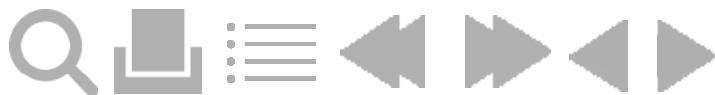


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Leading through innovation

Annual report and
accounts 2014

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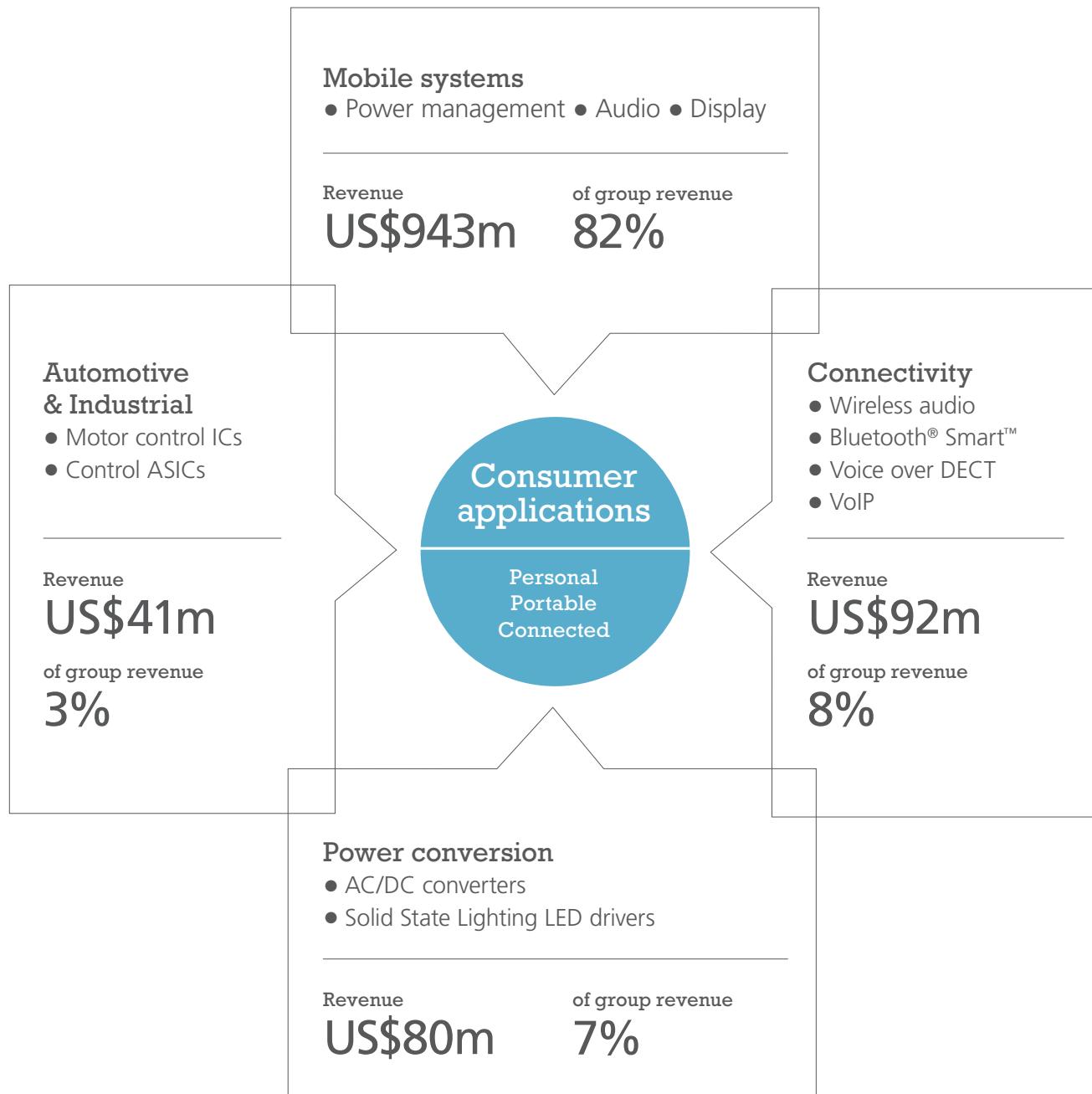
What we do

Dialog Semiconductor creates and markets highly integrated, mixed signal integrated circuits (ICs), optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid-state lighting and automotive applications.

The Company provides customers with world-class innovation combined with flexible and dynamic support, and the assurance of dealing with an established business partner.



Group structure



Chairman's statement



The Company's year-on-year revenue growth in 2014 was an impressive 28%, surpassing, for the first time in our history, US\$1 billion in revenue. This represents a significant achievement and is a CAGR of 40% in revenue over the past five years. We also delivered increased profitability and robust cash flow. This cash flow helps us fund on going innovation and other investment opportunities – setting the foundations for future growth.

Alongside this impressive financial performance, the Dialog team, led by our CEO, Jalal Bagherli, made good progress on our diversification strategy in 2014, with tangible results on each of the four strategic pillars, which are set out in this report.

In addition to growing and developing our business, we also continue to enhance our disclosure and corporate governance practice. In this regard, we have built on the increased disclosure of last year's Annual Report and we believe we have made further progress this year.

I would like to record our appreciation to John McMonigall and Peter Weber who will retire as Directors at the 2015 AGM. John joined the Company in 1998, and he has been a pillar of wisdom and professionalism throughout his service on the Board. He has helped craft the

Dear Shareholder,

I am very pleased to write to you following another successful year for Dialog Semiconductor. In 2014 the business continued to deliver strongly on our strategic and operational targets and we maintained our track record of out-performing the market and our peers. We continue to develop and deliver industry-leading products which make a difference to people's lives on a daily basis.

long-term strategy that has guided the Company for the past decade, and he has played a significant role in helping the CEO build the strong management team that has executed so well over the past years. Peter joined the board in 2006 and his deep semiconductor experience and broad managerial expertise have enabled him to provide significant and sustained contributions to the Company during his tenure. Both have played a key role in helping the Company create substantial value for shareholders.

I would also like to welcome Eamonn O'Hare to the Board. Eamonn has a proven track record in the consumer and technology industries and has already made valued contributions to the Board since his appointment in May 2014.

2014 was my second year as Chairman and I am personally excited to be part of a growing and successful business. The Board, the Executive Team and all of Dialog's employees made significant progress in 2014 and collectively, we are proud of the business we are building, the customers we are serving and the value we are creating for our shareholders. We look forward to another year of success in 2015 and thank you for your continued support.

Richard Beyer
Chairman

Highlights

2014 Performance highlights

Dialog delivered an exceptional set of financial results in 2014, with strong revenue and earnings growth and robust cash generation. We brought exciting innovation into the market and sustained our investment in R&D to underpin future revenue growth.

We made good progress on the four key pillars of our strategy and continued to build on the foundations for a more diversified business. We believe this will deliver superior returns for our Shareholders over the medium term.

2014 Financial highlights



* Underlying

** Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively. For further information please refer to note 2 to the consolidated financial statements.

Dialog is a growth business and has a track record of delivering profitable growth which, in turn, is the basis for value creation for our Shareholders. In 2014, Dialog has delivered against all of the key performance measures for the business.

To provide a more accurate reflection of business performance, measurement is on an underlying basis, eliminating the impact from accounting adjustments including those arising from the acquisition of iWatt in July 2013. Full reconciliation of reported underlying performance is set out on a table included in the Financial Review on page 26.

Our performance against each of these key financial metrics, together with a range of other performance measures, is set out in greater detail under our performance in 2014 on page 24.

Strategic highlights

Extending our product portfolio for portable platforms

Development of AC/DC adapter interface IC for Qualcomm® Quick Charge 2.0 power supplies and the world's first AC/DC rapid charge controllers compatible with MediaTek's Pump Express™ and Pump Express™ Plus fast charge protocols.

New low power audio CODEC with unsurpassed always-on power consumption to enable "voice trigger" activated applications.

New Solid State Lighting LED driver platform developed in 2014 providing compatibility with more dimmers than ever before and significantly reducing the cost of LED bulbs.



Broader and deeper customer base

Xiaomi included our Bluetooth ultra-low-power SmartBond™ SoC (System on a Chip) in its new Mi Band fitness tracking wrist band.

Further expansion into the Smart Home and Human Interface Device market with a design win that will feature SmartBond™ in a number of OEM wireless Remote Control Units for Smart TVs and set-top boxes from SMK Corporation.

Lenovo and Meizu implemented the DA9210 power management IC in their latest smartphone models, the Vibe X2 and the MX4.

LG adopted the configurable D2260 IC PMIC to power its recently launched NUCLUN Octa-Core application processor. The first LG smartphone platform also includes Dialog's DA9210 sub-PMIC.



Continuous innovation

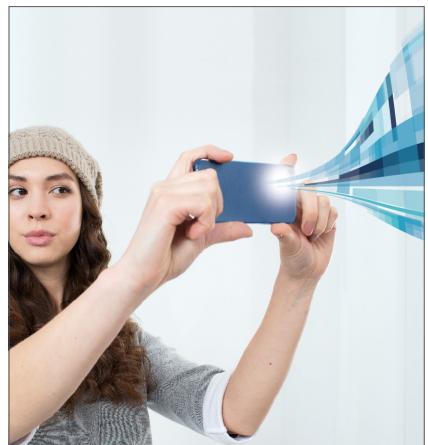
Bringing innovation to Smart Home and Wearables by combining Bluetooth® Smart™ with other Dialog's technologies, such as audio, power management and energy harvesting.

True wire-free charging and lowest power Bluetooth® Smart™ to wearable Internet of Things (IoT) devices in collaboration with Energeous.

New high efficiency USB switching charger IC with integrated high accuracy battery fuel gauge.

Sensors and sensor related technology development, including our multi-touch capability, to broaden our offering to Smart Home and Wearables applications.

Taking forward our SSL LED technology for commercial and industrial lighting, including wireless control and digital profile download.



Strategic focus on fast-growing China consumer electronics market

Our collaboration with MediaTek: delivering intelligent, precision control of power to their latest LTE platform.

Collaboration with other China based OEMs in areas such as beacons, wireless charging and smart tags with our advanced Bluetooth® Smart™ technology.



Chief Executive's review



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

Jalal Bagherli
CEO

Dear Shareholder,

2014 was another great year for Dialog. I am extremely pleased with what we have accomplished in the last twelve months. Our performance, in what is a landmark year for Dialog, reflects our focused delivery on competitive and differentiated products in high growth consumer electronics markets through the hard work and dedication of all our employees.

Financial performance

In the last twelve months, the Company has gone from strength to strength. In particular we have:

- delivered 28% year on year growth in revenue and surpassed US\$1 billion of revenue a year earlier than originally anticipated;
- we have improved IFRS gross margin by 550bps and increased profitability while maintaining a sustainable level of investment in innovation; and
- generated US\$213 million free cash flow.

In summary, we have – once again – delivered on our promise of high growth together with a solid financial performance in terms of revenue, earnings and cash generation.

The improving financial performance throughout 2014 resulted in significant stock market appreciation of our share price and enabled Dialog to become a member of Euro STOXX600 index.

Leading through innovation and customer diversification

Innovation and customer diversification remain key elements of our strategy. We have launched new product categories, opened up new markets and made significant progress in this area. We set out our achievements in greater detail within the strategic report section of this report (see page 14).

The potential market outlook for our products is robust. Emerging market themes such as the Internet of Things, Wearables, and Smart Home are generating new opportunities for our business, allowing us to open up new addressable markets and expand our customer base.

Customer concentration is a feature of our business operation which reflects the highly concentrated mobile market. We are delighted to maintain and grow strong relationships with our main customers and during 2014 we broadened and deepened those relationships with multiple new products. However, we consider the diversification of our customer base a key strategic objective. In line with our customer diversification strategy, I want to highlight three key areas where there have been significant developments and which position us well for 2015 and beyond.

Our Bluetooth® Smart™ solution, SmartBond™, remains the world’s lowest power and smallest Bluetooth® Smart™ system-on-chip. During 2014 the wearables segment gained further traction, particularly

in two product segments, smart watches and fitness bands. Dialog announced its first design win in this segment with Xiaomi. Pervasive connectivity is evolving around us and we will soon see a new array of products in exciting segments such as home automation. During 2014 SmartBond™ product family achieved significant traction with over 100 customers in all regions of the world and a variety of Internet of Things applications. We believe we have quickly established a market leadership position in short range Connectivity.

As part of our initiatives to expand business footprint in Asia, we began our collaboration with MediaTek in 2014 to power the fast growing China LTE smartphone market. Our new range of highly differentiated multi-phase sub-PMICs deliver precision power to MediaTek’s LTE platforms. Lenovo and Meizu were early adopters in selecting our products to power their latest high specification smartphones and improve their users’ experience. We expect significant expansion of our business with China customer base through this partnership.

Our Power conversion business is well positioned to benefit from the development of intelligent rapid charging solutions which enable consumers to charge their devices faster than ever before. In the last 12 months we launched new AC/DC adapter ICs compatible with MediaTek and Qualcomm fast charging protocols. Our unique intelligent digital technology supports more efficient and cost-effective solutions that customers demand.

People are using their smartphones, tablets and other devices more often, and more intensively. Ensuring long battery life and fast charging is becoming more and more important to both OEMs and end users. Our sustained investment in R&D and focused partnerships should continue to enable the development of world leading products in this area, including advanced power management, intelligent power conversion and wireless charging.

2014 was also a period during which we made significant advances in our lighting segment, with a new range of dimmable LED drivers and substantial volume shipment to the fast growing residential solid state lighting market. I look forward to more progress in this area in 2015.

Around the Company

We rely on the best global talent to help us innovate and develop new products. To give us a competitive advantage in the employment market place, we have a

deliberate strategy of opening new design centres in places where there is strong engineering expertise. This allows us to recruit and retain the best global talent we can access, and build our technical base.

In the last 12 months we have opened new design centres in Asia and the US.

There are around 1,400 people working in Dialog today. In the last three years we believe we have built one of the biggest pool of talented mixed signal engineers in the world, focused on power management, power conversion and other power efficient connectivity and lighting solutions for mobile and consumer applications.

All the achievements in 2014 are largely due to our talented people. On behalf of the Board and the Executive Team I want to thank them for their efforts and dedication and I look forward to their continued support in 2015.

Twelve months ago, in my letter to you in last year's annual report, I wrote "we consider our growth prospects to be very strong and we have now many more business opportunities ahead". Our ambitions remain to continue with our above-industry track record. I hope you will agree that 2014 results showed we delivered on that prediction. I look forward to another year of success in 2015 by continuing on this journey. We appreciate your continuing support as shareholders.

We are building a truly vibrant global and diverse mixed signal business which is uniquely positioned to be at the core of a new generation of ultra-portable devices and low-power connected consumer electronics. Our future growth story has only just begun!

Jalal Bagherli
CEO

2014 - The one year view



January 2015 – Full Year 2014 share price performance

The Dialog business model

Our business model is aligned with the requirements of our customers in the markets in which we operate.

We design and market highly integrated semiconductors and use best-in-class manufacturing and packaging technologies to deliver steep production ramps of new products. Our partnership approach, operational flexibility and the quality of our products are key sources of value to our customers.

Innovation is at the core of our business. Our highly skilled engineers, their know-how and our intellectual property (IP) are our key assets. We have implemented a “high-touch” fabless model – meaning we have outsourced production – which allows us to remain flexible and maintain a low capital-intensive business while retaining some core manufacturing and advanced packaging competencies in-house.

Our business model has three dimensions built on innovation:

- 1 Short design cycle.
- 2 High-touch fabless model with strong production partnerships.
- 3 Market-leading products.

1. Short design cycle

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

The design of our customised solutions (Application Specific ICs) is well embedded in our customers’ design cycle. We engage with our largest customers as an “extended R&D team”, delivering differentiation in short design cycles.

Our integrated design approach helps to reduce component size and number which, in turn, helps our customers to reduce the overall cost of their products and maximise performance.

Dialog has one of the biggest R&D engineering teams in the world focused on power management and mixed signal know-how for mobile and connected consumer applications. We believe the size and focus of our engineering talent has become a sustainable source of competitive advantage.

We recruit globally the best talent we can and continually invest in our people. We have a decentralised approach to research and development with teams in 15 countries. In a highly competitive talent market we believe this flexible, decentralised approach is advantageous.

2. High touch fabless model with strong production partnerships

While we design and manage the production of semiconductors in-house, we outsource production to industry leading wafer foundries such as TSMC, UMC and Global Foundries. This approach enables the flexibility to deploy the most advanced production processes and meet market demand and low capital intensity. Some of our teams within Dialog’s Global Operations and Quality organisation are based at our partners’ manufacturing sites, enabling a continuous quality improvement process.

Our assembly and test partners are leading companies such as SPIL, ASE and UTAC. We maintain deep expertise on advanced processes, test and packaging development through our own teams. These areas of expertise are fundamental to remaining ahead of our competitors and supporting our customers’ development of products which are thin and light – features which consumers value highly in portable devices. In order to meet our stringent product quality and qualification requirements, all test programmes are developed and maintained by Dialog’s Test and Product engineering and deployed to our back-end partners.

Our foundry, test and packaging partners are the leading companies in their field and we have developed a strong collaboration with

them based on years of working together. Dialog has built a robust supply chain management approach which seeks to ensure the delivery of steep ramps of new products to our customers. This is particularly well suited to meet the requirement of simultaneous high-volume and global product launches in consumer electronics.

3. Market-leading products

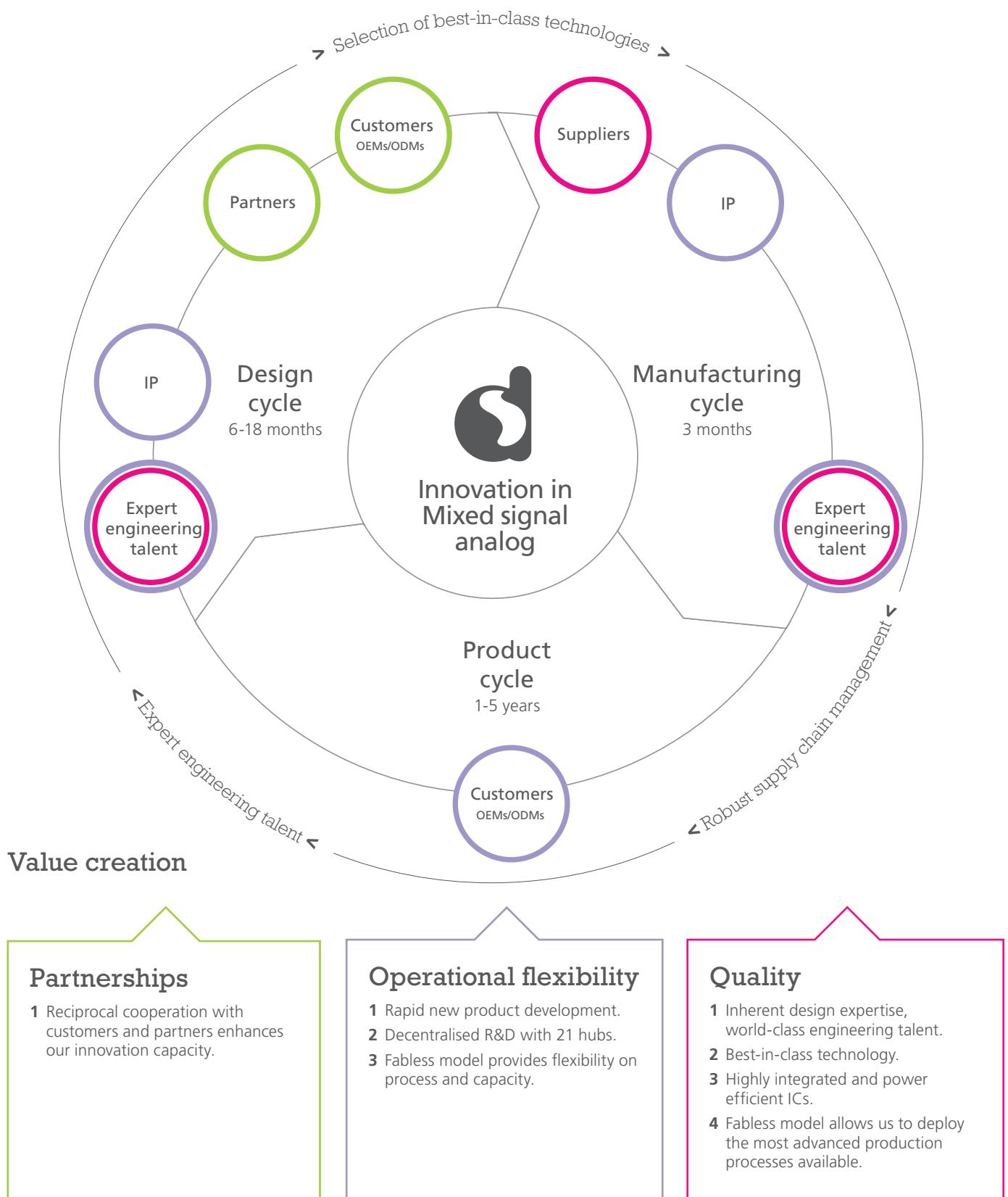
Dialog’s focus and expertise in power management and power efficiency semiconductors contributes to power efficiency and lower power consumption for a range of personal portable devices and applications in the consumer products market.

Our customers include the leading brands in each of our markets. They are attracted by the quality and performance of our products – evidenced by our inherent design expertise, leading technology and ability to innovate – and our focus on high-growth portable platforms and consumer devices. A business model based on high Tier 1 customer penetration results in high volumes, and strong cash generation. Examples of a range of market-leading innovative products, launched in 2014, are set out in the strategic report on pages 16 to 23.

Corporate responsibility and a commitment to sustainable business practices are important to Dialog. Dialog’s commitment to sustainability is outlined in greater detail on page 42 and also in our annual sustainability report, which is available on our website.

Aligned interests

Dialog is committed to the continuing development of market-leading innovative products which we believe in turn create value for our Shareholders. We achieve this by setting stretching performance targets, which align with Shareholders’ interests and then motivating our executives to achieve those targets with appropriate incentive arrangements. Dialog’s remuneration policy is set out in greater detail within the Directors’ remuneration policy report on page 68.



Partnerships

1 Reciprocal cooperation with customers and partners enhances our innovation capacity.

Operational flexibility

- 1 Rapid new product development.
- 2 Decentralised R&D with 21 hubs.
- 3 Fabless model provides flexibility on process and capacity.

Quality

- 1 Inherent design expertise, world-class engineering talent.
- 2 Best-in-class technology.
- 3 Highly integrated and power efficient ICs.
- 4 Fabless model allows us to deploy the most advanced production processes available.

Our markets



Wearable technology is ripe for growth

Wearable technology is the new wave of product innovation in mobile computing. Shipments of wearable devices are forecast to rise from 19 million units in 2014 to almost 112 million units in 2018, according to research from IDC*.

The technological foundations of this new wave of ultra-portable devices are power management and low power electronics, pervasive connectivity and sensor technology.

The analog aspect in wearables technology is increasingly important and we are positioning Dialog's to be the mixed signal core supplier in this segment. We are combining Dialog's leading technologies in power management, low energy Bluetooth®, charging and advanced packaging with strategic partnerships in sensors and wireless charging to provide our customers lowest power, smallest footprint, feature-rich mixed signal IC solutions.

From a consumer perspective, personal connectivity devices will have to fulfil three major criteria:

First and foremost, they will have to virtually "last forever", offer a battery lifetime that does not frustrate users.

Second, personal connectivity wireless sensors will have to be unobtrusive. Consumers will be looking at devices they can enjoy wearing or even forget they are wearing until they need them.

Third, consumers will want products that are intuitive and easy to use.

Personal connectivity devices are helping all of us to improve our lives. During 2014 we have seen increasing traction in the market for fitness bands and a number of OEMs are exploring different applications ranging from smartwatches and medical to athletic apparel.

* Source: Worldwide Wearable Computing Device 2014-2018 Forecast and Analysis (IDC #247318)

Our markets

Effective power management and increasing energy efficiency remain at the core of the consumer electronics market. Pervasive connectivity, sensor technology and increasing data processing are enabling a new wave of ultraportable devices which interact with our environment.

Dialog Semiconductor has been at the centre of the mobile computing revolution, enabling our customers to produce lighter and thinner portable applications with higher power efficiency and longer battery life. Consumer demand for better power management and more power-efficient products continues to rise.

In the period 2014-2016, units of smartphones and tablets are estimated to grow to 4% CAGR and 10% CAGR respectively. Smartphone shipments within key emerging markets are predicted to more than double¹ by 2018.

Increasing processing capabilities in mobile devices coupled with more powerful telecommunications networks like 4G being rolled out across the world are enabling consumers to increase the intensity of use of their mobile devices and the volume of data processed. This increase in data processing has an energy cost. In this context, the need to increase the power efficiency of portable devices will continue to be at the core of consumer electronics.

Bluetooth® Smart™ (low energy Bluetooth) was specifically developed to target low bit-rate, low power, battery-operated

wireless devices, which makes it a prime candidate for personal connectivity. From a customer perspective, personal connectivity devices will have to virtually "last forever", requiring a long battery life. A new wave of wearables or ultraportable computing that sense and interact with the environment will help us to improve our lives and allow us to make a better use of our natural resources. The Bluetooth® Smart™ segment is expected to grow 64% CAGR in the period 2014-2016 and managing electronics at low power in this market is vital.

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

The vast majority of the world's electronic devices that plug into an electric wall outlet require the conversion of high voltage AC power to low voltage DC. Robust growth in portable device markets including smartphones, tablets and other portable devices continues to drive the need for new generations of intelligent, smaller and more power efficient AC/DC adapters that can charge much faster and more safely.

With stringent government regulations in place across the globe to phase out low-efficiency incandescent bulbs, LED replacement lighting is moving to mainstream adoption. According to McKinsey, total LED SSL global shipments are expected to grow from 440 million units in 2012 to 2.7 billion units by 2016. Challenges such as SSL dimmer compatibility, dimming performance and price, demand innovative LED driver solutions with ultra-low bill-of-materials costs.

The influence of consumer electronics in the development of the traditional computing products is pervasive. The market continues to evolve towards a convergence of features between the next generation of computing devices such as all-in-one PCs, hybrids and Ultrabooks™ and consumer electronics.

Our key customers

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

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

These top five customers represented 87% of Dialog revenue in 2014. We recognise there is a risk associated with this level of customer concentration (see details on page 47 Risk Section) and the revenue derived from our largest

customer is shown on page 144 note 28. We are delighted to have such a strong relationship and during 2014 we have broadened and deepened our interactions based upon our innovative products, excellent programme execution and product delivery. The diversification of our business is a key strategic objective. In 2014 we have welcomed new customers across multiple business segments.

¹ Source: IDC Worldwide Mobile Phone Tracker, May 28, 2014 <http://www.idc.com/getdoc.jsp?containerId=prUS24857114>

Market Trends

Product/device	Million units	CAGR
Mobiles	 <div style="display: flex; align-items: center;"> <div style="flex: 1; margin-right: 10px;">2014</div> <div style="background-color: #0072bc; width: 150px; height: 10px;"></div> <div style="margin-left: 10px;">1,838</div> </div> <div style="display: flex; align-items: center;"> <div style="flex: 1; margin-right: 10px;">2016</div> <div style="background-color: #0072bc; width: 150px; height: 10px;"></div> <div style="margin-left: 10px;">1,969</div> </div> <p>Source: Dialog, Gartner</p>	4%
Tablets	 <div style="display: flex; align-items: center;"> <div style="flex: 1; margin-right: 10px;">2014</div> <div style="background-color: #90ee90; width: 150px; height: 10px;"></div> <div style="margin-left: 10px;">216</div> </div> <div style="display: flex; align-items: center;"> <div style="flex: 1; margin-right: 10px;">2016</div> <div style="background-color: #90ee90; width: 150px; height: 10px;"></div> <div style="margin-left: 10px;">259</div> </div> <p>Source: Dialog, Gartner</p>	10%
Notebooks, ultrabooks and convertibles	 <div style="display: flex; align-items: center;"> <div style="flex: 1; margin-right: 10px;">2014</div> <div style="background-color: #663366; width: 150px; height: 10px;"></div> <div style="margin-left: 10px;">178</div> </div> <div style="display: flex; align-items: center;"> <div style="flex: 1; margin-right: 10px;">2016</div> <div style="background-color: #663366; width: 150px; height: 10px;"></div> <div style="margin-left: 10px;">212</div> </div> <p>Source: Dialog, Gartner</p>	9%
Bluetooth® Smart™ applications	 <div style="display: flex; align-items: center;"> <div style="flex: 1; margin-right: 10px;">2014</div> <div style="background-color: #ff0099; width: 150px; height: 10px;"></div> <div style="margin-left: 10px;">189</div> </div> <div style="display: flex; align-items: center;"> <div style="flex: 1; margin-right: 10px;">2016</div> <div style="background-color: #ff0099; width: 150px; height: 10px;"></div> <div style="margin-left: 10px;">506</div> </div> <p>Source: Dialog, Gartner</p>	64%
LED SSL drivers	 <div style="display: flex; align-items: center;"> <div style="flex: 1; margin-right: 10px;">2014</div> <div style="background-color: #ff9900; width: 150px; height: 10px;"></div> <div style="margin-left: 10px;">965</div> </div> <div style="display: flex; align-items: center;"> <div style="flex: 1; margin-right: 10px;">2016</div> <div style="background-color: #ff9900; width: 150px; height: 10px;"></div> <div style="margin-left: 10px;">1,668</div> </div> <p>Source: Dialog, Gartner</p>	31%

Strategic framework

"We made great progress in 2014 and continue to power ahead with solid initiatives in each of our four pillars."

Extending our product portfolio for portable platforms

see pages 16-17

New SSL LED driver platform developed in 2014 providing compatibility with more dimmers than ever before and significantly reducing the cost of LED bulbs.

Development of AC/DC adapter interface IC for Qualcomm® Quick Charge 2.0 power supplies and the world's first AC/DC rapid charge controllers compatible with MediaTek's Pump Express™ and Pump Express™ Plus fast charge protocols.

New low power audio CODEC with unsurpassed always-on power consumption to enable 'voice trigger' activated applications.



Broader and deeper customer base

see pages 18-19

Xiaomi included the Company's Bluetooth® ultra-low-power SmartBond™ SoC (System on a Chip) in its new Mi Band fitness tracking wrist band.

Further expansion into the Smart Home and Human Interface Device (HID) market with SmartBond™ featuring in a number of OEM wireless Remote Control Units (RCUs) for Smart TVs and set-top boxes from SMK Corporation.

Lenovo and Meizu implemented the DA9210 power management IC (PMIC) in their latest smartphone models, the Vibe X2 and the MX4.

LG adopted the configurable D2260 (PMIC) to power its recently launched NUCLUN Octa-Core application processor. The first LG smartphone platform also includes Dialog's DA9210 sub-PMIC.



Continuous innovation

see pages 20-21

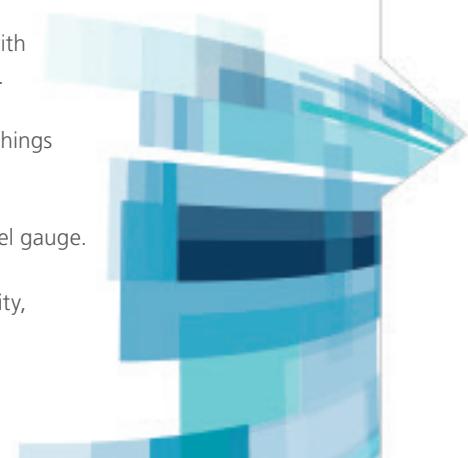
Bringing innovation to Smart Home and Wearables by combining Bluetooth® Smart™ with other Dialog's technologies, such as audio, power management and energy harvesting.

True wire-free charging and lowest power Bluetooth® Smart™ to wearable Internet of Things (IoT) devices in collaboration with Energeous.

New high efficiency USB switching charger IC with integrated high accuracy battery fuel gauge.

Sensors and sensor related technology development, including our multi-touch capability, to broaden our offering to Smart Home and Wearables applications.

Taking forward our SSL LED technology for commercial and industrial lighting, including wireless control and digital profile download.



Strategic initiatives

see pages 22-23

Strategic focus on fast-growing China consumer electronics market.

Our collaboration with MediaTek delivers intelligent, precision control of power to their latest LTE platform.



Extending our product portfolio

Smart LED lighting at lower cost using digital technology.

With stringent government regulations across the globe to phase out low-efficiency incandescent bulbs, LED replacement lighting is moving to mainstream adoption.

The primary challenges in achieving the full market potential of Solid State Lighting (SSL) have been finding effective LED driver solutions that provide high performance dimming and seamless dimmer compatibility at a low cost.

Digital intelligence enables stunning dimming performance at lower cost

Our newest SSL LED driver platform developed in 2014 provides compatibility with more dimmers than ever before, while significantly reducing the cost of LED bulbs. This platform reduces system costs while maximising Dialog's dollar content by eliminating over 20 external components.

A large portion of the market that we had not previously addressed is low-voltage dimmable lighting, characterised by ubiquitous, small form-factor MR16 bulbs. Our customers have experienced challenges with conventional low-voltage dimmable LED driver solutions for MR16 bulbs, specifically poor compatibility with existing transformers and dimmers.

So we expanded our market and developed a new SSL LED driver platform in 2014 that enables exceptional MR16 dimmer and transformer compatibility at the lowest cost.

What differentiates Dialog is our digital control technology. Our newest SSL LED driver platform developed in 2014 provides stunning, continual dimming control to less than 1% of light output – with no flicker or shimmer – and enables compatibility with the widest range of phase-cut dimmers at the lowest cost.

Our served market expanded in 2014 to address the low-voltage dimmable SSL market, characterised by ubiquitous, small form-factor MR16 bulbs. Our new low-voltage SSL platform developed in 2014 enables exceptional MR16 dimmer and transformer compatibility at the lowest cost.

Dialog takes wireless lighting control to the smartphone

The next growth driver for solid state lighting is smart lighting, with digital dimming and consumers able to control lighting wirelessly via the Internet of Things (IoT).

Dialog has taken wireless lighting control to the smartphone with our smarteXite™ intelligent lighting platform. Our first smarteXite™ SSL LED driver (iW6401) is optimised for low energy Bluetooth® Smart™, Wi-Fi and ZigBee® wireless control. It is the first retrofit LED lamp driver to support the LEDOTRON™/DLT (IEC 62756-1) industry-standard digital dimming protocol, gaining significant customer interest during 2014.







Broader and deeper customer base

Our new customer Xiaomi is one of China's fastest growing electronics companies. Xiaomi included Dialog's Bluetooth® ultra-low-power SmartBond™ SoC (System on a Chip) in its new Mi Band fitness tracking wrist band. Xiaomi's decision to incorporate our solution is a significant breakthrough for us in the vitally important China market.

SmartBond™ enables the Xiaomi Mi Band to deliver up to 30 days of battery power from a single charge, more than double the battery life of its closest competitor, creating one of the most energy-efficient connectivity solutions available to consumers today. It provides a real competitive advantage for Xiaomi's products because engineers using Dialog Bluetooth® Smart SoC no longer need to compromise on product design due to limited battery capacity: they can build slimmer and more

appealing devices equipped with industry-leading energy efficiency that can still meet users' performance expectations. As a result, consumers can rely on the Xiaomi Mi Band to monitor their physical activity, calorie intake and sleep patterns, without the hassle of frequent charging.

With world-leading energy efficiency, SmartBond™ is also perfectly positioned to enable billions of Internet of Things battery-powered devices without the need for compromise in product design.

Since Xiaomi's inception in 2010 with the launch of the Android-based MIUI operating system, Xiaomi has designed and developed an innovative range of consumer electronics products including smartphones, smart TVs, set-top boxes, tablets, routers and, most recently, wearable devices.

Continuous innovation

Over-the-air wireless charging, whenever, wherever.





By bringing together Dialog SmartBond™, our existing lowest power, smallest footprint Bluetooth® Smart™ IC with its energy harvesting support and Energous' over-the-air wireless charging technology in a proof-of-concept reference design, both companies plan to demonstrate the ability to charge wearable devices without the need for power connectors or charging mats.

We are focusing on wearable devices and accessories. The collaboration will provide consumer electronics manufacturers with a superior technology that will differentiate their products with the freedom of charging without wires. By optimising WattUp with Dialog's SmartBond™ connectivity and power management technology, OEMs will be able to seamlessly and rapidly integrate wire-free charging and remote management right into their devices.

WattUp is a disruptive wire-free charging technology for electronic devices that provides power at a distance with complete mobility under full software control. It delivers meaningful, useable power, at a distance, while allowing users to charge on the move. The result is a true wire-free experience that saves users from having to remember to plug in their devices or place them on a mat.

Strategic initiatives

One of our objectives is to establish regional engagements using highly integrated analog and power technologies. As part of this, we are building innovative partnerships with leading semiconductor companies in Greater China to develop deeper customer engagements in the region.

We are proud to collaborate with MediaTek, delivering intelligent, precision control of power to their latest LTE platform.

Our power management IC adapts dynamically the output voltage to the processor load. As a result, phone users experience better multi-tasking and extended battery life. It strengthens the consumer appeal of the devices, making it easier for users to use simultaneously data-intensive applications.

The collaboration with MediaTek also includes the support of their PumpExpress™ and PumpExpress™Plus fast charging protocols by our AC/DC power conversion product lines, thus reducing the charging time of mobile devices by up to 50%.

The above programmes are early starts in our collaboration with MediaTek; as this collaboration continues and deepens, a growing number and diversity of platforms will be brought to market through the months and years to come.





"China will account for almost a third of smartphones shipments by 2018 according to IDC*."

* Source: IDC Worldwide Mobile Phone Tracker, May 28, 2014
<http://www.idc.com/getdoc.jsp?containerId=prUS24857114>

Key performance indicators (KPIs)

The Board uses a range of indicators to assess performance, to ensure performance is delivering on the strategy, and to ensure continued alignment with Shareholder interests. The key performance indicators are set out below.

Revenue growth			
Performance indicator	Definition and relevance		2014 performance
IFRS Underlying +28% +27%	Actual and prior year's full-year IFRS and underlying revenue measured in our functional currency, US dollars. Monitoring this revenue trend provides a measure of business growth. Underlying revenue is used in order to provide a better reflection of business growth by eliminating the impact of accounting adjustments. In 2014 both IFRS and underlying measures were basically in line due to the lack of accounting adjustments in 2014.		Full-year IFRS revenue in 2014 was 28% above 2013*. This growth is the result of volume and ASP increase, reflecting not just market volume trends but the increased value we continue to bring to our clients.
Gross margin			
Performance indicator	Definition and relevance		2014 performance
IFRS Underlying 44% 45%	Actual and prior year's underlying gross margin. Gross margin is gross profit expressed as a percentage of revenue and shows the economic substance of the Group's products. Monitoring this trend provides a measure of our ability to increase the economic value of our products over a period of time. Underlying gross margin provides a better reflection of the economic value of our products by eliminating the impact of accounting adjustments.		Underlying gross margin in 2014 was 480 bps above 2013. This increase reflects the higher economic value of our products as a result of the high level of innovation and integration of our products and the level of efficiency of our high-touch fabless model.
Operating expenses as a percentage of revenue			
Performance indicator	Definition and relevance		2014 performance
IFRS Underlying 28% 25%	Actual and prior year's underlying operating expenses (OpEx) expressed as a percentage of underlying revenue. Underlying OpEx % provides a measure of our effort in innovation and the efficiency of our operating structure over a period of time and it reflects the need for current returns as well as an investment in future revenue growth. Underlying OpEx % provides a better reflection of the focus and efficiency of our operating structure by eliminating the impact of accounting adjustments. OpEx include Selling & Marketing expenses, General & Administrative expenses and Research & Development expenses.		Underlying OpEx % in 2014 was 25%, 30 bps above 2013. This increase reflects the strategic commitment to innovation by increasing our Research and Development efforts and our continuing effort to improve the efficiency of our General and Administrative function. It is important to note that our Research and Development effort is not directly linked to the revenue of the same period. Our R&D programmes represent an investment in future revenue growth.

To provide a more accurate reflection of performance in 2014, profitability measurement is on an underlying basis, eliminating the impact of accounting adjustments including those arising from acquisitions and other one-off events and transactions which the Group does not consider representative of underlying performance.

EBIT growth			
Performance indicator		Definition and relevance	2014 performance
IFRS	Underlying +81%	Actual and prior year's full-year underlying EBIT measured in US dollars. Monitoring this EBIT trend provides a measure of the economic value of our operating business. Underlying EBIT is used in order to provide a better reflection of economic value by eliminating the impact of accounting adjustments.	Underlying EBIT in 2014 was 65% above 2013. This increase reflects the higher economic value of our business which is underpinned by the increasing economic value of our products and the efficiencies achieved in our SG&A structure.
EBIT margin			
Performance indicator		Definition and relevance	2014 performance
IFRS	Underlying 16%	Actual and prior year's underlying EBIT margin. Monitoring this trend provides a measure of our ability to increase the economic value of our operating activity over a period of time. Underlying EBIT provides a link to our ability to generate cash as we are a low capital intensity business.	Underlying EBIT margin in 2014 was 450 bps above 2013. This increase reflects the higher economic value of our business which is underpinned by the increasing economic value of our products and the efficiencies achieved in our SG&A structure.
Basic EPS (US\$)			
Performance indicator		Definition and relevance	2014 performance
IFRS	Underlying 2.05	Actual and prior year's underlying basic EPS. Monitoring this trend provides a measure of our ability to increase the inherent value of our business for our Shareholders over a period of time. Underlying basic EPS provides a better reflection of the inherent value of the business by eliminating the impact of accounting adjustments.	Basic underlying EPS was 72% up over 2013 to US\$2.56 and includes a one-off tax benefit of approximately 20 cents. This increase reflects the higher inherent value of our business as a whole.

Details of the reconciliation items between IFRS and underlying KPIs can be found on page 158.

* Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively. For further information please refer to note 2 to the consolidated financial statements.

Financial review



Reinvesting our cash in innovation is fundamental to long-term sustainable and profitable growth. We have a solid financial framework in place to fuel the future expansion of our business.

Jean-Michel Richard, CFO, Senior Vice President Finance

The following tables detail the historical consolidated statements of the operations of Dialog Semiconductor for the years ended 31 December 2014 and 31 December 2013 both on an IFRS and underlying* basis.

US\$000	2014			2013 ***		
	IFRS	Adjustments	Underlying*	IFRS	Adjustments	Underlying*
Revenues	1,156,105	–	1,156,105	901,380	6,222	907,602
Gross profit	514,809	8,597	523,406	351,808	15,714	367,522
Operating profit (loss)	185,902	44,363	230,265	102,660	36,935	139,595
Result before income taxes	169,321	53,632	222,953	89,712	45,870	135,582
Income tax expense	(31,242)	(19,542)	(50,784)	(27,508)	(10,459)	(37,967)
Net profit	138,079	34,090	172,169	62,204	35,410	97,614
Earnings per share (in US\$)						
Basic	2.05	0.51	2.56	0.95	0.54	1.49
Diluted	1.93	0.34	2.27	0.92	0.52	1.44
EBITDA**	241,884	27,546	269,430	151,256	22,957	174,213

* 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.

** EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (2014: US\$22.1 million, 2013: US\$18.6 million), amortisation for intangible assets (2014: US\$33.4 million, 2013: US\$28.6 million) and losses on disposals and impairment of fixed assets (2014: US\$0.4 million, 2013: US\$1.4 million).

*** Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been reclassified retrospectively. For further information please refer to note 2 to the consolidated financial statements.

Please refer to the Appendix to the financial review for a full explanation of underlying adjustments made.

US\$000	Dialog Semiconductor's Revenue breakdown by Business Segment on an IFRS basis for 2014 and 2013			
	2014	2013***	Revenue	EBIT
Mobile systems			942,628	244,180
Automotive/Industrial			40,952	11,232
Connectivity			92,120	(2,163)
Power conversion			80,367	(21,135)
Corporate sector			38	(46,212)
Total	1,156,105	185,902	901,380	102,660

* Underlying results (net of tax) in 2014 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$25.1 million, excluding US\$1.2 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog Semiconductor B.V.), excluding US\$8.3 million non-cash effective interest expense in connection with the convertible bond, excluding US\$1.0 million non-cash effective interest expense related to a licensing agreement, US\$1.3 million of expenses associated with the merger discussions with ams AG, excluding US\$3.2 million acquisition and integration expenses in connection with the purchase of iWatt, excluding US\$11.9 million of amortisation and depreciation expenses associated with the acquisition of iWatt and a US\$17.8 million one-off tax impact of an intra-group reorganization of certain Intellectual Property.

Results of operations

Segment reporting

Mobile Systems revenue was up 26.5% on 2013 fuelled by the good performance of those products launched in the second half of 2013 and a number of high volume product launches during the second half of 2014 (see note 27 – Segment Reporting included in the consolidated financial statements). Our growing range of highly integrated power management solutions for portable devices continued to drive the strong success of this division with both existing and new customers. The IFRS operating profit increased 72.9% from 2013 as a result of the strong revenue performance, favourable mix and higher product margins achieved through continuous manufacturing yields improvements and cost efficiency gains.

Automotive & Industrial Applications revenue was up 9.9% on 2013, mostly as a result of the strong performance of our niche automotive range of products. This business segment represented 3.5% of total Company revenue (2013: 4.1%). The IFRS operating profit decreased 8% from 2013 due to a slight increase in R&D investments.

Connectivity revenue in 2014 was up 0.6% over 2013 and it represented 8.0% of the total revenue of the Company (2013: 10.2% of total revenue). See table 1. Connectivity below. This modest increase in revenue was the result of two underlying trends; the continuous softness in the legacy DECT cordless phone business, partly offset

by growth in new markets such as DECT based professional applications, i.e. cordless headsets and microphones and the emerging Bluetooth® Smart segment.

Connectivity generated an IFRS operating loss of US\$2.2 million in 2014, broadly in line with the previous year (2013: operating loss of US\$2.1 million). This movement was caused by lower fixed cost coverage due to lower seasonal revenues in legacy products and higher R&D expenses to support the development of our Bluetooth® Smart™ business. Amortisation expenses relating to the purchase price allocation (PPA) decreased from US\$5.1 million in 2013 to US\$1.6 million in 2014 as some assets were fully amortised in 2013. Excluding the impact from the PPA 2014 operating profit almost reached break even point.

Revenue from our Power Conversion segment was up 200% to US\$80.4 million, representing 7.0% of the total company revenue. This increase is largely due to the fact that this segment was only consolidated into Dialog from 16 July 2013.

The Power Conversion segment recorded an IFRS operating loss of US\$21.1 million in 2014 compared to an IFRS operating loss of US\$22.5 million in 2013. On an underlying basis the operating loss increased to US\$2.3 million in 2014 (see table 2.) as we continued to invest in R&D and bring new products to market. 2014 underlying operating results do not include depreciation and amortisation

expenses in the amount of US\$15.2 million and additional acquisition and integration related costs of US\$3.2 million. Furthermore we posted in H2 2014 a one-off US\$1.7 million inventory reserve for potential excess and obsolescence ahead of the migration from the former iWatt supply chain system onto our SAP ERP system in early 2015.

Revenues

Total IFRS revenue for the full year 2014 was up 28% to US\$1.156 million (2013: US\$901.4 million). This increase was mainly attributable to higher sales volumes, an increase in average selling prices ("ASPs") from our more complex devices in our Mobile Systems Segment and the revenue contribution from the Power Conversion segment.

Cost of sales

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs, applicable overhead and depreciation of test and other equipment. IFRS cost of sales for the period ending 31 December 2014 was up 16.7% to US\$641.3 million (2013: US\$549.6million). The increase can largely be attributed to the growth of our business.

As a percentage of revenue, cost of sales decreased from 61.0% in 2013 to 55.5% in 2014. This year-on-year decrease was built on our ability to manage product mix and continuously improve the efficiency of the manufacturing process.

On an underlying* basis, cost of sales in 2014 was US\$632.7 million or 54.7% of underlying revenues. This amount represents a 17.1% increase on the previous year (2013: US\$540.1 million or 59.5% of total revenue).

1. Connectivity

Underlying*	2014 US\$'000		2013*** US\$'000	
	Revenue	EBIT	Revenue	EBIT
Connectivity	92,120	(322)	91,616	3,061

2. Power Conversion

Underlying*	2014 US\$'000		2013*** US\$'000	
	Revenue	EBIT	Revenue	EBIT
Power Conversion	80,367	(2.299)	33,841	(903)

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

Financial review

“Total IFRS revenues for 2014 were up 28% from 2013.”

Gross profit

Our IFRS gross margin increased 550 basis points from 39.0% in 2013 to 44.5% of revenue for the period ending 31 December 2014. On an underlying* basis, gross margin also improved by 480 basis points to 45.3% in 2014 (2013: 40.5%). IFRS gross margin improved as a result of the following three key elements:

- The realisation of the benefits of manufacturing cost optimisation over the year.
- Positive product mix contribution from new products in Mobile Systems and the Connectivity Segment.
- Higher revenue and the subsequent lower allocation per unit of the fixed component of Cost of Sales – or Cost of Goods Sold (COGS).

IFRS gross profit for the period ending 31 December 2014 was US\$514.8 million, representing a year-on-year increase of 46.3% (2013: US\$351.8 million).

Selling and marketing expenses

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

IFRS selling and marketing expenses were up 22.6% to US\$60.1 million and represented 5.2% of total revenue, a decrease of 20 basis points on 2013 (2013: 5.4% of total IFRS revenue). This decrease was achieved despite additional investments made post acquisition in Power Conversion and in Connectivity to support the launch of our Bluetooth® Smart™ product.

The contribution to selling and marketing expenses from the acquired iWatt business was US\$21.4 million, of which US\$7.6 million were amortisation expenses resulting from the purchase price allocation. Excluding these amortisation expenses and other adjustments for the integration of iWatt as well as share option and amortisation expenses relating to the SiTel BV purchase price allocation, on an underlying* basis selling and marketing expenses were up 25.7% to US\$48.7 million in 2014 (2013: US\$38.8 million) and represented 4.2% of total underlying* revenues, 10 basis points below 2013 (2013: 4.3% of total underlying* revenues).

General and administrative expenses

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

IFRS general and administrative expenses were up 34.3% to US\$59.4 million and represented 5.1% of total revenue in 2014, (2013: US\$44.3 million or 4.9% of total revenue). This increase predominantly reflects the growth our business and the consolidation of the iWatt business (Power Conversion), which contributed US\$3.9 million additional general and administrative expenses. Furthermore, general and administrative expenses in 2014 include US\$3.2 million acquisition and integration expenses related to the acquisition of iWatt (see note 4 – Business Combinations in the consolidated financial statements).

Excluding the additional expenses relating to the iWatt acquisition as well as share option and amortisation expenses relating to the SiTel BV purchase price allocation, underlying* general and administrative expenses were US\$44.6 million and as a percentage of underlying* revenue were 3.9%, representing a modest increase of 10 basis points on 2013. (2013: US\$34.8 million or 3.8% of underlying* revenue).

Research and development expenses

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

IFRS research and development expenses were US\$213.8 million in 2014 (2013: US\$160.8 million), representing a year-on-year increase of 33.0%. As a percentage of total revenues, IFRS research and development expenses increased from 17.8% in 2013 to 18.5% in 2014. This increase was largely attributed to a higher R&D headcount to support our ongoing growth strategy (our engineering headcount has almost quadrupled since 2010) and the consolidation of iWatt business (Power Conversion segment) since July 2013.

Excluding iWatt, R&D expenses in 2014 were US\$26.5 million above 2013 to US\$177.0 million. The increase was largely attributed to a higher R&D headcount to support continuous innovation, growth and our diversification strategy. This increase was partially reduced by capitalised research and development expenses of US\$6.7 million (2013: US\$5.9 million).

Other Operating income

Income in the period ending 31 December 2014 was US\$4.4 million (2013: US\$4.9 million). This amount includes US\$0.9 million which relates to a payment received from an insurance claim and a gain of US\$1.9 million from a further reduction of the Earn-Out provision booked for a contingent

consideration in relation to the iWatt acquisition (for further information please refer to note 4 to the 2013 consolidated financial statements and notes).

Operating profit

IFRS operating profit for the period ending 31 December 2014 was up 81.1% on 2013 to US\$185.9 million.

On an underlying* basis, operating profit in 2014 was up 64.9% to US\$230.3 million. Underlying EBIT margin in 2014 was 19.9%, 450 basis points higher than 2013 (2013: 15.4%). This increase was driven by improved product margins, positive product mix contribution and efficiencies in Selling and General Administrative expenses.

Interest income and other financial income

Interest income and other financial income from the Company's investments (primarily short-term deposits) were US\$419 thousand for 2014 (2013: US\$565 thousand). The decrease primarily resulted from a general decrease of interest rates on deposits and the short term nature of our investments.

Interest expense and other financial expense

Interest expense and other financial expense consist primarily of expenses from the Group's factoring arrangement, the interest charges for the convertible bond starting from the third quarter 2013 and the interest charges for loan facilities totalling US\$115 million in connection with the acquisition of iWatt in 2013.

In 2014, interest and other financial expenses were US\$14.8 million (2013: US\$13.3 million). The amount in 2014 was made up of two components related to the convertible bond: US\$2.0 million for a 1% coupon payable on a semi-annual basis to the bond holders and US\$8.3 million (non-cash) for the interest expense in connection with the measurement of the financial liability from the bond using the effective interest method. The interest expenses related to the debt facilities were US\$1.1 million.

Income tax expense

For the period ending 31 December 2014 a net IFRS income tax charge of US\$31.2 million was recorded (2013: US\$27.5 million) which includes a one-off non-cash deferred tax credit of US\$17.8 million. This one-off non-cash deferred tax credit arose during the year resulting from of an intra-group reorganisation of certain Intellectual Property, which impacted the recorded value of deferred tax liabilities. This intra-group reorganisation took place in Q1 2014 but the impact of the recorded value of deferred tax liabilities was only identified during the detailed preparation of the year-end financial statements. The one-off non-cash deferred tax credit was therefore recorded in the full year 2014 results, giving an IFRS group effective tax rate for the full year of 18.5% (2013: 30.7%). The group tax rate excluding this one-off non-cash deferred tax credit of 29.0%.

When reporting the 2015 IFRS results and to facilitate quarterly comparisons, the Company plans to adjust the previously reported quarterly financial statements for the first three, six and nine months of 2014.



Financial review

“At 31 December 2014, we had cash and cash equivalents of US\$324.3 million.”

For the first three months of 2014 an adjusted IFRS total tax benefit of US\$12.1 million will now be reported leading to an adjusted IFRS net income of US\$31.9 million and IFRS basic EPS of US\$0.48. For the first six months of 2014 an adjusted IFRS total tax benefit of US\$8.5 million will now be reported, leading to an adjusted IFRS net income of US\$40.9 million and IFRS basic EPS of US\$0.61. For the first nine months of 2014 an adjusted total IFRS tax expense of US\$2.1 million will now be reported, leading to an adjusted IFRS net income of US\$67.5 million and IFRS basic EPS of US\$1.01.

The decrease in our group effective tax rate (excluding the one-off non-cash deferred tax credit) is driven by the ongoing exercise to align our Intellectual Property ownership with the commercial structure of the group. This has allowed Dialog to utilise and to further partially recognise previously unrecognised UK loss carry forwards and other UK tax attributes and to benefit from the favourable UK tax regime for technology companies. We believe the gradual decrease is sustainable and will continue to drive further reductions in our effective tax rate in the years to come.

Net profit

For the reasons described above, we reported a IFRS net profit of US\$138.1 million for the period ending 31 December 2014 (2013: US\$62.2 million), representing a 122% year-on-year increase.

Underlying* net profit increased 76.4% to US\$172.2 million in 2014, representing 14.9% of total revenue (2013: 10.8% of total revenue).

IFRS basic and diluted earnings per share in the period ending 31 December 2014 were up 116% and 110% respectively to US\$2.05 and US\$1.93 (2013: basic and diluted earnings per share of US\$0.95 and US\$0.92). Underlying* basic and diluted earnings per share in 2014 increased by 72% and 58% compared to 2013 and reached US\$2.56 and US\$2.27 respectively.

Liquidity and capital resources

Cash flows

Cash flow from operating activities was US\$270.5 million in 2014 (2013: 110.7 million). Cash inflow during 2014 was US\$266.4 million (2013: US\$170.8 million) and resulted from the Company's net profit adjusted by depreciation, amortisation and other non-cash effective expenses. This cash inflow also increased by changes in working capital of US\$37.9 million (2013: US\$18.8 million cash outflows for investments in working capital), demonstrating our capacity to manage working capital tightly despite the year-on-year revenue growth. In addition, in 2014 the Company paid US\$33.9 million for income taxes (2013: US\$41.4 million). The amount paid in 2014 mainly represents advanced payments for corporate income taxes.

Cash used for investing activities was US\$43.0 million for the period ending 31 December 2014 (2013: US\$344.2 million). Cash used for investing activities in 2014 consisted primarily of the purchase of tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment for a total of US\$23.8 million (2013: US\$23.2 million). The purchase of intangible assets was US\$12.1 million (2013: US\$9.5 million) and payments relating to capitalised development costs were US\$6.7 million (2013: US\$6.0 million). Cash used for investing activities in 2013 consisted primarily of the net cash outflow of US\$303.9 million in connection with the iWatt acquisition in July 2013.

Cash flow used for financing activities was US\$89.1 million in 2014 compared to a cash inflow of US\$106.7 million in 2013. The cash inflow in 2013 relates mainly to two debt facilities (in total US\$115 million) to finance the iWatt acquisition of which US\$10 million was pre-paid in 2013 and US\$105 million was pre-paid in 2014. Cash inflows from financing activities in 2014 resulted from share option exercises in amount of US\$15.9 million (2013: US\$3.1 million) in connection with the Company's employee share option programme.

Balance sheet		At 31 December 2014 US\$000	At 31 December 2013 US\$000
Assets			
Cash and cash equivalents and restricted cash	324,280	186,025	
All other current assets	213,850	261,419	
Total current assets	538,130	447,444	
Property, plant and equipment, net	59,263	58,465	
Goodwill	244,878	244,878	
Intangible assets	131,505	148,591	
Investments	1,446	1,531	
All other non-current assets	1,953	1,608	
Deferred tax assets	28,771	24,935	
Total non-current assets	467,816	480,008	
Total assets	1,005,946	927,452	
Liabilities and Shareholders' equity			
Current liabilities	186,737	163,024	
Non-current liabilities	195,533	307,778	
Net Shareholders' equity	623,676	456,650	
Total liabilities and Shareholders' equity	1,005,946	927,452	

Liquidity

At 31 December 2014 we had cash and cash equivalents of US\$324.3 million (31 December 2013: US\$186.0 million). The working capital (defined as current assets minus current liabilities) was US\$351.4 million (31 December 2013: US\$284.4 million).

As of 31 December 2014, the Company had a US\$10.0 million revolving credit line facility which remained untapped (Q2 2014: US\$25 million untapped). In addition to this, in 2013 the Company entered into a Base Currency Term Loan facility with an aggregate amount equal to US\$100 million (payable by March 2017) of which US\$35 million was prepaid by the end of Q2 2014. During H2 2014, the Company made further pre-payments. As a result, there is no amount outstanding as of 31 December 2014.

In addition, the Company has two factoring agreements which provide the Company with up to US\$92.0 million of readily available cash. Accordingly, we believe the funding available from these and other sources will be sufficient to satisfy our working capital requirements in the near to medium term if needed.

The balance sheet total was US\$1,005.9 million at 31 December 2014 (31 December 2013: US\$927.5 million). Cash and cash equivalents increased by US\$138.3 million or 74.3% to US\$324.3 million at 31 December 2014 (31 December 2013: US\$186.0 million). This increase was mainly caused by the cash inflows from operating activities (US\$270.5 million) which were partially offset by cash outflows from investing activities amounting to US\$43.0 million. The financing activities contain a cash inflow of US\$15.9 million in relation to share option exercises which was offset by the voluntary and scheduled term loan repayments totalling US\$105 million related to the Company's US\$115 million Term Loan.

Other current assets decreased by US\$47.6 million from US\$261.4 million at 31 December 2013 to US\$213.9 million at 31 December 2014. The decrease of 18.2% is mainly driven by a US\$26.8 million reduction in trade accounts receivable balances and by a US\$18.4 million decrease in inventories in comparison to 31 December 2013. Deferred tax assets increased 15.4% from US\$24.9 million at 31 December 2013 to US\$28.8 million. The increase mainly relates to the partial recognition of previously unrecognized deferred tax assets in the UK as a result of the ongoing exercise to align our Intellectual Property ownership with the commercial structure of the Group.

Current liabilities increased by net US\$23.7 million to US\$186.7 million of which US\$24.1 million relate to increased income tax payables. Other financial liabilities decreased by US\$1.8 million to US\$22.1 million of which US\$17.5 million relate to book losses from the revaluation of outstanding foreign exchange hedges. Total non-current liabilities as of 31 December 2014 were US\$195.5 million (2013: US\$307.8 million) of which US\$180.2 million represents the book value of the liability from the convertible bond (31 December 2013: US\$172.0 million). The decrease of non-current liabilities of US\$112.2 million is mainly the result of the loan repayments.

Net debt which is defined as short and long-term financial liabilities less cash was US\$114.0 million (Net Cash) at 31 December 2014. This compares to a net debt position (cash less financial liabilities) of US\$103.6 million at 31 December 2013.

Shareholders' equity increased to US\$623.7 million (US\$456.7 million at 31 December 2013) which is mainly a result of our net profit (adjusted by expenses for share based payments). The equity ratio increased to 62.0% (49.2% at 31 December 2013).

Jean-Michel Richard
CFO, Senior Vice President Finance

Segment review

Mobile Systems

Our power management, audio and display ICs are designed for portable devices, including smartphones, tablets, Ultrabooks™ and other ultra-mobile computing devices such as wearables.



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

Our markets

- System and battery management ICs and audio CODECs for smartphones and tablets.
- High voltage power management for Ultrabooks™, Convertible tablets, Ultraslims. Multitouch sensors supporting the broader computing market.
- Automotive grade PMICs for in-vehicle infotainment, electronic instrument cluster, driver assisted displays.
- Power, DSP Audio and power efficient display drivers for smart wearable devices.
- Additionally, our products address a range of secondary embedded systems such as automotive infotainment, wearable technology and energy-efficient microcontroller platforms.

Our products

Dialog's Power Management Integrated Circuits (PMICs) are fully configurable; they can be programmed to meet the exact voltage and current needs of every component.

Dialog replaces discrete power management components with highly integrated, single chip solutions that reduce energy usage and provide design simplicity at a lower cost.

Effective power management in many portable devices presents an increasingly complex array of design challenges. Smartphones, tablets and Ultrabooks™ 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 standards like Bluetooth® Smart™. At the same time, consumers demand displays that are brighter, bigger and incorporate touch functionality and, in the future, tactile feedback technology. Each of these features is a major battery drain, creating a need for effective power management technologies.

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

Dialog's solutions excel at handling this power management complexity, enhancing device performance and maximising the use of available battery power.

In 2014, Dialog launched the second generation of sub-PMICs for multi-core processor design scalability. Such scalability reduces time-to-market and enables our customers to optimise the overall scheme for cost, area and power.

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

Dialog was 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.



Power Management ICs

“Dialog remains at the forefront of integrated power management ICs. Our products reduce power consumption, space and costs.”

Key drivers

- Increasing processing power of smartphones and tablets demanding higher performance power management.
- Increasing battery drain of additional new features and peripherals driving improved efficiency.
- High-growth in China smartphone manufacturers demanding “good enough” performance at lower price points.
- Integrated speech and voice commands is increasingly being accepted by consumers.
- Fast adoption of tablets and ultra slims. Mobile computing trend for thinner form factor continues.

2014 progress

- Announced MediaTek partnership for flagship LTE platforms and disclosed Lenovo and Meizu as early customers.
- Launched our second generation of sub-PMICs for multicore processor design scalability.
- Announced LG mobile as new smartphone PMIC customer.
- Launch of audio DSP codec with built-in voice trigger with lowest power consumption. This technology improves the convenience for consumers to access voice recognition functionality.
- Smartwave Multi-touch display sensor enters mass production with major PC OEM.

Forward focus

- Expand our collaboration with MediaTek.
- Develop new IP to enhance PMICs for multi-cell battery market (tablets, notebooks and ultraslims).
- Introduce novel architectures for fast and intelligent charging.
- Power management for the Internet of my Things.
- Leverage PMIC/Audio integration strategy to deliver enhanced “always-on” functionality with less area and fewer components for smart wearables.
- Support Flatfrog, our Smartwave™ systems partner, in their product and market expansion.
- Sensors and sensor-related technology development, including our multi-touch capability, to broaden our offering into Smart Home and Wearable applications.

US\$942.6m

Revenue
(2013: US\$744.9m)

“Our second generation sub-PMICs enable our customers to design smartphones with enhancing capabilities.”

Segment review

Connectivity

Dialog developed SmartBond™ in 2013 and during 2014 we have successfully entered the Bluetooth® Smart market announcing a number of design wins.



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

Our products

The DA14580 is the first Bluetooth® Smart™ certified system-on-chip (SoC). Bluetooth® Smart™ is a part of the Bluetooth® standard that addresses peripheral and accessory applications with lower power and lower connection times than classic Bluetooth®. These features are opening up new applications in the areas of health and fitness, proximity devices, human interface devices for tablets and smartphones,

wearables, mobile banking, wireless charging and a variety of other new applications. The Bluetooth® Smart market is forecast to experience strong growth in the coming years. Dialog has leveraged its expertise in power management and in radio SoCs to enter the market with the most integrated, lowest power and smallest solution.

Dialog's SmartBeat™ products can be found in leading brands of semi-professional wireless audio products. Leading headset brands use our solution to bring products on the market with best-in-class voice and audio capabilities, excellent quality of service and interference free radio links. Our solutions can also be found in the new generations of wireless microphones and in wireless public address systems.

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

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

Our markets

- Single chip transceivers for DECT-based cordless telephones, wireless microphones, headsets and gaming consoles.
- SmartBond™ single chip wireless ICs, certified to the Bluetooth® Smart™ standard, for personal accessory and peripheral applications.
- SmartPulse™ short-range wireless ICs, based on the ultra-low energy DECT standard, for smart home applications.

- Energy-efficient multicore Voice-over IP (VoIP) processors, audio CODECs and amplifiers, interfacing with Bluetooth®, Wi-Fi and DECT, to enable headset and handset connectivity.
- SmartBeat™ provides a platform for robust, low-power Wireless Audio over DECT. This platform offers a highly integrated solution for high quality and fixed low latency wireless audio applications supporting sample

frequencies up to 48kHz. It supports point-to-point, point-to-multipoint and multipoint-to-point audio and data channels, targeting wireless headsets (Lync compliant), headphones, speakers, subwoofers and microphones.



SmartBond™

Bluetooth® Smart™; power, size and system cost without compromise.

Key drivers

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

2014 progress

- Successfully entered the Bluetooth® Smart™ market announcing a number of design wins; Xiaomi and SMK.
- Working with leading module makers in Bluetooth® Smart™, Murata, Semco, Panasonic Industrial, ALPS and TDK.
- Launched the low latency 1.9GHz wireless Audio product in Nintendo's Wii U microphone.

Forward focus

- Continue to invest in the Bluetooth® Smart™ platform: product roadmap and application reference designs.
- Focusing on Wearables and Smart Home.
- Expand our low latency wireless audio activity towards microphones and headset brands.

US\$92.1m

Revenue
(2013: US\$91.6m)

“Our second generation Bluetooth® Smart™ IC will position Dialog for further revenue growth.”

Segment review

Power Conversion

A fast growing and highly competitive market where Dialog is a leading player. We are helping consumers to reduce their energy bills with our range of LED drivers.



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

Our markets

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

Our products

AC/DC Power Conversion: Robust growth in portable device markets including smartphones, tablets and other portable devices continues to drive the need for new generations of intelligent, smaller and more power-efficient AC/DC adapters that can charge much faster and more safely.

In 2014, we established an early leadership position in the smartphone fast charging segment as the first supplier to ship Qualcomm® Quick Charge™ 2.0 (iW620) and MediaTek Pump Express™ Plus (iW1788) Rapid Charge™ IC solutions in volume to customers. We also provided rapid charging ICs to meet the proprietary fast charge protocol of another leading global smartphone OEM.

We further expanded our power conversion product portfolio in 2014 with a new synchronous rectifier IC (iW671) that enables higher power density without increasing the adapter size, thereby doubling our potential IC content per power adapter.

LED Solid-State Lighting (SSL):

With stringent government regulations in place across the globe to phase out low-efficiency incandescent bulbs, LED replacement lighting is moving to mainstream adoption. According to McKinsey, total LED SSL global shipments are expected to grow from 440 million units in 2012 to 2.7 billion units by 2016. Challenges such as SSL dimmer compatibility, dimming performance and price, demand innovative LED driver solutions with ultra-low costs.

In 2014, we sampled parts based on our new LED driver platform that addresses the dimmable SSL market and provides best-in-class dimmer compatibility while eliminating the cost of over 20 external components. We also developed a new SSL LED driver platform to address the low-voltage lighting market, including ubiquitous, small MR16 bulbs.

The next market driver for SSL is smart lighting, fuelled by the IoT. This trend will expand the retrofit market with various modes of wired digital dimming via the AC supply line, such as toggle-switch dimming and the emerging Ledotron®/IEC 62756-1 digital dimming standard. Smart lighting will also encompass wireless lighting control, such as Bluetooth® Smart™, ZigBee®, Wi-Fi and others to control bulb brightness and LED colour mixing for mood lighting.



Key drivers

- Demand for faster mobile device battery charging.
- More stringent global regulations for high efficiency and low standby power driving higher semiconductor dollar content in power adapters in order to pack more power (higher power density) into the same space.
- Governmental regulations worldwide fuelling high growth of SSL by phasing out inefficient incandescent, as well as CFL bulbs.
- Consumer demand for SSL bulbs compatible with a wider range of existing, installed dimmers, eliminating light flicker and shimmer.
- Emerging smart lighting market and IoT.

2014 Progress

- Established an early leadership position in the fast charging segment as the first supplier to ship Qualcomm® Quick Charge™ 2.0 and MediaTek Pump Express™ Rapid Charge™ IC solutions in volume.
- Provided Rapid Charge ICs to meet the proprietary fast charge protocol of a leading global smartphone OEM.
- Expanded our power conversion product portfolio with a new synchronous rectifier that enables higher power density without increasing the adapter size, thereby doubling our potential IC content per power adapter.
- Sampled new platform dimmable SSL LED drivers that provide best-in-class dimmer compatibility and performance while eliminating the cost of over 20 external components.
- Sampled parts based on new digital SSL LED driver platform addressing customer need to solve MR16 dimmer and transformer compatibility issues.
- iW6401 smarteXite SSL LED driver platform took wireless lighting control to the smartphone gaining significant customer interest.

Forward focus

- Continue to invest in Rapid Charge™ adapter solutions for the smartphone, tablet and Ultrabook™ markets, including ICs to meet customers' new proprietary protocols.
- Expand AC/DC adapter product line to enable smaller and cheaper higher power density power adapters.
- Address the emerging wireless charging market.
- Continue to address the LED driver market for mainstream retrofit SSL bulbs and expand our focus to include commercial and professional LED lighting.
- Focus on SSL LED driver solutions for the emerging IoT market space.

US\$80.4m

Revenue

(2013: US\$26.8m)

Segment review

Automotive and Industrial

Dialog is an automotive-certified company addressing the mid-to-high-end European segment. In 2014, revenue from our Automotive and Industrial segment grew by 10%.



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

Our markets

- Custom motor control ICs for windscreens 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 controllers for LED lighting solutions.

Our products

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

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

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

Key drivers

- Increasing market for reverse wipers and LED lighting solutions.

2014 progress

- Successful ramp up of new derivative of intelligent motor controller.
- Faster ramp of new custom products.

Forward focus

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

US\$41.0m

Revenue
(2013: US\$37.3m)

Our people – Engaged, motivated and skilled

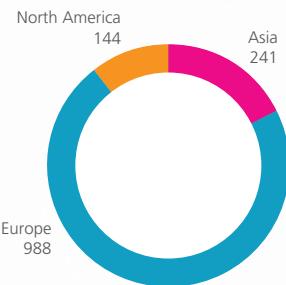
95% extra effort

In the 2014 employee engagement survey, 95% of the respondents said that when needed, they are willing to put in the extra effort to get a job done.



Martin Powell, Senior Vice President,
Human Resources

Employees by region



Our performance

	2014	2013
Employee retention (%)		
Manager retention rate	93.3	92.1
Overall employee retention rate	94.3	94.8
Diversity (%)		
Women overall	15.8	15.0
Part-time employees	3.9	3.2
Number of nationalities	58	50

Engaging our employees – the voice of Dialog

Listening to and involving our people in shaping the business contributes to the performance and success of the Company. Our employees are highly engaged and are the key contributors to our success. In 2014 we carried out a global engagement survey measuring levels of engagement, commitment, intent to stay, discretionary effort and job satisfaction. 74% of our employees participated in the survey and our overall engagement score was 64% favourable, placing us above our survey partners' external benchmark. Our people also show higher intent to stay and higher exceptional effort than average benchmarks. We are now working on local and global initiatives resulting from the Voice of Dialog to maintain and further increase the engagement of our people.

Recognising and rewarding performance

We maintain a clear and consistent approach to rewarding our people with base salaries linked to their role, contribution and performance. Global short-term and long-term incentive plans ensure that the performance of our people is linked to and contributes to the company's success and our Shareholders' interests. We also recognise the exceptional contributions our people make.

Developing our employees

We help our employees to achieve their full potential through training and development. They are actively encouraged to take up learning opportunities in the form of technical and professional training, management and leadership training, on-the-job learning, virtual learning environments and mentoring. In 2014 we launched our first Learning Management System allowing us to globally deploy

training content and measure all training and development effectively. During the year we have also refreshed our non-technical training portfolio with new management and leadership courses and launched the Dialog Graduate Development Programme which aims to give focused development to our Graduate employees. The average training spend per employee in 2014 was US\$1,377.

Valuing diversity

At the end of the year we employed 1,373 people worldwide; a 24.8% increase on the prior year. We now operate from 30 locations in 15 countries and our global workforce continues to increase in diversity. Dialog employees come from 58 nationalities. We continue to recruit globally for the most talented people, identify centres of engineering talent and build our business around them. In 2014, we opened two new design centres – in Taiwan and in the US – and continued expanding our existing design centres in Europe and North America.

Women now comprise 15.8% of the overall workforce, an increase from 15.0% in 2013. The Company continues to support STEM (Science, Technology, Engineering and Mathematics) education to increase opportunities for women in engineering. There is currently no female representation on our Board or Senior Management team. We are committed to creating an inclusive working environment that attracts and retains the best talent and take equality and equal opportunity for all employees very seriously.

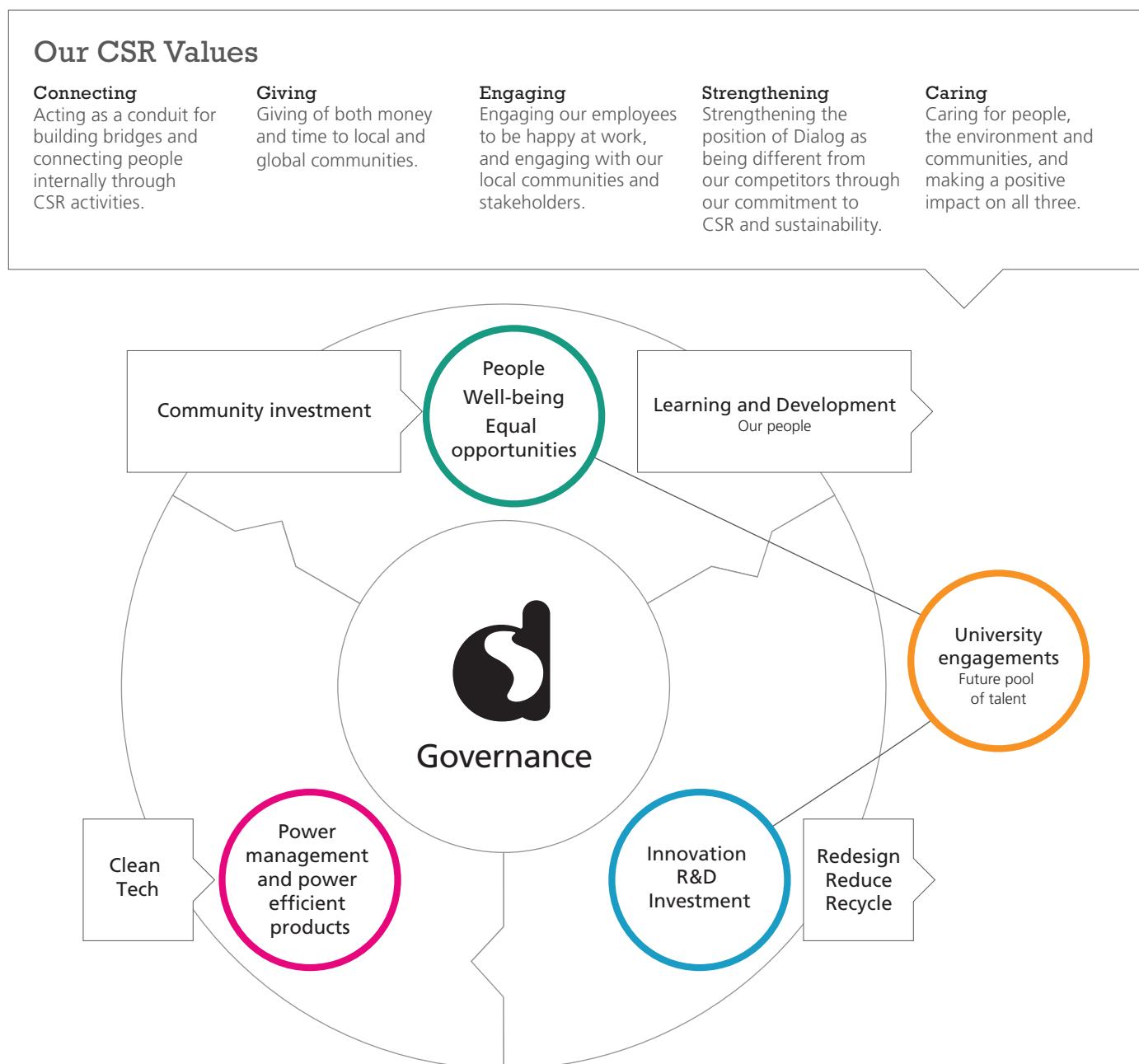
Our people play an important role in the Company's governance and sustainability efforts and engage actively within the communities in which they work. Further details are set out on pages and in our annual Sustainability Report.



Corporate responsibility and sustainability

Our CSR vision

To embed sustainable and responsible practices into the way we act internally and engage externally.





Women in Engineering

In 2013, Dialog launched our “Gary Duncan Women in Engineering Scholarship”.

In 2013, Dialog launched our “Gary Duncan Women in Engineering Scholarship”, named after the former VP of Engineering who had always championed encouraging women into electronics. Our first scholar that year was from Imperial College London. This year our female scholar is from The National University of Science and Technology in Taipei, and is studying electronic engineering. Dialog pays her an annual bursary and provides guaranteed paid work placements and industrial mentoring. We also sponsored the Women in Engineering Society in 2014 and are planning a programme of events during 2015 designed to encourage girls to take up STEM subjects.

Last year we reported on our sustainability journey and we are pleased to be able to report that this has continued significantly in 2014. We want sustainability to be part of our DNA, to be a part of the Dialog “fire in the belly” – to not just be something we do, but the way we do business.

Our 2014 Sustainability Report highlights our commitment in key areas such as ethical governance, product innovation, diversity and inclusion, community involvement and giving, education, and environmental stewardship. We believe that striving to have a positive impact in everything we do and ensuring the long-term sustainable success of Dialog are, in effect, the same goal.

Across our three key areas of making a positive contribution we have had substantial impacts:

- **Innovation** – our primary focus and expertise is energy-efficient system power management. As well as enhancing user experience, our power management processor companion chips increase the performance of portable devices by extending battery lifetime and enabling faster charging, thus reducing the effect of usage on the environment. 2014 has seen us develop further energy solutions within low-energy Bluetooth®, low power charging and energy efficient LED solid state lighting.

- **Our people and our communities** drive our innovation and therefore our success and long-term sustainable future. We invest time and money not just into attracting and retaining the best talent for us, but also in ensuring the future pipeline of talent into the engineering industry as a whole. We sincerely believe in making a positive contribution to society, and we have continued to fund local and global projects to ensure the

continued development of our communities and young people.

- **Our environment** – we are continually committed to ensuring that everything we do has a low (or zero) impact on the environment. As we do not manufacture our products, we do not have a large adverse effect on the environment, however we operate responsible practices within our own business, as well as ensuring them across our supply chain. We are proud that our business is based around a range of green IC solutions, and further to that we have taken further steps during 2014 to minimise the carbon footprint of our business, and recycling precious materials from waste and damaged goods.

Ethics and human rights

Dialog is committed to fair wages, healthy and safe working conditions, respect for human 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 ensure that working conditions for both employees and external suppliers are safe and that all workers are treated with respect and dignity. In 2012 we signed the UN Global Compact, an expression of our commitment to human and labour rights, the environment, and anti-corruption and continue to be committed to, and report on, the Ten Principles of the UNGC.

We take the issue of conflict minerals very seriously, and support ending the violence and human rights violations in the mining of certain minerals from a location in Africa described as the “Conflict Region”. We have achieved full compliance with the Dodd Frank Wall Street Reform Act concerning the sourcing of conflict minerals that originate in the Democratic Republic of Congo or adjacent countries.

“We sincerely believe in making a positive contribution to society.”

Corporate responsibility and sustainability

“Dialog is working to systematically reduce CO₂ emissions and minimise the carbon footprint of our business.”

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.

Acquiring iWatt in 2013, Dialog established itself as a leader in high efficiency AC/DC converters and LED drivers for power adapters, portable chargers and solid-state lighting (SSL) applications. These ICs are designed to cost-effectively reduce energy consumption by maximising power conversion efficiency with digital technology that uses fewer components. This leads to lower consumption of fossil fuels, less energy spent manufacturing unneeded components and lower total system cost for customers.

Dialog was the first company to introduce a zero-standby power AC/DC pulse width modulation (PWM) controller, the iW1700 that reduces no-load power consumption to

less than 5 milliwatts, or effectively zero¹, for cell phones, cordless phones, tablets and other portable devices. We also offer a wide range of dimmable and non-dimmable SSL LED drivers for lighting applications up to 45W, equivalent in brightness to a 200W incandescent bulb. These LED drivers enable very high efficiency SSL bulbs, significantly reducing energy usage and enabling consumers to benefit from LED bulbs with an average lifespan of ten years or more in comparison to just three to four years with Compact Fluorescent (CFL) bulbs.

Reduce

Dialog is working to systematically reduce CO₂ emissions and minimise the carbon footprint of our business, focusing on the impact of our design centres. The calculation of the CO₂ emissions is in compliance with §42 Energiewirtschaftsgesetz (Energy Law). The Carbon Disclosure Project recognised Dialog as one of ten successful companies achieving the “Scope-2- Indirect CO₂ Emission Reduction”, with a reduction of emissions of 44.5% in our design centres in 2014, which equates to 682 tonnes of CO₂ emissions. In 2014 we offset 100% of carbon emissions from our air travel as well as 100% of emissions from our largest design centre in Nabern. This equated to offsetting 4,682 tonnes of emissions. Our targets for 2015 will be:

- offset 100% CO₂ emissions from our air travel;
- offset 100% CO₂ emissions from rental and private cars used for business travel purposes; and
- measure and offset emissions from our second largest design centre in Swindon.

¹ The International Electrotechnical Commission IEC 62301 standard for measuring standby power rounds power usage of 5mW or less to zero.

Innovative Education – UTC, Swindon

Dialog is a key sponsor of the Swindon UTC (University Technical College).

A UTC is a college for students aged 14 to 18 which specialises in technical studies and is sponsored by a university. Swindon UTC's speciality is engineering, and offers full time courses which combine practical and academic studies. Dialog have provided financial support for the college in preparation for its opening in 2014, as well as having high involvement in shaping the curriculum, designing project opportunities, and assisting with the selection of staff. Swindon has always been at the heart of engineering since the age of steam railways, and Dialog wants to be a part of encouraging engineering back to the town and assisting young people to have careers in this industry.

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 reduce costs without sacrificing quality and performance.

Recycle

We have also implemented a rigorous recycling of precious metals, such as gold, silver and copper from waste and damaged products. In 2014 we increased the quantity of recovered copper by 164% and recovered silver by 332%. 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. During 2014 we implemented Waste Concept CEP1001-E04 into our major design locations.

Community investment

We have an active programme of engaging with our local communities, and we know that our employees, and future talent, value this, whether through fundraising, charitable donations or volunteering.

Corporate Giving

Dialog launched the Corporate Giving programme in 2012, focusing on the communities local to the areas around our business operations:

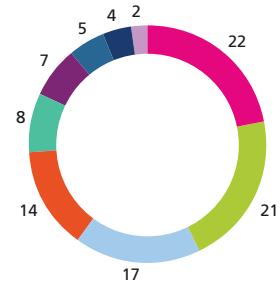
Charitable giving – we give financial donations to local charities and groups where employees are actively involved. In 2014 these included children's charities, charities for those with disabilities, youth education programmes, hospitals, environmental charities, local foodbanks, and local youth sports groups.

Fund-matching – if employees are raising money for charitable causes, then Dialog will match those funds. Examples for 2014 included funds raised through sponsored walks, runs and cycle rides; organising raffles, cake and craft stands; wearing Christmas jumpers and "jeans for genes", growing moustaches for Movember, and organising a global football tournament.

Volunteering – as well as monetary donations, we actively encourage employees to participate in volunteering activities with charities and educational groups within their local communities. During 2014, employees were involved in giving presentations and offering mentoring to schools; working with disadvantaged children; and organising office family days which serve as events both to give something back to families and other local stakeholders and to raise further money for charity.

In 2014 Dialog made charitable contributions of US\$500,282 to local community projects (2013: US\$485,300).

Organisations supported by Dialog during 2014



- Children's
- Education
- Medical
- Local Outreach
- Sports
- Environment
- Global Disasters
- Artistic
- Other

Partnerships with educational institutions

We are concerned with encouraging young people into electronics, not just to attract the best and brightest talent to Dialog, but to ensure the future pipeline for the engineering industry as a whole. We have a number of global programmes within schools, colleges and universities, including the sponsorship of students at leading universities, the provision of access bursaries for low income students, donation of academic prizes, mentoring and lecturing to young people of both school and university age, and the sponsorship of electronic engineering societies. We also provide industrial placements and work experience, and provide assistance with job-finding skills such as CV writing and interview skills.

Managing risk and uncertainty

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

In 2014, the Company established a Risk Management Office, to improve the identification of risk, assessment of probability and impact, and assignment of owners to manage mitigation activities. The Executive Team along with the Board has overall responsibility and oversight of the Risk Management Office. The Risk Management Office comprises members from internal control, purchasing, finance and legal and is chaired by the Chief Financial Officer. The Risk Management Office meets on a quarterly basis.

The Company has delegated its coordination to the Risk Management Office which interacts with the executive management, based on the gathered input from the business, internal and external auditors. The Risk Management Office has accountability for reporting the key risks that the Company faces, and reporting the status of any mitigating actions or controls to the Executive Team and the Audit Committee.

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

Principal risks

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

The Company recognises 4 categories of risks: Strategic, Operational, Financial, and Legal and Compliance.

Strategic risks

Dialog management is focused on executing on its 4 strategic pillars in order to mitigate the current dependencies on key markets and customers.

Risk	Actions	Progress in 2014
Dependency on Mobile and Consumer Electronics – Dialog's product portfolio is heavily focused upon the Mobile and Consumer Electronics Marketplace. The end device manufacturers demand from their suppliers the best quality product at the lowest price, high degrees of innovation and fast time to market. There is a high level of competition in terms of product offering or price that could persuade a customer of Dialog to switch suppliers.	Dialog invests in research and development (R&D) to anticipate and respond to new market trends. The Company, rapidly implements new designs to meet customer needs and to keep abreast of technological trends.	Quick charge AC/DC converters; Design with Smartwave™ SmartBond™ Bluetooth® Smart™). Dialog invested US\$214m or 18.5% of revenue in R&D in 2014 across a range of highly targeted areas. This is an increase of 33% over 2013.

Risk	Actions	Progress in 2014
<p>Dependency on key customers within the wireless communication sector – 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 on its short term revenue and profitability.</p>	<p>Dialog is seeking to reduce the risk of its revenues, profitability and growth being affected by a slowdown in those key customers and the wireless communications sector (within mobile and consumer electronics market) by winning customers in other sectors and broadening its product offering to existing and new customers.</p>	<p>While continuing to provide world-class products and services to its existing key customers. Dialog has embarked on a Greater China strategy and has already reported design wins with MediaTek and Xiaomi. Dialog continues to make significant progress in introducing new highly differentiated products in AC/DC quick charging, Solid State lighting LED and Bluetooth® Smart™.</p>
<p>Human Capital – In order to successfully execute its current and future business commitments, Dialog needs to continue to build its organisational capability in two key areas:</p> <ul style="list-style-type: none"> • continuous innovation in product development, manufacturing and packaging technologies. • leadership skills in an expanding and increasingly complex global operation. 	<p>Dialog seeks to create a positive working environment that results in low levels of staff turnover.</p> <p>Dialog has developed an effective recruitment process to attract high calibre staff.</p> <p>Dialog has dedicated human resource managers to drive further development of its personnel and benchmark its employment terms to match industry top performers.</p> <p>Dialog has a decentralised approach to research & development with teams in 12 countries. In a highly competitive talent market we believe this flexible approach is advantageous, allowing us to recruit talent where it resides and as a defence mechanism to stop large scale 'poaching' by competition.</p>	<p>In 2014, the number of engineers increased by approximately 26%.</p> <p>In December 2014, Dialog opened new design centres in Taiwan and the US.</p> <p>Staff turnover was 5.7% (2013: 5.2%) Dialog has extended its global Training & Development programmes with the introduction of the Technical Ladder and Speciality Academies.</p> <p>The Company also has a global learning and development strategy and runs an active University partnership programme to attract the brightest and best university graduates to the electronics industry and our Company.</p>

Managing risk and uncertainty

Operational risks

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

Risk	Actions	Progress in 2014
<p>Dialog runs a "High-touch Fabless" business model and so outsources the capital intensive production of silicon wafers, packaging and testing of integrated circuits to leading third-party suppliers, mainly in Asia.</p> <p>The manufacturing of products runs over multiple stages with multiple suppliers. The failure of any of these third-party vendors to deliver products or otherwise perform as required could damage the relationships with our customers, decreasing our revenue and limiting our growth.</p> <p>Supplier delivery performance can be adversely affected by multiple issues. For example, if increased demand for these suppliers' products exceeds their production capacity.</p>	<p>Dialog has forged close partnerships with all our suppliers, which help the planning and management of capacity. Dialog's suppliers are mainly highly respected large scale operations.</p> <p>Dialog strives to source its large volume components via a dual sourcing strategy where applicable and supported by its customers to mitigate the risk of disruption to supply.</p>	<p>Dialog works with a range of foundries and back-end vendors, mainly in Taiwan, China and Singapore to mitigate the risk of Supply Chain disruption and constraints. The geographical spread also helps with disaster recovery planning.</p> <p>Dialog's Mobile Systems, Automotive and Connectivity businesses achieved an 'On Time Delivery' performance of 97% (in 2014) vs 95% in 2013. This measures performance against delivery dates confirmed by Dialog at date of order.</p> <p>In 2014, Dialog carried out 30 vendor audits vs 33 in 2013. These audits cover a wide range of topics including compliance and product quality (ISO9000 & ISO14000) reviews.</p> <p>This is supported by regular Business Reviews when Dialog management meets its suppliers to discuss supplier performance and future capabilities.</p>
<p>Dialog is heavily dependent upon the quality, resilience and security of its information systems. As a global business, operating continuously (24/7) throughout the year, with two key processes:</p> <ul style="list-style-type: none"> • product design activities using third-party tool and support contracts. These tools require an infrastructure that is resilient and secure. • the Semiconductor Supply Chain, which by nature is very complex given the multiple processes and plants being utilised. 	<p>Dialog's IT systems are managed on a global basis to ensure a unified approach.</p> <p>Dialog continues to invest in state-of-the-art systems, especially its integrated Enterprise Resource System to efficiently manage and scale its global operation.</p> <p>In addition, Dialog is continuously strengthening its internal controls, general IT controls and applying best practice to ensure a robust and secure IT environment.</p>	<p>In early 2014, Dialog updated its global IT security strategy which drives specific security and business continuity actions for the next three-year period.</p> <p>Within the engineering teams Dialog expanded regional server farms and moved away from standalone machines for individual engineers. As data is stored in multiple locations it significantly reduces the risk of downtime or loss of data.</p> <p>In addition, Dialog continues to invest in gaining real-time information by automating data transfer with its customers and suppliers.</p>

Risk	Actions	Progress in 2014
<p>Given the timetables for some key product introductions, Dialog must ensure tight control over the New Product Introduction process and in particular quality assurance in high volume product ramps.</p> <p>Dialog needs to avoid releasing faulty products or putting customers on line stop.</p>	<p>Dialog operates a "high-touch" fabless model, with engineers located at supplier locations.</p> <p>Dialog places a high importance to quality assurance, product validation prior to mass productions, in line controls and monitoring of yields with real time feed from offshore manufacturing.</p> <p>Dialog continues to evolve its internal processes and procedures to ensure new requirements are assessed and appropriate resources applied to satisfy these requirements.</p>	<p>In 2014 Dialog made significant investments in internal capabilities (test development, failure analysis etc).</p> <p>Dialog seeks to exceed industry standard yields based upon typical defect density limitation.</p> <p>This activity is strengthened by a clear focus on operating a full closed loop model with all key suppliers to ensure issues found are resolved in a timely manner. To support this Dialog has, in total, approximately 30 engineers located at key vendors.</p> <p>Yield performance on key products is monitored monthly during internal operational reviews.</p>

Financial risks

Our business model is highly cash generative over which we must show strong financial stewardship by maximising efficiency of working capital and surplus funds. Dialog seeks to ensure we have sufficient free cash flow to invest in growing our business and to select the right financial service providers and products. We realise that our financial transactions bring the risk of currency and interest rate fluctuations and bad debts.

Risk	Actions	Progress in 2014
<p>Financial Liquidity – As a high growth company, the Company needs to ensure access to funds from tier 1 financial institutions at competitive interest rates.</p>	<p>Dialog needs to show sound financial stewardship of funds held ensuring minimal debt.</p> <p>The Company monitors its liquidity on a quarterly basis, with the objective of minimising bank debt interest charges.</p>	<p>During 2014, the Company paid off the \$105m of the bank debt raised for the acquisition of iWatt Inc. in 2013.</p> <p>Free cash flow generated in 2014 was US\$213 million (2013: outflow of US\$226 million)</p>
<p>Foreign Exchange – The majority of Dialog's revenue and expenses are denominated in US Dollar. However, Dialog has exposure to other currencies, such as Euro and GB Sterling.</p>	<p>The Company uses forward currency contracts to seek to limit its exposure associated with the payment of salaries and other operating expenses in non US\$ currencies.</p> <p>Dialog seeks to maximise the effectiveness of hedge derivatives by matching the terms and conditions of the hedge to those of the underlying obligation up to 12 months forward which supports the realisation of its annual business plan.</p>	<p>During 2014, Dialog executed forward contracts for €97 million at an average of 1.3664 for EUR to USD. The average market rate was 1.3297.</p> <p>Dialog executed forward contracts for £40.7 million at an average of 1.6014 for GBP to USD. The average market rate was 1.6484.</p> <p>Dialog executed forward contracts for £6.1 million at an average of 1.2759 for GBP to EUR. The average market rate was 1.2452.</p> <p>Total of forward transactions resulted in a negative impact of US\$2.875 million compared to spot transactions.</p>

Managing risk and uncertainty

Risk	Actions	Progress in 2014
Dialog trades with selected customers on credit terms and receivable balances, which could create a risk of bad debt.	Dialog views all its customers as having high creditworthiness. However, the Company has factoring agreements with two reputable financial institutions who assume a major part of the risks associated with the control of receivables from selected customers.	Dialog booked additional bad debt provision of \$15k. The total bad debt provision is \$96k relating to six customers. This represents 0.095% of total accounts receivables at year end. A new policy for Credit Control has been implemented in 2014. In response to a broader customer base and increased revenue generated from distributors.
Interest earned from bank and money market deposits can vary according to market fluctuations and Dialog's cash requirements.	Dialog manages its interest income using a matched investment strategy with a mix of fixed and variable interest rate facilities in highly liquid funds, which are offered by highly reputable and rated financial institutions. This includes investing excess funds, even over short term, once the operating business has been financed.	During the year the Group has held cash deposit with a range of maturities from one week to three months. Dialog has long-term debt (convertible bond) of US\$201 million and no amounts outstanding under short-term credit facilities as at 31 December 2014. Pay down debt – no exposure to fluctuations in 2015.

Legal and compliance risks

As Dialog has an increasing global presence the focus on governance and ensuring compliance to local requirements also needs to be enhanced. Dialog recognises the importance of behaving as a good corporate citizen across the globe.

In addition, the Company seeks to utilise the legal protection offered across the globe to protect our assets, specifically our intellectual property rights.

Risk	Actions	Progress in 2014
Compliance to laws & regulations – Given Dialog's growth strategy it needs to ensure that it understands and complies with the local law and customs wherever it operates.	Dialog continues to monitor the legislative changes across key countries to ensure it stays abreast of both global and local legislative changes.	Appointed in-house Assistant Company Secretary, who also acts within the Risk Management Office. In 2014 Dialog introduced on-line training for global compliance issues.
Environmental regulations – As Dialog does not manufacture, assemble or freight any of its products it seeks to ensure that its partners act within the law.	Dialog carefully selects its suppliers and regularly audits their activities.	In 2014, we continued our supplier audit programme to fully cover all aspects of their performance in key areas.
Intellectual Property (IP) Protection – As a highly innovative company Dialog has IP that is attractive to others. Dialog must ensure that this IP is sufficiently protected both legally (via patents) or physically (via security processes).	We seek to protect our current business and our IP from being copied or used by others by appropriate use of patents, copyrights and trademarks on a global basis.	Dialog holds in excess of 540 patent families. In order to strengthen its governance processes, the Patent Committee was established in 2014. The Company strengthened its IT security especially in the Data Leakage Protection area. By selecting a new IT system in 2014 for rollout in 2015. Dialog also improved control over access granted to specific project data for employees and external third parties.

Introduction to Governance

Dear Shareholder,

2014 has been another year of progress for Dialog. As the business has grown and evolved, so too has the Board and the oversight with which we govern the Company. Good governance practice means continually reviewing existing principles and practices and continually challenging what we do and how we do them. Equally, just because practices have existed for a long period does not mean they cease to be effective.

Over the past number of years, as the business has grown to become an industry leader, we have evaluated our corporate governance framework and made further changes to our disclosure and practice to ensure we align with evolving best practice. During 2014, we have continued to enhance our oversight and Corporate Governance framework including: the continuing review of the skills and experience of the Board; and, the development of the Company's Corporate Governance policies. We publish, on our website, our own Corporate Governance principles which have regard to the UK Corporate Governance Code and other best practice corporate governance policies. These have been reviewed as of December 2014 and are reviewed on an ongoing basis. We have complied with these principles during the year ended 31 December 2014.

During 2014, as part of the process of ongoing Board refreshment and renewal – and to ensure that the Company has a Board which comprises the appropriate skills and expertise to drive the business through its next stage of development – Eamonn O'Hare was appointed as an independent, non-executive Director. Eamonn's appointment follows the appointment of two Directors in 2013, Mike Cannon and Rich Beyer.

Eamonn has a long and proven track record in the consumer and technology industries and has made a significant and valued contribution to the Board since his appointment. He has spent over two decades as CFO of some of the world's fastest growing consumer and technology businesses. He was formerly the CFO and a board member of the UK's leading entertainment and communications business, Virgin Media. Prior to this he was CFO of the

UK Operations of one of the world's largest retailers, Tesco plc. He was previously CFO and a Board Director at Energis Communications and also spent ten years at PepsiCo Inc., where he held a series of senior executive roles in Europe, Asia and the Middle East. Eamonn assumed the role of Chairman of our Audit Committee in December 2014.

At the time of the AGM in May 2014, when Eamonn was formally elected to the Board, Gregorio Reyes, our former Chairman, also retired from the Board. Greg served as Chairman of Dialog for seven years up to July 2013 and remained on the Board for a further ten months as a Director. Greg's leadership, talent and expertise was a great asset to Dialog and we valued his guidance and stewardship of the Company during a period of significant transformation.

Two further Directors, John McMonigall and Peter Weber, have also indicated to the Board that they will not seek re-election to the Board at the April 2015 AGM. John and Peter are long-standing members of the Board and they have both made a significant contribution to the growth and development of Dialog during their tenure. It is our objective to appoint additional independent Directors in the period ahead who will succeed John and Peter.

During 2013, we increased the number of Board sub-committees from three to four. In 2014, we had an Audit; Remuneration; Nomination; and a Strategic Transaction and Technology Committee. Each of these Committees functioned well during 2014 and the separation of the Remuneration and Nomination Committee into two separate committees has enabled the Board to better allocate time to the important and distinct work of these two committees. In particular, it enables the Remuneration Committee to better manage the increased burden of work due to evolving regulation and disclosure requirements. During the course of 2014, however, it was decided that the matters considered by the Strategic Transaction and Technology Committee are capable of being considered by the Board as a whole. Consequently, while the Committee functioned well, the Board has decided to abolish this committee from 2015 onwards.

As Chairman of the Remuneration Committee, Mike Cannon has set out a letter to shareholders on page 67 of this report. Our Audit Committee continues to operate effectively and Eamonn O'Hare assumed the role of Chairman of this key committee in December 2014. On the Nomination Committee, we continue to review the composition of the Board as a whole to ensure we have the appropriate mix of skills and experience at Board level to guide the Company in Shareholders' best interest; and, to ensure we are appropriately equipped with the necessary skills and expertise to balance and manage corporate and financial risk. We also review and ensure there are appropriate succession plans in place for all key executive positions within the Company to minimise "key-man" risk.

We have advised the Board that a number of changes to the composition of Board sub-committees are required in 2015 to reflect changes to the composition of the Board and to ensure each committee complies with relevant independence criteria. The composition of the Board sub-committees will be reviewed ahead of the AGM in April 2015 and changes will be made consequent on the retirement of John McMonigall and Peter Weber.

In line with a recommendation of the UK Corporate Governance Code, during 2014, we appointed an independent third party to conduct an external evaluation of the Board. Findings and recommendations were presented to the Board in February 2015. In addition, in line with our updated Corporate Governance guidelines, the non-executive Directors met during 2014 to review the performance of the Chairman. This is now an annual process.

Finally, as we have outlined before, as a Board, we are open to feedback from Shareholders. John McMonigall is currently our Senior Independent Director and is available to Shareholders as are the Chairman and Chief Executive. All Directors are also available at the Group's Annual General Meeting and we encourage you to take advantage of this opportunity should you wish to meet with and engage in discussion with any member of your Board.

Russ Shaw
Chairman, Nomination Committee

Leadership – Dialog Board of Directors

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



From left: Eamonn O'Hare, Russ Shaw, Dr Jalal Bagherli, John McMonigall, Rich Beyer, Aidan Hughes, Chris Burke, Mike Cannon and Peter Weber.

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

In particular, the Board combines a group of Directors with diverse backgrounds within the technology sector, in both public and private companies, which combine to provide the Board with a rich resource and expertise to drive the continuing development of Dialog and advance the Company's commercial objectives.

Director biographies are set out below and further details on the composition of the Board, and the Board's sub-committees are detailed on pages 61 and 62.

Rich Beyer Chairman

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

He was the Chairman and CEO of Freescale Semiconductor from 2008 to 2012. Prior to this, he held successive positions as CEO and Director of Intersil Corporation, Elantec Semiconductor and FVC.com. He has also held senior leadership positions at VLSI Technology and National Semiconductor Corporation. In 2012, he was Chairman of the Semiconductor Industry Association Board of Directors and served for three years as a member of the US

Department of Commerce's Manufacturing Council. He currently serves on the Boards of Analog Devices and Micron Technology Inc and previously served on the Boards of Credence Systems Corporation (now LTX-Credence), XCeive Corporation and Signet Solar.

Rich served three years as an officer in the United States Marine Corps. He earned Bachelor's and Master's degrees in Russian from Georgetown University, and an MBA in marketing and international business from Columbia University Graduate School of Business.

External appointments

Rich currently serves on the Boards of Micron Technology Inc and Analog Devices Inc.

Board experience ●□

Dr Jalal Bagherli Executive Director (Chief Executive Officer)

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

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

External appointments

Jalal is a non-executive director of Lime Microsystems Ltd since 2005 and was the Chairman of the Global Semiconductor Association Europe from 2011 to 2013.

Board experience ●□

Chris Burke

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

External appointments

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

Committee membership S* R
Board experience ●○□

Mike Cannon**Independent non-executive Director**

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

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

External appointments

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

Committee membership R* N
Board experience ●□

Aidan Hughes**Independent non-executive Director**

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

External appointments

Aidan is a non-executive director and Chair of Audit Committee for Ceres Power Holdings Plc and has a part-time executive role in leading UK software company Corelogic Limited. He is also an investor and adviser to a number of international private technology companies.

Committee membership A N S
Board experience ●■□

John McMonigall**Independent non-executive 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. In 2012, John was appointed the Senior Independent Director at Dialog.

External appointments

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

Committee membership A N
Board experience ●■□

Eamonn O'Hare**Independent non-executive Director**

Eamonn joined the Board in May 2014 as an independent non-executive director and was appointed as Chairman of the Audit Committee in December 2014. Eamonn has spent over two decades as CFO of some of the world's fastest growing consumer and technology businesses. From 2009 to 2013, he was CFO and main board member of the UK's leading entertainment and communications business, Virgin Media Inc. and led its successful sale to Liberty Global Inc. in 2013. From 2005 to 2009, he served as CFO of the UK operations of one of the world's largest retailers, Tesco plc. Before joining Tesco he was CFO and Board Director at Energis Communications and led the successful turnaround of this high profile UK telecoms company. Prior to this Eamonn spent ten years at PepsiCo Inc. in a series of senior executive roles in Europe, Asia and the Middle East.

Eamonn spent the early part of his career in the Aerospace industry with companies that included Rolls-Royce PLC and BAE Systems PLC.

External appointments

Eamonn's 20 years of experience as a Chief Financial Officer and Board Director in many leading consumer facing and technology orientated businesses, brings a wealth of relevant business and financial expertise as well as extensive knowledge of financial management and accounting principles.

Committee membership A*
Board experience ■□○

Russ Shaw**Independent non-executive Director**

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

External appointments

Russ is currently a non-executive Director for Unwire A.p.S. and LetterOne Telecom.

Committee membership N* R
Board experience ●○□

Peter Weber**Independent non-executive Director**

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

External appointments

Peter is a Director of a number of private companies.

Committee membership A R S
Board experience ●■

Committee Membership

A = Audit Committee
N = Nomination Committee
R = Remuneration Committee
S = Strategic Transaction and Technology Committee

* denotes Chair of the committee

Board experience

- Technology
- Telecommunications
- Finance
- Governance

Leadership – Management team



Back row from left: Udo Kratz, Christophe Chene, Jean-Michel Richard, Andrew Austin, Davin Lee and Mark Tyndall.

Front row from left: Vivek Bhan, Mohamed Djadoudi, Dr Jalal Bagherli, Sean McGrath and Martin Powell.

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 was the Chairman of Global Semiconductor Association Europe from 2011 to 2013. He has a BSc (Hons) in Electronics Engineering from Essex University, and holds a PhD in Electronics from Kent University, UK.

Andrew Austin Senior Vice President, Sales

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

Vivek Bhan Senior Vice President, Engineering

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

Christophe Chene Senior Vice President, Asia

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

Mohamed Djadoudi

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

Udo Kratz

Senior Vice President and General Manager, Mobile Systems Business Group
Udo joined Dialog in May 2006. He is responsible for the Audio and Power Management Business Unit. 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.

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

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

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

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

Martin Powell**Senior Vice President, Human Resources**

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

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

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

Mark Tyndall**Senior Vice President, Corporate Development and Strategy and General Manager Emerging Products Business Group**

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

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

Management team

Name	Role	Tenure with Dialog (years)
Dr Jalal Bagherli	Chief Executive Officer	9
Andrew Austin	Senior Vice President, Sales	5
Vivek Bhan	Senior Vice President, Engineering	1
Christophe Chene	Senior Vice President, Asia	3
Mohamed Djadoudi	Senior Vice President, Global Manufacturing Operations and Quality	7
Udo Kratz	Senior Vice President and General Manager, Business Group Mobile Systems	8
Davin Lee	Senior Vice President and General Manager Power Conversion Business Group	1
Sean McGrath	Senior Vice President and General Manager, Connectivity, Automotive and Industrial Business Group	2
Martin Powell	Senior Vice President, Human Resources	4
Jean-Michel Richard	CFO, Senior Vice President Finance	8
Mark Tyndall	Senior Vice President, Corporate Development and Strategy and General Manager Emerging Products Business Group	6

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 2014. These accounts have been prepared under IFRS and are available on the Company's website: www.dialog-semiconductor.com

Principal activities and review of the business

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

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

Further information on the principal activities of the business and the factors affecting future developments are detailed in the Group's Strategic report set out on pages 02 to 50. Information on treasury policies and objectives is included in note 2 to these financial statements.

Future developments

The Group's stated objective is to be the leading global supplier of highly integrated, mixed signal ICs, optimised for personal portable, low energy short-range wireless, LED solid-state lighting and automotive applications. The key aspects of the Group's strategy are set out in the Strategic report on pages 14 to 23.

Research and development (R&D)

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

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

Greenhouse gases

Corporate responsibility and a commitment to sustainable business practices are important to the Dialog business model and a component of Dialog's strategy to deliver long-term profitable growth. Our commitment to environmentally oriented, sustainable business practices is evidenced in our commitment to continue to reduce CO₂ emissions and minimise the carbon footprint of our business. We achieved a reduction of CO₂ emissions of 44% in our design centres in 2014 and this follows a 40% reduction in 2013 and a 34% reduction in 2012. Further details on the Group's commitment to sustainable and environmentally friendly business practices are set out on pages 42 to 45.

Going concern

The Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue for the foreseeable future. The Group holds US\$324 million of cash at the year end (2013: US\$186 million) and has continued access to a US\$10 million borrowing facility. The Group expects to continue to deliver revenue and profit growth in the period ahead. For these reasons, the Directors have adopted the going concern basis in preparing the financial statements.

Dividends

The Directors do not recommend the payment of a dividend for 2014 (2013: nil). They are committed to reinvesting all profits into the business and believe that this policy is currently in the best interests of its Shareholders.

Purchase of own shares

The Company operates an Employee Benefit Trust, which purchases shares in the Company for the benefit of employees under the Company's share option scheme, Long Term Incentive Plan, Executive Incentive Plan and Employee Share Plan. Since the Company has *de facto* control of the assets and liabilities of the Trust, they are included in the Company and Group balance sheets. At 31 December 2014, the Trust held 2,787,214 shares, which represented 3.92% of the total called-up share capital, at a nominal value of £278,721.

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 22 to the consolidated financial statements.

Substantial shareholdings

Details of substantial shareholdings are on page 63 of this annual report.

Directors

The Directors, together with their biographies, are listed on pages 52 and 53 of this report.

Powers of Directors

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

Directors' remuneration and interests

Directors' remuneration and interests are detailed in the Directors' remuneration policy report on pages 68 to 74 of this report. No Director had a material interest during the year ended 31 December 2014 in any contract of significance with any Group Company.

Directors' third-party indemnity provisions

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

Election and re-election of Directors

In accordance with the Company's Articles of Association, one-third of the Directors have to stand for re-election at the Annual General Meeting. Any Director who has been on the Board for more than nine years

is subject to annual re-election. The next Annual General Meeting will be held on 30 April 2015 at 9am at Tower Bridge House, St Katharine's Way, London E1W 1AA.

Corporate Governance

The Company's Corporate governance statement is set out on pages 59 to 66 of this report. We also publish, on our website, our own Corporate Governance principles which have regard to the UK Corporate Governance Code and other best practice corporate governance policies.

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 2014 were 51 days (2013: 65 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 46 to 50 of this report.

Financial instruments

The Group's financial risk management and policies, and exposure to risks, are set out on pages 49 to 50 of this report.

Political and charitable contributions

The Group made no political contributions during the period. Dialog made charitable contributions of US\$500,282 to local community projects (2013: US\$485,300). Further details of the Group's commitment to corporate and social responsibility are set out on pages 42 to 45 of this report.

Employee policies

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

Diversity and equal opportunity

In 2014, Dialog operated from 30 locations in 15 countries with a highly diverse workforce, incorporating employees from 58 nationalities.

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

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

Gender diversity is of particular importance. Women comprise 15.8% of the overall workforce of 1,373 employees and further details are set out on page 40 of this report. Although this is in line with the industry standard, the Company is supporting various initiatives in the areas of STEM education for young women in the UK, US and Taiwan to encourage more women to pursue careers in engineering and electronic engineering.

Directors' report

Disabled persons

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

Statement on disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on pages 52 and 53 of this report. Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors affirms that:

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

Responsibility statement under the disclosure and transparency rules

Each of the Directors listed on pages 52 and 53 of this report confirm that to the best of their knowledge:

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

Takeovers directive

At 31 December 2014, 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 22 to the consolidated financial

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

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

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

Details of changes in share capital can be found in note 22 to the consolidated financial statements.

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

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

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

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occur because of a takeover bid. The agreement between the Company and its Directors for compensation for loss of office are given in the Director's remuneration policy report on page 68 of this report.

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

Annual General Meeting

The notice convening the Annual General Meeting will be published separately and posted on the Company's website. The meeting will be held at Tower Bridge House, St Katharine's Way, London E1W 1AA on 30 April 2015 at 9am.

By order of the Board

Dr Jalal Bagherli
Director
19 February 2015

Corporate Governance statement

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

Board of Directors – role and responsibilities

As Dialog is incorporated in the UK and follows governance principles which have regard to the UK Corporate Governance and other best practice governance principles, it maintains a single Board structure. The Board has overall responsibility for the leadership, control and oversight of the Company. The day-to-day responsibility for the management of the Company has been delegated by the Board to the Chief Executive Officer (CEO), who is accountable to the Board. The CEO executes this authority through an executive management team outlined on pages 54 and 55 of this report. In addition, a number of responsibilities of the Board are delegated to sub-committees of the Board; details of which are set out below.

Matters reserved for the Board

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

Chairman

Mr Rich Beyer is Chairman of the Board. Rich was appointed on 23 July 2013 and was determined by the Board to be independent on his appointment to the Board. The Chairman is responsible for the effective working of the Board while the CEO, together with the executive management team, is responsible for the day-to-day running of the Company. The functions of Chairman and CEO are not combined and both roles' responsibilities are clearly divided.

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

Board composition

The Board currently comprises nine Directors who are listed below. During 2014, Eamonn O'Hare was appointed to the Board as an independent non-executive Director. Details on his recruitment are set out below.

Gregorio Reyes also served as a Director on the Board during 2014 up until his retirement on 1 May 2014.

The Board of Directors comprises a mix of the necessary skills, knowledge and experience required to provide leadership, control and oversight of the management of the Company and to contribute to the development and implementation of the Company's strategy. In particular, the Board combines a group of Directors with diverse backgrounds within the technology sector, in both public and private companies, which combine to provide the Board with a rich resource and expertise to drive the continuing development of Dialog and advance the Company's commercial objectives. In addition, the geographic background of the Board is diverse and it includes Directors who have worked in North America, Europe and Asia. Director biographies are set out on pages 52 and 53.

Board refreshment and renewal

The Board is committed to a policy of ongoing Board refreshment and renewal. The Nomination Committee continually reviews the composition and diversity, including gender diversity, of the Board; and the skills and experience of each of the Directors. The relevant skills and experience of each Director are set out under individual biographies, which are detailed on pages 52 and 53.

Board composition

Director	Status	Independent/Non-independent	Tenure (years)	Concurrent tenure* (years)
Rich Beyer	Current	Independent (Chairman)	2	2
Dr Jalal Bagherli	Current	Non-independent (Executive)	9	N/A
Chris Burke	Current	Independent	8	8
Mike Cannon	Current	Independent	2	2
Aidan Hughes	Current	Independent	10	9
John McMonigall	Current	Independent	17	9
Eamonn O'Hare	Current	Independent	1	1
Russ Shaw	Current	Independent	8	8
Gregorio Reyes	Retired	Non-independent	–	–
Peter Weber	Current	Independent	9	9

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

Corporate Governance statement

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

Consistent with a commitment to ongoing Board refreshment and renewal, one new Director was appointed to the Board in 2014. The Nomination Committee engaged in a process to appoint a new Director who would bring specific industry experience to the Board. Candidates were identified through a variety of methods. The Nomination Committee engaged an external search and recruitment agent to identify potential candidates and to assist in selecting and recommending candidates. The recruitment agent has no other relationship with Dialog other than in the role to assist in the identification and recruitment of Board Directors. Informal industry contacts were also used. The Committee, which is committed to achieving a greater level of gender diversity on the Board over time, made considerable effort to ensure that gender was a significant consideration factor in the identification of potential candidates in addition to relevant industry and public company board experience.

Following a thorough process, candidates met with Committee members and the Chairman prior to appointment. Eamonn O'Hare was appointed to the Board on the strength of industry experience and skills he can bring to the Board of Directors as a whole for the benefit of all Dialog Shareholders. Eamonn also joined the Audit Committee and assumed the role of Chairman of the Audit Committee in December 2014.

During the year, Gregorio Reyes retired from the Board having served as a Director since 2003 and as Chairman from 2006 to 2013. Two further Directors, John McMonigall and Peter Weber, have also indicated to the Board that they will not seek re-election to the Board at the April 2015 AGM. John and Peter are long-standing members of the Board, having served for 17 and nine years respectively, and they have both made a significant contribution to the growth and development of Dialog during their tenure.

Board size

At the end of 2014, the Board comprised nine Directors. A maximum of ten Directors is allowable under Dialog's Articles of Association. The nine members of the Dialog Board includes one Executive Director and eight independent, non-executive Directors (including the Chairman). The Nomination Committee has reviewed the size and performance of the Board during the year. A Board of nine Directors has and continues to function effectively; comprises the skills, knowledge and experience required by Dialog; is not so large as to be unwieldy; and meets Corporate Governance best-practice guidelines on independence.

Board independence

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

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

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

As part of its annual review in 2014, 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 issues 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, has, in no way, been 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 has been of significant benefit to the Board as a whole.

Despite his continuing valued contribution to the Board, Mr McMonigall will retire, together with Peter Weber from the Board in 2015 and will not seek re-election at the 2015 AGM.

Following the retirement of John McMonigall and Peter Weber at the AGM, the Board will, excluding the Chairman, comprise five independent non-executive Directors and one Executive Director and will, therefore, remain compliant with best-practice independence guidelines.

Senior Independent Director

John McMonigall is currently the 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.

Audit Committee Financial Expert

Dialog's Audit Committee is comprised of a number of Directors who have recent and relevant financial experience.

Aidan Hughes, the former Chairman of the Audit Committee is a qualified chartered accountant; a Fellow of the Institute of Chartered Accountants in England and Wales; and has significant experience as a senior accountant and Finance Director at a number of public companies. His biography is set out on page 53.

2014 Board and sub-committees

Director	Board	Audit	Remuneration	Nomination
Number of meetings in 2014	5	5	5	5
Meetings attended				
Richard Beyer	5			
Dr Jalal Bagherli	5			
Chris Burke	5		5	
Michael Cannon	5		5	5
Aidan Hughes	5	5		5
John McMonigall	4	4		4
Eamonn O'Hare	4	3		
Russ Shaw	5		5	5
Gregorio Reyes	1			
Peter Weber	4	4	5	

Aidan Hughes, former Chairman of the Audit Committee, Eamonn O'Hare current Chairman of the Audit Committee, Russ Shaw, Chairman of the Nomination Committee; and, Mike Cannon, Chairman of the Remuneration Committee are also available to Shareholders should they have specific concerns or issues relevant to their respective Committees. The Strategic Transaction and Technology Committee has been abolished and matters previously reserved for this Committee are now considered by the Board as a whole.

In addition, Eamonn O'Hare, the incoming Chairman of the Audit Committee, also has two decades experience as CFO at some of the world's fastest growing consumer and technology businesses.

Company Secretary

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

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

Tim Anderson of Reynolds Porter Chamberlain LLP is the Company Secretary and has served in this role for over 15 years.

Board meetings

The Board holds at least five Board meetings each year. The Board may meet more frequently as required. The number of meetings of Board sub-committees each year varies by Committee. There were five Board meetings in 2014. The attendance at Board and sub-committee meetings by the Directors who held office in 2014 is set out above. The Board places considerable importance on attendance at both scheduled Board and sub-committee meetings. During the year, no Director attended less than 75% of scheduled Board or Board sub-committee meetings to which they were entitled to attend. At scheduled Board meetings, the Board also meets without the Executive Director present.

In addition, in line with our updated Corporate Governance guidelines, the non-executive Directors meet annually to review the performance of the Chairman. This process, which commenced in 2014, is now an annual process.

All of the Company's non-executive Directors attended this meeting.

Director induction and continuing development

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

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

Director training and development

The Board is committed to a programme of periodic training and development of its Directors. As part of this process, at least one Board meeting is held at the location of one of the Company's international offices each year. During 2014 one Board meeting was held at Los Gatos, California and another meeting at the Company's office in Den Bosch.

The Company has also put in place a process of periodic training sessions for Directors which are facilitated by a third party. In 2014, the Board received a training session on Crisis Management.

Performance evaluation

The Board recognises the importance of continuing evaluation of the performance of the Board and its Committees and a review of the operation and performance of the Board and its Committees is undertaken annually.

An annual, internal review was conducted in 2012 and 2013. For 2014, however, consistent with corporate governance best-practice, the Board engaged an independent third party to conduct an evaluation.

Corporate Governance statement

The evaluation was conducted in 2014 by Equity Communications Ltd, a company which has no other connection with Dialog. The findings of the evaluation were presented to the Board in February 2015 and the Board is considering ways to best implement its recommendations.

As referenced previously, the non-executive Directors also met in 2014 to review the performance of the Chairman. All of the Company's non-executive Directors attended this meeting.

External non-executive directorships

The Board believes that a broadening of the skills, knowledge and experience of non-executive Directors is of benefit to the Company. The Company welcomes the participation of the non-executives on the Boards of other companies. To avoid potential conflicts of interest, non-executive Directors inform the Chairman of the Nomination Committee before taking up any external appointments. Details of the non-executive positions of each Director are set out under individual biographies which are detailed on pages 52 and 53.

Directors' fees

The annual fee for non-executive Directors is £80,000. The annual fee for the Chairman is £110,000. The Chair of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategic Transaction and Technology Committee received an additional fee of £10,000 for their role on that Committee.

The other Committee members receive no additional fee for serving on those Committees. Details of the activities of these Committees during 2014 are set out on pages 64 to 66.

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

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

The compensation of the executive Director comprises a base salary and variable components. Variable compensation includes an annual bonus linked to, and dependent on, certain business targets as well as long-term incentives. The executive Director's remuneration is inclusive of any Director's fee. Further details are set out in the Directors' report on remuneration which begins on page 67.

Share ownership and dealing

Details of Directors' shareholdings are set out on page 78. The Company has a policy on dealing in shares that applies to all Directors and senior management. Under this policy, Directors are required to obtain clearance from the Chief Executive Officer (or in the case of the Chief Executive Officer himself, from the Chairman) before dealing.

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

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

Loans to Directors or senior executives

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

Board sub-committees

The Board has established a number of sub-committees to assist in the execution of its responsibilities. During 2014, these were: Audit Committee, Remuneration Committee, Nomination Committee and Strategic Transaction and Technology Committee. Ad hoc committees are formed from time to time to deal with specific matters.

During the course of 2014, however, it was decided that the matters considered by the Strategic Transaction and Technology Committee are capable of being considered by the Board as a whole. Consequently, while the Committee functioned well, the Board has decided to abolish this committee from 2015 onwards.

Committee members

Audit Committee	Nomination Committee	Remuneration Committee
Emmon O'Hare (Chair)	Russ Shaw (Chair)	Mike Cannon (Chair)
Aidan Hughes	John McMonigall	Chris Burke
John McMonigall	Aidan Hughes	Russ Shaw
Peter Weber	Mike Cannon	Peter Weber
100% independent (4 of 4)	100% independent (4 of 4)	100% independent (4 of 4)

The composition of the Board sub-committees will be reviewed ahead of the AGM in April 2015 and changes will be made consequent on the retirement of John McMonigall and Peter Weber.

The composition of the Board sub-committees, as at 19 February 2015, is set out on page 62. Attendance at meetings held in 2014 is set out in the table on page 61. The composition of the Board sub-committees, will be reviewed ahead of the AGM in April 2015 and changes will be made consequent on the retirement of John McMonigall 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. The reports of each of the Board sub-committees are set out on pages 64 to 66 of this report.

Relations with Shareholders

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

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

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

In June 2014, Dialog hosted a day of presentations and product displays, for institutional investors and analysts. The event was attended by some of Dialog's senior management team.

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

Significant Shareholders

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

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

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

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

6.18%	Waddell & Reed
3.98%	Kleinwort Benson (Jersey) Trustees 2011 Limited as Trustee of the Dialog Semiconductor plc Employee Benefit Trust
3.01%	BNP Paribas Investment Partners S.A.

As of 10 February 2015, the Company was aware of the following holdings:

4.34%	Kleinwort Benson (Jersey) Trustees (2011) Limited as Trustee of the Dialog Semiconductor plc Employee Benefit Trust
4.04%	BNP Paribas Investment Partners S.A.
3.84%	Waddell & Reed

Dialog's free-float is 67,983,136 or 95.7% of the outstanding shares. The free-float is calculated by excluding the 3,085,794 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 2014:

The Bank of New York Mellon SA/NV	9,668,171
Citigroup Global Markets	7,349,240
BNP Paribas Securities Services	4,688,073
State Street	4,610,163
Clearstream Banking S.A.	3,309,883
Chase Nominees Ltd	3,191,294
Nortrust Nominees Limited	2,950,040
CACEIS Bank Deutschland	2,495,640
RBC Investor Services Trust	2,257,177

Corporate Governance statement

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 46 to 50.

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 2014 and up to the date of the approval of the 2014 annual report and financial statements. The Board and Audit Committee can confirm that necessary actions are being undertaken to remedy any perceived failings or weakness identified from these ongoing process reviews.

Dialog Board sub-committees

As set out in the Corporate Governance Report, the Board has established a number of sub-committees to assist in the execution of its responsibilities. During 2014, these were: Audit Committee, Remuneration Committee, Nomination Committee and Strategic Transaction and Technology Committee. Reports on the activity of these committees during 2014 are set out on the following pages. There is a standalone report for the Remuneration Committee on page 66.

Audit Committee

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

During 2014, the Audit Committee comprised only independent non-executive Directors: Aidan Hughes, John McMonigall and Peter Weber. Eamonn O'Hare also joined the Committee following his appointment to the Board.

As set out on page 60, the Board has determined that both Eamonn O'Hare and Aidan Hughes have recent and relevant financial experience.

The Audit Committee meets a minimum of four times a year. In 2014, the Committee met five times. Attendance at meetings held is set out in the table on page 61. The Committee also meets privately with the internal and external auditors and separately with the executive management and executive Director.

Aidan Hughes stepped down as Chairman of the Committee at the December 2014 Board meeting. Aidan Hughes has served in this role for nine years. Eamonn O'Hare has succeeded Aidan Hughes as Chairman.

The Audit Committee's main responsibilities include to:

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

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

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

Activity in 2014

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

- the Audit Committee reviewed the 2013 full-year results announcement issued in February 2014.
- the Audit Committee reviewed the annual report and financial statements – including the report of the external auditor – for the year ended 31 December 2013 issued in February 2014.
- the Audit Committee reviewed the quarterly financial statements issued in May, July and October 2014.
- the Audit Committee considered whether or not to recommend the reappointment of the external auditor.
- the Audit Committee reviewed the external audit plan presented by the external auditor in advance of the audit for the year ended 31 December 2014.
- the Audit Committee approved the annual internal audit plan and received and reviewed internal audit reports including the annual assessment and review of internal controls.
- the Audit Committee reviewed and monitored the effectiveness of the Group's risk management process.

External auditor

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

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

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

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

External auditor and non-audit work

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

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

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

Details of the amounts paid to the external auditor during the year for audit and other services are set out on page 113. 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 2014, the non-audit fees paid to the external auditor represented over 100% of the audit fee. Dialog has a policy that non-audit fees should not exceed audit fees save in exceptional circumstances.

The majority of fees paid for non-audit services in 2014 relate to due diligence and other work on a potential merger and other M&A activities and the advice relating to the tax implications of the on going exercise to align our IP ownership with the commercial structure of the Group which started in 2013. The appointment of tax advisers in relation to this tax planning exercise was the subject of the formal tendering process during 2013 which included three leading tax firms.

EY was commissioned to perform an IP valuation which was completed in Q1 2014. Subsequently, the Audit Committee was informed by EY that they had breached their auditor independence regulations by carrying out this work and, accordingly, this valuation could not be used for audit purposes. This situation has been resolved by management, with the support of external advisors KPMG, performing additional works and procedures which have been used for 2014 year end purposes.

The Company's existing external auditor, Ernst & Young, was appointed in 2006. As part of good governance practice, the lead audit partner was rotated in 2011 after a period of five years. As set out in the Company's Corporate Governance principles, Dialog is committed to putting out the statutory audit to tender every ten years and will commence this process in 2015.

Nomination Committee

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

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

During 2014, the Nomination Committee comprised Russ Shaw (Chair), John McMonigall, Aidan Hughes and Mike Cannon. The Committee comprised only independent non-executive Directors. By invitation, other members of the Board may attend the Committee's meetings. The Committee is free to seek its own advice free from management as it deems appropriate.

Corporate Governance statement

During the year the Committee used the services of an external search and recruitment agency to assist with the recruitment of new Directors. The firm, Russell Reynolds, is an independent third party and has no other connection with Dialog.

During the year the Committee met formally on five occasions. Attendance at scheduled meetings is set out on page 61.

Activity in 2014

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

- review the composition of the Board to ensure the Directors have the skills and expertise to effectively oversee the implementation of the Group's stated strategy;
- identify and recruit new Directors to the Board: one new Director, Eamonn O'Hare was recruited during the course of 2014; and
- review succession arrangements for all key executive positions.

The Remuneration Committee

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

During 2014, the Remuneration Committee comprised Mike Cannon (Chair) Chris Burke, Russ Shaw and Peter Weber. The Committee comprised only independent non-executive Directors. By invitation, other members of the Board may attend the Committee's meetings. The CEO and the Senior Vice President, Human Resources, may also attend by invitation but take no part in discussions or decisions on matters relating to their own remuneration. The Committee is free to seek its own advice free from management as it deems appropriate.

During the year the Committee sought and received general advice relating to remuneration from two independent advisers: Towers Watson and New Bridge Street. Both companies are signatories to the Remuneration Consultants Group Code of Conduct and any advice was provided in accordance with this code. Neither Towers Watson or New Bridge Street provided any other services to Dialog during 2014 and neither firm has any other connection with the Company other than as adviser on issues relating to remuneration. Remuneration advice was also provided in 2012 and 2013 by Towers Watson.

In 2014, the Committee met formally on five occasions. In addition, the Committee Chairman held a number of meetings with advisers. Attendance at scheduled meetings is set out on page 61.

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

A detailed report on the work of the Remuneration Committee, during 2014, is set out on pages 67 to 84.

Strategic Transaction and Technology Committee

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

During 2014, the Strategic Transaction and Technology Committee comprised only independent non-executive Directors. The members during the year were Chris Burke (Chair), Aidan Hughes and Peter Weber.

During the year the Committee met at various times and on an ad-hoc basis generally by telephone.

The Strategic Transaction and Technology Committee has been abolished and matters previously reserved for this Committee are now considered by the Board as a whole.

Activity in 2014

During the year, the Committee reviewed and determined the criteria and focus of the Company in terms of technology enhancement and potential M&A activity. This includes a particular focus on sensor technology. This technology focus led to discussions with a potential partner, ams AG. While these discussions did not lead to a transaction, Dialog remains focused on ways in which it can add sensor technology capability to its business.

Jalal Bagherli
CEO

Directors' remuneration report

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

Dear Shareholder,

On behalf of the Remuneration Committee I am pleased to present the Directors' Remuneration Report for 2014. The report is in two parts: the Directors' Remuneration Policy which describes the policy for the remuneration of executive and non-executive Directors, and the Annual Report on Remuneration which sets out the details of and basis for remuneration during 2014.

Performance and remuneration for 2014

Dialog recorded another year of strong financial performance in 2014 which is set out in detail in this Annual Report. The strong financial performance and continued execution of the Group's stated strategy has also delivered substantial value for shareholders. Total Shareholder Return (TSR) for 2014 was 88%. In the 10 years since the beginning of 2005, the year the current CEO was appointed, Dialog's TSR exceeded 1,500%. €1,000 invested in the company in January 2005 grew in value to over €16,000 at the beginning of 2015.

Based on the performance delivered for 2014, an annual bonus award of 178% of base salary has been achieved by the CEO for 2014. The portion of bonus above the target level (1x base salary) is deferred into shares for 3 years. The Executive Incentive Plan (EIP) for the period 2012-14 had a vesting level of 78%, driven by relevant performance metrics.

Base salary

The CEO's base salary, following review in July 2013, was set at £381,570 per annum. As the Committee set out in last year's Remuneration Report, this salary was significantly below market median for a company of Dialog's size, and as such, was not sustainable – particularly in view of Dialog's excellent performance and the growing scale of the business under the CEO's stewardship.

We indicated in last year's report our intention to apply an above-inflation increase to bring the salary to a mid-market level. The Committee has therefore awarded an increase of 10% effective 1 July 2014, bringing the CEO's annual salary to just under £420,000. The Committee considers this new level to be competitive relative to other semiconductor companies, and therefore any increase at the 1 July 2015 review date will be in line with the general rate of salary inflation.

Changes proposed for 2015

As the existing long-term incentive plan (LTIP), the Executive Incentive Plan (EIP), expires in May 2015, we are proposing a replacement LTIP plan, for shareholder approval at the 2015 AGM. The new LTIP is designed to better align remuneration with shareholders and to continue to support Dialog's strategy and the ongoing success of the business. The new plan will measure performance relative to the TSR of Dialog's peers; and the performance of the business based on two key financial metrics. There will be a cap on the vesting percentage under the relative TSR metric, in the event that Dialog's relative TSR outperforms peers but the absolute TSR is negative.

In proposing a new LTIP, we have also taken the opportunity to review and substantially simplify the CEO's remuneration package. The Committee proposes to remove elements of the package that are no longer appropriate at Dialog's current stage of business development. We plan to remove three existing components (ie. the EIP, the share matching plan, and an uncapped annual profit sharing bonus), and replace those three elements with performance-related annual awards under the new LTIP. The shareholding requirement for the Chief Executive will also be increased to a minimum of 300% of base salary from the previous requirement of 200% of base salary.

The replacement of the EIP, and simplification of the Chief Executive's package, will result in some amendments to the Directors' Remuneration Policy. A new policy is therefore being submitted for approval at the AGM.

Conclusions

Remuneration earned by Dialog executives in 2014 reflects the outstanding performance achieved. The changes proposed to the Directors' Remuneration Policy will simplify remuneration, and place it on a more sustainable basis for future years.

Mike Cannon

Chairman, Remuneration Committee

Directors' remuneration policy report

Our policy on remuneration

Following a review of remuneration in 2014, we are submitting a new policy for shareholder approval at the 2015 AGM. For the Chief Executive, the new policy will substantially simplify the remuneration package by replacing three elements of remuneration (the further profit sharing bonus, the matching plan, and the Executive Incentive Plan) with a single new LTIP award. The vesting of this new annual LTIP award will depend on Dialog's total shareholder return (TSR) relative to other semiconductor companies, which is a new performance metric, and two key financial metrics. There will also be a cap on the vesting percentage under the relative TSR metric, in the event that Dialog's relative TSR is good but its absolute TSR is negative. In addition, the previous defined benefit pension arrangement will be replaced with a simpler defined contribution policy.

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

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

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

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

Directors' remuneration policy table

The table below summarises Dialog's remuneration policy for Executive Directors and, where indicated, for non-executive Directors. It is designed to give the Remuneration Committee the ability over the life of the policy – expected to be three years – to make decisions without the need to seek Shareholders' approval on an annual basis. The policy is intended to take formal effect from the 2015 AGM, although the Remuneration Committee proposes that in practice the policy framework described will apply from 1 January 2015 subject to approval by Shareholders at the 2015 AGM.

Base salary	Executive Directors
Purpose and link to strategy	Facilitate recruitment and retention of the best executive talent globally – executives with the experience and expertise to deliver our strategic objectives at an appropriate level of cost.
Maximum opportunity	Base salary increases will not ordinarily exceed the percentage increases awarded for other UK-based Dialog employees with comparable levels of individual performance and potential. In cases where an Executive Director's base salary lies materially below the appropriate market competitive level and where such positioning is not sustainable in the view of the Remuneration Committee, annual increases may exceed those for other employees described above. The rationale for any such increase will be described in the annual report on remuneration for the relevant year.
Operation	Salary is reviewed annually, with any increases normally taking effect in July. A number of factors are considered including but not limited to market pay levels among international industry peers of comparable size, and base salary increases for other Dialog employees.
Performance framework	n/a
Changes in policy since 2014	No change.

Retirement benefits	Executive Directors
Purpose and link to strategy	Provide market competitive retirement benefits which help foster loyalty and retention.
Maximum opportunity	Employer contribution of 15% of base salary.
Operation	Executive Directors are provided with a defined contribution to pension or equivalent cash allowance arrangement.
Performance framework	n/a
Changes in policy since 2014	Employer contributions to the defined benefit plan were 9% of base salary.
Other benefits	Executive Directors
Purpose and link to strategy	Provide market competitive benefits at an appropriate cost which help foster loyalty and retention. Relocation benefits may also be provided based on business need, individual circumstances and location of employment.
Maximum opportunity	There is no maximum for benefits, but they represent a small percentage of remuneration. In the case of relocation, additional benefits may be provided, including but not limited to the cost of relocation expenses, real estate fees, tax equalisation to home country and tax return filing assistance, temporary housing and schooling. The Remuneration Committee has discretion to determine the value of such benefits and details of any such benefits provided will be disclosed in the annual report on remuneration covering the year in which they were provided.
Operation	Executive Directors are eligible to receive benefits including but not limited to a cash allowance in lieu of a company car, medical insurance for the Executive Director and his/her immediate family members, life and disability insurance, holiday (25-30 days a year, based on length of service) and pay in lieu thereof where applicable, and services to assist with preparation of a tax return or returns where necessary due to the international nature of work completed.
Performance framework	n/a
Changes in policy since 2014	No change.
Annual bonus plan	Executive Directors
Purpose and link to strategy	Motivate Executive Directors to achieve stretching financial and commercial objectives consistent with and supportive of Dialog's growth plans. Create a tangible link between annual performance and individual pay opportunity.
Maximum opportunity	Annual opportunity of up to 200% of base salary. The Committee retains discretion to adjust the overall bonus outcome to take account of performance outside the normal bounds. This discretion cannot be used to raise the bonus outcome above 200% of base salary.
Operation	The portion of any award up to 100% of base salary is paid in cash, and the portion of any award above 100% of base salary is awarded in deferred shares. Deferred shares vest after three years. The Committee may vary the performance measures and mix used to adapt to changing Company circumstances. Financial measures will be a significant portion of the total scorecard.

Directors' remuneration policy report

Annual bonus plan	Executive Directors
Performance framework	<p>Performance metrics include:</p> <ul style="list-style-type: none"> • financial goals (which determine a significant portion of bonus every year); • commercial goals, and • organisational and employee-related goals. <p>For financial metrics, performance is set in line with the stretch annual budget.</p>
Changes since 2014	The additional profit sharing bonus, which was uncapped, has been removed. This bonus was equivalent to 1% of the Group's annual consolidated profit after tax and interest but before extraordinary items, less the value of the maximum base bonus described above (i.e. 200% of salary). In addition, the matching award on deferred bonus has been removed for bonus deferral in relation to the 2015 bonus or any future years.
Long term incentive plan ("LTIP")	Executive Directors
Purpose and link to strategy	Motivate Executive Directors to deliver sustainable long-term Shareholder value through long-term profitability and share price growth.
Maximum opportunity	The maximum face value of an annual award is £4 million at the date of grant. This is equivalent to a target award of £2 million. However, the first award in 2015 will have a maximum face value of £3 million at the date of grant, equivalent to a target award of £1.5 million.
Operation	<p>Annual award of performance shares (which may also be in the form of nominal/nil-cost options). Performance is measured over three years, based on performance metrics selected by the Remuneration Committee to support the Company's business strategy.</p> <p>Vesting is dependent on continued employment with the Company at the time of vesting. Certain "leaver" provisions apply and are described in the section headed "Termination Arrangements" below.</p>
Performance framework	<p>Performance metrics include suitable Company financial performance metrics and at least one-third on a relative TSR condition measured versus a comparator group. The Committee reviews and selects appropriate measures and their weightings in advance of each award.</p> <p>25% of the maximum award vests for threshold performance, 50% of the maximum award vests for target performance and 100% of the maximum award vests for maximum performance as defined by the Remuneration Committee under the plan.</p> <p>For the relative TSR condition, Dialog Semiconductor TSR is measured over the three-year performance period and compared to the companies in the comparator group. If Dialog TSR is at the median of the comparator group then 25% of the maximum award vests. If Dialog TSR is at the 60th percentile of the comparator group then 50% of the maximum award will vest. If Dialog TSR is at or above the 75th percentile of the comparator group then 100% of the maximum award will vest. For performance in between these levels vesting is determined on a straight-line basis.</p> <p>If Dialog TSR is negative over the 3-year performance period, then the maximum number of shares which can vest subject to the relative TSR condition will be capped at 50% of the maximum award, even if relative TSR is above 60th percentile.</p> <p>For the Company financial performance component, targets are normally set annually over the three-year performance period.</p>
Changes in policy since 2014	The new LTIP replaces the previous Executive Incentive Plan, the uncapped 'further profit sharing bonus', and the share matching plan. The maximum for the LTIP has been set to take account of the removal of these three elements and market median long-term incentive award levels for the other international semiconductor companies of similar size to Dialog, which are US-listed companies. The share price performance metric previously used has been replaced with a relative TSR metric.

Termination arrangements	Executive Directors
Purpose and link to strategy	To limit the Company's liability for payments in cases of termination, and to provide a fair and equitable settlement where appropriate.
Maximum opportunity	<p>The Company will provide six months' notice of termination or payment in lieu of notice. Payment in lieu of notice will be limited to the pro rata value of base salary and the other benefits described under the retirement benefits and other benefits sections above.</p> <p>The notice period provided will extend to 12 months on a change of control of Dialog.</p> <p>Where applicable, Executive Directors are also entitled to receive payment on termination in lieu of holiday accrued but not used.</p> <p>In the event that an Executive Director's contract is terminated during a financial year, a time pro-rated bonus award may be paid following the end of the year and subject to the full-year performance against targets.</p> <p>Termination provisions for the LTIP are as follows:</p> <ul style="list-style-type: none"> • If an executive Director is not employed by the Company at the time of vesting, the award will lapse, except in certain circumstances as determined by the Board including death, disability, retirement and any other circumstance as decided by the Board. The portion of any award which vests will be determined by the Board based on a number of factors including performance against targets. Alternatively, the Board may decide that outstanding awards will vest in accordance with the normal vesting schedule. Unless the Board decides otherwise, in all cases the vesting level will be reduced in accordance with the period of service. • In the event of a change in control of the Company, awards will be subject to the relevant provisions of the plan rules which provide for either early vesting at the time of change in control or roll-over into shares of the new entity. In the event that early vesting at the point of change in control occurs, the normal approach will be to apply pro-ratation of awards for time and the vesting level will be subject to performance. In the event of roll over into shares of the new entity, the Board will determine the terms to apply to the rolled-over awards taking account of the circumstances including performance. All deferred bonus shares shall vest and be released.
Non-executive Directors	
Purpose and link to strategy	Supports recruitment and retention of a non-executive Director with the experience and skills that will make a major contribution to the Dialog Board.
Maximum opportunity	Aggregate fees are subject to the limit set out in the Articles of Association or any such higher amount as determined by ordinary resolution.
Operation	<p>Fees are normally reviewed annually. Fees may be paid in a combination of cash and shares subject to any requirements of the Articles of Association of the Company or shareholder resolution. Non-executive Directors' fees are not eligible for any incentive awards or share options.</p> <p>The Chairman's fee is determined by the executive Directors with input from the Remuneration Committee. Other non-executive Directors may be reviewed annually by the Chairman and executive Directors.</p> <p>Non-executive Directors may also receive tax advice.</p> <p>In addition to the fees referred to above, non-executive Directors are also reimbursed for the costs of travel relating to the performance of their duties, and these costs may be grossed-up if treated as a taxable benefit in the applicable jurisdiction.</p>
Performance framework	Fee reviews take account of individual performance and contribution, company size, growth and complexity, level of experience and market profile and time committed.

Note: In approving this policy, authority is given to the Company to honour any existing commitments entered into with current or former Directors. For example, historical EIP awards and share option awards will be allowed to vest in line with the policy in place at the date of grant. Details of any payments will be set out in the Annual Report on Remuneration as they arise.

Directors' remuneration policy report

Remuneration of Directors on recruitment and appointment

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

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

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

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

Pay component	Approach in application to recruitment situations
Annual base salary or fee	<p>The following factors will be taken into account when determining appropriate base salary/fee:</p> <ul style="list-style-type: none"> • the candidate's existing salary/fee, location of employment, skills and experience and expected contribution to the new role; • the previous incumbent's salary/fee for the same role; • the current salaries/fees of other Dialog Directors; • current relevant market pay data for the role; and • the value of other elements of remuneration to be provided and the combined value of the total package.
Other benefits	<p>The Company recruits executives on a global basis and recruitment is a case in which the Remuneration Committee may choose to exercise the discretion described in the policy table above to provide relocation benefits. In cases where the Committee believes that the Company and its Shareholders' interests will be served best by provision of relocation benefits the Committee will seek to limit these benefits both in terms of their value and the period over which they are provided. Benefits provided may include relocation allowances and global mobility benefits such as housing or schooling as described in the policy table, which may be provided on consideration of family size and business need.</p>
Long-term incentive	<p>The Committee has discretion to provide awards under the LTIP which exceed the maximum outlined in the policy table above in cases where it considers it necessary in order to facilitate recruitment of high-calibre executives. Such awards may be provided as compensation for remuneration foregone at a previous employer as described in the row below. The Committee also has discretion to provide such awards in other circumstances where it considers them necessary to secure an executive's appointment. In cases other than compensation for or "buy-out" of previous awards, LTIP target awards in addition to normal policy levels will be limited to 100% of a target executive's Dialog salary.</p>

Pay component	Approach in application to recruitment situations
Compensation for forfeited remuneration	<p>The Committee may choose to compensate for forfeited remuneration when recruiting an external candidate by providing replacement awards.</p> <p>Where a replacement award is deemed to be necessary, the structure and level will be carefully designed in accordance with the recruitment principles above. Such awards would be designed to take account of the vesting period and where applicable, the performance conditions of the awards they replace. They may include "clawback" provisions. An explanation of the basis of any "buy-out" will be provided as soon as practicably possible after appointment.</p>
Service contracts	Notice periods offered to new Executive Directors will not exceed 12 months.

Clawback and malus policy

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

Shareholding requirement

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

Contract terms

Contracts for Executive Directors provide for notice periods no longer than 12 months on either side. The current CEO's contract provides for six months' notice on either side (which is extendable to 12 months' notice in the case of a change of control), during which only base salary and benefits are payable, and a time pro-rated bonus award may be paid following the end of the year and in accordance with the full-year performance against targets as described in the termination arrangements section on page 71.

Share options for non-executive Directors

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

Remuneration policy for executive Directors compared to that for other employees

The Company's remuneration policy for Executive Directors is similar to that for all other Dialog employees.

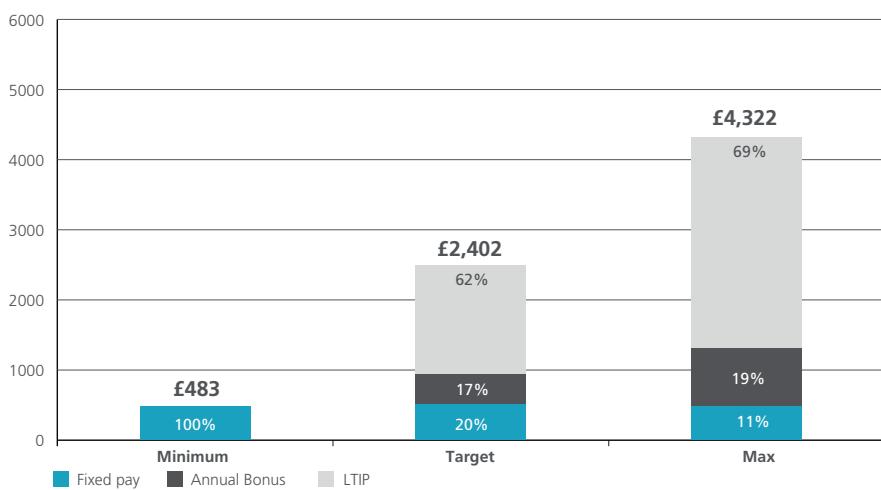
Differences in policy are outlined below:

- annual bonus – All Dialog employees participate in annual bonus plans. The nature of those plans varies somewhat by location and employee category. Most employees participate in a profit-sharing plan; a smaller group participates in a plan based on performance against individual objectives.
- LTIP – Participation in the LTIP is limited to employees in senior roles and executives which currently comprise around 30 Dialog employees. This number may increase over time as the business grows.
- notice periods – Most other UK employees' contracts of employment include three-month notice periods.

Directors' remuneration policy report

Indicative remuneration levels resulting from policy

The charts below represent for the 2015 year the pay mix between the different elements of remuneration for the CEO, assuming threshold, target and maximum performance. Amounts are shown in GBP (000s).



The scenarios shown above are based on the following assumptions:

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

We have assumed that the first grant in 2015 under the LTIP will have a face value of £3m (target award of £1.5m). The maximum face value permitted under the policy is £4m (target award of £2m).

Stakeholder views

Shareholder proxy advisory groups are engaged when the Company is considering material changes to policy, including approval of any new share plans, as was the case in 2014 in respect of the introduction of the new LTIP. In 2014, such groups were also informed of changes to the CEO's base salary, as explained in last year's Directors' remuneration report.

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

Annual report on remuneration

Audited information										
Incumbent	Year	Total salary US\$ ¹	Benefits US\$	Pension US\$	Total fixed pay US\$ ²	Annual bonus US\$ ³	LTI award US\$ ⁴	Total variable pay US\$ ⁵	Total excluding LTI awards US\$ ⁶	Total US\$ ⁷
Dr Jalal Bagherli	2014	620,838	22,390	0	643,227	1,167,616	2,119,061	3,286,677	1,810,843	3,929,904
Dr Jalal Bagherli	2013	501,631	26,767	36,636	565,034	1,097,104	384,417	1,481,521	1,662,139	2,046,555
Incumbent	Year	Total fees US\$	Benefits US\$		Other remuneration US\$		Shares vested ¹³			Total US\$
Chris Burke	2014	140,466	–	–	–	–	42,864	–	–	183,330
Chris Burke ⁸	2013	48,190	–	–	–	–	–	–	–	48,190
Aidan Hughes	2014	140,466	–	–	–	–	48,204	–	–	188,670
Aidan Hughes	2013	128,945	–	–	–	–	–	–	–	128,945
John McMonigall	2014	128,858	–	–	–	–	42,864	–	–	171,722
John McMonigall	2013	114,618	–	–	–	–	–	–	–	114,618
Gregorio Reyes	2014	32,255	–	–	–	–	114,718	–	–	146,973
Gregorio Reyes ⁹	2013	137,085	–	–	–	–	–	–	–	137,085
Russ Shaw	2014	140,466	–	–	–	–	48,204	–	–	188,670
Russ Shaw	2013	128,945	–	–	–	–	–	–	–	128,945
Peter Weber	2014	124,858	–	–	–	–	42,864	–	–	167,722
Peter Weber	2013	114,618	–	–	–	–	–	–	–	114,618
Chang-Bun Yoon	2014	N/A	N/A	–	N/A	N/A	N/A	–	–	N/A
Chang-Bun Yoon ¹¹	2013	70,107	–	–	–	–	–	–	–	70,107
Richard Beyer	2014	171,680	–	–	–	–	–	–	–	171,680
Richard Beyer ¹⁰	2013	114,292	–	–	–	–	–	–	–	114,292
Michael Cannon	2014	124,858	–	–	–	–	–	–	–	124,858
Michael Cannon	2013	93,778	–	–	–	–	–	–	–	93,778
Eamonn O'Hare ¹²	2014	101,808	–	–	–	–	–	–	–	101,808
Eamonn O'Hare	2013	N/A	N/A	–	N/A	N/A	N/A	–	–	N/A

Notes:

- 1 Base salary earned during the financial year ending 31 December and excludes amounts sacrificed into pension (2014: US\$4,466; 2013: US\$55,857).
- 2 The sum of basic salary, benefits and pension.
- 3 Annual bonus cash element and deferred share element awarded in relation to the financial year ending 31 December.
- 4 LTI reflects the gain on options and EIP awards which vested for the performance year. For the 2013 performance year, 10,931 EIP options vested valued at a price of €15.73. For the 2014 performance year 65,332 EIP options vested valued at a price of €26.80.
- 5 The sum of annual bonus (cash and deferred share element) and long-term incentives.
- 6 The sum of basic salary, benefits, pension and annual bonus (cash and deferred share element).
- 7 The sum of basic salary, benefits, pension, annual bonus (cash and deferred share element) and long-term incentives which vested during the year.
- 8 In 2013 Chris Burke waived £50,000 in fees. The figure presented here is the figure after the waiver.
- 9 Gregorio Reyes stepped down as Chairman of the Board on 23 July 2013 and retired from the Board on 1 May 2014.
- 10 Richard Beyer became Chairman of the Board on 23 July 2013.
- 11 Chung-Bun Yoon resigned from the Board on 22 August 2013.
- 12 Eamonn O'Hare joined the Board on 7 March 2014.
- 13 Shares vested shows the value of the number of shares vested in 2014 at the closing share price on the day of vesting.

Annual report on remuneration

Executive Director

Fixed remuneration

Base salary

As highlighted in last year's annual report on remuneration, the Remuneration Committee considered that the CEO's base salary was too far behind market median to be sustainable and wanted to mitigate the risk to the Company and its Shareholders of him leaving. As a result, the CEO was awarded a 10% increase in annual base salary with effect from 1 July 2014. His salary from 1 July 2014 is £419,727 (US\$655,081) which is consistent with the current median of the industry peer group. This increase was in the context of very strong Company performance. The Committee will monitor market conditions carefully to ensure that salary does not exceed mid-market levels and continues to represent good value for money for Shareholders.

Other benefits

The CEO received a cash allowance in lieu of a company car, medical insurance for himself and his spouse and group life and income protection insurance. The total value of taxable benefits provided was US\$22,390 equivalent to 3.42% of his current salary.

Pension

From April 2014 to 31 December 2014, no pension benefit was provided for the executive.

Prior to April 2014, the executive participated in a defined benefit pension arrangement, through a Defined Benefit Small Self-Administered Scheme. Contributions to this arrangement commenced in May 2012 and ceased in March 2014.

While in operation, a fixed amount of pension was accrued annually from the Scheme by the payment of contributions, with the employer paying part of the cost as a contribution equivalent to 9% of salary, and any balance being met by the executive through a salary sacrifice arrangement. The amount of pension accrued each year was set by the Actuary to be funded in full by the contributions, so that there is no funding shortfall and the assets are always sufficient to meet the liabilities (the intention is that no further funding will be required by the Company).

During 2014, the employer contribution was £8,783 and the employee's contribution through salary sacrifice was £2,862. However, for the purposes of the single figure included in the table on page 75, a value of \$0 is disclosed, because all pension was deemed to have been accrued prior to the beginning of the financial year, and the contributions made during 2014 were in respect of 2013 accrual.

Variable compensation

Annual bonus

For 2014, the CEO was eligible for annual bonus of up to 200% of base salary for maximum performance, with 100% of base salary being paid for target performance and no awards payable if profit was below threshold. Any bonus awarded above target is deferred into shares and any additional voluntary deferral into shares. The total deferred bonus is matched 1:1 with additional shares subject to the LTI performance conditions. If the new Directors' Remuneration Policy and LTI are approved by shareholders at the 2015 AGM, the share match will cease to apply to deferred bonus in respect of the 2015 performance year or subsequent years.

Performance measures used were:

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

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

Measure	Outcome	Below target	On target	Above target
Revenue	US\$1,156 million			X
EBIT%	17.4%			X

Revenue is defined as Total Dialog 2014 IFRS Revenue (US\$1,156 million). EBIT is defined as Total Dialog 2014 IFRS EBIT including acquisition related accounting adjustments (Purchase Price Allocation) (US\$200.8 million).

Accordingly, the Committee determined that a bonus equivalent to 178.24% of base salary should be paid. The amount over 100% will be deferred into shares. In addition the CEO has elected to defer all of the bonus that he could have received in cash (amount up to 100%) into shares, which will be matched 1:1 with further shares, with vesting subject to the LTI performance conditions.

Long-term incentive plans

Awards granted under the 2012 EIP were capable of vesting in 2014 and 2015 subject to the satisfaction of Revenue, EBIT and Share Price performance measures. Following the completion of the final performance period, the Committee has assessed performance against the performance targets set over the performance period and has determined that 78.1% of the share options awarded will vest to participants. This vesting percentage was calculated as follows:

Measure	Maximum capable of vesting (% of award)	Actual vesting outcome (% of award)
Revenue	37.5%	32.3%
EBIT	37.5%	37.5%
Share price	25%	8.3%
Total	100%	78.1%

As a result, 76,236 of the 97,603 share options awarded to the Chief Executive (i.e. 78%) will vest. This final vesting outcome reflects Dialog's strong performance over the three year performance period. The Remuneration Committee believes that the financial targets for the EIP award are commercially sensitive, and as such has not disclosed them in this report.

As set out in the terms of the 2012 EIP award at grant, 25% of the options which met performance conditions after the first two performance years were capable of vesting in February 2014, whilst the remainder could vest in February 2015. As a result, 10,931 share options vested in February 2014 and had a value at vest of US\$226,532. This amount is included in the 2013 single figure of remuneration. The remaining 65,332 share options meeting performance conditions will vest in February 2015 and are included in the 2014 single figure of remuneration. As the share price at the date of vesting for the 65,332 share options was not known at the date of publication, they have been valued for the purpose of the single figure using Dialog's average share price over October, November and December 2014 of EUR 26.80. This results in a value of US\$2,119,061 as shown in the LTI column of the 2014 single figure table. This figure will be updated next year when the actual share price at the date of vesting is known.

Share awards made during the year

As noted in the policy section, shares awarded are structured as nominal priced options, hence the reference to options throughout. Deferred share and EIP awards were made in line with the policy in force during 2014.

Awarded during the year	Date of award	Granted number	Market price at date of grant	Face value of award	% of award that will vest at threshold performance	Performance period
EIP – performance shares						
Dr Jalal Bagherli	16/02/2014	98,957	€15.73	€1,556,594	15%	01/01/2014–31/12/2016
					n/a	
Deferred shares					No performance conditions	
Dr Jalal Bagherli	18/02/2014	40,153	€15.71	€630,603		18/02/2014–18/02/2017
EIP – invested shares						
Dr Jalal Bagherli	18/02/2014	40,153	€15.71	€630,603	15%	01/01/2014–31/12/2016

Notes: Face value is calculated as the number of shares, multiplied by the market price at the date of grant.

Dates reflect the service period which must be completed for the award to vest, there are no further performance conditions attached to the deferred bonus.

In 2014, the CEO was awarded 98,957 EIP shares (in the form of nominal price options), which at the date of grant (16 February 2014) had a value of €1,556,594. Receipt of these shares is subject to achievement of performance conditions as outlined on page 70.

Annual report on remuneration

Of his 2013 annual bonus (paid in 2014), the CEO deferred 50% of the bonus paid which at the share price on the date of award (€15.71) was equivalent to 40,153 shares. These shares were matched on a one-for-one basis under the EIP, meaning his total EIP award in 2014 was 179,263 shares with total value of €2,817,799. As noted above, receipt of these shares is subject to achievement of performance conditions as outlined on page 70.

Performance metrics attached were:

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

EBIT and revenue targets are set annually over the three-year performance period of the award. For each annual period a third of this part of the award is accrued based on actual Dialog performance against targets set at the beginning of each year.

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

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

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

Non-executive Directors' fees

In 2014, the Chairman's fee was £110,000. Fees for non-executive Directors were £80,000, with an additional £10,000 paid for chairmanship of Board Committees.

Directors' interests in shares

The CEO is expected to establish and hold a shareholding of at least 200% of salary excluding unvested EIP awards. The CEO currently complies with this requirement. Following approval of the new policy, the shareholding requirement for the current CEO will be increased to 300% of base salary from the previous requirement of 200% of base salary.

Number at 31 December 2014	10 pence ordinary shares	EIP – performance shares	Deferred shares	EIP – unvested shares	Share options – unvested	Share options – vested (unexercised)	Share options – exercised in year	Total
Dr Jalal Bagherli	268,676	257,274	82,764	80,548	–	250,000	443,343	1,382,605
Chris Burke	12,000	–	–	–	1,850	2,039	–	15,889
Aidan Hughes	25,000	–	–	–	2,081	2,293	–	29,374
John McMonigall	76,000	–	–	–	1,850	2,039	–	79,889
Gregorio Reyes	–	–	–	–	–	–	5,347	5,347
Russ Shaw	–	–	–	–	2,081	2,293	–	4,374
Peter Weber	–	–	–	–	1,850	2,039	–	3,889
Richard Beyer	–	–	–	–	–	–	–	–
Michael Cannon	–	–	–	–	–	–	–	–
Eamonn O'Hare	–	–	–	–	–	–	–	–

Full Name	Share Plan	Grant Date	Final Vesting Date	Lapse Date	Exercise Price (EUR)	Holding at 31st December 2013	Granted	Exercised	Lapsed	Holding at 31 December 2014
Jalal Bagherli	Dialog share unapproved - 7yr	13/05/09	13/05/13	13/05/16	1.52	15,138	–	15,138	–	–
Jalal Bagherli	Dialog share approved - 7yr	13/05/09	13/05/13	13/05/16	1.52	4,104	–	4,104	–	–
Jalal Bagherli	Long-term incentive plan	04/02/10	04/02/11	04/02/15	0.11	155,000	–	155,000	–	–
Jalal Bagherli	Long-term incentive plan	18/02/11	18/02/11	18/02/16	0.12	508,170	–	258,170	–	250,000
Jalal Bagherli	Executive incentive plan	16/02/12	16/02/15	16/02/18	0.12	89,473	–	10,931	13,210	65,332
Jalal Bagherli	Executive incentive plan	16/02/13	16/02/16	16/02/19	0.12	98,084	–	–	5,099	92,985
Jalal Bagherli	Deferred bonus plan 2013	18/02/13	18/02/16	18/02/20	0.01	42,611	–	–	–	42,611
Jalal Bagherli	Executive incentive plan	18/02/13	18/02/16	18/02/19	0.12	42,611	–	–	2,216	40,395
Jalal Bagherli	Executive incentive plan	16/02/14	16/02/17	16/02/20	0.12	98,957	–	–	–	98,957
Jalal Bagherli	Deferred bonus plan 2013	18/02/14	18/02/17	18/02/21	0.01	40,153	–	–	–	40,153
Jalal Bagherli	Executive incentive plan	18/02/14	18/02/17	18/02/21	0.12	40,153	–	–	–	40,153
						955,191	179,263	443,343	20,525	670,586
Aidan Hughes	Non exec dir 6yr share option	19/06/06	19/06/10	19/06/13	1.27	–	–	–	–	–
Aidan Hughes	Non exec dir 6yr share option	10/05/07	10/05/08	10/05/14	1.80	–	–	–	–	–
Aidan Hughes	Non exec dir 6yr share option	30/04/08	30/04/09	30/04/15	1.35	–	–	–	–	–
Aidan Hughes	Non exec dir 6yr share option	22/04/09	22/04/10	22/04/16	1.17	–	–	–	–	–
Aidan Hughes	Non exec dir 11yr share option	21/07/11	21/04/14	01/05/18	0.15	2,293	–	–	–	2,293
Aidan Hughes	Non exec dir 11yr share option	18/07/12	21/04/15	01/05/19	0.15	2,081	–	–	–	2,081
Christopher Burke	Non exec dir 6yr share option	12/07/06	12/07/10	12/07/13	1.40	–	–	–	–	–
Christopher Burke	Non exec dir 6yr share option	10/05/07	10/05/08	10/05/14	1.80	–	–	–	–	–
Christopher Burke	Non exec dir 6yr share option	30/04/08	30/04/09	30/04/15	1.35	–	–	–	–	–
Christopher Burke	Non exec dir 6yr share option	22/04/09	22/04/10	22/04/16	1.17	–	–	–	–	–
Christopher Burke	Non exec dir 11yr share option	21/07/11	21/04/14	01/05/18	0.15	2,039	–	–	–	2,039

Annual report on remuneration

Full Name	Share Plan	Grant Date	Final Vesting Date	Lapse Date	Exercise Price (EUR)	Holding at 31st December 2013	Granted	Exercised	Lapsed	Holding at 31 December 2014
Christopher Burke	Non exec dir 11yr share option	18/07/12	21/04/15	01/05/19	0.15	1,850	–	–	–	1,850
Gregorio Reyes	Non exec dir 6yr share option	19/06/06	19/06/10	19/06/13	1.27	–	–	–	–	–
Gregorio Reyes	Non exec dir 6yr share option	10/05/07	10/05/08	10/05/14	1.80	–	–	–	–	–
Gregorio Reyes	Non exec dir 6yr share option	30/04/08	30/04/09	30/04/15	1.35	–	–	–	–	–
Gregorio Reyes	Non exec dir 6yr share option	22/04/09	22/04/10	22/04/16	1.17	–	–	–	–	–
Gregorio Reyes	Non exec dir 11yr share option	21/07/11	21/04/14	01/05/18	0.15	2,803	–	2,803	–	–
Gregorio Reyes	Non exec dir 11yr share option	18/07/12	21/04/15	01/05/19	0.15	2,544	–	2,544	–	–
John McMonigall	Non exec dir 6yr share option	19/06/06	19/06/10	19/06/13	1.27	–	–	–	–	–
John McMonigall	Non exec dir 6yr share option	10/05/07	10/05/08	10/05/14	1.80	–	–	–	–	–
John McMonigall	Non exec dir 6yr share option	30/04/08	30/04/09	30/04/15	1.35	–	–	–	–	–
John McMonigall	Non exec dir 6yr share option	22/04/09	22/04/10	22/04/16	1.17	–	–	–	–	–
John McMonigall	Non exec dir 11yr share option	21/07/11	21/04/14	01/05/18	0.15	2,039	–	–	–	2,039
John McMonigall	Non exec dir 11yr share option	18/07/12	21/04/15	01/05/19	0.15	1,850	–	–	–	1,850
Peter Weber	Non exec dir 6yr share option	19/06/06	19/06/10	19/06/13	1.27	–	–	–	–	–
Peter Weber	Non exec dir 6yr share option	10/05/07	10/05/08	10/05/14	1.80	–	–	–	–	–
Peter Weber	Non exec dir 6yr share option	30/04/08	30/04/09	30/04/15	1.35	–	–	–	–	–
Peter Weber	Non exec dir 6yr share option	22/04/09	22/04/10	22/04/16	1.17	–	–	–	–	–
Peter Weber	Non exec dir 11yr share option	21/07/11	21/04/14	01/05/18	0.15	2,039	–	–	–	2,039
Peter Weber	Non exec dir 11yr share option	18/07/12	21/04/15	01/05/19	0.15	1,850	–	–	–	1,850
Russ Shaw	Non exec dir 6yr share option	12/07/06	12/07/10	12/07/13	1.40	–	–	–	–	–
Russ Shaw	Non exec dir 6yr share option	10/05/07	10/05/08	10/05/14	1.80	–	–	–	–	–
Russ Shaw	Non exec dir 6yr share option	30/04/08	30/04/09	30/04/15	1.35	–	–	–	–	–
Russ Shaw	Non exec dir 6yr share option	22/04/09	22/04/10	22/04/16	1.17	–	–	–	–	–

Full Name	Share Plan	Grant Date	Final Vesting Date	Lapse Date	Exercise Price (EUR)	Holding at 31st December 2013	Granted	Exercised	Lapsed	Holding at 31 December 2014
Russ Shaw	Non exec dir 11yr share option	21/07/11	21/04/14	01/05/18	0.15	2,293	–	–	–	2,293
Russ Shaw	Non exec dir 11yr share option	18/07/12	21/04/15	01/05/19	0.15	2,081	–	–	–	2,081
						25,762	–	5,347	–	20,415

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

Unaudited information

Annual change in CEO pay versus employee pay

The table below compares the change in base salary, benefits (excluding pension) and bonus awards for the CEO and for an average UK employee over the period 2013 to 2014. The salary increase shown for the CEO was referred to in the 2013 annual report and communicated to investors in 2014. It reflects the Remuneration Committee's view that the salary positioning of the CEO was too far behind market median levels to be sustainable, especially in light of the Company's strong performance. In accordance with the discretion referred to in the policy section above, the Committee increased the CEO's salary in 2014 at a rate higher than that for other employees.

Measure	Percentage change from 2013 to 2014 %
Chief Executive base salary	12.2 ¹
Relevant average comparator employees' base salary	5.6
Chief Executive taxable benefits	(16.4)
Relevant average comparator employees' taxable benefits	(16.0)
Chief Executive annual bonus	6.4
Relevant average comparator employees' annual bonus	47.8
Chief Executive total	8.0
Relevant average comparator employees' total ²	9.3

¹ The percentage change from 2013 to 2014 has been calculated using base salary before the deduction of any amounts sacrificed into pension. This provides a more accurate representation of the annual percentage change.

² Represents the sum of base salary, taxable benefits and bonus.

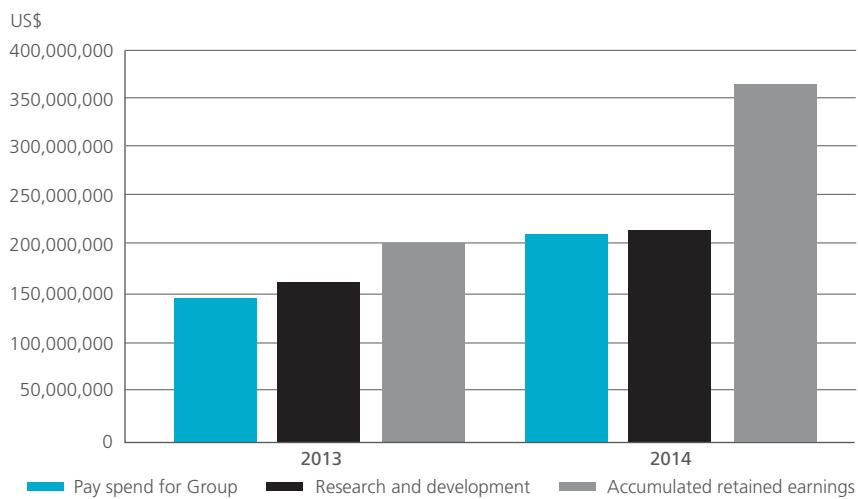
At the time of preparation for this report annual bonuses for the Group had yet to be finalised and the numbers presented reflect expected payouts.

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

Annual report on remuneration

Relative importance of spend on pay

This chart shows the amounts spent in 2013 and 2014 by Dialog on employee pay, and research and development, and also the Group's accumulated retained earnings at the relevant year end.



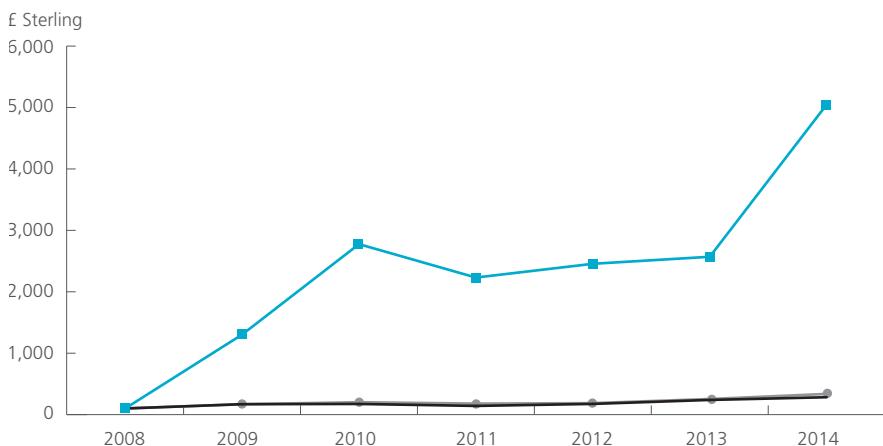
Note: the above chart shows that Dialog's retained earnings (in grey) exceeded the spend on research and development (in black), and both of these exceed the compensation spend for the Group (in blue).

CEO pay and relative TSR performance

The following graph compares Dialog Semiconductor's TSR performance to that of the same investment in the German TecDAX Index. This comparison has been chosen because it reflects the local market and industry in which Dialog is listed. We also show a comparison to the Philadelphia SE Semiconductor Sector Index (Price return) as an additional industry comparator, recognising that Dialog competes with companies on an international basis.

TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and – where relevant – assuming reinvestment of dividends. Data is averaged over 30 days at the end of each financial year.

Total Shareholder Return



This graph shows the value, by 31 December 2014, of £100 invested in Dialog Semiconductor Plc on 31 December 2008 compared with the value of £100 invested in the German TecDAX Index on the same date. Also plotted as the price index for the Philadelphia Semiconductor Sector Index (rebased to 100). Data has been averaged over 30 days at the end of each financial year.

■ Dialog Semiconductor ─ German TecDAX Index ● Philadelphia Semiconductor Index

Source: Datastream (Thompson Reuters)

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

Financial year ending	31 December 2009	31 December 2010	30 December 2011	31 December 2012	31 December 2013	31 December 2014
Total remuneration including unrealised gains on options (single figure basis) ^{1,2}	US\$1,028,853	US\$4,809,398	US\$30,426,678	US\$2,167,224	US\$2,046,555	US\$3,929,904
Annual bonus (% of maximum) ³	N/A	N/A	N/A	100%	91.94%	89.12%
Long-term variable pay (% of maximum)	95%	100%	100%	100%	100%	78%

- 1 The total remuneration for 2010 and 2011 includes awards made under the 2008 LTIP plan approved by Shareholders at the 2008 AGM. The values vested to the CEO from this plan were US\$3,593,299 (2010) and US\$29,103,138 (2011), resulting from the exceptional performance and share price growth of the Company, as can be seen in the TSR performance chart on page 82. There are no further awards under this plan. Total remuneration includes the value of long-term incentive awards at the time they vest, as required by UK reporting regulations. The actual value realised by the CEO is based on the market value on the date they are permitted (under directors' trading restrictions) and/or choose to exercise options or sell shares. The value presented does not therefore reflect exactly that received by the CEO.
- 2 Under the Company's annual bonus plan the CEO may receive "maximum base bonus" of 200% of salary, with a "further bonus" equivalent to 1% of the Company's annual consolidated profit after tax and interest but before extraordinary items, less the value of the maximum base bonus described above (i.e. 200% of salary). No "further bonus" has been paid to date.
- 3 No maximum bonus was defined prior to 2012.

Operation of policy in the following year

The main change to policy for 2015 is the replacement of the EIP with a new LTIP. The Committee intends to make the first award under this new scheme after the 2015 AGM and the award size will be in line with the maximum set out in the policy table. The award will vest after three years subject to three equally weighted performance conditions:

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

The amount vesting under this award will be disclosed in the 2017 annual report and accounts.

Governance

Remuneration Committee

The Board as a whole is responsible for setting the Company's policy on Directors' remuneration. The Board of Directors has established a Remuneration Committee (the "Committee") and has delegated authority to this Committee to determine and recommend to the Board: the salaries and incentive compensation of the Company's officers and its subsidiaries; and provide recommendations for other employees and consultants as appropriate.

The Committee comprises independent, non-executive Directors. In 2014 the members were Chris Burke, Michael Cannon (Chair), Russ Shaw and Peter Weber. There were no changes in committee members during the year. The Committee's members have no financial interest in the Company other than as Shareholders and through the remuneration paid to them by the Company.

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

During the year, the Committee sought and received general advice relating to remuneration from Towers Watson. Following a review of advisers in 2014, the Committee appointed New Bridge Street to provide advice to the Committee. The Committee is satisfied that the advice received from both Towers Watson and New Bridge Street is objective and independent and is not subject to any material conflict of interest.

Towers Watson and New Bridge Street are signatories to the UK Remuneration Consultants Group Code of Conduct and all advice received during the year was provided in accordance with this code. They provide no other services to the Company. Fees paid to Towers Watson during the year in respect of advice relating to Directors' pay totalled £167,599 (excluding VAT) and fees paid to New Bridge Street during the year in respect of advice totalled £67,050 (excluding VAT).

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

Annual report on remuneration

Responsibilities

The Remuneration Committee's main responsibilities include to:

- determine the salaries and incentive compensation of the Company's officers and the officers of the Company's subsidiaries;
- provide recommendations for other employees and consultants as appropriate; and
- administer the Company's compensation, stock and benefits plan.

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

- review, plan and approve CEO and Executive Management remuneration;
- review and address Annual General Meeting outcomes;
- consider market trends;
- review changes to disclosure regime in the UK; and
- review the long-term incentive and the structure of the CEOs remuneration package.

Shareholder voting results from 2014 AGM

The table below summarises the number of votes for and against the Directors' Remuneration Policy and Annual Report on Remuneration at the 2014 AGM. We also include the number of abstentions (referred to as votes withheld).

Resolution	Votes for ¹		Votes against ¹		Votes withheld ²	Total votes cast	% of voting capital instructed ³
	No. of shares	%	No. of shares	%			
Approval of Directors' Remuneration Policy	21,746,112	97.64%	526,050	2.36%	457,571	22,272,162	31.34%
Approval of Directors' Remuneration Report (excluding the Directors' Remuneration Policy)	22,016,619	97.54%	555,702	2.46%	157,412	22,572,321	31.76%

¹ Votes "For" and "Against" are expressed as a percentage of votes received.

² A "Vote withheld" is not a vote in law and is not counted in the calculation of the votes "For" or "Against" a resolution.

³ Total number of shares in issue at 5.30 pm BST (6.30 pm (CEST)) on 27 March 2014 was 71,068,930 shares.

Statement of Directors' responsibilities

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

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

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

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

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

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

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

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

Responsibility statement

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

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

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

Dr Jalal Bagherli
Chief Executive Officer

Jean-Michel Richard
CFO, Vice President Finance

19 February 2015

Independent Auditors' report to the members of Dialog Semiconductor Plc

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 2014 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.

What we have audited

We have audited the financial statements of Dialog Semiconductor Plc for the year ended 31 December 2014 which comprise Consolidated and Company Statements of financial position, the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statement of cash flows and the Consolidated and Company statements of changes in equity and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 85, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the information given in the Corporate Governance Statement set out on pages 59 to 66 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 ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

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.

David Hales

(Senior statutory auditor)

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

Reading

19 February 2015

Consolidated statement of financial position

As at 31 December 2014

	Notes	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Assets			
Cash and cash equivalents	8	324,280	186,025
Trade accounts receivable and other receivable	9	100,569	127,336
Inventories	10	99,140	117,541
Income tax receivables	7	64	72
Other financial assets	11	3,586	3,994
Other current assets	12	10,491	12,476
Total current assets		538,130	447,444
Property, plant and equipment	13	59,263	58,465
Goodwill	4, 5, 6, 14	244,878	244,878
Other intangible assets	14	131,505	148,591
Investments	15	1,446	1,531
Deposits		1,858	1,450
Income tax receivables	7	95	158
Deferred tax assets	7	28,771	24,935
Total non-current assets		467,816	480,008
Total assets		1,005,946	927,452
Liabilities and Shareholders' equity			
Trade and other payables	16	90,906	91,391
Other financial liabilities	17	22,120	23,923
Provisions	18	8,305	8,000
Income taxes payable		29,409	5,354
Other current liabilities	19	35,997	34,356
Total current liabilities		186,737	163,024
Provisions	18	1,955	1,488
Other non-current financial liabilities	20	188,123	265,657
Deferred tax liabilities	7	5,455	40,633
Total non-current liabilities		195,533	307,778
Ordinary shares		13,353	12,852
Additional paid-in capital		274,517	246,289
Retained earnings		366,650	199,881
Other reserves		(15,776)	(130)
Employee stock purchase plan shares		(15,068)	(2,242)
Net Shareholders' equity	22	623,676	456,650
Total liabilities and Shareholders' equity		1,005,946	927,452

These financial statements were approved by the Board of Directors on 19 February 2015 and were signed on its behalf by:

Dr Jalal Bagherli

Director

Consolidated income statement

For the year ended 31 December 2014

	Notes	2014 US\$000	2013 reclassified US\$000*)
Revenue	3, 27, 28	1,156,105	901,380
Cost of sales	3	(641,296)	(549,572)
Gross profit		514,809	351,808
Selling and marketing expenses		(60,070)	(49,000)
General and administrative expenses		(59,445)	(44,255)
Research and development expenses	27	(213,808)	(160,814)
Other operating income	3	4,416	4,921
Operating profit	27	185,902	102,660
Interest income	3	419	565
Interest expense	3	(14,829)	(13,345)
Foreign currency exchange gains (losses), net		(2,171)	(168)
Result before income taxes		169,321	89,712
Income tax expense	7	(31,242)	(27,508)
Net profit		138,079	62,204
<hr/>			
		2014	2013
Earnings per share (in US\$)			
Basic		2.05	0.95
Diluted		1.93	0.92
Weighted average number of shares (in thousands)	2		
Basic		67,329	65,641
Diluted		76,882	67,676

*) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been reclassified. For further information please refer to note 2 to the consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	2014 US\$000	2013 US\$000
Net profit	138,079	62,204
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	(1,032)	269
Cash flow hedges *)	(19,794)	91
Income tax relating to components of other comprehensive income	5,180	(63)
Other comprehensive income (loss) for the year, net of tax	(15,646)	297
Total comprehensive income for the year	122,433	62,501

*) For amounts reclassified from other comprehensive income and recognized in profit and loss, please refer to note 28.

Consolidated statement of cash flows

For the year ended 31 December 2014

	Notes	2014 US\$000	2013 US\$000
Cash flows from operating activities:			
Net profit		138,079	62,204
Adjustments to reconcile net profit to net cash generated from operations:			
Interest expense net	3	14,410	12,780
Income tax expense	7	31,242	27,508
Impairment of inventories		9,828	14,445
Depreciation of property, plant and equipment	13	22,144	18,581
Amortisation of intangible assets	14	33,431	28,646
Result on disposals of fixed assets and impairment of fixed and financial assets		407	1,369
Expense related to share-based payments	24	21,173	8,487
Changes in working capital:			
Trade accounts receivable, other receivables and factoring	9	26,764	(33,418)
Inventories		8,570	26,871
Prepaid expenses		(376)	(923)
Trade accounts payable		(7,494)	(19,490)
Provisions		816	4,135
Other assets and liabilities		9,657	4,067
Cash generated from operations		308,651	155,262
Interest paid		(4,680)	(3,805)
Interest received		396	587
Income taxes paid		(33,909)	(41,365)
Cash flow from operating activities		270,458	110,679
Cash flows from investing activities:			
Purchase of property, plant and equipment	13	(23,842)	(23,173)
Purchase of iWatt net of acquired cash	4	–	(303,851)
Purchase of intangible assets	14	(12,058)	(9,519)
Payments for capitalised development costs	14	(6,670)	(5,974)
Sale (purchase) of other investments		34	(1,500)
Change in other long term assets		(474)	(186)
Cash flow used for investing activities		(43,010)	(344,203)
Cash flows from financing activities:			
Payment for capital increase		(39)	–
Net cash flow from financial liabilities		(105,000)	103,650
Purchase of employee stock purchase plan shares		(6,172)	–
Sale of employee stock purchase plan shares		22,114	3,071
Cash flow from (used for) financing activities		(89,097)	106,721
Cash flow from (used for) operating, investing and financing activities		138,351	(126,803)
Net foreign exchange difference		(96)	393
Net increase (decrease) in cash and cash equivalents		138,255	(126,410)
Cash and cash equivalents at beginning of period		186,025	312,435
Cash and cash equivalents at end of period	8	324,280	186,025

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Other reserves						
	Ordinary shares US\$000	Additional paid-in capital US\$000	Retained earnings US\$000	Currency translation adjustment US\$000	Hedges US\$000	Employee stock purchase plan shares US\$000	Total US\$000
Balance at 1 January 2013	12,852	243,829	129,190	(1,964)	1,537	(2,853)	382,591
Net profit	—	—	62,204	—	—	—	62,204
Other comprehensive income	—	—	—	254	43	—	297
Total comprehensive income (loss)	—	—	62,204	254	43	—	62,501
Sale of employee stock purchase plan shares	—	2,460	—	—	—	611	3,071
Equity settled transactions, net of tax	—	—	8,487	—	—	—	8,487
Changes in equity total	—	2,460	70,691	254	43	611	74,059
Balance at 31 December 2013 /							
1 January 2014	12,852	246,289	199,881	(1,710)	1,580	(2,242)	456,650
Net profit	—	—	138,079	—	—	—	138,079
Other comprehensive income	—	—	—	(1,297)	(14,349)	—	(15,646)
Total comprehensive income (loss)	—	—	138,079	(1,297)	(14,349)	—	122,433
Capital increase for employee share option plan (gross proceeds)	501	9,780	—	—	—	(10,281)	—
Transaction cost of capital increase - employee share option plan	—	(39)	—	—	—	—	(39)
Acquisition of employee stock purchase plan shares	—	—	—	—	—	(6,172)	(6,172)
Sale of employee stock purchase plan shares	—	18,487	—	—	—	3,627	22,114
Equity settled transactions, net of tax	—	—	28,690	—	—	—	28,690
Changes in equity total	501	28,228	166,769	(1,297)	(14,349)	(12,826)	167,026
Balance at 31 December 2014	13,353	274,517	366,650	(3,007)	(12,769)	(15,068)	623,676

For further details, please refer to note 22.

Notes to the consolidated financial statements

For the year ended 31 December 2014

1. General

The consolidated financial statements of Dialog Semiconductor Plc ("Dialog" or the "Group") for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 19 February 2015. Dialog Semiconductor Plc is a company incorporated in the UK, whose shares are publicly listed in Frankfurt/Main, Germany. The principal activities of the Group are set out in the segment reporting (note 27).

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 voluntary change regarding the presentation of income and related expenses from customer-specific research and development as described below and changes resulting from the adoption of the following amended, revised and new standards and the new IFRIC interpretation during the year:

IAS 32 Financial Instruments: Presentation (amended)

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

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

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

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

The amendments made to this standard were issued in June 2013 and are effective for annual periods beginning on or after 1 January 2014. The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. This amendment had no impact on the financial position nor the financial performance of Dialog.

Notes to the consolidated financial statements

continued

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

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

IFRIC Interpretation 21: Levies

The new IFRIC was issued in May 2013 and is effective for annual periods beginning on or after 1 January 2014. The IFRIC outlines the accounting for liabilities to pay levies imposed by governments, other than income taxes, especially when the entity should recognise a liability to pay a levy. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Group already applies the requirements clarified by IFRIC 21 on the accounting of the National Insurance related to share-based payments. The liability is recognised progressively if the obligating event occurs over a period of time.

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

IAS 1 Presentation of Financial Statements – Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements were issued in December 2014 and are effective for periods beginning on or after 1 January 2016. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. Dialog has not yet fully analysed the impact of the amendments to IAS 1 on its financial statements. The amendments have not yet been endorsed by the EU.

2. Summary of significant accounting policies continued

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of acceptable methods of depreciation and amortisation

The amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets were issued in May 2014 and are effective for periods beginning on or after 1 January 2016. IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset.

The amendments have clarified that the use of revenue-based methods to calculate the depreciation of an asset is in general not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The new Standard is not relevant to Dialog, as Dialog has not applied revenue based depreciation methods. The amendments have not yet been endorsed by the EU.

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

The amendments made to this standard were issued in November 2013 and are effective for annual periods beginning on or after 1 July 2014 with early application permitted. The narrow-scope amendments apply to contributions from employees or third parties to defined benefit plans. Dialog does not expect a material impact on the financial position nor the financial performance of Dialog.

IFRS 9 Financial Instruments

The IASB issued the completed Standard IFRS 9 Financial Instruments in July 2014. The latest package of improvements introduced by IFRS 9 includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. After its completion the new Standard addresses:

Classification and Measurement

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces an approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements.

Impairment

The new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting

IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements.

Own credit

IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

The new Standard is applicable for periods beginning on or after 1 January 2018 and has not yet been endorsed by the EU. Dialog has not yet fully analysed the impact of IFRS 9 on its financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures

The narrow-scope amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures were issued in September 2014 and are applicable for financial periods beginning on or after 1 January 2016. The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments have no effect on the financial statements of Dialog, as Dialog has no investments in joint operations or associates. The amendments have not yet been endorsed by the EU.

Notes to the consolidated financial statements

continued

2. Summary of significant accounting policies continued

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures – Applying the Consolidation Exception

The narrow-scope amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures were issued in December 2014 and are applicable for financial periods beginning on or after 1 January 2016. The amendments introduce minor clarifications to the requirements when accounting for investment entities. The amendments have no effect on the financial statements of Dialog. The amendments have not yet been endorsed by the EU.

IFRS 11 Joint Operations – amendment to IFRS: Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 Joint Operations were issued in May 2014 and are applicable for periods beginning on or after 1 January 2016. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendment has no effect on the financial statements of Dialog, as Dialog has no investments in joint operations. The amendment has not yet been endorsed by the EU.

IFRS 14 Regulatory Deferral Accounts

The IASB issued an interim Standard, IFRS 14 Regulatory Deferral Accounts in January 2014 for the annual periods beginning on or after 1 January 2016.

The aim of this interim Standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the Standard. IFRS 14 Regulatory Deferral Accounts is effective from 1 January 2016, with early application permitted.

As Dialog is not engaged in rate-regulated activities, the amendment does not have an impact on the Group.

IFRS 15 Revenue Recognition

IFRS 15 Revenue Recognition was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2017. The core principle of the new Standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The new Standard has not yet been endorsed by the EU. Dialog has not yet fully analysed the impact of IFRS 15 on its financial statements.

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

The IASB has also issued a collection of amendments to various IFRSs (“Improvements to IFRSs”) in December 2013, which are effective for annual periods beginning on or after 1 July 2014. The Annual Improvements to IFRSs 2010–2012 Cycle is a collection of amendments to IFRSs in response to eight issues addressed during 2010–2012. The Annual Improvements to IFRSs 2011–2013 Cycle is a collection of amendments to IFRSs in response to four issues addressed during 2011–2013. Dialog is evaluating, whether there might be a material impact on the financial position or the financial performance of Dialog.

Annual Improvements to IFRSs 2012–2014 Cycle – a collection of amendments to International Financial Reporting Standards (annual improvements project)

The IASB has also issued a collection of amendments to various IFRSs (“Improvements to IFRSs”) in September 2014, which are effective for annual periods beginning on or after 1 January 2016. This includes amendments to various existing IFRSs. Dialog does not expect a material impact on the financial position nor the financial performance of Dialog. Dialog analyses the impact of this new Standard on its revenue recognition principles. The amendments have not yet been endorsed by the EU.

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

Principles of consolidation and investments in affiliated companies

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

2. Summary of significant accounting policies continued

Name	Country of incorporation	Participation
Dialog Semiconductor GmbH	Germany	100.0%
Dialog Semiconductor B.V.	The Netherlands	100.0%
Dialog Semiconductor (UK) Limited	UK	100.0%
Dialog Semiconductor Operations Services Limited ¹⁾	UK	100.0%
Powerventure Semiconductor Limited	UK	100.0%
Dialog Semiconductor Inc. (former iWatt Inc.) ¹⁾	USA	100.0%
iWatt Cayman ¹⁾	Cayman Islands	100.0%
Dialog Semiconductor KK	Japan	100.0%
iWatt MFG HK Limited ¹⁾	Hong Kong	100.0%
IKOR Acquisition Corporation ¹⁾	USA	100.0%
iWatt L.L.C. ¹⁾	USA	100.0%
Dialog Argo Holdings Inc.	USA	100.0%
Dialog Argo Holdings L.L.C. ¹⁾	USA	100.0%
iWatt Cooperatief U.A. ¹⁾	The Netherlands	100.0%
Dialog Semiconductor Hong Kong Limited ¹⁾	Hong Kong	100.0%
iWatt B.V. ¹⁾	The Netherlands	100.0%
iWatt HK Limited ¹⁾	Hong Kong	100.0%
iWatt Integrated Circuits (Shenzhen) Limited ¹⁾	China	100.0%
iWatt Integrated Circuits Technology (Tianjin) Limited ¹⁾	China	100.0%
Dialog Semiconductor (Italy) S.r.l.	Italy	100.0%
Dialog Semiconductor Arastirma Gelistirme ve Ticaret A.S.	Turkey	100.0%
Dialog Semiconductor Hellas Societe Anonyme of Integrated Circuits ¹⁾	Greece	100.0%
Dialog Semiconductor Trading (Shanghai) Limited ¹⁾	China	100.0%

[1] Held indirectly

The assessment of Control is based on the new accounting Standards IFRS 10 and IFRS 11. Control is achieved when Dialog is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, Dialog controls an investee if, and only if, Dialog has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when Dialog has less than a majority of the voting or similar rights of an investee, Dialog considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Dialog re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when Dialog obtains control over the subsidiary and ceases when Dialog loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date Dialog gains control until the date Dialog ceases to control the subsidiary.

Notes to the consolidated financial statements

continued

2. Summary of significant accounting policies continued

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Dialog's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of Dialog are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Business combinations and Goodwill

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

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

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

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

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

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

Fair value measurement

The Group measures financial instruments, such as, derivatives (forward contracts and as hedging designated deposits), at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 25. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

2. Summary of significant accounting policies continued

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

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

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

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

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

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

The Group's Board of non-executive Directors and the Chief Financial Officer determine the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AfS financial assets, and for non-recurring measurement.

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

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

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

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

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

Notes to the consolidated financial statements

continued

2. Summary of significant accounting policies continued

Foreign exchange

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

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

Currency	Exchange rate at		Annual average exchange rate	
	31 December 2014	31 December 2013	2014	2013
	US\$1 =	US\$1 =	US\$1 =	US\$1 =
Pound Sterling	0.64	0.61	0.61	0.64
Japanese Yen	119.29	104.96	105.75	97.54
Euro	0.82	0.73	0.75	0.75

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.

2. Summary of significant accounting policies continued

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

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

Financial assets at fair value through profit or loss

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

The Group has not entered into trading actions nor designated assets as financial assets through profit or loss in 2014 and 2013.

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 2014 as well as 31 December 2013, 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.

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.

Notes to the consolidated financial statements

continued

2. Summary of significant accounting policies continued

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 2014 and 2013 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

Offsetting of financial instruments

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

Hedging instruments and hedge accounting

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

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

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

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

The Group did not enter into fair value hedges in 2014 and 2013.

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.

Notes to the consolidated financial statements

continued

2. Summary of significant accounting policies continued

Cash and cash equivalents

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

Inventories

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

Property, plant and equipment

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

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

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

Intangible assets

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

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

Intangible assets	Useful life
Customer related intangible assets	1.5 to 8.5 years
Purchased software, licenses and other	3 to 10 years
Patents	10 years
Intangible assets from internal development	1 to 9.5 years

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

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

2. Summary of significant accounting policies continued

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

Impairment of non-monetary assets including Goodwill

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

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. These are forecasted on the basis of the Group's current planning, the planning horizon normally being four years including one year of budgeted and three 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 pre-tax discount rate. To allow for the different risk and return profiles of the Group's principal businesses, the discount rate is calculated separately for each strategic business unit (synonymously cash generating unit from impairment test perspective) furthermore, the 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.

Notes to the consolidated financial statements

continued

2. Summary of significant accounting policies continued

Leases

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

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

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

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

Revenue recognition

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

Sale of goods

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

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

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.

2. Summary of significant accounting policies continued

Government grants

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

Cost of sales

Cost of sales consists of the costs of outsourced production, assembly and test, personnel costs and applicable overheads and depreciation of equipment. Provisions for estimated product warranties are recorded in cost of sales at the time the related sale is recognised. This item also includes amortisation charges related to capitalised development cost. Impairment charges are shown either in cost of sales when revenues had already been realized or in research and development expenses if not.

Sales and marketing expenses

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

General and administrative expenses

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

Research and development costs

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

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

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.

Notes to the consolidated financial statements

continued

2. Summary of significant accounting policies continued

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 substantively 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 date of substantive enactment.

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

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

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

Sales tax

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

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

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

Share-based payments

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

Stock options

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

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

The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions on which the options were granted. Expectations of early exercise are accounted for within the average life of the options.

2. Summary of significant accounting policies continued

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 24.B.

Executive Incentive plan

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

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

The fair value of the awards is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date, using a Monte Carlo Model, taking into account the terms and conditions on which awards are granted and is spread over the service period during which the key executives become unconditionally entitled to the awards. For further information please refer to note 24.C.

Employee and non-executive Director benefit trusts – Treasury shares

The Group has an employee benefit trust and a non-executive Director benefit trust. These trusts are separately administrated and are funded by the Group, which consolidates the assets, liabilities, income and expenses in its own accounts. The shares held by the trusts 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 (loss) attributable to ordinary equity holders of Dialog by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued if all the securities or other contracts to issue ordinary shares were exercised.

Notes to the consolidated financial statements

continued

2. Summary of significant accounting policies continued

The weighted average number of shares outstanding is as follows:

	2014 US\$000	2013 US\$000
Basic number of shares	67,329	65,641
Effect of dilutive options outstanding	9,553	2,035
Dilutive number of shares	76,882	67,676

The number of anti-dilutive share options outstanding was 950,340 (2013: 3,179,646).

In 2014 the potential ordinary shares of the convertible bond were dilutive as their conversion to ordinary shares would decrease 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 including Goodwill

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. Goodwill is tested for impairment annually, whether or not there is any indication that it may be impaired. The impairment test 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 2014 was US\$534,786,000 (2013: US\$569,475,000), please refer to notes 4, 5, 6, 10, 13 and 14 for further information.

Business Combinations

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

Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain assets acquired and liabilities assumed include but are not limited to: future expected cash flows from the sale of products, 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 and described in note 4 (Business Combination).

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 6 (Impairment testing) for the accounting treatment including applied approach and assumptions related to the current business combination.

2. Summary of significant accounting policies continued

Deferred tax assets and liabilities

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

Significant management judgement on projected future taxable profits and cash flows is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing of future taxable profits, together with future tax planning strategies. At year-end 2014, net deferred tax assets amounting to US\$23,316,000 were recognised (2013: net deferred tax liabilities US\$15,698,000).

Further information regarding the assessment of future taxable income is disclosed in note 7.

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 2014, the expense related to stock options was US\$13,381,000 (2013: US\$5,642,000). For further information on stock options please refer to note 24.A and 24.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, volatility of the Company's share price, dividend yield, expected life and fluctuation. Due to the nature of these assumptions, such estimates are subject to significant uncertainty. In 2014, an expense of nil was booked (2013: nil). Further information regarding LTIP is provided in note 24.B and 24.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, volatility of the Company's share price, dividend yield, expected life and fluctuation. Due to the nature of these assumptions, such estimates are subject to significant uncertainty. In 2014, an expense of US\$7,792,000 was booked (2013: US\$2,846,000). Further information regarding EIP is provided in note 24.C and 24.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 2014 no receivables or liabilities from constructions contracts were outstanding (2013: nil).

Self-developed intangible assets

Development costs are capitalised in accordance with the accounting policy mentioned above, i.e. they are recorded on a cost basis. However, initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. The amortisation starts when the capitalized product is ready for intended use. In determining the probable future economic benefits of the self-developed intangible asset, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2014, the carrying amount of capitalised development costs was US\$50,401,000 (2013: US\$57,352,000), please refer to note 14.

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

Notes to the consolidated financial statements

continued

2. Summary of significant accounting policies continued

Voluntary change in accounting policy

In 2014 management decided to change the presentation of income and related expenses from customer-specific research and development contracts. The previous accounting policy was to present income from customer-specific research and development contracts within the revenue line; associated expenses were presented under cost of sales. Going forward, the income will be presented within the other operating income line; the expenses will be shown under research and development expenses.

The new accounting policy was adopted on 1 January 2014 and has been applied retrospectively. The change in policy will lead to a more transparent presentation and will improve the comparability within the peer group.

As this voluntary change in accounting policy has an effect on the current and prior reporting periods, management reports the following affected financial statement lines according to IAS8.29:

	2013 as previously reported	Reclassification	2013 reclassified
	US\$000	US\$000	US\$000
Revenue	902,907	(1,527)	901,380
Cost of sales	(551,099)	1,527	(549,572)
Gross profit	351,808	–	351,808
Research and development expenses	(159,287)	(1,527)	(160,814)
Other operating income	3,394	1,527	4,921
Operating profit	102,660	–	102,660

The reclassification of income and related expenses from customer-specific research and development contracts does not impact earnings per share.

3. Other disclosures to the income statement

a) Operating expenses and revenues

	2014 US\$000	2013 reclassified US\$000 ¹⁾
Auditors' remuneration		
for the audit of the Group financial statements	(543)	(736)
for the statutory audit of the subsidiaries	(43)	(9)
for other audit related services	(187)	(170)
Other fees for auditors		
Tax advisory services	(2,480)	(2,019)
Services related to Corporate Finance transaction	(82)	(335)
	(3,335)	(3,269)
Depreciation of property, plant and equipment		
	(22,144)	(18,581)
Amortisation of intangible assets		
thereof included in cost of sales	(3,294)	(10,940)
thereof included in selling and marketing expenses	(8,289)	(8,203)
thereof included in general and administrative expenses	(1,291)	(983)
thereof included in research and development expenses	(20,557)	(8,520)
	(33,431)	(28,646)
Personnel costs		
Wages and salaries	(161,405)	(115,913)
Social and security costs	(18,522)	(12,055)
Share-based payments	(21,173)	(8,487)
Pension costs from defined contribution plans ¹⁾	(9,325)	(7,703)
	(210,425)	(144,158)
Included in revenues:		
Revenue from the sale of goods	1,155,124	899,660
Revenue from royalties	981	869
Included in revenue from sale of goods income attributable to prior periods from BenQ cash settlement	–	851
Included in cost of sales:		
Amount of inventory recognised as expense	(580,485)	(484,957)
Impairment of inventories recognised as an expense	(9,828)	(14,445)
Included in other operating income:		
Release of an earn out provision (see note 18)	1,939	3,249
BenQ Settlement	–	145
Revenue from customer specific research and development contracts	1,546	1,527
Income from insurance benefits and compensation	931	–
	4,416	4,921

¹⁾ Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been reclassified.

For further information please refer to note 2 to the consolidated financial statements.

[1] The pension costs from defined contribution plans include costs for the state funded pension plan in Germany of US\$3,256,000 (2013: US\$2,732,000).

Notes to the consolidated financial statements

continued

3. Other disclosures to the income statement continued

b) Directors' remuneration

	2014 US\$000	2013 US\$000
Aggregate remuneration in respect of qualifying services	5,042	2,849
	2014 No.	2013 No.
Number of Directors who received shares in respect of qualifying services	1	1
Number of Directors who exercised share options	1	–
	2014 US\$000	2013 US\$000
In respect of the highest paid Director:		
Aggregate remuneration	3,930	1,820
Of which pension contribution for the year	–	37

The highest paid Director exercised 443,343 (2013: nil) share options during the year.

c) Interest income and interest expense

Interest income and expenses comprise the following items:

	2014 US\$000	2013 US\$000
Interest income	419	565
Interest expense	(14,829)	(13,345)
	(14,410)	(12,780)
Of which: from financial instruments relating to categories in accordance with IAS 39		
Loans and receivables and liabilities	(1,993)	(3,845)
Financial liabilities measured at amortised cost	(12,417)	(8,935)
	(14,410)	(12,780)

d) Government grants

The Group receives government grants for research and development activities of its Dutch design centre. Under the condition that technologies are new to the company and performed by the Group's employees, a grant can be received for its development. This grant is based on the hours spent on these R&D activities. In 2014 the Group received grants in the amount of US\$738,284 (2013: US\$1,055,000). In the income statement the grants received were deducted from research and development expenses. In addition in 2014 the Company has applied for a grant in the form of a tax relief, an amount of up to US\$2,712,743 (2013: US\$3,567,000) can be deducted from a positive taxable income in the Netherlands.

In 2014 the Group claimed also R&D Expenditure Credit ("RDEC") with respect to qualifying Research & Development ("R&D") activities undertaken by Dialog Semiconductor (UK) Limited. The RDEC claim includes staff costs relating to Directors or employees who are directly and indirectly engaged in qualifying R&D activities, as well as certain consumable items and utility expenses (power, water, gas etc.) and computer software costs, where the costs relate to qualifying R&D activities.

3. Other disclosures to the income statement continued

The RDEC claimed in 2014 of US\$1,250,000 was deducted from research and development expenses in the income statement. US\$959,000 of this amount represents a receivable from the UK tax authorities. The remaining amount of US\$291,000 can be used to offset UK corporate taxes payable.

e) Headcount

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

	2014	2013
Research and Development	832	588
Production	157	127
Sales and Marketing	199	156
Admin	131	71
IT	41	30
	1,360	972

4. Business combination

Acquisition in 2013

On 16 July 2013 Dialog Semiconductor Plc acquired 100% of the voting rights of iWatt Inc. ("iWatt") for a purchase price with a fair value of US\$311,449,000 of which US\$306,261,000 was paid in cash at the time of the acquisition. Headquartered in Campbell, California, with approximately 180 employees worldwide, iWatt is a leading provider of digital power management integrated circuits with a patent portfolio of more than 110 patents and a strong design and application engineering presence in Asia. Its innovative PrimAccurate™ technology platform enables high performance, energy-efficient, small form-factor and cost-effective solutions for markets such as AC/DC power conversion and LED Solid State Lighting (SSL). The Company's solutions are designed into the products of leading global OEMs and it has shipped more than one billion power management ICs since 2007.

This acquisition underscores Dialog's strategy to diversify its markets and growth opportunities through select strategic acquisitions. iWatt's business is highly complementary to Dialog's existing PMIC business. It will enable the resulting business combination to address adjacent emerging power management segments and increase its Total Addressable Market. It diversifies Dialog's product portfolio adding two high growth product families; AC/DC charge adaptor IC and a broad range of LED Solid State Lighting ICs. iWatt's business contributes to the diversification of Dialog's client portfolio by adding new Tier-1 customers and expanding the business opportunities at existing smartphone Tier-1 OEMs.

The acquisition has been accounted for using the acquisition method as required by IFRS 3.4. Due to the timing of the acquisition the initial accounting for the business combination was incomplete at the time the 2013 financial statements were authorized for issue. The fair values recognized on the acquisition represented in the annual report and accounts 2013 provisional amounts.

Notes to the consolidated financial statements

continued

4. Business combination continued

Assets acquired and liabilities assumed

The book values at iWatt and provisional fair values of the identifiable assets and liabilities of iWatt as at the date of acquisition were:

	Book values at iWatt US\$000	Fair value adjustments US\$000	Fair value recognised on acquisition US\$000
Assets			
Cash and cash equivalents	2,410	–	2,410
Trade accounts receivable and other receivable	11,017	–	11,017
Inventories	6,034	6,996	13,030
Other current assets	776	–	776
Property, plant and equipment	1,749	3,117	4,866
Intangible assets ¹⁾	54	113,499	113,553
Deferred tax assets	16,200	–	16,200
Other non-current assets	314	–	314
Total assets	38,554	123,612	162,166
Liabilities			
Trade and other payables	11,585	–	11,585
Provisions	7,342	(3,903)	3,439
Income taxes payable	227	–	227
Other current liabilities	3,431	–	3,431
Deferred tax liabilities	–	44,630	44,630
Total liabilities	22,585	40,727	63,312
Total identifiable net assets at fair value	15,969	82,885	98,854
Goodwill arising on acquisition			212,595
Purchase price			311,449
Fair value of contingent consideration (earn out) ²⁾			(5,188)
Purchase consideration transferred			306,261

[1] For further information please refer to note 14 for allocation of fair value adjustments to Group's asset classes.

[2] For further information please refer to note 18.

The fair value of the trade receivables amounted to US\$11,017,000. None of the trade receivables have been impaired and the full contractual amounts have been collected. The fair value of inventories contained a step-up of US\$6,996,000 which had an adverse impact on gross margin and the financial results for the reporting period 2013.

The intangible assets comprised mainly customer and technology (including core technology) related intangible assets.

The deferred tax assets mainly represented tax loss carryforwards, temporary differences relating to intangible assets, other temporary differences and tax credits.

The deferred tax liability mainly comprised the tax effect on fair value adjustments from the purchase price allocation.

4. Business combination continued

The goodwill of US\$212,595,000 comprised the value of expected significant synergies, especially with the Company's Mobile Systems segment, and other benefits from combining the assets and activities of iWatt with those of the Dialog Group as explained above.

From the date of the acquisition, iWatt has contributed in 2013 US\$26,768,000 of revenue (net of US\$7,073,000 of deferred revenue which was not accounted for due to acquisition accounting rules) and a loss of US\$22,533,000 before tax which were presented in the Group's created segment Power Conversion. If iWatt had been acquired on 1 January 2013, revenue of the Group in 2013 would have been US\$942,520,000. However, due to a lack of IFRS-specific data prior to the acquisition of iWatt, pro-forma profit or loss of the combined entity in 2013 could not be determined reliably.

Purchase consideration

The total purchase price consideration amounted to US\$306,261,000. There was an additional total contingent consideration (earn out) of up to US\$35 million agreed with the previous owners of iWatt. The maximum payment of US\$35 million related to the two earn out periods. On January 28th 2014, Dialog's management informed the previous owners that the targets for the first earn-out period were not achieved and that as a result, no payment will be made for this period.

On November 11th 2014 Dialog's management informed the previous owners that the targets for the second and final earn-out period were not achieved and that as a result, no payment will be made.

Analysis of cash flows from acquisition in 2013

	US\$000
Transaction costs of the acquisition (included in cash flows from operating activities)	(3,974)
Total cash outflow for acquisition (included in cash flows from investing activities)	(306,261)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	2,410
Net cash flow on acquisition	(307,825)

Acquisition costs of US\$3,974,000 have been expensed and were included in general and administrative expenses in the income statement of 2013.

The acquisition was funded from both Dialog's existing cash resources and additional debt facilities of US\$115 million of which no amount is outstanding at 31 December 2014.

5. Allocation of goodwill

As mentioned in note 4, the unallocated goodwill in 2013 of US\$212,595,000 comprised the value of significant expected synergies, especially within the Mobile Systems segment, as well as other benefits from combining the assets and activities of iWatt Inc. with those of the Dialog Group. In view of the significant differences that existed between the Dialog Group and the former iWatt Group when it comes to sales channels and the geographical foot print in particular, the evaluation was on going at 31 December 2013.

During the integration process, one of the key activities was the evaluation of the complementarity between the two groups as it relates to technology, product portfolio, customer base and sales channels, in an effort to properly and reliably identify cross selling opportunities between the in 2013 acquired iWatt group and Dialog's existing segments. Dialog considers its operating segments as cash-generating units. In the second quarter of 2014 the evaluation process of synergies and the purchase price allocation were finalized. The final goodwill allocation did not result in fair value changes of the acquired assets and goodwill compared to the amounts reported in the financial statements as of 31 December 2013.

IFRS 36.80 requires the allocation of goodwill to the cash generating units expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Management decided to determine the present value of the synergies based on the expected cash flow approach and to allocate these to the identified cash-generating units.

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5. Allocation of goodwill continued

Based on the expected cash flow approach the unallocated goodwill of US\$212,595,000 has been allocated to the cash generating units Power Conversion (US\$49,515,000), Mobile Systems (US\$102,014,000) and Connectivity (US\$61,066,000). Based on management assumptions the Automotive/Industrial segment will not benefit from synergies from the business combination with iWatt. The first annual impairment review of this goodwill took place in Q4 2014 (for further details, please refer to note 6 below).

For impairment testing purposes, goodwill acquired through business combinations (2013: iWatt and 2011: SiTel) has been allocated, as follows:

	Power Conversion		Connectivity		Mobile Systems		Unallocated		Total	
	2014 US\$000	2013 US\$000	2014 US\$000	2013 US\$000	2014 US\$000	2013 US\$000	2014 US\$000	2013 US\$000	2014 US\$000	2013 US\$000
Goodwill	49,515	–	88,199	27,133	107,164	5,150	–	212,595	244,878	244,878

6. Impairment testing

Mobile Systems, Connectivity and Power Conversion segments

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, whichever value is higher. In Q4 2014 the company performed individual impairment tests for the three relevant CGU's (Mobile Systems, Connectivity and Power Conversion) 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 the three units is most sensitive to the following assumptions:

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

Return on sales – Return on sales is calculated by dividing the EBITDA by net sales for each of the units. The EBITDA is defined as the operating profit (loss) excluding depreciation and amortisation expenses as reported in note 27.

Discount rates – Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The applied discount rate represents a pre-tax WACC. The cost of equity is derived from the expected return on investment by market participants. 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. In addition the risk free interest rate is updated on yearly basis from market available data. The calculation of the recoverable amount is based on pre-tax cash flows discounted using a pre-tax discount rate.

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

The discounted cash flow calculations use projections that are based on management's expectations covering the assessment year 2015. The planning horizon reflects the assumptions for short-to mid-term market developments. Cash flows for the assessment years 2016 to 2018 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.

6. Impairment testing continued

Impairment Testing Parameters

	Mobile Systems		Connectivity		Power Conversion	
	2014 in %	2013 in %	2014 in %	2013 in %	2014 in %	2013 in %
Actual						
Return on sales	24.9	22.0	7.2	3.7	3.9	-
Pre-tax discount rate	11.3	11.3	11.3	11.3	11.3	-
Growth rates	26.5	16.6	0.5	(4.7)	21.1	-
3 year planning period						
Return on sales	27.1 - 29.5	26.5 - 29.1	9.0 - 15.0	12.2 - 21.1	9.1 - 15.6	-
Pre-tax discount rate	11.3	11.3	11.3	11.3	11.3	-
Growth rates	10.1 - 23.6	10.8 - 25.3	20.2 - 33.8	15.6 - 41.9	20.0 - 24.9	-
Perpetual annuity						
Return on sales	29.0	28.0	14.0	21.0	14.5	-
Pre-tax discount rate	11.3	11.3	11.3	11.3	11.3	-
Growth rates	1.0	1.0	1.0	1.0	1.0	-

The determination of recoverable amounts for Group's segment was based on a value in use calculation using parameters mentioned above. The recoverable amounts were US\$3,667,498,000 for Mobile Systems segment; US\$252,125,000 for Connectivity segment and US\$206,161,000 for Power Conversion segment as at 31 December 2014.

Sensitivity to changes in assumptions

The implications of the key assumptions for the recoverable amount are discussed below:

Growth rate assumptions - Management recognises that the speed of technological change in the company's industry sector and the possibility of new entrants can have a significant impact on growth rate assumptions of respective segments. Therefore growth rate assumptions are segment specific, including respective main customers, technology and distribution channels. The weighted effect of new entrants is not expected to have an adverse impact on the forecasts, but could yield a reasonably possible alternative to the estimated average growth rate for the planning horizon of 13.7% (2013: 12.3%) for Mobile Systems segment; 27.8% (2013: 28.7%) for Connectivity segment and 24.0% for Power Conversion segment. A reduction to 0.0% (2013: 0.0%) in the planning horizon average growth rate in Mobile Systems segment with all other factors being held constant would not result in impairment. For the Connectivity segment, a reduction of the average growth rate to 23.1% (2013: 15.0%) over the planning horizon with all other factors being held constant would result in impairment. A reduction of the average growth rate to 17.7% over the planning horizon with all other factors being held constant would result for the Power Conversion segment in impairment.

Discount rates - A rise in pre-tax discount rate to 55.0% (2013: 31.0%) in the Mobile Systems segment with all other factors being held constant would result in impairment. A rise in pre-tax discount rate to 27.3% (2013: 32.6%) in the Connectivity segment with all other factors being held constant would result in impairment. For Power Conversion segment a rise in pre-tax discount rate to 14.4% with all other factors being held constant would result in impairment.

Management concluded that impairment charge against goodwill should be recognised in either of the three 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. Given the Dialog's management outlook as at December 31, 2014 with respect to growth and discount rates for Group's segments, management does not expect significant changes in key assumptions.

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7. Income taxes

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

	2014 US\$000	2013 US\$000
Current taxes:		
United Kingdom	–	–
Foreign	(56,695)	(35,702)
Deferred taxes:		
United Kingdom	2,558	–
Foreign	22,895	8,194
Income tax expense	(31,242)	(27,508)

	2014 US\$000	2013 US\$000
Current taxes:		
Current income tax charge	(56,689)	(36,979)
Adjustments in respect of current income tax of previous year	(6)	1,277
Deferred taxes:		
Relating to origination and reversal of temporary differences	(7,765)	7,186
Relating to the recognition of previously unrecognised deferred tax assets	11,009	1,983
Movement in deferred tax liabilities following intra-group reorganisation *)	17,759	–
Adjustments recognised for tax of prior periods	4,450	(975)
Income tax expense	(31,242)	(27,508)

*) The amount of US\$17,759,000 relates to a one-off non-cash deferred tax credit resulting from an intra-group reorganisation of certain Intellectual Property, which impacted the recorded value of deferred tax liabilities.

	2014 US\$000	2013 US\$000
Tax charged / (credited) directly to other comprehensive income:		
Current tax charge/(credit)	–	–
Deferred tax charge/(credit)	5,180	(63)
Total tax charged / (credited) directly to other comprehensive income	5,180	(63)
Tax charged / (credited) directly to equity:		
Current tax charge/(credit)	–	–
Deferred tax charge/(credit)	7,517	–
Total tax charged / (credited) directly to equity	7,517	–

7. Income taxes continued

Factors affecting the tax expense for the year

Historically, even though Dialog Semiconductor Plc is a UK company, the reconciliation of income taxes was determined using the German income tax rate, on the basis that the principal operations were located in Germany. However, in light of the evolutionary change in the Group's operating model, and in particular the on-going exercise to align our Intellectual Property ownership with the commercial structure of the Group, this is no longer the case. Operations are now global, with strategic decision-making centred in the UK. Accordingly, it is now considered appropriate to perform the reconciliation of income taxes to the UK rate of the parent company, Dialog Semiconductor Plc.

A reconciliation of income taxes determined using the UK income tax rate of 21.5% (2013: 23.25%), is as follows:

	2014 US\$000	2013 US\$000
Expected income tax expense	(36,404)	(20,858)
Tax rate differential	(12,901)	(5,251)
Non-deductible portion of share-based payments	(5,120)	(2,276)
Tax benefit from share-based payments	4,267	1,487
Tax free income (non-deductible expenses)	(553)	(71)
Benefit from previously unrecognised deferred tax assets that is used to reduce actual income tax expense	11,009	1,983
Additional losses for which no deferred tax asset is recognised	(6,495)	(2,827)
Adjustments recognised for tax of prior periods	4,444	302
Differences arising from differences between functional currency and tax currency	(5,426)	(45)
Tax gain on intra-group reorganisation	(2,445)	—
Movement in deferred tax liabilities following intra-group reorganisation *)	17,759	—
Other	623	48
Actual income tax expense	(31,242)	(27,508)

*) The amount of US\$17,759,000 relates to a one-off non-cash deferred tax credit resulting from an intra-group reorganisation of certain Intellectual Property, which impacted the recorded value of deferred tax liabilities.

Deferred tax

Deferred income tax assets and liabilities are summarised as follows:

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Temporary differences relating to intangible assets	(10,818)	(43,028)
Other temporary differences	8,105	1,913
Deferred taxes in relation to tax credits	3,200	2,771
Net operating loss carryforwards	22,829	22,646
Recognised net deferred tax assets / (liabilities)	23,316	(15,698)

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continued

7. Income taxes continued

Tax loss carryforwards, temporary differences and net deferred tax assets are summarised as follows:

	Tax loss carryforwards US\$000	Temporary differences US\$000	Net deferred tax assets (liabilities) US\$000	Tax loss carryforwards US\$000	Temporary differences US\$000	Net deferred tax assets (liabilities) US\$000
Germany	–	5,206	1,477	–	1,026	288
UK	106,573	18,236	7,940	73,600	31,968	–
Netherlands	30,714	(6,146)	6,142	23,258	(7,863)	3,849
US	51,642	(19,134)	7,002	64,509	(112,154)	(20,398)
Other	–	1,883	755	–	1,563	563
Total	188,929	45	23,316	161,367	(85,460)	(15,698)

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\$82,643,000 (2013: US\$121,579,000). In addition, no deferred tax asset is recognised in respect of federal and state tax credits of US\$4,416,000 (2013: US\$3,643,000). The amount of deductible temporary differences and unused tax loss carryforwards for which no deferred tax asset is recognised has reduced in the year primarily as a result of the on-going exercise to align our Intellectual Property ownership with the commercial structure of the Group. This has allowed Dialog to utilise and to further partially recognise previously unrecognised UK tax loss carryforwards and other UK deductible temporary differences.

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 2014 and 2034 and in the Netherlands between 2017 and 2023; 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 2015. The amount that will be paid in 2015 is shown within the current assets.

No deferred tax has been recognised in respect of undistributed earnings of subsidiaries because no liability is expected to arise on distribution under applicable tax legislation or because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

8. Cash and cash equivalents

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Cash at bank	178,242	151,016
Short-term deposits	140,204	35,009
Deposits designated as a hedging instrument	5,834	–
Cash and cash equivalents	324,280	186,025

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.

9. Trade accounts receivable and other receivable

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Trade accounts receivable	80,594	113,236
Receivables from factoring agreement	19,975	14,100
	100,569	127,336

Trade receivables are non-interest bearing and are generally on 30-60-day terms.

As described in note 28, the Group has two selective factoring agreements, one since 2007 and the other since 2012. The amount shown as receivables from the factoring agreements represents respectively a 15% or 10% retainer kept by the factoring bank against sold receivables. The retainer is released only once the receivable is fully paid by the customer, at the latest, 120 days after the receivable becomes due or if the insurance event occurs. There are no significant risks related to the continuing involvement. The amounts are non-interest bearing and are generally on 30-60-day terms.

The recorded trade accounts receivable for which an impairment has been recognised, was US\$96,000 and US\$82,000 at 31 December 2014 and 2013, respectively. The related allowance for doubtful accounts was US\$96,000 and US\$82,000 at 31 December 2014 and 2013, respectively.

Notes to the consolidated financial statements

continued

9. Trade accounts receivable and other receivable continued

The allowance for doubtful accounts developed as follows:

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Allowance for doubtful accounts at beginning of year	82	1,130
Additions charged to bad debt expense	18	20
Write-offs charged against the allowance	–	(670)
Reductions credited to income	(4)	(168)
Effect of movements in foreign currency	–	(230)
Allowance for doubtful accounts at end of year	96	82

As at 31 December 2014 and 2013, the aging analysis of trade accounts receivable is as follows:

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Receivables neither past due nor impaired	78,994	109,087
Receivables past due, not impaired individually	–	–
Less than 30 days	1,566	3,272
30 to 59 days	32	456
60 to 89 days	2	28
90 to 130 days	–	393
Total	80,594	113,236

10. Inventories

Inventories are comprised of the following:

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Raw materials	11,013	14,276
Work-in-process	30,047	26,815
Finished goods	58,080	76,438
Deposits	–	12
	99,140	117,541

11. Other financial assets

Other financial assets comprise:

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Deposits for hedging contracts	3,586	1,532
Hedging instruments	–	2,462
	3,586	3,994

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 28.

12. Other current assets

Other current assets comprise:

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Prepaid expenses ¹⁾	7,459	10,713
Other tax receivables	1,253	1,017
Other	1,779	746
	10,491	12,476

[1] Including US\$ nil (2013: US\$3,440,000) prepayments made to a major supplier.

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13. Property, plant and equipment, net

A summary of activity for property, plant and equipment for the years ended 31 December 2014 and 2013 is as follows:

	Test equipment US\$000	Leasehold improvements US\$000	Office and other equipment US\$000	Construction in progress US\$000	Total US\$000
Cost					
Balance at 31 December 2012 /					
1 January 2013	108,198	9,630	32,578	12	150,418
Additions relating to the iWatt acquisition ¹⁾	4,440	170	256	–	4,866
Effect of movements in foreign currency	(12)	108	195	12	303
Additions	6,640	3,468	12,321	686	23,115
Reclassifications	–	–	10	(10)	–
Disposals	(1,112)	(157)	(1,477)	–	(2,746)
Balance at 31 December 2013 /	118,154	13,219	43,883	700	175,956
1 January 2014					
Effect of movements in foreign currency	(119)	(421)	(910)	(63)	(1,513)
Additions	8,640	3,003	11,338	1,412	24,393
Reclassifications	14	199	94	(309)	(2)
Disposals	(2,299)	(488)	(595)	(156)	(3,538)
Balance at 31 December 2014	124,390	15,512	53,810	1,584	195,296
Depreciation and impairment losses					
Balance at 31 December 2012 /					
1 January 2013	(79,609)	(2,640)	(17,851)	–	(100,100)
Effect of movements in foreign currency	2	(28)	(90)	–	(116)
Depreciation charge for the year	(10,107)	(1,546)	(6,928)	–	(18,581)
Impairment charges	(171)	–	(346)	–	(517)
Disposals	1,028	61	734	–	1,823
Balance at 31 December 2013 /	(88,857)	(4,153)	(24,481)	–	(117,491)
1 January 2014					
Effect of movements in foreign currency	12	215	453	–	680
Depreciation charge for the year	(11,007)	(2,147)	(8,997)	–	(22,151)
Reclassifications	(5)	–	5	–	–
Disposals	2,221	161	547	–	2,929
Balance at 31 December 2014	(97,636)	(5,924)	(32,473)	–	(136,033)
Net book value					
At 31 December 2012 / 1 January 2013	28,589	6,990	14,727	12	50,318
At 31 December 2013 / 1 January 2014	29,297	9,066	19,402	700	58,465
Balance at 31 December 2014	26,754	9,588	21,337	1,584	59,263

Finance leases

The carrying value of property, plant and equipment held under finance leases at 31 December 2014 was US\$488,000 (31 December 2013: US\$288,000). Additions during the year were US\$614,000 (2013: US\$40,000). As of the reporting date future minimum lease payments under those finance lease contracts were US\$450,000 (2013: US\$ nil). The present value of the net minimum lease payments was US\$419,000 (2013: US\$ nil).

14. Goodwill and other intangible assets

A summary of activity for intangible assets for the years ended 31 December 2014 and 2013 is as follows:

	Goodwill	Other intangible assets				
	US\$000	Customer related intangible assets US\$000	Purchased software, licenses and other US\$000	Patents US\$000	Intangible assets from internal development US\$000	Total US\$000
Cost						
Balance at 31 December 2012 /						
1 January 2013	32,283	14,100	52,214	6,704	31,099	104,117
Additions relating to the iWatt acquisition ¹⁾	212,595	62,975	979	–	49,599	113,553
Effect of movements in foreign currency	–	–	168	–	–	168
Additions	–	–	4,146	1,711	5,988	11,845
Reclassifications	–	–	–	–	–	–
Disposals	–	–	(50)	–	(14)	(64)
Balance at 31 December 2013 /			244,878	77,075	57,457	8,415
1 January 2014	244,878	77,075	57,457	8,415	86,672	229,619
Effect of movements in foreign currency	–	–	(205)	(101)	(192)	(498)
Additions	–	–	7,873	2,153	6,670	16,696
Reclassifications	–	–	(8)	–	–	(8)
Disposals	–	–	(118)	(50)	–	(168)
Balance at 31 December 2014	244,878	77,075	64,999	10,417	93,150	245,641
Amortisation and impairment losses						
Balance at 31 December 2012 /						
1 January 2013	–	(10,504)	(21,899)	(2,251)	(17,674)	(52,328)
Effect of movements in foreign currency	–	–	(71)	–	–	(71)
Amortisation charge for the year	–	(7,805)	(7,891)	(1,304)	(11,646)	(28,646)
Impairment charges	–	–	(21)	–	–	(21)
Disposals	–	–	38	–	–	38
Balance at 31 December 2013 /			(18,309)	(29,844)	(3,555)	(29,320)
1 January 2014	–	(18,309)	(29,844)	(3,555)	(29,320)	(81,028)
Effect of movements in foreign currency	–	–	164	6	31	201
Amortisation charge for the year	–	(7,695)	(8,285)	(1,513)	(13,460)	(30,953)
Reclassifications	–	–	–	–	–	–
Impairment charges	–	–	(2,478)	–	–	(2,478)
Disposals	–	–	119	3	–	122
Balance at 31 December 2014	–	(26,004)	(40,324)	(5,059)	(42,749)	(114,136)
Net book value						
At 31 December 2012 / 1 January 2013	32,283	3,596	30,315	4,453	13,425	51,789
At 31 December 2013 / 1 January 2014	244,878	58,766	27,613	4,860	57,352	148,591
Balance at 31 December 2014	244,878	51,071	24,675	5,358	50,401	131,505

[1] Internally developed by iWatt pre-acquisition.

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continued

14. Goodwill and other intangible assets continued

A key element of the 2013 additions was the acquisition of iWatt Inc. In connection with this acquisition the company acquired goodwill, internally developed intangible assets, patents and customer related intangible assets, such as customer relationship and order backlog.

Customer related intangible assets comprise intangible assets acquired in a business combination with iWatt in 2013 containing key customers, other customer relationships and order backlog. Intangible assets from internal development represent capitalised development costs of individual projects. We refer to Note 2 for a description of applied accounting policies as well as applied ranges of useful lives for subsequent measurement.

Hire purchase

The carrying value of intangible assets held under hire purchase leases at 31 December 2014 was US\$14,613,000 (31 December 2013: US\$17,162,000). Additions during the year were US\$2,101,000 (2013: US\$343,000). As of the reporting date future minimum payments under those hire purchase contracts were US\$13,906,000 (2013: US\$15,300,000). The present value of the net minimum payments was US\$12,114,000 (2013: US\$12,743,000).

15. Investments

The Investment in amount of US\$1.4 million (2013: US\$1.5 million) relates to a strategic equity investment into Arctic Sand Technologies, Inc., an MIT spin-off commercialising an innovative new approach to power conversion for multiple markets, including smartphones, tablets, Ultrabooks™ and data centres. The investment was part of a Series A funding round, with Dialog participating alongside other venture capital and strategic investors. The investment of US\$1.4 million represents a 7.69% share in Arctic Sand on fully diluted position. We refer to note 25 Additional disclosures on financial instruments in terms of fair value determination.

16. Trade and other payables

Trade and other payables comprise:

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Trade accounts payable	83,303	83,778
Other payables	7,603	7,613
	90,906	91,391

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.

17. Other financial liabilities

Other financial liabilities comprise:

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Hire purchase agreements and finance lease obligations	4,198	3,236
Accrued interest and bank liabilities	452	20,431
Fair value of derivative financial instruments	17,470	256
	22,120	23,923

The Group is exposed to currency risks in the course of its operating activities. These risks are reduced by the use of forward currency exchange contracts. Accrued interest and bank liabilities represent the short-term accrued coupon of 1.0% per annum payable semi-annually in arrears for convertible bond. The prior year amount includes in addition to accrued coupon the bank interest and repayment instalment related to a bank facility.

18. 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 31 December 2013 US\$000	Currency change US\$000	Discount US\$000	Additions US\$000	Used US\$000	Released US\$000	At 31 December 2014 US\$000
Obligations for product warranties	1,266	–	–	1,259	(1,042)	–	1,483
Pending legal claims	321	(38)	–	–	–	–	283
Earn-out and related matter in relation to the iWatt acquisition	1,939	–	–	–	–	(1,939)	–
Other ¹⁾	4,474	(2)	–	43,353	(41,242)	(44)	6,539
Total current	8,000	(40)	–	44,612	(42,284)	(1,983)	8,305
Dilapidation	881	(60)	54	–	–	–	875
Lease obligations	207	–	–	300	(37)	–	470
Severence	400	(18)	–	228	–	–	610
Total non-current	1,488	(78)	54	528	(37)	–	1,955
Total	9,488	(118)	54	45,140	(42,321)	(1,983)	10,260

[1] Including deferred revenue of US\$10.2 million (2013: US\$6.5 million) and related cost of sales in amount of US\$3.7 million (2013: US\$2.1 million), resulting in a net provision of US\$6.5 million (2014: US\$4.4 million).

As reported in note 4 to the annual report and accounts 2013 and updated in quarterly reports in 2014 as part of the iWatt purchase Agreement and Plan of Merger entered into among the parties on 1 July 2013 a contingent consideration (Earn-out) was agreed with the previous owners of iWatt. Given that the revenue targets for both Earn-out Periods were not met, the Earn-out accrual has been released.

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19. Other current liabilities

Other current liabilities comprise:

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Obligations for personnel and social expenses	27,131	19,415
Advances received in relation to customer specific research and development contracts	2,800	2,400
Other	6,066	12,541
	35,997	34,356

Terms and conditions of the above other current liabilities:

- obligations for personnel and social expenses have an average term of three months (2013: three months); and
- other payables are non-interest bearing and are normally settled on 30 day terms.

20. Other non-current financial liabilities

Other non-current financial liabilities comprise:

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Liabilities relating to the convertible bond ¹⁾	180,207	171,971
Bank loan ²⁾	–	84,179
Liabilities relating to hire purchase and finance lease obligations	7,916	9,507
	188,123	265,657

[1] Please refer to note 21 Convertible Bond (below).

[2] Please refer to note 28 Financial risk management objects and policies.

21. Convertible bond

As previously reported in the consolidated financial statements and notes for the years 2012 and 2013, the Company launched during Q1 2012 a 5 year Convertible Bond Offering raising gross proceeds of US\$201 million. The offering closed on 12 April 2012. The bonds, which are listed on the Luxembourg Stock Exchange's Euro MTF market, will be convertible into ordinary shares of Dialog Semiconductor Plc., listed on the Regulated Market of the Frankfurt Stock Exchange. 1,005 Bonds with a principal amount of US\$200,000 each were issued at 100% with a coupon of 1.0% per annum payable semi-annually in arrears. The initial conversion price is US\$29.5717 (€22.367).

After deduction of cost in amount of US\$4,369,000 related to commission and other costs incurred in connection with the bond issuance the net proceeds of issuing the Bonds were US\$196,631,000 in Q1 2012. In accordance with IAS 32, US\$163,607,000 of gross proceeds was allocated to financial liabilities and US\$37,393,000 was allocated to equity. The debt component of convertible bonds is measured using the market interest rate obtainable on a similar debt instrument but one that is not convertible. This debt component is measured as liabilities at amortised cost until it is converted into equity or becomes due for repayment. The component of the net proceeds allocated to equity represents the fair value of the conversion right at the time of issuance.

The volume outstanding as per 31 December 2014 for this bond totals US\$201 million (2013: US\$201 million), taking account of conversions into shares.

22. Shareholders' equity and other reserves

Ordinary shares

The amount of authorized shares at 31 December 2014 was 104,311,860 (2013: 104,311,860) with a par value of £0.10 per share, of which 71,068,930 (2013: 68,068,930) shares were issued and outstanding.

	Amount of shares	US\$000
At 1 January 2013	68,068,930	12,852
Issued on 7 March 2014	3,000,000	501
At 31 December 2014	71,068,930	13,353

Dialog's stock is issued in the form of registered shares. All shares are fully paid.

Additional paid-in capital

The account comprises additional paid-in capital in connection with the issue of shares. Since the launch of convertible bond in 2012 the conversion rights with a fair value in amount of US\$36,579,000 have been classified as equity instruments in accordance with IAS 32 and disclosed as additional paid-in capital.

Retained earnings

Retained earnings comprise losses and non-distributed earnings of consolidated Group companies.

Other reserves

Currency translation reserve

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries and branches whose functional currency is not the US\$. At 31 December 2014 and 2013, the negative currency translation reserve was US\$3,007,000 and US\$1,710,000 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 2014 the negative cash flow hedge reserve was US\$12,769,000 compared to a positive cash flow hedge reserve of US\$1,580,000 at 31 December 2013. Please refer to note 28 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 2014 and 2013 are as follows:

	2014			2013		
	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	(1,032)	(265)	(1,297)	269	(15)	254
Hedges	(19,794)	5,445	(14,349)	91	(48)	43
Other comprehensive income (loss)	(20,826)	5,180	(15,646)	360	(63)	297

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22. 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 and the non-executive Director benefit trust (the "Trusts"). Please refer to note 24 (below). At 31 December 2014 and 31 December 2013, the Trusts held 2,825,412 and 2,097,799 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.

23. 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\$6,069,000 (2013: US\$4,971,000). At 31 December 2014, contributions amounting to US\$916,000 (2013: US\$772,000) 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\$3,256,000 (2013: US\$2,732,000).

24. Share-based payments

A) Stock option plans (SOP) and Employee Share plans (ESP)

On 7 August 1998, the Group adopted a stock option plan (the "Plan") under which employees, the executive management and the Executive Directors may be granted from time to time, at the discretion of the Board, stock options to acquire up to 3,840,990 shares of the Group's authorised but unissued ordinary shares. On 16 May 2002 the Shareholders of the Group approved a resolution increasing the maximum amount of unexercised stock options which may be granted by the Group at any time, to 15% of Dialog's issued share capital, from time to time on a diluted basis. At 31 December 2014, 12,541,576 shares could be issued (2013: 12,012,164 shares). Notwithstanding the foregoing the Company has determined that dilution will be managed using an average annual flow rate of 1% per annum such that the Company will move dilution towards a rolling 10% in 10 years.

Unless otherwise determined by the Board, stock options granted to employees before 31 December 2013, were granted with an exercise price not less than the quoted price at the date of grant, and vest during the service period of the employee without any further vesting conditions. Stock options granted before 31 October 2006 have terms of ten years and vest over periods of one or five years from the grant date. After an amendment of the stock option plan grants made on or after 31 October 2006 had a seven-year life and vest monthly over a period of one to 48 months. These stock options may not be exercised until they have been held for one calendar year from the grant date.

At the 2013 Annual General Meeting, Shareholders approved the new Dialog Semiconductor Plc Employee Share Plan 2013 (ESP) which will be operated alongside, and within the same aggregate dilution limit detailed above, the existing share option plan. In 2014 the first options were granted under the ESP.

At the 2011 Annual General Meeting, Shareholders approved a change of the fee structure for non-executive Directors. 2/3 of the total fees are delivered in cash and 1/3 of the non-executive Directors' annual total fees are delivered in Company equity. The number of shares is calculated using the average 30 day share price preceding the date of the Annual General Meeting. Shares are delivered in the form of conditional shares or options (an exercise price has been attached at Euro 15 cents). Each individual shall be entitled to sell their shares, or exercise their options, if any, no earlier than the day preceding the third AGM following the grant (unless specific circumstances such as a change of control apply). At the 2013 Annual General Meeting, Shareholders resolved that all non-executive Directors fees be paid in cash only. Accordingly no stock options were granted to non-executive Directors in 2013 and 2014.

The fair value of all grants in the two-year period ended 31 December 2014 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.

24. Share-based payments continued

The following assumptions were used for stock option grants for the years ended 31 December 2014 and 2013:

	2014	2013
Expected dividend yield	0%	0%
Expected volatility	36%	46%
Risk free interest rate	0.2%	0.8%
Expected life (in years)	2.0 - 5.0	2.0 - 6.0
Weighted average share price during the year (in €)	20.83	12.66
Weighted average share price for Option grants (in €)	18.40	13.56
Weighted average exercise price (in €)	0.10	13.56
Weighted-average fair value (in €)	18.31	4.41

B) Executives' Long Term Incentive Plan (LTIP)

The Group also operates the Dialog Semiconductor Plc Long Term Incentive Plan (LTIP) which was approved by shareholders at the Annual General Meeting in April 2008. Under the LTIP, key executives are eligible to share in a percentage of the value created for shareholders in excess of an annual return hurdle measured over a four-year performance period (this was originally a three-year period, extended by one year at the Annual General Meeting in April 2009). This value is delivered to a participant in the form of a series of nil-cost options which can be exercised within five years of the date of grant. The first award under the LTIP was made on 8 May 2008.

In 2010 a second award under LTIP was made to selected new and existing members of the executive management. In 2013 and 2014, no further awards under the LTIP plan were made or can be made.

The fair value of the LTIP, where the number of nil-cost options granted to an individual is contingent upon the returns to Shareholders, was calculated using a Monte Carlo simulation model. As a portion of each award is capable of vesting at three separate measurement dates each tranche has been valued separately in accordance with IFRS2.

Measurement date 31 January 2010

The measurement share price at 31 January 2010 (average share price over the prior 30 days) was €9.8942. As this price was above the return hurdle for January 2010 of €1.82 (prior year return hurdle of €1.62+12.5%), 3,055,064 nil cost option grants were approved by the Board on 4 February 2010, with 25% exercisable from 22 February 2010 and the remaining 75% exercisable for 5 years from 21 February 2011.

Measurement date 31 January 2011 (Last Measurement Date)

The measurement share price at 31 January 2011 (average share price over the prior 30 days) was €17.6632. As this price was above the return hurdle for January 2011 of €11.1310 (prior year return hurdle of €9.8942+12.5%), 1,575,327 nil cost option grants were approved by the Board on 18 February 2011, all exercisable for 5 years from 18 February 2011.

C) Executives Incentive Plan (EIP)

The Group also operates the Dialog Executive Incentive Plan (EIP) which was approved by the shareholders at the Annual General Meeting in May 2010. Under this plan, key executives and other key value drivers of the business are eligible to share in a percentage of the value created for Shareholders. The Remuneration Committee may not grant awards under the EIP more than five years after its approval.

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24. Share-based payments continued

Under the EIP, up to 0.75% of the issued share capital at the date of grant will be made available for the Remuneration Committee to grant to participants in the EIP on an annual basis. It is envisaged that these shares will be granted to approximately 10 – 15 key executives. A portion of the total number of shares which can be awarded each year would be reserved for grants to new recruits. However, there is no requirement for the Remuneration Committee to allocate all available shares on an annual basis.

Continuity of Employment Condition

25% of the EIP Award will be banked in equal annual instalments (1/3 of 25% each year) based on the achievement of a share price hurdle measured at the end of each year (Continuity Award). The hurdle is such that the Company's share price at each measurement point (being the anniversary of the date of grant – the first grant was on 16 February 2012 the second grant was on 16 February 2013) must be greater than the higher of the share price on the date of grant or previous measurement points. Where the share price hurdle has not been achieved at the end of the year, that proportion of the Continuity Award will lapse.

At the end of the three year holding period, the Continuity Award will vest and become exercisable subject to continuity of employment. Individuals have three years with which to exercise vested options.

Corporate Performance Conditions

75% of any EIP Award will vest subject to the achievement of challenging performance conditions (**Performance Award**). The primary performance measure relates to EBIT and Revenue Growth targets. The vesting of 50% of the Performance Award relates to EBIT growth with the other 50% relates to revenue growth targets. The number of shares which vest under the primary performance measure would then be subject to a secondary performance measure (as set out below). The Company believes that these two measures are directly relevant to the Company's strategy at its current stage of development and that the executives should be rewarded on this basis and that focusing on these metrics are critical to driving shareholder value over the medium to long term. Targets are set on an annual basis, rather than over the long-term, to ensure that they remain challenging and relevant. These targets take into consideration budget and market expectations for EBIT and revenue growth for the relevant financial year on the following basis:

Threshold (e.g. an acceptable level of performance growth which must be attained for an award to begin to vest)

Target (e.g. the level of performance for achieving budgeted growth and which ensures that the business is online for achieving its long-term objectives)

Exceptional (e.g. the level of performance which is acknowledged by the Remuneration Committee as exceptional)

At the end of the three year performance period, the Remuneration Committee will determine the level of vesting based on the actual level of growth achieved over the three year period relative to the compounding of the three yearly targets.

Provided that the threshold level of growth has been achieved for both targets, at the end of the performance period, the level of vesting for both metrics will be as follows:

Level of Corporate Performance	% of EIP Award vesting
Threshold ¹⁾	20%
Target ¹⁾	40%
Exceptional ¹⁾	100%

[1] Straight-line between points

Where the threshold level of growth has not been achieved for either the EBIT or revenue target the Performance Award will lapse.

24. Share-based payments continued

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.

The following assumptions were used for the fair value calculations:

	1st Grant in 2014	Grant in 2013
Share price at grant date	€16.0	€13.61
Exercise price	€0.12	€0.12
Expected volatility	36%	45%
Risk-free-interest-rate	0.2%	0.8%
Assumed level of vesting regarding the performance conditions	70%	50%
Option lifetime	6 Years	6 Years

D) Development of plans

Stock option plan activity (including stock options granted under the LTIP and the EIP) for the years ended 31 December 2014 and 2013 was as follows:

	2014		2013	
	Options	Weighted average exercise price €	Options	Weighted average exercise price €
Outstanding at beginning of year	6,036,051	7.93	5,878,825	7.83
Granted	1,748,517	0.09	1,062,623	6.29
Exercised	(2,452,916)	6.82	(581,969)	3.99
Forfeited	(183,628)	4.52	(323,428)	7.83
Outstanding at end of year	5,148,024	5.90	6,036,051	7.93
Options exercisable at year end	1,845,756	9.64	3,417,287	6.82

The weighted average share price at the date of exercise of options was €21.85 and €13.55 in the years ended 31 December 2014 and 2013 respectively.

Liabilities from share option exercises to employees were US\$210,000 at 31 December 2014 (2013: US\$113,000).

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24. Share-based payments continued

The following table summarises information on stock options outstanding (including stock options granted under the LTIP and the EIP) at 31 December 2014:

Range of Exercise Prices	Options outstanding			Options exercisable	
	Number outstanding at 31 December 2014	Weighted average remaining contractual life (in years)	Weighted average exercise price €	Number exercisable at 31 December 2014	Weighted average exercise price €
€0.0 - 3.00	2,897,366	4.3	0.16	446,653	0.51
€3.00 - 8.00	193,227	1.9	6.98	193,227	6.98
€8.00 - 16.85	2,057,431	4.1	13.87	1,205,876	13.45
€0.0 - 16.85	5,148,024	4.1	5.90	1,845,756	9.64

E) Employee and non-executive Director benefit trusts

The Group established an employee benefit trust and a non-executive Director benefit trust (the "Trusts"). The Trusts purchase shares in the Group for the benefit of employees and non-executive Directors under the Group's share option schemes. At 31 December 2014 the Trusts held 2,825,412 shares (2013: 2,097,799).

25. Additional disclosures on financial instruments

	Category in accordance with IAS 39	Amounts recognised in the statement of financial position according to IAS 39						Fair value 31 December 2014 US\$000	
		Carrying amount		Amortised cost US\$000	Fair value recognised in other comprehensive income US\$000	Fair value recognised in profit or loss US\$000	Fair-Value- Hierarchy		
		31 December 2014 US\$000							
Assets									
Cash at bank and Short-term deposits	LaR	318,446	318,446		–	–	n/a	318,446	
Deposits designated as a hedging instrument	n/a	5,834	–		5,834	–	n/a	5,834	
Trade accounts receivable and other receivable	LaR	100,569	100,569		–	–	n/a	100,569	
Other non-derivative financial assets									
Deposits for hedging contracts	LaR	3,586	3,586		–	–	Level 1	3,586	
Derivative financial assets									
Derivatives without hedging relationship	n/a	–	–		–	–	–	–	
Derivatives with hedging relationship	n/a	–	–		–	–	–	–	
Investments	AfS	1,446	–		–	–	Level 3	1,446	
Liabilities									
Trade account payables	FLAC	83,303	83,303		–	–	n/a	83,303	
Other payables	FLAC	7,603	7,603		–	–	n/a	7,603	
Other financial liabilities	FLAC	836	836		–	–	n/a	836	
Hire purchase agreements and finance lease obligations	FLAC	11,279	11,279		–	–	Level 2	10,553	
Convertible Bond	FLAC	180,659	180,659		–	–	Level 2	192,236	
Derivative financial liabilities									
Derivatives without hedging relationship	n/a	–	–		–	–	–	–	
Derivatives with hedging relationship	n/a	17,470	–		17,470	–	Level 2	17,470	
Of which aggregated by category in accordance with IAS 39:									
Loans and receivables (LaR)		422,601	422,601		–	–	–	422,601	
Deposits designated as a hedging instrument		5,834	–		5,834	–	–	5,834	
Held-to-maturity investments (HtM)		–	–		–	–	–	–	
Available-for-sale financial assets (AfS)		1,446	–		–	–	–	–	
Derivatives without hedging relationship		–	–		–	–	–	–	
Derivative financial assets with hedging relationship		–	–		–	–	–	–	
Derivative financial liabilities with hedging relationship		(17,470)	–		(17,470)	–	–	(17,470)	
Financial liabilities at amortised cost (FLAC)		(283,679)	(283,679)		–	–	–	(294,530)	

Notes to the consolidated financial statements

continued

25. Additional disclosures on financial instruments continued

The fair value of derivatives has been determined with reference to available market information (Level 2) applying mark-to-market method. 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 the non-current liability component of the convertible bond and liability related to long-term finance lease contract have changed, the fair value at 31 December 2014 deviates from the carrying amount. Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. Due to the lack of a reliable measurement basis for the fair value of the equity investment this is held at cost of US\$1.4 million. Instruments allocated to the column "fair value recognised in other comprehensive income" are derivative financial instruments designated as cash flow hedges.

25. Additional disclosures on financial instruments continued

	Category in accordance with IAS 39	Amounts recognised in the statement of financial position according to IAS 39						Fair value 31 December 2013 US\$000	
		Carrying amount		Amortised cost US\$000	Fair value recognised in other comprehensive income US\$000	Fair value recognised in profit or loss US\$000	Fair-Value- Hierarchy		
		31 December 2013 US\$000							
Assets									
Cash at bank and Short-term deposits	LaR	186,025	186,025		–	–	n/a	186,025	
Trade accounts receivable and other receivable	LaR	127,336	127,336		–	–	n/a	127,336	
Other non-derivative financial assets									
Deposits for hedging contracts	LaR	1,532	1,532		–	–	Level 1	1,532	
Derivative financial assets									
Derivatives without hedging relationship	n/a	–	–		–	–	–	–	
Derivatives with hedging relationship	n/a	2,462	–	2,462	–	–	Level 2	2,462	
Investments	AfS	1,531	–	–	–	–	Level 3	1,531	
Liabilities									
Trade account payables	FLAC	83,778	83,778		–	–	n/a	83,778	
Other payables	FLAC	7,613	7,613		–	–	n/a	7,613	
Other financial liabilities	FLAC	104,190	104,190		–	–	–	104,190	
Hire purchase agreements and finance lease obligations	FLAC	12,744	12,744		–	–	Level 2	13,006	
Convertible Bond	FLAC	172,390	172,390		–	–	Level 2	186,411	
Derivative financial liabilities									
Derivatives without hedging relationship	n/a	–	–	–	–	–	–	–	
Derivatives with hedging relationship	n/a	256	–	256	–	–	Level 2	256	
Of which aggregated by category in accordance with IAS 39:									
Loans and receivables (LaR)		314,893	314,893		–	–	–	314,893	
Held-to-maturity investments (HtM)		–	–	–	–	–	–	–	
Available-for-sale financial assets (AfS)		1,531	–	–	–	–	–	–	
Derivatives without hedging relationship		–	–	–	–	–	–	–	
Derivative financial assets with hedging relationship		2,462	–	2,206	–	–	–	2,462	
Derivative financial liabilities with hedging relationship		(256)	–	–	–	–	–	(256)	
Financial liabilities at amortised cost (FLAC)		(380,715)	(380,715)		–	–	–	(394,998)	

Notes to the consolidated financial statements

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26. 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
	2014 US\$000	2014 US\$000	2013 US\$000	2013 US\$000
Within one year	12,565	7,522	9,610	6,145
Between one and two years	12,433	2,507	7,048	708
Between two and three years	10,544	489	6,170	46
Between three and four years	5,320	2	5,957	21
Between four and five years	4,869	—	4,342	2
Thereafter	8,655	—	9,700	—
Total minimum payments	54,386	10,520	42,827	6,922

Total payments for operating leases and software commitments, charged as an expense in the income statement, amounted to US\$15,547,000 and US\$10,021,000 for the years ended 31 December 2014 and 2013 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	
	2014 US\$000	2013 US\$000
Within one year	4,403	3,400
Between one and two years	4,403	3,400
Between two and three years	3,400	3,400
Between three and four years	1,700	3,400
Between four and five years	—	1,700
Thereafter	—	—
Total minimum payments	13,906	15,300
Less amounts representing finance charges	(1,792)	(2,557)
Present value of minimum payments	12,114	12,743

Capital commitments

The Group has contractual commitments for the acquisition of property, plant and equipment in 2014 of US\$4,491,000 (2013: US\$5,161,000) and for the acquisition of intangible assets of US\$4,846,000 (2013: US\$1,207,000).

Contingent liability

On 9 April 2014 the previous owners of iWatt commenced litigation against Dialog in the Court of Chancery in Delaware seeking damages for alleged breaches of the purchase agreement as it relates to the earn-out payments. Dialog's management believes that it has complied with all of its obligations under the Merger Agreement and is defending its position. Dialog management and the Board of Directors believe that the outflow of resources to settle the claimed obligation is not probable.

27. Segmental reporting

Following the provisions of IFRS 8, reportable operating segments are identified based on the "management approach". The management approach requires external segment reporting based on the Group's internal organisational and management structure and on internal financial reporting to the Chief Operating decision maker, which considered the Group as being the Board of Management.

The Group reports on four (2013: four) operating segments, which are independently managed by bodies responsible for the respective segments depending on the nature of products offered. The fourth segment was added in the third quarter 2013 and represents the acquired iWatt business. The identification of Company components as operating segments is based in particular on the existence of business unit managers who report directly to the Board of Management of Dialog and who are responsible for the performance of the segment under their charge.

a) Operating segments

The Group's operating segments are:

Mobile Systems

This segment includes our power management and audio chips especially designed to meet the needs of the wireless systems markets and a range of advanced driver technologies for low power display applications – from PMOLEDs to electronic paper and MEMS displays.

Automotive and Industrial

In the automotive and industrial market our products address the safety, management and control of electronic systems in cars and for industrial applications.

Connectivity

The activities of this segment include short-range wireless, digital cordless, Bluetooth and VoIP technology. The Connectivity segment includes the operating results of our subsidiary Dialog Semiconductor B.V.

Power conversion

This segment includes our AC/DC converter solutions for smaller, fast charging power adaptors for portable devices as well as our LED drivers for solid-state lighting products.

Notes to the consolidated financial statements

continued

27. Segmental reporting continued

	2014						2013 reclassified*)					
	Mobile Systems US\$000	Automotive/ Industrial US\$000	Connectivity US\$000	Power Conversion US\$000	Corporate US\$000	Total US\$000	Mobile Systems US\$000	Automotive/ Industrial US\$000	Connectivity US\$000	Power Conversion US\$000	Corporate US\$000	Total US\$000
Revenues ¹⁾	942,628	40,952	92,120	80,367	38 ³⁾	1,156,105	744,869	37,259	91,616	26,768	868 ³⁾	901,380
R&D expenses	141,246	2,392	25,703	22,476	21,991	213,808	118,091	1,749	22,677	8,806	9,491	160,814
Operating profit (loss) ²⁾	244,180	11,232	(2,163)	(21,135)	(46,212)	185,902	141,242	12,211	(2,121)	(22,533)	(26,139)	102,660
Depreciation/ amortisation	41,535	227	5,060	5,739	3,021	55,582	35,230	152	5,467	5,163	1,215	47,227
Inventory impairment and fixed asset disposal losses	6,096	260	212	3,582	85	10,235	11,832	154	2,200	1,504	124	15,814
Investments	30,681	167	3,737	4,239	2,231	41,055 ⁴⁾	27,199	117	4,220	3,986	938	36,460 ⁵⁾
At 31 Dec 2014												
Inventories	71,327	6,165	13,678	7,970	—	99,140	93,604	7,460	11,227	4,752	498	117,541
At 31 Dec 2013												

*) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively.

For further information please refer to note 2 to the consolidated financial statements.

[1] All revenues are from sales to external customers.

[2] Certain overhead costs are predominantly allocated based on sales and headcount.

The Operating loss of the Corporate segment results from Holding and Trust related expenses, share option and business development costs.

[3]The revenue in the corporate column include mainly corporate projects related revenue, sales discounts and in 2013 the BenQ settlement.

[4] Including US\$24,393,000 additions to PPE, US\$16,696,000 additions to intangible assets and (US\$34,000) currency change of other investments.

[5] Including US\$23,115,000 additions to PPE, US\$11,844,000 additions to intangible assets and US\$1,501,000 purchase of other investments.

Investments comprise additions to property, plant and equipment, and intangible assets.

In 2014 and 2013 the Group had no inter-segment sales, income, expenses, receivables, payables or provisions.

There are no differences between the measurements of the reportable segments profits and losses, inventories and the Group's profit and losses, assets and liabilities.

27. Segmental reporting continued

b) Corporate

Revenues in the Corporate column include US\$38,000 revenue components (2013: US\$851,000 BenQ Cash settlement).

R&D expenses in the Corporate column predominantly include stock option expenses and expenses for the Executive Incentive Plan (EIP) of US\$9,761,000 (2013: US\$3,564,000). Furthermore there are US\$11,730,000 (2013: US\$5,789,000) development expenses for new technology projects and US\$467,000 for Powerventure (2013: US\$ nil).

The operating losses recorded in the corporate column for the year ended 31 December 2014 of US\$46,212,000 (2013: US\$26,139,000) are primarily resulting from stock option expenses US\$21,170,000 (including EIP) (2013: US\$8,487,000), the costs of the holding company US\$10,941,000 (2013: US\$12,838,000), expenses for developing new technology projects US\$16,151,000 (2013: US\$8,783,000) and US\$494,000 for Powerventure (2013: US\$ nil). Additionally in 2014 NRE Revenues in amount of US\$600,000 (2013: US\$996,000 BenQ cash settlement) were included as well as another operating income of US\$1,939,000 (2013: US\$3,249,000) resulting from release of earn out provision.

c) Geographic information – Revenues by shipment destination

	2014 US\$000	2013 reclassified*) US\$000
Revenues		
United Kingdom	782	945
Other European countries	60,098	62,628
China	983,412	742,324
Other Asian countries	100,667	87,022
Other countries	11,146	8,461
Total revenues	1,156,105	901,380
Investments		
Germany	15,042	21,072
Japan	273	121
United Kingdom	9,751	8,266
Netherlands	4,718	3,599
USA	6,696	1,796
Taiwan	720	145
Singapore	18	97
Other	3,837	1,364
Total investments	41,055	36,460

*) Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively.

For further information please refer to note 2 to the consolidated financial statements.

Notes to the consolidated financial statements

continued

27. Segmental reporting continued

	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Assets		
Germany	451,769	438,816
USA	359,435	377,293
United Kingdom	124,745	54,316
Netherlands	51,893	51,477
Japan	2,386	1,946
Other	15,718	3,604
Total assets	1,005,946	927,452

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.

28. 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 81,5% and 82,5% of its total revenue for the years ended 31 December 2014 and 2013, 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 2014, one (2013: one) customer individually accounted for more than 10% of the Group's revenues. Total revenues from this customer were US\$909,900,903 (2013: US\$718,733,000). Net receivables from this customer at 31 December 2014 were US\$83,075,043 (2013: US\$111,799,982). This customer is part of the Mobile Systems segment (for further information please see Strategic report – Principal customers).

The Group is performing on-going credit evaluations of its customers' financial condition.

Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise cash, cash equivalents, and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has other financial instruments which mainly comprise trade receivables and trade payables which arise directly from its operations.

The Group also entered into derivative transactions (forward currency contracts). The purpose is to manage the currency risks arising from the Group's operations.

It is, and has been throughout 2014 and 2013, the Group's policy that no trading in derivatives shall be undertaken.

28. Financial risk management objectives and policies continued

Exposure to currency, interest rate and credit risk arises in the normal course of the Group's business. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments.

Interest risk

The Group earns interest from deposits and uses money market deposits with highly rated financial institutions. During the year, the Group has held cash on deposit with a range of maturities from one week to one month. This can vary in view of changes in the underlying currency's interest rates and the Group's cash requirements.

The Group pays interest on amounts received in connection with the factoring agreement, convertible bond (please refer to note 21) and loans as prescribed below.

The Group had long-term debt outstanding resulting from Base Currency term loan facility in an aggregate amount equal to US\$100.0 million and a multicurrency revolving loan facility in an aggregate amount of US\$15.0 million equal to the total revolving facility commitments. Based on the pre-payments of US\$10.0 million during 2013 and of US\$105.0 million during 2014, there is no amount outstanding at 31 December 2014 (31 December 2013: US\$105.0 million outstanding). The applied interest rate contained the margin, LIBOR and mandatory cost. These were the cost of compliance with the requirements of the Bank of England and/or the Financial Conduct Authority and the requirements of the European Central Bank. Both facilities have been repaid earlier as the contractual termination date on 31 March 2017.

The Group's policy is to manage its interest income using a mix of fixed and variable interest rate debts. In order to achieve this policy, the Group invests in highly liquid funds having a matching investment strategy. Once the operating business has been financed, short-term excess funds are invested in floating interest rate securities. Only short-term deposits bear fixed interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax as well as the Group's equity:

	Increase/decrease in basis points	Effect on profit US\$'000	Effect on equity US\$'000
2014			
	2	58	58
	(2)	(58)	(58)
2013			
	31	794	794
	(22)	(565)	(565)

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 2014 and 2013 nearly all the Group's sales were denominated in US\$.

Notes to the consolidated financial statements

continued

28. Financial risk management objects and policies continued

The Group uses forward currency contracts as well as certain deposits (together referred to as the "hedging instruments") to eliminate the currency exposure of recurring expected payments, such as salaries, wages and office rents non-US\$ denominated. The hedging instruments must be the same currency as the hedged item.

It is the Group's policy not to enter into forward contracts nor classify deposits as non-derivative hedging instruments until a firm commitment is in place and to maximise hedge effectiveness by negotiating the terms of hedge instruments to match the terms of the hedged item.

The following table demonstrates the sensitivity to a reasonably possible change in the US\$ exchange rate, with all other variables held constant, of the Group's profit before tax (resulting from changes in the fair value of monetary assets, excluding securities, and liabilities) and changes in the Group's equity (resulting in addition from changes in the fair value of deposits designated as cash flow hedges).

		Loans and receivables (LaR) and deposits designated as cash flow hedges ¹⁾	Financial liabilities at amortised cost (FLAC) ¹⁾		
	Increase/decrease against US\$	Effect on profit US\$000	Effect on equity US\$000	Effect on profit US\$000	Effect on equity US\$000
2014					
Euro	(11.7%)	(3,056)	(3,056)	975	975
Pound Sterling	(5.6%)	(30)	(30)	130	130
Euro	11.7%	3,056	3,056	(975)	(975)
Pound Sterling	5.6%	30	30	(130)	(130)
2013					
Euro	4.4%	236	236	(401)	(401)
Pound Sterling	2.2%	23	23	(83)	(83)
Euro	(4.4%)	(236)	(236)	401	401
Pound Sterling	(2.2%)	(23)	(23)	83	83

[1] Categories according to IAS 39.

A risk analysis for the Group's securities was done separately, based on the inherent historic volatility of the specific securities, see below.

Credit risk

The Group is exposed to credit risk from its operating activities and certain financing activities. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis, with the result that the Group's exposure to bad debts is not significant. Regarding the risk concentration please see above "vulnerability due to certain significant risk considerations".

In order to finance its growth the Group entered into two factoring agreements with reputable financial institutions. The maximum amount of cash that can be received under these agreements is US\$92,000,000 (2013: US\$92,000,000). The agreements, which comprise receivables from selective customers, significantly reduce the underlying credit risk because the financial institutions assume all credit risks associated with the collection of the receivables financed under the programmes.

The Group's exposure to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, would arise from default by counterparty.

28. Financial risk management objectives and policies continued

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 2014, the Group had cash and cash equivalents of US\$324,280,000 (2013: US\$186,025,000).

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 2014, based on contractual undiscounted payments:

	Less than 3 months US\$000	3 to 12 months US\$000	1 to 5 years US\$000	Total US\$000
Financial year ended 2014				
Trade accounts payable	83,303	–	–	83,303
Other payables	7,603	–	–	7,603
Other financial liabilities	17,922	4,198	188,123	210,243
Other current liabilities	35,997	–	–	35,997
	144,825	4,198	188,123	337,146
Financial year ended 2013				
Trade accounts payable	83,778	–	–	83,778
Other payables	7,613	–	–	7,613
Other financial liabilities	8,923	15,000	265,657	289,580
Other current liabilities	34,356	–	–	34,356
	134,670	15,000	265,657	415,327

The non-current other financial liabilities as of 31 December 2014 were US\$188.1 million (31 December 2013: US\$265.7 million) of which US\$180.2 million represents the book value of the liability from the convertible bond (31 December 2013: US\$172.0 million). The remaining amount of US\$7.9 million is related to liabilities from hire purchase and finance lease obligations (31 December 2013: US\$9.5 million).

We had a three-year (2011-2014) revolving credit facility of US\$35.0 million available for use that bears an interest rate of LIBOR + 140bp. As of 16 July 2013 the facility was cancelled and replaced by a US\$25.0 million revolving credit line facility which is available until March 2017. This facility has been used in 2013 in the amount of US\$15.0 million in order to finance the iWatt acquisition, US\$10 million were repaid in December 2013 and US\$5 million in January 2014. As of 31 December 2014, the revolving credit line facility was reduced to US\$10.0 million which remains untapped.

Notes to the consolidated financial statements

continued

28. Financial risk management objects and policies continued

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy and strong capital ratios in order to support its business and strategies for growth. The company is considering its total equity as capital.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust its capital structure, the Group may generally issue new shares. Also in 2012 the Group launched a 5 year convertible bond offering amounting to US\$201 million which has a significant impact on the capital structure of the Group, amongst others it led to a decrease of the equity ratio in 2012 and 2013. During the assessment year 2014 none conversion rights have been exercised (2013: none). For further information please refer to note 21.

The Group monitors capital using an equity ratio (total equity divided by total assets). The equity ratio as of 31 December 2014 was 62,0% (2013: 49,2%). Capital includes net Shareholders' equity. The Group's policy is to finance operational business development and growth if at all possible with equity and long-term liabilities. It is, therefore, also its policy to keep a strong equity ratio. This policy will be reconsidered as soon as sustainable profits are earned in order to achieve leverage. However financing of strategic decisions focused on long term growth is ensured by long-term liabilities. For this reason, the funding of iWatt acquisition was partially subject of new debt facilities, a Base Currency term loan facility in an aggregate amount equal to US\$100.0 million and a multicurrency revolving loan facility in an aggregate amount of US\$15.0 million equal to the total revolving facility commitments. To improve the equity ratio we pre-paid US\$10 million during 2013 and the remaining amount of US\$105 million during 2014. Therefore, there is no amount outstanding at 31 December 2014. Both facilities have been repaid earlier than the contractual termination date on 31 March 2017.

28. Financial risk management objects and policies continued

Hedging activities

At 31 December 2014, the Group held Forward exchange contracts and deposits (referred to as the "hedging instruments") designated as hedges of firm commitments and forecast transactions in Pound Sterling and Japanese Yen.

The hedging instruments are being used to hedge the foreign currency risk of contractual cash flows, principally resulting from wages and salaries, and rental payments with the aim of eliminating the currency risk by transforming these cash flows from Euros, Pounds Sterling or Japanese Yen into US Dollars. The fair values of the hedging instruments which equal the book values are as follows:

	At 31 December 2014		At 31 December 2013	
	Assets US\$000	Liabilities US\$000	Assets US\$000	Liabilities US\$000
Fair values				
Forward exchange contracts	–	17,470	2,462	256
Deposits	5,834	–	–	–

The critical terms of the deposits have been set to match the terms of the hedged cash flows.

The cash flow hedges of the expected future cash flows in each month from January 2015 to December 2015 and January 2014 to December 2014 respectively were assessed to be highly effective and, at 31 December 2014, a net unrealised loss of US\$12,769,000 was included in other comprehensive income in respect of these cash flows (2013: gain of US\$1,580,000). During the financial year 2014 a loss of US\$23,614,000 (2013: gain of US\$1,747,000) was recognised in other comprehensive income and a loss of US\$3,821,000 (2013: gain of US\$1,656,000) was reclassified from other comprehensive income and recognised in profit and loss. The months of occurrence of the cash flows are the same as the month when the income statement is affected.

The following tables show the contractual maturities of the payments for which deposits are used as hedging instruments, i.e., when the hedged item will be recognised in profit or loss.

Maturity	Nominal amount €000	Forward rate US\$/€	Historical rate US\$/€	
			Derivatives	Deposits
2014				
January 2015	9,000	1.3344	–	–
February 2015	13,000	1.3232	–	–
March 2015	16,000	1.3280	–	–
April 2015	9,000	1.3333	–	–
May 2015	13,000	1.3231	–	–
June 2015	13,000	1.3235	–	–
July 2015	9,000	1.3343	–	–
August 2015	13,000	1.3244	–	–
September 2015	7,000	1.3062	2,000	1.2724
October 2015	7,000	1.3064	1,800	1.2165
November 2015	9,000	1.2993	1,000	1.2165
December 2015	9,000	1.2994	–	–
2013				
January 2014 - December 2014	–	–	–	–

Notes to the consolidated financial statements

continued

28. Financial risk management objects and policies continued

Hedging instruments for Pound Sterling commitments:

Maturity	Nominal amount £000	Forward rate US\$/£
	Derivatives	
2014		
January 2015	2,700	1.6921
February 2015	2,700	1.6913
March 2015	4,900	1.6672
April 2015	2,700	1.6825
May 2015	2,700	1.6818
June 2015	2,700	1.6809
July 2015	2,700	1.6706
August 2015	2,700	1.6698
September 2015	2,000	1.6465
October 2015	2,000	1.6461
November 2015	2,000	1.6458
December 2015	2,000	1.6455
2013		
January 2014	3,200	1.5214
February 2014	3,200	1.5213
March 2014	3,200	1.5213
April 2014	3,200	1.5288
May 2014	3,200	1.5287
June 2014	3,200	1.5287
July 2014	—	—
August 2014	—	—
September 2014	—	—
October 2014	—	—
November 2014	—	—
December 2014	—	—

28. Financial risk management objects and policies continued

Hedging instruments for Japanese Yen commitments:

Maturity	Nominal amount ¥000	Forward rate ¥/US\$
	Derivatives	
2014		
January 2015	50,000	103.632
February 2015	50,000	103.612
March 2015	50,000	103.581
April 2015	50,000	103.813
May 2015	50,000	103.803
June 2015	50,000	103.762
July 2015	50,000	104.663
August 2015	50,000	104.617
September 2015	35,000	108.130
October 2015	35,000	108.120
November 2015	35,000	107.960
December 2015	35,000	107.850
2013		
January 2014	50,000	94.8100
February 2014	50,000	94.7500
March 2014	50,000	94.7000
April 2014	50,000	95.0000
May 2014	50,000	99.0000
June 2014	45,000	99.3000
July 2014	—	—
August 2014	—	—
September 2014	—	—
October 2014	—	—
November 2014	—	—
December 2014	—	—

Notes to the consolidated financial statements

continued

29. 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 (2013: eight) non-executive members of the Board of Directors and eleven (2013: nine) 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 corporate governance section beginning on page 51. Compensation of key management personnel of the Group is as follows:

	2014 US\$000	2013 US\$000
Short term employee benefits	5,679	4,283
Post-employment benefits ¹⁾	203	193
Share based payments	7,942	3,097
	13,823	7,573

[1] The amounts include payments for defined contribution plans.

Compensation of non-executive Directors

The compensation of non-executive Directors was US\$1,112,120 (2013: US\$1,029,000). As at 31 December 2014 the amount of Board member fees outstanding was US\$ nil (2013: US\$ nil). For further information please see the Directors' remuneration report within the corporate governance section on pages 66 to 84.

Other related party transactions

In 2014 and 2013 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.

30. Subsequent event

There are no known events after the date of the Statement of Financial Position that require disclosure.

Company statement of financial position

For the year ended 31 December 2014

	Notes	At 31 December 2014 US\$000	At 31 December 2013 US\$000
Assets			
Cash and cash equivalents		93,570	40,355
Amounts owed by group undertakings		272,804	336,450
Other current assets		246	109
Total current assets		366,620	376,914
Investments	31	514,056	443,741
Other intangible assets		506	–
Deposits		254	–
Total non-current assets		514,816	443,741
Total assets		881,436	820,655
Other financial liabilities		12,931	20,419
Amounts owed to Group undertakings		184,070	21,280
Trade and other payables		1,360	2,565
Other payables		392	1,510
Total current liabilities		198,753	45,774
Other non-current financial liabilities		180,207	256,150
Ordinary Shares		13,353	12,852
Share Premium		274,517	246,289
Retained earnings (accumulated deficit)		229,788	261,832
Other reserves		(114)	–
Employee stock purchase plan shares		(15,068)	(2,242)
Total Shareholders' equity	33	502,476	518,731
Total liabilities and Shareholders' equity		881,436	820,655

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\$32,093,000 (2013: profit of US\$163,564,000).

These financial statements were approved by the Board of Directors on 19 February 2015 and were signed on its behalf by:

Dr Jalal Bagherli

Director

Company statement of changes in equity

For the year ended 31 December 2014

	Ordinary shares US\$000	Additional paid-in capital US\$000	Retained earnings US\$000	Hedges US\$000	Other reserves	Employee stock purchase plan shares US\$000	Total US\$000
Balance at 31 December 2012 /							
1 January 2013	12,852	243,829	98,268	–	(2,853)	352,096	
Net profit	–	–	163,564	–	–	163,564	
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income (loss)	–	–	163,564	–	–	163,564	
Sale of employee stock purchase plan shares	–	2,460	–	–	611	3,071	
Changes in Equity total	–	2,460	163,564	–	611	166,635	
Balance at 31 December 2013 /							
1 January 2014	12,852	246,289	261,832	–	(2,242)	518,731	
Net profit	–	–	(32,093)	–	–	(32,093)	
Other comprehensive income	–	–	–	(114)	–	(114)	
Total comprehensive income (loss)	–	–	(32,093)	(114)	–	(32,207)	
Capital increase for employee share option plan (gross proceeds)	501	9,780	–	–	(10,281)	–	
Transaction cost of capital increase - employee share option plan	–	(39)	–	–	–	(39)	
Acquisition of employee stock purchase plan shares	–	–	–	–	(6,172)	(6,172)	
Sale of employee stock purchase plan shares	–	18,487	–	–	3,627	22,114	
Equity settled transactions, net of tax	–	–	49	–	–	49	
Changes in Equity total	501	28,228	(32,044)	(114)	(12,826)	(16,255)	
Balance at 31 December 2014	13,353	274,517	229,788	(114)	(15,068)	502,476	

Company statement of cash flows

For the year ended 31 December 2014

	2014 US\$000	2013 US\$000
Cash flows from operating activities:		
Net income (loss)	(32,093)	163,564
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Interest expense (income), net	1,586	722
Expense related to share-based payments	49	–
Changes in working capital:		
Trade accounts payable	(1,205)	560
Other assets and liabilities	(11,788)	(8,438)
Cash generated from (used for) operations	(43,451)	156,408
Interest paid	(2,010)	(3,265)
Interest received	10,703	528
Cash flow from (used for) operating activities	(34,758)	153,671
Cash flows from investing activities:		
Purchase of iWatt net of acquired cash	–	–
Purchase of intangible assets	(506)	–
Foundation of other affiliated companies	(70,315)	(281,845)
Funds received from (paid to) other group companies	226,436	(101,634)
Cash flow from (used for) investing activities	155,615	(383,479)
Cash flows from financing activities:		
Payment for capital increase	(39)	–
Other non-current financial liabilities	(75,943)	–
Net cash flow from financial liabilities	(7,488)	111,980
Purchase of employee stock purchase plan shares	(6,172)	–
Sale of employee stock purchase plan shares	22,114	3,071
Cash flow from (used for) financing activities	(67,528)	115,051
Net foreign exchange difference	(114)	–
Net increase (decrease) in cash and cash equivalents	53,215	(114,757)
Cash and cash equivalents at beginning of period	40,355	155,112
Cash and cash equivalents at end of period	93,570	40,355

Notes to the Company financial statements

For the year ended 31 December 2014

31. Investments

This represents the investment of the Company in Dialog Semiconductor GmbH, Dialog Semiconductor B.V., in 2012 the newly incorporated subsidiaries in Italy and Turkey and in 2013 the newly acquired iWatt Inc. and Dialog Semiconductor Ltd. The increase of investments relates to intra-group reorganizations as stated in Note The proportion of ownership interest is at 100% on all investments mentioned above.

Investments in subsidiaries are stated at cost less any provision for impairment in value.

The aggregate amount of capital and reserves and the results of these undertakings were as follows:

	2014 US\$000	2013 US\$000
Capital and reserves	583,282	359,690
Profit for the year	153,138	153,060

Based on preliminary unaudited results.

32. Deferred tax

The utilisation of tax loss carryforwards and temporary differences of the holding company is subject to the achievement of positive income in periods which are beyond the company's current business plan and therefore this utilisation is uncertain. Consequently no deferred tax assets were recognised for these losses and temporary differences.

33. Share capital and share options

Details of the Company's share capital and share options are set out in notes 22 and 24 to the consolidated financial statements as at 31 December 2014.

34. Headcount and costs

The Company does not have any employees.

35. Events after the reporting period

There are no known events after the date of the Statement of Financial Position that require disclosure.

Appendix to financial review

The following tables detail the historical consolidated statements of the operations of Dialog for the years ended 31 December 2014 and 31 December 2013 both on an IFRS and underlying* and basis.

Dialog Semiconductor's IFRS and underlying financial performance for 2014 and 2013

US\$000	2014			2013*		
	IFRS	Adjustments	Underlying ¹	IFRS	Adjustments	Underlying ¹
Revenues	1,156,105	–	1,156,105	902,907	6,222	909,129
Cost of sales	(641,296)	8,597	(632,699)	(551,099)	9,492	(541,607)
Gross profit	514,809	8,597	523,406	351,808	15,714	367,522
Selling and marketing expenses	(60,070)	11,339	(48,731)	(49,000)	10,243	(38,757)
General and administrative expenses	(59,445)	14,796	(44,649)	(44,255)	9,442	(34,813)
Research and development expenses	(213,808)	11,570	(202,238)	(159,287)	4,930	(154,357)
Restructuring expenses	–	–	–	–	–	–
Other operating income	4,416	(1,939)	2,477	3,394	(3,394)	–
Operating profit	185,902	44,363	230,265	102,660	36,935	139,595
Interest income and other financial income	419	–	419	565	–	565
Interest expense and other financial expense	(14,829)	9,269	(5,560)	(13,345)	8,935	(4,410)
Foreign currency exchange gains and losses, net	(2,171)	–	(2,171)	(168)	–	(168)
Result before income taxes	169,321	53,632	222,953	89,712	45,870	135,582
Income tax expense	(31,242)	(19,542)	(50,784)	(27,508)	(10,459)	(37,967)
Net profit	138,079	34,090	172,169	62,204	35,411	97,615
Earnings per share (in US\$)						
Basic	2.05	0.51	2.56	0.95	0.54	1.49
Diluted	1.93	0.34	2.27	0.92	0.52	1.44
EBITDA²	241,884	27,546	269,430	151,256	22,959	174,215

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

2 EBITDA is defined as operating profit excluding depreciation for property, plant and equipment (2014: US\$22.1 million, 2013: US\$18.6 million), amortisation for intangible assets (2014: US\$33.4 million, 2013: US\$28.6 million) and losses on disposals and impairment of fixed assets (2013: US\$1.4 million, 2013: US\$1.4 million).

* Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been reclassified retrospectively. For further information please refer to note 2 to the consolidated financial statements.

Appendix to financial review

Dialog Semiconductor's underlying adjustments for 2014

US\$000	Option Expense and National Insurance	PPA BV	Convertible bond	Licence agreement	Acquisition and integration costs	Merger costs	PPA iWatt	One-off non-cash deferred tax credit	TOTAL
Revenues	—	—	—	—	—	—	—	—	—
Cost of sales	(848)	(103)	—	—	—	—	(7,646)	—	(8,597)
Selling and marketing expenses	(3,337)	(400)	—	—	—	—	(7,602)	—	(11,339)
General and administrative expenses	(10,363)	—	—	—	(3,165)	(1,268)	—	—	(14,796)
Research and development expenses	(10,504)	(1,066)	—	—	—	—	—	—	(11,570)
Other operating income	—	—	—	—	—	—	1,939	—	1,939
Operating profit	(25,052)	(1,596)	—	—	(3,165)	(1,268)	(13,309)	—	(44,363)
Interest expense and other financial expense	—	—	(8,269)	(1,000)	—	—	—	—	(9,269)
Result before income taxes	(25,052)	(1,569)	(8,269)	(1,000)	(3,165)	(1,268)	(13,309)	—	(53,632)
Income taxes	—	392	—	—	—	—	1,391	17,759	19,542
Net income	(25,052)	(1,177)	(8,269)	(1,000)	(3,165)	(1,268)	(11,918)	17,759	(34,090)

(*) Underlying results (net of tax) in 2014 are based on IFRS, adjusted to exclude share-based compensation charges and related charges for National Insurance of US\$25.1 million, excluding US\$1.2 million of amortisation of intangibles associated with the acquisition of SiTel (now Dialog B.V.), excluding US\$8.3 million non-cash effective interest expense in connection with the convertible bond, excluding US\$1.0 million non-cash effective interest expense related to a licensing agreement, US\$1.2 million of expenses associated with the merger discussions with arms AG, excluding US\$3.1 million acquisition and integration expenses in connection with the purchase of iWatt, excluding US\$11.9 million of amortisation and depreciation expenses associated with the acquisition of iWatt and a US\$17.7 million one-off tax impact of an intra-group reorganization of certain Intellectual Property.

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

Dialog Semiconductor's underlying adjustments for 2013

US\$000	Option Expense and National Insurance	PPA BV	Convertible bond	Licence agreement	Acquisition and integration costs	PPA iWatt	BenQ	TOTAL
Revenues	—	—	—	—	—	(7,073)	851	(6,222)
Cost of sales	(686)	(806)	—	—	(15)	(7,985)	—	(9,492)
Selling and marketing expenses	(1,892)	(3,197)	—	—	(404)	(4,750)	—	(10,243)
General and administrative expenses	(3,098)	(2)	—	—	(6,342)	—	—	(9,442)
Research and development expenses	(3,685)	(1,063)	—	—	(182)	—	—	(4,930)
Other operating income	—	—	—	—	—	3,249	145	3,394
Operating profit	(9,361)	(5,068)	—	—	(6,943)	(16,559)	996	(36,935)
Interest expense and other financial expense	—	—	(7,801)	(1,134)	—	—	—	(8,935)
Result before income taxes	(9,361)	(5,068)	(7,801)	(1,134)	(6,943)	(16,559)	996	(45,870)
Income taxes	1,582	1,267	—	322	638	6,933	(283)	10,459
Net income	(7,779)	(3,801)	(7,801)	(812)	(6,305)	(9,626)	713	(35,411)

The Connectivity segment's underlying financial performance for 2014 and 2013 is summarised below:

US\$000	2014			2013*		
	IFRS	Adjustments	Underlying ¹	IFRS	Adjustments	Underlying ²
Revenues	92,120	–	92,120	91,616	–	91,616
Cost of sales	(2,163)	1,841	(322)	(2,121)	5,182	3,061

1 Underlying results in 2014 are based on IFRS consolidated income statement, adjusted to exclude US\$1.6 million of amortisation of intangibles associated with the acquisition of Dialog B.V. and charges for National Insurance related to share-based compensation in the amount of US\$0.2 million.

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

* Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively. For further information please refer to note 2 to the consolidated financial statements.

The Power Conversion segment's underlying financial performance for 2014 and 2013 is summarised below:

US\$000	2014			2013*		
	IFRS	Adjustments	Underlying ¹	IFRS	Adjustments	Underlying ²
Revenues	(80,367)		80,367	26,768	7,073	33,841
Operating profit (loss)	(21,135)	18,836	(2,299)	(22,533)	21,630	(903)

1 Underlying results in 2014 are based on IFRS consolidated income statement, adjusted to exclude expenses of US\$13.5 million for amortisation of intangibles associated with the acquisition of iWatt group, US\$1.7 million higher cost of sales related to fair value measurement of inventories, and charges for National Insurance related to share-based compensation in the amount of US\$0.4 million. As one-time expenses-related acquisition and integration costs in amount of US\$3.2 million are also excluded from operating result.

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

* Following a change in accounting policy the presentation of income from customer-specific research and development contracts has been adjusted retrospectively. For further information please refer to note 2 to the consolidated financial statements.

Glossary of terms – Technical

Technical glossary

Analog A type of signal in an electronic circuit that takes on a continuous range of values rather than only a few discrete values.

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).

Digital Enhanced Cordless Telecommunications (DECT) is a wireless connectivity standard technology originated in Europe for cordless telephony.

Fabless A company that designs and delivers semiconductors by outsourcing the fabrication (manufacturing) process.

FET A Field Effect Transistor uses an electric field to control the shape and hence the conductivity of a channel of one type of charge carrier in a semiconductor material.

Foundry A manufacturing plant where silicon wafers are produced.

Hi-Fi High-Fidelity is the reproduction of sound with little or no distortion.

IC Integrated Circuit An electronic device with numerous components on a single chip.

Imaging The capture and processing of images via an image sensor for use by an electronic device to send to a display for viewing by a user.

Internet of Things (IoT) The Internet of Things is an environment where everyday items, such as smartphones, wearable health meters, light bulbs, and lighting, security and HVAC systems, are all connected via the Internet, allowing them to send and receive data and be controlled wirelessly.

LDO Low dropout voltage regulators are used in battery operated systems, where the output voltage is typically lower than the input voltage.

LED A Light Emitting Diode is a semiconductor device that emits light when charged with electricity, often used for LCD display backlights.

Liquid Crystal Display (LCD) A display technology found in many portable electronics products, including personal organisers, cellular handsets and notebook computers.

LTE Long-Term Evolution is a standard for wireless communication of high-speed data for mobile phones and data terminals.

Mixed signal A combination of analog and digital signals being generated, controlled or modified on the same chip.

OEM An Original Equipment Manufacturer that builds products or components that are used in products sold by another company.

Original Design Manufacturer (ODM) An original design manufacturer designs and produces products that are specified and then rebranded by OEMs.

PMIC Power Management IC.

Power Density The maximum amount of power that can be supplied from a given unit of volume. For example, a high power density power adapter can supply a large amount of power in the same size case as a low power density adapter.

Power Management The management of the power requirements of various subsystems, important in handheld and portable electronics equipment.

PrimAccurate™ Dialog's patented control technology that uses digital algorithms on the primary side of an isolated power supply eliminating the need for a secondary side regulator and optical feedback isolator to lower the total BOM cost, reduce the overall solution size and improve reliability.

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.

Smart Lighting Dialog defines smart lighting to encompass solid state lighting control ranging from various modes of wired digital dimming via the AC supply line, such as toggle-switch dimming, as well as the emerging Ledotron® (IEC 62756-1) digital dimming standard. Smart lighting also includes wireless lighting control via existing wireless standards such as Bluetooth® Smart, ZigBee®, Z-Wave®, Wi-Fi, and others.

SmartDefender™ Dialog's advanced cycle-by-cycle, hiccup mode technology that addresses soft short circuits in adapter cables and connectors helping to prevent excessive heat build-up and damage.

SmartMirror™ A technology patented by Dialog Semiconductor which simplifies circuit design and provides very low current consumption in Power Management circuits.

Smartphone A mobile phone offering advanced capabilities, often with pc-like functionality (PC-mobile handset convergence). A smartphone runs complete operating system software providing a standardised interface and platform for application developers.

SmartPulse™ A wireless sensor network connectivity solution based on the DECT ULE (Ultra-Low Energy) standard for home automation applications.

smarteXite Dialog's brand name for its intelligent LED lighting technology platform.

SmartXtend™ A technology patented by Dialog Semiconductor that extends the life and reduces power consumption of high-resolution, passive matrix OLED displays.

Subcontractor A business that signs a contract to perform part or all of the obligations of another's contract.

Synchronous Rectifier An integrated circuit that can replace diodes to improve efficiency and power density in power conversion applications, such as power supplies.

Tablet PC A tablet PC refers to a slate- or tablet-shaped mobile computer device, equipped with a touchscreen or stylus.

TAM Total addressable market, TAM measures the potential market for your product – and your product only – assuming you could reach 100% of your customers.

Ultrabook™ A higher-end, compact sub-notebook that is designed to be compact, thin and light without compromising performance and battery life. Ultrabooks™ typically feature low power processors and solid-state drives.

USB Universal Serial Bus: a universal interface standard to connect different electronics devices.

Wafer A slice of silicon from a 4, 5, 6 or 8 inch diameter silicon bar and used as the foundation on which to build semiconductor products.

4G Wireless broadband standard.

Glossary of terms – Financial

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.

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Shares

Information on the Company's shares and on significant shareholdings can be found on page 63.

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Registered number

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Financial calendar

Annual General Meeting	30 April 2015
Q1 2015 Results	7 May 2015
Q2 2015 Results	30 July 2015
Q3 2015 Results	28 October 2015
Preliminary results for 2015	February 2016

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