![dialog SEMICONDUCTOR]

Dialog Semiconductor Plc
Sustainability report 2016

Always responsible
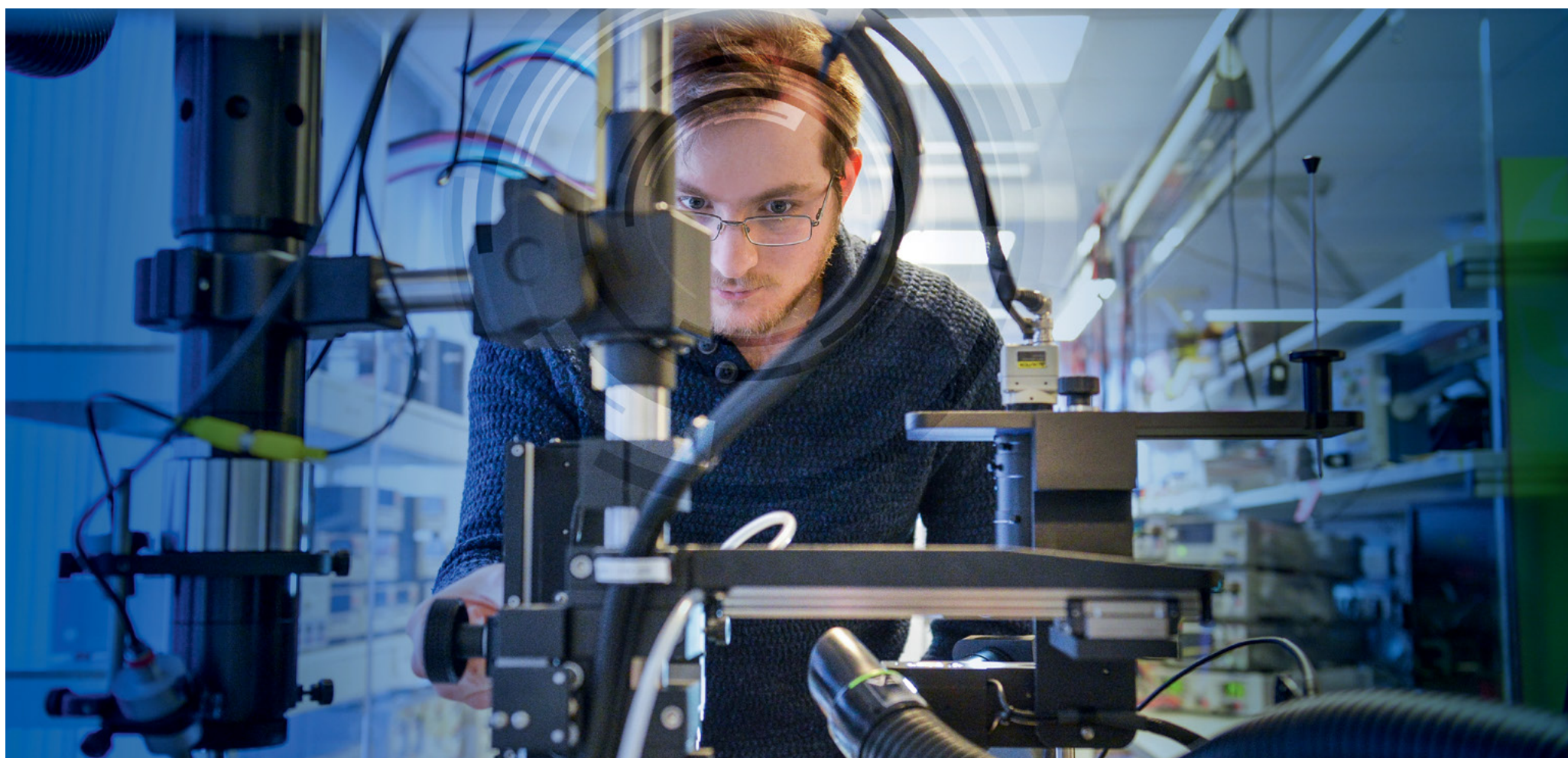
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Chief Executive Officer

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Our products and fabrication partners help us to create value for our customers.

You can read more about our sustainability performance at
www.dialog-semiconductor.com/sustainability

This is our fifth annual sustainability report, published on 7 April 2017 and covering the 2016 calendar year. The report is aligned with the ''Core'' requirements of the Global Reporting Initiative's G4 Sustainability Reporting Guidelines. As such, it places primary focus on those issues that are considered most material to Dialog and its stakeholders – as defined through a materiality assessment (**pages 8–13**). Fuller details, including a table of G4 Aspects and Indicators, can be found on our website. The content of this report is not subject to external assurance.

www.dialog-semiconductor.com (GRI G4 information)

We create value through energy-efficient ICs

Every day, we strive to bring the "Spirit of Dialog" to our customers, fabrication partners and the communities in which we operate.

"Our ambition is to power the smart connected future in a responsible and efficient manner."

Dr. Jalal Bagherli
Chief Executive Officer

The "Spirit of Dialog" captures the essence of our values, the way we work and how we collaborate with our customers, fabrication partners and communities to design great products. Together, we create value through innovative power management and energy-efficient integrated circuits ("ICs"), enhancing the usability, effectiveness and sustainability of more than a billion electronic consumer products during 2016. Dialog was one of two UK companies in the inaugural Clean200 list, in recognition of our contribution to a clean-energy economy.

Our ambition is to power the smart connected future in a responsible and efficient manner. In line with the "Spirit of Dialog" and as a supporter of the United Nations Global Compact ("UN Global Compact") – we aspire to apply sustainability management standards equal to our business ambitions.

In this, our fifth report, our people, products and relationships with our fabrication partners take centre stage. They represent our most important areas of focus in terms of business sustainability. Since 2012, we have doubled our workforce, invested almost US$1 billion in R&D and deployed a new manufacturing technology for our high-volume products in close collaboration with our main fabrication partner. In 2016 we have made further efforts to offer high levels of transparency and focus, mapping our relevant and material issues to our key areas of business sustainability.

The nature of our fabless model means we face relatively limited levels of exposure to sustainability risks within our own operations. Our ICs are manufactured by leading foundries in highly automated plants staffed by qualified technicians and engineers and subject to rigorous operational controls. Our fabrication partners apply mature management systems to address issues such as quality control, human resources and environmental performance.

Although fabless, we are ultimately responsible for the delivery of our products to our customers. In order to monitor and optimise the manufacturing process, we assign Dialog staff members to any foundry producing our ICs. This supports a continuous quality improvement process which seeks to minimise financial risks of potential problems in the manufacturing process. Additionally, it seeks to provide high levels of assurance to us and our customers in mitigating potential risks they are exposed to through our supply chain. In 2016 we implemented a new energy management system in all our German facilities and achieved ISO50001 certification.

On behalf of the Board and the Executive Team I would like to thank our teams in Quality and Environment Systems, Supply Chain and Value Management, and Manufacturing – as well as our sustainability champions and all other employees involved – for their efforts and dedication in support of our sustainability activities.
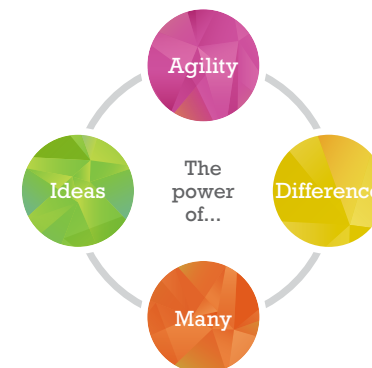
True to the "Spirit of Dialog", we will continue to think of new and better ways of working and enhancing the power brought by collaboration, diversity, and new ideas to our customers, fabrications partners and the communities in which we operate.

Dr. Jalal Bagherli
Chief Executive Officer

The "Spirit of Dialog" is the articulation of our values and culture. It has helped us to deliver success for our customers, employees and shareholders. For more information, see our 2016 Annual report.

Our performance over the year

In 2016, we implemented a new energy management system, distributed US$1.1 billion in economic value and rolled out a new version of the Dialog Code of Business Conduct

The purpose of this exercise was to identify and prioritise (with the help of our external partners) those sustainability issues impacting Dialog and its stakeholders. The results are being used to help define our sustainability strategy and to ensure the right allocation of resources for its effective implementation. Furthermore, the results have directly informed the contents of this report – which is aligned with the "Core" requirements of the Global Reporting Initiative's G4 Sustainability Reporting Guidelines.

As a result of the interim materiality assessment, the content of this report is now more closely tailored to the specific nature of our business model, activities and relationships.

Key highlights include:

→ Implementation of a new energy management system as a further module to our Quality and Environment System, achieving ISO50001 certification at our facilities in Germany in 2016;

→ Rolling out a new version of the Dialog Code of Business Conduct to help employees navigate an increasingly complex commercial and regulatory world;

→ Distribution of US$1.1 billion in economic value to our employees, suppliers, host governments, local communities and providers of capital. This represents 90% of our total turnover;

→ Our emerging talent programmes continued successfully in 2016, with 35 graduates and 51 interns entering the business;

→ Participation in a strategic partnership with University Technical College Swindon ("UTC Swindon") in the United Kingdom;

→ The screening and auditing of new and existing fabrication partners (i.e. those supplying more than 1% of our total volume of integrated circuits) against our Self-Audit Checklist. This covers labour and human rights, health and safety, the environment and business ethics, as well as the application of pre-qualification audits to all new fabrication partners; and

→ The auditing of all seven existing significant fabrication partners against our Supplier Audit Checklist and Corporate Social Responsibility Checklist – with one "major" negative audit findings identified. These processes did not identify any material risks relating to human rights, labour rights, health and safety or the environment.

In 2017 we aim to make further progress towards a well defined sustainability strategy and to carry out our second materiality assessment. This will help ensure that our sustainability strategy stays on course and we continue to integrate sustainability into our business and support Dialog's long-term value.

For further sustainability information, please contact:

jose.cano@diasemi.com
sustainability@diasemi.com

About Dialog

Powering the smart connected world with leading power management and energy-efficient ICs

Our passion for innovation and entrepreneurial spirit ensures we remain at the core of mobile computing and the Internet of Things ("IoT").

Through our collaborative R&D approach and responsible supply chain management, we develop and market highly-integrated power management and energy-efficient mixed signal integrated circuits.

Our technologies help extend battery life in portable devices and IoT applications, enhancing consumer experience and enabling our customers to differentiate and move fast to market.

Innovation is at the core of our business. Our most important assets include our highly-skilled engineers and intellectual property ("IP"), the strength of our customer relationships and close collaboration with responsible production partners. All these play an important role in the design of our products.

For more information on our business model, please see our 2016 Annual report.

Our power saving technologies deliver high levels of efficiency and enhance the consumer's user experience by extending battery life and enabling faster charging of their portable devices. Our highly integrated standard and custom mixed-signal ICs are optimised for mobile computing, wearables, LED solid state lighting ("SSL"), and Smart Home applications.

Our integrated design approach helps to reduce component size and numbers, meaning our customers can reduce materials and costs and maximise performance.

Our technology portfolio includes power management, audio, Bluetooth® low energy, Rapid Charge™ AC/DC converters and LED drivers.

For more information on our product range and forward focus, please see our 2016 Annual report.

Outputs

Power efficient product range	05
Reusable IP portfolio	19, 29
Trusted relationships with customers	18, 25
Environmental outputs	21, 29, 30
Economic value creation	29

Power management

Key outcomes
→ Power efficiency
→ Longer battery life
→ Lighter, thinner, smaller products

How we make our products sustainable

Dialog replaces multiple discrete power management components with one highly-integrated chip; these single chip solutions reduce energy usage and provide a simple yet flexible design at a lower cost.

Typical usage tests show our power management integrated circuits ("PMICs") can decrease the power consumption of a portable device by up to 30%.

Connectivity

→ Ultra-low power Bluetooth® low energy
→ 50% reduction in power consumption and size of classic Bluetooth® products
→ One of the most energy-efficient connectivity solutions available to consumers

Since the launch of our first Bluetooth® low energy Wearable-on-Chip™ we have enabled consumers to benefit from more energy-efficient wearable devices, like the Mi Band and Mi Band 2. The recently launched Mi Band 2 can deliver up to 20 days of battery power, one of the most energy-efficient solutions available to consumers today.

Smart connected devices such as wearables or Smart Home applications, are increasingly part of our daily lives. This type of device requires power efficient connectivity and sensing technologies to interact with the environment.

Power conversion

→ High efficiency AC/DC power converter
→ Reduction in number of components required
→ Zero standby power consumption for portable devices

Our AC/DC converters and LED drivers are designed to cost-effectively reduce energy consumption by maximising power conversion efficiency with digital technology that uses fewer components. This includes converters that use little or no power while on standby – a particularly important aspect when you consider that standby demand consumes more than 100 billion kilowatt-hours of electricity annually in the United States alone (enough to power more than nine million American households). Dialog was the first company to introduce a zero standby power AC/DC pulse width modulations ("PWM") controller.

Our SSL LED drivers support very high efficiency, long-lifespan SSL bulbs. It is estimated that the increased use of energy-efficient LED lighting of all kinds in the United States alone will save 300 terawatt hours by 2030 – equivalent to approximately 210 million tonnes of greenhouse gas emissions.

Our approach to

Sustainability
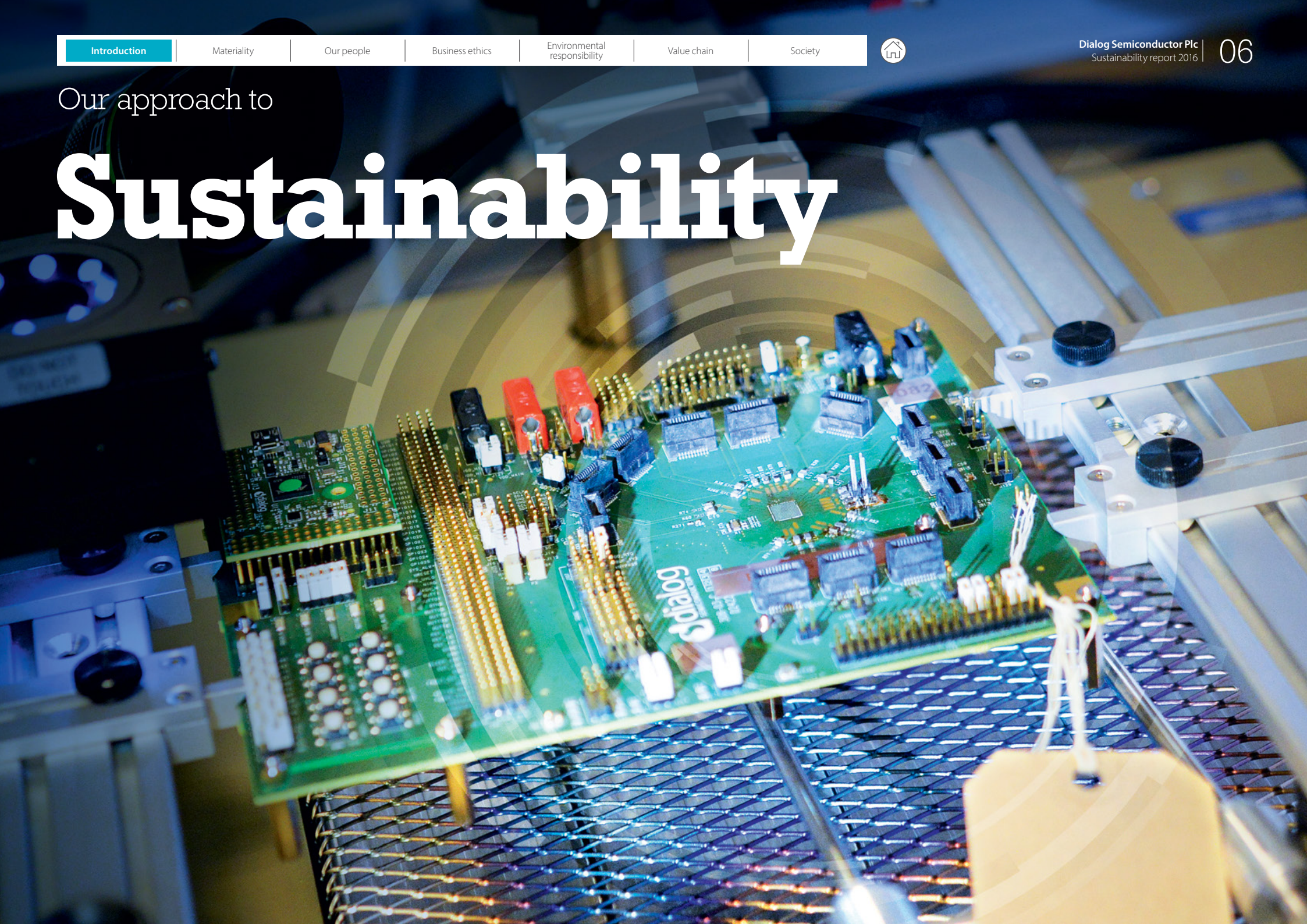
Our Vision and applicable external standards

Embedding sustainable and responsible practices into our business

As a participant in the UN Global Compact, we aim to do business in a way that respects human rights, supports responsible labour practices, protects the environment and maintains strong business ethics – while helping advance broader sustainable development.

It's not just the right thing to do. We believe this approach will ultimately support the long-term value of our business. This is due to the increasingly stringent expectations of our investors, our customers and the end-consumers of the products in which our technology is integrated.

As such, our Vision is to embed sustainable and responsible practices into the way we act internally and engage externally. We are guided in this respect by a range of corporate policies and codes, including our:

→ Corporate Code of Business Conduct ("Dialog Code of Business Conduct");
→ Quality, Environmental and Energy Policy;
→ Health and Safety Policy;
→ Intellectual Property Policy; and
→ Conflict Minerals Policy.

We extend related requirements to our major suppliers through the application of our Supplier Code of Conduct, which incorporates the requirements of the Electronics Industry Citizenship Coalition ("EICC") Code of Conduct.

In addition, we apply the following external standards:

→ Ten Principles of the UN Global Compact;
→ ISO14001 environmental management system standard, to which we are certified;
→ ISO50001 energy management system standard, to which we are certified in Germany; and
→ ISO9001 quality management system standard, to which we are certified.

We are also guided in our external sustainability reporting by the Global Reporting Initiative's G4 Sustainability Reporting Guidelines.

Sustainability management

In 2016 we made changes to our internal organisation, and devolved responsibility for sustainability management to the relevant departments. This was in order to integrate sustainability management into our business activities. Our Human Resources, Manufacturing, Business Development and Legal departments are now fully responsible for the management of their respective sustainability issues – and are subject to the oversight of the Executive Committee. We believe this is a better way to fully embed sustainability into the responsibilities – and actions – of managers throughout the Company. The Sustainability Committee oversees the overall coordination and is comprised of a representative of engineering, human resources and investor relations.

Where there are issues of sustainability management or performance of sufficient importance, each of the responsible departments will report these directly to the Board on an ad hoc basis. Further details regarding the management of specific issues within Dialog can be found in the following chapters.

Materiality
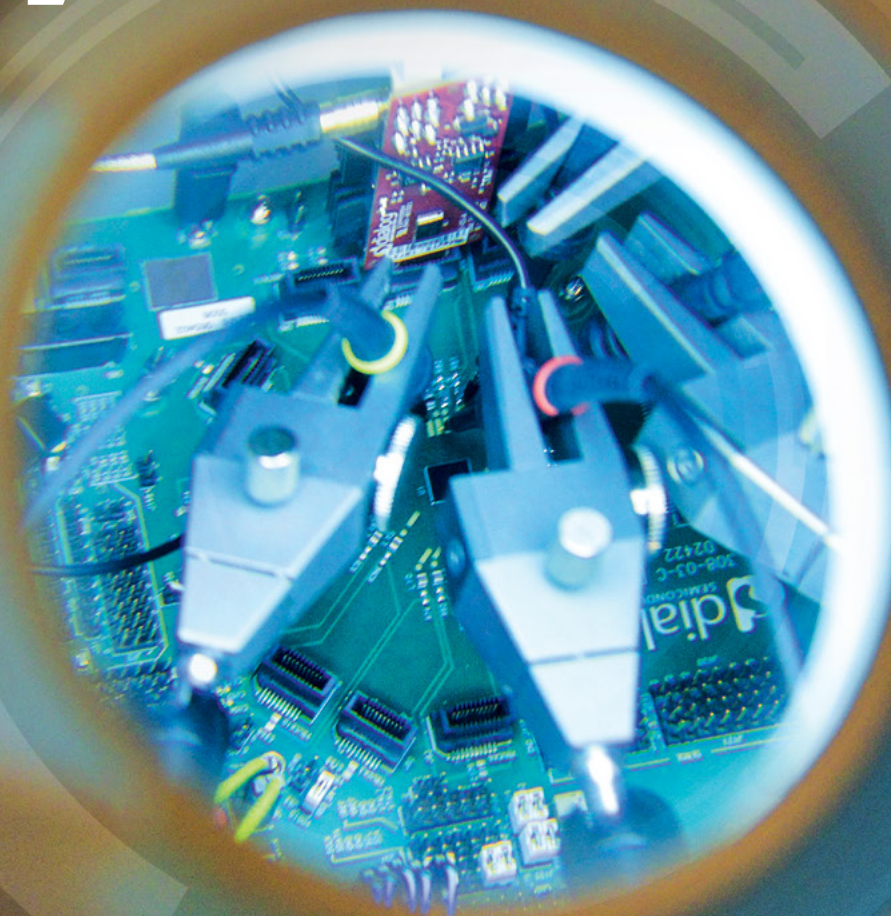
Materiality process

The outcome of the materiality process informs our sustainability strategy

Our approach is to undertake a full materiality assessment every other year. Following the full 2015 assessment, in 2016 we have carried out an interim review of our materiality matrix.

MATERIALITY ASSESSMENT PROCESS

1
Initial review of sustainability issues facing

→ Dialog;
→ Dialog's Shareholders; and
→ The semiconductor (and wider electronics) sector.

2
Definition of a "Dashboard" of relevant issues for Dialog and its stakeholders

3
In-depth analysis to prioritise each Dashboard issue based on Dialog's actual and potential impact on its stakeholders and vice versa

This included:

→ Analysis of Dialog's activities, locations and business partners;
→ Engagement with internal discipline experts;
→ A review of existing company management system components;
→ A review of Dialog's existing risk assessment and supply chain audit results; and
→ A review of external analysis and commentary on the semiconductor (and wider electronics) industry.

4
Gathering of feedback on the results from internal discipline experts and external stakeholders and the appropriate adjustment of scores

5
Mapping of the G4 Sustainability Reporting Guidelines "Aspects" against Dialog's most material issues

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Materiality process continued

We have worked with external advisers to identify and prioritise
our most material issues on the basis of:

→ The potential or actual impact of Dialog on its stakeholders; and

→ The potential or actual impact of stakeholders on the ability
of Dialog to achieve its business objectives.

Stakeholder engagement

Our ongoing engagement with internal and external
stakeholders helps us understand:

→ The impact of our activities and relationships on
others – and how we can best manage these impacts
in a responsible manner;

→ The potential risks and opportunities associated with
stakeholders – and how we can best manage these
in a proactive way; and

→ The ongoing effectiveness of our management actions.

In this context, we select stakeholders we engage with
on the basis of:

→ Their actual and potential impact on Dialog; and

→ Dialog's actual and potential impact on stakeholders –
both positive and negative.

In addition to informing our materiality process, stakeholder
engagement also helps inform our corporate risk
management process.

Risk management

Our Risk Management office identifies the key risks faced
by Dialog and reports these, along with the status of any
mitigating actions or controls, to the Management Team
and Audit Committee.

These risks are recorded in a central risk register, which is
reviewed by our Management Team and Audit Committee.
The risk register is used to plan our internal audit activity and
assess any potential impact on our strategy.

Key sustainability risks in 2016

Although the risk register cuts across all aspects of our business,
key risks relating to our sustainability performance are set
out below and remain in line with those reported in 2015.
Each of these has been integrated into our materiality process.
For more information on our principal risks, please

Strategic risks
Human capital: The need to support ongoing product
innovation and ensure Dialog has the appropriate leadership
capabilities for an expanding and increasingly complex
global operation.

Operational risks
Fabless business model: The need to ensure that our suppliers
perform (both operationally and otherwise) in a way that does
not undermine our customer relationships.

Legal and compliance risks
Legal compliance: The need to understand – and comply with
– applicable local laws and regulations as Dialog expands into
new jurisdictions.

Environmental compliance: The need to ensure that (in the
context of the fabless model) suppliers comply with applicable
environmental regulations.

Intellectual property: The need to legally and physically protect
highly innovative intellectual property held by Dialog.

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Materiality process continued

General stakeholder engagement activity in 2016

Stakeholder type	Form of engagement	Frequency of engagement	Examples of issues raised
Employees	→ Annual employee survey → Employee annual reviews → Regular communications on Company intranet → Global sustainability group representatives from each office	→ At least monthly → Quarterly group conference calls	→ Involvement in sustainability activities → Terms of employment → Working environment → Company strategy → Learning and development
Investors	→ Annual report → Investor roadshows → Ongoing investor relations engagement	→ At least daily	→ Industry dynamics → Technological trends → Company performance → Business strategy → Supply chain management → Governance (including sustainability)
Customers	→ Customer service feedback → Customer audit activity	→ Monthly to annual contact with key customers	→ Product design → Product quality and price → Delivery schedules
Community	→ Sustainability report → Community projects	→ Monthly to annual contact with local communities	→ Donations and in-kind support
Peers	→ Industry forums and work groups	→ Ad hoc	→ Industry dynamics → Technological trends
Government/ Regulators	→ Government consultations → Regulatory enquiries	→ Ad hoc	→ Environmental regulations → Product standards
Suppliers	→ Procurement contract tenders → Supply chain audits → On-site presence at fabrication plants → Performance reviews	→ At least daily with respect to major suppliers	→ Product quality and price → Delivery schedules → Management of identified issues in the 2015 process → Implementation of the 2016 auditing process

Materiality process continued

Our material areas have a clear link with our key business areas

Core sustainability issues

In 2016, we have given further clarity on the linkage between our material issues and our key business areas. For that purpose, all our sustainability issues have been mapped to one of our key business areas.

During 2016, corruption and bribery were replaced by employee development as one of our core sustainability issues. All our other core sustainability areas remained unchanged.

Issue	Change from 2015	Mapping to business issue
→ Economic performance and impact	=	People
→ Advancement of technology	=	Products
→ Intellectual property	=	Other
→ Compliance with customer standards	↑	Products
→ Governance	↑	Other
→ Product impacts	=	Products
→ Recruitment Professionals	↑	People
→ Labour rights and human rights (value chain)	=	Supply chain
→ Employee development	⊕	People
→ Health and safety (value chain)	↓	Supply chain
→ Conflict minerals	↓	Supply chain
→ Transparency (value chain)	⊝	Supply chain

- ⊕ New in core
- = No change
- ↑ Re-prioritisation of core issues
- ↓

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Materiality process continued

The outputs of our interim review are set out in the materiality matrix

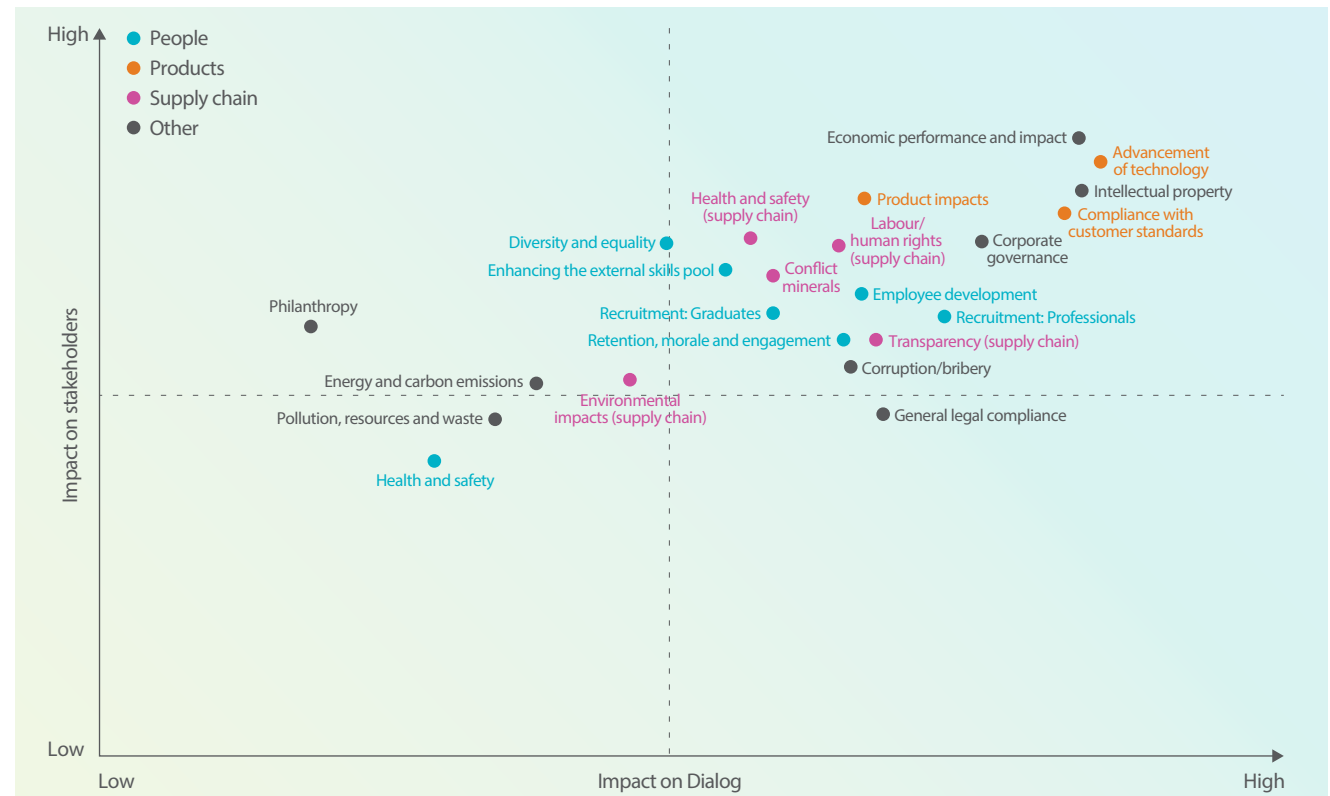## About the materiality matrix

The outputs from our materiality process are set out in the matrix. This includes our most material issues, as well as a range of additional relevant issues that we are also proactively managing. In 2016 we carried out an interim review of our materiality matrix and we aim to undertake a full materiality assessment in 2017.

The materiality matrix has been directly informed by:

→ Ongoing stakeholder engagement throughout 2015;

→ Targeted stakeholder engagement in 2015 and 2016 to directly support our materiality process; and

→ Our corporate risk management process.

In addition to the interim review carried out during 2016, we have tried to give further clarity on the linkage between our key sustainability issues and our business issues. For that purpose, we have mapped each of our sustainability areas to one of our key business issues: people, products and supply chain. For further details see our business model and Sustainability sections in the 2016 Annual report.

Materiality matrix

Materiality matrix — scatter plot. Legend: People (blue), Products (orange), Supply chain (pink), Other (grey). Y-axis: Impact on stakeholders (Low to High). X-axis: Impact on Dialog (Low to High).

Plotted items: Economic performance and impact; Advancement of technology; Intellectual property; Health and safety (supply chain); Product impacts; Compliance with customer standards; Labour/human rights (supply chain); Diversity and equality; Corporate governance; Enhancing the external skills pool; Conflict minerals; Employee development; Recruitment: Graduates; Recruitment: Professionals; Philanthropy; Retention, morale and engagement; Transparency (supply chain); Energy and carbon emissions; Corruption/bribery; Environmental impacts (supply chain); Pollution, resources and waste; General legal compliance; Health and safety.

Our people

Our people

Our people are the engine of our innovative business. The ability to recruit, retain and develop our high-quality employees is vital

Materiality

The nature of our business , which relies on the ongoing advancement of cutting-edge semiconductor technology, means we are highly reliant on our ability to recruit, retain, and develop high-quality electronic engineering professionals, as well as leading management talent. This is particularly the case given:

→ Strong, ongoing competition for skills within the sector;

→ An ageing electronics engineering demographic; and

→ Our strong commercial growth.

In this context, we are focused on maintaining a sustainable skills pipeline – ranging from the identification, development (and ultimate recruitment) of high-potential undergraduates through to the attraction of experienced experts. We take a holistic view towards both recruitment and retention that looks beyond the provision of highly competitive financial rewards. We also aim to deliver the kind of lifestyle, working environment, development opportunities and inclusive culture that allow our people to develop high-quality, long-term careers with us.

Management approach

We manage our people through:

→ The application of national-level human resource policies, tailored to reflect local legal requirements, business priorities and labour markets;

→ The application of our corporate Code of Business Conduct[1], which sets out our minimum, Group-wide requirements in relation to labour and human rights, health and safety and related issues;

→ Ongoing talent planning and skillset gap identification;

→ Proactive engagement at university level to identify and recruit emerging talent; and

→ Ongoing identification and engagement of high-value professionals and leaders.

Responsibility for our performance sits with the Senior Vice President Human Resources. He is supported in this role by dedicated local Human Resource teams.

1 See www.dialog-semiconductor.com/investor-relations/corporate-governance/code-of-business-conduct-and-ethics.

Recruitment and retention

The nature of our industry means those working in it are highly skilled, international and mobile. Our growing employment brand and development of a strong employment proposition continues to help us attract people to all our locations.

At the end of 2016 we employed 1,766 people (excluding temporary staff on fixed-term contracts and Dyna Image employees), a 6.4% increase on 2015. We now operate from 30 locations in 15 countries and our global workforce continues to increase in diversity. Dialog employees are drawn from 65 nationalities.

We continue to recruit globally for the most talented people, identify centres of engineering talent and build our business around them. In 2016, we expanded our existing design centres in Europe, Asia and North America.

Emerging talent programmes: Graduate and intern recruitment and development

Ensuring we maintain a robust and sustainable skills pipeline is essential for our current and future success. We run targeted intern and graduate recruitment and development programmes to ensure our emerging talent pipelines remain healthy.

Key components of our emerging talent recruitment process include:

→ Sponsorships and internships;

→ Direct graduate recruitment from our partner universities;

→ Careers fairs and university events; and

→ Focused graduate and intern assessment days.

In 2016, this helped us recruit a total of 30+ new graduates into our workforce – all of whom have been enrolled in our formal Dialog Graduate Development Programme. In addition, we hired over 50 interns in 2016, many of whom are likely to become our future graduate hires once their educational studies have been completed.

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Our people continued

Retention

As in previous years our staff turnover remains low compared to our industry. In 2016, staff turnover was 7.9% (2015: 6.9%). Although this represents a slight increase in total leavers, the proportion of voluntary leavers is largely unchanged. We continue to monitor our staff turnover rate, analyse which type of employees leave and also examine the reasons for leaving through exit interviews.

Development

As a research and development-led business that specialises in innovative technology, it is important that we stay at the cutting edge of our sector. We need to invest in our existing employees on an ongoing basis.

In particular, we need to provide employees with access to high-quality development opportunities. This not only builds their skills, expertise and knowledge, but also enhances the internal pool of world-class talent we can call upon. It also incentivises high performers to continue developing their career with us.

Coaching and developing each other is an important aspect of employee life at Dialog. We offer all employees a wide variety of development opportunities and encourage a 70/20/10 development split of "on the job" learning (70%), feedback and mentoring (20%) and classroom learning (10%). We have also responded to business demand by developing programmes for key employee types and career stages.

In 2016 we delivered development opportunities to our employees including mentoring, technical and professional training, and a strong focus on management and leadership training. We continually measure the impact of training by the percentage increase in competence 90 days post-training, and this figure drives our return on investment measurement. We will continue to develop our virtual and online solutions into 2017 to offer flexible development options to our employees.

Diversity and equality

We are committed to employing and developing those people who have the necessary skills, experience and values to excel in their relevant role – irrespective of their gender, ethnicity, religion, disability or any other non-work related personal characteristic. Furthermore, we recognise the value a diverse workforce can bring in terms of creativity, dynamism and new perspectives.

In this context, we aim to nurture a working culture characterised by mutual respect and non-discrimination.

In 2016, we had one case of use of discriminatory language reported to our confidential third-party hotline. Discriminatory behaviour is not tolerated at Dialog and the reported issue was dealt with very swiftly. As the report was made anonymously, all staff in the reported location underwent briefing sessions with an HR Manager.

Our globalised footprint and nature of our sector mean that, like many of our peers, we enjoy a highly international workforce – many of whom work for us in locations away from their countries of birth. For example, we have a total of 65 nationalities represented within our business – as well as a Senior Executive Team representing seven different nationalities.

It is a reality, however, that the electronic engineering sector performs relatively poorly in terms of gender diversity. There has been much analysis of why this is the case, with growing focus being placed on invisible, structural considerations that may be limiting female engagement with the sector and/or inducing a degree of self-deselection (i.e. rather than any conscious barriers on the part of the sector). This may partly reflect why women currently comprise only 14.9% of our workforce (2015: 15.8%). From 1 December 2016 the female representation on our Board of Directors is 10% (one of ten Directors). During 2016 we took a step towards greater diversity of industry and background with the appointment of Mary Chan to our Board. Her insight into the ways connectivity and the IoT are driving change across multiple platforms will be especially valuable to the Company.

We are keen to raise awareness amongst women both inside and outside the Company about the exciting potential careers available to them at Dialog and to encourage them to explore these opportunities with us. We are exploring how we can make better use of a potentially significant skills pool (in the form of actual and potential female engineers), as a means of addressing current demographic challenges within the electronic engineering sector.

Overall workplace profile[2] as of 31 December 2016

| | Employment type | | Gender | | |
	Full time	Part time	Male	Female	Total
Permanent employees	1,709	57	1,503	263	1,766
Temporary employees					27
Total employees					1,793

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

Geographic distribution of workforce

| | Gender | | |
Region	Male	Female	Total
Asia	234	51	285
Europe	1,039	167	1,206
North America	230	45	275
Total	1,503	263	1,766

As far as our recruitment and selection processes are concerned, and subject to any relevant regulatory restrictions, the national or sub-national origins of applicants is irrelevant.

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

| | | Ratio of employees' standard entry level wage to local minimum wage (if applicable) | |
Location	Minimum wage in place?	Male	Female
United Kingdom	Yes	2.98	2.98
Germany	Yes	2.88	2.88
Netherlands	Yes	2.22	2.22
United States	Yes	4.13	4.13
China	Yes	3.62	3.62

Note:
The standard entry level is the entry level for professionals after completing university education. Minimum wage figures used are the rates effective in January 2017. For the US the California minimum wage rate has been used and for China the Shenzhen minimum wage rate.

Business ethics
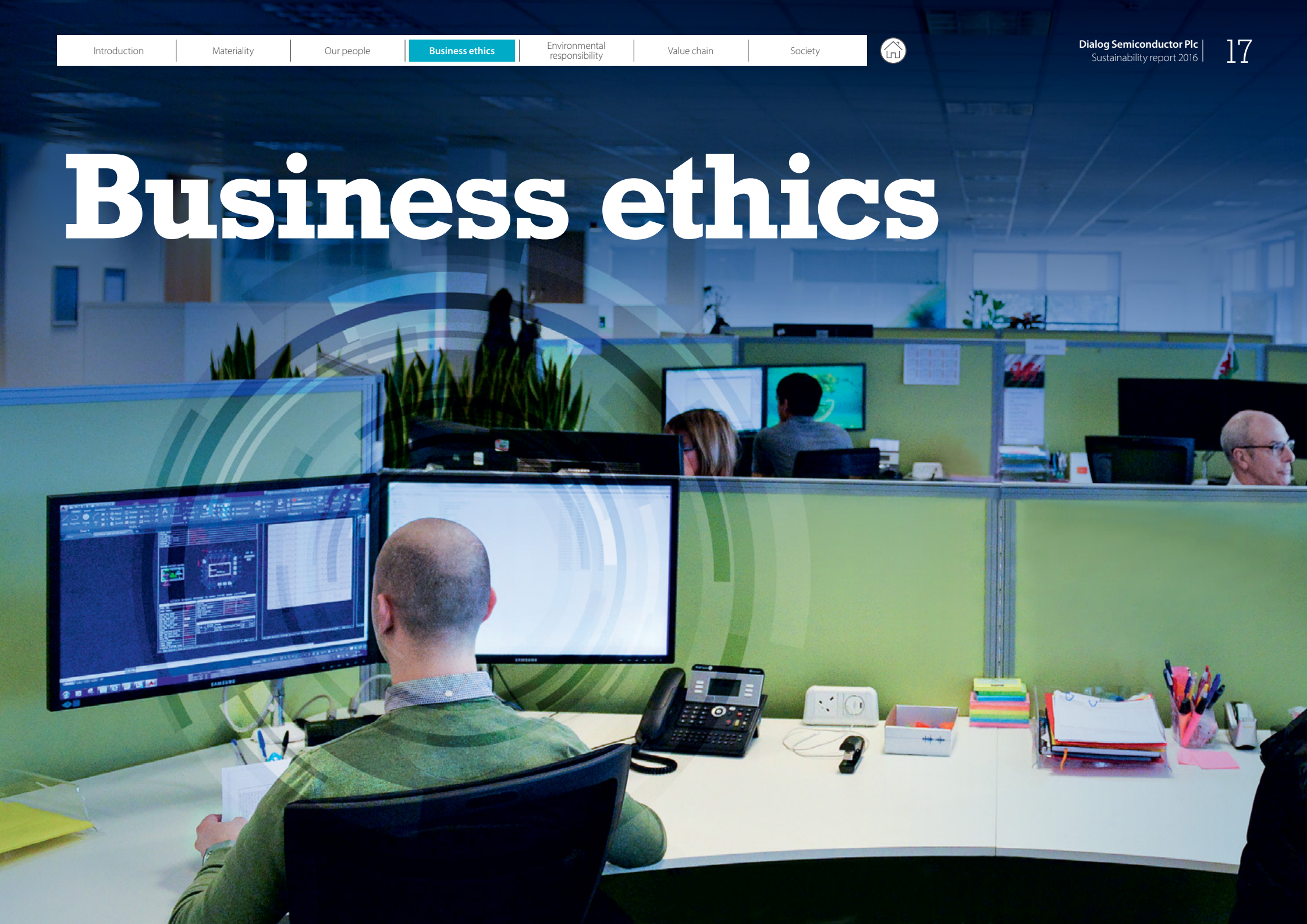
Business ethics

Our business relies on the trust of our partners, including our investors, customers and suppliers

Materiality

Maintaining our partners' trust depends on:

→ Our strict adherence to our customers' exacting technical, commercial and ethical requirements;

→ The protection of both our own intellectual property and that of our business partners, which is fundamental given the technologically innovative nature of our business; and

→ Our strict compliance with the laws of our host societies – including those relating to anti-bribery and corruption.

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

Management approach

We manage business ethics through:

→ The application of the Dialog Code of Business Conduct, which addresses a broad range of issues including conflicts of interest, discrimination, trading in Dialog shares, protection of intellectual property, confidentiality, competition, trade restrictions and export controls, accuracy of records, data privacy and reporting of infractions. The Code of Business Conduct is applicable to all Dialog employees, consultants and contractors;

→ A range of specific policies addressing issues such as bribery and corruption, fraud, money laundering, financial dealings and whistleblower protection; and

→ Mandatory training on specific topics such as bribery and corruption, conflicts of interest, preventing harassment and insider dealing.

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

Compliance

Customer and industry standards

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

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

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

→ The posting of Dialog personnel at our fabrication partners' sites to monitor production activities;

→ An extensive raft of operational quality control measures through which we assess our fabrication partners;

→ Regular business reviews with our manufacturing partners to understand their performance and future capabilities; and

→ Ongoing annual auditing of our manufacturing partners, including against the following management system standards (as well as our Suppliers Control Plan):

  → ISO9001 (quality management).

  → TS 16949 (quality management).

  → ISO14001 (environmental).

  → OHSAS18001 (health and safety).

→ ANSI/ESD S20.20 (electrostatic discharge control).

→ EICC Code of Conduct.

Further information on our supply chain auditing activity can be found on pages 22 to 26.

The performance of our suppliers in this regard is assessed by the following Dialog departments on an ongoing basis:

→ Quality and Environmental: Quality engineering, physical laboratory, quality and environment system.

→ Global Manufacturing Operations: Test development, offshore operations and assembly development.

→ Supply Chain and Value Management: Global procurement, supply chain and trade compliance, customs and foreign trade.

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

→ Our management systems, processes and facility specifications;

→ The communication of their own standards to our manufacturing partners and their application in practice;

→ Product testing processes and documentation;

→ Materials and product traceability; and

→ Possible contamination of products by disallowed substances.

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

→ Individual reviews;

→ Analysis of any customer complaints; and

→ Customer surveys.

Intellectual property

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

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

→ A dedicated Intellectual Property Policy (as well as related Information Technology and Intellectual Property Security Policies). Together, these address issues including data security, the regulation of external communications and incident management;

→ Related restrictive provisions in both our Code of Business Conduct and our contracts of employment;

→ Robust information technology systems to prevent data leakage; and

→ Access controls to specific project data for employees and third parties.

In addition, we seek to protect our intellectual property from being illegitimately copied or used by others through the application of patents, copyright and trademarks on a global basis (see page 29 for further details on our creation of patentable inventions). Our dedicated Patent Committee oversees the identification and legal protection of all new inventions.

In 2016 we had no complaints relating to breaches of customer privacy, losses of customer data or the misuse of customers' intellectual property.

Conflict minerals

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

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

→ Identifying whether any 3TG in our products has originated from the DRC or adjoining countries;

→ (If it has), understanding whether the 3TG in our products has financed or otherwise benefited armed groups; and

→ Disclosing the results of this process to our customers.

As such, our Conflict Minerals Policy commits us to:

→ Supporting the aims and objectives of those provisions of the US Dodd-Frank Act 2010 that relate to 3TG;

→ Not knowingly procuring 3TG minerals from the DRC or adjoining countries that are not certified to be "conflict free"; and

→ Asking our suppliers to undertake reasonable supply chain due diligence to ensure that they only use 3TG that is: (1) sourced from outside the DRC or adjoining countries; or (2) sourced from within the DRC or adjoining countries and which is certified by an independent third party to be "conflict free".

Our Supplier Code of Conduct requires our suppliers to comply with the Electronics Industry Citizenship Coalition Code of Conduct ("EICC Code"). Under the EICC Code, companies must:

→ Provide reasonable assurance that the 3TG in the products they manufacture do not directly or indirectly finance or benefit armed groups that perpetrate serious human rights abuses in DR Congo or its adjoining countries; and

→ Carry out due diligence on the source and chain of custody of their 3TG and make these due diligence measures available to customers when requested.

In addition, our Supplier Code of Conduct requires suppliers to complete and return information requests regarding the origin of any 3TG contained in products supplied to Dialog. If we do identify 3TG in our products that originate from the DRC or adjoining countries and which may have financed or benefited armed groups, we will carry out further due diligence. If this shows that the 3TG has financed or benefited armed groups, it will be excluded from our supply chain.

In 2016, as in previous years, we did not identify any cases where 3TG integrated into our products may have or did finance or support armed groups in the DRC or adjoining countries.

Conflict minerals

EU Regulation on Conflict Minerals

Following lengthy negotiations between the European Council, European Parliament and European Commission, in March 2017 the European Union approved a new Regulation on conflict minerals. It is expected that the Regulation will go to the EU's Council of Ministers for formal adoption.

An earlier version of the Regulation proposed by the European Parliament sought to establish an EU-wide system of self-certified supply chain due diligence applicable to smelters and refiners, mineral importers and manufacturers who source tin, tungsten, tantalum and gold ("3TG") from "conflict-affected and high-risk areas".

Following the negotiations, the adopted Regulation imposes mandatory due diligence obligations for EU importers of 3TG minerals or metals (including smelters and refiners who import 3TG) from 2021. Certain exemptions are in place to protect smaller companies from undue bureaucratic burden, including those relating to recycled metals and the import of small quantities of 3TG.

A review clause in the Regulation raises the possibility that further mandatory due diligence measures could be applied in future if deemed necessary (potentially including 'downstream' operators such as product manufacturers).

We are reviewing the new Regulation, which will be enforced by each Member State, to understand its implications for our business, the requirements we will need to pass on to our supply chain partners and the level of assurance we are likely to need to deliver to customers in future.

Environmental responsibility

Environmental responsibility

As we contract out the fabrication of our products, our direct environmental impact remains limited

"Environmental awareness and 5R training will contribute to reducing Dialog's carbon footprint."

Berna Erdogan
Senior QA & Environment Systems Engineer,
Quality & Environmental Systems

Materiality

We operate environmentally responsible practices within our own business and promote them across our supply chain.

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

→ Energy consumption and carbon emissions;

→ Pollution and waste; and

→ Use of natural resources.

Management approach

Responsibility for environmental performance sits with our Senior Vice President Global Manufacturing Operations. We further govern our environmental responsibility through the application of the Dialog Code of Business Conduct, which addresses our emissions to air and water, resource use, management of hazardous substances and waste management. Furthermore, we are certified to the ISO14001 environmental management system standard, and our Company Quality and Management Manual supports our efforts to achieve continuous improvement. Our newly implemented energy management system is a comprehensive tool to control energy efficiency within our internal facilities and equipment. In 2016 the system was certified to the ISO50001 certification.

Energy and carbon emissions

We are working across our offices to significantly reduce CO_2 emissions and minimise the carbon footprint of our business. This year, we offset 100% of emissions from all air travel and the use of rental cars from our two main design centres: Nabern and Swindon. We work with Climate Care to offset CO_2 emissions through various renewable energy projects in China and the LifeStraw Carbon for Water Project.

CO_2 emissions	2015	2016
Scope 1	159.8	**86.2**
Scope 2	1,890.7	**1,739.2**
Scope 3 (travel only)	3,975.1	**4,685.2**

Scope 1: Direct emissions from self-generation.
Scope 2: Indirect emissions from the consumption of purchased electricity, heat or steam.
Scope 3: Other indirect emissions including those related to transport.

CO_2 emissions per employee	2015	2016
Scope 1	0.10	**0.05**
Scope 2	1.14	**0.98**
Scope 3	2.39	**2.65**
Total	3.63	**3.68**

Pollution, resources and waste

Natural resources

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

Hazardous substances

The monitoring of hazardous substances used in our labs is one of the key objectives of our annual "Environment Goals Programme".

Recycling

We implement the recycling of metals, such as gold, silver and copper, from waste and damaged products.

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

Our major sites, such as our Swindon design centre, measure our recycling levels by type of waste, waste recovery levels and the level of waste sent to landfill sites. This allows us to calculate the percentage of recycling, the amount of energy recovered, and the number of trees we have saved per month.

Value chain
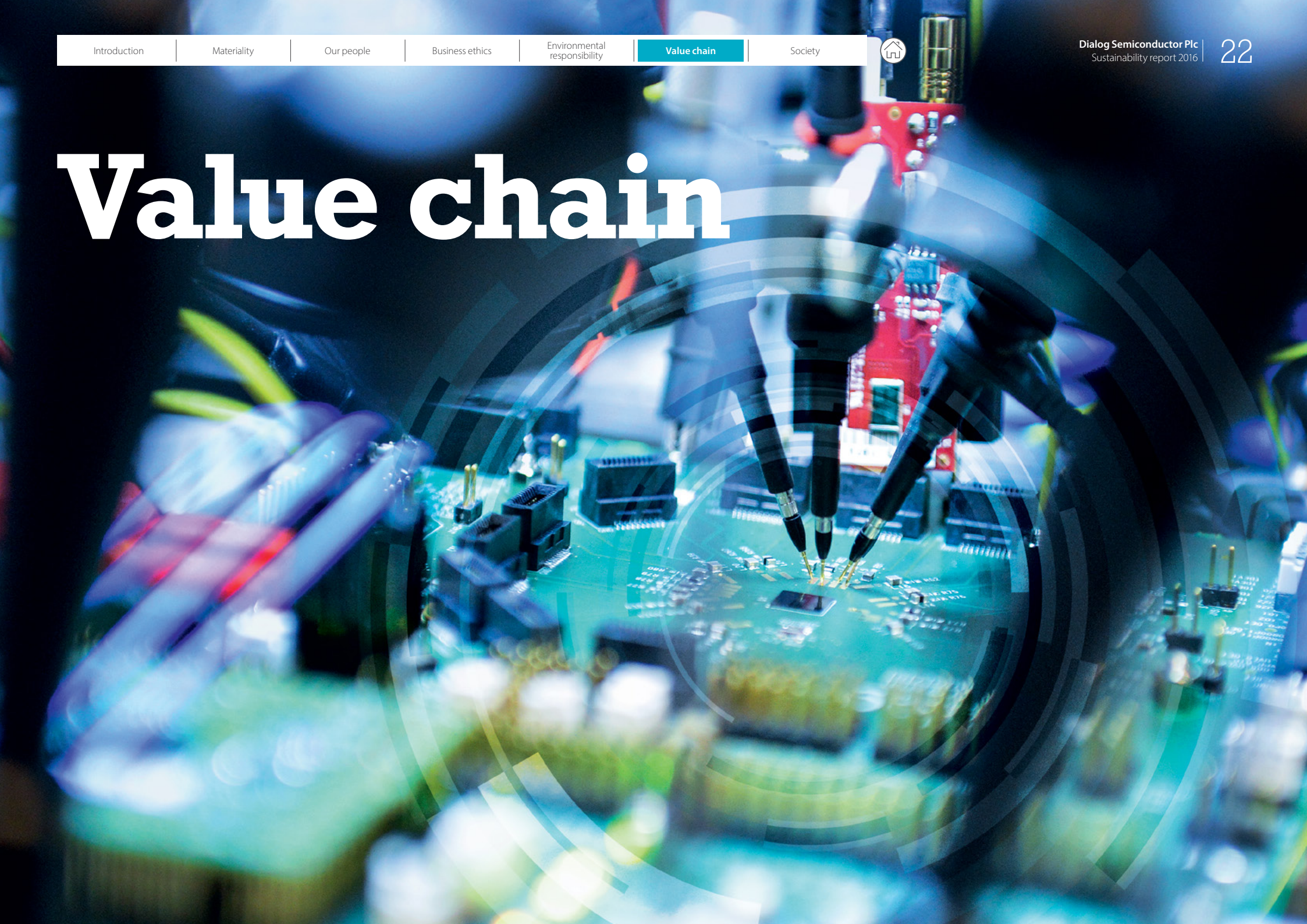
Value chain

Dialog works with leading fabrication partners mostly based in Taiwan, the People's Republic of China and other parts of Southeast Asia

Materiality

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

→ The impact of our business partners on human rights and labour rights;

→ Health and safety performance amongst our suppliers; and

→ The environmental impacts of both our suppliers and the contents of our products.

This reflects:

→ Evolving stakeholder expectations, which place ever-growing emphasis on the need for companies to identify, and use their legitimate influence to proactively manage their indirect sustainability impacts; and

→ Dialog's duty to help protect its customers from reputational, contractual or commercial harm.

Management approach

We manage our value chain through:

→ A policy of only dealing with fabrication partners who are accredited to or are compliant with the ISO14001 (environmental) and ISO9001 (quality) management system standards. In addition, we require our major suppliers to commit to the requirements of our Supplier Code of Conduct (and by extension, to the EICC Code of Conduct) and to apply their own documented corporate social responsibility policy;

→ Screening of all new significant fabrication partners (i.e. those supplying more than 1% of our total volume of integrated circuits) against our Self-Audit Checklist (which covers labour and human rights, health and safety, the environment and business ethics), as well as pre-qualification audits prior to their integration into our supply chain. Further details on our screening activity can be found on **page 25**;

→ Annual auditing of all existing fabrication partners against our Supplier Audit Checklist and Corporate Social Responsibility Checklist. In addition to requirements relating to ISO14001, OHSAS18001 and ISO9001, auditing covers a range of broader sustainability issues, including those drawn from the SA8000 social accountability standard. In 2016, Dialog carried out 18 supplier audits on this basis. The outcomes of our auditing activity can be seen on **page 25**; and

→ Regular business reviews during which Dialog managers meet with its suppliers to discuss performance and future capabilities.

In addition, our customers carry out additional auditing both of Dialog and our suppliers. This is to ensure that:

→ Dialog is effectively communicating customer standards to our suppliers – and has adequate systems in place to monitor their ongoing application in practice;

→ Suppliers are achieving a level of performance that is in line with our customers' requirements (including those around supplier environmental performance, for example); and

→ The products supplied to customers meet any relevant sustainability criteria that the customer has committed itself to (including those relating to the type and source of input materials, for example).

Responsibility for supply chain management sits with the Senior Vice President Global Manufacturing Operations. He is supported in this role on a day-to-day basis by the Environmental Manager.

Value chain continued

Although fabless, we are responsible for delivering our products to customers. An efficient and responsible supply chain is important to us and our customers

About our Supplier Code of Conduct

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

Under the Supplier Code of Conduct, relevant suppliers must comply with the EICC Code of Conduct. This comprehensive document imposes minimum standards with respect to:

Dialog Code of Business Conduct

http://www.dialog-semiconductor.com/
sites/default/files/dialog_code_of_business_
conduct_-_v4_dec_2016.pdf

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

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

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

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

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

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

www.eiccoalition.org (Code of Conduct)

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Value chain continued

Sustainability screening and auditing of significant fabrication partners by issue type (new fabrication partners screened[1]/existing fabrication partners audited[2])

	2014	2015	**2016**
Health and safety	100%/100%	100%/100%	**100%/100%**
Environment	100%/100%	100%/100%	**100%/100%**
Labour rights (incl. human rights)	100%/100%	100%/100%	**100%/100%**
Society	100%/100%	100%/100%	**100%/100%**

1 Screening activity is aimed at improving the performance of our fabrication partners where necessary, rather than their exclusion from our supply chain.
2 Includes both auditing of documentation and on-site auditing. All of our fabrication partners were subjected to on-site auditing of specific operating sites in 2016.

Type and number of "major" negative audit findings[3]

	2014	2015	**2016**
Health and safety	0	0	**0**
Environment	0	0	**1[4]**
Labour rights (incl. human rights)	2	0	**0**
Society	0	0	**0**

3 i.e. audit findings of sufficient seriousness that Dialog requires immediate correction on the part of the supplier.
4 Discrepancy found in actual temperature setting vs Safety Data Sheet.

Although only one "major" audit finding was identified in 2016, Dialog did identify "minor" audit findings. Some examples are set out in the following table. All of these have been notified to the relevant supplier, which is expected to address them within a reasonable timeframe. Progress in addressing such findings is monitored on an ongoing basis.

Examples of "minor" negative audit findings in 2016

Health and safety	A medicine that had passed its expiry date was found in a first aid area
Environment	Identification of environmental waste not always systematic
Labour rights (incl. human rights)	None
Society	None

Transparency

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

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

→ Our fabless business model, which makes us highly reliant on the ability of our fabrication partners to meet the stringent quality requirements imposed on us by our customers – and to protect our own reputation by maintaining responsible working practices;

→ High levels of sensitivity amongst key consumer-facing electronics brands regarding their potential exposure to reputational risk via their supply chains; and

→ Increasing stakeholder scrutiny of the electronics industry regarding indirect negative impacts taking place at lower, less visible tiers of the supply chain (including amongst sub-suppliers) – particularly in relation to mineral extraction, trading and processing.

In this context, we require our major suppliers to:

→ Provide assurance regarding their compliance with our Supplier Code of Conduct through Self-Assessment Questionnaires, validation audits and the provision of documentation;

→ Maintain membership of the EICC's online data management system ("EICC-ON"); and

→ Complete and return information regarding the origin of potential conflict minerals integrated into parts supplied to Dialog ().

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

Responsible supply chain management

Human rights and labour rights

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

→ Follow relevant national law with respect to working hours, holiday entitlements and the outsourcing of labour; and

→ Ensure workers are not subject to physical or verbal abuse, bullying, or any form of unlawful harassment and intimidation.

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

→ Universal Declaration of Human Rights.
→ ILO International Labour Standards.
→ UN Global Compact.
→ EICC Code of Conduct.
→ SA8000 social management system standard.

In 2016, none of our significant suppliers or our own operations were found to pose a significant risk to – or to have violated – individuals' human rights and labour rights (including those relating to the core labour standards).

Health and safety

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

Nonetheless, we work with our major suppliers to ensure that what risks do exist are minimised. In this context, the Dialog Code of Business Conduct and Supplier Code of Conduct

Value chain continued

(including the related EICC Code) require them, amongst other things, to:

→ Minimise worker exposure to potential health and safety risks, including through the application of design, engineering and administrative controls (including safe work procedures, training and the encouragement of employees to raise related concerns) – as well as the provision of protective equipment where necessary;

→ Apply systems to prevent, manage, track and report health and safety incidents, including the proper recording of all cases of occupational injury and illness, the provision of medical treatment and the development and implementation of corrective action plans;

→ Implement emergency planning and response measures, including evacuation procedures, the provision of fire detection and suppression equipment, the maintenance of adequate exits and recovery planning; and

→ Control the exposure of workers to hazardous substances and to physically demanding tasks.

In 2016, none of our significant suppliers or our own operations were found to pose a significant risk to individuals' health and safety.

Environmental impacts

It is important that our fabrication partners respect the environment. This is why we will only work with major suppliers who are accredited to, or comply with, the ISO14001 environmental management system standard.

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

→ Comply with relevant environmental laws and regulations;

→ Minimise their use of resources (including water and energy) and their generation of solid waste and wastewater;

→ Identify and safely manage hazardous materials. This includes the provision of relevant materials declarations under EU Directive 2011/65/EU (Restriction of Hazardous Substances or "RoHS2") and EU Regulation (EC) 1907/2006 (Registration, Evaluation, Authorisation and Restriction of Chemicals or "REACH");

→ Responsibly manage solid waste (including through recycling) and wastewater (including through treatment prior to discharge, ongoing monitoring and the control of discharges to local water bodies);

→ Responsibly manage emissions to air (including volatile organic chemicals, aerosols, corrosives, particulates, ozone depleting chemicals and combustion by-products) and minimise their greenhouse gas emissions; and

→ Adhere to all applicable laws, regulations and customer requirements regarding the exclusion of specific substances in products and manufacturing.

We are continuing to work with our major suppliers to develop recovery processes, and resource substitution technologies and other methods to reduce greenhouse gas emissions throughout the supply chain.

In 2016, none of our significant suppliers or our own operations were found to pose a significant risk to the environment.

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Society

Dialog is committed to generating positive social impacts, at both a societal and community level

"By achieving ISO50001 certification for our Energy Management System we have a powerful vehicle in place to control the energy efficiency of our business infrastructure."

Klaus Ambaum
Director Physical Lab, Quality & Environmental Systems

Materiality

Our most important social impact (as well as our raison d'être) is our generation of economic value – much of which is distributed amongst our investors, employees, suppliers, host governments and other beneficiaries. Given the ongoing opportunities for expansion of our business, as well as ever-increasing demand for advanced semiconductor technology, this positive impact is expected to grow – as are our associated indirect economic impacts.

Furthermore, our position at the forefront of semiconductor R&D means we are constantly helping advance scientific knowledge in this area – laying the ground for future technological innovation, whether by ourselves or others. Likewise, the nature of our products, which are primarily focused on power management, power conversion, low power short range connectivity and solid state lighting LED, means we play an integral role in helping millions of end-users access affordable and life-enhancing technology.

We also remain committed to having a positive impact at a local level. Our most material issue in this respect is the enhancement of local skills pools. This not only benefits school and university students by enhancing their engineering capabilities, but also helps bolster our own ability to recruit talented new graduates and support our long-term skills pipeline.

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

Management approach

Full details on how we manage our direct and indirect economic value generation and distribution, as well as our research and development activities, can be found throughout our 2016 Annual report.

We help promote electronic engineering skills in our local communities through a range of means, including:

→ The provision of sponsorship and access bursaries to engineering students at the universities of Edinburgh, London (Imperial College), Southampton, Ulm and Karlsruhe;

→ Key partnerships with University Technical College Swindon ("UTC Swindon"), including the provision of an enterprise adviser, in the United Kingdom and the UK Electronic Skills Foundation (UKESF);

→ Industrial placements for undergraduate students in global offices; and

→ Mentoring and support of school students in the UK and the Netherlands.

Responsibility sits with our Chief Executive Officer and Chief Financial Officer (with respect to our economic performance). Meanwhile, our Senior Vice President Engineering is responsible for technological innovation.

Societal benefits

Economic impact

As with any business, our primary obligation is to generate profit for our shareholders. In pursuit of this aim, we also generate broader economic value, much of which is distributed to a wider set of stakeholders.

Direct impacts

Our most important means of distributing value are through:

→ Payments to our employees and employed contractors (including both wages and benefits);

→ Payments to other businesses, including our fabrication partners and other suppliers;

→ Payments to government, including taxes;

→ Community investment spending (page 29); and

→ Payments to our providers of capital.

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Society continued

Our business and its positive impacts would cease to exist if we fail to generate economic value. This would materially affect a wide range of our stakeholders, including individuals we employ, the customers whose specialised products we procure goods and services from, suppliers and the governments to whom we pay taxes.

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

There are no material government shareholdings in our Company.

Indirect impacts

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

→ The application of our technology to improve the capabilities and portability of handheld electronic devices (amongst others). This enhances the ability of our customers to develop and market enhanced consumer products – as reflected in the recent boom in advanced mobile communications and tablet technology. In turn, this has helped support the creation and maintenance of jobs amongst suppliers and customers working in this exciting sector. Furthermore, it also supports the delivery of ever-more productive and portable communications and computing technology to end-users. In 2016, for example, we shipped approximately 1.5 billion integrated circuits.

→ The enhancement of skills and knowledge within the electronic engineering community through our range of "pre-employment" educational initiatives, our recruitment and development of high-quality graduate electronics engineers (page 15), the experience our senior engineers gain by working on cutting-edge products (page 16) and our considerable investment in R&D.

Total value generation and distribution by type (US$ millions)

	2014	2015	**2016**
Economic value generated	1,156.1	1,355.3	**1,197.6**
Economic value distributed	1,020.7	1,201.1	**1,076.2**
Operating costs[1]	764.0	871.7	**794.9**
Employee wages and benefits[2]	210.4	224.3	**230.3**
Payments to providers of capital	14.8	6.6	**3.4**
Payments to government	31.5	98.5	**47.4**
Community investments	0.5	0.6	**0.2**
Economic value retained	135.4	154.2	**121.4**

1 Excluding employee wages and benefits and property tax.
2 Including share-based payments.

Technological impact

Our business is also helping advance integrated, mixed signal circuit technology in a range of areas, including:

→ Mobile power management;

→ Power conversion; and

→ Bluetooth® low energy connectivity.

Given the rapid evolution of technology and fast-moving consumer demands, the sustainability of our business requires us to stay at the cutting edge of these technologies. As a result, we invest a significant amount into R&D. In 2016, for example, we spent US$241 million on R&D activities, or 20.2% of our total revenue.

Number of United States patents (held and pending) in each given year (non-cumulative)

	2014	2015	**2016**
Granted	14	3	**93**
Filed	104	84	**86**

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

increases the sum of global technological knowledge in the three areas set out above.

As at 31 December 2016, we had approximately 710 inventions for which we are pursuing or have already obtained patent protection. These include more than 700 cases in the United States, of which around 460 have been granted.

While intellectual property protection around this technology means it will not be shared in the short to medium term (see page 19), in the long term it is technology that can be applied by anyone.

Product impacts

Positive product impacts

The technology that we develop and market supports the wider provision (by our business partners) of advanced, affordable technology to consumers in a range of global mass-markets, including:

→ Personal, portable handheld devices;

→ IoT applications;

→ LED solid state lighting; and

→ Automotive technology.

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

→ Mobile power management: Greater power efficiency, resulting in longer battery life and increased mobility. For example, typical usage tests suggest our Power Management Integrated Circuits decrease the power consumption of smartphones, tablets and Ultrabooks™ by up to 30%.

→ Power conversion: Our high efficiency AC/DC power converters and LED drivers help maximise power conversion efficiency using digital technology and fewer components.

→ Connectivity: Our ultra-low power Bluetooth® low energy, SmartBond™ System-On-Chip helps to significantly increase the battery life of a range of connected devices and IoT applications.

Society continued

Minimisation of negative product impacts

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

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

This includes extensive measures to minimise the risk of our products (in the context of their integration into larger electronic end-products) contributing to:

→ Overheating;

→ Fire risks; and

→ Power overload.

Furthermore, we are subject to extensive official legal and customer requirements in this regard (page 18), making product health and safety a key compliance issue. For example, we are required to ensure that all of our products meet the following official standards (in addition to comprehensive customer standards imposed by consumer-facing electronics brands):

→ RoHS2.

→ REACH SVHC168.

→ Halogen-free.

The key means by which we manage product health and safety issues include the following:

→ Pre-emptive product design – including the application of proven "fail-safe" technology and processes;

→ Extensive lab-testing of new designs – including factors relating to physical integrity, heat emission and functionality; and

→ External auditing of product technical performance – including by our customers.

These are applied to all of our product categories, with the aim of achieving continuously improved performance. These processes are overseen by the Senior Vice President of Global Manufacturing and Operations, who is ultimately responsible for ensuring the safety of our products.

As a result of such efforts, in 2016 we had no reported incidents of non-compliance with any legal or customer requirements concerning the cross-lifecycle health and safety performance of our products.

Community benefits

Community engagement and corporate giving

Dialog has an active community engagement and corporate giving programme, and in 2016 we gave US$213,000 to various causes aligned with our business objectives. These included: the use of our technology for good causes, promoting STEM education, and encouraging women in engineering. During the first few days of 2017, the Company rolled out a new corporate giving policy, encouraging employees to engage with the communities in which they work. The policy put a stronger emphasis on activities to which we can bring additional value through our expertise and business activities.

Appendix

External review of reporting on sustainability

Verisk Maplecroft was commissioned by Dialog Semiconductor Plc to help advance its sustainability reporting.

This included guidance with respect to reporting strategy, materiality, selected content and reporting best practice. This statement is made in our capacity as a service provider to Dialog Semiconductor Plc on this assignment. Verisk Maplecroft did not verify the data contained in this sustainability report.

Approach

Verisk Maplecroft was involved in the following activities between late 2016 and early 2017:

→ Review of reporting standards: Including the GRI G4 Sustainability Reporting Guidelines ("G4 Guidelines") and the Ten Principles of the United Nations Global Compact.

→ Gap analysis: To identify and, where feasible, help address gaps in Dialog Semiconductor's existing reporting practices against the relevant reporting standards.

→ Engagement: Including both remote and face-to-face engagement with Dialog Semiconductor managers (supported by visits to Dialog Semiconductor facilities in Germany and the United Kingdom).

→ Materiality process: Implementation, with Dialog Semiconductor, of an interim materiality assessment. This was based on the updating of the results of the Company's full 2015 materiality assessment, which was aligned with the requirements of the G4 Guidelines.

→ Performance enhancement: The outcomes from the above processes were used, where possible, to enhance Dialog Semiconductor's level of reporting and support its closer alignment with the "Core" requirements of the G4 Guidelines.

Gus Macfarlane,
21 March 2017
Verisk Maplecroft, 1 Henry Street, Bath BA1 1JS, United Kingdom

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GRI G4 material aspects

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