homes and the advent of the always-on computing power of the smartphone and tablet is driving a new wave of innovation. We will start to see the emergence of wireless light switches and thermostats, smoke and gas detectors, home central locking systems and medical pendants for the elderly that can be controlled and monitored from a single smartphone or tablet app.

*"The Internet of Things is dependent on having an Ultra Low Energy wireless standard that has ceiling to cellar reach and beyond, sensors that can last a decade with a single AAA battery pack and the addition of voice control or telephony if required. Dialog has developed SmartPulse™ to deliver this smart home functionality and more."*

**Sean McGrath**

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







# Financial review

*“Our rigorous focus on working capital together with sound financial practices rooted in operational excellence are helping Dialog build a scalable platform for sustainable profitable growth.”*

**Jean-Michel Richard**

CFO, Vice President Finance

The following tables detail the historical consolidated statements of the operations of Dialog for the years ended 31 December 2011 and 2012:

	2012		2011 <sup>1)</sup>		Change %
	US\$000	% of revenues	US\$000	% of revenues	
<b>Revenues</b>					
Mobile Systems	638,765	82.6	370,926	70.3	72.2
Automotive/Industrial	38,686	5.0	45,878	8.7	(15.7)
Connectivity	96,133	12.4	108,778	20.7	0.0
Corporate Sector	(1)	0.0	1,679	0.3	(100.1)
<b>Revenues</b>	<b>773,583</b>	<b>100.0</b>	<b>527,261</b>	<b>100.0</b>	<b>46.7</b>
Cost of sales	(480,971)	(62.2)	(319,073)	(60.5)	50.7
<b>Gross profit</b>	<b>292,612</b>	<b>37.8</b>	<b>208,188</b>	<b>39.5</b>	<b>40.6</b>
Selling and marketing expenses	(38,669)	(5.0)	(32,370)	(6.1)	19.5
General and administrative expenses	(33,476)	(4.3)	(24,442)	(4.6)	37.0
Research and development expenses	(127,886)	(16.5)	(90,046)	(17.1)	42.0
Restructuring expenses	(1,549)	(0.2)	–	0.0	–
Other operating income	–	0.0	303	0.1	0.0
<b>Operating profit</b>	<b>91,032</b>	<b>11.8</b>	<b>61,633</b>	<b>11.7</b>	<b>47.7</b>
Interest income and other financial income	1,360	0.2	376	0.1	261.7
Interest expense and other financial expense	(6,466)	(0.8)	(235)	0.0	2,651.5
Foreign currency exchange gains and losses, net	199	0.0	(352)	(0.2)	(156.5)
<b>Result before income taxes</b>	<b>86,125</b>	<b>11.1</b>	<b>61,422</b>	<b>11.6</b>	<b>40.2</b>
Income tax expense	(23,612)	(3.1)	(4,070)	(0.8)	480.1
<b>Net profit</b>	<b>62,513</b>	<b>8.1</b>	<b>57,352</b>	<b>10.9</b>	<b>9.0</b>

1) 2011 numbers adjusted for purchase price allocation, please refer to note 4 to the consolidated financial statements

In line with previous years, the key performance indicators of the business continue to be revenue growth, profitability and liquidity. The performance against these and year-on-year comparison is detailed in the following section.

## Results of operations

### Segment reporting

Revenue in the **Mobile Systems** segment for the year ended 31 December 2012 was US\$638.8 million (2011: US\$370.9 million), representing 82.6% of our total revenue (2011: 70.3%). The 72.2% increase in this sector is primarily driven by the continuous success of our growing range of highly integrated power management solutions for portable devices, including smartphones, tablets and portable media players.

Operating profit in the **Mobile Systems** segment (see note 24 to the consolidated financial statements) grew to US\$112.3 million from US\$59.8 million achieved in 2011, an increase of 87.7%. This increased profitability was primarily driven by higher revenues and

by leveraging operating expenses whilst continuing to improve product margins.

Revenues from our **Automotive/Industrial Applications** segment was US\$38.7 million (2011: US\$45.9 million), representing 5.0% of our total revenues (2011: 8.7%).

This decrease in revenues is mainly the result of lower sales volumes in the area of professional lighting applications, caused by the unfavourable economic climate in Europe and a decreased level of investment. Operating profit in the segment was US\$8.1 million (2011: US\$9.8 million). Despite lower revenues, operating profit as a percentage of revenues remained relatively constant (2012: 20.9% compared to 2011: 21.5%), demonstrating our abilities to control cost.

The **Connectivity** segment represents our subsidiary Dialog Semiconductor B.V. (Dialog B.V.), which we acquired on 10 February 2011, therefore its results are consolidated from this date (see note 4 to the consolidated financial statements).

Revenue from our **Connectivity** segment in 2012 was US\$96.1 million (2011: US\$108.8 million). In 2012, the **Connectivity** segment contributed an operating loss of US\$13.1 million, compared to an operating profit of US\$4.9 million for 2011. The decrease in revenue can be mainly attributed to the overall softening in the cordless DECT market, driven by unfavourable macroeconomics – especially in Europe – but also by the Company's strategy to not take market share at low margin whilst it refocuses R&D investments to address new applications and markets.

Had the Connectivity business been consolidated from the beginning of 2011, the total revenue in 2011 would have been US\$120.2 million, US\$24.1 million above the US\$96.1 million achieved in 2012. The operating profit would have been US\$3.6 million, US\$16.7 million above the operating loss of US\$13.1 million in 2012. The revenue decrease translates into a reduction of the operating income of approximately US\$9.5 million.

During 2012, further adverse effects impacted connectivity; inventory write-downs and revaluations of US\$2.0 million (2011: US\$0.2 million); a one-time expense of about US\$0.9 million related to the transfer of certain legacy connectivity products to a new assembly site which will lead to further cost improvements once the transfer is completed in Q1 2013 (2011: nil), restructuring expenses of US\$1.5 million (2011: nil) – please see explanation here below under "restructuring expenses" – increased outsourced R&D expenses of US\$1.7 million compared to 2011 to accelerate the development of new products, government grants for R&D activities received were US\$0.4 million lower than in 2011, capitalised R&D and overhead expenses reduced by US\$1.0 million compared to 2011 and US\$0.4 million of overhead cost associated with the Company's share option programme were allocated to Connectivity (2011: nil) – this amount related mainly to National Insurance provisions for UK-based employees, associated to share options that had to be provided for by the Company.

On the other hand, during 2012, other favourable effects were recorded: the operating loss in 2012 included an amortisation expense resulting from fair value adjustments in connection with the purchase price allocation of US\$5.6 million (2011 US\$6.0 million). 2012 also included

US\$0.6 million (2011: US\$2.7 million) for the accelerated amortisation of intangible assets in relation to previously capitalised R&D expenses for close to end of life products (these products were fully amortised by the end of Q1 2012) and finally 2011 benefited from a first-time inventory overhead capitalisation of US\$0.5 million to align the local accounting procedures to those of the Group. Furthermore, in 2012 the underlying<sup>1)</sup> operational loss in 2012 was US\$6.3 million, compared to a profit of US\$16.8 million in 2011

For further information please refer to notes 4 and 24 to the consolidated financial statements.

### Revenues

Total revenues for 2012 were up 46.7% at US\$773.6 million (2011: US\$527.3 million). The increase in revenue is mainly a result of higher sales volumes in our **Mobile Systems** segment.

### Cost of sales

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs and applicable overhead and depreciation of test and other equipment. Cost of sales for the period ended 31 December 2012 was up 50.7% at US\$481.0 million (2011: US\$319.1 million). The increase in cost of sales was mostly in line with the increase in production volume.

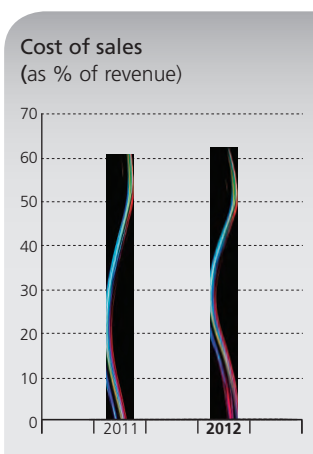
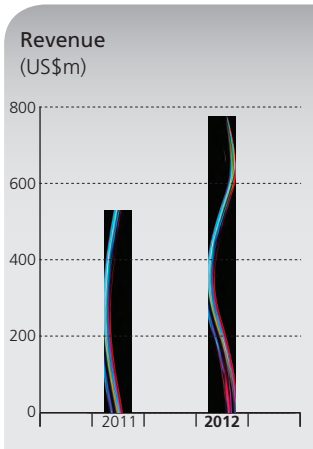
As a percentage of revenue, cost of sales increased from 60.5% in 2011 to 62.2% in 2012. This increase can largely be attributed to the product mix, which reflects higher volume customer contracts together with higher material costs against the backdrop of an ongoing constrained supply chain environment. Additionally, very high volume ramps of new products using new manufacturing processes, introduced early last year, continued to drive lower yields through 2012 although measurable improvements were already visible in the second half of 2012.

### Gross profit

Our gross margin decreased from 39.5% of revenue in 2011 to 37.8% in 2012. This was due to higher cost of sales as a percentage of revenue, as described above.

However, during the course of 2012, our gross margin improved quarter on quarter to peak at 38.5% of revenues in Q4 2012.

For the most part of 2012, gross margins remained under pressure due to the reasons described above and the continuous supply constraints, which inhibited expected cost reductions from suppliers.



### Selling and marketing expenses

Selling and marketing expenses consist primarily of salaries, sales commissions, travel expenses, advertising and other marketing costs. In line with our increased sales volume and continuous growth of our business, selling and marketing expenses increased from US\$32.4 million in 2011 to US\$38.7 million in 2012. As a percentage of total revenue, selling and marketing expenses decreased from 6.1% of total revenue in 2011 to 5.0% in 2012, demonstrating the Company's ability to control cost.

### General and administrative expenses

General and administrative expenses consist primarily of personnel and support costs for our finance, human resources and other management departments and in 2011 the acquisition-related costs in connection with the purchase of SiTel. General and administrative expenses for 2012 were up 37.0% at US\$33.5 million (2011: US\$24.4 million). General and administrative expenses as a percentage of total revenue decreased from 4.6% in 2011 to 4.3% in 2012.

## Financial review continued

2011 included one-time M&A expenses in connection with the acquisition of Dialog B.V., totalling US\$3.2 million. Excluding these one-time costs, general and administrative expenses in 2011 were US\$21.2 million. Comparing the US\$21.2 million with the amount in 2012 we saw an increase of US\$12.3 million or 57.8% over 2011.

US\$3.1 million of this increase was due to movements in the share price affecting the National Insurance cost associated with share-based payment charge. During 2012, Dialog's share price increased from €12.36 at 31 December 2011 to an average share price of €15.85 impacting the National Insurance associated with share options exercised in the year and new options granted during 2012 – please refer to note 21 to the consolidated financial statements.

The remaining increase related to higher costs, mainly personal costs for support functions, reflecting the growth of the Company. Underlying<sup>1)</sup> general and administrative expenses in 2012 were US\$29.2 million or 3.8% of revenue, compared to US\$19.9 million or 3.8% in 2011. Whilst the percentage remained flat year-on-year, general and administrative expenses as a percentage of revenues continue to remain amongst best in class in our industry.

### Research and development expenses

Research and development expenses consist principally of design and engineering-related costs associated with the development of new Application Specific Integrated Circuits ("ASICs") and Application Specific Standard Products ("ASSPs"). Research and development expenses (net of customer-funded projects) were US\$127.9 million for 2012 (2011: US\$90.0 million), an increase of 42.0%. The increase was primarily due to an increased headcount of our R&D personnel and investments in advanced silicon and packaging technologies in support of our ongoing growth strategy. As a percentage of total revenue, research and development expenses decreased from 17.1% in 2011 to 16.5% in 2012.

### Restructuring expenses

In connection with the acquisition of SiTel in 2011, as explained in note 4 to the consolidated financial statements, the Company carried out some reorganisation, resulting in restructuring costs of US\$1.5 million.

### Operating profit

We reported an operating profit of US\$91.0 million for 2012. This compares to an operating profit of US\$61.6 million in the previous year.

This increase of 47.7% primarily resulted from a wider revenue base in 2012, underpinned by our **Mobile Systems** segment. Underlying<sup>1)</sup> operating profit in 2012 was US\$107.5 million or 13.9% of revenue, compared to US\$79.8 million or 15.1% of revenue in 2011.

### Interest income and other financial income

Interest income and other financial income from the Company's investments (primarily short-term deposits and securities) was US\$1.4 million for 2012, compared to US\$0.4 million in 2011. The increase is associated with the placement of the proceeds of the convertible bond on interest-bearing accounts. For further information, please refer to note 18 to the consolidated financial statements.

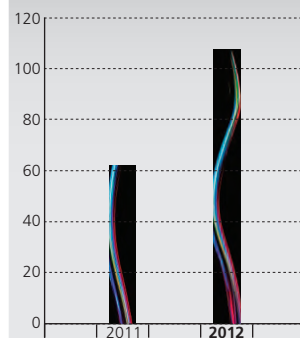
### Interest expense and other financial expense

Interest expense and other financial expense consists primarily of expenses from capital leases, hire purchase agreements, the Group's factoring arrangement and in 2012 also the interest expense in relation to the convertible bond. 2012 interest and other financial expenses were US\$6.5 million (2011: US\$0.2 million). The amount in 2012 mainly included two components relating to the convertible bond: US\$1.4 million relating to a 1% coupon payable on a semi-annual basis to the bondholders and US\$4.0 million, representing the interest expense in connection with the measurement of financial liability from the bond using the effective interest method.

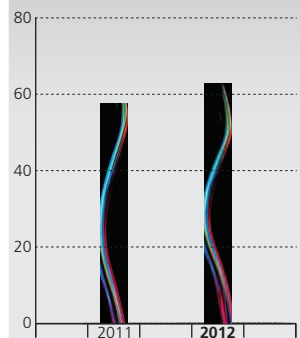
### Income tax expense

For 2012, a net tax charge of US\$23.6 million was recorded (2011: US\$4.1 million), resulting in an effective tax rate of 27.4% (2011: 6.6%). The main reason for the increase of the effective tax rate was that in 2012, a lower amount of previously unrecognised deferred tax assets was recognised. The amount in 2012 was US\$4.0 million compared to US\$14.6 million in 2011. Excluding these tax benefits, the effective tax rate in 2012 would have been 32.1% compared to 30.4% in 2011. This increase relates to higher operational expenses in the UK, for which no tax benefit was recorded as a result of not recognising deferred tax assets in the UK. For further information, please refer to note 5 to the consolidated financial statements.

Operating profit (US\$m)



Net profit (US\$m)



### Net profit

For the reasons described above, net profit in 2012 reached US\$62.5 million, compared to US\$57.4 million in 2011, with basic earnings per share at US\$0.97 (2011: US\$0.91) and diluted earnings per share at US\$0.93 (2011: US\$0.86). Applying the 2012 effective tax rate of 27.4% to the 2011 diluted earnings per share would have reduced it by US\$0.19 to US\$0.67 – this better demonstrates the operational leverage that the Company achieved in 2012.

## Liquidity and capital resources

### Cash flows

**Cash flows from operating activities** were US\$52.4 million for 2012 (2011: US\$69.6 million). Cash inflows of US\$139.7 million (2011: US\$97.2 million) resulted from the Company's net profit adjusted by depreciation, amortisation and other non-cash effective expenses. This cash inflow was partly offset by investments in the Company's working capital of US\$77.9 million (2011: US\$24.8 million), mainly relating to investments in inventories in support of Q1 2013 backlog and business demand for the first half of 2013. In addition, tax payments of US\$9.5 million (2011: US\$3.1 million) reduced net cash generated from operating activities.

**Cash used for investing activities** was US\$54.3 million for 2012 (2011: US\$116.1 million). Cash used for investing activities in 2012 predominantly consisted of US\$35.0 million (2011: US\$21.2 million)

for the purchase of advanced test equipment, tooling (masks), laboratory equipment, probe cards and load boards. US\$7.7 million (2011: nil) were paid for a new licensing agreement, for further information please refer to note 12 to the consolidated financial statements. US\$5.7 million (2011: US\$5.4 million) relate to the purchase of other intangible assets. Payments related to capitalised development costs were US\$6.0 million (2011: US\$5.2 million). 2011 cash used for investing activities included US\$84.2 million relating to the acquisition of SiTel Semiconductor.

### Liquidity

At 31 December 2012, we had cash and cash equivalents of US\$312.4 million (31 December 2011: US\$113.6 million). The working capital (defined as current assets minus current liabilities) was US\$420.9 million (31 December 2011: US\$150.8 million).

With an amount of US\$164.6 million, long-term debt as of 31 December 2012 represents mainly the fair value of the liability from the convertible bond (31 December 2011: US\$0), please refer to note 18 to the consolidated financial statements.

If necessary, we have available for use a multi-currency three-year (2010–2013) revolving credit line facility of £10.0 million (US\$16.2 million) at a rate of LIBOR +150bp and a three-year (2011–2014) revolving credit facility of US\$35.0 million that bears interest at an average rate of LIBOR +140bp. At 31 December 2012 and 2011, we had no amounts outstanding under these facilities. In addition, we have two factoring agreements which provide the Company with up to US\$60.0 million of readily available cash (a US\$30 million increase over 2011). Accordingly, we believe the funding available from these and other sources will be sufficient to satisfy our working capital requirements in the near- to medium-term if needed.

## Dialog Semiconductor's underlying financial performance for 2012 and 2011 is summarised below:

US\$000	2012			2011 <sup>3)</sup>		
	IFRS	Adjustments	Underlying <sup>1)</sup>	IFRS	Adjustments	Underlying <sup>1)</sup>
Revenues	<b>773,583</b>	–	<b>773,583</b>	527,261	–	527,261
Cost of sales	<b>(480,971)</b>	<b>(1,142)</b>	<b>(479,829)</b>	(319,073)	(3,051)	(316,022)
<b>Gross profit</b>	<b>292,612</b>	<b>(1,142)</b>	<b>293,754</b>	208,188	(3,051)	211,239
Selling and marketing expenses	<b>(38,669)</b>	<b>(6,286)</b>	<b>(32,383)</b>	(32,370)	(6,543)	(25,827)
General and administrative expenses	<b>(33,476)</b>	<b>(4,296)</b>	<b>(29,180)</b>	(24,442)	(4,502)	(19,940)
Research and development expenses	<b>(127,886)</b>	<b>(4,716)</b>	<b>(123,170)</b>	(90,046)	(4,089)	(85,957)
Restructuring expenses	<b>(1,549)</b>	–	<b>(1,549)</b>	–	–	–
Other operating income	–	–	–	303	–	303
<b>Operating profit</b>	<b>91,032</b>	<b>(16,440)</b>	<b>107,472</b>	61,633	(18,185)	79,818
Interest income and other financial income	<b>1,360</b>	–	<b>1,360</b>	376	–	376
Interest expense and other financial expense	<b>(6,466)</b>	<b>(4,668)</b>	<b>(1,798)</b>	(235)	–	(235)
Foreign currency exchange gains and losses net	<b>199</b>	–	<b>199</b>	(352)	–	(352)
<b>Result before income taxes</b>	<b>86,125</b>	<b>(21,108)</b>	<b>107,233</b>	61,422	(18,185)	79,607
Income tax expense	<b>(23,612)</b>	<b>3,659</b>	<b>(27,271)</b>	(4,070)	1,489	(5,559)
<b>Net profit</b>	<b>62,513</b>	<b>(17,449)</b>	<b>79,962</b>	57,352	(16,696)	74,048
Earnings per share (in US\$)						
Basic	<b>0.97</b>	<b>(0.27)</b>	<b>1.24</b>	0.91	(0.27)	1.18
Diluted	<b>0.93</b>	<b>(0.26)</b>	<b>1.19</b>	0.86	(0.25)	1.10
<b>EBITDA<sup>2)</sup></b>	<b>124,352</b>	<b>(10,162)</b>	<b>134,514</b>	87,570	(9,526)	97,096

1) Underlying results in 2012 net of tax effects are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$8.3 million, excluding US\$4.7 million of amortisation of intangibles associated with the acquisition of Dialog B.V., excluding US\$4.0 million non-cash effective interest expense in connection with the convertible bond and excluding US\$0.5 million non-cash effective interest expense related to the new licensing agreement (please refer to note 12 to the consolidated financial statements).

Underlying results in 2011 net of tax effects are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$6.2 million, excluding one-time transaction costs of US\$3.2 million associated with the acquisition of Dialog B.V., excluding US\$7.3 million of amortisation of intangibles associated with the acquisition of Dialog B.V.

The term "underlying" is not defined in IFRS and therefore may not be comparable with similarly titled measures reported by other companies. Underlying measures are not intended as a substitute for, or a superior measure to, IFRS measures.

2) EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (2012: US\$12.7 million, 2011: US\$8.8 million), amortisation for intangible assets (2012: US\$19.6 million, 2011: US\$16.0 million) and losses on disposals and impairment of fixed assets (2012: US\$1.0 million, 2011: US\$1.1 million).

3) 2011 numbers adjusted for the purchase price allocation, please refer to note 4 to the 2012 interim consolidated financial statements.

# Financial review continued

## Statement of financial position

	At 31 December 2012 US\$000	At 31 December 2011 US\$000	Change US\$000	%
<b>Assets</b>				
Cash and cash equivalents and restricted cash	312,435	113,590	198,845	175.1
All other current assets	251,067	117,685	133,382	113.3
<b>Total current assets</b>	<b>563,502</b>	<b>231,275</b>	<b>332,227</b>	<b>143.7</b>
Property, plant and equipment, net	50,318	28,404	21,914	77.2
Goodwill	32,283	32,283	–	–
Intangible assets	51,789	38,361	13,428	35.0
All other non-current assets	1,335	1,684	(349)	(20.7)
Deferred tax assets	8,913	17,382	(8,469)	(48.7)
<b>Total non-current assets</b>	<b>144,638</b>	<b>118,114</b>	<b>26,524</b>	<b>22.5</b>
<b>Total assets</b>	<b>708,140</b>	<b>349,389</b>	<b>358,751</b>	<b>102.7</b>
<b>Liabilities and Shareholders' equity</b>				
Current liabilities	142,650	80,440	62,210	77.3
Non-current liabilities	182,899	4,345	178,554	4,109.4
Net Shareholders' equity	382,591	264,604	117,987	44.6
<b>Total liabilities and Shareholders' equity</b>	<b>708,140</b>	<b>349,389</b>	<b>358,751</b>	<b>102.7</b>

Balance sheet total was US\$708.1 million at 31 December 2012 (31 December 2011: US\$349.4 million). Cash and cash equivalents increased by US\$198.8 million or 175.1% to US\$312.4 million at 31 December 2012 (31 December 2011: US\$113.6 million).

This increase was mainly caused by the net cash inflows from operating activities of US\$52.4 million from the convertible bond in the amount of US\$196.6 million and cash inflows from the sale of employee stock purchase plan shares in the amount of US\$4.1 million. The cash inflows were partly offset by cash outflows for investing activities in the amount of US\$54.3 million.

Other current assets increased from US\$117.7 million at 31 December 2011 by US\$133.4 million to US\$251.1 million at 31 December 2012. The increase of 113.3% is mainly driven by higher inventory balances (+US\$89.8 million) and higher trade receivables (+US\$36.2 million).

Total non-current assets increased 22.5% to US\$144.6 million; investments into tangible and intangible assets were US\$68.6 million. These were partly offset by depreciation, amortisation and impairment charges in the amount of US\$33.3 million. Deferred tax assets decreased by US\$8.5 million due to the usage of net loss carry forwards.

Current liabilities increased by net US\$62.2 million of which US\$55.8 million relate to increased trade and other payables, which mainly stand in relation to the increased inventory balance.

Non-current liabilities increased by US\$178.6 million. The amount at 31 December 2012 mainly includes US\$164.6 million (31 December 2011: nil), which represents the fair value of the convertible bond liability and US\$11.8 million (31 December 2011: nil) financing costs relating to the new licence agreement. For further information, please refer to note 12 and note 18 to the consolidated financial statements respectively.

Shareholders' equity increased from US\$264.6 million at 31 December 2011 by US\$118.0 million to US\$382.6 million at 31 December 2012. US\$36.6 million of this increase relates to the convertible bond. US\$69.5 million relate to our net profit (adjusted by expenses for share-based payments). The equity ratio was 54.0% (31 December 2011: 75.7%).

# Risks and their management

Dialog's risk management process follows a sequence of risk identification, assessment of probability and impact, and assigns an owner to manage mitigation activities, liaising with internal and external auditors.

## Market environment

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

### Risk

#### Consumers

Dialog is a market-leading provider of high-quality IC solutions to innovative consumer electronics companies. To maintain this position and grow our business, we need to convert trends into business opportunities through effective marketing.

#### Economy

Our ambition is to sustain growth, but the slowdown in the semiconductor industry also affects the segments of our business.

#### Competition

Other parties in our industry may seek to yield benefits from our technical innovations by duplication of our products or parts.

### Actions

Dialog invests in research and development to anticipate and respond to new market trends, rapidly implement new designs to meet customers' needs and keep abreast of technological changes.

Dialog invested US\$127.9 million, or 16.5% of revenues, in R&D in 2012 across a range of highly targeted areas.

We also opened our Asian headquarters in Taiwan, complementing our existing manufacturing engineering support presence in the country, to be closer to our customer base in the region.

Dialog is broadening its product portfolio and investing in new solution areas that target high-growth sectors.

In 2012, Dialog raised US\$201 million of funds to allow us to respond quickly to acquisition opportunities and expand our business.

We seek to protect our current business and our IP from being copied or used by others by appropriate use of patents, copyrights and trademarks on a global basis.

Dialog holds 305 patent families, including 47 additional patents filed in 2012.

## Business relations

Dialog seeks to mitigate the cyclical volatility of its market by diversifying into new sectors and broadening its customer base to reduce exposure to the potential loss of any major customer. We need to seek partnerships that are flexible to the fluctuations in demand but able to ensure the continuity of production. By distributing our supply over multiple partners, we seek to prevent shortages in the event one of our suppliers faces capacity constraints, financial problems or natural disasters.

### Risk

#### Suppliers

Dialog outsources the capital intensive production of silicon wafers, packaging and testing of integrated circuits to leading suppliers, mainly in Asia. Capacity constraints and business interruption could lead to shortage of supply with various negative consequential effects, such as loss of revenue and adverse impact on Dialog's relationship with its customers.

#### Customers

Since Dialog relies on a relatively small number of customers for a substantial proportion of its revenue, the loss of one or more of these customers would be likely to have a material effect.

### Actions

Dialog has forged close partnerships with its foundries and they have responded by investing in capacity to meet demand from our expanding customers.

Dialog maintains intense interaction to plan and manage capacity with its suppliers.

Dialog strives to have multiple backend and test sources to mitigate the risk of disruption to supply. For each supplier, manufacturing quality, continuity of supply and financial health are regularly monitored.

Dialog continued to work with a range of foundries in Taiwan, Singapore and China and test and assembly houses in Taiwan and Singapore to mitigate the risk of supply chain disruption and constraints.

We are reducing the risk of our revenues, profitability and growth being affected by a slowdown in the wireless communications market by winning customers in other sectors.

Dialog continued to expand its customer base. This includes ongoing success in providing multiple Tier 1 customers with technologies for a growing number of portable device platforms and models and the broadening of our range of Application Specific Standardised Products.

## Risks and their management continued

### Operational excellence

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

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

#### Risk

##### *Design capacity*

Dialog develops both Application Specific Integrated Circuits for individual customers as well as Application Specific Standard Products to address multiple customers in a market sector. Dialog respects that time-to-market is of critical importance to our customers' success. With strong demand for new innovations and the limited capacity of design engineers, we must balance the allocation of our resources to both our business models.

##### *Supply chain*

Dialog runs a fabless model and does not participate directly in the highly capital intensive production environment. The manufacturing of our products run over multiple stages of production with multiple suppliers. Each supplier must manage capacity to ensure a healthy financial return, leading to constraints in times of increasing demand. Long-term capacity planning and short-term fine-tuning are crucial to align production cycle time with order lead times for our customers.

##### *Interest rates fluctuations*

Interest earned from bank and money market deposits can vary according to market fluctuations and Dialog's cash requirements.

#### Actions

Dialog has selected specialised outsourced agencies to support the rapid recruitment of highly skilled personnel.

In-house we dedicate human resource managers to drive the further development of our personnel and benchmark our employment terms against top industry peers.

In 2012, Dialog expanded its design capacity by 21%. We recruited engineers into our current design centres in the UK, Germany, Austria, Japan, the Netherlands and Greece and set up new design centres in Turkey and Italy.

Dialog continues to expand its Technical Ladder, a forum of our top engineers, to share knowledge, align design technologies and generate ideas for new products.

Dialog carefully selects its suppliers and regularly audits their quality and performance. We keep a close relationship with our suppliers and have implemented automated feeds to ensure swift turnaround of production orders and to manage the transition of production stages over multiple manufacturing locations.

We keep inventory buffers to respond to unplanned demand fluctuations, but seek to manage these to consume a minimum of working capital.

In 2012, we have rolled out state-of-the-art Supply Chain Network Planning software, based on SAP, which supports the automated scheduling of production work orders, taking into account the capacity constraints of our suppliers.

Dialog manages its interest income using a matched investment strategy with a mix of fixed and variable interest rate facilities in highly liquid funds, which are offered by highly reputable and rated financial institutions. This includes investing excess funds, even over the short term, once the operating business has been financed.

During the year, the Group has held cash on deposit with a range of maturities from one week to three months.

## Risk

### *Liquidity levels*

As a high growth company, we need to balance the need for liquidity with the avoidance of short-term overdrafts and bank charges.

### *Currency fluctuations*

The majority of Dialog's revenue, material costs and R&D expenses, to some extent are in US dollar currency. There are, however, foreign exchange risks associated with other expenses such as wages and building rent, recognised assets and liabilities in other currencies, primarily the euro, the pound sterling and Japanese yen.

### *Creditworthiness of customers*

Dialog trades with selected customers on credit terms and receivable balances, which could create a risk of bad debts.

## Actions

We structure the maturity of our current financial assets in the Group to meet 100% of the respective maturities and liabilities. We monitor our liquidity on a quarterly basis, with the objective of avoiding interest on short-term bank liabilities or overdrafts.

Dialog has no long-term debts except for those associated with the US\$201 million convertible bond launched in March 2012 with a five-year conversion.

Over a short period in 2012, Dialog used US\$10 million in credit facilities to temporary finance a peak in working capital. At the end of the year no overdraft was drawn.

We use forward-currency contracts to hedge our exposure associated with the payment of non-US dollar wages, office rent and other expenses. We maximise the effectiveness of our currency hedges by matching the terms and conditions of the hedge to those of the underlying obligation. We typically use forward-currency contracts up to a maximum of 12 months out.

During 2012, Dialog continued to effectively hedge the majority of its currency exposure.

We view all our customers as having high creditworthiness. However, we have factoring agreements with two reputable financial institutions who assume all risks associated with the collection of receivables from selected customers.



# Sustainability

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

## Environment

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

## Redesign

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

The Company also offers a range of low energy short-range wireless ICs for a range of smart home devices, including energy monitoring, metering and management applications.

In 2012, Dialog began actively developing next generation, highly controllable LED (Light Emitting Diode) technologies to deliver better quality light within homes and offices, aiming to significantly reduce energy usage and enabling consumers to benefit from bulbs with an average lifespan of around ten years in comparison to just three to four years with Compact Fluorescent (CFL) bulbs.

## Reduce

Dialog is working to systematically reduce CO<sub>2</sub> emissions and minimise the carbon footprint of our business, focusing on the impact of our design centres. The Carbon Disclosure Project recognised Dialog as one of ten successful companies achieving the "Scope-2-Indirect CO<sub>2</sub> Emission Reduction", with a reduction of emissions of 34% in our design centres in 2012, despite the significant growth in our employee base, beating our target of 30% by 2014. In addition, we are actively reducing the quantity of hazardous substances used in our labs.

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

## Recycle

We have also implemented a rigorous recycling of precious metals, such as gold and silver,

from waste and damaged products. We have increased the quantity of recovered gold by 300% and recovered silver by 200%.

Dialog only uses packing material qualified as "green packing", implementing a "non-wood packing" delivery policy in 2012. We believe that reusing and recycling packing material and waste (including the PET and glass bottles used in our work areas) can contribute to the effectiveness of our resource management and sustainability. Our five design locations currently recycle 92% of packing and waste. We are striving for 95% by 2013.

## Suppliers and employees

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

- Design and manufacture only environmentally friendly products;
- Monitor, reduce and eliminate all types of waste. This includes waste water, solid waste, wasted energy, ozone-depleting CO<sub>2</sub> emissions and other volatile organic chemicals (VOC). We work with suppliers relentlessly to maximise yields, minimising the number of chips that fail performance tests and need to be disposed of, alongside hazardous substances used during the production process;

## From left:

Dialog donated a "Rolfiets" (a wheelchair-bike with an electric motor) to a local school in Nabern, enabling teachers and caregivers to venture out on excursions into the countryside with kids with disabilities.

Dialog matched the funds raised by an employee who ran the London Marathon in 2012 for Parkinson's UK.



- Identify resource substitution and resource recovery processes and take steps to ensure that conflict minerals are not used in the manufacturing process;
- Ensure all environmental permits are obtained, maintained and kept current.

#### **Human rights and code of conduct**

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

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

Dialog as one of ten successful companies achieving the "CO<sub>2</sub> Emission Reduction", with a reduction of emissions of 34% in our design centres in 2012.

#### **From left:**

*Dialog's matched giving charity fundraising programme helped to raise money to buy books, pens, pencils, paints, crayons and toys for a school in Tanzania.*

*Dialog offices across Europe worked together to support a charity cycle ride from London to DenBosch that raised €43,000 for KiKa (Children free from Cancer).*



## Sustainability continued

### *Health and safety*

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

Every supplier is required to complete a self-audit questionnaire to identify and document compliance. We also carry out regular on-site audits of all of our major suppliers. In addition, 96% of our major suppliers have their own documented corporate social responsibility policy, which we aim to increase to 100% by the end of 2013.

### *Ethics*

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

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

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

### *Continuous innovation and professional development*

Dialog has a commitment to the training and development of all staff at all levels of the organisation. Our vision is to develop a positive learning culture which fully supports the development of the individual and the growth of the business.

The Company has a global learning and development strategy, which has been written in order to support both the development of the organisation and the individuals within it. The strategy supports the key aims of Dialog's annual business plan. Everyone within the organisation has the opportunity to participate in a variety of training events, which feed into these key aims.

Dialog has clear career levels and paths for those wishing to pursue a technical career or to focus on leadership and management. For example, Dialog has created a Technical Ladder, which provides promotional opportunities for those who bring great value to the Company through their technical expertise and want to focus their careers on that know-how, rather than on management and leadership. Employees who are successful in gaining a place on the Ladder spend around 20% of their time researching



Dialog's five design locations currently recycle 92% of packing and waste and the Company is on track to meet a target of 95% by 2013.

new innovation initiatives, developing our university partnership programmes, speaking at external and internal conferences, and delivering and participating in training opportunities.

#### **Work environment and communications**

Clear and consistent communication is achieved through regular all-hands meetings, led by Dialog's CEO, to keep employees fully aware of Company matters that affect them.

We encourage employee feedback at all levels for new ideas to improve business efficiency and performance.

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

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

#### **Communities**

Dialog increased corporate giving by over five-fold in 2012 to US\$122,560. A plan has been put in place to continue to do more by setting a target of giving 1% of pre-tax profit to charity by 2015. We have a formal policy to match all employee contributions or funds raised for charitable causes that are important to our employees and the community.

#### **University partnership programmes**

Dialog runs a range of programmes throughout Europe to attract the brightest and best students of school and university age into the electronics industry and our Company. We sponsor ten students at leading UK and European universities, provide access bursaries, academic prizes, and also run a range of schools' outreach programmes.

In 2012, Dialog sponsored five electronics engineering students from Imperial College, York, Bristol and Southampton through the UK Electronic Skills Foundation, an organisation that aims to encourage young people into electronics and develop sound links between universities and industry. We also provided industrial scholarships to students at Karlsruhe and Aachen universities in Germany, Edinburgh in the UK, and Twente in The Netherlands. Scholars receive a start-up bursary for books, an annual bursary, paid work placements, an opportunity for a summer job and an industrial mentor.

We also give three "access bursaries" of £1,000 each at the University of Edinburgh to assist low-income engineering students and give cash prizes at several universities, such as £800 for best second year project at Imperial College London.

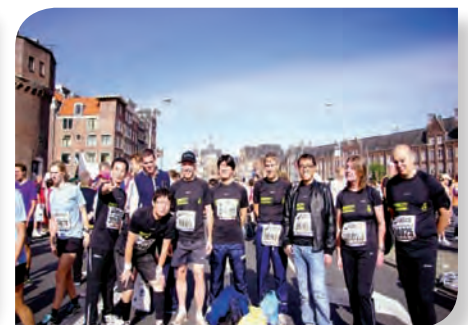
In September 2012, we sponsored a field trip for 20 electronic engineering students from the University of Twente in The Netherlands, who visited China to research the markets, Chinese universities, factories and businesses.

Dialog staff were also seconded to present to school-age children about the exciting world of the electronics industry, offer careers counselling and work experience placements for students, act as guest lecturers at leading universities to help ensure young people come into the industry with the skills they need to thrive.

#### **From left:**

*Dialog awards cash prizes at several universities for academic excellence, including a prize for the best electronics engineering project for second year students at Imperial College London.*

*Dialog runners from Europe and Asia ran the "dam-to-dam" run in Amsterdam to raise money for Amnesty International.*



# Executive management



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

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

## **Dr Karim Arabi**

### *Vice President, Engineering Technology*

Karim joined Dialog Semiconductor in September 2012 and is responsible for driving overall technology leadership and advanced product development. He brings over 20 years of experience in various fields of semiconductor industry to Dialog. Prior to joining Dialog, Karim served as Vice President, Engineering at Qualcomm. Karim also held key technical leadership positions at PMC Sierra and Cirrus

Logic and was co-founder of Opmaxx, acquired by Credence. Karim obtained his MSc and PhD degrees in Electronics from the Ecole Polytechnique de Montreal, Canada.

## **Andrew Austin**

### *Vice President, Sales*

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

## **Mohamed Djadoudi**

### *Vice President, Global Manufacturing Operations and Quality*

Mohamed joined Dialog in March 2007 and is responsible for product engineering, test and assembly development, data automation, software support, offshore manufacturing operations and quality. Mohamed has more than 25 years' experience in the field of semiconductor manufacturing operations, starting initially with IBM in France and the US. He was previously Senior Vice President and Chief Technology Officer of the Unisem group, an assembly and test subcontractor based in Malaysia and China. He also held the position of Vice President of Test Operations at ASAT (Atlantis Technology), based in Hong Kong, before becoming one of the original members

of the management buy-out team of ASAT UK, where he served as the Technical Director. Mohamed holds an Electronic and Electrotechnic degree from the Paris University of Technology.

## **Gary Duncan**

### *Vice President, Product Development*

Gary, who joined the Company in October 1987, is responsible for all IC design and development activities. He has over 30 years' experience in the semiconductor industry and previously he held senior engineering and management roles at Plessey, Texas Instruments and ES2 with a particular specialism in process engineering, test and product engineering and yield improvement.

## **Christophe Chene**

### *Vice President, Asia*

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



#### **Sean McGrath**

##### *Vice President and General Manager Connectivity, Automotive and Industrial Business Group*

Sean joined Dialog in November 2012. Prior to this 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 AB degree in Geophysics and Geology from Harvard University and an MBA with distinction from INSEAD.

#### **Udo Kratz**

##### *Senior Vice President, General Manager Mobile Systems Business Group*

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

#### **Martin Powell**

##### *Vice President, Human Resources*

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

#### **Jean-Michel Richard**

##### *CFO, Vice President Finance*

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

#### **Mark Tyndall**

##### *Vice President, Business Development and Corporate Strategy*

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

## Board of Directors



### **Gregorio Reyes**

#### *Chairman*

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

### **Dr Jalal Bagherli**

#### *Chief Executive Officer*

Jalal joined Dialog as CEO and an executive board director in September 2005. He was previously Vice President & General Manager of the Mobile Multimedia business unit for Broadcom Corporation. Prior to that Jalal was the CEO of Alphamosaic, a venture-funded silicon start-up company in Cambridge, focusing on video processing chips for mobile applications. He has extensive experience of the semiconductor industry, through his previous professional and executive positions at Sony Semiconductor and Texas Instruments, managing semiconductor product businesses and working with customers in the Far East, Europe and North America.

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

### **Chris Burke**

#### *Non-executive Director*

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

### **Aidan Hughes**

#### *Non-executive Director, Chairman of Audit Committee*

Aidan joined the Board in October 2004. He qualified as a Chartered Accountant with Price Waterhouse in the 1980s before taking senior accountant roles at Lex Service Plc and Carlton Communications Plc. He was Finance Director of the Sage Group Plc from 1993 until 2000 and, from December 2001 to August 2004, was a director of Communis Plc. He is a director of, and investor in, a number of UK private technology companies.



#### **John McMonigall**

*Non-executive Director,  
Senior Independent Director*

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

#### **Russ Shaw**

*Non-executive Director, Chair of  
Remuneration and Nomination Committee*

Russ joined the Board in July 2006 and is currently a non-executive Director for Unwire A.p.S. and Cupid Plc. He was the previous Chairman of the Marketing Group of Great Britain, is senior adviser to Ariadne Capital and a member of London's Tech City Advisory Group. Previously, Russ was the Vice President & General Manager for Skype, with responsibilities for its Mobile Division as well as Europe, Middle East and Africa. Previously, he was at Telefonica, where he was the Global Director of Innovation. Before joining Telefonica, he was the Innovation Director at O2, which he joined as Marketing Director in 2005. The strong brand and product range he established resulted in significant customer growth. His 20+ years' senior marketing and brand management experience in the technology, telecoms and financial services areas has enabled him to bring an excellent level of knowledge to Dialog.

#### **Peter Weber**

*Non-executive Director*

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

#### **Dr Chang-Bun Yoon**

*Non-executive Director*

Dr Chang-Bun Yoon joined Dialog in April 2012. Dr Yoon was Chairman, CEO and President of SK Broadband (formerly known as Hanaro Telecom). He was chosen as "CEO of the Year 2004" by the Korea Management Association and he received a "Top Management Award" from the Korean Institute of Communication and Sciences in 2004. He was President of Korea Information Society Development Institute, a national strategy institute for the IT sector, and has been actively involved in policy recommendations for the ministries and government agencies in Korea. He was a non-executive member of the Board of Directors and a member of the Audit Committee for Korea Telecom, as well as a member of the Board of Directors for Seoul Broadcasting Systems Ltd. Chang-Bun Yoon has a comprehensive understanding of the global IT industry and telecommunications market and is recognised as a contributor to Korea's IT and telecommunications development.



# 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 2012. These accounts have been prepared under IFRS and are available on the Company's website: [www.dialog-semiconductor.com](http://www.dialog-semiconductor.com).

## Principal activities and review of the business

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

With its focus and expertise in energy-efficient system power management, audio, low energy short-range wireless and VoIP technologies, Dialog brings decades of experience to the rapid development of ICs.

Dialog's power management processor companion chips enhance the performance of personal portable devices – including smartphones, tablets and Ultrabooks™ – by extending battery play time and supporting increasingly demanding multimedia applications. Our short-range wireless technology provides connectivity to wireless headsets, microphones and gaming consoles and is enabling the emergence of innovative new smart home applications.

Dialog Semiconductor Plc is headquartered near Stuttgart, with a global sales, R&D and marketing organisation. In 2012, it had US\$774 million in revenue and is one of the fastest growing European public semiconductor companies. At 31 December 2012, the Company had 806 employees. With world-class manufacturing partners, Dialog operates a fabless business model.

Please refer to "Our business strategy and performance" and "Our products and key customers" sections of this report for further information on the principal activities of the business and the factors affecting future developments. Information on treasury policies and objectives is included in note 25 to these financial statements.

The Company is listed on the Frankfurt (FWB: DLG) stock exchange and is a member of the German TecDAX index.

More information about the business is set out in the CEO's statement, on pages 14 and 15, and in the Business review, on pages 12 and 13.

## Future developments

The Group's stated objective is to be the leading global supplier of integrated mixed signal and analog differentiated power-saving technologies

addressing high-growth portable platforms. The Company is currently leveraging its expertise to expand its standalone audio product portfolio, capitalising on the success of its low power and high-quality audio ICs, and develop solutions based on new emerging short-range wireless standards and energy-efficient retrofit bulb LED lighting technology.

## Research and development (R&D)

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

To date, R&D projects have been in response to key customers' requests to assist in the development of new custom Application Specific Integrated Circuits (ASICs), and for the development of Application Specific Standard Products (ASSPs). The Company does not expect any material change to this approach in the foreseeable future.

## Going concern

After making enquiries, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue for the foreseeable future. The Group holds US\$312 million of cash at the year end (2011: US\$114 million) and has continued access to a US\$45 million borrowing facility. The Group has profitable forecasts and longer-term plans. For these reasons, the Directors have adopted the going concern basis in preparing the financial statements.

## Dividends

The Directors do not recommend the payment of a dividend (2011: nil). They are committed to re-investing all profits into the business and believe that this policy is in the best interests of its Shareholders.

## Purchase of own shares

The Company operates an Employee Benefit Trust, which purchases shares in the Company for the benefit of employees under the Company's share option scheme, Long Term Incentive Plan and Executive Incentive 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 2012, the trust held 2,679,768 shares, which represented 3.94% of the total called-up share capital, at a nominal value of £267,977.

## 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 18 to the consolidated financial statements.

## Substantial shareholdings

Details of substantial shareholdings are on page 9 of this annual report.

## Directors

The Directors, together with their biographies, are listed on pages 36 and 37 of this annual report.

## Powers of Directors

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

## Directors' remuneration and interests

Directors' remuneration and interests are detailed in the Directors' remuneration report on pages 46 to 52 of this annual report. No Director had a material interest during the year ended 31 December 2012 in any contract of significance with any Group Company.

## Directors' third-party indemnity provisions

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

## Election and re-election of Directors

In accordance with the Company's Articles of Association, one-third of the Directors have to stand for re-election at the Annual General Meeting. The next Annual General Meeting will be held on 2 May 2013 at 9am.

## Corporate Governance

The Company's Corporate Governance statement is set out on pages 40 to 45 of this annual report.

## Supplier payment policy

It is the Group's policy to pay creditors in accordance with the terms and conditions agreed with them, and in accordance with contractual and other legal obligations. Days payable outstanding for the Group at 31 December 2012 were 81 days (2011: 58 days).

## Principal risks and uncertainties

The Company is exposed to a number of risks and uncertainties that could affect the performance of the Company and its prospects. The Board of Directors and Audit Committee

are responsible for the Company's process of internal control and risk management and for reviewing its continuing effectiveness. The Board ensures, to the extent possible, that the system of internal procedures and controls is appropriate to the nature and scale of the Company's activities and that appropriate processes and controls are in place to effectively manage and mitigate strategic, operational, financial and other risks facing the Company. A detailed list of risks and their management are set out on pages 27 to 29.

#### Financial instruments

The Group's financial risk management and policies, and exposure to risks, are set out on pages 27 to 29.

#### Political and charitable contributions

The Group made no political contributions during the period. We made charitable contributions of US\$122,560 to local community projects (2011: US\$23,813).

#### 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.

#### Disabled persons

Our policy provides for disabled persons, whether registered or not, to be considered for employment, training and career development in accordance with their aptitudes and abilities.

#### Statement on disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on pages 36 and 37. Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors affirms that:

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

#### Responsibility statement under the disclosure and transparency rules

Each of the Directors listed on pages 36 and 37 confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- The Directors' report and the Group operating and financial review include a fair review of the development and the performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

#### Takeovers directive

At 31 December 2011, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the share capital can be found in note 18 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 shares in the Company other than:

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

Details of changes in share capital can be found in note 18 to the consolidated financial statements. Besides that, the Company did not purchase its own shares in treasury.

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

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

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

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occur because of a takeover bid. The agreement between the Company and its Directors for compensation for loss of office are given in the Director's remuneration report on page 46.

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

#### Annual General Meeting

The notice convening the Annual General Meeting will be published separately and posted on the Company's website. The meeting will be held at Tower Bridge House, St Katharine's Way, London E1W 1AA on 2 May 2013 at 9am.

#### Auditors

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

By order of the Board

Dr Jalal Bagherli  
Director

14 February 2013

# Corporate Governance

The Board of Dialog Semiconductor is committed to maintaining high corporate governance standards to protect the interests of all stakeholders. Our principles, as set out on our corporate website, [www.dialog-semiconductor.com](http://www.dialog-semiconductor.com), that we have complied with in the year, reflect a range of guidelines that apply to the Company, given Dialog's status as a UK incorporated, Frankfurt Stock Exchange listed company. In this context, the Company, to the extent that is practicable, given its UK incorporation but Frankfurt Stock Exchange listing, applies the main and supporting principles of the relevant governance codes.

## Board of Directors – role and responsibilities

As Dialog is incorporated in the UK and uses the UK Corporate Governance Code as a basis for its corporate governance practice, it maintains a single board structure. The Board has overall responsibility for the leadership, control and oversight of the Company. The day-to-day responsibility for the management of the Company has been delegated by the Board to the Chief Executive Officer, who is accountable to the Board. The Chief Executive Officer executes this authority through an executive management team, outlined on pages 34 and 35 of this annual report. In addition, a number of responsibilities of the Board are delegated to sub-committees of the Board; details of which are set out below.

## Matters reserved for the Board

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

## Chairman

Mr Gregorio Reyes is Chairman of the Board. The Chairman was determined by the Board to be independent on his appointment to the Board. The Chairman is responsible for the effective working of the Board while the Chief Executive Officer (CEO), together with the executive management team, is responsible for the day-to-day running of the Company. The functions of Chairman and CEO are not combined and both roles' responsibilities are clearly divided.

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

The Chairman is available to meet Shareholders on request.

## Board composition

The Board currently comprises ten Directors. The Directors who served on the Board during the 2012 calendar year are listed below. Subsequent to the year end, Richard Beyer and Mike Cannon have been appointed to the Board as independent, non-executive Directors. Detail on their recruitment is set out below:

Director	Status	Independent/non-independent	Tenure Years	Concurrent tenure* Years
Gregorio Reyes	Current	Independent (Chairman)	9	7
Dr Jalal Bagherli	Current	Non-independent (Executive)	7	N/A
Chris Burke	Current	Independent	6	6
Aidan Hughes	Current	Independent	8	7
John McMonigall	Current	Independent	15	7
Russ Shaw	Current	Independent	6	6
Peter Tan	Retired	Independent	N/A	N/A
Peter Weber	Current	Independent	7	7
Chang-Bun Yoon	Current	Independent	1	1

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

The Board of Directors comprises a mix of the necessary skills, knowledge and experience required to provide leadership, control and oversight of the management of the Company and to contribute to the development and implementation of the Company's strategy. In particular, the Board combines a Group of Directors with diverse backgrounds within the technology sector, in both public and private companies, which combine to provide the Board with a rich resource and expertise to drive the continuing development of Dialog and advance the Company's commercial objectives. In addition, the geographic background of the Board is diverse and it includes Directors who reside, and have worked in, North America, Europe and Asia. Director biographies are set out on pages 36 and 37.

## Board refreshment and renewal

The Board is committed to a policy of ongoing Board refreshment and renewal. The Remuneration and Nomination Committee continually reviews the composition and diversity of the Board, including gender diversity, 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 36 and 37.

Subject to approval at the Annual General Meeting by Shareholders, Directors are appointed for a term of three years, except for John McMonigall who, given his length of tenure on the Board, is appointed for a one-year term and subject to annual re-election. The standard terms of the letter of appointment of non-executive Directors are available, on request, from the Company Secretary.

Directors seeking re-election are subject to a performance appraisal, which is overseen by the Remuneration and Nomination Committee.

In accordance with its Articles of Association a third of Directors stand for re-election at each Annual General Meeting.

Consistent with a commitment to ongoing Board refreshment and renewal, Chang-Bun Yoon was appointed to the Board on 24 April 2012. An external recruitment consultant was used in the process of recruitment of Chang-Bun Yoon to the Board.

During the year, Peter Tan stepped down from the Board.

During 2012, the Remuneration and Nomination Committee engaged in a process to recruit two new independent non-executive Directors to the Board. The primary objective was to appoint Directors who would bring specific industry experience to the Board. An additional objective was to recruit Directors who had experience serving on the Boards of publicly listed companies. Candidates were identified through a variety of methods. The Remuneration and Nomination Committee engaged external search and recruitment agents, Russell Reynolds, to identify potential candidates and to assist in selecting and recommending candidates. Informal industry contacts were also used. The Committee, which is committed to achieving a greater level of gender diversity on the Board over time, made considerable effort to ensure that gender was a significant consideration factor in the identification of potential candidates in addition to relevant industry and public company board experience.

Following a thorough review process, candidates met with Remuneration and Nomination Committee members and the Chairman prior to appointment. Richard Beyer and Mike Cannon have been appointed to the Board on the strength of their experience and skills and the value they can bring to the Board of Directors as a whole for the benefit of all Dialog Shareholders.

At the Annual General Meeting, to be held on 2 May 2013, and as set out in the Notice of Meeting, Dr Jalal Bagherli, Chris Burke, John McMonigall and Peter Weber will stand for re-election to the Board. Richard Beyer and Mike Cannon will stand for election to the Board. Biographies for both of the new Directors are set out in the AGM Notice of Meeting.

#### **Board size**

At the end of 2012, the Board comprised eight Directors: one executive Director, and seven independent, non-executive Directors (including the Chairman). Following the appointment of Richard Beyer and Mike Cannon to the Board, the Board now comprises ten Directors. The Remuneration and Nomination Committee has reviewed the size and performance of the Board during the year and also considered the impact of the addition of two new independent Directors on the effective functioning of the Board. A Board of ten Directors, the maximum which is currently allowed under the Company's Articles of Association, is a size that functions effectively, comprises the skills, knowledge and experience required by Dialog, is not so large as to be unwieldy and meets corporate governance best practice guidelines on independence.

#### **Board independence**

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

The Company has determined that Chris Burke, Richard Beyer, Mike Cannon, Aidan Hughes, John McMonigall, Russ Shaw, Peter Weber and Chang-Bun Yoon are independent. The Chairman, Gregorio Reyes, 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, and following the appointment of Richard Beyer and Mike Cannon, the Board now comprises eight independent non-executive Directors and one executive Director and is compliant with the principle that at least half the Board, excluding the Chairman, should comprise Directors determined by the Board to be independent.

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

experience and contribution to the continuing development of Dialog is of significant benefit to the Board as a whole.

While the Board is satisfied that Mr McMonigall is wholly independent, in line with the best practice principles, as he has been a member of the Board for in excess of nine years, he is subject to annual re-election by Shareholders.

#### **Senior Independent Director**

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

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

#### **Audit Committee financial expert**

The Board has determined that Aidan Hughes, who chairs the Audit Committee, has recent and relevant financial experience and is the Audit Committee financial expert. He is a qualified chartered accountant, an associate member of the Institute of Chartered Accountants in England and Wales and has significant experience as a senior accountant and Finance Director at a number of public companies. His biography is set out on page 36.

#### **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 ensures 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.

## Corporate Governance continued

### Board meetings

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

There were five Board meetings in 2012.

The attendance at Board and sub-committee meetings by the Directors who held office in 2012 is set out below. The Board places considerable importance on attendance at both scheduled Board and sub-committee meetings. During the year, no Director attended less than 75% of scheduled Board or sub-committee meetings to which they were entitled to attend. At scheduled Board meetings, the Board also meets without the executive Director present.

2012 Board and sub-committees	Notes	Board	Audit	Remuneration and Nomination	Strategic Transaction and Technology
Number of meetings		5	5	5	5
Meetings attended					
Gregorio Reyes		5			
Dr Jalal Bagherli		5			
Chris Burke		5		5	5
Aidan Hughes		5	5		5
John McMonigall		5	5		
Russ Shaw		5		5	
Peter Tan	(1)	1	1		
Peter Weber		5		5	5
Chang-Bun Yoon	(2)	4	3		

#### Notes:

(1) Peter Tan stepped down from the Board on 24 April 2012.

(2) Chang-Bun Yoon was appointed to the Board on 24 April 2012 and attended all Board meetings since the date of his appointment. He has also attended all Audit Committee meetings since his appointment to that Committee.

### Director induction and continuing development

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

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

### Director training and development

The Board is committed to a programme of periodic training and development of its Directors. As part of this process, one Board meeting is held at the location of one of the

Company's international offices each year. During 2012, a Board meeting was held in Taipei, Taiwan. The Board visited the Company's local office to engage with employees and gain a greater depth of understanding of the international development of the business and its customer base. In addition, the Board also visited two significant suppliers to the business based in Taiwan.

The Company has also put in place biannual training sessions for Directors which are facilitated by a third party. Training sessions scheduled for 2013 include: "Developments in Global Remuneration Practice" and "Anti-Bribery and Corruption".

### Performance evaluation

The Board recognises the importance of continuing evaluation of the performance of the Board and its Committees and a review of the operation and performance of the Board

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

### Independent advice

Non-executive Directors may seek independent professional advice, at the expense of the Company, in order for them to discharge their duties as a Director and obligations to Shareholders. No such professional advice was sought by any Director during the year.

### External non-executive directorships

The Board believes that a broadening of the skills, knowledge and experience of non-executive Directors is of benefit to the Company. The Company welcomes the participation of the non-executives on the Boards of other companies. To avoid potential conflicts of interest, non-executive Directors inform the Chairman 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 36 and 37.

### Directors' fees

The annual fee for non-executive Directors is £80,000. The annual fee for the Chairman is £110,000. The Chairman of the Audit Committee and the Remuneration and Nomination Committee receives an additional fee of £10,000 for their role on those Committees. From 2013 onwards, the Chairman of the Strategic Transaction and Technology Committee will also receive an additional fee of £10,000 for his role on that Committee. The other Committee members receive no additional fee for serving on those Committees. Details of the activity of these Committees during 2012 is set out on pages 44 and 45.

In 2012, non-executive Directors' fees were paid as a combination of cash and shares. One third of each Director's fee was paid by way of Dialog ordinary shares in the form of a nominal price option. The number of shares "paid" to each Director was calculated on the basis of one third of their total Director's fee divided by the market value of one Dialog ordinary share, as a 30-day average, as at the date of the Annual General Meeting.

Subject to Shareholder approval, non-executive Directors' fees will be paid solely in cash from 2013 onwards. Further details are set out in the remuneration report on page 46.

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

None of the remuneration of the non-executive Directors is performance related. The 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 expenses incurred in connection with attending meetings of the Board or related committees.

The compensation of the executive Director comprises a base salary and variable components. Variable compensation includes an annual bonus linked to, and dependent on, certain business targets as well as long-term incentives. The executive Directors' remuneration is inclusive of any Director's fee. Further details are set out on page 46.

#### Share ownership and dealing

Details of Directors' shareholdings are set out on page 52. The Company has a policy on dealing in shares that applies to all Directors and senior management. Under this policy, Directors are required to obtain clearance from the Chief Executive Officer (or in the case of the Chief Executive Officer himself, from the Chairman) before dealing.

Directors and senior management are prohibited from dealing in the Company's shares during designated close periods and at any other time when the individual is in possession of Inside Information (as defined by the Market Abuse Directive 2003/6/EC Regulations).

Transactions in securities of the Company's own shares carried out by members of the Board of Directors and of their family members will be reported within five business days and published without delay, if the total value of such transactions in any one year exceeds €5,000, pursuant to and in accordance with section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz).

#### Loans to Directors or senior executives

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

#### Board sub-committees

The Board has established three permanent sub-committees to assist in the execution of its responsibilities. These are the: Audit Committee, Remuneration and Nomination

Committee and Strategic Transaction and Technology Committee. Attendance at meetings held in 2012 are set out in the table on page 42. Ad hoc committees are formed from time to time to deal with specific matters.

The composition of the Board sub-committees, as at 14 February 2013, was as follows:

#### Audit Committee

Aidan Hughes (Chair), John McMonigall and Chang-Bun Yoon

#### Remuneration and Nomination Committee

Russ Shaw (Chair), Chris Burke and Peter Weber

#### Strategic Transaction and Technology Committee

Chris Burke (Chair), Aidan Hughes and Peter Weber.

Each of the permanent Board Committees has terms of reference under which authority is delegated to them by the Board. These terms of reference are available on the Company's website. The Chairman of each sub-committee attends the Annual General Meeting and is available to answer Shareholder questions.

#### Relations with Shareholders

The Company is committed to ongoing and active communication with its Shareholders. During 2012, the Company appointed a Head of Investor Relations to manage and enhance the dialog between the Company, its Shareholders and the broader financial community. The Company also retains independent advisers in the UK and Germany to help manage communication with both English and German speaking Shareholders. Dialog prepares annual and quarterly consolidated financial statements in accordance with generally accepted accounting principles in accordance with International Financial Reporting Standards.

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

There is regular discussion between Company management and analysts, brokers and institutional Shareholders, ensuring that the market is appropriately informed on business activities. Dialog promptly discloses price sensitive information to all market participants. Notifications are first sent to the Frankfurt Stock Exchange and the Federal Financial Supervisory Authority in Germany (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) and then published via an electronic information system.

#### Significant Shareholders

Under UK Disclosure and Transparency Rules, significant Shareholders are required to notify Dialog of a shareholding of 3% or more. Dialog must then notify BaFin and the Stock Exchange. Under S.15a of the German Securities Trading Act (Wertpapierhandelsgesetz) transactions in the Company's shares carried out by members of the Board of Directors and their family members are reported and published without delay.

Dialog's shares are listed with Clearstream Germany as legal owner. As far as the Company is aware, based on TR-1 notifications received, those holding a significant beneficial interest (>3%) in our Company as of 28 February 2013 were:

Kleinwort Benson (Jersey) Trustees (2011) Limited as Trustee of the Dialog Semiconductor plc Employee Benefit Trust (3.9%); Deutsche Bank AG (8.1%). For shares held on behalf of discretionary client, see page 9.

#### Internal control and risk management

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

The Board ensures, to the extent possible, that the system of internal procedures and controls is appropriate to the nature and scale of the Company's activities and that appropriate processes and controls are in place to effectively manage and mitigate strategic, operational, financial and other risks facing the Company. A detailed list of risks and their management is set out on pages 27 to 29.

The Company has an ongoing process of identifying, evaluating and managing risk. This process is reviewed in accordance with the EU Transparency Directive. The process was in place during 2012 and up to the date of the approval of the 2012 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 continued

### Audit Committee

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

The Audit Committee comprises only independent, non-executive Directors.

The members during the year were Aidan Hughes (Chairman), John McMonigall and Peter Tan. Mr Tan ceased to be a member of the Committee upon his resignation as a Director on 24 April 2012. Chang-Bun Yoon joined the Committee on 18 July 2012. As set out on page 41, the Board has determined that Aidan Hughes has recent and relevant financial experience and is the Audit Committee financial expert. He is a qualified chartered accountant, an associate member of the Institute of Chartered Accountants in England and Wales, and has significant experience as a senior accountant and Finance Director at a number of public companies. The other members of the Audit Committee have a wide range of business experience, which is evidenced by their biographies on pages 36 and 37.

### Meetings

The Audit Committee meets a minimum of four times a year. During 2012, the Committee met five times. Attendance at meetings held is set out in the table on page 42. The Committee also meets privately with the internal and external auditors and separately with the executive management and executive Director.

The Audit Committee's main responsibilities include to:

- Review and advise the Board on the integrity of the financial statements of the Company, including the annual report, quarterly financial statements and other formal announcements relating to the Company's financial performance;
- Review and advise the Board on the effectiveness of the Company's internal controls, including its "whistle-blowing" procedures;
- Review the nature and scope of the work performed by the external and internal auditors, the results of their audit work and the response of the management team;

- Make recommendations on the appointment and remuneration of external auditors and to monitor their performance and independence;
- Approve and monitor the policy for non-audit services provided by the external auditors to ensure that the independence and objectivity of the auditors is not compromised.

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

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

#### *Financial reporting*

During the year the Committee reviewed the financial statements of the Company, including the annual report, quarterly financial statements and other announcements relating to the Company's financial performance and received reports from the external auditors setting out the accounting or judgemental areas that required its attention.

#### *Internal controls*

The Committee considered reports from internal audit on the operation of, and issues arising from, the Group's internal control procedures, together with observations from the external auditors and discussions with senior management. In addition, the Committee monitored the effectiveness of the Group's risk management process.

#### *Specific issues*

On occasions the Committee takes a detailed look at specific issues outside of the course of the regular Committee meetings.

#### *Internal audit*

Internal audit activities and responsibilities are provided by an in-house internal audit team. An internal audit charter is also in place which outlines the objectives, authority, scope and responsibilities of internal audit.

An internal audit plan is approved by the Committee and the work specified in the plan is designed to monitor the effectiveness of the Group's system of internal controls.

The ongoing results of the work of the internal audit function are reviewed by the Committee at each meeting and where appropriate issues are brought to the attention of the executive management and the Board.

### External auditor

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

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

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

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

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

### External auditor and non-audit work

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

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

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 is considered by the Audit Committee to be the most appropriate to undertake such work in the best interests of the Company. The engagement of the external auditor in non-audit work must be pre-approved by the Audit Committee or entered into pursuant to pre-approved policies and procedures established by the Audit Committee.

Details of the amounts paid to the external auditor during the year for audit and other services are set out on page 76. The Audit Committee has adopted a policy that, except in exceptional circumstances with the prior approval of the Audit Committee, non-audit fees paid to the Company's Auditor should be capped at a maximum of 100% of audit fees in any one year.

During 2012, the non-audit fees paid to the external auditor represented 80% of the audit fee. Fees paid for non-audit services relate to other services pursuant to legislation, taxation services and corporate finance transactions.

### The Remuneration and Nomination 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 and Nomination Committee and has delegated authority to this Committee to determine and recommend to the Board: the salaries and incentive compensation of the Company's officers; and changes to Board structure, size and composition.

The Committee comprises only independent, non-executive Directors. The members during the year were Russ Shaw (Chair), Chris Burke and Peter Weber. The Committee's members have no financial interest in the Company other than as shareholders and through the fees paid to them.

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

During the year the Committee sought and received general advice relating to remuneration from Towers Watson and PwC, both of whom are signatories to the Remuneration Consultants Group Code of Conduct and any advice was provided in accordance with this code.

During the year the Committee met formally on five occasions, in addition the Committee Chairman held a number of meetings with our advisers.

### Responsibilities

The Remuneration and Nomination Committee's main responsibilities include to:

- Determine the salaries and incentive compensation of the Company's officers and the officers of the Company's subsidiaries;
- Provide recommendations for other employees and consultants as appropriate;

- Administer the Company's compensation, stock and benefits plans;
- Review the Board structure, size and composition and make recommendations to the Board; and,
- Identify and nominate Board candidates for approval by the Board.

The key activities of the Committee during the year were:

- Review and address 2011 Annual General Meeting outcomes;
- Review and approve Executive Management compensation;
- Recruit and appoint non-executive Directors and regularly discuss succession planning;
- Appoint new independent remuneration adviser to the Committee (Towers Watson);
- Discuss and review senior level talent;
- Review, plan and approve CEO remuneration.

Details of 2012 remuneration and Dialog's remuneration policy are set out in the Director's remuneration report on pages 46 to 52.

### Strategic Transaction and Technology Committee

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

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

During the year, the Committee reviewed and determined the criteria and focus of the Company in terms of technology enhancement and potential M&A activity.



# Directors' remuneration report

## Introduction from the Committee Chairman

This year, for the first time and in my capacity as Chairman of the Dialog Semiconductor Remuneration and Nomination Committee, I have decided to include an introductory letter to the Directors' remuneration report to provide some detail on the Dialog approach to remuneration and to address some of the concerns raised in the context of our 2012 AGM.

Last year, Shareholders gave a strong signal to the Company that there were elements of our approach to remuneration and, in particular, our disclosure in our Directors' remuneration report, with which they were not entirely happy. This was reflected in the number of votes cast against the report at the AGM and the proposed introduction of the new share plan not being approved.

The Committee, and the Board, took that signal very seriously, and embarked on a major review of both our approach to remuneration and our disclosure. As part of this, we sought further feedback from Shareholders and proxy advisers before finalising any changes to our remuneration plans.

This year, you will see that the Directors' remuneration report has been extensively expanded, with a focus on describing our arrangements more fully and transparently; and demonstrating how opportunity and realised pay links both to Dialog's strategy and to performance.

We believe that our remuneration approach for the executive Director remains fit for purpose and propose no material changes for 2013. However, as a result of Shareholder feedback from last year and as a result of this year's review we introduced a deferral element to the 2012 annual bonus. The first deferral will happen in 2013.

We have reviewed and amended the terms of the share plan that we proposed for Shareholder approval at the 2012 AGM and are seeking approval for that plan this year. The material differences in the proposal this year are:

- The CEO is expressly excluded from participation; and
- Share dilution will be limited compared to the previously agreed levels.

Finally, subject to Shareholders' approval, fees to non-executive Directors will be paid entirely in cash in the future. All outstanding non-executive Director options that were exercisable in the year were exercised.

We believe that these changes directly address Shareholder concerns and will make the plan acceptable to Shareholders. It is an important addition to the existing share plan arrangements for employees below executive Director level.

**Russ Shaw**

*Chairman, Remuneration and Nomination Committee*

## Unaudited information

### The Remuneration and Nomination Committee

For information on the Remuneration and Nomination Committee and its responsibilities, refer to page 45.

### Executive Director remuneration policy

The primary objectives of the Company's policy on executive Director remuneration are:

- 1 To ensure that it is structured so as to attract and retain executives of a high calibre, with the skills and experience necessary to develop the Company successfully; and
- 2 To reward executives in a way that aligns with Shareholder interests and promotes the creation of sustained value for the Company's Shareholders.

In response to the level of Shareholder approval of last year's Directors' remuneration report, the Committee embarked on a fundamental review of its approach to CEO remuneration and consulted with Shareholder proxy advisers in advance of finalising its arrangements for 2013. It is committed to ongoing dialogue with Shareholders and Shareholder proxy advisers in this regard.

During 2012, the Committee reviewed its remuneration objectives and determined that these principles remain fit for purpose. It believes that a simple approach is the most effective, so the package comprises of three principal elements:

- Fixed pay, including base salary, benefits and pensions;
- Annual bonus; and
- Long-term incentive.

The Committee believes that, in order to align with Shareholder interests and "pay for performance", a significant portion of the CEO's remuneration should be linked to, and paid in, Company shares. The Committee believes that the CEO should also hold a meaningful level of shares personally.

While the Committee determined that its overall approach to remuneration remains appropriate, certain changes were made during 2012 to the operation and application of the pay arrangements to address issues raised around the 2012 AGM and closer align with best practice:

- Annual bonus now includes a formal maximum (previously performance above target was discretionary);
- Annual bonus will now include a deferral mechanism into Company shares with clawback provisions; and
- The level of grant under the long-term incentive has been formalised and linked more tangibly to both CEO performance and his investment in Company shares.

Each of these aspects is set out in more detail in the relevant sections of this report.

### Remuneration review and approach to benchmarking

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 of the Company;
- The Company's UK incorporation and associated corporate governance expectations;

- The Company's international focus and operation;
- The general external environment and context for executive pay; and
- The pay and employment practices of Dialog employees generally.

The Committee has determined that the pay policy for the CEO should set fixed pay at the median level when compared to a range of peers with total remuneration within the upper quartile when superior performance is achieved.

Benchmarking the CEO remuneration is not straightforward. The Company is not UK listed, and operates in a multinational sector, with few UK comparators. This year, the Committee reviewed the CEO's remuneration against two peer groups:

- UK FTSE 250 companies of similar market capitalisation to the Company (taking 20 above and 20 below based on the sterling equivalent of the Company's market capitalisation); and
- An industry peer group, covering Europe, North America and Asia. This group is diverse both in terms of headquarters and financial scale but reflects the reality of the Company's talent acquisition challenges.

In reviewing these benchmarks, the Committee was particularly sensitive to Shareholders' expectations of executive pay restraint, increases awarded to the Company's employees generally and the level of support for the 2011 Directors' remuneration report.

This year's review highlighted that at £316,000, the CEO's 2011 base salary was the lowest in the UK benchmark group. However, despite the continuing strong performance of the Company, the Committee determined that any increase would need to be restrained for the reasons set out above. The CEO was awarded a 5% base pay increase to an annual salary of £331,800 with effect from July 2012. This increase is in the median of the pay increases awarded to all employees.

On total remuneration, the CEO would not achieve upper quartile positioning against the benchmark group even for superior performance.

Against the international sector benchmark group, base pay was in the lower quartile, but the Committee recognises that international comparisons are difficult. The Committee believes that international comparisons of remuneration competitiveness are important from a talent recruitment and retention

perspective, but recognises that as a UK incorporated company, UK comparisons are considered important by Shareholders.

**Changes currently anticipated for 2013**

As noted above, the Committee believes it has an approach to remuneration that remains appropriate, and appropriately competitive, other than in one regard. The Committee believes that the CEO's base salary is too far below appropriate market levels to be sustainable. Mindful that any increase in base salary can have a ratchet effect on other elements of pay, notably pension and annual bonus (but not any basic award under the long-term incentive plan, which is set without reference to salary), it believes that above median inflation increases will be necessary over the next two to three years in order to bring the CEO closer to market.

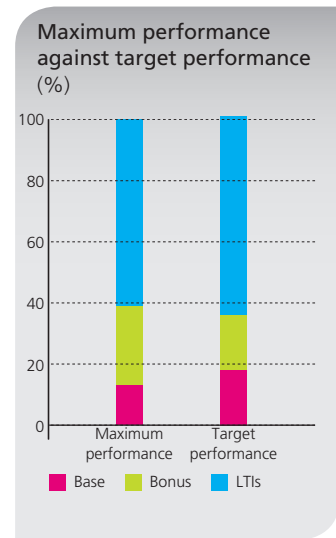
In assessing the appropriate level, the Committee will take into account individual and Company performance and other relevant factors.

At this point in time, it does not envisage making any other changes to the CEO's remuneration arrangements during 2013.

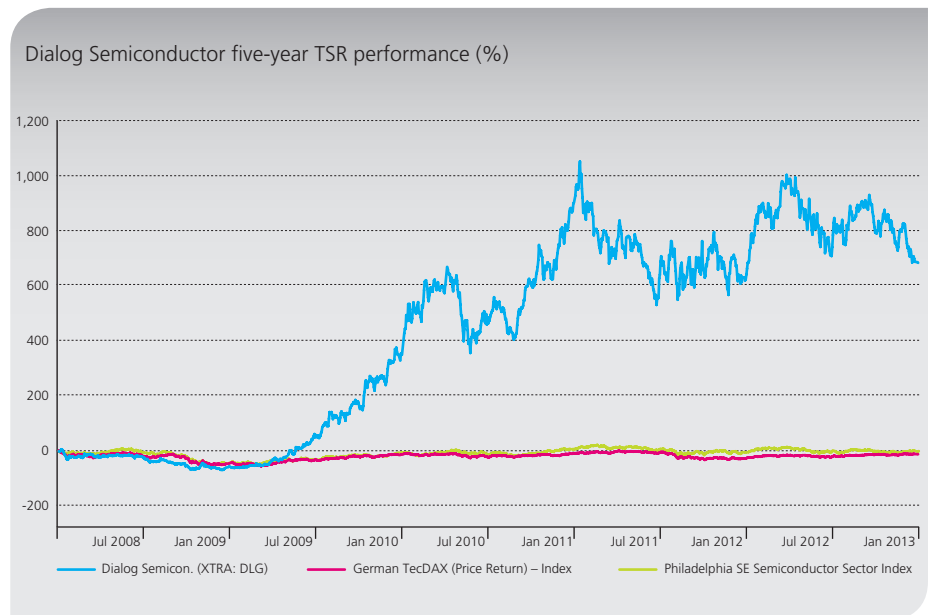
**Elements of remuneration**

**Pay mix and performance**

The following graphs represent the pay mix between the elements of remuneration, assuming target and maximum performance.



As required, the chart below sets out Dialog's five-year TSR.



## Directors' remuneration report continued

Key financial performance achieved during the year was as follows:

Revenue:	<b>+47%</b>
Gross margin	<b>-170bps/-1.7%</b>
EBIT	<b>+48%</b>

These three financial metrics make up 50% of the annual bonus (the remainder being commercial and organisational goals, see below). Pay is therefore closely aligned with the financial performance of the Company.

### Base pay

As described above, the CEO receives base pay, which is reviewed annually, with any increases effective in July. The CEO's current annual salary level is £331,800, an increase of 5% on his prior salary.

### Other benefits

The CEO receives a cash allowance in lieu of a Company car of £10,200 per annum, medical insurance for himself and his spouse and life and disability insurance.

### Pension

Consistent with the approach adopted for all of the Company's eligible UK employees, the Company contributes 9% of the CEO's base pay to a defined contribution pension scheme.

### Annual bonus

The annual bonus is entirely performance-based and is paid based on the achievement of stretching performance objectives set by the Committee.

As noted above, prior to 2012, performance above the predetermined target performance level was determined at the discretion of the Committee. We recognise that this approach raised some concerns with Shareholders. As a result, the annual bonus provided for payment of up to 200% of salary for maximum performance, with 100% of salary being paid for target performance.

Performance is split into the following metrics:

Metric	Bonus weighting
<b>Financial goals</b>	
Revenue	16.67%
Gross margin	16.67%
EBIT	16.67%
<b>50%</b>	
<b>Commercial goals</b>	
Product related	12.5%
Customer related	12.5%
<b>25%</b>	
<b>Organisation and employee goals</b>	
<b>25%</b>	
<b>Total</b>	<b>100%</b>

In addition to the above metrics, no bonus is payable if a minimum profitability gate is not met and the Committee retains discretion to adjust the overall bonus to take account of performance outside the normal bounds. The exercise of any such discretion will be disclosed in the normal way.

For the financial metrics, target performance is set consistent with the annual budget, which the Committee considers to be a stretch.

In order to ensure consistency with our approach to align remuneration with Shareholder interests, a deferral element was introduced in 2012, which operates as follows:

Performance up to target  
*Paid in cash*

Performance above target  
*Paid in deferred shares*

Deferred shares are held for three years then released. The CEO can request that up to 100% of his bonus be paid in the form of deferred shares. The first deferral will occur in 2013.

Any deferred shares, whether compulsorily or voluntarily deferred, form the basis for determining the award under the Company's long-term incentive plan, the Executive Incentive Plan (EIP). Further details of this are set out below.

This mechanism is considered appropriate because:

- It mandates a certain part of the bonus can be deferred into Company shares;
- It encourages the CEO to invest and hold Company shares beyond that required under the bonus rules; and
- It creates a more tangible link between annual performance and long-term pay opportunity and performance.

The Committee determined that establishing a separate bonus matching plan was an unnecessary complication and preferred to retain a single, active long-term incentive plan. This approach also provides for clarity of long-term performance metrics.

Any annual bonus (whether paid in cash and/or shares) is non-pensionable.

Deferred awards will also be subject to financial clawback provisions in the case of material financial misstatement.

### Long-term incentives

The Company currently operates one long-term incentive plan, the Executive Incentive Plan (EIP). The EIP was approved by Shareholders in 2010 (with a five-year life) and the first annual awards were made in 2012. The EIP incentivises participants (the executive team and selected other key senior managers) to deliver Shareholder value through long-term profitability and share price growth.

The main features of the EIP are summarised below:

Design feature	Description
Delivery medium	Performance shares (as nominal price options)
Performance period	3 years, based on three annual targets
Performance metrics	75% EBIT and revenue, equally weighted 25% share price growth
Vesting	20% at threshold 40% at target 100% at maximum
Dilution limit	0.75% of issued share capital per annum

In 2012, the CEO was awarded 97,603 performance shares (in the form of nominal price options).

Since the first operation of the EIP, the grant to the CEO has been set by reference to a percentage of the available pool, rather than by reference to salary. The Committee continues to believe that de-linking salary and grant level allows:

- For more independence between elements of pay, thereby avoiding an unnecessary ratchet of pay;
- An incentive for the share price to increase; and
- Avoiding overgranting of value if share price were to dip at the time of grant.

The Committee has determined that the appropriate level of award for the CEO is normally 20% of the available annual pool, which represents 0.15% of the issued share capital of the Company. For 2013, the Committee determined that this level of award remains appropriate, and is termed the **basic award**.

As noted in the annual bonus section above, the Committee has introduced a mechanism that links the amount of deferred shares from the annual bonus plan to the level of award under the EIP. For each share deferred (whether compulsorily or voluntarily) an additional share will be awarded under the EIP. This will be termed the **invested award**.

Based on the current base pay and bonus structure, the maximum value of the invested award is equivalent to 200% of salary. This only occurs if a maximum bonus is earned and the CEO elects to take it all in deferred shares.

The table below provides other scenarios, in the absence of any election by the CEO to defer additional shares. The number of shares is an assumption based on the closing share price as at 31 December 2012 of €13.30 and a £/€ exchange rate of 1.22.

Bonus earned (% of salary)	Cash % of salary	Deferred shares % of salary	EIP invested award % of salary	Invested award shares*
Target	100	0	0	0
Target with maximum voluntary deferral	0	100	100	30,954
Maximum	100	100	100	30,954
Maximum with maximum voluntary deferral	0	200	200	61,908

Notes:

\*Together with a basic award, this takes the maximum award for the CEO would not exceed 160,000 shares.

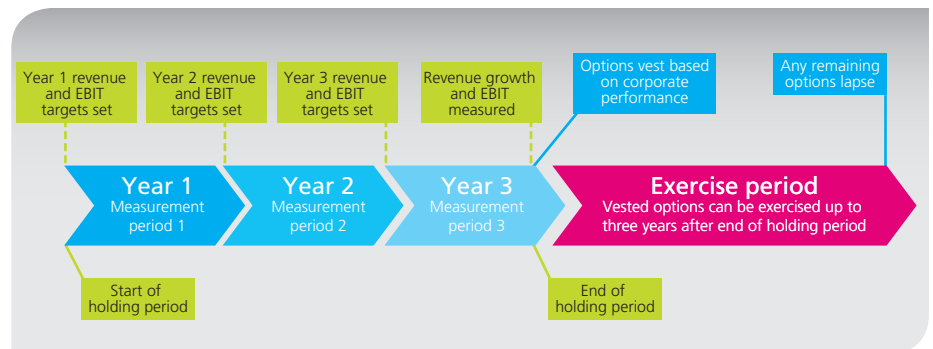
**Performance metrics, operation and standards**

**EBIT and revenue: 75% of each award in total**

As part of the Shareholders’ approval for the EIP in 2010, the Committee undertook to ensure that the level of stringency with regard to the attainment of the performance targets is maintained for each and every grant under the EIP. To give comfort to Shareholders that there is integrity in the process, the Committee undertook to provide full retrospective details of the annual targets each year. This is set out below.

These corporate performance conditions are set annually over the three-year holding period. For each annual period, a third of this part of the award (i.e. 1/3 of 75%) is determined based on the actual performance against the targets set at the beginning of each year.

This is illustrated in the diagram below:

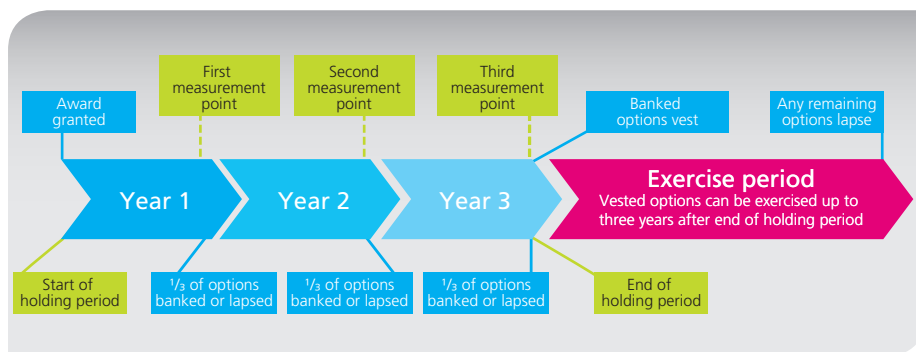


## Directors' remuneration report continued

### Share price: 25% of the award

This part of the award is banked or lapses depending on the Dialog share price at the anniversary date of the award throughout the three-year holding period. At the end of the three-year holding period, the banked portion of the award will vest.

This is illustrated in the diagram below:



Vesting is dependent on ongoing employment with the Company at the time of vesting. Certain "good leaver" provisions apply.

### Performance standards for the 2012 award

As noted above, as part of the approval for the EIP given by Shareholders, the Company undertook to disclose on a retrospective basis, the annual performance standards that had been set, together with the level of performance achieved. This is set out below.

### EBIT and revenue

The performance standards for these metrics in 2012 were as follows:

Performance level	Vesting %	EBIT margin %	Revenue growth %
Threshold	20	10.90	15
Target	40	11.00	25
Exceptional	100	11.76	34

EBIT and revenue achieved in 2012 were both above the exceptional level of performance in 2012.

### Share prices

The share prices (using 30 business day averages) at the beginning and end of the performance period were €16.39 and €13.86 respectively, meaning that none of the award would be banked.

### Other long-term incentive schemes

The Company has in the past operated the Executives' Long-Term Incentive Plan (LTIP). Awards to the CEO were made up to 2010.

No awards have been made since then and the plan has now expired. Details of outstanding awards under this plan are set out in the table below, with further details at Note 21 B of the consolidated financial statements.

### Dilution

The Company operates under a general Shareholder-approved dilution limit of 15% of issued share capital. This approval stems from a time when the Company was in an early stage of its turnaround when cash preservation was key, yet with a need to incentivise employees with share-based remuneration.

The Committee recognises that the Company has grown to a scale where Shareholders have an expectation that this limit may need to be reduced over time, with the aim of being managed within UK corporate governance norms.

Although the Company has not reached the existing 15% limit, in recognising concerns expressed last year by some Shareholders, the Committee has determined, for all awards made with effect from the approval of this report, dilution will be managed using an average annual flow rate of 1% per annum. This means that the Company will be able to move dilution towards a rolling 10% in 10 years in a measured way over time.

Shareholders will note that the Company is seeking approval of a new share plan to operate below executive Director level, which will include provisions to comply with this updated approach to dilution. The EIP will also be subject to this new overall flow rate limit for new awards.

### Share ownership guidelines

The CEO is required to establish and hold a shareholding of at least 100% of salary. Consistent with the other changes to the annual bonus and granting of awards under the EIP in 2012, this has been increased to 200% of salary, and excludes unvested awards from the calculation. The CEO currently complies with this new requirement.

### Contract terms

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

There is no acceleration of bonus on a change of control. The CEO has no entitlement to a bonus if his employment is terminated before the end of the bonus year unless his employment is terminated in lieu of notice after 1 October in any year. In this case he is entitled to a pro rata bonus for that year.

### Non-executive Directors' remuneration

Historically, non-executive Directors were paid their base fee two-thirds in cash and one-third in market value shares (as nominal price options as set out on page 51), which had a three-year holding period under an arrangement approved by Shareholders. Any additional fees were payable in cash. Non-executive Directors are not eligible for incentives, pensions or other benefits.

Following feedback from Shareholders and proxy advisers, it was determined that the way in which non-executive Directors would be remunerated would be reviewed. Following this review, it was determined that, subject to Shareholder approval, the structure of the non-executive Directors' fee structure would change. The proposed change is to pay fees only in cash, consistent with UK corporate governance norms and no new share grants will be made. The fees paid to non-executive Directors are as follows:

Chairman: flat fee of £110,000.

Other non-executive Directors: basic fee of £80,000 plus additional fees of £10,000 for chairing the Board Committees, currently the Audit and Remuneration and Nomination Committees and for 2013 onwards the Strategic Transaction and Technology Committee.

### Non-executive Directors' terms and compensation

All non-executive Directors are appointed for up to three years by the Board of Directors, subject to any earlier requirements to stand for re-election as required by the Articles of Association (one-third of the Directors must stand for re-election at each AGM) and subject to further periods of renewal.

The fees for non-executive Directors in the table below reflects two-thirds of the total fees paid in cash and converted to US dollars. The remaining one-third was paid in market value shares (as approved by Shareholders) structured as nominal price options. These are shown in the share options table below.

### Audited information

Name and position	Base salary and fees US\$	Bonus US\$	Pensions contribution US\$	Other US\$	2012 Total US\$	2011 Total US\$	Directors' holdings at 31 December 2012	
							Shares	Options
<b>Dr Jalal Bagherli</b> <i>Executive Director and CEO</i>	513,042	450,476	55,693	27,094	<b>1,046,305</b>	868,743	<b>266,679</b>	<b>780,015</b>
<b>Chris Burke</b> <i>Non-executive Director</i>	84,477	–	–	–	<b>84,477</b>	83,713	<b>15,593</b>	<b>3,889</b>
<b>Aidan Hughes</b> <i>Non-executive Director and Chairman of the Audit Committee</i>	95,037	–	–	–	<b>95,037</b>	96,023	<b>25,000</b>	<b>4,374</b>
<b>John McMonigall</b> <i>Non-executive Director</i>	84,447	–	–	–	<b>84,477</b>	83,713	<b>76,000</b>	<b>3,889</b>
<b>Gregorio Reyes</b> <i>Non-executive Chairman</i>	116,156	–	–	–	<b>116,156</b>	118,182	<b>20,000</b>	<b>5,347</b>
<b>Russ Shaw</b> <i>Non-executive Director and Chairman of the Remuneration and Nomination Committee</i>	95,037	–	–	–	<b>95,037</b>	96,023	<b>19,891</b>	<b>4,374</b>
<b>Peter Tan<sup>1)</sup></b> <i>Non-executive Director</i>	21,119	–	–	–	<b>21,119</b>	83,713	<b>40,000</b>	–
<b>Peter Weber</b> <i>Non-executive Director</i>	84,477	–	–	–	<b>84,477</b>	83,713	<b>33,000</b>	<b>3,889</b>
<b>Chang-Bun Yoon<sup>1)</sup></b> <i>Non-executive Director</i>	63,358	–	–	–	<b>63,358</b>	–	–	<b>1,850</b>
	<b>1,157,180</b>	<b>450,476</b>	<b>55,693</b>	<b>27,094</b>	<b>1,690,443</b>	<b>1,513,823</b>	<b>496,160</b>	<b>807,627</b>

1) 2012 fees for Peter Tan and Chang-Bun Yoon reflect nine months and three months respectively

## Directors' remuneration report continued

### Share options granted to the executive Director

As at 31 December 2012, Jalal Bagherli, executive Director, held 780,015 options over ordinary shares which entitle him to acquire the same amount of shares.

The grants in 2010 and 2011 reflect awards made at the end of the performance period under the LTIP. The 2012 award was made under the EIP.

Exercise price	Date of grant	Expiry date	Vesting period	31 December 2011	Granted	Exercised	31 December 2012	Market price of exercised options <sup>1)</sup> €	Gain on the exercise of options €
€1.52	13.05.2009	12.05.2016	1-44 months	58,892	–	(39,650)	<b>19,242</b>	16.71	602,204
£0.10	21.02.2010	04.02.2015	0 and 12 months	445,290	–	(290,290)	<b>155,000</b>	16.27	4,692,245
£0.10	18.02.2011	18.02.2016	Immediately	508,170	–	–	<b>508,170</b>	–	–
€0.12	16.02.2012	16.02.2018	3 years	–	97,603	–	<b>97,603</b>	–	–
				<b>1,012,352</b>	<b>97,603</b>	<b>(329,940)</b>	<b>780,015</b>		<b>5,292,626</b>

1) The market price as a weighted average price

### Share options granted to the non-executive Directors

Each non-executive Director was previously entitled to an initial grant of 50,000 options vesting monthly in 48 equal tranches. Up to the 2009 AGM each non-executive Director received a further 20,000 options vesting over 12 months.

This practice ceased at the 2010 AGM. All remaining options were exercised during 2012. At the 2011 AGM Shareholders resolved that one-third of the non-executive Directors' remuneration should be satisfied in market value shares in the Company, via nominal price options (with an exercise price of €0.15), the exercise of which is conditional on the Director

still being a member of the Board immediately before the third AGM following grant.

Subject to Shareholder approval, it is intended that for 2013 onwards all non-executive Directors' fees will be paid in cash.

The share option grants to non-executive Directors are as follows:

Director	Exercise price €	Date of grant	Expiry date	Vesting period	31 December 2011	Forfeited	Granted	Exercised	31 December 2012	Market price of exercised options <sup>1)</sup> €	Gain on the exercise of options <sup>2)</sup> €
<b>Chris Burke</b>	1.40	12.07.2006	11.07.2013	48 months	5,210	–	–	(5,210)	–	16.30	77,629
	1.17	22.04.2009	24.04.2016	12 months	18,547	–	–	(18,547)	–	16.30	280,616
	0.15	21.07.2011	21.07.2018	48 months	2,039	–	–	–	<b>2,039</b>	–	–
	0.15	18.07.2012	18.07.2019	48 months	–	–	1,850	–	<b>1,850</b>	–	–
<b>Aidan Hughes</b>	1.27	19.06.2006	18.06.2013	48 months	4,168	–	–	(4,168)	–	15.75	60,353
	1.35	30.04.2008	29.04.2015	12 months	20,000	–	–	(20,000)	–	15.75	288,000
	1.17	22.04.2009	21.04.2016	12 months	20,000	–	–	(20,000)	–	15.75	291,600
	0.15	21.07.2011	21.07.2018	48 months	2,293	–	–	–	<b>2,293</b>	–	–
	0.15	18.07.2012	18.07.2019	48 months	–	–	2,081	–	<b>2,081</b>	–	–
<b>John McMonigall</b>	1.27	19.06.2006	18.06.2013	48 months	5,210	–	–	(5,210)	–	15.75	75,441
	1.17	22.04.2009	21.04.2016	12 months	3,340	–	–	(3,340)	–	15.75	48,697
	0.15	21.07.2011	21.07.2018	48 months	2,039	–	–	–	<b>2,039</b>	–	–
	0.15	18.07.2012	21.07.2019	48 months	–	–	1,850	–	<b>1,850</b>	–	–
<b>Gregorio Reyes</b>	0.15	21.07.2011	21.07.2018	48 months	2,803	–	–	–	<b>2,803</b>	–	–
	0.15	18.07.2012	21.07.2019	48 months	–	–	2,544	–	<b>2,544</b>	–	–
<b>Russ Shaw</b>	1.35	30.04.2008	29.04.2015	12 months	20,000	–	–	(20,000)	–	15.75	288,000
	1.17	22.04.2009	21.04.2016	12 months	20,000	–	–	(20,000)	–	15.75	291,600
	0.15	21.07.2011	21.07.2018	48 months	2,293	–	–	–	<b>2,293</b>	–	–
	0.15	18.07.2012	21.07.2019	48 months	–	–	2,081	–	<b>2,081</b>	–	–
<b>Peter Tan</b>	0.15	21.07.2011	21.07.2018	48 months	2,039	(2,039)	–	–	–	–	–
<b>Peter Weber</b>	0.15	21.07.2011	21.07.2018	48 months	2,039	–	–	–	<b>2,039</b>	–	–
	0.15	18.07.2012	21.07.2019	48 months	–	–	1,850	–	<b>1,850</b>	–	–
<b>Chang-Bun Yoon</b>	0.15	18.07.2012	21.07.2019	48 months	–	–	1,850	–	<b>1,850</b>	–	–
<b>Total</b>					<b>132,020</b>	<b>(2,039)</b>	<b>14,106</b>	<b>(116,475)</b>	<b>27,612</b>	–	<b>1,701,936</b>

1) The market price as a weighted average price

2) Before broker fees as appropriate

Approved by the Board of Directors and signed on its behalf by:

Tim Anderson  
Secretary

14 February 2013

## Statement of Directors' responsibilities

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

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

- 1 Select suitable accounting policies and then apply them consistently;
- 2 Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 3 Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performances;
- 4 State whether they have been prepared in accordance with IFRS as adopted by the EU; and
- 5 Make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of

the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 and article 4 of the IAS Regulation.

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

Under applicable law and regulations, the Directors are also responsible for preparing a 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

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit and loss of the issuer and undertakings included in the consolidation and the "our business strategy and performance", "our products and key customers", "financial review" and "risks and their management" sections of this report include a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties associated with the expected development of the Company and the Group.

**Dr Jalal Bagherli**  
*Chief Executive Officer*

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

20 February 2013



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

We have audited the financial statements of Dialog Semiconductor Plc for the year ended 31 December 2012, which comprise the Consolidated and Company statements of financial position, the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated and Company statements of cash flow, the Consolidated and Company statements of changes in equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

## Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibility statement set out on page 53, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

## Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance statement set out on pages 40 to 45 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

We have nothing to report in respect of the following:

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

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A Corporate Governance statement has not been prepared by the Company.

**Julian Gray**

*(Senior Statutory Auditor)*

*for and on behalf of Ernst & Young LLP, Statutory Auditor*

*Reading*

20 February 2013

# Consolidated statement of financial position

As at 31 December 2012

	Notes	At 31 December 2012 US\$000	At 31 December 2011 US\$000
<b>Assets</b>			
Cash and cash equivalents	6	312,435	113,590
Trade accounts receivable and other receivable	7	82,887	46,729
Inventories	8	152,455	62,637
Income tax receivables	5	60	58
Other financial assets	9	3,120	25
Other current assets	10	12,545	8,236
<b>Total current assets</b>		<b>563,502</b>	<b>231,275</b>
Property, plant and equipment	11	50,318	28,404
Goodwill	4, 12	32,283	32,283
Other intangible assets	12	51,789	38,361
Deposits		1,137	1,445
Income tax receivables	5	198	239
Deferred tax assets	5	8,913	17,382
<b>Total non-current assets</b>		<b>144,638</b>	<b>118,114</b>
<b>Total assets</b>		<b>708,140</b>	<b>349,389</b>
<b>Liabilities and Shareholders' equity</b>			
Trade and other payables	13	106,216	50,457
Other financial liabilities	14	4,117	7,213
Provisions	15	1,288	1,040
Income taxes payable		9,359	5,178
Other current liabilities	16	21,670	16,552
<b>Total current liabilities</b>		<b>142,650</b>	<b>80,440</b>
Provisions	15	603	536
Other non-current financial liabilities	17	176,617	373
Deferred tax liabilities (non-current)	5	5,679	3,436
<b>Total non-current liabilities</b>		<b>182,899</b>	<b>4,345</b>
Ordinary shares		12,852	12,380
Additional paid-in capital		243,829	203,911
Retained earnings		129,190	59,722
Other reserves		(427)	(8,251)
Employee stock purchase plan shares		(2,853)	(3,158)
<b>Net Shareholders' equity</b>	19	<b>382,591</b>	<b>264,604</b>
<b>Total liabilities and Shareholders' equity</b>		<b>708,140</b>	<b>349,389</b>

These financial statements were approved by the Board of Directors on 15 February 2013 and were signed on its behalf by:

**Dr Jalal Bagherli**

Director

# Consolidated income statement

For the year ended 31 December 2012

	Notes	2012 US\$000	2011 US\$000
Revenue	3, 24, 27	<b>773,583</b>	527,261
Cost of sales		<b>(480,971)</b>	(319,073)
<b>Gross profit</b>		<b>292,612</b>	208,188
Selling and marketing expenses		<b>(38,669)</b>	(32,370)
General and administrative expenses		<b>(33,476)</b>	(24,442)
Research and development expenses	24	<b>(127,886)</b>	(90,046)
Restructuring	4	<b>(1,549)</b>	–
Other operating income	3, 27	–	303
<b>Operating profit</b>	3	<b>91,032</b>	61,633
Interest income	3	<b>1,360</b>	376
Interest expense	3	<b>(6,466)</b>	(235)
Foreign currency exchange gains (losses), net		<b>199</b>	(352)
<b>Result before income taxes</b>		<b>86,125</b>	61,422
Income tax expense	5	<b>(23,612)</b>	(4,070)
<b>Net profit</b>		<b>62,513</b>	57,352
		<b>2012</b>	2011
<b>Earnings per share (in US\$)</b>			
Basic		<b>0.97</b>	0.91
Diluted		<b>0.93</b>	0.86
<b>Weighted average number of shares (in thousands)</b>	2		
Basic		<b>64,681</b>	62,873
Diluted		<b>67,354</b>	66,711

# Consolidated statement of comprehensive income

For the year ended 31 December 2012

	2012 US\$000	2011 US\$000
Net profit	<b>62,513</b>	57,352
Exchange differences on translating foreign operations	<b>(322)</b>	(92)
Cash flow hedges	<b>8,871</b>	(6,825)
Income tax relating to components of other comprehensive income	<b>(725)</b>	314
<b>Other comprehensive income (loss) for the year, net of tax</b>	<b>7,824</b>	(6,603)
<b>Total comprehensive income for the year</b>	<b>70,337</b>	50,749

# Consolidated statement of cash flows

For the year ended 31 December 2012

	Notes	2012 US\$000	2011 US\$000
Cash flows from operating activities:			
Net profit		62,513	57,352
<b>Adjustments to reconcile net profit to net cash used for operating activities:</b>			
Interest income, net	3	5,106	(141)
Income tax expense	5	23,612	4,070
Impairment of inventories		8,207	3,660
Depreciation of property, plant and equipment	11	12,698	8,801
Amortisation of intangible assets	12	19,593	16,030
Losses on disposals of fixed assets and impairment of fixed and financial assets		1,029	1,106
Expense related to share-based payments	21	6,955	6,329
<b>Changes in working capital:</b>			
Trade accounts receivable, other receivables and factoring	7	(36,158)	(21,451)
Inventories		(105,015)	(10,716)
Prepaid expenses		(159)	(967)
Trade accounts payable		55,652	11,958
Provisions		293	(334)
Other assets and liabilities		7,462	(3,336)
<b>Cash generated from operations</b>		<b>61,788</b>	<b>72,361</b>
Interest paid		(1,141)	(109)
Interest received		1,277	381
Income taxes paid		(9,483)	(3,078)
<b>Cash flow from operating activities</b>		<b>52,441</b>	<b>69,555</b>
Cash flows from investing activities:			
Purchase of property, plant and equipment	11	(35,025)	(21,161)
Purchase of intangible assets	12	(13,417)	(5,414)
Payments for capitalised development costs	12	(5,956)	(5,165)
Purchase of SiTel Semiconductor B.V.	4	–	(84,166)
Deposits received back (made)		98	(157)
<b>Cash flow used for investing activities</b>		<b>(54,300)</b>	<b>(116,063)</b>
Cash flows from financing activities:			
Cash flow from the convertible bond		196,631	–
Sale of employee stock purchase plan shares		4,114	2,254
<b>Cash flow from financing activities</b>		<b>200,745</b>	<b>2,254</b>
<b>Cash flow from (used for) operating, investing and financing activities</b>		<b>198,886</b>	<b>(44,254)</b>
<b>Net foreign exchange difference</b>		<b>(41)</b>	<b>(356)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>198,845</b>	<b>(44,610)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>113,590</b>	<b>158,200</b>
<b>Cash and cash equivalents at end of period</b>		<b>312,435</b>	<b>113,590</b>

# Consolidated statement of changes in equity

For the year ended 31 December 2012

	Ordinary Shares US\$000	Additional paid-in capital US\$000	Retained earnings (Accumulated deficit) US\$000	Other reserves		Employee stock purchase plan shares US\$000	Total US\$000
				Currency translation adjustment US\$000	Hedges US\$000		
<b>Balance at 1 January 2011</b>	<b>12,380</b>	<b>202,416</b>	<b>(3,961)</b>	<b>(1,717)</b>	<b>69</b>	<b>(3,915)</b>	<b>205,272</b>
Total comprehensive income (loss)	–	–	57,352	(162)	(6,441)	–	50,749
Sale of employee stock purchase plan shares	–	1,495	–	–	–	757	2,252
Equity settled transactions, net of tax	–	–	6,331	–	–	–	6,331
<b>Changes in Equity total</b>	<b>–</b>	<b>1,495</b>	<b>63,683</b>	<b>(162)</b>	<b>(6,441)</b>	<b>757</b>	<b>59,332</b>
<b>Balance at 31 December 2011 / 1 January 2012</b>	<b>12,380</b>	<b>203,911</b>	<b>59,722</b>	<b>(1,879)</b>	<b>(6,372)</b>	<b>(3,158)</b>	<b>264,604</b>
Total comprehensive income (loss)	–	–	62,513	(85)	7,909	–	70,337
Conversion right embedded in Convertible Bond	–	37,393	–	–	–	–	37,393
Convertible Bond transaction cost attributable to conversion right	–	(814)	–	–	–	–	(814)
Capital Increase for employee share option plan (gross proceeds)	472	2,680	–	–	–	(3,152)	–
Transaction cost of capital increase - employee share option plan	–	(33)	–	–	–	–	(33)
Sale of employee stock purchase plan shares	–	692	–	–	–	3,457	4,149
Equity settled transactions, net of tax	–	–	6,955	–	–	–	6,955
<b>Changes in Equity total</b>	<b>472</b>	<b>39,918</b>	<b>69,468</b>	<b>(85)</b>	<b>7,909</b>	<b>305</b>	<b>117,987</b>
<b>Balance at 31 December 2012</b>	<b>12,852</b>	<b>243,829</b>	<b>129,190</b>	<b>(1,964)</b>	<b>1,537</b>	<b>(2,853)</b>	<b>382,591</b>

For further details, please refer to note 19.

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 1. General

The consolidated financial statements of Dialog Semiconductor Plc ("Dialog or the Group") for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Directors on 15 February 2013. Dialog Semiconductor Plc is a company incorporated in the UK, whose shares are publicly traded. The principal activities of the Group are set out in the segment reporting (note 24).

### Company name and registered office

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

### Basis of presentation

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

### Statement of compliance

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

## 2. Summary of significant accounting policies

### Changes in accounting policies and disclosures

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

#### *IFRS 7 Financial Instruments: Disclosures (amended)*

The amendment was issued in October 2010 and is effective for annual periods beginning on or after 1 July 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendment had no impact on the disclosures of Dialog.

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

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

The amended IFRS 7 / IAS 32 were issued in December 2011 and are effective for periods beginning on or after 1 January 2013 in respect of IFRS 7 and 1 January 2014 in respect of IAS 32. The amendment standards comprise additional guidance in respect of offsetting financial assets and financial liabilities and introduce disclosure requirements to assess the effect or potential effect of offsetting arrangements on a company's financial position. The new disclosure requirements also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received.

#### *IFRS 9 Financial Instruments*

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

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

The new IFRS 9 is effective for periods beginning on or after 1 January 2015 (as amended in December 2011). IFRS 9 has not yet been endorsed by the EU. The impact will be further analysed in the future when the project is complete.

## 2. Summary of significant accounting policies continued

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

The IASB completed in May 2011 its improvements to the accounting requirements for off balance sheet activities and joint arrangements by issuing IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities (amended in June 2012 in order to clarify the transition guidance in IFRS 10 and to provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12). The new and revised standards are effective for periods beginning on 1 January 2013, however the Standards were adopted by the EU for periods beginning on 1 January 2014, at the latest (the transition guidance has not yet been adopted by the EU).

- IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.  
The Group does not expect a material effect on its financial statements resulting from this new standard.
- IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.  
The Group does not expect a material effect on its financial statements resulting from this new standard, as the Group is not engaged in joint arrangements.
- IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.  
The Group expects additional disclosures from this new standard.
- IAS 27 (revised) now includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IAS 28 (revised) now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

### *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*

The amendments made to the standards were issued in October 2012 and apply to a particular class of business that qualify as "Investment Entities". The amendments are effective for annual periods beginning on or after 1 January 2014. Investment Entities amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities as Dialog does not qualify as a "Investment Entity", Dialog does not expect a material effect on its financial statements resulting from this amendments. The amended standards have not yet been endorsed by the EU.

### *IFRS 13 Fair Value Measurement*

The new IFRS 13 was issued in May 2011 and is effective for periods beginning on or after 1 January 2013. The requirements of IFRS 13 do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. Beside additional disclosures, the Group does not expect a material effect on its financial statements resulting from this amendment.

### *IAS 1 Presentation of Financial Statements*

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

### *IAS 12 Income taxes*

The amendments to IAS 12 Income Taxes were issued in December 2010 and are effective for annual periods beginning on or after 1 January 2012, however the amendment was adopted by the EU for periods beginning on 1 January 2013. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will normally be through sale. As a result of the amendments, SIC-21 Income Taxes—Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn. The Group does not expect a material effect on its financial statements resulting from this amendment.



# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 2. Summary of significant accounting policies continued

### IAS 19 Employee Benefits (amended)

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

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

Since the Group does not operate any defined benefit plan, the Group does not expect a material effect on its financial statements resulting from this amendment.

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

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

In addition, the following interpretation has been issued:

Interpretation	Title	Effective date
IFRIC 20 <sup>1)</sup>	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

<sup>1)</sup> IFRIC 20 is not relevant to the operations of the Group

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

### Principles of consolidation and investments in affiliated companies

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

Name	Country of incorporation	Participation
Dialog Semiconductor GmbH	Germany	100%
Dialog Semiconductor B.V.	The Netherlands	100%
Dialog Semiconductor (UK) Limited	UK	100%
Dialog Semiconductor Inc.	USA	100%
Dialog Semiconductor KK	Japan	100%
Dialog Semiconductor Hong Kong Limited	Hong Kong	100%
Dialog Semiconductor (Italy) S.r.l.	Italy	100%
Dialog Semiconductor Arastirma Gelistirme ve Ticaret A.S.	Turkey	100%
Dialog Semiconductor Trading (Shanghai) Limited	China	100%

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

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

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

## 2. Summary of significant accounting policies continued

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

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

### **Business combinations and Goodwill**

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

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

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

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

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

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

### **Foreign exchange**

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

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 2. Summary of significant accounting policies continued

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

Currency	Exchange rate at		Annual average exchange rate	
	31 December 2012	31 December 2011	2012	2011
	US\$1 =	US\$1 =	US\$1 =	US\$1 =
Pound Sterling	<b>0.62</b>	0.65	<b>0.63</b>	0.62
Japanese Yen	<b>86.20</b>	77.37	<b>79.74</b>	79.71
Euro	<b>0.76</b>	0.77	<b>0.78</b>	0.72

### Financial instruments

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

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

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

### Financial assets

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

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

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

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

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

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

## 2. Summary of significant accounting policies continued

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

The Group has not entered into trading actions nor designated financial asset as financial asset through profit or loss in 2012 and 2011.

### *Financial assets held to maturity*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to do so. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method. The effective interest method takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Gains and losses are recognised in profit or loss when the investments are de-recognised or impaired, as well as through the amortisation process. The carrying amount of financial assets held-to-maturity are tested at each reporting date to determine whether there is objective, material evidence of impairment as outlined in IAS 39.59. Any impairment losses caused by the fair value being lower than the carrying amount are recognised in profit or loss. The Group does not use allowance accounts in order to record the impairment in the statement of financial position but credits the impairment loss directly against the book value of the financial assets.

If in a subsequent period the fair value increases and this increase can be related objectively to events occurring after the impairment was recognised, the impairment loss is reversed to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. The fair value which is required for impairment testing corresponds to the present value of the estimated future cash flows discounted using the original effective interest rate.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, such as trade accounts receivable. Loans and receivables are recorded initially at fair value and do not bear interest. As of 31 December 2012 as well as 31 December 2011, loans and receivables of the Group comprise trade accounts receivable from customers, cash and cash equivalents (except for deposits designated as hedging instruments). After initial recognition, loans and receivables are subsequently carried at amortised cost using the effective interest method, less any allowance for impairment, if necessary.

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

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

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

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

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

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 2. Summary of significant accounting policies continued

### *Available-for-sale financial assets*

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

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

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

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

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

### *Derecognition of financial assets*

A financial asset is derecognised when:

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

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

### **Financial liabilities**

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

### *Financial liabilities measured at amortised costs*

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

### *Financial liabilities at fair value through profit or loss*

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

During the financial years 2012 and 2011 the Group did not classify any financial liabilities as financial liabilities at fair value through profit or loss.

### *Derecognition of financial liabilities*

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

## 2. Summary of significant accounting policies continued

### **Hedging instruments and hedge accounting**

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

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

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

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

The Group did not enter into fair value hedges in 2012 and 2011.

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

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

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

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

### **Cash and cash equivalents**

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

### **Inventories**

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

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 2. Summary of significant accounting policies continued

### Property, plant and equipment

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

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

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

### Intangible assets

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

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

Intangible asset	Useful life
Customer related intangible assets	1.5 to 3 years
Brand / base technology	2 to 4.5 years
SAP software	10 years
Other intangible assets	3 to 6 years

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

Self-developed intangible assets are recorded on a cost basis. They are amortised on a straight-line basis over the estimated usefulness of 12-60 months. The costs of internally generated intangible assets comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in a manner intended by management, e.g. costs of materials and services used or consumed in generating the intangible asset, costs of employee benefits or fees to register a legal right. Reference is also made to the accounting policy regarding research and development costs in this section.

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

## 2. Summary of significant accounting policies continued

### **Impairment of non-monetary assets including Goodwill**

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

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

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

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

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

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

### **Leases**

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

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

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

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



# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 2. Summary of significant accounting policies continued

### **Revenue recognition**

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

### ***Sale of goods***

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

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

The Group has insurance for product claims and also records a provision for warranty costs as a charge in cost of sales, based on historical trends of warranty costs incurred as a percentage of sales, which management has determined to be a reasonable estimate of the probable costs to be incurred for warranty claims in a period.

Customer returns are permitted only for quality-related reasons within the applicable warranty period and any potential warranty claims are subject to the Group's determination that it is at fault for damages. Such claims must usually be submitted within a short period of the date of sale.

### ***Research and development***

Revenue from customer-specific research and development contracts involving the development of new customer-specific technology is recognised on the percentage of completion basis when the outcome of the contract can be estimated reliably. A contract's outcome can be estimated reliably when total contract revenue can equally be estimated, it is probable that economic benefits associated with the contract will flow to the Group, and the stage of contract completion can be measured reliably. When the Group is not able to meet those conditions, the policy is to recognise revenues only to the extent the expenses incurred are eligible to be recovered. Completion is measured by reference to costs incurred to date as a percentage of estimated total project costs. The percentage of completion method relies on estimates of total expected contract revenue and costs, as well as the dependable measurement of the progress made towards completing the particular project. Losses on projects in progress are recognised in the period they become likely and can be estimated.

### **Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Grants are deducted in reporting the related expense.

### **Cost of sales**

Cost of sales consists of the costs of outsourced production, assembly and test, personnel costs and applicable overheads and depreciation of equipment. Provisions for estimated product warranties are recorded in cost of sales at the time the related sale is recognised.

### **Sales and marketing expenses**

Sales and marketing expenses consist primarily of salaries, travel expenses, sales commissions, bad debt expenses and costs associated with advertising and other marketing activities.

### **General and administrative expenses**

General and administrative expenses consist primarily of personnel and support costs for finance, human resources, ERP system and other management departments which are not attributable to development, production or sales functions.

## 2. Summary of significant accounting policies continued

### Research and development costs

Costs identified as research costs are expensed as incurred, whereas development costs on an individual project are capitalised as an intangible asset and amortised over the period of expected future benefit if the Group can demonstrate the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

### Interest income/expense

Interest income is recognised as interest accrues. Interest income includes interest income from investments in securities, cash and cash equivalents. Income and expense resulting from the allocation of premiums and discounts is also included. Interest expense is generally expensed as incurred.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Foreign currency exchange gains and losses

The foreign currency exchange gains and losses mainly result from foreign currency cash transactions and period end revaluation of foreign currency denominated cash into US dollars. It is the Group's view that these gains and losses are driven by the financing activities of the Group and are therefore shown as non-operating results.

### Employee benefits – defined contribution plans

Contributions to defined contribution and state-funded pension plans are recognised in the income statement as incurred.

### Income taxes

Current income taxes for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are accounted for using the liability method and are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities, and their respective tax bases, as well as on the carry-forward of unused tax losses that can be utilised.

Deferred tax assets and liabilities are measured using tax rates that have been enacted, or substantially enacted, by the reporting date and which are expected to apply to taxable income in the years, in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognised in income in the period that includes the enactment date.

A deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent, that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets being reduced in the past are presented in the notes gross less respective provisions. If in future periods it becomes probable that taxable profits will be available against which the unused tax losses can be utilized, it is assumed that tax losses incurred first will be utilized first and the respective provision will be reversed.

Deferred tax assets and deferred tax liabilities are offset, only if a legally enforceable right exists, to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 2. Summary of significant accounting policies continued

### Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### Share-based payments

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense in the period.

### Stock options

The Group has established an equity-settled share option scheme under which employees and Directors may be granted stock options to acquire shares of Dialog.

The fair value of options granted is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the service period during which the employees become unconditionally entitled to the options.

The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions on which the options were granted. Expectations of early exercise are accounted for within the average life of the options. The Group applies IFRS 2 to all options granted after 7 November 2002 that had not been vested as of 1 January 2005.

### Executives' Long Term Incentive Plan

The Group operates an equity settled Long-Term Incentive Plan (LTIP). Under this plan, key executives are eligible to share in a percentage of the value created for Shareholders in excess of an annual return hurdle measured over a four year performance period.

Each participant in the LTIP is awarded a number of units which convert into Company shares according to the level of outperformance of the Company's share price over the annual return hurdle. If this hurdle is not reached no units convert into Company shares.

The fair value of the awards is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date, using a Monte Carlo Model, taking into account the terms and conditions on which awards are granted and is spread over the service period during which the key executives become unconditionally entitled to the awards.

The last measurement date for the LTIP was 31 January 2011, the LTIP was then replaced by the Executive Incentive Plan see below.

For further information please refer to note 21.B.

## 2. Summary of significant accounting policies continued

### *Executive Incentive plan*

In 2011 the Group established an equity settled Executives Incentive Plan (EIP). As described above, the EIP replaces the LTIP. Under this plan, key executives and other key value drivers of the business are eligible to share in a percentage of the value created for Shareholders. Pay-outs are now in addition to share price growth also based on corporate performance targets.

Each participant in the EIP is awarded a number of units which convert into Company shares according to the level of the Company's share price, EBIT and revenue growth over a term of three years from the date of grant.

The fair value of the awards is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date, using a Monte Carlo Model, taking into account the terms and conditions on which awards are granted and is spread over the service period during which the key executives become unconditionally entitled to the awards.

For further information please refer to note 21.C.

### **Employee benefit trust – Treasury shares**

The Group has an employee benefit trust. The employee benefit trust is separately administrated and is funded by the Group, which consolidates the assets, liabilities, income and expenses in its own accounts. The shares held by the trust are recorded at cost and are shown under "Employee stock purchase plan shares" in the statement of changes in Shareholders' equity.

### **Earnings per share**

Basic earnings per share amounts are calculated by dividing net profit (loss) for the year attributable to ordinary equity holders of Dialog by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of Dialog by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued if all the securities or other contracts to issue ordinary shares were exercised.

The weighted average number of shares outstanding is as follows:

	2012 000	2011 000
Basic number of shares	64,681	62,873
Effect of dilutive options outstanding	2,673	3,838
<b>Dilutive number of shares</b>	<b>67,354</b>	66,711

The number of anti-dilutive share options outstanding was 1,071,524 (2011: 615,744).

In 2012 the potential ordinary shares of the convertible bond were antidilutive as their conversion to ordinary shares would increase earnings per share.

### **Significant accounting judgements, estimates and assumptions**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The significant accounting estimates and assumptions are outlined below:

#### *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. In case of such an indicator, an impairment test is made. This requires the determination of the value in use and the fair value less costs to sell respectively of the assets. Estimating the value in use requires management to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of such assets at 31 December 2012 was US\$286,845,000 (2011: US\$161,685,000), please refer to notes 4, 8, 11 and 12.

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 2. Summary of significant accounting policies continued

### **Estimation of useful lives**

Although the estimates of the useful lives of certain assets, assumptions concerning the macroeconomic environment and developments in the industry in which the Group operate, and estimates of the discounted future cash flows are believed to be appropriate, changes in assumptions or circumstances could require changes in the analysis. This could lead to impairment losses in the future or – except in the case of goodwill – to reversals of impairment losses. The useful lives of certain assets relate to the anticipated period of productive use of the assets or contractual terms.

### **Business Combinations**

In accordance with business combination accounting, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values. We engage third-party appraisal firms to assist management in determining the fair values of certain assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain assets acquired and liabilities assumed include but are not limited to: future expected cash flows from the sale of products, and engineering service sales, the acquired company's brand awareness and discount rate. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results. Subject to these estimates are the fair values recorded as shown in note 4 (Business Combinations).

Goodwill is allocated to cash generating units or groups of cash generating units, that is expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquire are assigned to these units or group of units. The estimates of these synergies include but are not limited to: future cash flows from the sale of products, changes in fair values of cash generating units and discount rate. We refer to note 4 (Allocation of Goodwill to Cash Generating Units and Goodwill Impairment Testing) for the applied approach and assumptions.

### **Deferred tax assets**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

Significant management judgement on projected future taxable profits and cash flows is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing of future taxable profits, together with future tax planning strategies. At year end 2012, net deferred tax assets amounting to US\$3,234,000 were recognised (2011: US\$13,946,000). Impaired deferred tax assets at 31 December 2012 were nil (2011: US\$1,105,000).

Further information regarding the assessment of future taxable income is disclosed in note 5.

## 2. Summary of significant accounting policies continued

### ***Share-based employee compensation awards***

- **Stock options**  
Share-based payment transactions for stock options are measured by reference to the fair value at the date on which they are granted. The fair value of share-based payments is determined using the Black-Scholes model, which involves making assumptions about interest rates, volatilities, market conditions, dividend yield, expected life and fluctuation. Due to the nature of these assumptions, such estimates are subject to significant uncertainty. In 2012, the expense related to stock options was US\$5,466,000 (2011: US\$5,279,000). For further information on stock options please refer to note 21.A and 21.D.
- **Executives' Long Term Incentive Plan**  
The fair value of the awards is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date, using a Monte Carlo Model, based on standard inputs such as the Company's share price, interest rate, and volatility of the Company's share price, dividend yield and expected life. Due to the nature of these assumptions, such estimates are subject to significant uncertainty. In 2012, an expense of US\$74,000 was booked (2011: US\$1,050,000). Further information regarding LTIP is provided in note 21.B and 21.D.
- **Executives Incentive Plan**  
The fair value of the awards is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date, using a Monte Carlo Model, based on standard inputs such as the Company's share price, interest rate, and volatility of the Company's share price, dividend yield and expected life. Due to the nature of these assumptions, such estimates are subject to significant uncertainty. In 2012, an expense of US\$1,415,000 was booked (2011: nil). Further information regarding EIP is provided in note 21.C and 21.D.

### ***Customer-specific research and development***

For the determination of revenue and costs for customer-specific research and development contracts, management judgement is required. It is, therefore, necessary to determine the stage of completion based on the progress made towards completing the particular project, as well as the contract revenue and the contract costs. Besides an advance payment received from one customer, at 31 December 2012 no receivables or liabilities from constructions contracts were outstanding (2011: nil).

### ***Self-developed intangible assets***

Development costs are capitalised in accordance with the accounting policy mentioned above, i.e. they are recorded on a cost basis. However, initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. The amortisation start correlates with the first delivery of products to the customer. In determining the probable future economic benefits of the self-developed intangible asset, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2012, the carrying amount of capitalised development costs was US\$13,425,000 (2011: US\$16,041,000), please refer to note 12.

Actual results may differ from all of the above judgements and estimates.

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 3. Other disclosures to the income statement

### a) Operating expenses and revenues

The operating result before income taxes is stated after charging:

	2012 US\$000	2011 US\$000
<b>Auditors' remuneration</b>		
for the audit of the group financial statements	(302)	(310)
for the statutory audit of the subsidiaries	(154)	(61)
for other audit related services	(70)	(67)
<b>Other fees for auditors</b>		
Audit related assurance services	–	(54)
Services related to Corporate Finance transaction	(373)	(15)
Other services	(7)	–
	<b>(906)</b>	<b>(507)</b>
<b>Depreciation of property, plant and equipment</b>	<b>(12,698)</b>	<b>(8,801)</b>
<b>Amortisation of intangible assets</b>		
thereof included in cost of sales	(4,454)	(2,120)
thereof included in selling and marketing expenses	(9,076)	(5,810)
thereof included in general and administrative expenses	(5,426)	(300)
thereof included in research and development expenses	(637)	(7,800)
	<b>(19,593)</b>	<b>(16,030)</b>
<b>Personnel costs</b>		
Wages and salaries	(85,684)	(68,585)
Social and security costs	(9,049)	(6,976)
Share-based payments	(6,955)	(6,331)
Pension costs from defined contribution plans <sup>1)</sup>	(6,455)	(5,685)
	<b>(108,143)</b>	<b>(87,577)</b>
<b>Included in revenues</b>		
Revenue from the sale of goods	772,919	524,114
Revenue from customer specific research and development contracts	664	1,362
Included in revenue from sale of goods income attributable to prior periods from BenQ cash settlement (see note 27)	–	1,785
<b>Included in cost of sales:</b>		
Costs in relation to customer specific research and development contracts	(664)	(1,362)
Amount of inventory recognised as expense	(437,939)	(286,396)
Impairment of inventories recognised as an expense	(8,207)	(3,660)
<b>Included in other operating income</b>		
BenQ Settlement (see note 27)	–	303

[1] The pension costs from defined contribution plans include costs for the state funded pension plan in Germany of US\$2,242,000 (2011: US\$1,999,000).

## 3. Other disclosures to the income statement continued

**b) Directors' remuneration**

	2012 US\$000	2011 US\$000
Aggregate remuneration in respect of qualifying services	<b>1,690</b>	1,514
	<b>2012 No.</b>	2011 No.
Number of directors who received shares in respect of qualifying services	<b>8</b>	8
Number of directors who exercised share options	<b>5</b>	3
	<b>2012 US\$000</b>	2011 US\$000
In respect of the highest paid director:		
Aggregate remuneration	<b>1,046</b>	869
Of which pension contribution for the year	<b>56</b>	42

The highest paid director exercised 329,940 (2011: 370,820) share options during the year.

**c) Interest income and interest expense**

Interest income and expenses comprise the following items:

	2012 US\$000	2011 US\$000
Interest income	<b>1,360</b>	376
Interest expense	<b>(6,466)</b>	(235)
	<b>(5,106)</b>	141
Of which: from financial instruments relating to categories in accordance with IAS 39		
Loans and receivables	<b>204</b>	239
Financial liabilities measured at amortised cost	<b>(5,310)</b>	(98)
	<b>(5,106)</b>	141

**d) Government grants**

The Group receives government grants for research and development activities of its Dutch design centre. Under the condition that technologies are new to the company and performed by the Group's employees, grants can be received for its development. The grants are based on an estimated number of hours spent on these R&D activities. In 2012 the Group received grants in the amount of US\$1,078,000 (2011: US\$1,493,000). In the profit and loss account the grants received were deducted from research and development expenses. In addition in 2012 the company received a grant in the form of a tax relief, an amount of US\$2,356,000 can be deducted from a positive taxable income in the Netherlands.



# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 3. Other disclosures to the income statement continued

### e) Headcount

The average number of persons employed by the Group (including the Executive Director) during the year, analysed by category, was as follows:

	2012	2011
Research and Development	<b>445</b>	367
Production	<b>95</b>	69
Sales and Marketing	<b>92</b>	76
Admin	<b>58</b>	41
IT	<b>24</b>	20
	<b>714</b>	573

## 4. Business combination

### Acquisition in 2011

On 10 February 2011, Dialog Semiconductor Plc acquired 100% of the voting shares of SiTel Semiconductor B.V. ("SiTel", now Dialog Semiconductor B.V.), an unlisted company headquartered and incorporated in the Netherlands and a leader in short-range wireless, digital cordless and VoIP technology. Dialog acquired SiTel in order to expand its product portfolio with short-range wireless and VoIP based internet connectivity products. This will allow Dialog to develop new products for these markets as well as to cross-sell Dialog's existing Power Management technology to SiTel's customer base. The acquisition significantly expands Dialog's addressable market targeting high growth wireless personal devices.

## 4. Business combination continued

**Assets acquired and liabilities identified**

	Fair value recognised on acquisition US\$000
<b>Assets</b>	
Cash and cash equivalents	5,052
Trade accounts receivable and other receivable	12,722
Inventories	14,849
Other current assets	1,798
Property, plant and equipment	2,886
Intangible assets <sup>1)</sup>	32,975
Income tax receivables	788
Deferred tax assets	4,776
Other non-current assets	411
<b>Total assets</b>	<b>76,257</b>
<b>Liabilities</b>	
Trade and other payables	(10,106)
Provisions	(606)
Income taxes payable	(40)
Other current liabilities	(3,645)
Deferred tax liabilities	(4,925)
<b>Total liabilities</b>	<b>(19,322)</b>
<b>Total identifiable net assets at fair value</b>	<b>56,935</b>
Goodwill arising on acquisition	32,283
<b>Purchase consideration transferred</b>	<b>89,218</b>

[1] For further information please refer to note 12.

The fair value of the trade receivables and other receivables recognized on the day of acquisition amounted to US\$12,722,000. None of the trade receivables had been impaired and it was expected that the full contractual amounts could be collected. The goodwill of US\$32,283,000 comprises the value of expected synergies arising from the acquisition. The goodwill recognised is not expected to be deductible for income tax purposes.

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 4. Business combination continued

Given the timing of the transaction, at the end of 2011 it was not possible to provide all disclosures required by IFRS 3 (R) as the acquisition accounting including the purchase price allocation ("PPA") was still in the process of being finalised. The Company completed this during 2012. Therefore in the consolidated financial statements 2011 Dialog reported the results of the PPA on the basis of provisional figures. The final results led to changes to the PPA and numbers 2011 have been retrospectively adjusted. The table below shows the adjustments:

	2011 as previously reported US\$000	PPA adjustment US\$000	2011 adjusted US\$000
Income tax expense	(5,559)	1,489	(4,070)
Net profit	55,863	1,489	57,352

	2011 as previously reported US\$	PPA adjustment US\$	2011 adjusted US\$
Earnings per share (in US\$)			
Basic	0.89	0.02	0.91
Diluted	0.84	0.02	0.86

	At 31 December 2011 as previously reported US\$000	PPA adjustment US\$000	At 31 December 2011 Adjusted US\$000
Goodwill	27,358	4,925	32,283
Deferred tax liabilities (non-current)	–	3,436	3,436
Net Shareholders' equity	263,115	1,489	264,604

From the date of the acquisition until 31 December 2011, SiTel has contributed US\$108,780,000 of revenue and US\$8,997,000 of net profit after tax to the Group. If the combination had taken place at the beginning of the year, revenues would have been US\$120,197,000 and the profit after tax would have been US\$6,550,000.

In connection with the business combination expenses related to employee restructuring measures of US\$1,549,000 occurred during the financial year 2012.

### Purchase consideration

The total purchase considerations amounted to US\$89,218,000.

### Analysis of cash flows from acquisition

	US\$000
Transaction costs of the acquisition (included in cash flows from operating activities)	(3,291)
Total cash outflow for acquisition (included in cash flows from investing activities)	(89,218)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	5,052
<b>Net cash flow on acquisition</b>	<b>(87,457)</b>

Transaction costs of US\$3,291,000 have been expensed and are included in administrative expenses.

#### 4. Business combination continued

##### Allocation of goodwill to Cash Generating Units

We expect additional value from the acquisition in respect of entry to new markets, internationalisation, cross-selling opportunities and customer diversification. Besides for the connectivity segment we also expect additional value from the acquisition for our Mobile Systems segment. The synergies and other effects described above were measured on the basis of the Group's current planning; the planning horizon was three years including one budgeted year and two additional forecasted years. The assumptions were the same that we applied for the goodwill impairment test as described below.

The carrying amount of goodwill is allocated to the two CGUs (strategic business units) as follows:

	Mobile Systems		Connectivity	
	2012	2011 <sup>1)</sup>	2012	2011 <sup>1)</sup>
	US\$000	US\$000	US\$000	US\$000
<b>Goodwill</b>	<b>5,150</b>	n/a	<b>27,133</b>	n/a

[1] No allocation was done in 2011 as the initial accounting for the business combination was incomplete by the end of reporting period. The end of the measurement period was in 2012, where reliable information about the facts and circumstances existed as of acquisition date was available.

##### Goodwill impairment testing

As described in note 2 in more detail an impairment loss must be recognized if the carrying amount of a cash generating unit exceeds its recoverable amount. The recoverable amount can either be measured as the fair value less cost to sell or the value in use. In Q4-2012 the company performed a separate impairment test for the two relevant CGU's based on the value in use to determine the recoverable amount.

##### Key assumptions used in value in use calculations

The calculation of value in use for both connectivity and mobile systems units is most sensitive to the following assumptions:

- Return on sales;
- Discount rates;
- Growth rates used to extrapolate cash flows beyond the planning period.

Return on sales – Return on sales is calculated by dividing the EBITDA by net sales. The EBITDA is defined as the operating profit (loss) excluding depreciation and amortisation expenses as reported in note 24.

Discount rates – Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The applied WACC represents a post-tax discounting rate. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. The calculation of the recoverable amount is based on post-tax cash flows discounted using a post-tax discount rate. The result would have been the same, had pre-tax cash flows been discounted using a pre-tax discount rate.

Growth rate estimates – Rates are based on company's industry research and applied for calculation of perpetuity.

The discounted cash flow calculations use projections that are based on management's expectations covering the assessment year 2013. The planning horizon reflects the assumptions for short-to mid-term market developments. Cash flows for the assessment years 2014 and 2015 are extrapolated using appropriate growth rates. Key assumptions on which management has based its determination of the value in use include the development of key assumptions mentioned above. Cash flow calculations are supported by external sources of information.

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 4. Business combination continued

### Impairment Testing Parameters

	Mobile Systems in %	Connectivity in %
<b>Actual</b>		
Return on sales	22.0	5.0
Pre-tax discount rate	17.4	17.4
Growth rates	72.2	(12.0)
<b>3 year planning period</b>		
Return on sales	24.0 - 28.0	9.0 - 14.0
Pre-tax discount rate	17.4	17.4
Growth rates	10.0 - 36.0	12.0 - 20.0
<b>Perpetual annuity</b>		
Return on sales	27.0	13.0
Pre-tax discount rate	17.4	17.4
Growth rates	10.0	20.0

Based on the performance of the Connectivity and Mobile System Segment Management did not identify any indications for a goodwill impairment in 2011.

### Sensitivity to changes in assumptions

The sensitivity analysis for the cash-generating units Connectivity and Mobile System, to which goodwill is allocated, was based on a 10% decline in future revenue growth and cost of sales as well as a less than proportional decrease of other operating expenses. Furthermore, an increase of 1 to 2% in the weighted average cost of capital was applied. The Company believes that such potential changes are reasonably possible, especially in the long term.

When applying the sensitivity parameters described above to the impairment model, it resulted in recoverable amounts of US\$777,063,000 and US\$49,203,000 for the Mobile Systems and the Connectivity CGU respectively. With a net book value of assets of US\$423,657,000 and allocated goodwill of US\$5,150,000, the strategic business unit Mobile Systems does not exceed its recoverable amount. As for the strategic business unit Connectivity, the recoverable amount does not exceed the net assets in the amount of US\$23,899,000 and the allocated goodwill of US\$27,133,000 and could result in an impairment loss of US\$1,829,000. Thus, in order to align the recoverable amount to the aggregate carrying amount of net assets and allocated goodwill, the decrease in future revenue growth and cost of sales must not be greater than 5%.

Management concluded that no impairment charge against goodwill should be recognised in either of the two strategic business units. However, although the assumptions concerning the macroeconomic environment and developments in the industries in which Dialog operates and estimates of the discounted future cash flows are believed to be appropriate, changes in assumptions or circumstances could require changes in the analysis. This could lead to impairment losses in the future.

## 5. Income taxes

Income (loss) before income taxes consists of the following:

	2012 US\$000	2011 US\$000
Germany	96,999	60,673
Foreign	(10,874)	749
	<b>86,125</b>	61,422

## 5. Income taxes continued

Income tax benefit (expense) is comprised of the following components:

	2012 US\$000	2011 US\$000
Current taxes:		
Germany	<b>(12,819)</b>	(6,682)
Foreign	<b>(852)</b>	(273)
Deferred taxes:		
Germany	<b>(14,860)</b>	4,282
Foreign	<b>4,919</b>	(1,397)
<b>Income tax expense</b>	<b>(23,612)</b>	(4,070)

	2012 US\$000	2011 US\$000
Current taxes:		
Current income tax charge	<b>(13,391)</b>	(6,876)
Adjustments in respect of current income tax of previous year	<b>(280)</b>	(79)
Deferred taxes:		
Relating to origination and reversal of temporary differences	<b>(12,073)</b>	(11,722)
Relating to a reversal of a previous write-down of a deferred tax asset	<b>2,132</b>	14,607
<b>Income tax expense</b>	<b>(23,612)</b>	(4,070)

Although Dialog is a UK company, its principal operations are located in Germany. Accordingly, the following information is based on German corporate tax law.

The tax rate for its German subsidiary is 15%; considering the impact of the solidarity surcharge of 5.5%, the federal corporate tax rate amounts to 15.8%. Combining the federal corporate tax rate with the trade tax rate of 12.6%, the combined statutory tax rate of the German subsidiary is 28.4%.

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 5. Income taxes continued

A reconciliation of income taxes determined using the combined German income tax rate of 28.4% (2011: 28.4%), is as follows:

	2012 US\$000	2011 US\$000
Expected income tax expense	(24,439)	(17,429)
Tax rate differential	(568)	(21)
Non-deductible portion of share based payments	(1,782)	(1,668)
Tax benefit from share based payments	3,434	2,964
Tax free income (non-deductible expenses)	(291)	(1,035)
Recognised deferred tax assets relating to a reversal of a previous write-down of deferred tax assets and first time recognition of deferred tax assets relating to prior years	2,132	14,607
Benefit from previously unrecognised deferred tax assets that is used to reduce current tax expense	1,631	1,295
Additional losses for which no deferred tax asset is recognised	(2,543)	(3,362)
Adjustments recognised for tax of prior periods	(388)	144
Differences arising from differences between functional currency and tax currency	(773)	462
Other	(25)	(27)
<b>Actual income tax expense</b>	<b>(23,612)</b>	<b>(4,070)</b>

Deferred income tax assets and liabilities are summarised as follows:

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
Temporary differences relating to intangible assets	(5,111)	(3,432)
Other temporary differences	2,178	(3,075)
Deferred taxes in relation to tax credits	–	1,105
Net operating loss carryforwards	6,167	20,453
<b>Total net deferred tax assets</b>	<b>3,234</b>	<b>15,051</b>
<b>Impaired deferred tax assets<sup>1)</sup></b>	<b>–</b>	<b>(1,105)</b>
<b>Recognised net deferred tax assets</b>	<b>3,234</b>	<b>13,946</b>

[1] Impaired in FY 2005. In 2012 an impairment of US\$nil (2011: US\$2,079,000) was reversed

## 5. Income taxes continued

Tax loss carryforwards, temporary differences and net deferred tax assets are summarised as follows:

	31 December 2012			31 December 2011			
	Tax loss carryforwards US\$000	Temporary Differences US\$000	Net deferred tax assets (liabilities) US\$000	Tax loss carryforwards US\$000	Temporary Differences <sup>2)</sup> US\$000	Tax credits US\$000	Net deferred tax assets (liabilities) <sup>2)</sup> US\$000
Germany	629	(2,181)	(440)	67,161	(4,673)	–	13,726
UK	69,739	23,084	–	51,387	25,588	4,420	1,105
Netherlands <sup>2)</sup>	19,384	(13,244)	945	17,184	(22,515)	–	(1,333)
US <sup>1)</sup>	4,029	928	2,132	4,290	–	–	–
Other	–	1,296	597	20	1,061	–	448
<b>Total</b>	<b>93,781</b>	<b>9,883</b>	<b>3,234</b>	<b>140,042</b>	<b>(539)</b>	<b>4,420</b>	<b>13,946</b>

[1] Including an estimated amount of US\$2,806,000 (2011: US\$2,910,000) for state tax loss carryforwards

[2] 2011 temporary differences and deferred tax liabilities for the NL have been retrospectively adjusted following adjustments to the purchase price allocation, please refer to note 4.

The amount of deductible temporary differences and unused tax loss carryforwards for which no deferred tax asset is recognised in the balance sheet is US\$95,179,000 (2011: US\$95,382,000).

In assessing whether the deferred tax assets can be used, management considers the probability that some, or all, of the deferred tax assets will not be realised. The utilisation of deferred tax assets depends upon generating taxable profit during the periods in which those temporary differences become deductible or tax-loss carryforwards can be utilised. Management considers the reversal of deferred tax liabilities, projected future taxable income, benefits that could be realised from available tax planning strategies and other positive and negative factors in making this assessment.

The utilisation of tax loss carryforwards and temporary differences for which currently no deferred tax asset is recognized is subject to the achievement of positive income in periods which are beyond the Company's current business plan and therefore this utilisation is uncertain. Consequently no deferred tax assets were recognised for these losses and temporary differences.

The tax loss carryforwards in the US will expire between 2013 and 2029 and in the Netherlands between 2017 and 2019; other tax loss carryforwards have no expiration date.

The amount shown under "income tax receivables" in the statement of financial position includes a corporation tax refund claim of the Group's German subsidiary. The total amount the German subsidiary is entitled to receive amounts to €414,000 to be paid out in ten equal amounts during 2008 to 2017. The amount shown within the non-current assets represents the discounted part of the claim that is due after 2013. The amount that will be paid in 2013 is shown within the current assets.

## 6. Cash and cash equivalents

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
Cash at bank	136,117	91,010
Short-term deposits	170,000	20,381
Deposits designated as a hedging instrument	6,318	2,199
<b>Cash and cash equivalents</b>	<b>312,435</b>	<b>113,590</b>

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. Deposits designated as a hedging instrument are classified as cash flow hedges to cover firm commitments and forecast transactions in Euros, Pound Sterling and Japanese Yen.



# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 7. Trade accounts receivable and other receivable

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
Trade accounts receivable	70,490	38,929
Receivables from factoring agreement	12,397	7,800
	<b>82,887</b>	46,729

Trade receivables are non-interest bearing and are generally on 30-60-day terms.

As described in note 25, in 2007 the Group entered into a selective factoring agreement. The amount shown as receivables from the factoring agreement represents a 15% retainer kept by the factoring bank against sold receivables. The retainer is released only once the receivable is fully paid by the customer, at the latest, 120 days after the receivable becomes due or if the insurance event occurs. The amounts are non-interest bearing and are generally on 30-60-day terms.

The recorded trade accounts receivable for which an impairment has been recognised, was US\$1,130,000 and US\$1,180,000 at 31 December 2012 and 2011, respectively. The related allowance for doubtful accounts was US\$1,130,000 and US\$1,180,000 at 31 December 2012 and 2011, respectively.

The allowance for doubtful accounts developed as follows:

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
Allowance for doubtful accounts at beginning of year	1,180	1,410
Additions charged to bad debt expense	8	–
Write-offs charged against the allowance	(26)	–
Reductions credited to income	(2)	(303)
Effect of movements in foreign currency	(30)	73
<b>Allowance for doubtful accounts at end of year</b>	<b>1,130</b>	1,180

As at 31 December 2012 and 2011, the aging analysis of trade account receivable is as follows:

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
Receivables neither past due nor impaired	66,374	35,969
Receivables past due, not impaired individually	–	–
Less than 30 days	3,410	2,780
30 to 59 days	706	171
60 to 89 days	–	–
90 to 130 days	–	9
<b>Total</b>	<b>70,490</b>	38,929

## 8. Inventories

Inventories are comprised of the following:

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
Raw materials	20,686	4,031
Work-in-process	51,739	22,496
Finished goods	79,942	36,110
Deposits	88	–
	<b>152,455</b>	<b>62,637</b>

## 9. Other financial assets

Other financial assets comprise:

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
Deposits for hedging contracts	368	–
Hedging instruments	2,752	25
	<b>3,120</b>	<b>25</b>

The deposits for hedging contracts are an advance settlement for hedging instruments with a negative fair value. The deposits do not bear interests and are offset with amounts due when the hedge is settled.

The amount shown under hedging instruments includes the fair value of derivative financial instruments used for cash flow hedges. The Group is exposed to currency risks in the course of its operating activities. These risks are reduced by the use of forward currency exchange contracts.

The Group has clear guidelines as to the use of those derivatives, and compliance is constantly monitored. For further information on the Group's hedging policy please see note 25.

## 10. Other current assets

Other current assets comprise:

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
Prepaid expenses	5,581	5,400
Other tax receivables	1,650	1,448
Other <sup>1)</sup>	5,314	1,388
	<b>12,545</b>	<b>8,236</b>

[1] Including US\$3,557,000 prepayments made to a major supplier

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 11. Property, plant and equipment, net

A summary of activity for property, plant and equipment for the years ended 31 December 2012 and 2011 is as follows:

	Test equipment US\$000	Leasehold improvements US\$000	Office and other equipment US\$000	Construction in progress US\$000	Total US\$000
<b>Cost</b>					
<b>Balance at 31 December 2010 / 1 January 2011</b>	77,932	2,487	23,777	210	104,406
Additions relating to the SiTel acquisition	1,711	757	418	–	2,886
Effect of movements in foreign currency	(8)	(47)	(89)	(3)	(147)
Additions	7,290	4,467	8,844	301	20,902
Reclassifications	–	207	34	(241)	–
Disposals	(1,193)	(254)	(8,323)	–	(9,770)
<b>Balance at 31 December 2011 / 1 January 2012</b>	85,732	7,617	24,661	267	118,277
Effect of movements in foreign currency	19	85	177	1	282
Additions	23,744	2,007	9,284	13	35,048
Reclassifications	–	22	242	(264)	–
Disposals	(1,297)	(101)	(1,786)	(5)	(3,189)
<b>Balance at 31 December 2012</b>	<b>108,198</b>	<b>9,630</b>	<b>32,578</b>	<b>12</b>	<b>150,418</b>
<b>Depreciation and impairment losses</b>					
<b>Balance at 31 December 2010 / 1 January 2011</b>	(71,997)	(571)	(17,589)	–	(90,157)
Effect of movements in foreign currency	8	37	65	–	110
Depreciation charge for the year	(3,846)	(983)	(3,972)	–	(8,801)
Disposals	1,151	107	7,717	–	8,975
<b>Balance at 31 December 2011 / 1 January 2012</b>	(74,684)	(1,410)	(13,779)	–	(89,873)
Effect of movements in foreign currency	(9)	(25)	(70)	–	(104)
Depreciation charge for the year	(6,030)	(1,221)	(5,447)	–	(12,698)
Disposals	1,114	16	1,445	–	2,575
<b>Balance at 31 December 2012</b>	<b>(79,609)</b>	<b>(2,640)</b>	<b>(17,851)</b>	<b>–</b>	<b>(100,100)</b>
<b>Net book value</b>					
<b>At 31 December 2010 / 1 January 2011</b>	5,935	1,916	6,188	210	14,249
<b>At 31 December 2011 / 1 January 2012</b>	11,048	6,207	10,882	267	28,404
<b>At 31 December 2012</b>	<b>28,589</b>	<b>6,990</b>	<b>14,727</b>	<b>12</b>	<b>50,318</b>

### Finance leases

The carrying value of property, plant and equipment held under finance leases at 31 December 2012 was US\$628,000 (31 December 2011: US\$606,000). Additions during the year were US\$506,000 (2011: nil). As of the reporting date future minimum lease payments under those finance lease contracts were US\$221,000 (2011: US\$457,000). The present value of the net minimum lease payments was US\$211,000 (2011: US\$431,000).

## 12. Goodwill and other intangible assets

A summary of activity for intangible assets for the years ended 31 December 2012 and 2011 is as follows:

	Goodwill	Other intangible assets				Total US\$000
	US\$000	Customer related intangible assets US\$000	Purchased software, licenses and other US\$000	Patents US\$000	Intangible assets from internal development US\$000	
<b>Cost</b>						
<b>Balance at 31 December 2010 / 1 January 2011</b>	–	–	21,149	1,309	5,951	28,409
Additions relating to the SiTel acquisition	32,283	14,100	525	3,696	14,654	32,975
Effect of movements in foreign currency	–	–	(58)	–	(30)	(88)
Additions	–	–	5,175	759	5,165	11,099
Reclassifications	–	–	–	–	–	–
Disposals	–	–	(554)	(10)	(210)	(774)
<b>Balance at 31 December 2011 / 1 January 2012</b>	32,283	14,100	26,237	5,754	25,530	71,621
Effect of movements in foreign currency	–	–	96	–	–	96
Additions	–	–	26,606	950	5,956	33,512
Reclassifications	–	–	–	–	–	–
Disposals	–	–	(725)	–	(387)	(1,112)
<b>Balance at 31 December 2012</b>	<b>32,283</b>	<b>14,100</b>	<b>52,214</b>	<b>6,704</b>	<b>31,099</b>	<b>104,117</b>
<b>Amortisation and impairment losses</b>						
<b>Balance at 31 December 2010 / 1 January 2011</b>	–	–	(14,783)	(183)	(2,716)	(17,682)
Effect of movements in foreign currency	–	–	48	–	30	78
Amortisation charge for the year	–	(5,428)	(2,650)	(939)	(7,013)	(16,030)
Impairment charges	–	–	–	–	–	–
Disposals	–	–	158	6	210	374
<b>Balance at 31 December 2011 / 1 January 2012</b>	–	(5,428)	(17,227)	(1,116)	(9,489)	(33,260)
Effect of movements in foreign currency	–	–	(50)	–	–	(50)
Amortisation charge for the year	–	–	(10,273)	(1,135)	(8,185)	(19,593)
Impairment charges	–	–	–	–	–	–
Disposals	–	–	575	–	–	575
<b>Balance at 31 December 2012</b>	–	<b>(5,428)</b>	<b>(26,975)</b>	<b>(2,251)</b>	<b>(17,674)</b>	<b>(52,328)</b>
<b>Net book value</b>						
<b>At 31 December 2010 / 1 January 2011</b>	–	–	6,366	1,126	3,235	10,727
<b>At 31 December 2011 / 1 January 2012</b>	32,283	8,672	9,010	4,638	16,041	38,361
<b>At 31 December 2012</b>	<b>32,283</b>	<b>8,672</b>	<b>25,239</b>	<b>4,453</b>	<b>13,425</b>	<b>51,789</b>

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## 12. Goodwill and other intangible assets continued

A key element of the 2012 additions relates to a new a US\$26,4 million, 6 years licensing agreement (with the option to extend the term of the agreement by a period of two years) which the Company entered into during the third quarter of 2012 as part of the Company's on-going strategy to invest in R&D. This agreement allows Dialog to access patents in the area of portable power management and battery charging technology.

Dialog paid an initial amount of US\$6 million in Q3-2012. In addition to this payment 24 subsequent quarterly payments of US\$850,000 will be made by Dialog amounting to a total investment of US\$26,4 million. Upon initial recognition, the license agreement was capitalised with its net present value of US\$22,077,000. The discount rate used for this calculation represents the imputed interest rate which consists of a credit- and risk spread component reflecting the business risk of the entity. The useful life has been determined being 6 years.

A key element of the 2011 additions was the acquisition of SiTel Semiconductor B.V. In connection with this acquisition the company acquired goodwill, internally developed intangible assets, patents and customer related intangible assets, such as customer relationship and order backlog. For further information, please refer to note 4.

Customer related intangible assets comprise intangible assets acquired in a business combination containing key customers, other customer relationships and order backlog. Intangible assets from internal development represent capitalised development costs of individual projects. We refer to Note 2 for a description of applied accounting policies.

### Hire purchase

The carrying value of intangible assets held under hire purchase leases at 31 December 2012 was US\$21,315,000 (31 December 2011: US\$851,000). Additions during the year were US\$23,173,000 (2011: US\$668,000). As of the reporting date future minimum payments under those hire purchase contracts were US\$19,177,000 (2011: US\$662,000). The present value of the net minimum payments was US\$15,462,000 (2011: US\$602,000).

## 13. Trade and other payables

Trade and other payables comprise:

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
Trade accounts payable	<b>100,616</b>	46,567
Other payables	<b>5,600</b>	3,890
	<b>106,216</b>	50,457

Terms and conditions of the above trade and other payables:

- trade payables are non-interest bearing and are normally settled on 30-60-day terms; and
- other payables are non-interest bearing and have a term of less than three months.

## 14. Other financial liabilities

Other financial liabilities comprise:

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
Hire purchase agreements and finance lease obligations	<b>3,645</b>	661
Fair value of derivative financial instruments	<b>472</b>	6,552
	<b>4,117</b>	7,213

The Group is exposed to currency risks in the course of its operating activities. These risks are reduced by the use of forward currency exchange contracts.

## 15. Provisions

The Group issues various types of contractual product warranties under which it guarantees the performance of products delivered for a certain period or term. The estimated provision is based on historical warranty data. The provision for dilapidation includes costs of dismantling and restoring the offices of the Group to their original condition at end the end of the lease terms. The changes in the provision are summarised as follows:

	At 1 January 2012 US\$000	Currency change US\$000	Discount 000US\$	Additions US\$000	Used US\$000	Released US\$000	At 31 December 2012 US\$000
Obligations for product warranties	573	–	–	788	(430)	(119)	<b>812</b>
Pending legal claims	301	6	–	–	–	–	<b>307</b>
Other	166	1	–	112	(110)	–	<b>169</b>
<b>Total current</b>	<b>1,040</b>	<b>7</b>	<b>–</b>	<b>900</b>	<b>(540)</b>	<b>(119)</b>	<b>1,288</b>
Dilapidation	536	22	39	6	–	–	<b>603</b>
<b>Total non-current</b>	<b>536</b>	<b>22</b>	<b>39</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>603</b>
<b>Total</b>	<b>1,576</b>	<b>29</b>	<b>39</b>	<b>906</b>	<b>(540)</b>	<b>(119)</b>	<b>1,891</b>

## 16. Other current liabilities

Other current liabilities comprise:

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
Obligations for personnel and social expenses	<b>15,348</b>	12,206
Advances received in relation to customer specific research and development contracts	<b>2,100</b>	721
Other	<b>4,222</b>	3,625
	<b>21,670</b>	16,552

Terms and conditions of the above other current liabilities:

- obligations for personnel and social expenses have an average term of three months (2011: three months); and
- other payables are non-interest bearing and are normally settled on 30 day terms.

## 17. Other non-current financial liabilities

Other non-current financial comprise:

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
Liabilities relating to the convertible bond <sup>1)</sup>	<b>164,589</b>	–
Liabilities relating to hire purchase and finance lease obligations	<b>12,028</b>	373
	<b>176,617</b>	373

[1] Please refer to note 18 Convertible Bond

# Notes to the consolidated financial statements

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## 18. Convertible bond

During Q1-2012, the Company launched a 5 year Convertible Bond Offering raising gross proceeds of US\$201 million. The offering closed on 12 April 2012. The bonds, which are listed on the Luxembourg Stock Exchange's Euro MTF market, will be convertible into ordinary shares of Dialog Semiconductor Plc., listed on the Regulated Market of the Frankfurt Stock Exchange. 1,005 Bonds with a principal amount of US\$200,000 each were issued at 100% with a coupon of 1.0% per-annum payable semi-annually in arrears. The initial conversion price is US\$29.5717 (€22.367), representing a premium of 35 per cent above the volume-weighted average price on XETRA of Dialog Semiconductor Plc's ordinary shares to the time of pricing on 8 March 2012.

The net proceeds of issuing the Bonds, after deducting US\$4,369,000 of commission and other costs incurred in connection with the bond issuance were US\$196,631,000. In accordance with IAS 32, US\$163,607,000 of gross proceeds was allocated to financial liabilities and US\$37,393,000 was allocated to equity. The debt component of convertible bonds is measured using the market interest rate obtainable on a similar debt instrument but one that is not convertible. This debt component is measured as liabilities at amortised cost until it is converted into equity or becomes due for repayment. The component of the net proceeds allocated to equity represents the fair value of the conversion right.

	Liability component US\$000	Conversion right embedded in Convertible Bond US\$000	Total US\$000
Gross proceeds	163,607	37,393	201,000
Issue costs (allocated pro rata to gross proceeds)	(3,555)	(814)	(4,369)
<b>Net proceeds</b>	<b>160,052</b>	<b>36,579</b>	<b>196,631</b>

The equity component is presented under additional paid-in capital in equity. The financial liability rises over the 5 year lifetime to the principal amount of the bonds. Transaction costs related to the issue of the instrument were allocated to the debt and equity components of the convertible bonds in proportion to the capital extended to the Group by the instrument. Of the total transaction costs an amount of US\$814,000 was allocated to equity and an amount of US\$3,555,000 was allocated to financial liabilities.

### Final Redemption

Unless previously purchased and cancelled, redeemed or converted, the Bonds will be redeemed at their principal amount on the final maturity date.

### Redemption at the option of Dialog

The Bonds may only be redeemed at the option of Dialog prior to the final maturity date in the following cases:

#### Optional Redemption

The Company will have the option to call all outstanding Bonds from approximately 3 years after the Closing Date until maturity, in the event that the value of the Shares underlying a Bond exceeds 130% of the principal amount over a certain period. Dialog will also have the option to redeem all outstanding bonds if redemptions have been effected in respect of 85% or more of the bonds originally issued. In these cases the bonds will be redeemed at their principal amount, together with accrued interest to such date.

#### Redemption for Taxation Reasons

In the event that Dialog will become obliged to pay additional amounts as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, and such obligation cannot be avoided by Dialog by taking reasonable measures, Dialog will have the option to call all outstanding bonds. In this case the bonds will be redeemed at their principal amount, together with accrued interest to such date.

#### Redemption at the Option of Bondholders upon a Change of Control

Following the occurrence of a Change of Control, the holder of each Bond will have the right to require Dialog to redeem the Bond at its principal amount, together with accrued and unpaid interest to such date.

### Earnings per share

In 2012 the potential ordinary shares of the convertible bond were antidilutive as their conversion to ordinary shares would increase earnings per share.

## 19. Shareholders' equity and other reserves

### Capital increase

On 7 March 2012, the Company completed an offering of 3,000,000 previously unissued ordinary shares at £0.10 per share to its employee benefit trust ("Trust") at a price of €0.80 per share, to make such shares available for the exercise of stock option rights that had previously been granted to employees.

### Ordinary shares

The amount of authorized shares at 31 December 2012 was 104,311,860 (2011: 104,311,860) with a par value of £0.10 per share, of which 68,068,930 (2011: 65,068,930) shares were issued and outstanding.

	Amount of shares	US\$000
At 1 January 2011/2012	65,068,930	12,380
Issued on 7 March 2012	3,000,000	472
<b>At 31 December 2012</b>	<b>68,068,930</b>	<b>12,852</b>

Dialog's stock is issued in the form of registered shares. All shares are fully paid.

### Additional paid-in capital

The account comprises additional paid-in capital in connection with the issue of shares. With an amount of US\$36,579,000 the increase in 2012 mainly relates to the conversion rights of the convertible bond which was launched in 2012 as described in note 18 and which were treated as equity instruments in accordance with IAS 32.

### Retained earnings

Retained earnings comprise losses and non-distributed earnings of consolidated Group companies.

### Other reserves

#### Currency translation reserve

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries and branches whose functional currency is not the US\$. At 31 December 2012 and 2011, the negative currency translation reserve was US\$1,964,000 and US\$1,879,000 respectively.

#### Cash flow hedge reserve

The cash flow hedge reserve is used to record the portion of the gain or loss on a hedging instrument that is determined to be a highly effective cash flow hedge. At 31 December 2012 the positive cash flow hedge reserve was US\$1,537,000 compared to a negative cash flow hedge reserve of US\$-6,372,000 at 31 December 2011. Please refer to note 25 for the amounts reclassified from other comprehensive income and recognized in profit and loss statement.

The related tax effects allocated to each component of other reserves for the years ended 31 December 2012 and 2011 are as follows:

	2012			2011		
	Pre-tax US\$000	Tax effect US\$000	Net US\$000	Pre-tax US\$000	Tax effect US\$000	Net US\$000
Currency translation adjustment	(322)	237	(85)	(92)	(70)	(162)
Hedges	8,871	(962)	7,909	(6,825)	384	(6,441)
<b>Other comprehensive income (loss)</b>	<b>8,549</b>	<b>(725)</b>	<b>7,824</b>	<b>(6,917)</b>	<b>314</b>	<b>(6,603)</b>



# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 19. Shareholders' equity and other reserves continued

### Employee stock purchase plan shares

The employee stock purchase plan shares contain the acquisition cost of the shares held by the employee benefit trust (the "Trust"). Please refer to note 21. At 31 December 2012 and 31 December 2011, the Trust held 2,679,768 and 1,267,332 shares respectively. These shares are legally issued and outstanding for accounting purposes and accordingly have been reported in the caption "employee stock purchase plan shares" as a reduction of shareholders' equity.

## 20. Pension scheme

The Group operates defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the Group to the funds and amounted to US\$4,213,000 (2011: US\$3,686,000). At 31 December 2012, contributions amounting to US\$674,000 (2011: US\$353,000) were payable to the funds and are included in other current liabilities. Pension costs also include payments to the state funded pension plan in Germany in the amount of US\$2,242,000 (2011: US\$1,999,000).

## 21. Share-based payments

### A) Stock option plans

On 7 August 1998, the Group adopted a stock option plan (the "Plan") under which employees, the executive management and the Executive Directors may be granted from time to time, at the discretion of the Board, stock options to acquire up to 3,840,990 shares of the Group's authorised but unissued ordinary shares. On 16 May 2002 the Shareholders of the Group approved a resolution increasing the maximum amount of unexercised stock options which may be granted by the Group at any time, to 15% of Dialog's issued share capital, from time to time on a diluted basis. At 31 December 2012, 12,012,164 shares could be issued.

Unless otherwise determined by the Board, stock options granted to employees are granted with an exercise price not less than the quoted price at the date of grant, and vest during the service period of the employee without any further vesting conditions. Stock options granted before 31 October 2006 have terms of ten years and vest over periods of one or five years from the grant date. On 19 June 2006 the Board amended the stock option plan under which stock options now have a seven-year life and vest monthly over a period of one to 48 months. The new stock options may not be exercised until they have been held for one calendar year from the grant date. The new rules were implemented on grants made on or after 31 October 2006. The stock option plan was extended by the Board in 2008 to expire 6 August 2018.

At the 2006 Annual General Meeting, Shareholders approved a stock option plan for Non-Executive Directors. Each Non-Executive Director was entitled to an initial grant of 50,000 options vesting over four years and each year thereafter, a further 20,000 options vesting over 12 months were granted. Options were exercisable at the market price prevailing at the date of grant. At the 2010 Annual General Meeting the Shareholders voted against the continuance of this share option plan. Consequently, no share options were granted to the Non-Executive Directors in 2010. All outstanding options were exercised in 2012 and none remain.

At the 2011 Annual General Meeting, Shareholders approved a change of the fee structure for Non-Executive Directors. 2/3 of the total fees are delivered in cash and 1/3 of the Non-Executive Directors' annual total fees are delivered in Company equity. The number of shares is calculated using the average 30 day share price preceding the date of the Annual General Meeting. Shares are delivered in the form of conditional shares or options (an exercise price has been attached at Euro 15 cents). Each individual shall be entitled to sell their shares, or exercise their options, if any, no earlier than the day preceding the third AGM following the grant (unless specific circumstances such as a change of control apply).

The fair value of all grants in the two-year period ended 31 December 2012 was estimated using the Black-Scholes option pricing model. Expectations of early exercise are considered in the determination of the expected life of the options. The Group does not have adequate historical development of the share price, particularly as a result of material unusual effects in the stock market in recent years. Furthermore, implicit volatility cannot be determined since none of the Group's options are actively traded. The Group has therefore based its calculation of expected volatility on an average of the volatility of the Dialog Semiconductor Plc shares.

## 21. Share-based payments continued

The following assumptions were used for stock option grants for the years ended 31 December 2012 and 2011:

	2012	2011
Expected dividend yield	0%	0%
Expected volatility	38%	39% - 46%
Risk free interest rate	0.2%	4.0%
Expected life (in years)	2.0 - 6.0	2.0 - 6.0
Weighted average share price during the year (in €)	15.87	14.36
Weighted average share price for Option grants (in €)	15.68	13.71
Weighted average exercise price (in €)	15.48	13.55
Weighted-average fair value (in €)	4.34	4.80

### B) Executives' Long Term Incentive Plan (LTIP)

The Group also operates the Dialog Semiconductor Plc Long Term Incentive Plan (LTIP) which was approved by shareholders at the Annual General Meeting in April 2008. Under the LTIP, key executives are eligible to share in a percentage of the value created for shareholders in excess of an annual return hurdle measured over a four-year performance period (this was originally a three-year period, extended by one year at the Annual General Meeting in April 2009). This value is delivered to a participant in the form of a series of nil-cost options which can be exercised within five years of the date of grant. The first award under the LTIP was made on 8 May 2008.

In 2010 a new award under LTIP was made to selected new and existing members of the executive management. These awards are shown under "Second award" in the table below. In 2012, no further awards under the LTIP plan were made or can be made.

The fair value of the LTIP, where the number of nil-cost options granted to an individual is contingent upon the returns to Shareholders, was calculated using a Monte Carlo simulation model. As a portion of each award is capable of vesting at three separate measurement dates each tranche has been valued separately in accordance with IFRS2.

The following assumptions were used for the fair value calculations:

Inputs	First award				Second award	
	Tranche 1	Tranche 2	Tranche 3	LTIP extension	Tranche 1	Tranche 2
Share price at grant date	€1.40	€1.40	€1.40	€4.08	€10.51	€10.51
Exercise price	€0.10	€0.10	€0.10	€0.10	€0.10	€0.10
Expected life (years)	0.64	1.64	2.64	2.35	0.54	1.54
Expected volatility	40%	40%	40%	42%	42%	42%
Risk-free-interest-rate	4.8202%	4.8202%	4.8202%	1.4900%	0.4820%	0.7040%

Expected volatility has been determined on the same basis as the input into the fair value calculation for share options granted during the year.

#### Measurement date 31 January 2010

The measurement share price at 31 January 2010 (average share price over the prior 30 days) was €9,8942. As this price was above the return hurdle for January 2010 of €1.82 (prior year return hurdle of €1.62+12.5%), 3,055,064 nil cost option grants were approved by the Board on 4 February 2010, with 25% exercisable from 22 February 2010 and the remaining 75% exercisable for 5 years from 21 February 2011.

#### Measurement date 31 January 2011 (Last Measurement Date)

The measurement share price at 31 January 2011 (average share price over the prior 30 days) was €17.6632. As this price was above the return hurdle for January 2011 of €11.1310 (prior year return hurdle of €9.8942+12.5%), 1,575,327 nil cost option grants were approved by the Board on 18 February 2011, all exercisable for 5 years from 18 February 2011.

### C) Executives Incentive Plan (EIP)

The Group also operates the Dialog Executive Incentive Plan (EIP) which was approved by the shareholders at the Annual General Meeting in May 2010. Under this plan, key executives and other key value drivers of the business are eligible to share in a percentage of the value created for Shareholders. The Remuneration and Nomination Committee may not grant awards under the EIP more than five years after its approval.

# Notes to the consolidated financial statements

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## 21. Share-based payments continued

Under the EIP, up to 0.75% of the issued share capital at the date of grant will be made available for the Remuneration and Nomination Committee to grant to participants in the EIP on an annual basis. It is envisaged that these shares will be granted to approximately 10 – 15 key executives. A portion of the total number of shares which can be awarded each year would be reserved for grants to new recruits. However, there is no requirement for the Remuneration and Nomination Committee to allocate all available shares on an annual basis.

### **Continuity of Employment Condition**

25% of the EIP Award will be banked in equal annual installments (1/3 of 25% each year) based on the achievement of a share price hurdle measured at the end of each year (Continuity Award). The hurdle is such that the Company's share price at each measurement point (being the anniversary of the date of grant – the first grant was on 16 February 2012) must be greater than the higher of the share price on the date of grant or previous measurement points. Where the share price hurdle has not been achieved at the end of the year, that proportion of the Continuity Award will lapse.

At the end of the three year holding period, the Continuity Award will vest and become exercisable subject to continuity of employment. Individuals have three years with which to exercise vested options.

### **Corporate Performance Conditions**

75% of any EIP Award will vest subject to the achievement of challenging performance conditions (**Performance Award**). The primary performance measure relates to EBIT and Revenue Growth targets. The vesting of 50% of the Performance Award relates to EBIT growth with the other 50% relates to revenue growth targets. The number of shares which vest under the primary performance measure would then be subject to a secondary performance measure (as set out below). The Company believes that these two measures are directly relevant to the Company's strategy at its current stage of development and that the executives should be rewarded on this basis and that focusing on these metrics are critical to driving shareholder value over the medium to long term. Targets are set on an annual basis, rather than over the long-term, to ensure that they remain challenging and relevant. These targets take into consideration budget and market expectations for EBIT and revenue growth for the relevant financial year on the following basis:

**Threshold** (e.g. an acceptable level of performance growth which must be attained for an award to begin to vest)

**Target** (e.g. the level of performance for achieving budgeted growth and which ensures that the business is online for achieving its long-term objectives)

**Exceptional** (e.g. the level of performance which is acknowledged by the Remuneration and Nomination Committee as exceptional)

At the end of the three year performance period, the Remuneration and Nomination Committee will determine the level of vesting based on the actual level of growth achieved over the three year period relative to the compounding of the three yearly targets.

Provided that the threshold level of growth has been achieved for both targets, at the end of the performance period, the level of vesting for both metrics will be as follows:

Level of Corporate Performance	% of EIP Award vesting
Threshold <sup>1)</sup>	20%
Target <sup>1)</sup>	40%
Exceptional <sup>1)</sup>	100%

[1] Straight-line between points

Where the threshold level of growth has not been achieved for either the EBIT or revenue target the Performance Award will lapse.

Under the secondary performance measure the number of shares vesting at the end of the performance period as determined under the primary performance measure can be adjusted using a downward multiplier of up to 20% against a customer diversification target.

For example, in measuring customer diversity this could be calibrated as the increase in the regional revenues in key strategic market as a percentage of total revenues.

The level of vesting of the Performance Award at the end of the three year period will therefore be based on:

Growth in Revenues (50%) + Growth in EBIT (50%) X - 20% Adjustment Factor

The balance of any Performance Award which does not vest in accordance with the above performance conditions will lapse.

## 21. Share-based payments continued

The following assumptions were used for the fair value calculations:

	Grant in 2012
Share price at grant date	€16,43
Exercise price	€0.12
Expected volatility	38%
Risk free interest rate	0.2%
Assumed level of vesting regarding the performance conditions	50%
Option lifetime	6 Years

### D) Development of plans

Stock option plan activity (including stock options granted under the LTIP and the EIP) for the years ended 31 December 2012 and 2011 was as follows:

	2012		2011	
	Options	Weighted average exercise price €	Options	Weighted average exercise price €
Outstanding at beginning of year	6,160,579	5.48	6,098,193	2.88
Granted	1,557,339	11.22	2,975,730	6.45
Exercised	(1,584,866)	1.93	(2,727,709)	0.60
Forfeited	(254,227)	9.07	(185,635)	7.35
<b>Outstanding at end of year</b>	<b>5,878,825</b>	<b>7.83</b>	<b>6,160,579</b>	<b>5.48</b>
<b>Options exercisable at year end</b>	<b>2,976,684</b>	<b>4.46</b>	<b>3,532,169</b>	<b>1.90</b>

The weighted average share price at the date of exercise of options was €16.30 and €14.04 in the years ended 31 December 2012 and 2011 respectively.

Liabilities from share option exercises to employees were nil at 31 December 2012 (2011: US\$135,000).

The following table summarises information on stock options outstanding (including stock options granted under the LTIP and the EIP) at 31 December 2012:

Range of Exercise Prices	Options outstanding			Options exercisable	
	Number outstanding at 31 December 2012	Weighted average remaining contractual life (in years)	Weighted average exercise price €	Number exercisable at 31 December 2012	Weighted average exercise price €
€0.11 - 2.99	2,331,018	3.2	0.56	1,820,661	0.64
€3.00 - 8.00	513,433	3.7	6.63	361,450	6.52
€8.00 - 15.50	3,034,374	5.7	13.62	794,573	12.27
<b>€0.11 - 15.50</b>	<b>5,878,825</b>	<b>4.5</b>	<b>7.83</b>	<b>2,976,684</b>	<b>4.46</b>

### E) Employee benefit trust

The Group established an employee benefit trust (the "Trust"). The Trust purchases shares in the Group for the benefit of employees under the Group's share option scheme. At 31 December 2012 the Trust held 2,679,768 shares (2011: 1,267,322).

# Notes to the consolidated financial statements

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## 22. Additional disclosures on financial instruments

Amount categorised in accordance with IAS 39:

	Category in accordance with IAS 39	Amounts recognised in the statement of financial position according to IAS 39					
		Carrying amount 31 December 2012 US\$000	Amortised cost US\$000	Cost US\$000	Fair value recognised in other comprehensive income US\$000	Fair value recognised in profit or loss US\$000	Fair value 31 December 2012 US\$000
<b>Assets</b>							
Cash at bank and Short-term deposits	LaR	<b>306,117</b>	306,117	–	–	–	306,117
Restricted cash	LaR	–	–	–	–	–	–
Deposits designated as a hedging instrument	n/a	<b>6,318</b>	–	–	6,318	–	6,318
Trade accounts receivable and other receivable	LaR	<b>82,887</b>	82,887	–	–	–	82,887
Other non-derivative financial assets							
Deposits for hedging contracts	LaR	<b>368</b>	368	–	–	–	368
Derivative financial assets							
Derivatives without hedging relationship	n/a	–	–	–	–	–	–
Derivatives with hedging relationship	n/a	<b>2,752</b>	–	–	2,752	–	2,752
<b>Liabilities</b>							
Trade account payables	FLAC	<b>100,616</b>	100,616	–	–	–	100,616
Other payables	FLAC	<b>5,600</b>	5,600	–	–	–	5,600
Other financial liabilities	FLAC	<b>180,262</b>	180,262	–	–	–	180,262
Derivative financial liabilities							
Derivatives without hedging relationship	n/a	–	–	–	–	–	–
Derivatives with hedging relationship	n/a	<b>472</b>	–	–	472	–	472
Of which aggregated by category in accordance with IAS 39:							
Loans and receivables (LaR)		<b>389,372</b>	389,372	–	–	–	389,372
Deposits designated as a hedging instrument		<b>6,318</b>	–	–	6,318	–	6,318
Held-to-maturity investments (HtM)		–	–	–	–	–	–
Available-for-sale financial assets (AfS)		–	–	–	–	–	–
Derivatives without hedging relationship		–	–	–	–	–	–
Derivatives with hedging relationship		<b>2,280</b>	–	–	2,280	–	2,280
Financial liabilities at amortised cost (FLAC)		<b>(286,478)</b>	(286,478)	–	–	–	(286,478)

## 22. Additional disclosures on financial instruments continued

Amounts recognised in the statement of financial position according to IAS 39								
	Category in accordance with IAS 39	Carrying amount 31 December 2011 US\$000	Amortised cost US\$000	Cost US\$000	Fair value recognised in other comprehensive income US\$000	Fair value recognised in profit or loss US\$000	Fair value 31 December 2011 US\$000	
<b>Assets</b>								
Cash at bank and Short-term deposits	LaR	111,391	111,391	–	–	–	111,391	
Restricted cash	LaR	–	–	–	–	–	–	
Deposits designated as a hedging instrument	n/a	2,199	–	–	2,199	–	2,199	
Trade accounts receivable and other receivable	LaR	46,729	46,729	–	–	–	46,729	
Other non-derivative financial assets								
Deposits for hedging contracts	LaR	–	–	–	–	–	–	
Derivative financial assets								
Derivatives without hedging relationship	n/a	–	–	–	–	–	–	
Derivatives with hedging relationship	n/a	25	–	–	25	–	25	
<b>Liabilities</b>								
Trade account payables	FLAC	46,567	46,567	–	–	–	46,567	
Other payables	FLAC	3,890	3,890	–	–	–	3,890	
Other financial liabilities	FLAC	1,034	1,034	–	–	–	1,034	
Derivative financial liabilities								
Derivatives without hedging relationship	n/a	–	–	–	–	–	–	
Derivatives with hedging relationship	n/a	6,552	–	–	6,552	–	6,552	
Of which aggregated by category in accordance with IAS 39:								
Loans and receivables (LaR)		158,120	158,120	–	–	–	158,120	
Deposits designated as a hedging instrument		2,199	–	–	2,199	–	2,199	
Held-to-maturity investments (HtM)		–	–	–	–	–	–	
Available-for-sale financial assets (AfS)		–	–	–	–	–	–	
Derivatives without hedging relationship		–	–	–	–	–	–	
Derivatives with hedging relationship		(6,527)	–	–	(6,527)	–	(6,527)	
Financial liabilities at amortised cost (FLAC)		(51,491)	(51,491)	–	–	–	(51,491)	

The fair value of derivatives has been determined with reference to available market information (Level 2). The carrying amounts of the loans and receivables and financial liabilities approximate their fair values due to short-term maturities. Since the market conditions affecting non-current liability component of convertible bond are unchanged the fair value is equal to the carrying amount.

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For the year ended 31 December 2012

## 23. Commitments

### Operating lease, software and service commitments

The Group leases all its office facilities and vehicles, and some of its office and test equipment, under operating leases. Future minimum lease payments under non-cancellable operating rental and lease agreements and payments for other commitments are as follows:

	Operating leases and software commitments	Other commitments	Operating leases and software commitments	Other commitments
	2012 US\$000	2012 US\$000	2011 US\$000	2011 US\$000
Within one year	8,896	3,572	7,683	3,033
Between one and two years	6,536	693	7,078	1,529
Between two and three years	4,321		4,565	188
Between three and four years	3,875	–	2,490	–
Between four and five years	3,484	–	2,331	–
Thereafter	10,782	–	8,266	–
<b>Total minimum payments</b>	<b>37,894</b>	<b>4,265</b>	<b>32,413</b>	<b>4,750</b>

Total payments for operating leases and software commitments, charged as an expense in the income statement, amounted to US\$8,896,000 and US\$9,219,361 for the years ended 31 December 2012 and 2011 respectively.

### Finance lease, hire purchase and software commitments

The Group has finance leases and hire purchase contracts for test and IT equipment and has software contracts. The leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum payments under finance leases and hire purchase and software contracts together with the present value of the net minimum payments are as follows:

	Minimum payments	
	2012 US\$000	2011 US\$000
Within one year	4,097	700
Between one and two years	3,400	418
Between two and three years	3,400	–
Between three and four years	3,400	–
Between four and five years	3,400	–
Thereafter	1,700	–
<b>Total minimum payments <sup>1)</sup></b>	<b>19,397</b>	<b>1,118</b>
Less amounts representing finance charges	(3,724)	(84)
<b>Present value of minimum payments</b>	<b>15,673</b>	<b>1,034</b>

[1] The increase in 2012 relates to a new six year licensing agreement, further information is provided in note 12.

### Capital commitments

The Group has contractual commitments for the acquisition of property, plant and equipment in 2012 of US\$3,014,000 (2011: US\$2,264,000) and for the acquisition of intangible assets of US\$1,229,000 (2011: US\$2,501,000).

In addition the company has a contingent liability of US\$400,000 in connection with the purchase of intangible assets. This liability is contingent to certain shipping volumes, relating to the acquired technology, being met. We expect to reach these shipping volumes in first Quarter 2013.

## 24. Segmental reporting

Following the provisions of IFRS 8, reportable operating segments are identified based on the “management approach”. The management approach requires external segment reporting based on the Group’s internal organisational and management structure and on internal financial reporting to the chief operating decision maker, which considered the Group as being the Board of Management.

The Group reports on three operating segments, which are independently managed by bodies responsible for the respective segments depending on the nature of products offered. The identification of Company components as operating segments is based in particular on the existence of business unit managers who report directly to the Board of Management of Dialog and who are responsible for the performance of the segment under their charge. Following the change in IFRS 8.23, the Group no longer reports assets and liabilities as only inventories are reported to the chief operating decision maker. Prior-year figures have been adjusted accordingly.

### a) Operating segments

The Group’s operating segments are:

#### *Mobile Systems*

This segment includes our power management and audio chips especially designed to meet the needs of the wireless systems markets and a range of advanced driver technologies for low power display applications – from PMOLEDs, to electronic paper and MEMS displays. This segment was newly created in Q1-2012 and includes our former Audio and Power Systems segment and our former Display Systems segment. For further information, see below.

#### *Automotive and Industrial*

In the automotive and industrial market our products address the safety, management and control of electronic systems in cars and for industrial applications.

#### *Connectivity*

The activities of this segment include short-range wireless, digital cordless and VoIP technology. The new Connectivity segment includes the operating segment of our acquired subsidiary SiTel Semiconductor B.V. SiTel which was acquired on 10 February 2011; therefore its results are consolidated from this date.

	2012					2011				
	Mobile Systems US\$000	Automotive/ Industrial US\$000	Connectivity US\$000	Corporate US\$000	Total US\$000	Mobile Systems US\$000	Automotive/ Industrial US\$000	Connectivity US\$000	Corporate <sup>3)</sup> US\$000	Total US\$000
Revenues <sup>1)</sup>	638,765	38,686	96,133	(1)	773,583	370,926	45,878	108,778	1,679	527,261
R&D expenses	96,586	3,613	24,590	3,097	127,886	62,065	4,527	20,012	3,442	90,046
Operating profit (loss) <sup>2)</sup>	112,244	8,127	(13,144)	(16,195)	91,032	59,814	9,844	4,853	(12,878)	61,633
Depreciation/ amortisation	26,268	508	5,515	–	32,291	18,471	1,353	5,007	–	24,831
Inventory impairment and fixed asset disposal losses	8,470	26	740	–	9,236	4,032	661	73	–	4,766
Investments	55,693	1,077	11,692	–	68,462 <sup>4)</sup>	23,922	1,752	6,484	–	32,158 <sup>5)</sup>
	At 31 Dec 2012					At 31 Dec 2011				
Inventories	129,121	7,989	14,868	477	152,455	45,801	5,957	10,879	–	62,637

[1] All revenues are from sales to external customers

[2] Certain overhead costs are predominantly allocated based on sales and headcount.

The Operating loss of the Corporate Segment results from Holding related expenses, share option and business development costs

[3] The revenue in the corporate column include mainly the BenQ settlement please refer to note 27 and sales discounts

[4] Including 35,048 US\$000 additions to PPE, 33,512 US\$000 additions to intangible assets and -98 US\$000 deposits

[5] Including 20,902 US\$000 additions to PPE, 11,099 US\$000 additions to intangible assets and 157 US\$000 deposits



# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 24. Segmental reporting continued

Revenues in the Corporate column include sales discounts on early payment of US\$1,000 (2011: US\$107,000). The amount in 2011 also includes the BenQ Cash settlement of US\$1,785,000).

R&D expenses in the Corporate column predominantly include stock option expenses, expenses for the Management Long Term Incentive Plan (LTIP) and expenses for the Executive Incentive Plan (EIP) of US\$2,950,000 (2011: US\$3,442,000).

The operating losses recorded in the corporate column for the year ended 31 December 2012 of US\$16,195,000 (2011: US\$12,878,000) are primarily resulting from stock option expenses, bonus payments for employees, expenses in relation to the Long Term Incentive Plan introduced in 2008, sales discounts for early payments and the costs of the holding company. Additionally in 2011 the BenQ cash settlement in the amount of US\$2.1 million was included.

Investments comprise additions to property, plant and equipment, and intangible assets.

In 2012 and 2011 the Group had no inter-segment sales, income, expenses, receivables, payables or provisions.

There are no differences between the measurements of the reportable segments profits and losses, assets and liabilities and the entity's profit and losses, assets and liabilities.

### **Change of Segmental Reporting structure**

Following the acquisition of SiTel Semiconductor B.V. (now Dialog B.V.) in February 2011, the Company initiated a review of the business segments. The first outcome was the creation of the Connectivity Segment in 1Q-2011 to encapsulate all the activities of former SiTel. During Q1-2012, the Company went on to review its display activities.

Low market traction of the Company's display products in the last two years which resulted in minimal revenue drove the Company's decision to re-allocate its scarce R&D resources away from these products and onto higher priority projects. Therefore already in Q1-2012 the Company indicated that it would no longer invest R&D activities in the development of next generation display products unless it sees traction in the market and capacity investment in display glass modules from its business partners in Asia. Nevertheless, the Company continues to engage with major tier 1 OEMs and module display manufacturers to secure their adoption of this technology.

Due to high synergy of end markets and customers in mobile products between audio & power management and display products, the Company then decided to merge the two marketing and support organisations.

These decisions meant that it was no longer meaningful to report the display activity as a separate business segment. As a result in Q1-2012 the Company has decided to merge the former Audio & Power Management Segment and the former Display Systems Segment under the newly created segment called Mobile Systems Business Group.

## 24. Segmental reporting continued

The following table shows for 2011 the Company's former Audio & Power Management Segment, the former Display Segment and the combination of both into the new Mobile Systems Segment:

	2011		Total US\$000
	Audio & Power Management US\$000	Display Systems US\$000	
Revenues <sup>1)</sup>	369,211	1,715	370,926
R&D expenses	56,763	5,302	62,065
Operating profit (loss) <sup>2)</sup>	69,960	(10,146)	59,814
Depreciation/ amortisation	16,915	1,556	18,471
Inventory impairment and fixed asset disposal losses	3,876	156	4,032
Investments	21,907	2,015	23,922
	At 31 Dec 2011		
Inventories	45,505	296	45,801

[1] All revenues are from sales to external customers

[2] Certain overhead costs are predominantly allocated based on sales and headcount

### b) Geographic information – Revenues by shipment destination

	2012 US\$000	2011 US\$000
<b>Revenues</b>		
United Kingdom	<b>2,317</b>	3,499
Other European countries	<b>72,722</b>	83,399
China	<b>600,991</b>	336,910
Other Asian countries	<b>90,294</b>	83,941
Other countries	<b>7,259</b>	19,512
<b>Total revenues</b>	<b>773,583</b>	527,261
<b>Investments</b>		
Germany	<b>38,278</b>	25,371
Japan	<b>41</b>	785
United Kingdom	<b>3,044</b>	3,034
Netherlands	<b>3,391</b>	2,612
USA	<b>22,686</b>	110
Taiwan	<b>420</b>	8
Singapore	<b>369</b>	92
Other	<b>233</b>	146
<b>Total investments</b>	<b>68,462</b>	32,158

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 24. Segmental reporting continued

	At 31 December 2012 US\$000	At 31 December 2011 US\$000
<b>Assets</b>		
Germany	<b>461,824</b>	236,561
Japan	<b>2,459</b>	2,925
United Kingdom	<b>159,978</b>	8,052
Netherlands	<b>57,608</b>	98,688
Other	<b>26,271</b>	3,163
<b>Total assets</b>	<b>708,140</b>	349,389

Revenues are allocated to countries based on the location of the shipment destination. Segmental investments and assets are allocated based on the geographic location of the asset.

## 25. Financial risk management objects and policies

### Vulnerability due to certain significant risk concentrations

The Group's future results of operations involve a number of risks and uncertainties. Factors that could affect the Group's future operating results and cause actual results to vary materially from historical results include, but are not limited to, the highly cyclical nature of both the semiconductor and wireless communications industries, dependence on certain customers and the ability to obtain an adequate supply of sub-micron wafers.

The Group's products are generally utilised in the wireless and automotive industries. The Group generates a substantial portion of its revenue from the Mobile Systems Segment, which accounted for 77% and 70% of its total revenue for the years ended 31 December 2012 and 2011, respectively.

Changes in foreign currency exchange rates influence the Group's results of operations. The Group's sales, purchases of raw materials and manufacturing services are primarily denominated in US\$.

The Group depends on a relatively small number of customers for a substantial portion of its revenues, and the loss of one or more of these customers may result in a significant decline in future revenue.

During 2012, one (2011: one) customer individually accounted for more than 10% of the Group's revenues. Total revenues from this customer were US\$598,183,000 (2011: US\$321,367,000). Net receivables from this customer at 31 December 2012 were US\$69,035,306 (2011 US\$28,311,000). This customer is part of the Mobile Systems Segment (for further information please see Section 2 – Principal customers).

The Group is performing on-going credit evaluations of its customers' financial condition.

### Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise cash, cash equivalents, restricted cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has other financial instruments which mainly comprise trade receivables and trade payables which arise directly from its operations.

The Group also entered into derivative transactions (forward currency contracts). The purpose is to manage the currency risks arising from the Group's operations.

It is, and has been throughout 2012 and 2011, the Group's policy that no trading in derivatives shall be undertaken.

## 25. Financial risk management objectives and policies continued

Exposure to currency, interest rate and credit risk arises in the normal course of the Group's business. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments.

### Interest risk

The Group earns interest from deposits and uses money market deposits with highly rated financial institutions. During the year, the Group has held cash on deposit with a range of maturities from one week to one month. This can vary in view of changes in the underlying currency's interest rates and the Group's cash requirements.

The Group pays interest on amounts received in connection with the factoring agreement as prescribed below.

The Group has no long-term debt outstanding under short-term credit facilities as at 31 December 2012 (2011: nil).

The Group's policy is to manage its interest income using a mix of fixed and variable interest rate debts. In order to achieve this policy, the Group invests in highly liquid funds having a matching investment strategy. Once the operating business has been financed, short-term excess funds are invested in floating interest rate securities. Only short-term deposits bear fixed interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax as well as the Group's equity:

	Increase/decrease in basis points	Effect on profit US\$000	Effect on equity US\$000
<b>2012</b>	<b>83</b>	<b>2,081</b>	<b>2,081</b>
	<b>(54)</b>	<b>(1,360)</b>	<b>(1,360)</b>
2011	34	129	129
	(34)	(129)	(129)

### Currency risk

The main functional currency within the Group and the presentation currency for the consolidated financial statements is the US\$. Accordingly, foreign exchange risks arise from transactions, and recognised assets and liabilities, the functional currency of which is not the US\$. The currencies giving rise to these exposure risks are primarily the Euro and Pound Sterling. The majority of the Group's revenue and material expenses are denominated in US\$. The majority of other operating expenses are denominated in Euros and Pounds Sterling. The Group has transactional currency exposures. Such exposure arises from the sales or purchases by an operating unit in currencies other than the unit's functional currency. In 2012 and 2011 nearly all the Group's sales were denominated in US\$.

The Group uses forward currency contracts as well as certain deposits (together referred to as the "hedging instruments") to eliminate the currency exposure of recurring expected payments, such as salaries, wages and office rents non-US\$ denominated. The hedging instruments must be the same currency as the hedged item.

It is the Group's policy not to enter into forward contracts nor classify deposits as non-derivative hedging instruments until a firm commitment is in place and to maximise hedge effectiveness by negotiating the terms of hedge instruments to match the terms of the hedged item.

The following table demonstrates the sensitivity to a reasonably possible change in the US\$ exchange rate, with all other variables held constant, of the Group's profit before tax (resulting from changes in the fair value of monetary assets, excluding securities, and liabilities) and changes in the Group's equity (resulting in addition from changes in the fair value of deposits designated as cash flow hedges).

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 25. Financial risk management objects and policies continued

	Loans and receivables (LaR) and deposits designated as cash flow hedges <sup>1)</sup>			Financial liabilities at amortised cost (FLAC) <sup>1)</sup>	
	Increase/decrease against US\$	Effect on profit US\$000	Effect on equity US\$000	Effect on profit US\$000	Effect on equity US\$000
<b>2012</b>					
<b>Euro</b>	<b>1.9%</b>	<b>178</b>	<b>279</b>	<b>(134)</b>	<b>(134)</b>
<b>Pound Sterling</b>	<b>4.6%</b>	<b>42</b>	<b>42</b>	<b>(148)</b>	<b>(148)</b>
<b>Euro</b>	<b>(1.9)%</b>	<b>(178)</b>	<b>(279)</b>	<b>134</b>	<b>134</b>
<b>Pound Sterling</b>	<b>(4.6)%</b>	<b>(42)</b>	<b>(42)</b>	<b>148</b>	<b>148</b>
<b>2011</b>					
Euro	3.4%	300	374	(33)	(33)
Pound Sterling	0.5%	8	8	(5)	(5)
Euro	(3.4)%	(300)	(374)	33	33
Pound Sterling	(0.5)%	(8)	(8)	5	5

[1] Categories according to IAS 39

A risk analysis for the Group's securities was done separately, based on the inherent historic volatility of the specific securities, see below.

### Credit risk

The Group is exposed to credit risk from its operating activities and certain financing activities. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis, with the result that the Group's exposure to bad debts is not significant. Regarding the risk concentration please see above, "vulnerability due to certain significant considerations".

In order to finance its growth the Group entered into two factoring agreements with reputable financial institutions. The maximum amount of cash that can be received under these agreements is US\$60,000,000 (2011: US\$42,000,000). The agreements, which comprise receivables from selective customers, significantly reduce the underlying credit risk because the financial institutions assume all credit risks associated with the collection of the receivables financed under the programmes.

The Group's exposure to credit risk arising from other financial assets of the Group, which comprise cash, cash equivalents and restricted, would arise from default by counterparty.

### Liquidity risk

The Group uses quarterly cash flow forecasts to monitor its liquidity risk. It takes financial investments and financial assets (e.g. trade accounts receivable and other financial assets) into consideration, as well as projected cash flows from operations. The Group's objective is to minimise interest expense by avoiding the use of short-term bank liabilities or bank overdrafts within the Group.

At 31 December 2012, the Group had cash and cash equivalents of US\$312,435,000 (2011: US\$113,590,000).

## 25. Financial risk management objectives and policies continued

The Group's policy is to structure its maturities of current financial assets within the Group to meet 100% of the respective maturities of the liabilities. The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012, based on contractual undiscounted payments:

	Less than 3 months US\$000	3 to 12 months US\$000	1 to 5 years US\$000	Total US\$000
<b>Financial year ended 2012</b>				
Trade accounts payable	100,616	–	–	100,616
Other payables	5,600	–	–	5,600
Other financial liabilities	3,868	249	176,617	180,734
	<b>110,084</b>	<b>249</b>	<b>176,617</b>	<b>286,950</b>
Financial year ended 2011				
Trade accounts payable	46,567	–	–	46,567
Other payables	3,890	–	–	3,890
Other financial liabilities	7,213	–	373	7,586
	57,670	–	373	58,043

At 31 December 2012, the Group had unused short-term credit lines of US\$35.0 million (2011: US\$5 million) and a multi-currency revolving credit line facility of £10.0 million (2011: £10 million) There were no amounts outstanding under these credit lines at 31 December 2012 (2011: nil).

### Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy and strong capital ratios in order to support its business and strategies for growth. The company is considering its total equity as capital.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust its capital structure, the Group may generally issue new shares. Also in 2012 the Group launched a 5 year convertible bond offering amounting to US\$201 million which has a significant impact on the capital structure of the group, amongst others it led to a decrease of the equity ratio. For further information please refer to note 18.

The Group monitors capital using an equity ratio (total equity divided by total assets). The equity ratio as of 31 December 2012 was 54.0% (2011: 75.7%). Capital includes net Shareholders' equity. The Group's policy is to finance operational business development and growth if at all possible with equity rather than long-term liabilities. It is, therefore, also its policy to keep a strong equity ratio. This policy will be reconsidered as soon as sustainable profits are earned in order to achieve leverage. However financing of strategic decisions focused on long term growth is ensured by long-term liabilities.

### Hedging activities

At 31 December 2012, the Group held Forward exchange contracts and deposits (referred to as the "hedging instruments") designated as hedges of firm commitments and forecast transactions in Euros, Pound Sterling and Japanese Yen.

The hedging instruments are being used to hedge the foreign currency risk of contractual cash flows, principally resulting from wages and salaries, and rental payments with the aim of eliminating the currency risk by transforming these cash flows from Euros, Pounds Sterling or Japanese Yen into US Dollars. The fair values of the hedging instruments which equal the book values are as follows:

	At 31 December 2012		At 31 December 2011	
	Assets US\$000	Liabilities US\$000	Assets US\$000	Liabilities US\$000
Fair values				
Forward exchange contracts	2,752	472	25	6,552
Deposits	6,318	–	2,199	–

The critical terms of the deposits have been set to match the terms of the hedged cash flows.

# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 25. Financial risk management objects and policies continued

The cash flow hedges of the expected future cash flows in each month from January 2013 to December 2013 and January 2012 to December 2012 respectively were assessed to be highly effective and, at 31 December 2012, a net unrealised gain of US\$1,537,000 was included in other comprehensive income in respect of these cash flows (2011: loss of US\$6,372,000). During the financial year 2012 a net profit of US\$2,171,000 (2011: loss of US\$3,768,000) was recognised in other comprehensive income and a loss of US\$6,701,000 (2011: gain of US\$3,058,000) was reclassified from other comprehensive income and recognised in profit and loss. The months of occurrence of the cash flows are the same as the month when the income statement is affected.

The following tables show the contractual maturities of the payments for which deposits are used as hedging instruments, i.e., when the hedged item will be recognised in profit or loss.

Hedging instruments for Euro commitments:

Maturity	Derivatives		Deposits	
	Nominal amount €000	Forward rate US\$/€	Nominal amount €000	Historical rate US\$/€
<b>2012</b>				
<b>January 2013</b>	<b>2,500</b>	<b>1.2655</b>	<b>4,000</b>	<b>1.3334</b>
<b>February 2013</b>	<b>6,500</b>	<b>1.2546</b>	–	–
<b>March 2013</b>	<b>5,000</b>	<b>1.2483</b>	–	–
<b>April 2013</b>	<b>5,000</b>	<b>1.2492</b>	–	–
<b>May 2013</b>	<b>5,000</b>	<b>1.2500</b>	–	–
<b>June 2013</b>	<b>5,000</b>	<b>1.2180</b>	–	–
<b>July 2013</b>	–	–	–	–
<b>August 2013</b>	–	–	–	–
<b>September 2013</b>	–	–	–	–
<b>October 2013</b>	–	–	–	–
<b>November 2013</b>	–	–	–	–
<b>December 2013</b>	–	–	–	–
<b>2011</b>				
January 2012	9,000	1.3622	–	–
February 2012	5,000	1.3823	–	–
March 2012	9,400	1.3505	–	–
April 2012	5,000	1.3915	–	–
May 2012	5,000	1.3907	–	–
June 2012	5,000	1.3901	–	–
July 2012	5,000	1.3768	–	–
August 2012	5,000	1.3994	1,700	1.4293
September 2012	5,000	1.3985	–	–
October 2012	5,000	1.3654	–	–
November 2012	5,000	1.3654	–	–
December 2012	5,000	1.3654	–	–

## 25. Financial risk management objects and policies continued

Hedging instruments for Pound Sterling commitments:

Maturity	Nominal amount £000	Derivatives	Forward rate US\$/£
<b>2012</b>			
<b>January 2013</b>	<b>1,900</b>		<b>1.5516</b>
<b>February 2013</b>	<b>1,900</b>		<b>1.5515</b>
<b>March 2013</b>	<b>1,900</b>		<b>1.5513</b>
<b>April 2013</b>	<b>1,900</b>		<b>1.5503</b>
<b>May 2013</b>	<b>1,900</b>		<b>1.5501</b>
<b>June 2013</b>	-		-
<b>July 2013</b>	-		-
<b>August 2013</b>	-		-
<b>September 2013</b>	-		-
<b>October 2013</b>	-		-
<b>November 2013</b>	-		-
<b>December 2013</b>	-		-
2011			
January 2012	1,900		1.5951
February 2012	1,900		1.5945
March 2012	2,600		1.5897
April 2012	1,900		1.5944
May 2012	1,900		1.5947
June 2012	1,900		1.5908
July 2012	1,900		1.6005
August 2012	1,900		1.6005
September 2012	1,900		1.6001
October 2012	1,900		1.5827
November 2012	1,900		1.5827
December 2012	1,900		1.5827

Subsequent to 31 December 2012, the Group entered into further forward currency contracts of nominal £25,800,000 at an average forward rate of 1.5807 US\$/£.



# Notes to the consolidated financial statements

For the year ended 31 December 2012

## 25. Financial risk management objectives and policies continued

Hedging instruments for Japanese Yen commitments:

Maturity	Nominal amount ¥000	Forward rate ¥/US\$	Nominal amount ¥000	Historical rate ¥/US\$
	Derivatives		Deposits	
<b>2012</b>				
<b>January 2013</b>	<b>50,000</b>	<b>78.000</b>	–	–
<b>February 2013</b>	<b>50,000</b>	<b>78.000</b>	–	–
<b>March 2013</b>	<b>50,000</b>	<b>78.000</b>	–	–
<b>April 2013</b>	<b>45,000</b>	<b>78.000</b>	–	–
<b>May 2013</b>	<b>45,000</b>	<b>78.000</b>	–	–
<b>June 2013</b>	<b>45,000</b>	<b>78.000</b>	–	–
<b>July 2013</b>	<b>45,000</b>	<b>78.000</b>	–	–
<b>August 2013</b>	<b>45,000</b>	<b>82.000</b>	–	–
<b>September 2013</b>	<b>45,000</b>	<b>82.000</b>	<b>45,000</b>	<b>78.253</b>
<b>October 2013</b>	<b>45,000</b>	<b>82.000</b>	<b>45,000</b>	<b>78.253</b>
<b>November 2013</b>	<b>45,000</b>	<b>83.000</b>	–	–
<b>December 2013</b>	<b>45,000</b>	<b>83.000</b>	–	–
<b>2011</b>				
January 2012	60,000	77.519	–	–
February 2012	64,000	77.519	–	–
March 2012	75,000	77.519	–	–

## 26. Transactions with related parties

For the relationship between the parent company, Dialog Semiconductor Plc, and its subsidiaries please see note 2.

Related parties are comprised of eight (2011: seven) non-executive members of the Board of Directors and ten (2011: ten) members of the executive management which are named in the management and governance section. These are the only related parties of the Group.

All transactions with related parties are carried out at arm's length.

### Compensation of key management personnel of the Group

For the composition of our key management please see management and governance beginning on page 34. Compensation of key management personnel of the Group is as follows:

	2012 US\$000	2011 US\$000
Short term employee benefits	4,447	4,121
Post-employment benefits <sup>1)</sup>	208	170
Share based payments	1,301	1,180
	<b>5,956</b>	<b>5,471</b>

[1] The amounts include payments for defined contribution plans.

### Compensation of Non-Executive Directors

The compensation of Non-Executive Directors was US\$644,000 (2011: US\$645,000). As at 31 December 2012 the amount of Board member fees outstanding was nil (2011: US\$67,000). For further information please see the Directors' remuneration report within the management and governance section on pages 46 to 52.

### Other related party transactions

In 2012 and 2011 there were no other transactions with related parties. None of the related parties has a major influence in one of the Group's major suppliers or customers.

## Notes to the consolidated financial statements

For the year ended 31 December 2012

### 27. BenQ settlement

In the second quarter of 2011, the company received an unexpected cash settlement of US\$2.1 million. As the allocation of the payment was not confirmed by the paying party, we were only able to allocate it in Q3 to receivables which had been previously written down and revenues that had not been recognised in 2006 as a result of the insolvency of BenQ Mobile. The amount represents 30% of the original claim to BenQ Mobile. Of this amount, US\$1.8 million were classified as revenue and US\$0.3 million were classified as other operating income. The amount shown as revenue represents prior period revenue. As one of the criteria for revenue recognition under IFRS was not met, for this amount the related revenue was not accounted for in 2006. The amount shown as other operating income was previously recognised as revenue in the periods preceding the insolvency but the underlying receivables were written down against other operating expenses.

### 28. Subsequent event

There are no known events after the date of the Statement of Financial Position that require disclosure.

# Company statement of financial position

For the year ended 31 December 2012

	Notes	At 31 December 2012 US\$000	At 31 December 2011 US\$000
<b>Assets</b>			
Cash and cash equivalents		155,112	27,429
Amounts owed by group undertakings		203,191	14,599
Prepaid expenses		–	371
Other financial assets		–	–
Other current assets		520	180
<b>Total current assets</b>		<b>358,823</b>	<b>42,579</b>
Investments	29	161,896	161,855
<b>Total non-current assets</b>		<b>161,896</b>	<b>161,855</b>
<b>Total assets</b>		<b>520,719</b>	<b>204,434</b>
Trade and other payables		2,005	684
Other payables		2,029	367
<b>Total current liabilities</b>		<b>4,034</b>	<b>1,051</b>
<b>Other non-current financial liabilities</b>		<b>164,589</b>	<b>–</b>
Ordinary Shares		12,852	12,380
Share Premium		243,829	203,911
Retained earnings (accumulated deficit)		98,268	(9,519)
Other reserves		–	(231)
Employee stock purchase plan shares		(2,853)	(3,158)
<b>Total Shareholders' equity</b>	32	<b>352,096</b>	<b>203,383</b>
<b>Total liabilities and Shareholders' equity</b>		<b>520,719</b>	<b>204,434</b>

## Profit for the financial year

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit after taxation was US\$107,677,000 (2011: loss of US\$6,629,000).

These financial statements were approved by the Board of Directors on 15 February 2013 and were signed on its behalf by:

**Dr Jalal Bagherli**

Director

## Company financial statements

## Company statement of changes in equity

For the year ended 31 December 2012

	Ordinary Shares US\$000	Additional paid-in capital US\$000	Retained earnings (Accumulated deficit) US\$000	Other reserves		Total US\$000
				Hedges US\$000	Employee stock purchase plan shares US\$000	
<b>Balance at 31 December 2010 / 1 January 2011</b>	<b>12,380</b>	<b>202,416</b>	<b>(2,992)</b>	<b>69</b>	<b>(3,915)</b>	<b>207,958</b>
Total comprehensive income (loss)	–	–	(6,629)	(300)	–	(6,929)
Sale of employee stock purchase plan shares	–	1,495	–	–	757	2,252
Equity settled transactions, net of tax	–	–	102	–	–	102
<b>Changes in Equity total</b>	–	1,495	(6,527)	(300)	757	(4,575)
<b>Balance at 31 December 2011 / 1 January 2012</b>	<b>12,380</b>	<b>203,911</b>	<b>(9,519)</b>	<b>(231)</b>	<b>(3,158)</b>	<b>203,383</b>
Total comprehensive income (loss)	–	–	107,677	231	–	107,908
Conversion right embedded in Convertible Bond	–	37,393	–	–	–	37,393
Convertible Bond transaction cost attributable to conversion right	–	(814)	–	–	–	(814)
Capital Increase for employee share option plan (gross proceeds)	472	2,680	–	–	(3,152)	–
Transaction cost of capital increase - employee share option plan	–	(33)	–	–	–	(33)
Sale of employee stock purchase plan shares	–	692	–	–	3,457	4,149
Equity settled transactions, net of tax	–	–	110	–	–	110
<b>Changes in Equity total</b>	472	39,918	107,787	231	305	148,713
<b>Balance at 31 December 2012</b>	<b>12,852</b>	<b>243,829</b>	<b>98,268</b>	<b>–</b>	<b>(2,853)</b>	<b>352,096</b>

# Company statement of cash flows

For the year ended 31 December 2012

	2012 US\$000	2011 US\$000
<b>Cash flows from operating activities:</b>		
Net income (loss)	107,677	(6,629)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Interest expense (income), net	900	(940)
Expense related to share-based payments	110	102
<b>Changes in working capital:</b>		
Trade accounts payable	1,321	(435)
Other assets and liabilities	2,184	447
<b>Cash generated from (used for) operations</b>	<b>112,192</b>	<b>(7,455)</b>
Interest paid	(1,005)	–
Interest received	4,151	258
<b>Cash flow from (used for) operating activities</b>	<b>115,338</b>	<b>(7,197)</b>
<b>Cash flows from investing activities:</b>		
Purchase of SiTel Semiconductor B.V.	–	(89,218)
Foundation of other affiliated companies	(41)	–
Loans made to other group companies	(188,592)	–
Loans repaid by other group companies	–	41,577
<b>Cash flow from (used for) investing activities</b>	<b>(188,633)</b>	<b>(47,641)</b>
<b>Cash flows from financing activities:</b>		
Cash flow from the convertible bond	196,631	–
Sale of employee stock purchase plan shares	4,114	2,254
<b>Cash flow from financing activities</b>	<b>200,745</b>	<b>2,254</b>
<b>Net foreign exchange difference</b>	<b>233</b>	<b>(294)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>127,683</b>	<b>(52,878)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>27,429</b>	<b>80,307</b>
<b>Cash and cash equivalents at end of period</b>	<b>155,112</b>	<b>27,429</b>

## Company financial statements

# Notes to the Company financial statements

For the year ended 31 December 2012

### 29. Investments

This represents the investment of the Company in Dialog Semiconductor GmbH and Dialog Semiconductor BV and in 2012 also the newly created subsidiaries in Italy and Turkey. Investments in subsidiaries are stated at cost less any provision for impairment in value.

The aggregate amount of capital and reserves and the results of this undertaking were as follows:

	2012 US\$000	2011 US\$000
Capital and reserves	<b>155,927</b>	147,048
Profit for the year	<b>99,323</b>	65,145

Based on preliminary unaudited results.

### 30. Deferred tax

The utilisation of tax loss carryforwards and temporary differences of the holding company is subject to the achievement of positive income in periods which are beyond the company's current business plan and therefore this utilisation is uncertain. Consequently no deferred tax assets were recognised for these losses and temporary differences.

### 31. Share capital and share options

Details of the Company's share capital and share options are set out in notes 19 and 21 to the consolidated financial statements as at 31 December 2012.

### 32. Headcount and costs

The Company does not have any employees.

### 33. Events after the reporting period

There are no known events after the date of the Statement of Financial Position that require disclosure.

# Glossary

## Technical glossary

**Analog** A type of signal in an electronic circuit that takes on a continuous range of values rather than only a few discrete values.

**ASIC** An Application Specific Integrated Circuit is an integrated chip, custom-designed for a specific application.

**ASSP** An Application Specific Standard Product is a semiconductor device integrated circuit (IC) dedicated to a specific application and sold to more than one user.

**Audio CODEC** The interface between analog signals (such as the human voice) and the digital data processing inside a mobile phone, determining voice quality.

**BCD process platform** The incorporation of analog components (Bipolar), digital components (CMOS) and high-voltage transistors (DMOS) on the same die to reduce the number of components required in the bill of materials, minimise board space, costs and the parasitic losses in comparison to a non-integrated solution.

**Buck converter** A DC-to-DC buck converter accepts a direct current input voltage and produces a direct current output voltage to a plurality of channels.

**CAD** Computer Aided Design usually refers to a software tool used for designing electronics hardware or software systems.

**CDMA** Code Division Multiple Access is an alternative to GSM technology for mobile wireless networks.

**Chips** Electronic integrated circuits.

**CMOS** Complementary Metal Oxide Semiconductor: the most popular class of semiconductor manufacturing technology.

**Digital** A type of signal used to transmit information that has only discrete levels of some parameter (usually voltage).

**Fabless** A company that designs and delivers semiconductors by outsourcing the fabrication (manufacturing) process.

**FET** A Field Effect Transistor uses an electric field to control the shape and hence the conductivity of a channel of one type of charge carrier in a semiconductor material.

**Foundry** A manufacturing plant where silicon wafers are produced.

**Hi-Fi** High-Fidelity is the reproduction of sound with little or no distortion.

**IC** Integrated Circuit: an electronic device with numerous components on a single chip.

**Imaging** The capture and processing of images via an image sensor for use by an electronic device to send to a display for viewing by a user.

**Liquid Crystal Display (LCD)** A display technology found in many portable electronics products, including personal organisers, cellular handsets and notebook computers.

**LDO** Low dropout voltage regulators are used in battery operated systems, where the output voltage is typically lower than the input voltage.

**LED** A Light Emitting Diode is a semiconductor device that emits light when charged with electricity, often used for LCD display backlights.

**Mixed signal** A combination of analog and digital signals being generated, controlled or modified on the same chip.

**OEM** An Original Equipment Manufacturer that builds products or components that are used in products sold by another company.

**Power Management** The management of the power requirements of various subsystems, important in handheld and portable electronics equipment.

**PMIC** Power Management IC.

**Semiconductor** A base material halfway between a conductor and an insulator, which can be physically altered by mixing in certain atoms. Semiconductors form the basis for present-day electronics.

**Silicon** A semi-metallic element used to create a wafer – and the most common semiconductor material – in about 95% of all manufactured chips.

**Smartphone** A mobile phone offering advanced capabilities, often with pc-like functionality (PC-mobile handset convergence). A smartphone runs complete operating system software providing a standardised interface and platform for application developers.

**Smart Mirror™** A technology patented by Dialog Semiconductor which simplifies circuit design and provides very low current consumption in Power Management circuits.

**SmartPulse™** A wireless sensor network connectivity solution based on the DECT ULE (Ultra Low Energy) standard for home automation applications.

**SmartXtend™** A technology patented by Dialog Semiconductor that extends the life and reduces power consumption of high-resolution, passive matrix OLED displays.

**Subcontractor** A business that signs a contract to perform part or all of the obligations of another's contract.

**Tablet PC** A tablet PC refers to a slate- or tablet-shaped mobile computer device, equipped with a touchscreen or stylus.

**TAM** Total addressable market, TAM measures the potential market for your product – and your product only – assuming you could reach 100% of your customers.

**Ultrabook™** A higher-end, compact sub-notebook that is designed to be compact, thin and light without compromising performance and battery life. Ultrabooks™ typically feature low power processors and solid-state drives.

**USB** Universal Serial Bus: a universal interface standard to connect different electronics devices.

**Wafer** A slice of silicon from a 4, 5, 6 or 8 inch diameter silicon bar and used as the foundation on which to build semiconductor products.



## Glossary continued

### Financial glossary

**AGM** Annual General Meeting.

**CAGR** Compound Annual Growth Rate, a method of assessing the average growth of a value over time.

**Cash flow** The primary purpose of a statement of cash flow is to provide relevant information about the cash receipts and cash payments of an enterprise during a period. It helps to assess the enterprise's ability to generate positive future net cash flows. A statement of cash flows shall explain the change in cash and cash equivalents during the period by classifying cash receipts and payments according to whether they stem from operating, investing or financing activities.

Cash flow from operating activities includes all transactions and other events that are not defined as investing or financing activities in paragraphs. Operating activities generally involve producing and delivering goods and providing services. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income.

**Comprehensive income** The purpose of reporting comprehensive income is to report a measure of all changes in equity of an enterprise that results from recognised transactions and other economic events of the period other than transactions with owners such as capital increases or dividends. An example of items affecting comprehensive income is foreign currency translation adjustments resulting from the process of translating an entity's financial statements in a foreign currency into the reporting currency.

**Corporate Governance** The system by which business corporations are directed and controlled. The Corporate Governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the Board, managers, Shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the Company's objectives are set, and the means of attaining those objectives and monitoring performance.

**Deferred taxes** Deferred tax assets or liabilities are temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively.

**Derivative financial instruments** A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond).

**Dividends** Payments made by a company to its shareholders. When the company earns a profit, that money can be put to two uses: it can either be reinvested in the business (called retained earnings) or it can be paid to the shareholders of the company as a dividend.

**DTR** The UK Disclosure and Transparency Rules implementing the provisions of the Transparency Directive.

**EURIBOR** The Euro Interbank Offered Rate is the rate at which euro interbank term deposits within the euro zone are offered by one prime bank to another prime bank.

**Free-float** The proportion of an issuer's share capital that is available for purchase in the public equity markets by investors.

**Gross margin** This is difference between revenues and cost of sales as presented in the statement of operations.

**Impairment** The condition that exists when the carrying amount of a long-lived asset exceeds its fair value (the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset).

**IFRS** (International Financial Reporting Standards) Accounting standards generally to be used for financial years commencing on or after 1 January 2005 by all publicly listed European Union companies in compliance with the European Parliament and Council Regulation adopted in July 2002.

**Prime Standard** The new segmentation of the equity market of the German Stock Exchange comprises a Prime Standard segment in addition to the General Standard segment that applies the statutory minimum requirements. The Prime Standard segment addresses companies that wish to target international investors. These companies are required to meet high international transparency criteria, over and above those set out by the General Standard.

**Restructuring charges** Costs associated with an exit or disposal activity, e.g. termination benefits provided to employees that are involuntarily terminated.

**Securities** Debt securities are instruments representing a creditor relationship with an enterprise and includes government securities, corporate bonds, commercial paper and all securitised debt instruments. Available-for-sale securities are debt securities not classified as held to maturity or trading securities.

**Shareholders' equity** This reflects the investment of Shareholders in a Company. Shareholders' equity comprises ordinary shares, additional paid-in capital, retained earnings and accumulated other comprehensive income.

**Stock option plans** This refers to all agreements by an entity to issue shares of stock or other equity instruments to employees. Stock option plans provide employees the opportunity to receive stock resulting in an additional compensation based on future share price performance. The purpose of stock option plans is to motivate employees to increase Shareholder value on a long-term basis.

**Total assets** All current and non-current assets. Total assets equal total liabilities and Shareholders' equity.

**Working capital** The excess of current assets over current liabilities and identifies the relatively liquid portion of total enterprise capital that constitutes a margin or buffer for meeting obligations within the ordinary operating cycle of the business.

# Advisers and corporate information

## Public relations

FTI Consulting  
Holborn Gate  
26 Southampton Buildings  
London EC4R 9HA  
UK

FTI Consulting  
Park Tower  
Bockenheimer Anlage 44  
60322 Frankfurt am Main  
Germany

## Registered office

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

Website: [www.dialog-semiconductor.com](http://www.dialog-semiconductor.com)

## Legal adviser

Reynolds Porter Chamberlain LLP  
Tower Bridge House  
St Katharine's Way  
London E1W 1AA  
UK

## Registered number

3505161

## Auditors

Ernst & Young LLP  
Apex Plaza  
Reading  
Berkshire RG1 1YE  
UK

## Financial calendar

Annual General Meeting	2 May 2013
Q1 2013 Results	8 May 2013
Q2 2013 Results	23 July 2013
Q3 2013 Results	29 October 2013
Preliminary results for 2013	February 2014

## Principal bankers

HSBC Bank Plc  
Thames Valley Corporate Banking Centre  
Apex Plaza  
Reading  
Berkshire RG1 1AX  
UK

Deutsche Bank AG  
Global Banking  
Am Hafenmarkt  
D-73728 Esslingen  
Germany

## Designated sponsor

Close Brothers Seydler Schillerstrasse 27-29 D-60313 Frankfurt Germany	Credit Agricole Cheuvreux (as of January 2013) Tatnuserlage 14 D-60325 Frankfurt Germany
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## Shares

Information on the Company's shares and on significant shareholdings can be found on page 9.

## Group directory

### **Germany**

*Dialog Semiconductor GmbH*  
Neue Strasse 95  
D-73230 Kirchheim/Teck-Nabern  
Germany  
Phone: (+49) 7021 805-0  
Fax: (+49) 7021 805-100  
Email: dialog.nabern@diasemi.com

### **United Kingdom**

*Dialog Semiconductor (UK) Ltd*  
Delta 200  
Delta Business Park  
Welton Road  
Swindon  
Wiltshire SN5 7XB  
UK  
Phone: (+44) 1793 757700  
Fax: (+44) 1793 757800  
Email: dialog.swindon@diasemi.com

### **The Netherlands**

*Dialog Semiconductor B.V.*  
Het Zuiderkruis 53  
5215 MV 's-Hertogenbosch  
The Netherlands  
Phone: (+31) 73 640 88 22  
Fax: (+31) 73 640 88 23  
Email: dialog.nl@diasemi.com

### **North America**

*Dialog North America*  
2560 Mission College Boulevard  
Santa Clara  
California 95054  
USA  
Phone: (+1) 408 845 8500  
Fax: (+1) 408 845 8505  
Email: NA\_sales\_enquiries@diasemi.com

### **Japan**

*Dialog Semiconductor K.K.*  
Kamiyacho MT Bldg 16F  
4-3-20 Toranomom  
Minato-ku  
Tokyo 105-0001  
Japan  
Phone: (+81) 3 5425 4567  
Fax: (+81) 3 5425 4568  
Email: dialog.tokyo@diasemi.com

### **Taiwan & Greater China**

*Dialog Semiconductor GmbH*  
*Taiwan Branch*  
9F, No 185, Sec 2, Tiding Blvd  
Neihu district  
Taipei city 114  
Taiwan, R.O.C.  
Phone: (+886) 281 786 222  
Fax: (+886) 281 786 220  
Email: dialog.taiwan@diasemi.com

### **Singapore**

*Dialog Semiconductor GmbH*  
*Singapore branch*  
10 Ang Mo Kio. Street 65.  
Unit # 03-11A Techpoint  
Singapore 569059  
Phone: (+65) 64849929  
Fax: (+65) 64843455  
Email: dialog.singapore@diasemi.com

### **Korea**

*Dialog Semiconductor (UK) Ltd*  
*Korea Branch*  
501 Dongsung B/D,  
158-9, Samsung-Dong  
Kangnam-Ku, Seoul  
Korea, 135-830  
Phone: (+82) 2 569 2301  
Fax: (+82) 2 569 2302  
Email: dialog.korea@diasemi.com



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

[www.dialog-semiconductor.com](http://www.dialog-semiconductor.com)

