Building a power efficient connected world

Dialog Semiconductor Plc
Results for Q4 and FY 2019

Contents

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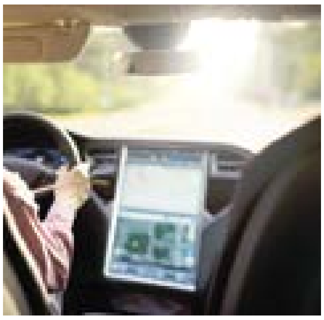


Press release – 4 March 2020

Dialog Semiconductor reports results for the fourth quarter ended 31 December 2019

Q4 2019 Revenue above the mid-point of the guidance range at US$381 million, record gross margin at 50.0% and stable underlying operating margin at 24.0%.

London, UK, 4 March 2020 – Dialog Semiconductor Plc (XETRA: DLG) today reports unaudited results for the fourth quarter ended 31 December 2019.

	IFRS basis (unaudited)		Underlying[1] (unaudited)		
US$ millions unless stated otherwise	**Q4 2019**	Q4 2018	**Q4 2019**	Q4 2018	Change
Revenue	**380.6**	430.7	**380.6**	430.7	(12)%
Gross margin	**50.0%**	48.6%	**50.2%**	48.7%	+150bps
Operating expenses[2]	**137.0**	131.8	**100.5**	106.4	(6)%
Operating profit	**53.7**	77.1	**91.3**	103.4	(12)%
Operating margin	**14.1%**	17.9%	**24.0%**	24.0%	0bps
Diluted EPS	**0.61**	0.74	**1.02**	1.06	(4)%
Free cash flow			**44.4**	82.4	(46)%

1 Underlying measures and free cash flow quoted in this Press Release are non-IFRS measures (see page 5).
2 Comprising SG&A and R&D expenses.

Q4 2019 Financial highlights

- Revenue of US$381 million slightly above the mid-point of the guidance range and 12% below Q4 2018.
- Gross margin at 50.0% (Q4 2018: 48.6%) and underlying gross margin at 50.2%% (Q4 2018: 48.7%) slightly above the November guidance.
- Operating profit of US$53.7 million, 30% below Q4 2018. Underlying operating profit of US$91.3 million, 12% below Q4 2018.
- Diluted EPS of US$0.61 (Q4 2018: US$0.74) and underlying diluted EPS of US$1.02 (Q4 2018: US$1.06).
- US$103 million returned to shareholders in Q4 2019 through the 2019 Buyback Programme.
- At the end of Q4 2019, we held cash and cash equivalents of US$1,025 million.
- On 31 October 2019, the Company closed the acquisition of Creative Chips GmbH, a supplier of Integrated Circuits (ICs) to the Industrial Internet of Things (IIoT) market.
- On 12 November 2019, Dialog upgraded its long-term financial targets, expecting to see meaningful improvement in both underlying gross margin and underlying operating margin.
- Subsequent to quarter end, on 20 February 2020, Dialog announced a definitive agreement to acquire Adesto Technologies Corporation ("Adesto") accelerating our expansion into growth segments of the IIoT market.

Q4 2019 Operational highlights

- Continued design-in momentum at our largest customer for the development and supply of a number of mixed-signal integrated circuits.
- Revenue from our largest customer in Custom Mixed Signal not covered by the license agreement almost doubled year-on-year.
- Q4 2019 revenue from our AC/DC charging products was up 16% year-on-year, led by growth in rapid charge products.
- In support of the expansion of our product portfolio we signed an agreement with Flex Logix Technologies Inc., increasing the configurability of our products to meet a growing opportunity in our target end markets.
- Increased our footprint in IoT with our Bluetooth® low energy (BLE) products, which delivered 57% year-on-year revenue growth.
- Launched SmartBond TINY™, the latest member of our BLE family of products, designed to power the next billion IoT devices.

Commenting on the results, Dialog Chief Executive, Dr Jalal Bagherli, said:

"We closed 2019 in a strong financial position and made real advances in our strategy to better balance the end-market exposure of our business while remaining focused on high-growth segments of our target markets, such as IoT, mobile and automotive. We have continued to invest in both, the development of new products and the expansion of our business through select strategic acquisitions. These investments will create new growth opportunities and long-term shareholder value."

"Our strong product pipeline will allow us to grow faster than the market over the medium term, as well as continue to generate cash and deliver consistent capital returns to shareholders. In 2019, we have made good progress on our strategic objectives and toward achieving our long-term financial targets. This gives us the confidence to look forward to another exciting year of progress, innovation and business diversification."

Press release – 4 March 2020 continued

Outlook

We anticipate revenue for Q1 2020 to be in the range of US$220 million to US$250 million and underlying gross margin to be slightly above Q1 2019. This reflects typical seasonal trends as well as the disruption caused by the COVID-19 outbreak on our customers' contract manufacturers and on demand across China.

For FY 2020, revenue excluding licensed main PMICs is expected to grow approximately mid teens percentage in line with our long-term financial targets. Total Group revenue is expected to be second half weighted with declining revenue from legacy licensed main PMICs. Excluding any revenue from the announced acquisition of Adesto Technologies Corporation, we expect total Group revenue for FY 2020 to decline from FY 2019 US$1,420 million by approximately mid teens percentage points. This assumes a return to normal for supply chain and contract manufacturers by Q2 2020. Based on this revenue in FY 2020 we anticipate underlying gross margin to continue on a gradual upward trend.

Q4 2019 Financial overview

Revenue was 12% below Q4 2018 at US$381 million driven by the lower revenue from licensed main PMIC products partially offset by year-on-year growth in our key growth vectors, such as other custom PMIC products, Bluetooth® low energy, AC/DC charging and lighting products. License revenue of US$6 million related to the Apple agreement was reported in Corporate.

Gross margin was a record 50.0%, 140bps above Q4 2018 due to the positive contribution from the license revenue (Q4 2019: US$6 million; Q4 2018: nil) and lower manufacturing costs.

Q4 2019 underlying[1] gross margin was also a record 50.2%, 150bps above Q4 2018, due to the same reasons.

Operating expenses (OPEX) comprising SG&A and R&D expenses, in Q4 2019 were 4% above Q4 2018, mainly due to higher costs from the acquisitions of FCI and Creative Chips partially offset by lower R&D expenses, representing 36.0% of revenue (Q4 2018: 30.6%). Underlying OPEX was down 6% year-on-year representing 26.4% of revenue (Q4 2018: 24.7%) due to lower R&D expenses partially offsetting the increase from the acquisitions of FCI and Creative Chips.

R&D expenses in Q4 2019 were 8% below Q4 2018 representing 20.6% of revenue (Q4 2018: 19.7%). Underlying R&D expenses were down 14% year-on-year representing 16.9% of revenue (Q4 2018: 17.5%). The decrease in R&D expenses was mainly due to the transfer of over 300 employees to Apple on 8 April 2019 and other cost savings.

SG&A expenses in Q4 2019 were up 25% from Q4 2018, representing 15.4% of revenue (Q4 2018: 10.9%). Underlying SG&A in Q4 2019 was 15% above Q4 2018 representing 9.5% of revenue (Q4 2018: 7.2%). The increase in SG&A expenses was mainly due to the acquisitions of FCI and Creative Chips.

Other operating income in Q4 2019 was US$0.6 million (Other operating expense Q4 2018: US$0.6 million), which comprised income from engineering contracts. Underlying other operating income in Q4 2019 was also US$0.6 million, above Q4 2018 (Q4 2018: nil) due to higher income from engineering development work contracts for specific customers.

Operating profit in Q4 2019 was US$53.7 million, 30% below Q4 2018, mainly reflecting the lower revenue, together with higher operating expenses. Operating margin was below Q4 2018 at 14.1% due to the lower revenue and higher operating expenses partially offset by higher gross margin. Underlying[1] operating profit was US$91.3 million, 12% below Q4 2018. Underlying operating margin was in line with Q4 2018 at 24.0% (Q4 2018: 24.0%).

The effective tax rate in 2019 was 21.7% (2018: 28.2%). The relatively high effective tax rate for 2018 was principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation, business combinations and certain of our strategic investments. The underlying effective tax rate in 2019 was 19.8%, down 200bps on the 2018 underlying effective tax rate of 21.8%.

Net income was 23% below Q4 2018 at US$44.8 million (Q4 2018: US$57.9 million). This decrease was mostly due to the decrease in operating profit.

Underlying net income was 10% below Q4 2018 at US$74.8 million (Q4 2018: US$82.8 million). The year-on-year decrease in underlying net income was mainly driven by the underlying operating profit movement.

Diluted EPS in Q4 2019 was 18% below Q4 2018 at US$0.61 (Q4 2018: US$0.74). Underlying diluted EPS in Q4 2019 was US$1.02 (Q4 2018: US$1.06).

At the end of Q4 2019, our total inventory level was US$123 million (or ~58 days), which is 2% below the previous quarter, representing a 4-day increase in our days of inventory from Q3 2019. During Q1 2020, we expect inventory value to be broadly in line with Q4 2019 and days of inventory to be above Q4 2019.

In Q4 2019, the second, third and final settlements of the first tranche of the 2019 Buyback Programme took place. In the second interim settlement the Company purchased 865,000 ordinary shares for €37.1 million at an initial average price of €42.87. In the third and final settlement the Company purchased 1,469,895 shares for €54.8 million at an average price of €37.27.

At the end of Q4 2019, we held cash and cash equivalents of US$1,025million. Cash inflow from operating activities in Q4 2019 was US$57.4 million, 40% below Q4 2018 (Q4 2018: US$96.5 million) mainly as a result of lower cash generated from operations, working capital movements, and higher income tax paid. Free cash flow in Q4 2019 was US$44.4 million, 46% below Q4 2018 (Q4 2018: US$82.4 million) mostly due to the lower cash flow from operating activities which includes US$50 million recoupment of the prepayment in relation to the licensing arrangement. Free cash flow margin (as a percentage of revenue) in Q4 2019 was below Q4 2018 at 11.7% (Q4 2018: 19.1%).

In support of our growth strategy and the expansion of our product portfolio, on 31 October 2019, the Company closed the acquisition of Creative Chips GmbH, a Germany based fabless semiconductor company supplying a broad portfolio of industrial Ethernet and other mixed-signal products to top-tier, blue-chip manufacturers of industrial automation systems. Creative Chips is expected to generate revenue growth of over 25% per annum over the next few years. We purchased Creative Chips for consideration of US$80 million on a cash and debt-free basis. Additional contingent consideration of up to US$23 million in cash, may be payable based on future revenue targets in 2020 and 2021.

Subsequent to quarter end, on 20 February 2020, we announced the definitive agreement to acquire of Adesto, accelerating Dialog's expansion into growing segments of the industrial IoT market. Dialog will acquire Adesto for $12.55 per share in cash, or for approximately $500 million enterprise value. The deal will be funded from Dialog's balance sheet. The transaction is expected to be EPS accretive for Dialog within the first calendar year following close. Dialog expects annual cost synergies of approximately $20 million within the first calendar year of close across the combined company. We also anticipate considerable additional revenue synergies given the complementary nature of the product portfolios and technology. Adesto expects to report FY 2019 revenue of approximately $118 million and continued revenue growth is anticipated over the next few years. The transaction is subject to certain regulatory approvals and customary closing conditions and is expected to close in the third quarter of 2020.

Update of long-term financial targets

In November 2019, we upgraded our long-term financial targets, expecting to see meaningful improvement in both underlying gross margin and underlying operating margin. This improvement was the result of extending our power-efficient mixed-signal product portfolio in IoT, computing, automotive and industrial, alongside further savings in manufacturing and operational costs. Our growth strategy is focused on fast-growing segments of our target end markets; IoT, mobile, computing, automotive and industrial, where Dialog continues to see significant opportunities to drive its high-performance mixed-signal IC leadership.

The Company maintains its commitment to disciplined capital allocation. Dialog has significant financial flexibility to pursue its growth strategy, including value enhancing M&A, while maintaining a healthy balance sheet and a consistent return of capital to shareholders through share buybacks.

Q4 2019 Segmental overview

Dialog is a fabless semiconductor company primarily focused on the development of highly integrated mixed-signal products for consumer electronics and other high-growth markets. Our highly skilled engineers, partnership approach, operational flexibility and the quality of our products are sources of competitive advantage. Our primary end markets are consumer markets such as the Internet of Things (IoT) and mobile. The increasing adoption of standard technologies, such as Bluetooth® low energy or LED lighting, and the expansion of high-performance processors into infotainment systems, have contributed to our growing presence in the automotive segment. In line with our strategic goals, we intend to continue to broaden our product portfolio through a combination of organic and inorganic initiatives. Our ambition is to build a vibrant mixed-signal business, with a balanced end market exposure, on innovative power efficient products which enable our customers to get fast to market.

Underlying results by segment

	Revenue			Operating profit/(loss)		Operating margin	
US$ millions – unless stated otherwise	**Q4 2019**	Restated[3] Q4 2018	Change	**Q4 2019**	Restated[3] Q4 2018	**Q4 2019**	Restated[3] Q4 2018
Custom Mixed Signal	**255.7**	327.8	(22)%	**81.7**	97.5	**32.0%**	29.7%
Advanced Mixed Signal	**68.4**	60.7	13%	**2.7**	6.5	**4.0%**	10.7%
Connectivity & Audio	**50.2**	41.0	22%	**4.4**	4.6	**8.7%**	11.2%
Total Segments	**374.3**	429.5	(13)%	**88.8**	108.6	**23.7%**	25.3%
Corporate and other unallocated items	**6.3**	1.2	nm	**2.5**	(5.2)	**39.1%**	nm
Total Group	**380.6**	430.7	(12)%	**91.3**	103.4	**24.0%**	24.0%

Custom Mixed Signal (CMS)

In Q4 2019 revenue was US$256 million, 22% below Q4 2018 due to lower revenue from licensed main PMIC products partially offset by higher volumes and content per device across multiple platforms. Revenue in CMS from our largest customer's products not covered by the licensing agreement was up 94% year-on-year to US$113 million (Q4 2018: US$58 million). Underlying operating profit for CMS was US$81.7 million, 16% below Q4 2018 (Q4 2018: US$97.5 million). This decrease was mainly due to the lower revenue partially offset by lower operating expenses.

We continue to receive requests for quotations for new custom designs for 2021 and beyond, in diverse areas of power, charging, display and audio technologies, from a number of customers in mobile, solid state drives, and AR/VR applications.

In line with our strategic objectives, we are leveraging our power management technology into new markets and geographies through the expansion of our platform reference designs. The collaborations with Renesas, Xilinx, and Telechips, strengthen Dialog's presence in the IVI[4] and ADAS[4] applications automotive segment. There are currently over 80 automotive customer engagements in place, most of which are expected to go into production over the next three years.

3 Restated to reflect the segment reorganisation and measurement changes.
4 Intelligent In-Vehicle Infotainment and Advanced Driver-Assistance Systems.

Press release – 4 March 2020 continued

Advanced Mixed Signal (AMS)
During Q4 2019, AMS revenue was 13% above Q4 2018. This was mostly the result of strong growth in all three main product groups. Revenue from AC/DC charging products was up 16% above Q4 2018, led by growth in rapid charge. Revenue from CMICs was up 9% sequentially and year-on-year, and lighting products delivered another quarter of strong year-on-year revenue growth. During the quarter we continued to invest in the growth of our AMS business, resulting in lower underlying operating profit year-on-year.

Dialog has successfully maintained a commanding market share in the rapid charge market through a combination of differentiated technology, speed of execution and wide support of rapid charge protocols. Our broad product portfolio, which includes LED backlighting and Solid-State Lighting (SSL) LED driver ICs, and proprietary digital control technology for power conversion, enable high quality solutions at a low cost. LED backlighting performed strongly during Q4 2019, contributing to the expansion of our customer base in the high-end TV market, as well as targeting the mobile and automotive display markets over the medium term.

With over 4.0 billion CMICs having been shipped since launch, Dialog's configurable technology, including the highly successful GreenPAK™ product family, has become established as the leading choice in the market. Low power consumption and in-system programming enables customers to rapidly customise and integrate multiple analog, logic and discrete components into a single chip. A number of CMIC GreenPAK™ new products are under development, and we are targeting their release during the first half of 2020.

In Q4 2019, we announced a strategic agreement with Flex Logix Technologies Inc. for Dialog to license Flex Logix's EFLX Embedded Field-Programmable Gate Array (eFPGA) technology and the EFLX Compiler to program these embedded FPGAs. Adding eFPGA functionality to our products will give our customers the flexibility to keep pace with rapidly changing market needs. Increasing the configurability of our products enables us to meet an increasing opportunity for configurable and programmable products in our target end markets. The CMIC, along with other members of the GreenPAK family, replace dozens of components in automotive applications to optimize flexibility, footprint and a reduction of the bill of materials. During the quarter, our CMIC incorporating Dialog's industry-leading LDO regulator was adopted by three tier 1 mobile customers and is being evaluated by various other customers.

Connectivity and Audio (C&A)
During Q4 2019, revenue was 22% above Q4 2018 as a result of the strong performance of Bluetooth® low energy and the new audio products, alongside the revenue contribution from the acquisition of FCI. Underlying operating profit in C&A was slightly below Q4 2018 at US$4.4million mainly due to the acquisition of FCI.

Revenue from our SmartBond™ System-on-Chip (SoC) was 57% above Q4 2018, due to the ramp of new products from customers in Korea and China. The DA1469x family, the latest addition to Dialog's SmartBond™ line, was adopted by Samsung's Galaxy Fit fitness tracker. Our most advanced SmartBond™ product enables the Galaxy Fit seamless smartphone connectivity while conserving energy to extend battery life. The Bluetooth® low energy market is estimated to grow over 20% CAGR over the 2019-2023 period[5], a reflection of the continuing adoption of the technology across a wide range of applications. Our strategy remains focused on targeted verticals, like wearables, proximity tags, smart home, gaming accessories and connected health. In Q4 2019, we launched SmartBond TINY™, the latest addition to our Bluetooth® low energy offering. SmartBond TINY™ has been designed to power the next billion IoT devices, lowering the cost of adding Bluetooth® low energy functionality to a system without compromising performance or size. New audio technology performed strongly during Q4 2019, up 12% over Q4 2018. The C&A Segment is targeting the rapidly-growing consumer wireless headset market with our SmartBeat™ wireless Audio IC. This technology enables a new immersive headset experience and supports both wired USB 3.0 Type-C™ and Bluetooth® based consumer headsets. Our product portfolio targeting the headset market also includes a family of highly-integrated audio codec chips that deliver best-in-class active noise cancellation (ANC), providing optimal audio performance in any environment.

5 Source: IHS Technology October 2019 and Company estimates (including BLE for automotive market).

Non-IFRS measures

Underlying measures of performance and free cash flow quoted in this press release are non-IFRS measures. Our use of underlying measures and reconciliations of the underlying measures to the nearest equivalent IFRS measures are presented in Section 3 of the full announcement of our results for Q4 and FY 2019. For ease of reference, we present below reconciliations for the non-IFRS measures quoted in this press release:

Q4 2019

US$000	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
Revenue	**380,582**	**–**	**–**	**–**	**–**	**–**	**380,582**
Gross profit	**190,142**	**178**	**863**	**–**	**–**	**–**	**191,183**
SG&A expenses	**(58,532)**	**9,681**	**6,091**	**1,583**	**5,170**	**–**	**(36,007)**
R&D expenses	**(78,515)**	**10,694**	**2,967**	**348**	**–**	**–**	**(64,506)**
Other operating income	**598**	**–**	**–**	**–**	**–**	**–**	**598**
Operating profit	**53,693**	**20,553**	**9,921**	**1,931**	**5,170**	**–**	**91,268**
Net finance income	**372**	**–**	**149**	**–**	**–**	**(395)**	**126**
Profit before income taxes	**54,065**	**20,553**	**10,070**	**1,931**	**5,170**	**(395)**	**91,394**
Income tax expense	**(9,271)**	**(2,709)**	**(3,660)**	**(80)**	**(954)**	**75**	**(16,599)**
Net income	**44,794**	**17,844**	**6,410**	**1,851**	**4,216**	**(320)**	**74,795**

Q4 2018

US$000	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
Revenue	430,745	–	–	–	–	–	430,745
Gross profit	209,469	359	–	–	–	–	209,828
SG&A expenses	(46,809)	4,507	3,731	662	6,693	–	(31,216)
R&D expenses	(84,951)	7,488	2,275	–	–	–	(75,188)
Other operating income	(600)	–	600	–	–	–	–
Operating profit	77,109	12,354	6,606	662	6,693	–	103,424
Net finance (expense)/income	223	–	590	–	–	1,814	2,627
Profit before income taxes	77,332	12,354	7,196	662	6,693	1,814	106,051
Income tax expense	(19,449)	(2,237)	(701)	(113)	(370)	(345)	(23,215)
Profit after income taxes	57,883	10,117	6,495	549	6,323	1,469	82,836
Share of loss of associate	3	–	–	–	–	–	3
Net income	57,886	10,117	6,495	549	6,323	1,469	82,839

Press release – 4 March 2020 continued

Accounting for business combinations

US$000	Q4 2019	Q4 2018
Acquisition-related costs	**1,344**	–
Amortisation of acquired intangible assets	**7,386**	5,657
Consumption of the fair value uplift of acquired inventory	**863**	–
Consideration accounted for as compensation expense	**298**	336
Forfeiture of deferred consideration	**30**	(27)
Remeasurement of contingent consideration	**–**	640
Increase in operating profit	**9,921**	6,606
Unwinding of discount on contingent consideration	**149**	590
Increase in profit before income taxes	**10,070**	7,196
Income tax credit	**(3,660)**	(701)
Increase in net income	**6,410**	6,495

EBITDA

US$000	Q4 2019	Q4 2018
Net income	**44,794**	57,886
Net finance (income)/expense	**(372)**	(223)
Income tax expense	**9,271**	19,449
Depreciation expense	**8,939**	7,381
Amortisation expense	**14,106**	12,567
EBITDA	**76,738**	97,060
Share-based compensation and related costs	**20,553**	12,354
Acquisition-related costs	**1,344**	–
Consumption of the fair value uplift of acquired inventory	**863**	–
Consideration accounted for as compensation expense	**298**	336
Forfeiture of deferred consideration	**30**	(27)
Remeasurement of contingent consideration	**–**	640
Corporate transaction costs	**5,170**	6,693
Integration costs	**1,931**	662
Share of loss of associate	**–**	(3)
Underlying EBITDA	**106,927**	117,715

Free cash flow

US$000	Q4 2019	Q4 2018
Cash flow from operating activities	**57,448**	96,466
Purchase of property, plant and equipment	**(1,987)**	(5,900)
Purchase of intangible assets	**(4,480)**	(2,306)
Payments for capitalised development costs	**(4,195)**	(5,821)
Capital element of lease payments	**(2,424)**	–
Free cash flow	**44,362**	82,439

Dialog Semiconductor invites you today at 09.30 am (London) / 10.30 am (Frankfurt) to take part in a live conference call and to listen to management's discussion of the Company's Q4 2019 performance, as well as guidance for Q1 2020. Participants will need to register using the link below. A full list of dial in numbers will also be available. To register for the webcast and receive dial in numbers, the conference PIN and a unique User ID please click on the link below:

https://www.incommglobalevents.com/registration/client/2860/dialog-semiconductor-q4-earnings-call/

In parallel to the call, the presentation will be available at:

https://webcast.openbriefing.com/dialogQ42019/

The presentation will also be available under the investor relations section of the Company's website at:

https://www.dialog-semiconductor.com/investor-relations/results-center

A replay will be posted on the Dialog website four hours after the conclusion of the presentation and will be available at:

https://www.dialog-semiconductor.com/investor-relations/results-center

The full release including the Company's unaudited consolidated financial statements for the quarter ended 31 December 2019 is available under the investor relations section of the Company's website at:

https://www.dialog-semiconductor.com/investor-relations/results-center

Press release – 4 March 2020 continued

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About Dialog Semiconductor
Dialog Semiconductor provides highly integrated standard (ASSP) and custom (ASIC) mixed-signal integrated circuits (ICs), optimised for smartphone, tablet, IoT, LED Solid-State Lighting (SSL), and Smart Home applications. Dialog brings decades of experience to the rapid development of ICs while providing flexible and dynamic support, world-class innovation and the assurance of dealing with an established business partner. With world-class manufacturing partners, Dialog operates a fabless business model and is a socially responsible employer pursuing many programs to benefit employees, the community, other stakeholders and the environment we operate in.

Dialog's power saving technologies including DC-DC configurable system power management deliver high efficiency and enhance the consumer's user experience by extending battery lifetime and enabling faster charging of their portable devices. Its technology portfolio also includes audio, Bluetooth® Low Energy, Rapid Charge™ AC/DC power conversion and multi-touch.

Dialog Semiconductor Plc is headquartered in London with a global sales, R&D and marketing organisation. It currently has approximately 2,000 employees worldwide. In 2019, it had approximately US$ 1.42 billion in revenue. The company is listed on the Frankfurt (XETRA: DLG) stock exchange (Regulated Market, Prime Standard, ISIN GB0059822006) and is a member of the German TecDax and MDAX indices.

Forward Looking Statements
This press release contains "forward-looking statements" that reflect management's current views with respect to future events. The words "anticipate," "believe," "estimate", "expect," "intend," "may," "plan," "project" and "should" and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties, including, but not limited to: an economic downturn in the semiconductor and telecommunications markets; changes in currency exchange rates and interest rates, the timing of customer orders and manufacturing lead times, insufficient, excess or obsolete inventory, the impact of competing products and their pricing, political risks in the countries in which we operate or sale and supply constraints. If any of these or other risks and uncertainties occur (some of which are described under the heading "Managing risk and uncertainty" in Dialog Semiconductor's most recent Annual Report) or if the assumptions underlying any of these statements prove incorrect, then actual results may be materially different from those expressed or implied by such statements. We do not intend or assume any obligation to update any forward-looking statement which speaks only as of the date on which it is made, however, any subsequent statement will supersede any previous statement.

Financial review

Year ended 31 December 2019

In 2019, we made excellent progress towards our long-term objectives. We delivered solid financial performance, increased underlying operating margin and cash flow generation. We look forward to the future with confidence.

Our business and financial performance in 2019 was strong. We delivered record underlying gross margin, and increased underlying operating margin, while investing US$314 million in the development of new products. Free cash flow generation was a record US$449 million, and we returned US$252 million to shareholders through the share buyback.

In addition, we invested in the inorganic expansion of our business with the acquisitions of FCI and Creative Chips, strengthening our presence in IoT and Industrial markets.

	IFRS basis		Underlying[1]		
US$ millions	**2019**	2018	**2019**	2018	Change
Revenue[2]	**1,566.2**	1,442.1	**1,420.5**	1,442.1	(2)%
Gross margin %[2]	**54.2%**	47.9%	**49.8%**	48.3%	150bps
Operating expenses	**508.1**	494.5	**405.9**	416.7	(3)%
Operating profit	**379.9**	199.7	**324.3**	281.6	15%
Operating margin %[2]	**24.3%**	13.8%	**22.8%**	19.5%	330bps
Diluted EPS (US$)[2]	**3.96**	1.80	**3.47**	2.90	20%
Free cash flow[1, 2]	**n/a**	n/a	**449.4**	229.9	95%

1 Non-IFRS measures (see explanations and reconciliations to the nearest equivalent IFRS measures in the section entitled "Financial performance measures" on pages 41 to 47.
2 Key performance indicators.

Basis of preparation

Accounting policies

The Group's financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The consolidated financial statements also comply with IFRS as issued by the International Accounting Standards Board.

The Group's significant accounting policies are unchanged compared with the year ended 31 December 2018, except to reflect the adoption of IFRS 16 *Leases* with effect from 1 January 2019.

Adoption of IFRS 16

IFRS 16 *Leases* provides a single lessee accounting model, requiring lessees to recognise a right-of-use asset and a lease liability for all leases, except those with a short lease term and/or involving an underlying asset of low value. In summary, for lessees, there is no longer a distinction between an operating lease and a finance lease and most leases are now recognised on the balance sheet similarly to the way in which finance leases were accounted for under the predecessor accounting standard, IAS 17 *Leases*.

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

During 2019, the effect of IFRS 16 was to increase operating profit by US$1.9 million but to reduce net income by US$0.8 million.

Details of the adoption of IFRS 16 and its financial effect are set out in note 18 to the consolidated financial information.

Non-IFRS measures

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

An explanation of the adjustments made to the equivalent IFRS measures in calculating the non-IFRS measures and reconciliations of the non-IFRS measures to the equivalent IFRS measures for the periods presented are set out in the section entitled "Financial performance measures" on pages 41 to 47.

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

Recent corporate transactions

Completion of agreements with Apple

Licensing and asset transfer agreement

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

Following receipt of the necessary regulatory approvals and satisfaction of the other closing conditions, the transaction closed on 8 April 2019. Apple paid Dialog US$300.0 million in respect of the licensing arrangements and asset transfers.

Pursuant to the agreement, we granted to Apple:

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

Financial review continued

On closing of the licensing and asset transfer agreement, Apple made an interest-free prepayment to Dialog of US$300.0 million. On initial recognition, we measured the prepayment at its fair value of US$288.6 million. We considered that the resulting "below market element" of the prepayment of US$11.4 million represented additional consideration in respect of the licensing arrangements and asset transfers.

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

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

We consider that the perpetual licence granted Apple a "right to use" the related IP and therefore recognised the related consideration as revenue on the closing date.

We consider that the effective licence granted Apple a "right to access" the related IP and are therefore recognising the related consideration as revenue over the four-year period following the closing date. We recognised revenue of US$18.5 million in relation to the effective licence in 2019.

We recognised a gain of US$15.9 million on the transfer of the design centre businesses (within other operating income).

We incurred transaction costs totalling US$23.9 million in relation to the agreement with Apple, of which US$16.1 million was incurred during 2019 (within general and administrative expenses).

Further details of the transaction are set out in note 2 to the consolidated financial information.

Prepayment agreement

It is intended that the US$300.0 million prepayment will be recouped by Apple against amounts payable to Dialog for the purchase of certain of our products over the three-year period ending on 31 March 2022. Settlement of the prepayment is scheduled to take place in quarterly instalments in arrears such that US$200.0 million is settled in the first year and US$50.0 million is settled in each of the second and third years. During each quarter, Apple will settle our invoices on their normal payment terms. If there are insufficient invoices outstanding on a recoupment date, Apple may require us to settle the shortfall against the scheduled recoupment in cash.

We account for the prepayment as a financial liability measured at amortised cost. At the end of 2019, the carrying amount of the liability was US$194.5 million.

Acquisition of Creative Chips

On 31 October 2019, we completed the acquisition of Creative Chips, a supplier of integrated circuits ("ICs") to the Industrial Internet of Things ("IIoT") market based in Germany.

We acquired Creative Chips for US$80.0 million on a cash- and debt-free basis. Additional consideration of up to US$23.0 million in cash may be payable contingent on Creative Chips' revenues for 2020 and 2021.

On completion, we paid consideration of US$83.7 million in cash, including US$3.7 million in respect of Creative Chips' estimated cash, debt and working capital levels on completion. In February 2020, we paid a purchase price adjustment of US$0.1 million to the sellers reflecting the actual amounts on completion.

We estimated that the acquisition date fair value of the contingent consideration was US$6.5 million (net of discounting of US$2.1 million).

Creative Chips' net assets on acquisition totalled US$58.2 million, including identifiable intangible assets in respect of customer relationships (US$42.6 million), developed technology (US$7.2 million) and trade name (US$1.3 million).

We therefore recognised goodwill of US$32.1 million in relation to Creative Chips. Details of the purchase price allocation are set out in note 3 to the consolidated financial information.

During 2019, we incurred related transaction costs of US$1.8 million (within general and administrative expenses).

Creative Chips represents our new Industrial Mixed Signal business unit, an operating segment that is included in our Custom Mixed Signal reporting segment. Subsequent to its acquisition, Creative Chips contributed US$2.3 million to the Group's revenue for 2019.

Acquisition of FCI

On 31 May 2019, we completed the acquisition of Silicon Motion Technology Corporation's Mobile Communications product group, branded as FCI, based in South Korea.

We acquired FCI for US$45.0 million on a cash- and debt-free basis. We paid consideration of US$54.2 million in cash, including US$9.2 million in respect of FCI's cash, debt and estimated working capital on completion. We estimate that a purchase price adjustment of US$0.2 million will be payable by the seller, reflecting FCI's actual working capital on completion.

FCI's net assets on acquisition totalled US$44.0 million, including identifiable intangible assets in respect of customer relationships (US$13.4 million), developed technology (US$18.6 million) and trade name (US$1.1 million).

We therefore recognised goodwill of US$9.9 million in relation to FCI. Details of the purchase price allocation are set out in note 3 to the consolidated financial information.

During 2019, we incurred related transaction costs of US$2.2 million (within general and administrative expenses).

FCI is included in our Connectivity & Audio reporting segment where we will use its technology to enhance our IoT offerings. Subsequent to its acquisition, FCI contributed US$10.5 million to the Group's revenue for 2019.

Acquisition of Silego

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

Contingent consideration of up to US$30.4 million was payable for Silego dependent on its revenues in 2017 and 2018. Silego's revenue for 2017 was such that the first instalment of US$10.0 million was payable in full. Silego's revenue for 2018 was such that US$17.9 million of the second instalment of up to US$20.4 million was payable. In February 2019, we paid US$16.7 million in settlement of the element of the second instalment that was attributable to the shares and vested options acquired and attributed the balance to deferred cash rights that are payable over the period to March 2021.

During 2019, we also paid deferred consideration of US$2.1 million in relation to the purchase of Silego, bringing the total deferred consideration paid to US$5.3 million with the remaining US$1.0 million expected to be payable by March 2021.

Disposal of Dyna Image

In December 2018, we agreed to sell our shareholding in Dyna Image Corporation ("Dyna Image"). We obtained the necessary regulatory approvals but the purchaser was unable to complete the transaction and the sale agreement was terminated in September 2019. We immediately entered into a new agreement to sell our shareholding to another purchaser for a nominal amount.

Since the carrying amount of the Group's investment in Dyna Image had already been reduced to nil, no additional loss was recognised on completion of the sale in November 2019.

Results of operations

Segment reorganisation and measurement changes

With effect from the beginning of the second quarter of 2019, the Group made a number of organisational changes. Details of the changes are set out in note 4 to the consolidated financial information.

Following the changes, the Group has three reporting segments: Custom Mixed Signal; Advanced Mixed Signal; and Connectivity & Audio.

At the same time as effecting the organisational changes, the Management Team changed its focus from IFRS measures to underlying measures as the principal basis for allocating resources to and assessing the financial performance of the Group's businesses. Underlying revenue is therefore the measure of segment revenue and underlying operating profit/loss the measure of segment profit/loss that is now presented in the Group's segment disclosures.

In the analysis of the Group's results by reporting segment presented below, comparative information for 2018 has been restated to reflect these organisational and measurement changes.

Analysis by reporting segment

Custom Mixed Signal's underlying revenue was US$964.8 million in 2019 compared with US$1,042.3 million in 2018, a decrease of 7%. Revenue declined principally due to our reduced share of volume for the main PMIC on our largest customer's 2018 smartphone platform and, in the second half of 2019, the initial effect of the licensing agreement on our supply of main PMICs for their next generation products.

Revenue from our largest customer for products not covered by the licensing agreement increased to US$315.1 million in 2019 compared with US$148.8 million in 2018, principally due to higher demand for our custom PMICs for accessories for mobile devices.

Custom Mixed Signal's underlying operating profit was US$281.9 million compared with US$267.6 million in 2018. Underlying operating profit increased principally due to income of US$12.5 million received from Apple for product development work and the reduction in R&D expenses following the transfer of the design centre businesses in April 2019. Underlying operating margin was 29.2% compared with 25.7% in 2018.

Advanced Mixed Signal's underlying revenue was US$253.4 million in 2019 compared with US$244.5 million in 2018, an increase of 4%. Revenue increased principally due to growth in sales of backlighting ICs and CMICs, though this was partially offset by lower sales of AC/DC charger ICs for smartphone power adaptors.

Advanced Mixed Signal's underlying operating profit was considerably lower at US$15.2 million compared with US$26.8 million in 2018. While underlying operating profit benefited from favourable product mix, this was outweighed by higher R&D expenses. Underlying operating margin declined to 6.0% compared with 10.9% in 2018.

Connectivity & Audio's underlying revenue was US$183.8 million in 2019 compared with US$154.0 million in 2018, an increase of 19%. Connectivity & Audio's revenue increased principally due to strong growth in demand for Bluetooth® low energy and new audio products.

Connectivity & Audio's underlying operating profit was significantly higher at US$21.6 million compared with US$13.6 million in 2018. Underlying operating profit increased due to higher sales volumes and favourable product mix but these benefits were partially offset by higher R&D expenses. Underlying operating margin was higher at 11.8% compared with 8.9% in 2018.

Corporate and other unallocated items comprise the costs of operating central corporate functions, the Group's share-based compensation expense and certain other unallocated items including, from the second quarter of 2019, the revenue recognised in relation to the effective IP licence granted to Apple.

Corporate and other unallocated items represented an underlying operating profit of US$5.6 million compared with a loss of US$26.4 million in 2018, with the improvement being principally due to the recognition of effective IP licence revenue of US$18.5 million in 2019 and lower unallocated R&D expenses.

Analysis of the Group's results

Revenue was US$1,566.2 million in 2019 compared with US$1.442.1 million in 2018, with the substantial increase being due to the recognition of revenue of US$164.2 million in relation to the licensing arrangements with Apple.

Excluding the perpetual IP licence fee of US$145.7 million, underlying revenue was US$1,420.5 million in 2019 compared with US$1,442.1 million in 2018, a decrease of 2%.

Underlying revenue declined principally due to lower main PMIC volumes in Custom Mixed Signal, the effect of which was partially offset by volume growth in Connectivity & Audio and revenue of US$18.5 million recognised on the effective IP licence granted to Apple.

Cost of sales was US$717.7 million in 2019 compared with US$751.1 million in 2018, with the reduction being principally due to lower overall sales volumes.

Gross profit was US$848.5 million in 2019 compared with US$691.1 million in 2018, with the substantial increase being due to the recognition of licence fees and manufacturing cost savings. Gross margin was 54.2% in 2019 compared with 47.9% in 2018.

Results by reporting segment

Year ended 31 December	Underlying revenue			Underlying operating profit/(loss)	
US$ millions	2019	Restated* 2018	Change	2019	Restated* 2018
2019 compared with 2018					
Custom Mixed Signal	**964.8**	1,042.3	(7)%	**281.9**	267.6
Advanced Mixed Signal	**253.4**	244.5	4%	**15.2**	26.8
Connectivity & Audio	**183.8**	154.0	19%	**21.6**	13.6
Total segments	**1,402.0**	1,440.8	(3)%	**318.7**	308.0
Corporate and other unallocated items	**18.5**	1.3	nm	**5.6**	(26.4)
Total Group	**1,420.5**	1,442.1	(2)%	**324.3**	281.6

* Restated to reflect the segment reorganisation and measurement changes.

Financial review continued

Underlying gross profit was US$706.7 million compared with US$696.0 million in 2018, an increase of 2%. Underlying gross margin was 150 basis points higher at 49.8% compared with 48.3% in 2018.

Underlying gross profit excludes the perpetual IP licence fee of US$145.7 million, share-based compensation and related expenses of US$2.2 million (2018: US$1.8 million) and consumption of the fair value uplift on acquired inventory of US$1.7 million (2018: US$3.1 million).

Selling and marketing expenses increased to US$92.9 million in 2019 compared with US$83.9 million in 2018.

Underlying selling and marketing expenses were also higher at US$69.4 million compared with US$65.0 million in 2018 and represented 4.9% of the Group's underlying revenue compared with 4.5% in 2018.

Underlying selling and marketing expenses exclude share-based compensation and related expenses totalling US$6.3 million (2018: US$4.4 million), amortisation of acquired intangible assets of US$16.0 million (2018: US$14.0 million), deferred consideration payable for Silego treated as compensation expense of US$0.4 million (2018: US$0.5 million) and, in 2019, integration costs of US$0.8 million.

General and administrative expenses were US$101.6 million in 2019 compared with US$84.4 million in 2018, with the increase being principally due to acquisition-related and corporate transaction costs incurred in 2019.

Underlying general and administrative expenses increased slightly to US$60.1 million compared with US$57.4 million in 2018 and represented 4.2% of the Group's underlying revenue compared with 4.0% in 2018.

Underlying general and administrative expenses exclude share-based compensation and related expenses totalling US$19.9 million (2018: US$12.8 million), acquisition-related and corporate transaction costs of US$20.1 million (2018: US$11.3 million), deferred consideration payable for Silego treated as compensation expense of US$0.2 million (2018: US$0.3 million) and integration costs of US$1.3 million (2018: US$2.5 million).

R&D expenses were US$313.5 million in 2019 compared with US$326.3 million in 2018.

R&D costs totalled US$334.6 million (2018: US$356.3 million), of which US$15.4 million (2018: US$24.8 million) was capitalised and US$5.7 million (2018: US$5.2 million) was offset by R&D expenditure credits. R&D costs were lower compared with 2018 principally due to the transfer of design centre businesses at the beginning of the second quarter of 2019.

Underlying R&D expenses were US$276.4 million in 2019 compared with US$294.2 million in 2018 and represented 19.5% of the Group's underlying revenue compared with 20.4% in 2018.

Underlying R&D expenses exclude share-based compensation and related expenses totalling US$26.2 million (2018: US$22.7 million), amortisation of acquired intangible assets of US$10.1 million (2018: US$8.6 million), deferred consideration payable for Silego treated as compensation expense of US$0.5 million (2018: US$0.6 million) and integration costs of US$0.3 million (2018: US$0.2 million).

Other operating income was significantly higher at US$39.4 million in 2019 compared with US$3.2 million in 2018, principally due to the recognition of the gain of US$15.9 million on the transfer of design centre businesses and higher customer contributions to product development costs, including US$12.5 million received from Apple for work performed between October 2018 and April 2019.

Excluding the gain on the transfer of the design centre businesses, underlying other operating income was US$23.5 million in 2019 compared with US$2.3 million in 2018.

Operating profit was US$379.9 million in 2019 compared with US$199.7 million in 2018.

Underlying operating profit was US$324.3 million compared with US$281.6 million in 2018, an increase of 15%. Underlying operating profit increased principally due to the various effects of the licensing and asset transfer agreement but also benefited from improved product margins. Underlying operating margin was higher at 22.8% compared with 19.5% in 2018.

Interest income was US$21.9 million in 2019 compared with US$9.9 million in 2018, with the increase reflecting the higher average cash balance during 2019.

Interest expense was US$11.3 million in 2019 compared with US$3.1 million in 2018, with the increase reflecting the recognition of interest expense of US$5.9 million on the prepayment from Apple and US$3.0 million on lease liabilities following the adoption of IFRS 16.

Other finance expense was US$5.5 million in 2019 compared with US$10.3 million in 2018.

We recognised a net currency translation loss on monetary assets and liabilities of US$5.7 million compared with a loss of US$1.0 million in 2018.

We recognised a fair value loss of US$1.4 million (2018: loss of US$10.9 million) on the warrants that we hold over shares in Energous and a credit arising from the amortisation of the gain on initial recognition of the second tranche of warrants amounting to US$1.6 million (2018: US$1.6 million).

Income tax expense was US$83.6 million (2018: US$55.3 million) on profit before tax of US$385.0 million (2018: US$196.2 million), an effective tax rate for the year of 21.7% (2018: 28.2%).

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

Our relatively high effective tax rate for 2018 was principally due to the distorting effect on our income tax expense of the tax and accounting treatments of share-based compensation, business combinations and certain of our strategic investments.

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

Our underlying income tax expense was US$65.4 million (2018: US$63.2 million) on underlying profit before tax of US$329.8 million (2018: US$289.7 million). Our underlying effective tax rate for 2019 was therefore 19.8%, which compares with 21.8% for 2018.

Net income was US$301.5 million in 2019 compared with US$139.8 million in 2018. Underlying net income was US$264.4 million compared with US$225.4 million in 2018, an increase of 17%.

Basic earnings per share were US$4.19 (2018: US$1.89) based on the weighted average of 71.9 million shares (2018: 74.0 million shares) that were in issue during the period excluding the weighted average of 1.8 million shares (2018: 2.4 million shares) held by employee benefit trusts and, in 2019, the weighted average of 2.7 million shares that were held in treasury. Underlying basic earnings per share were US$3.68 (2018: US$3.05).

Diluted earnings per share were US$3.96 (2018: US$1.80). Diluted earnings per share additionally reflect the weighted average of 4.3 million (2018: 3.7 million) dilutive employee share options and awards. Underlying diluted earnings per share were US$3.47 (2018: US$2.90).

Summary cash flow statement

US$ millions	2019	2018
Cash generated from operations	**549.7**	321.6
Interest received, net	**17.3**	8.2
Income taxes paid	**(70.5)**	(41.1)
Cash inflow from operating activities	**496.5**	288.7
Purchase of property, plant and equipment	**(12.1)**	(26.1)
Purchase of intangible assets	**(8.5)**	(6.2)
Capitalised development expenditure	**(15.4)**	(24.8)
Capital element of lease payments	**(11.1)**	(1.7)
Free cash flow	**449.4**	229.9
Purchase of businesses, net of acquired cash	**(139.8)**	(12.9)
Proceeds from transfer of design centres, net of cash disposed	**27.8**	–
Receipt of prepayment from Apple	**288.6**	–
Cash settlement of prepayment from Apple	**(20.3)**	–
Sale/(purchase) of Dialog shares by EBTs, net	**3.4**	(18.2)
Purchase of own shares	**(251.8)**	–
Other cash flows, net	**(11.8)**	0.1
Net cash inflow during the period	**345.5**	198.9
Currency translation differences	**1.2**	(0.3)
Increase in cash and cash equivalents	**346.7**	198.6

Cash flows

Cash inflow from operating activities was US$496.5 million in 2019 compared with US$288.7 million in 2018.

Cash generated from operations before changes in working capital was US$631.9 million compared with US$322.3 million in 2018, the increase being principally due to the receipt of consideration totalling US$282.2 million in relation to the IP licensing arrangements with Apple. Excluding the cash inflow from the licences, cash generated from operations before changes in working capital was US$349.7 million in 2019.

Excluding the effect of acquisitions and disposals of businesses, net working capital increased by US$82.2 million in 2019 compared with an increase of US$0.7 million in 2018.

Inventory levels decreased during 2019, releasing cash of US$23.2 million, principally reflecting lower expected sales volumes in the first quarter of 2020 compared with the first quarter of 2019. At the end of 2019, inventories represented 58 days' cost of sales in the preceding quarter (end of 2018: 61 days' cost of sales).

Trade and other receivables increased during 2019, absorbing cash of US$15.5 million, and cash flow from operations was further reduced by US$79.7 million due to the settlement of the first and second quarterly instalments of the prepayment from Apple by recoupment against receivables. At the end of 2019, trade and other receivables represented 31 days' sales in the preceding quarter (end of 2018: 24 days' sales) after taking into account our use of receivables financing facilities.

Trade and other payables declined during 2019, absorbing cash of US$23.1 million. At the end of 2019, trade and other payables represented 49 days' cost of sales in the preceding quarter (end of 2018: 50 days' cost of sales).

Movements on other working capital items had the effect of releasing cash of US$12.9 million during 2019.

Net interest received was US$17.3 million in 2019 compared with US$8.2 million in 2018.

Net income tax payments were US$70.5 million in 2019 compared with US$41.1 million in 2018. Income tax cash flows comprise payments on account in respect of current year taxable profits and adjusting payments or receipts in respect of earlier years.

Cash outflow from investing activities was US$147.9 million in 2019 compared with US$70.0 million in 2018.

Capital expenditure comprising cash outflows in relation to the purchase of property, plant and equipment and intangible assets and capitalised development expenditure totalled US$36.0 million compared with US$57.1 million in 2018. Capital expenditure declined principally due to the transfer of design centre businesses in April 2019.

Free cash flow was US$449.4 million in 2019 compared with US$229.9 million in 2018. Our robust free cash flow provides a basis for financing strategic investments and for making distributions to shareholders.

During 2019, there was a net cash outflow of US$139.8 million (2018: cash outflow of US$12.8 million) in relation to the acquisition of businesses.

In May 2019, there was a cash outflow of US$44.6 million on completion of the acquisition of FCI (net of cash of US$9.6 million held by the business on the acquisition date). In October 2019, there was a cash outflow of US$76.4 million on completion of the acquisition of Creative Chips (net of cash of US$7.3 million held by the business on the acquisition date).

Financial review continued

During 2019, we paid US$16.7 million (2018: US$9.4 million) in settlement of contingent consideration and US$2.1 million (2018: US$2.8 million) in respect of deferred consideration payable for Silego. Additionally, in February 2018, we paid a purchase price adjustment of US$0.7 million following agreement with the vendors of Silego's cash, debt and working capital levels on completion.

In April 2019, we received proceeds of US$27.8 million on the transfer of design centre businesses to Apple (net of cash of US$1.5 million held by the businesses on the transfer date).

Cash outflow from financing activities was US$3.0 million in 2019 compared with US$19.8 million in 2018.

During 2019, we recognised the receipt of the prepayment from Apple at its fair value of US$288.6 million. We subsequently paid US$20.3 million in cash in partial settlement of the first quarterly instalment of US$50.0 million in July 2019 but settled the second quarterly instalment of US$50.0 million in October 2019 wholly by recoupment against receivables.

During 2019, there was a cash outflow of US$251.8 million (2018: $nil) on the purchase of shares under the Company's share buyback programme (including transaction costs of US$1.3 million) and we paid US$11.6 million on the settlement of currency hedges of share buyback liabilities.

During 2019, the cash outflow on the capital element of lease payments was US$11.1 million, higher compared with US$1.7 million in 2018 due to the recognition of additional lease liabilities following the adoption of IFRS 16.

During 2019, employee benefit trusts received proceeds of US$3.4 million (2018: US$3.6 million) on the exercise of share options. During 2019, the trusts made no purchases of the Company's shares in the market since they held sufficient shares following purchases at a cost of US$21.8 million during 2018.

Liquidity and capital resources

Financial risk management

Dialog is exposed to financial risks including counterparty credit risk, liquidity risk and market risks, which include foreign exchange risk and interest rate risk.

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

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

Cash and cash equivalents

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

Credit risk is managed by reference to counterparty credit ratings. As a minimum, a counterparty must generally have a long-term public rating of at least 'single A' or equivalent.

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

At the end of 2019, cash and cash equivalents amounted to US$1,024.5 million (end of 2018: US$677.8 million), which principally comprised investments in money market funds and bank deposits with a maturity of three months or less.

Prepayment from Apple

At the end of 2019, the principal amount of the prepayment outstanding was US$200.0 million, which is scheduled to be settled in quarterly instalments by recoupment against invoices or in cash totalling US$125.0 million in 2020, US$50.0 million in 2021 and the balance of US$25.0 million by April 2022.

We settled the third quarterly instalment of US$50.0 million in January 2020 wholly by recoupment against invoices.

Revolving credit facility

Since July 2017, we have had a committed US$150 million revolving credit facility provided by four financial institutions. The facility is available for general corporate purposes. In June 2019, the facility was extended for a further year and will now mature on 28 July 2022. We retain the option to increase the amount of the facility by US$75 million subject to certain conditions.

We have not made any drawings under the facility.

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

Receivables financing facilities

We utilise non-recourse receivables financing facilities provided by two financial institutions in an aggregate amount of US$240 million. In July 2019, the principal facility of US$220 million was extended for a further two years and will now mature on 31 October 2021.

Gross receivables sold under the facilities decreased by US$36.5 million to US$77.0 million at the end of 2019 compared with US$113.5 million at the end of 2018.

At the end of 2019, cash and cash equivalents included US$65.4 million (end of 2018: US$96.1 million) in relation to receivables sold under these facilities.

Currency hedging activities

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

Derivative financial instruments are measured at fair value that is determined based on market forward exchange rates at the balance sheet date. At the end of 2019, currency derivatives held by the Group were represented by a net liability of US$0.3 million (end of 2018: net liability of US$6.2 million).

All currency derivatives held to hedge forecast cash flows were designated as hedging instruments in cash flow hedge relationships. During 2019, a loss of US$3.9 million (2018: loss of US$10.1 million) was recognised in other comprehensive income, representing the change during the year in the fair value of derivatives in effective hedging relationships, and a cumulative loss of US$9.5 million (2018: gain of US$2.3 million) was transferred from equity to profit or loss on the occurrence of the hedged cash flows.

After taking into account hedging, we recognised a net currency translation loss of US$4.6 million (2018: net loss of US$0.9 million) in profit or loss in relation to liabilities to purchase shares under the Company's share buyback programme.

Share buyback programme

Since initiating the share buyback programme in May 2016, the Company has purchased 11,560,563 of its own ordinary shares and returned €393.7 million (US$435.1 million) to shareholders.

On 6 November 2018, we announced details of the first tranche of the share buyback programme pursuant to an authority granted by shareholders at the Company's 2018 AGM, under which the Company committed to purchase shares with a minimum cost of €100.0 million and a maximum cost of €150.0 million.

We completed the first and final settlement of this tranche on 31 May 2019, purchasing 3,941,852 shares at a cost of €100.0 million (US$111.5 million). We also incurred transaction costs of US$0.6 million.

At the Company's AGM on 2 May 2019, the Directors were granted a new authority to purchase up to 11,457,321 of the Company's ordinary shares, representing approximately 15% of the issued ordinary share capital of the Company as at 27 March 2019. Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2020, whichever is the earlier.

Purchases made under the share buyback programme are off-market and are effected by way of contingent forward purchase contracts entered into with brokers. Barclays, Goldman Sachs, HSBC or Merrill Lynch may be appointed as brokers for purchases under the 2019 AGM authority.

Balance sheet

Summary balance sheet

US$ millions	**As at 31 December 2019**	As at 31 December 2018
Assets		
Cash and cash equivalents	**1,024.5**	677.8
Other current assets	**281.4**	296.2
Total current assets	**1,305.9**	974.0
Goodwill	**482.1**	439.5
Other intangible assets	**272.1**	217.4
Property, plant and equipment – owned	**61.1**	66.4
Property, plant and equipment – leased	**41.4**	–
Other non-current assets	**14.4**	19.8
Total non-current assets	**871.1**	743.1
Total assets	**2,177.0**	1,717.1
Liabilities and equity		
Current liabilities	**373.4**	393.9
Non-current liabilities	**231.0**	20.7
Total liabilities	**604.4**	414.6
Total equity	**1,572.6**	1,302.5
Total liabilities and equity	**2,177.0**	1,717.1

On 5 June 2019, we announced details of the first tranche of purchases under the 2019 AGM authority, under which the Company committed to purchase shares with a minimum cost of €125.0 million and a maximum cost of €150.0 million.

We completed the third and final settlement of this tranche on 19 December 2019. We purchased a total of 3,134,895 shares under this tranche at a cost of €125.0 million (US$139.0 million). We also incurred transaction costs of US$0.7 million.

We will seek renewal of the share buyback authority at the Company's 2020 AGM and will consider initiating further tranches of share purchases in the context of our regular assessment of the Group's future growth opportunities and its strategic objectives.

Capital management

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

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

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

Balance sheet

Goodwill

At the end of 2019, the carrying amount of goodwill was US$482.1 million compared with US$439.5 million at the end of 2018, an increase of US$42.6 million. During 2019, we recognised goodwill totalling US$42.0 million on the acquisitions of Creative Chips and FCI.

Goodwill impairment tests carried out during 2019 showed that the recoverable amount of each operating segment to which goodwill is allocated exceeded its carrying amount and therefore no impairment was recognised. Details of the impairment tests performed are set out in note 12 to the consolidated financial information.

Other intangible assets

At the end of 2019, the carrying amount of other intangible assets was US$272.1 million compared with US$217.4 million at the end of 2018, an increase of US$54.7 million. During 2019, additions totalled US$109.5 million, comprising identifiable intangible assets recognised on the acquisitions of Creative Chips and FCI of US$85.7 million, capitalised product development costs of US$15.4 million and purchased software, licences and patents totalling US$8.4 million. During 2019, the related amortisation expense was US$52.2 million (2018: US$49.1 million).

Financial review continued

Property, plant and equipment

Since we operate a fabless business model, we do not have any manufacturing facilities but we occupy R&D facilities and administrative offices. With the exception of two properties that we acquired with Creative Chips, all of our facilities are leased.

At the end of 2019, the Group operated in 30 locations worldwide in facilities covering a total of 55,625 square metres. Management considers that the Group's facilities are adequate for its current requirements.

Owned property, plant and equipment principally comprises test equipment, office equipment and leasehold improvements. At the end of 2019, the carrying amount of those assets was US$61.1 million (end of 2018: US$66.4 million). Additions during 2019 totalled US$27.0 million, including assets with a fair value of US$12.9 million acquired with Creative Chips and FCI. During 2019, the related depreciation expense was US$27.2 million (2018: US$31.5 million).

Leased property, plant and equipment comprises right-of-use assets. On adoption of IFRS 16 at the beginning of 2019, we recognised right-of-use assets totalling US$66.4 million. By the end of 2019, the carrying amount of right-of-use assets had declined to US$41.4 million, principally due to the effect of lease terminations totalling US$10.2 million and the depreciation expense of US$12.5 million recognised during 2019.

Other non-current assets

Other non-current assets totalled US$14.4 million at the end of 2019 compared with US$19.8 million at the end of 2018, a decrease of US$5.4 million that principally reflected the recognition of further losses on the remeasurement of our investments in Energous shares and warrants.

Current assets

Current assets were US$1,305.9 million at the end of 2019 compared with US$974.0 million at the end of 2018, an increase of US$331.9 million.

Cash and cash equivalents increased by US$346.7 million to US$1,024.5 million. Other current assets decreased by US$14.8 million to US$281.4 million.

Current liabilities

Current liabilities were US$373.4 million at the end of 2019 compared with US$393.9 million at the end of 2018, a decrease of US$20.5 million.

Trade and other payables decreased by US$17.5 million to US$104.6 million. Other current financial liabilities decreased by US$63.6 million to US$133.3 million. Although there was no share buyback liability at the end of 2019 (end of 2018: US$171.8 million), this reduction was partially offset by the addition of the current element of the prepayment from Apple of US$121.2 million and current lease liabilities of US$9.0 million following the adoption of IFRS 16.

Income taxes payable increased by US$10.3 million to US$18.5 million, reflecting higher taxable profits and the timing of tax payments.

Other current liabilities increased by US$53.5 million to US$117.0 million, principally due to the addition of the current element of the deferred revenue relating to the effective IP licence granted to Apple of US$35.7 million.

Non-current liabilities

Non-current liabilities amounted to US$231.0 million at the end of 2019 compared with US$20.7 million at the end of 2018, an increase of US$210.3 million.

Non-current financial liabilities increased from US$0.8 million to US$115.0 million, principally due to the addition of the non-current element of the prepayment from Apple of US$73.2 million and non-current lease liabilities of US$34.1 million following the adoption of IFRS 16.

Deferred tax liabilities increased by US$15.1 million to US$23.1 million principally due to the recognition of deferred tax liabilities on the identifiable intangible assets acquired with Creative Chips and FCI.

Other non-current liabilities increased from US$11.9 million to US$92.9 million, principally due to the addition of the non-current element of the deferred revenue relating to the effective IP licence granted to Apple of US$82.2 million.

Total equity

Total equity was US$1,572.6 million at the end of 2019 compared with US$1,302.5 million at the end of 2018, an increase of US$270.1 million.

At the end of 2019, Dialog shares held in treasury amounted to US$251.8 million (end of 2018: US$nil) and Dialog shares held by employee benefit trusts amounted to US$22.1 million (end of 2018: US$22.5 million).

Consequences of Brexit

On 31 January 2020, the UK ceased to be a member of the EU and entered a transition period that is scheduled to end on 31 December 2020.

During the transition period, the UK will continue to be subject to EU rules, will remain in the EU single market and customs union, freedom of movement will remain in place and UK and EU citizens' rights will continue unaffected.

It is intended that the transition period will provide a period of stability during which the UK's future trading relationship and security co-operation with the EU will be negotiated. Pending the negotiations, considerable uncertainty continues to exist as to the UK's future relationship with the EU.

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

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

During the transition period, we will operate on a business as usual basis within applicable regulations and our continuing focus will be on growing our business.

Subsequent event

Proposed acquisition of Adesto

On 20 February 2020, we announced that Dialog has entered into a definitive agreement to acquire all of the outstanding shares in Adesto Technologies Corporation ("Adesto").

Adesto (NASDAQ: IOTS) is a leading provider of innovative custom ICs and embedded systems for the IIoT market. Headquartered in Santa Clara, California, Adesto has approximately 270 employees and an established portfolio of industrial solutions for smart building automation that complements Dialog's range of manufacturing automation products. Adesto's solutions are sold across the industrial, consumer, medical, and communications markets.

Dialog proposes to acquire Adesto for US$12.55 per share in cash, representing an enterprise value of approximately US$500 million, to be funded from our existing cash balances. The transaction is subject to certain regulatory approvals and customary closing conditions and is expected to close in the third quarter of 2020.

Wissam Jabre
Chief Financial Officer,
Senior Vice President, Finance

Consolidated statement of income

Year ended 31 December

	Note	**2019 US$000**	2018 US$000	2017 US$000
Revenue	4, 5	**1,566,239**	1,442,138	1,352,841
Cost of sales		**(717,703)**	(751,070)	(707,971)
Gross profit		**848,536**	691,068	644,870
Selling and marketing expenses		**(92,951)**	(83,877)	(70,412)
General and administrative expenses		**(101,587)**	(84,351)	(74,850)
Research and development expenses		**(313,550)**	(326,309)	(303,013)
Other operating income/(expense)	6	**39,405**	3,176	(9,578)
Operating profit	4	**379,853**	199,707	187,017
Interest income	7	**21,950**	9,883	5,995
Interest expense	7	**(11,309)**	(3,134)	(1,302)
Other finance (expense)/income	7	**(5,456)**	(10,263)	3,093
Profit before income taxes		**385,038**	196,193	194,803
Income tax expense	8	**(83,586)**	(55,281)	(25,369)
Profit after income taxes		**301,452**	140,912	169,434
Share of loss of associate		**–**	(1,113)	–
Net income		**301,452**	139,799	169,434
Attributable to:				
– Shareholders in the Company		**301,452**	139,799	173,916
– Non-controlling interests		**–**	–	(4,482)
Net income		**301,452**	139,799	169,434

	Note	**2019**	2018	2017
Earnings per share (US$)	9			
Basic		**4.19**	1.89	2.34
Diluted		**3.96**	1.80	2.21
Weighted average number of ordinary shares (in thousands)	9			
Basic		**71,896**	73,959	74,472
Diluted		**76,181**	77,655	78,611

Consolidated statement of comprehensive income

Year ended 31 December

	2019 US$000	2018 US$000	2017 US$000
Net income	**301,452**	139,799	169,434
Other comprehensive income/(expense)			
Items that may be reclassified to profit or loss in subsequent periods			
Currency translation differences on foreign operations:			
– Gain/(loss) recognised in the year	**2,710**	(527)	1,658
– Loss transferred to profit or loss on disposal of a subsidiary	**309**	–	–
– Gain transferred to profit or loss on deconsolidation of Dyna Image	**–**	–	(1,144)
– Related income tax (expense)/credit	**(91)**	(78)	180
Available-for-sale investments:			
– Fair value gain in the year	**–**	–	5,971
– Related income tax expense	**–**	–	(1,015)
Cash flow hedges:			
– Fair value (loss)/gain recognised on effective hedges in the year	**(3,941)**	(10,075)	16,433
– Fair value loss/(gain) transferred to profit or loss in the year	**9,549**	(2,343)	(441)
– Related income tax (expense)/credit	**(1,065)**	2,376	(3,149)
	7,471	(10,647)	18,493
Items that will not be reclassified to profit or loss			
Equity investments:			
– Fair value loss in the year	**(6,994)**	(23,764)	–
– Related income tax credit	**–**	1,015	–
Remeasurements of net defined benefit liability:			
– Remeasurements recognised in the year	**(666)**	–	–
– Related income tax credit	**146**	–	–
	(7,514)	(22,749)	–
Other comprehensive (loss)/income for the year	**(43)**	(33,396)	18,493
Total comprehensive income for the year	**301,409**	106,403	187,927
Attributable to:			
– Shareholders in the Company	**301,409**	106,403	192,416
– Non-controlling interests	**–**	–	(4,489)
Total comprehensive income for the year	**301,409**	106,403	187,927

Consolidated balance sheet

As at 31 December

	Note	2019 US$000	2018 US$000
Assets			
Cash and cash equivalents	10	**1,024,544**	677,848
Trade and other receivables		**134,079**	114,514
Other current financial assets		**1,056**	202
Inventories	11	**122,624**	149,736
Income tax receivables		**1,052**	2,146
Other current assets		**22,532**	18,306
		1,305,887	962,752
Assets classified as held for sale		**–**	11,295
Total current assets		**1,305,887**	974,047
Goodwill	12	**482,134**	439,508
Other intangible assets	13	**272,068**	217,445
Property, plant and equipment – owned	14	**61,138**	66,359
Property, plant and equipment – leased	14	**41,423**	–
Investments		**3,110**	11,538
Other non-current financial assets		**2,202**	1,807
Other non-current assets		**780**	398
Deferred tax assets		**8,242**	6,034
Total non-current assets		**871,097**	743,089
Total assets		**2,176,984**	1,717,136
Liabilities and equity			
Trade and other payables		**104,620**	122,140
Lease liabilities		**8,972**	–
Other current financial liabilities		**124,373**	196,890
Provisions		**4,162**	5,253
Income taxes payable		**18,491**	8,193
Other current liabilities		**112,804**	58,237
		373,422	390,713
Liabilities directly associated with assets held for sale		**–**	3,167
Total current liabilities		**373,422**	393,880
Lease liabilities		**34,072**	–
Other non-current financial liabilities		**80,963**	841
Provisions		**3,102**	3,078
Net defined benefit liability		**1,727**	–
Deferred tax liabilities		**23,070**	7,958
Other non-current liabilities		**88,044**	8,872
Total non-current liabilities		**230,978**	20,749
Ordinary shares		**14,204**	14,204
Share premium account		**403,660**	403,660
Retained earnings		**1,451,582**	930,576
Other reserves	17	**(274,729)**	(23,419)
Dialog shares held by employee benefit trusts		**(22,133)**	(22,514)
Total equity		**1,572,584**	1,302,507
Total liabilities and equity		**2,176,984**	1,717,136

Consolidated statement of cash flows

Year ended 31 December

	Note	2019 US$000	2018 US$000	2017 US$000
Cash flows from operating activities				
Net income		**301,452**	139,799	169,434
Non-cash items within net income:				
– Depreciation of property, plant and equipment		**39,611**	31,455	30,807
– Amortisation of intangible assets		**52,233**	49,130	41,969
– Impairment of non-current assets		**3,130**	–	4,327
– Addition to inventory reserve, net		**11,133**	5,643	1,288
– Share-based compensation expense		**46,539**	41,153	35,320
– Deferred licence revenue		**(18,484)**	–	–
– Loss on deconsolidation of Dyna Image		**–**	–	5,597
– Other non-cash items		**2,812**	6,590	(7,904)
Effective IP licence fee received	2	**136,400**	–	–
Gain on transfer of design centre businesses	2	**(15,898)**	–	–
Interest income, net	7	**(10,641)**	(6,749)	(4,693)
Income tax expense	8	**83,586**	55,281	25,369
Cash generated from operations before changes in working capital		**631,873**	322,302	301,514
Changes in working capital:				
– (Increase)/decrease in trade and other receivables		**(95,189)**	(36,310)	11,117
– Decrease/(increase) in inventories		**23,196**	13,615	(54,377)
– (Increase)/decrease in prepaid expenses		**(893)**	56	1,930
– (Decrease)/increase in trade and other payables		**(23,107)**	15,968	7,819
– (Decrease)/increase in provisions		**(1,661)**	3,089	2,136
– Change in other assets and liabilities		**15,449**	2,852	473
Cash generated from operations		**549,668**	321,572	270,612
Interest paid		**(4,322)**	(530)	(425)
Interest received		**21,638**	8,714	6,221
Income taxes (paid)/received		**(70,519)**	(41,107)	8,314
Cash inflow from operating activities		**496,465**	288,649	284,722
Cash flows from investing activities				
Purchase of property, plant and equipment		**(12,129)**	(26,145)	(47,938)
Purchase of intangible assets		**(8,437)**	(6,197)	(6,196)
Payments for capitalised development costs		**(15,384)**	(24,771)	(20,988)
Purchase of businesses, net of acquired cash	3	**(139,806)**	(12,840)	(267,940)
Proceeds from transfer of design centres, net of cash disposed	2	**27,814**	–	–
Cash held by Dyna Image on deconsolidation		**–**	–	(420)
Purchase of other investments, net		**–**	–	(13,738)
Increase in other long-term assets		**–**	–	(488)
Cash outflow from investing activities		**(147,942)**	(69,953)	(357,708)
Cash flows from financing activities				
Receipt of prepayment from Apple	2	**288,584**	–	–
Cash settlement of prepayment from Apple	2	**(20,345)**	–	–
Purchase of own shares into treasury		**(251,774)**	–	(125,035)
Settlement of currency hedges on share buyback obligation		**(11,625)**	–	1,227
Capital element of lease payments		**(11,086)**	(1,651)	(4,283)
Repayment of bank loans		**(156)**	–	–
Purchase of shares by employee benefit trusts		**–**	(21,786)	(24,301)
Sale of shares by employee benefit trusts		**3,362**	3,617	7,246
Issue of shares by a subsidiary to non-controlling interests		**–**	–	1,107
Share issue and facility arrangement costs		**–**	–	(1,016)
Cash inflow/(outflow) from financing activities		**(3,040)**	(19,820)	(145,055)
Net cash inflow/(outflow) during the year		**345,483**	198,876	(218,041)
Cash and cash equivalents at beginning of year		**677,848**	479,295	697,167
Currency translation differences		**1,213**	(323)	169
Cash and cash equivalents at end of year		**1,024,544**	677,848	479,295

Consolidated statement of changes in equity

Year ended 31 December

	Ordinary shares US$000	Share premium account US$000	Retained earnings US$000	Other reserves (note 17) US$000	Dialog shares held by employee benefit trusts US$000	Equity attributable to shareholders in the Company US$000	Non-controlling interests US$000	Total US$000
As at 31 December 2016	14,402	403,687	862,914	(70,566)	(20,608)	1,189,829	5,077	1,194,906
Net income	–	–	173,916	–	–	173,916	(4,482)	169,434
Other comprehensive income/(loss)	–	–	–	18,500	–	18,500	(7)	18,493
Total comprehensive income/(loss)	–	–	173,916	18,500	–	192,416	(4,489)	187,927
Other changes in equity:								
– Purchase of own shares into treasury	–	–	3,024	(125,050)	–	(122,026)	–	(122,026)
– Share buyback obligation	–	–	62,584	–	–	62,584	–	62,584
– Cancellation of treasury shares	(571)	–	(186,522)	187,093	–	–	–	–
– Shares issued by Dyna Image	–	–	361	–	–	361	746	1,107
– Deconsolidation of Dyna Image	–	–	–	–	–	–	(1,334)	(1,334)
– Shares issued to employee benefit trust	373	(27)	–	–	(373)	(27)	–	(27)
– Purchase of shares by employee benefit trusts	–	–	–	–	(24,301)	(24,301)	–	(24,301)
– Sale of shares by employee benefit trusts	–	–	(37,134)	–	44,380	7,246	–	7,246
– Share-based compensation, net of tax	–	–	36,339	–	–	36,339	–	36,339
As at 31 December 2017	14,204	403,660	915,482	9,977	(902)	1,342,421	–	1,342,421
Adjustment on initial application of IFRS 15	–	–	1,541	–	–	1,541	–	1,541
Adjusted balance as at 1 January 2018	14,204	403,660	917,023	9,977	(902)	1,343,962	–	1,343,962
Net income	–	–	139,799	–	–	139,799	–	139,799
Other comprehensive loss	–	–	–	(33,396)	–	(33,396)	–	(33,396)
Total comprehensive income/(loss)	–	–	139,799	(33,396)	–	106,403	–	106,403
Other changes in equity:								
– Share buyback obligation	–	–	(171,187)	–	–	(171,187)	–	(171,187)
– Purchase of shares by employee benefit trusts	–	–	–	–	(21,786)	(21,786)	–	(21,786)
– Sale of shares by employee benefit trusts	–	–	3,443	–	174	3,617	–	3,617
– Share-based compensation, net of tax	–	–	41,498	–	–	41,498	–	41,498
As at 31 December 2018	14,204	403,660	930,576	(23,419)	(22,514)	1,302,507	–	1,302,507
Adjustment on initial application of IFRS 16 (note 18)	**–**	**–**	**40**	**–**	**–**	**40**	**–**	**40**
Adjusted balance as at 1 January 2019	**14,204**	**403,660**	**930,616**	**(23,419)**	**(22,514)**	**1,302,547**	**–**	**1,302,547**
Net income	**–**	**–**	**301,452**	**–**	**–**	**301,452**	**–**	**301,452**
Other comprehensive loss	**–**	**–**	**(520)**	**477**	**–**	**(43)**	**–**	**(43)**
Total comprehensive income/(loss)	**–**	**–**	**300,932**	**477**	**–**	**301,409**	**–**	**301,409**
Other changes in equity:								
– Purchase of own shares into treasury	**–**	**–**	**(4,431)**	**(251,787)**	**–**	**(256,218)**	**–**	**(256,218)**
– Share buyback obligation	**–**	**–**	**169,505**	**–**	**–**	**169,505**	**–**	**169,505**
– Sale of shares by employee benefit trusts	**–**	**–**	**2,981**	**–**	**381**	**3,362**	**–**	**3,362**
– Share-based compensation, net of tax	**–**	**–**	**51,979**	**–**	**–**	**51,979**	**–**	**51,979**
As at 31 December 2019	**14,204**	**403,660**	**1,451,582**	**(274,729)**	**(22,133)**	**1,572,584**	**–**	**1,572,584**

Notes to the consolidated financial information

For the year ended 31 December 2019

1. Background

Description of business

Dialog Semiconductor Plc ("the Company") is a public limited company that is incorporated in England and Wales and domiciled in the United Kingdom. The Company's ordinary shares are listed on the Frankfurt Stock Exchange.

Dialog creates and markets highly-integrated, mixed-signal ICs, optimised for personal, portable, hand-held devices, low energy short-range wireless, LED solid state lighting, industrial and automotive applications. Following a segment reorganisation that became effective at the beginning of the second quarter of 2019, Dialog has three operating segments: Custom Mixed Signal; Advanced Mixed Signal; and Connectivity & Audio. Segment information is presented in note 4.

Registered office

The Company's registered office is at Tower Bridge House, St Katharine's Way, London E1W 1AA, United Kingdom.

Basis of preparation of the financial information

The financial information on pages 18 to 40 is derived from the consolidated financial statements of the Company and its subsidiaries (together, the 'Group' or 'Dialog') for the year ended 31 December 2019.

The consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union and those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS and therefore comply with Article 4 of the IAS Regulation. The consolidated financial statements also comply with IFRS as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except that certain investments, derivative financial instruments and contingent consideration are stated at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group's significant accounting policies are unchanged compared with the year ended 31 December 2018 (see pages 101 to 107 of our Annual Report and Accounts 2018), except for the adoption of IFRS 16 Leases with effect from 1 January 2019. Information about the adoption of IFRS 16 and its impact on the Group's results and financial position is set out in note 18.

The financial information does not constitute the Company's statutory accounts for the year ended 31 December 2019 for the purposes of section 435 of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of IFRS.

Presentation currency

The consolidated financial statements are presented in US dollars ("US$"), which is the functional currency of the Company. All US dollar amounts are rounded to the nearest thousand ("US$000"), except where stated otherwise.

Approval of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 4 March 2020.

The Company's auditors, Deloitte LLP, have given an unqualified report on the consolidated financial statements for the year ended 31 December 2019 in which they did not draw attention to any matters by way of emphasis without qualifying their report and did not make any statements under s498(2) or (3) Companies Act 2006.

The consolidated financial statements will be filed with the Registrar of Companies, subject to their approval by the Company's shareholders at the Company's Annual General Meeting on 30 April 2020.

Notes to the consolidated financial information continued

2. Licensing and asset transfer agreement

Summary of the transaction

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

Following receipt of the necessary regulatory approvals and satisfaction of the other closing conditions, the transaction closed on 8 April 2019. Apple paid Dialog US$300,000 in respect of the licensing arrangements and asset transfers.

Pursuant to the agreement, Dialog granted to Apple:

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

Continuation of the effective licence beyond the initial four-year period is contingent on Apple's purchases from Dialog exceeding a specified level in successive preceding 12-month periods.

While there was no transfer of legal ownership of the licensed IP rights, a relatively small number of patents were included in the business assets transferred to Apple.

Following completion of the licensing and asset transfer agreement, Apple made an interest-free prepayment to Dialog of US$300,000. On initial recognition, we measured the prepayment at its fair value of US$288,584. We considered that the resulting "below market element" of the prepayment of US$11,416 represented additional consideration in respect of the licensing arrangements and asset transfers.

We allocated the consideration received in respect of the licensing and asset transfer arrangements as follows:

	US$000
Fair value at closing date	
Licensing arrangements:	
– Perpetual IP licence	**145,750**
– Effective IP licence	**136,400**
Design centre businesses	**29,266**
Total fair value	**311,416**
Consideration	
Cash received	**300,000**
Below market element of prepayment	**11,416**
Total consideration	**311,416**

We measured the fair value of the perpetual IP licence using the excess earnings method, whereby it represented the present value of the estimated future profits that were foregone by Dialog by licensing our existing Power Management IP.

We measured the fair value of the effective IP licence using the relief from royalty method, whereby it represented the present value of the estimated royalties that would have been payable by Apple over the term of the licence for the use of Dialog's IP in developing future generations of their products.

We measured the fair value of the design centre businesses as the present value of their estimated future cash flows based on applicable transfer prices.

We incurred transaction costs totalling US$23,851 in relation to the agreement with Apple, of which US$16,064 was incurred during 2019 (within general and administrative expenses).

2. Licensing and asset transfer agreement continued

Subsequent accounting for the transaction

Licensing arrangements

We consider that the perpetual IP licence granted Apple a "right to use" the related IP. We therefore recognised the consideration of US$145,750 allocated to the perpetual licence as revenue on the closing date.

We consider that the effective IP licence granted Apple a "right to access" the related IP. We are therefore recognising the consideration of US$136,400 allocated to the effective licence as revenue over the four-year period following the closing date. We are amortising the deferred revenue in proportion to the present value of the cash flows that supported the fair value of the effective licence at the closing date. During 2019, we recognised revenue of US$18,484 in relation to the effective licence.

Transfer of design centre businesses

We recognised a gain of US$15,898 on the transfer of the design centre businesses (within other operating income) that was calculated as follows:

	US$000
Carrying amount of assets transferred	
Cash and cash equivalents	**1,452**
Property, plant and equipment – owned	**13,824**
Property, plant and equipment – leased	**4,287**
Patents	**224**
Other assets	**369**
Total assets transferred	**20,156**
Carrying amount of associated liabilities	
Trade and other payables	**161**
Income tax payables	**119**
Lease liabilities	**4,440**
Provisions	**1,326**
Other liabilities	**1,051**
Total liabilities transferred	**7,097**
Net assets transferred	**13,059**
Currency translation loss transferred from equity	**309**
Gain on transfer of design centre businesses	**15,898**
Consideration received	**29,266**

Prepayment agreement

It is intended that the US$300,000 prepayment will be recouped by Apple against amounts payable to Dialog for the purchase of certain of our products over the three-year period ending on 31 March 2022. Settlement of the prepayment is scheduled to take place in quarterly instalments in arrears such that US$200,000 is settled in the first year and US$50,000 is settled in each of the second and third years. During each quarter, Apple will settle our invoices on its normal payment terms. If, on a recoupment date, there is a shortfall of invoices outstanding against the scheduled recoupment amount, Apple may require us to settle the shortfall in cash or may permit us to carry forward the shortfall for recoupment in the subsequent quarter.

In July 2019, the first quarterly instalment of US$50,000 was settled by recoupment by Apple against invoices outstanding totalling US$29,655 and a balancing cash payment by Dialog of US$20,345. In October 2019, the second quarterly instalment of US$50,000 was settled wholly by recoupment against invoices. As at 31 December 2019, the principal amount of the prepayment outstanding was US$200,000.

We account for the prepayment as a financial liability measured at amortised cost. As at 31 December 2019, the carrying amount of the liability was US$194,467. During 2019, we recognised an interest expense of US$5,884 in relation to the prepayment.

As a condition of the prepayment, we put in place a reducing letter of credit in favour of Apple for the outstanding principal amount. During 2019, we incurred related commitment fees of US$1,070 (within interest expense).

Notes to the consolidated financial information continued

3. Business combinations

Acquisition of Creative Chips GmbH
On 31 October 2019, we completed the acquisition of 100% of the equity interests in Creative Chips GmbH, a supplier of integrated circuits ("ICs") to the Industrial Internet of Things ("IIoT") market.

Headquartered near Frankfurt, Germany, with an additional design centre in Dresden, Germany, Creative Chips has a growing IC business supplying a broad portfolio of industrial ethernet and other mixed-signal products to manufacturers of industrial and building automation systems. Creative Chips has also developed a range of highly complementary standard IO-Link IC products, driving broader connectivity in the Industry 4.0 revolution.

We acquired Creative Chips for US$80,000 on a cash- and debt-free basis. Additional consideration of up to US$23,000 may be payable contingent on Creative Chips' performance against revenue targets for 2020 and 2021.

On completion, we paid initial consideration of US$83,722 in cash, including US$3,722 in respect of Creative Chips' estimated cash, debt and working capital levels on completion. In February 2020, we paid a purchase price adjustment of US$84 to the sellers reflecting Creative Chips' actual cash, debt and working capital levels on completion.

We paid US$15,070 of the initial consideration into an escrow fund that was available to settle any valid claims that we may have made in relation to the representations, warranties and indemnities that were provided to us by the sellers.

Contingent consideration is payable in two instalments: the first instalment of up to US$11,500 may be payable in early 2021 based on Creative Chips' revenue for 2020 and the second instalment of up to US$11,500 may be payable in early 2022 based on Creative Chips' revenue for 2021. At the acquisition date, we estimated that the amount of the first instalment will be in the range US$nil to US$10,210 and that the amount of the second instalment will be in the range US$nil to US$7,475. Using the expected value method, we estimated that the fair value of the contingent consideration at the acquisition date was US$6,517 (net of discounting of US$2,130).

We recognised goodwill of US$32,124 on the acquisition of Creative Chips that is principally attributable to the benefits expected to be derived from the growth potential of the IIoT market, the assembled workforce and the broadening of Dialog's customer base for its own mixed-signal business. None of the goodwill is deductible for tax purposes.

Acquisition of FCI Inc.
On 31 May 2019, we completed the acquisition of 100% of the equity interests in Silicon Motion Technology Corporation's Mobile Communications product group, branded as FCI.

FCI is based near Seoul, South Korea and is a leading supplier of Mobile TV SoCs and Low Power Wi-Fi SoCs. During the fourth quarter of 2018, FCI began ramping production of its first Ultra-Low-Power Wi-Fi SoC that is designed to meet the demands of battery powered IoT devices, providing direct internet connectivity. FCI is being integrated into our Connectivity & Audio operating segment where we plan to combine its Ultra-Low-Power WiFi technology with our own Bluetooth® low energy chips and modules, principally to enhance our IoT offerings.

We acquired FCI for US$45,000 on a cash- and debt-free basis. On completion, we paid consideration of US$53,884 in cash, including US$8,884 (net of US$271 transaction tax withheld) in respect of FCI's cash, debt and estimated working capital on completion. We paid the withheld transaction tax to the Korean tax authority during the third quarter of 2019.

We paid US$5,400 of the consideration into an escrow fund that is available to settle any valid claims that we may make in relation to the representations, warranties and indemnities that were provided to us by the seller.

We estimate that a purchase price adjustment of US$203 will be payable by the seller, reflecting FCI's actual working capital on completion.

We recognised goodwill of US$9,929 on the acquisition of FCI that is principally attributable to the benefits expected to be derived from the development of new technology and product offerings by FCI in the future, the assembled workforce and the opportunities to cross-sell FCI's products to Dialog's customers. None of the goodwill is deductible for tax purposes.

3. Business combinations continued

Assets acquired and liabilities assumed
We have allocated the purchase consideration to the identifiable assets and liabilities of Creative Chips and FCI and goodwill as follows:

	Creative Chips US$000	FCI US$000	Total US$000
Assets acquired			
Cash and cash equivalents	7,328	9,562	16,890
Trade and other receivables	2,235	1,791	4,026
Inventories	4,578	4,347	8,925
Intangible assets	51,278	34,396	85,674
Property, plant and equipment – owned	11,993	872	12,865
Property, plant and equipment – leased	–	762	762
Other assets	1,058	1,098	2,156
Total assets acquired	78,470	52,828	131,298
Liabilities assumed			
Trade and other payables	1,260	2,385	3,645
Net defined benefit liability	–	771	771
Deferred tax liabilities	15,974	3,597	19,571
Other liabilities	3,037	2,052	5,089
Total liabilities	20,271	8,805	29,076
Net identifiable assets acquired	58,199	44,023	102,222
Goodwill arising on acquisition	32,124	9,929	42,053
Consideration	90,323	53,952	144,275

Purchase consideration was satisfied by:			
Cash paid on completion	83,722	54,155	137,877
Purchase price adjustment	84	(203)	(119)
Initial consideration	83,806	53,952	137,758
Contingent consideration	6,517	–	6,517
Consideration	90,323	53,952	144,275

Trade and other receivables were expected to be collected at their gross contractual amounts.

Identifiable intangible assets acquired comprised customer relationships, developed technology and know-how and trade names.

During 2019, Creative Chips contributed US$2,312 to the Group's revenue and a loss after tax of US$521 and FCI contributed US$10,495 to the Group's revenue and a loss after tax of US$3,116. If these businesses had been acquired on 1 January 2019, we estimate that the Group's revenue for 2019 would have been US$26,428 higher at US$1,592,667 and its net income US$2,051 lower at US$299,401.

During 2019, we incurred transaction costs of US$4,040 in relation to the acquisition of Creative Chips and FCI (included within general and administrative expenses).

Consideration payable for Silego Technology Inc.
We acquired Silego in November 2017.

Deferred consideration
On completion of the acquisition, unvested employee options were converted into deferred cash rights and the fair value of those rights was apportioned between a deferred consideration element and a future compensation element. During 2019, we paid US$2,089 in settlement of vested deferred consideration and recognised a credit of US$116 to profit or loss in respect of forfeitures. As at 31 December 2019, we held a liability of US$979 in relation to the remaining deferred consideration that is payable over the period to March 2021.

Contingent consideration
Contingent consideration of up to US$30,400 was payable for the acquisition of Silego in two instalments based on Silego's revenues for 2017 and 2018.

In February 2019, we paid US$16,729 in settlement of the amount of the second instalment that was attributable to the shares and vested options acquired and attributed the balance of the first instalment of US$1,144 to the deferred cash rights.

Notes to the consolidated financial information continued

3. Business combinations continued

Cash flows in relation to business combinations

During the years ended 31 December 2019, 2018 and 2017, the net cash outflow on the purchase of businesses was as follows:

	2019 US$000	2018 US$000	2017 US$000
Initial consideration	**137,877**	–	300,008
Purchase price adjustment	**–**	692	–
Deferred consideration	**2,089**	2,788	371
Contingent consideration	**16,730**	9,360	–
Consideration paid	**156,696**	12,840	300,379
Cash and cash equivalents acquired	**(16,890)**	–	(32,439)
Cash outflow on purchase of businesses, net of cash acquired	**139,806**	12,840	267,940

Contingent consideration paid in 2019 and 2018 in relation to the acquisition of Silego was below our estimate at the acquisition date and is therefore included within cash flows from investing activities.

4. Segment information

a) Analysis by reporting segment

Segment information is presented in the financial statements on a basis consistent with the information presented to the Management Team (the "chief operating decision-maker") for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses.

The Group's reporting segments are determined based on the nature of the products that they provide to our customers.

Organisational and measurement changes

With effect from the beginning of the second quarter of 2019, the Group made a number of organisational changes. Prior to the changes, the Group had four reporting segments: Mobile Systems; Connectivity; Automotive & Industrial; and Advanced Mixed Signal.

The following organisational changes were made:

- Mobile Systems' standard PMICs and charging products were transferred to Advanced Mixed Signal and its standard audio products were transferred to Connectivity;
- Mobile Systems was re-named Custom Mixed Signal to reflect its new focus on custom products and Connectivity was re-named Connectivity & Audio; and
- Automotive & Industrial ceased to exist as a segment as its custom automotive motor control ICs were transferred as our Automotive business unit to Custom Mixed Signal and its industrial lighting products were transferred to Advanced Mixed Signal.

We subsequently acquired Creative Chips and designated it as our new Industrial Mixed Signal business unit within Custom Mixed Signal.

The Group now has three reporting segments: Custom Mixed Signal; Advanced Mixed Signal; and Connectivity & Audio:

- Custom Mixed Signal provides custom ICs designed to meet the needs of our customers in the mobile, industrial, automotive, computing and storage markets;
- Advanced Mixed Signal provides standard products including CMICs, AC/DC converter solutions for smaller, fast charging power adaptors for portable devices as well as LED drivers for backlighting and solid state lighting products; and
- Connectivity & Audio provides standard products incorporating short-range wireless, digital cordless, Bluetooth® low energy, VoIP and low-power Wi-Fi technologies.

Each of the Group's operating segments has a manager who is responsible for its performance and is accountable to the Chief Executive Officer. Custom Mixed Signal comprises our Custom Mixed Signal business group, our Industrial Mixed Signal business unit, and our Automotive business unit, each of which meets the definition of an operating segment but have been aggregated because they have similar economic characteristics and each provides custom products to similar types of customers through similar distribution channels. Otherwise, we have not aggregated any operating segments in determining our reporting segments.

At the same time as effecting the organisational changes, the Management Team changed its focus from IFRS measures to underlying measures as the principal basis for allocating resources to and assessing the financial performance of the Group's businesses. Underlying revenue is therefore the measure of segment revenue and underlying operating profit/loss the measure of segment profit/loss that is now presented in the Group's segment disclosures.

Comparative information for 2018 and 2017 has been restated to reflect these organisational and measurement changes.

4. Segment information continued

Underlying performance measures

Underlying performance measures exclude specific items of income or expense that are recognised in profit or loss reported in accordance with IFRS that we consider hinder comparison of the financial performance of our businesses from one period to another, with each other or with other similar businesses. Details of the items excluded from profit or loss reported under IFRS in arriving at the Group's underlying profit or loss for each of the periods presented are set out in the section entitled "Financial performance measures" on pages 41 and 47.

Segment revenue and operating profit/(loss) were as follows:

	Underlying revenue[1]			Underlying operating profit/(loss)		
	2019 US$000	Restated 2018 US$000	Restated 2017 US$000	**2019 US$000**	Restated 2018 US$000	Restated 2017 US$000
Custom Mixed Signal	**964,788**	1,042,320	1,059,603	**281,941**	267,589	296,236
Advanced Mixed Signal	**253,415**	244,536	147,603	**15,236**	26,754	(1,326)
Connectivity & Audio	**183,781**	154,004	137,834	**21,607**	13,636	9,740
Total segments	**1,401,984**	1,440,860	1,345,040	**318,784**	307,979	304,650
Corporate and other unallocated items	**18,505**	1,278	7,801	**5,565**	(26,351)	(45,192)
Total Group	**1,420,489**	1,442,138	1,352,841	**324,349**	281,628	259,458

1 Revenue is from sales to external customers (there were no inter-segment sales).

Reconciliation of underlying revenue to revenue reported under IFRS

	2019 US$000	2018 US$000	2017 US$000
Underlying revenue	**1,420,489**	1,442,138	1,352,841
Perpetual licence fee	**145,750**	–	–
Revenue reported under IFRS	**1,566,239**	1,442,138	1,352,841

Reconciliation of underlying operating profit to profit before income taxes reported under IFRS

	2019 US$000	2018 US$000	2017 US$000
Underlying operating profit	**324,349**	281,628	259,458
Licence and asset transfers to Apple:			
– Perpetual licence fee	**145,750**	–	–
– Gain on transfer of design centre businesses	**15,898**	–	–
Share-based compensation and related costs	**(54,656)**	(41,653)	(35,498)
Accounting for business combinations:			
– Acquisition-related costs	**(4,040)**	–	(4,539)
– Amortisation of acquired intangible assets	**(26,113)**	(22,629)	(16,461)
– Consumption of the fair value uplift of acquired inventory	**(1,749)**	(3,129)	(2,305)
– Consideration accounted for as compensation expense	**(1,204)**	(1,481)	(1,409)
– Forfeiture of deferred consideration	**116**	204	–
– Remeasurement of contingent consideration	**–**	878	–
Integration costs	**(2,434)**	(2,765)	(2,305)
Corporate transaction costs	**(16,064)**	(11,346)	–
Strategic investments:			
– Impairment of non-current assets held by Dyna Image	**–**	–	(4,327)
– Loss on deconsolidation of Dyna Image	**–**	–	(5,597)
Operating profit reported under IFRS	**379,853**	199,707	187,017
Interest income	**21,950**	9,883	5,995
Interest expense	**(11,309)**	(3,134)	(1,302)
Other finance expense	**(5,456)**	(10,263)	3,093
Profit before income taxes	**385,038**	196,193	194,803

Notes to the consolidated financial information continued

5. Revenue

Revenue may be analysed as follows:

	2019 US$000	2018 US$000	2017 US$000
Sale of products:			
– Sales direct to end-customers	**1,045,774**	1,144,371	1,156,451
– Sales to distributors	**355,348**	296,598	195,364
Total sale of products	**1,401,122**	1,440,969	1,351,815
Licensing agreements with Apple:			
– Perpetual licence fee	**145,750**	–	–
– Effective licence fee	**18,484**	–	–
Royalties	**883**	1,169	1,026
Total revenue	**1,566,239**	1,442,138	1,352,841

6. Other operating income/(expense)

Other operating income/(expense) comprised:

	2019 US$000	2018 US$000	2017 US$000
Revenue from research and development contracts	**21,872**	2,298	346
Gain on transfer of design centre businesses (note 2)	**15,898**	–	–
Rental and other income	**1,635**	–	–
Change in estimate of contingent consideration	**–**	878	–
Impairment of non-current assets held by Dyna Image	**–**	–	(4,327)
Loss on deconsolidation of Dyna Image	**–**	–	(5,597)
Total	**39,405**	3,176	(9,578)

7. Finance income/(expense)

a) Interest income

	2019 US$000	2018 US$000	2017 US$000
Interest on bank deposits	**9,919**	5,619	3,556
Interest on money market funds	**11,910**	4,189	2,423
Other interest income	**121**	75	16
Total interest income	**21,950**	9,883	5,995

b) Interest expense

	2019 US$000	2018 US$000	2017 US$000
Interest on lease liabilities	**(2,956)**	–	–
Interest on finance lease and hire purchase obligations	**–**	(50)	(289)
Facility commitment fees	**(1,506)**	(452)	(194)
Amortisation of deferred facility arrangement costs	**(295)**	(315)	(151)
Unwinding of discount on prepayment received (note 2)	**(5,884)**	–	–
Unwinding of discount on contingent consideration (note 3)	**(464)**	(2,220)	(436)
Unwinding of discount on provisions	**(60)**	(70)	(60)
Other interest expense	**(144)**	(27)	(172)
Total interest expense	**(11,309)**	(3,134)	(1,302)

7. Finance income/(expense) continued

c) Other finance (expense)/income

	2019 US$000	2018 US$000	2017 US$000
Currency translation (loss)/gain, net	**(5,655)**	(994)	1,695
Fair value (loss)/gain on Energous warrants	**(1,434)**	(10,853)	941
Amortisation of gain on initial measurement of Energous warrants	**1,584**	1,584	776
Net interest expense on the net defined benefit liability	**(14)**	–	–
Proceeds from sale of Arctic Sand shares	**63**	–	(177)
Fair value loss on Dyna Image call option	**–**	–	(142)
Total other finance (expense)/income	**(5,456)**	(10,263)	3,093

8. Income taxes

Income tax recognised in profit or loss

The components of the Group's income tax expense for the year were as follows:

	2019 US$000	2018 US$000	2017 US$000
Current tax			
United Kingdom	**(41,617)**	(15,896)	379
Foreign	**(45,523)**	(33,633)	(33,884)
Deferred tax			
United Kingdom	**(90)**	(321)	1,315
Foreign	**3,644**	(5,431)	6,821
Income tax expense	**(83,586)**	(55,281)	(25,369)

	2019 US$000	2018 US$000	2017 US$000
Current tax			
Current income tax charge	**(88,252)**	(45,587)	(38,643)
Adjustments in respect of prior years	**1,112**	(3,942)	5,138
Deferred tax			
Origination and reversal of temporary differences	**4,953**	(4,663)	(6,353)
Recognition of previously unrecognised deferred tax assets	**–**	–	9,655
Movement in deferred tax balances following intra-group reorganisation	**(1,921)**	(1,920)	1,977
Movement in deferred tax balances following US tax rate change	**–**	–	6,658
Adjustments in respect of prior years	**522**	831	(3,801)
Income tax expense	**(83,586)**	(55,281)	(25,369)

Notes to the consolidated financial information continued

8. Income taxes continued

Factors affecting the income tax expense for the year

The Group's income tax expense differed from the amount that would have resulted from applying the statutory rate of corporation tax in the UK to the Group's profit before income taxes for the reasons shown in the following table:

	2019 US$000	2018 US$000	2017 US$000
Profit before income taxes	**385,038**	196,193	194,803
Income tax expense at UK corporation tax rate of 19.0% (2018: 19.0%; 2017: 19.25%)	**(73,157)**	(37,277)	(37,500)
Effect of different foreign tax rates	**(10,595)**	(6,656)	(12,569)
Non-taxable income:			
– Other non-taxable income	**2,493**	39	–
Non-deductible expenses:			
– Transaction costs	**(2,395)**	(1,131)	–
– Non-deductible portion of share-based compensation	**(10,559)**	(9,336)	(9,396)
– Other non-deductible expenses	**(2,996)**	(3,232)	(2,764)
Tax benefit from share-based compensation	**6,494**	1,997	3,658
Tax impact of deconsolidation of Dyna Image Corporation	**–**	–	(1,938)
Tax benefit from Intellectual Property and research and development incentives	**10,323**	8,633	6,576
Write-down of previously recognised deferred tax assets	**–**	(1,015)	(543)
Benefit from previously unrecognised deferred tax assets	**82**	70	9,655
Additional tax losses for which no deferred tax asset is recognised	**(127)**	(117)	(568)
Movement in deferred tax balances following intra-group reorganisation	**(1,921)**	(1,920)	1,977
Differences arising from different functional and tax currencies	**(2,536)**	(2,065)	9,576
Tax benefit from US tax rate change	**–**	–	6,658
Adjustments in respect of prior years	**1,635**	(3,111)	1,337
Other items	**(327)**	(160)	472
Income tax expense	**(83,586)**	(55,281)	(25,369)

The Group's income tax expense for 2019 was US$83,586 (2018: US$55,281; 2017: US$25,369), an effective tax rate for the year of 21.7% (2018: 28.2%; 2017: 13.0%).

Our effective tax rate is sensitive to the geographic mix of the Group's profits and reflects a combination of different tax rates in different countries, in particular higher tax rates in Germany and, in 2017, in the US. Our effective tax rate can also be affected by changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings and currency exchange rate movements, which give rise to tax effects where an entity's functional currency differs from the currency in which it is required to calculate and pay income taxes.

Our effective tax rate is reduced because a large proportion of the Group's research and development activities are undertaken in the UK and the Netherlands and we are therefore able to benefit from the UK and Netherlands tax regimes that provide incentives for innovation.

Factors affecting the income tax expense in future years

Factors that may affect the Group's future tax expense include foreign exchange rate movements, changes in tax legislation and tax rates, the impact of acquisitions, disposals and restructurings and the resolution of open issues with tax authorities. Incentives for innovation available under the UK and Netherlands tax regimes are limited by reference to the location of the Group's research and development activities. Given the global nature of the Group's research and development activities, this may also affect the Group's future tax expense.

We maintain provisions for potential tax liabilities where uncertainty exists concerning the amount of current or deferred tax recognised. Due to the complexity of tax laws and their interpretation, the amounts ultimately agreed with tax authorities in respect of these uncertainties may differ materially from the amounts provided and may therefore affect the Group's income tax expense in future periods. In January 2016, we received a termination fee of US$137,300 from Atmel Corporation, Inc. following their termination of the merger agreement that existed between us. We obtained tax advice that the termination fee should not be taxable in the UK and therefore did not recognise a tax expense in relation to the termination fee. Examination of the tax treatment of the termination fee by the UK tax authority is ongoing. We maintain our position that no tax liability should arise in respect of the termination fee.

International tax reform remains a key focus of attention, including the OECD's Base Erosion & Profit Shifting project, the EU's action plan for fair and efficient corporate taxation and US tax reform. We continually monitor developments and assess the potential impact for Dialog of such initiatives. We have concluded that current or announced future tax law changes as a result of such initiatives give rise to no changes to the principal risks for Dialog.

9. Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to holders of ordinary shares in the Company by the weighted average number of ordinary shares outstanding during the year.

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

Profit attributable to shareholders in the Company and the weighted average number of ordinary shares for calculating basic and diluted earnings per share were calculated as follows:

	2019 US$000	2018 US$000	2017 US$000
Profit attributable to shareholders in the Company			
For calculating basic and diluted earnings per share	**301,452**	139,799	173,916
Weighted average number of ordinary shares			
Shares in issue at the beginning of the period	**76,382,139**	76,382,139	77,865,955
Effect on average number of shares during the period:			
– Shares issued to employee benefit trust	**–**	–	2,350,000
– Cancellation of treasury shares	**–**	–	(2,329,093)
Average number of shares in issue during the period	**76,382,139**	76,382,139	77,886,862
Deduct:			
– Average number of shares held by employee benefit trusts	**(1,759,457)**	(2,422,787)	(2,061,901)
– Average number of treasury shares	**(2,726,643)**	–	(1,352,891)
For calculating basic earnings per share	**71,896,039**	73,959,352	74,472,070
Add: Average number of dilutive share options and awards	**4,284,926**	3,695,214	4,139,123
For calculating diluted earnings per share	**76,180,965**	77,654,566	78,611,193
Earnings per share (US$)			
Basic	**4.19**	1.89	2.34
Diluted	**3.96**	1.80	2.21

During 2019, the average number of anti-dilutive share options outstanding was 486,253 (2018: 830,300; 2017: 375,041).

10. Cash and cash equivalents

Cash and cash equivalents were as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Cash at bank	**21,056**	3,920
Cash held by employee benefit trusts	**6,049**	2,829
Cash available from receivables financing facilities	**65,439**	96,099
Bank deposits	**350,000**	325,000
Money market funds	**582,000**	250,000
Total	**1,024,544**	677,848

Short-term deposits are made for varying periods of up to three months.

As at 31 December 2019 and 2018, no amounts had been drawn from the cash available from receivables financing facilities.

Notes to the consolidated financial information continued

11. Inventories

Inventories were as follows:

	As at 31 December 2019 US$000	As at 31 December 2018 US$000
Raw materials	31,938	36,579
Work in progress	44,097	48,416
Finished goods	46,589	64,741
Total	**122,624**	149,736

12. Goodwill

Movements on goodwill during the years ended 31 December 2019 and 2018 were as follows:

	2019 US$000	2018 US$000
At the beginning of the year	439,508	439,508
Acquisition of FCI (note 3)	9,929	–
Acquisition of Creative Chips (note 3)	32,124	–
Currency translation differences	573	–
At the end of the year	**482,134**	439,508

Goodwill is monitored by management at the level of the Group's operating segments and is therefore allocated at that level. As explained in note 4, the Group made a number of organisational changes with effect from the beginning of the second quarter of 2019. Management concluded that these changes did not cause any reallocation of goodwill between operating segments. Immediately following the reorganisation, therefore, goodwill continued to be allocated to the Custom Mixed Signal business group (formerly Mobile Systems), Advanced Mixed Signal and Connectivity & Audio.

Goodwill of US$9,929 recognised on the acquisition of FCI in May 2019 was allocated to Connectivity & Audio. We acquired Creative Chips in October 2019. Creative Chips was designated as our new Industrial Mixed Signal business unit to which the goodwill of US$32,124 recognised on the acquisition is allocated.

As at 31 December 2019 and 2018, goodwill was allocated to operating segments as follows:

	2019 US$000	2018 US$000
Custom Mixed Signal business group	107,163	107,163
Industrial Mixed Signal business unit	32,449	–
Connectivity & Audio	98,375	88,198
Advanced Mixed Signal	244,147	244,147
Total	**482,134**	439,508

Impairment tests carried out during the year

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Goodwill is tested for impairment at the level of the operating segments to which it is allocated. Goodwill is impaired if the carrying amount of the operating segment to which it is allocated exceeds its recoverable amount. In conducting impairment tests of goodwill during 2019, we measured the recoverable amount of each operating segment to which goodwill is allocated on a value in use basis. Value in use represents the present value of the future cash flows that we estimate will be generated by the assets allocated to each operating segment in their current use and condition.

Expected future cash flows in the first three years were forecast based on the Group's Strategic Plan 2020-2022. Except in the case of the Industrial Mixed Signal business unit, cash flows beyond the third year were estimated by applying a perpetuity growth factor to the forecast cash flow in the third year. We expect that the strong growth potential of the Industrial Mixed Signal business unit will take considerably longer than three years to be fully realised. We therefore based its expected future cash flows beyond the third year on profit forecasts for a further seven years made at the time of the acquisition of Creative Chips and applied a perpetuity growth factor to the forecast cash flow in the tenth year.

We consider that the key assumptions used in determining value in use are the expected compound annual growth of revenue ("revenue CAGR") during the forecast period, the perpetuity growth rate and the discount rate.

Expected future revenue of each operating segment is based on external forecasts of the future volume of the end-markets for the operating segment's products adjusted to reflect factors specific to the operating segment such as its customer base and available distribution channels, the possibility of new entrants to the market and future technological developments. Cash flows during the forecast period also reflect the cost of materials and other direct costs, research and development expenditure and selling, general and administrative expenses. We estimated the cost of materials and other direct and indirect costs based on current prices and market expectations of future price changes.

12. Goodwill continued

We applied a perpetuity growth rate of 2% per annum in estimating the future cash flows of each operating segment in both 2019 and 2018, which we consider to be the long-term growth rate in the demand for the products of each operating segment in its end-markets.

Discount rates applied to the cash flow projections were determined using a capital asset pricing model and reflected current market interest rates, relevant equity and size risk premiums and the risks specific to the operating segment concerned. Pre-tax discount rates used were as follows:

	2019	2018
Pre-tax discount rate		
Custom Mixed Signal business group	**13.1%**	12.7%
Industrial Mixed Signal business unit	**19.1%**	n/a
Advanced Mixed Signal	**13.7%**	13.5%
Connectivity & Audio	**13.9%**	14.2%

We did not recognise any goodwill impairment during 2019. With the exception of Industrial Mixed Signal, the recoverable amount of each operating segment to which goodwill is allocated was comfortably in excess of its carrying amount. Our calculations show that Industrial Mixed Signal's recoverable amount exceeds its carrying amount by US$16.6 million. We consider that the recoverable amount is most sensitive to a change in the revenue CAGR over the forecast period. Our calculations reflect a revenue CAGR of 15.4% over the forecast period. Assuming all other assumptions remain unchanged, we estimate that the recoverable amount would equal the carrying amount if the revenue CAGR was to fall to 13.4% over the forecast period.

13. Other intangible assets

Movements on other intangible assets during the years ended 31 December 2019 and 2018 were as follows:

	2019 US$000	2018 US$000
Net book value		
At the beginning of the year	**217,445**	235,637
Acquisition of businesses	**85,674**	–
Additions	**23,821**	31,216
Amortisation charge for the period	**(52,233)**	(49,130)
Transfer to assets held for sale	**–**	(215)
Impairment of product development assets	**(3,130)**	–
Disposals	**(937)**	(58)
Currency translation differences	**1,428**	(5)
At the end of the year	**272,068**	217,445

14. Property, plant and equipment

Movements on owned property, plant and equipment during the years ended 31 December 2019 and 2018 were as follows:

	2019		2018
	Owned US$000	Leased US$000	Owned US$000
Net book value			
At the beginning of the year	**66,359**	**–**	83,870
Adjustment on initial application of IFRS 16 (note 18)	**–**	**66,390**	–
Acquisition of businesses	**12,865**	**762**	–
Additions	**14,175**	**1,441**	26,145
Depreciation charge for the period	**(27,155)**	**(12,456)**	(31,455)
Disposals	**(5,274)**	**(4,287)**	(11,908)
Terminations	**–**	**(10,160)**	–
Other changes in lease payments	**–**	**(285)**	–
Currency translation differences	**168**	**18**	(293)
At the end of the year	**61,138**	**41,423**	66,359

Notes to the consolidated financial information continued

15. Share buyback programme

Background

We initiated our share buyback programme in May 2016.

By the end of 2019, the Company had purchased 11,560,563 of its own ordinary shares at a total cost of US$438,309 (including transaction costs of US$3,209), of which 4,483,816 shares had been cancelled and 7,076,747 shares were held in treasury.

Shareholder authority for a share buyback programme was first granted to the Directors at the Company's 2016 AGM and has been renewed at each subsequent AGM. At the Company's 2019 AGM, the Directors were granted a new authority to purchase up to 11,457,321 of the Company's ordinary shares, representing approximately 15% of the issued ordinary share capital of the Company as at 27 March 2019.

Such authority shall (unless previously renewed, varied or revoked) expire on the day before the next AGM of the Company or on 30 June 2020, whichever is the earlier.

Purchases made under the share buyback programme are off-market and are effected by way of contingent forward purchase contracts entered into with brokers. Barclays, Goldman Sachs, HSBC or Merrill Lynch may be appointed as brokers for purchases under the 2019 AGM authority.

Shares purchased during 2019

Tranche pursuant to the 2018 AGM authority

On 6 November 2018, the Company announced details of the first tranche of the 2018 Buyback Programme under which it committed to purchase shares with a minimum cost of €100.0 million and a maximum cost of €150.0 million. On initiation of this tranche, we recognised a liability and a corresponding debit to retained earnings of €150.0 million (US$171,173) in respect of the maximum obligation to purchase shares. We also debited transaction costs incurred of US$14 to retained earnings.

On 31 May 2019, we completed the first and final settlement of the outstanding tranche of the 2018 Buyback Programme. We purchased 3,941,852 shares at a cost of €100.0 million (US$111,470) and incurred transaction costs of US$625. On conclusion of the tranche, we credited back to retained earnings the remaining US$55,847 of the obligation to purchase shares initially recognised.

No further tranches were initiated under the 2018 Buyback Programme.

First tranche pursuant to the 2019 AGM authority

On 5 June 2019, we announced details of the first tranche of the 2019 Buyback Programme under which the Company committed to purchase shares with a minimum cost of €125.0 million and a maximum cost of €150.0 million. On initiation of this tranche, we recognised a liability and a corresponding debit to retained earnings of €150.0 million (US$168,915) in respect of the maximum obligation to purchase shares. We made intermediate settlements of this tranche on 19 September 2019 and 31 October 2019 and final settlement and conclusion of the tranche took place on 19 December 2019. We purchased 3,134,895 shares at a cost of €125.0 million (US$138,975) and incurred transaction costs of US$703. On conclusion of the tranche, we credited back to earnings the remaining US$27,679 of the obligation to purchase shares initially recognised.

During 2019, we showed a debit to retained earnings of US$4,431, which mirrored the gain recognised in profit or loss on the translation into US dollars of the Euro-denominated liability that existed in relation to shares that were purchased during the period.

After taking into account hedging, we recognised a net currency translation loss of US$4,616 in profit or loss in relation to liabilities to purchase shares outstanding during 2019.

16. Share-based compensation

Share options

Movements in the total number of share options outstanding during the years ended 31 December 2019 and 2018 were as follows:

	2019		2018	
	Options	**Weighted average exercise price €**	Options	Weighted average exercise price €
Outstanding at the beginning of the year	**5,472,635**	**0.65**	4,303,195	1.50
Granted	**1,552,279**	**0.09**	2,536,355	0.10
Exercised	**(1,802,547)**	**1.68**	(1,010,647)	3.05
Forfeited	**(879,678)**	**0.12**	(356,268)	0.19
Outstanding at the end of the year	**4,342,689**	**0.13**	5,472,635	0.65
Options exercisable at the end of the year	**533,304**	**0.43**	1,155,481	2.71

When share options were exercised during 2019, the weighted average of the Company's share price was €36.97 (2018: €22.71).

16. Share-based compensation continued

The weighted average contractual life and exercise price of share options outstanding as at 31 December 2019 and 2018 were as follows:

	2019		2018	
Range of exercise prices	**Number outstanding**	**Weighted average remaining contractual life (in years)**	Number outstanding	Weighted average remaining contractual life (in years)
€0.0 – 1.00	**4,330,836**	**4.86**	5,270,419	4.73
€1.00 – 8.00	**–**	**n/a**	–	n/a
€8.00 – 16.85	**11,853**	**0.70**	202,216	0.97
€0.00 – 16.85	**4,342,689**	**4.85**	5,472,635	4.59

17. Other reserves

Movements on other reserves were as follows:

	Capital redemption reserve US$000	Currency translation reserve US$000	Fair value reserve US$000	Hedging reserve US$000	Treasury shares US$000	Total US$000
As at 31 December 2016	–	(4,400)	2,866	(7,560)	(61,472)	(70,566)
Other comprehensive income/(expense):						
– Currency translation differences on foreign operations	–	1,665	–	–	–	1,665
– Gain transferred to profit or loss on deconsolidation of Dyna Image	–	(1,144)	–	–	–	(1,144)
– Fair value loss on available-for-sale investments	–	–	5,971	–	–	5,971
– Cash flow hedges:						
Fair value gain recognised on effective hedges	–	–	–	16,433	–	16,433
Fair value loss transferred to profit or loss	–	–	–	(441)	–	(441)
– Income tax credit/(expense)	–	180	(1,015)	(3,149)	–	(3,984)
Other changes in equity:						
– Purchase of own shares into treasury	–	–	–	–	(125,050)	(125,050)
– Cancellation of treasury shares	571	–	–	–	186,522	187,093
As at 31 December 2017	571	(3,699)	7,822	5,283	–	9,977
Other comprehensive income/(expense):						
– Currency translation differences on foreign operations	–	(527)	–	–	–	(527)
– Fair value loss on equity investments	–	–	(23,764)	–	–	(23,764)
– Cash flow hedges:						
Fair value loss recognised on effective hedges	–	–	–	(10,075)	–	(10,075)
Fair value gain transferred to profit or loss	–	–	–	(2,343)	–	(2,343)
– Income tax (expense)/credit	–	(78)	1,015	2,376	–	3,313
As at 31 December 2018	571	(4,304)	(14,927)	(4,759)	–	(23,419)
Other comprehensive income/(expense):						
– Currency translation differences on foreign operations	**–**	**3,019**	**–**	**–**	**–**	**3,019**
– Fair value loss on equity investments	**–**	**–**	**(6,994)**	**–**	**–**	**(6,994)**
– Cash flow hedges:						
Fair value loss recognised on effective hedges	**–**	**–**	**–**	**(3,941)**	**–**	**(3,941)**
Fair value loss transferred to profit or loss	**–**	**–**	**–**	**9,549**	**–**	**9,549**
– Income tax expense	**–**	**(91)**	**–**	**(1,065)**	**–**	**(1,156)**
Other changes in equity:						
– Purchase of own shares into treasury	**–**	**–**	**–**	**–**	**(251,787)**	**(251,787)**
As at 31 December 2019	**571**	**(1,376)**	**(21,921)**	**(216)**	**(251,787)**	**(274,729)**

Notes to the consolidated financial information continued

18. Adoption of IFRS 16

Background

We adopted IFRS 16 *Leases* with effect from 1 January 2019. IFRS 16 replaced IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease* and other related interpretations. IFRS 16 changed the way in which lessees recognise, measure, present and disclose leases.

Under IAS 17, a lessee accounted for leases differently according to whether they were classified as a finance lease or an operating lease. Only finance leases were represented by assets and liabilities on the balance sheet. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise a right-of-use asset and a lease liability for all leases, except, by election, those with a short lease term or involving an underlying asset of low value.

Previous accounting for leases under IAS 17

Under IAS 17, leases that confer rights and obligations similar to those that attach to owned assets were classified as finance leases. All other leases were classified as operating leases.

Assets held under finance leases were recognised as assets within property, plant and equipment, initially measured at the fair value of the leased asset or, if lower, the present value of the minimum lease payments, and a corresponding liability was recognised. Subsequently, the assets were depreciated over the shorter of the expected useful life of the asset or the lease term. At inception of the lease, the lease payments were apportioned between a capital element and an interest element so as to achieve a constant periodic rate of interest on the outstanding liability. Subsequently, the interest element was recognised as an expense in profit or loss while the capital element was applied to reduce the outstanding liability over the lease term.

Operating lease payments, net of any incentives receivable, were recognised in profit or loss on a straight-line basis over the lease term.

New accounting for leases under IFRS 16

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control exists if, throughout the period of use, the lessee has the right to obtain substantially all of the benefits from the use of the asset and the right to direct the use of the asset.

Lease liability

On the commencement date of a lease, the lease liability is measured at the present value of the future lease payments discounted using the interest rate implicit in the lease, if that rate can be readily determined, or using the lessee entity's incremental borrowing rate. Future lease payments comprise fixed payments, less any lease incentives receivable, variable payments that depend on an index or rate and, where applicable, amounts expected to be paid under a residual value guarantee, a purchase option or by way of termination penalties.

Variable lease payments that do not depend on an index or rate are not reflected in the lease liability and are recognised in profit or loss in the period in which the event that triggers those payments occurs.

After the commencement date, the carrying amount of the lease liability is increased to reflect interest on the lease liability, reduced to reflect lease payments made and remeasured to reflect reassessments of the future lease payments or certain lease modifications.

Interest on the lease liability is recognised in profit or loss (within interest expense).

Right-of-use asset

On the commencement date of a lease, the right-of-use asset is measured at cost which comprises the initial amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, and any initial direct costs that we incur in relation to the lease.

After the commencement date, the right-of-use asset is measured at cost less accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated so as to charge their cost to profit or loss (in arriving at operating profit), usually on a straight-line basis over the lease term.

Short-term leases and leases of low value assets

As permitted by IFRS 16, we elected not to recognise right-of-use assets and lease liabilities in respect of short-term leases (leases that have a lease term of 12 months or less) or leases involving an underlying asset of low value (an asset with a value when new of less than US$5 or foreign currency equivalent).

We recognise the lease payments for those leases as an expense in profit or loss (in arriving at operating profit) on a straight-line basis over the lease term.

18. Adoption of IFRS 16 continued

Transition to IFRS 16

As permitted by IFRS 16, we did not reassess whether any contract existing on the transition date was, or contained, a lease and applied IFRS 16 only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

We applied IFRS 16 using a modified retrospective approach whereby prior periods were not restated but we recognised cumulative effect adjustments to the opening consolidated balance sheet on 1 January 2019.

We recognised the following for each contract that is, or contains, a lease on the transition date:

– a lease liability measured at the present value of the remaining lease payments discounted at the lessee's incremental borrowing rate on the transition date; and

– a right-of-use asset measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments that was recognised at the end of 2018.

We also recognised related adjustments to deferred tax assets and liabilities.

We recognised an overall cumulative effect credit of US$40 against the opening balance of retained earnings on 1 January 2019 that may be analysed as follows:

	US$000
Right-of-use asset	66,390
Lease liabilities	(67,631)
Net accrued lease payments	1,241
	–
Net deferred tax credit	40
Increase in net assets	**40**

Financial effect of IFRS 16

We summarise below the effect of IFRS 16 on the Group's results for 2019 and on its financial position at the end of 2019.

Consolidated statement of income for year ended 31 December 2019

	As reported under IFRS 16 US$000	Adjustment for effect of IFRS 16 US$000	Amounts under IAS 17 US$000
Revenue	1,566,239	–	1,566,239
Cost of sales	(717,703)	(197)	(717,900)
Gross profit	848,536	(197)	848,339
Operating expenses, net	(508,088)	(1,865)	(509,953)
Other operating income	39,405	139	39,544
Operating profit	379,853	(1,923)	377,930
Net finance income	5,185	2,910	8,095
Profit before income taxes	385,038	987	386,025
Income tax expense	(83,586)	(197)	(83,783)
Profit after income taxes	301,452	790	302,242
Net income	301,452	790	302,242
Earnings per share (US$)			
Basic	4.19	0.01	4.20
Diluted	3.96	0.01	3.97

Notes to the consolidated financial information continued

18. Adoption of IFRS 16 continued

Consolidated balance sheet as at 31 December 2019

	As reported under IFRS 16 US$000	Adjustment for effect of IFRS 16 US$000	Amounts under IAS 17 US$000
Assets			
Other current assets	**22,532**	214	22,746
Total current assets	**1,305,887**	214	1,306,101
Property, plant and equipment – leased	**41,423**	(41,423)	–
Deferred tax assets	**8,242**	(237)	8,005
Total non-current assets	**871,097**	(41,660)	829,437
Total assets	**2,176,984**	(41,446)	2,135,538
Liabilities and equity			
Lease liabilities	**8,972**	(8,972)	–
Total current liabilities	**373,422**	(8,972)	364,450
Lease liabilities	**34,072**	(34,072)	–
Other non-current liabilities	**88,044**	945	88,989
Total non-current liabilities	**230,978**	(33,127)	197,851
Retained earnings	**1,451,582**	617	1,452,199
Other reserves	**(274,729)**	36	(274,693)
Total equity	**1,572,584**	653	1,573,237
Total liabilities and equity	**2,176,984**	(41,446)	2,135,538

19. Subsequent event

Proposed acquisition of Adesto

On 20 February 2020, we announced that Dialog has entered into a definitive agreement to acquire all of the outstanding shares in Adesto Technologies Corporation ("Adesto").

Adesto (NASDAQ: IOTS) is a leading provider of innovative custom ICs and embedded systems for the IIoT market. Headquartered in Santa Clara, California, Adesto has approximately 270 employees and an established portfolio of industrial solutions for smart building automation that complements Dialog's range of manufacturing automation products. Adesto's solutions are sold across the industrial, consumer, medical, and communications markets.

Dialog proposes to acquire Adesto for US$12.55 per share in cash, representing an enterprise value of approximately US$500 million, to be funded from our existing cash balances. The transaction is subject to certain regulatory approvals and customary closing conditions and is expected to close in the third quarter of 2020.

Financial performance measures

Use of non-IFRS measures

We use a number of measures to assess our financial performance, to ensure our performance is aligned to strategy and continued alignment with shareholders' interests. We consider certain of these measures to be particularly important and identify them as "key performance indicators" ("KPIs"). We have identified the following financial measures as KPIs: revenue growth; gross margin, operating expenses as a percentage of revenue; operating margin; diluted EPS and free cash flow. We monitor the profit or loss measures that are KPIs on both an IFRS basis and an underlying basis.

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

Underlying measures of performance

We report underlying measures of performance because we believe they provide both management and investors with useful additional information about the financial performance of our businesses. Underlying measures of performance represent the equivalent IFRS measures adjusted for specific items that are considered by us to hinder comparison of the financial performance of our businesses from one period to another, with each other or with other similar businesses.

Underlying measures of performance exclude items that can have a significant effect on the Group's profit or loss. We compensate for these limitations by monitoring separately the items that are excluded from the equivalent IFRS measures in calculating the underlying measures.

We outline below the specific items of income and expense that are recognised in profit or loss in accordance with IFRS but are excluded from our underlying results.

Licence and asset transfers to Apple

We excluded from our underlying results the following discrete benefits that were recognised on completion of the licensing and asset transfer agreement with Apple in April 2019:

- the revenue attributed to the perpetual licence over our existing Power Management IP; and
- the gain on the transfer of design centre businesses.

Share-based compensation and related expenses

We exclude the share-based compensation expense recognised in relation to options and other awards granted under the Company's share-based compensation plans because the awards are equity-settled and their effect on shareholders' returns is already reflected in diluted earnings per share measures. In 2019, we also excluded discrete compensation payments to certain US persons following the modification of options awarded to them. We additionally exclude the effect on profit or loss of changes in the accrual for payroll taxes payable on the exercise or vesting of such awards because the accrual fluctuates with the Company's share price and the effect on profit or loss is therefore not necessarily indicative of our trading performance.

Business combinations

We exclude those effects of applying the acquisition method of accounting under IFRS that we consider are not indicative of the Group's trading performance, including the accounting for transaction costs; the fair value adjustment to inventories of acquired businesses; the recognition of certain elements of the purchase price as compensation expense; and the recognition of remeasurements of contingent consideration in profit or loss.

During the periods under review, we excluded from our underlying results the following items in relation to the accounting for business combinations:

- acquisition-related costs;
- the recognition in cost of sales of the consumption of the fair value uplift to inventory held by the acquired businesses at the acquisition date;
- the element of deferred amounts payable for Silego that is recognised as compensation expense;
- credits recognised on the forfeiture of deferred consideration payable for Silego;
- the effect of changes in estimates of contingent consideration; and
- the interest expense recognised on the unwinding of the discount on liabilities for contingent consideration.

We also exclude from our underlying results the amortisation of identifiable intangible assets that are recognised in business combinations in order that the performance of those businesses that we have acquired may be compared fairly with those businesses that we have developed on an organic basis.

Integration costs

We exclude the costs of integrating acquired businesses because we consider that they hinder the assessment of the financial performance of those businesses. In 2019, we excluded integration costs incurred in relation to FCI and Creative Chips. In 2018 and 2017, we excluded integration costs incurred in relation to Silego.

Financial performance measures continued

Underlying measures of performance continued

Corporate transaction costs
We exclude significant transaction costs and other discrete items recognised in relation to corporate transactions other than business combinations. In 2019 and 2018, we excluded transaction costs incurred in relation to the licensing and asset transfer agreement with Apple. In 2018, we also excluded the costs incurred in relation to the acquisition discussions that we held with Synaptics Incorporated.

Strategic investments
We exclude the effect on profit or loss of the measurement at fair value of our strategic investments (comprising the shares and the warrants that we hold in Energous, the call option that we held over the shares that we did not own in Dyna Image prior to its expiry in June 2018 and, until they were sold in May 2017, the shares that we held in Arctic Sand). We hold such instruments for strategic reasons linked to our commercial partnerships with the relevant companies. Since we do not hold these instruments for trading purposes, we exclude fluctuations in their fair values when assessing our trading performance.

In December 2017, we recognised impairment losses totalling US$4,327 in relation to the intangible assets and property, plant and equipment held by Dyna Image and ceased to account for it as a subsidiary, recognising a loss of US$5,597 on deconsolidation. Since these were significant discrete items, we excluded them from our underlying results.

Effective interest on financial liabilities
We adjusted profit or loss to exclude the non-cash element of the interest expense recognised in relation to a patent licensing agreement that was accounted for as a hire purchase contract prior to its expiry during 2018. We considered that the cash interest payments were more indicative of the effect of this arrangement on shareholders' returns.

Income tax effect of underlying adjustments
We calculate the income tax effect of underlying adjustments by considering the specific tax treatment of each item and by applying the relevant statutory tax rate to those items that are taxable or deductible for tax purposes.

US tax reform
In December 2017, the US President signed into law significant reforms of the US tax system, including a reduction of the Federal corporate income tax rate from 35% to 21%. Our income tax expense for 2017 reflected a non-cash deferred tax credit of US$6,658 resulting from the remeasurement of US deferred tax balances at the lower tax rate. Since this was a discrete benefit, we excluded it from our underlying results.

Reconciliation of underlying measures to equivalent IFRS measures

Reconciliations of the underlying measures of performance to the equivalent IFRS measures for the years ended 31 December 2019, 2018 and 2017 are presented in the following tables:

Year ended 31 December 2019

US$000 unless stated otherwise	IFRS basis	Licence and asset transfers to Apple	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Corporate transaction costs	Strategic investments	Underlying basis
Revenue	1,566,239	(145,750)	–	–	–	–	–	1,420,489
Cost of sales	(717,703)	–	2,213	1,749	–	–	–	(713,741)
Gross profit	**848,536**	**(145,750)**	**2,213**	**1,749**	**–**	**–**	**–**	**706,748**
Gross margin %	***54.2%***							***49.8%***
SG&A expenses	(194,538)	–	26,254	20,670	2,086	16,064	–	(129,464)
R&D expenses	(313,550)	–	26,189	10,571	348	–	–	(276,442)
Other operating income	39,405	(15,898)	–	–	–	–	–	23,507
Operating profit	**379,853**	**(161,648)**	**54,656**	**32,990**	**2,434**	**16,064**	**–**	**324,349**
Operating margin %	***24.3%***							***22.8%***
Net finance income	5,185	–	–	464	–	–	(150)	5,499
Profit before income taxes	**385,038**	**(161,648)**	**54,656**	**33,454**	**2,434**	**16,064**	**(150)**	**329,848**
Income tax expense	(83,586)	32,449	(7,937)	(4,998)	(175)	(1,213)	29	(65,431)
Net income	**301,452**	**(129,199)**	**46,719**	**28,456**	**2,259**	**14,851**	**(121)**	**264,417**
EBITDA	**n/a**							**390,081**
EBITDA margin %	***n/a***							***27.5%***

Reconciliation of underlying measures to equivalent IFRS measures continued

Year ended 31 December 2018

	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Corporate transaction costs	Effective interest	Strategic investments	Underlying basis
Revenue	1,442,138	–	–	–	–	–	–	1,442,138
Cost of sales	(751,070)	1,791	3,129	13	–	–	–	(746,137)
Gross profit	691,068	1,791	3,129	13	–	–	–	696,001
Gross margin %	*47.9%*							*48.3%*
SG&A expenses	(168,228)	17,163	14,757	2,524	11,346	–	–	(122,438)
R&D expenses	(326,309)	22,699	9,148	228	–	–	–	(294,234)
Other operating income	3,176	–	(877)	–	–	–	–	2,299
Operating profit	199,707	41,653	26,157	2,765	11,346	–	–	281,628
Operating margin %	*13.8%*							*19.5%*
Net finance (expense)/income	(3,514)	–	2,220	–	–	50	9,269	8,025
Profit before income taxes	196,193	41,653	28,377	2,765	11,346	50	9,269	289,653
Income tax expense	(55,281)	(2,108)	(3,448)	(555)	(1,024)	(9)	(746)	(63,171)
Profit after income taxes	140,912	39,545	24,929	2,210	10,322	41	8,523	226,482
Share of loss of associate	(1,113)	–	–	–	–	–	–	(1,113)
Net income	139,799	39,545	24,929	2,210	10,322	41	8,523	225,369
EBITDA	n/a							339,584
EBITDA margin %	*n/a*							*23.5%*

Year ended 31 December 2017

	IFRS basis	Share-based compensation and related expenses	Accounting for business combinations	Integration costs	Effective interest	Strategic investments	US tax reform	Underlying basis
Revenue	1,352,841	–	–	–	–	–	–	1,352,841
Cost of sales	(707,971)	1,219	2,306	–	–	–	–	(704,446)
Gross profit	644,870	1,219	2,306	–	–	–	–	648,395
Gross margin %	*47.7%*							*47.9%*
SG&A expenses	(145,262)	16,285	14,358	1,121	–	–	–	(113,498)
R&D expenses	(303,013)	17,994	8,050	1,184	–	–	–	(275,785)
Other operating (expense)/ income	(9,578)	–	–	–	–	9,924	–	346
Operating profit	187,017	35,498	24,714	2,305	–	9,924	–	259,458
Operating margin %	*13.8%*							*19.2%*
Net finance income	7,786	–	436	–	289	(1,398)	–	7,113
Profit before income taxes	194,803	35,498	25,150	2,305	289	8,526	–	266,571
Income tax expense	(25,369)	(3,476)	(4,187)	(701)	(56)	1,889	(6,658)	(38,558)
Net income	169,434	32,022	20,963	1,604	233	10,415	(6,658)	228,013
EBITDA	n/a							315,773
EBITDA margin %	*n/a*							*23.3%*

Financial performance measures continued

Accounting for business combinations

We excluded from the underlying measures of performance the following specific items arising from business combinations accounting under IFRS:

US$000	2019	2018	2017
Acquisition-related costs	**4,040**	–	4,539
Amortisation of acquired intangible assets	**26,112**	22,629	16,461
Consumption of the fair value uplift of acquired inventory	**1,750**	3,129	2,305
Consideration accounted for as compensation expense	**1,204**	1,481	1,409
Forfeiture of deferred consideration	**(116)**	(204)	–
Remeasurement of contingent consideration	**–**	(878)	–
Increase in operating profit	**32,990**	26,157	24,714
Unwinding of discount on contingent consideration	**464**	2,220	436
Increase in profit before income taxes	**33,454**	28,377	25,150
Income tax credit	**(4,998)**	(3,448)	(4,187)
Increase in net income	**28,456**	24,929	20,963

Explanation of financial performance measures

Change in revenue

We monitor the change in revenue from one period to another and the trend in revenue over time because they are important measures of the growth in our business. During each period, the change in revenue was as follows:

	2019	2018	2017
IFRS measures			
Revenue in the period	**1,566,239**	1,442,138	1,352,841
Revenue in the comparative period	**1,442,138**	1,352,841	1,197,611
Increase in revenue	**8.6%**	6.6%	13.0%
Underlying measures			
Revenue in the period	**1,420,489**	1,442,138	1,352,841
Revenue in the comparative period	**1,442,138**	1,352,841	1,197,611
(Decrease)/increase in revenue	**(1.5)%**	6.6%	13.0%

Gross margin

Gross margin is gross profit expressed as a percentage of revenue. We monitor gross margin because we believe it provides a measure of the value that we add to our products. Gross margin determined in accordance with IFRS and on an underlying basis was as follows:

	2019	2018	2017
IFRS measures			
Revenue	**1,566,239**	1,442,138	1,352,841
Gross profit	**848,536**	691,068	644,870
Gross margin	**54.2%**	47.9%	47.7%
Underlying measures			
Revenue	**1,420,489**	1,442,138	1,352,841
Gross profit	**706,748**	696,001	648,395
Gross margin	**49.8%**	48.3%	47.9%

Explanation of financial performance measures continued

Operating expenses as a percentage of revenue

We monitor operating expenses as a percentage of revenue because we believe it provides a measure of our effort in innovation and the efficiency of our operating structure. Operating expenses comprise selling, general and administrative ("SG&A") expenses and research and development ("R&D") expenses. Operating expenses as a percentage of revenue determined in accordance with IFRS and on an underlying basis was as follows:

	2019	2018	2017
IFRS measures			
Revenue	**1,566,239**	1,442,138	1,352,841
Operating expenses	**(508,088)**	(494,537)	(448,275)
Operating expenses as a percentage of revenue	**32.4%**	34.3%	33.1%
Underlying measures			
Revenue	**1,420,489**	1,442,138	1,352,841
Operating expenses	**(405,906)**	(416,672)	(389,283)
Operating expenses as a percentage of revenue	**28.6%**	28.9%	28.8%

Change in operating profit

We monitor the change in operating profit from one period to another and the trend in operating profit over time because we believe they are important measures of the performance of our operations. Operating profit growth determined in accordance with IFRS and on an underlying basis was as follows:

	2019	2018	2017
IFRS measures			
Operating profit in the period	**379,853**	199,707	187,017
Operating profit in the comparative period	**199,707**	187,017	309,807
Increase/(decrease) in operating profit	**90.2%**	6.8%	(39.6)%
Underlying measures			
Operating profit in the period	**324,349**	281,628	259,458
Operating profit in the comparative period	**281,628**	259,458	221,010
Increase in operating profit	**15.2%**	8.5%	17.4%

Operating margin

Operating margin is operating profit or loss expressed as a percentage of revenue. We monitor operating margin because we believe it provides a measure of the overall profitability of our operations. Operating margin determined in accordance with IFRS and on an underlying basis was as follows:

	2019	2018	2017
IFRS measures			
Revenue	**1,566,239**	1,442,138	1,352,841
Operating profit	**379,853**	199,707	187,017
Operating profit margin	**24.3%**	13.8%	13.8%
Underlying measures			
Revenue	**1,420,489**	1,442,138	1,352,841
Operating profit	**324,349**	281,628	259,458
Operating profit margin	**22.8%**	19.5%	19.2%

Financial performance measures continued

Explanation of financial performance measures continued

Underlying EBITDA and EBITDA margin

Underlying EBITDA is a non-IFRS measure that we define as underlying net income before net finance expense, income tax expense and depreciation and amortisation expenses. Underlying EBITDA margin is a non-IFRS measure that represents underlying EBITDA expressed as a percentage of revenue. We present underlying EBITDA and underlying EBITDA margin because we believe these measures are useful to investors and other users of our financial information in evaluating the sensitivity of our underlying trading performance to changes in variable operating expenses. Underlying EBITDA may be reconciled to net income determined in accordance with IFRS as follows:

	2019	2018	2017
Net income	**301,452**	139,799	169,434
Net finance (income)/expense	**(5,185)**	3,514	(7,786)
Income tax expense	**83,586**	55,281	25,369
Depreciation expense	**39,611**	31,455	30,807
Amortisation expense	**52,233**	49,130	41,969
EBITDA	**471,697**	279,179	259,793
Licence and asset transfers to Apple	**(161,648)**	–	–
Share-based compensation and related expenses	**54,656**	41,653	35,498
Acquisition-related costs	**4,040**	–	4,539
Consumption of the fair value uplift of acquired inventory	**1,750**	3,129	2,305
Consideration accounted for as compensation expense	**1,204**	1,481	1,409
Forfeiture of deferred consideration	**(116)**	(204)	–
Remeasurement of contingent consideration	**–**	(878)	–
Corporate transaction costs	**16,064**	11,346	–
Integration costs	**2,434**	2,765	2,305
Share of loss of associate	**–**	1,113	–
Underlying EBITDA	**390,081**	339,584	315,773

Underlying EBITDA margin was as follows:

	2019	2018	2017
Underlying measures			
Revenue	**1,420,489**	1,442,138	1,352,841
EBITDA	**390,081**	339,584	315,773
EBITDA margin	**27.5%**	23.5%	23.3%

Explanation of financial performance measures continued

Earnings per share

We monitor basic and diluted earnings per share ("EPS") on an IFRS basis and on an underlying basis. We believe that underlying EPS measures are useful to investors in assessing our ability to generate earnings and provide a basis for assessing the value of the Company's shares (for example, by way of price earnings multiples). Earnings for calculating IFRS and underlying EPS measures were calculated as follows:

	2019	2018	2017
IFRS measures			
Net income	**301,452**	139,799	169,434
Loss attributable to non-controlling interests	**–**	–	4,482
Earnings for calculating basic and diluted EPS	**301,452**	139,799	173,916
Underlying measures			
Net income	**264,417**	225,369	228,013
Loss attributable to non-controlling interests	**–**	–	1,425
Earnings for calculating basic and diluted EPS	**264,417**	225,369	229,438

Underlying and diluted EPS measures are calculated using the weighted average number of shares that are used in calculating the equivalent measures under IFRS as presented in note 9 to the consolidated financial information.

Basic and diluted EPS on an IFRS basis and on an underlying basis were as follows:

US$	2019	2018	2017
IFRS earnings per share			
Basic	**4.19**	1.89	2.34
Diluted	**3.96**	1.80	2.21
Underlying earnings per share			
Basic	**3.68**	3.05	3.08
Diluted	**3.47**	2.90	2.92

Free cash flow

Free cash flow is a non-IFRS measure that represents cash flow from operating activities, less capital expenditure. We believe that free cash flow is useful to investors because it provides a measure of the cash generated by our business that is available for expansion, to make strategic investments in, or acquire, other businesses, to repay borrowings and to fund distributions to shareholders.

Free cash flow was calculated as follows:

	2019	2018	2017
Cash flow from operating activities	**496,465**	288,649	284,722
Purchase of property, plant and equipment	**(12,129)**	(26,145)	(47,938)
Purchase of intangible assets	**(8,437)**	(6,197)	(6,196)
Payments for capitalised development costs	**(15,384)**	(24,771)	(20,988)
Capital element of lease payments	**(11,086)**	(1,651)	(4,283)
Free cash flow	**449,429**	229,885	205,317

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