

## Energy management excellence

Notice of Annual General Meeting

5 May 2010



# Making it happen!

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the action you should take, you should consult immediately your independent financial adviser. If you have sold or transferred all your shares in Dialog Semiconductor Plc, please forward this document and the accompanying documents to the purchaser or transferee or bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



## **Dialog Semiconductor Plc**

### **Notice of Annual General Meeting**

NOTICE IS HEREBY GIVEN that the Annual General Meeting (**AGM**) of Dialog Semiconductor Plc (the **Company**) will be held at Reynolds Porter Chamberlain LLP, Tower Bridge House, St Katharine's Way, London E1W 1AA on May 5, 2010 at 9.00 a.m. (BST) for the purpose of transacting the following business:

To consider, and if thought fit, to pass the following Resolutions which will be proposed as **ORDINARY RESOLUTIONS**:

#### **RESOLUTION 1 - Receipt of the Company's report and accounts**

To receive the Company's audited accounts for the year ended 31 December 2009 together with the Directors' report, the Directors' remuneration report and the Auditors' report on those accounts and the auditable part of the Directors' remuneration report for the year ended 31 December 2009.

#### **RESOLUTION 2 - Directors' Remuneration Report**

THAT the Directors' remuneration report and the remuneration policy set out in the audited accounts of the Company for the year ended 31 December 2009 be and hereby are approved.

#### **RESOLUTION 3 - Re-appointment of Ernst & Young LLP as Auditors of the Company**

THAT Ernst & Young LLP be and are hereby re-appointed Auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.

#### **RESOLUTION 4 - Authority to agree the Auditors' remuneration**

THAT the Directors be and hereby are authorised to agree the remuneration of the Auditors.

#### **RESOLUTION 5 - Re-election of Christopher Burke as Director of the Company**

THAT Christopher Burke retiring pursuant to Article 82 of the Company's Articles of Association be and is hereby re-elected a Director of the Company.

#### **RESOLUTION 6 - Re-election of John McMonigall as Director of the Company**

THAT John McMonigall retiring pursuant to Article 82 of the Company's Articles of Association be and is hereby re-elected a Director of the Company.

#### **RESOLUTION 7 - Re-election of Peter Tan as Director of the Company**

THAT Peter Tan retiring pursuant to Article 82 of the Company's Articles of Association be and is hereby re-elected a Director of the Company.

#### **RESOLUTION 8 - Section 551 Companies Act 2006 authority to allot shares**

THAT:

- (a) the Directors be and they are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the **2006 Act**) to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £2,186,965 provided that this authority shall (unless previously renewed, varied or revoked) expire at the conclusion of the Company's next Annual General Meeting save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or to convert any securities into shares to be granted after such expiry and the Directors may allot shares and grant rights to subscribe for or to convert any securities into shares in pursuance of such offer or agreement as if the authority conferred by this Resolution had not expired;
- (b) that, subject to sub-paragraph (c), all existing authorities given to the Directors pursuant to section 80 of the Companies Act 1985 (the **1985 Act**) be revoked by this Resolution; and
- (c) that sub-paragraph (b) shall be without prejudice to the continuing authority of the Directors to allot relevant securities (as that term is defined in the 1985 Act) in the Company or to grant rights to subscribe for or convert any securities into shares in the Company pursuant to an offer or agreement made by the Company before the expiry of the authority pursuant to which such offer or agreement was made.

#### **RESOLUTION 9 - Additional authority to allot shares in connection with a rights issue**

THAT, in addition to Resolution 8, the Directors be and they are hereby generally and unconditionally authorised pursuant to section 551 of the 2006 Act to exercise all the powers of the Company to allot equity securities (within the meaning of section 560 of the 2006 Act) in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them up to an aggregate nominal amount (when added to any allotments made under Resolution 8) of £4,355,929 provided that this authority shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

#### **RESOLUTION 10 - Continuance of Non-Executive Directors 2006 Share Option Scheme**

THAT the Dialog Semiconductor Plc Non-Executive Directors 2006 Share Option Scheme (the **Non-Executive Directors Share Option Scheme**), the principal terms of which are summarised in the explanatory notes to this Notice of Annual General Meeting, be and hereby is approved to continue until the Company's 2012 Annual General Meeting.

#### **RESOLUTION 11 – Approval of the Dialog Semiconductor Plc Executive Incentive Plan 2010**

THAT the Dialog Semiconductor Plc Executive Incentive Plan 2010 (**EIP**), the principal terms of which are summarised in the explanatory notes to this Notice of Annual General Meeting, be and is hereby approved and that the Directors be and are hereby authorised to do all acts and things which they may consider necessary or desirable to carry the EIP into effect.

To consider, and if thought fit, to pass the following Resolutions which will be proposed as SPECIAL RESOLUTIONS:

#### **RESOLUTION 12 - Disapplication of pre-emption rights**

THAT the Directors be and they are hereby empowered pursuant to section 570 of the 2006 Act to allot equity securities (within the meaning of section 560 of the 2006 Act) for cash pursuant to the authority conferred by Resolutions 8 and 9 (if applicable) as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- (a) in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders (but in the case of any authority granted under Resolution 9, by way of rights issue only) where the equity securities attributable to the interests of all ordinary shareholders are proportionate (as nearly as practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal, regulatory or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange;
- (b) in connection with the allotment of equity securities pursuant to the Non-Executive Directors Share Option Scheme up to an aggregate nominal amount of £18,000; and
- (c) otherwise than pursuant to sub-paragraphs (a) or (b) above up to an aggregate nominal amount of £325,345,

and shall (unless previously renewed, varied or revoked) expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

#### **RESOLUTION 13 - Reduction of share premium account**

THAT the Company's share premium account be reduced by \$85,000,000.

#### **RESOLUTION 14 - Adoption of New Articles of Association**

THAT:

- (a) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 of the 2006 Act, are to be treated as provisions of the Company's Articles of Association; and
- (b) the Articles of Association of the Company produced to the AGM and signed by the Chairman of the AGM for the purposes of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the AGM.

#### **RESOLUTION 15 - Notice period for general meetings**

THAT a general meeting of the Company other than an AGM may be called on not less than 14 clear days' notice.

By order of the Board

Tim Anderson  
Company Secretary  
Dialog Semiconductor Plc  
Tower Bridge House  
St Katharine's Way  
London E1W 1AA

April 12 2010

Registered in England and Wales No. 3505161



## Notes to the Notice of AGM

### 1. Documents enclosed

This Notice is being sent to all members and those persons whose interests in the shares in the Company are registered as being represented by one or more global share certificates deposited with Clearstream Banking AG (**Clearstream**) and traded electronically on the Frankfurt Stock Exchange (the **CI Holders** and together with the members, the **Shareholders**). A letter from the CEO of the Company, including details of how you may attend and vote at the AGM, is enclosed with this Notice.

### 2. Entitlement to attend and vote

Only those Shareholders entered in the register of members of the Company or the register of CI Holders (together, the **Registers of Members**) at 10.00 a.m. (CEST) on May 3, 2010 or, if this meeting is adjourned, in the appropriate Registers of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the AGM in respect of the number of shares or interests in shares registered in their name at that time.

### 3. Personal attendance

Shareholders wishing to attend the AGM in person, should request an Attendance Card by following the procedure described at section 1 in the letter enclosed with this Notice.

### 4. Proxies

Shareholders who are unable to attend the AGM may appoint one or more proxies (who need not be a Shareholder) to exercise all or any of their rights to attend and to speak and vote at the AGM, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by his appointor. A Shareholder may only appoint a proxy or proxies by following the procedure described at section 2 in the letter enclosed with this Notice.

### 5. Questions at the AGM

Under section 319A of the 2006 Act, any member attending the AGM has the right to ask questions. The Company must answer any such question relating to the business being dealt with at the meeting unless:

- answering the question would interfere unduly with the preparation for the AGM or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

### 6. Number of issued shares and total voting rights

In accordance with section 30b paragraph 1 sentence 1 of German Wertpapierhandelsgesetz and Disclosure and Transparency Rule 6.1.12 it is hereby noted that as at April 11, 2010 (being the last practicable date prior to the publication of this Notice), the Company's issued share capital comprised 65,068,930 ordinary shares carrying one vote each, and therefore the total voting rights in the Company as at April 11, 2010 is 65,068,930.

### 7. Nominated persons

Any person to whom this notice is sent who is a person nominated under section 146 of the 2006 Act to enjoy information rights (a **Nominated Person**) may have a right, under an agreement between him and the Shareholder by whom he was nominated, to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.

The statement of the rights of Shareholders in relation to the appointment of proxies in note 4 does not apply to Nominated Persons. The rights described in that note can only be exercised by Shareholders of the Company.

## **8. Corporate representatives**

Corporate Shareholders should note that, under section 323 of the 2006 Act, if a corporate Shareholder appoints multiple representatives who exercise their votes in different ways, those votes are treated as not having been exercised. Any corporate Shareholder who wishes (or who may wish) to appoint more than one corporate representative should contact Martina Zawadzki by email at [dialog@art-of-conference.de](mailto:dialog@art-of-conference.de) or by telephone on +49 (0) 711 4709-605.

## **9. Website giving information regarding the AGM**

A copy of this Notice, and the other information required by section 311A of the 2006 Act, can be found at <http://www.dialog-semiconductor.com>.

## **10. Website publication of audit concerns**

Pursuant to Chapter 5 of Part 16 of the 2006 Act (sections 527 to 531), where requested by a member or members meeting the qualification criteria set out at note 11 to this Notice, the Company must publish on its website, a statement setting out any matter that such members propose to raise at the meeting relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting. Where the Company is required to publish such a statement on its website:

- it may not require the members making the request to pay any expenses incurred by the Company in complying with the request;
- it must forward the statement to the Company's auditors no later than the time the statement is made available on the Company's website; and
- the statement may be dealt with as part of the business of the meeting.

The request:

- may be in hard copy form or by fax (see note 12 to this Notice);
- either set out the statement in full or, if supporting a statement sent by another member, clearly identify the statement which is being supported;
- must be authenticated by the person(s) making it; and
- be received by the Company at least one week before the AGM.

## **11. Qualification criteria**

In order to be able to exercise the members' right to require the Company to publish audit concerns (see note 10 to this Notice) the relevant request must be made by:

- a member or members having a right to vote at the AGM and holding at least 5% of total voting rights of the Company; or
- at least 100 members have a right to vote at the AGM and holding, on average, at least £100 of paid up share capital.

The Company wishes to extend these rights to the CI Holders, and all references in notes 10 to 12 to this Notice to a "**member**" or "**members**" should therefore be construed accordingly.

For information on voting rights, including the total number of voting rights, see note 6 to this Notice and the website referred to in note 9 to this Notice.

## **12. Submission of requests and authentication requirements**

Where a member or members wishes to request the Company to publish audit concerns (see note 10 to this Notice) such request must be made in accordance with one of the following ways:

- a hard copy request which is signed by you, states your full name and address and is sent to:

Dialog Semiconductor Plc  
c/o Art-of-Conference - Martina Zawadzki  
Böblinger Str. 26, 70178 Stuttgart, Germany; or

- a request which is signed by you, states your full name and address and is sent to fax number +49 (0) 711 4709-713 marked for the attention of Martina Zawadzki.

## **13. Communication**

Except as provided above, Shareholders who have general queries about the AGM should contact Martina Zawadzki by email at [dialog@art-of-conference.de](mailto:dialog@art-of-conference.de) (no other methods of communication will be accepted).

You may not use any electronic address provided either:

- in this Notice of Annual General Meeting; or
- any related documents,

to communicate with the Company for any purposes other than those expressly stated.

## **Explanatory Notes for Resolutions to be proposed at AGM**

### **Resolutions**

Resolutions 1 to 11 are proposed as ordinary resolutions. To pass these Resolutions more than 50% of the votes cast on each Resolution must be in favour. Resolutions 12 to 15 are proposed as special resolutions. To pass a special resolution not less than 75% of the votes cast on the Resolution must be in favour.

### **Resolutions 1 and 2 - Receipt of report and accounts; approval of remuneration report**

The Company's audited accounts for the year ended 31 December 2009 together with the Directors' report, the Directors' remuneration report and the Auditors' report on those accounts and the auditable part of the remuneration report for the year ended 31 December 2009 are available on the Company's website <http://www.dialog-semiconductor.com>. Please note that the Directors do not propose to declare a dividend.

### **Resolutions 3 and 4 - Appointment and remuneration of Auditors**

Ernst & Young LLP are required by the 2006 Act to retire at the AGM and seek re-appointment. The 2006 Act also requires shareholders to determine the manner in which the Auditors are remunerated.

### **Resolutions 5, 6 and 7 - Re-election of Directors**

Pursuant to the Company's Articles one third of the Directors shall retire at each Annual General Meeting. Those retiring at the AGM are Christopher Burke, John McMonigall and Peter Tan. Christopher Burke, John McMonigall and Peter Tan are offering themselves for re-appointment in accordance with the Company's Articles.

### **Resolution 8 - Directors' authority to allot shares**

The purpose of Resolution 8 is to renew (in a form updated to reflect the 2006 Act) the Directors' authority to issue shares until the conclusion of the next AGM up to an aggregate nominal value of £2,186,965 equating to 21,869,643 shares. The nominal amount of relevant securities to which this authority will relate represents the aggregate of approximately one third of the issued share capital of the Company, together with a nominal amount of £18,000 equating to 180,000 shares being the maximum that could be granted to Non-Executive Directors pursuant to the Non-Executive Directors Share Option Scheme in any year.

### **Resolution 9 - Additional authority to allot shares in connection with a rights issue**

UK investor guidelines (the Association of British Insurers) make it acceptable to give authority to the Directors to issue up to a further third of the issued share capital (over and above the authority granted under Resolution 8) provided it is only applied on the basis of a rights issue. If any of the additional authority in Resolution 9 is used all the Directors of the Company wishing to remain in office shall stand for re-election at the next Annual General Meeting of the Company.

### **Resolution 10 - Continuance of Non-Executive Directors 2006 Share Option Scheme**

In 2006 the Board created, with shareholders' approval, the Non-Executive Directors Share Option Scheme. The aim of the Scheme is to link, at a prudent level, an element of the Board's compensation with value creation in the Company. At the 2008 Annual General Meeting shareholders approved the continuance of the Non-Executive Directors Share Option Scheme into 2010. Further approval is now sought to continue it until the Company's 2012 Annual General Meeting at which approval to continue it will again be sought.

Until this year, under the Scheme each Non-Executive Director received an initial grant of 50,000 options (the **Initial Grant**). Thereafter 20,000 options were granted annually to each Non-Executive Director on the date of the Company's Annual General Meeting or as soon as practicable thereafter (notwithstanding that this date normally falls within a close period) (the **Annual Grant**). To reflect the recent significant increase in the share price, the Scheme will be amended for 2010 and subsequent years such that the Initial Grant will be reduced to 20,000 shares and the Annual Grant to 10,000 shares.



A summary of the rules of the Non-Executive Directors Share Option Scheme is as follows:

- The Initial Grant of options vests in a linear manner, month on month, over 4 years. In previous years, the Annual Grant has vested in a linear manner, month on month, over 12 months. The Annual Grant for 2010 onwards will vest in a linear manner, month on month, over 24 months.
- The options will be priced at market price at the date of grant.
- The options will be exercisable for 7 years.
- Vested options will lapse, if not by then exercised, 6 months after a Director has left the Board. No further options shall vest following such Director leaving the Board.
- If there is a change of control of the Company and the requirement for a given Director to serve on the Board is terminated:
  - 50% of any non-vested options in respect of the Initial Grant shall accelerate to vesting; and
  - 100% of any non-vested options in respect of any Annual Grant shall accelerate to vesting.
- On exercise of options, any tax and/or national insurance payable by the option holder will be met by the relevant option holder.

#### **Resolution 11 – Approval of the Dialog Semiconductor Plc Executive Incentive Plan 2010**

The success of the Company has been built on the effort and contribution of the executive team and other key employees. In order to continue building on this success it is imperative that the Remuneration and Nomination Committee has a powerful tool with which to continue to retain and attract high quality talent in a highly competitive and internationally mobile marketplace.

The need for a new incentive and retention tool has been brought into focus with the current long-term incentive (approved by shareholders in 2007) drawing to a close in 2012. The Remuneration and Nomination Committee needs to ensure there is no retention gap and wishes to put a new share plan, the Dialog Semiconductor Plc Executive Incentive Plan (EIP), to shareholders for approval.

The purpose of this new incentive will be to:

- Continue to retain an exceptional executive team following the closing of the existing long-term incentive plan and the successful outcome from the operation of that plan.
- Ensure that key metrics (EBIT and Revenue) are focused on which will drive shareholder value and that such individuals receive an appropriate proportion of that value created for shareholders.
- Support a total remuneration structure which ensures that levels of reward are competitive for high calibre executives operating in the global semiconductor industry but with a clear link to performance.
- Support the objective of developing sustainable returns and value, at acceptable levels of risk, taking into account factors such as customer diversification.
- Engender a strong culture of equity ownership and long-term high performance thereby aligning the interests of executives with shareholders.

The Remuneration and Nomination Committee is mindful of the need to design a new incentive arrangement that is highly competitive and customary in all the jurisdictions in which it operates but which takes into account the differing views of governance best practice on the structure of executive remuneration in those countries. It believes that the design of the EIP strikes an appropriate balance between retaining and attracting exceptional individuals from the global talent pool and the selection of key terms and conditions that are considered to be at the forefront of governance and remuneration best practices in those jurisdictions.

The following table summarises the main terms and conditions of the proposed EIP.

Term	Description
Operation	<p>The Remuneration and Nomination Committee will supervise the operation of the EIP.</p> <p>The EIP will operate over a five year period from the date of approval by shareholders. The Remuneration and Nomination Committee may not grant awards under the EIP more than five years after its approval.</p>
Participation	<p>Any employee selected by the Remuneration and Nomination Committee is eligible to participate in the EIP. Non-Executive Directors are not eligible to participate.</p> <p>Under the EIP, up to 0.75% of the issued share capital at the date of grant will be made available for the Remuneration and Nomination Committee to grant to participants in the EIP on an annual basis. It is envisaged that these shares will be granted to approximately 10 – 15 key executives. A portion of the total number of shares which can be awarded each year would be reserved for grants to new recruits. However, there is no requirement for the Remuneration and Nomination Committee to allocate all available shares on an annual basis.</p>
Delivery Mechanism	<p>Participants selected by the Remuneration and Nomination Committee will be granted an option or conditional share award (an <b>EIP Award</b>) at an exercise price of 10 pence per share. A grant of an EIP Award in any year will give no entitlement to subsequent awards.</p>
Frequency of Grant	<p>Annual. EIP Awards will normally be granted to each participant within a 42 day period following the date of publication of the interim or annual results of the Company.</p> <p>It is intended that the first EIP Awards will be granted in 2011.</p>
Size of Award	<p>The size of award to each participant will be subject to the Remuneration and Nomination Committee's discretion.</p>

Performance Conditions	<p><b>Continuity of Employment Condition</b>  25% of the EIP Award will be banked in equal annual instalments (<math>\frac{1}{3}</math> of 25% each year) based on the achievement of a share price hurdle measured at the end of each year (<b>Continuity Award</b>). The hurdle is such that the Company's share price at each measurement point (being the anniversary of the date of grant) must be greater than the higher of the share price on the date of grant or previous measurement points. Where the share price hurdle has not been achieved at the end of the year, that proportion of the Continuity Award will lapse.</p> <p>At the end of the three year holding period, the Continuity Award will vest and become exercisable subject to continuity of employment. Individuals have six years with which to exercise vested options.</p> <p><b>Corporate Performance Conditions</b>  75% of any EIP Award will vest subject to the achievement of challenging performance conditions (<b>Performance Award</b>).</p> <p>The primary performance measure relates to EBIT and Revenue Growth targets. The vesting of 50% of the Performance Award would relate to EBIT growth with the other 50% relating to the revenue growth targets. The number of shares which vest under the primary performance measure would then be subject to a secondary performance measure (as set out below).</p> <p>The Company believes that these two measures are directly relevant to the Company's strategy at its current stage of development and that the executives should be rewarded on this basis and that focussing on these metrics are critical to driving shareholder value over the medium to long term.</p> <p>Targets will be set on an annual basis, rather than over the long-term, to ensure that they remain challenging and relevant. These targets would take into consideration budget and market expectations for EBIT and revenue growth for the relevant financial year on the following basis:</p> <p><b>Threshold</b> (e.g. an acceptable level of performance growth which must be attained for an award to begin to vest)</p> <p><b>Target</b> (e.g. the level of performance for achieving budgeted growth and which ensures that the business is online for achieving its long-term objectives)</p> <p><b>Exceptional</b> (e.g. the level of performance which is acknowledged by the Remuneration and Nomination Committee as exceptional)</p> <p>It should be noted that the annual EBIT and revenue growth targets cannot be negative.</p> <p>At the end of the three year performance period, the Remuneration and Nomination Committee will determine the level of vesting based on the actual level of growth achieved over the three year period relative to the compounding of the three yearly targets.</p> <p>Provided that the threshold level of growth has been achieved for both targets, at the end of the performance period, the level of vesting for both metrics will be as follows:</p> <table data-bbox="443 1917 1236 2049"> <tr> <th>Level of Corporate Performance</th><th>% of EIP Award vesting</th></tr> <tr> <td>Threshold*</td><td>20%</td></tr> <tr> <td>Target*</td><td>40%</td></tr> <tr> <td>Exceptional*</td><td>100%</td></tr> </table> <p>* Straight-line between points</p>	Level of Corporate Performance	% of EIP Award vesting	Threshold*	20%	Target*	40%	Exceptional*	100%
Level of Corporate Performance	% of EIP Award vesting								
Threshold*	20%								
Target*	40%								
Exceptional*	100%								

	<p>Where the threshold level of growth has not been achieved for either the EBIT or revenue target the Performance Award will lapse.</p> <p>Under the secondary performance measure the number of shares vesting at the end of the performance period as determined under the primary performance measure can be adjusted using a downward multiplier of up to 20% against a customer diversification target. For example, in measuring customer diversity this could be calibrated as the increase in the regional revenues in key strategic market as a percentage of total revenues.</p> <p>The level of vesting of the Performance Award at the end of the three year period will therefore be based on:</p> <p><b>Growth in Revenues (50%) + Growth in EBIT (50%) X - 20% Adjustment Factor</b></p> <p>The balance of any Performance Award which does not vest in accordance with the above performance conditions will lapse.</p> <p>The Remuneration and Nomination Committee will undertake to ensure that the level of stringency with regard to the attainment of the performance targets is maintained for each and every grant under the EIP. To give comfort to shareholders that there is integrity of process the Remuneration and Nomination Committee will provide full details of the annual targets in the Director's Remuneration Report published as part of the Annual Report each financial year.</p> <p>In order to transition from the termination of the existing LTIP due to terminate in 2012 to the release in 2014 of the first awards granted under the EIP, the Remuneration and Nomination Committee will test the performance conditions for the EBIT and Revenue on the second anniversary of the date of grant (2013) and determine the number of shares which would vest at this point if the performance period were to end. 25% of any shares which would vest can be exercised immediately. The actual number of shares which vest at the end of the three year performance period would be net of any shares which have vested early.</p>
Exercise of EIP Awards (in the form of nil-cost options)	<p>The Remuneration and Nomination Committee will determine the percentage level of EIP Award that can vest at the end of the relevant period. EIP Awards that have vested can be exercised until the sixth anniversary of the date of grant, at which point any unexercised EIP Awards will lapse.</p> <p>The exercise of an EIP Award will be conditional upon the participant paying any taxes dues as a result of the exercise.</p>
Cessation of Employment	<p>If a participant leaves employment before the end of the three year performance period unvested EIP Awards will normally lapse. If a participant ceases employment as a good leaver the proportion of an unvested EIP Award that vests is dependent on the satisfaction of the performance targets up to the date of cessation of employment.</p>
Change of Control	<p>On a change of control the performance period will end. The vesting of the EIP will be dependent upon the proportionate achievement of the relevant performance targets at that date.</p>
Dilution	<p>EIP Awards will be satisfied using newly issued or market purchased shares. However awards will remain within the Company's overall 15% dilution limit for employee share schemes agreed with shareholders.</p>

Adjustments	On a variation of the capital of the Company or significant acquisition, the number of shares subject to an EIP Award and/or the performance conditions may be adjusted in such manner as the Remuneration and Nomination Committee and advisors of the Company confirm to be fair and reasonable.
Amendments	<p>Amendments to the Rules of the EIP may be made at the discretion of the Remuneration and Nomination Committee. However the provisions governing eligibility requirements, limits and individual participation limits cannot be altered to the advantage of participants without prior shareholder approval, except for minor amendments to benefit the administration of the EIP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for the Company.</p> <p>However, where the Remuneration and Nomination Committee amends the EIP to bring about favourable tax treatment for participants there will be no additional costs to the Company and any loss in corporate tax deduction will be offset against a reduction in cash compensation and employers' national insurance.</p>
Allotment of Shares	Ordinary shares subscribed for will not rank for dividends payable by reference to a record date falling before the date on which the EIP Award option was exercised but will otherwise rank pari passu with existing ordinary shares.
Duration	The Remuneration and Nomination Committee may not grant EIP Awards more than five years after its by approval by shareholders.
General	EIP Awards and any other right granted pursuant to the EIP are non-pensionable.
Non-transferability of EIP Awards	EIP Awards are not transferable except in the case of a participant for whom a trustee is acting, in which case the trustee will be able to transfer the benefit to the participant.
Employee Benefit Trust	The Company intends to establish or utilise an existing discretionary employee benefit trust to be used in conjunction with the EIP. The employee benefit trust will be an employees' share scheme within the meaning of section 743 of the 2006 Act and, subject to acting on recommendations from a committee of the Board, will have full discretion with regard to the application of the trust fund. The Company will be able to fund the employee benefit trust to acquire shares in the market and/or to subscribe for shares in order to satisfy EIP Award granted under the EIP.
Rules available for inspection	Copies of the Rules of the EIP will be available for inspection at the registered office of the Company, during normal business hours on Monday to Friday each week (public holidays excepted) from the date of this Notice until the close of the meeting. The Directors reserve the right, up to the time of the General Meeting, to make such amendments and additions to the Rules and the operation of the EIP as they consider necessary or desirable, provided that such amendments and additions do not conflict in any material respect with the summary set out above.



## **Resolution 12 - Disapplication of pre-emption rights**

If Directors wish to issue shares they have to abide by the statutory pre-emption rights in the 2006 Act. This means that, subject to limited exceptions, Directors have to offer any shares they want to issue to existing shareholders first. Resolution 12 seeks to give the Directors authority to disapply the statutory pre-emption rights where (i) the share issue relates to a pre-emptive issue (in which case all holders of ordinary shares would be made an offer to participate anyway); (ii) where allotment is limited to the issue of equity securities having a maximum aggregate nominal value of £18,000, equating to 180,000 shares pursuant to the Non-Executive Directors Share Option Scheme; or (iii) where the allotment is limited to the issue of equity securities having a maximum aggregate nominal value of £325,345 (equating to 3,253,450 shares) which is equivalent to 5% of the Company's issued ordinary share capital of 65,068,930 shares.

The 180,000 shares, related to the Non-Executive Directors 2006 Share Option Scheme, equates to the maximum possible share grant in the event that the whole Board is replaced by 9 new directors who are granted share options under the Scheme.

## **Resolution 13 – Reduction of share premium account**

Under English law, a public company may only pay dividends or purchase its own shares out of distributable profits. A company can reduce its share capital, including its share premium account, and apply the reserve, arising on the reduction, in writing off an accumulated deficit on its profit and loss account provided that it obtains the approval of its shareholders in general meeting and the confirmation of the High Court of England and Wales (the **High Court**).

As at 31 December 2009, the Company's accumulated deficit on its profit and loss account was \$80,972,000 and its share premium account stood at \$283,733,000.

The Directors therefore propose that the Company reduces the total amount standing to the credit of the Company's share premium account by \$85,000,000, creating a realised profit of \$4,028,000 and leaving \$198,733,000 in the share premium account. The elimination of the accumulated deficit on the Company's profit and loss account will enable the Company to pay dividends out of profits generated and/or purchase its own shares when and in such amounts as the Directors recommend as appropriate and earlier than would be the case had the proposed reduction of the Company's share premium account not been effected. The Directors do not intend to declare a dividend or re-purchase the Company's shares in the foreseeable future but believe it prudent to have the facility.

The reduction of the share premium account is subject to the approval of the High Court. Prior to approving the proposed reduction of share premium account, the High Court will need to be satisfied that the interests of the Company's creditors are not prejudiced thereby. The Company will put into place such form of creditor protection as it may be advised is appropriate. The Company intends that an application will be made for the High Court to approve the reduction of the share premium account by \$85,000,000 promptly after the AGM provided that Resolution 13 has been passed. The High Court may decline to approve this reduction of the share premium account. However, the Board has taken advice and, on the basis of the position as it currently exists, does not believe there is any reason why the reduction of the share premium account, if approved by the passing of Resolution 13, should not be confirmed by the High Court.

## **Resolution 14 – Adoption of New Articles of Association**

The Board is seeking approval to adopt new Articles of Association (the **New Articles**) to reflect the implementation of The Companies (Shareholders' Rights) Regulations 2009 (the **Shareholders' Rights Regulations**) which came into effect on 3 August 2009, to reflect the remaining provisions of the 2006 Act which came into force on 1 October 2009, and to specify the means by which voting rights may be exercised by CI Holders.

An explanation of the main changes between the proposed New Articles and the current Articles of Association (the **Current Articles**) is set out in the Appendix to this Notice. Other changes, which are of minor, technical or clarifying nature and also some other minor changes which merely reflect changes made by the 2006 Act or the Shareholders' Rights Regulations, have not been noted in the Appendix. A marked-up copy of the New Articles showing all of the proposed changes to the Current Articles is available for inspection on the Company's website (<http://www.dialog-semiconductor.com>) and will be available at the Company's registered office during the AGM.

### **Resolution 15 - Notice period for general meetings**

Changes made to the 2006 Act by the Shareholders' Rights Regulations increase the notice period required for general meetings of the Company to 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days'.

Before the coming into force of the Shareholders' Rights Regulations on 3 August 2009, the Company was able to call general meetings other than an annual general meeting on 14 clear days' notice without obtaining such shareholder approval. In order to preserve this ability, Resolution 15 seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed (Annual General Meetings will continue to be held on at least 21 clear days' notice.)

Note that the changes to the 2006 Act mean that, in order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all Shareholders for that meeting.

## APPENDIX

### EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

#### 1. The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The 2006 Act significantly reduces the constitutional significance of a company's memorandum of association. Under the 2006 Act, the objects clause and all other provisions that are currently contained in a company's memorandum are deemed to be contained in a company's articles of association, but a company can remove these provisions from the articles of association by special resolution.

Furthermore, the 2006 Act states that, unless a company's articles of association provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause, together with all other provisions of its memorandum which, by virtue of the 2006 Act, are to be treated as forming part of the Company's articles of association as from 1 October 2009.

Resolution 14 confirms the removal of these provisions from the Company's articles of association. Among other things, the effect of Resolution 14 will be to remove the Company's objects clause so that, if passed, the Company would be operating under unrestricted objects. On the basis that the existing objects clause of the Company is very broad in its scope of permitted operations, having unrestricted objects will not result in a significant broadening of the permitted operations of the Company from the current position.

As the effect of Resolution 14 will also be to remove the statement currently in the Company's memorandum regarding limited liability, the New Articles contain an express statement regarding the limited liability of the shareholders.

#### 2. Authority to allot shares

For a number of years the Directors have sought the renewal (or grant) of their authority to allot shares by a resolution of the shareholders in general meeting. As this authority given in general meeting has superseded the authority contained in the Current Articles, and the Directors will continue to seek any variation, renewal or revocation of their authority to allot shares from the shareholders in general meeting, the power to allot shares in the Current Articles is considered unnecessary and has not been replicated in the New Articles.

#### 3. Authorised share capital and unissued shares

The 2006 Act abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the 2006 Act (see note 2 above), save in respect of employee share schemes.

#### 4. Redeemable shares

Under the 1985 Act, if a company wished to issue redeemable shares, it was required to include in its articles the terms and manner of redemption. The 2006 Act enables directors to determine such matters instead, provided they are so authorised in the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares.

**5. Authority to purchase own shares, consolidate and sub-divide shares and reduce share capital**

Under the 1985 Act a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves, as well as shareholder authority to undertake the relevant action. The Current Articles include these enabling provisions. Under the 2006 Act, a company only requires shareholder authority to do any of these things and it is no longer necessary for articles to contain enabling provisions. Accordingly, the relevant enabling provisions have been removed in the New Articles.

**6. Special business**

As the concept of special business no longer has any real meaning (and there is therefore no tangible benefit in retaining the distinction between ordinary and special business), the reference to it has been removed from the New Articles. In accordance with the 2006 Act, a notice of general meeting will, however, specify the general nature of the business to be transacted at that meeting.

**7. Remuneration of Non-Executive Directors**

The Current Articles limit the total sum which may be paid by way of Non-Executive Directors' fees to an aggregate amount of £250,000 per annum. This sum has not been reviewed in the last 10 years and is now considered insufficient. It is proposed that the aggregate cap on Non-Executives' fees should be increased to £450,000 per annum. The new aggregate limit is in line with the independent advice of consultants.

**8. Use of seals**

Under the 1985 Act, a company required authority in its articles to have an official seal for use abroad. Under the 2006 Act, such authority is no longer required. Accordingly, the relevant authorisation has been removed in the New Articles.

**9. Suspension of registration of share transfers**

The Current Articles permit the directors to suspend the registration of transfers. Under the 2006 Act, share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

**10. Vacation of office by directors**

The Current Articles specify the circumstances in which a director must vacate office. The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies produced by the Department for Business, Innovation and Skills, as well as to clarify and simplify the provisions with respect to bankruptcy of a director and compositions made with a director's creditors.

**11. Voting by proxies on a show of hands**

The Shareholders' Rights Regulations have amended the 2006 Act so that it now provides that each proxy appointed by a shareholder has one vote on a show of hands, unless the proxy is appointed by more than one shareholder, in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more shareholders to vote for the resolution and by one or more shareholders to vote against the resolution. The New Articles reflect these changes.

**12. Voting by corporate representatives**

The Shareholders' Rights Regulations have amended the 2006 Act in order to enable multiple representatives appointed by the same corporate shareholder to vote in different ways on a show of hands and a poll. The New Articles contain provisions which reflect these amendments.

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**13. Chairman's casting vote**

The New Articles remove the provision giving the chairman a casting vote in the event of an equality of votes, as this is no longer permitted under the 2006 Act.

**14. Notice of general meetings**

Prior to 3 August 2009 the Company was permitted under the 2006 Act to call a general meeting other than an Annual General Meeting on 14 clear days' notice. This is reflected in the Current Articles.

The Shareholders' Rights Regulations amended the 2006 Act to require a company to give 21 clear days' notice of general meetings, unless the company offers shareholders an electronic voting facility and a special resolution reducing the period of notice to not less than 14 days has been passed. The New Articles specify that general meetings of the Company, other than Annual General Meetings, may be convened on 14 clear days' notice and make the relevant provision subject to the provisions of the 2006 Act, to be consistent with the Shareholders' Rights Regulations. (A resolution to enable the Company to utilise this provision and call meetings on not less than 14 clear days' notice is proposed at Resolution 15.) Annual General Meetings must continue to be held on 21 clear days' notice.

**15. Adjournments for lack of quorum**

Under the 2006 Act as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least ten clear days' after the original meeting. The New Articles reflect this requirement.

**16. Voting record date**

Under the 2006 Act as amended by the Shareholders' Rights Regulations, the Company must determine the right of shareholders to vote at a general meeting by reference to the register not more than 48 hours before the time for the holding of the meeting, not taking account of days which are not working days in the UK. The New Articles reflect this requirement.

**17. Proxies to vote in accordance with instructions**

Under the 2006 Act as amended by the Shareholders' Rights Regulations, proxies are required to vote in accordance with instructions given by the shareholder by whom the proxy is appointed. The New Articles confirm that the Company is not required to confirm that a proxy has followed instructions and they also confirm that a failure to vote as instructed does not invalidate the proceedings on the resolution.

**18. Voting by CI Holders**

The Company's shares are represented by one or more global share certificates deposited with Clearstream, which (along with a nominee company) is the legal owner of the shares. Interests in the Company's shares (the **CI Interests**) are traded in electronic form on the Frankfurt Stock Exchange and, since November 2009, the shares have been included in Clearstream's system for registered shares, CASCADE-RS. The New Articles set out the rights of CI Holders, on the relevant date, to attend and vote at general meetings of the Company and entitlements to dividends corresponding to the CI Interests held by them.

**19. General**

The New Articles reflect the implementation of the final provisions of the 2006 Act (which came fully into force on 1 October 2009), the changes required as a result of the coming into force of the Shareholders' Rights Regulations on 3 August 2009 and specify the means by which CI Holders may exercise their rights to attend and vote at general meetings of the Company. Generally, the opportunity has also been taken to bring clearer language into the New Articles, particularly the provisions regarding proxies and the delivery and receipt of notices and other communications, and in some areas to conform the language of the New Articles with that used in the model articles for public companies provided by the Department for Business, Innovation and Skills.